

BANK OF FINLAND
70TH YEAR BOOK

REPORT ON ACTIVITIES IN 1989

ISSN 0081-9468
Helsinki 1990
Kirjapaino Libris Oy

CONTENTS

THE BANK OF FINLAND IN 1989	5
ECONOMIC DEVELOPMENTS	6
CENTRAL BANK POLICY	11
MONETARY AND FOREIGN EXCHANGE POLICY	11
Overall stance of central bank policy	11
The exchange rate and interest rates	12
Cash reserve deposits	14
Revision of the call money credit system	14
The base rate	15
Structure of capital movements	16
Bank lending rates and lending	17
FINANCIAL MARKETS	18
Main developments in financial markets	18
Development of monetary policy instruments	20
Relaxation of exchange control	21
Financial markets legislation	22
OTHER OFFICIAL ACTIVITIES	24
ARRANGEMENTS WITH PAYMENTS	24
AGREEMENT COUNTRIES	24
INTERNATIONAL ORGANIZATIONS	25
International Monetary Fund (IMF)	25
Other international cooperation	25
Preparatory work related to international cooperation	26
MANAGEMENT OF THE FOREIGN EXCHANGE RESERVES	26
SPECIAL FINANCING ARRANGEMENTS AND SPECIAL COUNTER-CYCLICAL DEPOSITS	27
Special financing arrangements	27
Special counter-cyclical deposits	27
MAINTENANCE OF THE CURRENCY SUPPLY	28
OTHER ACTIVITIES	29
RESEARCH AND ECONOMIC ANALYSIS	29
INFORMATION AND PUBLICATIONS	29
ADMINISTRATION AND STAFF	30
DATA PROCESSING	30
FINANCIAL STATEMENTS	32
BALANCE SHEET	32
PROFIT AND LOSS ACCOUNT	34
APPENDICES TO THE FINANCIAL STATEMENTS ..	35
NOTES TO THE FINANCIAL STATEMENTS	36
General accounting principles applied	36
Notes to the balance sheet	36
Notes to the profit and loss account	38
AUDITORS' REPORT	40
APPENDICES	41
MONETARY AND FOREIGN EXCHANGE POLICY MEASURES IN 1989	42

MAIN STATEMENTS ISSUED BY THE BANK OF FINLAND IN 1989	47
TABLES	49
BANK OF FINLAND PUBLICATIONS	66
THE MANAGEMENT AND ORGANIZATION OF THE BANK OF FINLAND AT THE END OF 1989	67

TABLES

1. The monthly balance sheet of the Bank of Finland	50
2. Convertible and tied foreign exchange reserves	54
3. Weights of the Bank of Finland's currency index	54
4. The Bank of Finland's currency index	55
5. Banks' call money position at the Bank of Finland	55
6. Rates of interest applied by the Bank of Finland	55
7. The Bank of Finland's call money rates	55
8. Domestic interest rates	56
9. The Bank of Finland's money market operations	56
10. The Bank of Finland's spot transactions	57
11. The Bank of Finland's forward transactions	57
12. Foreign exchange rates: spot selling rates	58
13. Foreign exchange rates: monthly spot selling rates	60
14. Manufacture and destruction of notes and coin	64
15. Notes and coin in circulation	65
16. Internal clearing operations	65

CHARTS

1. Main economic indicators in Finland and OECD countries	6
2. Finnish export markets and exports to western markets	7
3. Labour costs and price competitiveness in industry	7
4. Key demand components	8
5. Current account	8
6. Saving, investment and current balance	9
7. External value of the markka	12
8. Interest rate differential between Finland and abroad: 3-month rates	12
9. The Bank of Finland's foreign exchange reserves and forward position	13
10. The Bank of Finland's money market operations and intervention in the foreign exchange market	13
11. Banks' cash reserve deposits and cash reserve requirement	14
12. Market interest rates	17
13. Rate of interest on new lending	17
14. Bank lending to the public	17
15. Acquisition of risk capital by listed companies and share turnover	18
16. Domestic bond issues	18
17. Money market volumes	19
18. Structure of banks' funding	19
19. Interest rate linkages of new lending: banks' markka lending to the public	19
20. Average markka lending rate, average markka funding rate and their differential	20
21. Notes and coin in circulation	28

THE BANK OF FINLAND IN 1989

Economic developments in the 178th year of activities of the Bank of Finland were characterized by the same trends as in the previous year. Economic growth continued at a very rapid rate for the third year in succession, driven primarily by domestic demand. As a result, the overheating of the economy became more apparent. The deficit on current account widened substantially, and the target of bringing down inflation agreed in the 1988 stabilization settlement was not met.

The main responsibility for restraining domestic demand fell to monetary policy. Consequently, the Bank of Finland had to keep the financial markets tight and interest rates high. The Bank actively sought to achieve these objectives by allowing the markka to strengthen, by collecting additional cash reserve deposits from banks and by raising the base rate. Indeed, bank lending did slow down appreciably, particularly towards the end of the year when higher market interest rates and uncertainty about economic prospects helped to curb the desire to borrow.

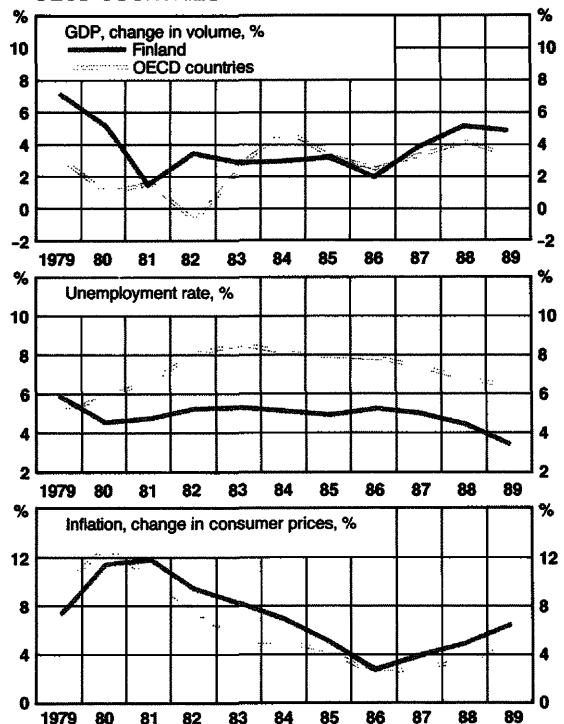
The liberalization of capital movements was continued. At the same time preparations were made for deregulating the trade in financial services as part of the integration process in Europe. Although Finland began the liberalization of financial markets and capital movements later than other countries and has proceeded with it more slowly, the integration of domestic markets with international markets has already reached an advanced stage. This calls for great discipline in all areas of economic policy.

ECONOMIC DEVELOPMENTS

The economic boom continued in the western industrial countries in 1989, and total output in the OECD area grew by 3½ per cent. This was almost one percentage point less than in the previous year (Chart 1). Business investment was again the main factor bolstering economic growth and contributing to the expansion of world trade. The volume of world trade increased by 7½ per cent and Finland's export markets grew by approximately the same amount.

There was scarcely any further increase in the overall trade imbalance of the industrial countries, though the strengthening of the dollar in the course of the year slowed the adjustment of the US trade deficit. Buoyant demand and high capacity utilization rates boosted inflation in the industrial countries. In the OECD area, consumer prices rose by 5 per cent on average, more than one percentage point faster than in the previous year. Moreover, in some countries signs emerged of an acceleration of the rise in wages. The downturn in world commodity prices nevertheless reduced inflationary pressures to some extent and the rise in consumer prices levelled off towards the end of the year. The marked rise in

Chart 1.
MAIN ECONOMIC INDICATORS IN FINLAND AND OECD COUNTRIES



The figures used in the Yearbook are based on data available at the end of January 1990.

interest rates also helped to moderate inflation in the industrial countries.

Finnish exports of goods and services expanded by just under 2 per cent in volume (Table, p. 9).¹ The growth of exports was limited by the fact that productive resources were tied up in satisfying domestic demand and partly also by a weakening in price competitiveness (Charts 2 & 3). The volume of exports to western markets increased by just under 2 per cent, which was only about one-quarter of the growth of these markets. The volume of exports to CMEA countries decreased. Vigorous domestic investment and consumption demand again contributed to a rapid increase in imports. The volume of imports of goods and services increased by 9½ per cent in all. Imports of finished consumer goods expanded by 13 per cent and imports of investment goods by 19 per cent.

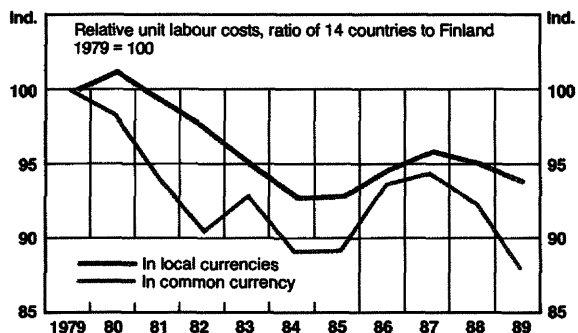
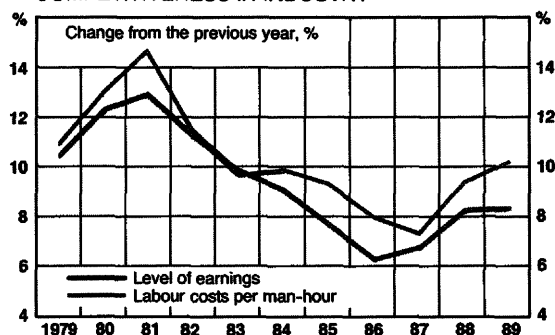
Though prices of merchandise exports rose on average by 7½ per cent from the previous year, the rise in prices slowed in the course of the year and prices of forest products turned down in the latter part of the year. Import prices rose on average by 3½ per cent. After the revaluation of the markka they fell slightly, partly because of the effect of the exchange rate change and partly because of international price developments. Consequently, the terms of trade improved for the fourth year in succession. Indeed, the increase in real income deriving from the terms-of-trade gains has been notably larger in Finland than in other industrial countries.

As in the previous year, household demand was the main factor underlying the expansion of domestic demand. Private consumption continued to grow at a rapid pace, although it slowed towards the end of the year under the influence of high rates of interest on consumer credit (Chart 4). Residential investment increased by 20 per cent in volume, after already having grown by 17 per cent in 1988. Vigorous consumer spending, which has persisted for several years now, was reflected especially in investment in the service sectors, which showed a further marked

Chart 2.
FINNISH EXPORT MARKETS AND EXPORTS TO WESTERN MARKETS



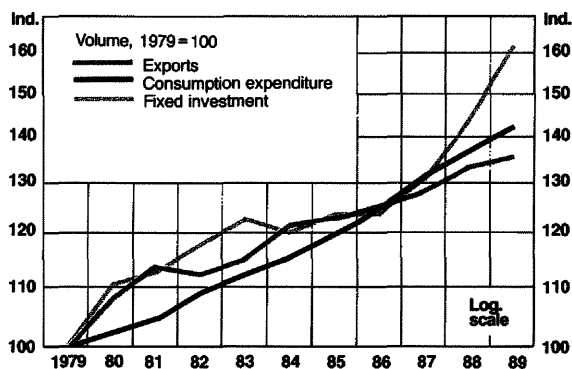
Chart 3.
LABOUR COSTS AND PRICE COMPETITIVENESS IN INDUSTRY



¹ The value of exports of goods and services has been deflated by the price indices calculated by the Central Statistical Office. In contrast, the figures for the regional distribution of exports have been deflated by the unit value indices calculated by the National Board of Customs.

increase. The relatively good export performance of the forest industries and the metal and engineering industries boosted manufacturing investment, which grew by 12 per cent.

Chart 4.
KEY DEMAND COMPONENTS



As a result of the overheating of the economy and excess demand for labour, the rise in wages and prices accelerated, clearly exceeding the OECD average despite the stabilization settlement reached in autumn 1988 (Chart 1). The agreement between the Government and the central labour market organizations had sought to limit the negotiated increases scheduled for March 1989 to just over one per cent. The agreement included an index clause according to which there were to be extra pay increases from March 1, 1990 in those sectors joining the agreement if consumer prices rose by more than 4 per cent between December 1988 and December 1989. The unions committed to the stabilization agreement covered about 60 per cent of all wage and salary earners. A major part of the services industry remained outside the agreement and negotiated increases in these sectors were noticeably larger than those provided for in the stabilization package. This increased upward pressure on wage drift in those sectors committed to the settlement. The overall wage and salary index rose by 8.4 per cent on average in 1989, the share of negotiated pay increases being 5.4 percentage points.

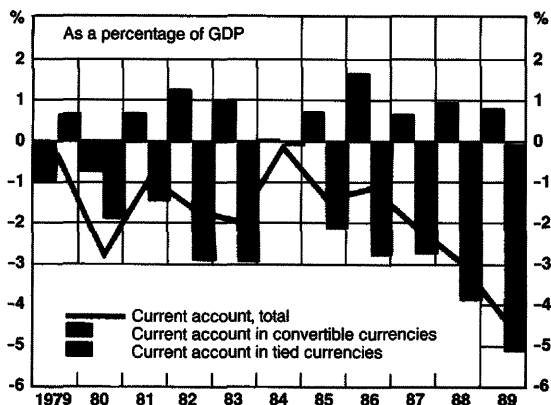
The consumer price index rose by 6.5 per cent in the course of the year. Wage and other domestic cost components accounted for 2½ percentage points of the increase, discretionary measures in the public sector for about 1 percentage point and import prices for just over 1

percentage point. A considerable part — almost 2 percentage points — of the rise in the index was due to the rapid increase in dwelling prices since the price rises in the latter half of 1988 were not recorded in the consumer price index until 1989. The rapid increase in real incomes during the boom was a contributory factor to the surge in real dwelling prices. As, moreover, residential investment became relatively more attractive from the point of view of taxation and the availability of finance was no longer restricted by credit rationing, dwellings were subject to exceptionally strong demand. With the rise in interest rates and increased supply of dwellings, however, the rise in dwelling prices levelled off in the course of 1989, and prices started to fall in the latter half of the year.

Reflecting the buoyancy of domestic demand, the current account deficit grew to FIM 21 billion, equivalent to over 4 per cent of GDP. The deficit on the investment income account widened to FIM 9½ billion as a result of an increase in foreign debt and a rise in international interest rates. The trade account was also in deficit to the tune of over FIM 6 billion after having been in surplus for many years. The services account widened further, amounting to FIM 2 billion (Chart 5).

In the central government budget for 1989, fiscal policy was designed to be moderately expansionary as part of the comprehensive incomes policy package and to some extent also

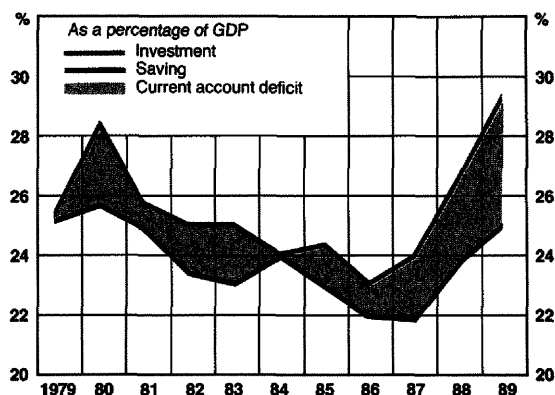
Chart 5.
CURRENT ACCOUNT



because of an expected deterioration in economic prospects. To support the growth of wage and salary earners' real incomes, personal income tax rates were cut in connection with the introduction of the first phase of the income tax reform. When the imbalances in the economy turned out to be worse than anticipated, fiscal policy was tightened in the spring. Employers' social security contribution rates were raised by 0.25 percentage point with effect from the beginning of May and the sales tax rate by half a percentage point to 16.5 per cent from the beginning of June. The growth of central government revenue slowed to 2½ per cent. However, the tightening of fiscal policy was mainly due to the fact that rapid economic growth and the acceleration of inflation swelled tax receipts. The budget surplus, measured in terms of the net financing requirement, grew to over FIM 7 billion and increased by one percentage point in relation to GDP.

The increase in the budget surplus only partially offset the deterioration in the private sector's financial deficit. The household saving ratio remained at a low level and hence the

Chart 6.
SAVING, INVESTMENT AND CURRENT BALANCE



increase in housing investment was financed by borrowing. Though companies' internal financing remained relatively good, the share of external financing in their total financing nevertheless

Domestic economic performance

	average				
Exports	3.2	1.3	2.6	3.9	1.7
Private investment	3.3	-0.4	5.0	11.7	14.7
Private consumption	3.4	4.1	5.7	5.0	4.0
Total domestic demand	3.7	2.6	5.8	7.4	7.3
— of which: public	3.8	3.2	4.9	1.9	3.4
Imports	4.2	3.1	9.0	11.5	9.6
GDP	3.4	2.1	4.0	5.2	5.0
Earnings	9.7	7.0	7.0	9.0	8.4
Export unit value index	5.7	-2.3	2.2	5.2	7.5
Import unit value index	4.5	-9.9	- 2.0	2.3	3.5
Terms of trade	1.2	8.5	4.2	2.9	3.9
Consumer prices	7.5	3.6	3.7	5.1	6.5
— December to December	..	3.4	3.7	6.5	6.5
Unemployment rate, %	5.2	5.4	5.1	4.6	3.5
			FIM billion		
Current account	..	-3.8	- 7.9	-12.6	-21.0
— tied currencies	..	5.9	2.5	4.2	3.9
— convertible currencies	..	-9.7	-10.4	-16.8	-24.9
Central government net financing requirement	..	-1.3	- 4.3	0.9	7.2

rose. Banks' markka and foreign currency lending was still expanding at an annual rate of about one-fifth in the early part of 1989 but decelerated in the final months of the year. In particular, the growth of housing loans and consumer credit extended to the household sector slowed in the course of the year as a result of the central bank's

policy, and amounted to 13 per cent for the year as a whole. The banks' total markka lending increased by 11 per cent. The growth of deposits totalled only 8 per cent and was one indication of the weakening in the financial balance of the economy (Chart 6).

CENTRAL BANK POLICY

MONETARY AND FOREIGN EXCHANGE POLICY

Overall stance of central bank policy

Against a background of mounting inflationary pressures and worsening external imbalances, the prime objective of the Bank of Finland in the year under review remained to check the growth of domestic demand. It became clear right at the beginning of the year that, despite the budget surplus, fiscal policy was not restrictive enough to cool the overheated economy. Consequently, a fundamental tightening of monetary policy was judged necessary.

Open market operations were used to push up interest rates in the first months of the year but this quickly led to a currency inflow. As a result, liquidity in the money market increased and interest rates started to drift down. So as to create scope for monetary policy to be used to dampen economic activity, the fluctuation limits of the currency index were lowered by about 4 per cent in March 1989, whereupon the markka promptly appreciated by some 3 per cent. In the same context the differential between domestic and international interest rates widened by more than one percentage point.

One of the salient features of the final phases of the boom was a strong expansion in bank

lending. The Bank of Finland sought to curb lending by influencing market interest rates, collecting cash reserve deposits and raising the base rate. The cash reserve requirement was raised to 8.0 per cent in February, ie the maximum deposit ratio permissible under the cash reserve agreement. In March, the Bank of Finland and the banks supplemented the current cash reserve agreement by entering into an additional agreement empowering the Bank to collect additional non-interest-bearing cash reserve deposits on a temporary basis until the early months of 1990. The collection of additional deposits was linked to developments in bank lending in 1989 and, if necessary, in January—February 1990. The base rate was raised by one percentage point from the beginning of November with the aim of promoting household saving in particular. Saving was also supported by raising the highest permissible interest rate on tax-exempt deposits by one percentage point from the beginning of December.

When, in the course of the year, the external balance deteriorated further and fiscal policy, despite being tightened, did not prove restrictive enough, investors' confidence in the Finnish economy weakened noticeably in the last months of 1989. In the autumn, expectations of a weakening in the value of the markka appeared at

times. The Bank of Finland kept the value of the markka stable by selling foreign exchange on several occasions. Money market rates went up in the final months of the year, and the interest rate differential in relation to foreign interest rates increased by over three percentage points between August and the end of 1989.

The exchange rate and interest rates

Thanks to the stabilization agreement reached in autumn 1988 and Finland's relatively good export performance, investors' confidence in the Finnish economy remained strong throughout the early part of the year. Together with the differential between domestic and international interest rates, this maintained the flow of capital into the country. In the January-February period, the net capital inflow amounted to over FIM 7 billion, exceeding the current account deficit by a clear margin. To keep the currency index within its band, the Bank purchased foreign exchange to the value of more than FIM 4 billion in the early months of the year. The rise in the official currency reserves swelled liquidity in the domestic money market and short-term interest rates embarked on a marked downward trend. Thus, the heavy inflow of capital prevented the raising of interest rates by means of open market operations.

As, however, domestic demand continued to grow vigorously, the tightening of monetary policy became imperative. Accordingly, in the middle of March, the fluctuation limits of the currency index were lowered, thereby permitting a strengthening in the value of the markka and a rise in interest rates. The new limits were set at 96.5 and 102.5 as against 100.5 and 106.8 previously. Following the decision, the markka appreciated by about 3 per cent in the space of a few days (Chart 7). At the same time money market rates rose and their differential vis-à-vis international rates widened by more than one percentage point (Chart 8). The markka strengthened further in April when the currency index moved close to the lower limit (strongest point) of its band. Three-month HELIBOR remained at around 12 per cent from March until the end of August.

During the spring, liquidity in the money market decreased as a result of the collection of

Chart 7.
EXTERNAL VALUE OF THE MARKKA

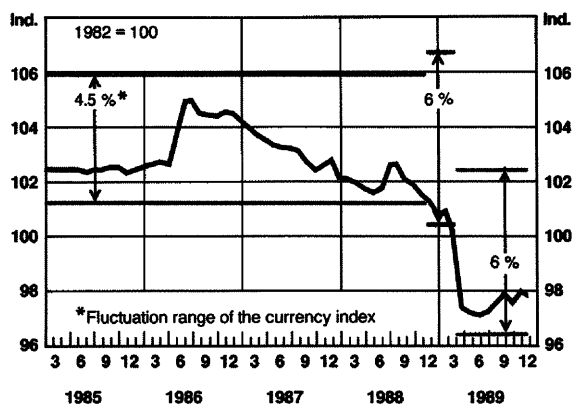
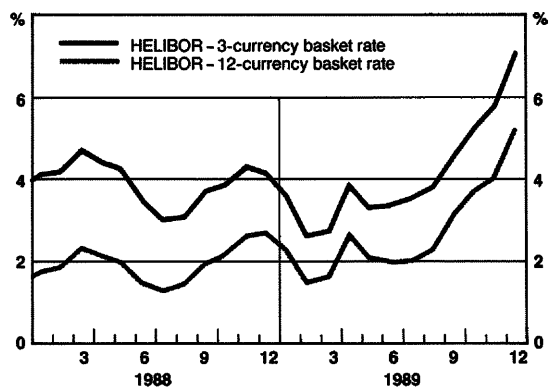


Chart 8.
INTEREST RATE DIFFERENTIAL BETWEEN
FINLAND AND ABROAD: 3-MONTH RATES



cash reserve deposits, a fall in the tied currency reserves and repayments of government foreign debt. So as to prevent the money market from tightening and interest rates from rising to the extent that there would have been a renewed acceleration of capital inflows, from March onwards the Bank of Finland mainly purchased certificates of deposit (CDs) from banks. The Bank of Finland's holdings of bank CDs increased by about FIM 1.3 billion in the five months to the end of May. However, the banks' aggregate position at the central bank tightened during May to the extent that they had call

money credits totalling almost FIM 4 billion at the end of the month.

In June, the Bank of Finland made some technical changes to the call money credit system as a result of which the banks were no longer allowed to use call money credit as a permanent source of finance. The Bank of Finland bought large amounts of CDs in June so as to shift the banks' aggregate position at the call money window into a net creditor position. Adding to the need to purchase CDs was the fact that investment deposits pertaining to investment reserves set up in the previous year were deposited at the Bank of Finland to the value of almost FIM 3 billion in June. In the June-July period, the Bank of Finland's outstanding holdings of bank CDs increased by nearly FIM 10 billion.

In the autumn, the general market perception of the state of the Finnish economy became noticeably more pessimistic. The tightening of fiscal policy in the 1990 budget proposal was interpreted in the market as being inadequate in view of the economic situation. Some prominent bankruptcies, most notably the collapse of Wärtsilä Marine, also provoked unease. Moreover, in the autumn, the current account deficit widened even more than forecast. Nor did inflation slow down as expected. Although demand for foreign financing remained brisk, the capital inflow no longer sufficed to cover the current account deficit. Thus, currency flowed out of the country, for example via the forward exchange market.

In early September, the Bank of Finland sold foreign exchange to the value of more than FIM 1 billion in order to prevent the currency index from weakening. As liquidity in the money market tightened, interest rates moved notably higher. Interest rates rose again at the end of September and in early October when the disclosure of certain shortcomings in the compilation of import statistics generated nervousness in the market. The Bank of Finland sold foreign exchange to the value of more than FIM 2 billion. A similar situation arose in the latter half of November when uncertainty about the outcome of the incomes policy negotiations gave rise to anxiety in the foreign exchange market.

Mainly because of currency sales, the Bank of Finland's convertible currency reserves fell by FIM 6.6 billion between the end of August and

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

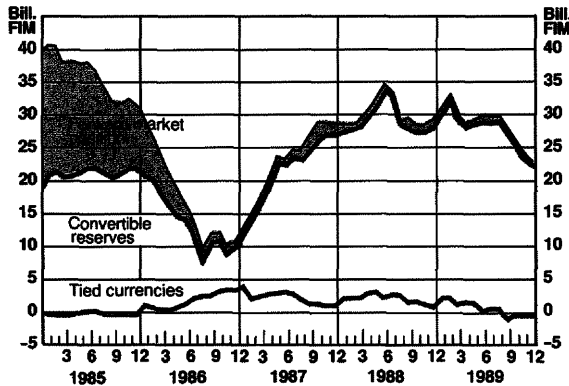
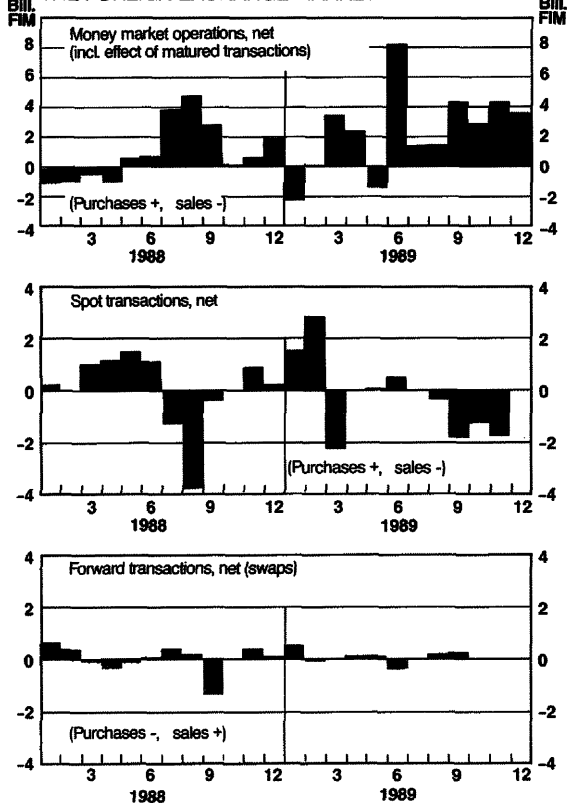


Chart 10.
THE BANK OF FINLAND'S MONEY MARKET OPERATIONS AND INTERVENTION IN THE FOREIGN EXCHANGE MARKET



the end of the year (Chart 9). Thus part of the widening in the current account deficit was financed by running down the reserves. Consequently, the rise in domestic money market rates was smaller than it would have been had the level of the foreign exchange reserves been kept unchanged. Three-month HELIBOR nevertheless rose by about 4 percentage points in the course of the autumn to just over 16 per cent, and the differential in relation to the weighted eurorate for the basket currencies increased by more than 3 percentage points.

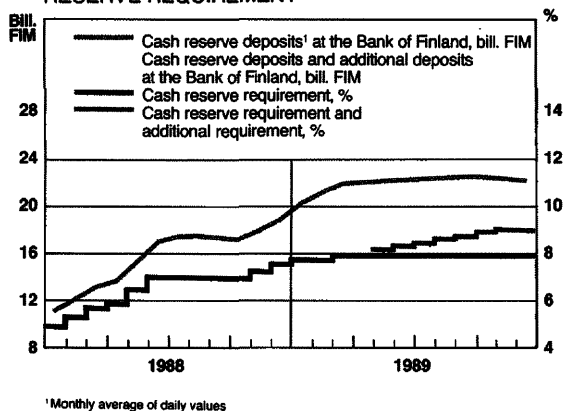
Open market operations in the domestic money market were conducted almost exclusively in Bank of Finland CDs and CDs issued by banks entitled to central bank financing, the bulk of them having maturities of one or three months (Chart 10). The value of the Bank of Finland's holdings of CDs grew by about FIM 27 billion in the course of the year. At the end of 1989, the Bank of Finland held some 42 per cent of all outstanding bank CDs.

Cash reserve deposits

In February, the Bank of Finland raised the cash reserve requirement to 8.0 per cent, the maximum permissible under the cash reserve agreement. However, because of the continued rapid increase in bank lending and dwelling prices, it was judged necessary to take further action to curb the demand for credit. In March, the Bank of Finland and the banks supplemented the existing cash reserve agreement with an additional agreement enabling the Bank of Finland to raise the cash reserve requirement to a maximum of 12 per cent.

Unlike the deposits collected under the cash reserve agreement proper, it was agreed that additional deposits would be non-interest-bearing and that their collection would be determined separately for each bank or group of banks on the basis of their lending. By making the additional deposits non-interest-bearing, the Bank of Finland sought to increase banks' lending costs and thereby their lending rates in relation to market interest rates. The collection of additional deposits was linked to the growth of each bank's or group of banks' personal lending or total lending, according to which was the greater on a monthly

Chart 11.
BANKS' CASH RESERVE DEPOSITS AND CASH RESERVE REQUIREMENT



basis in the period from the end of February until the end of the year. Under the agreement, the Bank of Finland may still apply the additional requirement on the basis of developments in bank lending in January—February 1990 should there be a marked re-acceleration of lending. It was agreed that additional deposits would be refunded in equal monthly instalments at the latest in July—December 1990. The enlarged cash reserve system contributed to the rise in bank lending rates in the spring and thus helped to curb credit expansion.

Starting in May, the Bank of Finland collected non-interest-bearing deposits totalling some FIM 3 billion (Chart 11). The cash reserve ratios applied to the deposit base of different banks in December were as follows: Kansallis-Osake-Pankki 8.4 per cent, OKOBANK Group 8.6 per cent, Union Bank of Finland Ltd 8.4 per cent, Skopbank Group 10.9 per cent, Bank of Åland Ltd 8.6 per cent. For all other banks the ratio was 8.0 per cent.

Revision of the call money credit system

In June, the Bank of Finland revised the call money credit system by abolishing the bank-specific credit quotas for banks entitled to central bank financing. At the same time, the penalty rate of interest on borrowing in excess of quota, which had last stood at 19 per cent, was rescinded. The

changes were made because the definition of individual bank quotas had proved difficult and because the quotas limited competition between banks in the interbank market.

In connection with the revision, the call money credit rate was raised from 13 per cent to 15 per cent; the call money deposit rate was left unchanged at 4 per cent. In addition, the rules governing the use of the facility were modified by prohibiting recourse to call money credit on a permanent basis. Any bank which borrowed to the extent that the moving average of its daily position for the last five banking days became negative was required to enter into discussions with the Bank of Finland on the reasons for using call money credit and the remedial action to be taken. Banks could borrow temporarily in the Bank of Finland's call money market without limit but they were required to even out fluctuations in their liquidity primarily by resorting to the interbank market and, in addition, to keep call money deposits at the Bank of Finland.

Experience with the Bank of Finland's new call money window¹ soon showed that the system did not operate efficiently with respect to changes in the interbank overnight rate in situations where bank liquidity was severely squeezed. Moreover, certain problems were found to be attached to the use of the administrative sanctions when infringement of the five-day rule was caused by temporary liquidity disturbances of a technical nature.

Accordingly, in November, the Bank of Finland amended the five-day rule so that the five-day moving average of a bank's call money position could be negative. In such cases, however, the call money credit rate is charged at double the normal rate. The changes were designed to simplify the administration of the call money facility and at the same time to enhance the effects of the Bank of Finland's intervention policy on interest rates.

The base rate

An increase in the base rate had already been discussed in the spring and after careful consideration it was decided to raise it from 7.5 per cent to 8.5 per cent with effect from the beginning of November. The base rate had been cut by half a percentage point at the beginning of the year on the basis of a decision made in connection with the 1988 stabilization agreement. At the same time, however, the Bank of Finland had stated that it would be necessary to raise the base rate again if the rise in costs and prices and the widening in the current account deficit did not slow.

In the course of 1989, inflation was noticeably faster than forecast the previous autumn in connection with the stabilization settlement. Since market rates of interest also drifted up during the year, the differential between the base rate and market rates increased disproportionately. As the rate of inflation accelerated, the gap in relation to the highest rate of interest on tax-exempt deposits linked to the base rate widened markedly. By raising the base rate and thus the real rate of interest on these deposits it was sought to promote saving. As most deposit and lending rates faced by households are still tied to the base rate, it was envisaged that the increase would be reflected in households' saving and consumption decisions.

It was judged that the increase in the base rate would cause difficulties for those home-buyers who, in the past two years or so, had had to finance their purchases of expensive dwellings with high-interest loans. Consequently, in connection with the decision, the Bank of Finland recommended that the costs of servicing housing loans linked to the base rate taken out after June 1987 should be kept unchanged by lengthening repayment periods. In contrast, interest rates on older loans tied to the base rate granted during the period of credit rationing had become very low in relation to both rates on new loans and the rate of inflation. The Bank of Finland therefore recommended that banks raise interest rates on low-interest loans granted prior to 1987 by more than the increase in the base rate, provided the terms of the loan contract so permitted. The maximum recommended increase was 1.5 per-

¹ The call money window is an arrangement whereby each bank keeps a chequeing account with an overdraft facility at the Bank of Finland. A bank can, through its account, obtain overnight credit from the Bank of Finland at the call money credit rate or make overnight deposits at the call money deposit rate.

Financing of the current account, FIM billion

		I	II	III	IV	I-IV
Trade account	784	770	-1 272	-2 782	-2 233	- 5 517
A. CURRENT ACCOUNT	-12 580	-3 212	-5 480	-6 199	-6 109	-21 000
B. CAPITAL INFLOWS	12 763	5 032	4 305	3 212	2 488	15 037
Loans						
Intermediated by banks	14 886	5 490	5 808	2 078	5 580	18 956
Raised directly by the public	8 159	3 008	3 395	1 671	4 486	12 560
Financing of foreign trade						
Loans	- 3 072	2 912	418	- 4	-1 158	2 168
Supplier credits	- 1 705	- 455	-2 208	1 677	4 986	4 000
Banks' forward cover	5 356	-3 219	782	2 681	-8 204	- 7 960
Direct investment, net	- 6 771	-3 338	-1 609	-2 753	-2 742	-10 442
Portfolio investment, net	- 1 489	1 078	- 686	162	28	582
Central government borrowing	- 1 682	- 141	-1 197	- 93	- 424	- 1 855
Other items	- 919	- 303	- 398	-2 207	- 64	- 2 972
A+B. CHANGE IN THE FOREIGN EXCHANGE RESERVES	183	1 820	-1 174	-2 987	-3 620	- 5 961
Convertible	517	1 371	- 152	-1 802	-3 872	- 4 455
Tied	- 334	449	-1 022	-1 185	252	- 1 506

centage points, ie 0.5 percentage point more than the rise in the base rate.

To support household saving, Parliament approved a Government bill for an amendment to the law on the tax exemption of deposits and bonds. As a result, with effect from the beginning of December, the highest tax-exempt deposit rate could be the base rate less one percentage point; previously the highest permissible rate had been the base rate less two percentage points.

Structure of capital movements

As in the previous year, there were heavy capital inflows in the form of foreign currency loans raised by companies, either through banks or directly in the international markets. During the year as a whole, drawings of long-term foreign loans amounted to about FIM 24 billion in net terms. Finnish direct investment abroad increased further, totalling almost FIM 12 billion. Particularly in the final months of the year, expectations of a weakening in the value of the markka prompted a rapid fall in forward exchange sales by foreign banks and domestic

companies and hence a corresponding fall in forward cover operations. Banks' forward cover declined by almost FIM 8.0 billion during the year as a whole (Table).

In the early months of the year, in particular, foreign currency loans intermediated by banks were raised in large amounts. In March, the fall in the banks' forward cover position and the buoyancy of outward direct investment led to a temporary reversal in the capital inflow.

From April to August, capital was again imported in fairly substantial quantities. In the spring, especially companies and financial institutions raised foreign loans. In the late summer, capital inflows to a large extent represented forward cover operations as foreign banks built up their forward positions.

During the summer, there was a marked weakening in the demand for long-term foreign currency loans. This was apparently a reaction to the Bank of Finland's announcement in June that it had decided to relax the capital controls from the beginning of September. Among other things, the new foreign exchange provisions eased the export of capital and allowed the raising of

Chart 12.
MARKET INTEREST RATES

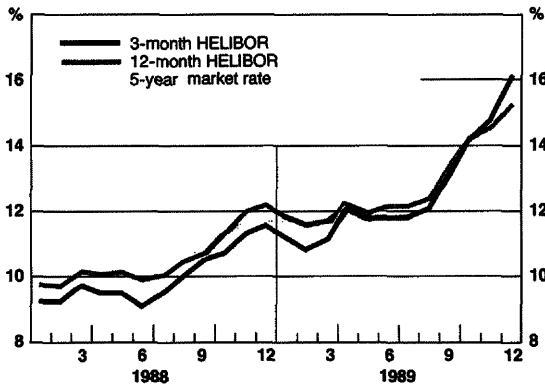
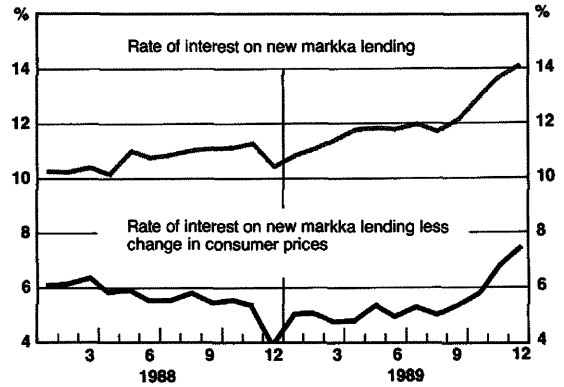


Chart 13.
RATE OF INTEREST ON NEW LENDING



foreign loans with a maturity of more than one year, as opposed to five years previously.

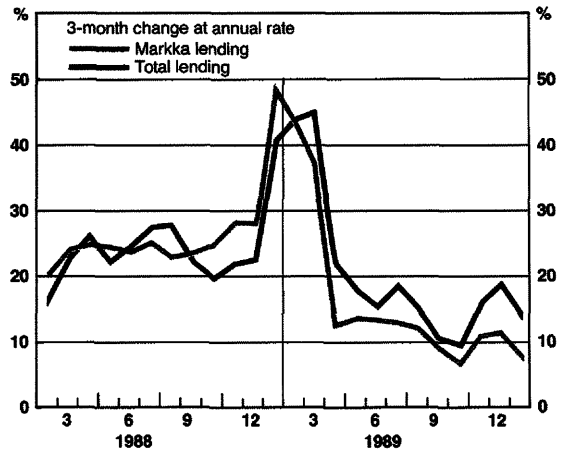
From the beginning of September onwards, both foreign banks and domestic companies started to reduce their forward exchange sales to authorized banks, thus giving rise to a heavy capital outflow. By contrast, imports of long-term foreign capital picked up noticeably in the final months of the year.

Finnish direct investment abroad remained buoyant as companies continued to make new acquisitions; the pace of acquisition activity nevertheless moderated somewhat in the second half of the year. In contrast, foreign direct investment in Finland was again modest. Initially, at least, the relaxation of exchange control in September did not have a significant impact on the amount of direct and portfolio investments made abroad.

Bank lending rates and lending

Bank lending rates moved distinctly higher during the year along with the rise in market interest rates and the collection of cash reserve deposits (Charts 12 & 13). In the course of the year, the average interest rate on new markka loans climbed by about 3½ percentage points. With the rise in lending rates, the demand for credit diminished markedly and the rate of growth of banks' markka lending slowed appreciably after the early months of the year (Chart 14).

Chart 14.
BANK LENDING TO THE PUBLIC



Between February and the end of the year, total bank lending expanded by 11.4 per cent, which virtually equalled the target set for credit expansion when the supplementary cash reserve agreement was reached.

Initially, the tightened stance of central bank policy was most clearly reflected in price developments in the stock and dwelling markets. Share prices turned down in April and the rate of decline steepened in the autumn. The long upward trend in dwelling prices also came to a halt in the course of the year and prices weakened slightly, especially in the Helsinki area.

FINANCIAL MARKETS

Main developments in financial markets

Activity in the capital market remained brisk during the first half of the year. As in the previous year, listed companies raised substantial amounts of new risk capital in the share market. Share prices continued rising until April and turnover reached record levels. In the latter half of the year, new issue activity in the share market fell sharply and share prices started to fall, mainly because of the high level of interest rates and expectations concerning the deterioration in the economic situation. In the last weeks of the year, the fall in share prices levelled off and turnover on the stock exchange picked up, with the result that total turnover in 1989 was up slightly on the previous year (Chart 15).

Activity was also brisk in the bond market in 1989. New debt capital totalling some FIM 22 billion was raised, an increase of nearly one-fifth on the previous year (Chart 16). The private sector — particularly financial institutions — floated a large number of new issues. One factor contributing to this was a change in the term structure of interest rates: long-term market interest rates were noticeably lower than short-term rates, particularly in the final months of the year. In addition, a marked reduction in government bond issues, especially of tax-exempt bonds, helped to create scope for issues by the private sector.

The ban on the sale of markka-denominated bonds to non-residents remained in force throughout 1989. However, the Nordic Investment Bank and the World Bank were granted special permission to make a foreign-targeted markka issue. In December, the Bank of Finland decided to lift the ban in respect of markka issues launched after February 1, 1990.

The easing of exchange control, the rapid internationalization of the business sector and the high level of domestic interest rates all contributed to increasing the interest of different borrower groups in undertaking foreign currency bond issues abroad. All in all, Finnish borrowers issued bonds to the value of FIM 26 billion, ie a further increase on the record level reached in 1988. Financial institutions were the dominant issuer group, their share accounting for 85 per cent of all bond issues. Banks played an active role in the intermediation of foreign finance and also funded their own operations by recourse to the bond market, where they were able to raise funds on attractive terms by means of currency and interest rate swap agreements. Gross issues abroad by the central government amounted to FIM 2 billion and issues by companies reached almost the same level. At the end of the year, the outstanding stock of bonds issued abroad totalled FIM 82 billion.

The rapid expansion of the short-term money market, which had started in 1985, continued last year. Both the stock of negotiable money-market assets and market turnover increased appreciably (Chart 17). Certificates of deposit retained their

Chart 15.
ACQUISITION OF RISK CAPITAL BY LISTED COMPANIES AND SHARE TURNOVER

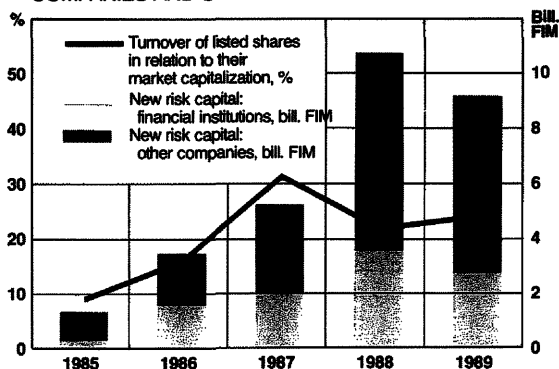


Chart 16.
DOMESTIC BOND ISSUES

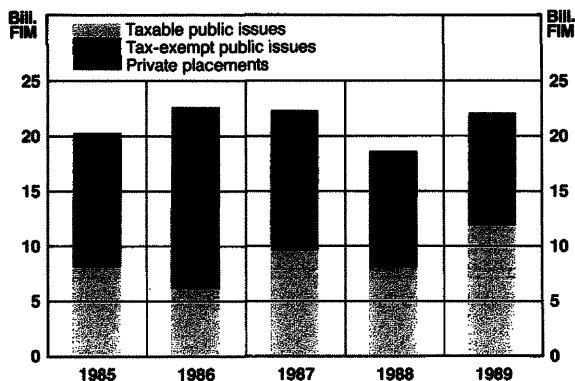


Chart 17.
MONEY MARKET VOLUMES

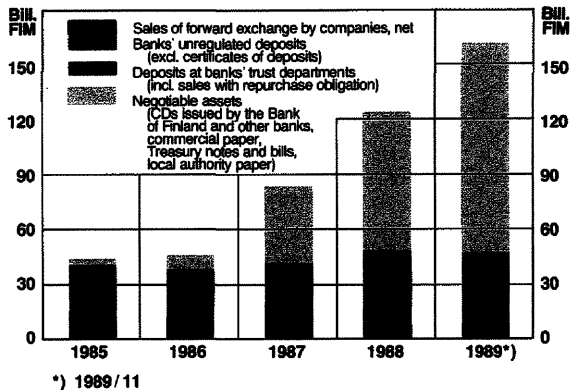


Chart 19.
INTEREST RATE LINKAGES OF NEW LENDING;
BANKS' MARKKA LENDING TO THE PUBLIC

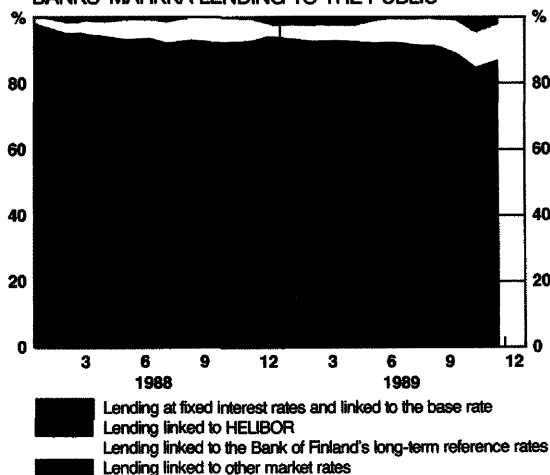
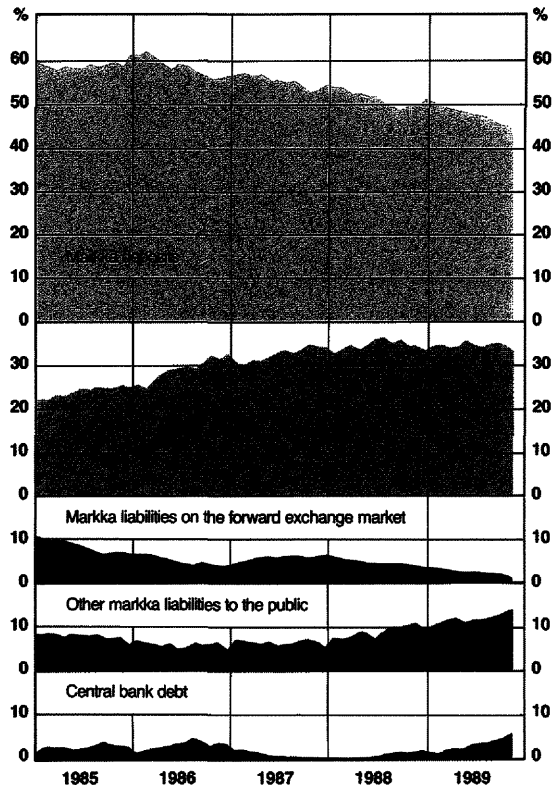


Chart 18.
STRUCTURE OF BANKS' FUNDING



dominant position in the market; at the same time the share of commercial paper grew to some extent, mainly at the expense of paper issued by the public sector. A novel feature in the market was the activation of interbank dealings in short-term, non-negotiable deposit-based instruments of up to two weeks' maturity. This reflected the increased importance of the management of banks' day-to-day liquidity after the Bank of Finland modified the rules governing the use of the call money facility.

The share of funding on market terms in total bank funding increased further along with the growth of both foreign liabilities and finance raised in the domestic money market (Chart 18). The importance of funding on market terms also increased to some extent in banks' traditional markka deposit-taking, partly as a result of the new act on the tax relief of deposits and bonds that entered into force at the beginning of 1989. In the new law, the maximum permissible interest rate on tax-exempt deposits in relation to the base rate was lowered distinctly and the number of tax-exempt deposit instruments was reduced. Under a subsequent amendment made to the law, it became possible to raise the highest permissible deposit rate again with effect from the beginning of December.

The share of bank lending at rates of interest linked to the base rate decreased whereas the share of loans linked to market interest rates increased. At the end of the year, loans linked to HELIBOR

Mortgage Bank of Finland Ltd) became commercial banks from the beginning of 1990.

Development of monetary policy instruments

As part of the wider development of the money market and the framework for the conduct of monetary policy, the Bank of Finland modified the rules governing the operation of the call money window in the course of the year (see above pp. 14–15). The changes were designed to emphasize that the call money window was intended to serve only as a temporary source of finance. In addition, in December, the Bank of Finland revised the criteria according to which it was prepared to accept a bank's CDs as instruments in its money market dealings and to accord a bank access to call money credit.

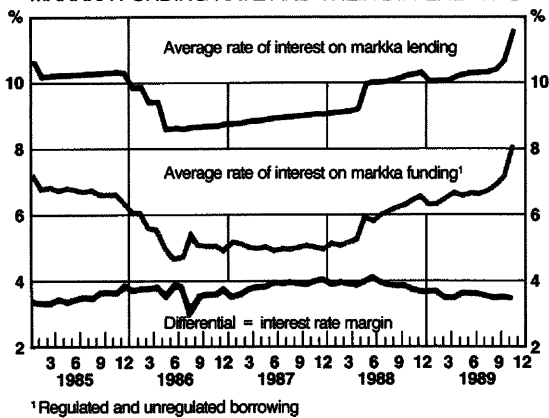
With effect from January 1, 1990, the Bank of Finland will, on application, be prepared to accept a bank's CDs as instruments in which it conducts its money market operations only if the bank fulfils the following conditions:

- The bank's capital base exceeds the minimum amount set by the Bank of Finland, which, in January 1990, was FIM 200 million.
- The bank meets the minimum capital adequacy requirements set by the BIS's Committee on Banking Regulations and Supervisory Practices (the Basle Committee).
- The bank participates actively as a market maker in the CD market.

Furthermore, the bank is required, inter alia, to submit itself to the Bank of Finland's risk monitoring. Banks satisfying these conditions may at the same time act as the Bank of Finland's counterparties in its CD dealings and may, on application, be accorded access to call money credit. A transition period of one year will, as a rule, be applied in cases where banks formerly accorded this right do not meet the new requirements in full.

The new rules governing the use of the call money facility underlined its role as a last resort for evening out fluctuations in banks' daily liquidity positions. The changes concerning dealings in CDs and the granting of access to call money credit will enhance the stability of the market by limiting the range of institutions with which the Bank of Finland conducts its open market operations to

Chart 20.
AVERAGE MARKKA LENDING RATE, AVERAGE MARKKA FUNDING RATE AND THEIR DIFFERENTIAL



rates and long-term market rates accounted for over one-third of all new loans and for about one-quarter of total outstanding loans (Chart 19).

In December, the Bank of Finland revised its guidelines on reference interest rates so as to allow banks to introduce prime rates as reference rates in their lending and deposit-taking with effect from the beginning of 1990. It is envisaged that prime rates, which are the rates applied to top-quality customers, will spur interbank competition as well as the growth of bank lending and funding on market terms.

The spread between banks' markka lending and markka funding narrowed further and contributed to the weakening in banks' results (Chart 20). This was not, however, due to an intensification of competition between banks but mainly to a sharp increase in the cost of short-term funding resulting from the rise in market interest rates. The average interest rate on outstanding bank loans did not rise by a corresponding amount since most lending rates were linked to the base rate or long-term reference rates, movements in which were more stable than those in market rates. The rise in HELIBOR rates was, of course, taken into account in pricing new loans irrespective of interest rate linkages.

In 1989, two new commercial banks commenced operations: Interbank Ltd and OP-Kotipankki Oy. In addition, the Labour Savings Bank of Finland and MB Corporate Bank Ltd (formerly

banks which are sufficiently large, which are active participants in the money market and whose capital adequacy meets international standards. Previously, only commercial banks — not other banks — were accepted in the range of institutions in whose instruments the Bank of Finland conducted its money market operations.

The Bank of Finland has actively sought to develop the cash reserve deposit system to better correspond to the changed conditions in the financial markets. The current system, based on the 1984 cash reserve agreement, is too narrow both in terms of the definition of the cash reserve base and its institutional coverage. This tends to distort the functioning of the financial markets by altering the relative costs of different financial instruments on administrative grounds. Accordingly, the Bank of Finland favours the replacement of the present system by one which is more neutral from the point of view of competition in the financial markets.

The Bank of Finland took part in the work of the working group set up by the Ministry of Finance to investigate the enactment of a permanent law on cash reserve deposits. However, in its report published in May, the working group recommended that the cash reserve deposit system should not be based on legislation provided the existing arrangement based on an agreement between the Bank of Finland and the banks could be maintained. A system based on an agreement offers more flexible opportunities for using the cash reserve instrument than a statutory arrangement, and the working group felt it was necessary in financial markets undergoing international integration. Efficient use of the cash reserve instrument requires international harmonization, which has not yet been begun. Towards the end of the year, the Bank of Finland entered into negotiations with the banks aimed at preparing the ground for the renewal of the agreement.

Relaxation of exchange control

Competition in the domestic financial markets, which have traditionally been dominated by a few financial groupings, was increased by a further relaxation of exchange control and by

opening the markets to foreigners. Liberalization has proceeded gradually so as to give both the markets and the authorities time to adjust to the changes.

With effect from the beginning of June, the Bank of Finland lifted the controls on direct investment abroad by financial enterprises and insurance institutions. After that date, only direct investments abroad by private individuals and in countries with which Finland maintains payments agreements were still subject to control.

From the beginning of September, the Bank of Finland relaxed the controls on both inward and outward transfers of capital. From that date, it became possible to purchase dwellings and real property, to make investments in securities, to deposit funds with monetary institutions and to make investments in merchandise without quantitative restriction and without the need to obtain the authorization of the Bank of Finland; the changes did not, however, apply to companies engaged in financial or insurance business or to households. In the same context, the granting of credit of more than one year's maturity to non-residents was exempted from the requirement of prior approval. As regards households, the removal of the controls was postponed for tax control reasons; they will, however, be implemented by July 1990 at the latest. At the same time, foreign loans of over one year's maturity raised by companies through domestic authorized banks were freed from authorization; the liberalization did not, however, apply to financial enterprises or insurance institutions or to housing companies or real estate companies. In addition, the restrictions on direct foreign investments in Finland were freed from the requirement of prior approval, with the exception of those made in the financial and insurance sector and those originating from payments agreement countries.

By a decision taken in December, the Bank of Finland allowed the sale abroad of new markka-denominated bonds of more than one year's maturity as from February 1, 1990, with the exception of those issued by housing or real estate companies. The ban on cross-border sales nevertheless remained in force for debt securities issued before this date. Effective the same date, non-residents were allowed to issue markka-denominated bonds in Finland.

After the implementation of these measures, the vast bulk of capital movements were free from exchange control. The major exceptions were certain short-term capital movements, borrowing abroad by households and, until July 1990 at the latest, foreign investments by households.

Financial markets legislation

The Securities Market Act and the Securities Broking Firms Act entered into force on August 1, 1989. The Securities Market Act is applicable to public securities issues and the public trading of securities. The law contains provisions on codes of business conduct, the marketing and issue of securities and disclosure requirements. The Act makes stock exchange business subject to licence and brings it within the ambit of public supervision administered by the Banking Supervision Office. In addition, the provisions define insider trading and make it a criminal offence. Similarly, the Securities Broking Firms Act make the intermediation of securities subject to licence and bring it under the scope of public supervision. The Act includes provisions on, inter alia, the liquidity of securities firms and the minimum size of their share capital (FIM 1 million).

The Bank of Finland participated actively in the preparation of legislation on the capital market. The securities trade committee completed its second sub-report in 1989, in which it proposed that legislation should be developed with a special emphasis on investor protection. The working group set up to prepare the reform of the law on bonds, debentures and other collective debt securities also completed its report in early 1989. The working group recommended that, rather than drafting a new law, the relevant provisions on bonds and other comparable debt instruments should be incorporated in the Securities Market Act.

The Bank of Finland took part in the preparatory work on a book entry system, which continued in 1989. The changeover to a book entry system will involve the elimination of physical certificates and their replacement by computerized entries in securities accounts. The Central Share Register of Finland, which maintains data on shareholdings, was established in autumn 1989 and the Association of Securities

Depositories, which is responsible for coordinating the entire system, at the end of January 1990. A bill concerning the introduction of the book entry system is due to be presented to Parliament in early 1990.

On June 1, 1989, the Helsinki Money Market Center Ltd was established for the purpose of operating a clearance and settlement system for money market transactions. The Bank of Finland has a majority holding in the company; the remaining shares are owned by the five largest commercial banks and the state. The Center plans to start operations in summer 1991 and it is intended that money market dealings should be included in the book entry system.

The preparation of a wide-ranging, scope-defining law covering the financial services industry got under way in 1989. The working group set up for this purpose by the Ministry of Finance completed its report in November. According to the working group's proposal, the law would be applied to all financial business services offered to the public with the exception of deposit banking, insurance business and securities market activities, which are governed by their own separate legislation. A comprehensive, uniform law would best guarantee the equality of competitive conditions in the constantly developing financial markets. The other main aim of the law would be to ensure that all corporate entities engaged in financial business operate on a sound basis and thereby to safeguard the public's position in the financial markets.

The drafting of the proposal for a new law on deposit banks continued in 1989. The aim was to incorporate capital adequacy regulations in the law consistent with the recommendations of the Basle Committee, which also serve as the basis for the minimum requirements applied in the European Community. However, it seems likely that the Finnish legislation will, to some extent, be less strict than the international standards in this respect. The main differences concern the treatment of valuation reserves and claims on insurance institutions in the calculation of capital and in the risk classification of assets. The bill was submitted to Parliament in December.

In connection with the international integration process, the working group on bank branches set up by the Ministry of Finance

published its report at the end of January 1990. The working group recommended that foreign banks should also be allowed to open branches in Finland. It further proposed that the relevant legislation should be amended as soon as possible.

The Foreign Exchange Act, which is enacted for five years at a time, is due to expire at the end of 1990. The Bank of Finland was represented on the committee preparing the renewal of the Act, which submitted its report to the Ministry of Finance at the end of January 1990.

Tax legislation relating to the financial markets was developed in the course of the year.

The 'avoir fiscal' or imputation system was introduced in business taxation from the beginning of 1990 as part of the latest phase of the comprehensive reform of income tax legislation enacted earlier. The current law on the tax relief of deposits and bonds will expire at the end of 1991. A working group set up by the Ministry of Finance investigated the possibility of replacing the law by a tax on capital income at source. A bill on a credit tax to be levied chiefly on foreign loans raised by companies was passed in 1989. The law, which complements the existing stamp duty system, entered into force on February 1, 1989.

OTHER OFFICIAL ACTIVITIES

ARRANGEMENTS WITH PAYMENTS AGREEMENT COUNTRIES

In 1989, Finland maintained clearing payment arrangements with Bulgaria, the Soviet Union and the German Democratic Republic. The markka was used as the clearing currency with Bulgaria and the German Democratic Republic and the rouble with the Soviet Union. As in previous years, the clearing account with Bulgaria showed a surplus in Finland's favour (FIM 92 million at the end of the year) and the account with the German Democratic Republic a deficit for Finland (FIM 93 million at the end of the year).

The Bank of Finland's clearing account claim arising from Finland's trade surplus with the Soviet Union decreased substantially in the course of 1989, in keeping with the targets set in the trade negotiations between the two countries in autumn 1988. At the end of September, the clearing account balance moved into a net liability for Finland; at the end of the year, the outstanding liability stood at SUR 83 million (FIM 550 million). In the last few months of the year, the Soviet Union repaid SUR 100 million of the outstanding balance of SUR 285 million in excess of the credit limit which had been transferred from the clearing account to a special interest-bearing account in 1987. The remaining balance in the special account is to be repaid by the end of 1991.

The simultaneous marked fall in the Bank of Finland's outstanding clearing account claim and increase in the value of Finnish exports to the Soviet Union can be ascribed to two factors. First, Finland purchased substantial volumes of Soviet crude oil and oil products for trading in the international market. Second, part of Finnish exports of machinery and equipment was financed by credits granted to the Soviet Union by Finnish financial institutions. Exports paid for in convertible currencies also increased. Because of notably higher prices of energy imports as compared with the previous year, the value of Soviet imports, and thus also Finland's export opportunities, increased.

A five-year framework agreement — the ninth of its kind — on the exchange of goods and payments between Finland and the Soviet Union in the period 1991—1995 was signed in October. As far as payments arrangements are concerned, the new framework agreement adheres to the principles applied in the current agreement, which was amended in autumn 1988. However, because of the rapid changes Soviet foreign trade and the Soviet economy as a whole were undergoing at the time of the negotiations, it was not possible to agree on the clearing account currency to be used by the central banks for bilateral trade payments in the following five-year period. It was agreed that a solution to this issue would be found by mid-1990.

In the course of the year, Finland and the Soviet Union also signed an agreement on the promotion of investment and reciprocal investment protection. The trade protocol between Finland and the Soviet Union for 1990 was signed in December 1989.

INTERNATIONAL ORGANIZATIONS

International Monetary Fund (IMF)

In keeping with the agreed rotation principle applied in electing the joint representative of the Nordic countries, the position of Executive Director passed to Finland during the year under review. Mr Markus Fogelholm, head of department of the Bank of Finland, served in this position from July 1, 1989.

The Interim Committee, the Fund's ministerial body, met in Washington, DC, in April and September, when the joint annual meetings of the International Monetary Fund and the World Bank were also held. At the autumn meeting, Mr Rolf Kullberg, Chairman of the Board of Management of the Bank of Finland, was elected representative of the Nordic countries for the following two-year period.

In May, a team of IMF officials visited Helsinki to review the state of the Finnish economy and the economic policies pursued. This time the review took the form of simplified interim Article IV consultations, which the IMF conducts with member countries in the year between full Article IV consultations.

In the year under review, the Bank of Finland contributed FIM 46 million to the Enhanced Structural Adjustment Facility (ESAF), which provides assistance to poorer developing countries on concessional terms.

At the end of the year, the balance on Finland's SDR account stood at FIM 966 million; this was FIM 154 million less than at the end of 1988. The Fund used the Finnish markka in its lending during the year. Finland's IMF reserve tranche grew by FIM 10 million and stood at FIM 950 million at the end of the year.

Other international cooperation

As in previous years, the Bank for International Settlements (BIS), of which the Bank of Finland

is a shareholder, held monthly meetings at which central bank officials of member countries discussed and exchanged information on, inter alia, the functioning of the foreign exchange markets.

The Bank of Finland participated with other authorities in the work carried out under the auspices of the European Free Trade Association (EFTA). In the spring, EFTA and the EC decided to begin preparatory work at the government official level to examine the possibilities for starting negotiations on the formation of a European Economic Space (EES) between the EFTA countries and the EC. Among key issues in this context are the removal of barriers to the free movement of goods, services, capital and labour and the coordination of economic policy. In December, EFTA and EC ministers agreed to start exploratory talks aimed at reaching an agreement before the end of 1990 on the foundation of the EES. Bank of Finland representatives participated in the EES preparatory work carried out under the aegis of EFTA on the liberalization of capital movements and financial services and the coordination of economic policy.

The Bank of Finland participated in the activities of the Organization for Economic Cooperation and Development (OECD), mainly in the work of the Economic Policy Committee and its working parties, the Financial Markets Committee and the Capital Movements and Payments Committee. The organization also carried out an examination of economic policy in Finland and published a report on it in its country survey series.

Since its foundation, the OECD has strived to remove obstacles to trade in goods and services and to liberalize capital movements. To reach this goal, member countries have accepted binding liberalization codes. In the course of the year, the OECD completed its new Codes of Liberalization of Capital Movements and Trade in Financial Services, in which account was taken of the changes that have occurred in financial markets. The Bank of Finland prepared Finland's reservations to the new codes taking into consideration current legislation and the remaining foreign exchange controls.

As in previous years, the Nordic Financial Commission (NFU) prepared joint Nordic statements on issues dealt with at the IMF. The NFU

monitored the progress in financial integration and gave a statement to a government official committee of the Nordic Council of Ministers concerning the Nordic working group's reports on the progress made in dismantling exchange controls and the necessary conditions for allowing the free establishment of various financial institutions in the Nordic countries. Mr Matti Vanhala, a director of the Bank of Finland, chaired the commission.

The Bank of Finland participated in the activities of the Finnish-Soviet Commission for Economic Cooperation and its working group dealing with payments and financial issues between the two countries. In addition, the Bank participated in the activities of the Commission for Economic Cooperation between Finland and the CMEA. Representatives of the Bank of Finland participated in the eighth Finnish-Soviet banking seminar held in Leningrad in October.

As in previous years, the Bank of Finland participated as an observer in the session of the Council of the International Investment Bank (MIB) and in the session of the Council of the International Bank for Economic Cooperation (MBES).

Preparatory work related to international cooperation

In the spring, the President of the Republic set up a consultative committee to prepare and handle Finland's positions in negotiations on issues relating to the economic integration process in Western Europe. Mr Rolf Kullberg, Chairman of the Board of Management of the Bank of Finland, was appointed the Bank of Finland's representative on the committee and Mr Markku Puntila, Acting Member of the Board of Management, deputy member. The monitoring committee set up by the Ministry of Foreign Affairs to consider the development of the European internal market, the progress in EFTA/EC cooperation, the implications of integration for Finland and Finland's strategic choices continued its work. Mr Pentti Uusivirta, Member of the Board of Management of the Bank of Finland, represented the Bank on the committee. The Bank is also represented on sub-committees preparing issues relating to the Bank of Finland's scope of activities.

The progress in financial market integration in Western Europe and the adjustment needs in Finland were studied by a monitoring group set up by the Ministry of Finance. A substantial part of the group's work was related to Finland's preparation for the creation of the European Economic Space (EES). Mr Markku Puntila, Acting Member of the Board of Management of the Bank of Finland, chaired the working group.

Representatives of the Bank of Finland also took part in the groups of experts in charge of Finland's preparation for the Uruguay round of multilateral trade negotiations launched within the General Agreement of Tariffs and Trade (GATT).

MANAGEMENT OF THE FOREIGN EXCHANGE RESERVES

There were no changes in 1989 in the principles applied in investing the foreign exchange reserves. As before, the Bank of Finland's foreign exchange reserves were invested in foreign currency deposits, prime quality foreign securities (including government bonds), gold and special drawing rights. The foreign currency deposits are distributed among leading correspondent banks in the major industrial countries. Since the reserves have to meet high liquidity requirements, currency deposits are relatively short-term. No marked changes occurred in the relative shares of the major investment currencies in the course of the year. The most important currencies were the US dollar, the Deutsche mark, the Japanese yen and the pound sterling. Holdings of gold increased slightly during the year and amounted to just over 62 tonnes at the end of 1989. Gold was still valued at FIM 35/gram in the balance sheet of the Bank of Finland.

The main items of the convertible reserves at the end of 1988 and 1989 and changes in the course of the year are shown below:

	FIM million		
	Reserves Dec. 31, 1988	Change	Reserves Dec. 31, 1989
Gold	2 128	+51	2 179
Special drawing rights	1 120	-154	966
IMF reserve tranche	940	+10	950
Convertible currencies, net	24 373	-5 593	18 780
Total	28 561	-5 686	22 875

SPECIAL FINANCING ARRANGEMENTS AND SPECIAL COUNTER-CYCLICAL DEPOSITS

Special financing arrangements

The Bank of Finland's special financing arrangements — new-export credits, the financing of domestic supplier credits and short-term export credits — were discontinued from the beginning of 1989. At the end of the year, there were virtually no outstanding export credits and the stock of long-term domestic supplier credits fell by 18 per cent to FIM 2 billion in the course of the year.

In 1988—89, the Bank of Finland participated in the temporary financing scheme under which it partly refinanced crop-failure loans granted by banks. At their peak, these refinancing loans amounted to about FIM 1 200 million. Interest was charged on these loans at a rate equivalent to the Bank of Finland's base rate plus one percentage point. The last loans granted under the scheme were repaid in November 1989.

In keeping with an earlier decision, the Bank of Finland will continue to participate in the funding of the Regional Development Fund until the beginning of 1991. In 1989, the Bank subscribed a credit debenture issue of FIM 146 million floated by the Regional Development Fund.

Special counter-cyclical deposits

In January 1988, the Government decided on a comprehensive package of cyclical policy measures concerning investment reserves¹, counter-cyclical deposits by business enterprises² and export deposits³. In 1989, these measures were, for the most part, still in force.

¹ The investment reserve scheme was set up as a counter-cyclical instrument (Investment Reserve Act 1094/78 and the Act on the Amendment of the Investment Reserve Act 660/89) and the Government uses it as a means of inducing taxpayers — those engaged in business activities and sole traders — to voluntarily postpone their investments from economic upswings to periods of slower growth. The scheme allows taxpayers to establish a tax-deductible reserve in their accounts but at the same time obliges them to deposit funds corresponding to half the reserve with the Bank of Finland. The taxpayer may withdraw the funds when using the reserve for investments in a period determined by the Government.

² Counter-cyclical deposits can be collected from taxpayers engaged in business activities for the purpose of smoothing cyclical fluctuations (Counter-cyclical Deposits Act 53/77). The amount to be deposited is a given proportion of taxable income in local taxation.

³ Pursuant to the Export Deposits Act (578/79), the Government may, for the purpose of smoothing cyclical fluctuations, determine that export deposits be made whenever export prices have risen to the extent that the resultant increase in export earnings poses an obvious threat to stable economic developments.

According to a decision taken by the Government in 1988, the period during which investment reserves made before 1985 could be used was extended to the end of 1990. In the course of 1989, deposits totalling FIM 0.5 billion were released in connection with the utilization of investment reserves, while new deposits were made to the value of FIM 4.3 billion. At the end of the year, outstanding investment deposits at the Bank of Finland amounted to FIM 10.2 billion.

In July 1989, a permanent act on the amendment of the Investment Reserve Act was passed by Parliament. It entered into force on January 1, 1990. The most important change concerns the extension of the range of taxpayers entitled to set up investment reserves to include sole traders in addition to business undertakings. A temporary law with the same contents had already been in force since the beginning of 1989. The full effects of the amendment — inter alia an increase in the number of deposits — will become evident at the Bank of Finland in the course of 1990.

The collection of counter-cyclical deposits from enterprises under the Government decision of January 1988 ceased at the end of March 1989. By the end of the year, counter-cyclical deposits in the central government's account at the Bank of Finland totalled FIM 1.3 billion.

In January, the Government decided to levy export deposits on woodfree printing paper for twelve months from the beginning of February. The collection of deposits was, however, discontinued from the beginning of May because of a deterioration in the market situation. In September, the Government decided to extend the collection period for export deposits on pulp, which had started in September 1988, by six months to March 22, 1990. The deposit was 3 per cent of the export price for woodfree printing paper and 4.5 per cent for pulp. By the end of the year, export deposits at the Bank of Finland amounted to FIM 0.2 billion.

So far, the Government has not made any decision on the release of counter-cyclical deposits or export deposits.

The central government's tax revenue increased markedly in 1989. From the beginning of October, the central government started to deposit its cash funds at the Bank of Finland. By the

end of the year, cash fund deposits amounted to FIM 3.8 billion. The central government budget for 1990 provided for the establishment of the state pension fund and in connection with this the cash fund deposits were transferred to the central government's pension fund account at the Bank of Finland on February 1, 1990.

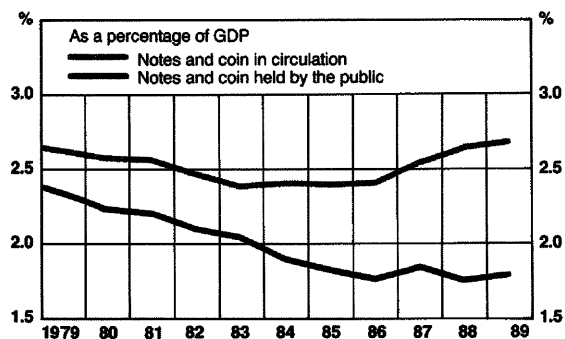
MAINTENANCE OF THE CURRENCY SUPPLY

In the course of the year, some technical improvements were made to the system of regional currency distribution introduced in October 1988.

The automation of the handling of used banknotes returned to the Bank of Finland advanced further. In addition to the two note sorting machines in operation at the head office, it was decided to purchase four machines for installation at the Kuopio, Oulu, Tampere and Turku branches. The decision will involve changes in the operations of the branch offices. The amount of work will increase at the four branches mentioned while activities at the remaining eight branches will continue on a reduced scale. The new note sorting machines will be delivered and taken into operation in 1990.

The risk of banknote counterfeiting has increased along with the rapid development of colour copiers. The Bank of Finland has also had to pay increasing attention to the detection of counterfeits and the reliability of inspection procedures. The acquisition of the note sorting machines will enhance the Bank of Finland's capacity to check the authenticity of banknotes. Though there have been relatively few cases of

Chart 21.
NOTES AND COIN IN CIRCULATION



counterfeit notes in Finland, in 1989 over a hundred ten markka notes forged in the same way were encountered.

No changes were made to the till-money system in the course of the year. Till-money credits are interest-free credits granted to the banks by the Bank of Finland to finance their till-money funds. During the year under review, till-money credits grew by 11 per cent. On a daily basis, till-money credits amounted to FIM 2 830 million on average.

The growth in the amount of currency in circulation in relation to GDP slowed. The amount of cash held by banks showed a further rise, which was due to an increase in the number of cash dispensers and automated teller machines. In relative terms, the currency held by the public remained practically unchanged (Chart 21).

OTHER ACTIVITIES

RESEARCH AND ECONOMIC ANALYSIS

In 1989, research and analysis carried out in support of decision-making at the Bank of Finland focused on economic analysis related to the preparation of central bank policy and issues related to the structure of financial markets and financial market institutions. Among other things, attention was paid to the effects and instruments of central bank policy and its coordination with the rest of economic policy under conditions of deregulation of capital movements. Studies were also carried out on the role of the central bank in the development of financial markets and on taxation issues, in particular those related to capital income. Other subjects studied included issues related to payment instruments, intervention policy, the risks attached to the banking system and bank profitability.

Decision-making was also supported by extensive economic analysis and forecasting. In addition, the effects of different economic policy choices on macroeconomic performance were studied with the aid of medium-term calculations.

INFORMATION AND PUBLICATIONS

The use of electronic information systems became established in 1989. Information on the Bank of Finland's decisions and on interest and exchange rate developments are now transmitted mainly by means of electronic information systems and telefaxes.

The contents and lay-out of the Year Book were thoroughly revised. In its new form the Year Book provides more information on the financial statements, and hence the publication of a separate annual statement is no longer necessary.

The publication "Finnish Bond Issues" also appeared in a new, condensed form. The reduction in its contents was partly attributable to the fact that, from autumn 1988, the Bank had started to publish monthly data on bond issues and partly to the fact that an agreement had been reached with the Central Statistical Office of Finland on the future availability of statistical material published previously. Reviews of the bond market also appear in other Bank of Finland publications.

Four publications appeared in Series A, one in Series B and four in Series D.¹ In addition, 40 papers on various topics appeared in the Discussion Papers series in the course of the year.

¹ A list of Bank of Finland publications in 1989 is included in the Appendices.

ADMINISTRATION AND STAFF

No major changes were carried out in the administration and organization of the Bank of Finland in 1989. At the end of 1989, staff at the head office numbered 704 and that at the branch offices 203. A total of 58 persons were on leave of absence for various reasons. The number of staff on fixed-term contracts was 45. In the course of the year, the number of staff at the head office increased by 17 while that at the branch offices fell by 17. The Bank of Finland Security Printing House employed a staff of 372, a decrease of 13 on the previous year. Of these, 28 were on fixed-term contracts.

The discussion on the future of the Bank of Finland's branch office organization continued in the course of the year. In November, a management group was appointed for the coordination of currency supply; the group consists of the director responsible for currency supply and representatives of the Payment Instruments Department and branch offices.

In addition to the development of professional skills and expertise, staff training focused on information technology, which accounted for a total of 1 200 training days. Expenditure on training accounted for 3.4 per cent of the Bank's total wage and salary bill.

DATA PROCESSING

In 1989, the capacity of the Bank's main-frame increased when the Unisys A12 hardware was replaced by A17 hardware. A microcomputer software library with some 20 products was set up for the Bank's economists. As practically all microcomputers were connected to the micro-computer network, it was possible to introduce electronic mail. In the course of 1989, the Bank acquired 100 new microcomputers; at the end of the year, the total number of microcomputers was 550.

FINANCIAL STATEMENTS

BALANCE SHEET, FIM

ASSETS

Gold and foreign currency claims (1)				
Gold	2 179 497 897,31		2 128 364 702,89	
Special drawing rights	966 387 806,71		1 120 012 532,34	
IMF reserve tranche	949 501 591,96		939 580 162,51	
Convertible currencies	18 821 500 461,08		24 491 703 481,41	
Tied currencies	92 492 011,45	23 009 379 768,51	1 073 300 228,65	29 752 961 107,80
Other foreign claims (1)				
Markka-subscription to Finland's quota in the IMF	2 102 573 520,04		2 282 665 349,48	
Term credit	1 197 737 360,00	3 300 310 880,04	1 916 048 844,00	4 198 714 193,48
Claims on financial institutions (2)				
Call money credits	38 162 785,67		463 303 322,70	
Certificates of deposit	33 229 760 350,69		7 186 778 119,33	
Till-money credits	3 310 176 000,00		2 919 981 000,00	
Financing of crop failure loans	—		1 221 767 096,56	
Bonds	2 237 915 000,00		2 324 873 500,00	
Other claims on financial institutions	237 901 100,00	39 053 915 236,36	267 405 770,86	14 384 108 809,45
Claims on the public sector (3)				
Treasury notes and bills	—		88 355 489,25	
Bonds	7 950 552,00		19 631 461,00	
Total coinage	1 129 130 499,20	1 137 081 051,20	1 019 631 447,50	1 127 618 397,75
Claims on corporations (4)				
Financing of exports	1 481 148,17		399 715 097,29	
Financing of domestic deliveries (KTR)	1 696 996 133,50		2 205 423 385,00	
Bonds: KTR credits	301 644 970,30		217 873 290,10	
Bonds: Other	20 849 999,70		34 649 999,40	
Other claims on corporations	185 975 269,35	2 206 947 521,02	183 295 321,79	3 040 957 093,58
Other assets (5)				
Accrued items	464 292 455,52		668 321 060,88	
Other assets	107 179 679,38	571 472 134,90	118 498 249,53	786 819 310,41
TOTAL		69 279 106 592,03		53 291 178 912,47

LIABILITIES

Foreign currency liabilities (1)				
Convertible currencies	41 576 055,71		118 966 485,99	
Tied currencies	655 783 284,66	697 359 340,37	128 383 995,27	247 350 481,26
Other foreign liabilities (1)				
IMF markka accounts	2 102 609 774,38		2 282 677 327,10	
Allocations of special drawing rights	757 524 087,20	2 860 133 861,58	799 760 327,20	3 082 437 654,30
Notes and coin in circulation (6)				
Notes	12 072 975 487,00		10 600 827 958,00	
Coin	1 056 316 652,00	13 129 292 139,00	948 738 985,12	11 549 566 943,12
Certificates of deposit (7)		—		1 130 000 000,00
Liabilities to financial institutions (8)				
Call money deposits	568 989 979,45		127 567 767,18	
Cash reserve deposits	25 506 035 002,00		19 039 453 624,00	
Capital import deposits	190 000 000,00		—	
Other liabilities to financial institutions	37 977 417,15	26 303 002 398,60	81 047 477,53	19 248 068 868,71
Liabilities to the public sector (9)				
Cheque accounts	87 760,68		507 446,78	
Cash fund deposits	3 770 000 000,00		—	
Counter-cyclical fund deposit	—		900 000 000,00	
Counter-cyclical deposits	1 319 199 138,62		981 122 203,84	
Export deposits	234 936 785,00		20 187 924,00	
Other liabilities to the public sector	923 526,45	5 325 147 210,75	914 760,00	1 902 732 334,62
Liabilities to corporations (10)				
Deposits for investment and ship purchase	10 227 518 474,87		6 446 632 851,85	
Capital import deposits	582 522 901,80		348 684 126,10	
Other liabilities to corporations	—	10 810 041 376,67	1 364 232,69	6 796 681 210,64
Other liabilities (11)				
Accrued items	1 241 198 968,97		1 064 137 008,30	
Other liabilities	52 990 872,20	1 294 189 841,17	42 955 032,82	1 107 092 041,12
Valuation account and reserves (12)		2 695 823 384,33		2 391 077 656,96
SITRA's capital		400 000 000,00		400 000 000,00
Capital accounts (13)				
Primary capital	5 000 000 000,00		5 000 000 000,00	
Reserve fund	436 171 721,74		88 360 833,39	
Net earnings	327 945 317,82	5 764 117 039,56	347 810 888,35	5 436 171 721,74
TOTAL		69 279 106 592,03		53 291 178 912,47

PROFIT AND LOSS ACCOUNT, FIM

INTEREST INCOME			
Domestic (1)			
Call money credits	57 595 448,58		14 935 828,84
Certificates of deposit and Treasury notes and bills	1 905 018 286,23		228 605 204,89
Fixed-term loans	27 515 137,03		—
Crop failure loans	57 897 144,96		75 483 288,39
Financing of exports	7 567 025,26		50 215 289,04
Financing of domestic deliveries (KTR)	178 716 605,21		194 670 663,92
Bonds	197 974 379,83		201 648 071,58
Other claims	38 428 119,25	2 470 712 146,35	38 676 098,37
			804 234 445,03
Foreign (2)			
IMF	123 984 699,36		107 086 383,35
Securities	1 474 136 187,47		1 279 394 078,65
Other currency claims	692 054 712,82	2 290 175 599,65	684 282 960,66
			2 070 763 422,66
Total interest income		4 760 887 746,00	2 874 997 867,69
INTEREST EXPENSE			
Domestic (3)			
Call money deposits	- 16 141 966,88		- 43 740 800,89
Certificates of deposit	- 44 489 192,71		- 456 658 138,50
Cash reserve deposits	- 1 626 223 706,19		- 1 129 196 421,05
Forward exchange dealings	- 3 009 226,24		- 13 560 568,84
Cash fund deposits	- 46 558 904,11		—
Counter-cyclical deposits	- 64 715 934,06		- 16 253 773,34
Counter-cyclical fund deposits	- 11 476 838,91		- 64 141 073,36
Investment deposits	- 439 765 714,94		- 213 842 377,78
Capital import deposits	- 58 162 261,44		- 21 653 374,17
Other liabilities	- 55 205 430,34	- 2 365 749 175,82	- 44 681 655,27
			- 2 003 728 183,20
Foreign			
IMF	- 64 138 869,86		- 56 703 078,12
Other liabilities	- 9 378 540,88	- 73 517 410,74	- 3 897 202,33
			- 60 600 280,45
Total interest expense		- 2 439 266 586,56	- 2 064 328 463,65
INTEREST MARGIN (4)		2 321 621 159,44	810 669 404,04
OTHER INCOME (5)			
Commissions and fees	3 799 575,24		4 064 926,46
Other	144 548 189,83	148 347 765,07	59 120 389,03
			63 185 315,49
OTHER EXPENSE (6)			
Salaries	- 134 273 855,83		- 122 007 877,93
Social security costs	- 54 172 981,86		- 49 076 949,71
Banknote printing	- 39 536 017,75		- 37 752 448,10
Depreciation	- 87 459 315,05		- 108 179 973,40
Other expense	- 63 550 437,96	- 378 992 608,45	- 57 218 731,99
			- 374 235 981,13
PROFIT BEFORE VALUATION ADJUSTMENTS AND RESERVES		2 090 976 316,06	499 618 738,40
Valuation gain/loss on foreign securities (7)		- 277 956 226,00	- 196 358 079,48
Exchange rate gain/loss (8)		- 1 200 154 250,21	694 550 229,43
Increase in pension reserve (9)		- 150 000 000,00	- 300 000 000,00
Increase in reserves in accordance with § 30 of the Regulations (9)		- 134 920 522,03	- 350 000 000,00
PROFIT FOR THE ACCOUNTING YEAR (10)		+ 327 945 317,82	+ 347 810 888,35

APPENDICES TO THE FINANCIAL STATEMENTS

Note issue, FIM

Right of note issue	23 010 387 816,16	30 248 678 036,53
Used right of note issue	13 392 218 071,18	10 974 052 629,08
Unused right of note issue	9 618 169 744,98	19 274 625 407,45

Domestic markka/foreign currency forward contracts, FIM (middle rate as of Dec. 31)

Forward purchase contracts	—	1 073 619 833,83
Forward sales contracts	202 950 000,00	333 520 000,00

Foreign currency/foreign currency forward contracts, FIM (middle rate of currency purchased as of Dec. 31)

—	236 086 898,77
---	----------------

Shares and other interests, FIM (nominal value)

Shares in housing companies	401 000,00	6 379 000,00
Real estate shares	2 309 920,00	2 309 920,00
Other shares and interests	54 647 332,97	46 686 943,65
Total	57 358 252,97	55 375 863,65

Guarantees, FIM

15 506 904,02	68 654 180,50
---------------	---------------

Liability arising from pension commitments, million FIM

The Bank of Finland's pension liability	1 233	1 094
— of which covered out of reserves	450	300
Security Printing House pension liability	185	185
Total liabilities	1 418	1 279

The Bank of Finland's real estate

Building	Address	Year of completion	Volume cu.m (approx.)	
Helsinki	head office	Rauhankatu 16	1883/1961	49 500
	"	Rauhankatu 19	1954	33 000
	"	Unioninkatu 33	1848	17 500
	housing company	Snellmaninkatu 23	1896/1988	27 500
	"	Liisankatu 14	1928	48 500
	villa	Ramsinniementie 7	1920/1983	4 500
Joensuu	branch office	Torikatu 34	1984	11 000
Jyväskylä	"	Kauppakatu 21	1950	32 000
Kotka	"	Keskuskatu 19	1910	9 000
Kuopio	"	Kauppakatu 25—27	1912	7 500
Lahti	"	Torikatu 3	1929	36 500
Mikkeli	"	Päiviönkatu 15	1965	7 500
Oulu	"	Kajaaninkatu 8	1973	17 000
Pori	"	Valtakatu 11	1853/1913	11 500
Rovaniemi	"	Valtakatu 10—12	1988	15 500
Tampere	"	Hämeenkatu 13	1942	36 000
Turku	"	Linnankatu 20	1914	10 500
Vaasa	"	Kirkkopuistikko 22	1952	55 500
Vantaa	security printing house	Suometsäntie 1	1979	311 500
Inari	skiing lodge	Saariselkä	1968/1976	2 000

Helsinki, February 12, 1990

THE BOARD OF MANAGEMENT OF THE BANK OF FINLAND

Rolf Kullberg,
Chairman

Pentti Uusivirta

Esko Ollila

Ele Alenius

Markku Puntila,
Acting Member

NOTES TO THE FINANCIAL STATEMENTS

General accounting principles applied

The Bank of Finland's balance sheet follows a sectoral division, describing the financial relations between the central bank and foreign and domestic sectors. The valuation principles applied in the balance sheet are explained in the notes to the various items. In keeping with the Regulations for the Bank of Finland, fixed assets and long-term expenditure are entered as expenditure in full in their year of acquisition, and thus do not show up in the balance sheet. Fixed assets are described in more detail in the appendices to the financial statements.

Foreign currency claims and liabilities have been translated into markkaa at the middle exchange rates as of December 31, 1989. The middle exchange rate is the average of the buying and selling rates quoted by the Bank of Finland. All changes in the value of claims and liabilities resulting from changes in exchange rates have been entered in the profit and loss account under exchange rate gain/loss.

Financial information on the Bank of Finland Security Printing House and SITRA (Finnish National Fund for Research and Development) are not included in the Bank of Finland's financial statements. They publish separate reports on their activities.

Notes to the balance sheet

1 Gold and foreign currency items

As in previous years, gold has been entered at the value of FIM 35/g in the balance sheet. At the end of the year, the Bank's holdings of gold totalled 62 271 kilos, with a market value of FIM 3 259 million.

The item 'allocations of special drawing rights' under liabilities corresponds to the item 'special drawing rights' included under foreign currency claims. Interest is paid on both items at a rate equivalent to the SDR interest rate.

The SDR-denominated reserve tranche and the markka subscription together form Fin-

land's quota in the IMF. The counterpart of the markka subscription is included in the IMF markka accounts under foreign liabilities. The markka subscription and the corresponding markka accounts are linked to the exchange rate of the special drawing right (SDR) in accordance with the practice applied by the IMF.

Convertible currencies consist mainly of bank deposits and foreign securities issued or guaranteed by governments. The item also includes foreign sight accounts as well as foreign means of payment held by the Bank of Finland.

Securities included under convertible foreign exchange reserves have been valued at the lower of nominal value and market value, in keeping with § 6 of the Regulations for the Bank of Finland.

Tied currencies include the balance on the clearing account with Bulgaria. In 1988, this balance sheet item also included the balance on the clearing account with the Soviet Union.

The fixed-term claim consists solely of a special account arrangement agreed with the Bank for Foreign Economic Affairs of the USSR. At the beginning of the year, the balance on this account was FIM 1 916 million (SUR 285 million). Repayments totalling SUR 100 million were made in October and December, and thus the balance stood at FIM 1 198 million at the end of the year.

Convertible foreign currency liabilities consist of convertible markka claims of international organizations and foreign banks on the Bank of Finland.

Tied foreign currency liabilities comprise the clearing account balance with the Soviet Union, which amounted to FIM 563 million, and that with the German Democratic Republic, which amounted to FIM 93 million. In 1988, only the latter account was included in this balance sheet item.

2 Claims on financial institutions

Call money credits comprise the debit balances on cheque accounts held by banking institutions entitled to central bank financing. At the end of the accounting year, the rate of interest on call money credits was 15 per cent.

Certificates of deposit are market-priced securities issued by banks. They have been valued at acquisition cost. This item also includes interest of FIM 529 million accrued on certificates of deposit.

Till-money credits, which are used to finance the notes and coin held by banking institutions in their tills, are interest-free.

Holdings of bonds issued by banking institutions are mainly investments. They are valued at nominal value.

3 Claims on the public sector

Bonds comprise securities issued by the central government and local authorities; they are valued at nominal value.

Total coinage shows the net amount of coin delivered by the Mint of Finland to the Bank of Finland.

4 Claims on corporations

Financing of exports comprises companies' export bills, the payment of which is the responsibility of the banks intermediating this finance. The interest rate is the same as the base rate.

Credits for financing domestic deliveries have been granted either in the form of individual loans or bonds, and are therefore entered separately in the balance sheet. Bonds are valued at nominal value. KTR credits are backed by bank guarantees. Interest is charged at a rate which ranges from the base rate to the base rate plus 2.5 percentage points.

Other bonds mainly consist of securities classified as investments and are valued at nominal value.

5 Other assets

Accrued items are mainly interest receivables. Other assets include FIM 100 million in staff housing loans. The interest rate applied to housing loans is equivalent to the base rate.

6 Notes and coin in circulation

Notes and coin in circulation consists of notes and coin held by the public and banking institutions.

7 Certificates of deposit

Certificates of deposit issued by the Bank of Finland are valued at nominal value. The difference between nominal value and issue price is entered under accrued items and gradually accrues under interest expenditure over the period to maturity.

From October onwards, there were no certificates of deposit issued by the Bank of Finland outstanding in the market.

8 Liabilities to financial institutions

Call money deposits comprise the credit balances on cheque accounts held by banking institutions entitled to central bank financing. The rate of interest on call money deposits was 4 per cent.

At the end of December, cash reserve deposits amounted on average to 9.1 per cent of the cash reserve base. The Bank of Finland pays interest at a rate equivalent to the base rate less 0.25 percentage point on cash reserve deposits collected under the cash reserve agreement proper between the banks and the Bank of Finland. No interest is paid on the rest of the deposits, which amounted to FIM 3 159 million at the end of the year. The non-interest-bearing deposits are based on the additional cash reserve agreement concluded between the banks and the Bank of Finland.

9 Liabilities to the public sector

Cash fund deposits are cash deposits made by the central government as from October 5, 1989. Interest is paid on these deposits at the rate of 10 per cent.

Counter-cyclical deposits are deposits collected by provincial tax boards from business enterprises. Interest is paid on the deposits at a rate equivalent to the base rate less 2.5 percentage points.

Export deposits are deposits collected by the National Board of Customs from pulp exporters. Interest is paid on these deposits at a rate equivalent to the base rate less 0.75 percentage point.

10 Liabilities to corporations

Deposits for investment and ship purchase comprise statutory deposits made with the Bank of Finland by companies which have made an investment or ship purchase reserve. The deposits are interest-bearing, and the rate of interest is determined on the basis of the date the deposit was made and the period during which the reserve is used. Interest is paid at a rate which ranges from 3 per cent to the base rate less 2.5 percentage points.

Capital import deposits consist of cash reserve deposits made by companies in respect of short-term loans raised from foreign banks. Interest is paid on these deposits at a rate equivalent to the interest rate on cash reserve deposits.

11 Other liabilities

Accrued items consist mainly of interest liabilities.

Other liabilities include FIM 9 million of notes in circulation in the old denomination.

12 Valuation account and reserves

This balance sheet item consists of the following items:

	Dec. 31, 1989
	FIM million
Valuation account and reserves proper	2 325
Reserve for covering pension liability	450
Valuation differences	-79
Total	2 696

The valuation account and reserves proper include reserves which have been made for the purpose of safeguarding the real value of the capital accounts and for covering the risk associated with foreign currency claims, liabilities and forward contracts. In the financial statements for 1989, these reserves were increased by FIM 135 million.

In the 1989 financial statements, the increase in the Bank's pension liabilities was FIM 150 million. Thus the pension reserve grew to a to-

tal of FIM 450 million. The Bank of Finland's pension liabilities total FIM 1 428 million; 31.5 per cent of this is covered by the reserve.

In keeping with previous practice, foreign securities included in convertible foreign exchange reserves whose acquisition cost or, if lower, market value is higher than their nominal value, have been valued at nominal value in the balance sheet. The difference between the nominal value and the "lowest value", the accounting principle applied in the profit and loss account, has been entered in the valuation account as a deduction.

13 Capital accounts

Changes in the capital accounts are shown in the following table:

	Dec. 31, 1989	Dec. 31, 1988	Change
	FIM million		
Primary capital	5 000	5 000	—
Reserve fund	436	88	+348
Net earnings for the accounting year	328	348	-20
Total	5 764	5 436	+328

Notes to the profit and loss account

Net earnings for the accounting year totalled FIM 328 million after transfers to reserves. This sum will be transferred to the reserve fund, thus restoring it to its level prior to previous years' losses.

Domestic interest income grew notably, which was mainly attributable to the increase in interest income on certificates of deposit. The interest margin grew almost threefold compared with 1988.

Net earnings for the accounting year were reduced by valuation and exchange rate losses on foreign securities.

1 Domestic interest income

Domestic interest income increased by FIM 1 667 million on the previous year. The increase was mainly due to the increase in interest in-

come on certificates of deposit, which amounted to FIM 1 677 million. The average return on certificates of deposit was some 13 per cent. Interest income on call money credits and fixed-term credits also increased.

2 Foreign interest income

In 1989, foreign interest income showed an increase of FIM 219 million on the previous year. This was due to the rise in international interest rates, with the exception of US dollar interest rates, in the course of the year.

3 Domestic interest expense

Interest expense on domestic liabilities grew by FIM 362 million. Interest paid on cash reserve deposits was FIM 497 million higher than in 1988. A new item in domestic interest expense was interest on government cash fund deposits.

4 Interest margin

The interest margin grew by FIM 1 511 million to FIM 2 322 million.

5 Other income

Other income totalled FIM 148 million. The item includes proceeds on sales of shares in housing companies, rental income and dividends from the Bank for International Settlements.

6 Other expense

Salaries accounted for FIM 134 million of other expense. Social security costs include FIM 43 million in pension payments. The Bank of Finland Security Printing House was paid FIM 40 million for the printing of banknotes.

In keeping with the Regulations for the Bank of Finland, fixed assets and long-term expenditure are entered as expense under depreciation in the year they were incurred to the Bank. Of depreciation, FIM 31 million was for buildings, FIM 43 million for machinery and equipment and FIM 10 million for the acquisition price of shares in Helsinki Money Market Center Ltd.

7 Valuation gain/loss on foreign securities

Valuation gain/loss on foreign securities includes exchange rate gains and losses realized on sales of securities and differences between the lower of acquisition cost and market value of securities in the portfolio. If the foreign securities portfolio had been valued at the market values as of December 31, 1989, exchange rate losses on securities would have amounted to FIM 262 million.

8 Exchange rate gain/loss

Exchange rate gain/loss includes all changes in the value of claims and liabilities resulting from exchange rate changes as well as earnings from foreign exchange dealings. Both the exchange rate of the US dollar, the key reserve currency, and the value of the index expressing the external value of the markka had a considerable impact on this item. The fluctuation range of the currency index was lowered in March, and as result the markka strengthened. In December 1989, the currency index was 3 percentage points lower than in the corresponding period in 1988. The exchange rate of the US dollar was also lower than at the end of the previous year, as a result of which the Bank registered an exchange rate loss of FIM 1 200 million.

9 Changes in reserves

A reserve of FIM 150 million was set up to partly cover the pension liability.

According to § 30 of the Regulations for the Bank of Finland, reserves can be made in the Bank's profit and loss account if it is necessary for safeguarding the real value of the Bank's capital accounts or evening out fluctuations in the results attributable to changes in foreign exchange rates. FIM 135 million was appropriated to the reserves to safeguard the real value of the Bank's capital accounts.

10 Profit for the accounting year

The profit for the accounting year was FIM 328 million after transfers to reserves. It is needed for covering the deficit in the reserve fund resulting from previous years' losses.

AUDITORS' REPORT

We, the Auditors elected by Parliament, have audited the accounts, including the financial statements, and the management of the Bank of Finland for 1989 on February 12—15, 1990 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 Report on Activities 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 profit of FIM 327 945 317.82 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 15, 1990

AUDITORS OF THE BANK OF FINLAND

Markus Aaltonen

Pentti Kettunen

Kalevi Mattila

Esko Seppänen

Ben Zyskowicz

./ . Kalervo Virtanen
Authorized Public Accountant

APPENDICES

MONETARY AND FOREIGN EXCHANGE POLICY MEASURES IN 1989

January

Interest rate policy

The Bank of Finland lowered its base rate from 8 per cent to 7.5 per cent as from January 1.

Special financing arrangements

As from the beginning of the year, the Bank of Finland abolished the financing arrangements for domestic suppliers' credits, new-export credits and short-term export credits.

February

Export deposits

The Government decided to levy export deposits of 3 per cent on woodfree printing paper exported during the period February 1, 1989 and January 31, 1990.

Cash reserve requirement

The Bank of Finland raised the cash reserve requirement from 7.8 per cent to 8.0 per cent of the cash reserve base in February.

March

Supplementary cash reserve agreement

An agreement supplementing the cash reserve agreement between the Bank of Finland and the banks was signed on March 13. The supplementary agreement is effective until the end of 1990 and empowers the Bank of Finland to raise the cash reserve requirement to a maximum of 12 per cent. The application of the additional requirement is linked to the developments in bank lending.

Fluctuation limits of the currency index

On March 17, the Government decided, on the basis of a proposal by the Parliamentary Supervisory Board, to lower the fluctuation limits of the currency index by about 4 per cent. The new upper limit of the fluctuation range of the currency index is 102.5 and the new lower limit 96.5. The change made a revaluation of the markka possible.

April

Till-money credits

The Bank of Finland raised the base amount — the share of banks' till-money holdings which is not financed by the Bank of Finland — by over FIM 60 million as from the beginning of April. The new base amounts are effective until the end of March 1990.

Central bank financing

The Bank of Finland granted Interbank Ltd the right to central bank financing with effect from the beginning of April. The bank joined the cash reserve agreement between the Bank of Finland and the banks on February 16.

May

Export deposits

The Government decided to terminate, as from the beginning of May, the temporary export deposits levied on woodfree printing paper since the beginning of February.

Cash reserve requirement

The Bank of Finland raised the cash reserve requirement for certain banks. Together with the current 8 per cent ratio, the banks' average deposit requirement now amounted to just under 8.2 per cent of the cash reserve base in April.

June

Amendments to the Foreign Exchange Regulations

The Bank of Finland removed the controls on direct investments by enterprises in the financial and insurance sector as from June 1. After this date, only direct investments by private individuals and direct investments in countries with which Finland maintains payments agreements require the Bank of Finland's authorization.

Call money market

With effect from June 16, the Board of Management of the Bank of Finland decided to abolish the bank-specific quotas for call money credit of the banks entitled to central bank financing. At the same time, the penalty interest charged on borrowing in excess of quota, which had last stood at 19 per cent, was abolished. In addition, the call money credit rate was raised from 13 per cent to 15 per cent; the call money deposit rate remained unchanged at 4 per cent.

Cash reserve requirement

The Bank of Finland raised the cash reserve requirement for certain banks. Together with the current 8 per cent ratio, the banks' average deposit requirement now amounted to about 8.4 per cent of the cash reserve base in May.

July

Cash reserve requirement

The Bank of Finland raised the cash reserve requirement for certain banks. Together with the current 8 per cent ratio, the banks' average deposit requirement now amounted to about 8.5 per cent of the cash reserve base in June.

August

Cash reserve requirement

The Bank of Finland raised the cash reserve requirement for certain banks. Together with the current 8 per cent ratio, the banks' average deposit requirement now amounted to about 8.7 per cent of the cash reserve base in July.

September

Amendments to the Foreign Exchange Regulations

The Bank of Finland decided to relax the foreign exchange regulations concerning foreign investments with effect from September 1, except for those applying to private individuals.

Capital exports. The purchase of dwellings and real estate was exempted from authorization also in cases where the purchase price exceeds FIM 1 million. Investments in the form of foreign securities, deposits held in accounts with foreign monetary institutions and merchandise held abroad were permitted without the permission of the Bank of Finland or quantitative restrictions. In addition, it was allowed to grant credit of more than one year's maturity to non-residents without the Bank of Finland's permission.

Capital imports. Companies, with the exception of those engaged in financial and insurance business and housing and real estate companies, were permitted to raise foreign credit of more than one year's maturity. The authorization of the Bank of Finland was still required if a company borrowed directly from a foreign lender. Supplier credits and prepayments in respect of imports were entirely freed from authorization. In addition, most direct investments in Finland were freed from authorization.

Cash reserve requirement

The Bank of Finland raised the cash reserve requirement for certain banks. Together with the current 8 per cent ratio, the banks' average deposit requirement now amounted to about 8.8 per cent of the cash reserve base in August.

October

Government cash fund deposits

The Ministry of Finance and the Bank of Finland reached an agreement according to which the government would make cash fund deposits totalling FIM 5 billion with the Bank of Finland between October 5, 1989 and January 31, 1990. These deposits will be transferred to a pension fund to be set up by the government on February 1, 1990. Additional deposits totalling FIM 1.6 billion will be made by the government in the pension fund between February 1 and December 31, 1990.

Cash reserve requirement

The Bank of Finland raised the cash reserve requirement for certain banks. Together with the current 8 per cent ratio, the banks' average deposit requirement now amounted to about 9 per cent of the cash reserve base in September.

November

Interest rate policy

The Bank of Finland raised the base rate from 7.5 per cent to 8.5 per cent as from November 1.

Cash reserve requirement

The Bank of Finland raised the cash reserve requirement for certain banks. Together with the current 8 per cent ratio, the banks' average deposit requirement now amounted to about 9.1 per cent of the cash reserve base in October.

Call money market

The Bank of Finland amended the terms of the call money credit system with effect from November 6, 1989. According to the new terms, the 5-day moving average of a bank's position may be negative but in this case the call money credit rate will be charged at double the normal rate. It was a condition of the revision of June 1989 that the moving average of a bank's 5-day call money position should not be negative. The call money credit rate remained unchanged at 15 per cent and the call money deposit rate at 4 per cent.

Cash reserve requirement

The Bank of Finland revised the cash reserve requirement for certain banks. Together with the current 8 per cent ratio, the banks' average deposit requirement now amounted to about 9.1 per cent of the cash reserve base in November.

The following decisions taken in December 1989 took effect as from the beginning of 1990:

January

Prime rates

The Bank of Finland complemented its recommendations on reference rates to banks by permitting them to apply their own prime rates in all their lending and deposit-taking with effect from January 1, 1990.

Money market operations

As from January 1, 1990 only CDs issued by banks which meet the following requirements can be accepted for use in money market dealings: the bank's capital exceeds the minimum amount set annually by the Bank of Finland, the bank meets the minimum capital adequacy requirements set by the BIS and operates as market maker in the CD market. These banks may at the same time act as the Bank of Finland's market counterparties and may be granted access to call money credit. As a rule, a one-year transition period will be applied in the introduction of the new requirements for banks which are already entitled to call money credit and in whose CDs the Bank of Finland deals.

February

Amendments to the Foreign Exchange Regulations

The Bank of Finland allows the sale abroad of new markka-denominated bonds of over one year's maturity as from February 1, 1990, with the exception of bonds issued by housing companies and real estate companies. The present ban on cross-border sales remains in force for bonds issued previously. Effective the same date, non-residents will be allowed to issue markka-denominated bonds in Finland.

With effect from the beginning of February, the Bank of Finland exempts Finnish companies' share issues abroad from the requirement of prior authorization. Starting from this date, the Bank of Finland no longer requires quotation by the Helsinki Stock Exchange or the OTC market as a condition for the issue of foreign securities in Finland. Similarly, it will no longer be necessary for non-residents purchasing Finnish securities to effect their purchases through the Helsinki Stock Exchange or the OTC market.

MAIN STATEMENTS ISSUED BY THE BANK OF FINLAND IN 1989

Statements concerning the development of financial markets

Statement on the memorandum of the organization working group of the Banking Supervision Office, April 4.
Statement on the draft law on SITRA (Finnish National Fund for Research and Development) and on the amendment of § 2 of the Stamp Duty Act, May 9.
Statement on the memorandum of the Bonds Act working group, May 26.
Statement on the report of the committee on taxation of borrowing, July 31.
Statement on the draft Government bill on changing the status of mortgage banks to commercial banks and on the draft law on the amendment of § 10 of the Stamp Duty Act, August 23.

Statements concerning counter-cyclical policy and interest subsidies

Statement on levying export deposits on woodfree printing paper, January 19.
Statements on the confirmation of certain sums referred to in the Act on Financial Assistance to Students, January 20, March 9 and August 22.
Statement on the continuation of the period of validity of the investment tax, January 31.
Statement on the report of the committee on the reform of farm legislation, November 17.

Other statements

Statement on the government's interest rate and currency swap agreements, January 12.
Statement on the interim report of the EFFECT project (research project financed by the Ministry of Trade and Industry on the effects of integration on foreign trade), January 20.
Statement on the report of the committee on new forms of industrial democracy, March 30.
Statement on the draft Government bill on the Central Statistical Office and its production of statistics, April 18.
Statement on the memorandum of the working group on foreign ownership concerning the regulation of foreign investment, May 5.
Statement on the item concerning capital movements in the memorandum drawn up for Finland's EFTA negotiations, May 25.
Statement on the proposal for a research programme in the survey "Application of social sciences and futurology in energy research", June 1.
Statement on the agreement on investment protection between Finland and Poland, June 2.
Statement on the OECD working programme for 1990, July 7.
Statement on the Bank of Finland Security Printing House's liability to sales tax, December 8.
Statement on the memorandum of the working group on public construction, December 15.

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 1989,
MILLION FIM**

ASSETS

Gold and foreign currency claims	33 188	35 449	31 077
Gold	2 128	2 128	2 128
Special drawing rights	1 066	878	853
IMF reserve tranche	945	959	901
Convertible currencies	26 620	29 029	25 715
Tied currencies	2 428	2 455	1 480
Other foreign claims	4 216	4 209	4 183
Markka subscription to Finland's quota in the IMF	2 283	2 271	2 302
Term credit	1 933	1 937	1 881
Claims on financial institutions	12 503	11 647	15 572
Call money credits	715	59	1 844
Certificates of deposit	5 291	3 995	7 917
Term credits	—	1 200	—
Till-money credits	2 733	2 657	2 481
Financing of crop failure loans	1 222	1 222	816
Bonds	2 304	2 275	2 277
Other claims on financial institutions	238	239	238
Claims on the public sector	1 114	1 119	1 079
Treasury notes and bills	59	59	10
Bonds	20	22	25
Total coinage	1 032	1 034	1 041
Other claims on the public sector	3	3	2
Claims on corporations	2 896	2 770	2 665
Financing of exports	301	209	126
Financing of domestic deliveries (KTR)	2 167	2 133	2 090
Bonds: KTR credits	213	213	239
Bonds: Other	33	33	30
Other claims on corporations	182	182	181
Other assets	120	119	121
Accrued items	—	—	—
Other assets	120	119	121
TOTAL	54 038	55 313	54 697

30 379	30 772	29 969	30 100	30 345	27 663	26 083	23 873	23 009
2 128	2 128	2 128	2 128	2 128	2 129	2 129	2 129	2 179
832	861	858	854	882	878	1 055	851	966
890	1 004	961	919	934	952	927	967	950
24 665	25 056	25 528	25 345	25 568	23 628	21 893	19 846	18 822
1 864	1 722	494	854	832	76	79	80	92
4 161	4 021	4 063	4 061	4 096	4 061	3 734	3 687	3 300
2 302	2 130	2 167	2 195	2 195	2 172	2 189	2 146	2 103
1 858	1 892	1 897	1 866	1 901	1 888	1 546	1 541	1 198
16 099	17 332	22 334	23 721	24 721	27 905	31 330	35 390	39 054
296	3 803	5	12	2	75	3	513	38
10 116	7 597	15 351	17 332	18 641	22 152	25 623	29 475	33 230
50	—	1 250	250	—	—	—	—	—
2 342	2 843	2 518	2 936	2 899	2 569	3 023	2 925	3 310
809	611	611	611	611	594	198	—	—
2 249	2 240	2 361	2 343	2 329	2 278	2 245	2 239	2 238
238	238	238	238	238	238	238	238	238
1 103	1 113	1 136	1 113	1 113	1 135	1 112	1 126	1 137
10	—	10	10	—	—	—	—	—
29	39	52	29	31	42	8	8	8
1 062	1 073	1 074	1 074	1 082	1 094	1 103	1 118	1 129
2	1	—	—	—	—	—	—	—
2 604	2 552	2 454	2 466	2 425	2 392	2 304	2 273	2 207
87	55	40	36	30	23	13	4	1
2 061	2 007	1 932	1 935	1 903	1 851	1 776	1 754	1 697
238	273	267	281	281	310	307	308	302
30	29	28	28	24	22	22	21	21
189	188	187	187	187	186	186	186	186
123	104	100	100	95	97	104	105	571
—	—	—	—	—	—	—	—	464
123	104	100	100	95	97	104	105	107
54 469	55 894	60 056	61 562	62 794	63 254	64 667	66 455	69 279

Table 1., cont.

LIABILITIES

Foreign currency liabilities	238	233	185
Convertible currencies	106	110	56
Tied currencies	132	123	128
Other foreign liabilities	3 087	3 078	3 086
IMF markka accounts	2 283	2 271	2 302
Allocations of special drawing rights	804	806	783
Notes and coin in circulation	10 755	10 769	10 996
Notes	9 811	9 820	10 034
Coin	944	949	962
Certificates of deposit	1 440	1 460	980
Liabilities to financial institutions	20 789	21 744	22 544
Call money deposits	83	160	109
Cash reserve deposits	20 389	21 328	22 120
Capital import deposits	280	220	280
Other liabilities to financial institutions	37	35	35
Liabilities to the public sector	2 016	2 017	1 368
Cheque accounts	1	0	1
Cash fund deposits	—	—	—
Counter-cyclical fund deposit	964	964	—
Counter-cyclical deposits	1 000	1 002	1 302
Export deposits	36	50	65
Other liabilities to the public sector	15	1	1
Liabilities to corporations	6 836	6 921	6 911
Deposits for investment and ship purchase	6 470	6 540	6 506
Capital import deposits	354	381	405
Other liabilities to corporations	13	0	0
Other liabilities	39	44	46
Accrued items	—	—	—
Other liabilities	39	44	46
Valuation account and reserves	3 001	3 212	2 746
SITRA's capital	400	400	400
Capital accounts	5 436	5 436	5 436
Primary capital	5 000	5 000	5 000
Reserve fund	436	436	436
Net earnings	—	—	—
TOTAL	54 038	55 313	54 697

176	170	168	164	148	962	439	481	697
37	28	27	27	23	60	52	20	42
139	142	141	137	126	902	386	461	656
3 076	2 918	2 950	2 967	2 979	2 954	2 962	2 918	2 860
2 302	2 130	2 167	2 195	2 195	2 173	2 189	2 146	2 103
774	788	783	772	784	781	774	772	758
11 190	11 386	11 737	11 774	11 651	11 739	11 775	11 895	13 129
10 223	10 410	10 747	10 775	10 652	10 729	10 759	10 867	12 073
967	975	990	999	999	1 010	1 016	1 027	1 056
580	180	160	160	60	20	—	—	—
22 580	23 193	24 467	25 229	25 825	25 625	26 106	26 141	26 303
40	—	573	739	841	208	422	252	569
22 195	22 820	23 500	24 116	24 639	25 089	25 377	25 581	25 506
310	340	360	340	310	290	270	270	190
34	33	34	35	35	39	37	37	38
1 404	1 433	1 458	1 472	1 486	1 504	2 683	4 150	5 325
0	0	1	0	1	1	1	1	0
—	—	—	—	—	—	1 160	2 610	3 770
—	—	—	—	—	—	—	—	—
1 317	1 318	1 319	1 319	1 319	1 318	1 318	1 319	1 319
86	113	137	152	166	184	202	219	235
1	1	1	1	1	1	1	1	1
7 154	7 385	9 773	10 654	10 799	10 826	10 806	10 797	10 810
6 726	6 953	9 289	10 137	10 234	10 258	10 230	10 212	10 228
428	432	483	517	564	567	575	585	583
0	0	0	0	0	0	0	0	—
48	50	52	55	60	56	53	58	1 294
—	—	—	—	—	—	—	—	1 241
48	50	52	55	60	56	53	58	53
2 426	3 343	3 455	3 250	3 949	3 734	4 007	4 180	2 696
400	400	400	400	400	400	400	400	400
5 436	5 436	5 436	5 436	5 436	5 436	5 436	5 436	5 764
5 000	5 000	5 000	5 000	5 000	5 000	5 000	5 000	5 000
436	436	436	436	436	436	436	436	436
—	—	—	—	—	—	—	—	328
54 469	55 894	60 056	61 562	62 794	63 254	64 667	66 455	69 279

Table 2.

CONVERTIBLE AND TIED FOREIGN EXCHANGE RESERVES, MILLION FIM

	1985	1986	1987	1988	1989
Gold	2 081	2 081	2 128	2 128	2 179
Special drawing rights	931	983	899	1 120	966
IMF reserve tranche	775	794	793	940	950
Convertible currencies					
Claims	18 608	6 795	23 634	24 492	18 822
Liabilities	- 36	- 17	- 63	- 119	- 42
Convertible foreign exchange reserves	22 359	10 636	27 391	28 561	22 875
Tied currencies					
Claims	255	3 435	1 284	1 073	92
Liabilities	- 540	- 14	- 72	- 128	- 656
Tied foreign exchange reserves	- 285	3 421	1 213	945	- 563

Table 3.

WEIGHTS OF THE BANK OF FINLAND'S CURRENCY INDEX

	USD	GBP	SEK	NOK	DKK	DEM	NLG	BEC	CHF	FRF	ITL	ATS	ESP	JPY	Total
2.1.1987	8.8	13.8	20.6	5.2	5.3	19.6	5.0	2.9	2.6	6.1	4.5	.	.	5.6	100.0
1.4.1987	8.6	13.7	20.7	5.2	5.2	19.6	5.0	3.0	2.6	6.3	4.5	.	.	5.6	100.0
24.7.1987	8.5	13.7	20.6	5.2	5.1	19.7	5.0	3.0	2.6	6.5	4.5	.	.	5.6	100.0
21.9.1987	8.5	13.7	20.3	5.1	5.2	19.7	5.0	3.0	2.7	6.5	4.6	.	.	5.7	100.0
11.12.1987	8.5	13.8	20.2	5.2	5.1	19.8	5.0	3.0	2.6	6.5	4.6	.	.	5.7	100.0
4.1.1988	7.6	13.0	20.9	5.1	5.1	19.9	4.9	3.1	2.8	6.9	4.8	.	.	5.9	100.0
24.3.1988	7.6	13.2	20.8	5.1	5.0	20.1	4.9	3.1	2.7	6.8	4.8	.	.	5.9	100.0
12.8.1988	7.7	13.4	20.6	4.9	5.0	19.9	4.9	3.2	2.7	6.8	4.9	.	.	6.0	100.0
13.9.1988	7.8	13.4	20.6	4.9	5.0	19.9	4.9	3.2	2.7	6.7	4.9	.	.	6.0	100.0
5.12.1988	7.9	13.5	20.6	4.8	4.9	19.8	4.9	3.2	2.7	6.7	4.9	.	.	6.1	100.0
2.1.1989	7.8	13.8	20.0	4.7	4.8	20.1	4.9	3.2	2.7	6.8	5.0	.	.	6.2	100.0
16.3.1989	7.7	13.4	19.3	4.5	4.6	19.3	4.7	3.1	2.6	6.6	4.9	1.6	1.8	6.0	100.0
30.6.1989	7.8	13.4	19.3	4.4	4.6	19.4	4.7	3.1	2.5	6.5	4.9	1.6	1.8	6.0	100.0
7.9.1989	8.1	13.4	19.1	4.3	4.5	19.3	4.8	3.1	2.5	6.5	4.9	1.6	1.8	6.1	100.0
7.12.1989	8.0	13.2	19.1	4.3	4.5	19.4	4.8	3.1	2.5	6.6	5.0	1.6	1.8	6.1	100.0

Table 4.

**THE BANK OF FINLAND'S
CURRENCY INDEX, 1982 = 100**

	Daily averages
1985	102.5
1986	104.0
1987	103.3
1988	102.0
1989	98.4
1989	
January	100.9
February	101.0
March	100.1
April	97.4
May	97.3
June	97.2
July	97.4
August	97.7
September	98.0
October	97.7
November	98.1
December	97.9

Table 5.

**BANKS' CALL MONEY POSITION¹
AT THE BANK OF FINLAND,
MILLION FIM**

	Call money deposits	Call money credits	Call money deposits, net
January	611	111	500
February	501	129	372
March	177	711	- 535
April	129	689	- 560
May	127	1 176	- 1 049
June	321	779	- 457
July	719	56	663
August	508	49	458
September	514	34	480
October	518	78	440
November	386	251	135
December	488	372	116

¹Daily averages

Table 6.

**RATES OF INTEREST APPLIED BY
THE BANK OF FINLAND**

Effective	Base rate ¹	Bank of Finland lending rates	
		Minimum	Maximum
1.2.1980	9¼	7½	10½
1.6.1982	8½	6	11
1.7.1983	9½	7	12
1.2.1985	9	6½	11½
1.1.1986	8½	6	11
1.3.1986	8	5½	10½
19.5.1986	7	4½	9½
16.5.1988	8	5½	10½
1.1.1989	7½	5	10
1.11.1989	8½	6	11

¹The base rate is decided by the Parliamentary Supervisory Board on the proposal of the Board of Management.

Table 7.

**THE BANK OF FINLAND'S
CALL MONEY RATES**

Effective	Call money credit rate		Call money deposit rate
	ordinary rate of interest	penalty rate of interest	
1.12.1986	11.8	.	9.0
2.12.1986	11.9	.	9.0
9.12.1986	12.0	.	9.0
26.1.1987	11.9	.	9.0
2.2.1987	11.8	.	9.0
13.2.1987	11.7	.	8.5
20.2.1987	11.6	.	8.0
24.2.1987	11.6	19.0	8.0
5.3.1987	11.5	19.0	7.5
17.3.1987	11.4	19.0	7.5
2.4.1987	11.2	19.0	7.5
29.4.1987	11.0	19.0	7.5
6.10.1988	13.0	<u>19.0</u>	4.0
16.6.1989	15.0	.	4.0

Table 8.

DOMESTIC INTEREST RATES ¹

	HELIBOR, %						Long-term market rate, %	
	1-month	2-month	3-month	6-month	9-month	12-month	3-year	5-year
1987	9.90	9.95	10.02	10.14	10.29	10.40	.	.
1988	9.77	9.87	9.97	10.16	10.35	10.50	10.7	10.8
1989	12.32	12.45	12.53	12.61	12.67	12.72	12.2	12.0
January	10.60	10.95	11.19	11.42	11.63	11.80	11.8	11.7
February	10.12	10.55	10.78	11.10	11.36	11.53	11.5	11.4
March	10.85	10.95	11.09	11.34	11.52	11.66	11.6	11.6
April	12.08	12.10	12.11	12.11	12.13	12.15	11.9	11.8
May	11.70	11.74	11.75	11.79	11.86	11.90	11.8	11.7
June	11.62	11.71	11.78	11.93	12.07	12.13	11.9	11.7
July	11.64	11.73	11.79	11.94	12.05	12.11	11.8	11.7
August	11.87	11.97	12.06	12.22	12.31	12.35	11.9	11.7
September	12.69	12.94	13.09	13.30	13.37	13.40	12.5	12.0
October	14.06	14.13	14.19	14.22	14.20	14.19	13.3	12.8
November	14.78	14.80	14.77	14.66	14.56	14.51	13.3	12.9
December	16.23	16.20	16.08	15.56	15.27	15.17	13.5	13.0

¹ Daily averages

Table 9.

THE BANK OF FINLAND'S MONEY MARKET OPERATIONS,
MILLION FIM

	Purchases of money market instruments	Sales of money market instruments	Matured transactions, net	Money market operations, net
1988	+ 13 840	- 19 190	+ 16 850	+ 11 500
1989	+131 110	- 3 855	- 99 245	+ 28 010
January	+ 260	- 1 190	- 1 370	- 2 300
February	+ 3 260	- 1 125	- 2 125	+ 10
March	+ 8 695	- 170	- 5 095	+ 3 430
April	+ 4 710	—	- 2 370	+ 2 340
May	+ 6 490	—	- 7 880	- 1 390
June	+ 16 295	- 250	- 7 875	+ 8 170
July	+ 16 790	- 240	- 15 170	+ 1 380
August	+ 14 560	—	- 13 160	+ 1 400
September	+ 14 260	—	- 9 950	+ 4 310
October	+ 16 720	—	- 13 920	+ 2 800
November	+ 18 220	- 350	- 13 560	+ 4 310
December	+ 10 850	- 530	- 6 770	+ 3 550

+ increases liquidity in the money market
 - decreases liquidity in the money market

Table 10.

THE BANK OF FINLAND'S SPOT TRANSACTIONS, MILLION FIM

	Purchases of foreign exchange (+)	Sales of foreign exchange (-)	Spot transactions, net
1988	+6 372	-5 776	+ 596
1989	+4 825	-7 473	-2 648
<hr/>			
January	+1 488	—	+1 488
February	+2 857	- 43	+2 814
March	—	-2 216	-2 216
April	—	—	—
May	+ 21	—	+ 21
June	+ 459	—	+ 459
July	—	—	—
August	—	- 375	- 375
September	—	-1 830	-1 830
October	—	-1 266	-1 266
November	—	-1 743	-1 743
December	—	—	—

+ increases liquidity in the money market
- decreases liquidity in the money market

Table 11.

THE BANK OF FINLAND'S FORWARD TRANSACTIONS (SWAPS),
MILLION FIM

	Forward sales of foreign exchange (+)	Matured forward sales	Forward purchases of foreign exchange (-)	Matured forward purchases	Forward transactions, net
1988	+ 377	- 103	-2 705	+2 980	+ 549
1989	—	- 337	- 394	+1 509	+ 778
<hr/>					
January	—	—	—	+ 526	+ 526
February	—	- 337	—	+ 315	- 22
March	—	—	—	—	—
April	—	—	—	+ 105	+ 105
May	—	—	—	+ 105	+ 105
June	—	—	- 394	+ 63	- 331
July	—	—	—	—	—
August	—	—	—	+ 175	+ 175
September	—	—	—	+ 220	+ 220
October	—	—	—	—	—
November	—	—	—	—	—
December	—	—	—	—	—

+ increases liquidity in the money market
- decreases liquidity in the money market

Table 12.

FOREIGN EXCHANGE RATES: SPOT SELLING RATES IN 1984—1989, FIM

Currency	1984			1985			1986		
	Max.	Av.	Min.	Max.	Av.	Min.	Max.	Av.	Min.
1 USD, New York	6.552	6.010	5.530	7.132	6.206	5.425	5.467	5.078	4.802
1 CAD, Montreal	4.964	4.645	4.347	5.129	4.554	3.889	3.914	3.659	3.484
1 GBP, London	8.444	8.023	7.584	8.501	8.000	7.424	7.916	7.459	6.927
1 IEP, Dublin	6.696	6.533	6.371	6.763	6.590	6.435	7.090	6.816	6.593
1 SEK, Stockholm	0.7375	0.7277	0.7185	0.7385	0.7222	0.7135	0.7261	0.7138	0.7045
1 NOK, Oslo	0.7580	0.7384	0.7195	0.7285	0.7231	0.7150	0.7290	0.6882	0.6501
1 DKK, Copenhagen	0.5955	0.5816	0.5675	0.6060	0.5871	0.5745	0.6572	0.6290	0.6005
1 ISK, Reykjavik	0.2080	0.1939	0.1615	0.1730	0.1520	0.1305	0.1323	0.1259	0.1213
1 DEM, Frankfurt a.M.	2.1825	2.1165	2.0525	2.2090	2.1142	2.0635	2.4814	2.3454	2.2055
1 NLG, Amsterdam	1.9325	1.8772	1.8200	1.9620	1.8745	1.8195	2.1953	2.0789	1.9585
1 BEC, Brussels	0.10670	0.10428	0.10170	0.10820	0.10483	0.10250	0.11930	0.11399	0.10780
1 CHF, Zurich	2.6750	2.5642	2.4775	2.6540	2.5360	2.4240	3.0081	2.8349	2.6025
1 FRF, Paris	0.7090	0.6907	0.6695	0.7215	0.6940	0.6760	0.7589	0.7355	0.7010
1 ITL, Rome	0.00353	0.00344	0.00334	0.00344	0.00327	0.00315	0.00359	0.00343	0.00322
1 ATS, Vienna	0.3100	0.3013	0.2920	0.3145	0.3012	0.2940	0.3546	0.3339	0.3140
1 PTE, Lisbon	0.0446	0.0414	0.0387	0.0393	0.0367	0.0342	0.0355	0.0343	0.0331
1 ESP, Madrid	0.0381	0.0375	0.0367	0.0382	0.0366	0.0351	0.0373	0.0364	0.0353
1 JPY, Tokyo	0.02626	0.02534	0.02414	0.02770	0.02610	0.02490	0.03258	0.03028	0.02675
1 AUD, Melbourne	..	..	..	..	..	..	..	..	..
1 SUR, Moscow, clearing	7.547	7.357	7.198	7.773	7.419	7.140	7.367	7.228	7.040
1 special drawing right (SDR)	6.42611	6.14739	5.90956	6.75940	6.27879	5.93241	6.10906	5.94432	5.79542
1 ECU	..	..	..	..	..	..	..	..	..

Currency	1987			1988			1989		
	Max.	Av.	Min.	Max.	Av.	Min.	Max.	Av.	Min.
1 USD, New York	4.793	4.404	3.954	4.528	4.191	3.930	4.560	4.295	4.020
1 CAD, Montreal	3.501	3.325	3.044	3.727	3.412	3.030	3.806	3.632	3.476
1 GBP, London	7.425	7.213	6.911	7.668	7.466	7.228	7.605	7.051	6.524
1 IEP, Dublin	6.730	6.556	6.464	6.589	6.397	6.279	6.322	6.104	5.958
1 SEK, Stockholm	0.7067	0.6952	0.6789	0.6941	0.6848	0.6752	0.6839	0.6673	0.6530
1 NOK, Oslo	0.6666	0.6547	0.6332	0.6591	0.6444	0.6284	0.6428	0.6234	0.6148
1 DKK, Copenhagen	0.6665	0.6444	0.6258	0.6443	0.6235	0.6072	0.6158	0.5886	0.5716
1 ISK, Reykjavik	0.1216	0.1163	0.1127	0.1156	0.1006	0.0924	0.0923	0.0782	0.0686
1 DEM, Frankfurt a.M.	2.5267	2.4514	2.4048	2.4845	2.3895	2.3441	2.3969	2.2879	2.2252
1 NLG, Amsterdam	2.2401	2.1755	2.1375	2.2073	2.1233	2.0768	2.1219	2.0281	1.9745
1 BEC, Brussels	0.12190	0.11806	0.11590	0.11870	0.11420	0.11190	0.1141	0.1092	0.1064
1 CHF, Zurich	3.0956	2.9563	2.8862	3.0641	2.8700	2.7688	2.7746	2.6306	2.4843
1 FRF, Paris	0.7583	0.7345	0.7239	0.7354	0.7060	0.6882	0.7029	0.6757	0.6587
1 ITL, Rome	0.00356	0.00341	0.00333	0.00337	0.00324	0.00318	0.00322	0.00315	0.00307
1 ATS, Vienna	0.3593	0.3488	0.3420	0.3529	0.3401	0.3338	0.3411	0.3254	0.3163
1 PTE, Lisbon	0.0332	0.0315	0.0304	0.0303	0.0294	0.0286	0.0287	0.0276	0.0270
1 ESP, Madrid	0.0377	0.0358	0.0348	0.0369	0.0361	0.0356	0.0377	0.0364	0.0346
1 JPY, Tokyo	0.03248	0.03050	0.02945	0.03392	0.03273	0.03126	0.03402	0.03122	0.02831
1 AUD, Melbourne	3.259	3.106	2.810	3.703	3.309	2.851	3.879	3.423	3.190
1 SUR, Moscow, clearing	7.186	6.965	6.792	7.132	6.891	6.734	6.988	6.817	6.656
1 special drawing right (SDR)	5.86330	5.68010	5.54077	5.79563	5.61826	5.50705	5.68080	5.49375	5.30888
1 ECU	5.198	5.075	4.995	5.116	4.954	4.868	4.879	4.731	4.625

Table 13.

FOREIGN EXCHANGE RATES: MONTHLY SPOT SELLING RATES IN 1989, FIM

Currency	January			February			March		
	Max.	Av.	Min.	Max.	Av.	Min.	Max.	Av.	Min.
1 USD, New York	4.315	4.247	4.129	4.347	4.299	4.263	4.360	4.302	4.218
1 CAD, Montreal	3.647	3.568	3.476	3.677	3.623	3.554	3.656	3.604	3.553
1 GBP, London	7.591	7.561	7.517	7.605	7.550	7.466	7.520	7.393	7.190
1 IEP, Dublin	6.293	6.223	6.185	6.268	6.206	6.167	6.255	6.170	6.016
1 SEK, Stockholm	0.6816	0.6804	0.6791	0.6824	0.6814	0.6807	0.6839	0.6756	0.6617
1 NOK, Oslo	0.6411	0.6385	0.6357	0.6428	0.6411	0.6397	0.6427	0.6347	0.6203
1 DKK, Copenhagen	0.6084	0.6003	0.5949	0.6029	0.5974	0.5939	0.6023	0.5925	0.5783
1 ISK, Reykjavik	0.0923	0.0887	0.0880	0.0888	0.0870	0.0858	0.0856	0.0842	0.0824
1 DEM, Frankfurt a.M.	2.3520	2.3234	2.3104	2.3496	2.3231	2.3056	2.3439	2.3084	2.2508
1 NLG, Amsterdam	2.0823	2.0583	2.0468	2.0811	2.0578	2.0425	2.0766	2.0459	1.9959
1 BEC, Brussels	0.11220	0.11098	0.11040	0.11200	0.11091	0.11010	0.11190	0.11026	0.10760
1 CHF, Zurich	2.7746	2.7332	2.7156	2.7497	2.7314	2.7114	2.7434	2.6830	2.5698
1 FRF, Paris	0.6899	0.6831	0.6787	0.6908	0.6838	0.6792	0.6912	0.6824	0.6673
1 ITL, Rome	0.00320	0.00318	0.00317	0.00320	0.00319	0.00317	0.00320	0.00316	0.00308
1 ATS, Vienna	0.3345	0.3308	0.3287	0.3342	0.3305	0.3281	0.3334	0.3284	0.3202
1 PTE, Lisbon	0.0287	0.0286	0.0284	0.0287	0.0286	0.0283	0.0287	0.0283	0.0275
1 ESP, Madrid	0.0375	0.0372	0.0369	0.0376	0.0373	0.0361	0.0377	0.0372	0.0363
1 JPY, Tokyo	0.03369	0.03346	0.03326	0.03402	0.03369	0.03323	0.03374	0.03305	0.03207
1 AUD, Melbourne	3.841	3.712	3.568	3.879	3.704	3.442	3.595	3.530	3.468
1 SUR, Moscow, clearing	6.939	6.896	6.832	6.979	6.943	6.927	6.988	6.896	6.753
1 special drawing right (SDR)	5.64144	5.61726	5.57592	5.66441	5.64865	5.62848	5.68080	5.60538	5.48729
1 ECU	4.879	4.840	4.819	4.871	4.838	4.808	4.865	4.801	4.684

Currency	April			May			June		
	Max.	Av.	Min.	Max.	Av.	Min.	Max.	Av.	Min.
1 USD, New York	4.257	4.197	4.145	4.488	4.347	4.217	4.560	4.437	4.352
1 CAD, Montreal	3.578	3.534	3.495	3.759	3.650	3.566	3.794	3.706	3.625
1 GBP, London	7.194	7.149	7.110	7.129	7.090	6.996	6.985	6.899	6.819
1 IEP, Dublin	6.031	6.001	5.974	5.995	5.975	5.961	6.018	5.985	5.958
1 SEK, Stockholm	0.6633	0.6605	0.6585	0.6661	0.6618	0.6593	0.6664	0.6643	0.6625
1 NOK, Oslo	0.6221	0.6190	0.6167	0.6215	0.6187	0.6170	0.6203	0.6183	0.6165
1 DKK, Copenhagen	0.5812	0.5776	0.5751	0.5757	0.5737	0.5716	0.5805	0.5757	0.5733
1 ISK, Reykjavik	0.0826	0.0819	0.0811	0.0828	0.0814	0.0798	0.0810	0.0789	0.0769
1 DEM, Frankfurt a.M.	2.2575	2.2465	2.2369	2.2397	2.2325	2.2252	2.2576	2.2397	2.2309
1 NLG, Amsterdam	2.0014	1.9913	1.9833	1.9873	1.9805	1.9745	2.0033	1.9884	1.9804
1 BEC, Brussels	0.10790	0.10737	0.10700	0.10700	0.10672	0.10640	0.10800	0.10708	0.10660
1 CHF, Zurich	2.5794	2.5518	2.5277	2.5651	2.5138	2.4843	2.6392	2.5942	2.5669
1 FRF, Paris	0.6704	0.6659	0.6627	0.6647	0.6615	0.6587	0.6667	0.6616	0.6588
1 ITL, Rome	0.00309	0.00308	0.00307	0.00310	0.00308	0.00307	0.00313	0.00310	0.00308
1 ATS, Vienna	0.3210	0.3195	0.3180	0.3187	0.3176	0.3163	0.3209	0.3185	0.3171
1 PTE, Lisbon	0.0277	0.0275	0.0273	0.0279	0.0273	0.0271	0.0273	0.0271	0.0270
1 ESP, Madrid	0.0365	0.0363	0.0362	0.0362	0.0359	0.0350	0.0356	0.0351	0.0346
1 JPY, Tokyo	0.03223	0.03181	0.03154	0.03167	0.03151	0.03107	0.03125	0.03079	0.03021
1 AUD, Melbourne	3.524	3.395	3.301	3.419	3.374	3.323	3.417	3.367	3.320
1 SUR, Moscow, clearing	6.761	6.702	6.656	6.869	6.770	6.686	6.888	6.831	6.775
1 special drawing right (SDR)	5.49094	5.44433	5.40367	5.54870	5.48599	5.43020	5.52647	5.49166	5.44607
1 ECU	4.700	4.672	4.651	4.658	4.644	4.627	4.666	4.639	4.625

Table 13., cont.

Currency	July			August			September		
	Max.	Av.	Min.	Max.	Av.	Min.	Max.	Av.	Min.
1 USD, New York	4.369	4.278	4.218	4.427	4.348	4.187	4.497	4.419	4.279
1 CAD, Montreal	3.658	3.602	3.566	3.778	3.703	3.570	3.806	3.744	3.641
1 GBP, London	7.021	6.947	6.873	6.999	6.950	6.908	6.999	6.952	6.929
1 IEP, Dublin	6.073	6.043	6.019	6.050	6.036	6.025	6.119	6.050	6.023
1 SEK, Stockholm	0.6660	0.6622	0.6605	0.6701	0.6657	0.6610	0.6717	0.6698	0.6675
1 NOK, Oslo	0.6194	0.6164	0.6148	0.6221	0.6186	0.6158	0.6230	0.6215	0.6204
1 DKK, Copenhagen	0.5848	0.5818	0.5798	0.5831	0.5814	0.5804	0.5887	0.5830	0.5806
1 ISK, Reykjavik	0.0772	0.0762	0.0749	0.0762	0.0751	0.0740	0.0753	0.0740	0.0727
1 DEM, Frankfurt a.M.	2.2706	2.2601	2.2498	2.2653	2.2582	2.2536	2.2932	2.2650	2.2547
1 NLG, Amsterdam	2.0141	2.0043	1.9948	2.0086	2.0029	1.9995	2.0311	2.0088	2.0008
1 BEC, Brussels	0.10850	0.10803	0.10750	0.10830	0.10802	0.10780	0.10930	0.10827	0.10790
1 CHF, Zurich	2.6434	2.6243	2.5985	2.6328	2.6201	2.6122	2.6481	2.6202	2.6112
1 FRF, Paris	0.6713	0.6679	0.6648	0.6734	0.6700	0.6681	0.6782	0.6723	0.6695
1 ITL, Rome	0.00315	0.00314	0.00312	0.00317	0.00316	0.00315	0.00318	0.00316	0.00315
1 ATS, Vienna	0.3228	0.3214	0.3202	0.3221	0.3211	0.3204	0.3260	0.3220	0.3205
1 PTE, Lisbon	0.0274	0.0273	0.0272	0.0273	0.0273	0.0272	0.0274	0.0273	0.0272
1 ESP, Madrid	0.0363	0.0361	0.0358	0.0363	0.0362	0.0361	0.0364	0.0363	0.0361
1 JPY, Tokyo	0.03088	0.03047	0.03001	0.03098	0.03079	0.03061	0.03076	0.03047	0.03024
1 AUD, Melbourne	3.351	3.260	3.190	3.405	3.336	3.214	3.481	3.435	3.353
1 SUR, Moscow, clearing	6.826	6.759	6.719	6.877	6.821	6.719	6.920	6.870	6.814
1 special drawing right (SDR)	5.46975	5.42928	5.40164	5.52240	5.47435	5.40207	5.53808	5.49998	5.45501
1 ECU	4.694	4.678	4.661	4.696	4.678	4.662	4.736	4.694	4.677

Currency	October			November			December		
	Max.	Av.	Min.	Max.	Av.	Min.	Max.	Av.	Min.
1 USD, New York	4.353	4.281	4.241	4.303	4.262	4.206	4.205	4.125	4.020
1 CAD, Montreal	3.707	3.649	3.620	3.684	3.649	3.610	3.618	3.556	3.477
1 GBP, London	6.945	6.809	6.693	6.819	6.715	6.580	6.646	6.597	6.524
1 IEP, Dublin	6.164	6.115	6.062	6.249	6.180	6.145	6.322	6.262	6.220
1 SEK, Stockholm	0.6688	0.6648	0.6626	0.6676	0.6644	0.6590	0.6601	0.6569	0.6530
1 NOK, Oslo	0.6218	0.6177	0.6162	0.6200	0.6190	0.6174	0.6182	0.6167	0.6152
1 DKK, Copenhagen	0.5957	0.5892	0.5834	0.6094	0.6001	0.5948	0.6158	0.6107	0.6074
1 ISK, Reykjavik	0.0728	0.0717	0.0709	0.0712	0.0705	0.0696	0.0696	0.0691	0.0686
1 DEM, Frankfurt a.M.	2.3163	2.2951	2.2738	2.3670	2.3302	2.3126	2.3969	2.3725	2.3559
1 NLG, Amsterdam	2.0518	2.0326	2.0131	2.0977	2.0648	2.0480	2.1219	2.1016	2.0884
1 BEC, Brussels	0.11040	0.10933	0.10830	0.11270	0.11108	0.11020	0.11410	0.11294	0.11230
1 CHF, Zurich	2.6486	2.6260	2.5971	2.6499	2.6348	2.6200	2.6529	2.6339	2.6095
1 FRF, Paris	0.6837	0.6776	0.6715	0.6943	0.6868	0.6830	0.7029	0.6959	0.6916
1 ITL, Rome	0.00317	0.00314	0.00312	0.00322	0.00319	0.00317	0.00322	0.00321	0.00319
1 ATS, Vienna	0.3294	0.3263	0.3230	0.3366	0.3312	0.3287	0.3411	0.3371	0.3348
1 PTE, Lisbon	0.0273	0.0272	0.0270	0.0275	0.0273	0.0272	0.0276	0.0273	0.0273
1 ESP, Madrid	0.0366	0.0362	0.0358	0.0369	0.0367	0.364	0.0371	0.0369	0.0366
1 JPY, Tokyo	0.03081	0.03014	0.02992	0.03008	0.02971	0.02935	0.02938	0.02872	0.02831
1 AUD, Melbourne	3.397	3.338	3.276	3.409	3.359	3.312	3.306	3.263	3.225
1 SUR, Moscow, clearing	6.840	6.801	6.778	6.831	6.799	6.766	6.775	6.716	6.664
1 special drawing right (SDR)	5.47298	5.43586	5.41614	5.46195	5.43347	5.40774	5.40772	5.35882	5.30888
1 ECU	4.742	4.710	4.672	4.797	4.765	4.736	4.836	4.810	4.786

Table 14.

MANUFACTURE AND DESTRUCTION OF NOTES AND COIN, MILLION FIM

Notes printed					
1 000 markkaa	.	10 650.0	—	—	—
500 "	200.0	400.0	5 360.5	—	—
100 "	2 183.8	2 647.2	—	4 440.0	2 800.0
50 "	1 796.0	—	1 142.0	—	1 745.0
10 "	520.0	695.0	841.0	700.4	780.0
Total	4 699.8	14 392.2	7 343.5	5 140.4	5 325.0
In millions	110.2	107.4	117.7	114.4	140.9
Notes destroyed					
1000 markkaa	.	—	9.7	101.5	231.0
500 "	603.1	324.3	566.9	2 364.5	1 190.5
100 "	1 855.0	1 550.0	2 505.0	2 930.0	2 261.9
50 "	632.5	665.0	177.5	1 370.0	1 269.0
10 "	689.1	826.3	506.0	822.3	1 071.9
5 "	12.0	2.2	0.5	0.3	1.3
1 "	0.1	—	0.0	0.1	0.0
Total	3 791.8	3 367.8	3 765.7	7 588.7	6 025.6
In millions	103.8	112.5	80.5	143.9	158.1
Coin minted					
100 markkaa	.	.	.	.	20.0
50 "	15.0	.	.	.	.
25 "	.	.	.	.	.
10 "	.	.	.	.	.
5 "	40.0	25.0	15.0	15.2	41.4
1 "	19.0	10.0	10.0	25.0	34.5
50 penniä	5.0	4.5	2.5	7.4	5.3
20 "	3.0	4.0	4.2	2.8	7.4
10 "	2.0	1.5	1.0	2.3	2.2
5 "	1.3	1.0	1.0	1.7	0.1
Total	85.3	46.0	33.8	54.4	111.0
Coin destroyed					
100 markkaa	.	.	.	.	—
50 "	0.2	0.8	1.3	1.1	1.1
25 "	—	—	—	0.0	0.0
10 "	—	—	—	—	0.1
5 "	0.6	0.1	0.1	0.1	0.1
1 "	0.2	0.3	0.2	0.1	0.2
50 penniä	0.0	0.1	0.0	0.0	0.0
20 "	0.0	0.0	0.0	0.0	0.0
10 "	0.0	0.0	0.0	0.0	0.0
5 "	0.0	0.0	0.0	0.0	0.0
1 "	0.0	0.2	0.2	0.1	0.1
Total	1.0	1.5	1.9	1.5	1.5

Table 15.

NOTES AND COIN IN CIRCULATION, at the end of the year, million FIM

	1985	1986	1987	1988	1989
Notes					
1 000 markkaa	.	497.8	1 727.3	2 451.5	3 016.3
500 "	2 984.3	2 815.1	2 467.5	2 539.0	2 701.1
100 "	3 247.7	3 410.6	3 686.9	4 276.2	4 893.4
50 "	611.9	661.2	736.2	807.6	899.9
10 "	429.6	441.9	470.7	498.0	533.9
5 "	23.3	22.1	21.5	21.2	21.0
1 "	6.9	7.0	7.2	7.4	7.4
Total	7 303.7	7 855.7	9 117.3	10 600.8	12 073.0
Issued before 1963	9.4	9.4	9.4	9.4	9.4
Coin					
100 markkaa	.	.	.	.	19.5
50 "	75.9	75.5	74.3	74.3	74.2
25 "	19.9	19.9	19.9	19.9	19.9
10 "	38.4	38.4	38.3	38.4	38.4
5 "	202.7	221.3	249.8	284.9	324.1
1 "	256.8	273.6	295.8	320.9	354.3
50 penniä	60.7	63.7	69.6	75.8	83.3
20 "	54.0	57.6	59.9	66.7	71.9
10 "	27.8	29.2	31.3	33.6	35.8
5 "	23.5	24.4	25.9	26.5	27.4
1 "	8.1	8.0	7.9	7.8	7.7
Total	767.8	811.6	872.8	948.7	1 056.3
Issued before 1963	15.7	15.7	15.7	15.7	15.7

Table 16.

INTERNAL CLEARING OPERATIONS¹

Year	Head office		Branch offices ²		Total	
	Number, in thousands	Value, million FIM	Number, in thousands	Value, million FIM	Number, in thousands	Value, million FIM
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
1988	206 206	766 278	—	—	206 206	766 278
1989	241 956	920 019	—	—	241 956	920 019

¹ Bank bills, cheques, bank and postal giros and automatic bank transfers between banks.² 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 as from the end of February 1987.

BANK OF FINLAND PUBLICATIONS

Bank of Finland Bulletin		11 monthly issues (double issue for June–July)
Annual publications in 1989		Bank of Finland Year Book 1988 (available separately in Finnish, Swedish and English) Finnish Bond Issues 1988 (in Finnish, Swedish and English)
Foreign Exchange Regulations binder		Available separately in Finnish, Swedish and English
Economic studies in 1989		
Series A, studies for the general public	A:70	Cash Reserve Deposits and Monetary Policy (various authors)
	A:71	Financial Statements of Finnish and Foreign Banks, editors LIISA HALME and PAULA LAUNIAINEN
	A:72	Profitability, Efficiency and Risks of Banking in Finland (various authors)
	A:73	ARI AALTONEN – ESKO AURIKKO Central Bank Policy in Finland
Series B, doctoral theses	B:43	ILMO PYYHTIÄ The Revision and Realization of Investment Plans in the Finnish Manufacturing Industries in 1964–1986
Series D, analytical studies	D:69	Vector autoregressive models (various authors)
	D:70	URHO LEMPINEN – REIJA LILJA Payment Systems and the Central Bank
	D:71	PIRKKO MIKKULAINEN Finland's Foreign Trade in Services
	D:72	ARI LAHTI Rational Expectations in a Macromodel: an Empirical Study
Studies on Finland's Economic Growth	XIII	RIITTA HJERPPE The Finnish Economy in 1860–1985. Growth and Structural Change (published by the Government Printing Centre)
Discussion Papers		Forty research reports by various departments of the Bank of Finland appeared in the Bank of Finland Discussion Papers series.
Statistical reports		Statistics on financial and foreign exchange markets; published monthly (in Finnish, Swedish and English)
		Balance-of-payments statistics; published quarterly (separately in Finnish and Swedish)
		Investment inquiry; published semiannually (separately in Finnish and Swedish)
		Direct investment; published annually (separately in Finnish, Swedish and English)
Orders and subscriptions		The Bank of Finland's annual publications and research publications can be ordered from bookshops. Libraries, public organizations, research institutions and, at the Bank's discretion, others may obtain them directly from the Bank of Finland. The address is: The Bank of Finland, Information Department, Publications Office, P.O.Box 160, 00101 Helsinki, tel. (90)-1831. A list of the Bank of Finland's publications is also available at the same address. Growth study no. XIII can be ordered from the Government Printing Centre (not from the Bank of Finland). The Foreign Exchange Regulations binder can be ordered COD from the Bank of Finland at the price of FIM 100. The price includes updated pages whenever the regulations are amended. The Bank of Finland Bulletin, Discussion Papers and the statistical reports can be ordered from the Information Department of the Bank of Finland.

THE MANAGEMENT AND ORGANIZATION OF THE BANK OF FINLAND AT THE END OF 1989

Members of the Parliamentary Supervisory Board

Mauri Miettinen (Chairman) (until December 21)
Pertti Hietala (Vice-Chairman)
Matti Majjala
Heikki Perho
Erkki Pystynen
Antti Kalliomäki
Jussi Ranta
Paavo Väyrynen
Henrik Westerlund

Heikki T. Hämäläinen, Secretary

Executive Committee

The Board of Management of the Bank of Finland

The division of responsibilities of 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 of Management and the substance of their decisions
Internal Audit

Pentti Uusivirta

Matters related to
- the Bilateral Trade Department
- the Exchange Control Department
- the International Office of the Central Bank Policy Department
- Legal Affairs
- the Risk Monitoring Department

Ele Alenius

Matters related to
- the Administration Department
- the Branches
- the Economics Department
- the Payment Instruments Department
- the Research Department
- Security Printing House
- the Villisika housing construction project

Harri Holkeri,
on leave of absence as Prime Minister

Esko Ollila

Matters related to
- the Accounting Department
- the Market Operations Department
- the Payments and Settlement Department
- the Personnel Department
- Building projects (excl. the Villisika project)
- SITRA (Finnish National Fund for Research and Development)

Kalevi Sorsa,
on leave of absence as Speaker of Parliament

Markku Puntila,
Acting Member

Matters related to
- the Central Bank Policy Department (excl. the International Office)
- the Data Processing Department
- the Financial Markets Department
- the Information Department
- Security

HEAD OFFICE

DIRECTORS	DEPARTMENTS	HEADS OF DEPARTMENT	HEADS OF OFFICE
Pentti Koivikko	Accounting Department	Ossi Leppänen	Tuula Colliander Kaisa-Liisa Nordman
	Administration Department	Urpo Levo	Harri Brandt Iris Kolehmainen
	Data Processing Department	Riitta Jokinen	Kari Helander Raimo Parviainen Ilkka Vasara Juhani Rapeli
	Payment Instruments Department	Reijo Mäkinen Chief Cashier	Märjam Bederdin Seppo Eriksson Kyösti Norhomaa Kenneth Sainio (Acting Head) Sirpa Ahrenberg Marja-Terttu Savolainen
	Personnel Department	Anton Mäkelä	
	Special Units		
	Legal Affairs	Arno Lindgren Head of Legal Affairs	
Personnel Projects	Anneli Soini Project Manager		
Sirkka Hämäläinen	Central Bank Policy Department	Johnny Åkerholm	Tapio Korhonen Antti Suvanto Kjell Peter Söderlund Seppo Kostiainen Martti Lehtonen Tapio Peura (Acting Head) Kaiju Kallio Peter Nyberg Ritva Alasaukko-oja Antero Arimo Heikki Elonen Pirjo Kivelä Juhani Hirvonen
	Economics Department	Kari Puumanen	
	Financial Markets Department	Ralf Pauli	
	Information Department	Antti Heinonen	
	Research Department	Heikki Koskenkylä	
Matti Vanhala	Bilateral Trade Department	Kari Holopainen	Terhi Kivilahti Juhani Laurila Jorma Hilpinen Petri Kiema Jarmo Nurminen Antti Juusela Oili Wuolle (Acting Head) Mauri Lehtinen Jyrki Varstala Hannu Wiksten Monica Ahlstedt (Acting Head) Veikko Saarinen
	Exchange Control Department	Esa Ojanen	
	Market Operations Department	Kari Pekonen	
	Payments and Settlement Department	Raimo Hyvärinen	
	Risk Monitoring Department	Kaarlo Jännäri	
Internal Audit	Internal Audit Department	Timo Männistö	Anna-Maija Tikkanen
Management Secretarial Staff		Heikki T. Hämäläinen Secretary to the Board of Management	
Building Projects		Bengt Palmroos Project Manager	
Security		Jyrki Ahvonen Security Manager	

BRANCHES

BRANCHES	BRANCH MANAGERS
Joensuu	Hilkka-Liisa Pitkänen
Jyväskylä	Pauli Lähde
Kotka	Juhani Huuskonen
Kuopio	Pekka Konttinen
Lahti	Kari Lottanen
Mikkeli	Kari Kotisalo (Acting)
Oulu	Renne Kurth
Pori	Martti Hagman (in addition to own duties)
Rovaniemi	Renne Kurth (in addition to own duties)
Tampere	Reino Ylönen
Turku	Martti Hagman
Vaasa	Tapani Kulanko (Acting)

SECURITY PRINTING HOUSE

The Supervisory Board of the Security Printing House: Ele Alenius, Pentti Koivikko, Veli Tarvainen
Secretary to the Supervisory Board: Urpo Levo
Managing Director: Veli Tarvainen (in addition to own duties)
Management Group: Tom Ahlers, Juhani Salovaara, Veli Tarvainen, Tapio Yrjönen

BANK OF FINLAND

Established 1811
Street address: Snellmaninaukio, Helsinki
Postal address: P.O.Box 160, 00101 Helsinki, Finland
Telephone: national (90) 1831
 international +358 0 1831
Telex: 121224 spfb sf
Telefax: 174 872
Cables: SUOMENPANKKI

BRANCHES

Joensuu:	Torikatu 34, P.O.Box 80, 80101 Joensuu, Telephone (973) 212 16
Jyväskylä:	Kauppakatu 21, P.O.Box 165, 40101 Jyväskylä, Telephone (941) 211 433
Kotka:	Keskuskatu 19, P.O.Box 211, 48101 Kotka, Telephone (952) 182 500
Kuopio:	Kauppakatu 25—27, P.O.Box 123, 70101 Kuopio, Telephone (971) 125 611
Lahti:	Torikatu 3, P.O.Box 170, 15111 Lahti, Telephone (918) 298 31
Mikkeli:	Päiviönkatu 15, P.O.Box 61, 50101 Mikkeli, Telephone (955) 214 840
Oulu:	Kajaaninkatu 8, P.O.Box 103, 90101 Oulu, Telephone (981) 224 366
Pori:	Valtakatu 11, P.O.Box 110, 28101 Pori, Telephone (939) 325 344
Rovaniemi:	Valtakatu 10—12, P.O.Box 8070, 96101 Rovaniemi, Telephone (960) 2831
Tampere:	Hämeenkatu 13, P.O.Box 325, 33101 Tampere, Telephone (931) 225 420
Turku:	Linnankatu 20, P.O.Box 373, 20101 Turku, Telephone (921) 326 066
Vaasa:	Kirkkopuistikko 22, P.O.Box 44, 65101 Vaasa, Telephone (961) 118 322