

BANK OF FINLAND
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REPORT ON ACTIVITIES IN 1991

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THE GOVERNOR'S REVIEW

The economic recession that started in 1990 deepened substantially in 1991. Total output fell by 6 per cent from the previous year and manufacturing production by 10 per cent. Both external factors and the imbalances that emerged in the domestic economy in the late 1980s were major contributors to the slump in economic activity. The overheated economy left behind it weakened price competitiveness, excessive capacity in the sheltered sector – which had been created on the basis of unsustainable growth prospects – and high levels of indebtedness among firms and households.

In 1991, exports declined by just over 6 per cent and domestic demand by about 8 per cent. The unemployment rate doubled in the course of the year and exceeded 10 per cent at the end of the year. Wages and other domestic costs adjusted slowly, however. Pay increases were implemented under the current two-year incomes agreement as late as the spring, although the marked decline in real national income was already evident then. Thus the contraction in output led to a sharp fall in companies' profits, an increase in bankruptcies and rising unemployment. The few positive developments – an improvement in the trade balance and a slowdown in price inflation – did not suffice to relieve the pessimism generated by the otherwise worsened

economic situation. The deepening of the recession undermined the credibility of economic policy.

The prime objective of the Bank of Finland remained to keep the value of money stable. This objective was also included in the programme of the new Government that took office in the spring. The chosen economic policy implied keeping the markka's exchange rate fixed and safeguarding competitiveness through the adjustment of domestic costs. It was sought in this way to achieve a permanently low rate of inflation.

But, as the economic problems intensified, demands for restoring competitiveness through devaluation began to increase. Evidently, it was widely believed that devaluation offered a quick and easy means of putting the economy back on the growth path. Because of the lack of confidence shown towards the markka, it was not possible in the early part of the year to use the room for manoeuvre provided by the currency band to ease monetary policy, even though domestic demand had already fallen clearly. It was not until the markka was pegged to the ECU in early June that confidence in the external value of the markka temporarily strengthened, and in the summer the Bank of Finland was able to allow the markka to depreciate by some 3 per cent, or close to the upper edge of the band.

The Government's budget proposal for 1992 – published in the autumn – did not strengthen the credibility of economic policy in the desired fashion. The passing of the "savings laws" aimed at halting the growth of government spending was considered uncertain. Moreover, the pay negotiations – under way since the end of the summer – had made slow progress and there were doubts about the ability of the labour market organizations to adjust to the measures necessitated by the deterioration in economic conditions.

The currency outflow induced by this uncertainty accelerated in the course of the autumn. Restlessness in the money and foreign exchange markets triggered a massive currency outflow on October 21. The foreign exchange market subsequently quietened for a while, after the central labour market organizations accepted the compromise proposal for lowering labour costs put forward by Mr Kalevi Sorsa, member of the Board of Management of the Bank of Finland. However, the basis for the pursuit of a stable exchange rate policy collapsed in mid-November when the reaching of pay settlements at union level became increasingly uncertain. As the foreign exchange reserves, including the Bank of Finland's forward position, had practically been depleted, the Board of Management allowed the markka to float in the afternoon of November 14. The next day, the external value of the markka was lowered by 12.3 per cent by raising the limits of the fluctuation range of the markka's exchange rate against the ECU by 14 per cent.

The incomes agreement reached at the end of November, which, inter alia, provides for zero pay increases in 1992, will augment the beneficial impact of the devaluation on price competitiveness. The Finnish economy should experience export-led growth in 1992, despite the relatively modest recovery forecast for the world economy. This will not be enough, however, to boost overall economic growth to any significant extent, and so the employment situation will remain difficult in 1992.

Recurrent bouts of restlessness in the foreign exchange market kept domestic interest rates very high throughout the year considering the depressed level of output. High market rates of interest, in-

creased credit losses and the loss in interest income due to non-performing loans further squeezed bank profitability during the year. Banks' credit losses doubled from the previous year, as too did the number of bankruptcies. In order to maintain the stability of the financial system, the Bank of Finland was forced to take control of Skopbank in the early autumn. The aim of the Bank of Finland is to restore the solvency and liquidity of Skopbank and then find a new owner for it.

As a result of the economic policy measures taken and the rise in the price competitiveness of the open sector, the prerequisites for correcting the imbalances in the economy have improved. The trade surplus can be expected to increase appreciably in 1992. Further, the current account deficit is likely to shrink, in spite of the high level of interest payments abroad. Provided the necessary restraint is shown in the pay negotiations to be held towards the end of 1992, the rise in prices will remain tolerable in the years ahead. The central government's large borrowing requirement will maintain upward pressure on interest rates in 1992 and there is a danger that the high level of interest rates will impede the recovery of the economy. Restoring the confidence of international investors is of vital importance in these circumstances.

The current problems cannot be solved by any single economic policy measure. What is needed are, above all, actions that will help to restore the credibility of economic policy. Only by increasing confidence will it be possible to lower domestic interest rates in relation to foreign rates. The strengthening of credibility calls for the commitment to a medium-term economic strategy that demonstrates in a convincing fashion that there is a widespread intention and desire to continue to adhere to a stable exchange rate policy.



ECONOMIC DEVELOPMENTS

The economic recession that started in 1990 deepened further in 1991, resulting in a contraction in output; total output was 6 per cent lower than in 1990. Both exports and domestic demand declined sharply (Chart 1). Although the external balance improved, the slump in economic activity led to record-high unemployment, a rapid rise in the number of bankruptcies and an increase in banks' credit losses. Confidence in the stable markka policy pursued by the Finnish authorities weakened in the course of the year, and speculative pressures on the currency pushed up interest rates, which were already high considering the developments in demand. With a view to restoring the competitiveness of the open sector and the credibility of economic policy, efforts were made in the autumn to achieve a labour market settlement that would lower costs. Uncertainty about whether an agreement could be reached triggered a massive capital flight in November, and the markka was devalued.

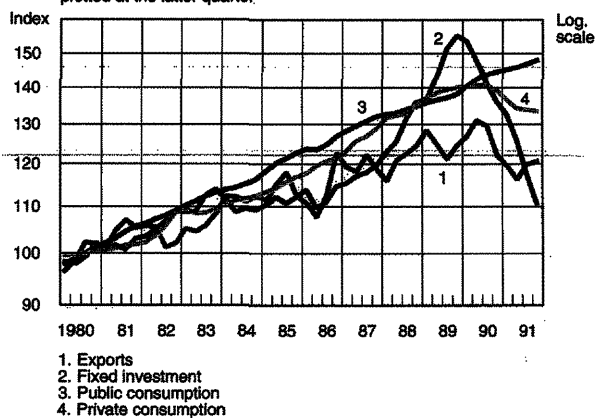
The economic downswing was sharper in Finland than in other western industrial countries (Chart 2). Both external factors and the imbalances that emerged in the domestic economy during the boom of the late 1980s contributed to the slowing of economic activity after 1989. In 1991, exports to the Soviet Union collapsed, a deep recession in the economies of many of Finland's main western trad-

ing partners hampered exports to western markets and the terms of trade deteriorated. Economic activity also declined as a result of the weakened price competitiveness, increased indebtedness of households and firms and high interest rates that followed in the wake of the overheated boom conditions in the domestic economy in the late 1980s.

The slowdown in economic activity in the western industrial countries – under way since the latter half of 1990 – accelerated, and GDP in the OECD area grew by only just over 1 per cent. The recession was exacerbated by the Gulf crisis and the high level of interest rates in Europe, which rose

Chart 1.
KEY DEMAND COMPONENTS

Volume index, 1980 = 100, two-quarter moving averages, plotted at the latter quarter.



The figures used in the Yearbook are based on data available at the end of January 1992.

further under the influence of German unification. World trade increased by just over 3 per cent in volume, but Finland's western export markets grew by less than 2 per cent. Total output declined clearly in the United Kingdom and Sweden, both important markets for Finnish exports. In Germany, demand continued growing strongly in the first half of the year but slowed distinctly in the second half of the year, as also fiscal policy had to be tightened in order to reduce the budget deficit caused by reconstruction in the eastern part of Germany. Although monetary policy was eased substantially in the course of the year in the United States and the United Kingdom, this did not as yet lead to a clear upturn in the Finnish economy. Finnish exports to the United Kingdom and Sweden fell by one-tenth in value, and though exports to Germany grew by an equivalent amount in relative terms it was not enough to offset this fall.

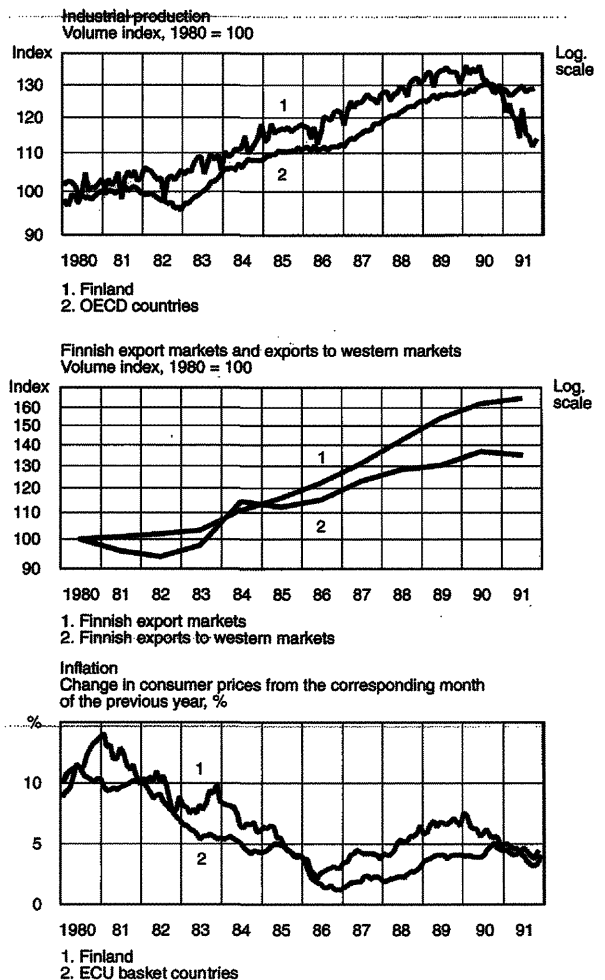
Finland's export prospects were also adversely affected by the oversupply conditions – caused by new capacity – that emerged in world markets for forest industry products after the prolonged upswing. Heightened competition led to a decline in both export volumes and export prices; this was most clearly evident in exports of pulp and fine paper.

Loss of price competitiveness in the preceding years hampered exports, and neither the weakening of the markka in the late summer nor the November devaluation had time to influence exports to any marked extent in 1991. The contraction in domestic demand did, however, lead to increased sales to western markets. Exports to western markets picked up to some extent in the latter part of the year, but for the year as a whole they remained practically unchanged compared with 1990 (Chart 2). Total merchandise exports decreased by 6 per cent in volume as a result of the collapse of exports to the Soviet Union. Exports of services also declined substantially. Prices of merchandise exports fell by about 2 per cent. In contrast, prices of merchandise imports were virtually unchanged, and so the deterioration in the terms of trade also contributed to the decline in national income.¹

¹ Data based on the foreign trade price indices compiled by Statistics Finland (formerly the Central Statistical Office of Finland) and the National Accounts.

As a consequence of the termination of the bilateral trading arrangement between Finland and the Soviet Union and the social and economic problems faced by the latter, Finland's exports to the Soviet Union reached only about one-third of their level in the previous year. Total exports by western countries to the Soviet Union fell by a half from the previous year, and so the share of Finnish exports in the Soviet market diminished. The direct impact of the FIM 8.4 billion decline in the value of Finnish exports to the Soviet Union was equivalent to 1½ per cent of GDP. Only a small part of the capacity

Chart 2.
DOMESTIC AND INTERNATIONAL ECONOMIC DEVELOPMENTS



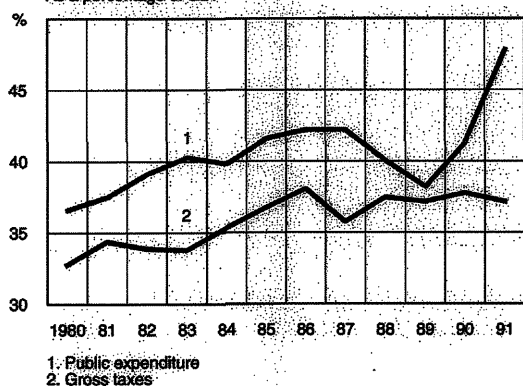
freed could be used to increase sales to western markets and at home.

Fiscal policy, which in the 1991 budget had been based on the assumption that the volume of total output would remain unchanged, turned out to be highly expansionary. Total central government expenditure, excluding repayments of central government debt, grew by about 10 per cent in volume.² The ordinary budget for 1991 already provided for a sizeable increase in expenditure. In addition, the operation of automatic stabilizers swelled employment-related expenditure, in particular. The cuts made in private employers' social security contribution rates with the aim of supporting activity in the business sector entailed a substantial

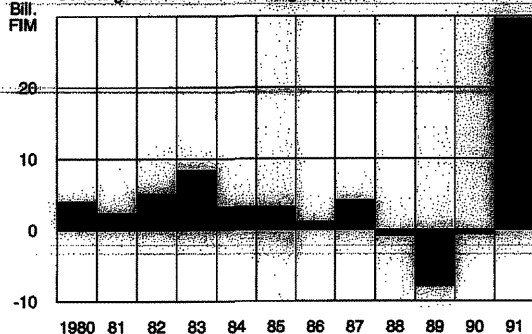
² This estimate takes into account changes in budgetary procedure.

Chart 3.
PUBLIC FINANCE

Public expenditure and gross taxes
As a percentage of GDP



Central government net financing requirement



increase in central government transfers to the Social Insurance Institution.

As a result of the simultaneous downturn in private sector output and the rapid rise in public expenditure, the share of public expenditure in GDP increased to 48 per cent. By contrast, the tax base – taxable income plus those demand components affecting the yield from indirect taxes – narrowed even in nominal terms, and the tax revenue of the general government sector decreased. The ratio of gross taxes to GDP was about 37 per cent, ie slightly lower than in 1990 (Chart 3).

Measured in terms of the net financing requirement, the central government budget deficit amounted to about FIM 30 billion, or almost 6 per cent of GDP; the deficit before financial transactions was about 4 per cent. The deterioration in the financial balance signified the emergence of a structural deficit in central government finances that will be difficult to rectify. As also the growth of local government expenditure clearly exceeded income, the financial deficit of the public sector, excluding the financing requirement caused by lending and other financial investments, amounted to 5 per cent of GDP; a year earlier the public sector had had a financial surplus of just over 1 per cent. The swing from financial surplus to financial deficit led to a clear upturn in public sector indebtedness. At the end of the year, total public debt amounted to about 23 per cent of GDP and central government debt to 18 per cent; the latter was 7 percentage points higher than at the end of 1990.

Corporate profitability was severely squeezed by the slump in economic activity. The volume of output in the private sector of the economy declined by 7 per cent. Though firms quickly shed labour, labour productivity increased only slightly. The contraction in demand made it difficult to pass on the rise in costs to the prices of products. Firms' internal financing was further weakened by mounting interest payments on debt raised to finance the heavy investments undertaken in previous years and on additional debt incurred in 1991.

Firms' cost pressures eased to some extent in the course of the year, with the exception of import prices, the rise in which accelerated as a result of

the devaluation. The rise in average earnings slowed and firms' indirect labour costs were lowered. The effect of the discretionary measures supporting the business sector decided on at the beginning of May was, however, muted by the marked increase in firms' expenditure on unemployment insurance. The sales tax reform implemented at the beginning of October removed the major part of the cumulative sales tax included in the prices of intermediate inputs. Though forest industry companies cut purchase prices for timber by a substantial margin, their raw material prices remained high. This was due to the high price of stocks of timber purchased previously and the paucity of timber deals at the new, lower prices.

The reduction in internally generated funds, the sharp fall in capacity utilization rates and the high levels of indebtedness and interest rates all contributed to a fall in investment by the business sector. The volume of business fixed investment was almost one-fifth lower than in 1990 (Chart 4). Investment declined relatively more in industry than in the sheltered business sector. Despite the downward trend in investment activity – under way since 1990 – the volume of productive investment was still only slightly lower than the average for the years prior to the boom of 1987–1989. Firms also ran down their stocks in an effort to lessen their financing costs. Part of the destocking was, however, due to a reduction in the amount of orders currently being manufactured and the standstill of more than six months in the timber trade.

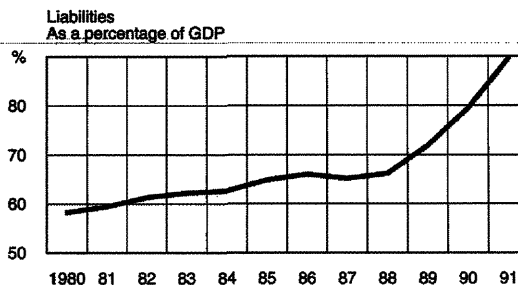
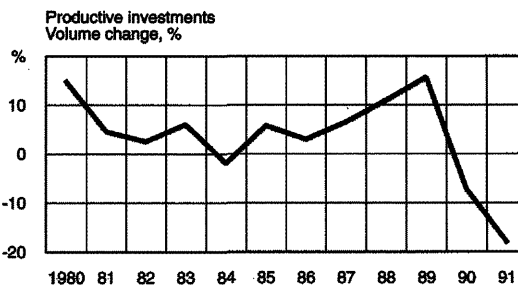
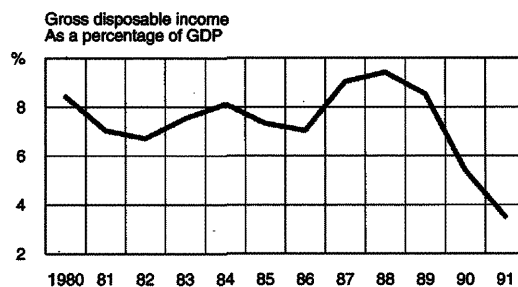
There was a marked decline in borrowing by companies. A substantial part of the roughly 10 per cent increase in companies' outstanding debt was due to the rise in the markka value of foreign currency loans caused by the devaluation. Owing to the fall in profitability, the level of indebtedness of the business sector continued to rise at a rapid pace (Chart 4).

The number of company liquidations rose by about 80 per cent from the 1990 level. Numerous industrial companies dependent on exporting to the Soviet Union and many companies in the construction and service sectors were forced to go out of business. Bankruptcies contributed to the rise in

banks' credit losses while the fall in equity and real estate values weakened banks' capital positions.

In spite of a drop of almost 10 per cent in real national income, the real disposable income of the household sector (including non-profit institutions) grew by about 1 per cent (Chart 5). Total wage and salary earnings fell by 4 per cent in real terms; entrepreneurial and capital income declined by more than one-tenth. By contrast, income transfers – including pensions – to the household sector grew rapidly. There was a marked fall in the net tax ratio of the household sector; besides the rapid increase in transfers from the public sector, this was due to the postponement of tax refunds – normally

Chart 4.
BUSINESS SECTOR



payable in December – until the spring and a lightening in income taxation at the beginning of July.

The uncertain economic conditions led to an increase in household saving in 1991. Though this supported the gradual improvement in the external balance of the economy, it also weakened domestic demand (Chart 5). The rapid accumulation of debt by households during the boom years of the late 1980s had already come to a halt in 1990. Rising unemployment, high interest rates and falling asset values further reduced the willingness of households to incur debt in 1991. The growth in the stock of outstanding consumer credit virtually came to a stop. In contrast, the stock of outstanding housing

loans grew to some extent as a result of increased financing of housing by the central government.

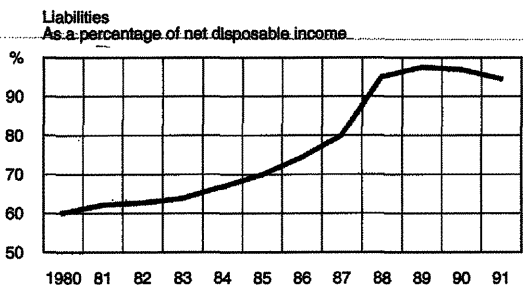
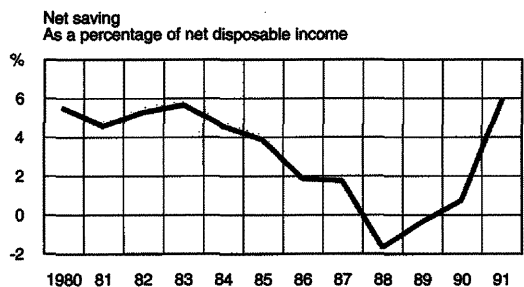
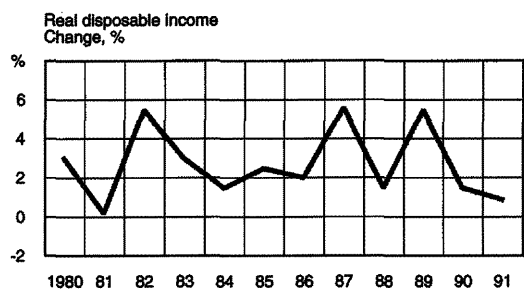
Despite the slight rise in households' real disposable income, the volume of private consumption decreased by more than 4 per cent. As the emphasis in household saving was on bank deposits and bonds, this also exacerbated the recession in the housing market. Nearly one-quarter fewer new dwellings were completed than in 1990. Though the number of unsold dwellings fell slightly in the second half of 1991, it remained very high. Housing starts were down about 30 per cent from 1990. The downward trend in dwelling prices continued. In September 1991, prices of old dwellings were 15 per cent lower than a year earlier for the country as a whole. Prices also started to fall in housing production in the course of 1991.

The volume of total demand declined by 8 per cent in 1991. As a result of structural changes in demand and the disappearance of production bottlenecks, the volume of imports fell by 13 per cent. Hence, domestic supply, ie GDP, decreased by less than demand, or by 6 per cent. Manufacturing output fell by 10 per cent, and so the share of the sector in total output diminished. The share of manufacturing in nominal GDP was also reduced by the fact that, as in previous years, the change in prices in manufacturing was noticeably less than in industries in the sheltered sector.

The severe recession and the slow adjustment of wages was reflected in a drastic worsening in the employment situation. In the final months of the year, the number of employed was 7 per cent lower than in the fourth quarter of 1990. The unemployment rate rose above 10 per cent in December (Chart 6). The weakening in the demand for labour also led to a reduction in labour supply as the labour force participation rate fell by 1 percentage point from its level in 1990.

Sluggish domestic demand dampened inflationary pressures. The slowdown in inflation was also supported by the stabilization of import prices after the end of the Gulf War. The twelve-month change in the consumer price index slowed from 4.9 per cent at the end of 1990 to 3.2 per cent in October 1991. In December 1991, the year-on-year in-

Chart 5.
HOUSEHOLD SECTOR



flation rate accelerated to 3.9 per cent reflecting the effect of increases in indirect taxes and the devaluation of the markka. Increases in indirect taxes and in state prices and tariffs accounted for more than 2 percentage points of the total rise in the index.

Wages were slow to adjust to the deterioration in the economic situation (Chart 6). This was partly due to the fact that wages were raised further in May on the basis of the current two-year pay agreement. In several sectors, the pay rises exceeded the basic increase provided for in the agreement. Although wage drift declined to just over 1 per cent towards the end of the year, it still amounted to more than 2 per cent for the year on average. Total wage and salary earnings rose by 6.2 per cent on average in nominal terms and by 2 per cent in real terms. The lowering of employers' social security contribution rates in the private sector slowed the rise in labour costs. On the other hand, the long-continued rapid increase in labour productivity came to a virtual halt. Unit labour costs in manufacturing rose by about 5 per cent. However, the weakening in the external value of the markka from the summer onwards and the devaluation in November improved the price competitiveness of manufacturing. For the year as a whole, the price competitiveness of manufacturing, measured by relative unit labour costs, was about 4 per cent better on average than in 1990 (Chart 6).

For many years, the basic principles underlying the conduct of economic policy had been the maintenance of a stable exchange rate and the preservation of competitiveness through the adjustment of the domestic cost level. It was endeavoured to enhance the profitability and competitiveness of the business sector, *inter alia*, by means of fiscal policy measures. With the sharp worsening in economic conditions, preserving the credibility of economic policy would have required a reduction in nominal wages. Negotiations aimed at reaching a pay settlement that would improve competitiveness got under way in August. However, little progress was made in the negotiations during the autumn, which further undermined confidence in the Finnish economy. To speed up the negotiations, on October 21 the Government-appointed mediator submitted a proposal

to the central organizations of employers and employees for an agreement that aimed at improving the competitiveness of firms by lowering nominal labour costs. The central organizations accepted the proposal but the key trade unions in the export industries took a negative attitude towards the pay cuts. On the other hand, it was estimated in export industry circles that the agreement would not improve price competitiveness enough.

Uncertainty as to the fate of the labour market settlement strengthened expectations of a devaluation and the flow of capital out of the country. Not even a sharp rise in market interest rates could

Chart 6.
LABOUR MARKET AND LABOUR COSTS

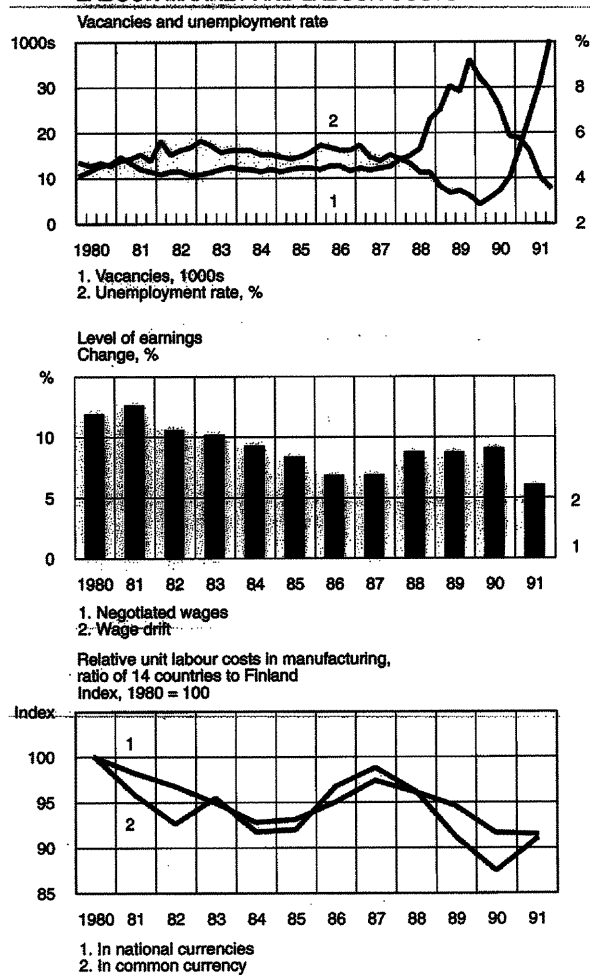
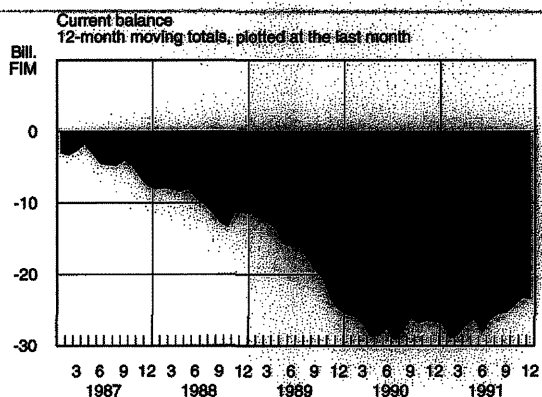
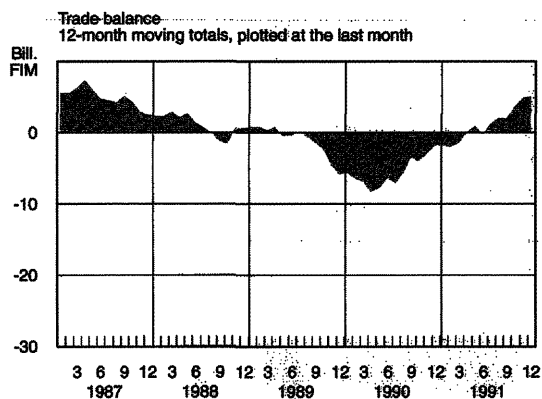


Chart 7.
EXTERNAL BALANCE



check the fall in the foreign exchange reserves. On November 14, the Bank's Board of Management allowed the markka to float and on the next day the Government decided, on the basis of a proposal by the Bank of Finland, to devalue the markka by 12.3 per cent.

At the end of November, the labour market organizations agreed on a two-year pay settlement. Under the agreement, there will be no increases in wage rates in the first year. The other key element of the agreement is that, with effect from the beginning of 1993, employees will start paying part of the contributions to compulsory employment pension schemes which at present are paid by employers.

Thanks to falling imports, the improvement in the trade balance, which had started in 1990, continued despite a marked drop in export earnings. The trade account posted a surplus of FIM 4.6 billion. The deficit on the services account increased and amounted to FIM 7.1 billion for the year as a whole. As there was a further sharp increase in interest payments on Finland's foreign debt, the deficit on the investment income and transfers account widened to FIM 20.9 billion. The current account showed a deficit of FIM 23.4 billion for the year, ie FIM 3 billion smaller than in 1990. As a result of the current account deficit and the rise in the value of foreign currencies caused by the devaluation of the markka, Finland's net foreign debt increased to FIM 178.9 billion, or 35 per cent of GDP (Chart 7).

Domestic economic performance

	average				
Exports	2.4	3.7	1.6	1.6	-6.5
Private investment	3.8	12.5	16.3	-7.0	-18.9
Private consumption	3.7	5.0	4.2	0.4	-4.3
Total domestic demand	4.1	7.6	7.4	-0.3	-8.3
- of which: public	3.5	1.8	1.8	5.7	2.1
Imports	4.7	11.1	8.8	-0.9	-13.2
GDP	3.4	5.4	5.4	0.4	-6.2

Earnings	8.9	9.0	8.9	9.2	6.2
Export unit value index	4.0	5.2	7.5	-1.2	0.3
Import unit value index	1.5	2.3	3.5	1.7	2.3
Terms of trade	2.4	2.9	3.9	-2.8	-1.9
Consumer prices	6.2	5.1	6.6	6.1	4.1
- December to December		6.5	6.5	4.9	3.9
Unemployment rate, %	4.8	4.6	3.5	3.4	7.6

per cent of GDP

Gross investment	25.7	26.9	30.3	28.3	22.8
Gross saving	23.5	24.4	25.3	23.3	18.2
Current account = financial balance	-2.2	-2.6	-5.0	-5.1	-4.6
- business sector	-4.9	-5.2	-8.3	-9.6	-8.1
- financial institutions	4.1	4.3	4.9	6.3	6.4
- households	-2.0	-3.7	-4.7	-3.2	1.9
- public sector	0.7	2.0	3.1	1.4	-4.8

CENTRAL BANK POLICY

MONETARY AND EXCHANGE RATE POLICY

Keeping the value of money stable continued to be the prime objective of monetary policy. Slackening domestic demand created some room for an easing of monetary policy within the limits allowed by the currency band, but this possibility could not be utilized in the early part of the year because of an erosion of confidence in the markka's external value. With the linking of the markka to the European Community's official accounting and currency unit (ECU) in June, confidence in Finnish monetary policy strengthened, and in the summer the markka's exchange rate was allowed to weaken to close to the upper limit of the band.

In 1991, the money and foreign exchange markets were marked by recurrent bouts of nervousness, which were reflected in large fluctuations in short-term interest rates. The rapid deterioration in economic conditions provoked demands for a devaluation of the markka. Both the Government and the Bank of Finland felt that the imbalances that had emerged in the economy should be corrected by internal means so as to achieve a durable adjustment in the level of costs. Further, it was felt that the increasing integration of the Finnish economy with the rest of Europe required a permanent reduction in the rate

of inflation. A tight fiscal policy together with an incomes agreement that would improve competitiveness were seen as the best way to promote this aim.

On June 7, Finland unilaterally linked the markka to the ECU. This was done without changing the exchange rate, and the former fluctuation limits of ± 3 per cent were retained. The change in currency basket was a continuation of the stable markka policy that has been pursued for years.

However, uncertainty regarding the external value of the markka continued unabated except for a brief summer respite. Beginning in the late summer, the Bank of Finland supported the markka by allowing interest rates to rise. Despite this, the Bank was obliged at times to sell substantial quantities of foreign exchange in the spot and forward markets.

The Government's budget proposal for 1992 failed to strengthen the credibility of its economic policy. Among other things, there was uncertainty about whether the "savings laws" aimed at halting the growth of expenditure could be implemented.

Credibility was also undermined by the seeming lack of progress in the incomes negotiations, which had been going on throughout the autumn. With interest rates remaining high and currency continuing to flow out of the country in large quantities, the Bank of Finland let the markka float on November 14. The next day, the Government, on the basis

of a proposal by the Bank of Finland, decided to raise the fluctuation limits of the markka's exchange rate against the ECU by 14 per cent, which was equivalent to a 12.3 per cent lowering in the external value of the markka. The new limits for the markka's exchange rate against the ECU were 5.39166 and 5.72516 (FIM/ECU), compared to the previous limits of 4.72953 and 5.02207.

High interest rates and burgeoning credit losses strained bank profitability. The Bank of Finland eased the banks' plight by gradually lowering the cash reserve requirement in the course of the year. The banks' deposit requirement fell from 7 per cent of the cash reserve base at the end of 1990 to 4 per cent in December 1991. In the course of the year, cash reserve deposits amounting to FIM 7 040 million were released, leaving total deposits of FIM 10 361 million at the end of the year.

A restless year in the foreign exchange and money markets

The foreign exchange and money markets were marked by considerable nervousness during the year. This was reflected in high and widely fluctuating interest rates as well as in substantial capital movements. The restlessness was particularly apparent in March at the time of the parliamentary elections, in May when the Swedish krona was linked to the ECU and in late August and early September in connection with the publication of the Government's budget proposal. The slow progress in the incomes negotiations caused additional pressure on the markka throughout the autumn.

Parliamentary elections increased uncertainty

At the beginning of 1991, public demands for the devaluation of the markka, together with the political uncertainty caused by the approaching parliamentary elections, kept interest rates high, in the light of the economic situation. In connection with the parliamentary elections held on March 17, nervousness in the foreign exchange market increased further. One-month HELIBOR reached a high point of 16 per cent in the days immediately preceding

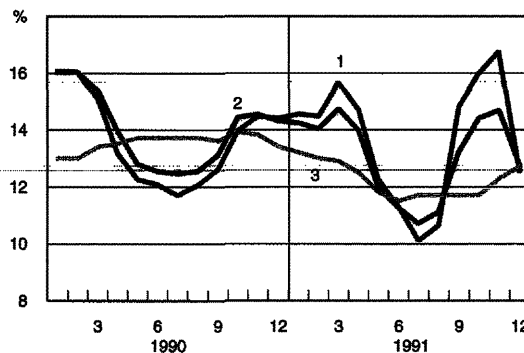
the elections. After the elections, it climbed above 17 per cent and three-month HELIBOR rose to some 15 per cent (Chart 8). Despite the high interest rates, currency continued to trickle out of the country right up until the beginning of April. The Bank of Finland prevented the growing demand for foreign currency from weakening the markka's external value by selling over FIM 7.6 billion worth of foreign exchange in the spot market in March (Chart 9).

The Bank of Finland's currency sales squeezed the banks' liquidity. In the first part of the week following the elections, the banks' call money credits from the Bank of Finland reached almost FIM 3 billion at their peak. As a result, the rate of interest paid by some banks to the Bank of Finland on their call money credit rose to 30 per cent.¹

The new Government, led by Prime Minister Esko Aho, was appointed on April 26. The Government stated in its programme that a stable markka was one of its key economic policy objectives. This had a soothing effect on the financial markets, and short-term interest rates fell markedly in April and May. The differential between domestic and foreign rates narrowed: three-month HELIBOR and the corresponding ECU interest rate moved to within two

¹ Under current rules, a bank is obliged to pay twice the ordinary call money credit rate whenever the five-day moving average of its call money position is negative.

Chart 8.
KEY INTEREST RATES



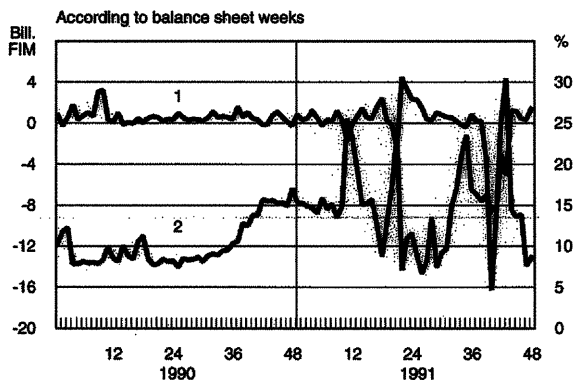
1. 1-month HELIBOR
2. 3-month HELIBOR
3. 5-year market rate

percentage points of each other in May. The Bank of Finland supported the fall in interest rates and allowed the currency index to weaken by about 2 per cent during May.

Markka linked to the ECU

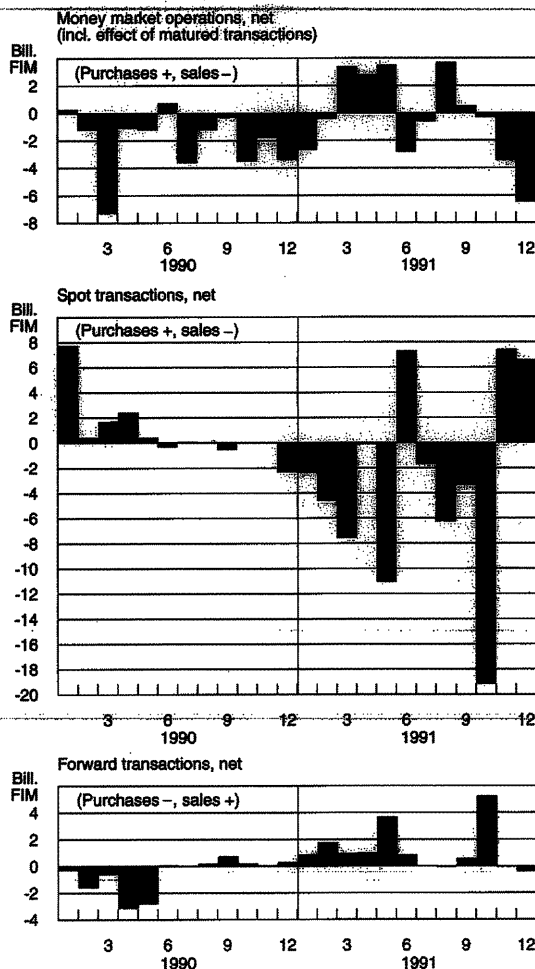
The linking of the Swedish krona to the ECU on May 17 saw a resurgence of restlessness in the foreign exchange market; Finland was expected to follow suit. At the same time, however, there were

Chart 10.
BANKS' CALL MONEY POSITION AND THE OVERNIGHT RATE



1. Banks' call money position at the Bank of Finland, net, billion FIM
2. Overnight rate in the interbank market, %

Chart 9.
THE BANK OF FINLAND'S MONEY MARKET OPERATIONS AND INTERVENTION IN THE FOREIGN EXCHANGE MARKET



demands that this measure should be accompanied by a devaluation of the markka for the "last time". The uncertainty caused by expectations of a devaluation pushed interest rates higher and led to an outflow of capital at the turn of the month. In the last two weeks of May, the Bank of Finland sold foreign exchange to the value of over FIM 11 billion in order to prevent a fall in the value of the markka (Chart 9). The currency outflow squeezed the banks' liquidity, and the Bank of Finland only partially offset the squeeze through its money market operations. The interbank overnight rate peaked at over 26 per cent in early June (Chart 10). At the same time, some of the banks had to pay the Bank of Finland 30 per cent interest on their call money credit.

On June 4, the Government presented a bill to Parliament for an amendment to section 2 of the Currency Act. At the same time, it was announced that the external value of the markka would remain unchanged in connection with a revision of the currency basket and that the index's fluctuation limits would be ± 3 per cent. The new midpoint of the band was based on the exchange rates confirmed by the EC countries on June 6, 1991 at 3.15 pm (Finnish time). As the old currency index was, at that moment, at the midpoint of its band, the markka's

prevailing rate against the ECU became the midpoint of the new band. The fluctuation limits were set at 4.72953 and 5.02207 (FIM/ECU) (Chart 11). Technically, the change in the currency basket used to determine the markka's external value had only a minor effect because the component currencies of the ECU and other currencies pegged to it accounted for a major part (over 85 per cent) of the old currency index.

After the markka was linked to the ECU, currency started to flow back into Finland. The Bank of Finland purchased foreign exchange, and the convertible reserves grew by FIM 6.6 billion in June. The currency inflow substantially improved the banks' liquidity. In the middle of June, the banks' call money deposits at the Bank of Finland peaked at more than FIM 6 billion and the interbank overnight interest rate fell below 5 per cent.

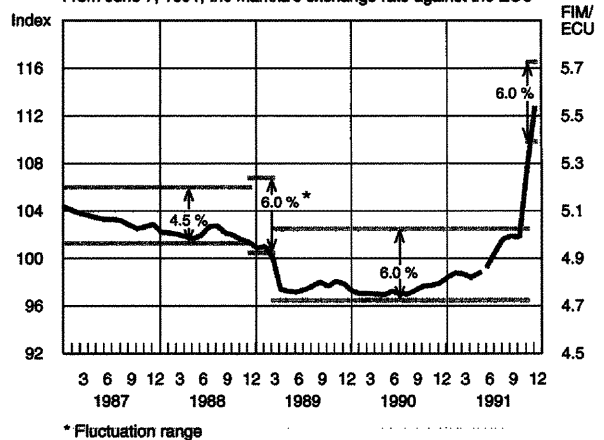
As confidence increased in the foreign exchange market after the linking of the markka to the ECU, an easing of monetary policy became possible. The Bank of Finland injected liquidity into the system and market interest rates fell. During the summer, the banks made call money deposits at the Bank of Finland almost every day, and the differential between three-month HELIBOR and the corresponding ECU interest rate stayed close to one percentage point. In July and August, the markka's exchange rate against the ECU was allowed to weaken to close to the upper limit of the band (Chart 11).

Markka devalued

From the point of view of market reactions, it was important that the budget proposal for 1992 include measures that would support the stable exchange rate policy. The Government announced that its aim was to limit the real growth of the budget to zero, and to achieve this it proposed the enactment of some 40 "savings laws" providing for cuts in expenditure. Parliamentary approval would also have required support from the opposition. However, the budget proposal evoked heavy criticism. Industry expressed the view that the measures designed to strengthen competitiveness were inadequate. Em-

Chart 11.
EXTERNAL VALUE OF THE MARKKA

Until June 6, 1991, the Bank of Finland currency index
From June 7, 1991, the markka's exchange rate against the ECU



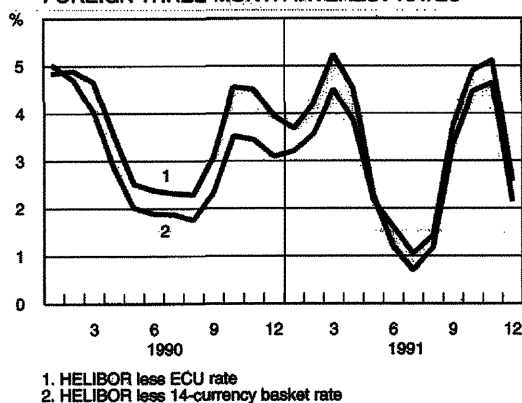
ployee organizations, for their part, were dissatisfied with the proposed cuts in transfer payments.

As, moreover, the negotiations begun in August on the 1992 incomes agreement appeared to be deadlocked, pressures against the markka started to mount again. Interest rates resumed their rise and the gap between domestic and foreign rates grew by some three percentage points to more than four points by the end of September (Chart 12).

The loss of confidence in the stability of the markka was most clearly evident in the behaviour of Finnish companies. In the course of August and September, domestic companies purchased over FIM 20 billion worth of foreign currency, in net terms, from the banks. Foreign investors, in contrast, increased their markka claims, and thus took advantage of the high markka interest rates. The Bank of Finland was obliged to support the markka by selling foreign exchange in the spot market.

The prolonged pay negotiations and the opposition encountered by the Government's budget proposal in Parliament kept the money and foreign exchange markets nervous in October as well. Some market participants consciously sought a lowering in the external value of the markka. The differential between short-term domestic and for-

Chart 12.
DIFFERENTIAL BETWEEN DOMESTIC AND
FOREIGN THREE-MONTH INTEREST RATES



eign interest rates stayed close to four percentage points. Reports of differing opinions within the Government over the direction of economic policy and the approaching deadline set for an incomes agreement led to a heavy outflow of currency in the period from October 17 to 21. On October 22, the central labour market organizations approved a proposal for a settlement put forward on the previous day by Mr Kalevi Sorsa, Member of the Board of Management of the Bank of Finland. The proposal, which sought to reduce labour costs by some 7 per cent, helped to calm the money and foreign exchange markets for a time.

Between mid-August and October 21, the Bank of Finland sold foreign exchange to the value of some FIM 28 billion, about FIM 19.5 billion of which was sold during October 17-21. The Bank of Finland's convertible foreign exchange reserves fell by more than FIM 17 billion between the end of July and the end of October to a total of FIM 16.4 billion. Because of the low level of reserves, the banks' call money debt to the Bank of Finland reached nearly FIM 19 billion at its peak and the overnight rate in the interbank market rose to more than 27 per cent (Chart 9).

On October 23, the Board of Management of the Bank of Finland temporarily rescinded the 30 per cent penalty interest rate on call money credit. This was followed by a decline in the interbank

overnight rate of more than 14 percentage points to 13 per cent. As the labour market seemed to be close to reaching a settlement, the Bank of Finland eased banks' liquidity by buying their CDs and entering into 'repo' agreements with them. As liquidity conditions in the money markets gradually returned to normal in early November, the Bank of Finland reimposed the rules regarding the call money market on November 12.

Final approval of the proposed incomes agreement was very much in doubt throughout the negotiations at union level, particularly as the two major unions in the export industries, those of the metal and paper workers, were opposed to it. The currency outflow was not reversed and interest rates remained high. On October 25, the Parliamentary Supervisory Board of the Bank of Finland enlarged the Bank's powers to borrow abroad from USD 1.5 billion to USD 5 billion.

In the second week of November, the currency outflow accelerated again and HELIBOR rates rose substantially. On November 14, the Parliamentary Supervisory Board raised the maximum rate the Bank of Finland could charge the banks on call money credit from 30 per cent to 50 per cent, and on the same day the Bank of Finland raised the call money credit rate to 20 per cent and the "penalty rate" to 40 per cent. The heavy capital outflow continued even though one-month HELIBOR rose to over 27 per cent in the course of the day. In view of the situation, the Bank of Finland decided to allow the markka to float in the afternoon as it seemed clear that the general uncertainty and currency outflow would continue until November 29, when the pay agreements were due to be signed at union level. But, as it seemed rather uncertain, in the light of the pay negotiations at union level, that conditions would calm down even then and as the Bank of Finland's convertible foreign exchange reserves, including its forward position, had virtually been depleted, the Bank's Board of Management was not prepared to finance the currency outflow by incurring foreign debt. Therefore on November 15, the Government decided, on the basis of a proposal submitted by the Bank of Finland, to lower the markka's external value by 12.3 per cent (Chart 11).

After the devaluation, the markka's exchange rate against the ECU settled on the strong side of the currency band's midpoint and remained close to the midpoint for the rest of the year. At the beginning of the week following the devaluation, currency began flowing slowly back into the country as domestic companies began to repatriate their foreign exchange receivables. In contrast, foreign investors sold their markka-denominated assets. Between the devaluation and the end of the year, the Bank of Finland purchased foreign exchange to the value of FIM 21 billion.

The currency inflow quickly eased banks' liquidity, and their call money position at the Bank of Finland became positive at the end of the week following the devaluation. With conditions in the money and foreign exchange markets returning to normal, the Bank of Finland lowered the call money credit rate again to 15 per cent and the "penalty rate" to 30 per cent with effect from November 21. This was reflected in a sharp fall in the interbank overnight rate.

Although short-term money market rates fell by several percentage points immediately after the markka was floated, they remained at a relatively high level, considering the economic situation, right

up until mid-December. This was due to the slow recovery in foreign exchange reserves. In the latter half of December, short-term market rates declined. Three-month HELIBOR stood at 12.3 per cent at the end of the year, which meant that the gap between it and the corresponding ECU interest rate had narrowed to some two percentage points. Long-term rates, by contrast, had risen by about half a percentage point between the devaluation and the end of the year.

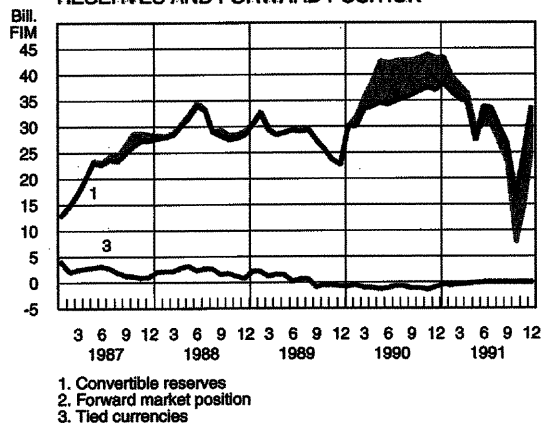
Heavy capital movements

The disturbances in the financial markets caused substantial capital movements in the course of the year. When uncertainty increased, capital flowed out of the country; when calm returned to the markets, the flow was reversed. For the year as a whole, capital imports, which totalled FIM 17 billion, were insufficient to finance the current account deficit of FIM 23 billion; thus the Bank of Finland's foreign exchange reserves were drawn down by FIM 6 billion. At the end of the year, the Bank of Finland's convertible reserves amounted to FIM 33 583 million and its net forward sales agreements to FIM 8 696 million (Chart 13).

Financing of the current account, FIM million

		I	II	III	IV	I-IV
Trade account	-2218	-96	281	2 192	2 205	4 582
A. CURRENT ACCOUNT	-26 513	-7 670	-6 880	-3 306	-5 564	-23 420
B. CAPITAL IMPORTS	41 605	4 568	4 659	-3 599	11 388	17 016
Loans (non-negotiable)	17 491	3 884	3 645	2 895	1 940	12 364
Direct investment	-9 525	-1 541	-1 339	-2 235	-3 255	-8 370
Portfolio investment (shares and bonds), net	22 110	8 004	14 553	8 841	4 068	35 466
Other capital transactions	11 529	-5 779	-12 200	-13 100	8 635	-22 444
A. + B. CHANGE IN FOREIGN EXCHANGE RESERVES	15 092	-3 102	-2 221	-6 905	5 824	-6 404
Memorandum item: Central government's capital transactions, net	3 283	6 522	2 615	5 822	7 791	22 751

Chart 13.
THE BANK OF FINLAND'S FOREIGN EXCHANGE
RESERVES AND FORWARD POSITION



Portfolio investment accounted for the bulk of capital imports (Table). Most of it took the form of sales abroad of foreign currency bonds by Finnish borrowers. In net terms, portfolio investment accounted for FIM 35.5 billion of capital imports in the course of the year. The high level of domestic interest rates increased the volume of foreign investment in markka assets right up until the autumn. After the devaluation, foreign investors reduced their markka investments. In the course of the year, markka-denominated bonds were sold abroad to a net value of some FIM 12 billion, and at the end of the year foreigners held FIM 19 billion worth of such bonds. In 1991, foreign investors purchased FIM 12 billion worth of government bonds, of which one-third were denominated in markkaa.

A substantial amount of capital was exported from Finland in 1991 via the forward market. Companies operating in Finland purchased forward currency from banks in March, in late May and early June, and from the beginning of August up until the time the markka was devalued. In the period from the beginning of August to the end of October, domestic enterprises purchased forward exchange from the banks totalling FIM 27 billion in net terms, resulting in a capital outflow of almost the same magnitude. By contrast, foreign investors purchased forward markkaa from the beginning of the year

up until September. In March, expectations of a change in the markka's exchange rate dampened foreign investors' interest in the markka to some extent. When the gap between domestic and foreign interest rates widened in the autumn, foreign investors substantially increased their markka investments in the forward exchange market. But after the devaluation, foreign investors unwound their forward markka positions to some extent.

The growth of direct investment abroad by Finnish companies came to a halt in 1991; the outward investment flow amounted to FIM 8.5 billion, or nearly a one-third less than in the previous year. There was virtually no direct investment by foreigners in Finland in 1991.

Finland's net foreign debt grew by FIM 43 billion in the course of the year and amounted to FIM 179 billion at the end of the year. The net foreign debt of the central government was FIM 53 billion. In relation to GDP, net foreign debt grew from 26 per cent at the end of 1990 to 35 per cent at the end of 1991. About half of this growth was caused by the current account deficit and the remainder by the effects of exchange rate changes on the markka value of the debt.

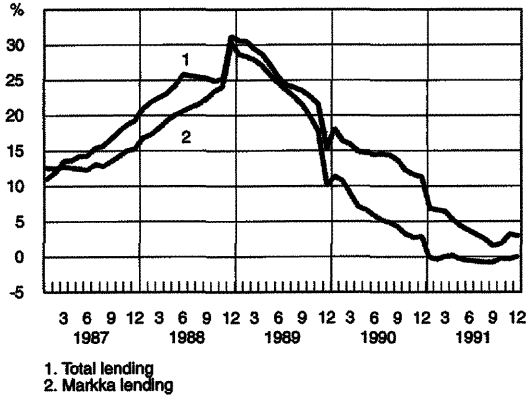
Growth of lending remained slow

The rapid increase in economic uncertainty dampened the public's desire to take on further debt, and demand for credit was slack. Furthermore, banks tightened their collateral requirements in the face of increasing credit risk and declining collateral values, which reduced the availability of credit. The twelve-month growth rate of total bank lending, which had been some 10 per cent at the end 1990, had slowed to virtually zero by the end of 1991. The outstanding amount of markka bank loans remained unchanged during the year (Chart 14).

New housing loans amounted to some 15 per cent less than in the previous year. Likewise, the amount of new consumer credits was smaller than in 1990. The deregulation of borrowing abroad by households at the beginning of October did not affect borrowing abroad to any significant extent. This was partly due to expectations regarding de-

Chart 14.
BANK LENDING TO THE PUBLIC

Change from the corresponding month of the previous year, %



valuation and partly to the relatively high transaction costs connected with raising foreign loans.

Companies raised new markka loans in almost the same amount as in the previous year. In contrast to the previous year, companies' outstanding foreign currency loans started to decline at the beginning of the autumn because of expectations of a devaluation. However, at the end of the year, the outstanding amount of foreign currency loans raised through banks, FIM 115 billion, was FIM 10 billion more than one year earlier, largely because of the devaluation.

The average rate of interest on all new markka loans raised in 1991 remained at the previous year's level (Chart 15). The average rates on new housing loans and consumer credits were virtually unchanged (Chart 16). The average interest rate on new markka loans raised by companies was slightly lower than in 1990 because of debt rearrangements by companies that had run into financial difficulties.

Minor changes in the arrangements for money market operations

There were no significant changes during the year in the Bank of Finland's arrangements for undertaking money market operations. Experience gained with the call money facility showed that the tightening of banks' liquidity is quickly reflected

in the desired manner in the interbank overnight rate. However, the problem with the facility is that it tends to amplify fluctuations in short-term interest rates. At the beginning of the year, the Bank of Finland extended the range of instruments it uses in its money market operations with the banks to include repurchase agreements ('repos') in addition to the bank CDs used hitherto.

In a repo deal, a bank entitled to central bank financing sells securities from its own portfolio to the Bank of Finland for a fixed period of time in order to obtain financing. At the time the deal is en-

Chart 15.
RATE OF INTEREST ON NEW MARKKA LOANS

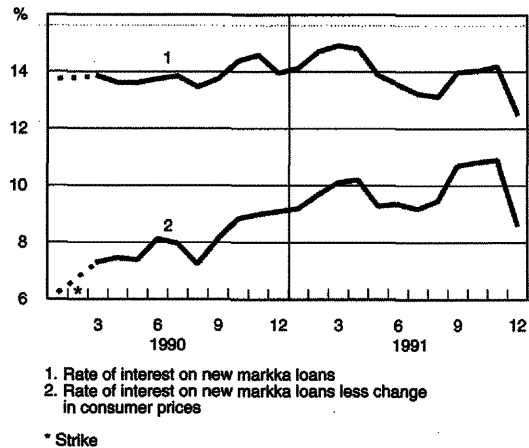
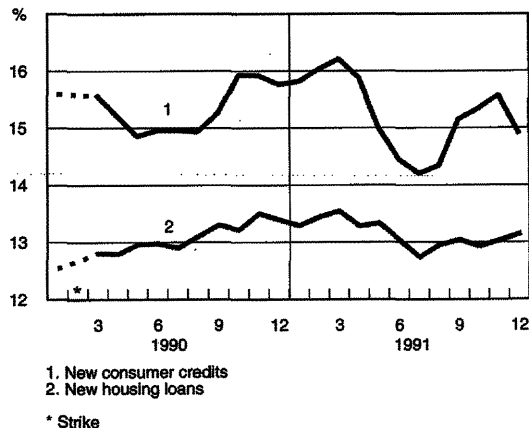


Chart 16.
RATES OF INTEREST ON BANK LOANS TO HOUSEHOLDS



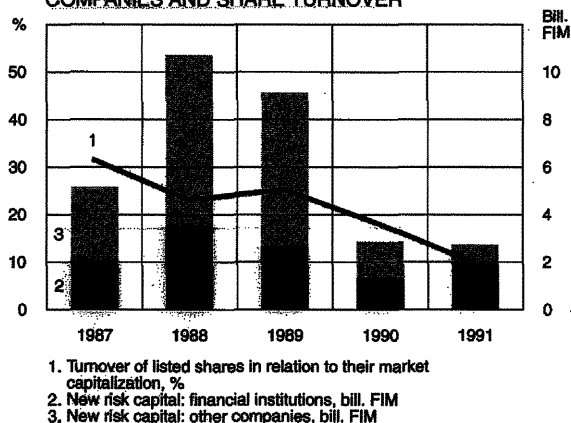
tered into, the parties agree on the repurchase date and price. The inclusion of repos partly reflects the Bank of Finland's desire to limit the risk associated with central bank financing. Repo transactions have been used mainly to smooth out wide fluctuations in liquidity.

The Bank of Finland approved as underlying securities for repo transactions markka-denominated instruments issued by the central government (Treasury notes and bills, government bonds) as well as markka-denominated CDs and bonds issued by banks entitled to central bank financing. At the discretion of the Bank of Finland, other markka-denominated CDs were also acceptable for this purpose. Bank CDs nevertheless accounted for the bulk of the underlying debt instruments. A large share of the repos were of one-month maturity. At the end of the year, the Bank of Finland held repos worth FIM 2 725 million and CDs worth FIM 9 157 million.

Flexible base rate considered

The base rate was kept unchanged at 8.5 per cent throughout 1991. Although the significance of the base rate as an instrument of monetary policy has declined over the years, it is still widely used as a reference rate for deposits and loans. The gap between the base rate and market rates remained large throughout the year. The Parliamentary Supervisory Board held several discussions at its meetings on the problems caused by the rigidity of the base rate and on alternative arrangements that would increase the rate's flexibility. No decisions on changing the system were made, however.

Chart 17.
ACQUISITION OF RISK CAPITAL BY LISTED
COMPANIES AND SHARE TURNOVER



FINANCIAL MARKETS

Bond market dominated capital market activity

For the second year running, listed companies did not make a single rights issue. Because of high interest rates and heavy losses recorded by listed companies, share prices fell sharply during the year, but they turned upward right at the end of the year. Turnover on the stock exchange again declined markedly from the previous year (Chart 17) and several companies were removed from the stock exchange list.

As in the previous year, activity in the capital markets focused on bonds, whose attractiveness to households, in particular, was enhanced by the 10 per cent (final) withholding tax on interest income that came into effect at the beginning of the year. The weakened financial position of the central government led to an increase in its domestic borrowing; the volume of new bond issues grew to FIM 11 billion. Banks also issued bonds in substantially greater quantity than before. No tax-exempt bonds were issued during the year (Chart 18).

Issues of taxable bonds for purchase by the public amounted to FIM 31 billion, which will aid the development of the secondary market. The

share of bond trading accounted for by the Helsinki Stock Exchange declined again, however, as much of the business has shifted from the exchange to the banks and broking firms. Foreign investors bought over FIM 21 billion worth of markka-denominated bonds. After the devaluation, however, foreigners reduced their markka investments to some extent. Their net holdings of markka-denominated bonds grew by FIM 15 billion, totalling over FIM 19 billion at the end of the year.

The problems facing the secondary market continued to be the small size of bond issues and the diversity of loan terms. As the withholding tax on interest income was based on a law which was in effect for just one year, the bonds issued at the beginning of the year, in particular, had very short maturities. The volume of private placements was again substantial.

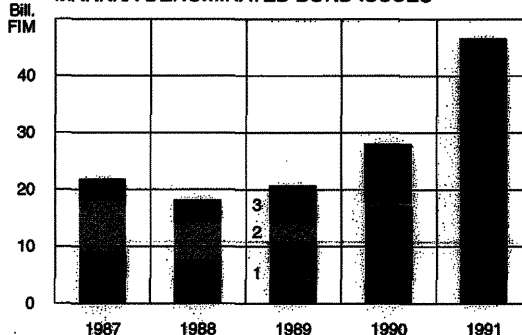
The volume of foreign currency bonds issued by Finnish borrowers amounted to nearly FIM 30 billion, most of which represented debt placed by the central government. The credit ratings of the Republic of Finland and of several Finnish banks were lowered somewhat, and this began to have a detrimental effect on borrowing abroad.

Banks' position worsened

The rapidly deteriorating economy and interest rates that remained high practically throughout the year caused a further worsening in the banks' financial position and helped speed up structural change in the banking sector. The problems of Skopbank grew so large that the Bank of Finland was obliged to step in and take control of the bank in September in order to maintain the stability of the country's financial system.

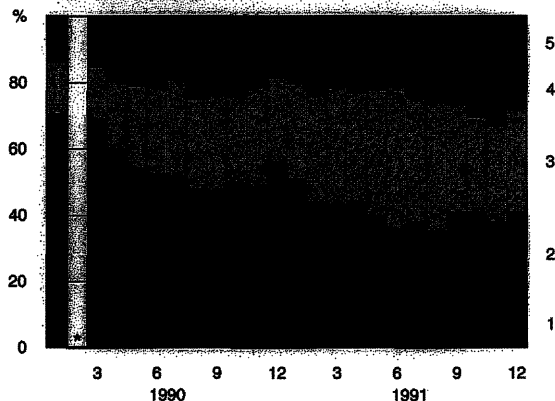
The growth of bank lending to the public was unusually small. The banks' combined balance sheet total grew only slightly despite the fact that the devaluation raised the markka values of assets and liabilities denominated in foreign currencies. The balance sheet totals of several banks decreased markedly, thus facilitating their compliance with the tighter capital requirements laid down in the new Deposit Bank Act.

Chart 18.
MARKKA-DENOMINATED BOND ISSUES



1. Taxable public issues
2. Tax-exempt public issues
3. Private placements

Chart 19.
INTEREST RATE LINKAGES OF BANKS' NEW MARKKA LOANS



1. Loans tied to the base rate and fixed-rate loans (since May 1990 former only)
2. Fixed-rate loans
3. Loans tied to HELIBOR
4. Loans tied to the Bank of Finland's long-term reference rates
5. Loans tied to banks' own reference rates and other interest rates

* Strike

Most of the new bank loans that were tied to the base rate were administered loans (mainly interest subsidy loans); the amount granted in 1991 was smaller than in the previous year. The most widely used market reference rates were again HELIBOR rates, but the use of long-term reference rates and the banks' own prime rates also increased (Chart 19). However, more than half of the outstanding loans were still tied to the base rate at the end of the

Chart 20.
INTEREST RATE LINKAGES
OF BANKS' MARKKA DEPOSITS

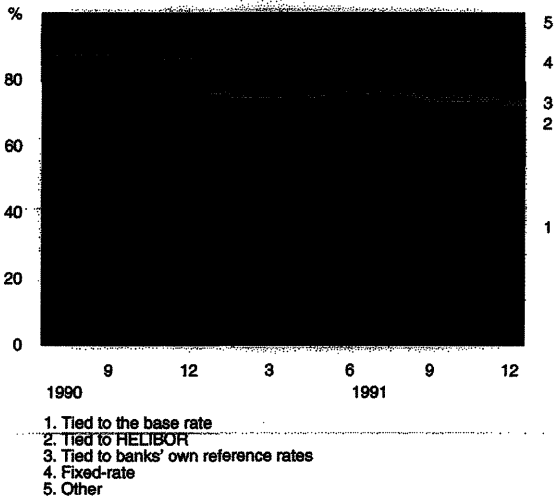
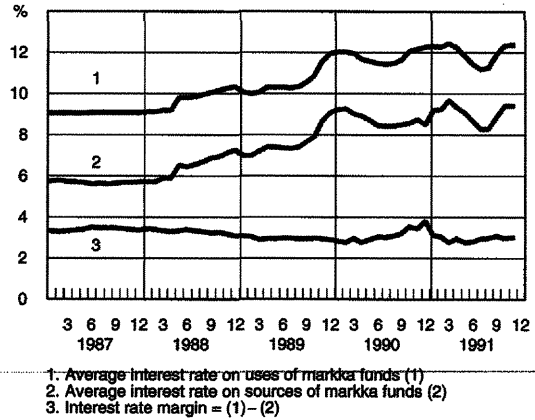


Chart 21.
AVERAGE INTEREST RATE ON USES OF MARKKA FUNDS, AVERAGE INTEREST RATE ON SOURCES OF MARKKA FUNDS AND THE INTEREST RATE MARGIN



year. Hence, the banks will continue to face a structural interest rate risk for some years to come.

The share of bank funding at market rates of interest increased notably. The most important factor influencing this development was the entry into force of the withholding tax on interest income at the beginning of the year. Particularly in the early part of the year, competition between banks for the exceptionally large amount of funds maturing on tax-exempt accounts raised deposit rates. Deposits tied to the base rate still accounted for nearly 70 per cent of banks' markka deposits at the end of 1991 (Chart 20).

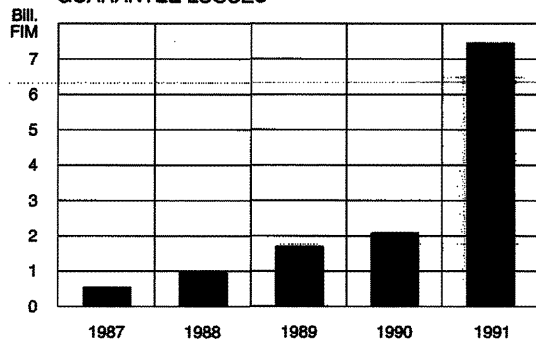
The entry into force of the withholding tax and the high level of interest rates made bonds attractive to individuals, particularly in the early part of the year. As a result, bond issues by banks increased substantially. To some extent, these issues were further stimulated by the attempt of local banks, in particular, to improve their capital adequacy through the issue of subordinated debt instruments. The latter are included in secondary capital for the purpose of capital adequacy calculations.

The release of cash reserve deposits improved the banks' financial position. This was partly re-

flected in the calmness that prevailed in the money market, with the exception of the closing months of the year when speculation concerning devaluation led to a tightening of banks' liquidity and a sharp increase in issues of bank CDs.

The margin between the average interest rates on banks' sources and uses of markka funds narrowed from the previous year. The squeezing effect of the withholding tax on the margin was especially

Chart 22.
DEPOSIT BANKS' CREDIT AND
GUARANTEE LOSSES



apparent in the early part of the year. The interest rate margin widened somewhat in the summer when market rates were at their lowest level. However, the margin narrowed again in the autumn as interest rates were pushed up by speculation concerning devaluation and by the tightening of banks' liquidity (Chart 21).

The difficulties encountered by banks' customers were reflected in increased credit losses, payment disruptions and the growing number of non-performing loans. Despite efforts to rationalize their operations, the banks' results weakened markedly. The prime cause of the poor results was the manifold increase in credit losses from the previous year (Chart 22). Rapid declines in profitability and in share and real estate prices made it difficult for many banks to meet their capital adequacy requirements.

Skopbank taken over by the Bank of Finland

The gravity of the problems facing the banking sector was underscored by the Bank of Finland's takeover of Skopbank. Skopbank had been under special surveillance by the Bank of Finland and the Banking Supervision Office since autumn 1989. In October 1990, supervisory officials drew up a restructuring programme according to which Skopbank was to gradually dispose of its large risk exposures and to strengthen its capital structure. At the end of the same year, Skopbank's capital was increased through a share issue targeted at the savings banks. By this and other means, the savings banks subsidized Skopbank to the extent of FIM 1.8 billion. In May 1991, the Banking Supervision Office, the Bank of Finland and the Ministry of Finance established a joint working group to make contingency plans for a possible banking crisis.

At the end of summer 1991, it became evident that Skopbank would not be able to meet the objectives set in the restructuring programme and that its difficulties would also be reflected in the savings bank sector. The difficulties faced by the Skopbank group were beginning to pose a threat to the stability of Finland's financial and banking system, as well as to the country's reputation and creditworthi-

ness. When, on September 19, a clear lack of confidence towards Skopbank emerged in markets at home and abroad, the Bank of Finland decided to expedite the implementation of the contingency plans.

To restore confidence in the activities of Skopbank, the Bank of Finland took control of it with immediate effect. In the same context, changes were made in Skopbank's management.

The Bank of Finland set up three holding companies in order to restructure Skopbank's operations and remove the risk exposures from its balance sheet. A majority shareholding and controlling voting power in Skopbank were transferred to Scopulus Oy through a FIM 2 billion targeted share issue. The purpose of Solidium Oy was to take over the risk exposures of Skopbank and its subsidiaries related to industrial activity. This involved the transfer of a majority shareholding in Oy Tampella Ab and its outstanding loans to Solidium. Sponda Oy's purpose is to remove the risk exposures related to share and real estate investments from Skopbank's balance sheet. The combined equity capital of the holding companies is FIM 700 million.

The final cost to society of the measures taken to deal with the Skopbank crisis will not be known until the assets that have been transferred to the holding companies have been sold. The Bank of Finland has been obliged to commit some FIM 14 billion to the arrangements.

Structural changes in the banking sector continued

The banks' deteriorating profitability, stricter capital adequacy requirements and heightened competition have begun to be reflected in the rationalization of banking operations. The number of branches was reduced by over 200, ie 7.5 per cent, and the total number of bank employees by nearly 3000, ie 6.5 per cent. In addition, some 1 700 post offices ceased providing banking services. Mergers of local banks were stepped up considerably. The number of local banks fell by 70 to stand at slightly over 400 at the end of the year. Plans for restructuring the savings banks have proceeded furthest because of Skopbank's problems.

Exchange control became history and financial markets opened further

The dismantling of exchange control, which had been going on for years, was completed in 1991. At the beginning of the year, the new Foreign Exchange Act came into force. Its basic principle is that all foreign exchange activities are permitted unless the Bank of Finland has specifically determined that they are subject to permission. However, the current regulations still require the provision of data on foreign exchange activities to the Bank of Finland for statistical purposes.

At the beginning of 1991, the Bank of Finland lifted all the remaining exchange control provisions except those regarding borrowing abroad by individuals and other comparable entities. The most important restrictions to be lifted were those concerning short-term capital movements and the sale abroad of markka-denominated bonds issued before February 1, 1990.

When the ban on borrowing abroad by households was also rescinded on October 1, exchange control, which had been in existence for entire post-war period, came to an end. At the same time, Finland fulfilled the requirements regarding the removal of exchange control contained in the agreement on the European Economic Area (EEA).

Despite the lifting of exchange control, the Bank of Finland continues to oversee the foreign operations of financial institutions through the issue of licences to operate as an authorized bank or to engage in foreign exchange activity. This supervision is aimed at preventing excessive risk taking in foreign operations.

With effect from the beginning of 1991, foreign banks were allowed to establish branches in Finland. As a result, three subsidiaries of foreign banks were converted into branches. One subsidiary bank has announced that it will become a branch in mid-1992 while another plans to continue operating as a subsidiary.

Development of the money market

The rules of the Helsinki Money Market Center (HMMC) were approved in October 1991. The HMMC will provide safe-keeping and clearing/settlement facilities for book entry securities. The Center's computerized registers will contain book entry accounts for storing securities traded in the money market. The HMMC will also serve as a clearing centre for money market transactions. Its largest shareholders are the Bank of Finland, the HELIBOR banks (Kansallis-Osake-Pankki, Okobank, Postipankki, Skopbank, Union Bank of Finland) and the state. The HMMC is scheduled to commence live operations based on the book entry securities system in early 1992.

The banks' ability to control their own liquidity conditions was improved with the introduction of the Bank of Finland's new cheque account (continuous funds settlement) system in March 1991. The banks participating in the system are linked on a real time basis to the Bank of Finland via a data transmission network. Banks make payments from their own to other system accounts via work stations. Banks can also use the system to transmit data to the Bank of Finland regarding the transfer of covering funds (payments clearing).

In the initial stage, the HELIBOR banks, STS Bank and the State Treasury Office joined the system. In the autumn, the number of members expanded and at the end of the year there were 16 users.

The Bank of Finland's arrangement regarding the use of cash reserves for collateral purposes, which had begun operating at the end of the previous year, continued in effect. Under this arrangement, the Bank of Finland requires banks entitled to central bank financing to allow their cash reserve deposits to be used as partial collateral for such financing.

Operating rules set for the financial markets

The Banking Supervision Office and the Bank of Finland agreed in 1990 that the Bank would oversee interbank dealings in the money market in accord-

ance with the Securities Market Act. On the basis of this agreement, the Bank of Finland continued negotiations with the banks, which had begun the previous year, regarding a code of conduct for money market dealings. On April 24, 1991, an agreement was signed which laid down the principles for inter-bank dealings in the money market and the responsibilities of banks acting as market makers. The appendix to the agreement specifies the principles governing interbank dealings in CDs. These principles relate to pricing, clearing and correction of errors. On the basis of the agreement, an ethical committee was set up consisting of nine members selected by the banks and a representative of the Bank of Finland, who acts as chairman.

Financial markets legislation drew closer to EC directives

During 1991, a number of legislative reforms concerning financial activities and the supervision of financial institutions were under preparation. The process was speeded up by the negotiations on the European Economic Area (EEA), which were concluded in November. In December, however, the European Court of Justice called into question certain legal provisions of the agreement. It is still the aim that the agreement should enter into force at the beginning of 1993.

From the point of view of the financial markets, the EEA agreement means that the provisions in Finnish legislation governing financial services and capital movements must essentially be brought into line with EC directives.

In January 1992, a report on changes necessitated by EC regulations was completed by the committee considering amendments to financial markets legislation. The committee proposed that the legislation on deposit banks that came into force at the beginning of 1991 and the Financial Activities Act that came into force at the beginning of 1992 be combined into a single law on credit institutions, which would take into account EC regulations, notably the second banking directive. The enactment of the proposed law would mean fewer restrictions on ownership and stricter requirements

regarding consolidated financial statements, supervision, large exposures and capital adequacy. Another salient feature of the proposal is that it would allow a credit institution that has received an EEA licence to offer its services, either directly or through a branch office, in any other EEA country without the need for a separate licence. The law, like the EEA agreement, is due to enter into force at the beginning of 1993.

A tax reform with important implications for the financial markets was effected at the beginning of 1991, when a 10 per cent withholding tax on interest earned from bank accounts and bonds was introduced. The tax, originally in effect for one year, was extended for a further two years from the beginning of 1992 and the tax rate was raised to 15 per cent.

The withholding tax is temporary. According to a proposal made in January 1992 by a Ministry of Finance working group considering the introduction of a uniform capital income tax, all capital income would be subject to a proportional tax of 25–30 per cent as in other Nordic countries. The same rate would be applied in corporate taxation as well. The proposal also calls for a reduction in the right to deduct interest expenses.

Progress was also made in 1991 as regards legislation concerning the securities markets. At the beginning of August, laws concerning the book entry securities system and book entry accounts came into force. According to these laws, share certificates and other physical securities are to be replaced by electronic account entries in computerized registers.

In the spring, a working group considering the clearing and settlement of securities transactions proposed that such activity be regulated by law. Clearing and settlement in the book entry system would be subject to licensing and official supervision.

The committee investigating the need for the reform of legislation governing the securities markets on the basis of the recommendations of the securities trade committee and the pressures for harmonization created by European integration completed its report at the end of the year. Its major

proposals concern the broadening and more detailed specification of the obligations concerning the provision of information by firms that sell securities to the public.

A bill on the partial overhaul of the Unit Trust Act was submitted to Parliament in the autumn. The changes that came into force at the beginning of 1992 gave foreigners the right to acquire units in Finnish unit trusts and thus made it possible for foreigners to indirectly invest in restricted shares.

At the end of June, the committee considering foreign ownership proposed the lifting of the current restrictions on foreign ownership. According to the proposal, the ownership restrictions would also be lifted with respect to credit institutions and insurance companies.

In the autumn, a working group was set up to draft a proposal on a joint guarantee fund for the deposit banks. The purpose of the fund would be to secure the stability of the deposit banks' activities and their depositors' assets.

In November, the committee on financial conglomerates issued its report on combinations of banks and insurance companies, their operational borders, cooperative activities and supervision. The report recommended that banks and insurance institutions be allowed to belong to the same group and to be related to each other as parent or subsidiary. However, financial conglomerates would be subject to strict conditions as regards separation of activities, capital adequacy, risk management, competition and customer protection. The committee also recommended that the supervision of financial conglomerates be concentrated in a new independent supervisory authority. The tasks of the Banking

Supervision Office as well as a substantial part of the supervisory activities carried out by the Bank of Finland would be transferred to the new body. It was further proposed that the body monitor the investment activities of insurance companies in cooperation with the insurance department of the Ministry of Social Affairs and Health.

In January 1992, the employment pension fund committee, which is considering the long-term financing and funding principles of the employment pension scheme, recommended, *inter alia*, that the interest rate charged on loans granted from contributions to the scheme should be more in line with market rates. According to the recommendation, the funded portion should be increased. Already prior to the release of the report, it had been agreed in the wage negotiations that employees would become responsible for paying part of the total contribution to the scheme; at present, the contribution is paid in full by employers.

The Bank of Finland was also represented in the working groups on interest subsidies and housing finance. The interest subsidy group recommended that the present interest subsidy schemes be replaced by capital grants based on means tests and separate from loan arrangements. The report of the housing finance group cited the special importance of the bond market for the supply of long-term financing to the housing sector.

The Bank of Finland also took part in the working group considering the development of the bond market, which published its report in December. The report includes several practical proposals for developing the secondary bond market.

OTHER OFFICIAL ACTIVITIES

ARRANGEMENTS WITH PAYMENTS AGREEMENT COUNTRIES

The clearing system between Finland and the Soviet Union was terminated by agreements signed on December 27, 1990. The effecting of payments through the clearing rouble account was discontinued at the end of 1990. It was, however, possible to use the clearing account until the end of January 1991 for effecting payments outstanding at the turn of the year. At the beginning of February, the Bank of Finland ceased buying and selling clearing roubles. At the same time, the Bank ceased quoting the rouble's exchange rate. The funds on the clearing rouble account were transferred to a US dollar closing account opened at the beginning of the year. All payments related to clearing export deliveries approved by the Import and Export Permits Office in 1990 as well as the remaining payments related to imports in 1990 were effected through this account. All clearing payments were discontinued at the end of June 1991. On that date, the final balance showed a USD 0.3 million deficit balance for Finland. So far, the authorities of the former Soviet Union have not issued any instructions concerning the transfer of the funds on the closing account and the closing of this account.

To reduce the outstanding balance on the clearing account, SUR 285 million had been transferred to a special interest-bearing account at the beginning of 1987. The last instalment of the Soviet Union's outstanding liability – SUR 60 million – on this account fell due for payment at the end of 1991. The repayment of this sum was deferred until the beginning of 1993 in keeping with the Paris Club agreement concerning the rescheduling of the former Soviet Union's debts.

In 1991, Finland maintained a clearing payment arrangement with Bulgaria for the effecting of payments from Finland to Bulgaria. The arrangement has been maintained so as to enable Bulgaria to pay off its outstanding clearing account debt with deliveries of merchandise through the clearing system. Bulgaria's outstanding debt, which at the end of 1990 had stood at FIM 75 million, amounted to FIM 34 million at the end of 1991.

INTERNATIONAL ORGANIZATIONS

International Monetary Fund (IMF)

In 1990, the Executive Board of the International Monetary Fund decided to augment the Fund's resources. The aim was to implement the decision be-

fore the end of 1991. The increase in the Fund's resources was deferred, however, and is expected to take place in the course of 1992. Under this Ninth General Review of Quotas, the quotas of member countries will be increased by 50 per cent. In accordance with the proposal approved by Parliament, the Bank of Finland will pay the increase in Finland's quota of SDR 286.9 million on behalf of the Finnish government. Hence, Finland's quota will increase to about FIM 5.1 billion.

At the meeting of the Interim Committee of the International Monetary Fund in May, the main focus was on assessing the world economic situation after the Gulf War. The October meeting, which was held in connection with the joint annual meetings of the Fund and the World Bank in Bangkok, drew special attention to the economic situation and adjustment plans of the former socialist countries in the process of transition to a market economy. Mr Rolf Kullberg, who is Chairman of the Board of Management of the Bank of Finland and Member of the Fund's Board of Governors, represented the Nordic countries on the Interim Committee in 1990 and 1991.

The Nordic countries have a joint representative on the Fund's Executive Board and Finland held the position of Executive Director during the year under review. Mr Markus Fogelholm, head of department of the Bank of Finland, served in this position until the end of October 1991, when his two-year term ended. The Bank of Finland prepared the Nordic countries' joint statements of opinion presented in the Fund in the year under review.

In late May and early June, a team of IMF officials visited Finland. The visit was part of the interim Article IV consultations, which are conducted every other year. The team carried out a review of the state of the Finnish economy and the economic policies pursued.

Bank for International Settlements (BIS)

During the year under review, the Bank for International Settlements continued to focus its attention on financial arrangements related to European integration. The monthly meetings served as a forum

for the exchange of information on market developments and discussions on issues related to the stability of the money and foreign exchange markets.

Integration

The European Free Trade Association (EFTA) and the European Community (EC) agreed on the formation of a European Economic Area (EEA). Owing to a disagreement concerning the EEA court, however, the ratification of the outcome of the negotiations was deferred until 1992. The EEA agreement is likely to be signed in early 1992. The Finnish parliament will decide on the ratification of the agreement during 1992.

Bank of Finland representatives participated with other officials in the preparatory work concerning the EEA carried out within EFTA and jointly between EFTA and the EC and dealing with the liberalization of capital movements, financial services and ownership rights.

The Bank of Finland was represented on the consultative committee overseeing the progress of integration in Western Europe and related negotiations by Mr Rolf Kullberg, Chairman of the Board of Management; Mr Markku Puntila, Member of the Board of Management, served as deputy member.

The Bank of Finland was represented on the EFTA/EC monitoring committee set up by the Ministry of Foreign Affairs by Mr Esko Ollila, Member of the Board of Management; Mr Matti Vanhala, Director, was the Bank's deputy member. Several subcommittees functioned under the monitoring committee. The Bank of Finland was represented on the subcommittees dealing with capital movements, financial services, foreign ownership, cooperation in economic and monetary policy and cooperation in the compilation of statistics.

Other international cooperation

The Nordic Financial Commission (NFU) prepared, *inter alia*, issues dealt with at the IMF. The NFU sought ways to ensure that the opinions of the Nordic countries received greater attention in the

work of the IMF. The integration of the former socialist countries with the market economy system and the activities of international organizations were topical issues dealt with by the NFU. Mr Matti Vanhala, Director of the Bank of Finland, served as chairman of the Commission.

The Bank of Finland participated in the activities of the Organization for Economic Cooperation and Development (OECD) through, *inter alia*, its involvement in the work of the Committee on Capital Movements and Invisible Transactions, the Committee on Financial Markets, the Economic Policy Committee and their working parties. By lifting the remaining exchange controls, Finland was able to substantially reduce the number of its reservations to the OECD's Codes of Liberalization of Capital Movements and Liberalization of Current Invisible Operations. Since, however, in 1989 the OECD extended the range of capital movements and current invisible operations subject to liberalization, Finland was obliged to make some new reservations concerning financial services.

The OECD's Economic Policy Committee focused its attention on issues concerning macro-economic development and the coordination of economic policies. In addition, the economies and economic policies of individual member countries were closely monitored.

Multilateral negotiations aimed at worldwide trade liberalization continued within the framework of the General Agreement on Tariffs and Trade (GATT). In addition to reducing tariffs, the Uruguay Round aims at bringing new areas of trade, such as agriculture and services, within the scope of the agreement. However, no agreement was reached in the negotiations in the course of the year. The ultimate fate of the round will be determined in the first half of 1992. Representatives of the Bank of Finland participated in the preparatory work of groups of experts in Finland. Mr Esko Ollila, Member of the Board of Management, represented the Bank on the GATT trade negotiations committee; Mr Matti Vanhala, Director, served as deputy member.

As in previous years, the Bank of Finland participated as an observer in the sessions of the Coun-

cil of the International Bank for Economic Cooperation (MBES) and the Council of the International Investment Bank (MIB). In addition, the Bank of Finland arranged the ninth Finnish-Soviet banking seminar in September.

MANAGEMENT OF THE FOREIGN EXCHANGE RESERVES

There were no changes in 1991 in the principles applied in investing the foreign exchange reserves. The effect of the linking of the markka to the ECU on the management of the foreign exchange reserves was, however, thoroughly evaluated, as too was the role of the US dollar and the Japanese yen as reserve currencies. For reasons only partly connected with pegging the markka to the ECU, the share of the EMS currencies and the ECU in the reserves was increased during the year.

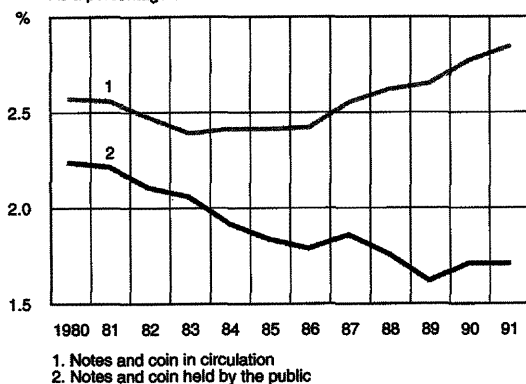
As before, the Bank of Finland's convertible reserves were invested mainly in government securities, foreign currency deposits, gold and special drawing rights in accordance with safety and liquidity requirements. The most important investment currencies were the US dollar, the Deutsche mark, the French franc, the pound sterling, the Dutch guilder, the ECU and the Japanese yen. The gold reserves remained unchanged. The risk management and decision-making procedures related to the investment of the reserves were upgraded and refined in 1991.

The main items of the convertible reserves at the end of 1990 and 1991 and changes in the course of the year are shown below:

	Reserves Dec. 31, 1990	Change	Reserves Dec. 31, 1991
FIM million			
Gold	2 180	+0	2 180
Special drawing rights	791	+141	932
IMF reserve tranche	783	+353	1 136
Convertible currencies, net	33 451	-4 115	29 336
Total	37 205	-3 621	33 583

Chart 23.
NOTES AND COIN IN CIRCULATION

As a percentage of GDP



COMPILATION OF BALANCE OF PAYMENTS STATISTICS REVISED

The construction of a new data collection system for use in compiling balance of payments statistics, under way since 1990, was completed with the introduction of a survey covering foreign financial assets and liabilities in early 1991. As in most other Western European countries, the compilation of balance of payments statistics in Finland is now based on comprehensive monitoring of foreign payments complemented by surveys by which data are collected on foreign assets and liabilities and securities transactions.

The monthly survey on foreign assets and liabilities covers the financial institutions and more than a hundred companies engaged in industry and trade as well as a number of local authorities. The companies included in the survey are selected on a statistical basis by combining enterprise register data and data on foreign payments.

In developing procedures for collecting and presenting balance of payments data, account was taken of the changes in the IMF's Balance of Payments Manual that are due to become effective at the beginning of 1993. The changes in the data collection system caused breaks in the balance of payments series, and the variation in the statistical error

seems, at least temporarily, to have increased. On the other hand, the new method of presenting Finland's balance of payments complies more closely with international recommendations.

MAINTENANCE OF THE CURRENCY SUPPLY

The amount of currency in circulation remained virtually unchanged in 1991. This was due to the economic situation in Finland, which led to a decrease in the amount of notes in circulation in the latter part of the year. At the end of 1991, notes in circulation amounted to FIM 13 306 million and coin in circulation to FIM 1 222 million. In relation to GDP, both currency held by the public and cash held in banks' tills continued to grow (Chart 23) as nominal GDP fell.

The issue of new Litt. A notes in the 1986 note series began on November 20, 1991. New 1000, 500, 100 and 50 markkaa notes were put into circulation. Litt. A notes were not, however, manufactured for the 10 markkaa note, as it is planned to replace this note by a coin at the end of 1993.

The Litt. A notes contain new authentication features designed to prevent forgeries and facilitate the detection of attempted forgeries. A kinegram has been added to the 1000 and 500 markkaa notes, while the 100 and 50 markkaa notes have a latent image showing the denomination of the note. In addition, the 100 and 50 markkaa notes contain a "windowed" hologram thread. In addition, all Litt. A notes are furnished with text appearing in micro-print.

During the first phase of the introduction of a new series of coins, which had begun at the end of 1990, 55 per cent of the old 50 penni coins and 35 per cent of the old 10 penni coins were replaced by new coins. Of the 20 and 5 penni coins to be removed from circulation, 42 and 23 per cent, respectively, had been returned by the end of the year.

In November, the Bank of Finland revised the banks' base amounts, ie the share of their till-money holdings which is not financed by the Bank of Finland under the till-money credit agreement. The combined total of base amounts was kept un-

changed in relation to the amount of currency held by the public. According to previous practice, the new base amounts were allocated to the banks in proportion to their outstanding deposits in transactions accounts.

New, highly efficient banknote sorting machines were installed at the head office and in the Kuopio, Oulu, Tampere and Turku branches. The

role of the other Bank of Finland branches in the maintenance of the money supply has decreased. Hence, on October 25, 1991, the Parliamentary Supervisory Board decided to close the Joensuu, Mikkelä, Pori and Rovaniemi branches by June 30, 1992 and the Jyväskylä, Kotka, Lahti and Vaasa branches by June 30, 1994.

OTHER ACTIVITIES

RESEARCH AND ECONOMIC ANALYSIS

In 1991, research and analysis carried out at the Bank of Finland focused on issues related to the financial markets. Special emphasis was placed on research into risk monitoring and supervision of markets, the central bank's intervention and investment policies and the stability and functioning of the money and foreign exchange markets. Studies were also carried out on subjects pertaining to the efficiency of the financial markets, taxation of capital income and improving the payment system. An issue of key importance in research activity was internationalization and integration of markets.

As in previous years, research activity at the Bank also aimed at increasing expertise in macroeconomics in support of the preparation of central bank policy. Among the subjects analyzed were direct investment abroad, inflation, the structure of the economy and competitiveness. A considerable amount of research was also carried out on issues related to changes in trade with the former Soviet Union and the Eastern European countries and developments in these economies.

In monitoring economic developments, special attention was paid to the problems caused by the recession, such as indebtedness, bankruptcies

and risks inherent in the financial system. Short-term developments in the Bank's operational environment were assessed by means of economic forecasts. In addition, the effects of different economic policy choices on macroeconomic performance were studied with the aid of medium-term calculations. For example, a comparison was made of the effects on the economy of a fall in domestic costs, on the one hand, and of a devaluation of the markka, on the other.

INFORMATION AND PUBLICATIONS

The use of electronic information systems for the rapid dissemination of information on decisions made by the Bank of Finland was extended and upgraded. In addition to the banks, this information was made available to broking firms.

In connection with the issue of the new banknotes, the Bank organized an information campaign, the theme of which was how to recognize a genuine banknote. The material used in the campaign included brochures, videos and TV spots. In addition, the Bank's brochures was updated.

The Bank's monthly English language publication Bank of Finland Bulletin appeared 11 times. In addition, a special issue on the financial markets in Finland was published. The Yearbook and Finn-

ish Bond Issues appeared in the normal way. Four publications were issued in series A and one in Series D.¹ In addition, 26 papers appeared in the Discussion Papers series, which includes research and analytical work done by the various departments of the Bank.

ADMINISTRATION AND STAFF

The Parliamentary Supervisory Board decided to close eight of the Bank's twelve branches. The branches concerned will close in 1992 – 1994. The remaining branches in Kuopio, Oulu, Tampere and Turku will be responsible for maintaining currency supply in their respective regions.

A reorganization also took place at the head office. The Risk Monitoring Department was merged with the Financial Markets Department. The aim of the reorganization was to enhance the monitoring of the financial markets. The Bilateral Trade Department was abolished and replaced by the Unit for Eastern European Economies. Its duties are to carry out research and analysis related to economic developments in the former Soviet Union and the Eastern European countries. After the lifting of the remaining exchange controls during the year, the Exchange Control Department was formed into the Statistical Services Department.

At the end of 1991, staff at the head office numbered 703 and that at the branches 172. A total of 48 persons were on leave of absence for various reasons. The number of staff on fixed-term contracts was 53. In the course of the year, the number of persons employed at the head office decreased by 6 and that at the branches by 14.

The Bank's pay arrangements underwent a major change during the year under review. In the remuneration of senior staff and experts, a system of contract salaries was introduced. The purpose of

the change was to increase incentives in the pay arrangements. Staff training focused on developing professional skills and expertise and on information technology. Expenditure on training accounted for 3.5 per cent of the Bank's total wage bill.

DATA PROCESSING

In 1991, the Bank's accounting system was further developed. The ATLAS system was selected to form the basis for investment and foreign exchange dealing operations and a project for its installation got under way. The new system for handling the banks' cheque accounts at the Bank was completed. In addition to 14 banks, the State Treasury Office and the Helsinki Money Market Center Ltd became users of the system. Other important projects included the development of systems for monitoring banks' risks and the compilation of financial markets statistics.

The office information system used by the entire bank was upgraded by acquisitions of new hardware and software. A total of 165 new personal computers were purchased, most of them replacing outdated equipment. The central unit, UNISYS A10, was replaced by a highly efficient A16 system.

The focus of training in information technology was on the office information system and, in particular, on teaching staff the functions of the investment and foreign exchange dealing system and how to use the associated hardware. Training of Bank staff required some 1200 days.

¹ A list of Bank of Finland publications in 1991 is included in the Appendices.

FINANCIAL STATEMENTS

BALANCE SHEET, FIM

ASSETS

Gold and foreign currency claims (1)				
Gold	2 179 802 017,91		2 179 696 424,90	
Special drawing rights	931 535 284,74		790 581 329,78	
IMF reserve tranche	1 135 846 675,93		782 810 125,17	
Convertible currencies	29 381 274 595,27		33 478 346 774,33	
Tied currencies	34 014 146,20	33 662 472 720,05	75 235 382,68	37 306 670 036,86
Other foreign claims (1)				
Markka subscription to Finland's quota in the IMF	2 259 524 222,07		2 198 316 577,83	
Term credit	430 135 277,94	2 689 659 500,01	375 824 172,00	2 574 140 749,83
Claims on financial institutions (2)				
Certificates of deposit	9 157 106 580,43		9 410 772 579,49	
Securities with repurchase commitments	2 725 101 521,48		—	
Till-money credits	3 527 812 000,00		3 426 520 000,00	
Bonds	1 765 305 000,00		2 115 105 000,00	
Other claims on financial institutions	237 900 000,00	17 413 225 101,91	237 900 000,00	15 190 297 579,49
Claims on the public sector (3)				
Bonds	3 094 000,00		83 200,00	
Total coinage	1 372 399 014,20	1 375 493 014,20	1 313 622 764,20	1 313 705 964,20
Claims on corporations (4)				
Financing of domestic deliveries (KTR)	878 707 053,00		1 222 916 303,75	
Bonds: KTR credits	207 266 832,70		254 141 463,50	
Bonds: Other	1 700 000,00		8 300 000,00	
Other claims on corporations	200 625 708,81	1 288 299 594,51	193 065 193,15	1 678 422 960,40
Other assets (5)				
Loans for stabilizing the money market	1 730 000 000,00		—	
Accrued items	1 033 769 691,14		769 820 377,78	
Other assets	152 697 278,91	2 916 466 970,05	130 666 583,86	900 486 961,64
TOTAL		59 345 616 900,73		58 963 724 252,42

LIABILITIES

Foreign currency liabilities (1)				
Convertible currencies	44 983 951,16		26 685 708,71	
Tied currencies	1 211 087,20	46 195 038,36	956 606 469,74	983 292 178,45
Other foreign liabilities (1)				
IMF markka accounts	2 259 578 811,41		2 198 398 487,67	
Allocations of special drawing rights	842 729 993,80	3 102 308 805,21	739 914 714,30	2 938 313 201,97
Notes and coin in circulation (6)				
Notes	13 305 922 567,00		13 398 829 555,00	
Coin	1 222 455 019,40	14 528 377 586,40	1 155 954 340,40	14 554 783 895,40
Certificates of deposit (7)		8 880 000 000,00		-
Liabilities to financial institutions (8)				
Call money deposits	2 206 043 997,70		418 349 943,24	
Cash reserve deposits	10 361 028 771,00		17 400 529 860,00	
Other liabilities to financial institutions	358 760,99	12 567 431 529,69	36 310 327,72	17 855 190 130,96
Liabilities to the public sector (9)				
Cheque accounts	-		816 005,79	
Counter-cyclical deposits	-		1 317 137 042,19	
Other liabilities to the public sector	3 478 341,84	3 478 341,84	2 946 503,54	1 320 899 551,52
Liabilities to corporations (10)				
Deposits for investment and ship purchase	7 056 825 124,28	7 056 825 124,28	9 925 070 331,63	9 925 070 331,63
Other liabilities (11)				
Accrued items	1 583 977 117,33		1 718 383 375,12	
Other liabilities	97 882 453,24	1 681 859 570,57	56 069 750,20	1 774 453 125,32
Valuation account and reserves (12)		5 715 023 864,82		3 447 604 797,61
SITRA's capital (13)		-		400 000 000,00
Capital accounts (14)				
Primary capital	5 000 000 000,00		5 000 000 000,00	
Reserve fund	764 117 039,56		764 117 039,56	
Net earnings	-	5 764 117 039,56	-	5 764 117 039,56
TOTAL		59 345 616 900,73		58 963 724 252,42

PROFIT AND LOSS ACCOUNT, FIM

INTEREST INCOME				
Domestic (1)				
Call money credits	185 720 585,40		36 156 399,45	
Certificates of deposit and treasury notes and bills	1 006 807 041,74		2 716 275 769,53	
Securities with repurchase commitments	623 074 956,79		-	
Term credits	147 986,30		656 175 438,20	
Financing of domestic deliveries (KTR)	117 655 533,68		160 372 243,68	
Bonds	169 383 990,41		197 345 668,31	
Other claims	39 641 697,47	2 142 431 791,79	38 652 329,95	3 804 977 849,12
Foreign (2)				
IMF	119 443 451,40		123 027 251,78	
Securities	1 858 944 281,12		1 726 690 427,59	
Other currency claims	414 222 537,41	2 392 610 269,93	936 409 046,35	2 786 126 725,72
Total interest income		4 535 042 061,72		6 591 104 574,84
INTEREST EXPENSE				
Domestic (3)				
Call money deposits	- 34 779 421,65		- 31 677 071,64	
Certificates of deposit	- 371 424 185,27		- 34 433 756,20	
Term deposits	-		- 260 367 509,60	
Cash reserve deposits	-1 432 771 980,21		- 2 042 937 258,94	
Investment deposits	- 510 143 830,59		- 609 094 689,03	
Other liabilities	- 33 512 455,35	- 2 382 631 873,07	- 564 173 511,20	- 3 542 683 796,61
Net interest on forward transactions		156 922 446,41		- 246 231 166,02
Foreign				
IMF	- 60 619 512,63		- 67 044 210,89	
Other liabilities	- 1 394 407,66	- 62 013 920,29	- 32 110 473,02	- 99 154 683,91
Total interest expense		- 2 287 723 346,95		- 3 888 069 646,54
INTEREST MARGIN (4)		2 247 318 714,77		2 703 034 928,30
OTHER INCOME (5)				
Commissions and fees	8 456 830,27		5 944 761,50	
Other	82 237 696,51	90 694 526,78	51 701 889,20	57 646 650,70
OTHER EXPENSE (6)				
Salaries	- 158 254 512,64		- 152 348 781,98	
Social security costs	- 64 310 103,43		- 58 018 389,00	
Banknote printing	- 56 180 160,00		- 45 794 771,04	
Depreciation	- 90 401 712,80		- 71 101 913,95	
Other expense	- 214 087 957,14	- 583 234 446,01	- 79 122 854,59	- 406 386 710,56
COSTS DUE TO SAFEGUARDING THE STABILITY OF THE MONEY MARKET (7)				
Write-off on claims	- 1 900 000 000,00		-	
Write-off on share purchases	- 700 000 000,00	- 2 600 000 000,00	-	-
PROFIT BEFORE VALUATION ADJUSTMENTS AND RESERVES				
Valuation gain/loss on foreign securities (8)		- 845 221 204,46		2 354 294 868,44
Exchange rate gain/loss (9)		516 820 012,86		- 239 709 855,44
Increase in pension reserve (10)		2 761 015 199,35		- 1 308 245 860,34
Increase in reserves in accordance with § 30 of the Regulations (10)		- 300 000 000,00		- 400 000 000,00
		- 2 132 614 007,75		- 406 339 152,66
PROFIT FOR THE ACCOUNTING YEAR (11)		-		-

APPENDICES TO THE FINANCIAL STATEMENTS

Note issue, FIM

Right of note issue	33 662 472 720,05	37 306 670 036,86
Used right of note issue	15 574 996 360,11	14 893 667 766,83
Unused right of note issue	18 087 476 359,94	22 413 002 270,03

Markka/foreign currency forward contracts, FIM

(middle rate as at Dec. 31)		
Forward purchase contracts	247 980 000,00	6 123 290 000,00
Forward sales contracts	8 943 812 000,00	-

Foreign currency/foreign currency forward contracts, FIM

(middle rate of currency purchased as at Dec. 31)	4 339 533 736,51	3 050 319 156,00
---	------------------	------------------

Shares and other interests, nominal value, FIM

(Bank of Finland's holding in parentheses)

Scopulus Oy	150 000 000,00	(100 %)		
Sponda Oy	100 000 000,00	(100 %)		
Solidium Oy	40 000 000,00	(100 %)		
Setec Oy	40 000 000,00	(100 %)	15 000,00	(100 %)
Helsinki Money Market Center Ltd	35 300 000,00	(52 %)	19 500 000,00	(52 %)
Bank for International Settlements	48 274 970,80	(1,67 %)	42 365 297,30	(1,67 %)
Shares in housing companies	1 198 923,00		1 122 983,00	
Real estate shares	634 120,00		2 309 920,00	
Other shares and interests	1 012 523,50		882 965,00	
Total	416 420 537,30		66 216 165,30	

Guarantees, FIM

Temporary guarantee commitments in connection with

the transfer of risk exposures from Skopbank

Other guarantees	11 883 000 000,00		11 942 425,18
Total	10 890 562,82		11 942 425,18

Liability arising from pension commitments, million FIM

The Bank of Finland's pension liability	1 525	1 500
- of which covered out of reserves	1 150	850
Security Printing House pension liability		208
Total liabilities	1 525	1 708

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
	"	Lisankatu 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	"	Päivönkatu 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	payment instruments centre	Suometsäntie 1	1979	311 500
Inari	skiing lodge	Saariselkä	1968/1976	2 000

Helsinki, February 7, 1992

THE BOARD OF MANAGEMENT OF THE BANK OF FINLAND

Rolf Kullberg, Chairman

Ele Alenius

Harri Holkeri

Esko Ollila

Kalevi Sorsa

Sirkka Härmäläinen

NOTES TO THE FINANCIAL STATEMENTS

General accounting principles applied

The Bank of Finland's balance sheet follows a sectoral division, depicting 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 at December 31, 1991. 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.

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 62 280 kilos, with a market value of FIM 2 925 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 Finland'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 foreign securities issued or guaranteed by governments and bank deposits. 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 comprise the balance on the clearing account with Bulgaria. Term credit refers to a special interest-bearing account arrangement agreed with Vneshekonombank, the last instalment of which fell due for payment at the end of 1991. The repayment of this official credit was deferred in keeping with the agreement concluded in Paris on January 4, 1992 concerning the deferral of the former Soviet Union's official debts.

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

Tied foreign currency liabilities consist of the balance on the closing account under the clearing arrangement.

2 Claims on financial institutions

Call money credit comprise the debit balances on cheque accounts held by banking institutions entitled to central bank financing. At the end of the accounting year, there were no credits outstanding.

Certificates of deposits are market-priced securities issued by banks. They have been valued at acquisition cost. This item also includes interest of FIM 192 million accrued on certificates of deposit.

At the beginning of the accounting period, the Bank of Finland started to undertake transactions in securities with repurchase commitments or 'repos' alongside certificates of deposit in its money market operations.

Till-money credits, which are used to finance the banks' holdings of notes and coin, 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 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

Credits for financing domestic deliveries have been granted either in the form of loans or bonds, and are therefore entered separately on 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

A new item, 'loans for stabilizing the money market', has been entered under 'other assets'.

These loans are for financing the restructuring of Skopbank and the activities of the three holding companies set up for the management of Skopbank's risk exposures.

The agreements between Skopbank and the holding companies on the transfer of the largest risk exposures were signed on December 19 and 30, 1991. The amount of stabilization loans will grow considerably in early 1992, when the holding companies pay Skopbank for the assets and loans transferred to them.

Accrued items are mainly interest receivables. Other assets include FIM 123 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 (CDs)

Certificates of deposit issued by the Bank of Finland are valued at nominal value. The difference between the nominal value and the issue price has been entered under accrued items and is allocated to interest expense over the maturity of the instrument.

8 Liabilities to financial institutions

Call money deposits constitute the credit balances on cheque accounts held by banking institutions entitled to central bank financing. The rate of interest on call money deposits stood at 4 per cent at the end of the accounting year.

At the end of the year, cash reserve deposits amounted to 4 per cent of the cash reserve base. The interest rate on cash reserve deposits is equivalent to 3-month HELIBOR less 3 percentage points, not, however, less than 8 per cent.

9 Liabilities to the public sector

Counter-cyclical deposits were deposits collected by provincial tax boards from business enterprises. At the end of the year, there were no longer any counter-cyclical deposits at the Bank of Finland.

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.

11 Other liabilities

Accrued items consist mainly of accrued interest payable.

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, 1991	Dec. 31, 1990	Change
	FIM million		
Valuation account	1 240	1 240	-
Reserves in keeping with § 30 of the Regulations for the Bank	3 624	1 491	+2 133
Pension reserve	1 150	850	+300
Valuation differences	-299	-133	-166
Total	5 715	3 448	+2 267

The valuation account and the Bank's reserves have been augmented in order to safeguard the real value of the capital accounts and to cover risks involved in safeguarding the stability of the money market. In the financial statements for 1991, the reserves were increased by FIM 2 133 million for these purposes.

In the financial statements for 1991, FIM 300 million was transferred to the reserves to partially cover the Bank's pension liabilities. Thus the pension reserve grew to FIM 1 150 million. The Bank of Finland's pension liabilities total FIM 1 525 million; 75.4 per cent of this amount is covered by the reserve.

In keeping with the Regulations for the Bank, foreign securities included in the convertible foreign exchange reserves have been valued at nominal value in the balance sheet, if this is lower than acquisition cost and market value. 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 The capital of SITRA

SITRA (The 1967 Finnish Fund for Research and Development) became a public fund subordinate to the Ministry of Finance on January 1, 1991. At the same time as SITRA and the obligations associated with its financing were transferred to the central government, the basic capital of SITRA, which had previously been included in the Bank of Finland's balance sheet, was also transferred to the central government.

14 Capital accounts

The Bank's capital accounts were unchanged in 1991.

	Dec. 31, 1991	Dec. 31, 1990	Change
	FIM million		
Primary capital	5 000	5 000	-
Reserve fund	764	764	-
Net earnings for the accounting year	-	-	-
Total	5 764	5 764	-

Notes to the profit and loss account

Net earnings for the accounting year were reduced as a result of the costs entered in respect of the measures related to the restructuring of Skopbank. On the other hand, net earnings were increased as a result of valuation gains on foreign securities and exchange rate gains.

The Bank of Finland showed a profit of FIM 2 433 million before transfers to the reserves. The profit was appropriated in full to the Bank's reserves.

1 Domestic interest income

Domestic interest income decreased by FIM 1 663 million on the previous year. The fall was mainly due to the decline in interest income on certificates of deposit. Interest income on call money credits amounted to FIM 186 million, that on certificates of deposit to FIM 1 007 million and that on securities with repurchase commitments to FIM 623 million.

2 Foreign interest income

In 1991, foreign interest income amounted to FIM 2 393 million. This represented a decrease of FIM 393 million on the previous year.

3 Domestic interest expense

Interest expense on domestic liabilities fell by FIM 1 160 million. Interest paid on cash reserve deposits was FIM 610 million lower and interest paid on certificates of deposit FIM 336 million higher than in 1990.

4 Interest margin

The interest margin amounted to FIM 2 247 million.

5 Other income

Other income totalled FIM 91 million. The item includes FIM 38 million in rental income, FIM 25 million in sales proceeds from real estate and FIM 6 million in dividends from the Bank for International Settlements.

6 Other expense

Social security costs include FIM 51 million in pension payments.

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. Thus depreciation includes all acquisitions of fixed assets and other long-term expenses for the accounting year. Of depreciation, FIM 36 million was for building and renovation, FIM 31 million for machinery and equipment and FIM 16 million for an increase in the share capital of Helsinki Money Market Center Ltd.

At the beginning of 1991, the Security Printing House was converted into a limited company, Setec Oy. The Bank of Finland subscribed Setec Oy's entire share capital by assigning the printing works' entire means of production to Setec Oy as subscription in kind.

In connection with the change of corporate form, additional pension security corresponding to that in force under previous agreements was purchased for the staff employed by Setec Oy. This gave rise to a non-recurrent expense of FIM 133 million, which was entered under 'other expense'.

7 Costs due to safeguarding the stability of the money market

This item is linked to the restructuring of Skopbank and the transfer of its risk exposures to the holding companies owned by the Bank of Finland. Pursuant to the transfer agreements, the Bank of Finland waived its certificate of deposit claims of FIM 1 900 million on Skopbank.

In keeping with the depreciation practice applied by the Bank of Finland, the share capital of the holding companies, FIM 700 million, was entered as an expense in the profit and loss account.

8 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.

9 Exchange rate gain/loss

Exchange rate gain/loss includes all net changes in the value of claims (foreign exchange reserves) and liabilities resulting from exchange rate changes as well as net earnings from foreign exchange dealings. The Bank recorded an exchange rate gain of FIM 2 761 million. Exchange rate gain/loss is affected to a significant extent by the exchange rate of the US dollar, one of the major reserve currencies, and by the markka's rate against the ECU, which expresses the external value of the markka.

10 Changes in reserves

A sum of FIM 2 133 million was transferred to the reserves in accordance with § 30 of the Regulations for the Bank of Finland and a sum of FIM 300 million was transferred to the pension reserve.

11 Profit for the accounting year

The profit for the accounting year completely covered the appropriations to reserves.

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 1991 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.

In the course of the accounting year, the Bank of Finland has been obliged to take exceptional measures to safeguard the stability of the country's financial system.

The financial statements of the Bank of Finland 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 13, 1992

AUDITORS OF THE BANK OF FINLAND

Kalevi Mattila

Olavi Ala-Nissilä
Authorized Public Accountant

Paavo Lipponen

Arja Alho

Ben Zyskowicz

./ Kalervo Virtanen
Authorized Public Accountant

APPENDICES

MONETARY AND FOREIGN EXCHANGE POLICY MEASURES IN 1991

January

Exchange control

As from the beginning of 1991, the Bank of Finland rescinded all remaining exchange controls except the controls on the raising of loans abroad by private individuals and comparable corporate entities.

Money market operations

As from the beginning of 1991, repurchase agreements (repos) were introduced in money market dealings between the Bank of Finland and the banks. The new type of transaction complemented the previous system of central bank financing, which was largely based on outright CD deals.

Cash reserve requirement

The Bank of Finland lowered the banks' cash reserve requirement from 7.0 per cent to 6.7 per cent of the cash reserve base at end-December 1990.

Termination of clearing system

As from the beginning of 1991, the special provisions in the Bank of Finland's Foreign Exchange Regulations concerning payments and financing in trade with the Soviet Union were cancelled. Payments in respect of all future trade in goods and services between Finland and the Soviet Union were to be made in convertible currencies. The Bank of Finland quoted the selling rate for the clearing rouble for the last time on January 31, 1991.

February

Cash reserve requirement

The Bank of Finland lowered the banks' cash reserve requirement from 6.7 per cent to 6.2 per cent of the cash reserve base at end-January.

April

Counter-cyclical deposits

The Government decided that the counter-cyclical deposits collected in the period April 1, 1988 – March 31, 1989 were to be returned to enterprises on April 30. The deposits with the Bank of Finland totalled FIM 1.3 billion.

May

Cash reserve requirement

The Bank of Finland lowered the banks' cash reserve requirement from 6.2 per cent to 5.8 per cent of the cash reserve base at end-April.

June

Cash reserve requirement

The Bank of Finland lowered the banks' cash reserve requirement from 5.8 per cent to 5.5 per cent of the cash reserve base at end-May.

Finnish markka linked to the ECU

The Finnish markka was linked to the EC's official accounting and currency unit, the European Currency Unit (ECU), on June 7, 1991. This measure did not affect exchange rates. The new midpoint and the fluctuation margins were set so as to correspond with the fluctuation margins and midpoint applied to the old currency index.

The midpoint was defined on the basis of the exchange rates confirmed by the EC on June 6, 1991 at 3.15 p.m. (Finnish time). The new midpoint was 4.87580 (FIM/ECU) and the markka's rate against the ECU was allowed to fluctuate between FIM 4.72953 and FIM 5.02207.

July

Cash reserve requirement

The Bank of Finland lowered the banks' cash reserve requirement from 5.5 per cent to 5.2 per cent of the cash reserve base at end-June.

August

Cash reserve requirement

The Bank of Finland lowered the banks' cash reserve requirement from 5.2 per cent to 4.9 per cent of the cash reserve base at end-July.

September

Cash reserve requirement

The Bank of Finland lowered the banks' cash reserve requirement from 4.9 per cent to 4.6 per cent of the cash reserve base at end-August.

Skopbank

On September 19, the Bank of Finland decided to take control of Skopbank so as to restore confidence in the bank's activities. The central bank stated that it would assume responsibility for all Skopbank's domestic and foreign liabilities and would guarantee Skopbank's solvency and liquidity under all circumstances.

October

Foreign Exchange Regulations

As from October 1, the Bank of Finland rescinded all controls on the raising of loans abroad by private individuals and comparable corporate entities. This measure completed the abolition of exchange control in Finland.

Cash reserve requirement

The Bank of Finland lowered the banks' cash reserve requirement from 4.6 per cent to 4.3 per cent of the cash reserve base at end-September.

Call money credit rate

On October 23, the Bank of Finland temporarily ceased to apply the 30 per cent penalty rate on call money credit.

The Bank of Finland's borrowing powers

On October 25, the Parliamentary Supervisory Board decided to raise the Bank's foreign borrowing powers from USD 1.5 billion to USD 5 billion.

Cash reserve requirement

The Bank of Finland lowered the banks' cash reserve requirement from 4.3 per cent to 4.0 per cent of the cash reserve base at end-October.

Call money credit rate

On November 12, the Bank of Finland reinstated the 30 per cent penalty rate on call money credit.

On November 14, the Parliamentary Supervisory Board extended the authority of the Bank of Finland to set interest rates. The maximum call money credit was raised from 30 per cent to 50 per cent. On the same day, the call money credit rate was raised to 20 per cent and the penalty rate to 40 per cent. On November 21, the call money credit rate and the penalty rate were reinstated at 15 and 30 per cent, respectively.

Exchange rate policy

On November 14, the Bank of Finland decided to allow the markka's exchange rate to float temporarily. The next day, the Government decided, on the basis of a proposal by the Parliamentary Supervisory Board, to raise the limits of the markka's fluctuation range against the ECU by 14 per cent, implying a 12.3 per cent fall in the external value of the markka. The new midpoint was 5.55841 (FIM/ECU) and the limits were 5.39166 and 5.72516.

MAIN STATEMENTS ISSUED BY THE BANK OF FINLAND IN 1991

Statements concerning the development of financial markets

- Statement on the preliminary sub-report of the committee on the Companies Act concerning targeted share issues, January 14.
- Statement on the report of the committee on the Financial Activities Act, January 29.
- Statement on the memorandum of the working group on the Act concerning the implementation of the book entry system for securities, January 31.
- Statement on the report of the committee on the reform of accounting legislation, April 17.
- Statement on the report of the 1991 working group on housing financing, May 29.
- Statement on the memorandum of the working group on an Act on clearing and settlement, August 29.
- Statement on the report of the committee on foreign ownership, October 30.
- Statement on the proposal by the Ministry of the Environment on the establishment of a long-term bond market for housing financing, December 5.
- Statement on the preliminary report of the committee on the revision of consumer credit law, December 12.

Statements concerning the development of the supervision of the financial system

- Statement on the extension and clarification of the instructions proposed by the Banking Supervision Office concerning assets temporarily acquired by banks, November 15.
- Statement on the draft instructions by the Banking Supervision Office concerning the terms of documents used for markka loans of private individuals, December 18.

Other statements

- Statement given to the Chancellor of Justice concerning the clearing account system and the responsibilities of the central government and the Bank of Finland with respect to the system, March 22.
- Statement on the EFTA working programme for Eastern Europe for the period July 1, 1991 – December 31, 1992, April 4.
- Statement given to the Chancellor of Justice with regard to the Åland Slot Machine Association's plan to hold a collection, April 5.
- Statement given to Tampereen Aluesäästöpankki with regard to lending rate trials, April 25.
- Statement on the striking of a coin commemorating the 70th anniversary of Åland's autonomy, June 13.
- Statement on the proposal concerning the release of investment reserves, September 26.
- Statement given to the Ministry of Finance with regard to a question by Mr Ensio Laine, MP, concerning the restricting of capital exports, September 30.
- Statement on the OECD working programme for 1992, October 9.
- Statement given to the Ministry of Finance with regard to a question by Mr Kari Rajamäki, MP, concerning the ownership of Oy Tampella Ab, December 16.

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 1991, MILLION FIM
ASSETS

Gold and foreign currency claims	38 476	36 938	35 626
Gold	2 180	2 180	2 180
Special drawing rights	1 027	968	1 001
IMF reserve tranche	881	863	892
Convertible currencies	34 318	32 859	31 483
Tied currencies	70	69	70
Other foreign claims	2 476	2 500	2 514
Markka subscription to Finland's quota in the IMF	2 098	2 121	2 121
Term credit	378	379	393
Claims on financial institutions	12 847	14 344	18 361
Call money credits	—	6	762
Certificates of deposit	6 791	6 047	6 933
Securities with repurchase commitments	157	2 124	4 896
Term credits	—	—	—
Till-money credits	3 613	3 926	3 535
Bonds	2 047	2 002	1 997
Other claims on financial institutions	238	238	238
Claims on the public sector	1 339	1 354	1 388
Bonds	0	0	0
Total coinage	1 339	1 354	1 388
Claims on corporations	1 649	1 621	1 572
Financing of domestic deliveries (KTR)	1 200	1 171	1 130
Bonds:KTR credits	248	248	244
Bonds: Other	8	8	5
Other claims on corporations	193	193	192
Other assets	118	118	120
Loans for stabilizing the money market	—	—	—
Accrued items	—	—	—
Other assets	118	118	120
TOTAL	56 906	56 875	59 581

34 960	27 346	33 989	33 785	30 191	27 001	16 498	24 259	33 662
2 180	2 180	2 180	2 180	2 180	2 180	2 180	2 180	2 180
945	833	1 021	853	875	863	868	954	932
1 065	1 091	1 115	1 111	1 086	1 142	1 145	1 193	1 136
30 704	23 179	29 612	29 584	25 995	22 767	12 261	19 894	29 381
66	63	61	57	56	50	43	39	34
2 350	2 430	2 440	2 440	2 479	2 400	2 406	2 490	2 690
1 959	2 035	2 035	2 039	2 074	2 004	2 009	2 046	2 260
390	396	406	401	405	396	397	444	430
16 842	23 252	18 737	16 382	17 949	19 235	32 509	26 340	17 413
10	1 376	71	-	21	298	13 384	13	-
3 577	8 262	5 547	5 464	4 210	9 173	9 412	14 507	9 157
7 616	7 990	7 168	4 951	7 949	4 116	4 175	6 236	2 725
-	-	-	100	-	-	-	-	-
3 429	3 442	3 786	3 740	3 631	3 542	3 471	3 519	3 528
1 972	1 944	1 923	1 890	1 900	1 868	1 828	1 826	1 765
238	238	241	238	238	238	238	238	238
1 388	1 405	1 411	1 391	1 382	1 398	1 375	1 388	1 375
0	11	14	3	3	24	3	3	3
1 388	1 393	1 397	1 388	1 379	1 374	1 372	1 385	1 372
1 543	1 517	1 479	1 442	1 416	1 376	1 347	1 325	1 288
1 094	1 073	1 042	1 011	987	953	925	906	879
242	237	231	225	225	219	218	214	207
5	4	4	4	3	3	3	3	2
202	202	202	202	202	201	201	201	201
122	126	126	126	126	128	154	1 881	2 916
-	-	-	-	-	-	-	1 730	1 730
-	-	-	-	-	-	-	-	1 034
122	126	126	126	126	128	154	151	153
57 205	56 076	58 182	55 566	53 543	51 539	54 288	57 684	59 346

Table 1., cont.

LIABILITIES

Foreign currency liabilities	381	615	509
Convertible currencies	23	20	42
Tied currencies	358	595	467
Other foreign liabilities	2 838	2 865	2 890
IMF markka accounts	2 098	2 121	2 121
Allocations of special drawing rights	740	743	769
Notes and coin in circulation	13 397	13 170	13 412
Notes	12 268	12 042	12 266
Coin	1 129	1 128	1 146
Certificates of deposit	640	1 430	3 770
Liabilities to financial institutions	18 538	17 290	16 153
Call money deposits	1 300	1 607	412
Cash reserve deposits	17 215	15 682	15 740
Other liabilities to financial institutions	23	1	1
Liabilities to the public sector	1 321	1 323	1 320
Cheque accounts	1	0	—
Counter-cyclical deposits	1 317	1 317	1 317
Other liabilities to the public sector	3	6	3
Liabilities to corporations	9 531	9 427	9 171
Deposits for investment and ship purchase	9 531	9 427	9 171
Other liabilities to corporations	—	—	—
Other liabilities	100	101	100
Accrued items	—	—	—
Other liabilities	100	101	100
Valuation account and reserves	4 396	4 890	6 493
Capital accounts	5 764	5 764	5 764
Primary capital	5 000	5 000	5 000
Reserve fund	764	764	764
Net earnings	—	—	—
TOTAL	56 906	56 875	59 581

349	105	56	51	30	25	20	28	46
23	25	24	49	29	24	19	26	45
326	80	32	1	1	1	1	1	1
2736	2817	2834	2839	2880	2800	2810	2909	3102
1959	2035	2035	2039	2074	2004	2009	2046	2260
777	782	799	800	806	796	802	863	843
13244	14405	13973	13840	13614	13621	13500	13490	14528
12092	13248	12798	12659	12435	12443	12322	12299	13306
1152	1158	1174	1182	1178	1178	1178	1191	1222
3280	2380	2850	1090	370	610	4090	6650	8880
16336	14795	16228	15424	13811	11857	11049	11869	12567
451	94	2067	1877	1099	13	1	1593	2206
15845	14700	14161	13546	12707	11842	11047	10276	10361
41	1	0	1	5	1	0	0	0
3	4	4	4	3	3	3	3	3
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
3	4	4	4	3	3	3	3	3
8794	8282	8396	8280	8198	8177	8100	7661	7057
8794	8282	8396	8280	8198	8177	8097	7661	7057
-	-	-	-	-	-	3	-	-
98	100	106	98	99	98	99	98	1682
-	-	-	-	-	-	-	-	1584
98	100	106	98	99	98	99	98	98
6599	7424	7972	8176	8774	8582	8853	9211	5715
5764	5764	5764	5764	5764	5764	5764	5764	5764
5000	5000	5000	5000	5000	5000	5000	5000	5000
764	764	764	764	764	764	764	764	764
-	-	-	-	-	-	-	-	-
57205	56076	58182	55566	53543	51539	54288	57684	59346

Table 2.

CONVERTIBLE AND TIED FOREIGN EXCHANGE RESERVES, MILLION FIM

	1987	1988	1989	1990	1991
Gold	2 128	2 128	2 179	2 180	2 180
Special drawing rights	899	1 120	966	791	932
IMF reserve tranche	793	940	950	783	1 136
Convertible currencies					
Claims	23 634	24 492	18 822	33 478	29 381
Liabilities	-63	-119	-42	-27	-45
Convertible foreign exchange reserves	27 391	28 561	22 875	37 205	33 583
Tied currencies					
Claims	1 284	1 073	92	75	34
Liabilities	-72	-128	-656	-957	-1
Tied foreign exchange reserves	1 213	945	-563	-881	33

Table 3.

WEIGHTS OF THE BANK OF FINLAND'S CURRENCY INDEX

	USD	GBP	SEK	NOK	DKK	DEM	NLG	BEF	CHF	FRF	ITL	ATS	ESP	JPY	Total
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
6.3.1989	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
2.1.1990	8.4	13.6	19.1	3.8	4.4	19.1	4.8	3.1	2.4	6.5	5.0	1.6	1.9	6.3	100.0
28.3.1990	8.5	13.3	19.1	3.8	4.4	19.1	4.8	3.2	2.4	6.6	5.0	1.6	1.9	6.3	100.0
6.7.1990	8.8	13.1	19.0	3.8	4.4	19.0	4.8	3.1	2.4	6.7	5.1	1.6	2.0	6.2	100.0
8.10.1990	8.7	12.9	19.0	4.0	4.5	19.1	4.8	3.1	2.4	6.8	5.1	1.6	2.0	6.0	100.0
2.1.1991	8.8	12.3	18.9	3.8	4.5	19.2	5.0	3.3	2.4	6.9	5.2	1.7	2.1	5.9	100.0
21.3.1991	8.6	12.6	18.7	4.0	4.5	19.4	5.0	3.3	2.4	6.9	5.2	1.6	2.1	5.7	100.0
13.6.1991	8.2	12.6	18.7	4.1	4.5	19.6	5.1	3.3	2.4	6.8	5.2	1.6	2.2	5.7	100.0
27.9.1991	8.5	12.5	18.5	4.2	4.5	19.7	5.1	3.3	2.4	6.6	5.1	1.7	2.2	5.7	100.0

Table 4.

MARKKA'S EXCHANGE RATE AGAINST THE ECU AND THE BANK OF FINLAND'S CURRENCY INDEX^{1,2}

	Markka's exchange rate against the ECU	The Bank of Finland's trade-weighted currency index, 1982 = 100
1987	5.08273	103.3
1988	4.96108	102.0
1989	4.73670	98.4
1990	4.85697	97.3
1991	5.00580	101.4
1991		
January	4.94224	98.4
February	4.97232	98.8
March	4.91308	98.7
April	4.93628	98.4
May	4.84342	98.7
June	4.86741	99.6
July	4.92615	100.8
August	4.98131	101.6
September	4.99324	101.5
October	4.98879	101.5
November	5.27668	106.8
December	5.52866	111.5

¹ Prior to the pegging of the markka to the ECU on June 7, 1991, the external value of the markka was expressed in terms of a currency index.

² Daily averages

Table 5.

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

	Call money deposits	Call money credits	Call money deposits, net
1987	703	481	222
1988	621	128	492
1989	416	369	47
1990	806	132	674
1991	881	985	-103
1991			
January	828	44	784
February	441	172	269
March	538	523	15
April	911	31	881
May	1 253	204	1 049
June	2 593	669	1 924
July	1 206	46	1 160
August	834	28	806
September	388	252	136
October	367	5 357	-4 990
November	400	4 457	-4 057
December	815	31	784

¹ Daily 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	9 ¼	7 ½	10 ½
1.6.1982	8 ½	6	11
1.7.1983	9 ½	7	12
1.2.1985	9	6 ½	11 ½
1.1.1986	8 ½	6	11
1.3.1986	8	5 ½	10 ½
19.5.1986	7	4 ½	9 ½
16.5.1988	8	5 ½	10 ½
1.1.1989	7 ½	5	10
1.11.1989	8 ½	6	11

¹ The 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	
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	19.0	4.0
16.6.1989	15.0	.	4.0
6.11.1989	15.0	30.0	4.0
14.11.1991	20.0	40.0	4.0
21.11.1991	15.0	30.0	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	10.20		
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
1990	13.63	13.82	13.99	14.16	14.28	14.39	13.7	13.5
1991	13.64	13.25	13.07	12.69	12.57	12.53	12.3	12.2
January	14.55	14.34	14.21	13.96	13.83	13.78	13.2	13.2
February	14.48	14.24	14.02	13.66	13.45	13.36	13.0	13.0
March	15.66	15.09	14.72	14.10	13.77	13.64	13.0	12.9
April	14.69	14.29	13.97	13.52	13.35	13.28	12.7	12.5
May	12.25	12.07	11.98	11.94	11.95	11.95	11.9	11.8
June	11.29	11.25	11.25	11.41	11.50	11.56	11.5	11.5
July	10.09	10.30	10.69	11.19	11.38	11.52	11.8	11.7
August	10.62	10.86	11.09	11.28	11.39	11.50	11.7	11.7
September	14.80	13.75	13.20	12.45	12.15	12.07	11.7	11.7
October	15.95	14.78	14.38	13.01	12.59	12.46	11.8	11.7
November	16.75	15.33	14.66	13.25	12.92	12.77	12.4	12.3
December	12.55	12.69	12.78	12.71	12.66	12.63	12.7	12.7

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
1987	+ 1 263	- 23 658	+ 17 520	- 4 875
1988	+ 13 840	- 19 190	+ 16 850	+ 11 500
1989	+ 131 110	- 3 855	- 99 245	+ 28 010
1990	+ 163 326	- 26 379	- 160 797	- 23 850
1991	+ 109 568	- 30 380	- 81 969	- 2 781
January	+ 3 230	- 640	- 5 320	- 2 730
February	+ 3 810	- 1 760	- 2 480	- 430
March	+ 9 600	- 1 790	- 4 360	+ 3 450
April	+ 13 060	- 1 200	- 8 990	+ 2 870
May	+ 12 670	- 1 180	- 7 950	+ 3 540
June	+ 9 603	- 2 980	- 9 493	- 2 870
July	+ 6 865	- 160	- 7 366	- 661
August	+ 11 430	- 280	- 7 380	+ 3 770
September	+ 11 670	- 680	- 10 360	+ 630
October	+ 15 350	- 6 710	- 8 990	- 350
November	+ 9 850	- 6 340	- 7 020	- 3 510
December	+ 2 430	- 6 660	- 2 260	- 6 490

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

Table 10.

THE BANK OF FINLAND'S SPOT TRANSACTIONS ¹, 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
1990	+ 13 460	- 3 540	+ 9 920
1991	+ 35 120	- 69 940	- 34 820
January			
January	-	- 2 370	- 2 370
February	-	- 4 590	- 4 590
March	-	- 7 590	- 7 590
April	-	- 160	- 160
May	+ 240	- 11 280	- 11 040
June	+ 10 500	- 3 180	+ 7 320
July	+ 2 480	- 4 160	- 1 680
August	-	- 6 280	- 6 280
September	-	- 3 370	- 3 370
October	+ 730	- 19 910	- 19 180
November	+ 14 330	- 6 880	+ 7 450
December	+ 6 840	- 170	+ 6 670

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

Table 11.

THE BANK OF FINLAND'S FORWARD TRANSACTIONS ^{1,2}, 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
1990	-	- 200	- 29 900	+ 23 950	- 6 150
1991	+ 15 060	- 6 280	- 7 560	+ 13 710	+ 14 930
January					
January	-	-	- 950	+ 1 910	+ 960
February	-	-	- 1 790	+ 3 430	+ 1 640
March	-	-	- 1 710	+ 2 740	+ 1 030
April	-	-	- 740	+ 1 830	+ 1 090
May	+ 3 620	-	- 1 120	+ 1 240	+ 3 740
June	+ 620	- 130	-	+ 460	+ 950
July	+ 680	- 680	- 570	+ 700	+ 130
August	+ 1 260	- 1 410	- 420	+ 500	- 70
September	+ 1 010	- 1 010	-	+ 690	+ 690
October	+ 6 520	- 1 430	-	+ 210	+ 5 300
November	+ 1 350	- 1 450	-	-	- 100
December	-	- 170	- 260	-	- 430

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

¹ According to value date until end-1989 and trade date thereafter.

² Incl. outright deals; these do not have an immediate impact on liquidity.

Table 12.

FOREIGN EXCHANGE RATES: SPOT SELLING RATES IN 1986-1991, FIM

Currency	1986			1987			1988		
	Max.	Av.	Min.	Max.	Av.	Min.	Max.	Av.	Min.
1 USD, New York	5.467	5.078	4.802	4.793	4.404	3.954	4.528	4.191	3.930
1 CAD, Montreal	3.914	3.659	3.484	3.501	3.325	3.044	3.727	3.412	3.030
1 GBP, London	7.916	7.459	6.927	7.425	7.213	6.911	7.668	7.466	7.228
1 IEP, Dublin	7.090	6.816	6.593	6.730	6.556	6.464	6.589	6.397	6.279
1 SEK, Stockholm	0.7261	0.7138	0.7045	0.7067	0.6952	0.6789	0.6941	0.6848	0.6752
1 NOK, Oslo	0.7290	0.6882	0.6501	0.6666	0.6547	0.6332	0.6591	0.6444	0.6284
1 DKK, Copenhagen	0.6572	0.6290	0.6005	0.6665	0.6444	0.6258	0.6443	0.6235	0.6072
1 ISK, Reykjavik	0.1323	0.1259	0.1213	0.1216	0.1163	0.1127	0.1156	0.1006	0.0924
1 DEM, Frankfurt a.M.	2.4814	2.3454	2.2055	2.5267	2.4514	2.4048	2.4845	2.3895	2.3441
1 NLG, Amsterdam	2.1953	2.0789	1.9585	2.2401	2.1755	2.1375	2.2073	2.1233	2.0768
1 BEF, Brussels	0.11930	0.11399	0.10780	0.12190	0.11806	0.11590	0.11870	0.11420	0.11190
1 CHF, Zurich	3.0081	2.8349	2.6025	3.0956	2.9563	2.8862	3.0641	2.8700	2.7688
1 FRF, Paris	0.7589	0.7355	0.7010	0.7583	0.7345	0.7239	0.7354	0.7060	0.6882
1 ITL, Rome	0.00359	0.00343	0.00322	0.00356	0.00341	0.00333	0.00337	0.00324	0.00318
1 ATS, Vienna	0.3546	0.3339	0.3140	0.3593	0.3488	0.3420	0.3529	0.3401	0.3338
1 PTE, Lisbon	0.0355	0.0343	0.0331	0.0332	0.0315	0.0304	0.0303	0.0294	0.0286
1 ESP, Madrid	0.0373	0.0364	0.0353	0.0377	0.0358	0.0348	0.0369	0.0361	0.0356
1 GRD, Athens	..	..	..	..	..	..	..	..	..
1 JPY, Tokyo	0.03258	0.03028	0.02675	0.03248	0.03050	0.02945	0.03392	0.03273	0.03126
1 AUD, Melbourne	..	..	..	3.259	3.106	2.810	3.703	3.309	2.851
1 SUR, Moscow, clearing	7.367	7.228	7.040	7.186	6.965	6.792	7.132	6.891	6.734
1 special drawing right (SDR)	6.10906	5.94432	5.79542	5.86330	5.68010	5.54077	5.79563	5.61826	5.50705
1 ECU, commercial	..	..	..	5.198	5.075	4.995	5.116	4.954	4.868

Currency	1989			1990			1991		
	Max.	Av.	Min.	Max.	Av.	Min.	Max.	Av.	Min.
1 USD, New York	4.560	4.295	4.020	4.097	3.831	3.540	4.563	4.053	3.547
1 CAD, Montreal	3.806	3.632	3.476	3.533	3.287	3.044	4.040	3.543	3.069
1 GBP, London	7.605	7.051	6.524	7.221	6.827	6.452	8.094	7.159	6.884
1 IEP, Dublin	6.322	6.104	5.958	6.474	6.347	6.221	7.476	6.540	6.234
1 SEK, Stockholm	0.6839	0.6673	0.6530	0.6565	0.6479	0.6389	0.7643	0.6713	0.6450
1 NOK, Oslo	0.6428	0.6234	0.6148	0.6194	0.6130	0.6099	0.7127	0.6264	0.5986
1 DKK, Copenhagen	0.6158	0.5886	0.5716	0.6313	0.6197	0.6081	0.7197	0.6345	0.6089
1 ISK, Reykjavik	0.0923	0.0782	0.0686	0.0694	0.0681	0.0671	0.0803	0.0710	0.0677
1 DEM, Frankfurt a.M.	2.3969	2.2879	2.2252	2.4332	2.3721	2.3393	2.7955	2.4464	2.3287
1 NLG, Amsterdam	2.1219	2.0281	1.9745	2.1569	2.1053	2.0750	2.4811	2.1709	2.0665
1 BEF, Brussels	0.1141	0.1092	0.1064	0.1176	0.1148	0.1124	0.1357	0.1189	0.1132
1 CHF, Zurich	2.7746	2.6306	2.4843	2.9010	2.7635	2.6025	3.1518	2.8300	2.7467
1 FRF, Paris	0.7029	0.6757	0.6587	0.7165	0.7054	0.6942	0.8192	0.7208	0.6893
1 ITL, Rome	0.00322	0.00315	0.00307	0.00326	0.00321	0.00316	0.00372	0.00328	0.00316
1 ATS, Vienna	0.3411	0.3254	0.3163	0.3462	0.3374	0.3326	0.3974	0.3479	0.3311
1 PTE, Lisbon	0.0287	0.0276	0.0270	0.0277	0.0271	0.0268	0.0324	0.0283	0.0269
1 ESP, Madrid	0.0377	0.0364	0.0346	0.0387	0.0377	0.0364	0.0445	0.0392	0.0378
1 GRD, Athens ¹	..	..	..	..	..	..	0.026	0.023	0.023
1 JPY, Tokyo	0.03402	0.03122	0.02831	0.02879	0.02654	0.02473	0.03515	0.03016	0.02684
1 AUD, Melbourne	3.879	3.423	3.190	3.232	3.011	2.722	3.605	3.176	2.783
1 SUR, Moscow, clearing	6.988	6.817	6.656	6.706	6.553	6.426	..	..	..
1 special drawing right (SDR)	5.68080	5.49375	5.30888	5.34498	5.18345	5.07250	6.29360	5.53082	5.13880
1 ECU, commercial	4.879	4.731	4.625	4.974	4.875	4.789	5.708	5.019	4.787
¹ For seven months									

Table 13.

FOREIGN EXCHANGE RATES: MONTHLY SPOT SELLING RATES IN 1991, FIM

Currency	January			February			March		
	Max.	Av.	Min.	Max.	Av.	Min.	Max.	Av.	Min.
1 USD, New York	3.728	3.650	3.601	3.679	3.597	3.547	4.059	3.835	3.698
1 CAD, Montreal	3.250	3.162	3.109	3.200	3.119	3.069	3.505	3.319	3.204
1 GBP, London	7.114	7.064	7.018	7.102	7.082	7.071	7.070	7.035	6.984
1 IEP, Dublin	6.483	6.457	6.432	6.502	6.478	6.449	6.468	6.398	6.315
1 SEK, Stockholm	0.6509	0.6481	0.6450	0.6520	0.6508	0.6500	0.6567	0.6535	0.6513
1 NOK, Oslo	0.6218	0.6188	0.6160	0.6245	0.6224	0.6192	0.6203	0.6152	0.6087
1 DKK, Copenhagen	0.6317	0.6281	0.6247	0.6344	0.6324	0.6296	0.6306	0.6248	0.6161
1 ISK, Reykjavik	0.0688	0.0685	0.0677	0.0688	0.0686	0.0685	0.0705	0.0691	0.0686
1 DEM, Frankfurt a.M.	2.4290	2.4171	2.4032	2.4415	2.4324	2.4174	2.4226	2.3990	2.3619
1 NLG, Amsterdam	2.1552	2.1440	2.1319	2.1666	2.1583	2.1444	2.1490	2.1284	2.0953
1 BEF, Brussels	0.11800	0.11737	0.11680	0.11860	0.11821	0.11740	0.11770	0.11651	0.11480
1 CHF, Zurich	2.8942	2.8693	2.8522	2.8746	2.8434	2.8025	2.7920	2.7770	2.7632
1 FRF, Paris	0.7168	0.7131	0.7101	0.7184	0.7162	0.7127	0.7129	0.7063	0.6981
1 ITL, Rome	0.00325	0.00323	0.00321	0.00326	0.00325	0.00325	0.00326	0.00323	0.00319
1 ATS, Vienna	0.3455	0.3438	0.3420	0.3474	0.3461	0.3441	0.3445	0.3412	0.3363
1 PTE, Lisbon	0.0277	0.0274	0.0271	0.0280	0.0279	0.0278	0.0280	0.0278	0.0272
1 ESP, Madrid	0.0389	0.0385	0.0381	0.0391	0.0390	0.0389	0.0390	0.0387	0.0382
1 GRD, Athens	..	..	..	..	..	..	..	..	..
1 JPY, Tokyo	0.02757	0.02729	0.02684	0.02788	0.02761	0.02719	0.02892	0.02802	0.02737
1 AUD, Melbourne	2.938	2.863	2.811	2.905	2.840	2.783	3.160	2.980	2.883
1 special drawing right (SDR)	5.22879	5.18185	5.13880	5.21192	5.17020	5.14627	5.43178	5.29584	5.21178
1 ECU, commercial	5.006	4.981	4.960	5.019	5.002	4.980	4.972	4.927	4.864

Currency	April			May			June		
	Max.	Av.	Min.	Max.	Av.	Min.	Max.	Av.	Min.
1 USD, New York	4.111	4.001	3.928	4.113	4.047	3.995	4.308	4.228	4.138
1 CAD, Montreal	3.572	3.473	3.412	3.598	3.525	3.475	3.774	3.699	3.621
1 GBP, London	7.085	7.007	6.884	7.068	6.992	6.905	7.048	6.983	6.929
1 IEP, Dublin	6.333	6.292	6.234	6.396	6.320	6.235	6.384	6.355	6.330
1 SEK, Stockholm	0.6563	0.6547	0.6533	0.6670	0.6587	0.6529	0.6651	0.6592	0.6572
1 NOK, Oslo	0.6089	0.6051	0.5995	0.6133	0.6061	0.5986	0.6117	0.6088	0.6072
1 DKK, Copenhagen	0.6175	0.6141	0.6099	0.6235	0.6164	0.6089	0.6197	0.6163	0.6147
1 ISK, Reykjavik	0.0697	0.0692	0.0689	0.0708	0.0694	0.0683	0.0709	0.0702	0.0694
1 DEM, Frankfurt a.M.	2.3685	2.3506	2.3294	2.3899	2.3578	2.3287	2.3846	2.3737	2.3661
1 NLG, Amsterdam	2.1008	2.0858	2.0676	2.1216	2.0922	2.0665	2.1170	2.1072	2.1005
1 BEF, Brussels	0.11510	0.11431	0.11330	0.11620	0.11469	0.11320	0.11590	0.11539	0.11510
1 CHF, Zurich	2.7979	2.7796	2.7570	2.8050	2.7824	2.7554	2.7892	2.7662	2.7467
1 FRF, Paris	0.7012	0.6969	0.6918	0.7053	0.6969	0.6893	0.7036	0.7013	0.6997
1 ITL, Rome	0.00320	0.00318	0.00317	0.00323	0.00319	0.00316	0.00322	0.00321	0.00320
1 ATS, Vienna	0.3366	0.3342	0.3311	0.3400	0.3354	0.3311	0.3387	0.3376	0.3365
1 PTE, Lisbon	0.0274	0.0273	0.0271	0.0276	0.0273	0.0270	0.0276	0.0273	0.0269
1 ESP, Madrid	0.0385	0.0382	0.0379	0.0387	0.0382	0.0378	0.0386	0.0382	0.0378
1 GRD, Athens	..	..	..	..	..	..	0.0230	0.0230	0.0230
1 JPY, Tokyo	0.02974	0.02921	0.02872	0.02982	0.02932	0.02899	0.03109	0.03024	0.02956
1 AUD, Melbourne	3.224	3.138	3.083	3.230	3.151	3.090	3.314	3.231	3.131
1 special drawing right (SDR)	5.45747	5.39487	5.35235	5.50415	5.42606	5.36720	5.65119	5.56841	5.49971
1 ECU, commercial	4.873	4.844	4.798	4.904	4.847	4.787	4.898	4.879	4.865

Table 13., cont.

Currency	July			August			September		
	Max.	Av.	Min.	Max.	Av.	Min.	Max.	Av.	Min.
1 USD, New York	4.388	4.298	4.208	4.422	4.245	4.127	4.255	4.143	4.057
1 CAD, Montreal	3.838	3.745	3.655	3.865	3.710	3.604	3.731	3.646	3.588
1 GBP, London	7.134	7.087	6.982	7.221	7.148	7.082	7.191	7.148	7.098
1 IEP, Dublin	6.463	6.434	6.366	6.543	6.509	6.454	6.545	6.530	6.513
1 SEK, Stockholm	0.6673	0.6647	0.6584	0.6741	0.6705	0.6653	0.6730	0.6711	0.6683
1 NOK, Oslo	0.6200	0.6169	0.6105	0.6265	0.6232	0.6183	0.6256	0.6244	0.6222
1 DKK, Copenhagen	0.6250	0.6217	0.6155	0.6334	0.6292	0.6232	0.6340	0.6323	0.6302
1 ISK, Reykjavik	0.0719	0.0711	0.0704	0.0725	0.0715	0.0702	0.0718	0.0713	0.0709
1 DEM, Frankfurt a.M.	2.4157	2.4030	2.3766	2.4432	2.4323	2.4117	2.4465	2.4405	2.4337
1 NLG, Amsterdam	2.1430	2.1332	2.1100	2.1680	2.1582	2.1392	2.1711	2.1656	2.1591
1 BEF, Brussels	0.11740	0.11679	0.11550	0.11880	0.11820	0.11710	0.11880	0.11853	0.11810
1 CHF, Zurich	2.7893	2.7733	2.7540	2.8443	2.7906	2.7635	2.8094	2.7910	2.7758
1 FRF, Paris	0.7121	0.7095	0.7031	0.7209	0.7172	0.7109	0.7205	0.7186	0.7158
1 ITL, Rome	0.00325	0.00324	0.00321	0.00329	0.00327	0.00324	0.00328	0.00328	0.00326
1 ATS, Vienna	0.3435	0.3417	0.3380	0.3474	0.3460	0.3429	0.3479	0.3471	0.3462
1 PTE, Lisbon	0.0284	0.0281	0.0273	0.0288	0.0286	0.0283	0.0288	0.0287	0.0285
1 ESP, Madrid	0.0388	0.0385	0.0380	0.0394	0.0391	0.0386	0.0393	0.0390	0.0387
1 GRD, Athens	0.0230	0.0230	0.0230	0.0230	0.0230	0.0230	0.0230	0.0230	0.0230
1 JPY, Tokyo	0.03168	0.03117	0.03051	0.03207	0.03103	0.03029	0.03129	0.03080	0.03051
1 AUD, Melbourne	3.386	3.331	3.282	3.471	3.338	3.252	3.354	3.304	3.264
1 special drawing right (SDR)	5.74441	5.66884	5.60423	5.81522	5.65829	5.55727	5.67314	5.59644	5.53903
1 ECU, commercial	4.961	4.938	4.884	5.018	4.992	4.952	5.014	5.002	4.982

Currency	October			November			December		
	Max.	Av.	Min.	Max.	Av.	Min.	Max.	Av.	Min.
1 USD, New York	4.178	4.127	4.052	4.563	4.202	3.995	4.378	4.266	4.141
1 CAD, Montreal	3.719	3.661	3.585	4.040	3.722	3.538	3.867	3.732	3.576
1 GBP, London	7.137	7.113	7.054	8.094	7.475	7.093	7.819	7.774	7.737
1 IEP, Dublin	6.565	6.534	6.487	7.476	6.920	6.522	7.311	7.249	7.228
1 SEK, Stockholm	0.6738	0.6706	0.6659	0.7643	0.7091	0.6690	0.7502	0.7440	0.7407
1 NOK, Oslo	0.6267	0.6243	0.6195	0.7127	0.6600	0.6227	0.6957	0.6912	0.6890
1 DKK, Copenhagen	0.6361	0.6323	0.6265	0.7197	0.6670	0.6291	0.7034	0.6989	0.6969
1 ISK, Reykjavik	0.0717	0.0713	0.0708	0.0803	0.0743	0.0705	0.0775	0.0771	0.0767
1 DEM, Frankfurt a.M.	2.4516	2.4413	2.4235	2.7955	2.5893	2.4383	2.7422	2.7192	2.7095
1 NLG, Amsterdam	2.1756	2.1667	2.1511	2.4811	2.2979	2.1640	2.4320	2.4131	2.4055
1 BEF, Brussels	0.11920	0.11863	0.11780	0.13570	0.12575	0.11840	0.13310	0.13206	0.13160
1 CHF, Zurich	2.8036	2.7910	2.7765	3.1518	2.9249	2.7635	3.0861	3.0708	3.0584
1 FRF, Paris	0.7205	0.7177	0.7121	0.8192	0.7593	0.7147	0.8036	0.7973	0.7950
1 ITL, Rome	0.00329	0.00328	0.00326	0.00372	0.00345	0.00326	0.00363	0.00361	0.00360
1 ATS, Vienna	0.3487	0.3472	0.3448	0.3974	0.3681	0.3466	0.3901	0.3865	0.3852
1 PTE, Lisbon	0.0287	0.0286	0.0284	0.0324	0.0299	0.0286	0.0311	0.0309	0.0306
1 ESP, Madrid	0.0390	0.0388	0.0386	0.0445	0.0410	0.0388	0.0432	0.0427	0.0425
1 GRD, Athens	0.0230	0.0230	0.0230	0.0260	0.0241	0.0230	0.0250	0.0250	0.0250
1 JPY, Tokyo	0.03215	0.03158	0.03057	0.03515	0.03243	0.03077	0.03385	0.03329	0.03276
1 AUD, Melbourne	3.347	3.291	3.215	3.605	3.324	3.150	3.456	3.317	3.167
1 special drawing right (SDR)	5.65707	5.61024	5.53625	6.29360	5.80952	5.50425	6.06521	5.98926	5.90602
1 ECU, commercial	5.021	5.000	4.962	5.708	5.285	4.989	5.563	5.530	5.518

Table 14.

MANUFACTURE AND DESTRUCTION OF NOTES AND COIN, MILLION FIM

Notes printed					
1 000 markkaa	—	—	—	—	9 000.0
500 "	5 360.5	—	—	—	4 500.0
100 "	—	4 440.0	2 800.0	6 380.0	3 107.0
50 "	1 142.0	—	1 745.0	588.5	925.0
10 "	841.0	700.4	780.0	859.0	607.5
Total	7 343.5	5 140.4	5 325.0	7 827.5	18 139.5
In millions	117.7	114.4	140.9	161.5	128.3
Notes destroyed					
1 000 markkaa	9.7	101.5	231.0	296.0	250.0
500 "	566.9	2 364.5	1 190.5	475.0	325.0
100 "	2 505.0	2 930.0	2 261.9	1 945.0	1 681.9
50 "	177.5	1 370.0	1 269.0	832.5	637.8
10 "	506.0	822.3	1 071.9	613.5	517.5
5 "	0.5	0.3	1.3	0.3	0.3
1 "	0.0	0.1	0.0	0.0	0.0
Total	3 765.7	7 588.7	6 025.6	4 162.3	3 412.4
In millions	80.5	143.9	158.1	98.8	35.7
Coin minted					
100 markkaa	.	.	20.0	25.0	25.0
50 "	.	.	.	.	.
25 "	.	.	.	.	.
10 "	.	.	.	.	.
5 "	15.0	15.2	41.4	59.1	49.6
1 "	10.0	25.0	34.5	55.8	15.0
50 penniä	2.5	7.4	5.3	37.9	40.2
20 "	4.2	2.8	7.4	2.6	—
10 "	1.0	2.3	2.2	20.2	35.0
5 "	1.0	1.7	0.1	0.1	—
Total	33.8	54.4	111.0	200.7	164.8
Coin destroyed					
100 markkaa	.	.	—	—	3.1
50 "	1.3	1.1	1.1	—	1.8
25 "	—	0.0	0.0	—	0.1
10 "	—	—	0.1	—	0.1
5 "	0.1	0.1	0.1	0.1	0.2
1 "	0.2	0.1	0.2	0.2	13.3
50 penniä	0.0	0.0	0.0	9.4	41.0
20 "	0.0	0.0	0.0	3.3	30.0
10 "	0.0	0.0	0.0	2.2	10.7
5 "	0.0	0.0	0.0	0.9	5.6
1 "	0.2	0.1	0.1	0.0	0.1
Total	1.9	1.5	1.5	16.2	106.0

Table 15.

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

Notes					
1 000 markkaa	1 727.3	2 451.5	3 016.3	3 473.8	3 240.6
500 "	2 467.5	2 539.0	2 701.1	2 785.2	2 600.9
100 "	3 686.9	4 276.2	4 893.4	5 599.6	5 921.2
50 "	736.2	807.6	899.9	950.6	939.2
10 "	470.7	498.0	533.9	561.1	575.4
5 "	21.5	21.2	21.0	20.9	20.8
1 "	7.2	7.4	7.4	7.6	7.7
Total	9 117.3	10 600.8	12 073.0	13 398.8	13 305.9
Issued before 1963	9.4	9.4	9.4	9.4	9.4
Coin					
100 markkaa	.	.	19.5	44.0	65.9
50 "	74.3	74.3	74.2	74.0	72.8
25 "	19.9	19.9	19.9	19.9	19.9
10 "	38.3	38.4	38.4	38.4	38.3
5 "	249.8	284.9	324.1	352.8	374.2
1 "	295.8	320.9	354.3	374.0	386.7
50 penniä	69.6	75.8	83.3	102.1	112.5
20 "	59.9	66.7	71.9	70.5	45.6
10 "	31.3	33.6	35.8	45.7	76.9
5 "	25.9	26.5	27.4	26.8	22.1
1 "	7.9	7.8	7.7	7.7	7.6
Total	872.8	948.7	1 056.3	1 155.9	1 222.5
Issued before 1963	15.7	15.7	15.7	15.7	15.7

Table 16.

INTERNAL CLEARING OPERATIONS ¹

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
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
1990	266 476	818 594	.	.	266 476	818 594 ³
1991	336 899	1 436 690	.	.	336 899	1 436 690

¹ Bank bills, cheques, bank and postal giro transfers 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.

³ The banking sector dispute from January 18 to March 4, 1990 reduced clearing activity.

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Kuopio	Pekka Konttinen
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