BANK OF FINLAND
74TH YEAR BOOK

REPORT ON ACTIVITIES IN 1993

The figures in the Year Book
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Vammalan Kirjapaino Oy
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In 1993, developments in the international environment were unfavourable for the Finnish economy. Demand contracted in Finland's major export markets, and the international financial markets were unsettled until the end of the summer. Despite a gradual decline, the level of interest rates in Europe remained high in view of the prevailing economic conditions. Calm was not restored to the money and foreign exchange markets until the EC countries agreed on a substantial widening of the fluctuation bands in the exchange rate mechanism (ERM) of the European Monetary System in August.

Although the fluctuation bands were widened, exchange rates within the ERM remained fairly stable for the rest of the year. The gradual decline in interest rates continued in the autumn. Notwithstanding the problems arising from the recession and the turmoil in the currency markets, the EU countries endeavoured to proceed with the integration process according to the agreed timetable. In addition to and instead of various national measures, the EU countries sought to develop a common approach to redirecting economic policies in an expansionary direction. After having been ratified by all member states, the Maastricht treaty entered into force on 1 November 1993, and the European Community became the European Union. The European Monetary Institute, whose establishment is required by the Maastricht treaty and whose aim is the further integration of member states' monetary policies, commenced operations at the beginning of 1994.

A positive sign as regards the development of the Finnish economy is that economic activity in the EU area seems to have recovered – albeit only modestly – with the onset of the new year. The easing of inflation is helping to underpin stability in the money and currency markets and is paving the way for a further lowering of interest rates in Europe.

Despite weak demand in the international markets, the volume of Finnish exports grew exceptionally fast in 1993 thanks to good competitiveness, exceeding the previous cyclical peak by a clear margin. A particularly positive feature of this growth was that the regional distribution of exports continued to diversify. Besides the weakening of the markka, the adjustment of production costs in exporting industries has been an important contributory factor to the good competitiveness of exports: pay rises and rises in the prices of other domestic inputs have been very moderate and, at the same time, productivity has improved markedly.

Largely due to the favourable export performance but also to modest imports, which were curbed by the contraction in domestic demand, Finland's external balance improved rapidly in the course of last year. In the latter half of the year, the current account shifted into a modest surplus, which meant that Finland's heavy foreign debt started to decrease.

Balance was restored to the current account as a result of adjustment by the business sector and households. By contrast, the financial deficits and debt of the central and local government sectors continued to grow rapidly. Household saving remained at a fairly high level as companies continued to reduce their investment. Companies consolidated their balance sheets by cutting back investment projects, repaying their debts and improving the efficiency of their production. In export companies these measures were implemented at the same time as output was growing and profitability improving. By contrast, companies operating in the domestic market were forced to scale down their operations and shed labour because of weakening domestic demand.

A key challenge facing economic policy in the near future will be to bring the slump in the domestic market to an end within the limits provided by the growth of exports and external indebtedness. Monetary policy has aimed at reducing the level of interest rates without prompting reactions in exchange rates that would be difficult to control.

The experiences gained in 1993 of the reactions of currency markets demonstrated that even though floating exchange rates provide monetary policy with room for manoeuvre in principle, in practice it is only possible to advance cautiously, particularly when the economy is burdened with a large foreign debt. In the course of 1993, the exchange rate risks associated with the large foreign debt led at times to self-reinforcing developments, which were difficult to manage. The fall in market interest rates gave rise to pressures on the markka to depreciate, which, in turn, increased repayments of foreign currency loans. The depreciation of the markka exacerbated the position of domestic-oriented companies with large foreign debts, led to bankruptcies and increased unemployment, which again tended to increase expectations of a further weakening of the markka.

To counter expectations of the markka's depreciation and to make a lowering of interest rates possible, the Bank of Finland announced in February that its aim was to stabilize inflation at about two per cent, measured by the indicator of the underlying rate of inflation (ie the consumer price index from which the effects of government measures have been removed), by 1995.

During the past year, the conduct of monetary policy was also hampered by the fact that expectations concerning government finances, pay settlements and economic developments both internationally and at home were readily reflected in the external value of the markka.

Towards the end of the year, conditions in the Finnish financial markets stabilized appreciably. Interest rates fell throughout the year, but in early 1993 the fall was attributable to heavy capital imports by the central government. In the last months of the year, the restoration of balance to the current account, strengthening optimism about an improvement in economic conditions, the savings targets set for central government finances and increased confidence in the fact that inflation would remain low were reflected in pressures on the markka to appreciate and on long-term interest rates to fall. These positive factors made it possible to ease monetary policy to the extent that short-term market rates fell clearly below German rates at the end of 1993. However, the differential between Finnish and German long-term market rates, which can be considered an indicator of market confidence in the country's anti-inflationary policy, was still in the region of one percentage point. The Bank of Finland's base rate, which is used as the reference rate for tax-exempt deposits and old loans – and thus mainly affects income distribution – was progressively lowered in line with movements in market rates by a total of four percentage points to 5 1/2 per cent in the course of 1993.

The main structural problems of the economy – widespread unemployment and the large public sector deficit – cannot be resolved by monetary and counter-cyclical policy measures. The public sector deficit is being swelled by the interest expenses arising from the growing foreign debt. Over the next few years, a firm commitment to the consolidation of public finances will be a key factor in safeguarding the room for manoeuvre in monetary policy and in policies aimed at creating export capacity in the private sector and stimulating domestic demand without resort to foreign debt.

The new year offers some hope of an improvement in the economy. The fall in market rates and increased confidence in the strengthening of the markka will support output and incomes and at the same time improve bank profitability through lower financing costs and reduced credit losses. Higher capacity utilization, due to the growth of exports, and the revival of demand in the international markets will contribute to a gradual increase in investment. However, there is no reason to expect a strong recovery in economic growth. The contraction in households' purchasing power, uncertainty about jobs and continuing high debt levels will keep the propensity to save high and the propensity to invest moderate.

To what extent there will be room in this situation for monetary policy to support economic recovery will depend partly on confidence in efforts to improve the central government's financial position and partly on developments in wages and other domestic costs. As long as inflation expectations remain subdued, stronger confidence in the economy in general can be channelled to the lowering of interest rates. It is of utmost importance under these conditions to avoid overheating in the export sector and soaring costs. This is best achieved through the appreciation of the markka.

Economic Developments

Growth of foreign debt came to a halt

In 1993, the external balance of the Finnish economy improved rapidly. In the final months of the year, the current account swung into a surplus, thus bringing an end to the growth of the country's foreign debt. Thanks to an increase in exports, total output recovered slightly in the last months of the year; however, total output for the year as a whole contracted by 2.6 per cent from the previous year. From its peak in late 1989 and early 1990, the level of total output has declined by almost 15 per cent (Chart 1). There was a further sharp fall in the number of employed, and the unemployment rate rose to 19 per cent in December. In 1993, central government expenditure exceeded central government revenue by an even larger margin than the year before because of mass unemployment, erosion of the tax base and soaring interest payments.

Consumer prices rose by a mere 1.5 per cent in the course of 1993. The level of earnings was only marginally higher on average than in the previous year, and wage moderation was maintained in the new pay agreements reached near the end of the year. The early months of the year were characterized by uncertainty about exchange rate developments but interest rates gradually declined to the level prevailing in Europe, and the markka's exchange rate also began to strengthen towards the end of the year.

Recession in industrial countries continued

The economic performance of industrial countries was marked by sharply divergent trends. The recession deepened further in continental Europe and Japan, and output declined in many countries important for Finnish exports. By contrast, in North America and the United Kingdom, where the recession had started earlier than in other industrial countries, there was a clear recovery in economic activity. In the last months of the year, the economies of continental Europe also embarked on a modest upturn. Total output in the OECD countries on average increased by only 1 per cent in 1993, and output in the European OECD countries decreased slightly. However, thanks to strong growth in the rapidly industrializing countries of the Far East, the volume of world trade increased by some 2 per cent.

As a consequence of slow growth, international inflation remained subdued. In the course of the year, consumer prices rose by less than 3 per cent in the OECD countries. Prices of primary commodities and oil fell markedly inspite of efforts to cut back production.

In Europe, interest rates gradually declined in the course of 1993. In Germany, monetary policy was eased only slowly because, unlike in other countries, prices rose rapidly in Germany in the first half of the year. Interest rates remained high in view of

Chart 1.
GROSS DOMESTIC PRODUCT

Volume index, 1982 = 100

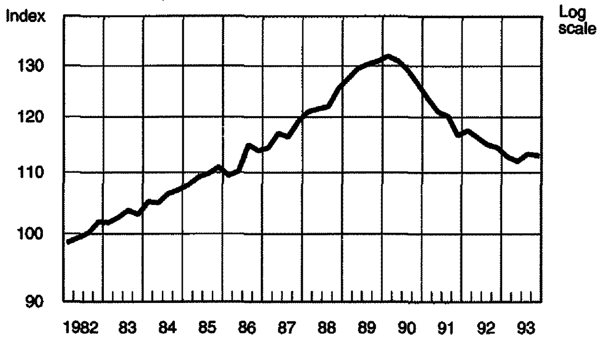
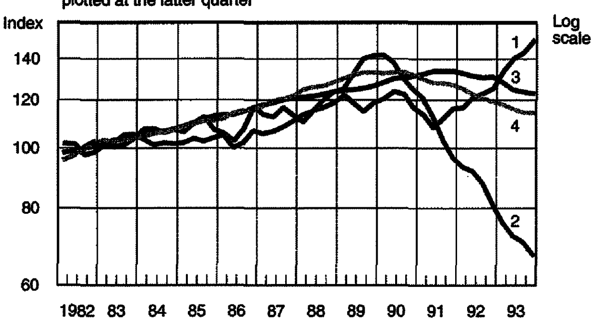


Chart 2.
KEY DEMAND COMPONENTS

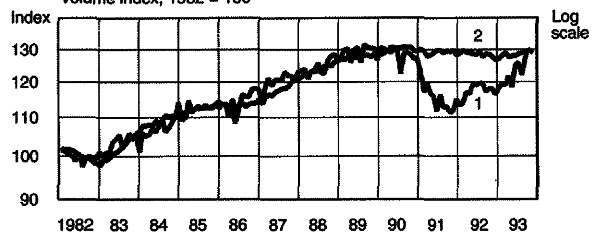
Volume index, 1982 = 100, two-quarter moving average, plotted at the latter quarter



1. Exports
2. Fixed investment
3. Public consumption
4. Private consumption

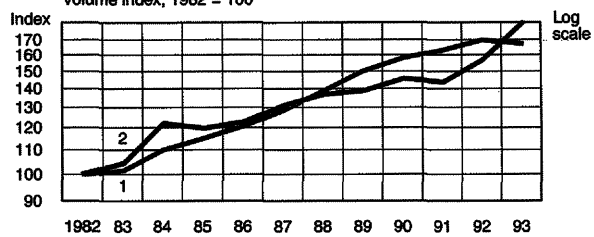
Chart 3.
DOMESTIC AND INTERNATIONAL ECONOMIC DEVELOPMENTS

Industrial production
Volume index, 1982 = 100



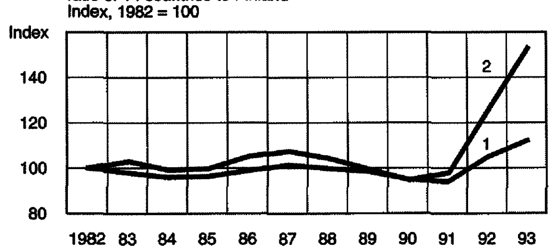
1. Finland
2. OECD countries

Finnish export markets and exports to western markets
Volume index, 1982 = 100



1. Finnish export markets
2. Finnish exports to western markets

Relative unit labour costs in manufacturing, ratio of 14 countries to Finland
Index, 1982 = 100



1. In national currencies
2. In common currency

the economic conditions prevailing in many countries. In the early months of the year, the foreign exchange markets within the European Community's Exchange Rate Mechanism (ERM) remained stable but in the spring the currencies of Ireland, Spain and Portugal came under renewed pressure and were devalued. As economic activity in the economies of Western Europe continued to weaken and the necessary conditions for a rapid fall in German interest rates did not appear to exist, the other ERM currencies again came under intense speculative attack. At the beginning of August, the ERM countries agreed to widen the fluctuation bands of their currencies to 15 per cent on either side of existing central rates.

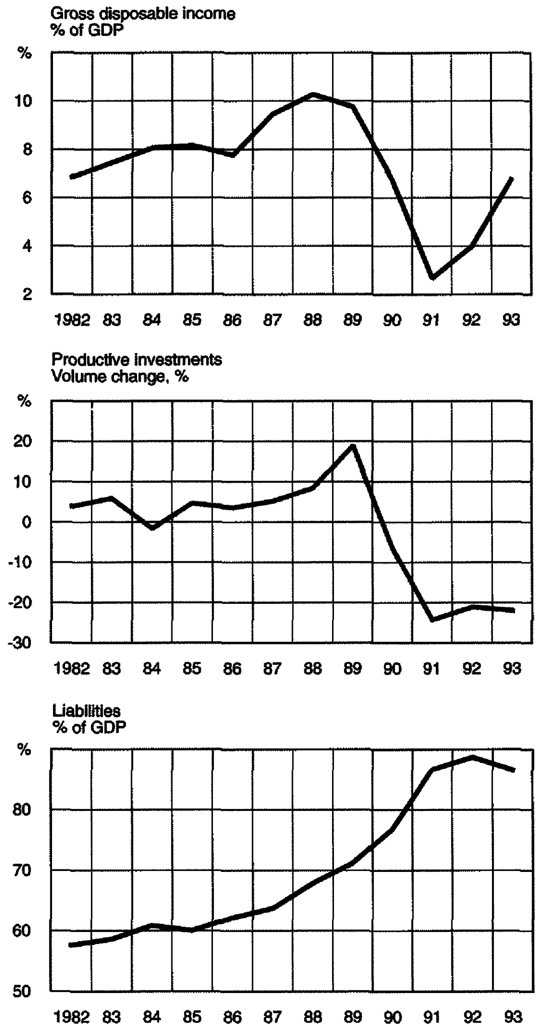
Though the fluctuation bands were broadened, exchange rate movements were minor and fears of competitive devaluations receded. After August, monetary policy was gradually eased in Germany in line along with the slowdown in inflation, and interest rates in other countries followed suit. However, real interest rates remained high.

As a result of the deepening of the recession, there were large government budget deficits in most countries. Since the developments in central government finances seemed unsustainable, many countries started to cut government spending inspite of the recession. Japan was the only country able to pursue an expansionary fiscal policy, although the European Union – in addition to national measures implemented in member states – attempted to find a common economic prescription that would support economic growth in the area.

Exports grew and diversified into new markets

The volume of exports of goods and services grew by 17 per cent (Chart 2) and the value by about one-quarter in 1993. Demand weakened in many of Finland's major export markets and thus the volume of goods exports to the EC and EFTA areas grew only slightly. But owing to exceptionally good price competitiveness in manufacturing, which improved further in 1993, companies were able to redirect supply to expanding markets in, for example, the Far East and North and South America (Chart 3). Exports to the Baltic states and Russia also grew substantially. Altogether, the volume of merchandise exports to markets outside Western Europe increased by over 50 per cent.

Chart 4.
BUSINESS SECTOR



Inspite of the weakening of the markka, the rise in markka-denominated export prices was modest. Foreign currency-denominated prices of forest-based products fell markedly because of the depressed economic conditions in major markets and continuing global excess capacity in the sector. Increases in export prices in the basic metals and chemical industries were also subdued. However, developments in export prices of metal and engineering products were better than those of bulk products. Import prices fell by less than export prices. However, the deterioration in the terms of trade came to a halt in the second half of the year.

Companies' and households' indebtedness restricted domestic demand

The volume of business fixed investment decreased by one-fifth. Inspite of the rapid growth of exports most companies still had ample spare capacity. This, together with high debt levels, dampened companies' willingness to invest (Chart 4). Companies strengthened their capital structure and reduced their currency risks by paying back large amounts of their outstanding foreign currency loans.

The debt burden of manufacturing companies eased in 1993. By contrast, the financial position of companies operating in the domestic market deteriorated further, partly because the markka value of their foreign currency loans increased as the markka depreciated. In the course of the year, bankruptcy threatened increasingly larger companies and indeed some major companies went bankrupt or underwent debt restructuring. However, the total number of bankruptcies stopped rising.

Households' real disposable income fell by 4 per cent even though tax refunds for the previous two years were paid in 1993. The volume of private consumption declined by 5 per cent. Whereas households had responded to earlier falls in income by reducing their spending mainly on consumer durables, in 1993 they also cut back their spending on services

Domestic economic performance

	average				
Exports	2.2	1.4	–6.6	10.0	17.0
Private investment	–1.1	–6.2	–23.1	–19.4	–19.9
Private consumption	2.0	0.0	–3.6	–5.1	–4.7
Total domestic demand	1.8	–0.4	–8.3	–6.8	–7.2
– of which: public	2.5	5.1	2.1	–2.5	–6.4
Imports	3.2	–0.6	–11.7	1.1	0.1
GDP	1.5	0.0	–7.1	–3.8	–2.6
Earnings	7.7	9.2	6.3	1.9	0.8
Export unit value index	3.3	–1.2	0.3	6.3	5.0
Import unit value index	2.3	1.7	2.3	10.5	12.5
Terms of trade	1.2	–2.8	–1.9	–3.8	–6.7
Consumer prices	5.3	6.2	4.3	2.9	2.2
– December to December	..	5.0	4.1	2.3	1.5
Unemployment rate, %	5.8	3.4	7.6	13.1	17.9
			per cent of GDP		
Gross investment	24.2	27.5	22.4	17.7	14.6
Gross saving	21.3	23.0	15.1	12.0	12.1
Current account = financial balance	–3.0	–5.1	–5.4	–4.6	–1.2
–business sector	–4.1	–7.4	–5.8	–3.1	1.9
–financial institutions	0.3	0.8	0.5	–0.2	0.6
–households	–1.5	–4.2	1.0	3.4	4.1
–public sector	2.4	5.7	–1.2	–4.7	–7.9

and daily consumer goods. Households continued to save a substantial portion of their income; nonetheless, the amount of debt in relation to income remained practically unchanged (Chart 5).

Activity in the housing market picked up substantially but focused mainly on old dwellings. The fall in house prices, which had continued for almost three years, came to a halt in early 1993. Though prices started to rise modestly in the autumn, the price level remained low in comparison with construction costs. Besides poor profitability, housing construction was curbed by the fact that banks and construction companies still had unsold dwellings in their hands. Consequently, new housing production fell substantially. Repairs and renovation work picked up in the course of the year, partly because of government subsidies. The increase in the number of building permits granted in the autumn pointed to a gradual recovery in housing production.

Total output declined and employment weakened

The volume of output increased by more than 10 per cent in those industries producing mainly for export, eg the forest industries and the electrical and electronic products industries. However, since domestic demand remained weak, output in total industry increased by 5 per cent.

The effect of the overheating at the end of the 1980s continued to be reflected in the output of the construction and service sectors in the form of a further contraction. Since these sectors account for a large share of total output, GDP declined by 2.6 per cent. Towards the end of the year, industrial output regained the level of the previous cyclical peak but output in the rest of the private sector and in the public sector was almost one-fifth below the high point reached in 1990.

In 1992–1993, imports contracted more slowly than total output, despite the weakening of the markka. Some large import deliveries, which had been ordered earlier, took place in early 1993; in addition, the growth of industrial production boosted demand for imports. The prolonged recession has further eroded the domestic production base and this seems to have limited the scope for replacing imports by domestic production, even though improved competitiveness has created the necessary conditions for it.

Chart 5.
HOUSEHOLD SECTOR
(incl. non-profit institutions)

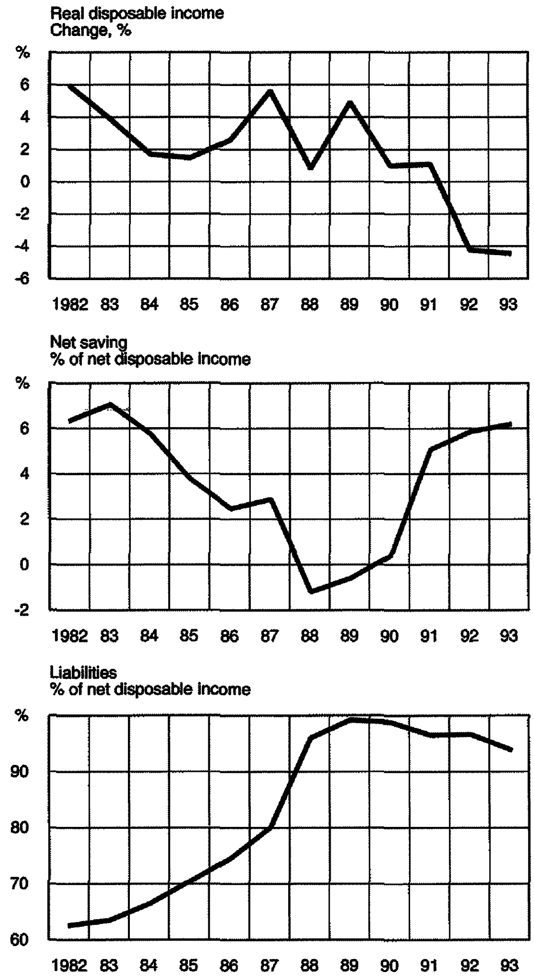
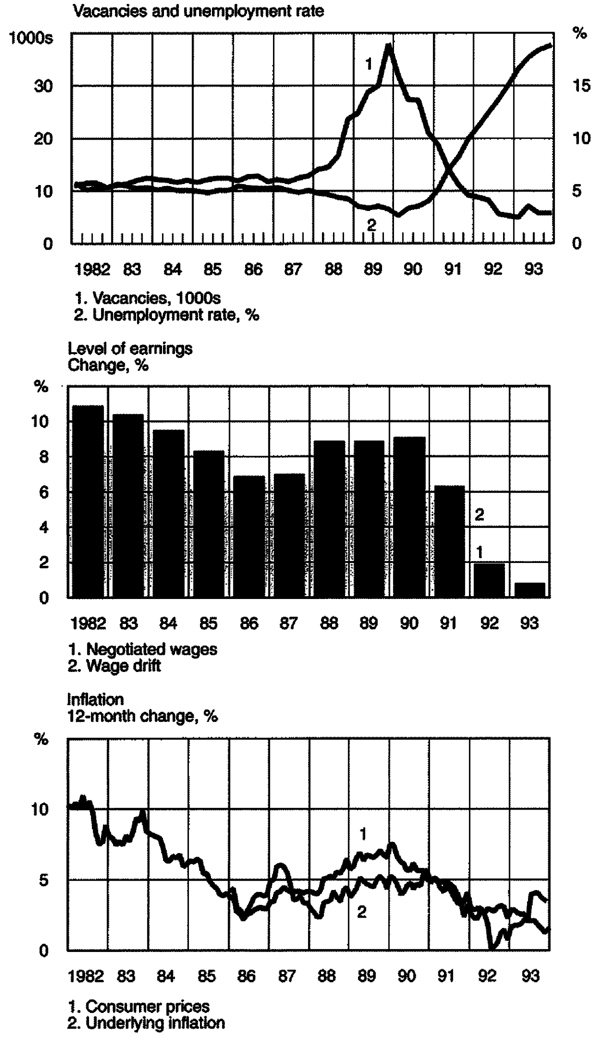


Chart 6.
LABOUR MARKET, WAGES AND PRICES



Some 450 000 jobs have been lost in Finland since 1990. In 1993, the number of employed decreased in all sectors of the economy, including the public sector. The number of employed in manufacturing fell by 7 per cent on average in the course of the year but started to rise in the metal and engineering industries in the final months of the year.

The average unemployment rate for 1993 was almost 18 per cent (Chart 6). At the end of the year, some 470 000 persons were unemployed. With the protraction of the recession, the share of long-term unemployed in this figure has increased. At the end of the year, one in every four unemployed had been out of work for longer than one year and the average length of the unemployment period exceeded 34 weeks. Of the total number of unemployed, 86 000 were under 25 years of age and the unemployment rate for this age group was 36 per cent. Labour supply has declined by over 70 000 during the recession, and particularly the share of young people in the labour force has decreased.

Balance quickly restored to the current account

As a result of the rapid growth of exports, the trade surplus almost doubled from the previous year, and amounted to more than FIM 30 billion (Chart 7). Earnings on the services account increased by about one-fifth, while expenditure remained broadly unchanged. The improvement in the services account was mainly due to a decrease in foreign travel. Interest payments on foreign debt continued to rise because of the growth of foreign debt and the depreciation of the markka. Net interest payments amounted to 6 per cent of GDP. The current account still posted a deficit of almost FIM 6 billion for the year as a whole, some FIM 17 billion less than in the previous year. The narrowing in the deficit was due to a rapid increase in the financial surplus of the private sector; by contrast, the financial deficit of the public sector continued to grow.

Inflation slowed

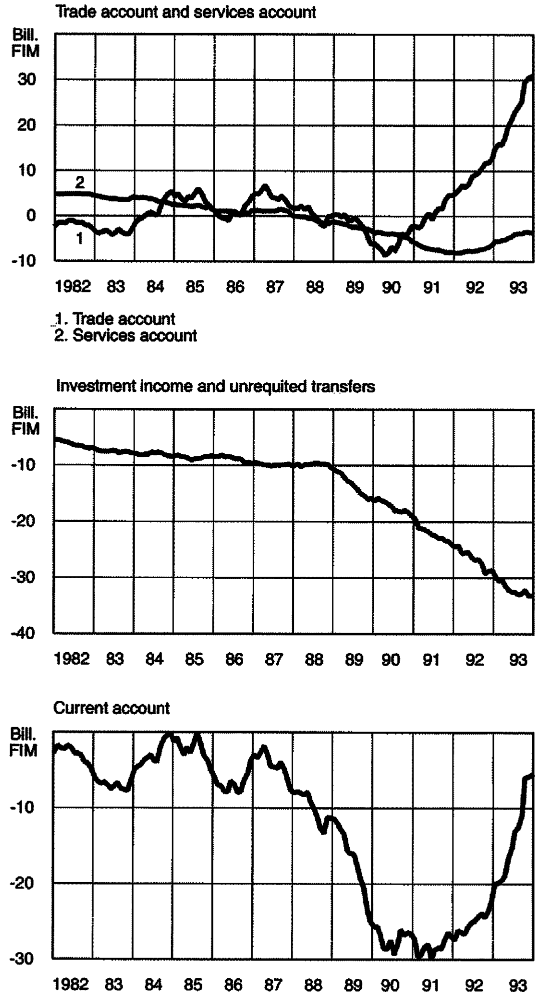
Though the rise in import prices resulting from the weakening of the markka came to a halt in the initial months of the year import prices were still 9 per cent higher on average than in the previous year. Reflecting moderate domestic cost developments, consumer prices rose by 2.2 per cent on average from the previous year (Chart 6). The fall in interest rates slowed the rise in the consumer price index by just over one percentage point and the fall in house prices by 0.3 percentage point. Measures taken in the public sector contributed about half a percentage point to the rise in the consumer price index.

In February 1993, the Bank of Finland announced its aim to stabilize the underlying rate of inflation at about 2 per cent by 1995. In November 1993, the underlying rate of inflation was 3.6 per cent.

In autumn 1992, pay agreements were reached without increases in contractual wages for the second consecutive year. As wage drift was also minimal, the level of wage and salary earnings was only just under 1 per cent higher than a year earlier. Wages rose slightly more in the public sector than in the private sector. Hourly labour costs were boosted by a rise in indirect labour costs but unit labour costs fell by over 3 per cent as a result of increased productivity.

In autumn 1993, the wage negotiations for 1994 ended up by being conducted at union level. In manufacturing, the labour market organizations agreed on average pay increases of 3 per cent for the coming year. In the service sectors and the public sector, negotiated wage rates will remain unchanged but labour costs will decrease slightly because of cuts in other employment benefits. Decisions on details concerning working conditions were transferred to the local level and eg working time arrangements were made more flexible.

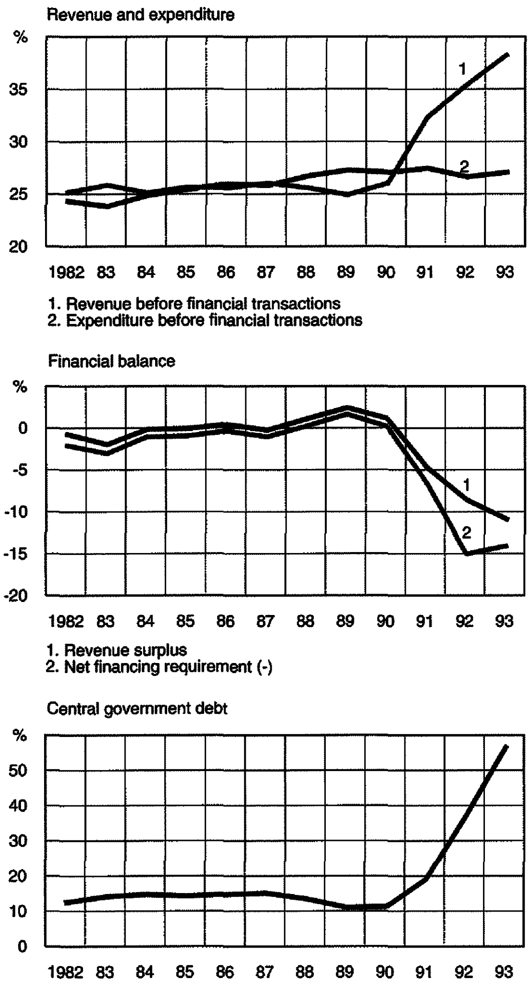
Chart 7.
EXTERNAL BALANCE
(12-month moving totals, plotted at the last month)



Central government's budget deficit grew

In fiscal policy the prime aim continued to be to curb government expenditure. When setting the budgetary ceilings in February 1992, the Government had decided that government expenditure should return to its 1991 level by 1995. In March 1993, the Government confirmed its commitment to these ceilings in the budgets for 1994 and 1995. However, the budgetary ceiling was revised so that capital support to the banking sector and the resulting interest payments, which constitute a major additional expenditure item, were excluded from it. The Government

Chart 8.
CENTRAL GOVERNMENT FINANCES
(% of GDP)



also set the target of halting the rise in the level of indebtedness so that the ratio of debt to GDP would not exceed 70 per cent in 1997.

In the budget proposal submitted to Parliament in September 1993, the Government aimed at reducing the volume of expenditure subject to the budgetary ceiling by about 4 per cent in 1994. At the same time, the Government proposed the tightening of taxation mainly by raising households' taxes and social insurance contributions. However, at the beginning of December, the Government decided to alleviate some of these decisions in order to boost investment and employment. It was considered that the improvement in the external balance had increased the room for manoeuvre in fiscal policy. At the same time, the Government confirmed its commitment to the long-term objective of restoring balance to central government finances.

The depressed state of the economy hampered the curbing of central government expenditure in 1993. The volume of expenditure exceeded the ceiling set for budgetary expenditure in 1993 because spending on unemployment benefits and interest payments on central government debt turned out to be greater than projected. Since, moreover, tax revenue also declined, the central government revenue deficit rose to 11 per cent of GDP (Chart 8). However, the net financing requirement did not grow any further because the level of capital support to the banking sector decreased from the previous year. At the end of the year, central government debt stood at FIM 255 billion, ie 54 per cent of GDP; foreign currency-denominated debt amounted to just over FIM 160 billion.

Monetary Policy

The markka continued to float – monetary policy was eased

Monetary policy was eased in the course of 1993, although developments in both the domestic and international environment hampered the implementation of policy from time to time. The aim of the Bank of Finland was to lower interest rates without jeopardizing the favourable developments in inflation and precipitating a further depreciation of the markka. Following the abandonment of the markka's ECU peg on 8 September 1992, the markka continued to float in 1993.

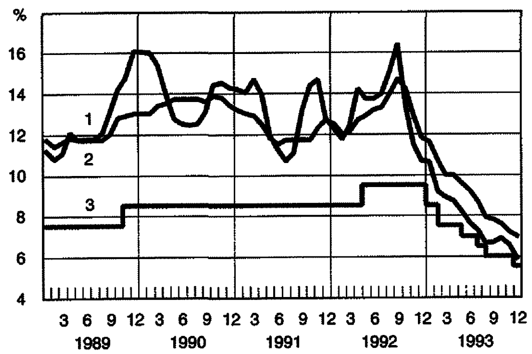
The foreign exchange market remained nervous throughout the year. Market reactions showed that monetary easing could only proceed with caution because of the country's large foreign debt. Particularly in the early part of the year, the rapid narrowing of the differential between domestic and foreign interest rates exerted downward pressure on the markka. This accelerated the repayment of foreign currency loans and worsened the position of domestic sector firms with foreign currency debts. Bankruptcies and unemployment increased, adding to expectations of a further depreciation of the markka.

In order to dispel expectations concerning inflation and exchange rates, the Bank of Finland announced an explicit inflation target in February. The aim was to stabilize the inflation rate at about 2 per cent by 1995. The 'indicator of underlying inflation', which is based on changes in the consumer price index, excluding mainly the effects of housing-related capital costs and indirect taxes and subsidies, was chosen as the appropriate measure of inflation. In the course of the year, the Bank of Finland emphasized the importance of low inflation as a precondition for lower interest rates and better economic performance.

International economic and political events were reflected in the Finnish money and foreign exchange markets throughout the year. The exchange rates of the markka and the Swedish krona moved in a broadly parallel fashion. In the summer, the Bank of Finland intervened in the foreign exchange market to alleviate pressure on the markka caused by a weakening of the krona. The difficulties experienced in the European Exchange Rate Mechanism (ERM) and, in the autumn, the political troubles in Russia generated downward pressure on the markka. In contrast, the autumn wage negotiations, the discussions on the government budget for 1994 and the splitting up of the Savings Bank of Finland did not lead to disturbances in the money and foreign exchange markets. In the latter stages of the year the markets calmed and confidence in the markka increased.

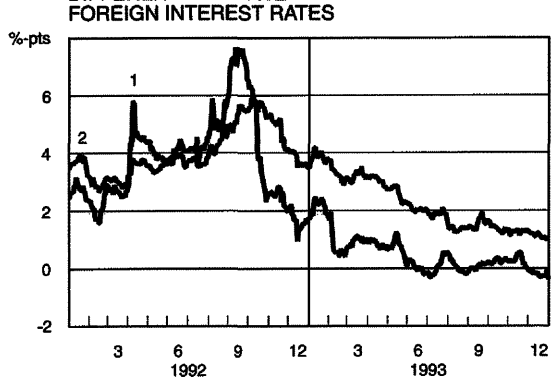
Interest rates declined substantially during the year (Chart 9). The Bank of Finland lowered the

Chart 9.
KEY INTEREST RATES



1. 3-month HELIBOR
2. 5-year market rate
3. Bank of Finland's base rate

Chart 10.
DIFFERENTIAL BETWEEN DOMESTIC AND FOREIGN INTEREST RATES



1. 3-month HELIBOR less 3-month euro-DEM rate
2. 5-year Finnish government bond yield less 5-year German government bond yield

base rate in steps from 9.5 per cent to 5.5 per cent. Money market interest rates fell by 10 percentage points from their level prior to the floating of the markka and stood at about 5–6 per cent at the end of the year. Short-term money market rates dropped below corresponding German rates in the final months of the year. Similarly, long-term reference interest rates declined by some 8 percentage points but still remained about one percentage point above corresponding German rates. One of the factors contributing to the fall in interest rates was the decline in European rates. This was reinforced by the central government's capital imports in the early part of the year and its efforts to promote fiscal consolidation as well as by moderate cost developments in the domestic sector.

The Bank of Finland specified its inflation target

Following the floating of the markka, the exchange rate ceased to function as an intermediate target of monetary policy. In evaluating the effects of monetary policy, the Bank of Finland looks at several indicators, including credit expansion, the monetary aggregates and developments in interest rates and exchange rates. Movements in asset prices are also monitored. A commitment to explicit, publicly announced intermediate targets proved to be impossible. In order to stabilize the foreign exchange market and suppress long-term inflation expectations, it was judged necessary to make the objective and operating rules for monetary policy more specific.

In February 1993, in connection with its proposal to lower the base rate, the Bank of Finland's Board of Management specified the guidelines which would serve as a basis for formulating monetary policy over the next few years. The stabilization of the inflation rate at about 2 per cent by 1995 was set as the target and the indicator of underlying inflation was selected as the appropriate measure of inflation. The indicator is calculated on the basis of changes in the consumer price index adjusted to exclude the effects of indirect taxes, subsidies, housing prices and mortgage interest payments. In the course of the year, the Bank of Finland repeatedly emphasized the importance of the inflation target. Expectations that inflation will remain low are a key condition for lower interest rates and economic recovery. The Bank of Finland also emphasized that under a floating exchange rate regime the adjustment of Finland's international competitiveness back towards its long-term trend should take place through an appreciation of the markka rather than through an acceleration of domestic inflation.

Rapid fall in interest rates increased instability in the early part of the year

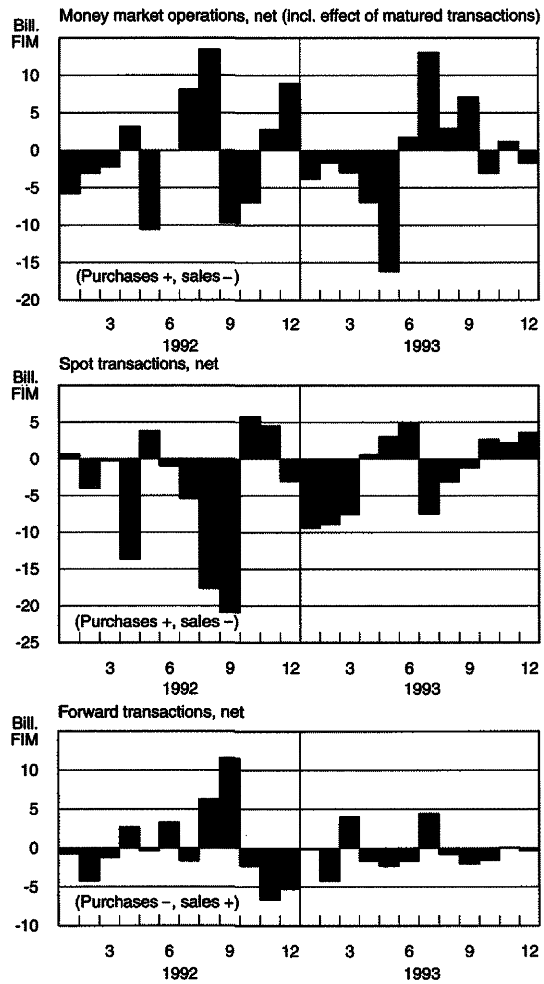
At the beginning of 1993, it was apparent that the performance of the economy, especially the domestic sector, would be weaker than forecast. Despite the rise in import prices, inflation remained subdued, thus creating room for lower interest rates. In February, however, the rapid narrowing of the gap between domestic and foreign interest rates led to a re-acceleration of the depreciation of the markka, and the Bank of Finland was forced to intervene heavily in defence of the currency.

At the beginning of February, the Bank of Finland decided to cut the base rate by one percentage point to 7.5 per cent, with effect from the middle of the month. By chance, the Bundesbank and countries that closely follow German monetary policy announced interest rate cuts on the same day. Together, these changes in interest rates brought heavy downward pressure to bear on market rates. The Bank of Finland allowed its tender rate and short-term market rates to move lower, whereupon the differential vis-à-vis German money market rates narrowed by about one percentage point (Chart 10).

As the interest rate differential narrowed, companies in the private sector stepped up their repayments of foreign currency loans. The markka began to depreciate and exchange rate volatility increased considerably. The increased uncertainty led to a widening in the spread between buying and selling rates. In order to calm conditions in the foreign exchange market, the Bank of Finland intervened in support of the markka.

Nonetheless, expectations of a further depreciation of the markka persisted and the Bank of Finland was forced to sell foreign currency in large amounts during the following weeks in order to prop up the markka (Chart 11). The Bank's spot sales of foreign currency totalled FIM 25.7 billion in the first quarter of the year. The Bank's net reserves (foreign exchange reserves plus forward position) fell from FIM 26 billion at the beginning of February to FIM 17.5 billion at the end of March. Capital im-

Chart 11.
THE BANK OF FINLAND'S MONEY MARKET OPERATIONS AND INTERVENTION IN THE FOREIGN EXCHANGE MARKET



ports by the central government, amounting to FIM 28.4 billion in net terms in the first quarter, partly offset the capital exports of the private sector.

Expectations of a further depreciation of the markka subsided in early April. Interest rates declined and the markka strengthened. In mid-April, the Bank of Finland bought foreign currency in the spot market for the first time in the year. Several factors were behind the markka's firmer tone. These included, initially, expectations of the completion of a number of major export deals and, later, a faster-than-forecast expansion in exports and improvement in the current account balance, a reduction in lay-offs in manufacturing and a rise in the profitability of export firms. The Bundesbank's surprise cut in interest rates also eased the situation and paved the way for interest rate cuts in other European countries. In late April, interest rates also declined in Finland.

Wage negotiations increased tension in the foreign exchange market

In the labour market, the possibilities of concluding new collective agreements were already explored in May. Among the proposals made by the employers were that agreements should be less binding and that labour market flexibility should be enhanced by reducing minimum wages for the young and by easing the terms for employing the long-term unemployed. The Government supported the lowering of minimum wages and threatened to push a bill on the matter through Parliament if the labour market organizations did not reach agreement. The Board of the Central Organization of Finnish Trade Unions decided to start making preparations for industrial action should the Government present a bill to Parliament without the support of the labour organizations. However, the strike threat was cancelled in the latter part of May after the Government backed down on its attempt to lower minimum wages.

The threat of a strike, coupled with the publication of forecasts pointing to a gloomier outlook for the economy, checked the decline in domestic interest rates, and the differential vis-à-vis German money market rates widened again. After the situation had quietened down, interest rates resumed their downward trend and by mid-June Finnish short-term money market rates were on a par with German rates.

International pressures were reflected in interest rates and the markka's exchange rate

The changes that took place in the European Monetary System (EMS) in autumn 1992 had not dispelled all the pressures that had built up; rather, they had even been partly to blame for provoking new tensions. Because of the acceleration of inflation caused by German reunification, the Bundesbank continued to pursue tight monetary policy. As the other countries in the ERM endeavoured to adhere to their agreed exchange rate parities, the level of German interest rates to a large extent determined interest rates in the ERM countries as well as in other Western European countries. But the level of German interest rates was too high for several of the ERM countries in relation to their own economic conditions.

The Irish punt, the Spanish peseta and the Portuguese escudo were devalued in the early part of the year. But even these adjustments proved to be insufficient, and as summer wore on, the French franc and the Danish krone, in particular, came under mounting pressure. Expectations increased that the Bundesbank would cut interest rates, and in late July it did cut the Lombard rate by 1/2 percentage point but left the discount rate unchanged. The move came as a disappointment to the markets, and immediately led to the emergence of pressures in the ERM countries and, in particular, to speculation against the French franc, Danish krone and the Belgian franc. Over the first weekend in August, the EC central bank governors and finance ministers decided to increase the width of the ERM fluctuation bands to ±15 per cent, except for those of the deutschmark and the Dutch guilder, which were kept at ±2.25 per cent. The central rates were not changed and it was announced the broader bands would remain in force for an indefinite period. The widening of the currency bands did not, however, result in any appreciable easing of monetary policy in Europe.

Following the decision of 19 November 1992 to float the Swedish krona, the markka and krona for a long time moved in tandem with each other (Chart 12). The parallel downward movement in the two currencies ended in early February, when the markka depreciated sharply. A renewed weakening of the krona beginning in late June prompted the Bank of Finland to intervene to alleviate the effects on the domestic money and foreign exchange markets. By contrast, in late August, news of a deepening in the recession in Sweden and the Swedish government's budget problems were allowed to be reflected in the markka's external value. Long-term interest rates also rose slightly.

Political disturbances in Russia – ie President Boris Yeltsin's decision in September to disband Parliament and the clash that ensued – put downward pressure on the markka in late September and early October. By contrast, the results of the December parliamentary elections had only a minor impact on the Finnish markets.

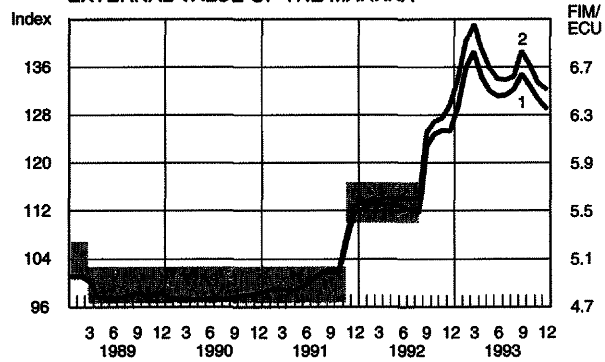
The depreciation of the markka in mid-November was due to both a weakening of the Swedish krona and the threat of a bank strike at home in connection with the ongoing wage negotiations. On the other hand, the threat of a bank strike induced firms to repatriate their foreign currency holdings, which helped to strengthen the markka. After the threat of a strike had receded, the markka appreciated in the closing weeks of the year and interest rates resumed their downward trend.

At the end of the year, the three-month HELIBOR was nearly five percentage points below its level at the beginning of the year. The markka's value against the deutschmark was little changed from the beginning of the year, ie some 15 per cent weaker than it had been before it was floated in September 1992.

Base rate cut five times

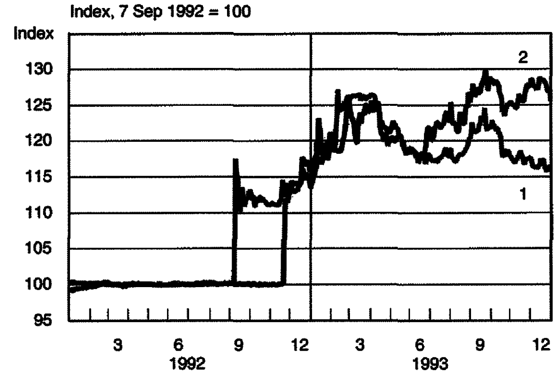
The Parliamentary Supervisory Board of the Bank of Finland adjusted the base rate more frequently in 1993 than has generally been the case in the past (Chart 9). In the markets, these changes were perceived more clearly than before as monetary policy signals. This was particularly apparent at the beginning of February when, following the decision to cut the base rate to 7.5 per cent as from the middle of the month, market interest rates immediately began to decline, the differential vis-à-vis foreign interest rates narrowed and the markka depreciated. Responding to the decline in market rates, the Parliamentary Supervisory Board again cut the base rate by half a percentage point to 7.0 per cent with effect from May 17. Low inflation and signs that it was likely to continue made further cuts in the base rate possible. It was cut to 6.5 per cent in mid-June, to

Chart 12.
EXTERNAL VALUE OF THE MARKKA



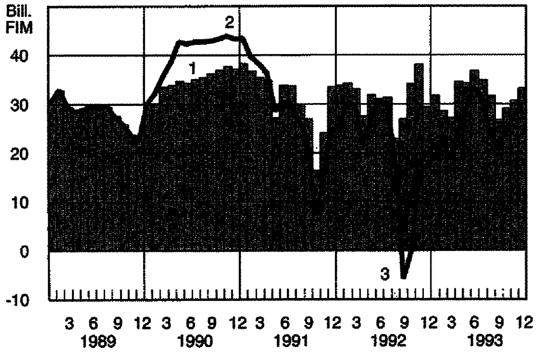
1. Trade-weighted currency index, 1982 = 100
2. Markka's exchange rate against the ECU
3. Fluctuation range = 6.0 %

Index, 7 Sep 1992 = 100



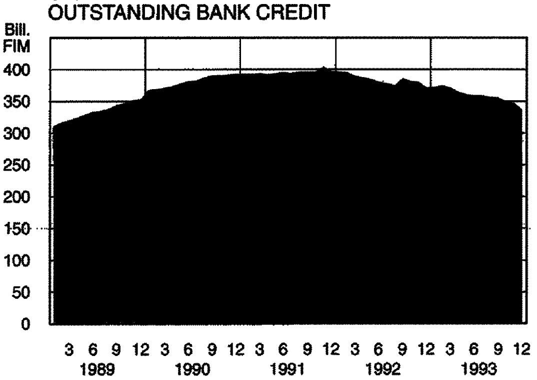
1. Markka/ECU
2. Swedish krona/ECU

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



1. Convertible reserves
2. Convertible reserves + forward position
3. Net reserves (incl. forward position + currency support loans)

Chart 14.
OUTSTANDING BANK CREDIT



1. Markka lending to the public
2. Foreign currency lending to the public

6 per cent in mid-August and to 5.5 per cent at the beginning of December.

Central government's share of foreign debt grew rapidly

The foreign exchange reserves grew in the early part of the year, largely on account of capital imports by the central government, and in the summer they exceeded their level prior to the floating of the markka. In early autumn, the reserves began to decline again, as the Bank sold foreign exchange in an effort to counter downward pressure on the markka. But in the latter part of the year, the reserves resumed their upward trend, and amounted to FIM 33.9 billion (incl. the Bank's forward position) at the end of the year. This represented an increase of nearly FIM 20 billion from one year earlier (Chart 13).

Finland's net foreign debt grew in the course of the 1993 and totalled FIM 276.9 billion at the end of the year, which was equivalent to just under 60 per cent of gross domestic product. The main factor contributing to the growth of the debt was the depreciation of the markka. The net capital flows of the central government and the private sector were in the opposite directions: the central government imported capital while the private sector exported capital in net terms (Table). The central government imported capital in order to support its efforts to stabilize the foreign exchange market and bring down interest rates. The central government's share of Finland's total foreign debt grew during the year from nearly one-half to about two-thirds.

The central government's foreign debt has grown substantially only during the last two years. Repayments were still relatively small in 1993, as the bulk of the debt is in the form of bullet bonds, which are repayable in one lump sum. On the other hand, the central government's interest payments on foreign currency loans rose to some FIM 10 billion, ie 2 per cent of GDP.

The central government raised funds abroad mainly by issuing bonds. The foreign debt of the private sector is composed of both bank loans and bonds. In 1993, companies' repayments of outstanding bonds exceeded their new issues. By contrast, net borrowing from foreign banks increased as a result of additional long-term borrowing by companies and banks; however, banks' total foreign funding declined substantially.

Large companies in the open sector of the economy have borrowed from abroad in their own names whereas companies in the sheltered sector have raised foreign currency loans mainly through financial institutions. Bank loans raised directly by companies from abroad grew to some extent in 1993. The repayment of foreign currency loans was undertaken largely by companies in the sheltered sector, which could not service such loans out of export earnings. Banks had to book some foreign currency loans as non-performing assets because of companies' payment difficulties and bankruptcies. These loans were either converted into markka-denominated loans or written off as credit losses. Thus the net decrease in foreign currency loans did not reduce companies' actual total debt by a corresponding amount.

Foreigners' investments in Finnish securities increased substantially. Restrictions on the sale of shares to foreigners were lifted at the beginning of 1993. Net sales of shares amounted to FIM 12.7 billion for the year, the bulk of which were shares of non-bank firms. As share and bond prices rose in the course of the year, the market value of foreigners' securities holdings increased substantially.

Overall, foreigners hedged only a small portion of their portfolio investments in Finland in 1993, which clearly reflected an increased disposition on their part to hold open markka positions. This was an indication of growing confidence in the Finnish economy.

Growth of bank lending and monetary aggregates was subdued

Bank lending to the public declined further in 1993. The main reason for this was the continuation of the economic recession, which curbed the public's demand for credit despite lower interest rates. True, the banks' more cautious approach to granting credit and more stringent collateral requirements also dampened lending. Expectations of a depreciation of the markka and of lower domestic interest rates induced the public to shift from foreign currency loans to markka-denominated ones (Chart 14).

The growth of recent years in lending by non-bank financial institutions has to some extent offset the decline in bank lending. In 1993, however, non-bank lending declined, largely as a result of the tightening of the terms applied to the lending back

Financing of the current account, FIM million

		I	II	III	IV	I–IV
Trade balance	12 622	5 279	7 826	8 105	9 708	30 918
A. CURRENT ACCOUNT	–22 035	–5 521	–2 236	1 025	1 206	–5 526
B. CAPITAL IMPORTS	12 786	–174	12 942	–12 092	5 966	6 643
Loans (non-negotiable)	2 044	9 682	3 962	4 069	–1 249	16 464
Direct investment	–44	–1 149	–702	565	–5 799	–7 085
Portfolio investment (shares and bonds), net	36 405	12 800	16 084	5 527	–1 524	32 887
Other capital transactions	–25 619	–21 507	–6 402	–22 253	14 538	–35 623
A.+B. CHANGE IN FOREIGN EXCHANGE RESERVES	–9 249	–5 694	10 706	–11 067	7 173	1 117
Memorandum item: Central government's capital transactions, net	50 773	28 548	16 232	2 395	1 477	48 652

Chart 15.
MONETARY AGGREGATES

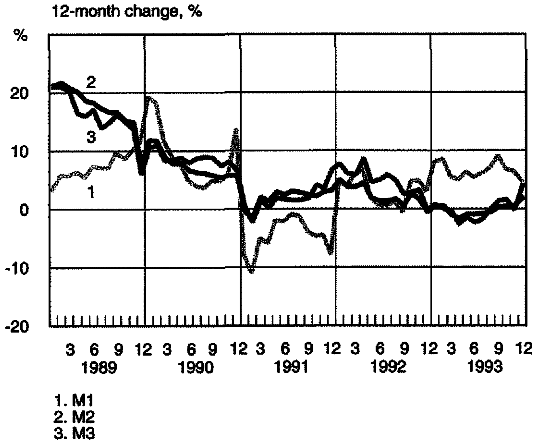
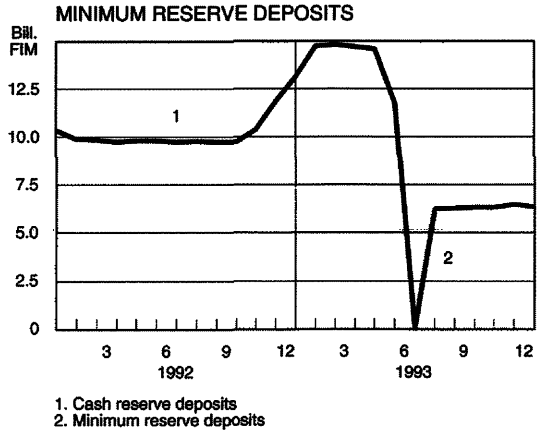


Chart 16.
MINIMUM RESERVE DEPOSITS



of funds by TEL, the private sector occupational pension scheme.

The average interest rates on bank lending and funding decreased by more than three percentage points in 1993. In the latter half of the year, the average rate on new loans was lower than the average rate on outstanding loans. Banks' interest margins widened with the fall in interest rates.

The broad monetary aggregates[1], M2 and M3, moved largely in step with bank lending. On the other hand, the narrow monetary aggregate, M1, grew at an annual rate of 5–10 per cent during the year. The marked difference in the rates of growth of the aggregates is explained by the decline in interest rates and the rise in the withholding tax rate on interest income (Chart 15). The amount of deposits subject to the withholding tax declined while the amounts of transaction deposits and other tax-exempt deposits increased. Investors accustomed to high deposit interest rates switched some of their funds temporarily into higher yielding bonds and transaction deposits to await further portfolio adjustments.

Minimum reserve system replaced cash reserve deposits

The cash reserve agreement signed between the Bank of Finland and the banks on 26 April 1990 gave rise to problems as market interest rates declined. Under the agreement, the Bank of Finland paid interest on cash reserve deposits at a rate which was three percentage points below the three-month HELIBOR but at least 8 per cent. This meant that when the three-month HELIBOR dropped below 8 per cent the cash reserve system became a source of interest subsidy to the banks. For this reason, the outstanding cash reserve deposits were paid back in full to the banks at the beginning of June.

In the spring, the Bank of Finland held negotiations with the banks concerning the replacement of the cash reserve system by a new minimum reserve system. As the negotiations did not lead to an

[1] The money aggregate M1 includes currency held by the public as well as the public's cheque, giro and other transaction accounts in banks. M2 includes M1 plus fixed-term deposits and other deposits in banks. M3 includes M2 plus the public's holdings of bank certificates of deposit.

agreement, legislation providing for the replacement of the cash reserve system by the minimum reserve system was enacted and took effect on 1 July.

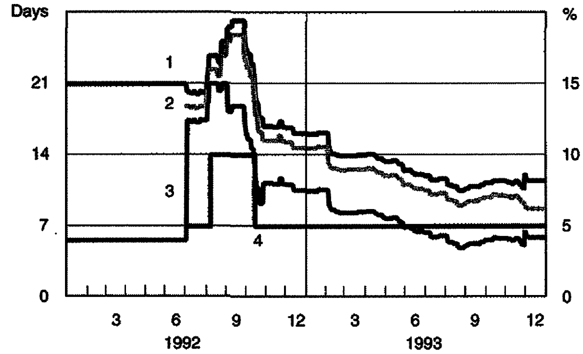
Under the new system, banks are required to keep non-interest-bearing deposits at the Bank of Finland amounting to a certain percentage of their funding. The Bank of Finland sets the reserve requirements, which cannot exceed 5 per cent of a mandatory reserve holder's total liabilities. The requirements are graduated according to the monetary aggregates used by the Bank of Finland so that the greater the 'moneyness' of a funding item, the higher the required reserve ratio.

For deposits included in narrow money, M1, the Bank's Board of Management set a requirement of 2 per cent until further notice. For other items included in the broad monetary aggregate, M2, the requirement is 1.5 per cent while for the remaining items included in the broadest aggregate, M3, the requirement is 1 per cent. If a bank fails to meet its reserve obligation on time, it is charged interest on the shortfall at an annual rate which is five percentage points above the current highest rate charged on central bank credit.

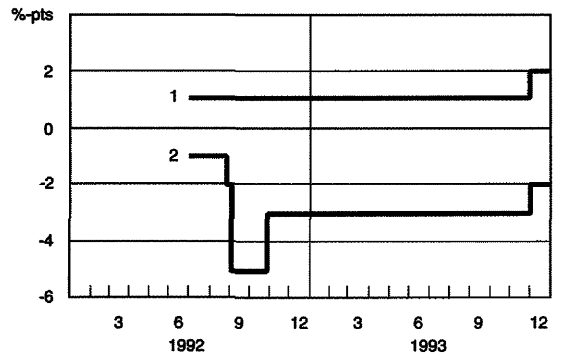
The purpose of the minimum reserve system is to increase the effectiveness of the Bank of Finland's monetary policy instruments. Because minimum reserve deposits do not earn interest, the cost to banks of holding reserves rises and falls in line with the level of interest rates. In this way, the minimum reserve system stabilizes movements in the supply of money and credit and automatically increases the effectiveness of monetary policy, even when the reserve requirement remains unchanged. The system's effectiveness can be increased or decreased by raising or lowering the reserve requirement in accordance with prevailing economic and monetary conditions. The minimum reserve deposits serve as collateral for banks' liquidity and intraday credits (see p. 41 for a more detailed discussion of liquidity credits, intraday overdrafts and collateral requirements).

At the end of the year, minimum reserve deposits at the Bank of Finland amounted to FIM 6.4 billion (Chart 16); at the end of 1992, interest-bearing cash reserve deposits had amounted to FIM 13.2 billion.

Chart 17.
THE BANK OF FINLAND'S LIQUIDITY FACILITY



1. Liquidity credit rate (prior to 3 July 1992 call money credit rate)
2. Tender rate
3. Call money deposit rate
4. Maturity of liquidity credit, days (left scale)



1. Spread between liquidity credit rate and tender rate
2. Spread between call money deposit rate and tender rate

Structure of liquidity system interest rates was revised

The Bank of Finland sets the interest rates applied in the liquidity system so as to discourage banks from resorting directly to central bank credit and to encourage them instead to hold call money deposits with the central bank. In 1993, the banks did, in fact, make lesser use of liquidity credit, but at the same time they attempted to minimize their call money deposits.

As interest rates declined, the cost of liquidity credit became cheap relative to the call money deposit rate and market rates. As a result, the banks began to make more frequent use of liquidity credit. At the beginning of December, the interest rate structure applied in the system was revised: the liquidity credit rate was set at two percentage points above the Bank of Finland's prevailing tender rate as opposed to one percentage point previously; the call money deposit rate was set at a two percentage points below the tender rate as against three points before. The maturity for liquidity credit was kept at seven days throughout the year (Chart 17).

Swap agreements continued in force

The currency swap agreements concluded in 1992 between the Bank of Finland and the central banks of the EU countries were extended in summer 1993, as were similiar agreements with the central banks of Switzerland and Austria. The agreement among the Nordic central banks was revised in 1992 with effect from 1 January 1993. No swap arrangements were activated in 1993.

the State's commitment to safeguard the functioning of the banking system.

In connection with the passing of the amendment to the Act on the Government Guarantee Fund on 23 February, Parliament unanimously approved a resolution which read as follows: "Parliament requires the Finnish State to guarantee that Finnish banks are able to meet their commitments on time under all circumstances. Whenever necessary, Parliament shall grant sufficient appropriations and powers to be used by the Government for meeting such commitments." After this, the uncertainty concerning the banks' acquisition of funding from abroad abated.

Public support measures

In the course of 1993, the State, on the basis of a proposal by the Government Guarantee Fund, supported the banking system by increasing the amount of its commitments by more than FIM 53 billion in gross terms. Of this amount, about FIM 6.5 billion was recouped in 1993 in the form of sales proceeds, repayments and transfers (Table). Consequently, public funds committed to supporting the banking sector totalled approximately FIM 81 billion at the end of the year. About half of the commitments, FIM 43 billion, consisted of guarantees, which do not involve cash expenditure at the time they are given. The Bank of Finland gave its opinion on all the draft proposals of the Government Guarantee Fund concerning bank support.

The Bank of Finland's share in the funds committed to bank support amounted to FIM 11.6 billion at the end of the year, of which loans accounted for FIM 5.8 billion, booked losses for FIM 5.3 billion and guarantees granted to asset management companies for FIM 0.5 billion. The support granted by the Bank of Finland was connected with the Bank's take-over of Skopbank in 1991. In the course of 1993, the amount committed to bank support decreased by FIM 2.8 billion as the Bank of Finland recouped financing from the sale of assets acquired in connection with the take-over and the Bank's outstanding guarantee liabilities decreased. In spring, the Bank of Finland granted short-term credit on market terms to the Government Guarantee Fund, as the timing of the payment of bank support and the loan raised to finance it did not coincide. It was not necessary to resort to this type of credit arrangement again in the course of the year.

In 1993, the most significant event affecting the banking system as a whole was the sale of the healthy parts of the Savings Bank of Finland to a consortium formed by four other Finnish banks. The consortium comprised Kansallis-Osake-Pankki, Union Bank of Finland Ltd, Postipankki Ltd and the Okobank Group (the Central Association of the Finnish Cooperative Banks). The Government decided on the sale on 22 October 1993. The bank was sold for FIM 5.6 billion.

The sales contract provided for the transfer of the healthy business operations of the Savings Bank of Finland, which consisted of deposits totalling about FIM 50 billion and a roughly corresponding amount of loans, to the banks in the consortium. The bank's problem assets and real estate were transferred to the state-owned asset management company Arsenal Ltd, which the buyer banks undertook to finance. The position of Skopbank did not change as a result of the sale. The Bank of Finland considered that the sale of the Savings Bank of Finland was justified on many grounds. On the other hand, the Bank took the view that there were problems connected with the assessment of the value of the bank and the determination of the purchase price.

Part of the merger agreement between STS-Bank and Kansallis-Osake-Pankki had to be renegotiated in the early months of 1993, following Parliament's rejection, in January 1993, of the amendment to the Act on the Government Guarantee Fund that would have enabled the Fund to own asset management companies. As a result of the new negotiations, STS-Bank's problem assets of approximately FIM 3.3 billion remained on STS-Bank's books and the part of the bank's business operations that had not yet been transferred to Kansallis-Osake-Pankki was transferred to a subsidiary established by STS-Bank. This subsidiary was sold to Kansallis-Osake-Pankki on 1 July 1993. Ninety per cent of STS-Bank's operating costs and the credit losses due to its problem assets remained the responsibility of the Government Guarantee Fund and 10 per cent the responsibility of Kansallis-Osake-Pankki. In connection with the arrangement, STS-Bank's name was changed to Siltapankki Oy.

In 1993, the Government also made decisions in principle, on the basis of a proposal by the Gov-

Bank support from 1991 to 1993, FIM million

	Bank of Finland	Council of State: State's capital investment	Council of State: Preferred capital certificates	Council of State: Share capital	Council of State: Guarantee/ surety	Government Guarantee Fund: Loan	Government Guarantee Fund: Subordinated loan	Government Guarantee Fund: Preferred capital certificates	Government Guarantee Fund: Share capital	Government Guarantee Fund: Transfer[4]	Total
1991 Skopbank	4 330[1]										4 330
1992 Skopbank	9 444[2]	580						1 500	1 000		12 524
Savings Bank of Finland		1 094					1 400	7 100	2 900		12 494
Other savings banks		160									160
Security fund of the savings banks						500					500
Okobank		422									422
Cooperative banks		1 108									1 108
Postipankki		903									903
Union Bank of Finland/Unitas		1 749									1 749
Kansallis-Osake-Pankki		1 726									1 726
STS-Bank		170									170
1993 Skopbank	−2 722[3]		350					1 200			−1 172
STS-Bank/Siltapankki		−170						3 036			2 866
Savings Bank of Finland			750	250				950	150		2 100
Sale of Savings Bank of Finland		−1 094	−750					−3 756			−5 600
Asset management company Arsenal Ltd				3 442					1 558		5 000
Security fund of the savings banks						−345					−345
Transfer[4] to the Government Guarantee Fund										−357	−357
Support disbursed as at 31 December 1993	11 052	6 648	350	3 692		155	1 400	10 030	5 608	−357	38 578
1992 Guarantees, of which to asset management companies	600										600
1993 Guarantees/sureties, of which to asset management companies	−100										−100
Kansallis-Osake-Pankki					1 800[5]						1 800
Union Bank of Finland/Unitas					1 000[5]						1 000
Security fund of the cooperative banks					900[6]						900
Asset management company Arsenal Ltd					38 000[7]						38 000
Skopbank					300						300
Funds committed to bank support	11 552	6 648	350	3 692	42 000	155	1 400	10 030	5 608	−357	81 078
1993 State's other bank risk[8]											
Kansallis-Osake-Pankki				1 001							1 001
Union Bank of Finland/Unitas				445							445
Cooperative banks								700			700
Total	11 552	6 648	350	5 138	42 000	155	1 400	10 730	5 608	−357	83 224

[1] Comprises share capital of FIM 2 000 million, a composition of FIM 1 900 million, including a claim of FIM 1 500 million on Oy Tampella Ab waived by Skopbank, asset management companies' equity capital totalling FIM 400 million and other items totalling FIM 30 million.
[2] Comprises the transfer of Skopbank's real estate and shareholdings to asset management companies in the total amount of FIM 9 752 million and a loan of FIM 1 500 million to Skopbank; from these amounts have been deducted repayments totalling FIM 1 808 million, including the purchase price of FIM 1 500 million received from the sale of Skopbank's shares and preferred capital certificates.
[3] Repayments, comprising repayments of loans raised by asset management companies and repayment of capital.
[4] Transferred by the security fund of the commercial banks and Postipankki Ltd to the Government Guarantee Fund.
[5] Decision in principle.
[6] Decision in principle on a guarantee for the repayment of interest.
[7] Preliminary estimate of the State's guarantee commitments at the end of 1994.
[8] Banks' shares and preferred capital certificates received in payment of the purchase price of the Savings Bank of Finland.

Financial Markets

Banks' losses decreased

Interest rates declined in the course of 1993, thereby substantially improving banks' net interest income; compared with the previous year, banks' combined net interest income grew by about one-third. The increase was due primarily to the fact that the decline in interest rates lowered the cost of funding non-performing and other zero-interest assets.

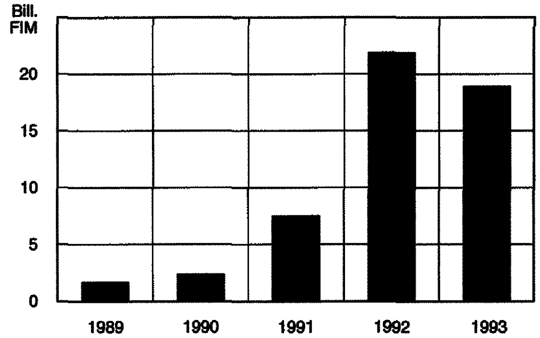
Customers' debt-servicing problems continued to be reflected in banks' operations, as indicated by the large amounts of non-performing assets and credit losses. The growth of non-performing assets nevertheless slowed in the course of the year, and at the end of the year, non-performing assets, after write-offs on loans and guarantees, amounted to about FIM 52 billion. In 1993, banks' write-offs on loans and guarantees totalled about FIM 19 billion. The amount of write-offs was thus smaller than in the previous year (Chart 18). However, owing to the credit losses, the banks again recorded a combined operating loss.

Changes in administration of bank support and related authorizations

In January 1993, the Government submitted a bill to Parliament on the amendment of the Act on the Government Guarantee Fund. Among other things, it was proposed that the Fund be subordinated to the Government (Council of State) instead of Parliament and that the authorization of the Fund to grant support be raised from FIM 20 billion to FIM 50 billion. The bill also contained a proposal according to which the Fund was to be authorized to own assets of supported banks through asset management companies. The Bank of Finland issued a statement concerning the bill. In its statement, the Bank asserted that it considered the reform of the Fund's organization necessary. The bill nevertheless failed to obtain the required 5/6 majority in Parliament. Parliament was opposed, in particular, to the proposed establishment of asset management companies and to the subordination of the Fund to the Government.

After Parliament had decided to leave the bill in abeyance until after the next parliamentary elections, the Government presented a bill on a supplementary budget proposal to Parliament which included an increase of FIM 20 billion in the funds available for bank support. The supplementary bud-

Chart 18.
DEPOSIT BANKS' CREDIT AND GUARANTEE LOSSES



get was approved by Parliament on 2 February 1993. In addition, in connection with the fourth supplementary budget for 1993, passed on 12 October, Parliament approved further authorizations of FIM 30 billion for supporting the banking sector. However, it is the Government and not the Government Guarantee Fund that decides on the use of the authorizations granted through the supplementary budgets.

A bill redefining the administration and position of the Government Guarantee Fund was approved by Parliament on 23 February. Under the amendment, the Fund's function is to assist the Ministry of Finance in the drafting of the Government's decisions concerning bank support measures and to perform duties connected with implementing and overseeing these measures. However, the Fund is still subordinated to Parliament, as the Parliamentary Supervisory Board continues to function as the supervisory board of the Fund. The amendment also authorized the Fund to appoint a full-time manager and other necessary permanent staff. Furthermore, the composition of the board of the Fund was changed. According to the amendment, the Bank of Finland participates in the operations of the Fund mainly by providing it with expert assistance; the Bank of Finland appoints a permanent adviser to the Fund's board. In addition, the Bank of Finland gives its opinion on the Fund's draft proposals.

In October 1993, Parliament approved an amendment to the Act on the Government Guarantee Fund which, among other things, enabled the Fund to establish asset management companies. The purpose of an asset management company is to purchase or otherwise acquire, to manage and, subsequently, to sell or transfer the assets or liabilities of a bank supported by the State or the Fund.

Parliament undertook to secure the operations of banks

Uncertainty concerning the Finnish economy and the position of the banks threatened to hamper the acquisition of funds by banks from abroad in autumn 1992 and again in the early winter of 1993. Likewise, Parliament's rejection of the comprehensive bank support reform proposed by the Government in January threatened to further undermine investors' confidence in banks. Accordingly, Parliament considered it necessary to pass a resolution affirming ernment Guarantee Fund, to grant guarantees to Kansallis-Osake-Pankki and Union Bank of Finland for the acquisition of equity capital and to the security fund of the cooperative banks for the payment of interest accrued on loans raised by it. The guarantees to be granted by the Government totalled nearly FIM 4 billion, but no specific guarantee agreements were signed in 1993.

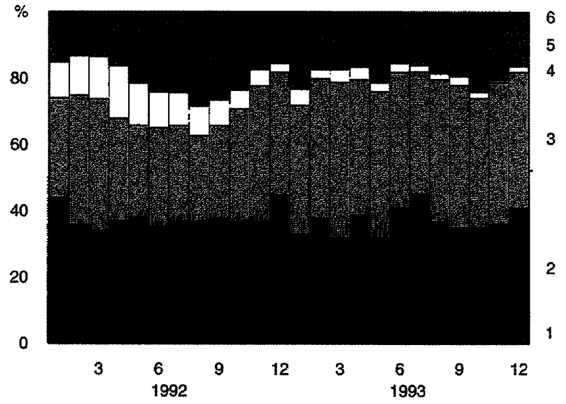
Banks' balance sheets shrank further; rationalization of banks' operations continued

The banks' combined balance sheet total decreased slightly compared with the previous year. The decrease was due primarily to a contraction in bank lending. This, in turn, was a consequence of both slack demand for loans and, on the supply side, of the banks' tightened collateral requirements and their efforts to maintain and improve their capital adequacy, which had weakened because of credit losses.

The tendency to link the pricing of loans to market interest rates continued. Loans based on previous home purchase savings agreements were virtually the only new bank loans to still be tied to the Bank of Finland's base rate. Consequently, the share of outstanding loans tied to the base rate continued to decrease in 1993 (Chart 19). At the end of the year, the share of these loans in the total amount of outstanding loans was nevertheless still about 36 per cent. Owing to the relatively rapid decline in short-term interest rates, the share of lending tied to HELIBOR rates increased and the share of loans tied to long-term reference rates decreased. This partly reflected the refinancing of old housing loans tied to long-term reference rates at rates tied to HELIBOR, which were more attractive to customers.

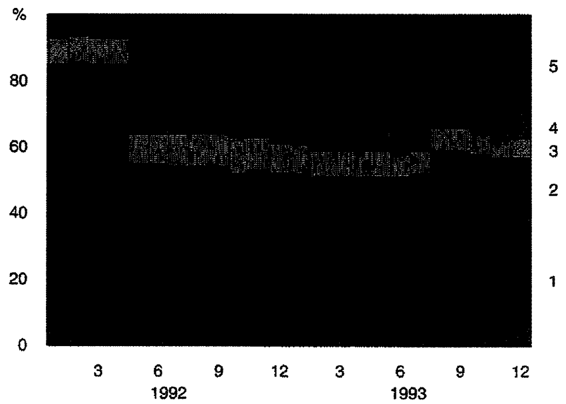
In order to reduce their interest rate risk, banks have increasingly switched to the use of their own prime rates in the pricing of both deposits and lending. Of banks' outstanding markka deposits, the share of deposits tied to banks' own prime rates increased, while the shares of deposits tied to HELIBOR rates and fixed-rate deposits decreased to some extent (Chart 20). The increase in the share of deposits tied to the base rate was due to the growth of 36-month tax-exempt deposits, which could no longer be made after the end of 1993. The marked increase in deposits tied to the base rate in

Chart 19.
INTEREST RATE LINKAGES OF NEW MARKKA BANK LOANS



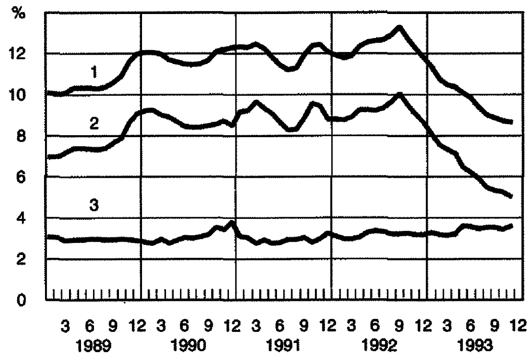
1. Tied to the Bank of Finland's base rate
2. Fixed-rate
3. Tied to HELIBOR
4. Tied to 3- and 5-year reference rates
5. Tied to prime rate
6. Other

Chart 20.
INTEREST RATE LINKAGES OF OUTSTANDING MARKKA DEPOSITS



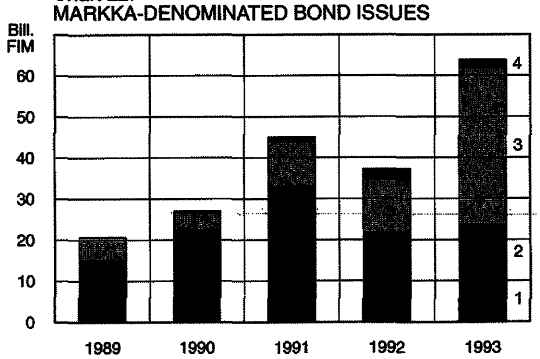
1. Tied to the Bank of Finland's base rate
2. Fixed-rate
3. Tied to HELIBOR
4. Tied to prime rate
5. Other

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



1. Average interest rate on uses of markka funds (1)
2. Average interest rate on sources of markka funds (2)
3. Interest rate margin = (1) – (2)

Chart 22.
MARKKA-DENOMINATED BOND ISSUES



1. Companies
2. Financial institutions
3. Central government
4. Local government

August and the corresponding reduction in the share of tax-exempt transaction accounts based on income tax law were due to the fact that some banks converted their tax-exempt transaction accounts into accounts tied to the base rate.

The average spread between banks' uses and sources of markka funds, ie the interest rate margin, widened markedly in the course of 1993 (Chart 21). Thus, the banks did not pass on the fall in market rates in full into the interest rates applied to new loans, but rather used part of it to widen their interest rate margin.

As bank profitability has weakened considerably during the last few years, it has become increasingly important to enhance the efficiency of banks' operations. In recent years, the banks have reduced their capacity markedly. Since 1989, the number of bank branches has decreased by about one-quarter and the number of bank employees by about one-third.

The importance of securities markets increased and measures were taken to enhance their functioning

Structural change in the financial markets continued in 1993. Securities markets expanded strongly, with the result that the share of securities in financial assets increased and the relative importance of bank deposits decreased.

The increased popularity of securities as an investment vehicle reflects not only changed economic expectations but also rapid technological advances and legislative reforms affecting the markets and the opening up of the domestic securities markets to foreign investors, which in the case of the bond market already occurred in 1991. The main factor contributing to increased supply of bonds was the central government's large budget deficit.

The bond market expanded rapidly

In the course of the year, the outstanding amount of bonds quoted on the stock exchange grew strongly, mainly as a result of the central government's increased borrowing requirement. The central government issued FIM 36.5 billion worth of new debt in the form of bonds in 1993; the outstanding amount of markka-denominated government bonds grew by just under FIM 30 billion, ie by almost 70 per cent. Expectations of a decline in interest rates added to the attraction of bonds.

As a consequence of a sharp fall in interest rates, companies also started to issue bonds again. Nevertheless, growth in the outstanding amount of corporate bonds quoted on the stock exchange was sluggish. By contrast, the value of bond issues by financial institutions decreased in 1993 (Chart 22). This was partly attributable to the banks' poor financial performance, which reduced investors' interest in these issues.

Overall, new bonds were issued to the value of some FIM 62 billion in 1993.

In the course of the year, foreign investors purchased markka-denominated bonds to the net value of FIM 3.5 billion. At the end of the year, foreign investors' holdings of these loans amounted to almost FIM 24 billion. Foreign investors' interest in markka-denominated bonds made it easier for the central government, in particular, to borrow in the markka market.

The primary dealer system for benchmark government bonds increased trading

Nowadays, the central government places markka-denominated debt mainly in the form of serial bonds. In order to develop the secondary market for this instrument, the State Treasury and the Bank of Finland began to operate a primary dealer system with the five largest banks (Kansallis-Osake-Pankki, Okobank, Postipankki, Skopbank and the Union Bank of Finland) in August 1992. The State Treasury and the Bank of Finland accepted the broking house Evli Securities Ltd (Evli Fixed Income Securities as from 1 December 1993) as a new primary dealer with effect from the beginning of May 1993 and Unibörs Securities, a Danish broker and subsidiary of Unibank, with effect from the beginning of October. Thus, access to the system has been afforded both to non-banking firms and to foreign firms.

The primary dealer system is based on two agreements. Under the agreement concluded with the State Treasury, primary dealers undertake to participate in tenders for government serial bonds and to maintain a secondary market. The second agreement, signed between the Bank of Finland and the primary dealers, includes the code of conduct for market makers in the secondary market for benchmark government bonds. The code of conduct governs the technical details of trading; the Bank of Finland supervises compliance with the rules.

The Bank of Finland has sought especially to enhance the ability of primary dealers to operate in the market and has developed new liquidity management instruments for market makers. On 15 June, the Bank announced measures designed to promote trade in government securities. Among other things, the Bank decided to start holding weekly auctions of repos (repurchase agreements) with primary dealers; these auctions are designed to facilitate the financing of primary dealers' trading portfolios. Deals at these auctions are undertaken in benchmark government bonds, Treasury bills and Bank of Finland certificates of deposit.

In addition, the Bank announced that it might, at its discretion, grant primary dealers intraday credit, on condition that it was fully collateralized by the recipient. The Bank of Finland also announced that it was prepared, in exceptional circumstances, to consider extending special financing, against collateral, to those securities broking firms which operate as primary dealers but are not banks. By these measures, the Bank of Finland sought to enhance competition and to better equip securities brokers to operate in the bond market.

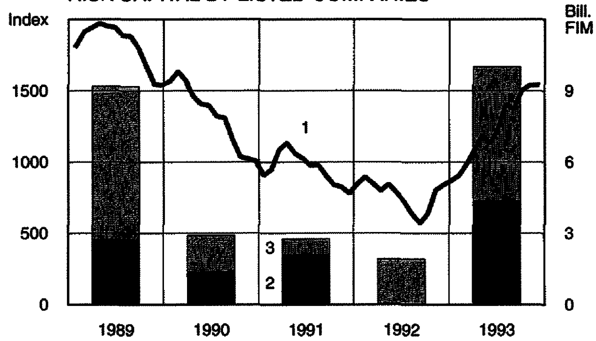
Thanks to the primary dealer system, trading in government bonds increased manyfold in the course of the year. As the volume of trading expanded, the size of individual deals also grew, spreads between bids and offers narrowed and international investors showed increasing interest in the market. At the end of 1993, there were five benchmark bonds outstanding, with a total value of FIM 41 billion.

The development of the market in government securities, together with the rapid growth of the secondary market and more efficient pricing, improved the international marketability of Finnish bonds.

Rapid rise in share prices

Demand for Finnish shares picked up appreciably in the course of the year. This was attributable to the

Chart 23.
SHARE PRICES AND ACQUISITION OF RISK CAPITAL BY LISTED COMPANIES



1. HEX all-share index, 28 Dec 1990 = 1000
2. New risk capital: financial institutions, bill. FIM
3. New risk capital: other companies, bill. FIM

decline in interest rates and to improved economic prospects, particularly for export companies. Other factors increasing the demand for shares and market liquidity were the reform of capital income taxation, the lifting of restrictions on portfolio investment by foreigners in Finland as of 1 January 1993 and the removal of stamp duty on share transactions in 1992.

The reform of capital income taxation, which took effect at the beginning of January, eased and simplified the taxation of shareholders. Whereas before the reform capital income taxation was based on marginal tax rates and tax reliefs related to the length of the holding period, capital income is now taxed at a flat rate of 25 per cent. The reform increased particularly the interest of households in investing in shares.

To an increasing extent, households' investments were channelled to the stock exchange via Finnish unit trusts (mutual funds), which experienced rapid growth in the course of the year. From just under FIM 600 million at the end of 1992, investments grew to FIM 3.5 billion by the end of 1993. Unit trusts seem to be developing into a new medium-sized investor group both in the share and bond markets, thereby helping to further improve market liquidity.

As a consequence of increased demand, the HEX (Helsinki Stock Exchange) all-share index rose by 91 per cent in the period from January to December and share turnover to over FIM 45 billion. Besides strong growth in the secondary market, there was an abundance of new issues, with a total value of some FIM 10 billion. Of this amount, banks accounted for over 40 per cent (Chart 23), reflecting their efforts to improve their capital positions by launching issues in the domestic and international markets. Several export companies also strengthened their capital structure through share issues targeted at both domestic and foreign investors.

Further development of securities markets was investigated

In January 1993, the Ministry of Finance appointed a monitoring and development working group to investigate the further development of the securities markets. The working group is due to report at the end of 1995. Its task is to harmonize the views of the authorities responsible for the supervision and close monitoring of the financial markets in order to further develop the financial markets, especially with regard to the functioning and supervision of the book-entry securities system and the market for debt securities. The working group is composed of representatives of the Securities Association, the Ministry of Justice, the Ministry of Finance, the Ministry of Trade and Industry, the Financial Supervision Authority, the State Treasury and the Bank of Finland.

In addition, banks, broking firms and issuers operating in the Finnish securities markets, together with the State Treasury and the Bank of Finland, appointed a working group for the development of the book-entry securities system in October 1993. Its task included streamlining the structure of the book-entry securities system and the inclusion of the most important securities in the book-entry securities system. The working group is required to draw up a proposal for the implementation of a new national securities centre taking into account the comments of the working group appointed by the Ministry of Finance to monitor and develop the securities markets and the views of market practitioners. Thus the aim is to combine the clearing and settlement activities of the Helsinki Money Market Center Ltd, the Central Share Register of Finland Co-operative and the Helsinki Stock Exchange. In addition, the working group is to determine which activities of the Securities Association could be transferred to this centre.

Effects of the EEA agreement on financial markets

On 2 May 1992, the European Community (EC) and its member states and the European Free Trade Association (EFTA) signed an agreement on the establishment of the European Economic Area (EEA). The agreement took effect on 1 January 1994. In addition to the EU member states, the agreement currently covers the following EFTA countries: Austria, Finland, Iceland, Norway and Sweden.

The agreement aims at establishing a single European economic area that promotes the continuing and balanced strengthening of the trade and economic relations between member states on the basis of equal competitive conditions. To achieve these objectives, the agreement provides for, inter alia, free movement of capital and financial services. At the same time, EU regulations concerning competition and state aids were extended to apply to the entire economic area.

In connection with the entry into force of the EEA agreement, a substantial number of new laws and amendments to existing laws came into force in Finland at the beginning of January 1994. These brought Finnish legislation in line with the contents of the EEA agreement and the EC directives appended to it.

Effects of the EEA agreement on legislation governing financial institutions

With the entry into force of the EEA agreement, a new Act governing the activities of credit institutions came into force. The new Act replaces the 1991 Deposit Bank Act and the 1992 Financial Activities Act. The Credit Institutions Act brings legislation on credit institutions in line with the EC directives governing the activities of credit institutions in the manner required by the EEA agreement. The Act applies to business activities involving the professional acceptance of deposits and other repayable funds from the public and to lending and comparable financing on the institution's own account.

The Credit Institutions Act incorporates the principles of free provision of services and a single licence. According to the principle of free provision of services, any Finnish credit institution has the right to offer services which fall within the scope of its licence either directly on a cross-border basis or by establishing branches in the EEA area. According to the principle of a single licence, the establishment of a branch in the territory of another EEA member state no longer requires authorization in the host state; rather, it suffices that the Financial Supervision Authority notifies the competent authorities in the host state of the establishment of such a branch.

The entry into force of the EEA agreement also means that the main responsibility for the supervision of credit institutions and their foreign branches rests with the supervisory authorities of the home state. This requires exchange of information and efficient cooperation between the supervisory authorities of the countries involved.

Unlike previous Acts, the new Act contains restrictions concerning large exposures to clients and provisions concerning qualifying holdings. Furthermore, it relaxes the provisions on credit institutions' holdings in other companies, tightens the provisions on capital adequacy and revises the provisions concerning the balance sheet and profit and loss account of a credit institution.

According to the Act, a credit institution's large exposure to a single client may not exceed 25 per cent of the credit institution's own funds. In the calculation of an exposure, claims on the client, holdings of the client's securities and off-balance sheet commitments entered into with the client are all taken into account. A large exposure refers to an exposure to a single client that is 10 per cent or more of the credit institution's own funds. Furthermore, the Act lays down that a credit institution's total large exposures may not be more than eight times the size of its own funds.

From the point of view of Finnish credit institutions, the provisions on exposures represent a substantial tightening of legislation. The Act includes transitional provisions to facilitate adjustment by credit institutions. Under these provisions, credit institutions have until the end of 2001 to meet the requirements set; for small credit institutions, the adjustment period lasts until the end of 2006. Small credit institutions refer to credit institutions whose own funds are a maximum of ECU 7 million, ie about FIM 45 million. The provisions applicable during the transitional period are less strict.

Another important change included in the Act concerns the obligation of a person (natural or legal person) proposing to acquire a qualifying holding in a credit institution to inform the competent authorities. When a person intends to acquire a holding in a credit institution which represents 10 per cent or more of its share or other equity capital or of the voting rights carried by such capital, the Financial Supervision Authority must be notified of the acquisition in advance. Similarly, such a person must notify the Financial Supervision Authority if he intends to increase his holding so that it would amount to a minimum of 20, 33 or 50 per cent of the credit institution's share or other equity capital or so that the credit institution would become his subsidiary. A person must also notify the Financial Supervision Authority if he proposes to reduce his holding so that it would fall below the above-mentioned percentages. The Financial Supervision Authority may, within three months of having received such a notification, object to the acquisition of such holding if it is evident that this holding would be detrimental to the pursuit of the credit institution's business in accordance with sound and prudent business principles. However, should shares be acquired despite the objection of the Financial Supervision Authority, it may prohibit the exercise of the voting rights related to the holding.

The restrictions concerning credit institutions' holdings in undertakings other than those engaged in credit and financial activities were amended by the new Act. Previous legislation allowed deposit banks and other credit institutions to invest in shares and other equity of undertakings engaged in business activities an amount corresponding to 10 per cent of the shares, other equity and voting rights of the undertaking concerned. This provision has been removed from the Credit Institutions Act. However, credit institutions' investments in such undertakings are restricted by a provision, in compliance with the EC's second banking directive, according to which a credit institution may have holdings exceeding 10 per cent in an undertaking carrying on activities other than credit institution or financial activities up to an amount corresponding to 15 per cent of the credit institution's own funds. The total amount of such qualifying holdings may not exceed 60 per cent of a credit institution's own funds.

In addition, the Act contains more stringent provisions on the capital adequacy of credit institutions. Unlike in previous legislation, revaluation reserves are regarded as additional own funds in the new capital adequacy provisions. In the new provisions, deductions from own funds are extended to apply to smaller holdings than before. Under a provision tightening the capital adequacy ratio in the risk classification of assets, claims insured in Finnish insurance institutions have been transferred from the second risk category to the fourth risk category. This provision increases the capital requirement of cooperative and savings banks, in particular. The banks which did not meet the capital adequacy requirement set in the Act at the time it took effect have been granted a transitional period expiring on 1 January 1995 to comply with the requirement.

An Act governing the activities of foreign credit and financial institutions in Finland also took effect at the beginning of 1994. The Act includes provisions concerning the establishment of branches by foreign credit institutions. According to the Act, separate authorization is required for the establishment of a branch in Finland only when the country of domicile of the credit institution is not an EEA member state; mere notification of the establishment of a branch suffices for credit institutions whose home states are in the EEA area. Furthermore, a credit institution in an EEA member state may offer its services in Finland without establishing a physical presence there.

In addition, an amendment to the Bookkeeping Act took effect at the beginning of 1993. The amendment is also applicable to credit and financial institutions even though special provisions concerning credit institutions are included in the Credit Institutions Act. The amendment brought the provisions concerning companies' annual accounts in line mainly with those of the EC's fourth and seventh Council directives. Among the main amendments to the Bookkeeping Act were the changeover to the application of consistent depreciation methods from one financial year to another, clearer definitions of provisions and the addition of provisions concerning consolidated annual accounts. Furthermore, a provision was included in the Act according to which annual accounts must give a true and fair view of the financial position of entities with a legal obligation to keep books.

The Act on the Monitoring of Foreigners' Corporate Acquisitions and the Act on the Supervising of Non-Residents' and Foreign Corporations' Acquisitions of Real Estate entered into force at the beginning of 1993; at the same time, the Restriction Act of 1939 was repealed. In connection with these legislative changes, the provisions restricting foreigners' ownership in the Act on the Right of Foreigners to Own Shares in Finnish Credit Institutions and Pursue Banking Activities in Finland were also repealed.

Effects of the EEA agreement on securities markets legislation

Because of the entry into force of the EEA agreement, amendments were made, *inter alia*, to the Securities Market Act and the Unit Trust Act. Under the amended Securities Market Act that took effect at the beginning of 1994, the obligation of issuers to publish information was expanded and the obligation to draw up a prospectus was extended to also apply to issuers of debt securities. The definition of the concept 'insider information' was extended to also apply to information on the security itself. In addition, the amendment gives entities operating in the market the right to refer to court a decision taken by a stock exchange to refuse the admittance of a security to the official listing or to remove a security from the official listing. The Act was further amended to allow a security to be simultaneously quoted on several Finnish stock exchanges. In connection with the amendments, the Act on Bonds, Debentures and Other Bonds was repealed. Provisions concerning bonds are now mainly included in the Securities Market Act and the Promissory Notes Act.

One of the main amendments to the Unit Trust Act was the easing of restrictions on investments. A unit trust is now allowed to invest its funds more freely than before in publicly traded foreign securities, in addition to domestic securities. According to the amended Act, a unit trust may also invest its funds in derivative instruments in compliance with conditions set by the Financial Supervision Authority.

As the EEA agreement requires that Finland also enacts legislation passed in the EC after the agreement was signed, the Ministry of Finance appointed a working group in March 1993 whose task is to draw up proposals for the reform of legislation governing securities broking made necessary by the EEA agreement. The working group is to take into account the European Community's directives on the provision of investment services and the capital adequacy of investment firms and credit institutions. Furthermore, the working group is to draw up such bills as are otherwise necessitated by the development of domestic securities markets. The working group is due to complete its work at the end of May 1994.

Reform of capital income taxation and corporate taxation

At the beginning of 1993, a new Income Tax Act, replacing the sections on income taxation in the previous Act on Income and Wealth Tax, took effect.

Under the reform, the tax rate on capital income was set at 25 per cent; the corporate tax rate was set at the same level.

As part of the reform, the withholding tax rate on interest income was raised in steps to 20 per cent at the beginning of 1993 and to 25 per cent at the beginning of 1994. The Act on Withholding Tax on Interest Income entered into force on a permanent basis at the beginning of 1993. Transaction accounts on which the rate of interest payable does not exceed the maximum level prescribed in the Income Tax Act are, however, exempt from tax. Because of the sharp decline in interest rates, the maximum rate of interest payable on tax-exempt transaction accounts was lowered in the course of the year. At the end of the year, the maximum rate of interest was 2 per cent, as against 4.5 per cent at the beginning of the year.

An amendment to the Business Income Tax Act also came into force at the beginning of 1993. Among other things, the amendment restricted the opportunities of banks and other corporate entities to transfer funds to provisions. Since 1992, banks have no longer been able to set up revaluation reserves for current assets and investment assets. However, special transition reserves can be used to replace revaluation reserves until 1997.

Reorganization of the Financial Supervision Authority

After preparatory work lasting for several years, the reorganization of the Financial Supervision Authority was carried through in October. The Financial Supervision Authority Act was passed on 11 June 1993 and came into force on 1 October 1993.

The reform abolished the Banking Supervision Office and established the Financial Supervision Authority, a new authority in charge of the supervision of financial markets and market participants, to which the duties of the Banking Supervision Office were transferred. The Financial Supervision Authority functions in connection with the Bank of Finland but has its own decision-making organization. The Board of the Financial Supervision Authority consists of the Director General of the Financial Supervision Authority and two other members. The President of the Republic appoints the Director General of the Financial Supervision Authority on the proposal of the Parliamentary Supervisory Board. The Parliamentary Supervisory Board appoints the other members and their personal deputies on the proposal of the Bank of Finland and the Ministry of Finance for three years at a time. On the proposal of the Ministry of Social Affairs and Health, the Parliamentary Supervisory Board also appoints an auxiliary member and his personal deputy to deal with cooperation between the Financial Supervision Authority and the Ministry of Social Affairs and Health in the supervision of groups which consist both of a deposit bank or a credit institution and an insurance company. The Parliamentary Supervisory Board appoints the Chairman and Vice-chairman of the Board.

The Board of the Financial Supervision Authority is required, *inter alia*, to confirm to the Financial Supervision Authority guidelines concerning all matters of importance from the point of view of supervision. When confirming guidelines, the Board must take into account the general guidelines issued by the Board of Management of the Bank of Finland to the financial markets for the purpose of maintaining their stability. The Board of the Financial Supervision Authority is also required to confirm those regulations and guidelines issued to supervised entities which have not been transferred for confirmation by the Director General, as well as to further the development of cooperation between the authorities responsible for supervising the financial markets.

The entities subject to supervision by the Financial Supervision Authority include deposit banks and other credit institutions, guarantee funds of deposit banks, branches of credit institutions from non-EEA member states, management companies, broking firms, stock exchanges, associations of securities brokers, options exchanges and market makers operating in the derivatives market, brokers, the Securities Association and the cooperative in charge of the Central Share Register.

The Financial Supervision Authority carries out its duties by seeing to it that the supervised entities act in compliance with laws, decrees, regulations and guidelines issued by the authorities as well as with their articles of association and rules. In addition, the Financial Supervision Authority issues regulations and necessary guidelines to the supervised entities, groups of such entities and other financial market participants. Furthermore, the Financial Supervision Authority is in charge of auditing the supervised entities. According to the Act, the Financial Supervision Authority is also required to monitor the financial markets and to draw up proposals for necessary measures. Under the Act, decisions taken by the Financial Supervision Authority may be appealed to the Supreme Administrative Court. The reform was designed to enhance the efficiency of financial market supervision and to promote closer cooperation between different supervisory authorities.

The Regulations for the Bank of Finland were amended and a committee was set up to investigate the Bank of Finland's position

By an amendment that took effect on 30 June 1993, a new section (1a) was added to the Regulations for the Bank of Finland. The new section gave the Bank the right to require a deposit bank, credit institution or a branch of a foreign credit institution operating in Finland to keep a non-interest-bearing minimum reserve at the Bank.

According to Section 73 of the Constitution of Finland "the Bank of Finland shall be managed as provided by law". In the amendments made in connection with the establishment of the Financial Supervision Authority, the Regulations for the Bank of Finland were renamed the Act on the Bank of Finland. At the same time, amendments required by the reorganization of the Financial Supervision Authority and the Financial Supervision Authority Act were made to the Act on the Bank of Finland. The Act came into force on 1 October 1993.

In February, the Government set up a committee whose task was to propose revisions to the provisions concerning the position and activities of the Bank of Finland necessitated by the entry into force of the EEA agreement. The committee was also called upon to investigate what changes would be needed in the event of progressively greater involvement in European economic integration after the entry into force of the EEA agreement. According to its terms of reference, the committee was also required to draft proposals on other amendments deemed necessary to the Act on the Bank of Finland and on the reform and streamlining of the related body of legislation. The committee is due to complete its work at the end of August 1994.

Under an amendment to the Foreign Exchange Act that took effect on 1 January 1994, the validity of the Act was extended by two years to the end of 1995. Two years was judged sufficient as the abovementioned committee was additionally required to investigate the Bank of Finland's position as the exchange control authority.

Payment Systems and Maintenance of the Currency Supply

Management of payment risks was developed

The core of payment systems in Finland is the central bank's real-time interbank funds transfer system, in which interbank transactions are settled and through which the effects of the monetary policy conducted by the Bank of Finland are transmitted to the economy. The efficient and reliable operation of payment systems and the irrevocability of payments are essential for stable economic activity and for confidence in its continuity.

The Bank of Finland's interbank funds transfer system is used for booking account entries arising from transactions between the Bank of Finland and the banks and from transfers of covering funds related to interbank transactions. In addition, the system handles the banks' payment clearing and funds transfers related to clearing and settlement of securities transactions under various netting systems, such as those operated by the Helsinki Money Market Center and the Helsinki Stock Exchange.

Since banks' current accounts with the Bank of Finland are used for settling interbank payments, this means that the central bank assumes the private sector's credit risks in so far as payments are effected using the unsecured overdraft facilities or liquidity credits the Bank has granted to account holders. The smooth functioning of payment systems requires that the liquidity of banks which transmit payments is maintained under all circumstances. The Bank of Finland has granted its principal account holders access to intra-day credit and short-term liquidity credit so as to enable them to even out fluctuations in their liquidity caused by payment flows. By securing the liquidity of the banks which provide payment services, the Bank seeks to eliminate systemic risk.

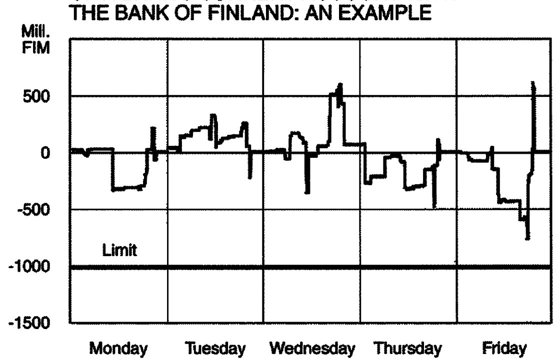
In 1993, increasing attention was paid to managing the risks in payment systems. One of the basic aims was to reduce the automatic availability of central bank financing by limiting the banks' access to intra-day credit facilities and by imposing explicit collateral requirements for intra-day credit. Other long-term requirements, such as the need to harmonize the payment systems of different countries and deregulation of the provision of financial services in the European Economic Area, call for adjustment to new operating conditions and supervisory principles.

Intra-day overdrafts were restricted

To enhance risk management, the Bank of Finland initiated a trial arrangement on 1 March 1993 under which its account holders' access to intra-day overdraft facilities was restricted by imposing individual overdraft limits on each account holder. By introducing the limits, the Bank wished to draw attention to the risks inherent in payments, to encourage banks to manage fluctuations in their own liquidity as efficiently as possible, to influence the timing of payments during the day and to reduce its exposure to credit risk.

Should a transfer of covering funds made by an account holder exceed the overdraft limit imposed on the account, the interbank funds transfer system prevents the execution of the entry in question. In such a situation, the account holder must either contact the central bank and apply for a temporary rise in the limit, or wait until there are sufficient covering funds in the account to effect the payment without exceeding the overdraft limit (Chart 24).

Chart 24.
INTRADAY CHANGES IN THE BALANCE OF A BANK'S CURRENT ACCOUNT WITH THE BANK OF FINLAND: AN EXAMPLE



Collateral requirements for central bank credit were specified

In connection with the introduction of overdraft limits, the Bank of Finland imposed collateral requirements for intra-day overdrafts on the banks' current accounts. Banks which fulfil the criteria for access to liquidity credit are required to deposit collateral equivalent to 25 per cent of their overdraft limits, while other banks are required to put up collateral for the full amount of their limits. The overdraft limits and related collateral requirements became permanent with effect from 1 December in accordance with the principles applied during the preceding trial period. From that date, running up credit in excess of the overdraft limits and failure to provide sufficient collateral were penalized. Banks can provide collateral by giving the Bank of Finland the right to set off overdrafts against their minimum reserve deposits. Alternatively, account holders can deposit separate collateral with the central bank. A current account may also lack an overdraft facility.

The Bank of Finland also specified the terms and conditions of banks' liquidity credit with effect from 1 December 1993 by requiring that liquidity credit always be fully collateralized. Banks' minimum reserve deposits with the Bank of Finland are used as collateral for liquidity credits in so far as the deposits have not been given as collateral for the intra-day overdraft limit imposed on the banks' current accounts (for details of the minimum reserve system, see page 24). If this amount does not cover the entire collateral requirement set for liquidity credit, the bank concerned must deposit additional collateral with the Bank of Finland. Treasury bills, Bank of Finland certificates of deposit and government securities qualify as collateral.

Collateral given in the form of book-entry securities or physical securities must be pledged to the Bank of Finland. A bank may pledge book-entry securities in favour of the Bank of Finland by depositing them either with the Bank of Finland's book-entry securities register or with the pledger's own book-entry securities register. Physical securities must be lodged for safekeeping with the Bank of Finland. The bank may alternatively enter into a security repurchase agreement ('liquidity repo') equivalent to the amount of the liquidity credit with the Bank of Finland in order to acquire the necessary liquidity financing. Only the instruments listed above can be used in repurchase agreements.

The adoption of the new minimum reserve system underlined the urgency of developing alternative ways of meeting the collateral requirements. The current minimum reserve deposits are only half the size of the cash reserve deposits which were previously used as collateral. The new regulations concerning collateral principles mark a step towards the harmonization of the payment systems of European countries, the aim of which is to create an infrastructure for payments transmission which combines the elements of safety and openness and is suited to the needs of an economy based on competition.

Expansion of the electronic money system got under way

Because of the large currency handling costs associated with small payments, it has for long been endeavoured to develop alternative payment methods. In Finland, the development of new payment instruments intended for low-value payments has reached a stage where reloadable 'electronic purse' systems based on chip cards are being introduced. Similar systems are being introduced in some other countries. Up till now, it has been possible to effect some low-value payments using disposable prepaid cards, but their use has been limited to closed systems, where the issuer of the prepaid card and the seller of the services or products to be paid for by the card are one and the same organization.

There is a fundamental difference between the purchasing power stored in a prepaid card and an electronic purse: prepaid cards are not actually money but rather data transmission media, because when payments are effected by prepaid cards, the supplier of services who has sold the cards only receives data indicating the value of the prepaid services his customers have in fact used. The supplier of services has received the actual payments in advance. By contrast, purchasing power stored in a universally applicable electronic purse may, with certain reservations, be compared with money, especially if the purse can be used in an open system for the payment of several different services and products (for example, telephones, parking, public transport). Thus, with the introduction of a universal electronic purse, cash will gain a serious rival.

Toimiraha Oy, which was established to supply payment services based on chip cards and to implement a safe electronic money system in Finland, expanded its operations to cover certain public transport payments in addition to public telephone payments. In addition, agreements have been reached concerning the use of electronic money for certain parking payments. The Bank of Finland takes the view that cost savings can be achieved in the economy through the widespread and coordinated introduction of this new means of payment.

Significant changes in the maintenance of the currency supply

Currency in circulation increased towards the end of the year

With the exception of the last months of the year, the amount of currency in circulation remained at the same level as in 1992. Towards the end of the year, there was a surge in the amount of notes in circulation, which was largely due to the threat of a bank strike. Conditions had not completely returned to normal by the end of the year (Chart 25). The tax refunds paid in January and December also boosted the amount of notes in circulation. The amount of notes in circulation increased from FIM 13 209 million to FIM 13 442 million in the course of 1993.

Normally, a bank strike or a threat of a bank strike also causes significant changes in the distribution of the notes in circulation by denominations, as the demand for high-denomination notes tends to increase. This time, however, the threat of a bank strike caused the share of 1 000 markka notes – which in October accounted for 27.6 per cent of the total markka value of notes in circulation – to increase to only 28.9 per cent by the time pay settlements had been reached in the banking sector. After the threat of a strike had passed, the note denominations started to resume their normal distribution. The threat of a strike increased the amount of notes in circulation at most by about FIM 4 billion, or just over one-quarter.

The amount of coin in circulation increased, which was due, in particular, to the phasing in of a new series of coins. The new 10, 5 and 1 markka coins were introduced on 15 November 1993. At the end of the year, the amount of these new coins in circulation totalled FIM 463 million, while the amount of the old 5 and 1 markka coins had decreased by FIM 187 million. The threat of a bank strike also affected to some extent the amount of coin in circulation. In the course of 1993, the amount of coin increased from FIM 1 299 million to FIM 1 552 million, of which commemorative coins accounted for FIM 255 million. No new commemorative coins were issued in 1993.

In relation to GDP, the amount of currency in circulation continued to expand (Chart 26). There was a further marked increase in the amount of currency held by the public, whereas currency held in banks' tills decreased.

The bulk of households' daily payments is still effected in cash. According to a survey conducted by the Bank of Finland, 80 per cent of all households' payments are made using notes and coin. In terms of value, cash payments accounted for 40 per cent of the total value of households' payments. The significance of cash will nevertheless decrease in the future as new payment instruments substituting for it are developed.

Chart 25.
VALUE OF NOTES AND COIN IN CIRCULATION

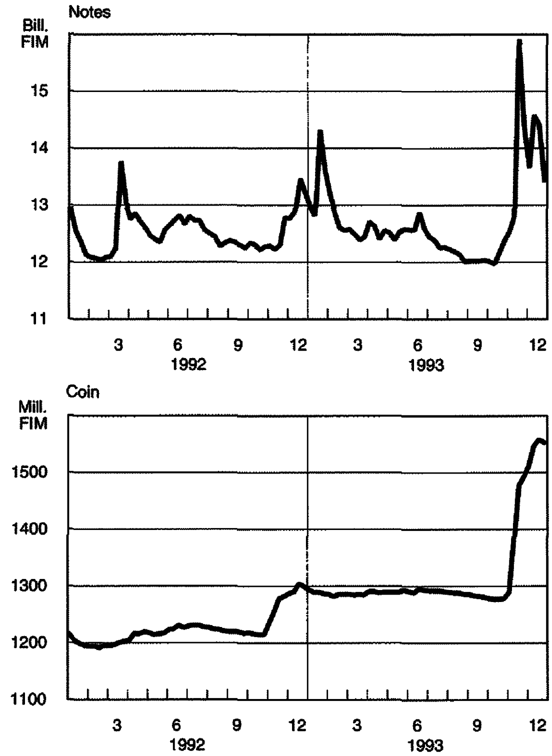
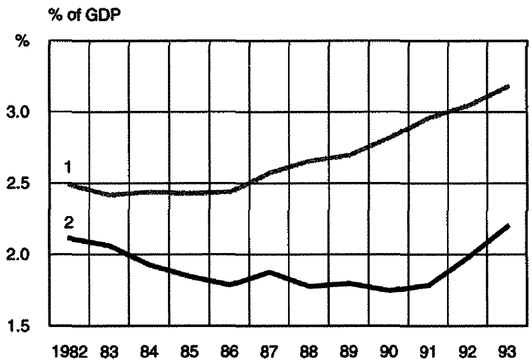


Chart 26.
NOTES AND COIN IN CIRCULATION



1. Notes and coin in circulation
2. Notes and coin held by the public

New coins and a new note were introduced

The phasing in of a new series of coins, which was commenced in 1990, was completed with the introduction of the new 10, 5 and 1 markka coins. The aim of redesigning the coins was to simplify the coin series so as to make the coins and their denominations easy to recognize.

The Bank of Finland introduced a new 20 markka note on 15 November 1993, at the same time as the new coins were put into circulation. Before this, a note in the denomination of 20 markkaa had last been included in the note series of the type 1945. The new 20 markka note was designed by the graphic artist Erik Bruun. Like the 50 and 10 markka notes, the pictorial theme of the 20 markka note relates to Finland's period of independence. The security and other features of the note correspond to those included in the 100 and 50 markka notes.

The 20 markka note was introduced to replace the 10 markka note, which is gradually being withdrawn from circulation, so as to avoid there being too large a gap between the lowest-denomination note and the highest-denomination coin. The Bank of Finland ceased issuing 10 markka notes after mid-November 1993. At the end of 1993, the 20 markka notes in circulation amounted to FIM 284 million and the 10 markka notes to FIM 273 million (see Appendices, Table 15).

Handling of currency increased

The Bank of Finland distributes notes and coin via its branch network primarily to other banks in accordance with their needs and receives notes and coin returned by them.

In 1993, the Bank of Finland issued notes to the total value of FIM 46 705 million and coin to the total value of FIM 1 327 million. Notes returned to the Bank of Finland had a total value of FIM 46 472 million and coin a total value of FIM 1 074 million.

The most issued note, both in terms of number and markka value, was the 100 markka note. It accounted for 62 per cent of the total markka value of the notes issued (Chart 27) and for 59 per cent of the total number of notes issued. The large share of the 100 markka note is attributable to ATMs and cash dispensers, which operate almost exclusively on the basis of 100 markka notes. The most issued coin in terms of markka value was the 5 markka coin, issues of which amounted to FIM 756 million, or 57 per cent of the total value of coins issued. The most issued coin in terms of number was the 1 markkа coin, issues of which amounted to FIM 311 million and accounted for 40 per cent of the total number of coins issued in 1993.

In terms of markka value, the majority of the notes returned to the Bank of Finland consisted of 100 markka notes, which totalled FIM 29 282 million and accounted for 63 per cent of the total amount of the returned notes. The 100 markka notes were also the most returned notes in terms of their number, 293 million, which accounted for 57 per cent of the total number of returned notes. The most returned coins in terms of markka value were 5 markka coins, which amounted to FIM 707 million. In terms of number, the most returned coins were 1 markka coins, 308 million of which were returned, ie 41 per cent of the total number of returned coins.

The notes returned to the Bank of Finland are inspected and sorted into those which are fit for reissue and those which are unfit for reuse and must be destroyed. At the same time, the authenticity of the notes is checked. In 1993, the branches of the Bank of Finland sorted 491 million notes by machine, which is 6.3 per cent more than in 1992 (see Appendices, Table 16). Manual sorting, which in 1989 still accounted for 35 per cent of all the notes sorted, has virtually ceased. The number of unfit notes destroyed was 116 million.

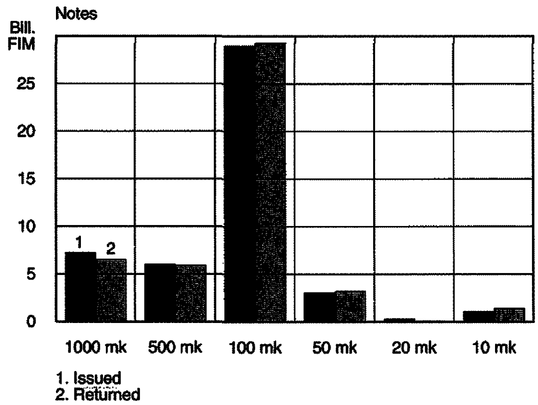
In 1993, the notes in circulation passed through the Bank of Finland 3.5 times on average. The 100 markka note had the highest velocity of circulation, 5.3. The velocities of the other notes were 2.1 for the 1 000 markka note, 2.5 for the 500 markka note, 4.0 for the 50 markka note and 2.3 for the 10 markka note.

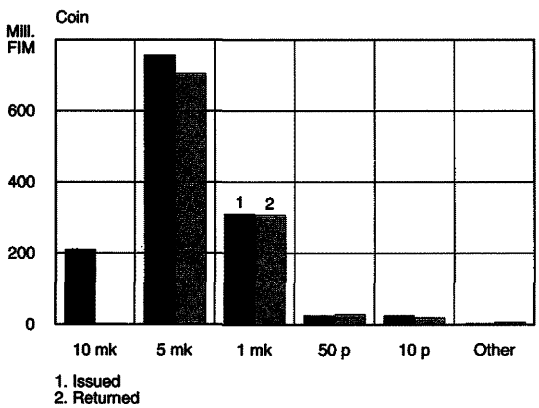
In 1993, the average lifespan of each note was as follows: the 1 000 markka note 5.2 years, the 500 markka note 6.7 years, the 100 markka note 2.0 years and the 50 markka note 2.2 years.

Notes are secure

In November 1991, the Bank of Finland put into circulation notes of the Litt. A type in the denominations of 1 000, 500, 100 and 50 markka. The security of the Litt. A notes had been further improved compared with the notes of the 1986 series. No counterfeit Litt. A notes have been detected.

Chart 27.
FLOW OF NOTES AND COIN THROUGH THE BANK OF FINLAND, 1993





In 1993, some counterfeit 500 and 100 markka notes of the 1986 note series were, however, detected. Most of the counterfeit notes had originated from Finland's neighbouring areas, and some of them had also been distributed in Finland. The Bank of Finland and the other banks increased their efforts to withdraw all the 1986 series notes from circulation. At the end of 1993, a small proportion of the notes still remained in circulation.

Changes in currency supply services

The Bank of Finland and the banks agreed that services related to currency supply in the greater Helsinki area would be subject to a charge as from 1 May 1993. The grounds for the reorganization were the overall cost savings which would be achieved.

The Bank of Finland's Kotka branch was closed in 1993, and its currency supply services were taken over by the head office of the Bank of Finland and the Kuopio branch.

New Currency Act entered into force

The new Currency Act entered into force on 1 May 1993. The most important change as regards the maintenance of the currency supply was that the new Act gave the Bank of Finland the right to decide to annul the validity of notes and the Ministry of Finance the right to annul the validity of coins.

The Bank of Finland decided to annul the validity of all banknotes of the 1945–1980 types. The Ministry of Finance decided to annul the validity of all coins issued before 1963 and all coins in penni denominations issued before the 1990 coin series. These notes and coins ceased to be legal tender with effect from 1 January 1994, from which date payees are no longer obliged to accept them as payment. The Bank of Finland will redeem the annulled notes and coins until 31 December 2003.

Till-money credit facility was terminated

The till-money credit system, which had been in force for almost 13 years, and through which the Bank of Finland financed the cash held in banks' tills, was terminated in 1993.

Banks keep notes and coin in their tills to meet cash withdrawals by the public from deposit accounts. However, the holding of cash involves interest and other costs, which the banks seek to minimize. During the era of financial market regulation the banks were usually in debt to the central bank. By decreasing their cash holdings at the end of the business day the banks could reduce the size of their central bank debt and the associated interest costs. The banks did this by transporting as large a part of their cash holdings as possible to the Bank of Finland at the end of the day. At the Bank, their current accounts were credited with the relevant amounts, thus reducing the size of the outstanding debit balances on their accounts at the end of the day. On the morning of the following business day, cash would then be collected from the central bank and transported back to the banks' branches.

To avoid the unnecessary transportation of cash between the banks and the Bank of Finland, an arrangement called the 'till-money credit facility' was introduced at the beginning of November 1980. The till-money credit facility took the form of an interest-free loan by the Bank of Finland to the banks equivalent to their daily cash holdings. Thus, the banks no longer incurred interest costs as a result of holding cash. From the beginning of August 1988, a 'base amount' was set for each bank's till-money holdings. The credit facility did not apply to the base amounts and from then on the banks had to finance this part of their till-money holdings themselves.

Since the introduction of the till-money credit facility, the arrangements for maintenance of the currency supply have, however, been changed fundamentally, with the result that the daily transportation of cash funds between the banks and the Bank of Finland is no longer meaningful from the banks' point of view, nor otherwise expedient. As, moreover, it was desired to alter the financing relations between the Bank of Finland and the banks to better correspond to the operational environment, the Bank of Finland decided to discontinue the till-money credit facility at the end of June 1993. With the termination of till-money credit, the holding of cash by the banks again entails a normal marginal cost which acts as an incentive to minimizing such holdings.

With the exception of a 'one-off' effect on bank liquidity in connection with the introduction of the till-money facility, the system was of no significance for monetary policy, as the credit granted to banks under the arrangement was linked to their cash holdings and hence could not be used to expand bank lending.

Other Activities

International cooperation

International Monetary Fund (IMF)

At their joint annual meetings in September 1993, the International Monetary Fund and the World Bank reviewed the prospects for the world economy. The completion of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) was considered to be crucial for improving global growth prospects. Currency issues and especially the problems faced by the European Monetary System (EMS) also occupied a prominent place in the discussions. Other important topics discussed were the possible continuation of the Enhanced Structural Adjustment Facility and the necessity to allocate further special drawing rights. At the annual meeting, Ms Sirkka Hämäläinen, Chairman of the Board of Management of the Bank of Finland, delivered the Nordic and Baltic states' joint address, which dealt with the Monetary Fund.

The most recent member countries of the IMF, ie the independent states that emerged after the dissolution of the Soviet Union and the former socialist countries in Central and Eastern Europe, were involved in the activities of the Fund in several ways. In April, the Executive Board of the Fund established a special medium-term financing arrangement (Systemic Transformation Facility) for the economies in transition. This financing arrangement was considered necessary in a situation where these countries are facing balance-of-payments difficulties owing to a shift to market-based prices in their foreign trade. The arrangement aims at promoting the adjustment of these economies towards the normal IMF programme.

The Bank of Finland took an active part in the implementation of the technical assistance coordinated by the Fund. The objective was to strengthen the technical capacity of the recipient countries, mostly economies in transition, to conduct the central bank activities required by a market economy. A substantial part of the technical assistance provided by Finland and the other Nordic countries went to the Baltic states.

In May, a team of IMF officials paid their regular visit to Finland, during which they reviewed the state of the Finnish economy within the framework of Article IV consultations. In the course of 1993, technical discussions also took place with the representatives of the Fund concerning the conduct of monetary and exchange rate policy under a floating exchange rate regime.

Within the IMF, Finland participates in the joint constituency formed by the Nordic and Baltic countries, which consequently have a joint representative on the Fund's Executive Board. The term of the present Executive Director began on 1 November, and this two-year position is currently held by Mr Jarle Bergo from Norway. The central bank of Norway is responsible for preparing the Nordic and Baltic countries' joint statements of opinion to be presented to the Executive Board.

Ms Sirkka Hämäläinen, who is Chairman of the Board of Management of the Bank of Finland, acted as Finland's representative on the Fund's Board of Governors. Mr Matti Vanhala, Member of the Board of Management, served as her deputy.

Bank for International Settlements (BIS)

The Bank for International Settlements operates as a bank for the central banks and serves as their organization for international cooperation. During the year under review, the financing arrangements related to European integration and the maintenance of a data bank on technical assistance provided to former socialist countries were important areas of topical interest in the activities of the BIS. At their monthly meetings in Basle, the governors and experts of the central banks exchanged information on market developments and discussed issues related to the stability of the money and foreign exchange markets.

Integration

As the negotiations on Finland's membership of the EC proceeded, the focus of the Bank of Finland's preparations for integration shifted towards monetary and foreign exchange policy issues. With the entry into force of the Maastricht Treaty on 1 November, the European Community became the European Union. The implementation of the European Union also means that the preparations for the planned economic and monetary union (EMU) will proceed in more tangible form than hitherto.

The governors of the central banks of the EFTA countries which have applied for membership of the EU have been informed by the Chairman of the Committee of Governors of EC Central Banks of the preparations for EMU and the contents of the decisions that have been passed. The governors have correspondingly reported on the situation of the accession negotiations and on the progress in their own preparations. The Bank of Finland has carried out preparatory work connected with Finland's possible membership of the EU by, for instance, keeping in contact with the Secretariat of the Committee of Governors and with the EC central banks.

If Finland becomes a member of the European Union, cooperation in the field of economic and monetary policy will increase and the Bank of Finland will participate in the activities of the European Monetary Institute (EMI), which was established on 1 January 1994. The Committee of Governors of the EC Central Banks was dissolved at the beginning of 1994 and its duties were taken over by the EMI.

The ratification of the agreement on the European Economic Area (EEA) reached between the European Free Trade Association (EFTA) and the European Community (EC) was completed in the latter half of the year, and the agreement entered into force on 1 January 1994.

Bank of Finland representatives participated along 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. Bank of Finland representatives also participated in the work of EFTA's Economic Committee and in discussions held between the Economic Committee and the EC Commission.

The Bank of Finland was represented on the committee set up by the Ministry of Foreign Affairs to monitor the effects of integration on Finland by Mr Esko Ollila, Member of the Board of Management; Mr Matti Vanhala, Member of the Board of Management, was the Bank's deputy member. Several subcommittees worked under the monitoring committee. The Bank of Finland was represented on the subcommittee monitoring the overall progress of the integration negotiations and also on other subcommittees dealing with cooperation in economic and monetary policy, financial services, taxation, cooperation in the compilation of statistics and administrative issues.

Other international cooperation

Bank of Finland representatives participated in the activities of the Nordic Financial Commission (NFU), which is the forum for cooperation among the Nordic countries' central banks and ministries of finance. The Commission discussed the guidelines which should be observed regarding specific matters handled by the Executive Board of the IMF. Ways of furthering the Baltic states' participation in the operations of the joint IMF constituency were discussed at joint meetings arranged between the representatives of the Nordic and Baltic states. The principles and practical aspects of the work within the IMF were among the topics of discussion.

Within the Organization for Economic Cooperation and Development (OECD), the Bank of Finland participated in the meeting of the Council at ministerial level and in the work of, *inter alia*, the Economic Policy Committee, the Committee on Financial Markets, the Committee on Capital Movements and Invisible Transactions and their working parties. The Bank's representatives participated in the OECD meetings of experts dealing with the economic situation in Eastern Europe.

A group of OECD experts visited Finland and reviewed the country's economic situation. On the basis of this review, the OECD published a country report prepared by the secretariat.

Agreement was reached in December concerning the completion of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT). The member states will sign the agreement in April 1994; after this, the agreement will be ratified by the legislative organs of the countries concerned. The intention is that the agreement should enter into force by 1 July 1995.

The Bank of Finland had its own representative on the GATT trade negotiations committee, in addition to which the Bank's experts participated, in various working groups, in the preparatory work for the Uruguay Round in Finland.

Management of the foreign exchange reserves

Interest rates and exchange rates in the international foreign exchange and capital markets remained highly volatile in 1993, largely because of uncertainties connected with the European integration process. In the management of the foreign exchange reserves and in the related risk management, increasing emphasis had to be placed on operations in the European markets.

The Bank of Finland's foreign exchange reserves were invested mainly in government securities and securities repurchase agreements ('repos'). The use of the last-mentioned instrument increased notably compared with the previous years. Part of the reserves was also invested in foreign currency deposits, gold and special drawing rights; the gold reserves remained unchanged throughout the year. The most important investment currencies were the deutschmark, the US dollar, the pound sterling, the French franc, the Dutch guilder and the Japanese yen.

The main items of the convertible reserves at the end of 1992 and 1993 and changes in the course of the year are shown below:

	Reserves 31 Dec 1993	Reserves 31 Dec 1992	Change
	FIM million		
Gold	2 180	2 180	–
Special drawing rights	664	564	+ 100
IMF reserve tranche	1 747	1 732	+ 14
Convertible currencies, net	28 689	24 940	+ 3 749
Total	33 279	29 416	+ 3 862

Economic analysis and research

The monitoring of inflation was stepped up and its scope extended in 1993 after the Bank of Finland had set its explicit inflation target. In monitoring economic developments, special attention was also paid to issues connected with the dual nature of economic performance, including debt problems, the banking crisis, the slump in the domestic market and public sector deficits. Future developments in the Bank's operational environment were outlined by means of forecasts and medium-term calculations. The Bank's macroeconomic model was used to assess the effects of economic policy.

In 1993, research and analysis focused on economic policy, financial markets and payment systems. In the area of economic policy, the most significant project consisted of three independent analyses commissioned from three internationally recognized experts – Professors Christian Bordes, David Currie and Hans Tson Söderström – on the current state of the Finnish economy, its underlying causes and the future prospects for the Finnish economy and economic policy. The Bank's own projects included studies on the indebtedness of the economy, structural adjustment problems and especially issues related to the inflation target and monetary policy indicators under a floating exchange rate regime.

In research on financial markets, priority was given to the structural aspects and efficiency of the banking sector and its adjustment to integration. Attention was also paid to the risk analysis and supervision of financial institutions and to the development of the securities markets. These subjects were also discussed at an international workshop on banking research which was arranged at the Bank of Finland in October. The comprehensive statistical research project on the history of the Finnish financial markets was continued.

The analysis of payment systems included studies on the use of payment instruments and the demand for notes and coin in Finland, and on issues related to the introduction of chip cards and electronic money. An international seminar on electronic money was arranged at the Bank in September.

Research on the economies in transition in Central and Eastern Europe was continued in 1993. The studies focused on monitoring and analyzing economic developments in Russia and the Baltic states as well as the process of change in their economic systems. Among the subjects investigated were issues related to the development of the Russian economy and the reform of its economic system, such as stabilization, privatization, the currency system, the banking system, and Finnish enterprises and direct investment in Russia. Studies were also carried out on neighbouring areas of Russia, on issues related to direct investment and on the monetary and currency reforms carried out in the Baltic states. The Russian and Latvian researchers who visited the Bank of Finland carried out studies dealing with economic developments and business activities in their respective countries.

In addition to the regular Review of Economies in Transition, the Unit for Eastern European Economies prepared weekly and quarterly summaries of the main events in the transition economies to facilitate the monitoring of developments in these countries.

Information and publications

In June 1993, the Bank of Finland started to publish a quarterly bulletin in Finnish called 'Markka ja talous' (The Markka and the Economy). The monthly English language publication Bank of Finland Bulletin appeared 11 times. The Year Book and Finnish Bond Issues were published in the early part of the year. Three publications were issued in series A, one in series B, one in series C and two in series D[1]. The statistical review entitled Financial Markets appeared monthly. Sixteen papers appeared in the Discussion Papers series, which comprises research and analytical work done in the various departments of the Bank. The Review of Economies in Transition, which contains studies and reports on developments in the countries of Central and Eastern Europe, appeared ten times. The Bank of Finland also published a new, enlarged edition of the book 'Suomen rahat' (The Coins and Banknotes of Finland), which was first published in 1981.

Administration and staff

The Banking Supervision Office was dissolved by the Act on the Financial Supervision Authority (503/93) and its operations were taken over by the Financial Supervision Authority, which functions in connection with the Bank of Finland. The staff of the Banking Supervision Office (80) became employees of the Bank of Finland when the Act entered into force on 1 October.

A unit named Organization and Management Development was set up by the Bank to operate for a fixed term of three years as a management support unit reporting directly to the Governor. The principal aim of the unit is the development and adjustment of the Bank to meet the requirements and new tasks which will emerge over the next few years, as well as to increase cost-awareness within the Bank.

In November, the Bank of Finland's Board of Management approved a set of general guidelines for promoting the mobility of staff within the Bank;

[1] A list of Bank of Finland publications in 1993 is included in the Appendices.

the Board made a decision on the exchange of duties of heads of departments and decided to initiate an exchange of duties of advisers as from the beginning of 1994. By reorganizing duties the Bank seeks to broaden staff members' expertise and to strengthen its adviser resources in key areas.

The Bank of Finland's Kotka branch was closed. The office premises of the Kotka branch and of the Pori and Rovaniemi branches, which had been closed earlier, were sold in the course of the year. A new branch office building in Kuopio was completed in June.

At the end of 1993, a total of 825 persons were employed by the Bank of Finland. Staff at the head office numbered 685 and that at the branches 140. The total number includes 42 persons on leave of absence for various reasons and 68 persons on fixed-term contracts. In the course of the year, the number of persons employed by the Bank decreased by 69. The staff of the Financial Supervision Authority numbered 86 at the end of the year.

Training

Because of the changing operating environment of economic policy, staff training continued to focus on developing the professional skills of the Bank's economists. Special subjects were the conduct of monetary policy under a floating exchange rate and issues related to the ongoing integration process. Extensive training in information technology was also continued. A survey on the organizational climate of the Bank, which had been conducted four years earlier, was repeated, and managerial capabilities were assessed by means of a resource analysis. To develop the Bank's operations, the planning of a management development programme was initiated by the new Organization and Management Development Unit.

Special emphasis was also placed on training in languages and communication skills and on enhancing staff mobility within the Bank and the capabilities of the staff as a whole with respect to internationalization and professional skills. Attention was also paid to intensifying the organizational development of the Bank, increasing cost-awareness and improving productivity. Expenditure on training accounted for 2.7 per cent of the Bank's total wage bill.

The 'Young Professionals' training programme, which is designed for newly-qualified economists, began in February and will continue until the end of June 1994. The aim of the programme is to prepare young professionals for work in international organizations, the banking sector and public administration. The six persons chosen for the programme participated in the internal training of the Bank and worked in various departments.

The Bank also provided training assistance for economies in transition. Scores of visitors from these countries visited the Bank for this purpose, and Bank of Finland experts paid visits to the countries concerned.

Data processing

The utilization of data technology was enhanced in many ways in the course of 1993. More electronic filing systems were created for various departments, and personal computer systems were connected to networks. A new version of the management information system was produced, which includes facilities for monitoring market developments in real time. A time series database operating in a personal computer network was implemented for the economists. The replacement of outdated workstations continued as planned.

The second phase of the installation of the ATLAS system, incorporating primarily the processing of foreign and Finnish securities, was postponed until the early months of 1994.

Financial Statements

Balance sheet, FIM

ASSETS

Gold and foreign currency claims (1)				
Gold	2 179 674 591,49		2 179 877 401,68	
Special drawing rights	663 868 229,63		563 785 166,54	
IMF reserve tranche	1 746 569 300,51		1 732 459 645,47	
Convertible currencies	28 882 037 570,03	33 472 149 691,66	25 040 927 391,80	29 517 049 605,49
Other foreign claims (1)				
Markka subscription to Finland's quota in the IMF	5 058 109 718,67		4 463 666 904,52	
Term credit	–	5 058 109 718,67	403 766 882,73	4 867 433 787,25
Claims on financial institutions (2)				
Liquidity credits	1 100 000,00		1 584 900 000,00	
Certificates of deposit	1 844 461 228,60		3 930 010 340,03	
Securities with repurchase commitments	5 492 519 450,89		4 407 845 271,56	
Term credits	–		100 000 000,00	
Till-money credits	–		2 871 523 000,00	
Bonds	1 100 800 000,00		1 462 345 000,00	
Other	237 901 192,00	8 676 781 871,49	237 908 278,82	14 594 531 890,41
Claims on the public sector (3)				
Loans to the Government Guarantee Fund	–		1 000 000 000,00	
Total coinage	1 788 419 354,20	1 788 419 354,20	1 446 494 864,20	2 446 494 864,20
Claims on corporations (4)				
Financing of domestic deliveries (KTR)	496 296 726,10		747 285 763,90	
Other	2 806 719 487,31	3 303 016 213,41	710 864 254,71	1 458 150 018,61
Other assets (5)				
Loans for stabilizing the money market	5 752 000 000,00		9 474 000 000,00	
Accrued items	907 073 671,39		1 297 963 685,76	
Other	166 469 505,70	6 825 543 177,09	153 061 567,18	10 925 025 252,94
Capitalized expenditures and losses due to safeguarding the stability of the money market (6)		1 400 000 000,00		1 700 000 000,00
Total		**60 524 020 026,52**		**65 508 685 418,90**

LIABILITIES

Foreign currency liabilities (1)				
Convertible currencies	193 393 855,26	193 393 855,26	100 627 954,24	100 627 954,24
Other foreign liabilities (1)				
IMF markka accounts	5 058 138 344,52		4 463 728 887,35	
Allocations of special drawing rights	1 130 809 688,60		1 025 905 427,50	
Other	–	6 188 948 033,12	2 273 950 000,00	7 763 584 314,85
Notes and coin in circulation (7)				
Notes	13 442 206 837,00		13 208 702 865,00	
Coin	1 551 644 284,00	14 993 851 121,00	1 299 284 288,35	14 507 987 153,35
Certificates of deposit (8)		14 837 000 000,00		4 880 000 000,00
Liabilities to financial institutions (9)				
Call money deposits	1 803 387 358,31		2 134 813 756,66	
Minimum reserve deposits	6 397 931 300,00		–	
Term deposits	–		4 700 000 000,00	
Cash reserve deposits	–	8 201 318 658,31	13 164 695 506,00	19 999 509 262,66
Liabilities to the public sector (10)				
Cheque accounts	7 961 980,21		72 208 426,01	
Deposits of the Government Guarantee Fund	776 039 269,61	784 001 249,82	17 814 366,63	90 022 792,64
Liabilities to corporations (11)				
Deposits for investment and ship purchase	2 086 678 759,32	2 086 678 759,32	3 362 354 641,53	3 362 354 641,53
Other liabilities (12)				
Accrued items	535 641 913,64		4 242 231 865,72	
Other liabilities	91 590 695,52	627 232 609,16	156 302 287,97	4 398 534 153,69
Valuation account and reserves (13)		6 847 478 700,97		4 641 948 106,38
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		**60 524 020 026,52**		**65 508 685 418,90**

Profit and loss account, FIM

INTEREST INCOME				
Domestic (1)				
Liquidity credits	40 008 660,32		77 629 344,04	
Certificates of deposit	198 786 240,61		925 608 584,86	
Securities with repurchase commitments	329 188 459,53		351 323 083,64	
Net interest on forward transactions	323 975 329,84		911 827 702,84	
Financing of domestic deliveries (KTR)	49 329 907,61		92 050 871,16	
Bonds	265 721 556,24		173 567 026,84	
Loans to the Government Guarantee Fund	38 773 902,19		282 437 505,69	
Loans for stabilizing the money market	358 053 945,21		219 097 260,27	
Other	42 376 316,13	1 646 214 317,68	42 257 685,92	3 075 799 065,26
Foreign (2)				
IMF	92 667 371,94		118 066 433,83	
Securities	1 552 967 786,71		1 648 424 864,03	
Other currency claims	203 825 828,83	1 849 460 987,48	131 095 025,74	1 897 586 323,60
Total interest income		3 495 675 305,16		4 973 385 388,86
INTEREST EXPENSE				
Domestic (3)				
Call money deposits	– 43 705 960,57		– 239 126 088,23	
Certificates of deposit	–1 156 188 007,67		– 1 937 470 702,00	
Cash reserve deposits	– 479 607 595,02		– 1 104 769 924,85	
Investment deposits	– 106 884 337,65		– 312 792 072,76	
Other	– 32 557 283,25	– 1 818 943 184,16	– 30 182 145,99	– 3 624 340 933,83
Foreign				
IMF	– 53 403 307,87		– 57 762 879,76	
Loans under swap arrangements	– 18 395 298,78		– 190 465 465,02	
Other	– 1 387 521,76	– 73 186 128,41	– 2 845 174,71	– 251 073 519,49
Total interest expense		– 1 892 129 312,57		– 3 875 414 453,32
INTEREST MARGIN (4)		1 603 545 992,59		1 097 970 935,54
OTHER INCOME (5)				
Commissions and fees	13 719 877,15		10 175 594,18	
Supervision fees charged by the Financial Supervision Authority	7 700 000,00		–	
Other	99 421 759,28	120 841 636,43	59 666 458,54	69 842 052,72
OTHER EXPENSE (6)				
Salaries	– 155 443 299,47		– 157 713 693,96	
Social security costs	– 78 624 199,63		– 72 901 593,80	
Purchase of banknotes	– 50 254 700,00		– 42 354 900,10	
Depreciation	– 60 480 690,36		– 91 070 000,37	
Other	– 87 836 800,49	– 432 639 689,95	– 104 399 610,55	– 468 439 798,78
EXPENSE AND INCOME DUE TO SAFEGUARDING THE STABILITY OF THE MONEY MARKET (7)				
Write-off on shares in asset management companies	–1 200 000 000,00		–	
Write-off on capitalized expenditures and losses	– 300 000 000,00		–	
Income on sale of shares	200 000 000,00	– 1 300 000 000,00	–	–
PROFIT BEFORE VALUATION ADJUSTMENTS AND RESERVES		– 8 252 060,93		699 373 189,48
Valuation gain/loss on foreign securities (8)		453 317 702,04		127 377 120,42
Exchange rate gain/loss (9)		2 237 698 766,00		– 1 768 207 012,83
Increase in pension reserve (10)		– 78 878 531,62		–
Increase (–)/reduction (+) in reserves in accordance with section 30 of the Act on the Bank of Finland (10)		– 2 603 885 875,49		941 456 702,93
PROFIT FOR THE ACCOUNTING YEAR (11)		**0,00**		**0,00**

Appendices to the financial statements

Note issue, FIM				
Right of note issue	33 472 149 691,66		29 517 049 605,49	
Used right of note issue	14 432 365 767,65		13 418 309 607,85	
Unused right of note issue	19 039 783 924,01		16 098 739 997,64	
Markka/foreign currency forward contracts, FIM (middle rate as at 31 Dec)				
Forward purchase contracts	–		3 619 050 000,00	
Forward sales contracts	2 885 444 614,19		13 964 781 485,27	
Foreign currency/foreign currency forward contracts, FIM (middle rate of currency purchased as at 31 Dec)	787 620 417,00		7 080 504 173,89	
Foreign currency futures contracts, FIM (middle rate as at 31 Dec)				
Purchase contracts	146 926 300,00		1 517 638 000,00	
Sales contracts	–		503 517 500,00	
Shares and other interests, nominal value, FIM (Bank of Finland's holding in parentheses)				
Scopulus Oy	2 000 000,00	(100 %)	150 000 000,00	(100 %)
Sponda Oy	300 000 000,00	(100 %)	100 000 000,00	(100 %)
Solidium Oy	–	(100 %)	40 000 000,00	(100 %)
Setec Oy	40 000 000,00	(100 %)	40 000 000,00	(100 %)
Helsinki Money Market Center Ltd	35 300 000,00	(52 %)	35 300 000,00	(52 %)
Bank for International Settlements	64 777 336,95	(1,67 %)	58 767 998,07	(1,67 %)
Shares in housing companies	883 243,00		1 284 243,00	
Real estate shares	634 120,00		634 120,00	
Other shares and interests	1 019 351,00		1 013 433,50	
Total	444 614 050,95		426 999 794,57	
Guarantees, FIM				
Temporary guarantee commitments in connection with the transfer of risk exposures from Skopbank	233 111 000,00		486 884 000,00	
Guarantees issued on behalf of asset management companies	517 378 000,00		642 360 000,00	
Total	750 489 000,00		1 129 244 000,00	
Liability arising from pension commitments, million FIM				
The Bank of Finland's pension liability	1 727		1 611	
–of which covered out of reserves	1 234		1 150	

The Bank of Finland's real estate

Building	Address	Year of completion	Volume cu.m (approx.)
Helsinki	Rauhankatu 16	1883/1961	49 500
	Unioninkatu 33/Rauhankatu 19	1848/1954	17 500/33 000
	Snellmaninkatu 23	1896/1988	27 500
	Liisankatu 14	1928	48 500
	Ramsinniementie 34	1920/1983	4 500
Joensuu	Torikatu 34	1984	11 000
Jyväskylä	Kauppakatu 21	1950	32 000
Kuopio	Kauppakatu 25–27	1912	7 500
	Puutarhakatu 4	1993	11 900
Lahti	Torikatu 3	1929	36 500
Mikkeli	Päiviönkatu 15	1965	7 500
Oulu	Kajaaninkatu 8	1973	17 000
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	Suometsäntie 1	1979	311 500
Inari	Saariselkä	1968/1976	2 000

Helsinki 8 February 1994

THE BOARD OF MANAGEMENT OF THE BANK OF FINLAND

Sirkka Hämäläinen, Chairman

Harri Holkeri   Esko Ollila   Kalevi Sorsa   Matti Vanhala

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 Act on the Bank of Finland, fixed assets, shareholdings 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. The Bank of Finland's shareholdings and other interests and the Bank's real estate are listed in the appendices to the financial statements.

Foreign currency claims and liabilities have been translated into markkaa at the middle exchange rates as at 31 December 1993. All changes in the value of claims, liabilities and off-balance sheet items resulting from changes in exchange rates have been entered in the profit and loss account under exchange rate gain/loss.

In accordance with subsection 1, paragraph 2 of section 17 of the Act on the Bank of Finland, the Parliamentary Supervisory Board confirms the accounting principles applied.

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 62 276 kilos, with a market value of about FIM 4 524 million.

The item 'allocations of special drawing rights' under liabilities corresponds to the item 'special drawing rights' 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 section 6 of the Act on the Bank of Finland.

The item 'other foreign claims' included a term credit dating from the period of the clearing arrangement between Finland and the former Soviet Union and representing the State's claim on Vneshekonombank of the former Soviet Union. The State paid a sum equivalent to the amount of the credit to the Bank of Finland in December 1993.

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

2 Claims on financial institutions

Liquidity credits are fixed-term liabilities of banking institutions entitled to central bank financing to the Bank of Finland.

Certificates of deposit are market-priced securities issued by banks. They have been valued at acquisition cost. This item also includes interest of FIM 4 million accrued on certificates of deposit.

Securities with repurchase commitments 'repos' are used alongside certificates of deposit in money market operations.

The till-money credit system, which was used to finance the banks' holdings of cash, was abolished at the end of June 1993.

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

3 Claims on the public sector

As at 31 December 1992, the Government Guarantee Fund had temporary credit from the Bank of Finland.

Total coinage indicates the State's liability to the Bank of Finland on the basis of its obligation to redeem coins.

4 Claims on corporations

Credits for financing domestic deliveries have been granted either in the form of loans or bonds. Bonds are valued at nominal value. The interest rate on KTR credits ranges from the base rate to the base rate plus 2.5 percentage points.

The item 'other' mainly consist of securities classified as investments and valued at nominal value.

5 Other assets

The outstanding amount of loans for stabilizing the money market decreased by FIM 3 722 million in the course of the year. The Bank's asset management companies repaid loans to the value of FIM 2 522 million and FIM 1 200 million was converted into Sponda Oy's equity capital.

A total of FIM 15 582 million of Bank of Finland financing had originally been committed to the take-over of Skopbank and the transfer of Skopbank's risk exposures in 1991 and 1992. By the end of 1993, FIM 4 530 million of this amount had been recouped, FIM 3 900 million was entered as losses in the profit and loss account and FIM 1 400 million was capitalized in the balance sheet. Of the original amount of financing committed, FIM 5 752 million still remained in the balance sheet in the form of loans for stabilizing the money market.

Accrued items are mainly interest receivables. Other assets include FIM 121 million in staff housing loans. The interest rate applied to old housing loans was equivalent to the base rate, and the rate applied to loans granted after 16 February 1993 was equivalent to the base rate plus 2 percentage points.

6 Capitalized expenditures and losses due to safeguarding the stability of the money market

The losses incurred in 1992 as a result of the sale of Skopbank's shares and preferred capital certificates to the Government Guarantee Fund were capitalized in the balance sheet for 1992. Of this item, FIM 300 million was written off in the financial statements for 1993, and FIM 1 400 million remained to be written off in subsequent years.

7 Notes and coin in circulation

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

8 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.

9 Liabilities to financial institutions

Call money deposits constitute the credit balances on cheque accounts held by banking institutions entitled to central bank financing.

The cash reserve deposit system was replaced by a minimum reserve system on 1 July 1993. Minimum reserve deposits are collected on the basis of the liabilities items in banks' balance sheets, so that the deposit requirement varies between one and two per cent depending on the composition of a bank's funding. Minimum reserve deposits are non-interest-bearing.

10 Liabilities to the public sector

This item comprises the Government Guarantee Fund's current account and deposit accounts at the Bank of Finland.

11 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. The rate of interest is determined according to the Investment Reserves Act.

12 Other liabilities

Accrued items consist mainly of accrued interest payable.

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

13 Valuation account and reserves

The Bank's reserves have been augmented in order to safeguard the real value of the capital accounts and to cover the exchange rate risks associated with foreign currency claims and liabilities.

The Bank of Finland's pension liabilities total FIM 1 727 million; 71.4 per cent of this amount is covered by the reserve.

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 or market value. The difference between the nominal value and 'lowest value', the accounting principle applied in the profit and loss account, has been entered in the valuation account as a deduction.

14 Capital accounts

The Bank's primary capital and reserve fund were unchanged in 1993.

Notes to the profit and loss account

Owing to the fall in the level of interest rates, domestic interest income and interest expense decreased notably compared with the previous year, but net interest income (interest margin) increased by more than FIM 500 million.

The costs of the Financial Supervision Authority, which was incorporated in the Bank of Finland's administration with effect from 1 October 1993, have been included in the profit and loss account for the period from 1 October to 31 December 1993, and the supervision fees collected from the supervised entities during the same period have been entered under other income.

1 Domestic interest income

Domestic interest income totalled FIM 1 646 million. Interest income on certificates of deposit amounted to FIM 199 million, that on securities with repurchase commitments to FIM 329 million, that on forward transactions to FIM 324 million, that on bonds to FIM 266 million and that on loans for stabilizing the money market to FIM 358 million.

2 Foreign interest income

In 1993, foreign interest income amounted to FIM 1 849 million. This represented a decrease of FIM 49 million on the previous year.

3 Domestic interest expense

Domestic interest expense, FIM 1 819 million, includes FIM 1 156 million representing interest expense on Bank of Finland CDs. Interest paid on cash reserve deposits during the first half of the year amounted to FIM 480 million, and interest expense on deposits for investment amounted to FIM 107 million.

4 Interest margin

The interest margin amounted to FIM 1 604 million, or FIM 506 million more than in 1992.

5 Other income

Other income totalled FIM 121 million. Supervision fees charged by the Financial Supervision Authority were entered as a new item under other income for the last three months of the year. The supervision fees are calculated in accordance with the law governing the principles applied in collecting government payments. The Bank of Finland covers the costs of the Financial Supervision Authority, which are subsequently collected from the supervised entities.

The item 'other income' includes FIM 35 million in sales proceeds from office premises and FIM 36 million in rental income.

6 Other expense

The Bank's total wage bill amounted to FIM 155 million, of which the share of the Financial Supervision Authority, for the last three months of the year, was FIM 4 million.

In accordance with the Act on 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. Buildings accounted for FIM 32 million of depreciation and machinery and equipment for FIM 27 million.

7 Expense and income due to safeguarding the stability of the money market

Expense and income due to safeguarding the stability of the money market arose in connection with the take-over of Skopbank. The equity capital of Sponda Oy was increased by FIM 1 200 million at the end of 1993. The increase in equity capital was carried out through a conversion of loans, and the Bank entered the investment in equity capital directly as expense in the manner stipulated in the Act on the Bank of Finland. Solidium Oy disposed of the main part of its holdings in Oy Tampella Ab following the sale of some of Tampella's lines of business. After these measures, the share capital of Solidium Oy was sold to Sponda Oy, and the company was consolidated as part of the Sponda group. The Bank entered FIM 200 million as proceeds from this sale, which corresponded to the sum invested by the Bank in the equity capital of the company when it was set up. FIM 300 million of the expenditures and losses capitalized in the Bank's balance sheet during the previous accounting year was written off in the financial statements.

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, liabilities and off-balance sheet items resulting from exchange rate changes as well as net earnings from foreign exchange dealings. In 1993, the Bank recorded an exchange rate gain of FIM 2 238 million. The exchange rate gain/loss was affected to a significant extent by movements in the exchange rate of the US dollar, one of the major reserve currencies.

10 Changes in reserves

Employees' pension contributions collected from wages during 1993 were transferred to the pension reserve. Imputed interest was calculated at base rate on the employees' pension contributions and on the pension reserves made during previous years, and the pension reserve was increased by the resulting amount.

The reserves in accordance with section 30 of the Act on the Bank of Finland were increased by FIM 2 604 million in order to strengthen the Bank's own funds, which had decreased in previous years.

11 Result for the accounting year

After the increase in reserves, the profit for the accounting year was zero markkaa.

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 1993 to the extent required by good auditing practice.

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

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

The financial statements of the Bank of Finland have been prepared in keeping with the principles on closing the accounts confirmed by the Parliamentary Supervisory Board and current regulations.

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, 17 March 1994

AUDITORS OF THE BANK OF FINLAND

Kauko Heikkinen

Arja Alho　　Timo E. Korva

Matti Lahtinen　　Paavo Lipponen

./. Kalervo Virtanen
Authorized Public Accountant

Appendices

Measures concerning monetary and foreign exchange policy and the financial markets

January

Base rate

The Parliamentary Supervisory Board lowered the Bank of Finland's base rate from 9.5 per cent to 8.5 per cent with effect from 1 January.

Cash reserve requirement

The Bank of Finland raised the banks' cash reserve requirement from 5.0 per cent to 5.5 per cent of the cash reserve base at the end of December 1992.

Interest on cash reserve deposits

The Bank of Finland decided to lower the rate of interest paid on cash reserve deposits as from 1 January in accordance with the current cash reserve agreement. The new interest rate was 3 percentage points below three-month HELIBOR, however not less than 8 per cent.

Swap agreement between the Nordic central banks

The Nordic central banks decided to revise and substantially enlarge their agreement on short-term currency support, which had been in force since 1 January 1984. The revised agreement entered into force on 1 January for an indefinite period.

New legislation on foreign ownership

The 1939 Restriction Act was repealed at the end of December 1992, and new legislation lifting the restrictions on foreign ownership of Finnish companies entered into force on 1 January. The new legislation also liberalizes the acquisition of real estate by foreigners.

February

Monetary policy

The Bank of Finland specified the guidelines in accordance with which monetary policy is to be conducted over the next few years. The aim is to stabilize the rate of inflation permanently at 2 per cent by 1995. Inflation is measured by the consumer price index; however, changes due to public charges, taxes and developments in housing prices are not taken into account.

Base rate

The Parliamentary Supervisory Board lowered the Bank of Finland's base rate from 8.5 per cent to 7.5 per cent with effect from 15 February.

Finnish State guarantees banks' operations

On 23 February, Parliament unanimously approved a resolution requiring the Finnish State to guarantee that Finnish banks meet their commitments under all circumstances. At the same time, Parliament undertook to grant the Government whatever funds and powers might be necessary for this purpose.

March

Organization of the Government Guarantee Fund

The organization of the Government Guarantee Fund was changed by law as from 12 March. The changes were designed to improve the Fund's prerequisites for providing bank support. The main changes were:

– The board of management of the Fund comprises at most five members, at least one of whom represents the Ministry of Finance. Consequently, the new law no longer includes provisions on the representation of other authorities on the board of management. The Parliamentary Supervisory Board continues to function as the Fund's supervisory body and eg appoints the members of the board.

– The Fund has a full-time manager assisted by other full-time staff. Before the reform, the Fund did not have a full-time staff of its own.

– The Fund assists the Ministry of Finance in the preparation of decisions concerning the use of funds set aside for bank support in the State budget; the Government makes decisions on support measures.

April

Support to the Savings Bank of Finland

On 27 April, the Government Guarantee Fund granted capital support totalling FIM 1.1 billion to the Savings Bank of Finland. Of this amount, FIM 150 million was used to increase the bank's share capital and FIM 950 million to purchase the bank's preferred capital certificates.

May

Base rate

The Parliamentary Supervisory Board lowered the Bank of Finland's base rate from 7.5 per cent to 7.0 per cent with effect from 17 May.

Cash reserve requirement

The Bank of Finland lowered the banks' cash reserve requirement from 5.5 per cent to 4.5 per cent of the cash reserve base at end-April.

Maximum interest rate on transaction accounts

Under the amendment to the law on income taxation, the maximum annual rate of interest payable on tax-exempt transaction accounts was lowered from 4.5 per cent to 2.5 per cent with effect from 6 May.

Support to Skopbank

On 24 May, the Government Guarantee Fund granted capital support to Skopbank by purchasing preferred capital certificates issued by Skopbank to the total value of FIM 700 million.

June

Cash reserve requirement

The Bank of Finland lowered the banks' cash reserve requirement from 4.5 per cent to zero (0) per cent of the cash reserve base at end-May and returned the banks' cash reserve deposits on 1 June.

Termination of till-money credit facility

The Bank of Finland decided to terminate its till-money agreements with the banks with effect from 30 June, when the outstanding till-money credits extended to the banks matured.

Market in government securities

On 15 June, the Bank of Finland announced measures designed to promote the functioning of the market in government securities by improving the operating conditions of primary dealers. Among other things, the Bank started to hold weekly repo auctions in government and Bank of Finland securities for the primary dealers. In addition, the Bank may, at its discretion, grant intraday credit to primary dealers and special short-term financing to non-bank primary dealers.

July

Introduction of minimum reserve system

On 30 June, the Bank of Finland terminated the cash reserve agreement with the banks and replaced it by the minimum reserve system. Deposit banks and branches of foreign credit institutions were required to hold 2.0 per cent of their liquid deposits, 1.5 per cent of their other deposits and 1.0 per cent of their other domestic liabilities as non-interest-bearing minimum reserves at the Bank of Finland. The system was applied for the first time to the reserve base for June and the corresponding deposits were to be made by the end of July.

Base rate

The Parliamentary Supervisory Board lowered the Bank of Finland's base rate from 7.0 per cent to 6.5 per cent with effect from 15 July.

August

Base rate

The Parliamentary Supervisory Board lowered the Bank of Finland's base rate from 6.5 per cent to 6.0 per cent with effect from 16 August.

Guarantee to the Union Bank of Finland and Kansallis-Osake-Pankki

On 19 August, the Government made a decision in principle to guarantee the acquisition of new equity capital by the Union Bank of Finland (UBF) and Kansallis-Osake-Pankki (KOP). The final decision was subject to approval by Parliament of the necessary revisions to the budgetary powers.

The guarantee to be given to the UBF covered the issue of preferred capital certificates up to FIM 1 billion and that to KOP the issue of preferred capital certificates and subordinated debentures up to a total of FIM 1.8 billion. In the case of preferred capital certificates, the guarantee applies to both interest and principal and will remain in force for a maximum of 10 years.

Support to the Savings Bank of Finland

On 19 August, the Government granted capital support totalling FIM 1 billion to the Savings Bank of Finland. Of this amount, FIM 250 million was used to increase the bank's share capital and FIM 750 million to purchase the bank's preferred capital certificates. As a result, the State's holding in the Savings Bank of Finland rose to 99 per cent.

October

Establishment of asset management companies

The Act on the Government Guarantee Fund was amended on 15 October so as to enable the Fund to own and administer shares in an asset management company, ie a company set up for the purpose of purchasing and administering the assets or liabilities of a bank subject to support measures taken by the Fund or the government.

Sale of Savings Bank of Finland to other banks

On 22 October, the Government approved the proposal of the Government Guarantee Fund for an arrangement whereby the Savings Bank of Finland (SBF) was to be sold to four buyers. Kansallis-Osake-Pankki, Postipankki Ltd, Union Bank of Finland Ltd and the cooperative banks designated by the Central Association of the Cooperative Banks each bought one quarter of the business operations of the SBF.

November

Establishment of the asset management company Arsenal Ltd

On 18 November, the Government established an asset management company called Arsenal Ltd to own and administer the non-performing assets of the Savings Bank of Finland (SBF). These assets were not included in those parts of the SBF sold to four banking groups in October.

Support to the security fund of the cooperative banks

On 18 November, the Government gave a guarantee for a maximum amount of FIM 900 million in respect of interest payments on loans raised by the security fund of the cooperative banks. If, on the basis of this guarantee, the Government has to pay interest on loans raised by the fund, the latter will start repaying interest in 1997.

December

Base rate

The Parliamentary Supervisory Board lowered the Bank of Finland's base rate from 6.0 per cent to 5.5 per cent with effect from 1 December.

Collateral requirements for banks' intra-day and liquidity credit

The Bank of Finland specified the collateral requirements for banks' liquidity credit and intra-day credit with effect from 1 December. The intra-day overdraft limits introduced on banks' current accounts on 1 March 1993 became permanent. Liquidity credit must always be fully collateralized. Banks which fulfil the criteria for access to central bank liquidity credit are required to deposit collateral equivalent to 25 per cent of their overdraft limits whereas other banks are required to deposit collateral for the full amount of their limits.

Support to Skopbank

On 22 December, the Government granted capital support to Skopbank by purchasing preferred capital certificates issued by Skopbank to the total value of FIM 350 million.

Main statements issued by the Bank of Finland in 1993

Statements concerning the development of financial markets

Statement given to the Ministry of Justice concerning the report of the committee on the Companies Act, 11 March.

Statement given to the Ministry of Finance concerning the amendment of the Stamp Duties Act, 25 March.

Statement given to the Parliamentary Economic Committee concerning the Government bill on the Financial Supervision Authority and related legislation, 6 April and 27 April.

Statement given to the Ministry of Justice concerning the final report of the committee on the revision of consumer credit legislation, 28 April.

Statement given to the Ministry of the Environment concerning the report of the working group on securitization, 17 August.

Statement given to the Banking Supervision Office concerning new draft guidelines and regulations based on the Credit Institutions Act, 6 September.

Statement given to the Ministry of Justice on the proposal of the project group on the Penal Code concerning securities market offences, 8 September.

Statement given to the Ministry of Finance concerning amendments to the rules and regulations for the Helsinki Stock Exchange, to the provisions concerning trading in shares and bonds and to the provisions concerning securities and book-entry securities, 20 December.

Statements concerning the support of the banking system

Statement given to the Government Guarantee Fund concerning STS-bank's role in the management of problem loans, 8 April.

Statement given to the Government Guarantee Fund concerning the support of the Savings Bank of Finland and Skopbank, 27 April.

Statement given to the Government Guarantee Fund concerning the support of Skopbank, 18 May.

Statement given to the Government Guarantee Fund concerning state guarantees for the acquisition of equity capital by Kansallis-Osake-Pankki and Union Bank of Finland, 11 August.

Statement given to the Government Guarantee Fund concerning the support of the Savings Bank of Finland, 16 August.

Statements given to the Government Guarantee Fund concerning a plan for reorganizing savings banks, 11 October and 20 October.

Statement given to the Government Guarantee Fund concerning a guarantee arrangement for the Okobank Group, 9 November.

Statement given to the Government Guarantee Fund concerning the establishment of an asset management company, 11 November.

Statement given to the Government Guarantee Fund concerning the support of Skopbank, 16 December.

Statements concerning interest subsidies

Statement given to the Ministry of Education concerning the maximum interest rate on study loans, 15 March and 9 December.

Other statements

Statement given to the Banking Supervision Office concerning the accounting regulations for credit institutions, 5 January.

Statement given to the Banking Supervision Office concerning the amendment of the regulation on the reporting of the capital adequacy of deposit banks and credit institutions, 10 February.

Statement given to the Ministry of Finance concerning the proposal of the working group on statistics law for a law on statistics, 19 February.

Statement given to the Ministry of Finance concerning a question by Mr Sulo Aittoniemi, MP, regarding the repatriation of the export earnings of the manufacturing industry, 6 April.

Statement given to the State Audit Office concerning the auditing of government borrowing, 8 April.

Statement given to the Ministry of Labour concerning the report "Integration and the Labour Market", 10 June.

Statement given to the Parliamentary Finance Committee concerning the Government bill on value added tax, 19 August.

Statement given to the Banking Supervision Office concerning the regulations on the accounting and financial statements of deposit banks, 30 September.

Statement given to the Ministry of Finance concerning the draft decision on the confidentiality of certain statistical data prior to their publication, 14 December.

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
_	change in contents of series

Table 1.

The monthly balance sheet of the Bank of Finland in 1993, million FIM

ASSETS

Gold and foreign currency claims	**32 026**	**28 776**	**27 534**
Gold	2 180	2 180	2 180
Special drawing rights	595	655	655
IMF reserve tranche	1 829	1 972	1 974
Convertible currencies	27 421	23 969	22 725
Other foreign claims	**4 886**	**4 922**	**4 916**
Markka subscription to Finland's quota in the IMF	4 464	4 464	4 464
Term credit	423	458	452
Claims on financial institutions	**11 944**	**12 598**	**12 861**
Liquidity credits	450	–	171
Certificates of deposit	4 043	2 393	898
Securities with repurchase commitments	2 761	5 055	6 671
Term credits	–	–	500
Till-money credits	3 023	3 511	2 994
Bonds	1 428	1 402	1 389
Other	238	238	238
Claims on the public sector	**2 449**	**2 121**	**1 954**
Treasury bills	–	–	–
Loans to the Government Guarantee Fund	1 000	668	500
Total coinage	1 449	1 453	1 454
Claims on corporations	**1 438**	**1 421**	**1 397**
Financing of domestic deliveries (KTR)	728	710	686
Other	711	711	711
Other assets	**9 622**	**9 621**	**9 618**
Loans for stabilizing the money market	9 474	9 474	9 474
Accrued items	–	–	–
Other	148	147	144
Capitalized expenditures and losses due to safeguarding the stability of the money market	**1 700**	**1 700**	**1 700**
Total	**64 065**	**61 159**	**59 979**

34 900	**34 608**	**37 027**	**35 083**	**31 801**	**27 083**	**29 465**	**31 087**	**33 472**
2 180	2 180	2 180	2 180	2 180	2 180	2 180	2 180	2 180
615	634	650	661	680	675	668	678	664
1 842	1 819	1 866	1 899	1 927	1 869	1 850	1 854	1 747
30 262	29 976	32 332	30 342	27 014	22 359	24 766	26 375	28 882
4 895	**5 277**	**5 298**	**5 337**	**5 328**	**5 364**	**5 363**	**5 370**	**5 058**
4 476	4 862	4 862	4 862	4 862	4 904	4 904	4 904	5 058
419	415	436	475	466	460	459	465	–
7 348	**9 700**	**7 823**	**6 671**	**9 541**	**9 723**	**9 392**	**8 356**	**8 677**
305	–	1 992	418	1 129	1 779	1 203	–	1
1 543	2 836	347	778	2 758	925	1 709	1 566	1 844
1 145	2 523	3 928	3 985	4 195	5 549	5 050	5 385	5 493
–	–	–	–	–	–	–	–	–
2 747	2 750	–	–	–	–	–	–	–
1 371	1 353	1 318	1 252	1 221	1 233	1 192	1 167	1 101
238	238	238	238	238	238	238	238	238
2 639	**2 416**	**1 396**	**1 396**	**1 412**	**1 444**	**1 652**	**1 801**	**1 788**
–	20	–	–	–	–	–	–	–
1 200	957	–	–	–	–	–	–	–
1 439	1 440	1 396	1 396	1 412	1 444	1 652	1 801	1 788
1 384	**3 451**	**3 416**	**3 399**	**3 382**	**3 363**	**3 342**	**3 324**	**3 303**
662	643	608	592	575	555	535	517	496
722	2 807	2 807	2 807	2 807	2 807	2 807	2 807	2 807
9 618	**7 951**	**7 731**	**7 733**	**7 554**	**7 576**	**7 475**	**7 475**	**6 826**
9 474	7 806	7 587	7 587	7 407	7 407	7 307	7 307	5 752
–	–	–	–	–	–	–	–	907
144	145	144	146	147	169	168	168	166
1 700	**1 700**	**1 700**	**1 700**	**1 700**	**1 700**	**1 700**	**1 700**	**1 400**
62 483	**65 103**	**64 390**	**61 319**	**60 717**	**56 253**	**58 389**	**59 113**	**60 524**

Table 1. cont.

LIABILITIES

Foreign currency liabilities	**174**	**191**	**204**
Convertible currencies	174	191	204
Other foreign liabilities	**5 547**	**5 632**	**5 632**
IMF markka accounts	4 464	4 464	4 464
Allocations of special drawing rights	1 083	1 168	1 169
Notes and coin in circulation	**14 906**	**13 840**	**13 720**
Notes	13 619	12 555	12 436
Coin	1 287	1 285	1 284
Certificates of deposit	**6 710**	**7 220**	**10 270**
Liabilities to financial institutions	**18 916**	**15 496**	**14 728**
Call money deposits	4 182	690	29
Term deposits	–	–	–
Minimum reserve deposits[1]	14 734	14 806	14 698
Other	1	1	1
Liabilities to the public sector	**92**	**90**	**102**
Cheque accounts	5	4	1
Deposits of the Government Guarantee Fund	87	87	101
Liabilities to corporations	**2 783**	**2 626**	**2 519**
Deposits for investment and ship purchase	2 783	2 626	2 519
Other liabilities	**157**	**157**	**157**
Accrued items	–	–	–
Other	157	157	157
Valuation account and reserves	**9 016**	**10 143**	**6 883**
Capital accounts	**5 764**	**5 764**	**5 764**
Primary capital	5 000	5 000	5 000
Reserve fund	764	764	764
Net earnings	–	–	–
Total	**64 065**	**61 159**	**59 979**

[1] Cash reserve deposits prior to 1 July 1993.

276	**198**	**176**	**185**	**180**	**225**	**214**	**216**	**193**
276	198	176	185	180	225	214	216	193
5 573	**5 969**	**5 997**	**6 018**	**6 035**	**6 068**	**6 056**	**6 059**	**6 189**
4 476	4 862	4 862	4 862	4 862	4 904	4 904	4 904	5 058
1 098	1 108	1 136	1 156	1 173	1 164	1 152	1 155	1 131
13 834	**13 870**	**13 864**	**13 553**	**13 297**	**13 317**	**13 653**	**15 836**	**14 994**
12 545	12 576	12 571	12 262	12 011	12 036	12 375	14 343	13 442
1 289	1 293	1 293	1 291	1 285	1 281	1 278	1 493	1 552
13 490	**16 190**	**28 367**	**18 956**	**18 259**	**13 615**	**14 480**	**12 259**	**14 837**
15 719	**15 185**	**1 047**	**6 607**	**7 032**	**6 354**	**7 911**	**7 849**	**8 201**
1 120	3 395	1 047	343	721	15	1 589	1 373	1 803
–	–	–	–	–	–	–	–	–
14 599	11 790	–	6 262	6 310	6 338	6 320	6 476	6 398
1	0	0	2	0	1	1	0	–
59	**64**	**591**	**150**	**149**	**149**	**149**	**649**	**784**
1	9	536	3	2	2	2	1	8
58	55	55	147	147	147	147	649	776
2 466	**2 415**	**2 379**	**2 332**	**2 283**	**2 210**	**2 193**	**2 165**	**2 087**
2 466	2 415	2 379	2 332	2 283	2 210	2 193	2 165	2 087
153	**153**	**158**	**154**	**154**	**204**	**150**	**155**	**627**
–	–	–	–	–	–	–	–	536
153	153	158	154	154	204	150	155	92
5 150	**5 296**	**6 048**	**7 599**	**7 564**	**8 346**	**7 819**	**8 160**	**6 847**
5 764	**5 764**	**5 764**	**5 764**	**5 764**	**5 764**	**5 764**	**5 764**	**5 764**
5 000	5 000	5 000	5 000	5 000	5 000	5 000	5 000	5 000
764	764	764	764	764	764	764	764	764
–	–	–	–	–	–	–	–	–
62 483	**65 103**	**64 390**	**61 319**	**60 717**	**56 253**	**58 389**	**59 113**	**60 524**

Table 2.

Convertible and tied foreign exchange reserves, million FIM

	1989	1990	1991	1992	1993
Gold	2 179	2 180	2 180	2 180	2 180
Special drawing rights	966	791	932	564	664
IMF reserve tranche	950	783	1 136	1 732	1 747
Convertible currencies					
Claims	18 822	33 478	29 381	25 041	28 882
Liabilities	–42	–27	–45	–101	–193
Convertible foreign exchange reserves	22 875	37 205	33 584	29 416	33 280
Tied currencies					
Claims	92	75	34	–	.
Liabilities	–656	–957	–1	–	.
Tied foreign exchange reserves	–564	–882	33	–	.

Table 3.

Markka's exchange rate against the ECU and the trade-weighted currency index[1,2]

	Markka's exchange rate against the ECU	Trade-weighted currency index, 1982 = 100
1989	4.73670	98.4
1990	4.85697	97.3
1991	5.00580	101.4
1992	5.80140	116.4
1993	6.69420	132.4
1993		
January	6.57212	128.9
February	6.89952	135.6
March	7.03656	138.2
April	6.83031	134.0
May	6.67350	131.7
June	6.58470	130.9
July	6.57241	131.0
August	6.60127	131.9
September	6.81414	134.5
October	6.69596	132.6
November	6.55386	130.4
December	6.49606	128.9

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

Table 4.

Rates of interest applied by the Bank of Finland, per cent

Base rate		The Bank of Finland's call money rates			
Effective		Effective	Call money credit rate		Call money deposit rate
			Ordinary rate	Penalty rate	
1.11.1979	8.50	9.12.1986	12.0	.	9.0
1.2.1980	9.25	26.1.1987	11.9	.	9.0
1.6.1982	8.50	2.2.1987	11.8	.	9.0
1.7.1983	9.50	13.2.1987	11.7	.	8.5
1.2.1985	9.00	20.2.1987	11.6	.	8.0
1.1.1986	8.50	24.2.1987	11.6	19.0	8.0
1.3.1986	8.00	5.3.1987	11.5	19.0	7.5
19.5.1986	7.00	17.3.1987	11.4	19.0	7.5
16.5.1988	8.00	2.4.1987	11.2	19.0	7.5
1.1.1989	7.50	29.4.1987	11.0	19.0	7.5
1.11.1989	8.50	6.10.1988	13.0	19.0	4.0
1.5.1992	9.50	16.6.1989	15.0	.	4.0
1.1.1993	8.50	6.11.1989	15.0	30.0	4.0
15.2.1993	7.50	23.10.1991	15.0	–	4.0
17.5.1993	7.00	12.11.1991	15.0	30.0	4.0
15.7.1993	6.50	14.11.1991	20.0	40.0	4.0
16.8.1993	6.00	21.11.1991			
1.12.1993	5.50	–2.7.1992	15.0	30.0	4.0

Table 5.

The Bank of Finland's minimum reserve system[1]

	Reserve requirement, % On liquid deposits	Reserve requirement, % On other deposits	Reserve requirement, % On other domestic liabilities	Cash reserve requirement, %	Deposits at the end of period, mill. FIM
1989[2]	.	.	.	9.1	25 506
1990	.	.	.	7.0	17 401
1991	.	.	.	4.0	10 361
1992	.	.	.	5.0	13 165
1993	2.0	1.5	1.0	.	6 398
1993					
January	.	.	.	5.5	14 734
February	.	.	.	5.5	14 806
March	.	.	.	5.5	14 698
April	.	.	.	5.5	14 599
May	.	.	.	4.5	11 790
June	.	.	.	–	–
July	2.0	1.5	1.0	.	6 262
August	2.0	1.5	1.0	.	6 310
September	2.0	1.5	1.0	.	6 338
October	2.0	1.5	1.0	.	6 320
November	2.0	1.5	1.0	.	6 476
December	2.0	1.5	1.0	.	6 398

[1] Cash reserve system prior to 1 July 1993.
[2] Data for 1989 include the additional deposit requirement then in force, ie 1.1 percentage points, and non-interest-bearing, additional deposits of FIM 3 159 million.

Table 6.

Banks' liquidity position[1,2] at the Bank of Finland, million FIM

	Call money deposits	Liquidity credits	Liquidity position
1989	416	369	47
1990	806	132	674
1991	881	985	–103
1992	2103	437	1666
1993	831	425	407
1993			
January	1511	594	917
February	1305	23	1282
March	416	1008	–592
April	629	390	239
May	763	186	577
June	1032	387	645
July	981	518	462
August	581	311	270
September	482	480	2
October	605	759	–154
November	714	336	378
December	955	103	852

[1] Banks' call money position prior to 3 July 1992.
[2] Daily averages.

Table 7.

The Bank of Finland's liquidity facility[1]

	The Bank of Finland's tender rate	Liquidity credit: interest rate margin, %-points	Liquidity credit: maturity, days	Call money deposits: interest rate margin, %-points
1992[2]	13.85	+1.00	7	–3.00
1993	7.87	+2.00	7	–2.00
1993				
January	10.49	+1.00	7	–3.00
February	9.34	+1.00	7	–3.00
March	8.96	+1.00	7	–3.00
April	8.85	+1.00	7	–3.00
May	8.42	+1.00	7	–3.00
June	7.72	+1.00	7	–3.00
July	7.31	+1.00	7	–3.00
August	6.74	+1.00	7	–3.00
September	6.76	+1.00	7	–3.00
October	7.08	+1.00	7	–3.00
November	6.97	+1.00	7	–3.00
December	6.21	+2.00	7	–2.00

[1] The values for the tender rate are the arithmetical means of the values for calendar days. The values for interest rate margins and maturity are the last values recorded in each month or year.
[2] July–December 1992.

Table 8.

Domestic interest rates[1], per cent

	HELIBOR						Long-term market rate		Yields on government bonds[2]	
	1-month	2-month	3-month	6-month	9-month	12-month	3-year	5-year	5-year	10-year
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	.	.
1992	13.49	13.30	13.27	13.08	13.00	12.96	13.1	13.0	.	.
1993	7.85	7.77	7.73	7.59	7.51	7.47	8.5	8.9	8.19	8.72
January	10.53	10.59	10.64	10.63	10.60	10.57	11.4	11.6	10.71	10.92
February	9.16	9.17	9.19	9.22	9.27	9.30	10.5	10.7	9.92	10.27
March	8.99	8.90	8.90	8.69	8.63	8.62	9.7	10.0	9.42	9.87
April	8.85	8.78	8.73	8.57	8.49	8.44	9.6	10.0	9.27	9.77
May	8.41	8.31	8.25	8.14	8.04	7.97	9.2	9.6	8.89	9.46
June	7.70	7.65	7.62	7.57	7.55	7.55	8.8	9.2	8.42	9.00
July	7.31	7.28	7.27	7.22	7.15	7.12	8.2	8.7	7.98	8.51
August	6.70	6.66	6.65	6.56	6.53	6.52	7.4	7.9	7.20	7.75
September	6.81	6.75	6.68	6.49	6.36	6.29	7.2	7.8	7.26	7.86
October	7.13	6.96	6.87	6.60	6.42	6.29	7.1	7.6	6.90	7.56
November	6.95	6.71	6.58	6.23	6.03	5.93	6.8	7.2	6.53	7.22
December	6.16	5.99	5.90	5.68	5.58	5.52	6.5	7.0	6.24	6.89

[1] Daily averages.

[2] The five-year yield is based on quotations for bonds 1/92 (15 January 1992 – 15 January 1999) and the ten-year yield on quotations for housing bonds 1/92 (15 March 1992 – 15 March 2002).

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
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
1992	+ 76 230	–137 940	+ 60 417	– 1 293
1993	+ 86 521	–146 899	+ 50 486	– 9 892
January	+ 5 490	– 5 400	– 3 890	– 3 800
February	+ 6 500	– 8 340	+ 260	– 1 580
March	+ 10 470	– 12 750	– 660	– 2 940
April	+ 5 870	– 11 310	– 1 450	– 6 890
May	+ 4 250	– 21 140	+ 775	– 16 115
June	+ 4 041	– 22 169	+ 19 911	+ 1 783
July	+ 7 070	– 12 260	+ 18 300	+ 13 110
August	+ 7 240	– 14 950	+ 10 660	+ 2 950
September	+ 7 920	– 7 720	+ 6 920	+ 7 120
October	+ 10 110	– 11 970	– 1 180	– 3 040
November	+ 8 310	– 9 200	+ 2 090	+ 1 200
December	+ 9 250	– 9 690	– 1 250	– 1 690

+ 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
1989	+ 4 825	– 7 473	– 2 648
1990	+ 13 460	– 3 540	+ 9 920
1991	+ 35 120	– 69 940	– 34 820
1992	+ 20 050	– 70 640	– 50 590
1993	+ 25 120	– 45 080	– 19 960
January	–	– 9 390	– 9 390
February	–	– 8 830	– 8 830
March	–	– 7 470	– 7 470
April	+ 3 610	– 3 010	+ 600
May	+ 5 220	– 2 090	+ 3 130
June	+ 6 040	– 1 010	+ 5 030
July	+ 960	– 8 360	– 7 400
August	+ 510	– 3 580	– 3 070
September	–	– 1 170	– 1 170
October	+ 2 790	– 100	+ 2 690
November	+ 2 270	– 70	+ 2 200
December	+ 3 720	–	+ 3 720

+ increases liquidity in the money market
– decreases liquidity in the money market
[1] According to value date until end-1989 and trade date thereafter.

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
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
1992	+ 38 710	– 35 650	– 5 800	+ 4 600	+ 1 860
1993	+ 18 590	– 28 110	– 11 660	+ 15 190	– 5 990
January	+ 450	– 600	– 3 680	+ 3 700	– 130
February	–	– 1 530	– 4 040	+ 1 320	– 4 250
March	+ 10 220	– 10 340	–	+ 4 150	+ 4 030
April	+ 460	– 2 110	– 2 060	+ 2 060	– 1 650
May	–	– 1 030	– 1 270	–	– 2 300
June	+ 100	– 3 540	– 610	+ 2 450	– 1 600
July	+ 3 650	–	–	+ 870	+ 4 520
August	+ 700	– 1 510	–	–	– 810
September	+ 1 340	– 3 930	–	+ 640	– 1 950
October	+ 460	– 1 970	–	–	– 1 510
November	+ 1 210	– 1210	–	–	–
December	–	– 340	–	–	– 340

+ 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: annual middle spot rates, 1988-1993, FIM

Currency	1988			1989			1990		
	Max.	Av.	Min.	Max.	Av.	Min.	Max.	Av.	Min.
1 USD, New York	4.520	4.187	3.922	4.552	4.290	4.012	4.089	3.823	3.532
1 CAD, Montreal	3.717	3.405	3.020	3.796	3.624	3.466	3.523	3.277	3.034
1 GBP, London	7.647	7.446	7.207	7.584	7.032	6.503	7.200	6.808	6.431
1 IEP, Dublin	6.569	6.377	6.259	6.302	6.082	5.938	6.454	6.325	6.201
1 SEK, Stockholm	0.6921	0.6829	0.6732	0.6819	0.6654	0.6510	0.6545	0.6459	0.6369
1 NOK, Oslo	0.6571	0.6424	0.6264	0.6408	0.6213	0.6128	0.6174	0.6110	0.6079
1 DKK, Copenhagen	0.6428	0.6220	0.6057	0.6143	0.5869	0.5701	0.6298	0.6181	0.6066
1 ISK, Reykjavik	0.1131	0.0980	0.0899	0.0898	0.0758	0.0661	0.0669	0.0656	0.0646
1 DEM, Frankfurt a.M.	2.4795	2.3842	2.3391	2.3919	2.2818	2.2202	2.4282	2.3664	2.3343
1 NLG, Amsterdam	2.2028	2.1185	2.0723	2.1174	2.0226	1.9700	2.1524	2.1002	2.0705
1 BEF, Brussels	0.11840	0.11390	0.11160	0.11380	0.10890	0.10610	0.11730	0.11447	0.11210
1 CHF, Zurich	3.0581	2.8631	2.7628	2.7686	2.6243	2.4783	2.8950	2.7576	2.5965
1 FRF, Paris	0.7324	0.7029	0.6852	0.6999	0.6725	0.6557	0.7135	0.7024	0.6912
1 ITL, Rome	0.00335	0.00322	0.00316	0.00320	0.00313	0.00305	0.00324	0.00319	0.00314
1 ATS, Vienna	0.3519	0.3391	0.3328	0.3401	0.3242	0.3153	0.3452	0.3363	0.3316
1 PTE, Lisbon	0.0300	0.0291	0.0283	0.0284	0.0273	0.0267	0.0274	0.0268	0.0265
1 ESP, Madrid	0.0367	0.0359	0.0354	0.0375	0.0362	0.0344	0.0385	0.0375	0.0362
1 GRD, Athens	..	..	..	..	..	..	..	..	..
1 EEK, Tallinn	.	.	.	.	.	.	.	.	.
1 JPY, Tokyo	0.03385	0.03266	0.03119	0.03395	0.03116	0.02824	0.02872	0.02647	0.02466
1 AUD, Melbourne	3.678	3.288	2.826	3.854	3.398	3.165	3.207	2.988	2.697
1 SUR, Moscow, clearing	7.120	6.881	6.722	6.976	6.806	6.644	6.694	6.542	6.414
1 special drawing right (SDR)	5.79563	5.61974	5.50705	5.68080	5.49536	5.30888	5.34498	5.18322	5.07250
1 (ECU), commercial	5.106	4.944	4.858	4.869	4.719	4.615	4.964	4.864	4.779

Currency	1991			1992			1993		
	Max.	Av.	Min.	Max.	Av.	Min.	Max.	Av.	Min.
1 USD, New York	4.555	4.046	3.539	5.275	4.483	3.840	6.061	5.719	5.294
1 CAD, Montreal	4.030	3.533	3.059	4.171	3.706	3.210	4.865	4.434	4.163
1 GBP, London	8.073	7.131	6.863	9.023	7.875	7.572	8.963	8.582	8.039
1 IEP, Dublin	7.456	6.511	6.214	8.733	7.636	7.201	9.101	8.371	7.996
1 SEK, Stockholm	0.7623	0.6684	0.6430	0.8845	0.7714	0.7369	0.8106	0.7350	0.6826
1 NOK, Oslo	0.7107	0.6236	0.5966	0.8170	0.7222	0.6888	0.8585	0.8059	0.7648
1 DKK, Copenhagen	0.7182	0.6322	0.6074	0.8580	0.7444	0.6968	0.9527	0.8822	0.8296
1 ISK, Reykjavik	0.0778	0.0684	0.0652	0.0873	0.0778	0.0725	0.0924	0.0846	0.0788
1 DEM, Frankfurt a.M.	2.7905	2.4380	2.3237	3.3097	2.8769	2.7122	3.6450	3.4584	3.2704
1 NLG, Amsterdam	2.4766	2.1634	2.0620	2.9440	2.5552	2.4079	3.2395	3.0787	2.9102
1 BEF, Brussels	0.13540	0.11841	0.11290	0.16080	0.13973	0.13100	0.17670	0.16545	0.15800
1 CHF, Zurich	3.1458	2.8208	2.7407	3.6828	3.2000	2.9228	4.1700	3.8706	3.6253
1 FRF, Paris	0.8162	0.7169	0.6863	0.9682	0.8486	0.7947	1.0756	1.0096	0.9581
1 ITL, Rome	0.00370	0.00326	0.00314	0.00423	0.00364	0.00332	0.00394	0.00364	0.00337
1 ATS, Vienna	0.3964	0.3464	0.3301	0.4704	0.4088	0.3854	0.5182	0.4916	0.4653
1 PTE, Lisbon	0.0321	0.0280	0.0266	0.0370	0.0332	0.0309	0.0402	0.0356	0.0326
1 ESP, Madrid	0.0443	0.0389	0.0376	0.0498	0.0438	0.0424	0.0512	0.0451	0.0405
1 GRD, Athens	0.0250[1]	0.0224[1]	0.0220[1]	0.0260	0.0235	0.0220	0.0270	0.0250	0.0230
1 EEK, Tallinn	.	.	.	.	.	.	0.4556	0.4323	0.4088
1 JPY, Tokyo	0.03508	0.03008	0.02677	0.04234	0.03546	0.03098	0.05827	0.05168	0.04263
1 AUD, Melbourne	3.580	3.152	2.758	3.632	3.289	2.757	4.306	3.885	3.569
1 SUR, Moscow, clearing	..	..	..	.	.	.	.	.	.
1 special drawing right (SDR)	6.29360	5.52733	5.13880	7.25239	6.31546	5.70934	8.33894	7.98641	7.31083
1 ECU, commercial	5.698	5.003	4.777	6.553	5.798	5.526	7.101	6.685	6.380

[1] For seven months.

Table 13.

Foreign exchange rates: monthly middle spot rates in 1993, FIM

Currency	January			February			March		
	Max.	Av.	Min.	Max.	Av.	Min.	Max.	Av.	Min.
1 USD, New York	5.500	5.419	5.294	6.012	5.830	5.557	6.061	5.972	5.871
1 CAD, Montreal	4.321	4.242	4.163	4.760	4.622	4.394	4.865	4.790	4.689
1 GBP, London	8.442	8.304	8.039	8.613	8.387	8.125	8.833	8.716	8.571
1 IEP, Dublin	9.101	8.863	8.597	8.859	8.641	8.301	8.837	8.810	8.769
1 SEK, Stockholm	0.7667	0.7475	0.7268	0.8106	0.7747	0.7517	0.7946	0.7720	0.7572
1 NOK, Oslo	0.8156	0.7885	0.7648	0.8585	0.8352	0.8011	0.8545	0.8527	0.8486
1 DKK, Copenhagen	0.8984	0.8699	0.8437	0.9527	0.9247	0.8836	0.9469	0.9441	0.9403
1 ISK, Reykjavik	0.0870	0.0849	0.0832	0.0924	0.0898	0.0861	0.0923	0.0918	0.0910
1 DEM, Frankfurt a.M.	3.4700	3.3561	3.2704	3.6450	3.5526	3.4050	3.6350	3.6258	3.6100
1 NLG, Amsterdam	3.0831	2.9850	2.9102	3.2395	3.1565	3.0266	3.2337	3.2254	3.2125
1 BEF, Brussels	0.16860	0.16307	0.15910	0.17670	0.17228	0.16530	0.17660	0.17604	0.17540
1 CHF, Zurich	3.7721	3.6685	3.6253	3.9426	3.8416	3.6720	3.9682	3.9274	3.9053
1 FRF, Paris	1.0240	0.9899	0.9581	1.0756	1.0488	1.0071	1.0711	1.0673	1.0628
1 ITL, Rome	0.00372	0.00364	0.00351	0.00394	0.00377	0.00368	0.00382	0.00375	0.00364
1 ATS, Vienna	0.4933	0.4771	0.4653	0.5182	0.5049	0.4840	0.5168	0.5153	0.5130
1 PTE, Lisbon	0.0383	0.0373	0.0362	0.0402	0.0390	0.0377	0.0396	0.0392	0.0388
1 ESP, Madrid	0.0487	0.0473	0.0461	0.0512	0.0497	0.0480	0.0510	0.0507	0.0505
1 GRD, Athens	0.0260	0.0251	0.0250	0.0270	0.0267	0.0250	0.0270	0.0270	0.0270
1 EEK, Tallinn	0.4338	0.4195	0.4088	0.4556	0.4441	0.4256	0.4544	0.4532	0.4512
1 JPY, Tokyo	0.04411	0.04333	0.04263	0.05047	0.04824	0.04454	0.05149	0.05103	0.05025
1 AUD, Melbourne	3.727	3.652	3.569	4.128	3.970	3.759	4.306	4.225	4.141
1 special drawing right (SDR)	7.59141	7.46369	7.31083	8.24516	7.99191	7.60620	8.30685	8.24353	8.17021
1 ECU, commercial	6.769	6.576	6.380	7.101	6.904	6.662	7.057	7.034	7.010

Currency	April Max.	April Av.	April Min.	May Max.	May Av.	May Min.	June Max.	June Av.	June Min.
1 USD, New York	5.869	5.597	5.360	5.564	5.479	5.386	5.755	5.549	5.398
1 CAD, Montreal	4.653	4.435	4.239	4.377	4.317	4.229	4.477	4.339	4.240
1 GBP, London	8.884	8.646	8.457	8.563	8.493	8.405	8.533	8.394	8.320
1 IEP, Dublin	8.851	8.551	8.307	8.391	8.321	8.248	8.301	8.212	8.129
1 SEK, Stockholm	0.7679	0.7519	0.7434	0.7562	0.7484	0.7391	0.7590	0.7489	0.7305
1 NOK, Oslo	0.8547	0.8268	0.8056	0.8135	0.8067	0.7988	0.8020	0.7961	0.7888
1 DKK, Copenhagen	0.9462	0.9131	0.8851	0.8966	0.8888	0.8813	0.8889	0.8793	0.8697
1 ISK, Reykjavik	0.0918	0.0886	0.0854	0.0883	0.0868	0.0854	0.0874	0.0858	0.0797
1 DEM, Frankfurt a.M.	3.6380	3.5076	3.4050	3.4500	3.4137	3.3750	3.4050	3.3664	3.3300
1 NLG, Amsterdam	3.2358	3.1212	3.0303	3.0745	3.0432	3.0128	3.0356	3.0017	2.9693
1 BEF, Brussels	0.17660	0.17038	0.16550	0.16770	0.16604	0.16420	0.16570	0.16381	0.16210
1 CHF, Zurich	3.9314	3.8346	3.7438	3.8204	3.7865	3.7291	3.8103	3.7713	3.7418
1 FRF, Paris	1.0729	1.0371	1.0075	1.0221	1.0126	1.0021	1.0086	1.0001	0.9899
1 ITL, Rome	0.00370	0.00364	0.00359	0.00377	0.00371	0.00367	0.00372	0.00370	0.00367
1 ATS, Vienna	0.5172	0.4985	0.4838	0.4904	0.4851	0.4795	0.4842	0.4784	0.4731
1 PTE, Lisbon	0.0394	0.0378	0.0366	0.0372	0.0362	0.0352	0.0357	0.0354	0.0352
1 ESP, Madrid	0.0509	0.0484	0.0461	0.0471	0.0453	0.0427	0.0442	0.0438	0.0430
1 GRD, Athens	0.0270	0.0256	0.0250	0.0250	0.0250	0.0250	0.0250	0.0249	0.0240
1 EEK, Tallinn	0.4547	0.4384	0.4256	0.4312	0.4267	0.4219	0.4256	0.4208	0.4162
1 JPY, Tokyo	0.05120	0.04982	0.04842	0.05077	0.04970	0.04891	0.05425	0.05172	0.05043
1 AUD, Melbourne	4.122	3.985	3.852	3.911	3.826	3.659	3.859	3.747	3.646
1 special drawing right (SDR)	8.21766	7.90687	7.65578	7.82663	7.76351	7.68408	8.03937	7.82674	7.72175
1 ECU, commercial	7.054	6.830	6.651	6.725	6.672	6.601	6.637	6.582	6.523

Table 13. cont.

Currency	July			August			September		
	Max.	Av.	Min.	Max.	Av.	Min.	Max.	Av.	Min.
1 USD, New York	5.957	5.778	5.651	5.956	5.831	5.775	5.909	5.783	5.679
1 CAD, Montreal	4.629	4.506	4.389	4.637	4.462	4.375	4.472	4.379	4.320
1 GBP, London	8.802	8.638	8.492	8.824	8.699	8.617	8.963	8.813	8.682
1 IEP, Dublin	8.235	8.150	8.080	8.247	8.110	7.996	8.462	8.295	8.208
1 SEK, Stockholm	0.7362	0.7262	0.7184	0.7320	0.7237	0.7179	0.7288	0.7219	0.7164
1 NOK, Oslo	0.7977	0.7906	0.7848	0.8061	0.7915	0.7826	0.8312	0.8168	0.8100
1 DKK, Copenhagen	0.8780	0.8698	0.8606	0.8540	0.8429	0.8296	0.8897	0.8707	0.8564
1 ISK, Reykjavik	0.0828	0.0806	0.0791	0.0826	0.0813	0.0802	0.0859	0.0833	0.0817
1 DEM, Frankfurt a.M.	3.4150	3.3682	3.3350	3.5080	3.4363	3.3850	3.6275	3.5637	3.5275
1 NLG, Amsterdam	3.0341	2.9954	2.9683	3.1209	3.0540	3.0067	3.2296	3.1734	3.1391
1 BEF, Brussels	0.16500	0.16313	0.16210	0.16450	0.16183	0.15890	0.17010	0.16601	0.16320
1 CHF, Zurich	3.8950	3.8123	3.7456	3.9811	3.8905	3.8312	4.1700	4.0737	3.9895
1 FRF, Paris	1.0004	0.9897	0.9804	1.0023	0.9818	0.9694	1.0420	1.0188	1.0065
1 ITL, Rome	0.00369	0.00365	0.00361	0.00368	0.00363	0.00358	0.00375	0.00369	0.00363
1 ATS, Vienna	0.4859	0.4786	0.4738	0.4984	0.4884	0.4811	0.5146	0.5064	0.5013
1 PTE, Lisbon	0.0352	0.0345	0.0332	0.0343	0.0336	0.0327	0.0355	0.0348	0.0345
1 ESP, Madrid	0.0438	0.0430	0.0412	0.0433	0.0420	0.0406	0.0454	0.0442	0.0434
1 GRD, Athens	0.0250	0.0248	0.0240	0.0250	0.0245	0.0240	0.0250	0.0250	0.0250
1 EEK, Tallinn	0.4269	0.4210	0.4169	0.4385	0.4295	0.4231	0.4534	0.4455	0.4409
1 JPY, Tokyo	0.05686	0.05365	0.05215	0.05827	0.05621	0.05522	0.05601	0.05485	0.05338
1 AUD, Melbourne	4.085	3.913	3.779	4.120	3.957	3.882	3.946	3.772	3.683
1 special drawing right (SDR)	8.28508	8.03185	7.89713	8.28069	8.17177	8.07471	8.33894	8.20308	8.06185
1 ECU, commercial	6.621	6.564	6.530	6.667	6.555	6.470	6.909	6.771	6.702

Currency	October			November			December		
	Max.	Av.	Min.	Max.	Av.	Min.	Max.	Av.	Min.
1 USD, New York	5.871	5.750	5.656	5.854	5.805	5.752	5.843	5.755	5.662
1 CAD, Montreal	4.414	4.335	4.255	4.461	4.411	4.360	4.373	4.320	4.241
1 GBP, London	8.824	8.647	8.435	8.678	8.598	8.506	8.663	8.578	8.479
1 IEP, Dublin	8.415	8.250	8.074	8.230	8.147	8.068	8.241	8.159	8.096
1 SEK, Stockholm	0.7215	0.7172	0.7080	0.7104	0.7026	0.6884	0.6945	0.6887	0.6826
1 NOK, Oslo	0.8209	0.8030	0.7871	0.7940	0.7856	0.7800	0.7830	0.7753	0.7688
1 DKK, Copenhagen	0.8846	0.8682	0.8506	0.8656	0.8578	0.8513	0.8668	0.8585	0.8525
1 ISK, Reykjavik	0.0845	0.0823	0.0806	0.0820	0.0811	0.0804	0.0811	0.0800	0.0788
1 DEM, Frankfurt a.M.	3.5850	3.5126	3.4375	3.4550	3.4148	3.3900	3.4050	3.3645	3.3350
1 NLG, Amsterdam	3.1926	3.1255	3.0603	3.0780	3.0428	3.0225	3.0366	3.0038	2.9773
1 BEF, Brussels	0.16560	0.16140	0.15800	0.16200	0.16018	0.15830	0.16260	0.16112	0.15990
1 CHF, Zurich	4.1112	3.9946	3.8923	3.9115	3.8777	3.8363	3.9739	3.9282	3.8737
1 FRF, Paris	1.0288	1.0012	0.9765	0.9916	0.9825	0.9755	0.9930	0.9840	0.9786
1 ITL, Rome	0.00367	0.00359	0.00353	0.00353	0.00348	0.00341	0.00344	0.00341	0.00337
1 ATS, Vienna	0.5104	0.4994	0.4885	0.4912	0.4856	0.4820	0.4842	0.4785	0.4743
1 PTE, Lisbon	0.0348	0.0340	0.0333	0.0338	0.0334	0.0331	0.0333	0.0330	0.0326
1 ESP, Madrid	0.0445	0.0435	0.0429	0.0430	0.0423	0.0416	0.0415	0.0410	0.0405
1 GRD, Athens	0.0250	0.0242	0.0240	0.0240	0.0240	0.0240	0.0240	0.0234	0.0230
1 EEK, Tallinn	0.4481	0.4391	0.4297	0.4319	0.4268	0.4237	0.4256	0.4206	0.4169
1 JPY, Tokyo	0.05552	0.05378	0.05261	0.05495	0.05383	0.05321	0.05377	0.05237	0.05116
1 AUD, Melbourne	3.875	3.797	3.739	3.913	3.861	3.808	3.937	3.874	3.816
1 special drawing right (SDR)	8.29022	8.09230	7.92527	8.14288	8.06368	7.99638	8.07330	7.96460	7.84872
1 ECU, commercial	6.806	6.671	6.553	6.614	6.550	6.505	6.551	6.494	6.445

Table 14.

Deliveries of notes and coin, million FIM

Notes delivered by Setec Oy					
1000 markka	–	–	9 000.0	4 600.0	2 100.0
500 "	–	–	4 500.0	1 225.0	2 150.0
100 "	2 800.0	6 380.0	3 107.0	4 030.0	5 000.0
50 "	1 745.0	588.5	925.0	1 500.0	1 000.0
20 "	–	–	–	–	400.0
10 "	780.0	859.0	607.5	–	–
Total	5 325.0	7 827.5	18 139.5	11 355.0	10 650.0
in millions	140.9	161.5	128.3	77.4	96.4
Notes destroyed, in millions	158.1	98.8	82.3	156.2	116.1
Coins delivered by the Mint of Finland					
Ordinary coins					
10 markka	.	.	.	.	300.0
5 "	41.4	59.1	49.6	6.7	234.7
1 "	34.5	55.8	15.0	5.0	92.6
50 penni	5.3	37.9	40.2	25.0	9.9
20 "	7.4	2.6	–	–	–
10 "	2.2	20.2	35.0	15.0	12.0
5 "	0.1	0.1	–	–	–
Commemorative coins					
1000 markka	.	.	.	35.0	–
100 "	20.0	25.0	25.0	30.0	–
Total	111.0	200.7	164.8	116.8	649.2
Coins destroyed, in millions					
Ordinary coins	10.2	75.5	474.3	141.4	221.6
Commemorative coins	0.03	–	0.08	0.03	0.05

Table 15.

Notes and coin in circulation, at the end of the year, million FIM

Notes					
1000 markka	3016.3	3473.8	3240.6	3375.8	4053.0
500 "	2701.1	2785.2	2600.9	2547.2	2593.0
100 "	4893.4	5599.6	5921.2	5806.7	5489.7
50 "	899.9	950.6	939.2	867.0	721.3
20 "	.	.	.	.	283.8
10 "	533.9	561.1	575.4	583.2	272.6
5 "	21.0	20.9	20.8	20.8	20.5
1 "	7.4	7.6	7.7	8.0	8.2
Total	12073.0	13398.8	13305.9	13208.7	13442.1
Notes issued before 1963	9.4	9.4	9.4	9.4	9.4
Coins					
Ordinary coins					
10 markka	.	.	.	.	208.2
5 "	324.1	352.8	374.2	384.9	433.9
1 "	354.3	374.0	386.7	384.6	387.0
50 penni	83.3	102.1	112.5	117.6	113.6
20 "	71.9	70.5	45.6	36.4	30.7
10 "	35.8	45.7	76.9	90.8	96.3
5 "	27.4	26.8	22.1	20.5	19.2
1 "	7.7	7.7	7.6	7.6	7.5
Total	904.5	979.6	1025.6	1042.4	1296.4
Commemorative coins					
1000 markka	.	.	.	35.0	35.0
100 "	19.5	44.0	65.9	92.6	90.4
50 "	74.2	74.0	72.8	71.1	71.8
25 "	19.9	19.9	19.9	19.8	19.8
10 "	38.4	38.4	38.3	38.3	38.2
Total	152.0	176.3	196.9	256.8	255.2
Coins total	1056.3	1155.9	1222.5	1299.3	1551.6
Coins issued before 1963	15.7	15.7	15.7	15.7	15.7

Table 16.

Notes sorted at the Bank of Finland, in millions

1000 markka	3.6	10.5	4.0	4.2	5.6
500 "	9.4	12.7	9.4	9.4	11.1
100 "	197.0	209.2	246.7	255.1	296.3
50 "	76.2	62.8	72.0	62.0	64.8
20 "	.	.	.	.	0.6
10 "	95.1	92.8	139.8	142.0	116.5
Total					
sorted manually	98.8	61.1	31.3	10.7	4.0
sorted mechanically	282.5	326.9	440.6	462.0	490.9

Table 17.

Bank of Finland interbank funds transfer system

	Account holders, number	Transactions					
		Between banks, number	Value, million FIM	Between the Bank of Finland and the banks, number	Value, million FIM	Total number	Total value, million FIM
1991[1]	23	72 337	4 753 208	66 733	612 617	139 070	5 365 825
1992	21	81 127	5 465 954	70 825	883 871	151 952	6 349 825
1993	19	66 375	5 941 650	48 831	712 137	115 207	6 653 787
January	21	5 619	522 582	3 956	96 862	9 575	619 444
February	21	5 385	432 900	3 873	63 626	9 258	496 526
March	21	6 459	525 252	4 513	111 077	10 972	636 329
April	21	5 825	526 084	3 830	64 014	9 655	590 098
May	21	5 510	472 097	3 777	52 096	9 287	524 193
June	21	5 592	470 478	4 438	72 808	10 030	543 286
July	21	5 151	453 088	4 321	49 398	9 472	502 486
August	21	5 491	430 507	4 061	27 262	9 552	457 769
September	20	5 653	422 571	4 087	41 018	9 741	463 589
October	20	5 210	485 853	3 731	51 309	8 941	537 162
November	20	5 546	693 734	4 024	47 169	9 570	740 903
December	19	4 934	506 504	4 220	35 499	9 154	542 003

[1] From 18 March 1991.

Table 18.

Domestic clearing operations

	Debit entries		Credit entries		Total entries	
	Number, thousands	Value, million FIM	Number, thousands	Value, million FIM	Number, thousands	Value, million FIM
1989	..	..	..	..	241 956	920 019
1990	..	..	..	..	266 476	818 593
1991	..	..	..	..	336 899	1 436 690
1992	200 792	949 717	152 096	610 147	352 888	1 559 864
1993	206 509	1 021 592	150 291	650 571	356 800	1 672 163
January	15 192	88 288	12 213	52 730	27 405	141 018
February	15 293	77648	12 869	49 838	28 162	127 486
March	17 781	83 633	13 172	49 274	30 953	132 907
April	16 723	82 768	12 525	48 370	29 248	131 138
May	17 733	79 286	12 423	59 463	30 156	138 749
June	17 600	86 420	12 816	55 886	30 416	142 306
July	18 271	75 813	11 339	48 522	29 610	124 335
August	18 677	80 487	11 732	49 892	30 409	130 379
September	17 281	82 735	12 281	51 124	29 562	133 859
October	16 683	87 242	12 605	52 732	29 288	139 974
November	16 985	106 366	12 962	63 423	29 947	169 789
December	18 290	90 906	13 354	69 317	31 644	160 223

Bank of Finland publications

Markka & talous		A new quarterly bulletin in Finnish.
Bank of Finland Bulletin		11 monthly issues (double issue for June–July).
Annual publications in 1993		Bank of Finland Year Book 1992 (available separately in Finnish, Swedish and English). Finnish Bond Issues in 1992 (in Finnish, Swedish and English).
Foreign Exchange Regulations binder		Available separately in Finnish, Swedish and English.

Economic studies in 1993

Series A, studies for the general public	A:86	PEKKA SUTELA (ed.) The Russian Economy in Crisis and Transition
	A:87	MATTI VIRÉN Maksuvälineiden käyttö ja käteisrahan kysyntä Suomessa (Use of Payment Media and Demand for Currency in Finland); in Finnish with English summary
	A:88	Payment and Settlement Systems in Finland; various authors
Series B, doctoral theses	B:48	MARKKU MALKAMÄKI Essays on Conditional Pricing of Finnish Stocks
Series C, reports by external experts	C:9	CHRISTIAN BORDES – DAVID CURRIE – HANS TSON SÖDERSTRÖM Three Assessments of Finland's Economic Crisis and Economic Policy
Series D, analytical studies	D:77	JUKKA VESALA Retail Banking in European Financial Integration
	D:78	HELVI KINNUNEN Kansainvälistymispäätös ja ulkomaisen tuotannon suuntautuminen (The Decision to Internationalize and Manufacturing Operations Abroad); in Finnish with English summary

Special publication	TUUKKA TALVIO Suomen rahat (The Coins and Banknotes of Finland)
Discussion papers	Sixteen research reports by various departments of the Bank of Finland appeared in the Bank of Finland Discussion Papers series.
Review of Economies in Transition	Ten issues, prepared by the Unit for Eastern European Economies, appeared in the series.
Statistical reports	Financial Markets; published monthly (in Finnish, Swedish and English). Balance-of-payments statistics; published quarterly (separately in Finnish, Swedish and English). Investment inquiry; published semiannually (separately in Finnish and Swedish). Direct investment; published annually (separately in Finnish, Swedish and English).
Orders and subscriptions	The Bank of Finland's annual and research publications are available at bookshops. Publications required for official use and for research purposes may be obtained directly from the Bank of Finland. The address is: The Bank of Finland, Publication Services, P.O.Box 160, FIN-00101 Helsinki, tel. (+358 0)1831. A list of the Bank of Finland's publications is also available at the same address. The Bank of Finland Bulletin, Markka & talous, Discussion Papers, Review of Economies in Transition and the statistical reports can be ordered from the Publication Services Department of the Bank of Finland.

The management and organization of the Bank of Finland at the end of 1993*

Parliamentary Supervisory Board

Executive Committee

Pentti Mäki-Hakola, Chairman	Mauri Miettinen	Jörn Donner
Jussi Ranta, Vice Chairman	Tuulikki Hämäläinen	Esko Seppänen
Anneli Jäätteenmäki	Olavi Ala-Nissilä	Tellervo Renko

Board of Management

Sirkka Hämäläinen, Chairman of the Board of Management
Overall management and supervision of the activities of the Bank
General principles of central bank policy
Representation of the Board of Management
Information
Internal Audit
Organization and Management Development

Harri Holkeri,
Member of the Board of Management
Accounting Department
Administration Department
Data Processing Department
Legal Affairs
Maintenance of the currency supply
(Payment Instruments Department and Branches)
Security

Esko Ollila,
Member of the Board of Management
Accounting Department: Budgeting
Financial Markets Department
Payments and Settlement Department
Personnel Department
Chairman of the Board of the Financial Supervision Authority

Kalevi Sorsa,
Member of the Board of Management
Economics Department
Publication Services
Research Department
Statistical Services Department
Unit for Eastern European Economies

Matti Vanhala,
Member of the Board of Management
Central Bank Policy Department
Market Operations Department

Secretary to the Board of Management and
the Parliamentary Supervisory Board,
Heikki T. Hämäläinen

Pentti Koivikko, Director
Reports to Harri Holkeri, Member of the Board of Management
Administration Department
Maintenance of the currency supply
* Branches
* Payment Instruments Department
* Setec Oy, Chairman of the Board of Directors

Reports to Esko Ollila, Member of the Board of Management
Personnel Department: terms and conditions of employment, staff numbers and basic staff administration services

* The Financial Supervision Authority started to function in connection with the Bank of Finland as from 1 October 1993.

Head office

Departments	Offices			
Accounting Dpt Ossi Leppänen	**Accounts Office** Tuula Colliander			
Administration Dpt Urpo Levo **Building Manager** Bengt Palmroos	**Supplies Office** Iris Kolehmainen	**Technical Office** Harri Brandt	**Vantaa Real Estate Office** Taisto Lehtinen	
Central Bank Policy Dpt Johnny Åkerholm	**International Office** Kjell Peter Söderlund	**Monitoring Office** Tapio Korhonen	**Planning Office** Harri Lahdenperä, ad interim	
Data Processing Dpt Riitta Jokinen	**Operations Office** Kari Helander	**Support Services Office** Juhani Rapeli	**Systems Design Office** Matti Ahrenberg	
Economics Dpt Kari Puumanen	**Head of Office** Martti Lehtonen			
Financial Markets Dpt Kaarlo Jännäri **Adviser** Peter Nyberg **Adviser** Ralf Pauli	**Market Structures Office** Vesa Vihriälä	**Payment Systems Office** Veikko Saarinen	**Securities Markets Office** Markku Malkamäki, ad interim	
Internal Audit Dpt Timo Männistö	**Head of Office** Anna-Maija Tikkanen			
Market Operations Dpt Markus Fogelholm	**Intervention Office** Olli-Pekka Lehmussaari	**Investment Office** Oili Wuolle	**Planning Office** Anneli Isopuro	
Payments and Settlement Dpt Raimo Hyvärinen	**Correspondent Banking Office** Jyrki Varstala	**Financial Services Office** Mauri Lehtinen	**Systems Office** Hannu Wiksten	
Payment Instruments Dpt Antti Heinonen	**Bank Vault Manager** Kenneth Sainio **Helsinki–Vantaa Regional Office** Kari Lottanen	**Development Manager** Kyösti Norhomaa	**Systems Manager** Seppo Eriksson	
Personnel Dpt Anton Mäkelä	**Personnel Affairs Office** Sirpa Ahrenberg			
Publication Services Antero Arimo, acting head in addition to own duties	**Library** Merja Alakulppi, acting head	**Publications Office** Antero Arimo	**Special Publications** Heikki Elonen	**Translation Office** Pirjo Kivelä
Research Dpt Heikki Koskenkylä	**Head of Office** Juhani Hirvonen	**Project Supervisor** Esko Aurikko	**Research Supervisor** Jouko Vilmunen, ad interim	
Statistical Services Dpt Esa Ojanen	**Planning Office** Jorma Hilpinen	**Statistics Office** Jarmo Nurminen		
Unit for Eastern European Economies Kari Pekonen	**Project Supervisor** Juhani Laurila			

Special units

Information	Legal Affairs	Management Secretarial Staff	Organization and Management Development	Security
Antti Juusela	Arno Lindgren	Heikki T. Hämäläinen	Pirkko Pohjoisaho-Aarti	Jyrki Ahvonen

Branches

Branches	Branch Managers
Jyväskylä	Reino Ylönen (in addition to own duties)
Kuopio	Pekka Konttinen
Lahti	Hilkka-Liisa Pitkänen (Acting)
Oulu	Renne Kurth
Tampere	Reino Ylönen
Turku	Martti Hagman
Vaasa	Tapani Kulanko

SETEC OY

Board: Pentti Koivikko, Urpo Levo, Veli Tarvainen
Managing Director: Veli Tarvainen
Management Group: Tom Ahlers, Pekka Kariola, Juhani Salovaara, Kristian Silfverberg, Veli Tarvainen, Tapio Yrjönen

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BANK OF FINLAND

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

Branches

Jyväskylä:	Kauppakatu 21, P.O.Box 165, 40101 Jyväskylä, Telephone (941) 211 433
Kuopio:	Puutarhakatu 4, P.O.Box 123, 70101 Kuopio, Telephone (971) 305 111
Lahti:	Torikatu 3, P.O.Box 170, 15111 Lahti, Telephone (918) 7829 831
Oulu:	Kajaaninkatu 8, P.O.Box 103, 90101 Oulu, Telephone (981) 374 366
Tampere:	Hämeenkatu 13, P.O.Box 325, 33101 Tampere, Telephone (931) 2225 420
Turku:	Linnankatu 20, P.O.Box 373, 20101 Turku, Telephone (921) 232 6066
Vaasa:	Kirkkopuistikko 22, P.O.Box 44, 65101 Vaasa, Telephone (961) 3178 322