

BANK OF FINLAND



154th
ANNUAL STATEMENT
1965



Profit and Loss Account, 31st December 1965

EXPENSES

Salaries	6 777 725,35
Pensions	612 917,45
Family pensions	221 108,10
Fees and expenses of bank supervisors	21 334,75
Fees of branch controllers	13 501,—
Social security contributions	385 671,93
Amounts written off and depreciation	4 231 514,25
Printing of bank notes	3 230 051,—
Other expenses	1 808 518,95
Net profit for 1965	29 304 390,—
	mk 46 606 732,78

EARNINGS

Interest on internal loans	28 112 719,64
Interest on foreign exchange holdings	7 688 807,27
Interest on bonds	4 932 272,30
Commission	2 039 231,08
Agio	2 042 019,46
Other earnings	1 791 683,03
	mk 46 606 732,78

Balance Sheet,

ASSETS		
Ordinary note cover		
Gold	267 508 136,22	
IMF gold tranche	45 600 000,—	
Foreign exchange	547 824 741,74	
Foreign bills	54 724 140,10	
Foreign bonds	29 042 762,13	944 699 780,19
Supplementary note cover		
Inland bills discounted		
In foreign currency	45 442 735,82	
In Finnish currency	26 018 824,54	
Rediscounted bills	640 634 721,31	712 096 281,67
Other assets		
Finnish bonds	36 913 333,47	
Cheque accounts	1 929 133,13	
Finnish coin	6 149 890,11	
Other claims	74 547 622,07	119 539 978,78
		mk 1 776 336 040,64

Statement of note

RIGHT OF NOTE ISSUE	
Ordinary cover	944 699 780,19
Supplementary cover (upper limit 500 mill.mk)	500 000 000,—
mk 1 444 699 780,19	

31st December 1965

LIABILITIES		
Notes in circulation		1 028 454 528,
Liabilities payable on demand		
Foreign exchange accounts	44 777 446,01	
Mark accounts of holders abroad	10 860 662,26	
Cheque accounts		
Treasury	1 125 719,20	
Post Office Savings Bank	8 309 390,08	
Private banks	11 910 265,22	
Other	1 221 612,83	
Other sight liabilities	20 104 185,89	98 309 281,49
Term liabilities		
Foreign	45 544 153,29	
Finnish	11 638 048,85	57 182 202,14
Equalization accounts		165 158 862,18
Bank's own funds		
Capital	300 000 000,—	
Reserve fund	97 926 776,83	
Net profit for 1965	29 304 390,—	427 231 166,83
	mk	1 776 336 040,64

issue, 31st December 1965

NOTE ISSUE	
Notes in circulation	1 028 454 528,
Liabilities payable on demand	98 309 281,49
Undrawn cheque credits	5 100 866,87
Unused right of note issue	312 835 103,83
	mk 1 444 699 780,19

Developments in 1965

During 1965 the upswing in economic activity slowed down, although total output was 5 per cent higher than in the previous year. One of the positive developments was the marked levelling-off of prices and costs. On the other hand, the external liquidity position continued to weaken because of the persistent growth of imports. The balance of payments deficit on current account exceeded that of 1964. Since borrowing abroad was possible only on a limited scale due to the tightening of the international money market, the deficit was financed mainly through the foreign exchange reserves. This was reflected both in a decline in the foreign assets of the Bank of Finland and in an increase in the foreign liabilities of the banking institutions.

According to the Balance Sheet, the foreign exchange assets of the Bank of Finland, consisting almost entirely of convertible currencies, decreased by 236 million marks in 1965. The net decline in the foreign exchange reserves of the Bank of Finland, however, was no more than 196 million marks, since the short-term liabilities, mainly in bilateral currencies, fell by 40 million marks. The gold holdings of the Bank amounted to 267 million marks, or, according to the Balance Sheet, 77 million marks more than in 1964. Nevertheless, the rise was only nominal, resulting from the revision in the Regulations for the Bank of Finland in accordance with the Act issued on December 30, 1965, by which the book value of the gold holdings of the Bank was raised to the par value of the mark. The adjustment of 83.5 million was effected at the closing of the books. At the new book value, the gold holdings of the Bank at the end of 1964 amount to 273 million marks; thus, in fact, the gold holdings decreased by 5 million marks in the course of 1965. A new item in the foreign assets of the Balance Sheet is the gold tranche of 46 million marks at the International Monetary Fund, which on a Parliamentary decision, was transferred from the Treasury to the Bank of Finland at the end of the year.

The marked decrease in the foreign exchange reserves was matched by a weakening in the liquidity position of the banking institutions. To curb the growth in bank lending, and thus the increase in the demand for imports the Bank of Finland set a ceiling on the increase in advances, initially for the period May—October and then for November 1965—April 1966. As a result of the decline in the foreign exchange reserves and the slackening in the growth of deposits, however, the liabilities of the banks to the Bank of Finland remained very high throughout the latter part of the year. The weekly average of rediscounts, which amounted to 346 million marks in 1964, rose to 572 million marks. At the end of the year the rediscounts were 641 million marks, or 192 million marks more than at the end of the previous year.

The Treasury's cash difficulties persisted into 1965, and in spite of the increased long-term borrowing, it was compelled to resort to continuous short-term borrowing from the public, business enterprises and the Post Office Savings Bank. Thus, only small balances were held on the cheque account of the Treasury at the Bank of Finland, the balance at the end of the year being 1 million marks. In 1965 the Treasury,

according to the amortization plan, redeemed the remaining amount of 10 million marks of the credit for stand-by stocks to the Bank of Finland.

Inland bills denominated in Finnish currency decreased by 41 million marks, or to 26 million marks during the year. The reduction was primarily the outcome of a decline in temporary loans for financing grain purchases. The medium-term suppliers' credit granted to the engineering industry, entered in the Balance Sheet under »other claims», was raised by 39 million marks, amounting to 50 million marks at the end of the year.

The mark accounts of holders abroad decreased by 18 million marks, or to 11 million marks during the year. With the redemption of pre-1956 credits from the World Bank, foreign term liabilities fell by 9 million marks. On the assets side, there was a corresponding reduction in inland bills in foreign currency. Finnish term liabilities include the export levy account, which remained unchanged, i.e. 1.1 million marks, as well as a new item, the investment deposits of the mining industry, totalling 10.5 million marks.

Note circulation increased by 26 million marks and amounted to 1 029 million marks at the end of 1965. During the year the notes denominated in the old monetary unit were transferred from the account of »notes in circulation» to »other sight liabilities». According to the Balance Sheet, the old notes in circulation amounted to 19.2 million marks at the end of the year.

The official discount rates applied by the Bank of Finland remained unchanged throughout the year, with a minimum rate of 6 per cent and a maximum of 7 $\frac{1}{2}$ per cent. The basic rate for rediscounts was 7 per cent. From November 1, however, a rate of 6 per cent was applied to the banks that had restricted their lending to the limits set by the Bank of Finland. These banks were also repaid the penalty rates on rediscounts collected in the period January—October. The principles applied for determining the penalty rate for the Central Bank of the Savings Banks and the Central Bank of the Co-operative Credit Societies were changed on November 1 to the same as those applicable to other banking institutions. The maximum amounts of rediscounting permitted remained unchanged only till April 30, when the instructions of the Bank of Finland, referred to above, came into force.

In accordance with the revised regulations, the Bank of Finland raised the capital of the Bank from 100 million to 300 million marks, utilizing the funds of the equalization accounts, at the closing of the books. As a result of this increase, the capital of the Bank, excluding the annual profit of 1965, totalled 398 million marks.

The profits of the Bank amounted to 29.3 million marks, or 3 million marks more than in 1964. The rise was primarily a result of the increased interest earnings on domestic credit. In contrast, the income from foreign correspondents decreased.

By another amendment to the regulations governing the Bank of Finland, at least one-half of the annual profit is to be transferred to the reserve fund until the capital and the reserve fund total 500 million marks; the limit was formerly 200 million marks. Accordingly, one-half of the annual profit of 1965 was transferred to the reserve fund. The disposal of the other half will be decided by Parliament.

Monthly movement

ASSETS

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Date	Ordinary note cover					Supplementary note cover			Other assets				Total of Balance Sheet
	Gold	IMF gold tranche	Foreign exchange	Foreign bills	Foreign bonds	Inland bills discounted in foreign currency	Inland bills discounted in Finnish currency	Rediscounted bills	Finnish bonds	Cheque accounts	Finnish coin	Other claims	
31. 12. 64	190	—	784	30	46	55	67	449	36	2	4	55	1 718
30. 1. 65	190	—	802	29	46	55	48	357	11	2	5	72	1 617
27. 2. 65	190	—	793	28	46	54	48	417	14	2	6	68	1 666
31. 3. 65	190	—	716	22	46	54	40	432	22	25	6	65	1 618
30. 4. 65	190	—	677	23	47	53	24	548	25	4	6	78	1 675
31. 5. 65	190	—	587	24	43	52	12	597	24	18	7	82	1 636
30. 6. 65	188	—	501	44	43	50	7	777	47	5	6	89	1 757
31. 7. 65	188	—	509	43	41	50	9	646	47	2	6	97	1 638
31. 8. 65	188	—	522	48	34	50	7	645	38	2	6	95	1 635
30. 9. 65	188	—	476	49	30	50	16	701	37	2	6	95	1 650
30. 10. 65	188	—	583	48	30	48	30	641	44	3	7	78	1 700
30. 11. 65	188	—	569	49	29	48	34	658	36	1	7	86	1 705
31. 12. 65	¹⁾ 267	46	548	55	29	45	26	641	37	2	6	74	1 776

31. 12. 64	190	—	784	30	46	55	67	449	36	2	4	55	1 718
Change in 1965	+ 77	+ 46	- 236	+ 25	- 17	- 10	- 41	+ 192	+ 1	—	+ 2	+ 19	+ 58
31. 12. 65	¹⁾ 267	46	548	55	29	45	26	641	37	2	6	74	1 776

¹⁾ Increased book value. See page 6.

of Balance Sheet in 1965

LIABILITIES

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Date	Notes in circulation	Liabilities payable on demand							Term liabilities		Equalization accounts	Bank's own funds			Total of Balance Sheet
		Foreign exchange accounts	Mark accounts of holders abroad	Cheque accounts				Other sight liabilities	Foreign	Finnish		Capital Reserve fund	Profits undistributed	Profit & Loss Account	
				Treasury	Post Office Savings Bank	Private banks	Other								
31. 12. 64	1 003	85	29	5	50	16	1	1	54	1	262	185	26	1 718	
30. 1. 65	910	95	16	2	2	6	1	23	54	12	283	211	2	1 617	
27. 2. 65	959	105	16	1	2	18	1	24	54	12	259	211	4	1 666	
31. 3. 65	921	102	16	—	1	19	1	23	54	12	251	211	7	1 618	
30. 4. 65	958	95	15	2	19	1	1	22	53	1	278	211	9	1 675	
31. 5. 65	984	74	15	—	1	—	1	21	51	12	254	211	12	1 636	
30. 6. 65	1 010	56	14	29	42	10	1	23	50	12	298	198	14	1 757	
31. 7. 65	966	39	15	1	11	4	2	22	50	12	301	198	17	1 638	
31. 8. 65	957	71	14	6	7	1	1	23	50	12	275	198	20	1 635	
30. 9. 65	963	70	13	15	8	—	3	23	48	12	274	198	23	1 650	
30. 10. 65	980	85	12	12	22	2	2	20	48	12	282	198	25	1 700	
30. 11. 65	1 002	97	12	1	6	4	1	21	48	12	276	198	27	1 705	
31. 12. 65	1 029	45	11	1	8	12	1	20	45	12	165	398	29	1 776	

31. 12. 64	1 003	85	29	5	50	16	1	1	54	1	262	185	26	1 718
Change in 1965	- 26	-40	-18	-4	-42	4		+19	-9	11	- 97	- 213	- 3	- 58
31. 12. 65	1 029	45	11	1	8	12	1	20	45	12	165	398	29	1 776

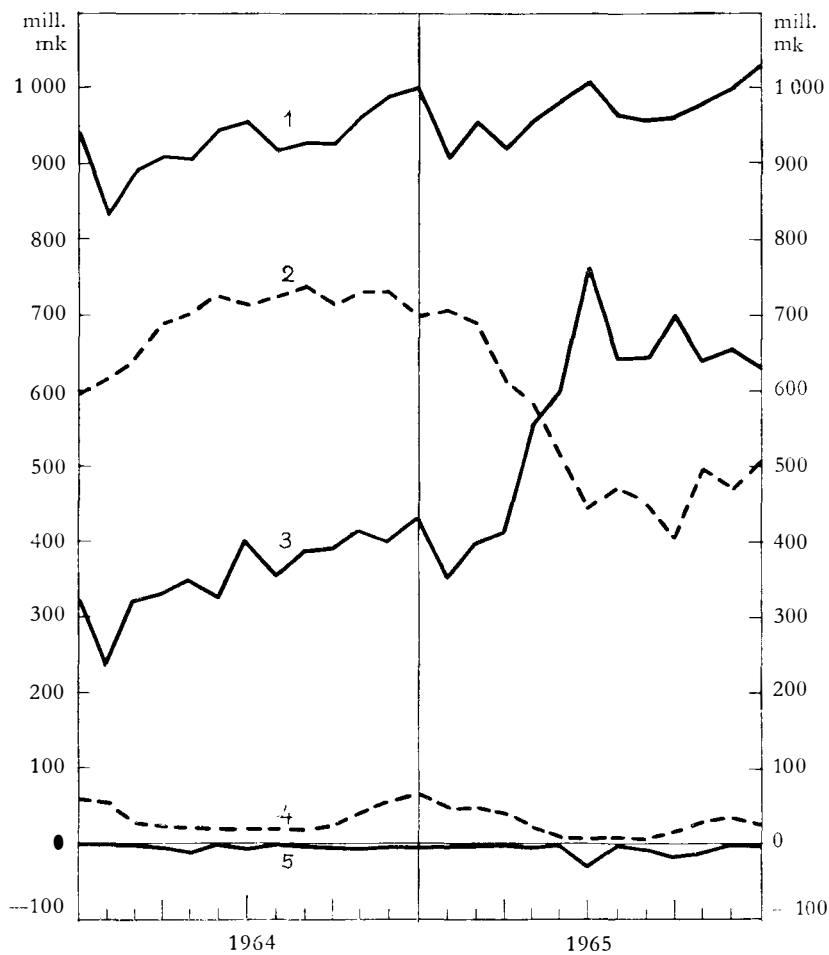
Right of note issue in 1965

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Date	Ordinary note cover a	Supplementary note cover b	Right of note issue c = a + b	Notes in circulation d	Liabilities payable on demand e	Undrawn cheque credits f	Unused right of note issue g = c - (d + e + f)
31. 12. 64	1 050	500	1 550	1 003	187	5	355
30. 1. 65	1 067	460	1 527	910	145	5	467
27. 2. 65	1 057	500	1 557	959	167	5	426
31. 3. 65	974	500	1 474	921	162	4	387
30. 4. 65	937	500	1 437	958	154	3	322
31. 5. 65	844	500	1 344	984	112	5	243
30. 6. 65	776	500	1 276	1 010	175	2	89
31. 7. 65	781	500	1 281	966	95	5	215
31. 8. 65	792	500	1 292	957	123	5	207
30. 9. 65	743	500	1 243	963	132	5	143
30. 10. 65	849	500	1 349	980	155	4	210
30. 11. 65	835	500	1 335	1 002	142	6	185
31. 12. 65	945	500	1 445	1 029	98	5	313

31. 12. 64	1 050	500	1 550	1 003	187	5	355
Change in 1965	-105	-	-105	+ 26	- 89	-	- 42
31. 12. 65	945	500	1 445	1 029	98	5	313

Major factors bearing upon the money supply



1. Notes in circulation
2. Foreign exchange
3. Rediscounted bills *minus* cheque accounts of private banks
4. Inland bills in Finnish currency
5. Credit to the Treasury *minus* cheque account of the Treasury

The Bank Supervisors delegated by Parliament

KUSTI ESKOLA
Chairman

T. A. WIHERHEIMO
*Deputy, Minister of Trade and
Industry, Vice Chairman*

AIMO AALTONEN

VEIKKO KOKKOLA
Deputy

T. H. KINNUNEN
Deputy

GRELS TEIR
Deputy, Minister of Communications

OIVA LEHTI●

TUURE SALO
Deputy

RAFAEL PAASIO
Deputy

The Board of Management

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Ph.D., Governor

ESKO K. LEINONEN
LL. B.

A. SIMONEN
LL. M.

AIHTI KARJALAINEN
*D.Pol.Sc., Minister for Foreign Affairs
On Leave of Absence*

REINO ROSSI
Ph.D.

HEIKKI VALVANNE
D.Pol.Sc., ad int.

Secretaries of the Bank

U. A. VATANEN

PERTTI TAMMIVUORI

JOUKO J. VOUTILAINEN

K. IGNATIUS

JORMA ARANKO

Head Office

Helsinki

Chief accountant

G. ENGBERG

Heads of department

C. G. SUNDMAN

P.-E. ÖSTERLUND

HELGE LINDSTRÖM

A. NENONEN

P. BLOMQUIST

A. KAJANTIE

K. EIROLA

EINO SUOMELA

Chief cashier

ARTHUR ASPELUND

Accountants

P. RÄIKKÖNEN

OLAVI VAINIO

PAULI KANERVA

VÄINÖ HEISKANEN

OLE BÄCKMAN

LEO LINDSTRÖM

E. UOTILA

T. NORKONMAA

U. KILPINEN

Comptroller

ANTERO MOHANEN

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TIMO HELELÄ

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T. RISSANEN

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V. ELONEN

Production manager
F. KORHONEN

Branches

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V. KAARNAKORPI

Cashier:
K. KARIH

Jyväskylä

Manager:
E. VUORILLA

Book-keeper:
HEIKKI HAKOLA

Cashier:
M. MUHONEN

Kotka

Manager:
EDV. HERTTUAINEN

Cashier:
J. LUOTO

Kuopio

Manager:
V. VAINIO

Book-keeper:
V. TIHERMAN

Cashier:
ELIN V. WRIGHT

Lahti

Manager:
R. KOTKASAARI

Book-keeper:
KEIJO KALLASMAA

Cashier:
HILKKA VAARNALA

Mikkeli

Manager:
O. KANERVA

Cashier:
JOUKO JAUHAINEN

Oulu

Manager:
OLE LAXÉN

Book-keeper:
KALERV●NÄRHI

Cashier:
U. HOLM

Pori

Manager:
K. PAANANEN

Book-keeper:
M. KYÖSTILÄ

Cashier:
KYLLEIKKI SANTONEN

R o v a n i e m i

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M. HANNULA

Book-keeper:
V. LEHTO

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TYYNE HAATAJA

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V a a s a

Manager:
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HARRI SALENUS

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M. SELENUS

Helsinki 2nd January, 1966

The Board of Management of the Bank of Finland

KLAUS WARIS

ESKO K. LEINONEN

REINO ROSSI

A. SIMONEN

HEIKKI VALVANNE
ad int.

G. ENGBERG

