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**Working Paper**

## The History of Exchange Control in Finland

Bank of Finland Discussion Papers, No. 3/1992

**Provided in Cooperation with:**

Bank of Finland, Helsinki

*Suggested Citation:* Lehto-Sinisalo, Päivikki (1992) : The History of Exchange Control in Finland, Bank of Finland Discussion Papers, No. 3/1992, ISBN 951-686-311-6, Bank of Finland, Helsinki, <https://nbn-resolving.de/urn:nbn:fi:bof-201808011831>

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# BANK OF FINLAND DISCUSSION PAPERS

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3/92

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24.1.1992

The History of Exchange Control in Finland



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24.1.1992

## **The History of Exchange Control in Finland**

ISBN 951-686-311-6  
ISSN 0785-3572

Suomen Pankin monistuskeskus  
Helsinki 1992

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# 1 Introduction

An exchange control system was operated in Finland in the period 1917–1920 because of imbalances in foreign trade and a consequent shortage of foreign exchange. The use of foreign exchange was restricted mainly to payments for permissible imports and the payment of foreign debts that had fallen due. In the 1920s, the trade account was in balance on average, and no exchange controls were applied. In the latter half of 1931, it was attempted to support the external value of the Finnish markka by means of various exchange control measures. After Finland abandoned the gold standard, the trade account remained in surplus for the major part of the 1930s owing to the undervaluation of the markka. It was not until the outbreak of World War II in autumn 1939 that exchange control was reintroduced.

The purpose of exchange control during the war was to ensure that the current account remained in balance and to enable scarce currency reserves to be used to meet the demands of national defence and food supply. Exchange control was extensive; it covered all foreign payments.

After the end of the war, exchange control remained in force and in the 1940s it even increased in extent. In 1946, the obligation to surrender foreign exchange was extended to cover foreign securities. After 1948, regulation of foreign borrowing and lending began.

The Korean War boom of the early 1950s did not lead to any immediate easing in exchange control. Only after the devaluation of 1957 was there some alleviation of exchange control, mainly as regards current payments. In addition, investments by foreigners in Finnish listed securities were allowed in the late 1950s.

In the 1960s, exchange control was still fairly extensive. Though payments related to foreign trade were free, import credits were still heavily restricted.

To a large extent, exchange control was guided by structural policy considerations. The Bank of Finland gave preference to borrowing for long-term investments supporting the balance of payments and economic growth. Since the mid-1950s, the Bank's attitude towards foreign direct investments in Finland has been positive.

In the 1970s, numerous amendments were made to the foreign exchange regulations. The early part of the decade saw the introduction of a cash payment system for certain imports and a deposit requirement for capital imports. In the mid-1970s, the Bank of Finland began to relate capital imports to the total supply of credit in the economy in its authorization procedure. The Bank of Finland adopted a negative attitude



towards long-term suppliers' credits for imports. To curb the use of short-term suppliers' credits for imports, a penalty surcharge scheme was applied to the financing of imports. In the late 1970s, the maximum credit period for import financing credits was reduced from six to three months. But there was some easing in the regulations. The maximum period for financing export receivables was extended to twelve months and the authorization procedure for direct investments abroad was alleviated.

In the 1980s, the primary aims of exchange control were to protect the country from external disturbances and to secure the independence of Finnish monetary policy. The Bank of Finland embarked upon a process of liberalization. Restrictions on borrowing and investment abroad were gradually removed.

In the early 1980s, the authorized banks were permitted to use foreign credit to finance their forward exchange purchases. The restrictions on companies' long-term borrowing from abroad were progressively removed from the mid-1980s onwards; as a first step manufacturing firms were allowed to raise foreign loans with a maturity of five years or over. This financing opportunity was later extended to cover most other business sector enterprises as well as local authorities, with certain restrictions. In the late 1980s, the borrowing rights of business enterprises were extended to include foreign loans with a maturity of at least one year. At the same time, companies were granted the right to grant loans of at least one year's maturity.

From the mid-1980s onwards, the controls on companies' foreign direct investments were also dismantled. Initially, a company's direct investment abroad was restricted to FIM 30 million a year; later, all restrictions were lifted.

From the mid-1980s onwards, foreign portfolio investments by residents were permitted up to a certain limit; the maximum amount was raised annually. The restrictions were abolished in the late 1980s, except for investments by financial sector enterprises and individuals.

In summer 1990, individuals were permitted to undertake foreign investments and to grant foreign loans with a maturity of at least one year to nonresidents without the prior approval of the Bank of Finland.

At the beginning of 1991, almost all remaining exchange controls were lifted. Investments in money market securities and all types of derivative instruments were allowed, and a commercial (trade-related) background was no longer required for forwards or options. Short-term foreign borrowing and lending were permitted; only borrowing from abroad by individuals and comparable entities still remained subject to authorization, until October 1991.

The risks associated with the foreign operations of financial institutions are still monitored by means of a licence procedure: licences to operate as an authorized bank or to engage in foreign exchange activity are granted on the basis of the Foreign Exchange Act. Similarly, the Bank of Finland's right to obtain information is still guaranteed under a special provision included in the Foreign Exchange Act.

Finland has followed overall trends in Europe and dismantled exchange controls at roughly the same pace as Sweden and Norway.

## 2 The Extent of Exchange Control in Different Decades

### The first years of independence and exchange control in the 1920s

After World War I, Finland suffered from a shortage of foreign exchange. Exports encountered great difficulties and did not pick up until summer 1919. The demand for imports was immense, but because of the deficit on the trade account import restrictions could be dismantled only slowly. It was also necessary to resort to short-term borrowing from abroad as long-term foreign credit was not obtainable. Owing to the trade account deficit, the value of the markka depreciated markedly in 1918–1920. In 1920, it was attempted to support the value of the markka by reducing imports, but without success, and at the end of the year, foreign exchange rates rose sharply.<sup>1</sup>

Under the exchange control regulations which came into effect in spring 1917, foreign exchange could only be used to acquire those goods specified on a list confirmed by the Senate. The use of foreign exchange for other purposes required the special permission of the Senate. In addition, arbitrage transactions were specifically forbidden. The maximum exchange rates for foreign currencies were confirmed by the Bank of Finland's advisory board.

In spring 1918, it was stipulated that the right to deal in foreign exchange was limited to the Bank of Finland and other banks as well as to those individuals who had been granted this right on application. These entities were allowed to sell foreign exchange freely up to a certain limit and, in addition, they could effect payments for permissible imports of goods and foreign debts that had fallen due. In spring 1919, it was stipulated that authorized foreign exchange dealers could purchase foreign exchange from abroad only with the permission of the Bank of Finland. From the end of 1919 to February 1920, there were no regulations regarding the sale of foreign exchange or dealing in foreign exchange, but in February 1920, the former regulations were reintroduced. A decision by the Council of State later in the spring required that foreign exchange receipts from exports should be sold to the Bank of Finland. In October 1920, all regulations except those applying to foreign exchange dealing were cancelled.

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<sup>1</sup> Rossi, 1947, pp. 26–27; Suomen taloushistoria 2., 1982, pp. 177, 262, 296 and 297.

By 1921, the trade account was in balance and import controls were abandoned. The foreign exchange reserves grew substantially in 1922 as a result of export earnings. The trade account moved into deficit in 1923 as the Bank of Finland tried to keep the markka overvalued. In 1924, the prevailing exchange rate was accepted as the external value of the markka. After the foreign exchange market had stabilized, Finland returned to the gold standard in 1926.<sup>2</sup>

The foreign exchange reserves continued to grow until 1928, when exports started to decline.

## Exchange control in the 1930s

The worldwide recession started to affect Europe from 1930 onwards. Great Britain, Finland's biggest trading partner, had to abandon the gold standard in September 1931, and was followed by Sweden, Norway and Denmark, amongst other countries. Initially, Finland tried to support the markka by raising the discount rate and exercising exchange control. The purchase of foreign currencies from abroad was made subject to permission from the Bank of Finland until the end of 1931, as too were the export of Finnish banknotes and the making of markka-denominated payments to foreigners' accounts in Finland. These measures were not sufficient to maintain confidence in the markka, and Finland had to abandon the gold standard in October 1931. Thereafter, the markka was allowed to float until, having depreciated substantially, it was pegged to the pound sterling in March 1933.<sup>3</sup>

Because of the undervaluation of the markka, the trade account remained in surplus for most of the 1930s. The competitiveness of exports was relatively good, nor did imports grow excessively. There was therefore no need for exchange control or regulation of imports, though the partial changeover to bilateral trade meant that payments in respect of exports and imports were effected by means of clearing arrangements.<sup>4</sup>

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<sup>2</sup> Rossi, 1947, pp. 33–34, 37–39; Suomen taloushistoria 2., 1982, pp. 178–179.

<sup>3</sup> Rossi, 1947, pp. 41–42, Suomen taloushistoria, 1982, pp. 186–187, 263 and 264; Tamminen, 1947, pp. 10–12; Waris, 1977, pp. 39–44; Åkerfelt, 1984, p. 1.

<sup>4</sup> Rossi, 1947, pp. 42–43; Suomen taloushistoria 2., 1982, p. 264; Tamminen, 1947, pp. 13–15; Åkerfelt, 1984, p. 1.

In addition to Belgium and Luxembourg, Finland was the only European country to return to completely free foreign exchange markets after a short period of exchange control. It should be noted, however, that control was eased in many western countries along with the rise in export prices and the growth of world trade in 1937, even though these countries formally preserved an exchange control system.<sup>5</sup>

## World War II

In autumn 1939, the Bank of Finland ceased quoting foreign exchange rates for some time and restricted the sale of foreign exchange to payments for essential imports and the payment of debts that had fallen due. Owing to developments in the exchange rate of the pound sterling, the markka was decoupled from the pound and pegged to the dollar.<sup>6</sup>

This was soon followed by a shift to open exchange control. The exercise of control was based on various emergency laws enacted in wartime. First, the Council of State issued a decision making it necessary to disclose information on foreigners' claims and liabilities, and shortly afterwards regulations were issued concerning the export of means of payments, payments abroad and the surrendering of foreign exchange. Control was gradually extended in 1940–1941.<sup>7</sup>

The 1941 law on the regulation of economic activity in exceptional circumstances extended the exchange control powers to the extent that they could also be used in peacetime for guaranteeing the country's liquidity and preserving the value of money.<sup>8</sup> In addition to the 1941 emergency powers law, other provisions with the status of law were in force for as long as the state of war existed. The 1941 law authorized the Council of State to augment the authority and duties of the Bank of Finland. The exchange control system based on the emergency powers law was extensive and covered all foreign payments.

An agreement concluded between the Bank of Finland and the commercial banks in 1941 empowered the Bank to issue regulations to be observed by the commercial banks in return for which the latter were

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<sup>5</sup> Knoellinger, 1941, pp. 9–11.

<sup>6</sup> Tamminen, 1947, p. 18.

<sup>7</sup> Knoellinger, 1982, p. 39; Tamminen 1947 p. 16; Åkerfelt, 1984, p. 2.

<sup>8</sup> Government Bill No. 157/1940.

authorized to depart from the general obligation to surrender foreign exchange.<sup>9</sup>

The purpose of exchange control was to ensure that the current account remained in balance during wartime and to see to it that scarce currency resources were used to meet the demands of national defence and food supply. In addition, foreign trade was subject to strict control and licensing.<sup>10</sup>

The allocation of resources to the war effort meant that not even indispensable imports could be paid for out of dwindling export earnings. The resultant trade deficit had therefore to be covered by long- and short-term foreign loans.

The country's net foreign debt grew significantly in 1939–1945.<sup>11</sup>

## The postwar period

Economic problems did not disappear with the end of World War II. Economic resources had to be diverted from a war economy to reconstruction. Foreign borrowing helped Finland to get through the difficult period of reconstruction and war reparations, even though the country had only limited access to the international credit markets.<sup>12</sup>

After the end of the war, exchange control remained in force and was extended even further. In 1946, for example, residents were required to surrender their holdings of foreign securities to the Bank of Finland so that they could be used for the acquisition of foreign exchange.

In the Government's 1947 bill on exchange control, it was stated that exchange control would have to be maintained for an indefinite period. It was therefore proposed that the provisions on exchange control should be contained in a separate law.<sup>13</sup>

Foreign borrowing and lending became subject to regulation; only customary import credits were permitted without special authorization.

With a view to improving the current account balance, the markka was devalued three times in 1945 (by 42.8, 28.6 and 11.2 per cent) and

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<sup>9</sup> Knoellinger, 1941, pp. 44–45 and 93–94.

<sup>10</sup> Knoellinger, 1941, p. 15; Suomen taloushistoria 2., 1982, pp. 322–323; Tamminen, 1947, p. 17.

<sup>11</sup> Ilmanen, 1986, p. 13; Suomen taloushistoria 2., 1982, p. 323; Tudeer, 1945.

<sup>12</sup> Pekkarinen, 1984, p. 221; Suomen taloushistoria 2., 1982, p. 337.

<sup>13</sup> Government Bill No. 154/1947.



twice in 1949 (by 15.0 and 30.7 per cent). Finland became a member of the International Monetary Fund in 1948, and the par value of the markka was confirmed in summer 1951.

Immediately after the end of the war, foreign trade was conducted on a compensation and quota basis. The Export and Import Permits Office granted import and export permits within quota limits. By 1949, the major part of trade was conducted on a bilateral basis, normally in the form of one-year trade agreements.<sup>14</sup>

## Exchange control in the 1950s

In spring 1950, Finland signed the GATT Agreement whereby it sought to secure a competitive foreign trade position for itself. The Korean War boom, which began in autumn 1950, led to a rise in export prices and a substantial increase in Finland's foreign exchange reserves.<sup>15</sup>

Exchange control and the licensing of imports were the main means used to keep the current account in balance; in the early 1950s, it was not considered possible to dismantle exchange control or the regulation of imports to any significant degree. The improvement in the foreign exchange reserves during the Korean War boom had enabled Finland to increase import quotas.<sup>16</sup>

The effects of the Korean War boom were fairly short-lived. The foreign exchange reserves dwindled, mainly because of repayments of outstanding debts, and when the boom ended, export prices plunged.<sup>17</sup> Pressures emerged for lowering the external value of the markka. Since the par value of the markka had just been fixed in 1951, devaluation did not come into question. Hence, another solution had to be found. As an exchange control measure, stamp duty was levied on exchange sold for travel purposes. In addition, a Trade Clearing Agency consisting of representatives of the business sector tried to promote exports in 1953–1957 by charging importers a "clearing" fee, the proceeds of which

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<sup>14</sup> Suomen taloushistoria 2., 1982, p. 346.

<sup>15</sup> Suomen taloushistoria 2., 1982, p. 371; Tarkka, 1988, p. 198.

<sup>16</sup> Suomen taloushistoria 2., 1982, p. 371; Tarkka, 1988, p. 200; Waris, 1953.

<sup>17</sup> Suomen taloushistoria 2., 1982, p. 381; Tudeer, 1952; Tudeer, 1953.

were used to promote exports of certain types of goods. At the same time, the Trade Clearing Agency Countered pressures for devaluation.<sup>18</sup>

As from 1953, the exchange control and import permit systems were coordinated so that the Export and Import Permits Office granted import permits within currency limits set for it by the Bank of Finland. In 1955, import permits were automatically issued up to an amount equivalent to about 40 per cent of the total value of imports. Foreign trade nevertheless continued to be conducted on a bilateral basis until summer 1957.<sup>19</sup>

In autumn 1957, the markka was devalued by 28 per cent, as a result of which the current account moved into surplus. Only after this did the dismantling of import controls really begin.

Imports from many countries carrying on bilateral trade with Finland, as well as from the dollar area and France, were freed from import controls.<sup>20</sup> In 1958, Finland, together with most countries in Western Europe, established external convertibility for currencies used in current payments.

With the improvement in the foreign exchange situation, pressures also emerged for dismantling exchange control. In connection with the devaluation in 1957, the collection of stamp duty on travel exchange had been discontinued.

In its reply to the Government's 1958 bill on extending the period of validity of the existing exchange control law, Parliament presumed that exchange control would, as far as possible, be relaxed and partly dismantled and that the reform of the foreign exchange legislation would get under way.

The Bank of Finland did in fact endeavour to remove exchange controls to the extent it considered expedient and prudent. For example, the limits on purchases of travel exchange were raised and the handling of certain current payments was delegated to the authorized banks. Investments by foreigners in Finnish listed securities were permitted. By July 1959, Finland had reached the same level as the Scandinavian countries as regards dismantling exchange control.<sup>21</sup>

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<sup>18</sup> Dahmén, 1963, pp. 24–25; Ilmanen, 1986, p. 19; Suomen taloushistoria 2., 1982, p. 372; Poliitiikan välineet Suomessa, 1972, p. 37.

<sup>19</sup> Suomen taloushistoria 2., 1982, p. 371; Waris, 1953, pp. 116–117; Waris, 1977, p. 57.

<sup>20</sup> Suomen taloushistoria 2., 1982, p. 372.

<sup>21</sup> Waris, 1959, Bank of Finland Monthly Bulletin, 1959:7.

Legislation was reformed in December 1959 when two new laws on exchange control and dealing in foreign exchange were enacted. The new exchange control law did not, however, reduce exchange control powers to any significant extent as compared with the 1948 law.

In the 1950s, the trade account was in balance overall. As in other western industrial countries economic growth was rapid but cyclical fluctuations, especially where investment was concerned, were very sharp.<sup>22</sup>

In practice, the raising of foreign loans was hardly regulated at all. The lenders were for the most part international financial institutions, such as the World Bank or foreign governments, while the formal borrowers were the Finnish government and the Bank of Finland. Companies' opportunities to raise loans directly abroad were minimal.<sup>23</sup> Short-term import credits in respect of certain goods on the import free list were banned by applying a cash payment system to imports of such goods from December 1957 to November 1959.

Other European countries (excl. Switzerland) also regulated capital movements and current payments. The Federal Republic of Germany gradually eased exchange control in the course of the 1950s. Other European countries did not start to relax exchange control until the late 1950s.<sup>24</sup>

## Exchange control in the 1960s

In all western industrial countries, the 1960s were in general a period of rapid economic growth. However, cyclical fluctuations were fairly sharp in Finland, as in the 1950s.<sup>25</sup> All countries maintained fixed exchange rates. Despite the setting up of the OECD, the liberalization of capital movements generally came to a halt.<sup>26</sup>

The exchange control exercised by the Bank of Finland continued to be rather extensive in the 1960s. Most capital transactions were subject to authorization by the Bank of Finland. The legal basis for this was the law on exchange control that became effective at the beginning of 1960. The

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<sup>22</sup> Dahmén, 1963, p. 19; Pekkarinen, 1984, p. 219.

<sup>23</sup> Dahmén, 1963, p. 30; Kiema, 1991, pp. 2–4.

<sup>24</sup> Tarkka, 1988, p. 204.

<sup>25</sup> Pekkarinen, 1984, p. 230.

<sup>26</sup> Hietalahti–Huomo, 1987, pp. 40–41, 48–53; Tarkka, 1988, pp. 205 and 229.

Free Trade Agreement between Finland and EFTA, which entered into force in July 1961, did not call for far-reaching liberalization measures as the right to use foreign exchange in Finland already corresponded fairly closely to the minimum level set in EFTA.

Trade-related payments were free. As from the beginning of 1961, the obligation to surrender foreign exchange was limited mainly to receipts from merchandise exports. It was permitted to raise foreign credit for the financing of short-term export receivables, provided that the credit period did not exceed nine months. The advance financing of exports of wood and wood products was also permitted.

To improve the current account, it was necessary to reduce the maximum period for import credits from twelve to six months. A cash payment system was applied to imports from October 1962 to January 1968.

In the mid-1960s, capital imports grew rapidly as Finnish companies gained improved access to financial markets. Long-term foreign capital was raised in the newly-emerged Euromarket by issuing bonds.<sup>27</sup> The Bank of Finland regulated the raising of foreign loans and gave preference to borrowing which was as long-term as possible. The funds thus raised were used for long-term investments supporting the balance of payments and economic growth. Forest industry companies received the major part of the funds borrowed abroad, since the Bank of Finland gave priority to loans used for investments that improved the capacity to earn foreign exchange.<sup>28</sup> Hence, in the 1960s, exchange control became linked to structural policy goals.

In 1967, the Council of State issued a policy statement encouraging foreign investments in Finland; the Bank of Finland concurred with the Council of State's positive attitude. Direct investments abroad by Finnish enterprises were authorized only if they were considered to promote exports. Finns were not allowed to make portfolio investments abroad.<sup>29</sup>

In 1967, the markka was devalued by about 23.8 per cent. Exchange control was relaxed to some degree. The cash payment system for imports was abolished and the maximum amount of travel exchange that could be purchased was increased. Even though the foreign exchange reserves grew substantially during 1968, this was not yet felt sufficient to warrant any further dismantling of exchange control.<sup>30</sup> The period of validity of the law on exchange control was extended until the end of 1970.

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<sup>27</sup> Kiema, 1991, p. 2; Suomen taloushistoria 2., 1982, pp. 384–385.

<sup>28</sup> Kiema, 1991, p. 4; Bank of Finland Yearbook, 1966 and 1967.

<sup>29</sup> Monthly Bulletin, 3/1967; Valuutansäännöstelyn tavoitteet, 1983, p. 8.

<sup>30</sup> Government Bill No. 92/1968.

Finland joined the OECD at the beginning of 1969. In this context, exchange control was relaxed to a certain extent. For example, some of the maximum limits on the use of foreign exchange were raised.

## Exchange control in the 1970s

Slow economic growth, instability and rapid inflation characterized developments in the western industrialized countries in the 1970s.

Among the factors contributing to the economic problems were the collapse of the fixed exchange rate system and the first oil crisis. Many countries adopted flexible exchange rates in 1973. Monetary policy assumed a more important role in the economic policy of the industrialized countries.

A large number of amendments and revisions were made to the foreign exchange regulations in the early 1970s.

A deficit on current account made it necessary to reintroduce the cash payment system for imports, with extended coverage, in autumn 1970. This reduced the liquidity of importers subject to the scheme and thereby imports. The scheme was terminated in summer 1972.

Likewise, the raising of short-term foreign financing credits through banks to pay for imports was banned in 1970. However, finance could still be raised directly from abroad provided the credit period did not exceed six months.

The Foreign Exchange Act, which entered into force at the beginning of 1973, and the foreign exchange regulations issued on the basis thereof did not change the degree of control; rather, they made it easier to administer matters involving foreign exchange. The regulations concerning the right of residents to hold foreign exchange were amended. Whereas before residents had been obliged to surrender foreign exchange obtained from abroad to an authorized bank against compensation in markkaa, they were now, as an alternative, allowed to deposit foreign exchange proceeds in a domestic foreign currency account with an authorized bank. But, on the other hand, the obligation to repatriate foreign exchange was now extended to apply to all foreign exchange proceeds. The authorized banks' right to sell foreign exchange without the permission of the Bank of Finland was extended.<sup>31</sup>

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<sup>31</sup> Government Bill No. 217/1972.

In the early 1970s, the Bank of Finland took a favourable attitude towards long-term borrowing abroad. In June 1973, however, a deposit requirement was introduced in respect of long-term borrowing abroad. Its purpose was to offset the easing effect of foreign borrowing in the domestic financial markets. The deposit scheme did not apply to government loans or suppliers' credits relating to merchandise imports. Moreover, the application of the deposit requirement in respect of other borrowings was subject to discretion, depending, for example, on the purpose for which the borrowed funds were to be used. In practice, the scheme was applied only for a few years.<sup>32</sup>

In the mid-1970s, the central bank's concern about the deteriorating current account position and Finland's creditworthiness led to a tightening in the authorization procedure applied to long-term borrowing abroad. Budgeting principles were applied in the authorization procedure. By means of a financing budget drawn up by the Bank of Finland, foreign borrowing was related to the aggregate supply of credit in the economy. From the point of view of economic growth, long-term borrowing constituted an important source of capital. In the 1970s, long-term foreign capital was imported by the major industrial, energy and shipping companies, as well as by special financial institutions. As far as borrowing terms were concerned, the Bank of Finland drew attention primarily to the cost of finance, which had to be at a good market level.<sup>33</sup>

Individual authorizations were granted for the financing of the largest investment projects. Foreign financing usually accounted for some 40 per cent of the total financing of industrial investments.<sup>34</sup>

In 1975–1978, the wood processing industries were allowed to finance their excess output abroad, thus enabling production in this sector to continue, despite export difficulties.<sup>35</sup>

Owing to unfavourable developments in the current account in the mid-1970s, the Bank of Finland adopted a negative attitude towards long-term foreign suppliers' credits and, to some extent, also towards foreign financing credits related to imports.<sup>36</sup>

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<sup>32</sup> Kiema, 1991, pp. 7–8.

<sup>33</sup> Kiema, 1991, pp. 8–10; Valutansäännöstelyn tavoitteet, 1983, p. 5; Laurila, 1982, pp. 79–81 and 91.

<sup>34</sup> Kiema, 1991, p. 4; Laurila, 1982, pp. 76–77; Valutansäännöstelyn tavoitteet, 1983, p. 6.

<sup>35</sup> Kiema, 1991, p. 21; Laurila, 1982, p. 77.

<sup>36</sup> Kiema, 1991, p. 31.



A surcharge scheme covering suppliers' credits exceeding six months entered into force in early 1976. The outstanding stock of unauthorized suppliers' credits of more than six months had increased significantly. A charge of 10 – 30 per cent was levied on the outstanding value of such credit. The purpose of the scheme was to ensure that the outstanding stock of these suppliers' credits was run down to prevent the re-emergence of such a stock and also to increase the efficiency of the cash payment scheme for imports.

As a result of the devaluations of 1977 and 1978, the value of the markka fell by a total of about 16 per cent. After the years of recession, economic growth began to pick up again. In 1978, the Bank of Finland extended the right of exporters to use foreign credit to include the financing of exports during the delivery time. The maximum period for export financing was twelve months.

Direct investment abroad by Finnish enterprises began to expand particularly rapidly in the mid-1970s. Previously, special reasons had been required for the approval of an application to make a direct investment abroad (effect on the balance of payments); from the late 1970s onwards, by contrast, special reasons were required for the rejection of an application. In the late 1970s, the value of direct investments made abroad rose markedly. The central bank carried out a profitability analysis for each major industrial investment project, but normally approved applications. The Bank of Finland intervened actively in the financing of investments and normally allowed a maximum of 75 per cent of the estimated cost of a project to be financed with funds raised abroad.<sup>37</sup>

Throughout the 1970s, capital transactions still had to be related to real economic transactions, for example, exports or imports. A negative attitude was taken towards portfolio investments abroad, which were affected by exchange rate and interest rate expectations.<sup>38</sup>

In the early 1970s, the Netherlands and the Federal Republic of Germany maintained certain indirect restrictions on capital imports. At the beginning of 1974, the Federal Republic of Germany dismantled most of the remaining restrictions on capital transactions. After the mid-1970s, when the major currencies had been floated, the other western industrial countries started to relax exchange control. The United Kingdom abolished exchange control in 1979.<sup>39</sup>

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<sup>37</sup> Laurila, 1982, p. 57; Valutansäännöstelyn tavoitteet, 1983, pp. 8–9.

<sup>38</sup> Laurila, 1982, p. 71.

<sup>39</sup> Hietalahti–Huomo, 1987, pp. 38–39, 42, 44–45 and 48; Tarkka, 1988, p. 230.

## Exchange control in the 1980s

In the 1980s, economic conditions in Finland stabilized. Exports had become more diversified and the forest industries, which are sensitive to economic fluctuations, now accounted for no more than just over one-third of Finland's total exports. There was not as much danger of Finnish capital leaking abroad as before. In the 1980s, the need to regulate stable long-term capital movements diminished. It was nevertheless still regarded necessary to regulate the remaining unstable short-term capital movements.<sup>40</sup>

The efficiency of exchange control weakened, as it was precisely long-term capital movements which were to a large extent subject to authorization, whereas volatile short-term capital movements resulting from "leads and lags" in foreign trade and forward exchange transactions did not require special authorization.

The central bank began to actively dismantle exchange control in the 1980s. With the expansion of international trade and capital movements, the major goal of regulating capital movements became to safeguard the economy from external disturbances and to ensure independence in monetary policy. The general trend was to relax exchange control in small steps.

A significant change as regards the liberalization of capital movements was the Bank of Finland's decision in spring 1980 to withdraw from the forward exchange market and to hand over to the authorized banks the task of hedging companies' foreign exchange risks. The banks' own exchange risks were reduced by setting limits on their open exchange positions. The banks were permitted to raise foreign loans freely to cover the exchange risks associated with forward purchases.

The Bank of Finland's attitude towards long-term foreign borrowing became progressively more positive in the 1980s. An exception to this trend was the amendment made to the foreign exchange regulations in June 1985, whereby the Bank of Finland banned the sale of markka-denominated bonds abroad.

In 1982, the authorized banks were permitted, as members of a syndicate, to grant a maximum of half of the nominal value of foreign loans extended to residents. This restriction was removed in 1984.

A less liberal attitude was taken towards short-term financing credits related to imports. At the beginning of 1981, the authorized banks were set bank-specific quotas for import financing credits.

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<sup>40</sup> Government Bills Nos. 196/1980 and 157/1985.

Until the reform of the Foreign Exchange Act in 1986, the Bank of Finland took a negative attitude towards portfolio investments. Private portfolio investments were regarded as being so volatile that they could cause disturbances in the economy. Authorized banks and insurance companies were nevertheless granted permission to undertake portfolio investments abroad so that they might compete on equal terms with foreign companies in the international financial and insurance markets.

In the Government's bill on a new Foreign Exchange Act, it was suggested that the current powers should be extended until the end of 1990, mainly in the same degree as before. The proposal did not take any stand on how extensive should be the degree of exchange control exercised in any particular situation.<sup>41</sup>

It was further noted in the bill that the openness of the economy and instability in the foreign exchange and financial markets had made the Finnish economy susceptible to disturbances from abroad and that the changes had accentuated the role of market forces and set new requirements for exchange control. Exchange control was considered to slow the transmission of adverse effects from abroad. The bill was based on the assumption that it was still necessary to maintain the Bank of Finland's exchange control powers so as to secure external liquidity and stable monetary conditions. The law did not authorize the Bank of Finland to use its exchange control powers strictly for business or trade policy purposes.

To ward off any severe disturbances that might threaten the economy, the law granted the Bank of Finland wider-ranging powers than those applicable in normal conditions to regulate the import of foreign exchange and to decide on the obligation to surrender foreign exchange.

The most important changes in principle in the Bank of Finland's foreign exchange regulations were the cautious liberalization of portfolio investments and the shift from regulation of legal transactions (the making of contracts) to regulation of foreign exchange transactions.

The Bank of Finland's step-by-step dismantling of exchange control continued in 1986. The most important changes were the lifting of the controls on long-term foreign loans with a maturity of at least five years raised by manufacturing and shipping companies for financing their own operations and the relaxing of the controls on trade-related financing credits. The foreign financing of long-term export receivables was allowed and the banks' import credit quotas were abolished.

In 1987, the controls on direct investments abroad by Finnish companies (except financial and insurance institutions) were freely permitted up to a cumulative limit of FIM 30 million a year per enterprise. In the same year, the upper limit on portfolio investments

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<sup>41</sup> Government Bill No. 157/1985.

abroad was raised and the right to raise foreign loans with a maturity of five years or over was extended to all enterprises engaged in business activity. Likewise, currency option contracts between an authorized bank and a resident involving the markka and a foreign currency were permitted.

In 1988, the dismantling of exchange control was continued by permitting all companies, except those in the financial and insurance sector, to make direct investments abroad without any upper limit. In addition, the upper limit on investments in securities and real estate was raised.

The major changes in 1989 were the decision to permit all companies engaged in business activities, except those in the financial and insurance sector, to make portfolio investments without any upper limit and the decision to permit these companies to raise and grant foreign loans with a maturity of five years or over.

## The final stages of exchange control

The usefulness of exchange control as an instrument of foreign exchange and monetary policy decreased further with the coming of the 1990s. This was due, in particular, to global integration of financial markets but also to the internationalization of Finnish companies.

In February 1990, the ban on the sale of new Finnish bonds abroad to non-residents was lifted. In July, the restrictions on foreign investments by individuals were removed. In September, the purchase and sale of stock-based derivatives were liberalized.

In the Government's 1990 bill on the amendment of the Foreign Exchange Act, however, it was suggested that the Bank of Finland's exchange control powers should be continued. Underlying this was the wish to retain the possibility of exercising exchange control for a few more years. The purpose was to help banks, individuals and also the authorities to adjust to international competition and foreign risks. The validity of the Foreign Exchange Act was extended by three years, until the end of 1993.

According to the Government's bill, it was necessary to retain the possibility of using exchange control powers in exceptional conditions because of uncertainties related to the integrated markets. These uncertainties, in turn, were due to disturbances caused by speculation. The right to use the exchange control powers applicable in exceptional

conditions was nevertheless restricted to situations where a severe disturbance endangered the country's external liquidity and stable monetary conditions.<sup>42</sup>

The Bank of Finland's access to information needed for the compilation of balance of payments statistics was secured by means of a provision included in the Foreign Exchange Act. Likewise, the monitoring of the risks of the authorized banks and other major financial institutions was based on the powers conferred in the Foreign Exchange Act.

Because of the reduced role of exchange control, all foreign exchange transactions were now permitted unless the Bank of Finland specifically determined that they were subject to authorization. Thus, short-term capital movements were also liberalized. However, the raising of foreign loans by and the channelling of credit to individuals and comparable entities continued to be subject to authorization until October 1, 1991.

It was decided to continue to monitor the risks associated with the foreign activities (excl. direct investments) of authorized banks, mortgage banks and credit companies through the issue of licences to operate as an authorized bank or to engage in foreign exchange activities. Likewise, the channelling of credit by finance companies is monitored through these licences.

Under its commitments as a member of the OECD and EFTA, Finland has followed the other European industrial countries in gradually abolishing its exchange control system. Sweden and Norway have applied the same gradualistic approach as Finland in liberalizing foreign exchange regulations, though at a slightly faster pace. In autumn 1989, the finance ministers of the Nordic countries set the common goal of liberalizing all capital movements by July 1, 1990. Sweden and Norway had, in fact, lifted all their remaining exchange controls by that date. The remaining exchange controls in Finland at that time were mainly those applying to short-term foreign borrowing. Iceland had drawn up a timetable for gradually dismantling its exchange control system. Denmark, the only Nordic country which is a member of the European Community, abolished exchange control at a much earlier date than the other Nordic countries.<sup>43</sup>

A prerequisite for the emergence of a single European financial area within the European Community is the complete liberalization of capital markets and financial services. In 1988, the EC countries undertook to liberalize all capital movements by the end of June 1990. Greece, Portugal, Spain and Ireland were, however, given a few years extra to adjust to free capital movements.

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<sup>42</sup> Government Bill No. 48/1990.

<sup>43</sup> Hietalahti-Huomo, 1987, pp. 55–56.

### 3 Legal Aspects

#### The procedure for enacting constitutional law

For almost the entire period of Finland's independence, there have been laws in force which include provisions on exceptional measures to be taken by the government in order to deal with serious economic problems. Since 1941, so-called economic emergency powers laws governing exchange control have been issued in accordance with the procedure required for enacting constitutional law.

Like all emergency powers laws, the exchange control laws interfere with the protection of property as laid down in section 6 of the Constitution, especially the freedom of contract.

The delegation of legislative powers denotes a procedure whereby a constitutional legislative body transfers legislative powers to other organs by way of legislation. The delegation of legislative powers from Parliament to other authorities involves a departure from the allocation of authority among different organs of government as confirmed in the Constitutional Acts.<sup>44</sup> According to the emergency powers acts, legislative authority must normally be delegated by means of a decree or a decision made at an ordinary session of the Council of State.

Similarly, the prevailing understanding is that subdelegation, i.e. the further delegation of legislative powers, is not possible without authorizing legal provisions. Hence, the provisions issued by the Ministry of Finance and the Bank of Finland concerning the application of a Decision of the Council of State have had to be based directly on a law.<sup>45</sup>

Since the Bank of Finland does not belong to those administrative authorities to which, according to the principles laid down in the Constitution, legislative powers can be assigned, it has been necessary to grant the Bank of Finland the authority to exercise such legislative powers through the procedure required for enacting constitutional law.<sup>46</sup>

Since 1930, it has been an established practice that provisions issued on the basis of an authorizing law must be submitted to Parliament for subsequent examination. After the matter has been debated in committee, Parliament decides whether the validity of these provisions should be extended or rejected.

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<sup>44</sup> Sipponen, 1965, pp. 1 and 450.

<sup>45</sup> Sipponen, 1965, pp. 613 and 619.

<sup>46</sup> Sipponen, 1965, p. 609, footnote 118.



When provisions are laid down on the basis of emergency powers laws regulating economic activity, the subsequent examination by Parliament of the provisions considers not only their legality but also their appropriateness.

The clause requiring subsequent examination has also been included in exchange control legislation.

## Fixed-term legislation

The emergency powers acts governing exchange control, like those applicable to foreign trade in general, have, almost without exception, been restricted to a fixed term. The only exception to this is the law on safeguarding foreign trade and economic growth.

The validity of the 1941 Emergency Powers Act was, as a rule, extended for only one year at a time. The 1948 Exchange Control Act was initially extended for two years at a time and subsequently for one year at a time.

The 1959 Exchange Control Act was originally in force for three years. Its validity was subsequently extended for two years at a time. Evidently, the only reason why the law was not enacted for an indefinite period at that time was because it was believed that exchange control could be abolished in the near future.<sup>47</sup>

When the 1972 Foreign Exchange Act was enacted, the Government proposed that the powers it bestowed should be in force indefinitely. Even the word "control" was removed from the name of the law, because the intention was that it should be a permanent law.<sup>48</sup> However, the Committee for Constitutional Law took a negative stand on this, and the law was enacted for a fixed period, first for two years at a time and in 1980 for five years.

The current 1985 Foreign Exchange Act was also enacted for a fixed period of five years; its validity was subsequently extended until the end of 1993.

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<sup>47</sup> Government Bill No. 86/1959.

<sup>48</sup> Government Bill No. 217/1972.

## The legal position of the central bank

The exchange control laws have been amended fairly seldom throughout the history of exchange control in Finland. The small number of amendments is due to the nature of the Emergency Powers Act. The enforcement of exchange control has been the responsibility of the Council of State, since Parliament would not be able to react quickly enough in situations where control measures were necessary.<sup>49</sup>

From the 1920s up until the 1970s, instructions concerning the application of exchange control, which are at a lower level in the legislative hierarchy, were issued solely by the Ministry of Finance.

During the initial stages of independence, the administration of exchange control was primarily in the hands of administrative bodies subordinate to the Ministry of Finance. Throughout the history of exchange control, the Bank of Finland has been empowered to grant permission in matters relating to exchange control. True, in the early stages of exchange control history it shared this authority with the administrative bodies referred to above.

The 1941 Emergency Powers Act laid down that the permission-granting body in exchange control matters was to be an authority designated by the Council of State. In an amendment to the Emergency Powers Act made in the same year, the Bank of Finland was mentioned as the permission-granting body in certain matters, while, as in the 1941 Emergency Powers Act, an authority designated by the Council of State was mentioned as the relevant body in certain other matters. In the 1948 Exchange Control Act, the same division was applied. According to both the 1941 and 1948 legislation, the authority and duties of the Bank of Finland could be augmented by decision of the Council of State.

In the 1959 Exchange Control Act, as well as in the 1972 Foreign Exchange Act, it was stated that the Bank of Finland was the permission-granting authority, except in regard to the import and export of means of payment, certificates of claim and securities and the imposition of the obligation to repatriate, where the regulatory powers were in the hands of the Council of State itself. The Council of State did not have the authority to decide on any other aspects of the extent of exchange control.

Up until 1972, the Bank of Finland authorized foreign exchange transactions either in the form of individual authorizations or by means of circulars. As from 1973, all the Bank of Finland's decisions concerning

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<sup>49</sup> Sipponen, 1965, pp. 11–15.

general authorizations and regulations were published in the Statute Book of Finland. In addition, the Bank of Finland continued to issue general authorizations by means of circulars.

As no specific provisions were laid down in law on how exchange control should be exercised in normal conditions and during crises, legally the Bank of Finland had an unlimited right to decide on the extent of exchange control within the powers granted to it.

However, the separation of control measures in the 1985 law into those which can be exercised in normal conditions and those which can be exercised during crises restricts the authority of the Bank of Finland to some degree.

## The subject of exchange control

Before the comprehensive reform of foreign exchange legislation in 1985, the foreign exchange regulations restricted the making of agreements involving foreign exchange transactions (e.g. a loan agreement), foreign exchange transactions themselves (e.g. the receipt of certain assets), the acquisition of foreign exchange for foreign exchange transactions (e.g. payment for a service), the corresponding surrender of foreign exchange by an authorized bank and the export of means of payment for a specific foreign exchange transaction.

By the amendments made to the foreign exchange regulations in 1985, the actual restrictions were directed at specific foreign exchange transactions. According to the foreign exchange regulations, foreign exchange transactions denote all changes in assets and debts between residents and non-residents and all such transactions between residents which change the amount and quality of foreign means of payment, securities or claims owned by residents.<sup>50</sup>

Since 1945, the foreign exchange regulations have, except for a few special provisions related to nationality, been directed at residents and, in the case of the export of means of payments, at non-residents as well.

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<sup>50</sup> Government Bill No. 157/1985.

## Appendix 1

# Chronological List of Exchange Control Measures, 1917–1991

March 1917

By a decision of the Senate, the Bank of Finland was authorized to approve applications concerning the use of foreign exchange for the purchase of only such goods as were included on a list confirmed by the Senate. The use of foreign exchange for all other purposes required the special permission of the Senate. Arbitrage transactions were prohibited. Maximum rates for foreign exchange were confirmed by a consultative committee appointed by the Bank of Finland.

May 1918

The right to deal in foreign exchange was accorded to the Bank of Finland and other banks. In addition, the Exchange Rate Commission appointed by the Finnish Bankers' Association was authorized to grant individuals, on application, the right to deal in foreign exchange. Those entitled to deal in foreign exchange were allowed to buy foreign currencies without upper limit. It was permitted to sell foreign exchange up to the equivalent of FIM 2 0[00] per person per week. (The sum refers to old markkaa. Under the currency reform of 1963, 1 new markka = 100 old markkaa). The sale of larger amounts of foreign exchange was permitted for the payment of permissible imports of goods or foreign debts that had fallen due. In addition, the Bank of Finland and other banks were allowed to remit foreign exchange abroad to cover collection assignments received from abroad. The supervision of foreign exchange dealing was delegated to the Exchange Rate Commission and an office appointed by it.

December 1918

The supervision of foreign exchange dealing was transferred to the Exchange Control Office appointed by the Ministry of Finance. The upper limit on foreign exchange that could be sold freely was raised to FIM 5 0[00]. The Exchange Control Office was authorized to grant permission, on application, for the advance payment of imports. The Bank of Finland and other banks were granted the right to issue travellers' letters of credit up to the equivalent of FIM 20 0[00]. In addition, these entities were, in special cases, permitted to sell foreign exchange abroad in return for Finnish currency.

April 1919

The right to deal in foreign exchange was restricted to the Bank of Finland and other banks.

May 1919

The banks' right to acquire foreign currency from abroad was made subject to the special permission of the Bank of Finland.

December 1919

The handling and supervision of foreign exchange matters were transferred to the Foreign Exchange Council, an agency subordinate to the Ministry of Finance. The purchase of foreign exchange from abroad with Finnish currency required the permission of the Foreign Exchange Council. A special inspector was appointed to supervise the banks' foreign exchange dealings. No other restrictions were applied.

February 1920

The right to deal in foreign exchange was restricted to the Bank of Finland, to other banks and to but had been entered in the trade register and had been granted a licence by the Ministry of Finance. As a rule, the sale of foreign exchange was restricted to the same purposes as before December 1919. The upper limit on travellers' letters of credit was FIM 10 000 per person. Foreign exchange dealings between banks were not subject to these restrictions.

April 1920

It was laid down that foreign exchange receipts from exports had to be sold to the Bank of Finland, up to an amount determined by the Bank in each case, at the buying rate quoted by the Bank of Finland for the currency in question.

October 1920

The above-mentioned exchange controls were abolished. Only the earlier regulations on the right to deal in foreign exchange remained in force.

February 1921

The Foreign Exchange Council was dissolved.

May 1921

The Bank of Finland was freed for an indefinite period from its obligation to redeem Finnish banknotes in gold.

May 1922

The supervision of the banks' foreign exchange dealings was transferred to the Bank Inspectorate.

#### October 1931

By a decree which remained in force only until the end of 1931, the purchase of foreign means of payment from abroad with Finnish currency was made subject to the Bank of Finland's permission. At the same time, the export of Finnish banknotes and the crediting of non-residents' accounts with markkaa were prohibited, unless otherwise authorized by the Bank of Finland. In addition, residents travelling abroad were permitted to buy foreign exchange from abroad with Finnish currency for their immediate needs and to take Finnish banknotes out of the country.

#### The 1930s

As a result of the changeover to bilateral trade, foreign payments were effected by means of clearing arrangements.

#### September 1939

The Bank of Finland and the commercial banks restricted their sales of foreign exchange. Foreign exchange was sold only for the payment of indispensable imports and the repayment of foreign loans that had fallen due. It was attempted to ward off foreign exchange speculation. Exchange control had its origins in such semi-official measures. At the same time, the first steps were taken to introduce official exchange control regulations.

By a decision of the Council of State, the following became subject to a disclosure requirement: holdings of foreign exchange, foreign currency claims, shares, bonds and other securities, markka-denominated claims on foreign countries, gold invested abroad and foreign currency liabilities and markka-denominated liabilities to foreign countries.

#### October 1939

By a decision of the Council of State, the export of Finnish and foreign currency and Finnish and foreign securities exceeding the equivalent of FIM 3 000 was prohibited. Foreigners were permitted to take out of Finland such foreign currency and securities which they had brought with them into Finland and for which they had made a customs declaration.

It was permitted to effect payments abroad in respect of imports and foreign liabilities, interest and other payments that had fallen due, provided that the payer held an import licence for the goods in question or, if the foreign exchange requirement was based on a commitment made before October or on a commitment for the fulfilment of which the payer had obtained the Bank of Finland's permission for the export of foreign exchange.

Foreign payments could only be effected through the Bank of Finland or a domestic commercial bank authorized by the Bank of Finland.

Foreign exchange and foreign currency receivables in excess of the equivalent of FIM 5 0[00] had to be surrendered to the Bank of Finland, in return for reimbursement in markkaa, within eight days of their acquisition. On October 31, 1940, the minimum basic amount excluded from the repatriation requirement was abolished entirely.

#### April 1940

The upper limit on exports of means of payment and securities was reduced from FIM 3 0[00] to FIM 2 0[00].

#### October 1940

Not more than FIM 1[00] could be taken out of the country in the form of coin. The Bank of Finland was authorized to grant permission for the export of foreign exchange to cover travel expenses. Civil servants were granted the corresponding permission by the relevant ministry. Foreigners were allowed to take out of Finland the foreign currency which they had brought into the country with them provided that no more than three months had elapsed from their entry into Finland.

With the permission of the Bank of Finland or on the presentation of an import licence, foreign exchange could, however, be exported for the payment of imports or foreign liabilities, interest on loans etc. Securities had to be exported abroad through a commercial bank. Under an agreement between the Bank of Finland and the commercial banks, the latter were entitled to export foreign exchange and securities.

#### December 1940

To prevent the smuggling of foreign exchange, Finnish citizens could even be prohibited from travelling abroad altogether, if they did not have sufficient foreign exchange or their livelihood abroad was not secured in some other way. It was the duty of the Bank of Finland or some other entity authorized by it to ascertain that this was so.

#### February 1941

In a circular letter, the Bank of Finland required that advance payments for imports always had to be made by letter of credit.

#### March 1941

In a circular letter, a number of export firms and insurance companies and one brokerage firm were authorized to hold foreign exchange and effect payments abroad.

May 1941

The law on the regulation of economic activity in exceptional circumstances entered into force. It extended the exchange control powers so that they also applied to the raising of credit abroad (except for customary trade-related credits), the issue of guarantees to non-residents and lending abroad, and at the same time transferred powers from the Council of State to the Bank of Finland. However, the credit regulation powers were not introduced until the entry into force of the 1948 Exchange Control Act. In addition to the Bank of Finland, monetary institutions subject to current banking law and authorized by the Bank of Finland were entitled to deal in foreign exchange. According to the law, agreements contrary to the exchange control provisions were void.

September 1941

The acquisition and surrender of foreign exchange and means of payment, foreign claims and securities in exchange for Finnish currency or foreign exchange was allowed only with the consent of the Bank of Finland.

A corresponding restriction also applied to the surrender of Finnish securities to non-residents and the purchase of such from non-residents. The use of Finnish currency and markka-denominated securities in foreign payments and the surrender of such to foreigners, as well as their export and import, required the permission of the Bank of Finland.

September 1945

The disclosure requirement was extended to apply to securities, certificates of claim, accounts receivable, goods abroad, stocks on consignment, real estate abroad, foreign companies, foreign insurance, foreign contracts yielding financial gain, safe-deposits, foreign liabilities, non-residents' property held in custody etc. Non-residents who had resided in Finland for at least three months were also subject to the disclosure requirement.

January 1946

The import of Finnish securities was banned.

May 1946

Foreign securities had to be surrendered to the Bank of Finland so that they could be used for the acquisition of foreign exchange. The requirement to surrender foreign securities applied to Finnish individuals and corporate entities. The Bank of Finland either sold the securities or allowed the state or the owner of the securities to use them as security for government loans.



April 1948

The Exchange Control Act entered into force. The purpose of the law was to separate the provisions on exchange control, which were to be maintained for an indefinite period, from the Emergency Powers Act, which was extended for one year at a time. The exchange control powers did not differ much from those which had been in force hitherto.

December 1948

A person travelling abroad was permitted to take out of the country Finnish banknotes and coin up to the equivalent of FIM 10 0[00]. The export and import of Finnish banknotes with a nominal value of FIM 5 0[00] were prohibited. The export of foreign exchange required the permission of the Bank of Finland or a commercial bank authorized by the Bank of Finland. Travellers were permitted to bring foreign means of payment into Finland without restriction, as well as Finnish banknotes and coin up to FIM 10 0[00].

By a decision of the Council of State, the Bank of Finland, which had the sole right to deal in foreign exchange, certificates of claim and securities, was granted the right to authorize monetary institutions to deal in foreign exchange and certificates of claim as well as to authorize some other authority or a travel agency to purchase foreign means of payment on behalf of as authorized monetary institution.

Borrowing and lending were made subject to regulation. The granting of credits and guarantees to non-residents and the raising of credits from abroad (excl. customary trade-related credits in respect of imports) required the permission of the Bank of Finland.

April 1949

In a circular letter, the Bank of Finland authorized some of the commercial banks to sell limited amounts of foreign exchange as travel exchange to residents (e.g. 10 Swedish crowns or 1 pound sterling). The limits were raised once that year and twice in the following year.

Travel agencies were authorized to sell travel tickets for certain destinations abroad without the permission of the Bank of Finland.

October 1949

The maximum amount of Finnish banknotes and coin that could be taken out of the country was raised to FIM 15 0[00].

April 1950

The maximum amount of Finnish banknotes and coin which could be taken out of the country was raised to FIM 20 0[00].

June 1950

In a circular letter, a number of travel agencies and hotels were authorized to accept foreign exchange against payments in markkaa.

June 1951

With a few exceptions, travel exchange was made subject to stamp duty, which was collected by the Bank of Finland and commercial banks authorized by the bank to sell travel exchange. By a decision of the Council of State, the stamp duty initially constituted 10 per cent of the amount of foreign exchange. On the basis of its legal powers, however, the Government raised the duty to 30 per cent.

December 1951

The maximum amount of Finnish banknotes and coin which could be taken out of the country was raised to FIM 30 0[00].

June 1952

In a circular letter, the Bank of Finland authorized the head offices and some branches of Finnish commercial banks to buy and sell foreign banknotes, coin, traveller's cheques and traveller's bills of exchange at a special rate. As a rule, it was permitted to buy foreign exchange from a traveller up to the equivalent of FIM 5 0[00].

It was permitted to sell travel exchange to permanent residents (upon presentation of a passport, travel tickets etc.) at a special rate up to the equivalent of FIM 30 0[00]. This provision reduced the amount of Finnish banknotes taken out of the country.

The Bank of Finland continued to sell foreign exchange at the official rate on application and for minor payments without application. It did not sell foreign exchange to the commercial banks for dealing at the tourist rate; the commercial banks had to carry on this foreign exchange business on the basis of the foreign exchange they had received from their customers.

The period 1953–1957

In February, 1953 the Trade Clearing Agency was founded. Its members included representatives of the Finnish Foreign Trade Association, the Confederation of Finnish Industries, Kesko Oy and Enso-Gutzeit Oy. The agency charged importers a "clearing" fee for permits issued by the Import and Export Permits Office on clearing payment terms. The surcharge or clearing fee levied on foreign

exchange constituted 20 per cent of the amount of foreign exchange involved (until 1954, 30 per cent of dollar amounts). From the amounts collected from importers, the Trade Clearing Agency paid exporters a clearing "compensation" according to a percentage decided separately in each case.

#### December 1955

In a circular letter, the banks were authorized to carry on arbitrage transactions in foreign exchange with each other and with foreign banks. Transactions with the latter were permitted in pound sterling and in currencies the exchange of which was not prevented by payments agreements.

The maximum amount of travel exchange that could be purchased for destinations outside Scandinavia was raised from the equivalent of FIM 30 0[00] to FIM 50 0[00]. For travel in Scandinavia, it was permitted to purchase foreign exchange up to the equivalent of FIM 25 0[00]. The Bank of Finland also lowered the tourist exchange rate by six per cent; this rate had been about 50 per cent higher than the official rates of exchange.

#### January 1957

Because of the difficult foreign exchange situation, the upper limit on travel exchange was reduced to FIM 40 0[00] and that for travellers in Scandinavia to FIM 20 0[00].

#### September 1957

A devaluation of the markka made it possible to ease exchange control and dismantle the controls on commodity imports.

#### December 1957

A cash payment scheme was introduced for certain imports not subject to import regulation: payment had to be effected before customs clearance of the goods.

#### May 1958

It was permitted to take up to FIM 20 0[00] in Finnish currency out of the country as travel exchange, instead of FIM 30 0[00] previously.

#### December 1958

In a circular letter, the authorized banks were granted the right to enter into forward exchange contracts to cover exchange rate risks related to merchandise trade.

Like the currencies of many other countries, the Finnish markka was made convertible (this did not apply to foreigners' funds in blocked accounts).

#### March 1959

The maximum amount of travel exchange that could be sold without the permission of the Bank of Finland was changed. The limit for travellers to Scandinavia was now FIM 40 0[00] and that for travellers elsewhere FIM 80 0[00]. It was still permitted to take only FIM 20 0[00] out of the country in Finnish currency.

#### May 1959

The authorized banks were granted the right to handle certain foreign exchange applications and to sell foreign exchange on their own responsibility and according to the general guidelines issued by the Bank of Finland without obtaining the advance approval of the Bank of Finland. These applications concerned emigrants' foreign exchange up to the equivalent of FIM 100 0[00], certain insurance premiums, costs of installation, repair and alteration of machinery and equipment, agents' commissions and membership fees up to the equivalent FIM 5 0[00].

In a circular letter, residents were permitted to accept foreign exchange for the sale of goods or services to foreign travellers.

Foreigners were allowed to acquire Finnish listed shares and bonds from the Helsinki Stock Exchange provided that transactions were handled by an authorized bank. In addition, repurchases of Finnish shares and bonds from abroad and the transfer abroad of foreign exchange related to such repurchases were permitted without the special permission of the Bank of Finland.

#### June 1959

Surplus travel exchange as well as salaries and wages earned abroad up to the equivalent of FIM 100 0[00] were excluded from the surrender requirement.

#### September 1959

Foreigners were permitted to use funds held in blocked accounts in Finland for participating in a FIM 1 billion (old markkaa) foreign-currency loan raised by the government; a blocked account was a non-resident account the debiting of which was restricted. The transfer abroad of foreign currency in the form of interest on and repayments of the loan was not subject to control.

The transfer abroad of blocked funds of less than FIM 50 0[00] was permitted without the permission of the Bank of Finland.

#### November 1959

The cash payment scheme applying to certain imports was abolished. Customary suppliers' credits were permitted. However, suppliers' credits exceeding one year required the permission of the Bank of Finland.

#### January 1960

The 1959 Exchange Control Act did not include any significant changes as compared with the old law. The provisions in the old law on the import of foreign exchange and foreign securities, the obligation to surrender precious metals, the redemption of Finnish bonds denominated in foreign currency and the right of the Council of State to extend the powers of the Bank of Finland were not included in the new law. It was possible to use the powers laid down in the law to safeguard Finland's liquidity.

In the Act on Dealing in Foreign Exchange, foreign payment transactions and dealing in foreign exchange were centralized in the Bank of Finland and in those entities authorized by the Ministry of Finance to deal in foreign exchange after formal backing by the Bank of Finland.

The import of domestic and foreign means of payment and securities was permitted without restriction.

The authorized banks' right to effect certain payments abroad without the permission of the Bank of Finland was enlarged. These payments included government payments, membership fees, traffic fees, travel exchange, payments related to services, copyright fees, payments for imports, insurance premiums.

The provisions concerning the disclosure requirement were eased.

Non-residents' funds in blocked accounts, the transfer of which had previously been strictly limited, could now be transferred abroad in full in ten annual instalments of equal size or used to cover living expenses in Finland. The name "blocked account" was changed to "capital account". It was permitted to credit such accounts with the value of assets sold by foreigners in Finland.

An immigrant to Finland was no longer obliged to surrender to the Bank of Finland all the funds he owned at the time of immigration or funds he had subsequently received through a will or the earnings from such funds.

It was permitted to take out of the country means of payment denominated in foreign currency up to a value which was reasonable in regard to the journey.

#### January 1961

The obligation to surrender foreign exchange now only applied to export and freight earnings and to foreign means of payment and claims obtained from the sale of immovable property and securities.

Some of the restrictions on foreign currency accounts were removed: residents were permitted to hold foreign exchange that was not subject to the surrender requirement in foreign currency accounts with authorized banks or abroad. The Bank of Finland permitted foreign exchange not subject to the surrender requirement to be used for payments that could be effected by authorized banks under the general powers delegated to them, such as gifts, assistance, wages and salaries, commissions, travel exchange and payments for imports.

#### July 1961

The agreement between Finland and EFTA entered into force. Partly because of this and partly for exchange policy reasons, the Bank of Finland decided to facilitate the acquisition of foreign exchange for the purchase of certain services abroad. These services included the hire of foreign means of transport, travel agency fees, business travel exchange, official and private trips abroad, certain pension payments and contributions. The right to transfer capital and capital earnings and certain personal transfers through authorized banks was enlarged.

#### October 1961

The raising of trade-related credits of more than six months became subject to permission. Imports had grown in line with the increased use of import credits, and it was feared that the growth of imports would lead to an excessive weakening in the current account.

#### February 1962

In a circular letter, the Bank of Finland permitted residents to enter into certain agreements with non-residents. These agreements concerned the provision of travel services by travel agencies, the chartering (except time chartering) of foreign vessels and the purchase of non-residents' at current prices.

March 1962

The Bank of Finland began to publish the Foreign Exchange Regulations. Previously, the Bank's general authorizations had been issued by means of circular letters.

The minor amendments which were made in 1962 concerned the banks' powers to sell foreign exchange in certain cases, the provision of travel services to non-residents, the cancellation of the practice of withholding foreign exchange in connection with travel services and the granting of insurance to non-residents.

It was now also permitted to transfer abroad dividends on non-residents' holdings of shares listed on the Helsinki Stock Exchange and proceeds from the sale of subscription rights associated with such shares as well as interest on markka-denominated bonds. Likewise, it was permitted to transfer abroad repayments of markka-denominated bonds issued before September 1, 1939, the net market value of Finnish bonds or shares acquired from the Helsinki Stock Exchange with convertible currency or by debiting a convertible markka account and subsequently held continuously in the custody of an authorized bank and sold on the Stock Exchange, and the repurchase value of such bonds.

July 1962

The Post and Telegraph Department obtained the right to deal in foreign exchange and effect foreign payments.

October 1962

The decision of the Council of State was amended so as to make the raising of customary trade-related credits entirely subject to authorization by the Bank of Finland. A cash payment scheme for imports was introduced. Under the scheme, certain consumer durables had to be paid for in cash or an equivalent amount be deposited with the Bank of Finland before customs clearance of the goods. The amendment was considered necessary in the prevailing economic conditions where it had become increasingly difficult to maintain balance in the trade and current accounts.

November 1962

The list of goods subject to the cash payment scheme for imports was augmented. It was also required that the payment or deposit be made before the goods were placed in a public or private bonded warehouse.

#### January 1963

The regulations concerning the right of account-keeping monetary institutions to buy markka bonds on their account holders' behalf were revised. Only listed bonds issued after August 31, 1939 and not linked to a foreign currency could now be purchased by means of debiting a capital account.

#### January 1964

The charter (except time charter) or hire of a foreign vessel or some other means of transport for the foreign transportation of goods or passengers was permitted. The payment of freight or rent to residents of countries with which Finland maintained bilateral payments agreements had, however, to be effected in a manner laid down in the agreement.

#### April 1965

The period during which the capital assets of a foreign company or an individual who had resided abroad for the last three years could be transferred abroad without special permission was shortened from ten years to five years. Capital assets totalling less than FIM 25 000 could, however, be transferred abroad in annual instalments of up to FIM 5 000. An individual who had resided abroad since September 1, 1939 or a foreign company which from that date onwards had held funds with a Finnish monetary institution was permitted to have the funds transferred abroad in one lump sum.

The maximum amount of foreign exchange which authorized banks were permitted to sell for the transfer abroad of inherited assets was raised from FIM 32 000 to FIM 50 000.

The maximum amount of foreign exchange which could be sold to individuals emigrating to countries outside Europe was raised from FIM 2 500 to FIM 5 000. This exchange could be sold to emigrants in addition to travel exchange.

The Bank of Finland allowed exporters to postpone the surrender of export earnings for an indefinite period, if they required foreign exchange to cover costs arising in connection with exporting and to purchase raw materials from abroad for the manufacture of goods for export.

#### November 1965

Because of a deterioration in the country's balance of payments, it was sought to restrict the increase in current foreign exchange expenditure, especially on travel. The right of individuals to take Finnish currency out of the country was reduced from FIM 200 to FIM 100.



The Bank of Finland set an upper limit on each authorized bank's short-term foreign liabilities. This limit could only be exceeded with the permission of the Bank of Finland.

#### January 1967

The cash payment scheme for imports was extended to apply to the storage of goods in a free port and bonded warehouses (excl. goods in transit). The purpose of this measure was to curb the import of cars in particular.

In 1967, the Bank of Finland considered that the difficult balance of payments situation precluded any easing of exchange control. This was particularly the case in the period prior to the devaluation of the markka. From mid-January onwards, the purchase of travel exchange was made subject to new restrictions, according to which the upper limit on the sale of travel services (excl. actual transport costs) was set at FIM 400 per traveller in Scandinavia and FIM 800 for travellers elsewhere. The value of any travel services in excess of at least half of these amounts had to be deducted from the maximum amount of foreign exchange that could be sold to a traveller.

#### April 1967

The Bank of Finland extended the list of imports (mainly consumer goods) subject to the cash payment scheme substantially to cover about one-fifth of total merchandise imports.

All applications for payments related to South Rhodesia were submitted to the Bank of Finland for decision.

#### October 1967

The markka was devalued by about 24 per cent. It was decided that exchange control would be eased in certain respects from the beginning of the following year.

#### January 1968

The cash payment scheme for imports was discontinued. Hence, the raising of short-term import credits of up to six months was permitted for all types of goods without the permission of the Bank of Finland.

The maximum amount of travel exchange that could be purchased without the permission of the Bank of Finland was raised to FIM 1 000; the provision applied to travel in all foreign countries. The upper limit on the value of certain travel services that could be purchased before departure abroad was also raised to FIM 1 000, provided that the combined value of travel services and travel exchange did not exceed FIM 1 500. At the same time, the limits on

the transfer abroad of funds in capital accounts were raised and the right to use these accounts enlarged. The granting of emigrants' foreign exchange to individuals emigrating to countries outside Europe was included among the payments which could be effected under the general powers delegated to authorized banks up to the value of FIM 10 000.

#### April 1968

The restrictions on the purchase of markka bonds issued before August 31, 1939 were removed.

#### January 1969

As Finland joined the OECD at the beginning of 1969, certain revisions were made to the Foreign Exchange Regulations to bring them into harmony with the liberalization codes of the OECD. The maximum amount of foreign exchange that could be sold without the permission of the Bank of Finland for the transfer abroad of funds held in accounts was raised from the equivalent of FIM 50 000 to FIM 100 000. In addition, some other upper limits on the use of foreign exchange were raised. The minimum period during which non-residents could transfer their capital assets abroad was reduced from five to three years.

#### July 1969

The Foreign Exchange Regulations applying to foreign travel were eased partly so as to bring them in harmony with the liberalization codes of the OECD and partly because of an improvement in the balance of payments. The maximum amount of travel exchange that could be purchased as well as the upper limit on the export of Finnish currency were raised: travellers were allowed to take out of the country means of payment up to the total value of FIM 3 000 without special permission. However, travellers to a destination in a neighbouring country that was located on the frontier of that country with Finland could only take out means of payment up to the value of FIM 200. The value of travel services was no longer deducted from the maximum value of travel exchange that could be sold.

#### June 1970

Residents travelling in the Nordic countries were allowed to withdraw foreign exchange equivalent to FIM 500 on a savings account passbook, provided that the amount of foreign exchange acquired by the person concerned did not exceed the equivalent of FIM 3 000 set as an upper limit for the acquisition of foreign exchange.

August 1970

Persons who had continuously resided abroad during the previous calendar year and continued to do so were allowed, on application, to transfer all their net assets abroad in one lump sum.

October 1970

The short-term foreign liabilities of authorized banks, which had increased substantially in 1970 in particular, had grown excessively. The Bank of Finland decided that henceforth authorized banks would be granted new permits for the financing of importers' merchandise imports only in exceptional cases. Extensions of repayment schedules were not allowed.

November 1970

Because of a deficit on current account, a cash payment scheme for imports was introduced. Under the scheme, which applied mainly to imports of consumer goods, the goods had to be paid for in cash or a deposit made with Bank of Finland before customs clearance or before the goods were placed in a customs warehouse, a bonded warehouse or a free port. The scheme was slightly modified twice in the same year (November 30 and December 16, 1970).

December 1970

The provision in the Foreign Exchange Act concerning the invalidity of contracts which were contrary to the Foreign Exchange Regulations was abolished since it was considered to be in conflict with international agreements signed by Finland.

May 1971

The cash payment scheme for imports was eased. Cash payment or deposit was now only required before customs clearance of the goods.

December 1971

The Bank of Finland sought to activate the forward market by starting to quote daily forward rates for the dollar. In addition, forward cover transactions were allowed for all purchases and sales of foreign exchange permitted by the Foreign Exchange Regulations.

The year 1971

The Bank of Finland started to grant permits to individuals for the acquisition of a second home abroad. A condition for the applicant being granted such a permit was reasons of health. The maximum value of the permit was FIM 75 000 and the granting of the permit was dependent on a statement issued by the National Board of Health.

June 1972

The cash payment scheme for imports was discontinued. Favourable developments in the trade account and the foreign currency reserves reduced the need to restrict import credits.

November 1972

Residents travelling abroad were allowed to withdraw foreign exchange on a domestic bank account passbook or a cheque issued by a bank in Finland up to a sum which, together with their other travel exchange, did not exceed the equivalent of FIM 3 000.

January 1973

The new Foreign Exchange Act and Act on the Right to Deal in Foreign Exchange came into force at the beginning of the year. The latter regulated professional trading in convertible currencies and corresponded to the former Act on Trade in Foreign Exchange. The provision in the Act on Trade in Foreign Exchange concerning rates of exchange to be observed in foreign exchange deals concluded in Finland was not included in the new law.

The contents of the Foreign Exchange Act were basically the same as those of the former Exchange Control Act. More detailed regulations on the practical application of the provisions were included in the relevant decisions of the Council of State and the Bank of Finland.

The obligation to surrender foreign exchange receipts was relaxed by replacing it by the obligation to repatriate foreign exchange proceeds; repatriated foreign currency could either be converted into Finnish markkaa or held in a domestic foreign currency account with an authorized bank in Finland. However, under exceptional circumstances the Council of State could determine that only the former alternative was possible. The obligation to repatriate had to be fulfilled by surrendering or transferring, within the period specified by the Bank of Finland, means of payment, claims on monetary institutions and proceeds from other claims to the Bank of Finland or to its order. At the option of the person repatriating, the foreign currency proceeds could be repatriated by converting them into Finnish markkaa or by crediting an account denominated in the repatriated currency held with an authorized bank. The account could not be a convertible or restricted account. The obligation to repatriate did not apply to authorized banks or to foreign currency held by residents in Finland up to the equivalent of FIM 3 000.

The reform did not seek to change the degree of exchange control.

The raising abroad of suppliers' credits and financing credits with a maximum maturity of six months was allowed without the Bank of Finland's permission. Similarly, it was permitted to enter into agreements on customary suppliers' credits for exports.

The lending of domestic currency to non-residents for use in Finland was allowed without the Bank of Finland's permission up to FIM 50 000 per borrower.

Non-residents were allowed to hold convertible, restricted and capital accounts in Finland. No major amendments were made to the provisions concerning the debiting and crediting of these accounts. A convertible account could be freely credited from abroad and debited in Finland and funds on the account could be freely transferred abroad, but a resident was only allowed to credit such an account with payments permitted by the Foreign Exchange Regulations. Restricted accounts could be opened by residents of countries with which Finland maintained bilateral payments agreements. Capital accounts were intended for the accumulation of sales proceeds and earnings from assets owned by the holder in Finland but they could also be credited from abroad or with funds transferred from convertible or restricted accounts. The Bank of Finland's permission was required for the transfer abroad of funds held in capital accounts.

Payment codes were introduced for outgoing payments. The codes were to be entered on the foreign exchange application form when foreign exchange was purchased.

#### June 1973

In order to maintain tight monetary conditions, drawings of short-term import credits were restricted: a cash payment scheme was introduced for imports of specified goods, covering 20 per cent of all merchandise imports. Payment to the seller or the deposit of an equivalent amount with the Bank of Finland was necessary before the goods could be taken into custody or be released by the customs authorities.

At the same time, a capital import deposit scheme was introduced with the aim of preventing the overheating of the economy and of temporarily neutralizing part of the liquidity effects of capital imports in the domestic market. Each borrower had to deposit a proportion of the credit raised in a foreign currency account with the Bank of Finland. The proportion to be deposited depended on the economic conditions at the time of the loan approval and on the purpose for which the loan was raised.

#### September 1973

In order to curb the excessive growth of advance payments for exports and to check the rapid rise in the price of roundwood, which had led to an acceleration of inflation, drawings of advance payments for exports of wood and wood products were restricted and they became subject to a deposit requirement.

#### January 1974

The restrictions on drawings of customary advance payments for exports of wood and wood products were terminated.

The requirement that an application for making a gift be accompanied by an affidavit giving details of the recipient's assets, liabilities and commitments was added to the item concerning gifts.

#### January 1975

At the beginning of the year, the regulations concerning repatriation and the authorized banks' obligation to provide information were amended with the aim of improving the surveillance of remittances of foreign exchange. According to the new regulations, the obligation to repatriate was considered to have been fulfilled only after the authorized bank had been notified of the purpose of the remittance. Since the Bank of Finland had started to receive data via automatic data processing systems, it was necessary that the authorized bank be informed of the purpose of remittances from abroad. Some amendments were made to the list of payment codes in respect of outgoing payments.

The regulations concerning capital accounts were amended so that capital accounts were henceforth to be used only as clearing accounts for non-residents' capital assets in Finland. Thus it was prohibited to credit such accounts with funds from abroad or from a convertible or restricted account. However, authorized banks were granted the right to credit capital accounts held by diplomats residing abroad without restriction, the accounts of persons residing in Finland because of work or similar reasons with salaries and similar funds and the accounts of Finnish citizens residing abroad with funds transferred from abroad without restriction.

#### September 1975

The list of goods subject to the cash payment scheme for imports was revised. The regulations were also amended so that the payment or deposit was to be made before the goods were cleared through customs.

#### March 1976

A penalty surcharge scheme was introduced in respect of suppliers' credits exceeding six months. A charge of 10–30 per cent, depending on the length of the credit period, was levied on suppliers' credits exceeding six months which had not been authorized by the Bank of Finland. The scheme was designed to promote the unwinding of the outstanding stock of such credits and to curb the growth of short-term foreign debt.

The surcharge was determined on the basis of the outstanding value of the credit exceeding the six-month credit period and it rose progressively for each month up to 30 per cent of the outstanding value of the credit. From May 1, 1977, if the credit period exceeded the six-month term by a maximum of one week, the surcharge was 5 per cent of the outstanding value of the credit, rather than 10 per cent as before. From the same date, surcharges of less than FIM 300 were no longer collected.

#### March 1977

The cash payment scheme for imports was extended to cover about one-third of merchandise imports. At the same time, the clause according to which the scheme was not applied to goods used by manufacturing companies in their own manufacturing was revoked.

The aim of this measure was to curb the growth of short-term foreign debt and to make possible an equivalent increase in long-term capital imports. Furthermore, the measure sought to bring the payment terms applied to merchandise imports better in line with those applied in the home country.

#### July 1977

Because of some technical adjustments the coverage of the cash payment scheme was slightly reduced.

The rights of authorized banks to surrender foreign exchange were enlarged by amending certain restrictions concerning time periods and markka amounts.

#### September 1977

Residents working abroad were allowed to deposit their salary funds in convertible accounts with authorized banks.

May 1978

After an easing in monetary conditions, the scope of the cash payment scheme for imports was reduced so that it covered approximately one-quarter of the total value of merchandise imports.

June 1978

The opportunities for financing export receivables were enlarged by permitting authorized banks to channel foreign credit to their customers without the Bank of Finland's special permission for the pre-shipment financing of export receivables of up to 12 months.

July 1978

The right to use foreign credit for the pre-shipment financing of timber exports was cut to 40 per cent. At the same time, the maximum financing period for such credit was set at 8 months.

November 1978

The scope of the cash payment scheme for imports was reduced to cover some 18 per cent of the total value of merchandise imports.

March 1979

The cash payment scheme for imports was abolished. The easing of domestic monetary conditions had greatly reduced its effectiveness, and the country's net short-term foreign debt had turned into a sizeable net claim.

The direct raising of import credits from abroad was made subject to the Bank of Finland's authorization. The maximum maturity for all import credits was set at three months as opposed to six months previously. The amendment sought to put financing credits related to imports and those related to domestic deliveries on a more equal footing.

The calculation of the credit period of suppliers' credits for imports was changed so as to start from the date of customs clearance, not the date of import. In many cases, this implied a lengthening of the actual credit period.

The maximum amount of travel exchange which residents were allowed to purchase without the Bank of Finland's permission and, likewise, the maximum amount of means of payment which could be taken out of the country, was raised from the equivalent of FIM 3 000 to FIM 5 000. The import and export of Finnish banknotes with



a nominal value of more than FIM 100 was prohibited. The rights to acquire and surrender foreign exchange were enlarged. The purchase of an amount of foreign exchange considered reasonable by an authorized bank for a business trip or an official journey was permitted. The form used for purchasing foreign exchange also served as an export licence.

Reasons of health was no longer a condition for approval by the Bank of Finland for the purchase of a second home abroad. The purchase price could not exceed FIM 150 000 per family.

July 1979

The pre-shipment financing opportunities for timber exports products were further reduced: foreign financing was permitted up to only 20 per cent of total financing and the maximum length of the financing period was six months.

October 1979

The pre-shipment financing of timber exports with short-term foreign credit was prohibited.

December 1979

An amendment was made to the Foreign Exchange Act according to which charges levied by the Bank of Finland were subject to distraint without separate judgement or court decision.

April 1980

The Bank of Finland discontinued the quotation of forward rates for the US dollar and the making of dollar-denominated forward contracts with authorized banks. At the same time, the Bank of Finland's new guidelines concerning the forward market took effect. The aim of the new guidelines was to shift the operation of the forward market for convertible currencies entirely into the hands of authorized banks in accordance with the customary practice in industrialized countries.

In the same context, instructions were issued to the authorized banks concerning maximum permissible open currency positions and the reporting of forward market transactions and open positions to the Bank of Finland. In order to safeguard the functioning of the forward market, the authorized banks were granted general permission to cover their forward exchange purchases with foreign credit.

In order to improve the monitoring of foreign trade payment flows a uniform foreign trade data system was introduced and Foreign Trade Reference Numbers were introduced in payments for exports and imports of merchandise.

#### January 1981

A decision was taken to restrict the use of import financing credits and quotas for these credits were imposed on authorized banks. The measure was designed to support domestic monetary policy and, at the same time, to enable more efficient control of the import of short-term capital via banks.

The authorized banks' right to surrender foreign exchange without the prior approval of the Bank of Finland was enlarged. The amendment was of significance mainly as regards the effecting of current payments (international trading, commodity market trading, leasing of certain machinery and equipment).

The trade number (sales tax number) included as a component of the Foreign Trade Reference Number was replaced by a trade and corporation number. A List of Payment Codes was included in the Foreign Exchange Regulations for the coding of incoming and outgoing payments.

The right to conclude forward transactions was extended to apply to foreign currency credits granted by domestic banks.

The Bank of Finland granted a foreign-owned bank permission to import capital after the Council of State had approved the bank's application to establish a subsidiary in Finland. Two other applications for permission to import capital for the establishment of subsidiaries were filed in 1981.

In a circular letter, the right of authorized banks to sell Finnish bonds and debentures to non-residents was enlarged to include new issues.

#### March 1981

The upper limit for the purchase price of second home abroad was raised to FIM 175 000. The maximum value of a share entitling part-time use (time-sharing) of a second home was set at a maximum of FIM 50 000.

January 1982

The upper limit for the purchase of a second home abroad was raised to FIM 250 000. The upper limit on shares entitling part-time use (time-sharing) of a second home abroad was raised to FIM 75 000. In addition, a provision was introduced according to which it was possible to purchase land up to the value of FIM 75 000 for building a second home abroad.

Similarly, the foreign exchange allowance for emigrants was raised to FIM 250 000 per person or in the case of a family emigrating, FIM 150 000 per family member.

June 1982

In a circular letter, authorized banks were granted permission to take part in syndicates for foreign bank loans and to finance their share of such loans with foreign credit. The share of an authorized bank in a syndicate could not exceed 50 per cent of the total amount of a loan to a Finnish borrower or 20 per cent of the total amount of a loan to a foreign borrower.

In a circular letter, authorized banks were authorized to refinance their direct investments abroad with foreign credit. For investments in share capital, refinancing was allowed up to 75 per cent of the amount invested with a maximum repayment period of 15 years. For parent-company loans, refinancing was allowed up to 100 per cent of the loan with a credit period equal to that of the parent-company loan. The authorization could be applied retroactively for investments made up to 10 years earlier.

January 1983

The individual foreign currency position limits set for authorized banks were raised. The measure was designed to take into account the increased activity of banks and companies in the foreign exchange market and to maintain the real value of position limits.

April 1983

The Bank of Finland decided to stop granting the saw-mill industry permission to use foreign financing.

May 1983

The surcharges on import credits exceeding six months were lowered to 2–12 per cent of the amount of the outstanding credit, depending on the length of the credit period. At the same time, controls on the use of credit for deals involving stocks on consignment were amended to conform with the general regulations on import credits.

Under certain conditions, residents were allowed to enter into forward contracts with foreign banks.

The Bank of Finland discontinued the quotation of forward rates for the rouble and the covering of forward rouble contracts.

July 1983

The Bank of Finland permitted authorized banks to participate in financial futures markets either on their own or their customers' account.

September 1983

The maximum maturity for import financing credits granted by authorized banks to importers was extended from three months to six months.

November 1983

Advance payments for imports of up to FIM 20 000 were allowed without the Bank of Finland's permission.

January 1984

Exchange control was simplified and relaxed slightly. The maximum amount of travel exchange and means of payment that could be taken out of the country was raised to FIM 10 000. Authorized banks were granted the right to issue export permits for foreign exchange. In addition, the ban on the import and export of Finnish banknotes with a nominal value of FIM 500 was rescinded. The upper limits on other amounts of domestic currency and foreign exchange were also revised; for example, the upper limit on the purchase of foreign exchange for the purchase of a second home abroad was raised to FIM 300 000, and the maximum down payment on such a home to FIM 20 000. The maximum amount of foreign exchange that an emigrant could take out of the country was raised to FIM 300 000 for a person emigrating alone and to FIM 175 000 per family member for a family emigrating. The regulations entered into force on January 1, 1984.

March 1984

By decision of the Council of State, the foreign branches of authorized banks were granted non-resident status. The Foreign Exchange Regulations were amended in order to place foreign branches in the same position as subsidiaries and consortium banks.

April 1984

The obligation to pay the surcharge on import credits was cancelled in cases where the purchase price of imported goods did not exceed FIM 10 000. The right of residents to use credit cards abroad to buy merchandise for import into Finland was increased to the equivalent of FIM 10 000 per item. At the same time, the use of foreign credit cards in Finland was made easier.

The maximum amount of foreign exchange that could be surrendered for shares entitling part-time use (time-sharing) of a second home abroad was raised to FIM 300 000.

July 1984

The refinancing of authorized banks' direct investments abroad with foreign credit was made subject to authorization again.

August 1984

Funds held by non-residents in convertible accounts, including funds in markka-denominated 'loro' accounts, were henceforth treated as part of banks' foreign borrowing. These funds could be used for the purposes specified for short-term foreign credits by the Bank of Finland.

November 1984

Insurance companies engaged in foreign insurance business were allowed, with special permission and subject to certain conditions, to invest funds obtained from their foreign insurance business in foreign shares.

December 1984

Authorized banks were granted more extensive rights to channel long-term foreign credit to Finnish borrowers within limits approved by the Bank of Finland. At the same time, the authorized banks' opportunities to engage in foreign lending and invest in foreign securities, in particular in shares, were increased: loans granted to non-residents and corresponding purchases of securities were to be largely refinanced using foreign credit.

February 1985

In order to prevent evasion of the regulations concerning foreign borrowing, authorized banks were prohibited from using foreign exchange acquired as cover for forward exchange contracts or foreign currency deposits obtained from other banks to finance domestic foreign not exceed the total amount of domestic foreign-currency deposits with the bank.

#### March 1985

Companies' opportunities for hedging against exchange rate risks were enhanced by granting authorized banks the right to enter into currency option contracts involving two foreign currencies with residents.

Residents were granted general permission to give security to non-residents on behalf of another resident, provided that the giving of the security was based on a permitted foreign exchange transaction, and to receive security given on behalf of a non-resident from a non-resident. The authorized banks were also granted permission to issue guarantees to non-residents on behalf of other non-residents.

The transfer abroad of dividends from foreign direct investments in Finland was exempted from authorization.

#### April 1985

For the first time ever, the Bank of Finland granted a foreign company permission to issue shares in Finland for sale to the Finnish public. As from the beginning of June, these shares were quoted on the Helsinki Stock Exchange.

#### June 1985

The sale to non-residents of markka-denominated bonds was prohibited since their sales had accelerated rapidly.

#### July 1985

New regulations on currency positions were introduced which set revised limits on each authorized bank's position against the markka. In determining the limits, it was sought to take into account the vigorous expansion in banks' foreign operations and changes in the exchange rates of the major trading currencies.

#### September 1985

New regulations on forward market operations were introduced. As an alternative to forward contracts based on individual transactions a company's overall net foreign currency position was accepted as the commercial background for a forward market transaction. The method of calculating the company's net foreign currency position was to be separately approved by the Bank of Finland. As before, companies could enter into forward contracts only to reduce their exchange rate risk.

January 1986

The Foreign Exchange Act was renewed as from the beginning of 1986. At the same time, the Bank of Finland's exchange control powers were extended and the regulations were simplified. This did not entail any essential change in exchange control. The following regulations, among others, were eased:

- The penalty surcharge scheme applied to import credits was abolished because the bulk of imports was paid for within six months and because the surcharge had caused losses to some importers which were substantial in relation to the scheme's importance for foreign exchange policy. According to the new regulations, the maximum period for suppliers' credits not requiring the special permission of the Bank of Finland was six months, i.e. the same as the former period for suppliers' credits not subject to the sur-charge.
- Advance payments for machinery and equipment manufactured to order were permitted up to 50 per cent of the purchase price. Similarly, it was permitted to make all advance payments for imports up to of FIM 50 000 without the Bank of Finland's permission.
- Residents were allowed to make investments in foreign listed securities and to deposit funds in accounts with foreign monetary institutions without special permission up to an amount equivalent to FIM 10 000 per person per calendar year. Though significant in principle, in practice this amendment was of rather minor importance. One of the reasons for the amendment was an improvement in the external balance of the economy.
- The upper limit on foreign exchange which could be acquired for the purchase of a recreational dwelling abroad was raised to FIM 600 000. Purchases of such dwellings did not seem to have any major significance from the point of view of foreign exchange policy. A new condition imposed was the requirement that the tax authorities be notified of the acquisition.
- Similarly, the upper limit on the foreign exchange allowance for emigrants was raised to FIM 600 000 per person or, in the case of an emigrating family, FIM 400 000 per family member.

- Authorized banks were permitted to surrender travel exchange without limit on the basis of a breakdown of estimated costs drawn up by the purchaser.
- Securities broking firms were accorded the same rights as authorized banks to act as intermediaries in securities transactions between residents and non-residents. From the point of view of the Foreign Exchange Regulations, recognition as a securities broking firm required membership of the stock exchange.

The bulk of capital movements still remained subject to the Bank of Finland's permission.

The procedure applied in trade with countries with which Finland maintained bilateral payments agreements was recorded in the Foreign Exchange Regulations. Accordingly, the granting of a suppliers' credit for exports with a maturity of over three months and the receipt of a payment for the export of services with a value equivalent to more than FIM 10 million also required the Bank of Finland's formal permission.

The rights and associated obligations of authorized banks were incorporated into uniform licences for authorized banks in place of the individual circulars used earlier.

#### May 1986

The opportunities for refinancing foreign export credits were enlarged by granting the authorized banks permission to raise foreign credit to finance their customers' long-term export receivables. Similarly, the Bank of Finland granted exporters permission, on application, to raise foreign finance in their own names. This measure sought to increase competition and thus minimize exporters' financing costs.

The quotas on import credits channelled through authorized banks were abolished. At the same time, the domestic foreign-currency deposits of authorized banks were henceforth treated as equivalent to banks' borrowing abroad. After a transition period lasting until the end of June 1987, banks were no longer allowed to grant domestic foreign-currency credits. The importance of these credits had gradually increased in domestic financial markets because they enabled evasion of the restrictions on foreign borrowing.



June 1986

The ban on the sale of markka-denominated bonds and debentures to non-residents was eased by permitting the sale of these bonds and debentures to non-residents as long as they were purchased with earnings and sales proceeds from Finnish bonds and debentures acquired previously or with funds held in markka accounts in Finland by persons who had emigrated from Finland.

The authorized banks and other securities broking firms were permitted to sell foreign securities from their own portfolios to residents within the quantitative limits set in the Foreign Exchange Regulations. The right of residents to purchase foreign securities was enlarged so that the restriction of FIM 10 000 per person did not apply to Finnish listed securities acquired from the Helsinki Stock Exchange or from the OTC market maintained by the authorized banks or to securities separately approved by the Bank of Finland.

The authorized banks' rights to surrender foreign exchange were enlarged as follows:

- investments in merchandise held abroad were permitted up to the equivalent of FIM 100 000 per calendar year
- grants and donations abroad were permitted up to the equivalent of FIM 100 000 per calendar year
- foreign loans between close relatives were permitted up to the equivalent of FIM 100 000 per calendar year.

Advance payments for machinery and equipment manufactured to order were permitted up to 75 per cent of the purchase price. Similarly, all advance payments for imports up to FIM 100 000 were permitted.

August 1986

Manufacturing and shipping companies were granted the right to raise foreign credits with a maturity of at least five years for financing their own operations either through an authorized bank or a special credit institution or directly from a foreign lender with no quantitative restrictions. The decision did not apply to bond and debenture issues denominated in Finnish markkaa. The terms and conditions of such loans had to be submitted for the prior approval of the Bank of Finland. The Bank of Finland monitored the terms with respect to the repayment period and the rate of interest applied.

#### June 1987

Direct investments abroad up to a cumulative limit of FIM 30 million per calendar year were exempted from authorization. The exemption did not apply to direct investments made in countries with which Finland maintained bilateral payments agreements, or to direct investments by individuals, banks, insurance companies, shipping companies, companies engaged in investment, financing, securities dealing or other similar activities or holding companies.

The six-months payment period restrictions on imports were abolished for consignments of imports up to the value of FIM 100 000.

Emigrants were allowed to transfer abroad all their net assets in Finland in connection with the move abroad without the Bank of Finland's permission.

The Bank of Finland's permission was no longer required for the purpose of purchasing a dwelling abroad the purchase price of which did not exceed the equivalent of FIM 600 000. At the same time, the restriction allowing a family to purchase only one dwelling was removed.

Investments abroad in listed securities were allowed up to the equivalent of FIM 50 000 without the Bank of Finland's permission. Securities could be purchased from Finnish agents or, alternatively, the sum in question could be transferred to portfolio management accounts held abroad.

#### August 1987

The right to raise foreign credits with a maturity of at least five years, which had previously been granted to manufacturing and shipping companies for financing their own operations, was extended to include other companies and co-operative societies engaged in business activities, with the exception of financial and insurance institutions and housing and real estate companies.

#### September 1987

The limits on authorized banks' currency positions were raised. The amendment sought to pay closer attention to a bank's capacity to bear risks, the level of activity in the markets and competition.

#### October 1987

Authorized banks were granted the right to sell (write) and purchase currency options involving the markka and a foreign currency. However, before an authorized bank could start selling markka options, its procedure for covering risks had to be approved by the Bank of Finland. At the same time, residents were granted the right to purchase markka options from authorized banks and to sell currency options involving two foreign currencies to authorized banks. Residents were also granted the right to purchase options and futures contracts involving two foreign currencies directly from non-residents.

It was permitted to sell equity warrants carrying the right to subscribe unrestricted Finnish shares to non-residents provided that both the shares and the equity warrants were listed.

#### December 1987

Authorized banks, securities broking firms and, with certain restrictions, insurance companies were granted permission, on application, to set up companies abroad engaged in securities dealing.

Two foreign-owned banks were accorded the status of an authorized bank.

#### January 1988

The list of payment codes used for foreign payments was amended. Some three-quarters of the codes were abolished and the remaining ones reclassified to better meet the needs of the compilation of balance of payments statistics.

#### February 1988

Special permission was no longer required for the giving of security to non-residents in cases where the security was related to a contract concluded between two non-residents. After the amendment came into force, the giving of security was subject to authorization only when security was given for bonds issued by non-residents. There were no restrictions on the receiving of security.

#### June 1988

The regulations concerning the use of foreign loans were clarified by the addition of a provision prohibiting companies entitled to raise foreign currency loans from on-lending loans directly or through banks' trust departments to economic agents not authorized to raise

such loans. This measure put an end to the evasion of the existing regulations which had arisen as a result of the abolition of domestic foreign-currency credits.

#### August 1988

On application, local authorities and companies in which local authorities had a majority holding were allowed to raise credits with a maturity of at least five years to be used mainly for financing productive investments.

Direct investments abroad by companies were exempted from authorization. The liberalization did not apply to the financial sector, individuals or countries with which Finland maintained bilateral payments agreements.

Special permission was no longer required for the acquisition of listed foreign securities up to the value of FIM 300 000 or for the acquisition of dwellings and real estate up to the value of FIM 1 million.

#### January 1989

Special permission was no longer required for depositing funds with foreign monetary institutions or taking out life assurance savings policies from abroad up to the ceiling of FIM 300 000 set for investments.

Residents were granted the right to enter into forward rate agreements and interest swaps, interest rate futures and other similar agreements with non-residents. However, markka interest rate contracts were not allowed. Residents were also allowed to sell currency options involving two foreign currencies to non-residents without special permission and to purchase interest rate options from authorized banks and non-residents; this liberalization did not apply to markka interest rate options. The basic principle was still that such contracts should cover a real exchange rate risk.

#### February 1989

The Bank of Finland ceased keeping rouble-denominated accounts for companies.

On application, some companies engaged in insurance business were allowed to make investments exceeding the amount that was freely permitted.

April 1989

Companies were allowed to make direct investments in foreign real estate investment companies without the Bank of Finland's permission.

On application, companies operating in the financial sector were allowed to invest in shares of foreign real estate investment companies.

Companies engaged in business were no longer required to obtain the Bank of Finland's prior approval for the terms of foreign financial credits which they raised through financial institutions entitled to act as intermediaries in loan transactions and which had a maturity of at least of five years.

July 1989

The special permission of the Bank of Finland was no longer required for direct investments abroad by companies in the financial and insurance sector.

September 1989

Investments by companies engaged in business (excluding those engaged in financial and insurance business) in the form of foreign securities, deposits held in accounts held with foreign monetary institutions and merchandise held abroad were permitted without upper limit.

Investments in real estate abroad by companies engaged in business were also permitted without upper limit.

The minimum credit period for foreign financial credits raised by companies engaged in business was shortened from five years to one year. The Bank of Finland's authorization was still required if a company borrowed directly from a non-resident lender. Permission to raise foreign credits with a maturity of over one year did not apply to companies in the financial sector, insurance institutions, housing or real estate companies or local authorities.

Companies engaged in business were allowed to grant credit with a maturity of over one year to non-residents.

Direct investments in Finland no longer required authorization, except for those made in the financial and insurance sector and those made by investors from countries with which Finland maintained bilateral payments agreements. This was essentially a technical change and was

in line with the liberal authorization procedure that had already been applied for some years.

Suppliers' credits and advance payments of over six months in respect of imports were exempted from the Bank of Finland's authorization.

#### February 1990

The sale of markka-denominated bonds to non-residents was allowed provided that the bonds were issued after February 1, 1990. The liberalization did not apply to bonds issued by housing and real estate companies. The amendment made borrowing from abroad possible without foreign exchange risk and furthered the internationalization of the markka.

At the same time, non-residents were allowed to issue markka-denominated bonds in Finland. The change furthered competition in domestic financial markets and contributed to the deepening of the domestic capital market.

Finnish companies' share issues abroad were exempted from the requirement of prior authorization; even before this date, the authorization procedure had been very liberal.

Non-residents purchasing Finnish shares were no longer required to effect their purchases through the Helsinki Stock Exchange or the OTC market in Finland. Nor was a listing on the Helsinki Stock Exchange or the OTC market any longer required as a condition for the issue of foreign securities in Finland. It was no longer necessary for such deals to be transacted through an authorized bank or a securities broking firm.

The Bank of Finland made a decision in principle according to which non-resident market makers operating abroad could, on application, be granted a licence to operate in the Finnish derivatives markets.

#### March 1990

On application, some finance companies were granted the right to act as intermediaries in foreign loan transactions.

#### July 1990

All restrictions on foreign investments by individuals were abolished. After this, individuals were allowed to make direct investments abroad and to make investments in the form of foreign securities, foreign real

estate, merchandise held abroad and deposits in accounts with foreign monetary institutions without upper limit. In addition, individuals were allowed to grant loans of over one year's maturity to non-residents. This liberalization measure also applied to housing and real estate companies considered comparable to individuals.

The opportunities of financial sector enterprises to engage in foreign activities were also expanded. In addition to banks, mortgage banks and credit companies were, on application, granted the right to act as intermediaries in foreign loan transactions and to raise foreign loans and make foreign investments within the limits of their foreign currency positions.

Local authorities, foundations, organizations and other corporate entities (excl. insurance institutions, banks, mortgage banks, credit companies and finance companies) were accorded the right to make portfolio investments abroad without upper limit and to raise foreign loans with an average maturity of over one year and to grant loans abroad of over one year's maturity.

Residents were allowed to purchase foreign currency with Finnish currency without upper limit for deposit in foreign currency accounts held in Finland.

The definitions of non-resident and resident were revised so that, in addition to permanent residence, a period of residence of at least one year changed the residence status of individuals.

#### September 1990

Special permission was no longer required for the sale of derivative instruments based on Finnish shares to non-residents. Similarly, the sale of equity warrants carrying the right to restricted shares was permitted. Residents were also permitted to buy and sell derivative instruments based on foreign shares without restriction. The liberalization applied to all standardized and non-standardized options and futures based on Finnish or foreign shares and sought to increase efficiency in the financial markets by reducing hedging costs. The decision was also aimed at making it possible for all market participants to offer stock-based derivative instruments and to participate in the trading of these instruments on equal conditions.

#### January 1991

Most of the remaining restrictions were abolished at the beginning of the year. Only foreign borrowing by individuals and comparable corporate entities remained subject to authorization.

The foreign operations of financial institutions remained subject to authorization. Authorized banks could engage in any foreign exchange transaction within the limits of their foreign currency positions. Financial institutions that had been granted licences to engage in foreign exchange transactions (limited or extended) could engage in these transactions on a more limited scale. The licensing procedure was aimed solely at monitoring the risks associated with the foreign operations of financial institutions, i.e. it did not involve exchange control.

Among the restrictions abolished at the beginning of the year were the following:

- restrictions on short-term capital movements (incl. those concerning money market instruments and currency and interest rate derivative instruments and the requirement that forward contracts should have a commercial background).
- the ban on the sale to non-residents of bonds issued prior to February 1, 1990.
- the authorization requirement for direct investments in the finance and insurance sector in Finland and investments in Finland by investors from countries with which Finland maintained bilateral payments agreements.
- the restrictions on dealing in foreign exchange. Thus residents could henceforth purchase foreign currency from residents and non-residents and sell foreign currency to residents and non-residents. The Act on the Right to Deal in Foreign Exchange was repealed in the previous year.

It was no longer necessary to repatriate funds from abroad. However, residents were obliged to report their foreign funds in accordance with the notification regulations.

The special provisions concerning currencies used in foreign exchange transactions in trade with the Soviet Union were cancelled as the clearing payments system had been terminated at the beginning of the year.



Export certificates for means of payment were abolished; notification of the export of physical means of payment was no longer required.

The obligation to present documents in connection with payments was also abolished.

A comprehensive reporting system for foreign payments remained in force.

October 1991

Individuals and comparable corporate entities were allowed to raise loans abroad without restriction.

## Appendix 2

# List of Measures according to Type of Foreign Exchange Transaction, from 1973 onwards

### Suppliers' credits and advance payments

At the beginning of 1973, customary suppliers' credits and advance payments in respect of exports were allowed without the special permission of the Bank of Finland. The maximum maturity for suppliers' credits in respect of imports was six months. The maximum sum for advance payments in respect of imports of machinery and equipment manufactured to order was 40 per cent of the purchase price.

1973

A cash payment scheme for imports was introduced; the scheme covered about 20 per cent of imports.

Restrictions on drawings of advance payments for exports of wood and wood products were introduced.

1974

The restrictions on drawings of advance payments for exports of wood and wood products were abolished.

1975

The list of goods subject to the cash payment scheme for imports was enlarged.

1976

A penalty surcharge scheme for imports was introduced. A charge of 10–30 per cent, depending on the length of the credit period, was levied on import credits exceeding six months that had not been authorized by the Bank of Finland.

1977

The coverage of the cash payment scheme for imports was first enlarged and later reduced to some extent in the course of the year. At the end of the year, the system covered about 30 per cent of imports.

1978

The coverage of the cash payment scheme for imports was reduced twice: first to 25 per cent, then to 18 per cent of total imports.

1979

The cash payment scheme for imports was abolished.

1983

The surcharges levied on import credits exceeding six months were lowered to 2–12 per cent of the amount of the outstanding credit, depending on the length of the credit period.

All advance payments for imports of up to FIM 20 000 were allowed without the permission of the Bank of Finland.

1984

The obligation to pay the surcharge on import credits was abolished in cases where the purchase price of imported goods did not exceed FIM 10 000.

1986

The surcharge scheme applied to import credits was abolished.

Advance payments for imports of machinery and equipment manufactured to order were allowed up to 50 per cent of the purchase price without the permission of the Bank of Finland. All advance payments for imports of up to FIM 50 000 were allowed. Later in the same year, these amounts were raised to 75 per cent and FIM 100 000, respectively.

1987

The restrictions on the payment period for imports were abolished in respect of imports up to FIM 100 000.

1989

Suppliers' credits and advance payments of over six months in respect of imports were exempted from the Bank of Finland's authorization.

## Financing credits

At the beginning of 1973, importers were permitted to raise financing credits from abroad with a maturity of up to six months. Exporters were permitted to raise financing credits covering the delivery period for a credit period of up to nine months. Other financing credits were subject to permission.

1973

Capital imports became subject to a deposit requirement.

1977

The authorized banks' right to channel foreign credit to importers for the payment of imports was extended to apply to imports to Finland from countries with which Finland maintained bilateral payments agreements.

1978

The authorized banks' right to channel foreign credit to their customers for the financing of export receivables was extended to apply to financing of up to 12 months.

The authorized banks' right to channel foreign credit for the pre-shipment financing of timber exports was gradually reduced.

1979

The authorized banks' right to channel foreign credit to importers for the payment of imports was limited by setting the maximum maturity for credit that could be granted without special permission at three months.

The use of foreign credit for the pre-shipment financing of timber exports was prohibited in full.

1980

The use of import financing credits was restricted.

The Bank of Finland discontinued the quotation of forward rates for the US dollar and the making of dollar-denominated forward contracts with authorized banks. The authorized banks were granted permission to cover their forward purchases with foreign credit.

1981

The use of import financing credits was restricted by imposing import credit quotas on authorized banks.

1982

In a circular letter, authorized banks were granted the right to take part in syndicates for foreign banks loans and to finance their share of such loans with foreign credit.

In a circular letter, authorized banks were permitted to refinance their direct investments abroad with foreign credit.

1983

The Bank of Finland extended the maximum maturity for import financing credits granted by authorized banks to importers from three months to six months.

1984

The rights of authorized banks' to engage in foreign lending were increased. Banks were required to use mainly foreign credit for refinancing loans granted to non-residents.

All funds held by non-residents in convertible accounts were treated as part of banks' foreign borrowing; this also applied to funds in markka-denominated 'loro' accounts.

1985

Authorized banks were prohibited from financing domestic foreign-currency credits with foreign exchange acquired as cover for forward contracts or with foreign currency deposits obtained from other banks.

1986

The quotas for import financing credits channelled through authorized banks were abolished.

Authorized banks were granted the right to use foreign credit for the pre-shipment financing of their customers' long-term export receivables.

Manufacturing and shipping companies were granted the right to raise foreign credits with a maturity of at least five years for financing their own operations either through an authorized bank or a special credit institution or directly from a foreign lender with

no quantitative restrictions. The terms and conditions of such loans had, however, to be submitted for the prior approval of the Bank of Finland.

The domestic foreign-currency deposits of authorized banks were treated as equivalent to banks' foreign borrowing and domestic foreign-currency credits were gradually prohibited.

Foreign loans between close relatives were permitted up to the equivalent of FIM 100 000 per calendar year.

1987

The right previously granted to manufacturing companies and shipping companies to raise foreign credits of at least five years for financing their own operations was extended to include companies and cooperative societies engaged in business activities, with the exception of financial and insurance institutions and housing and real estate companies.

1988

On application, local authorities and companies in which local authorities had a majority holding were allowed to raise credits with a maturity of at least five years to be used mainly for financing productive investments.

1989

Companies engaged in business were no longer required to obtain the Bank of Finland's prior approval for the terms of foreign financial credits with a maturity of at least five years raised through authorized banks or special credit institutions.

The minimum credit period for foreign financial credits raised by companies engaged in business was shortened to one year in the autumn of the same year.

1990

Local authorities, foundations, organizations and other corporate entities (excl. insurance institutions, banks, mortgage banks, credit companies and finance companies) were accorded the right to raise foreign loans with an average maturity of over one year and to grant loans abroad of over one year's maturity without the special permission of the Bank of Finland. Previously, only companies engaged in business had this right.

The opportunities of financial sector companies to engage in foreign activities were also increased. In addition to banks, mortgage banks, credit companies and finance companies could obtain the right to act as intermediaries in foreign loan transactions and to raise foreign loans within the limits of their foreign currency positions.

In addition, individuals were allowed to grant loans of over one year's maturity to non-residents. The same applied to housing and real estate companies comparable to individuals.

1991

At the beginning of 1991, the remaining restrictions on short-term capital movements were abolished, except those applying to foreign borrowing by individuals and comparable corporate entities. Foreign borrowing by individuals and comparable corporate entities was allowed without restriction with effect from the beginning of October 1991.

## Direct investment

At the beginning of 1973, direct investment abroad and in Finland was subject to permission.

1985

The transfer abroad of dividends from direct investments in Finland was exempted from authorization.

1987

Direct investments abroad up to a cumulative limit of FIM 30 million a year were exempted from authorization.

1988

Direct investments abroad by companies were exempted from authorization. The liberalization did not apply to the financial sector, individuals or countries with which Finland maintained bilateral payments agreements.

1989

Companies were allowed to make direct investments in foreign real estate investment companies without the Bank of Finland's permission.

On application, companies operating in the financial sector were allowed to invest in shares of foreign real estate investment companies.

All direct investments abroad by companies in the financial and insurance sector were allowed without special permission later in the same year.

Direct investments in Finland were exempted from the authorization requirement with the exception of those in the financial and insurance sector and by investors from countries with which Finland maintained bilateral payments agreements.

1990

Individuals were granted the right to make direct investments abroad without the Bank of Finland's permission.

1991

All direct investments in Finland were exempted from the authorization requirement.

## Portfolio investment

At the beginning of 1973, non-residents could purchase Finnish shares and bonds from the Helsinki Stock Exchange through the intermediary of an authorized bank. Residents were not allowed to purchase foreign securities. Authorized banks and some insurance companies had, however, been granted permission to invest in foreign securities in compliance with certain restrictions.

Non-residents could maintain domestic markka accounts in Finland mainly for holding funds received in the form of earnings and sales proceeds from assets held in Finland. The Foreign Exchange Regulations did not restrict the right of non-residents to purchase real estate in Finland. However, the right of foreigners to purchase real estate in Finland was regulated by the Restricting Act.

Residents were not allowed to maintain investment accounts abroad. Exporters and shipping companies were, however, given exceptional permission to hold accounts abroad and there were no restrictions on the use of these accounts as regards time or amounts.



1981

In a circular letter, the right of authorized banks to act as intermediaries in selling Finnish bonds and debentures to non-residents was enlarged to include new issues.

1984

The opportunities of authorized banks' to deal in foreign securities, in particular shares, were enlarged.

1985

The sale to non-residents of bonds listed on the Helsinki Stock Exchange was prohibited until further notice.

1986

Residents were allowed to make investments in foreign listed securities and to deposit funds in accounts with foreign monetary institutions without the special permission of the Bank of Finland up to the equivalent of FIM 10 000 per person per calendar year.

The right of residents to purchase foreign securities was increased later in the same year so that the restriction of FIM 10 000 per person did not apply to Finnish listed securities acquired from the Helsinki Stock Exchange or the OTC market maintained by the authorized banks or to securities separately approved by the Bank of Finland.

Investments in merchandise held abroad were authorized without the special permission of the Bank of Finland up to the equivalent of FIM 100 000 per calendar year.

The sale of Finnish bonds and units in Finnish unit trusts (mutual funds) to non-residents was allowed without the Bank of Finland's permission provided they were purchased with earnings and sales proceeds from Finnish bonds or with funds held in domestic markka accounts in Finland by persons who had emigrated from Finland.

1987

Residents were authorized to purchase foreign listed securities without the special permission of the Bank of Finland up to the equivalent of FIM 50 000.

1988

The purchase of foreign listed securities was allowed without the special permission of the Bank of Finland up to the equivalent of FIM 300 000.

1989

Residents were allowed to deposit funds with foreign monetary institutions and to take out life insurance policies abroad up to the ceiling of FIM 300 000 set for investments.

On application, some companies engaged in insurance business were allowed to make investments exceeding the amount that was freely permitted.

Investments abroad by companies engaged in business in the form of securities, deposits held in accounts and merchandise were allowed without upper limit.

Investments in real estate by companies engaged in business activities were also permitted without upper limit.

1990

The ban on the sale abroad of markka-denominated bonds was rescinded as regards bonds issued subsequent to February 1, 1990. At the same time, non-residents were granted the right to issue markka-denominated bonds in Finland.

Finnish companies were allowed to issue bonds abroad without the special permission of the Bank of Finland.

Non-residents purchasing Finnish shares were no longer required to effect their purchases through the Helsinki Stock Exchange or the OTC market. Similarly, it was no longer necessary for such deals to be transacted through an authorized bank or a securities broking firm.

Local authorities, foundations, organizations and other corporate entities (excl. insurance institutions, banks, mortgage banks, credit companies and finance companies) were accorded the right to make portfolio investments abroad without upper limit. Previously this right had only been granted to companies engaged in business.

The opportunities of financial sector enterprises to engage in foreign activities were increased. In addition to banks, mortgage banks, credit companies and finance companies could, on application, obtain the right to make foreign investments.

Restrictions on foreign investments by individuals were abolished. Individuals were allowed to make investments in the form of foreign securities, merchandise held abroad and deposits in foreign accounts without upper limit. The same applied to housing and real estate companies considered comparable to individuals.

Residents were also allowed to purchase foreign currency with Finnish currency without upper limit for deposit in foreign currency accounts held in Finland.

1991

Restrictions on the purchase and sale of money market instruments were abolished.

The sale to non-residents of bonds issued prior to February 1, 1990 was allowed.

## Investment in real estate and housing (individuals and housing and real estate companies)

At the beginning of 1973, an individual could acquire foreign exchange up to the equivalent of FIM 75 000 for the purchase of a second home abroad provided that, for reasons of health, the applicant had sufficient grounds for the purchase of such a dwelling.

1979

Reasons of health was no longer a condition for approval by the Bank of Finland for the purchase of a second home abroad. The purchase price could not exceed FIM 150 000.

1981

The upper limit for the purchase of a second home abroad was raised to FIM 175 000.

1982

The upper limit for the purchase of a second home abroad was raised to FIM 250 000.

1983

The upper limit for the purchase of a second home abroad was raised to FIM 300 000.

1986

The upper limit for the purchase of a second home abroad was raised to FIM 600 000.

1987

The Bank of Finland's permission was no longer required for the purchase of a second home abroad up to the value of FIM 600 000.

1988

The purchase of dwellings and real estate abroad up to the value of FIM 1 million was allowed without the special permission of the Bank of Finland.

1990

Restrictions on the purchase of dwellings and real estate abroad were removed.

## Financial market operations

At the beginning of 1973, authorized banks were entitled to enter into forward contracts abroad and with residents as long as the forward transactions had a commercial background, i.e. they were trade-related.

1983

The Bank of Finland discontinued the quotation of forward rates for the rouble and the covering of forward rouble contracts.

Authorized banks were granted general permission to participate in financial futures markets on their own or their customers' account.

Residents were allowed to enter into forward contracts involving two foreign currencies with non-residents without the special permission of the Bank of Finland.

1985

Companies' opportunities for hedging against exchange rate risks were enhanced by granting authorized banks the right to enter into currency option contracts involving two foreign currencies without the special permission of the Bank of Finland.

1986

The regulations concerning forward transactions were revised. A company's foreign currency position was also accepted as a commercial background for forward transactions. The method of calculating the net position had to be submitted to the Bank of Finland for separate approval. As before, companies could only use forward transactions to reduce their foreign exchange risk.

1987

Authorized banks were granted the right to sell (write) and purchase markka options. At the same time, residents were granted the right to purchase markka options from authorized banks and to sell currency options involving two foreign currencies to authorized banks. Residents were also allowed to buy options and futures involving two foreign currencies directly from non-residents.

1989

Currency swaps, currency futures and other irrevocable foreign exchange market agreements were considered equivalent to forward exchange contracts.

Residents were allowed, without the special permission of the Bank of Finland, to enter into forward rate agreements and interest swaps, interest rate futures and other similar agreements with authorized banks and non-residents. However, markka interest rate contracts were not allowed.

Residents were allowed, without the special permission of the Bank of Finland, to sell currency options involving two foreign currencies to non-residents and to purchase interest rate options from authorized banks and non-residents, with the exception of markka interest options.

1990

The Bank of Finland made a decision in principle according to which non-resident market makers operating abroad could, on application, be granted a licence to operate in the Finnish derivatives markets.

The sale of derivative instruments based on Finnish shares to non-residents was allowed without special permission. Likewise, the sale of equity warrants carrying the right to restricted shares was allowed.

Residents were granted the right to purchase and sell derivative instruments based on foreign shares without restriction.

1991

The restrictions on currency and interest rate derivative instruments and the requirement that forward contracts should have a commercial background were abolished.

## Travel exchange

At the beginning of 1973, residents were allowed to purchase travel exchange up to the equivalent of FIM 3 000.

1979

The maximum amount of means of payment which it was allowed to take out of the country was raised from FIM 3 000 to FIM 5 000. The import and export of Finnish banknotes with a nominal value of more than FIM 100 was prohibited. The rights to acquire and surrender foreign exchange were enlarged.

1984

The regulations concerning the import and export of means of payment were amended. Residents were granted the right to take out of the country means of payment up to the equivalent of FIM 10 000. In addition, the ban on the import and export of Finnish banknotes with a nominal value of more than FIM 100 was lifted.

1986

It was permitted to purchase travel exchange without limit on the basis of a cost estimate drawn up by the purchaser.

1991

The presentation of a cost estimate and the use of export certificates for means of payment were no longer required.

# Accounts

## Non-resident accounts in Finland

At the beginning of 1973, non-residents could hold convertible, restricted and capital accounts with authorized banks. In addition, some other Finnish monetary institutions were allowed to hold capital accounts for non-residents. Convertible accounts could be freely credited with funds transferred from abroad and from other convertible accounts. Similarly, convertible accounts could be freely debited in Finland and funds in such accounts could be freely transferred abroad. Restricted accounts were used for payments between Finland and countries with which Finland maintained bilateral payments agreements. Capital accounts could be credited with earnings and sales proceeds from assets owned in Finland. They could also be credited with funds from abroad or with funds transferred from convertible or restricted accounts. It was permitted to debit such accounts freely in Finland but the transfer abroad of funds from such accounts was subject to authorization.

1974

The crediting of capital accounts with funds transferred from convertible or restricted accounts and from abroad was prohibited.

However, authorized banks were permitted to credit capital accounts without restriction in the following cases:

- if the account holder was a diplomat
- if salaries and similar funds received by the account holder in Finland during his/her stay here were concerned
- if payments from abroad were concerned and the account holder was a Finnish national.

1986

The regulations concerning restricted accounts were removed from the Foreign Exchange Regulations.

The name of capital accounts was changed to domestic markka accounts. The transfer of funds from abroad to such an account without the special permission of the Bank of Finland was also allowed if the funds comprised personal pay of the account holder, other remuneration or scholarships and if their transfer was related to a period of residence in Finland by the account holder. It was

prohibited to debit such an account in Finland for the payment of goods exported from Finland and the payment of services sold abroad.

The transfer of funds from a domestic markka account was allowed without the permission of the Bank of Finland if, instead of crediting the account, it was possible to transfer the funds directly abroad under the powers delegated to the authorized banks.

1989

The transfer of funds from a non-resident domestic markka account was allowed without the special permission of the Bank of Finland if the account had been credited in the way required by the Foreign Exchange Regulations.

1990

All restrictions concerning non-resident convertible accounts and domestic markka accounts were removed from the regulations.

## Resident accounts (excl. foreign investment accounts)

In 1973, residents could hold domestic foreign-currency accounts with authorized banks. Such accounts could be credited with repatriated funds as well as with any unused portion of travel exchange. The withdrawal of foreign exchange from such an account and the transfer of funds abroad was only allowed for the settlement of the payments listed in the Foreign Exchange Regulations or for the purchase of travel exchange. Holding an account abroad was subject to authorization. Permission was only granted to exporters, insurance companies and shipping companies for the purpose of handling payments and the accumulation of funds.

1977

Residents working abroad were granted the right to deposit their salary funds in convertible accounts with authorized banks.



1986

It was allowed to credit domestic foreign-currency accounts with currency amounts that had not been used for the purpose intended provided that the currency originated from a domestic foreign-currency account.

The interpretation quietly adopted in the 1970s according to which payments between domestic foreign-currency accounts in the form of foreign currencies were permitted was incorporated in the Foreign Exchange Regulations.

1990

The purchase of currency for the crediting of a domestic foreign-currency accounts was permitted without restriction.

1991

Residents were freely allowed to hold accounts abroad for the settlement of payments or for the accumulation of funds without the special permission of the Bank of Finland.

## Appendix 3

# Conversion Factors for the Value of Money, according to the Wholesale Price

### Index

Year	Factor	Year	Factor	Year	Factor
1917	464	1942	64.9	1967	5.78
1918	267	1943	57.1	1968	5.22
1919	200	1944	51.7	1969	5.04
1920	130	1945	36.0	1970	4.83
1921	122	1946	23.0	1971	4.60
1922	127	1947	19.1	1972	4.24
1923	141	1948	14.5	1973	3.61
1924	141	1949	14.4	1974	2.90
1925	137	1950	12.3	1975	2.56
1926	142	1951	8.85	1976	2.30
1927	141	1952	8.77	1977	2.08
1928	140	1953	9.08	1978	1.98
1929	146	1954	9.21	1979	1.81
1930	159	1955	9.40	1980	1.56
1931	170	1956	8.85	1981	1.38
1932	158	1957	8.17	1982	1.28
1933	159	1958	7.55	1983	1.21
1934	159	1959	7.50	1984	1.14
1935	158	1960	7.23	1985	1.08
1936	153	1961	7.18	1986	1.14
1937	129	1962	7.06	1987	1.12
1938	138	1963	6.83	1988	1.08
1939	131	1964	6.34	1989	1.03
1940	97.9	1965	6.08	1990	1.00
1941	80.0	1966	5.96		

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### Bill

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- for a law on the regulation of economic activity in exceptional circumstances and for a law on the punishment of crimes jeopardizing the livelihood of the population (157/1940),
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- for a law on foreign exchange control (86/1959),
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- for a law on the right to deal in foreign exchange (218/1972),
- for a law amending the Foreign Exchange Act (183/1974, 220/1976, 236/1978, 196/1980),
- for a law on foreign exchange (157/1985),
- for a law amending the Foreign Exchange Act (48/1990),
- for the abolition of the Act on the Right to Deal in Foreign Exchange (49/1990).

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