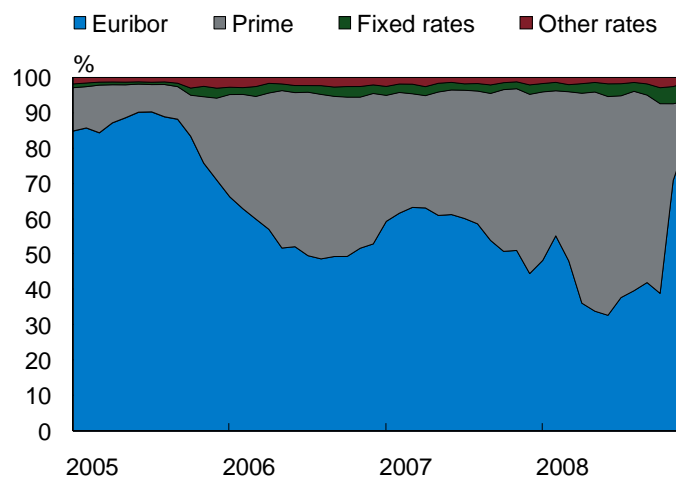


Money and Banking Statistics

Annual Review • 2008

New business on housing loans by reference rate



Source: Bank of Finland.



Bank of Finland

Financial Markets and Statistics

Statistics

26 Feb 2009

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Abbreviations

BE	Belgium
BG	Bulgaria
CZ	Czech Republic
DK	Denmark
DE	Germany
EE	Estonia
IE	Ireland
GR	Greece
ES	Spain
FR	France
IT	Italy
CY	Cyprus
LV	Latvia
LT	Lithuania
LU	Luxembourg
HU	Hungary
MT	Malta
NL	Netherlands
AT	Austria
PL	Poland
PT	Portugal
RO	Romania
SI	Slovenia
SK	Slovakia
FI	Finland
SE	Sweden
UK	United Kingdom
MU15	Euro area of 15 member states
EU27	European Union of 27 member states

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Introduction

The global financial crisis left its imprint on economic developments in 2008. The crisis was also reflected in loans and deposits. This annual review of money and banking statistics describes developments in 2008 in Finland and provides more comprehensive data on monetary financial institutions than the charts and tables posted monthly on the Bank of Finland's website.¹

The first chapter discusses loans to residents in the euro area other than monetary financial institutions (non-MFIs), where the key developments were robust growth in loans to non-financial corporations and slower growth in loans to households. The second chapter examines developments in deposits with MFIs and other financing. The strong growth in deposits in 2008 derived from interest rate competition in the interbank markets, especially in early 2008, and increased uncertainty about other investment objects such as mutual funds. The third chapter deals with changes in the aggregated MFI balance sheet. Finally, the fourth chapter describes institutional changes in the MFI sector.

¹ See http://www.bof.fi/en/tilastot/tase_ja_korko/index.htm.

1 Loans to non-MFIs

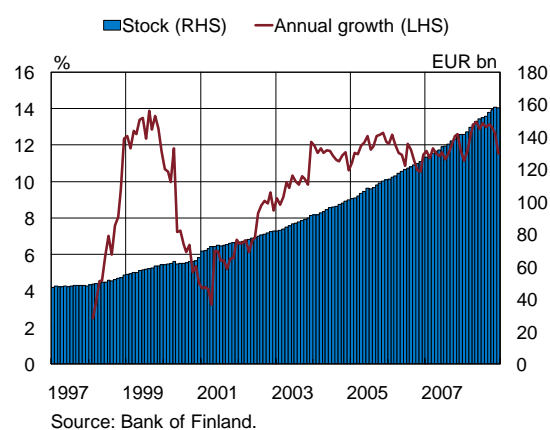
1.1 Non-MFI loans

Annual growth in the stock of loans to non-MFIs was fuelled by strong growth in the stock of loans to non-financial corporations. The bulk of loans to non-MFIs is linked to Euribor rates. The stock of loans to non-MFIs outside of Finland continued to expand by approximately EUR 1 billion a year. The stock of foreign currency loans remained virtually unchanged.

Annual growth in the stock of euro-denominated loans granted by Finnish monetary financial institutions (MFIs) to euro area residents other than MFIs (euro area non-MFIs) remained exceptionally strong almost throughout 2008, relative to the prior years of the 2000s. The stock of loans to euro area non-MFIs comprises MFI loans to households, non-financial corporations, general government and financial institutions² other than MFIs. The high annual growth in non-MFI loan stock was primarily fuelled by robust increase in loans to non-financial corporations.

² Incl. insurance corporations.

Chart 1. Euro-denominated loans to euro area non-MFIs



The stock of euro-denominated loans to non-MFIs totalled EUR 158.1 billion at the end of the year, up by 11.5% on the previous year. The average interest rate on the loan stock generally tracked movements in market interest rates in 2008 with a short lag, as the bulk of loans, about 50–70%, has been tied to Euribor rates in recent years. At the end of 2008 Euribor-linked loans (EUR 94.3 bn) accounted for 60% of total loan stock. In December 2008 the average interest rate on the stock of loans to non-MFIs was 5.04%, compared to 5.29% in December 2007.

Table 1. Interest rate linkages of non-MFI loan stock, selected months in 2008³

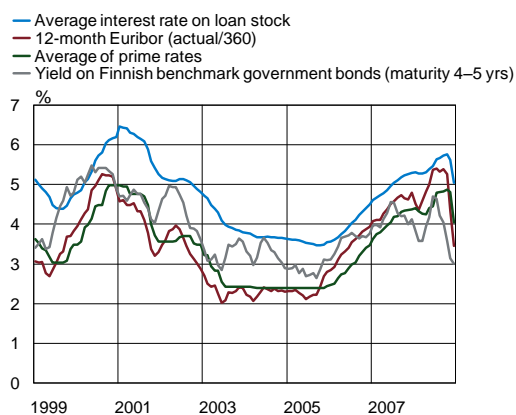
	January	June	December
Total non-MFI loan stock (EUR bn)	141.7	151.0	158.1
Euribor	84.6	87.3	94.3
Banks' own reference rates	35.0	41.7	39.8
Fixed and other rates	22.2	22.1	24.0
Total non-MFI loan stock, average interest rate (%)	5.30	5.46	5.04
Euribor	5.43	5.62	5.24
Banks' own reference rates	5.30	5.44	4.78
Fixed and other rates	4.81	4.92	4.77
Total new business on non-MFI loans, volume (EUR bn)	11.5	14.6	13.9
Euribor	6.9	7.6	9.5
Banks' own reference rates	2.8	3.9	1.9
Fixed and other rates	1.9	3.1	2.6
Total new business on non-MFI loans, average interest rate (%)	6.80	6.77	5.87
Euribor	7.20	7.46	6.13
Banks' own reference rates	6.91	6.45	6.99
Fixed and other rates	5.14	5.50	4.09

Source: Bank of Finland.

The stock of loans to non-MFIs consists primarily of loans to households and non-financial corporations. These two account for 96% of the total loan stock. At end-2008 household loans accounted for 59% of the total loan stock, corporate loans 36%. Due to strong growth in the stock of loans to non-financial corporations, the share of such lending increased slightly in 2008. At the end of the year the stock of loans to financial institutions other than MFIs totalled EUR 1.3 billion in Finland, the stock of loans to general government EUR 5.8 billion.

³ The high interest rates on new business are due to the fact that new business here includes end-month stocks of overdrafts and credit card credit.

Chart 2. Average interest rate on non-MFI loan stock and selected reference rates

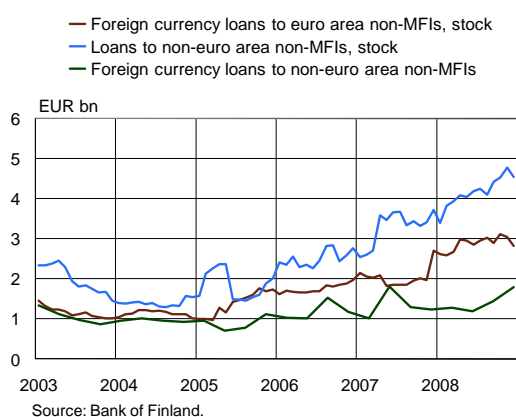


Source: Bank of Finland.

Including loans to non-MFIs outside the euro area and foreign currency loans, loans to non-MFIs amounted to EUR 165.5 billion at the end of 2008. A total of 96% was granted to non-MFIs in Finland. Loans to other euro area countries amounted to EUR 1.6 billion, loans to non-euro area countries EUR 4.6 billion. There was a surge in the stock of loans to non-MFIs outside Finland in 2008, but in December the loan stock declined by EUR 0.5 billion. The share of these loans in the total stock of loans to non-MFIs is still small, at 3.7%.

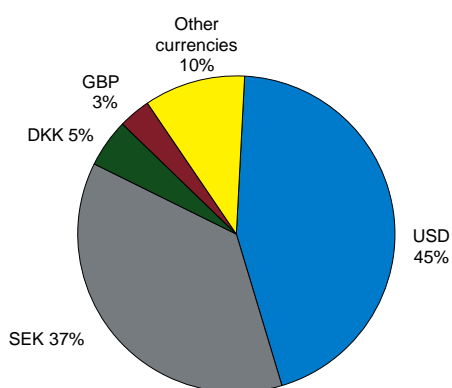
At end-2008 the stock of MFI's foreign currency loans totalled EUR 4.6 billion, or 2.8% of the total non-MFI loan stock. EUR 2.8 billion of this went to the euro area, EUR 1.8 billion went elsewhere. Almost all foreign currency loans go to non-financial corporations.

Chart 3. Foreign currency loans and loans to non-euro area non-MFIs⁴



At the end of 2008, 45% of the foreign currency loan stock was denominated in US dollars and 37% in Swedish krona. Foreign currency loans did not increase notably in 2008. Their share in total lending stock rose in 2008 from 2.6% to 2.8%. Foreign currency loans accounted only for 1.8% of loans to euro area non-MFIs, but for 39% of loans to non-euro area non-MFIs.

Chart 4. Foreign currency loans by currency, 12 Dec 2008



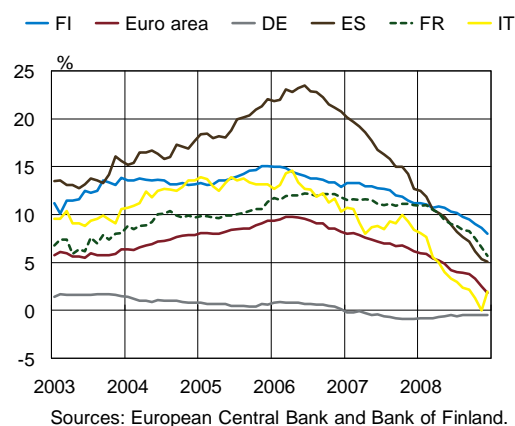
⁴ 'Loans to non-euro area non-MFIs' includes 'Foreign currency loans to non-euro area non-MFIs'.

1.2 Loans to households

Annual growth in the stock of loans to households declined in Finland and in the euro area. The heightening of the financial crisis was reflected in the demand for housing loans.

The stock of loans to households totalled EUR 93.4 billion at the end of 2008. Annual growth rate for the household loan stock declined throughout 2008, continuing a trend observed since 2006. In December 2008 household loan stock increased by 8.0% on the previous year, following annual growth of 11.2% in 2007. The average interest rate on the household loan stock stood at 5.23% at end-2008, compared to 5.41% a year earlier.

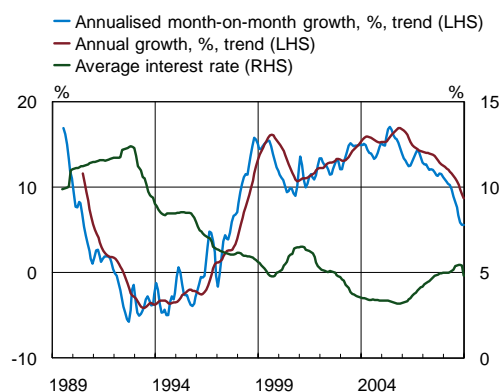
Chart 5. Annual growth rates of household loan stock in euro area



Annual growth in the household loan stock also decreased on average in the euro area and was 1.8% at the end of 2008. Annual growth in the household loan stock began to ease 6 months later in the euro area than in Finland, where moderation started in early 2006. In some euro area countries, eg Spain and Ireland, problems in real estate markets have led to a sharp drop in the annual growth in household loan

stock, whereas eg in Finland and France the slowdown has been considerably more moderate. In Germany, the household loan stock has long been flat, due to subdued activity in the housing markets.

Chart 6. Annualised growth, annual growth and average interest rate on housing loan stock



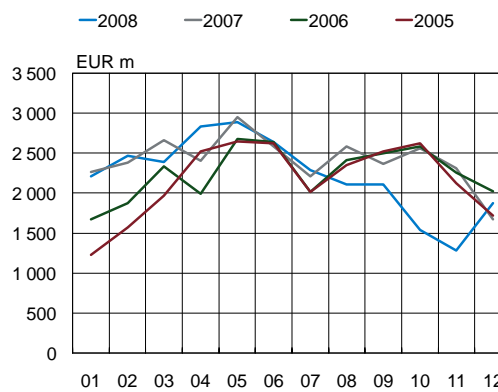
Source: Bank of Finland.

At end-2008 the stock of loans to households for house purchase was EUR 67.6 billion in Finland, accounting for over 72% of all household loans. Due to the heightening of the global financial crisis and rapid deterioration of the economic outlook, annual growth in the housing loan stock fell even faster towards the end of the year. At end-2008 it was 8.7%, compared to 12.4% a year earlier. The annualised month-on-month growth rate was 5.3% at the end of the year, having been 11.2% in the previous year. Annual growth in the housing loan stock has usually tracked the annualised month-on-month growth with a lag of approximately six months.

The uncertainty regarding households' financial prospects, stemming from the financial crisis and reflected in the housing markets, was clearly evident in new housing loan agreements made by households in the last quarter of 2008. Diverging trends were seen in new business on housing loans in 2008. In the first six months of the year new business was at about the same level as in the previous year, increasing by EUR 0.2

billion. But in the last six months of the year, new business was clearly below prior-year levels – EUR 2.5 billion less than in 2007 – even though in December it was almost EUR 200 million higher than in 2007. The high volume of new housing loan business in December 2008 was probably due to households actively changing loan reference rates. The commonly used reference rates for housing loans – 12-month Euribor and prime rates – were changed in November-December to shorter market rates, eg to the rapidly falling 3-month Euribor.⁵

Chart 7. Monthly new business on housing loans, 2005–2008

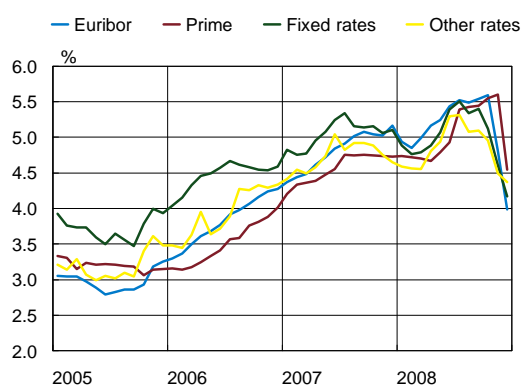


In 2008, monthly new business on housing loans totalled on average about EUR 2.2 billion, compared to EUR 2.4 billion in 2007. The annual total for new housing loan business was EUR 26.7 billion in 2008, down by EUR 2.3 billion on 2007. Households have traditionally tied new housing loan agreements to rates with an initial interest rate fixation of up to one year. In 2008, on average 96% of new housing loans were tied to rates in this category. Reference rates included

⁵ New business on housing loans comprises all housing loan agreements made for the first time during the reference month and agreements arising from renegotiations of terms and conditions of existing loan agreements.

in the category of initial rate fixation of up to one year are eg Euribor rates and banks' own reference rates. The average interest rate on new loan agreements in this category was 4.07% in December 2008. Fixed rates or long reference rates have historically accounted for a very small proportion of new business on housing loans.

Chart 8. Average interest rate on new housing loan business by interest rate linkage

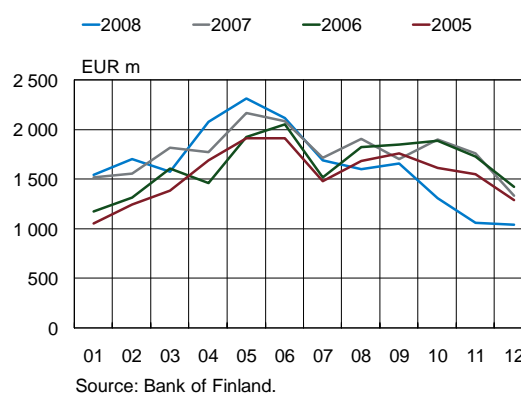


The shares of Euribor and prime rates as reference rates in new housing loan business have fluctuated sharply from month to month. Therefore, households appear to choose the reference rate that is most favourable at the time the loan agreement is made. In the first six months of 2008 the share of Euribor rates in new housing loan business fell from almost 50% to stand at 32% in June, as Euribor rates rose faster than prime rates. In November-December the share of Euribor rates jumped, as market rates fell sharply while the ECB reduced the key interest rate three times in October-November. At the end of the year about 82% of new housing loan agreements were tied to Euribor rates. At the same time, banks' prime rates remained almost unchanged at about 5% until December, when they also started to fall sharply. At end-2008 the average interest rate on new loan

agreements linked to Euribor was 3.98% and for those linked to prime rates 4.54%.

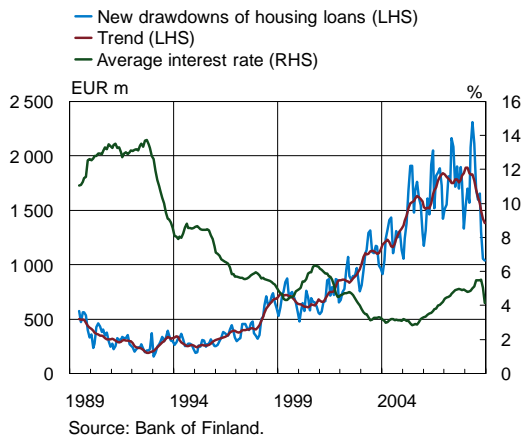
New drawdowns⁶ of housing loans amounted to EUR 19.7 billion in 2008, down by EUR 1.5 billion on the previous year. These drawdowns moved closely in line with new housing loan agreements. In the first six months of the year new drawdowns amounted to approximately EUR 0.4 billion more than in the corresponding period in 2007. In the second half of the year they were almost EUR 2 billion lower than in 2007. The average interest rate on new drawdowns of housing loans was 4.16% at the end of 2008.

Chart 9. Monthly new drawdowns of housing loans, 2005–2008



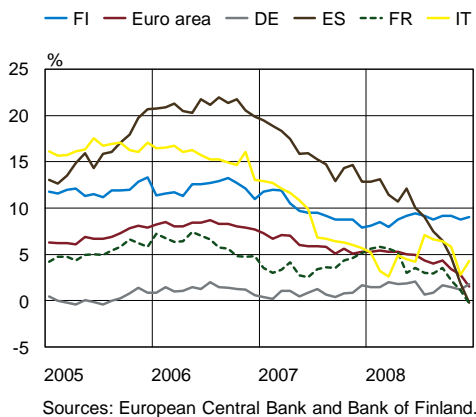
⁶ New drawdowns of housing loans include new loans that have been taken out in the reference month regardless of the time the contract was made. For example, a loan agreement made for the purpose of building a detached house can be withdrawn in several tranches. 'New loan drawdowns' is a national statistical concept, and there can be some variation in banks' recording practices, which complicates the interpretation of figures.

Chart 10. New drawdowns of housing loans



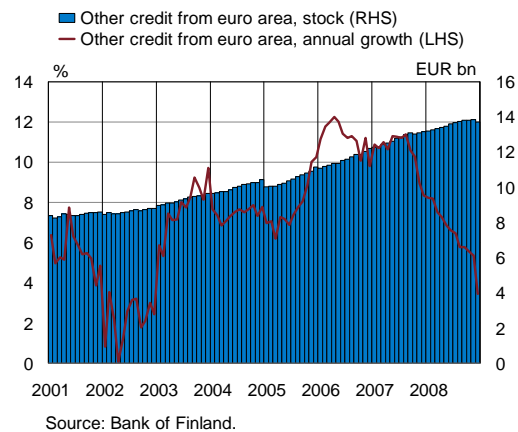
The stock of consumer credit to households was EUR 12.1 billion at the end of 2008. Annual growth in consumer credit rose during the year from 8.1% to 9.0% in December. The average interest rate on consumer credit stock was 7.65% at the end of December. Consumer credit includes overdrafts and credit card credit, whose average interest rate at end-2008 was 11.57% and volume EUR 3.2 billion. Growth in consumer credit in Finland has been above the euro area average, as annual growth in consumer credit in the euro area slowed from around 5% in early 2008 to about 1.5% in December.

Chart 11. Annual growth rates of consumer credit in euro area



Loans to households other than housing loans and consumer credit totalled EUR 13.7 billion in December 2008. Other loans to households include loans to sole proprietors, holiday cottage loans, investment loans and student loans. Annual growth in other household loans decreased further to 3.4% in December, from 8.2% at the start of the year. As for the individual items in this loan category, student loans amounted to EUR 1.4 billion, loans to sole proprietors EUR 6.7 billion and holiday cottage loans EUR 2.1 billion.⁷

Chart 12. Loans to households other than housing loans and consumer credit



1.3 Loans to non-financial corporations

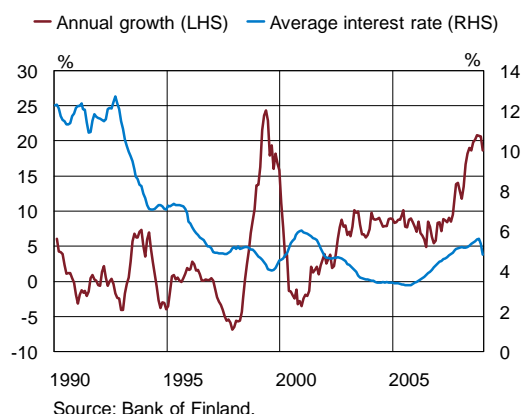
Growth in loans to non-financial corporations picked up in 2008 in Finland and was exceptionally high also compared to corresponding euro area figures.

With the international financial crisis, growth in loans granted by MFIs to non-financial corporations has been increasing in Finland at the fastest pace since the

⁷ Data on the stocks of loans to sole proprietors and holiday cottage loans: Statistics Finland, Outstanding credit 2008, 3rd quarter.

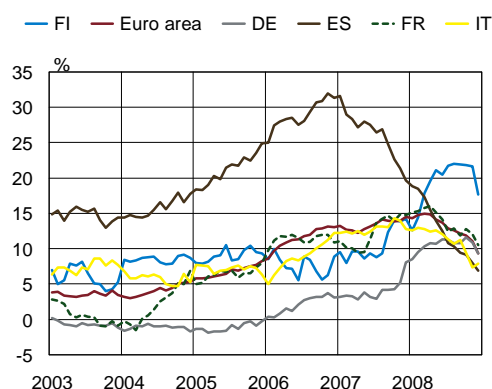
late 1990s. Due to the financial crisis, market financing has become more expensive and harder to obtain for non-financial corporations, causing them to rely largely on bank financing. Annual growth in loans to non-financial corporations was 11.8% at the start of the year, but surged to 18.6% at the end of 2008. In September, annual growth in corporate loans peaked at 20.9%. The average interest rate on the stock of corporate loans was 5.21 at the start of the year, 4.84% at end-2008.

Chart 13. Average interest rate and annual growth in stock of loans to non-financial corporations



The stock of loans to non-financial corporations grew faster in Finland than in the euro area on average. Annual growth in corporate loans eased in the euro area from about 15% in March to 9.4% in December. Of the largest euro area countries, growth showed a similar pattern only in Germany. In Spain, fading construction activity and the heightening of the global financial crisis were reflected in a sharp decline in annual growth of corporate loans.

Chart 14. Annual growth rates of loans to non-financial corporations in other euro area countries



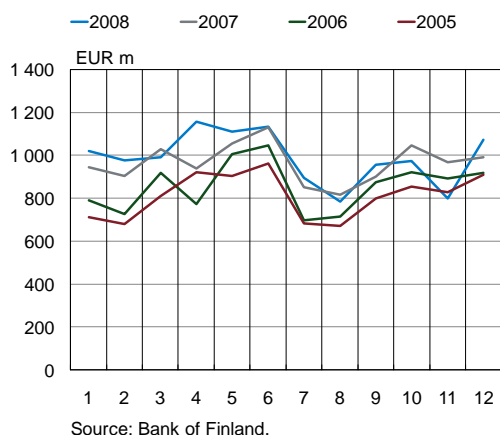
Sources: European Central Bank and Bank of Finland.

New business on MFI loans to non-financial corporations totalled EUR 54.4 billion in 2008, up by EUR 11.7 billion on the previous year. In December 2008, new business on corporate loans amounted to EUR 5.3 billion. The volume of new business on large corporate loans of over EUR 1 million totalled EUR 42.5 billion. For small corporate loans of up to EUR 1 million the volume was EUR 11.9 billion.⁸ Except for fluctuation owing to the timing of Easter holidays, small corporate loans remained close to the 2007-level in early 2008. As the international financial crisis deepened in the last quarter of the year, growth in small corporate loans took a downward turn, and in November it was at levels seen in 2005. This may have been affected eg by decreased access to financing for small and medium-size businesses, tightening of loan terms or cancellation of projects due to a weakened economic outlook. However, this development was only temporary, as in December the volume of small corporate loans grew robustly compared to previous years. A precise statistical analysis of the developments in small corporate loans would be

⁸ Corporate loan size serves as an indicator of the size of the enterprise.

difficult, because there is no December data at the current juncture eg on renegotiations of corporate loan terms, such as interest rate linkages and fixation periods. It is also possible that the demand (and supply) for corporate loans has genuinely increased. Large (over EUR 1 million) loans to non-financial corporations evolved notably more strongly in 2008 than in the previous year, as large enterprises shifted to bank lending, owing to reduced access to market finance. All in all, new business on large corporate loans was up by EUR 11.4 billion on the previous year.

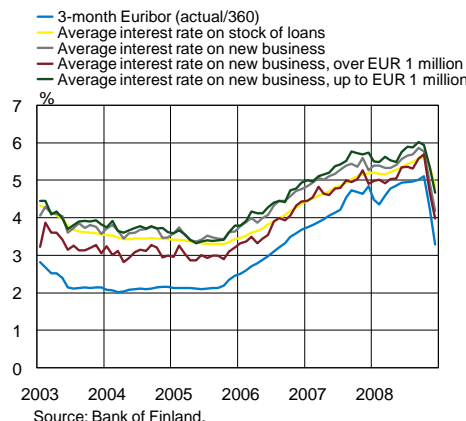
Chart 15. New business on loans to non-financial corporations of up to EUR 1 million, 2005–2008



The average interest rate on new business on loans to non-financial corporations was 4.19% in December 2008. Corporate lending rates have fallen sharply in line with market interest rates. The bulk of corporate loans is probably tied to short Euribor rates.⁹ The average interest rate on new corporate loans of over EUR 1 million was 3.97%, for loans of up to EUR 1 million it was 4.67%.

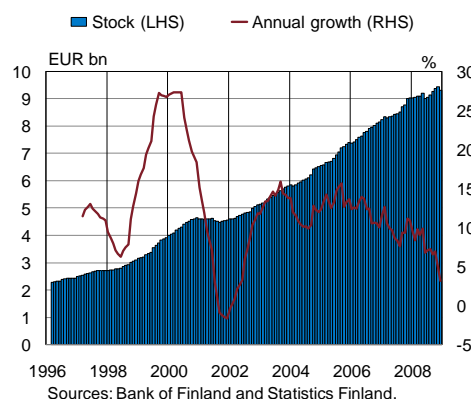
⁹ No exhaustive statistics are compiled on corporate loan reference rates.

Chart 16. Interest rates on corporate loans



Housing corporations are included in the corporate sector. At the end of 2008 the stock of loans to housing corporations totalled EUR 9.3 billion, accounting for approximately 16% of the stock of loans to non-financial corporations. The share of these loans in the total corporate loan stock declined notably in 2008, having accounted for 19% of the total loan stock at the start of the year. In December the stock of housing corporation loans decreased by EUR 130 million on November. The annual growth rate of the stock of housing corporation loans (3.1% in Dec) was considerably lower than that of the stock of corporate loans.

Chart 17. Stock and annual growth in stock of loans to housing corporations¹⁰



¹⁰ Bank of Finland monthly series on stock of loans to housing corporations was derived (pre-2003) from Statistics Finland's quarterly series.

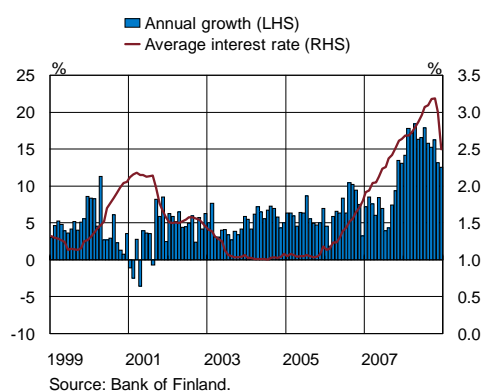
2 Deposits and other funding

2.1 Deposits

Non-MFI deposits grew at a record pace in 2008. The average interest rate on deposits peaked in October at 3.19%.

The competition over household deposits in particular which began at the end of 2007 continued over the course of 2008. The average interest rate on the stock of euro-denominated deposits of euro area non-MFIs in Finnish MFIs rose from the previous year, peaking in October 2008 at 3.19%. The average interest rate on the deposit stock tracked the developments in market interest rates, falling to 2.50% in December. While funding in the interbank market tightened, inflows of non-MFI deposits to Finnish MFIs continued at a record pace. The highest deposit growth rate since the turn of the Millennium was registered in April 2008, when non-MFI deposits grew at an annual rate of 18.3%.

Chart 18. Euro-denominated deposits of euro area non-MFIs

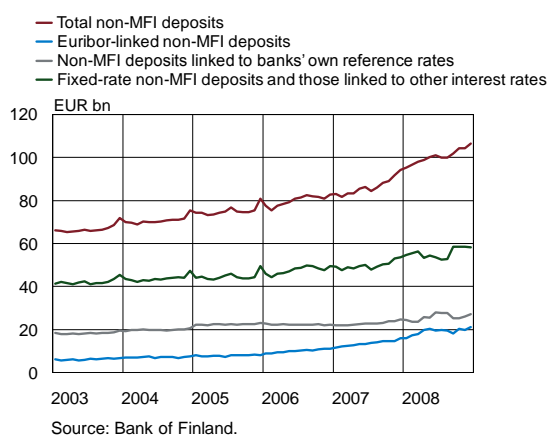


The strong deposit growth is explained by competition over interest rates on deposits, the

deepening of financial market uncertainty and the resultant rise in money market rates. As a reflection of this uncertainty, money was also shifted from investment funds into deposits.

The stock of euro-denominated deposits of euro area non-MFIs in Finnish MFIs, totalling EUR 107.4 billion, was 12.9% higher than in 2007. The share of Euribor-linked deposits in the stock of non-MFI deposits has grown steadily in the last few years, accounting for 20% of the total stock at the end of 2008. Fixed-rate deposits and deposits linked to other rates of interests accounted for 54%, and deposits linked to banks' own reference rates for 25%, of the stock of non-MFI deposits.

Chart 19. Interest rate linkage of non-MFI deposit stock



Total deposits in euro per inhabitant are smaller in Finland than in the euro area on average. Deposit volume¹¹ per inhabitant in December amounted to EUR 26,000 in Finland, compared to EUR 52,000 for the euro area.

¹¹ Deposits accepted by MFIs, including deposits between euro area MFIs.

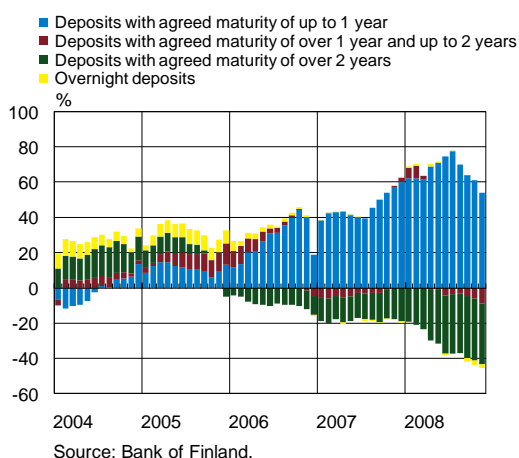
2.2 Household deposits

Households continue to be the most important group of depositors. Deposits with agreed maturity of up to 1 year increased whereas deposits with agreed maturity of over 1 year decreased.

In 2008, households and non-profit institutions serving households constituted the most important group of depositors for Finnish MFIs. These accounted for 69% of deposits at year-end. The financial assets of Finnish households and non-profit institutions serving households¹² stood at EUR 205.2 billion at the end of the third quarter of 2008. Of this amount, deposits accounted for 35%.

Households sought to benefit from changes in the level of interest rates, placing their money mainly in deposits with agreed maturity of up to 1 year. The pace of growth in these deposits peaked at 78% in July. By contrast, deposits with agreed maturity of over 1 year fell by 19% during the year under review.

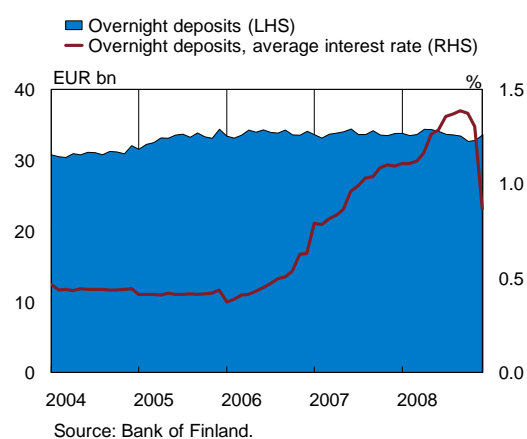
Chart 20. Annual growth in household deposits by instrument and maturity



¹² Financial assets by sector are discussed in greater detail in quarterly Financial Accounts releases. See <http://www.bof.fi/en/tilastot/rahoitustilinpito/index.htm>.

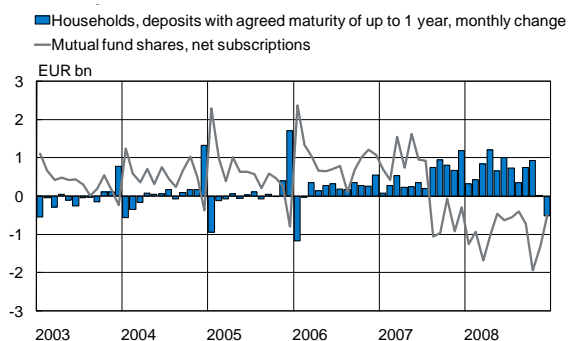
At the end of the year, household assets held in deposits with agreed maturity of up to 1 year totalled EUR 23.2 billion while those held in deposits with agreed maturity of over 1 year totalled EUR 3.6 billion. The largest share of household deposits continues to be held in overnight deposit accounts similar to transactions accounts, with no fixed term or restrictions on withdrawal. The volume of overnight deposits remained stable, with household assets held as overnight deposits amounting to EUR 33.7 billion, yielding an average interest rate of 0.87%.

Chart 21. Household overnight deposits, stock and average interest rate



The international financial market crisis was also reflected in deposit rates in 2008. In an environment of higher money market interest rates and ongoing uncertainty, investors withdrew from Finnish investment funds. Simultaneously, Finnish MFIs collected abundant deposits with agreed maturity of up to 1 year from households.

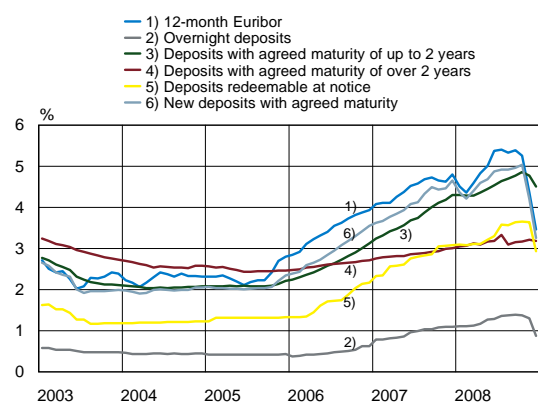
Chart 22. Monthly change in deposits with agreed maturity and net subscriptions for mutual fund shares



Sources: Bank of Finland and the Finnish Association of Mutual Funds.

The fall in money market interest rates at the end of 2008 was also reflected in household deposit rates: interest rates particularly on new fixed-term deposits declined.

Chart 23. Average interest rate on stock of household deposits, by instrument, and 12-month Euribor



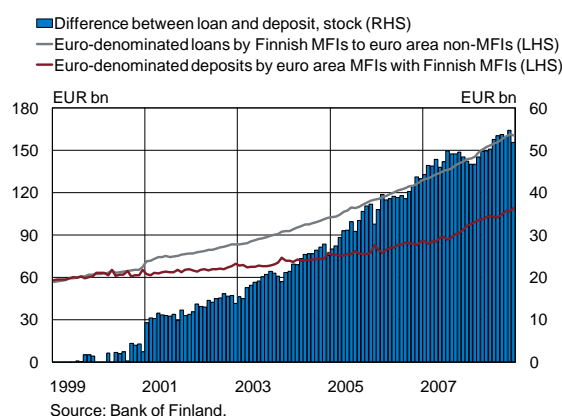
Sources: Bank of Finland och Reuters.

2.3 Other funding

The gap between the stocks of Finnish MFI loans and deposits has widened at a steady pace since the turn of the Millennium. The interest rate margin between loans and deposits remained stable. In 2008, Finnish MFIs issued debt securities mainly abroad and mostly in euro.

The gap between the loan and deposit stocks has widened at a steady pace since the turn of the Millennium. At the end of 2008, the euro-denominated deposits accepted by Finnish MFIs totalled EUR 107.4 billion and their euro-denominated lending totalled EUR 158.1 billion, ie the ratio of loans to deposits was 1.5. When lending volumes are higher than deposit volumes, the difference is covered by other sources of finance. The costs of other financing normally differ from the rates of interest paid on deposits, and this has been the case particularly during the international financial crisis.

Chart 24. Difference between lending and deposit stock: MFI loans to non-MFIs less deposits at MFIs

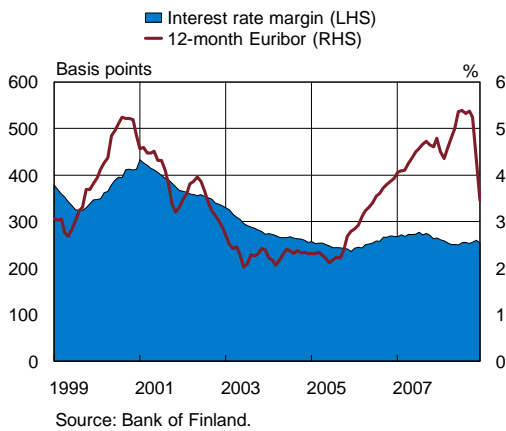


Source: Bank of Finland.

The interest rate margin between loans and deposits for non-MFIs¹³ (2.55 percentage points at the end of 2008) has remained broadly stable.

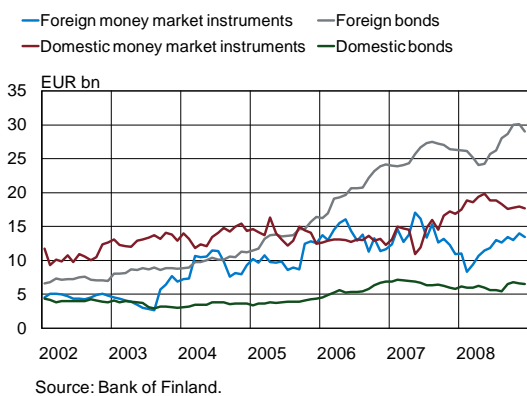
¹³ The interest rate margin between loans and deposits refers to the average interest rate charged on loans by MFIs to non-MFIs less the average interest rate paid on non-MFI deposits.

Chart 25. Interest rate margin between loans and deposits, 12-month Euribor



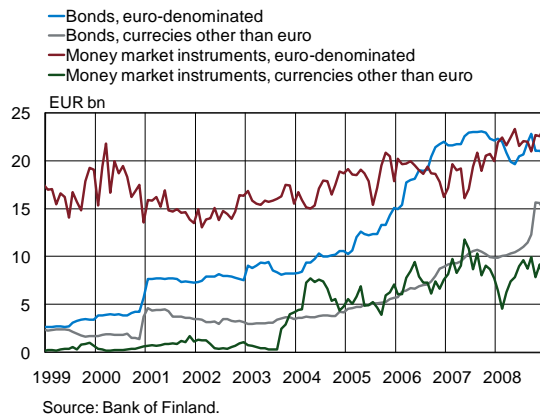
In addition to deposits, MFIs acquired funds in the money or capital markets by issuing debt securities. The stock of debt securities issued by Finnish MFIs was EUR 66.5 billion in December – 36% domestic; 64% in foreign bonds and money market paper. The stock of foreign bonds was at its highest, EUR 30.0 billion, in November 2008.

Chart 26. Stock of bonds and money market paper issued by Finnish MFIs



In December, 67% of the stock of bonds and money market paper issued by MFIs was euro-denominated, and 33% was denominated in other currencies. The stock of bonds issued in other currencies in particular grew in the latter half of the year.

Chart 27. Stock of bonds and money market paper issued by Finnish MFIs, by currency¹⁴



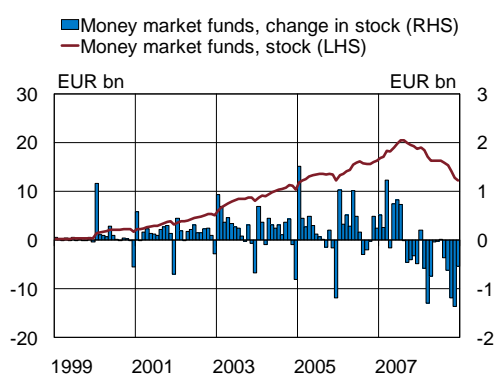
2.4 Money market funds

The stock of money market fund shares declined in 2008. At the end of the year, Finnish investors held 77% of total money market fund shares.

The total stock of money market fund shares declined by as much as 40%, ie EUR 8.3 billion, in the period from July 2007 to December 2008. In December, the stock of money market fund shares was EUR 12.2 billion.

¹⁴ At the beginning of 2001, the MFI sector was expanded to cover, besides deposit banks, also other credit institutions, which is reflected in the elevated level of bond issuance.

Chart 28. Stock of money market fund shares, monthly change in stock

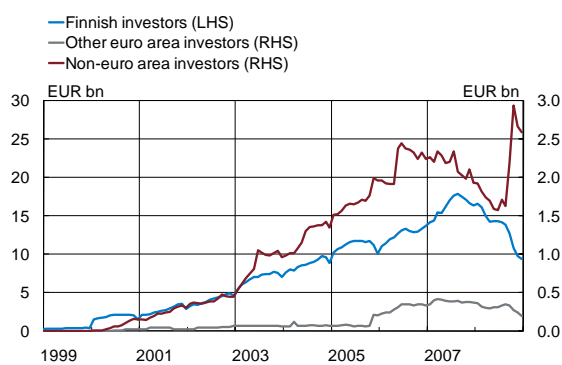


Source: Bank of Finland.

At the end of 2008, of the total stock of fund shares of Finnish money market funds, the holdings of Finnish investors accounted for 77%, the holdings of other euro area investors for 2% and the holdings of investors outside the euro area for 21%. The total value of fund shares held by investors outside the euro area developed – as an exception to the rule –

buoyantly at the end of 2008. Total fund shares grew by EUR 1.3 billion from August to October, largely due to net subscriptions by investors outside the euro area to money market funds in Finland.

Chart 29. Holdings of Finnish money market fund shares by region



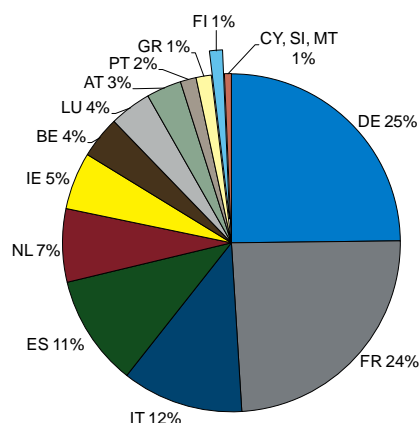
Source: Bank of Finland.

3 MFIs' aggregated balance sheet

The aggregated balance sheet of Finnish Monetary Financial Institutions (MFIs)¹⁵, excluding the Bank of Finland, expanded by a good 29% in 2008. Credit institutions' contribution to the aggregated balance sheet grew to almost 97%. Finnish MFIs accounted for 1.2% of the aggregated balance of euro area MFIs at the end of the year under review.

At the end of 2008, the aggregated balance sheet of Finnish MFIs (excluding the Bank of Finland) amounted to EUR 396.2 billion, representing a year-on-year increase of 29.3%. Finland accounted for 1.2% of the aggregated balance sheet of euro area MFIs at the end of 2008, compared to 1.0% at the end of 2007. The annual growth in the aggregated balance sheet of euro area MFIs was just under 8% in 2008.

Chart 30. Contributions by country to aggregated euro area balance sheet, end-2008



Sources: Bank of Finland and European Central Bank.

¹⁵ Monetary Financial Institutions are the Bank of Finland, credit institutions and money market funds. This publication deals with MFI data, excluding central banks. In recent years, the number of MFIs in Finland has remained stable, close to 390.

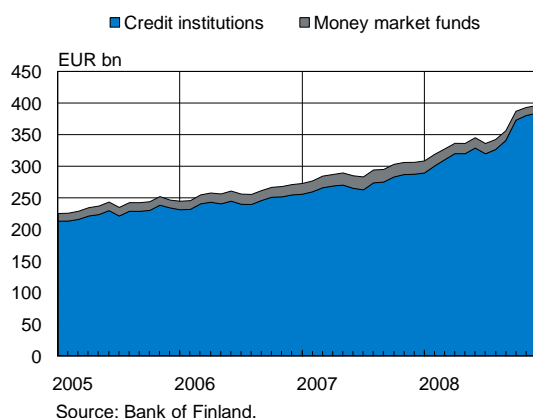
At the end of 2008, credit institutions accounted for 97% of the aggregated MFI balance sheet and money market funds for 3%. The contribution of money market funds declined in 2008. This change was due to redemptions of fund shares during the international financial market crisis and changes in fund valuations, which were exceptionally large, especially considering that money market funds have normally been seen as riskfree investments. Money market funds' share of the aggregated MFI balance sheet was at its largest (7.2%) in summer 2007, just prior to the onset of the global financial market crisis.

In 2008, the growth in the aggregated MFI balance sheet was due to the 33.4% annual increase for credit institutions. The main driver behind the growth in the aggregated MFI balance sheet was the strong expansion in derivatives in the latter part of 2008, which are included in remaining assets and remaining liabilities. One reason for the increase in the balance-sheet value of derivatives was the changes in exchange rates and interest rates. On the basis of a derivatives survey conducted by the Bank for International Settlements (BIS), the derivatives of Finnish MFIs are mostly interest rate and exchange rate derivatives, whose balance-sheet values change in response to movements in exchange rates and interest rates. The aggregated balance sheet of money market funds was down by 34.5%.

As regards the assets side, besides remaining assets, loans to euro area residents also increased, whereas MFI holdings of securities and shares and other equity declined. The increase in loans was due particularly to strong growth in the stock of loans to

non-financial corporations in 2008. Contributing to the expansion in loans and the reduction in MFI holdings of securities was a change in the accounting standard in autumn 2008 that allows MFIs to recognise on-balance sheet securities as loans.¹⁶

Chart 31. Aggregated balance sheet of Finnish MFIs (excl. Bank of Finland)



The largest balance-sheet item on the assets side of the aggregated MFI balance sheet at end-2008 was loans to euro area residents. However, these decreased in 2008, notably in the period from October to December, when derivatives increased. The contribution of loans to euro area residents stayed at 48% at the end of 2008, compared to 55% a year earlier. If the above-mentioned change in the accounting standard had not occurred in 2008, the contribution of loans to the aggregated balance sheet would have fallen by slightly more. With regard to remaining assets, their contribution expanded by more than 10 percentage points, to 26% in 2008, to become the second largest balance-sheet item. External assets, and securities other than shares and other equity, also declined

¹⁶ The change caused by the accounting standard affects the relative shares of these balance-sheet items of the aggregated balance sheet, while having no bearing on annual growth figures, in which the impact of the changes has been eliminated by means of reclassification.

relative to the aggregated balance sheet. External assets at year-end represented 18% of total assets, and securities other than shares and other equity 6%.

The liabilities side of the aggregated balance sheet was boosted, in addition to remaining liabilities, by deposits of euro area residents, debt securities issued and external liabilities. The contraction in money market fund shares caused a reduction in the liabilities side of the aggregated balance sheet.

As in previous years, deposits of euro area residents constituted the largest item on the liabilities side, although their contribution contracted by almost 4 percentage points from end-2007, to 34%. Remaining liabilities emerged as the second largest balance-sheet item on the liabilities side, which was a consequence of an increase in derivatives. Remaining liabilities contributed 26%, against 15% a year ago. External liabilities accounted for 18% of total liabilities, which is just under 1 percentage point less than in the previous year. The contribution of debt securities issued by MFIs fell by a good 2 percentage points, to 14%.

In 2008, the aggregated balance sheet of euro area MFIs did not change as much as the aggregated balance sheet of Finnish MFIs. The most important item on the assets side of the aggregated euro area MFI balance sheet at end-2008 was loans to euro area residents, and that on the liabilities side was deposits of euro area residents. Loans accounted for 57% of total assets and deposits for 53% of total liabilities. The contribution of loans declined and that of deposits increased slightly in 2008. The next largest balance-sheet items on the assets side were external assets (15%) and securities other than shares (14%). Of the items on the liabilities side, the second most significant was debt securities issued by MFIs (15%), followed by external liabilities (14%).

Table 2. Aggregated balance sheet¹⁷ of Finnish MFIs (excl. Bank of Finland), EUR million

Assets	Credit institutions		Money market funds		Total	
	2007	2008	2007	2008	2007	2008
Loans to euro area residents	166 833	189 221	623	537	167 456	189 757
Securities other than shares issued by euro area residents	14 917	18 105	11 448	5 785	26 366	23 890
Shares and other equity issued by euro area residents	6 132	4 805	0	0	6 132	4 805
External assets	60 589	66 995	6 630	5 802	67 219	72 797
Fixed assets	701	760	0	0	701	760
Remaining assets	38 553	104 008	99	201	38 652	104 209
Total assets	287 725	383 894	18 801	12 324	306 526	396 218
Liabilities						
Deposits of euro area residents	115 732	135 263	0	0	115 732	135 263
Debt securities issued held by euro area residents	49 624	54 491	0	0	49 624	54 491
Money market fund shares held by euro area residents	0	0	16 782	9 565	16 782	9 565
Capital and reserves	22 248	22 912	0	0	22 248	22 912
External liabilities	55 160	68 497	1 929	2 589	57 089	71 086
Remaining liabilities	44 960	102 731	91	170	45 050	102 901
Total liabilities	287 725	383 894	18 801	12 324	306 526	396 218

Source: Bank of Finland.

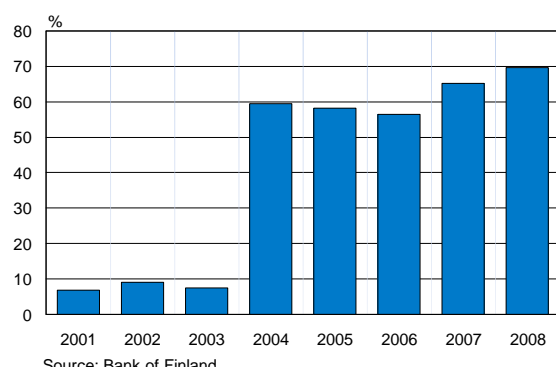
¹⁷ Derivatives are included in items 'Remaining assets' and 'Remaining liabilities'.

4 Changes in the MFI sector

The international financial market crisis led to changes in the Finnish MFI sector in 2008. As Icelandic market participants withdrew from the Finnish market, new entrants appeared.

The implications of the international financial market crisis were also largely reflected in the foreign-owned part of the Finnish MFI sector in 2008.

Chart 32. Contributions by foreign-owned branches and subsidiaries to aggregated balance sheet of credit institutions in Finland



A change occurred in the MFI sector in November, when Glitnir plc, in Icelandic ownership for a year, restored its old name, FIM plc, in connection with a sale, with a simultaneous change of name for Glitnir Bank Ltd, a member of the same group, to FIM Bank Ltd. Glitnir Alternative Investments Ltd had been merged with Glitnir Bank Ltd as early as April. In October, the Financial Supervision Authority (FIN-FSA) suspended temporarily the operations of the Finnish Branch of Kaupthing Bank hf, requiring that the Branch stop transferring deposits collected from Finland away from the country. At the same time, other banks in Icelandic ownership were temporarily

prevented from transferring their assets. A third monetary financial institution in Icelandic ownership, Landsbanki Islands hf, Helsinki Branch, caused changes in the sector by terminating its operations in Finland in December. In June, the Finnish Branch of British-owned FCE Bank plc terminated its business in Finland. Of the Finnish participants, the Celeres Korke investment fund of Celeres Fund Management Company Ltd was closed down in February, and the investment funds of Celeres Ltd were taken over by Aventure Fund Management Company Ltd.

The MFI sector witnessed the entry of new MFIs in 2008. TeliaSonera Finans Finland, filial till TeliaSonera Finans AB, a branch of the Swedish TeliaSonera Sverige Finans AB, commenced operations in January. The Helsinki Branch of J.P. Morgan Europe Limited, a British subsidiary of the international giant bank JPMorgan Chase & Co., opened for business in Finland in July. Sofia Capital plc, a domestic entrant, was granted credit-institution authorisation for activity as a deposit bank, and the company commenced operations in December under the name of Sofia Bank plc.

In 2008, MFIs were merged and there were other structural arrangements. The cooperative banks Kontiolahden Osuuspankki and Joensuu Osuuspankki, which belong to the OP-Pohjola Group, merged in December to form Joensuu Seudun Osuuspankki. The banking operations of Aktia Savings Bank plc were conveyed by way of a transfer of business to Aktia Bank plc in September, and there was a merger between two cooperative banks, when Karunan Osuuspankki was combined with Sauvon

Osuuspankki in October. At the end of 2008, the savings bank Töysän Säästöpankki was converted to a foundation and all its assets, liabilities, commitments and other rights and obligations were transferred to Töysän Säästöpankki Ltd. The business of Hauhon Säästöpankki, a savings bank, was transferred to another savings bank, Kantasäästöpankki Ltd, at the end of the year.

Start-ups of new money market funds were witnessed in 2008 with the commencement of Sijoitusrahasto SEB Gyllenberg Money Manager Plus, Sijoitusrahasto Tapiola Kassakorko and Sijoitusrahasto ICECAPITAL Qualifying Money Market.

There were also some changes of names in the MFI sector. The company name of OKO Bank plc, a member of OP-Pohjola Group, was changed to Pohjola Bank plc in March. In July, the cooperative bank Pieksämäen Seudun Osuuspankki changed its company name to Pieksämäen Osuuspankki.

The number of MFIs remained stable in Finland despite the international financial market crisis. At the end of 2008, there were 390 MFIs in Finland, ie three less than at the end of 2007. Of Finnish MFIs, 357

were credit institutions and 32 money market funds (Table 3). The Bank of Finland is also included in the MFIs.

The euro area expanded on 1 January 2008, when Cyprus and Malta became new member countries of the Eurosystem. These new member countries expanded the euro area MFI sector (euro area 15) by 193 MFIs. The number of MFIs in the EU27 area totals 10,475, with wide differences by country (Table 3). At the end of 2008, Germany registered the highest number of MFIs (2,061 MFIs) and Slovenia the lowest (28 MFIs). In terms of the number of MFIs, Finland ranked the tenth largest at the end of 2008. In Ireland, the number of credit institutions increased by 420 and in Spain the number of money market funds by 114 compared to 2007. The growth is explained by a statistical change, when entities previously excluded from the MFI sector were classified as MFIs.

In relation to population size, Finland recorded 15,000 inhabitants per one credit institution, whereas Sweden's corresponding figure was 50,000 inhabitants. There were 58,000 and 49,000 inhabitants per credit institution in the EU27 area and the euro area, respectively.

Table 3. Number of MFIs¹⁸ in EU by country and type, number of credit institutions relative to population¹⁹, end-2008

Country	All MFIs	Central bank	Credit institutions	Money market funds	Other MFIs	Population per credit institution
LU	644	1	153	490	0	3 000
CY	164	1	163	0	0	5 000
IE	781	1	501	279	0	9 000
AT	824	1	803	20	0	10 000
FI	390	1	357	32	0	15 000
MT	29	1	23	5	0	18 000
DK	174	1	171	2	0	32 000
LT	87	1	84	2	0	40 000
DE	2 061	1	1 989	71	0	41 000
HU	243	1	204	38	0	49 000
SE	217	1	182	33	1	50 000
PL	716	1	712	3	0	54 000
NL	312	1	302	7	2	54 000
PT	178	1	175	2	0	61 000
LV	73	1	34	3	35	67 000
IT	853	1	818	34	0	73 000
EE	34	1	17	1	15	79 000
SI	28	1	25	2	0	81 000
FR	1 354	1	728	624	1	88 000
BE	121	1	105	15	0	102 000
ES	477	1	362	114	0	125 000
UK	429	1	396	32	0	155 000
GR	93	1	66	26	0	170 000
CZ	66	1	54	11	0	192 000
SK	40	1	26	13	0	208 000
BG	35	1	30	4	0	255 000
RO	52	1	45	6	0	478 000
EU27	10 475	27	8 525	1 869	54	58 000
MU15	8 270	15	6 544	1 708	3	49 000

Sources: European Central Bank and Eurostat.

¹⁸ The ECB and national central banks maintain a list of MFIs at <http://www.ecb.int/stats/money/mfi/elegass/html/index.en.html>.

¹⁹ Eurostat's population statistics are based on 1 January 2008. The outcomes relative to population are presented with an accuracy of one thousand.

Appendix 1. Charts

Chart 33. Stock of loans to non-MFIs by sector²⁰

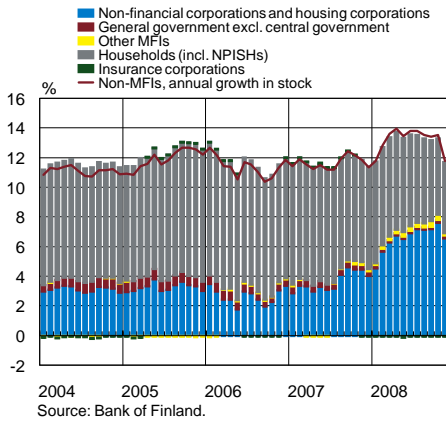


Chart 36. Stock and average interest rate on housing loans

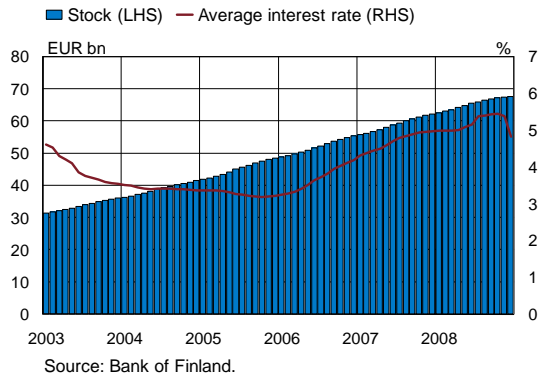


Chart 34. Annual growth in non-MFI loan stock by sector

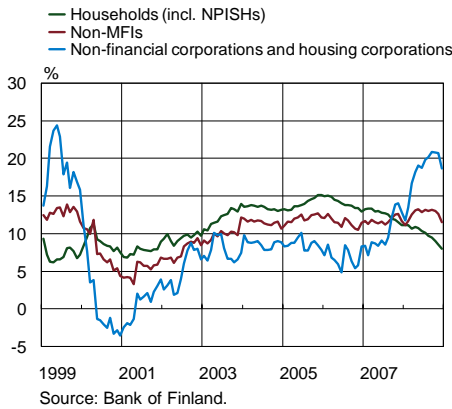


Chart 37. Stock of housing loans by reference rate

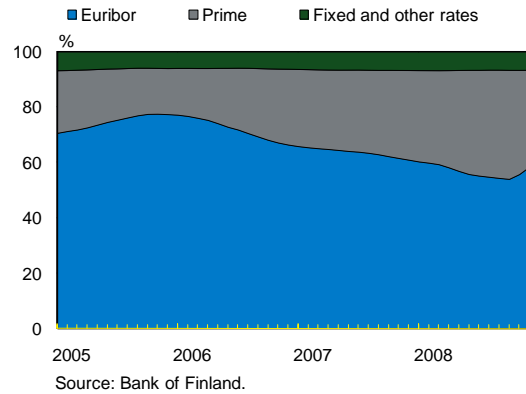


Chart 35. Annual growth in household loan stock, selected euro area countries

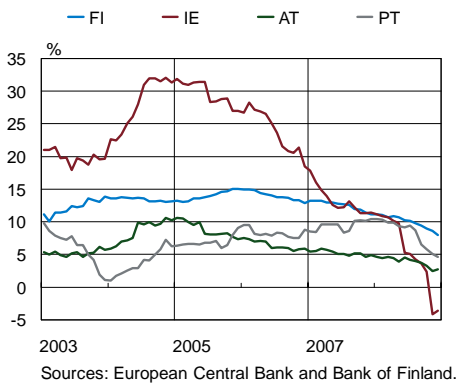
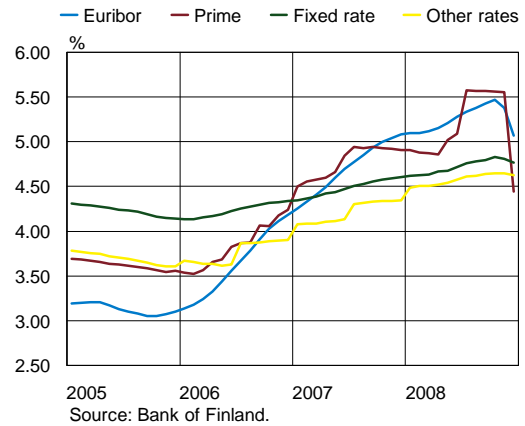


Chart 38. Average interest rate on housing loan stock by interest rate linkage



²⁰Households include non-profit institutions serving households (NPISHs).

Chart 39. Items of credit institutions other than banks specialised in mortgage financing

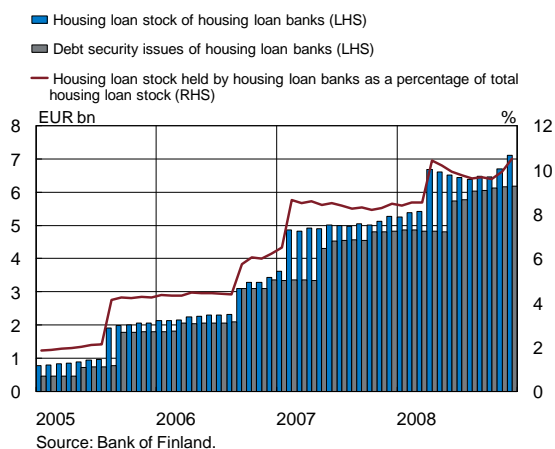


Chart 42. Stock and average interest rate on household overdrafts and credit card credit

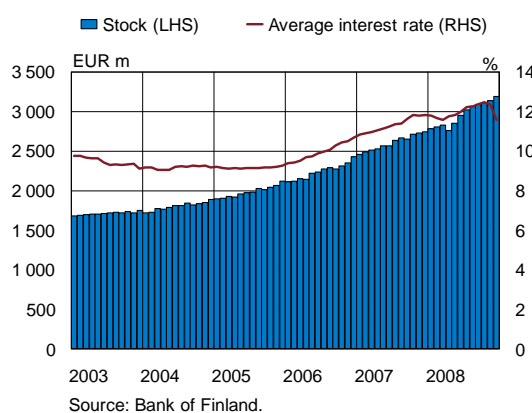


Chart 40. Volume and average interest rate on new drawdowns of housing loans

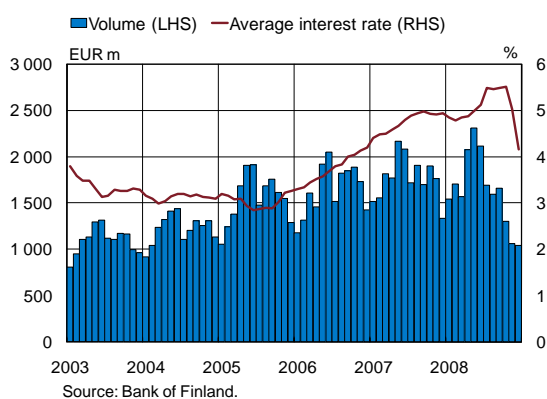


Chart 43. Stock and average interest rate on student loans

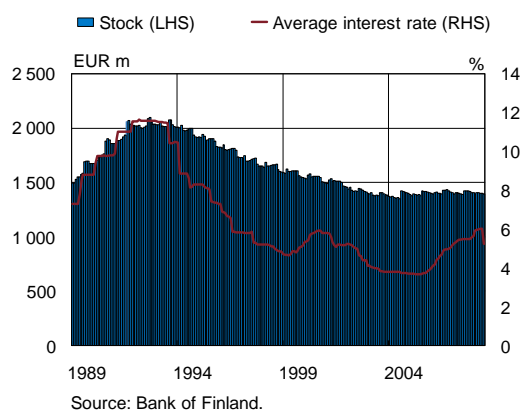


Chart 41. Stock and average interest rate on consumer credit to households

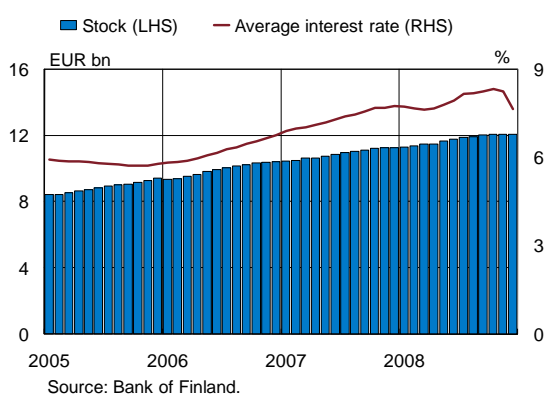


Chart 44. New business on loans to non-financial corporations of over EUR 1 million, 2005–2008

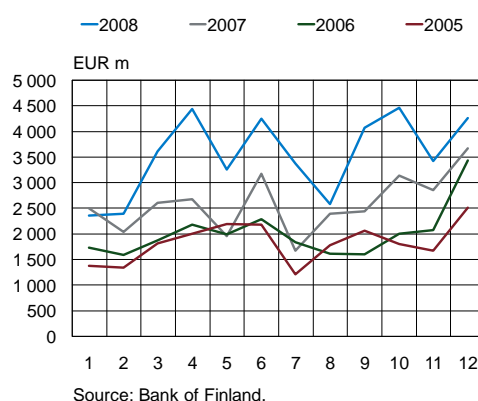


Chart 45. Average interest rate on new business on loans to non-financial corporations with initial rate fixation of up to 1 year, by loan size

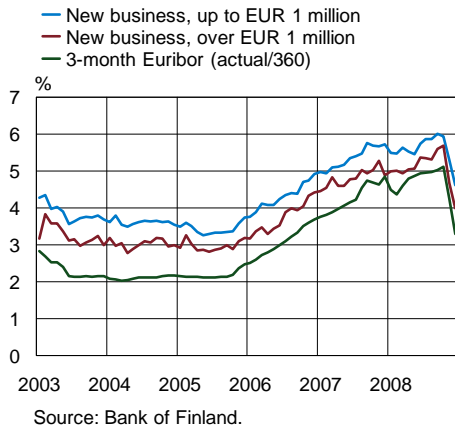


Chart 46. Stock of loans to housing corporations and its share in total corporate loan stock

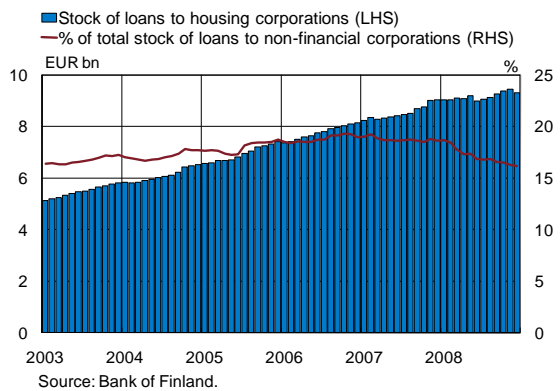


Chart 47. Deposits by euro area non-MFIs by interest rate linkage

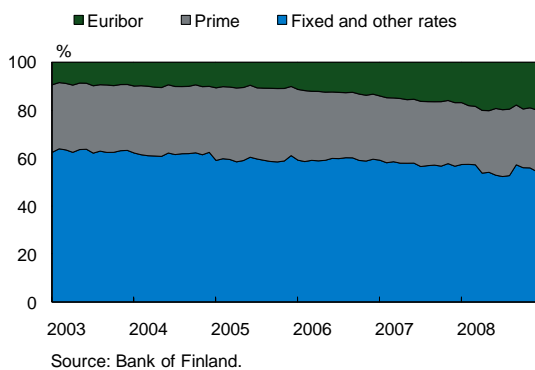


Chart 48. Average interest rate on non-MFI deposits by sector and 12-month Euribor

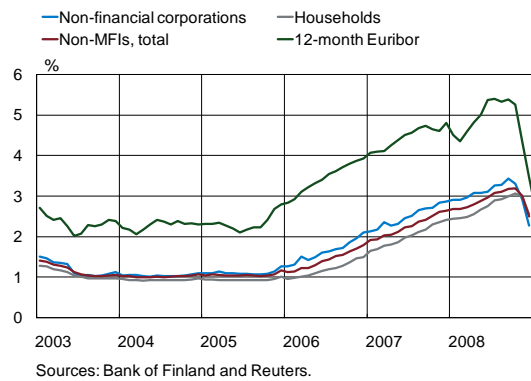


Chart 49. Geographical breakdown of non-MFI deposits with Finnish MFIs

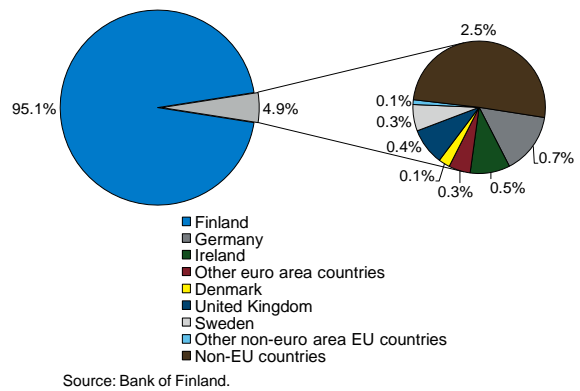


Chart 50. Average interest rates on household deposits in Finland and euro area

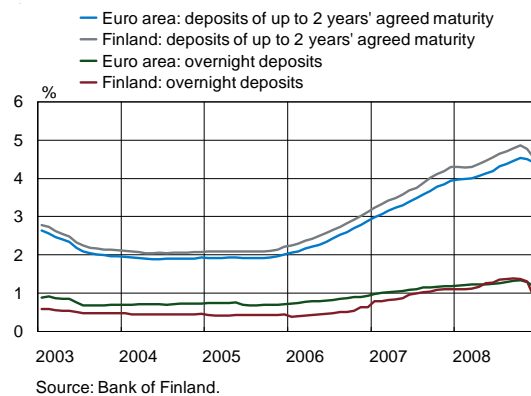


Chart 51. Distribution of household deposits by maturity, end-2008

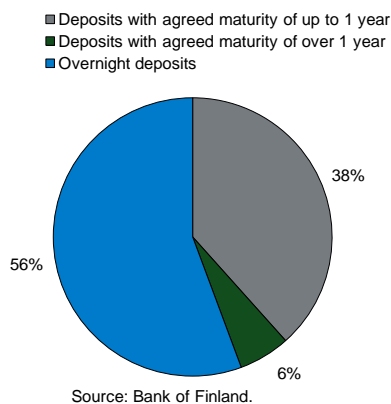


Chart 52. Distribution of deposits of non-financial corporations by maturity, end-2008

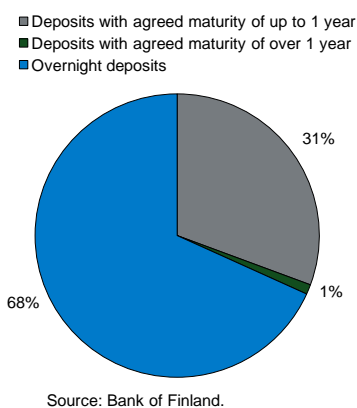


Chart 53. Annual growth and average interest rate for household deposits

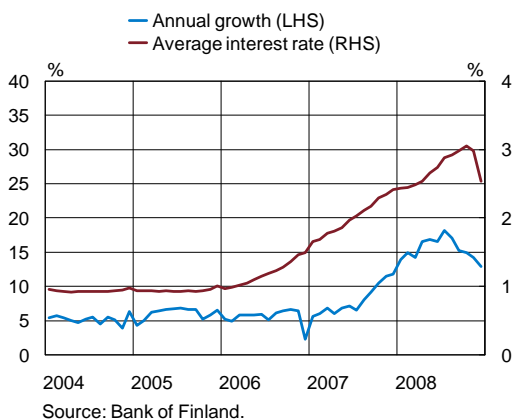


Chart 54. Annual growth and average interest rate for deposits of non-financial corporations

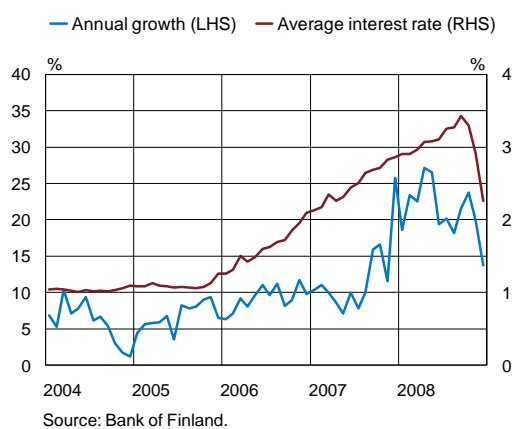


Chart 55. Annual growth rates for household deposits with agreed maturity of up to 2 years in selected euro area countries

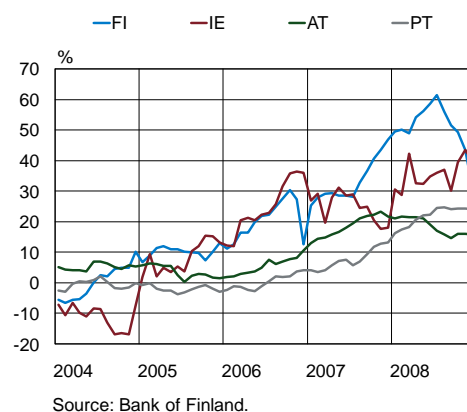


Chart 56. Average interest rates on household deposits with agreed maturity of up to 2 years in selected euro area countries

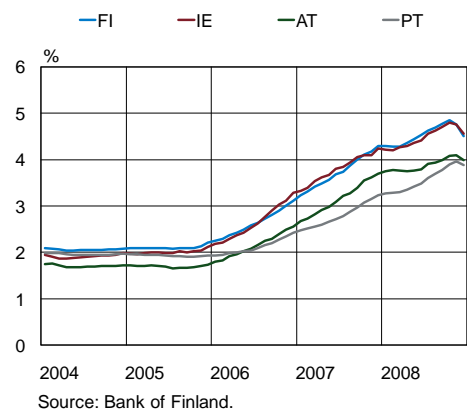
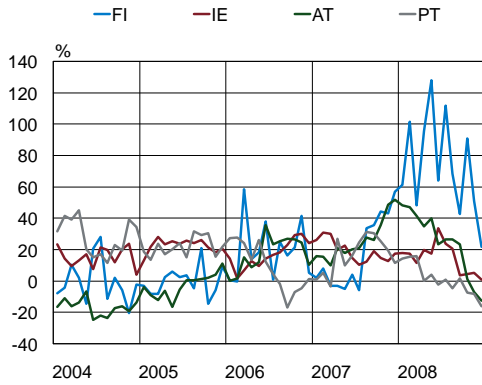
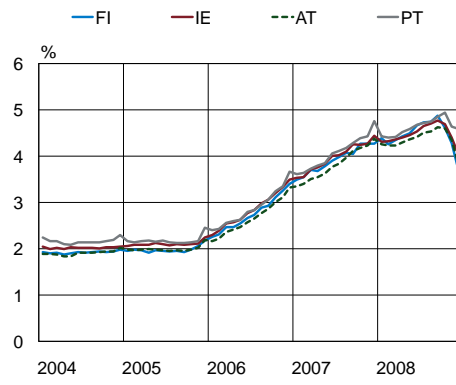


Chart 57. Annual growth rates for non-financial corporations' deposits with agreed maturity of up to 2 years in selected euro area countries



Source: Bank of Finland.

Chart 58. Average interest rates on non-financial corporations' deposits with agreed maturity of up to 2 years in selected euro area countries



Source: Bank of Finland.