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Eurostat EDP dialogue visit to Finland

19-20 November 2015

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EXECUTIVE SUMMARY

Eurostat carried out an EDP dialogue visit to Finland on 19-20 November 2015, accompanied by observers from the Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB). The list of participants is provided in annex.

Eurostat undertook this visit in order to review the implementation of the methodology of ESA 2010 and Manual for Government Deficit and Debt (MGDD) and to assure that Eurostat decisions are duly implemented in the Finnish EDP. The visit focused on memoranda of understanding between Statistics Finland and its key partners and data suppliers for EDP statistics, improvements to the local government data sources, sector classification of specific units (such as Finnfund, Finnvera, Kuntarahoitus, the old Deposit Protection Fund), the sub sector classification of the new autonomous regions, the capital injection and other issues relating to the Talvivaara mine, and the future capital injection in Finnfund. The participants agreed upon 21 action points during the visit.

As regards the institutional responsibilities, Statistics Finland informed Eurostat that (1) there had been some changes within the Economic and Environmental Statistics division, (2) the operational agreements with the State Treasury and with TELA (The Finnish Pension Alliance) were under preparation / almost ready and (3) that there was no specific quality management process for EDP as it formed an integral part of the Finnish national accounts compilation system. Statistics Finland agreed to submit to Eurostat the memoranda of understanding specifying access to the data supplied by the Treasury, the universities and other relevant data providers as soon as they are signed. Statistics Finland will also provide Eurostat with the memorandum of understanding between Statistics Finland and the National Audit Office of Finland as soon as possible.

Statistics Finland informed Eurostat about the relatively substantial changes to data sources since the last EDP visit in 2013, in particular for local government. There is a new data source for all government sub sectors used for compilation of financial accounts: securities holdings statistics (SHS).

As regards local government, the preliminary financial statements of the municipal authorities on the coverage of assets and liabilities has been improved. Statistics Finland has now also new data sources for incorporated units. The local government data sources development project (collection of detailed data on capital injections, distributions and privatization receipts) will produce its first results for the October 2018 EDP notification. Eurostat stressed that regular data collection should be established also for other items, such as debt assumptions, cancellations, guarantee calls and repayments and PPPs. Statistics Finland agreed to report to Eurostat on the progress made in this improvement project.

As regards the Social Security Funds sub sector, Statistics Finland informed Eurostat in October 2015 that in the beginning of 2016 it would launch a new more comprehensive "Employment Pension Scheme Quarterly Survey". Eurostat informed Statistics Finland that it would publish the Finnish ESA 2010 based EDP inventory document by end-2015.

As a result of the review of the latest notification of EDP data (October 2015), Statistics Finland agreed to harmonise the presentation of the adjustments lines for reinvested earnings in the EDP tables 2A and 2C by the next EDP notification. According to Statistics Finland, the new more comprehensive "Employment Pension Scheme

Quarterly Survey” should address the sizeable unspecified items related to Social Security Funds, which appear in the relevant sub tables (Other accounts receivable/payable reported in EDP table 3A) of the EDP questionnaire table 4. Statistics Finland will report to Eurostat about the outcome.

The participants also discussed the application of the qualitative criteria for the sector classification under ESA 2010. According to Statistics Finland the qualitative criteria related reclassifications took place for public units (1) where most of the services are sold to the government without tendering and (2) where all services are sold to government (municipal real estate companies considered as ancillary units).

Concerning the specific units, the participants reviewed the sector classification of the development finance company Finnfund, the old Deposit Protection Fund (its sector classification from 2015 onwards), the New Children’s hospital, the specialised financing company Finnvera and the municipal finance company Kuntarahoitus (MuniFin). As for Finnfund, the participants also discussed the recording of a planned capital injection should the company remain outside the general government sector.

The sector classification of Finnfund and Finnvera is governed by the MGDD rules on the entities having the features of captive financial institutions. As for Finnfund, the participants agreed that the unit had only constraints in the liability side. The participants also discussed the governance of the company, whereas they concluded that its sector classification required further analysis. The planned capital injection should be recorded as deficit increasing capital transfer should the unit stay outside government.

The old Deposit Protection Fund (responsible for the deposit protection in 1998–2014) should be included within central government from 2015 onwards because the government has control over its assets. Eurostat considers that, based on the available information, the New Children’s hospital does not have autonomy of decision and should be included in the local government sub sector.

It was agreed that Statistics Finland will provide Eurostat with an analysis of the sector classification of Finnvera and other similar units (such as Finnish Industry Investment) and Eurostat will provide Statistics Finland with its view. Statistics Finland will also provide Eurostat with an analysis of sector classification of MuniFin, by placing particular attention to the conditions of the loans provided to the local government units.

Many details on the future “new autonomous regions”, which would have a responsibility to organise and finance social welfare and healthcare services, are still unclear. According to the current plans the “new autonomous regions” would be in operation in 2019. Eurostat suggested to follow the “who pays” principle in defining the sub sector classification of these units. Statistics Finland agreed to provide Eurostat with an analysis of the sub sector classification as soon as the relevant information becomes available.

As for consolidation of interest which has been pending since the 2013 EDP visit, Statistics Finland will make an attempt to implement it for the data years 2014 and 2015 and will report the results to Eurostat. The new ”Employment Pension Scheme Quarterly Survey” would become another data source for consolidation of interest.

The discussion about capital injections in public corporations focused on Finnfund (see above) and on government involvement in Talvivaara Mining Company Plc. Concerning the Talvivaara mine, Statistics Finland also agreed to provide Eurostat with an analysis of

the sector classification of the involved public companies. Due to uncertainties, in particular related to the environmental damages, Eurostat considers that the injection made in 2015 into the involved public company Terrafame should be treated as a non-financial transaction. Statistics Finland also agreed to provide Eurostat with the detailed calculation of the operating profit of the Bank of Finland for the purpose of the super dividend test.

The participants also discussed the recording of government receipts from the sale of emission permits and the recording of the sales of mobile licenses. Eurostat also enquired about the new PPPs. Eurostat concluded on the basis of the information provided that Statistics Finland records the sales of emission permits and the related revenue according to the instructions as specified in the MGDD. As for mobile licenses, Statistics Finland agreed to record government revenue in the period when the owner can exclusively use the frequency. Statistics Finland also agreed to report to Eurostat the result of the analysis of the new motorway PPP by end-2015.

Finally, also the issues relating to the ESA 2010 transmission of Government Finance Statistics (GFS) and compliance with Council Directive 2011/85 were discussed. Eurostat proposed to revisit the refinancing programme related to export credits, which was also discussed during the previous dialogue visit. As for reporting of GFS data within ESA table 27 (quarterly financial accounts of government), Statistics Finland lacks the data on accrued interest for long-term loans. Eurostat asked Statistics Finland to comply with the requirements of ESA 2010.

Eurostat welcomed the progress made by the Finnish authorities in publishing of the information as required by the Council Directive 2011/85, but also indicated that currently the data on the public / private split of participation of Finnish government in corporations is missing. The Finnish authorities will report to Eurostat on the provision of these data. Concerning the refinancing programme related to export credits, Statistics Finland agreed to submit additional details to Eurostat.

Eurostat very much appreciated the co-operation and transparency demonstrated by the Finnish statistical authorities during the meeting and the documents provided beforehand.

**EUROSTAT EDP DIALOGUE VISIT TO FINLAND
19-20 NOVEMBER 2015**

AGENDA

- 1. Institutional responsibilities for EDP/GFS data compilation and reporting and the quality management framework**
- 2. Follow-up of the 2013 EDP visit**
- 3. Revision policy, EDP inventory, changes in data sources**
- 4. Follow-up of the October 2015 EDP reporting – analysis of EDP tables and the related questionnaires**
- 5. Methodological issues and recording of specific government transactions**
 - 5.1. Delimitation of the general government sector
 - 5.1.1. Review of changes due to ESA 2010
 - 5.1.2. Sector classification of specific units
 - 5.1.3. Government controlled entities classified outside the general government
 - 5.1.4. New autonomous regions
 - 5.2. Implementation of the accrual principle
 - 5.2.1. Taxes and social contributions
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 - 5.2.3. Military expenditure
 - 5.3. Recording of specific government transactions
 - 5.3.1. Guarantees, standardized guarantees
 - 5.3.2. Government claims; debt assumptions, cancellations and write-offs
 - 5.3.3. Capital injections in public corporations, dividends, super dividends
 - 5.3.4. Others: privatization, PPPs, EU flows, emission trading permits, sale and leaseback operations, mobile licenses, tax credits, securitisation, financial derivatives
- 6. Other issues**
 - 6.1. ESA 2010 TP – GFS data
 - 6.2. Compliance with Council Directive 2011/85
 - 6.3. Any other business

INTRODUCTION

In accordance with Council Regulation (EC) No 479/2009 of 25 May 2009, as amended, on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community, Eurostat carried out an EDP dialogue visit to Finland on 19-20 November 2015.

Mr Eduardo Barredo Capelot (Director of Directorate D "Government Finance Statistics (GFS) and quality") headed the delegation of Eurostat. Ms Madeleine Mahovsky (Head of Unit D3: Excessive deficit procedure (EDP) 2), Mr Peeter Leetmaa (Desk Officer for Finland, Unit D3), and Mr Denis Besnard (EDP statistics methodology, Unit D1) also represented Eurostat. Representatives of the Directorate General for Economic and Financial Affairs (DG ECFIN) and the European Central Bank (ECB) also participated in the meetings as observers.

Statistics Finland (SF), the Ministry of Finance of Finland (MoF) and the Bank of Finland (the Central Bank) represented Finland. Representatives from Finnfund and the Treasury also participated for the relevant agenda items.

Eurostat undertook this visit in order to review the implementation of the methodology of ESA 2010 and Manual for Government Deficit and Debt (MGDD) and to assure that Eurostat decisions are duly implemented in the Finnish EDP.

The visit focused on memoranda of understanding between SF and its key partners and data suppliers for EDP statistics, improvements to the local government data sources, sector classification of specific units (such as Finnfund, Finnvera, Kuntarahoitus, the old Deposit Protection Fund), sub sector classification of the new autonomous regions, the capital injection and other issues relating to the Talvivaara mine, and the future capital injection in Finnfund.

With regard to procedural arrangements, the main conclusions and action points were sent to Finland for review after the visit. Then, the provisional findings would be sent to Finland for review. After this, final findings would be sent to Finland and the Economic and Financial Committee (EFC) and published on the website of Eurostat.

Eurostat very much appreciated the co-operation and transparency demonstrated by the Finnish statistical authorities during the meeting and the documents provided beforehand.

1. INSTITUTIONAL RESPONSIBILITIES FOR EDP/GFS DATA COMPILATION AND REPORTING AND THE QUALITY MANAGEMENT FRAMEWORK

Introduction

According to the information provided by SF before the visit, there had been some changes within the Economic and Environmental Statistics division since the last EDP visit: in September 2015 municipal statistics moved to GFS/sector accounts and in the beginning of 2014 Balance of Payments statistics were moved from Bank of Finland to this SF division.

The move of the statistics on finances and activities of municipalities and joint-municipal organisations to the Government and sector accounts enables a stronger integration of

national accounts and one of its major source statistics, and makes the necessary local government source data improvements more fluent.

Operational agreements between SF and the data suppliers do not exist at the moment. SF informed Eurostat before the visit that an agreement with the State Treasury (the most important data supplier) is under preparation. Also, the agreement with TELA (The Finnish Pension Alliance) on the new “Employment Pension Scheme Quarterly Survey” (a joint-survey between SF and TELA) is almost ready. As SF collects a large majority of the source data – there is no need for agreements in those cases as it falls under the national statistics law.

Discussion

SF made a short presentation about the organisational changes (as described above). SF also confirmed that the agreements with the State Treasury and with TELA are under preparation / almost ready. Also the memorandum of understanding with the National Audit Office of Finland had been signed on 13.04.2015.

Eurostat also enquired about the quality management (QM) processes. SF informed Eurostat that such processes are in place for the national accounts in general. In other words, there is no specific QM process for EDP as it forms an integral part of the Finnish national accounts compilation system.

Findings and conclusions

Action point 1. SF will submit to Eurostat the memoranda of understanding specifying access to the data supplied by the Treasury, the universities and other relevant data providers as soon as they are signed. Eurostat recommends to make those documents public¹.

Action point 2. SF will provide Eurostat with the memorandum of understanding between SF and the National Audit Office of Finland as soon as possible².

2. FOLLOW-UP OF THE 2013 EDP VISIT

The completion of action point 13 (about consolidation of interest) had been delayed as it depends on the availability of data compiled by the Bank of Finland. Also, SF has duly kept Eurostat informed on the progress with action point 1 (about local government data sources). Both issues were discussed under the relevant agenda items of this visit.

3. REVISION POLICY, EDP INVENTORY, CHANGES IN DATA SOURCES

Introduction

SF had submitted an updated ESA 2010 based EDP inventory before the meeting, which is ready for publication.

¹ On 05.04.2016 SF provided the cooperation arrangement between SF and the State Treasury, signed on 23 February 2016.

² On 26.11.2015 SF provided the memorandum of understanding between SF and the National Audit Office, signed on 13 April 2015.

SF informed Eurostat before the visit on the relatively substantial changes to data sources since the last EDP visit in 2013, in particular for local government.

There is a new data source for all government sub sectors used for compilation of financial accounts: securities holdings statistics (SHS), which includes data on securities held by euro area resident sectors and broken down by type of instrument.

As regards local government, the preliminary financial statements of municipalities and joint municipal authorities on the coverage of assets and liabilities has been improved.

SF has now also new data sources for incorporated units related to the ESA 2010 transition:

- For the April notifications: preliminary financial statements of incorporated units, which is an ad-hoc-type questionnaire sent to the most important units classified to local government. It includes data on income statement, balance sheet and gross fixed capital formation. Another data source is the tax administration data on paid wages and sales..
- For the October notifications: business statistics database includes financial statements of the incorporated units classified to local government.

As for the local government data sources development project, SF has decided to launch a supplementary data collection for municipalities and joint-municipal authorities, which will cover detailed data on capital injections, distributions and privatization receipts. The project will start in January 2016 with a definition stage, to be followed by an implementation stage in 2017. The new data will be available for the October 2018 EDP notification. Meanwhile SF will monitor the larger cases through other channels.

As regards the Social Security Funds (SSF) sub sector, SF informed Eurostat in October 2015 that in the beginning of 2016 it will launch a new more comprehensive “Employment Pension Scheme Quarterly Survey”.

Discussion

Eurostat thanked SF for the timely submission of the excellent ESA 2010 based EDP inventory and informed SF that it would publish it by end-2015.

SF presented the changes in government data sources since the last EDP visit (see section “Introduction” above). Eurostat enquired about the new data, which according to SF covers “selected (incorporated) units” of local government. SF explained that “selected units” means that it includes larger corporations.

As for the local government data sources development project, which has been pending for several years, SF admitted that in the past the requests of SF were not taken into account by the Finnish authorities. Finally the collection of data on capital injections, distributions and privatization receipts has been included and will be available from the reference year 2017 onwards, to be used for the first time in the October 2018 EDP notification. Eurostat stressed that regular data collections should be established also for other items, such as debt assumptions, cancellations, guarantee calls and repayments and PPPs. SF responded that the future data collection design of the MoF will also include those items.

As regards the SSF, SF also added that since 2013 it has been receiving data for non-financial accounts from the supervisor earlier, i.e. before the April notification.

Findings and conclusions

Action point 3. Eurostat and SF will publish the Finnish EDP inventory by end-2015³.

Action point 4. SF will report to Eurostat on the progress made on the local government data sources improvement project by the April 2016 EDP notification. Eurostat encourages the Finnish statistical authorities to establish regular and exhaustive data collection on all relevant information for local government needed for the EDP statistics, such as debt assumptions, cancellations, guarantee calls and repayments and PPPs⁴.

4. FOLLOW-UP OF THE OCTOBER 2015 EDP REPORTING – ANALYSIS OF EDP TABLES AND THE RELATED QUESTIONNAIRES

Discussion

The participants analysed the EDP tables of the October EDP notification. Eurostat asked about differences in the presentation of the property income from reinvested earning in EDP tables – in tables 2A and 2C it is reported under “Other adjustments”, whereas in table 2D it is reported under “non-financial transactions not reported in the working balance”. SF agreed that the presentation can be improved and it will rearrange the adjustments lines for reinvested earnings for the next EDP notification.

Eurostat also recalled the issue of the sizeable “Other unspecified items, mainly related to S1313 and S1314” reported in the EDP questionnaire tables 4.1.1 and 4.1.2 (Other accounts receivable/payable reported in EDP table 3A) that was also addressed in the course of the October 2015 EDP clarification. According to SF it is a Balance of Payments data problem and it will address this issue by launching the new more comprehensive “Employment Pension Scheme Quarterly Survey”, and will report the results of its analysis to Eurostat.

Eurostat enquired about the reason why there are -29 MEUR reported for 2014 in the EDP table 3D item “Difference between interest accrued and paid”, whereas nothing is reported for earlier years. According to SF this item is available from the redesigned “Quarterly local government finance statistics” starting from 2014. “M”-s are introduced for earlier years as this information was included under payables (F.8) before and could not be separated.

Eurostat mentioned in the closing remarks of the October 2015 EDP notification that the reporting of distributions received by social security funds in the EDP questionnaire table 10.1A may need to be reviewed. However, the participants concluded that reporting in the row A_2.2 (Other distributions), as it is currently done by SF, was reasonable as a split of distributions by public and private companies was not available and the majority of the distributions are received from private companies.

³ Completed in December 2015.

⁴ On 31.03.2016 SF informed Eurostat that in 2017 it will start collecting the data on dividends, injections and privatizations of municipalities and joint municipal authorities. The collection of data on debt assumptions, cancellations, guarantee calls and repayments and PPPs will be implemented later.

Findings and conclusions

Action point 5. For consistent reporting across the EDP tables, SF will rearrange the adjustments lines for reinvested earnings in the EDP tables 2A and 2C by the April 2016 EDP notification⁵.

Action point 6. Based on the information collected within the new quarterly investment survey of pension institutions, SF will report to Eurostat on the results of the analysis on the unspecified items in the EDP questionnaire table 4.1 by the April 2017 EDP notification.

5. METHODOLOGICAL ISSUES AND RECORDING OF SPECIFIC GOVERNMENT TRANSACTIONS

5.1. Delimitation of the general government sector

5.1.1. Review of changes due to ESA 2010

Introduction

As a result of the changeover to ESA 2010, in October 2014 SF reclassified five units to the central government and 145 units to the local government sub sectors. The deficit and debt impacts of these reclassifications were the following (% of GDP):

	DEFICIT				DEBT			
	2010	2011	2012	2013	2010	2011	2012	2013
Total	0.0	0.0	0.0	0.0	0.5	1.2	1.2	1.2
Reclassifications to central government	0.1	0.0	0.0	0.0	0.4	1.0	1.0	1.0
Reclassifications to local government	0.0	-0.1	0.0	0.0	0.2	0.2	0.2	0.2

Concerning central government, five real estate management units were reclassified to central government in October 2014 due to the qualitative criteria introduced by ESA 2010. Two public holdings were reclassified to central government in April 2015 – Governia Oy and Gasonia Oy. Whereas Governia Oy holds shares of several public companies, Gasonia Oy was founded only in 2014 and it currently owns 73% of the gas company Gasum Oy. SF also informed Eurostat before the visit that it would reclassify one research and technology company to central government in April 2016.⁶

145 units were reclassified to local government in October 2014, mostly based on the qualitative criteria. One real estate company was reclassified in April 2015 as a result of the changeover to ESA 2010. Finally, the social security funds sub sector was not affected by reclassifications due to ESA 2010.

Discussion

Eurostat enquired about the qualitative criteria applied in the reclassifications of units to central and local government. SF answered that there are two types of cases: (1) most of the services are sold to the owner (government) without tendering and (2) all services are

⁵ SF rearranged the adjustments lines for reinvested earnings in the EDP tables in the April 2016 EDP notification.

⁶ Eurostat was informed that VTT Technological Research Centre of Finland Ltd, which was incorporated in 2015, remained classified in S1311.

sold to government. The latter are mostly municipal real estate companies, which are considered as ancillary units.

5.1.2. Sector classification of specific units

Introduction

In October 2015 SF asked Eurostat's advice about the recording of a future capital injection into the development finance company Finnfund. However, Eurostat pointed out to SF that it was necessary to clarify the sector classification of this unit before a view on the capital injection can be provided. SF also proposed to discuss the sector classification of the old Deposit Protection Fund (its sector classification from 2015 onwards) and the New Children's hospital during the forthcoming visit.

According to SF, Finnfund (Finnish Fund for Industrial Cooperation Ltd.) is a Finnish development finance company and it is classified in the other financial intermediaries' etc. sub sector (S.125) in national accounts. Finnfund provides long-term risk capital for private projects in developing countries. The instruments include equity capital and investment loans, and investments in private equity funds. According to its policy Finnfund has a minority stake in each project and the conditions of the investments of Finnfund are market-based.

Finnfund only invests in the private sector with broad objectives: investments in projects aiming at reduction of poverty, investments in environmentally sustainable projects (recycling, climate change, pollution...) etc. As regards the economic objectives, most importantly, the company's aim is not to generate the profit for shareholders (section 2 of the Finnfund Act), whereas the unit should be nevertheless self-sustainable. It should make investments from its own funds, whereas new capital injections should be linked to extension of its activities. Finnfund cannot manage private investors' money by law.

As for the governance, the 12 members of the Supervisory Board come mostly from the political parties, including opposition parties. Half of the Board of Directors come from the private sector, including the chairman of the board. As regards the roles of the boards, the Supervisory Board can give the Board of Directors instructions "on matters of broad importance or significant principle". The tasks of the Board of Directors include but are not limited to making decisions regarding financing and investments and deciding the company's operating policy; giving authorisations to sign on behalf of the company.

SF also informed Eurostat that there is an allocation in the state budget proposal for 2016, which includes a capital increase of 130 MEUR to Finnfund.

SF proposed to discuss the sector classification of the old Deposit Protection Fund (DPF). The Financial Stability Authority was established under the MoF in the beginning of 2015. This new authority is responsible for the deposit protection and manages the new DPF, also established in the beginning of 2015. Before 2015 (i.e. 1998–2014) the old DPF was independently managed by deposit banks and was classified in the financial corporations' sector (S.12). The old DPF's funds can be used only for payments to the new DPF and for management expenses of the old DPF. A deposit bank can decide whether it pays the deposit protection fees directly to the new DPF or/and from the old DPF's funds to the new DPF.

The old DPF is not free to set up the level of contribution paid by deposit banks/old DPF to the new DPF. The level of contribution is set partly by the amount of the protected

deposits of a bank and partly by the solvency of the bank. Since 2015 all changes to the code of the old DPF are confirmed by the MoF (before 2015: the old DPF made it independently).

SF also proposed to discuss the sector classification of the New Children's hospital. The construction of the New Children's hospital, which started in 2015 and should be ready in 2017, has been implemented in an unusual way. The new hospital building will be financed by private sector donations, central government and local government (Hospital district of Helsinki and Uusimaa, HUS, a joint municipal authority classified to local government sub sector). A private non-profit organisation that makes a rental contract with HUS would own the new building.

A private non-profit institution "Uuden Lastensairaalan Tukisäätiö" ("New Children's hospital support foundation") will collect donations and organise the construction of the hospital. The foundation owns a property company that will own and build the new hospital. The remaining financing will be acquired in the form of a loan from financial corporations.

HUS will let the land area, where the hospital is situated, to the property company (for a nominal cost), whereas it will rent the new hospital from the property company. The amount of the rental fee paid by HUS is linked to the amount of the loan of the property company and to other costs such as real estate taxes and insurance costs. The property company will not add a profit margin to the rental fee. The rental fee will also include contributions for funding of the future renovations of the building. The annual maintenance costs are paid directly by HUS.

The rental contract begins in 2017 and its length is 30 years. HUS has an option to extend the contract with the similar conditions after 30 years. The hospital cannot be sold to a third party without permission of HUS and the conditions of the government donations state the building can only be used by a public producer.

The cost estimate of the project was 175 MEUR (close to 0.1% of GDP). Donations will cover 117 MEUR (central government 40 MEUR, local government 40 MEUR, donations from private sector 37 MEUR). The remaining amount (58 MEUR) is financed via a loan.

Discussion

Two representatives from Finnfund (see the list of participants in the annex) attended this session. Eurostat explained the rules governing the sector classification of entities having the features of captive financial institutions (MGDD I.6), which are relevant for the units such as Finnfund. SF commented that this part of the MGDD is rather descriptive, which makes it difficult to apply in practice. Eurostat replied that the aim is to cover all possible situations in all Member States, which would be difficult if the rules were specified in a too narrow manner.

The participants agreed that the unit has constraints in the liability side (MGDD I.6 § 32) as it is mainly financed by government. As for the assets side, the participants concluded that indeed the objectives of the company are rather broad. Therefore, it seems that it does not have constraints on the assets side as specified in MGDD I.6 § 30-31.

Eurostat enquired about the governance of the unit. The Finnfund representatives confirmed that the Supervisory Board is not involved in the operational management of

Finnfund. It broadly monitors whether the company follows the objectives. As for the composition of the Board of Directors, the representatives explained that the members are experts and confirmed that the chairman's vote would be decisive in case of a 4/4 vote.

The representatives also confirmed that Finnfund could enjoy various guarantees from government by law, whereas in fact only the guarantees covering the special risk finance part of the assets are in place.

The participants concluded that its sector classification requires further analysis. As for the planned capital injection, Eurostat suggested that it should be recorded as deficit increasing capital transfer should Finnfund remain outside the general government sector.

The participants also discussed the sector classification of the old Deposit Protection Fund. In SF's view it is not an institutional unit starting from 2015 because the government has control over its assets. The participants agreed that the unit should be consolidated within the central government from 2015 onwards.

As for the sector classification of the New Children's hospital, in Eurostat's view there seem to be three possible options to consider: (1) whether the unit(s) is/are institutional unit(s); (2) if it is institutional unit, whether it is controlled by government; and (3) if the unit would stay outside government, whether its assets and liabilities should be rerouted through government. Based on the available information, it seems that the unit does not have autonomy of decision in respect of its principal function and would need to be merged with the controlling sector (local government). However, even if it was an institutional unit, it could be considered as a NPI controlled by government, which is classified in government according to ESA 2010.

Findings and conclusions

Action point 7. Eurostat will provide SF with its view on the sector classification of Finnfund by end-2015. In case Finnfund will remain outside the general government sector, Eurostat considers that the planned capital injection in this company should be recorded as deficit increasing capital transfer⁷.

Action point 8. Eurostat considers that the old Deposit Protection Fund (responsible for the deposit protection in 1998–2014) should be included within central government from 2015 onwards. SF will implement this in the April 2016 EDP notification⁸.

Action point 9. On the basis of information received from SF, Eurostat considers that the new children's hospital should be included in the local government sub sector unless the further analysis by SF points to a different conclusion⁹.

⁷ On 10.03.2016 Eurostat concluded on the basis of the available information that Finnfund can provisionally remain in the sub sector Other financial intermediaries, except insurance corporations and pension funds (S.125).

⁸ SF implemented this in the April 2016 EDP notification.

⁹ SF classified the non-profit organization "Uuden Lastensairaalan tukisäätiö" and real estate company "Kiinteistö Oy Uusi Lastensairaala" to local government in the April 2016 EDP notification.

5.1.3. Government controlled entities classified outside the general government

Introduction

Eurostat addressed two financial corporations under this agenda item: the specialised financing company Finnvera and the municipal finance company Kuntarahoitus (MuniFin). Finnish Export Credit and Finnish Industry Investment were added in the course of the discussion. All of these units are classified in the financial corporations sector (S.12).

Finnvera is a specialised financing company fully owned by the central government. It provides its clients with loans, guarantees, venture capital investments and export credit guarantees and financial services to promote and develop operations of enterprises, in particular SMEs, and to promote the realisation of the government's regional policy goals. Although on its website Finnvera¹⁰ says that it is the official Export Credit Agency (ECA) of Finland, in practice this function is carried out by its subsidiary Suomen Vientiluotto Oy (Finnish Export Credit), which is fully owned by Finnvera Oyj. Finnvera Oyj and Suomen Vientiluotto Oy are currently treated as separate institutional units in Finnish national accounts and they belong to other financial intermediaries (S.125).

MuniFin is a credit institution with a mission to ensure competitive funding for the local public sector in Finland. Its lending is offered exclusively to Finnish municipalities, their majority-owned companies, and non-profit housing companies. Its funding originates from international capital markets where it cooperates with a worldwide network of institutional partners and financial organisations. All of its funding is guaranteed by the Municipal Guarantee Board. SF provided an analysis of the sector classification of MuniFin as a follow up of the January 2010 EDP dialogue visit (action point 13). Likewise, as a follow up of the January 2013 EDP dialogue visit (action point 17) in May 2014 SF again confirmed that MuniFin belongs to other monetary financial institutions (S.122).

Discussion

As for the governance of Finnvera, SF confirmed that it has a full time Board of Directors. SF also confirmed that the Supervisory Board has 18 members with the majority of the seats belonging to the government. SF also explained that Finnvera has a clear operating area and autonomy in choosing the projects. On the assets side, government compensates Finnvera for part of credit and guarantee losses in domestic financing (recorded as regular capital transfers from government). The liabilities come from the markets and are fully guaranteed by government. Eurostat considered that Finnvera has several features of captive financial institutions (MGDD I.6). SF signalled that it would need official advice on this from Eurostat. It was agreed that SF will provide Eurostat with an analysis of the sector classification of these and similar units (such as Finnish Industry Investment) and Eurostat will provide SF with its view.

The participants also briefly discussed the sector classification of MuniFin. Whereas MuniFin is owned by a large majority of municipalities of Finland, all municipalities (except Åland) are within its scope of lending. However, there is no automatic right to receive a loan from MuniFin. Around half of the loans are provided to municipalities and

¹⁰ https://www.finnvera.fi/eng/node_2686/Export-credit-guarantees

the other half to municipal housing corporations, which are classified in the non-financial corporations' sector.

Eurostat also enquired whether it would be possible to place deposits in MuniFin. According to SF MuniFin does not take deposits, whereas it is in fact currently classified in the deposit taking corporations except the central bank sub sector (S.122). Eurostat asked SF to provide Eurostat with an analysis of sector classification of MuniFin, paying particular attention to the conditions of the loans provided to the local government units.

Findings and conclusions

Action point 10. SF will provide Eurostat with an analysis of sector classification of Finnvera, Finnish Export Credit, Finnish Industry Investment and other similar units by end-February 2016. On the basis of this Eurostat will provide SF with its view by end-May 2016¹¹.

Action point 11. SF will provide Eurostat with an analysis of sector classification of Kuntarahoitus (MuniFin) by end-April 2016. SF should pay special attention to the conditions of the loans provided by Kuntarahoitus to local government units¹².

5.1.4. New autonomous regions

Introduction

SF proposed to discuss the sub sector classification of future “new autonomous regions”, sometimes also called “self-governmental areas”, which will have a responsibility to organise and finance for example social welfare and healthcare services in Finland. Currently this is a responsibility of municipalities.

Many details on these units are, however, still unclear. Current plans state that the new units would be in operation in 2019. The self-governmental area would be an independent unit controlled by an elected council. The number of the areas could be between 5 and 19. The financing of the units have not been decided yet, whereas two possible solutions are currently preferred: (1) transfers from central government or (2) the units will have a right to levy a tax and receive some transfers from central government. In addition, the units would receive customer fees. Financing through municipalities would not be possible.

In the view of SF the exact government sub sector is not yet clear. Classification to central government may be possible, if the financing and tasks of units would be strictly controlled by central government. Classification to state government does not seem appropriate because of the limited scope of competences. If the units have a right to levy taxes, they would be classified to local government.

¹¹ On 29.02.2016 SF concluded that Suomen Teollisuussijoitus Oy (Finnish Industry Investment Ltd) and Tekes Pääomasijoitus Oy would be classified in the central government. In addition, for Finnvera and FEC, SF sent its analysis on 31.03.2016, Eurostat provided its view on 26.09.2016 and Eurostat and SF agreed to classify Finnvera (including FEC) in S.12.

¹² On 29.04.2016 SF concluded that Kuntarahoitus (Munifin) would remain in the sub sector Deposit-taking corporations except the central bank (S.122).

Discussion

Eurostat considers that these new autonomous regions should not be classified in the state government sub sector (S.1312). Eurostat also suggested to follow the “who pays” principle. According to this, the units would belong to the central government sub sector should they be financed primarily by transfers from central government. SF agreed to provide Eurostat with an analysis of the sub sector classification as soon as the relevant information becomes available.

Findings and conclusions

Action point 12. As soon as the relevant information becomes available, SF will provide Eurostat with an analysis of sub sector classification of the new autonomous regions. Based on the available information, Eurostat considers that these units should not be classified in the state government sub sector S.1312.

5.2. Implementation of the accrual principle

5.2.1. Taxes and social contributions

Discussion

According to SF there are no new taxes, whereas the tax on sweets would disappear. Registration fee of vehicles was recently reclassified from central government’s market production (P.11R) to tax revenue (D.214R), whereas this did not affect its time of recording.

5.2.2. Interest

Introduction

The action point 13 has been outstanding since the 2013 EDP dialogue visit: “*SF will use securities and loans information of the BoF to ensure that consolidation of interest accrued is properly carried out by end-September 2014*”. Completion of this action point has been postponed several times in agreement with Eurostat. SF informed Eurostat before the visit that the data on accrued interest are included in securities holdings statistics (SHS), after the SHS renewal project, from November 2015 onwards. According to the information received from the Central Bank, it includes aggregated data on accrued interest for years 2014 and 2015. In addition, SF will launch in the beginning of 2016 a more comprehensive “Employment Pension Scheme Quarterly Survey” that includes data on accrued interest of employment pension schemes (S.13141) holdings.

Discussion

Eurostat enquired about the progress concerning consolidation of interest based on the SHS statistics (action point 13 of the 2013 EDP dialogue visit). SF was not too optimistic about solving the issue quickly, but agreed to examine and to make an attempt to implement the consolidation for the data years 2014 and 2015 by the next EDP notification. SF also explained that the new quarterly investment survey of pension institutions would become another data source for the consolidation of interest and agreed to provide Eurostat with a result of a comparison between the data collected with the SHS and the new quarterly investment survey of pension institutions.

Eurostat examined the table on interest submitted by SF before the meeting for central government. Eurostat had no remarks and considered that interest is correctly recorded on an accrual basis. However, Eurostat stressed that SF is still not in a position to fill in the difference between interest accrued and paid for local government units. Although the respective debt is not significant, the amounts may not be negligible. Eurostat asked SF about their plan on this issue and SF answered that this was under consideration.

Findings and conclusions

Action point 13. SF will examine and will make an attempt to implement the consolidation of interest for the data years 2014 and 2015 and will report the results of this work to Eurostat by the April 2016 EDP notification¹³.

Action point 14. In order to check accuracy of the data collected with the new surveys, SF will report to Eurostat on the results of the comparison of consolidation of interest for the data year 2016 between the data collected with the securities holdings statistics and the new quarterly investment survey of pension institutions by end-February 2017.

5.2.3. Military expenditure

Introduction

According to the EDP inventory, the time of recording of military expenditure is on an accrual basis, which fulfils the requirements of MGDD for all types of contracts.

Discussion

Eurostat enquired about recent and future deliveries of large military equipment and the principles of time of recording. SF informed Eurostat that purchases of fighters and ships were expected in the near future. SF confirmed that it followed strictly the MGDD rules (recording on deliveries' basis). As for collection of the data, SF explained that the detailed data were received once per year directly from the military forces (not from the Treasury).

Eurostat also enquired about the (small) inconsistencies between the flows on AF.81A and AF.81L in the EDP questionnaire table 7.1 and the changes in stocks. SF explained that the stocks in other receivables included all advance payments (related to both military and non-military expenditure), receivable, of military forces, whereas the transactions figure is calculated as the difference between the cash payments of military goods and their deliveries. Similarly, the stocks in other payables relate to both military and non-military expenditure of the military forces.

Finally, Eurostat explained that a change relating to recording of military expenditure in the MGDD was planned. This would essentially concern the issue of possible improvements of equipment after the first delivery, the treatment of research and development not allocated to specific equipment and the effect of renegotiation of contracts foreseeing the delivery of pieces of equipment over several years.

¹³ On 18.03.2016 SF provided information on consolidation of interest for 2014 and 2015.

5.3. Recording of specific government transactions

5.3.1. Guarantees, standardized guarantees

Introduction

SF submitted before the EDP visit detailed data on new guarantees, guarantees called, repayments and the stocks. The document on local government indicates that currently there is no systematic data on guarantees called or on their repayments for municipalities and joint municipal authorities, whereas the stock data are available. The total stock for local government stood at 4.3% of GDP in end-2014. The section 7.1.1.2 of the EDP inventory explains that usually such calls are recorded as “other operational expenses” on profit and loss account of the municipalities and joint municipal authorities. The guarantees provided by local government are either provided directly (by municipalities, joint municipal authorities and the Åland Government), or via the Municipal Guarantee Board.

Standardised guarantees provided by central government relate to student loans, whereas the annual totals of the respective guarantee calls are rather small.

Discussion

The availability of systematic data on guarantees called or on their repayments for local government was discussed under item 3 (see above).

Eurostat also enquired about reporting of the guarantees on the borrowing of MuniFin, which is classified outside the general government sector (see also item 5.1.3 above). SF explained that the guarantees relating to the MuniFin’s liabilities were included in the stock data reported in the EDP questionnaire table 9.1.

5.3.2. Government claims; debt assumptions, cancellations and write-offs

Introduction

SF submitted detailed data on government claims, stocks and transactions before the visit.

Discussion

On the basis of the submitted data, Eurostat enquired about the sharp increase of the central government claims against the item “S.125+S.126+S.127” (Other financial intermediaries etc.) in 2012 and 2013. According to SF these increases relate to the lending to Finnish Export Credit (please also see items 5.1.3 and 6.3 of the current report).

5.3.3. Capital injections in public corporations, dividends, super dividends

Introduction

The planned capital injection in Finnfund was addressed under the item 5.1.2 (see above).

SF also proposed to discuss government involvement in the Talvivaara Mining Company Plc. Talvivaara is a nickel and zinc mine in central Finland. The mine has for years suffered from repeated production problems and its leaked wastewater has caused environmental problems. The stock-listed Talvivaara Mining Company Plc has been in a restructuring programme since 2013. Government's holding company Solidium Ltd owns 15.2% of the company. Mining was practiced by Talvivaara Mining Company's subsidiary, Talvivaara Sotkamo Ltd, which applied for bankruptcy in November 2014.

The government set up two new state companies in the beginning of 2015, Terrafame Ltd and Terrafame Group Ltd (originally called Terrafame Mining Ltd and Terrafame Ltd), to participate in Talvivaara's ownership arrangements. Initially it was planned to find a private majority owner for Talvivaara, but in August 2015 Terrafame Ltd alone bought Talvivaara Sotkamo's business for a nominal price. In 2015 government injected 209 MEUR in Terrafame Group Ltd. Government also contributes in environmental damage control in Talvivaara. These expenses are recorded as government expenditure.

Discussion

The participants briefly discussed the Talvivaara case. SF agreed to provide Eurostat with an analysis of the sector classification of the involved public companies. Eurostat stressed that SF would also need to analyse the business plan. Due to uncertainties, in particular related to the environmental damages, Eurostat considers that the injection made in 2015 into Terrafame should be treated as a non-financial transaction.

Eurostat also raised the issue of the super dividend test for the distributions made from the Central Bank. SF has confirmed in the EDP inventory that the profit definition in use is the operating profit excluding possible exceptional income from sale of assets. In order to check the situation, Eurostat asked and SF agreed to provide Eurostat with the details of the super dividend test for the Central Bank.

On the basis of the super dividends data SF submitted before the visit, Eurostat enquired why the withdrawal of equity (super dividends) had been recorded for StoraEnso in 2014 whereas the submitted data indicated that its 2013 profit was larger than the distributions (34>29 MEUR). SF explained that 34 MEUR refer to the total profit whereas the withdrawal of 29 MEUR was linked to the minority ownership by the government (and the submitted data include other similar cases).

Findings and conclusions

Action point 15. SF will provide Eurostat with an analysis of sector classification of the public companies involved in the rescue of the Talvivaara mine. Eurostat considers that for prudential reasons the 209 MEUR injection made into Terrafame Group Ltd in 2015 should be treated as deficit increasing capital transfer in the April 2016 EDP notification¹⁴.

Action point 16. SF will provide Eurostat with the detailed calculation of the operating profit of the Bank of Finland, according to MGDD IV.2, for the purpose of the super dividend test by end-February 2016¹⁵.

¹⁴ SF classified Terrafame Group Oy to central government in the April 2016 EDP notification. Terrafame Oy was classified to the corporations sector. The 100 MEUR transferred from Terrafame Group Oy to Terrafame Oy was recorded as deficit increasing capital transfer in 2015.

¹⁵ On 29.02.2016 SF submitted the super dividend test of the Bank of Finland.

5.3.4. Others: privatization, PPPs, EU flows, emission trading permits, sale and leaseback operations, mobile licenses, tax credits, securitisation, financial derivatives

Introduction

SF informed Eurostat before the visit that the first auctions concerning emission allowances for the 2013-2020 period took place in 2012, which could be surrendered for the first time in 2014. The tax revenue of 59 MEUR was recorded for the year 2014. The information needed to calculate the tax revenue is collected from the Energy Authority and the Ministry of Employment and Economy. Also the cumulative compliance data of the European Commission are used.

Discussion

The participants briefly discussed the recording of government receipts from the sale of emission permits and the recording of the sales of mobile licenses. Eurostat concluded on the basis of the provided information that SF records the sales of emission permits and the related revenue according to the instructions as specified in the MGDD. As for mobile licenses, Eurostat explained that government revenue could be recorded only in the period when the owner can exclusively use the frequency. SF informed Eurostat that in 2013 there was a sale in the amount of 108 MEUR, whereas the spectrum was put into use in 2014.

Eurostat also enquired whether there are any new planned PPPs. According to SF, indeed a new motorway PPP is in the pipeline. SF will analyse the contracts that it has already received and will inform Eurostat on the result of its analysis. SF recalled that so far all motorway PPPs in Finland had been recorded on balance sheet of government. The participants also recalled that currently there was no regular data collection on the municipal PPP projects (please also see item 3 above).

Findings and conclusions

Action point 17. SF will record the revenue from the sales of mobile phone licences at the time when the owner can exclusively use the frequency and will report to Eurostat by April 2016 EDP notification¹⁶.

Action point 18. SF will report to Eurostat on the result of the analysis of the new motorway PPP by end-2015¹⁷.

6. OTHER ISSUES

6.1. ESA 2010 TP – GFS data

Discussion

SF explained in their reply to the recent report relating to ESA table 27 (quarterly financial accounts of government) that the data on accrued interest for long-term loans

¹⁶ SF recorded the revenue from the sales of mobile phone licences at the time when the frequency can be used in the April 2016 EDP notification.

¹⁷ On 23.12.2015 SF informed Eurostat that it would record the E18 Hamina-Vaalimaa motorway PPP on the balance sheet of central government.

were not available. SF added that since the first quarter of 2012 long-term loans of central government were reported at face/nominal value. Eurostat asked SF to comply with the requirements of ESA 2010.

Eurostat also enquired why the equity of Ydinjätehuoltorahasto (the National Nuclear Waste Management Fund) held by private stakeholders was recorded as a loan in national accounts (as explained in section 3.1.1.2 of the EDP inventory). SF explained that it had rather the features of a deposit than equity, and is recorded as part of the Maastricht Debt.

Action point 19. Eurostat asks SF to comply with the requirements of ESA 2010 table 27 as regards inclusion of accrued interest under the relevant instruments.

6.2. Compliance with Council Directive 2011/85

Discussion

Eurostat welcomed the progress made by the Finnish authorities in publishing the data and metadata as required by the Council Directive 2011/85 (publication of monthly data on public finances, data on contingent liabilities etc.). Eurostat also indicated that currently the data on the public / private split of Finnish government participation in corporations is missing. The Finnish authorities agreed to address it and to report back to Eurostat.

Findings and conclusions

Action point 20. In the context of the requirements of the Council Directive 2011/85, the Finnish authorities will report to Eurostat on the provision of data on the public / private split of participation of Finnish government in corporations by end-February 2016¹⁸.

6.3. Any other business

Introduction

The refinancing programme related to export credits was already discussed during the previous dialogue visit, but due to its complexity Eurostat proposed to revisit the issue. Please find background information on this in the published final findings of the previous EDP dialogue visit to Finland.

Discussion

The representative of the Treasury provided details on the refinancing programme related to export credits. The loans are provided mostly in dollar, whereas only a few loans are in euro. Hedging takes place only over a short period (e.g. six months) until the next interest payment in cases where the entire loan has not yet been drawn down. Loans are hedged until maturity after they have been drawn down completely and the final redemption profile is known. There are no “bullet loans”. Only the exact amounts are hedged (there was a small exception in 2011). There have been no defaults by the exporters, whereas, however, late payments have occurred.

SF has confirmed before (e.g. January 2014) and confirmed at this meeting that relending of loans did not lead to double counting in the Maastricht Debt. Due to the time

¹⁸ On 29.02.2016 SF informed Eurostat that it would implement the requirement for the statistical year 2015.

constraint SF could not, however, produce detailed data on the programme by the dialogue visit. Therefore, SF agreed to submit the relevant details by the next EDP notification.

Findings and conclusions

Action point 21. As regards the refinancing programme related to export credits, SF will (1) complete financial T-accounts including impact on net lending / net borrowing of government by instrument, (2) provide Eurostat with impact of this programme on EDP tables 2A and 3B and (3) provide Eurostat with impact of this programme on the Maastricht debt. SF will provide these data for 2011-2014 by the April 2016 EDP notification¹⁹.

¹⁹ On 18.03.2016 SF provided the relevant information and on 30.03.2016 SF confirmed that the positions related to swaps are not included in the Maastricht Debt.

EUROSTAT EDP DIALOGUE VISIT TO FINLAND

19-20 NOVEMBER 2015

LIST OF PARTICIPANTS

Eurostat

Mr Eduardo Barredo Capelot, Director of directorate C

Ms Madeleine Mahovsky, Head of Unit D3

Mr Peeter Leetmaa, EDP desk officer for Finland, Unit D3

Mr Denis Besnard, EDP methodology, Unit D1

ECB

Mr Jorge Diz Dias

European Commission / DG ECFIN

Mr Peeter Soidla

Statistics Finland

Mr Ville Vertanen, Director of Economic and Environmental Statistics

Mr Matti Okko, Head of Unit of Government and Sector Accounts

Ms Niina Suutarinen, Senior Statistician

Ms Anu Karhu, Senior Statistician

Ms Henna Laasonen, Senior Statistician

Ms Kirsi Peltonen, Senior Statistician

Ms Riikka Tupala, Senior Statistician

Mr Jukka Hytönen, Senior Statistician

Mr Timo Ristimäki, Senior Statistician

Mr Mika Sainio, Senior Advisor

Ministry of Finance

Mr Arvi Suvanto, Economist

Ms Marja Paavonen, Economist

Bank of Finland

Mr Risto Suomela, Economist

Mr Markus Aaltonen, Economist

State Treasury

Mr John Rogers, Senior Risk Manager

Finnfund

Ms Helena Arlander, Director, Portfolio and Risk Management

Mr Jukka Ahmala, Director, Legal Affairs