SUOMEN PANKKI EUROJÄRJESTELMÄ FINLANDS BANK EUROSYSTEMET

Money and the Monetary System: Case Finland, 1811–2030

Tampere University
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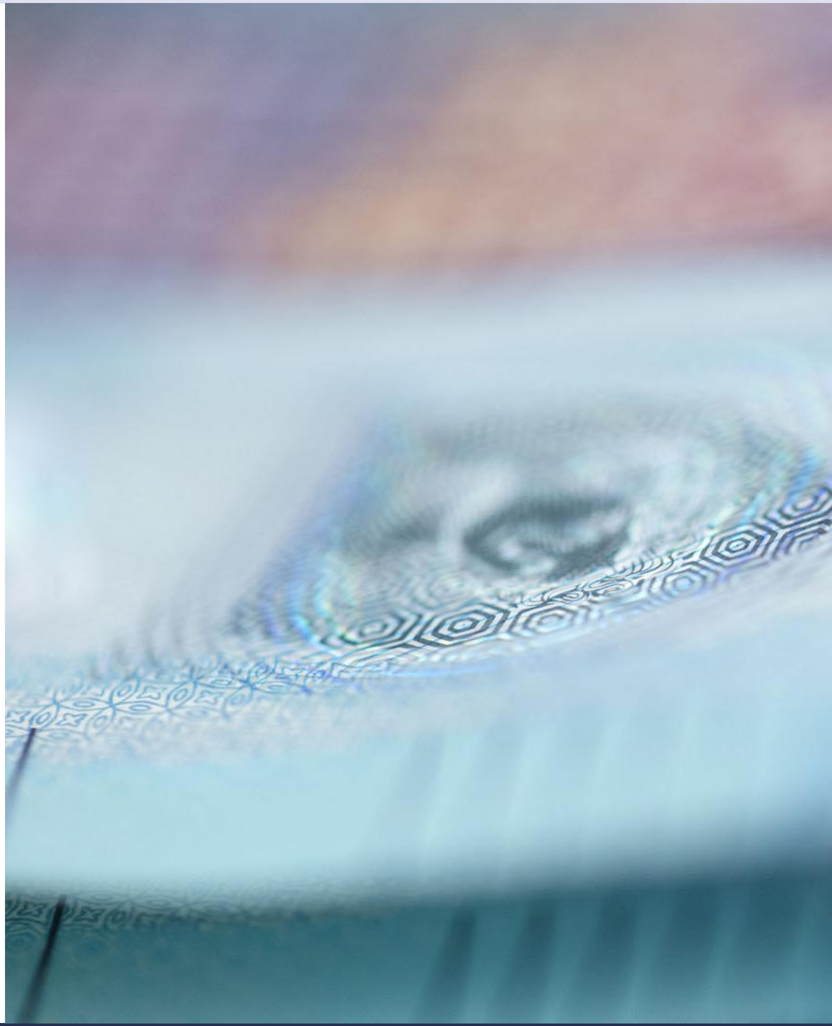
Overview of presentation

- What is money and how has it evolved?
- Finnish currency arrangements in the 1800s
- Currency regimes in the 1900s
- The euro – and why it was introduced
- Finland and the single currency
- New challenges to the international monetary system
- Conclusions



What is money and how has it changed over two centuries?

- Medium of exchange
- Unit of account
- Store of value

→The form of money can change, but the function remains

Trust is of the essence

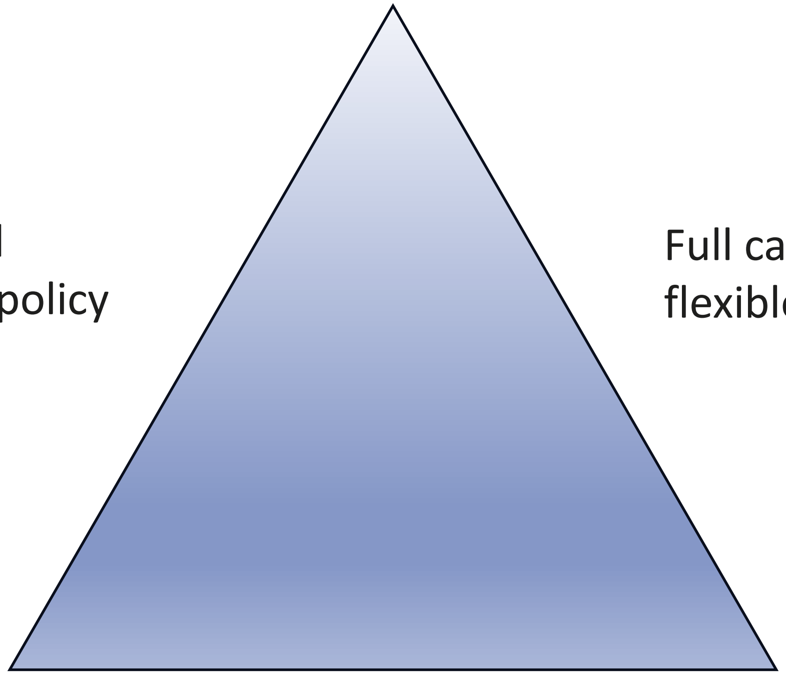
Finnish currency arrangements: 1811, 1860, 1865, 1878

- 1811 Bank of Finland is founded under Alexander I
  - The rouble gradually replaces Swedish money in the Grand Duchy of Finland
- 1860 The markka is introduced, valued as ¼ of a rouble
- 1865 Markka on silver standard, free from Russian instability
- 1878 Finland adopts the gold standard

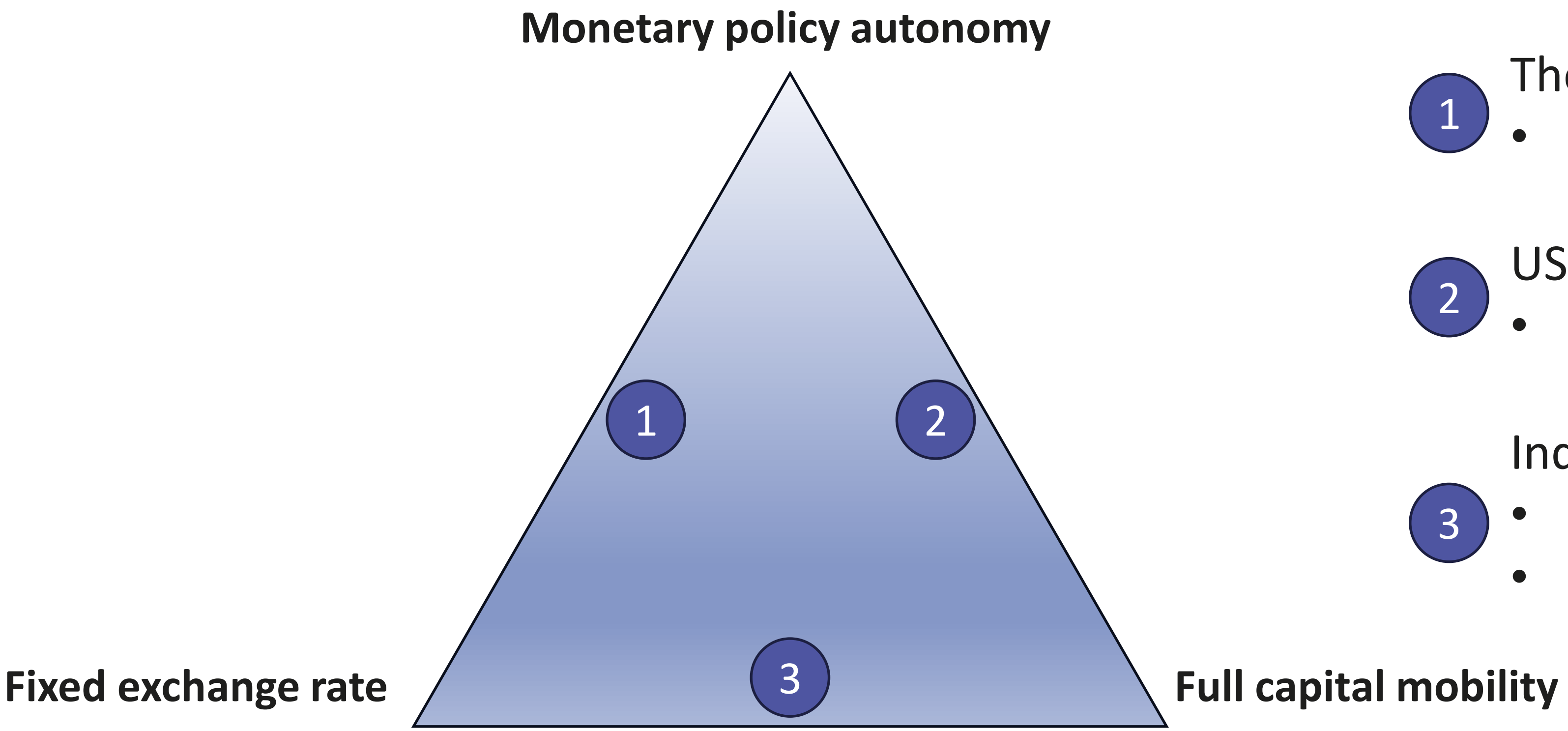
Finland’s currency regimes in the 20th century

- 1915–1926 Paper standard
- 1926–1931 Return to the gold standard
- 1931–1933 Floating exchange rate
- 1933–1939 Pound peg (the sterling area)
- 1939–1949 Exchange control, devaluations
- 1949–1971/73 Bretton Woods system (fixed but adjustable rates)
- 1971/73 – 1991 Currency basket
- 1991 ECU peg
- 1992–1996 Floating exchange rate
- 1996–1998 ERM link on the road to the single currency
- 1999– The euro

The ”Impossible Trinity”
– also known as the Mundell-Fleming Trilemma

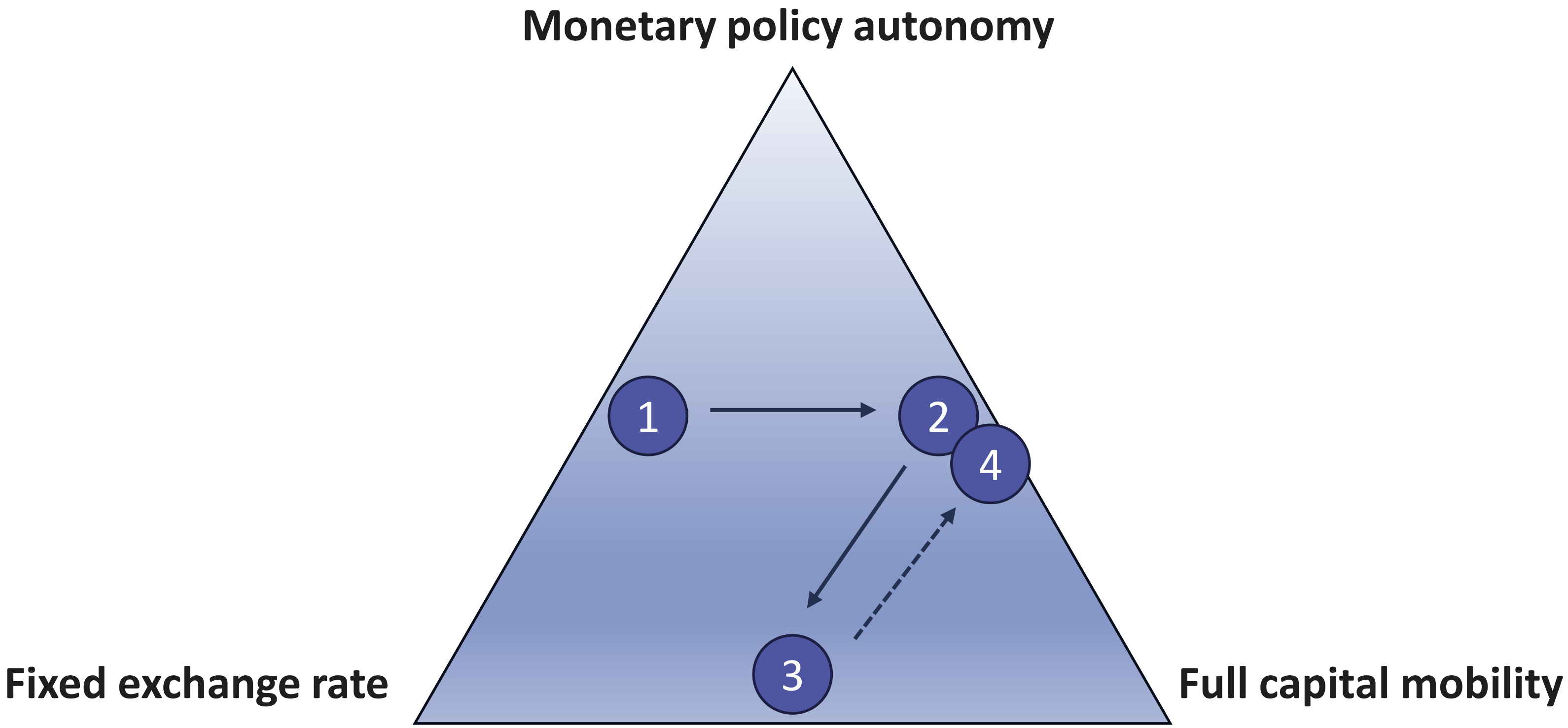


The ”Impossible Trinity” – cases in point



1. The Bretton Woods system
   - fixed but adjustable exchange rate
2. US, UK, Euroarea
   - floating exchange rates
3. Individual Euroarea countries
   - they share monetary policy via the ECB
   - Denmark

Case Finland, 1957–2025



1. 1957– ca. 1992
   - Bretton Woods etc.
2. 1992–1996
   - floating
3. 1996–1998
   - pegged to ERM
4. 1999–
   - the Euro

The euro and why it was introduced

- German unification shifted the centre of gravity, capital became mobile, national politics clashed with monetary constraints, and competitive devaluations returned and undermined trust
- Single market with four freedoms
- Euro promises
  - End of beggar-thy-neighbour devaluations inside Europe
  - Price stability managed by an independent central bank
  - Deepening of the single market
- Political goals: Europeanising anti-inflation credibility of Bundesbank by creating ECB, and binding German power within shared institutions

Finland in the euro, 1999–

- Credible anchor needed after long devaluation-inflation cycle
  - Previously the markka devalued roughly every ten years
- Several advantages of single currency
  - Low and predictable inflation
  - Removal of currency risk → benefits for trade and investments
  - Households gain from price transparency, easy payments
  - Businesses gain from deeper market for finance, broader customer base

Responses to the financial crises

- At the EU level
  - Banking union, with permanent crisis fund (ESM)
  - EMU 2.0 – not perfect, but stronger
- Lessons for Finland
  - Safeguard competitiveness, align with productivity
  - Keep public finances resilient over the long run
  - Wage-setting must support employment
  - Innovation and education to feed productivity
  - Financial sector well supervised

New challenges for the international monetary system

Geopolitical confrontation

Technological disruption

Crypto-assets

Stablecoins

Tokenised deposits

Central bank digital currency

A stronger international role for the euro

- Precondition: a stronger, more dynamic Europe
  - In security and in the economy
- Three key priorities
  - Defence
  - Dynamism
  - Digital sovereignty

General conclusions

- A currency union brings stability, but members must keep their houses in order
- In the single currency, there is work to be done that only Finland itself can do
- The euro has delivered stability: price stability and deepening of the single market. Remaining: completing banking union, building true capital market union, ensuring simple, credible and countercyclical fiscal rules
- Monetary system more contested and more technological: Europe must reduce strategic dependencies and guard digital and financial sovereignty
- Finally: pragmatism beats ideology. How should we regulate new forms of private money, introduce a digital euro and supply safe assets in the euro area?

Case Finland, 1811–2030

- A small, open economy can prosper and thrive once it marries **stability** with **adaption** and **reform**
- **Yesterday –** credibility sought with silver and gold
- **Today**: the euro
- **Tomorrow**: whatever form money takes, we still need the same virtues, meaning honest accounts, careful risk-taking, steady reform, and entrepreneurial dynamism
- Finland following a steady compass can help write the next chapter in Europe's monetary history

Vakauden puolesta,
tutkitun tiedon pohjalta.

Securing stability,
in science we trust.