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FINLAND

Key Economic Indicators

(Billions of U.S. dollars unless otherwise indicated)

	1998	1999	2000	
Income, Production and Employment:				
Nominal GDP (at factor cost) 9/	129.4	129.6	123.8	1/
Real GDP Growth (pct)	5.5	4.0	5.2	1/
GDP by Sector:				
Agriculture, Forestry & Logging	4.1	4	3.3	1/
Manufacturing, Construction, Mining & Quarrying	34.6	34	31.2	1/
Electricity, Gas & Water Supply	2.6	2.3	1.9	1/
Services	71.2	71.3	64.3	1/
Taxes on products less subsidies	16.9	18	23.1	1/
Per Capita GDP (US$) 9/	25,307	25,018	23,040	1/
Labor Force (000s)	2,507	2,548	2,646	2/
Unemployment Rate (pct)	11.4	10.2	9.6	1/
Money and Prices (annual percentage growth):				
Money Supply Growth (M2)	4.4	6.7	6.7	3/
Consumer Price Inflation	1.4	1.2	3.0	1/
Exchange Rate (FIM/US$ annual average)	5.3	5.6	6.5	1/
Balance of Payments and Trade:				
Total Exports FOB	42.9	41.7	25.4	4/
Exports to U.S.	3.0	3.3	1.5	4/
Total Imports CIF	32.3	31.5	19.2	4/
Imports from U.S.	2.4	2.5	1.3	4/
Trade Balance	10.6	10.2	6.2	4/
Balance with U.S.	0.6	0.8	0.2	4/
External Public Debt	-20.3	-20.9	-17.5	5/
Fiscal Deficit-Surplus/GDP (pct) 6/	1.3	1.9	4.5	1/
Current Account Surplus/GDP (pct)	5.6	5.2	6.2	1/
Debt Service Payments/GDP (pct) 7/	4.8	4.0	3.8	1/
Gold and Foreign Exchange Reserves	9.7	9.2	9.1	8/
Aid from U.S.	N/A	N/A	N/A	

Aid from All Other Sources	N/A	N/A	N/A

1/ Estimate, Ministry of Finance.
2/Statistics Finland, August 2000.
3/ Bank of Finland, August 1999-August 2000.
4/ Board of Customs, January-July 2000.
5/ Bank of Finland, January-June 2000.
6/ Public sector's budget deficit (EMU).
7/ General government interest expenditures.
8/ Bank of Finland, September 2000.
9/ Declines in Nominal and Per Capita GDP (despite positive growth rates) are due to the depreciating value of the Finnish Mark.

1. General Policy Framework

The Finnish economy has sustained a six-year period of strong economic growth since recovering from a severe recession triggered by the collapse of the Soviet market in the early 1990's. With an export-led recovery, the GDP has grown at an annual average rate of 4.7 percent since 1994. While unemployment has decreased significantly since 1994, the current 10.1 percent remains above the European Union (EU) average. EU membership, which began on January 1, 1995, helped spur structural changes in key economic sectors which have contributed to Finland's recent strong economic performance.

A key factor in Finland's recovery has been the 10-percent growth in output in the manufacturing industry deriving largely from the success of telecommunications equipment exports. Nevertheless, most other industry sectors are also expected to increase their production in 2000. In 2000 the volume of total output is anticipated to grow by 5.2 percent, year-on-year. In 1999 GDP grew by four percent.

The current account surplus reached 37.4 billion FIM in 1999, which is 5.2 percent of GDP. The surplus is expected to increase to 47.7 billion FIM in 2000 and to 51.6 billion FIM in 2001. As a percentage of GDP, the current account surplus is forecast to increase to a record six percent of GDP in 2000.

The central government's finances in 2000 will reach a surplus for the first time in a decade, and this surplus is set to rise to 4.5 percent of GDP in 2000. The exception to an overall favorable outlook is the inflation rate, which is higher than in the past few years. This is explained mainly by higher oil prices, but price increases in housing and the depreciation of the euro have also played a role. Inflation reached a rate of 4.2 percent in September 2000, becoming one of the highest in the euro zone.

The sizeable state debt and heavy tax burden constitute the most serious problems in public finances. State debt is still at a high level, although it is expected to drop from FIM 404.6 billion in 1999 to FIM 388.6 billion in 2000. The debt-to-GDP ratio is expected to continue to decrease as the financial position improves and GDP grows. The overall government debt ratio

(ratio of EMU debt to GDP) is predicted to fall from 46.6 percent in 1999 to 42.4 percent by the end of 2000.

In 1999 Finland's tax ratio (gross wage-earner taxation, including compulsory employment pension contributions, relative to GDP) was up to 46.1 percent from 45.9 percent in 1998. A decrease is expected in 2000 (45.9 percent) and in 2001 (45 percent) due to scheduled tax cuts.

The number of employed is set to grow by almost 40,000 people in 2000, and the employment rate to rise to about 67 percent. New jobs are being created particularly in the service sector, but also in expanding industrial sectors and in construction. In 2000 the unemployment rate is forecast to drop from 10.2 percent to 9.6 percent. Nevertheless, unemployment is still above the EU average and labor productivity remains below the EU average.

Finnish economic policy is determined to a large extent by consultation and coordination within the EU. EU membership, for example, has resulted in new competition legislation that has helped reduce the cartelized nature of many Finnish industries. Legislation that took effect at the beginning of 1993 liberalizing foreign investment restrictions has helped spur a sharp increase in foreign portfolio investment and hence has contributed to the internationalization of large Finnish companies. Direct foreign investment, however remains modest due to high production costs. Finland is hoping to capitalize on its location and expertise to serve as a gateway for foreign investors in the newly independent states of the former Soviet Union and the Baltic states. This effort had scored only limited success with relatively few foreign firms establishing production and warehousing facilities in eastern Finland, close to the major Russian markets. The Russian financial crisis in 1998 caused a significant slowdown in gateway activity, although there are now signs of recovery.

EU membership and Finland's budget constraints have brought about some reform in Finland's highly protected agricultural sector. Finland is slowly transitioning to the EU agricultural regime. The compromise outcome of Agenda 2000 negotiated by the European Ministers of Agriculture in March 1999 contained some favorable elements with respect to Finland. Of special importance for Finland was drying aid for grains and oilseeds, and aid for grass silage. The EU delay (until 2003) in cutting the price of milk reduced any current hardship for Finnish farmers, although there may be difficulties down the road if the compensation does not cover losses caused by the price cuts. Overall agricultural production is forecast to grow by eight percent in 2000 and by three percent in 2001.

2. Exchange Rate Policy

The European Commission reported on March 25, 1998 that 11 EU member countries, one of them Finland, were ready for the economic and monetary union (EMU) and met the conditions to adopt the single currency (euro). The bank notes and coins of the single currency will be put into circulation in 2002. Banknotes and coins denominated both in Finnish Marks and euros will be in dual circulation for a period of two months at the beginning of 2002.

As of January 1, 1999 Finland joined the third stage of the EMU. This third and final stage of EMU commenced with the irrevocable locking of the exchange rates of the eleven currencies participating in the euro area and with the conduct of a single monetary policy under the responsibility of the ECB. The Finnish mark was pegged to the euro at 5.9457.

3. Structural Policies

Finland replaced its turnover tax with a Value-Added Tax (VAT) in June 1994. While the change has had little effect on overall revenues, several sectors not previously taxed or taxed at a lower rate, including corporate and consumer services and construction, are now subject to the new VAT. The government has kept the basic VAT rate at the same level as the old turnover tax (22 percent). Legislation on VAT was harmonized with the European Union. Foodstuffs are taxed at a 17 percent rate. Services, including health care, education, insurance, newspaper and periodical subscriptions, and rentals are not subject to VAT.

Agricultural and forestry products continue to be subject to different forms of non-VAT taxation. A uniform tax rate of 28 percent on capital gains took effect in 1996, which includes dividends, rental income, insurance, savings, forestry income, and corporate profits. The sole exception was bank interest, on which the tax rate was increased from 20 to 25 percent at the beginning of 1994. The corporate and capital income tax rate was increased from 28 per cent to 29 per cent in January 2000.

In March 1997 European Union commitments required the establishment of a tax border between the autonomously governed, but territorially Finnish, Aland Islands (Ahvenanmaa) and the rest of Finland. As a result, the trade of goods and services between the rest of Finland and Aland is now treated as if it were trade with a non-EU area. The trade effect of this treatment is minimal since the Aland Islands are part of the EFTA tariff area.

Organizations representing employers and employees began talks in October 2000, aimed at achieving a two-year Comprehensive Incomes Policy Agreement. In fall 1997 the organizations signed a two-year agreement. In 1999 the government tried for a third successive long-term incomes agreement but the attempt ran aground. Pay agreements were not signed until the beginning of 2000, when a broad income policy line had been formulated under the leadership of the Metalworkers Union. Eventually 95 percent of organized labor adopted that line.

Reaching agreement in the fall of 2000 could be difficult. The Finnish economy has grown strongly, inflation has simultaneously gathered momentum and wage earners hopes are considerably different from employers offers. The round of negotiations is likely to last two months and the government has pledged to help talks along with promised tax cuts, provided pay demands remain moderate.

Liberalization of foreign investment has resulted in a strong revival of the Finnish stock market and greater corporate use of equity markets. It has also substantially increased the percentage of foreign ownership of many of Finland’s leading companies, and is the preferred vehicle for privatization or partial privatization of companies with significant state ownership. The previous Center-Conservative government initiated a program aimed at privatizing as much of the state-owned companies as the Finnish Parliament would permit and the market could absorb. The present government agrees that state ownership at its present level is no longer necessary in manufacturing, energy production and telecommunications operations. The basic strategy has been to reduce the government's stake through the issuance of stock, rather than by selling off companies to individual investors and to treat each company as an individual case.

Recent examples include Sonera (former Telecom Finland) and Elisa (former HPY, Helsinki Telephone Company) and the merger of the Finnish partly state owned forest company Enso to the Swedish forest company Stora. In virtually every case, however, the Finnish government has retained significant minority stakes in privatized companies. In June 2000, however, the government was granted authority by Parliament to sell the government's remaining stake of slightly over one-half of the Sonera equity stock.

In May 2000 the government reached a decision-in-principle on the use of state sales proceeds between 2000 and 2003. The government will boost basic funding for universities and will commit to certain projects aimed at bolstering long-term growth prospects. The rest of privatization proceeds already realized or forthcoming will be allocated to debt redemption.

State aid to industry was at a relatively high level in Finland in the first years of the 1990s. This was mainly due to the severe depression that Finland experienced at that time. It should be noted, however, that even in those years Finland was no more generous in subsidizing its manufacturing companies than the EU countries on average. The government has begun to reduce subsidies in line with the need for greater fiscal discipline and it is the government's policy to continue this trend. General horizontal subsidies form the bulk of aid in Finland, including assistance for research and development, environmental protection, energy and investment. All companies registered in Finland have access to government assistance under special development programs. Foreign-owned companies are eligible for government incentives on an equal footing with Finnish-owned companies. Government incentive programs are mainly aimed at investment in areas deemed to be in need of development. The support consists of cash grants, loans, tax benefits, investments in equity, guarantees and employee training.

The Finnish economy faces two major challenges. First, the competition the Finnish economy is facing is clearly increasing and spreading to new sectors threatening traditionally sheltered sectors of the economy. Second, with the aging of the population, labor supply is set to decline in the next decade, correspondingly weakening the financial base by increasing outlays for social security and pensions. These two challenges highlight the importance of fiscal restraint and structural reforms. There is a growing need in general government finances to concentrate on relieving the expenditure pressure caused by the aging of the population and on reducing the central government debt ratio. The key task in structural policy is to secure prerequisites for employment-oriented stable economic growth.

4. Debt Management Policies

Under the government's EMU convergence program, the gross government debt is projected to drop from 46.6 percent of GDP in 1999 to 42.4 percent by the end of 2000.

In October 2000 Standards & Poor's announced that it would keep its rating of Finnish long term government bonds at their second-best rating, AA+. In August 1999 Moody's rated Finnish long-term government bonds at their best rating, AAA. In November 1999 Fitch IBCA confirmed the rating of Finnish long-term government bonds as AAA.

Finland is an active participant in the Paris Club, the London Club and the Group of 24, providing assistance to East and Central Europe and the independent states of the former Soviet Union. It has been a member of the IMF since 1948. Finland's development cooperation programs channel assistance via international organizations and bilaterally to a number of African, Asian, and Latin American countries. In response to budgetary constraints and changing priorities, Finland has reduced foreign assistance from 0.78 percent of GDP in 1991 to 0.33 percent of GDP in 1999. The Finnish government estimates foreign assistance will be 0.34 percent of GDP in 2000.

5. Significant Barriers to U.S. Exports

Finland became a member of the EU in 1995, and as a result has had to adopt the EU's tariff schedules. The agricultural sector remains the most heavily protected area of the Finnish economy, with the bulk of official subsidies in this sector. The amount of these subsidies is determined by the difference between intervention and world prices for agricultural products. Since joining the EU, the difference between these two prices has decreased for most agricultural items, resulting in lower, albeit still significant, subsidy levels.

In mid-1996 the Finnish government's inter-ministerial licensing authority began to oppose within the EU some U.S. company applications for commercialization of genetically modified organisms (GMOs) such as insect resistant corn. The Environmental Ministry appears to favor mandatory consumer-oriented labeling of GMOs. Other ministries are more supportive of GMO commercialization. The government continues to take a case-by-case approach to GMO-related issues.

The Finnish service sector is undergoing considerable liberalization in connection with EU membership. Legislation implementing EU insurance directives have gone into effect. Finland has exceptions in insurance covering medical and drug malpractice and nuclear power supply. Restrictions placed on statutory labor pension funds, which are administered by insurance companies, will in effect require that companies establish an office in Finland. In most cases such restrictions will cover workers' compensation insurance companies as well. Auto insurance companies will not be required to establish a representative office, but will have to have a claims representative in Finland.

1995 was the first year of fully open competition in the telecommunications sector in Finland. The Telecommunication Act of August 1996 allows both network operators and service operators to use competitor telecommunication networks in exchange for reasonable compensation. The Telecommunication Act was replaced by the Telecommunications Market Act of 1997, which improved the opportunities of telecommunication operators to profitably lease each other's telecommunications connections. Entry to the sector was also made easier, by eliminating a licensing requirement to construct a fixed-telephone network. Only mobile-telephone networks are still subject to license. The number of mobile telephones exceeded the number of fixed-line connections beginning in 1998. Finland's mobile phone penetration is 70 percent, with 3.6 million mobile phones in use.

Finland was the first country to grant licenses for third-generation mobile-phone networks. In March 1999 four telecommunications companies were granted licenses to construct 3G mobile networks in Finland. Contrary to many other European countries, licenses were free of charge and granted to the most qualified applicants, rather than by auction. Licenses were technology-neutral, but all four licensees are expected to use the European UMTS technology. 3G mobile operations are expected to be launched by beginning of 2002.

In the next few years, the telecommunications and information technology sectors will continue to grow rapidly. Finland's telecommunications environment is one of the most advanced in Europe and the growth of international business in telecommunications is of significant importance to the Finnish economy.

The government requires that the Finnish broadcasting company devote a "sufficient" amount of broadcasting time to domestic production, although in practical terms this has not resulted in discrimination against foreign-produced programs. Finland has adopted EU broadcasting directives, which recommend a 51 percent European programming target "where practicable" for non-news and sports programming. Finland does not intend to impose specific quotas and has voiced its opposition to such measures in the EU.

With the end of the Restriction Act in January 1993, Finland removed most restrictions on foreign ownership of property in Finland. Only minor restrictions remained, such as requirements to obtain permission of the local government in order to purchase a vacation home in Finland. But even restrictions such as this were abolished in January 2000, bringing Finland fully in line with EU norms.

Foreigners residing outside of the EEA who wish to carry on trade as private entrepreneur or as partners in a Finnish limited or general partnership must get a trade permit from the Ministry of Trade and Industry (MTI) before starting a business in Finland. Additionally, at least one-half of the founders of a limited company must reside in the EEA unless the MTI grants an exemption.

Normally Finland requires that a labor-market test be conducted before allowing a foreigner to work in Finland. The purpose of the test is to determine whether or not a Finn could undertake the same work. However, foreign intra-corporate transferees who are business executives or managers are not subject to the labor-market test. This standard does not apply to company specialists, who must prove that they possess knowledge at an advanced level of expertise or are otherwise privy to proprietary company business information.

Finland is a signatory to the WTO Government Procurement Agreement and has a good record in enforcing its requirements. In excluded sectors, particularly defense, counter trade is actively practiced. Finland is purchasing fighter aircraft and associated equipment valued at $3.35 billion from U.S. suppliers. One hundred percent offsets are required, as a condition of sale, by the year 2005. As of October 2000, $3.18 billion (or 95 percent of the total) worth of offsets have been made.

Finland has in most cases completed the process of harmonizing its technical standards to EU norms. It has streamlined customs procedures and harmonized its practices with those of the EU.

6. Export Subsidies Policies

The only significant Finnish direct export subsidies are for agricultural products, such as grain, meat, butter, cheese and eggs as well as for some processed agricultural products. Finland has advocated worldwide elimination of shipbuilding subsidies through the OECD Shipbuilding Agreement. The EU has decided that payment of shipyard subsidies will end at the end of year 2000. According to Finland's year 2000 supplementary budget, subsidies may be granted on ship orders up to a total value of FIM 6 billion and the industry is granted an appropriation of FIM 140 million, in order to secure the competitiveness of the shipbuilding industry.

7. Protection of U.S. Intellectual Property

The Finnish legal system protects property rights, including intellectual property, and Finland adheres to numerous international agreements and organizations concerning intellectual property. In 1996 Finland joined the European Patent Convention (EPC).

Finland is a member of WIPO, and participates primarily via its membership in the EU. The idea of protection of intellectual property is well developed. For example, the incidence of software piracy is lower than in the United States, and by some measures (e.g., BSA) is the lowest in the world.

Information on copying and copyright infringement is provided by several copyright holder interest organizations such as the Copyright Information and Anti-Piracy Center. The Business Software Alliance (BSA), a worldwide software anti-piracy organization, began operations in Finland in January 1994. According to a BSA survey, the rate of software piracy in Finland dropped from 67 percent in 1994 to 30 percent in 1999.

The Finnish Copyright Act, which traditionally also grants protection to authors, performing artists, record producers, broadcasting organizations and catalog producers, is being amended to comply with EU directives. As part of this harmonization, the period of copyright protection was extended from 50 years to 70 years. Protection for data base producers (currently a part of catalog producer rights) will be defined consistent with EU practice. The Finnish Copyright Act provides for sanctions ranging from fines to imprisonment for up to two years.

Search and seizure are authorized in the case of criminal piracy, as is the forfeiture of financial gains. The Copyright Act has covered computer software since 1991.

8. Worker Rights

a. *The Right of Association:* The constitution provides for the rights of trade unions to organize, to assemble peacefully, and to strike, and the government respects these provisions. About 87 percent of the work force is organized. This applies to employers as well. All unions are independent of the government and political parties. The law grants public-sector employees the right to strike, with some exceptions for provision of essential services. In 1999 there were 65 strikes. Trade unions freely affiliate with international bodies.

b. *The Right to Organize and Bargain Collectively:* The law provides for the right to organize and bargain collectively. Collective bargaining agreements are usually based on incomes policy agreements between employee and employer central organizations and the government. The law protects workers against antiunion discrimination. Complaint resolution is governed by collective bargaining agreements as well as labor law, both of which are adequately enforced. There are no export processing zones.

c. *Prohibition of Forced or Compulsory Labor:* The Constitution prohibits forced or compulsory labor, and this prohibition is honored in practice. The law prohibits forced and bonded labor by children and adults, and such practices do not exist. The government enforces his prohibition effectively.

d. *Minimum Age for Employment of Children:* Youths under 16 years of age cannot work more than 6 hours a day or at night, and education is compulsory for children from 7 to 16 years of age. The Labor Ministry enforces child labor regulations. There are virtually no complaints of exploitation of children in the work force.

e. *Acceptable Conditions of Work:* There is no legislated minimum wage, but the law requires all employers, including non-unionized ones, to meet the minimum wages agreed to in collective bargaining agreements in the respective industrial sector. These minimum wages generally provide a decent standard of living for workers and their families. The legal workweek consists of 5 days not exceeding 40 hours. Employees working in shifts or during the weekend are entitled to a 24-hour rest period during the week. The law is effectively enforced as a minimum, and many workers enjoy even stronger benefits through effectively enforced collective bargaining agreements. The government sets occupational health and safety standards, and the Labor Ministry effectively enforces them. Workers can refuse dangerous work situations without risk of penalty.

f. *Trafficking in Persons:* Finland is a secondary destination/transit country for trafficking in persons. While Finnish law does not explicitly prohibit “trafficking in persons,” existing statutes address a range of trafficking-related crimes. In addition, the Government of Finland and Finnish NGOs are making a considerable effort to counter trafficking, e.g., through Finland’s leading role in the European Union anti-trafficking “STOP” project.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

(Millions of U.S. dollars)

Category		Amount
Petroleum		32
Total Manufacturing		486
Food & Kindred Products	7	
Chemicals & Allied Products	357	
Primary & Fabricated Metals	(1)	
Industrial Machinery and Equipment	3	
Electric & Electronic Equipment	33	
Transportation Equipment	-2	
Other Manufacturing	(1)	
Wholesale Trade		351
Banking		20
Finance/Insurance/Real Estate		259
Services		64
Other Industries		143
TOTAL ALL INDUSTRIES		1,355

(1) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.