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**שגרירות ישראל
שטוקהולם
מחלקה כלכלית**

Finland

Economic report 2010



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Introduction

Finland is situated in the northern part of Europe and is the Nordic country furthest to the east. The country has borders to Sweden, Norway, Russia and Estonia. It is nicknamed the country of a thousand lakes due to vast number of lakes. The country is scarcely populated and the majority of the population lives in the southern parts with a concentration of around one fifth in the area around the capitol city, Helsinki.

Finland is considered a modern, competitive and transparent economy with strong abilities within the information and communications technology sectors. According to *Newsweek*, in 2010 Finland is ranked the best country in the world according to a survey regarding health, education, political environment, economic dynamism and quality of life.

Short facts:

- 0,749 Euro /\$1
- Population: 5,3 million
- GDP: \$238.1 billion
- GDP per capita (current PPPs): \$44 492
- GDP Growth 2,4 %
- Inflation rate: 1,6 % annual growth
- Unemployment: 8,3 %
- Total Exports, 2009: \$58,8 billion
- Total Imports, 2009: \$57 billion

It is a parliamentary republic with a central government in the capital Helsinki and local governments in the municipalities. The President of Finland is the head of state, currently this position is held by Mrs. Tarja Halonen, she was initially installed in 2000 for a six year period and in 2006 she was re-elected for a second term. This will be Mrs. Halonens last term since a president can only be re-elected once according to the Finnish constitution. The Finnish parliament exercises the supreme legislative authority and the cabinet exercises most executive powers, headed by the Prime Minister. The current government is a majority coalition formed by the Centre Party, the National Coalition Party, the Green League and the Swedish People´s Party.

President: Mrs. Tarja Halonen (Social Democratic Party)

Prime Minister: Mrs. Mari Kiviniemi (Centre Party)

Speaker of Parliament: Mr. Sauli Niinistö (National Coalition Party)

Foreign Minister: Mr. Alexander Stubb (National Coalition Party)

Minister of Finance: Mr. Jyrki Katainen (National Coalition Party)

Minister of Foreign Trade and Development: Mr. Paavo Väyrynen (Centre Party)

The Finnish industry

Finland remained an agrarian country for a relatively long period of time, but in the 1950s industrialization took over. Today the country is highly industrialized with a mixed economy. Finland has several natural resources, for example timber, minerals and freshwater. The country is a leading producer within high-technology manufacturing. The largest industries are electronics, machinery vehicles and other engineered metal products, forestry and chemicals. About one third of the country's GDP is produced in the area surrounding the capitol city.

Economic synopsis: Finland's economy is recovering

During the second half of 2009, Finnish GDP began to grow from its lowest level at the depth of the recession. The economic recovery has gained strength during the course of 2010. Output growth will probably flatten out gradually and remain fairly slow throughout the forecast period. The most significant growth is visible in traditional industries and in business sectors focused on the domestic market.

In the second quarter of 2010, output was up in all main economic sectors. Real industrial output was up app. 8 % compared to the previous year, at the depth of the recession. Growth has been particularly strong in wood and paper product manufacturing and in metal processing. Even the chemical industry has have experienced strong growth already. Output in the domestic market has also experienced a rapid growth. In the construction industry, a strong increase in new housing starts has been encouraged by government stimulus measures and low interest rates. Strong consumer confidence has also helped sustain the brisk activity on the housing market. Of other domestic market sectors, trade has closely followed the fluctuations in industrial output.

The rise in the harmonized index of consumer prices (HICP) has slowed somewhat during the course of 2010. HICP inflation is forecast to average around 1.6 % in 2010. The pace of rise in consumer prices will accelerate slightly in 2011 and 2012, to around 2 %.

The general government deficit is forecast to grow in the current year to 3.2 % of GDP. By the end of forecast period (2012), general government department will have risen to 55 % of GDP.

Taxes:

- Basic Income Tax: 28 %
- VAT: 23 % standard rate, 13 % on food and 9 % on passenger transport and hotel accommodation
- Flat Corporate Tax rate: 26 %
(<http://www.vero.fi/nc/doc/download.asp?id=7824;1321654>)

Labor market: The news from the Finnish labor market has recently been more positive than expected. The unemployment rate has come down during the year to 8.3 per cent in July 2010. It is estimated that unemployment will come down gradually to 7.7, per cent by 2012. The total number of people in the labor force are currently 2 644 000. The employment rate out of the labor force, calculated on people aged 15-64, was 67.9 per cent in October 2010. The employment rate for men was 68.8 per cent and for women 67 per cent at the same time (http://stat.fi/til/tyti/2010/10/tyti_2010_10_2010-11-23_tie_001_en.html).

Education: The Finnish educational system is known for its high quality and it is a key factor in the Finnish welfare society. The system consists of a nine-year basic education that is compulsory, followed by a three-year upper secondary education in either vocational or general education and there is also a higher education provided by universities and polytechnics. The upper secondary certificates provide students access to higher education. The school-system is free of charge and set-up to provide all children with equal opportunities. There are 20 universities in Finland and they are all state-run.

Trade

The Ministry of Foreign Affairs deals with Finland's trade related issues. The Minister for Foreign Trade and Development is responsible for external economic relations and development cooperation. Finland is a member of the EU since 1995, as well as being a member of the WTO and OECD.

The Bank of Finland forecasts that Finland's GDP will grow 2.6 % this year and 3.0 % in 2011. The slow recovery in output to pre-collapse levels is a consequence of both the structure of Finland's export output and a change in the output structure of the Finnish economy as a whole. The country's export industry is geared strongly towards capital goods, demand for which will not recover more strongly until the recovery in international growth becomes firmly established. Export output will, therefore, approach the pace of growth in the export markets only in the second half of the forecast period.

Finnish exports are largely concentrated to the electronics industry (the major stakeholder being the telecommunications company Nokia), the forest industry, metal and engineering industry. Percentage of the exports that the respective industries account for:

- Forest industry: 20 %
- Electronics industry: 25 %
- Metal industry: 35 %

(<http://www.swedishtrade.se/PageFiles/160503/FINLAND%20LandPM%20juli%202010.pdf?epslanguage=sv>)

Imports: \$79.9 Billion.

Major import countries: Russia (14.1 %), Germany (14.1 %), Sweden (10.0 %), China (7.5 %), UK (4.9 %)

Exports: \$87.7 Billion.

Major export countries: Germany (10.9 %), Sweden (10.7 %), Russia (10.2 %), USA (6.4 %), UK (5.8 %)

The table below shows the total trade between Finland and some of their most important trade partners, 2004-2009.

Commodity		TOTAL : ALL COMMODITIES					
Reporter Country		<u>Finland</u>					
Measure		Value USD \$ (million)					
Time		2004	2005	2006	2007	2008	2009
Partner Country	Flow						
<u>China</u>	Imports	2445.4	3492	5146	6081	6412.8	4820.8
	Exports	2430	1927.2	2469.2	2944.2	3021	2538.5
<u>Germany</u>	Imports	7400.6	8710.7	9610.7	11419.7	12877	8856.2
	Exports	6269.6	6800.8	8188.4	9223.4	9090.6	6058
<u>Russian Federation</u>	Imports	6596	8124.9	9750.8	11519.6	15007	9799.8
	Exports	5321.8	7070.6	7718.8	9090.2	11089	5524.7
<u>Sweden</u>	Imports	5446.7	6127.5	6720.9	7982.8	9203.7	5854.5
	Exports	6604.5	6981.9	8051.3	9561.3	9658.4	6080.9
<u>United Kingdom</u>	Imports	2293.5	2598.2	3324.4	3950.2	3752.2	1994
	Exports	4172.4	4332.7	4821.5	5043.8	5087.8	3059.1
<u>United States</u>	Imports	2324.3	2426.2	2585.1	2731.5	2729	2078.9
	Exports	3717.8	3721.7	4764.1	5423.2	5700	4707.8
<u>European Union</u>	Imports	29981.1	34167.4	38488	45440.3	50058	33959.9
	Exports	34257.9	36634.3	42629	49348.1	52376	33606.1

(<http://stats.oecd.org/index.aspx>)

Finpro is the Finnish government agency that promotes Finnish exports. It was founded in 1919 as the Finnish Export Association and today the organization has offices in Finland and in Finland Trade Centers around the world.

Doing business

In the World Bank Groups (<http://doingbusiness.org/rankings>), “Ease of Doing Business” rank, Finland comes in 13th place out of 183 countries in 2010.

Invest in Finland is the Finnish government agency promoting foreign investments into Finland. They have expertise in different sectors within industry and technology as well as trade and services. Invest in Finland assists international companies in finding business opportunities in Finland along with providing information about doing business in Finland.

According to the Heritage Foundations’ 2010 Index of Economic Freedom, Finland is ranked as the 17th most economic free country in the world. The table below shows the criteria the foundation use. 100 on the scale imply most free and 0 is the least free.

95	Business Freedom	Avg 64.6
87.5	Trade Freedom	Avg. 74.2
65.4	Fiscal Freedom	Avg. 75.4
32.9	Government Spending	Avg. 65.0
78.9	Monetary Freedom	Avg. 70.6
75	Investment Freedom	Avg 49.0
80	Financial Freedom	Avg 48.5
90	Property Rights	Avg 43.8
79	Fdm. from Corruption	Avg 40.5
43.8	Labor Freedom	Avg 62.1

(<http://www.heritage.org/Index/pdf/2010/countries/finland.pdf>)

The economic freedom in the Finnish economy has a solid background and Finland is considered a world leader in area like trade and business freedom. The limits to Finland’s economic freedom are similar to those in other European social democracies namely high government spending and a ridged labor market. The extensive welfare state demands a high government spending and labor regulations makes hiring and productivity growth less increasing than possible.

Israel/Finnish relations

Trade

Trade between Israel and Finland has increased over the last 15 years. Innovation and high-tech are common denominators for the countries and the most potential trade opportunities are within these fields. Approximately half of Finland's imports from the Middle East come from Israel.

Through the cooperation between the Finnish, Tekes (the Finnish Funding Agency for Technology and Innovation) and its Israeli counterpart, MATIMOP there have been joint projects between Israel and Finland within the fields of information and communication technology and medical biotechnology.

(<http://www.finland.org.il/public/default.aspx?nodeid=39219&contentlan=2&culture=en-US>)

The table below shows trade in goods and services, excluding diamonds, between Israel and Finland 2008 and 2009. It also shows the trade in the first 10 months of 2010 and as a comparison the same time period in 2009.

Million \$	2008	2009	I-X 2009	I-X 2010
Imports	370.2	332.6	277.1	298.2
Exports	167.8	119.8	97.9	106.5

(http://www1.cbs.gov.il/reader/newhodaot/tables_template_eng.html?hodaa=201016274)

Main products from Finland to Israel:

-ICT-Products (Information and Communication Technology)

-Other machinery

-Wood

-Paper and paperboard

Main products from Israel to Finland:

-ICT-Products

-Fruits and vegetables

-Chemicals and related products

The political situation in the Middle East can from time to time have a negative effect on the trade relationship between Israel and Finland.

Potential opportunities/partner companies for Israeli companies:

Some of the most important sector initiatives in Finland at the moment are relevant for Israeli companies. These are within the fields of;

- **High-Technology Industry/ ICT:** Finland is a big stakeholder in high tech, largely due to the success of Nokia. There is a consumer demand for ICT products and services. Access to public R&D.
- **Clean Technology:** A great number of companies are working with new solutions within environmental technology and renewable energy. Some of the areas where there is a need for competence are in wind generators and energy efficiency in housing and industry.
- **Life Sciences:** Life Science is a growing industry in Finland, especially in the area of biotechnology.

(<http://www.finland.org.il/public/default.aspx?nodeid=39360&contentlan=2&culture=en-US>).

Important visitors to/from Israel/Finland in 2010:

- The Finnish President, Tarja Halonen visited Israel 11-13 October, 2010. During her visit she met with President Shimon Peres, Prime Minister Benjamin Netanyahu, Defense Minister Ehud Barak and Foreign Minister Avigdor Lieberman. President Halonen also met with the Speaker of the Knesset Reuven Rivlin and the leader of the opposition party Tzipi Livni. The aim of the visit was to develop bilateral relations between Israel and Finland.
- The Israeli Foreign Minister, Avigdor Liberman met with the Finnish Foreign Minister, Alexander Stubb in Helsinki on 6 July, 2010. They discussed bilateral relations of Israel and Finland as well as the situation in the Middle East particularly regarding the status of the regions peace process. Minister Liberman also met with the Minister of Foreign Trade and Development and the President during his visit (<http://www.finland.org.il>).

Finnish companies in Israel:

- **Nokia** (Telecommunications)
- **Kone** (Solutions for elevators and escalators)
- **SUUNTO** (Sports instruments)
- **Polar Electro** (Sports instruments)
- **Iittala** (Interior design)

Recommended websites:

- The Finnish Government, <http://www.valtioneuvosto.fi>
- Ministry for Foreign Affairs in Finland, <http://formin.finland.fi/public/default.aspx?culture=en-US&contentlan=2>
- Tekes (the Finnish Funding Agency for Technology and Innovation), <http://www.tekes.fi>
- The Finnish embassy in Israel, <http://www.finland.org.il>
- The Central Chamber of Commerce, <http://www.keskuskauppakamari.fi>
- Invest in Finland, <http://www.investinfinland.fi/>
- Finnish Foreign Trade Association, <http://www.finpro.fi>