

**COUNTRY PROFILE:****REPUBLIC OF FINLAND**

PROC IES/02: ATTACHMENT A

**DATED:****JUNE 2008****CREDIT GUARANTEE:**

	<i>Country Rating</i>	<i>U/W Method</i>
<i>Short-term</i>	1A	No Restriction

*Recent Political Highlights*

- ❑ Chief of state since March 2000 is President Tarja Halonen. The president is elected by popular vote for a six-year term and maximum two consecutive terms. The next election is scheduled for January 2012.
- ❑ Head of government since June 2003 is Prime Minister Matti Vanhannen of the Centre Right Party (KESK). The Centre Party, which won the March 2007 parliamentary elections by a razor-thin margin, governs in a centre-right coalition with the Conservative National Party (KOK), the Greens and the Swedish People's Party. The EIU believes that the four-party coalition will remain intact and in power until the next elections in January 2012, despite a considerable blow to its standing following revelations of non-declaration of funding to leading politicians in the two largest parties, the KESK and KOK.

*Recent Economic Highlights*

- ❑ Finland's population is currently estimated at 5.2 million with an annual growth rate 0.1%.
- ❑ Finland has a highly industrialised, free market economy. The largest sector of the economy is services at 65.7%, followed by manufacturing and refining at 31.4%. Finland is highly integrated in the global economy and international trade is a third of GDP. GDP grew by 4.4% in 2007 (amounting to €179bn), boosted by exports, consumption and investments. The Finnish Finance Ministry has reported that the country's strong economic upswing is leveling off and economic growth is slowing down. Economic growth in 2008 is expected to remain at 2.8% while the current estimate for growth in 2009 is at 2%, down from the previous estimate of 2.3%.
- ❑ The government's main economic policy priorities are improving the energy and environmental policy; increasing employment, particularly by entrepreneurship; reforming social benefits and maintaining Finland's lead in new technologies.
- ❑ The unemployment rate was 6.8% early this year. In a report by the OECD, Finland was advised to lower income tax rates, particularly on high earners to help attract and retain high-skill jobs and workers. The OECD also recommended an increase in property tax rates, a cut in the corporate tax rate and broadening of both corporate and VAT tax bases. VAT is charged at 22% on most goods and services; the top rate for personal income tax is 50% while the rate of tax payable for capital gains is 26% for companies and 28% for individuals. With an estimated surplus of 5.2% in 2007, government is planning tax cuts worth €2.2bn, spread over the next three years.
- ❑ Inflation has been running at well over 3% in the first four months of 2008, partly owing to rising international energy and food prices and higher housing costs. Food prices in May were up 10% compared to the previous year. Inflation was estimated at 4.2% in May from 3.5% in April. Among the measures proposed by the finance minister to sustain purchasing power were continued wage raises, income tax cuts and cuts in value added tax for food. All these are to be discussed in the August budget talks. Next year's inflation is expected to be lower at around 2.5-2.7%.
- ❑ Finnish hauliers struggling under stratospheric fuel costs, held a meeting with representatives of three ministries to raise their concerns about the future of the country's road transport industry. The hauliers say a wave of bankruptcies will ensue if shipping rates cannot be raised quickly, something that would mean the annulment of some contracts. The ministry of finance however said the state can offer no relief to small transport companies that are suffering from sharp rises in fuel prices. The hauliers have proposed a reimbursement of fuel taxes paid by the companies. Refunds totaling €20 million should be possible in principle but the ministry says tax refund would require change in legislation and this could take up to three years to effect.
- ❑ The biggest nuclear reactor in the world is being built in western Finland. Construction of the 1,600MW nuclear plant started in 2005, but the project has not gone entirely to plan and the plant will be completed in 2011, two years later than planned. Finnish companies have announced extensive sea wind projects with a combined capacity of about 1,300 MW. Investment is being spurred by the EU's goals in limiting emissions which are forcing member states to invest in more renewable energy. The first of the power plants could be operational five years from now.

*Latest Trade Developments*

- ❑ Main exports: machinery and equipment, chemicals, metals; timber, paper and pulp.
- ❑ Main imports: food, petroleum and petroleum products, chemicals, transport equipment, iron and steel, machinery, textile yarn and fabrics and grains.
- ❑ Major trading partners: Russia, Sweden, Germany, UK, US, Netherlands, Denmark and China.
- ❑ SA's exports to Finland totaled R134m in 2005, R585.3m in 2006 and R713.4m in 2007. South Africa's main exports to Finland comprise mainly of the following broad categories: paper products, processed foods, mineral products, machinery and basic metals.

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