‘The challenge facing Finland' from Le Figaro (30 July 1992)

Caption: On 30 July 1992, with a view to Finland’s forthcoming accession to the European Communities, the French daily newspaper Le Figaro profiles the country’s economic situation.

Source: Le Figaro. 30.07.1992. Paris: Le Figaro. "Le pari finlandais", auteur:Demeulenaere, Luc.

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The challenge facing Finland

Deprived of its special relationship with the former Soviet Union, Finland is counting on membership of the Europe of the Twelve to relaunch its economy.

Finland has been hit by the general recession but is suffering even more from the demise of the Soviet Union, which was its main trading partner. It hopes to revive its economy in the fairly short term, but at the cost of far-reaching changes. Pending membership of the European Community, the country is increasingly opening up to outside investors and seeking to attract foreign capital, especially via the stock market. The Finnish stock exchange has the technical means to develop trading, provided it can be rescued from the slump into which it has sunk.

Finland suffered a double setback in 1990. It was hit by the Gulf crisis, which affected the whole world, plus the termination, by mutual consent, of its clearing agreement with the Soviet Union. Foreign trade and the gross national product (GNP) took a knock, followed by a sharp fall in 1991. In money terms, exports fell by 6.5 %, imports by 13 %, and GNP by 6 %. Domestic consumption slackened considerably. Dismay was all the stronger as Finland had experienced strong growth since the early 1980s. ‘We were considered the Japanese of Europe and lived in a state of euphoria,’ says Mrs Pirkko Lammi, a prospect analyst at the Confederation of Finnish Industries, referring to the ‘consumer madness’ reflected in the construction of ‘palatial homes, golf courses, etc.’

Only two years ago unemployment was marginal. It rose suddenly from 3.1 % of the active population in June 1990 to almost 6 % by the end of the year, and the situation has grown steadily worse ever since. Unemployment stood at 13 % this spring and could reach 20 % by December. The cost of unemployment benefits for 1992 is estimated at 22 billion Finnish marks (FIM) — i.e. 27.5 million francs — or 13 % of the budget. This would increase the total public sector debt, now one of the lowest in the world, from less than 16 % of GNP to 30 %. Taxes will have to be increased and the over-generous unemployment benefits revised downwards.

Pay deals have been reached on a wage freeze, and the government is looking at a plan to restrict the right to strike. While the unions are planning action to prevent the authorities from going too far, the social climate is unlikely to worsen catastrophically.

Inflation, which seemed to be getting out of hand, soon eased off, falling to an annual rate of 2.4 % in May. There were signs of economic recovery in the first quarter despite a further drop in domestic demand. Exports were boosted by the devaluation of the FIM (by 12.3 % on 15 November 1991), but while volume increased, profitability dropped.

The stock exchange: a quality tool

Trade with the Soviet Union, which once accounted for over a quarter of Finland’s foreign trade, has fallen to around 5 %. The former relations with the Russians will facilitate trade with the Commonwealth of Independent States (CIS), but its resumption will obviously depend on the solvency of the regions in question. Finland is also well placed to take advantage of the revival of the Baltic states. However, it is planning to step up its exports throughout the world. Beyond the European Community, it is already very active in the United States and Japan.

Basic industries, primarily timber, will retain their central position. But diversification is underway, with priority given to international services (transport of people and freight, insurance, tourism, research, etc.) In 1970 the service sector employed 42 % of the active population. In 1990 its share had risen to 60 %, and could reach 85 % by the year 2000.

Finland’s objectives call for investment that, for the time being, is not commensurate with its ambitions.

Falling profitability has led firms to cut production costs. They need outside funding, hence the greater openness to foreign investment. The necessary structures have been in place for a long time — notably Finnfacts, a private institute founded in 1960 to develop trade relations. A financial organisation, Invest in Finland Bureau, has just been set up with support from the Ministry of Trade and Industry, the Ministry of Finance and the employers' federation. Headed by Erkki Karmila, a respected Helsinki financier, its task is to provide information and contacts for investors and banks.

In addition to close direct financial links (joint ventures have already been concluded), the aim is to create a flow of business by means of the stock exchange.

The Helsinki Stock Exchange, built in 1911 to an original design by an architect who wanted to get away from the colonnaded temples that were being erected almost everywhere, now resembles a museum. The main hall, with its rows of desks facing a podium with a large blackboard, looks like a classroom deserted for the summer holidays. The visitors' gallery is also empty.

But activity is not at a standstill. During the 1980s, turnover was multiplied by more than 120. Transactions are now carried out silently on keyboards and screens placed between 27 firms of brokers. Helsingin Arvopaperipörssi, as the stock exchange is called in Finnish, is now fully computerised and in no way lags behind those of other countries. It boasts a market open continuously from 9 a.m. to 5 p.m. five days a week, the Helsinki Stock Exchange Automated Trading and Information System (HETI), a settlement/delivery system, an options market, and the Finnish Options Index (FOX). There have also been reforms concerning the security of transactions and protection of investors.

In 1988 an independent foundation was set up to promote the stock market. Run by Sirkka-Liisa Roine, it publishes an annual guide, *How to trade in Finland*, a quarterly review, *Finance and Finland*, and all the necessary statistics.

Measures have been taken to encourage foreigners to buy Finnish shares. At the present time, no foreigner may hold more than 20 % of the voting rights in a Finnish company: while he may obtain a derogation to increase his holding to 40 % and even 100 % with the consent of the Minister for Trade and Industry, the ceiling on voting rights remains fixed at 20 %. That discrimination will end on 1 January 1993, and foreigners are not liable to Finnish taxes on property gains, dividends, and interest on deposits.

Pending economic revival

While you are sure of a welcome, what can you expect to earn from a Finnish share holding? The Helsinki stock exchange is in the throes of depression. Share prices have dropped sharply over the last three years. The HEX general share index (base value 1000 at end 1990), which reached a record high of 2009.54 on 17 April 1989, has been falling almost continuously ever since. By 31 December 1991 it had dropped to 763.81, a loss of 62 % in 32 months. At end June 1992 it was still close to that low level (763.08), but the fragile threshold collapsed in July, and the index now stands at less than 690.

Stressing the serious situation faced by companies that have been unable to call on the market to increase their equity, Juhani Erma, managing director of the Helsinki stock exchange, thinks local investors may continue to keep their distance. He places his hopes on measures to attract foreign investors. although he is aware that recovery will depend above all on the success of Finland's economic policy and the reduction of interest rates.

Björn Wahlross, Vice-Chairman of the country's largest bank, the Union Bank of Finland, argues that 'excessive' interest rates for monetary deposits are preventing a stock market revival. Short-term deposits earn up to 14 %, i.e. a real return of around 11 % after inflation. But interest rates are mainly influenced by the Bundesbank and cannot be dictated on the shores of the Baltic.

Opinions differ on the recovery of share prices. Some people advise waiting a year, even two or three, before buying. Others think the present low levels could be exploited to buy now with an eye to the medium term. Moreover, the situation is complicated by speculation about possible takeover bids.

Privatisation of the Neste oil company (turnover of 65 billion francs), which Esko Aho’s centre-right coalition government plans for next autumn, will be a test of confidence. The shares will be offered to Finnish and international savers and investors and will be floated simultaneously in Helsinki and London.

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