



Sources of success for an economy - and the enterprises in it - in the euro area

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Contemplations around the EU/EMU in Finland

- Not only economic considerations but also political
 - Maximise the country's political presence and influence
- Economic considerations very important
 - Generally some critique on the country's economic instability; several devaluations; severe economic crisis in the early 1990s
 - Through membership the economy would gain more stability and greater sense of reliability



Expectations of the EMU in Finland

Expected macroeconomic benefits

- Better credibility of monetary policy
- Resulting in lower interest rates, in particular long-term interest rates
- In turn increasing investments and enhancing economic growth
- Creating mindset conducive to wage moderation
- Facilitating reduction of costs, lessening inflationary pressures, thus improving competitiveness and employment



Expectations... (2)

Potential threats

- Asymmetric shocks (i.e. economic shocks which may cause adverse effects more strongly on a single country than the entire monetary union) without the possibility of using one's own independent monetary policy to adjust to the shocks
- Rigidity of fiscal policy and labour markets
- Ability to create and maintain sufficient buffers in public finances



Expectations... (3)

Structural effects and efficiency benefits

- Reduced transaction costs
- Increased competition
- More extensive financial markets
- Increased economic openness
- Lever to
 - Accelerate changes in production and financial services
 - Require more effective cost control, more flexible labour markets and stronger corporate balance sheets than before

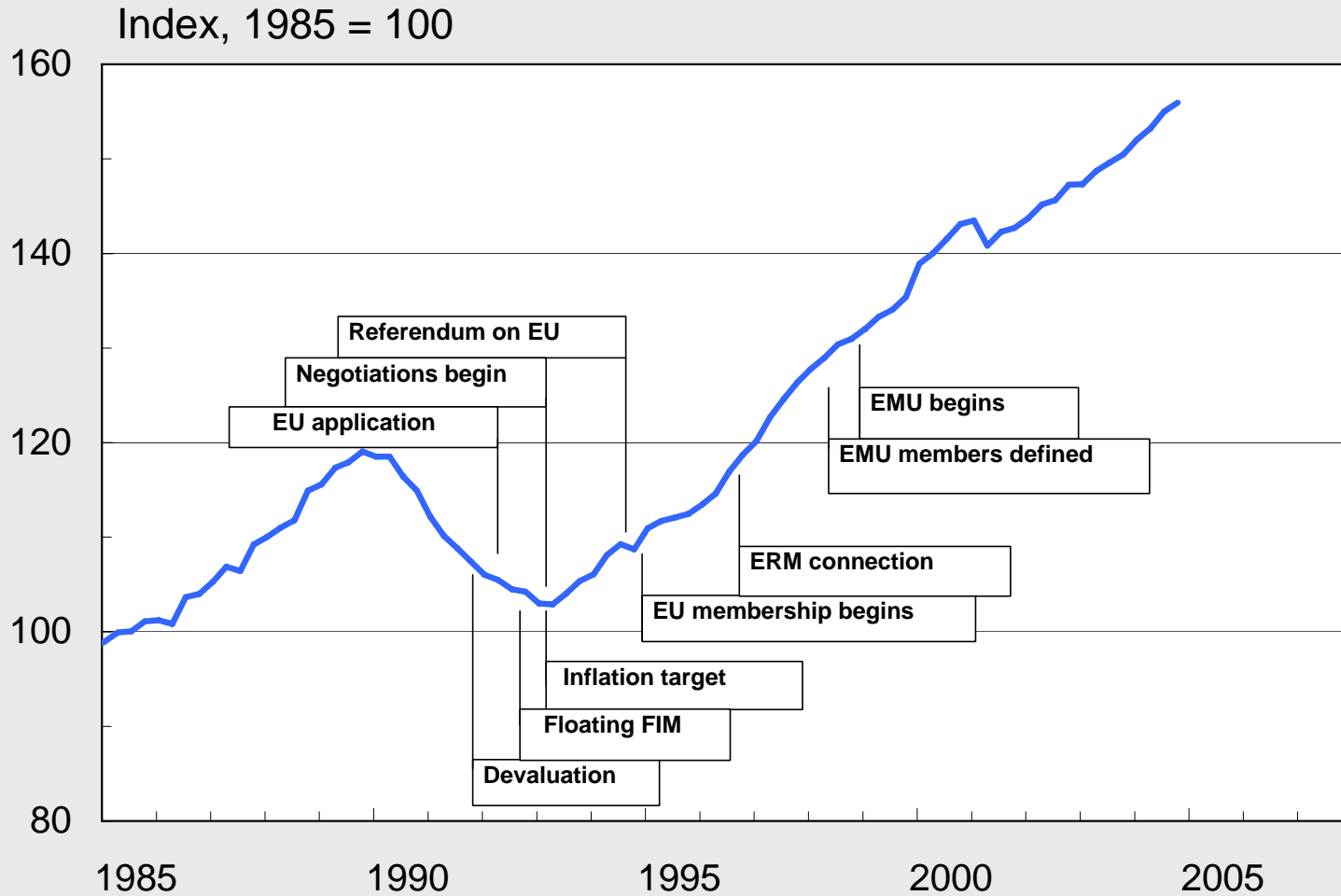


Sweden: “No” Finland: “Yes”

- Calmfors Report (Sweden); negative in balance
 - Still higher unemployment, when macroeconomic disturbances cannot be countered by monetary and exchange rate policies
 - Deteriorating fiscal situation possible
 - More public debate to establish legitimacy
 - Anyway, some other countries stay outside the EMU
- Pekkarinen Report (Finland); positive in balance
 - Despite the same worries as in Calmfors Report, assumption of flexible labour markets and responsive fiscal policy
- Finland and Sweden – a major difference in approach
 - Sweden: improved economic position first, then EMU entry
 - Finland: membership itself forces changes in public policy and private sector behaviour



Real GDP and the Path to EMU

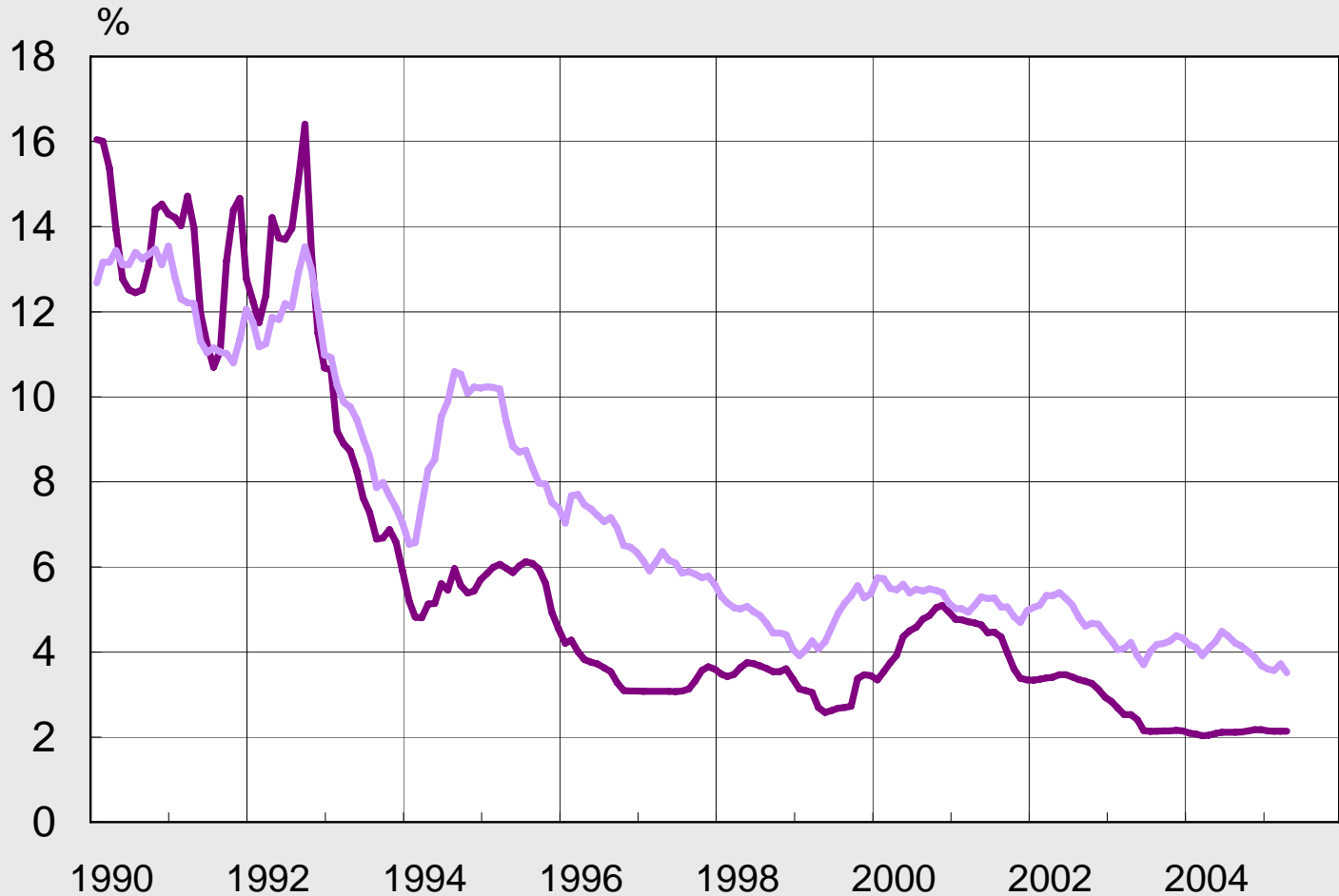


Source: Statistics Finland and Bank of Finland.



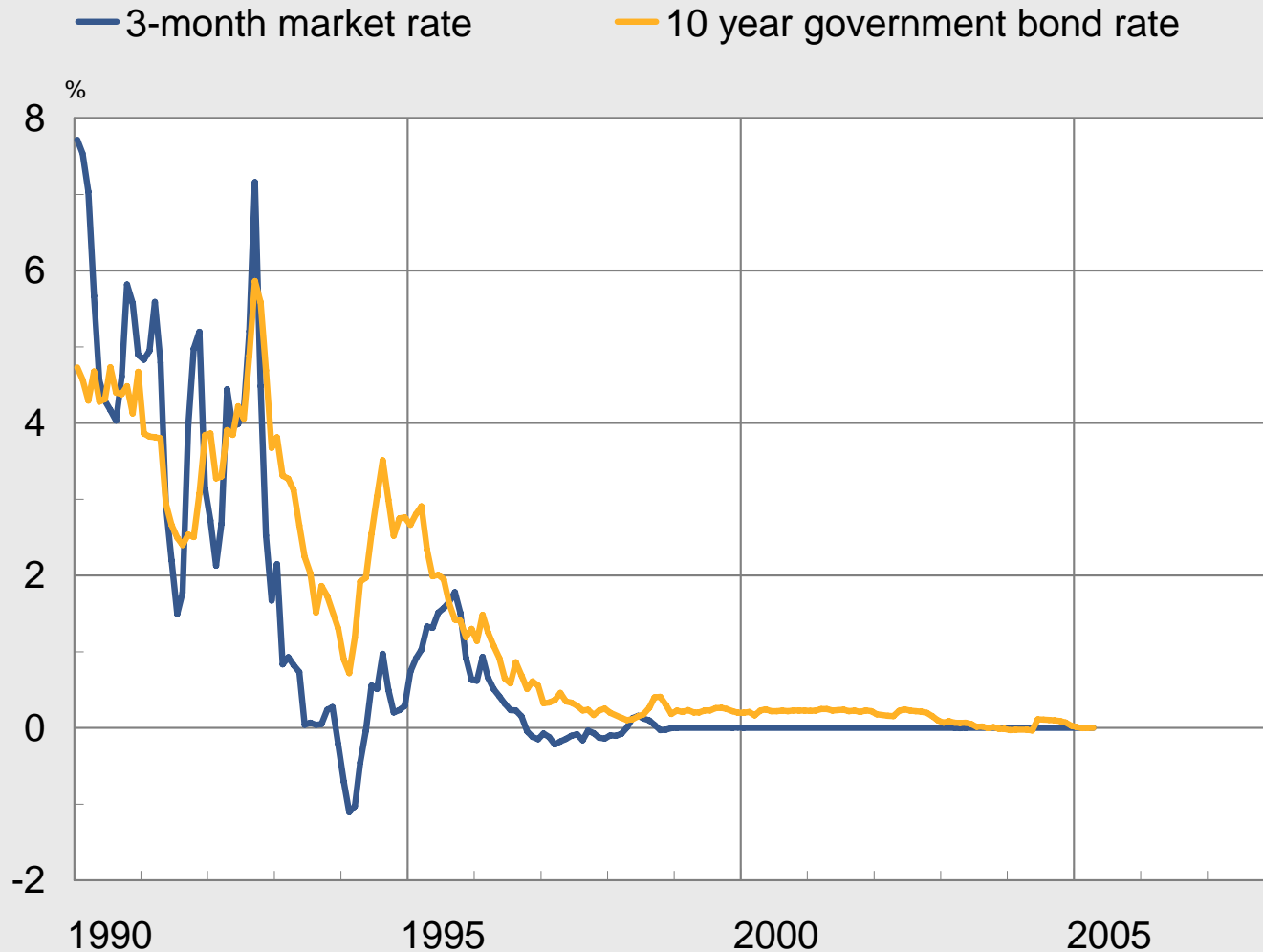
Interest rates in Finland

— Finland, 3-month — Finland, 10-year





Interest rate differentials between Finland and Germany



Source: Reuters.



Competitiveness

Finland: Real effective exchange rate

Index, Jan.-March 1999 =100





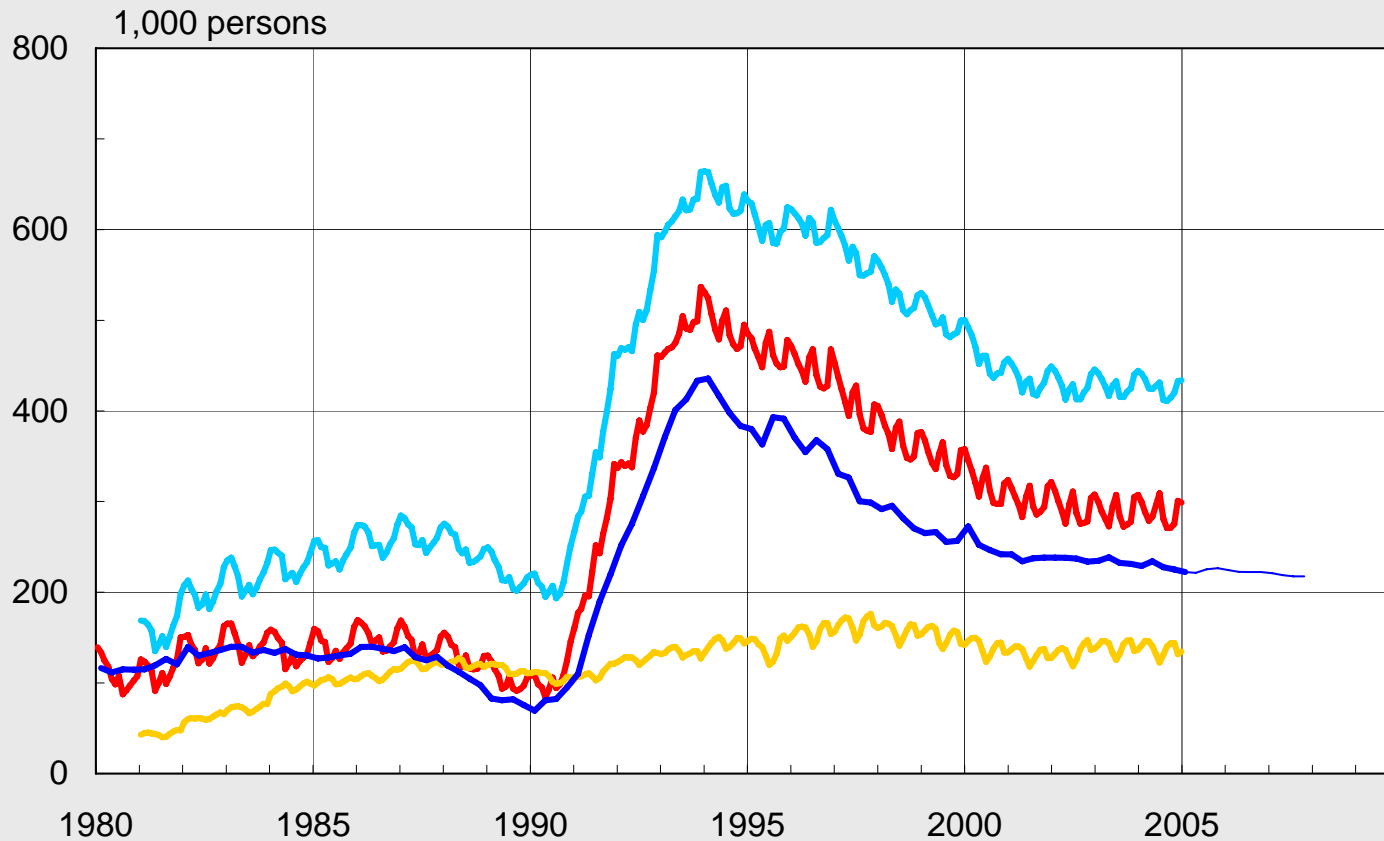
Competitiveness indexes

- IMD
- World Economic Forum
- Finland 6th on IMD (US no. 1) 1st equal with US on WEF
- Finland does well on infrastructure and efficiency of the public sector, a little weaker on private sector efficiency and a lot weaker on economic development (just above EMU average)
- Weaknesses high wages, high taxes, slow labour force growth and limited incentives for job search from the welfare system



Different definitions of unemployment

- Broad unemployment *
- Narrow unemployment *
- Disguised unemployment *
- Unemployment in Statistic Finland data (seasonally adjusted by the Bank of Finland)



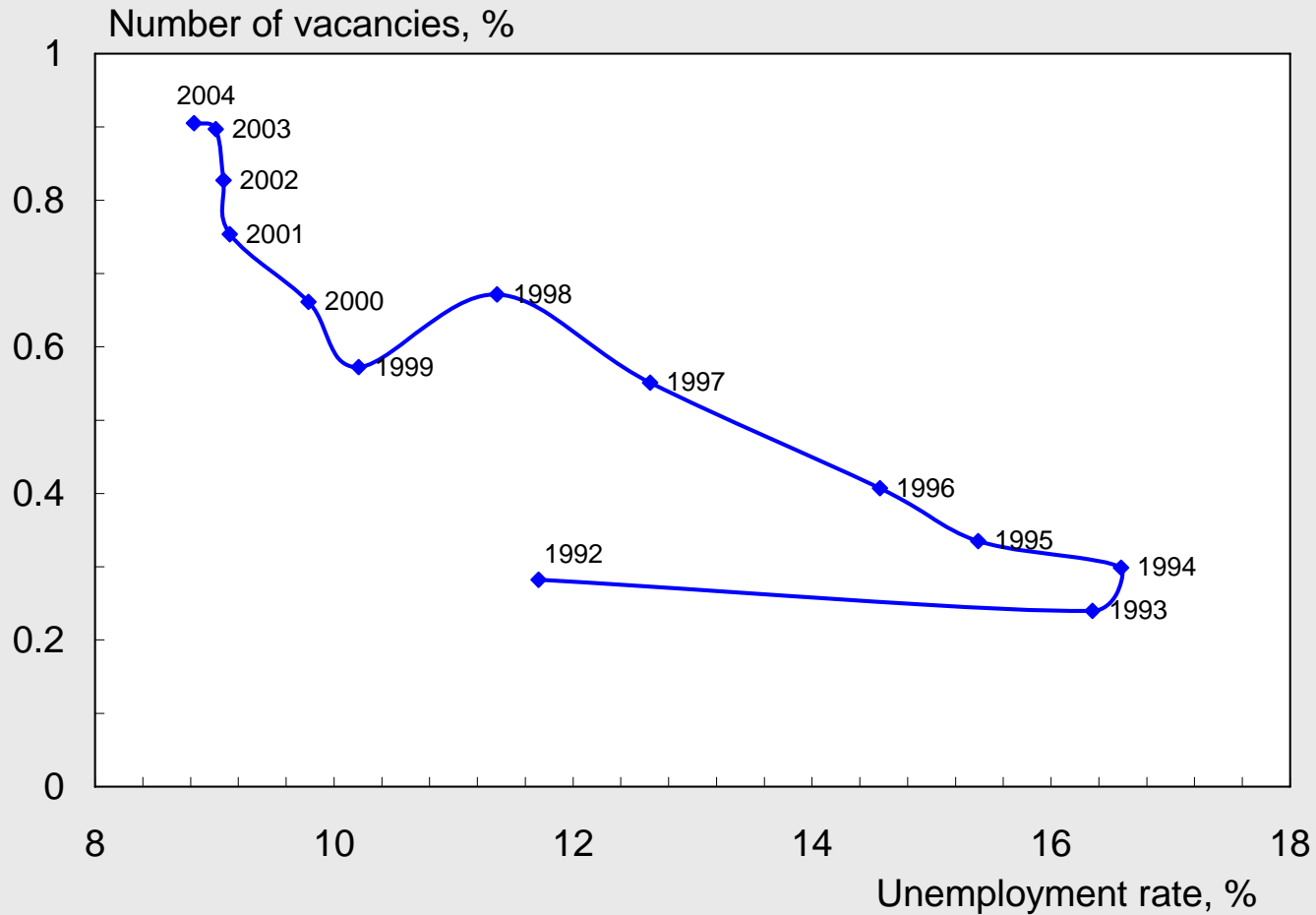
* Calculated on the basis of Ministry of Labour statistics.

Sources: Ministry of Labour, Statistics Finland and Bank of Finland.



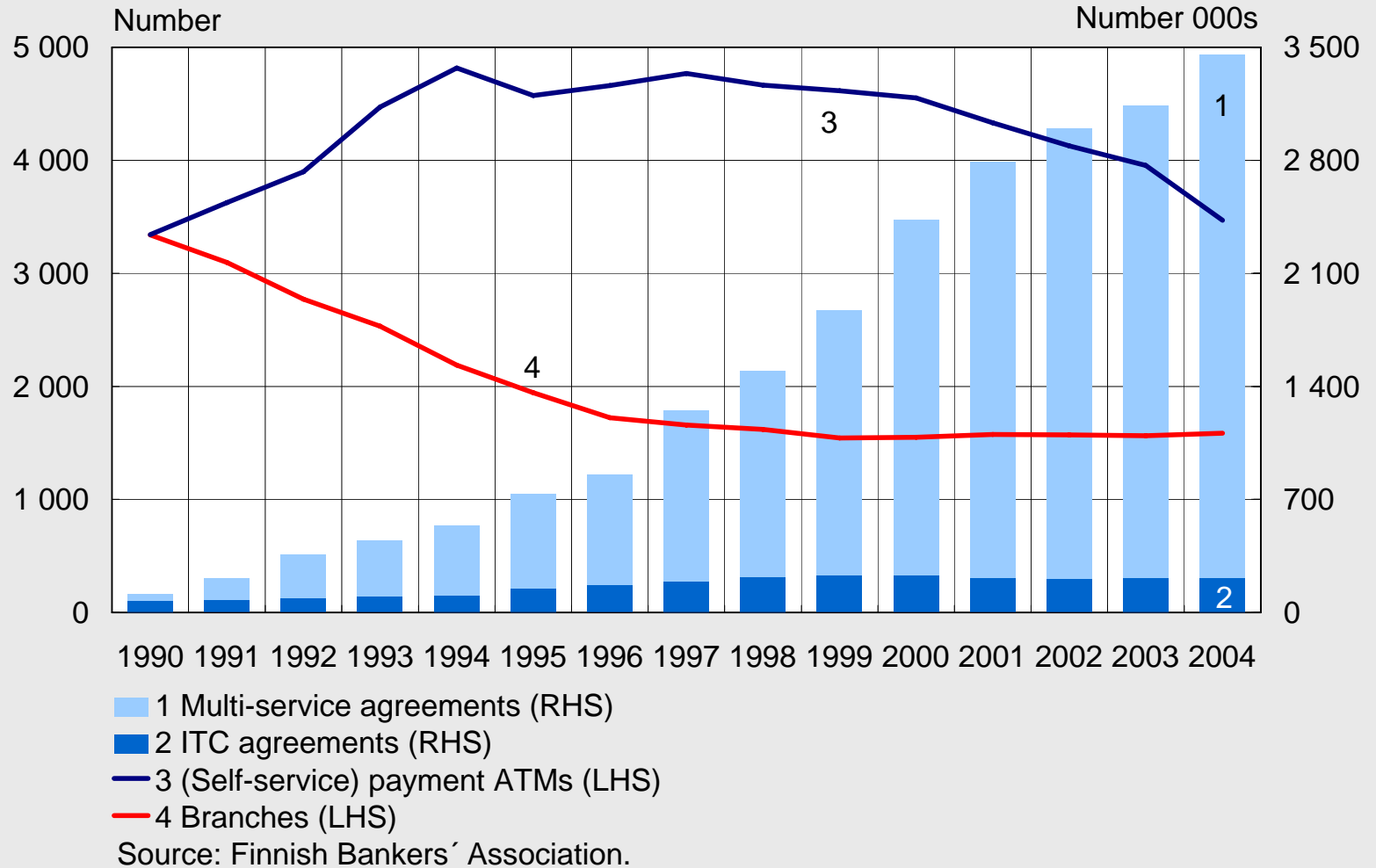
Unemployment

Beveridge-curve, 1992-2004





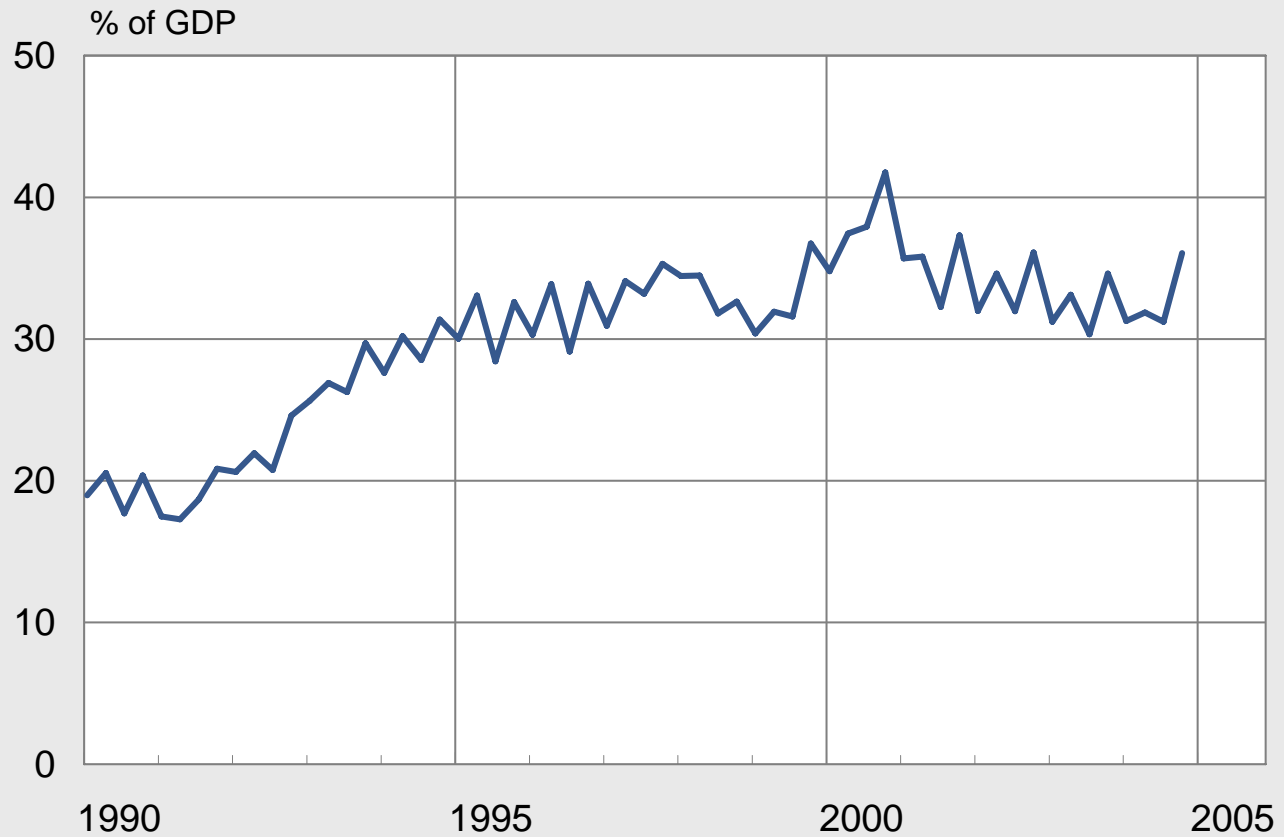
Development of banks' distribution channels





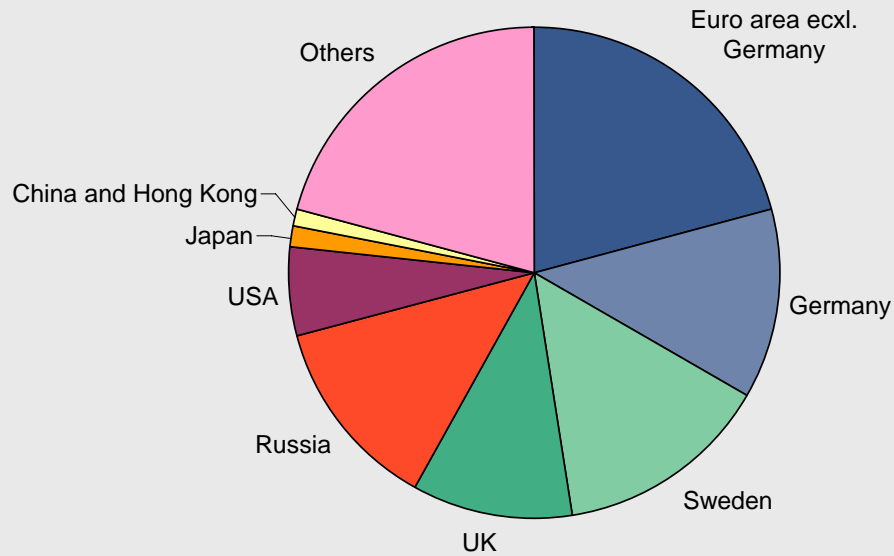
Enterprise level opennness

Exports in Finland



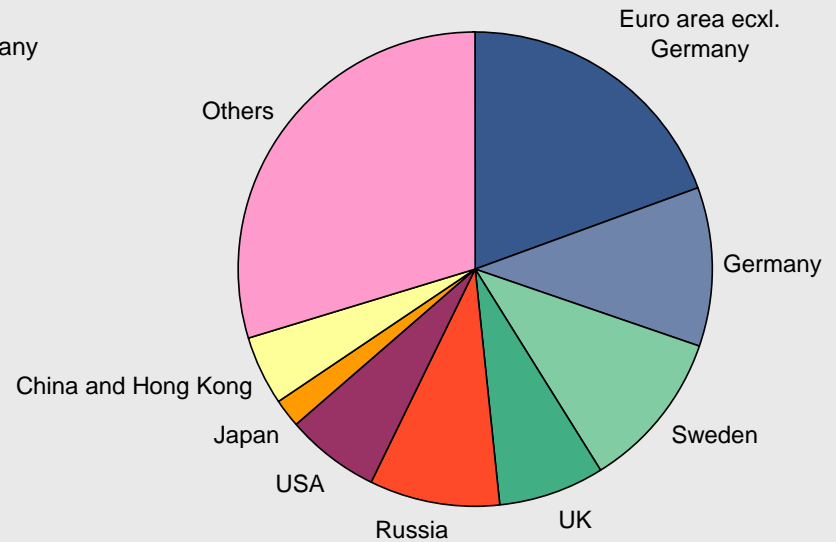
Finnish exports

Country distribution of Finnish exports 1990



Source: National Board of Customs.

Country distribution of Finnish exports 2004

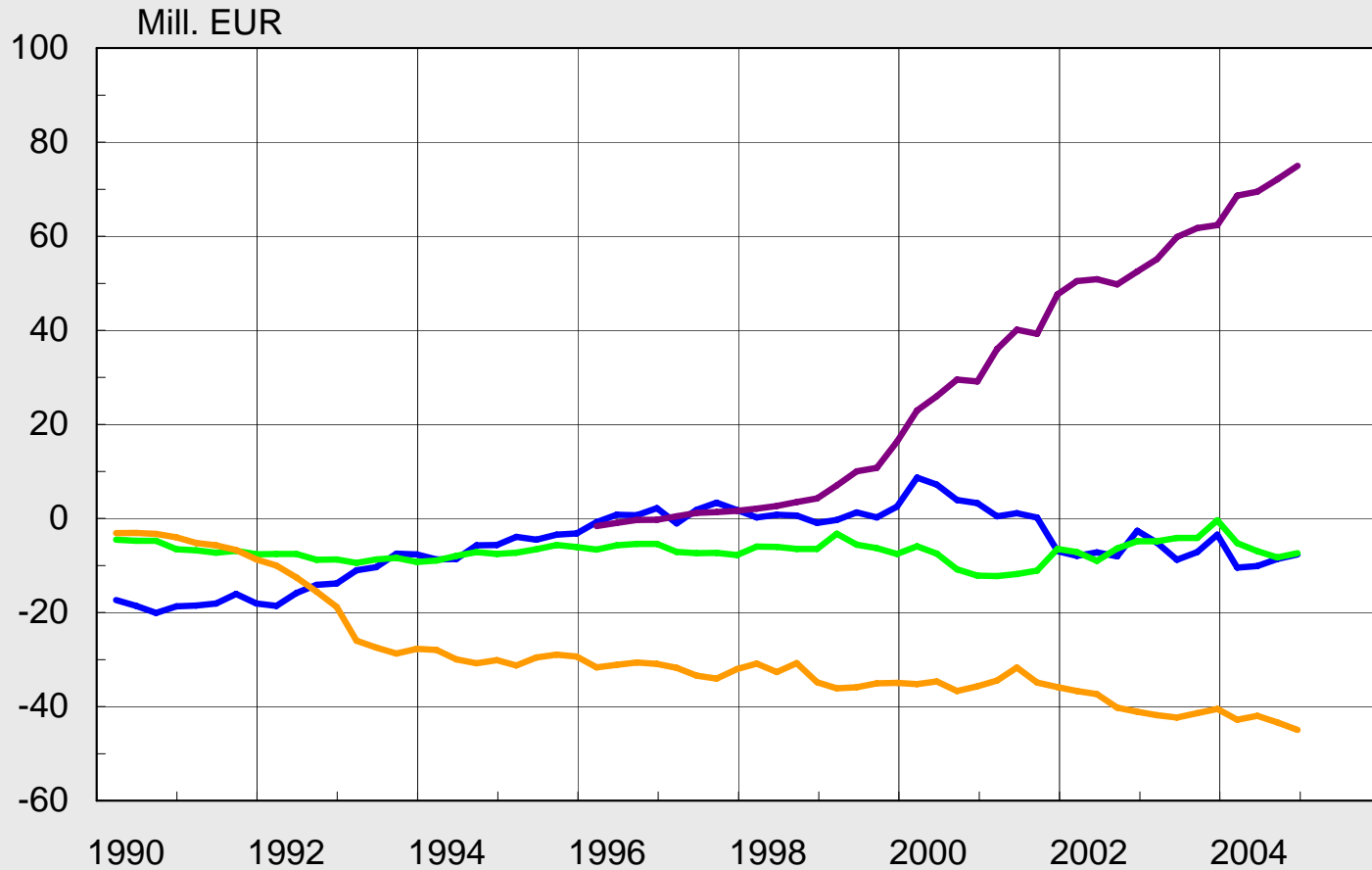


Source: National Board of Customs.



Finland's net international investment position by sector

- Banks
- Enterprises excl. shares and other equity items
- Central government
- Employment pension institutions and other financial institutions

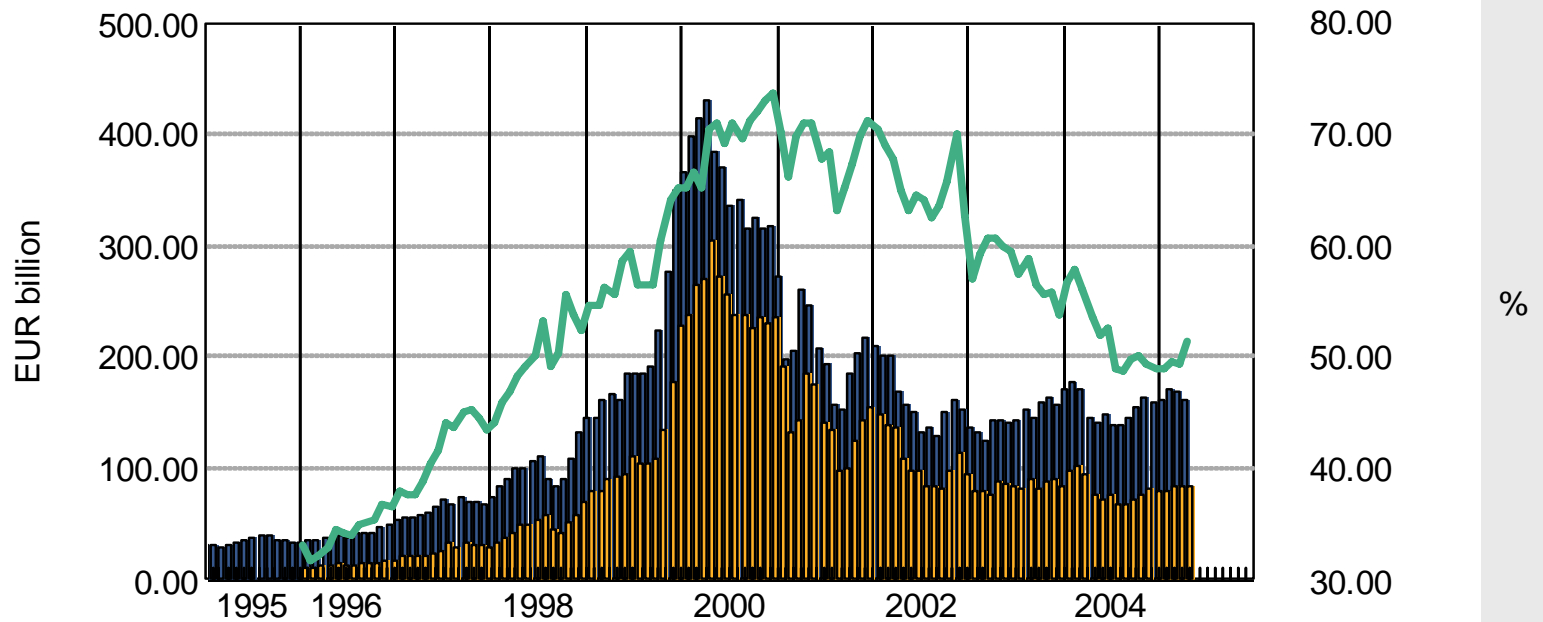


Source: Bank of Finland.

Stock market

Listed shares in Finland: total market capitalisation and non-residents' holding

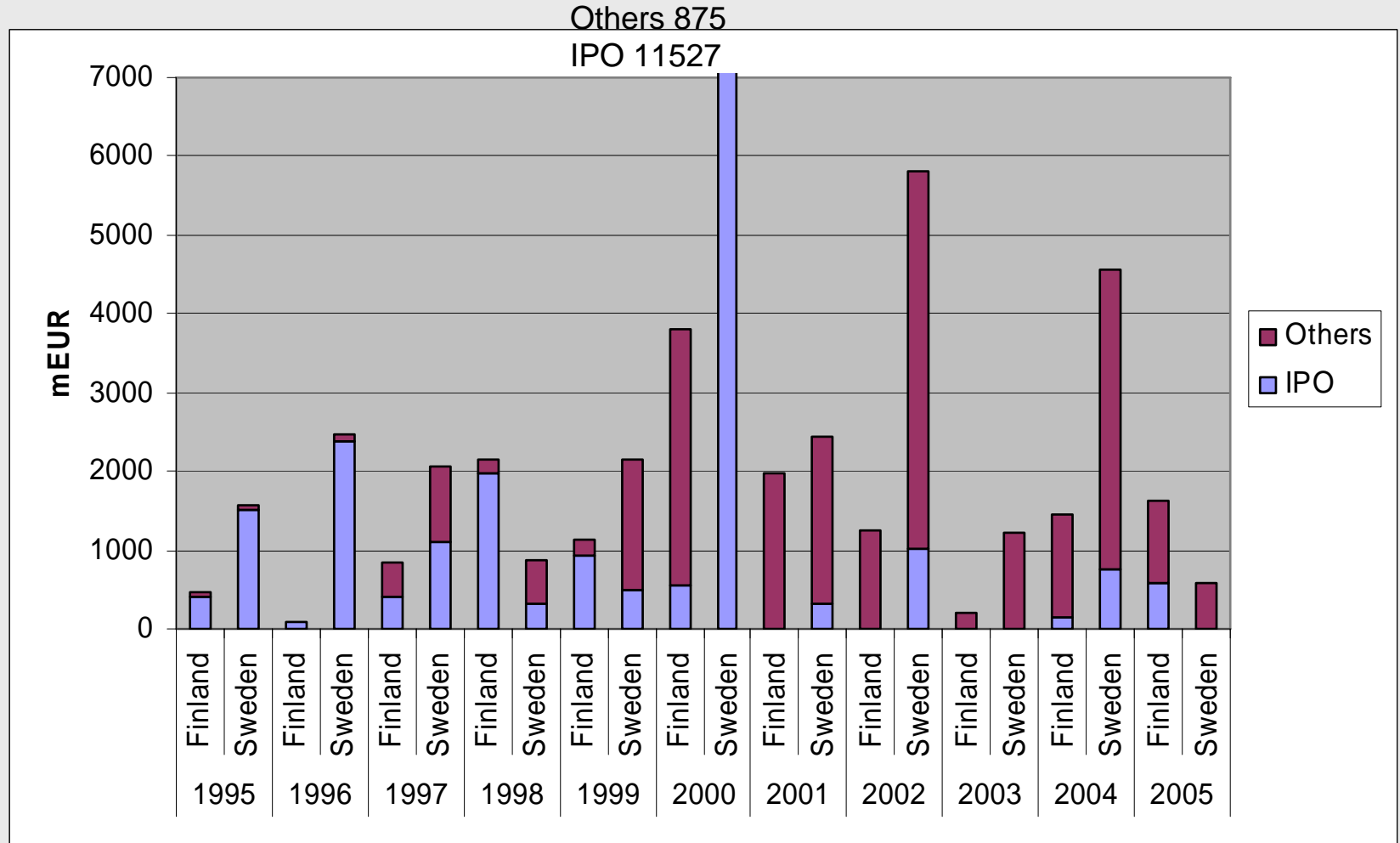
- Market capitalisation of all listed shares (lhs)
- Market capitalisation of non-residents' holdings (lhs)
- Non-residents' holdings as a percentage of market capitalisation (rhs)



Source: Helsinki Stock Exchange.

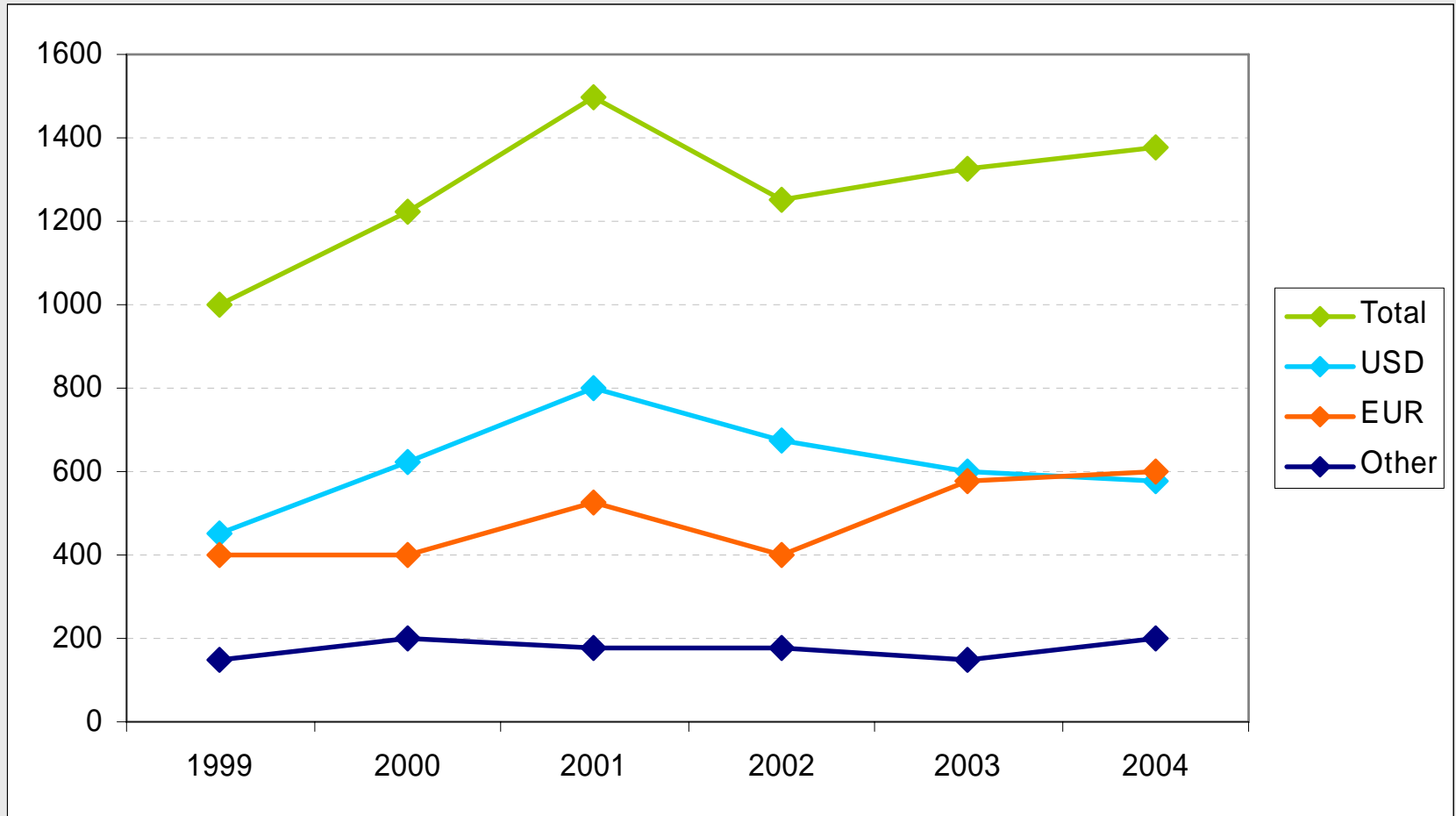


Raising equity capital



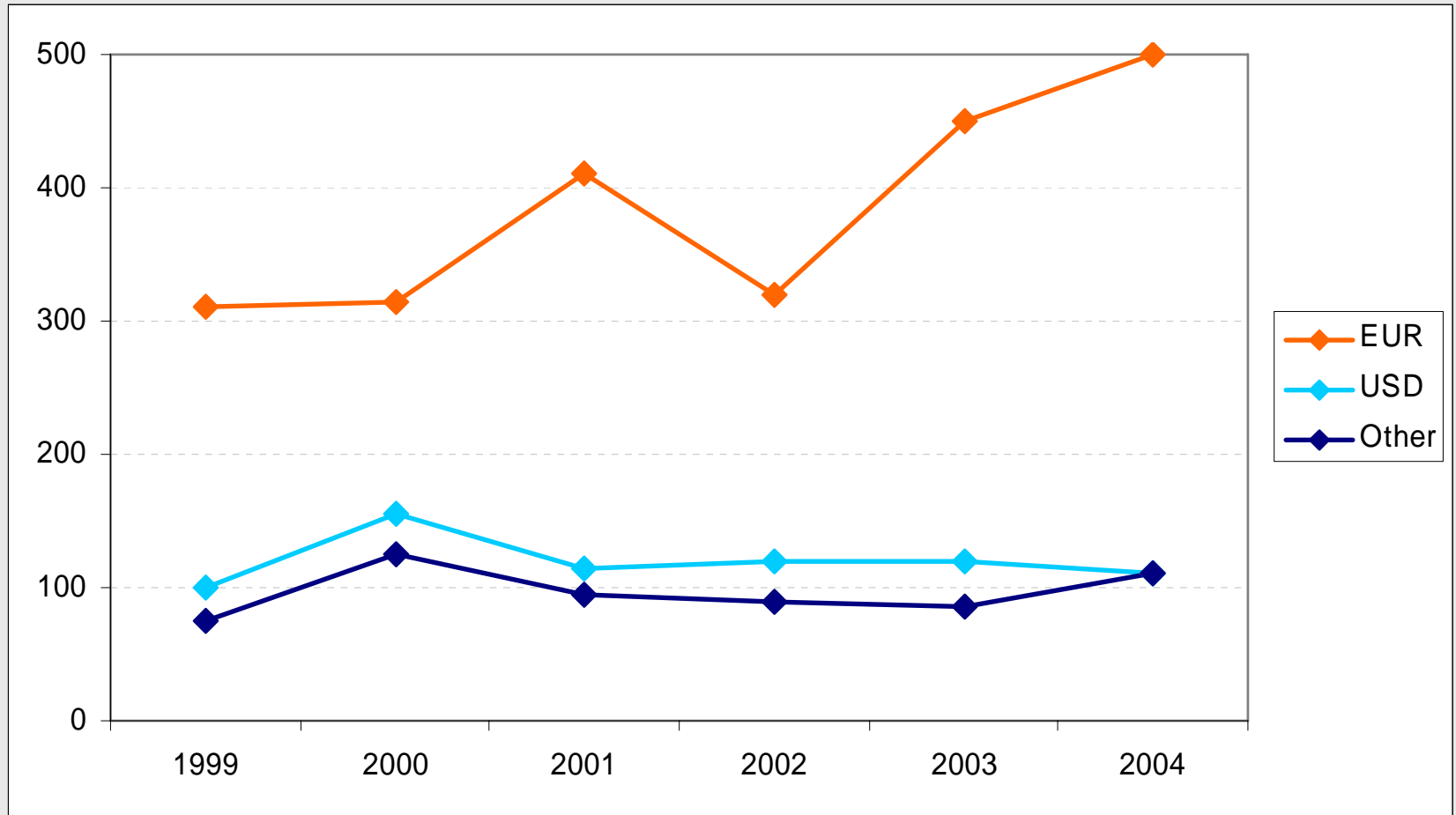


Issuance by currency (EURbn)



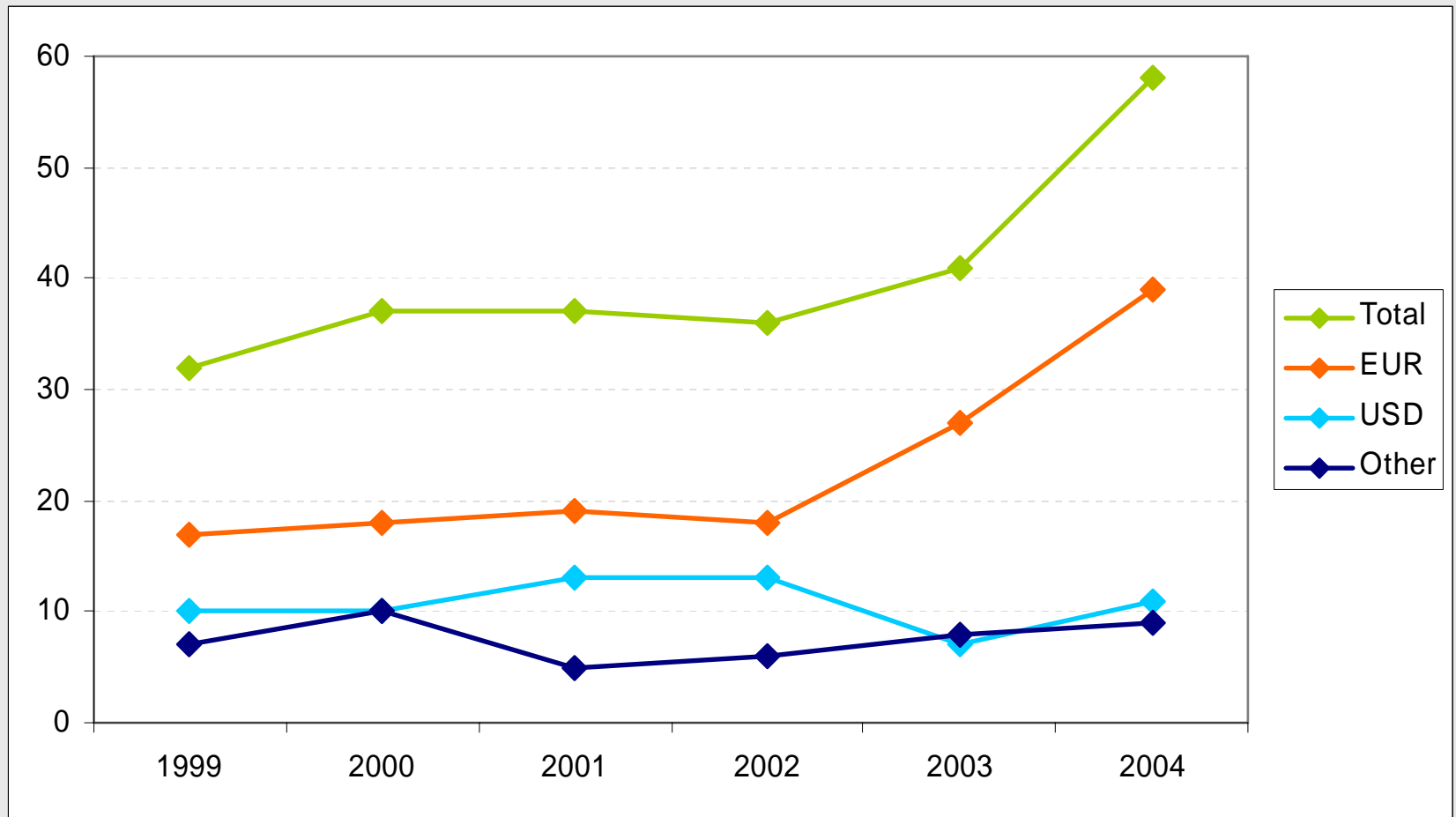


All European issuers (EURbn)



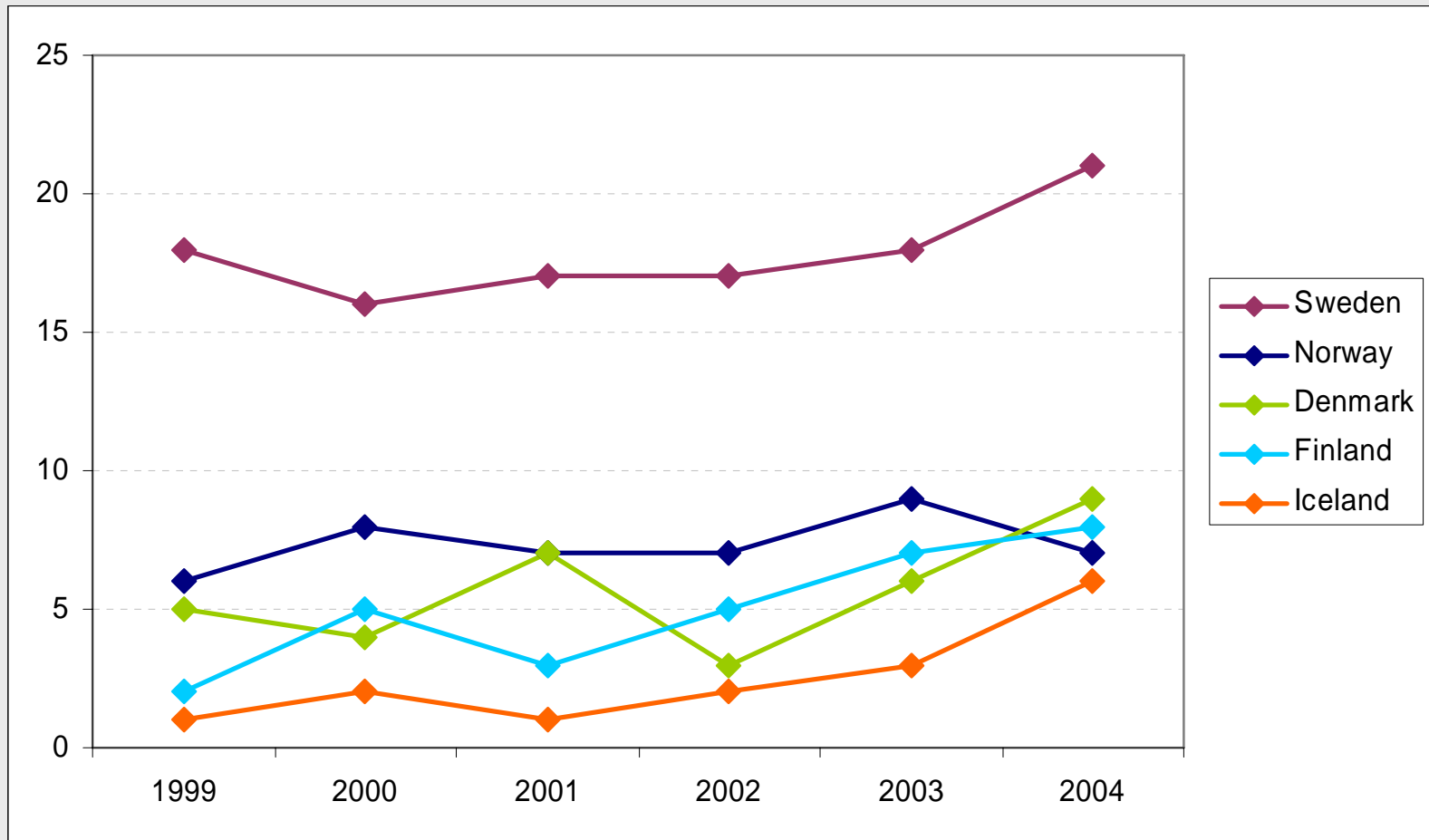


Nordic issuers bond issues by currency (EURbn)





All Nordic issuers bond issues by nationality (EURbn)





Effects on corporate financial management – a case study

Long-term financing from capital markets, syndicated loans markets and banks

- Broader markets
- More sources of financing available
- Internationally recognised currency

Money markets

- Well functioning euro MTN market
- More efficient and competitively priced European cash management solutions
- Group wide integration of banking services with electronic accounting (including invoicing)

Interest rate risk management

- More predictable, more stable interest rate outlook
- Risk expectation has diminished
- Mismatch of maturities (assets and liabilities) less critical i.e. a company could have – as an extreme example – most of its loans on a floating rate



Effects on corporate financial management - a case study

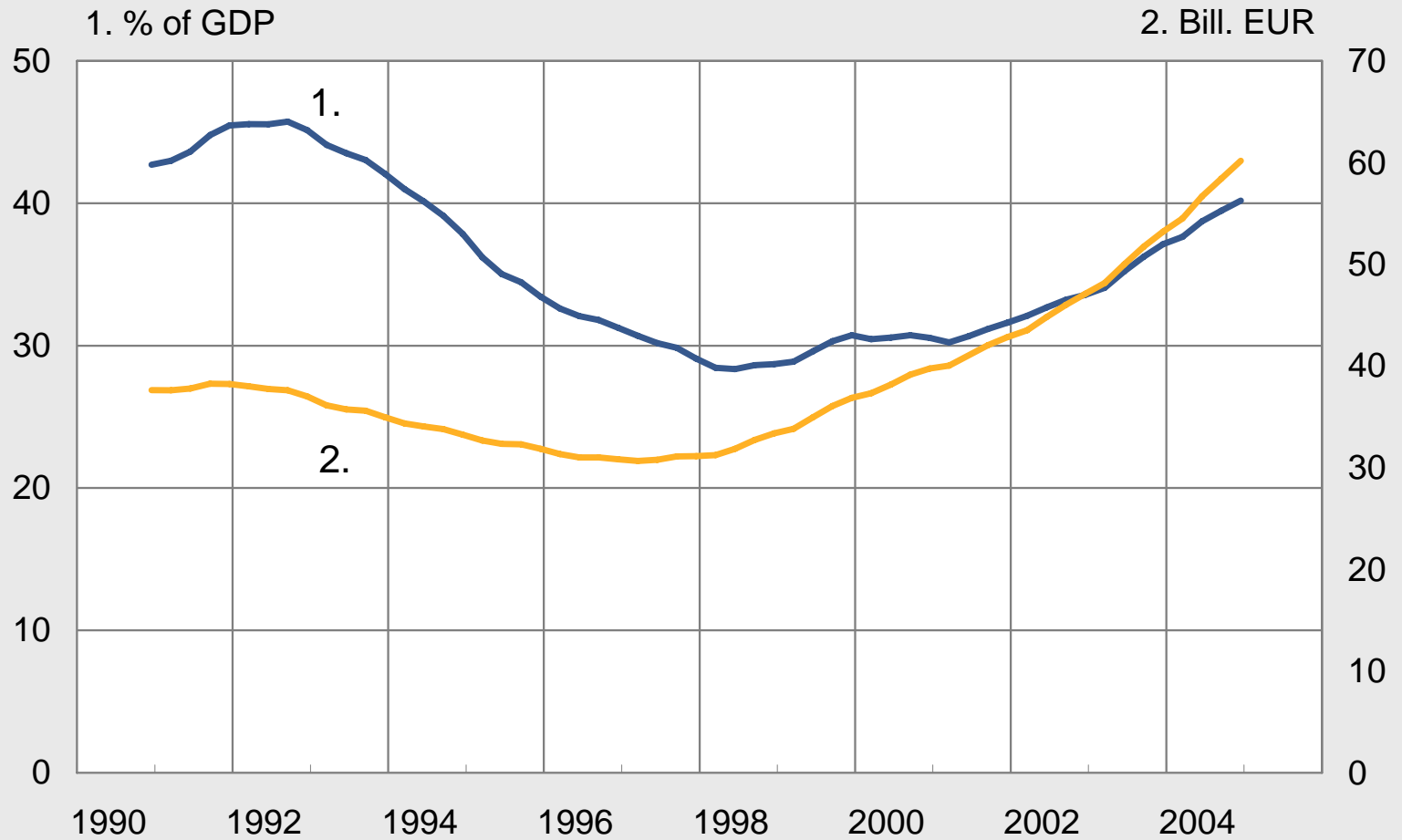
Foreign exchange management

- Case study company's need to make FX-deals has decreased by 40%

This has led to substantial savings in FX-risk management, cf. case study: highly liquid currencies (EUR/USD, EUR/GBP etc.) significantly narrowed, already thin FX-spreads, annual FX-transaction costs decreased from EUR 4,4 million down to about EUR 1 million



Household debt in Finland

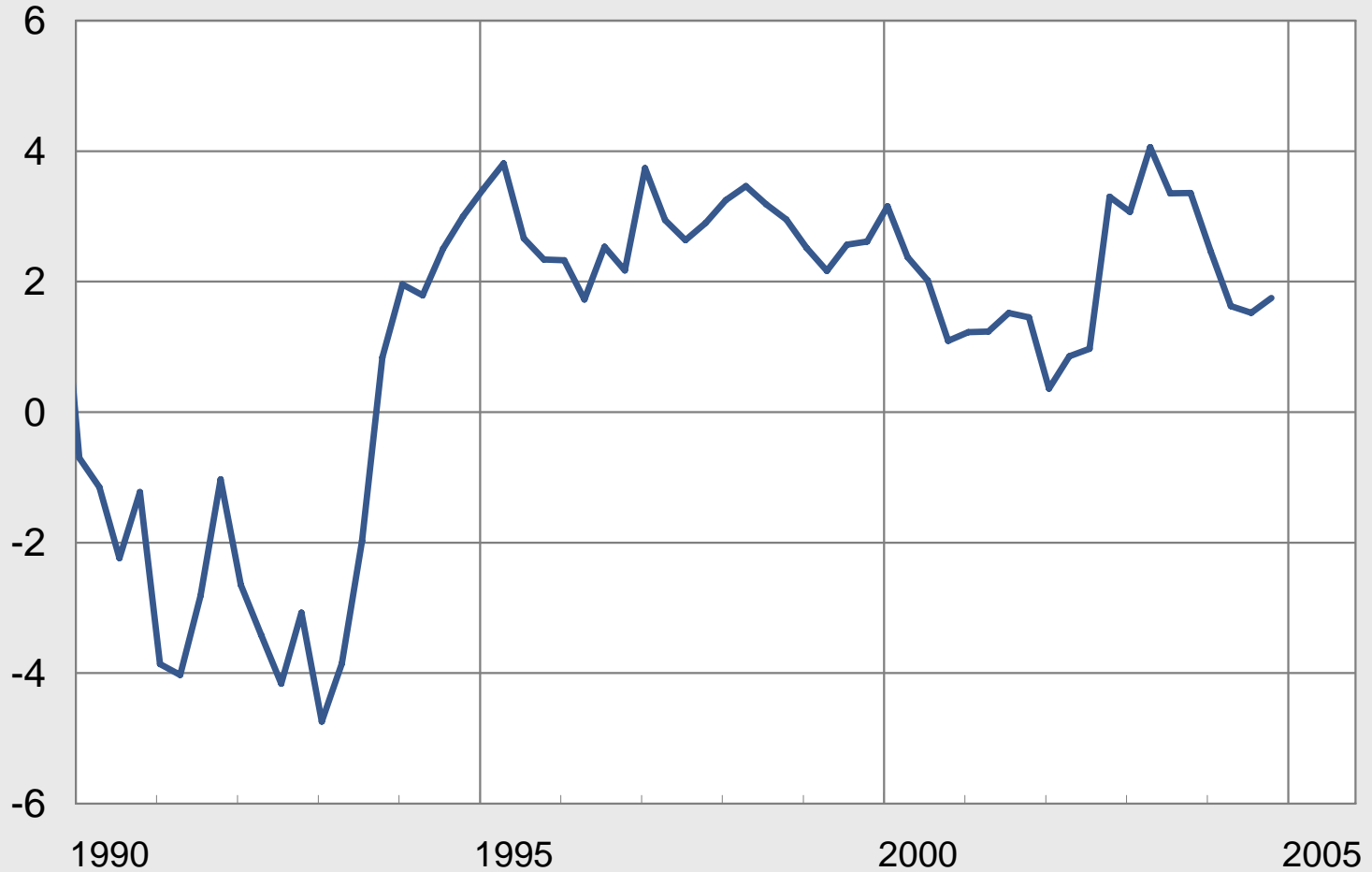


Source: Statistics Finland.



The growth rate of private consumption

% change on previous year

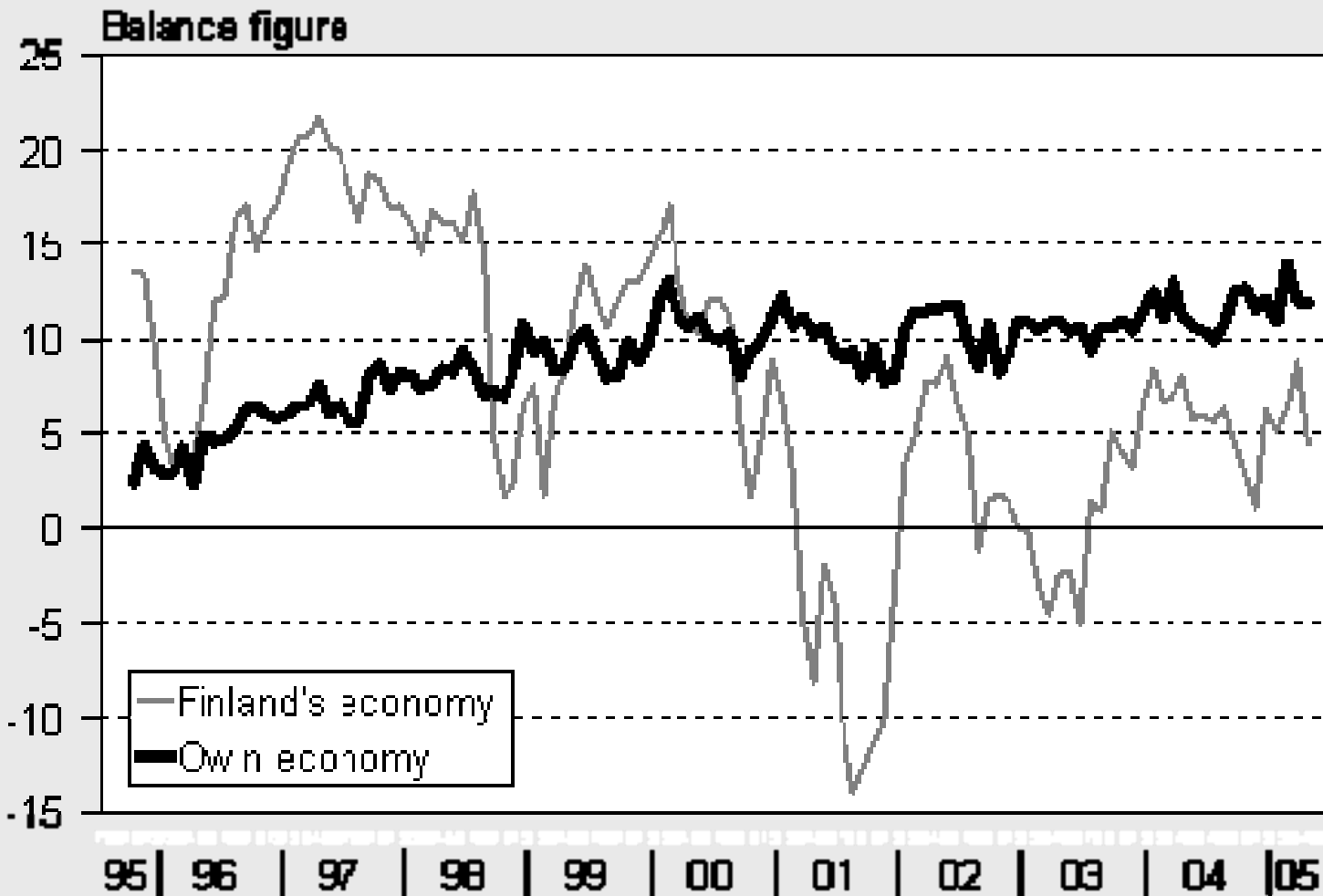


Households

Source: Statistics Finland.



Consumers' expectations concerning their own and Finland's economy in 12 months' time

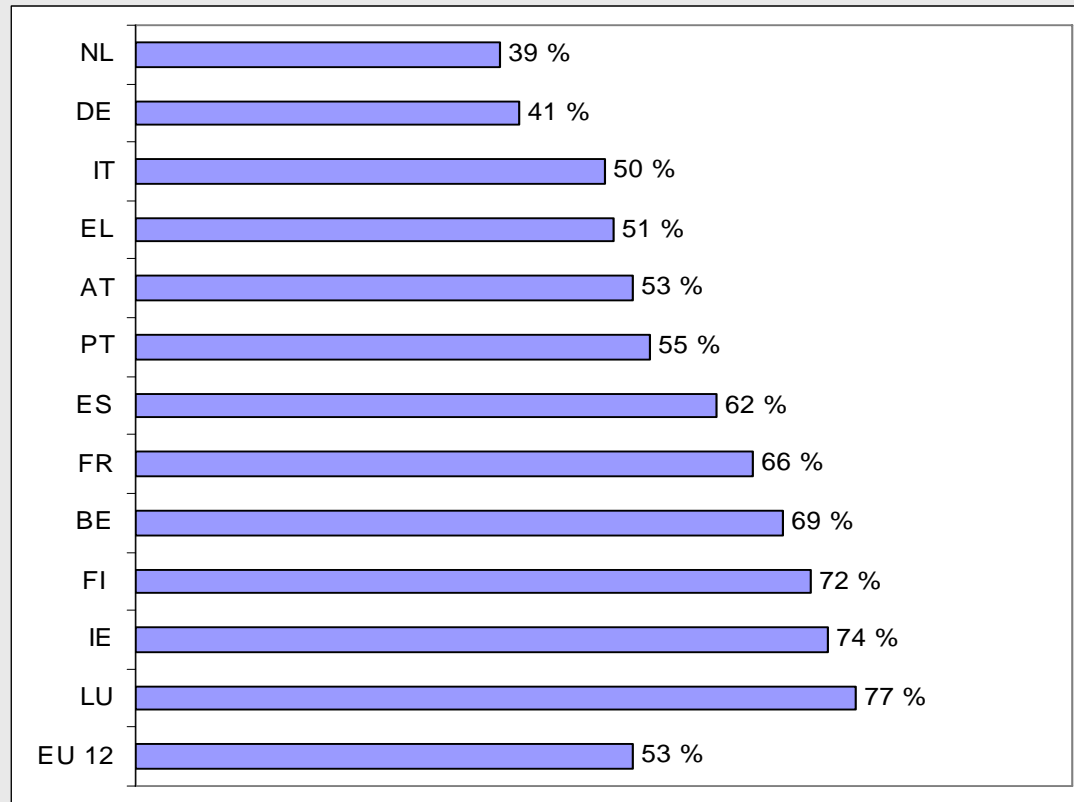


Households



Eurobarometer

Q14. In your opinion, for our country, is the adoption of the euro, an operation that is advantageous overall?



Source: European Commission, Flash Eurobarometer 165 Nov. 2004



Conclusions

- Dr Juha Tarkka, Bank of Finland, in 2002:
“Our preliminary review of the developments suggests that the microeconomic and structural effects of the EMU membership have been particularly strong. EMU appears to have increased the efficiency and openness of the enterprise sector of the economy, and to have improved the general stability of the whole economy in the process. This may be at least partly due to an improvement in the credibility of monetary policy, compared to Finnish historical experience.”
- Still too early days to draw final conclusions of the membership. It looks obvious that it has contributed to rather positive economic development. One could also speculate and ask why Finland would have chosen to stay outside the EMU and not participated in the common economic process in Europe with so many major economies.
- One important factor, very practical, for favourability of euro is the fact that there is no need to exchange money when travelling around Europe.
- Our own money is now valid almost all over Europe, and is accepted almost as well as USD in shopping around the world.