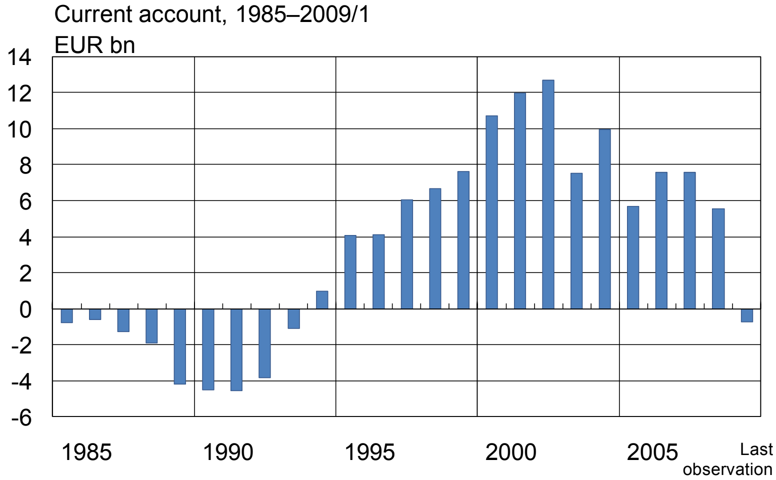
Finland's Balance of Payments Annual Review 2008 and 2009/1



Source: Bank of Finland.

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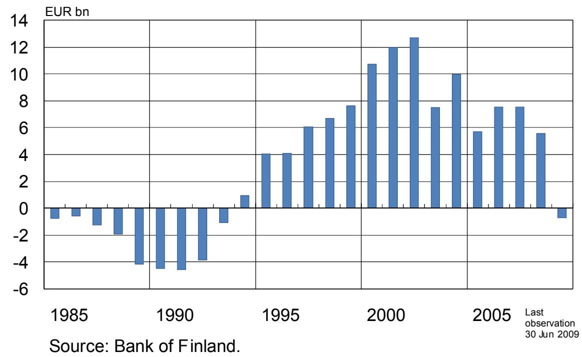
For 2007, 2008 and 2009, the figures are preliminary.

1 Current account posts a deficit in the first half of 2009

The aggregate current account deficit for the first half of 2009 was EUR 0.7 billion. Finland's current account was last in deficit on an annual basis in 1994. According to new revised data, the current account still recorded a surplus of EUR 5.6 billion in 2008. The recent figures include dividend and interest data obtained from the annual survey on direct investment, which was more positive for the current account than in the preliminary estimate. The recent figures also include Statistics Finland's data from June for international trade in services. Compared with preliminary data, international trade in services also raised the current account surplus.

Finland's current account posted a surplus of EUR 5.6 billion in 2008, which was EUR 2 billion less than in 2007. The surplus grew steadily from 1994 until the record year 2002, when it amounted to over EUR 12 billion. Since then the annual surplus has contracted. The contraction was particularly strong in the first half of 2009, as the current account shifted from a continuous 15-year surplus to a deficit. In the first half of 2009 the aggregate current account deficit was EUR 0.7 billion. The current account has posted deficits in previous years, generally in April, when listed companies have traditionally made their dividend payments. In spring 2009 there were more months of deficit than in previous years, and the surpluses for other months were also smaller than usual.

Chart 1. Current account, 1985–2009/1



Source: Bank of Finland.

Table 1. Current account, 2004–2009/1

EUR m

		2004	2005	2006	2007	2008	January–June 2009
Current account	Net	9 969	5 697	7 554	7 557	5 566	-731
Goods	Net	10 245	7 698	9 133	8 746	5 862	1 841
	Credit	49 125	52 661	61 697	65 780	65 672	22 083
	Debit	38 880	44 963	52 564	57 033	59 810	20 242
Services	Net	490	-583	-877	720	1 840	-115
	Credit	12 212	13 666	13 945	17 017	21 808	8 078
	Debit	11 722	14 249	14 822	16 297	19 969	8 193
Income	Net	142	-245	640	-524	-550	-1 703
	Credit	10 560	11 580	14 620	17 332	15 906	5 189
	Debit	10 418	11 825	13 979	17 855	16 456	6 892
Current transfers	Net	-908	-1 173	-1 343	-1 386	-1 585	-754
	Credit	1 598	1 609	1 551	1 614	1 606	732
	Debit	2 506	2 781	2 893	3 000	3 191	1 485

Source: Bank of Finland.

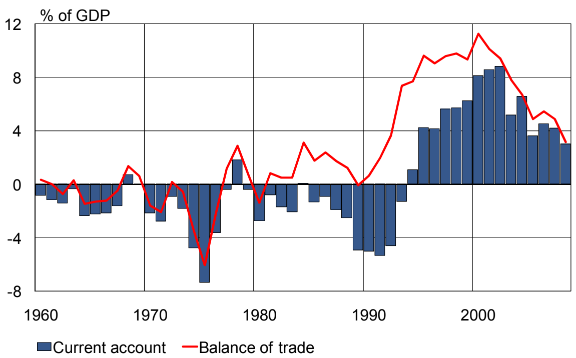
The trade balance[1] is a major part of the current account in value terms. Goods exports and imports

[1] BOP goods trade data differ from the Board of Customs' foreign trade statistics because of freight and insurance cost adjustments: in BOP statistics, the share of foreign carriers and insurers is deducted from the Board of Customs' cif-based goods imports and entered in transportation and insurance costs. In 2008, 4.9% and 0.2% of goods imports were transferred to transportation and insurance costs respectively.

contracted in the first half of 2009 by one-third on the previous year. The fall in exports was slightly more pronounced, which contributed to the higher current account deficit by decreasing the trade surplus. In BOP terms, the trade balance showed a surplus of EUR 5.9 billion in 2008. In the first half of 2009 it was EUR 1.8 billion. This was not enough to keep the current account in surplus, since services, income and current transfers were all in deficit in January-June 2009.

Weak demand for export products had a constraining effect on exports. The value of imports was affected by weaker domestic demand and eg the fall in the prices of crude oil and oil products. In BOP terms, exports of goods from Finland totalled EUR 22.1 billion in January-June 2009 and imports of goods into Finland EUR 20.2 billion. According to Eurostat data, Finland's exports fell the most among the EU countries. Relative to GDP, the current account surplus has decreased from over 8% to slightly over 3% in the 2000s. The trade surplus has fallen even more markedly.

Chart 2. Current account and trade account, 1960–2008

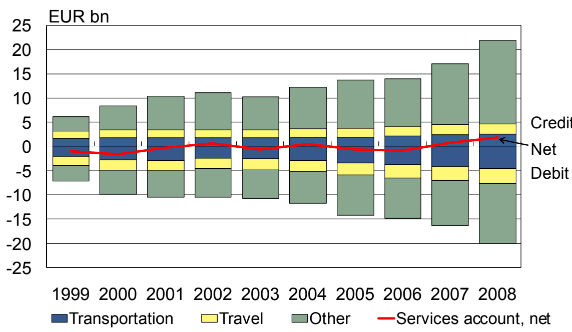


Sources: Bank of Finland and Statistics Finland.

The services balance posted a surplus of EUR 1.8 billion in 2008, up by EUR 1.1 billion on 2007. Both services exports and imports increased. The value of services exports rose by 28.2% and that of services imports by 22.5%. On the exports side, computer and construction services showed strong growth. Growth in services imports was divided more evenly across service items, but research and development services posted the fastest growth. According to Statistics Finland's statistics on international trade in services, growth in services exports and imports was especially affected by increased transactions within international group enterprises and the centralisation of group activities from abroad to Finland. Preliminary data indicate that the services balance posted a deficit of EUR 0.1 billion in the first half of 2009.

Looking at the subitems of the services balance, the transportation services deficit reached EUR 2.1 billion in 2008, up by EUR 0.3 billion on 2007. Travel recorded a deficit of EUR 0.9 billion, which was broadly unchanged from the previous year. In the first half of 2009 both the transportation and travel accounts showed a deficit of EUR 0.5 billion.

Chart 3. Current account in 1999–2008: breakdown of services exports and imports



Sources: Bank of Finland and Statistics Finland.

Income transfers consist mainly of investment income such as dividends and interest, as well as compensation of employees. In 2008 these transfers from Finland exceeded transfers from abroad by EUR 550 million. This is roughly the same situation as in 2007, when net income transfers from Finland totalled EUR 524 million. In 2008 direct investment income increased by approximately EUR 1 billion on net, but portfolio investment income paid abroad grew by about EUR 1 billion from 2007, on net.

Net direct investment income (= credits – debits) was EUR 1.1 billion up from 2007. Finnish investors' income from abroad dropped by slightly more than EUR 1 billion from the previous year, but foreign investors' income from Finland fell by more than EUR 2 billion. In 2008 Finnish investors' direct investment income from abroad totalled EUR 7.4 billion (EUR 8.5 billion in 2007), and foreign investors' direct investment income from Finland was EUR 5.1 billion (EUR 7.2 billion in 2007).

In 2008 Finnish investors' income on portfolio investment abroad amounted to EUR 4.9 billion (EUR 5.5 billion in 2007), and foreign investors' income on portfolio investment in Finland was EUR 8.2 billion (EUR 7.9 billion in 2007). In the first half of 2009 dividend and interest payments to foreign investors were EUR 4.3 billion. Dividend payments totalled approximately EUR 2.4 billion, down by EUR 1.5 from the year-earlier period. Finnish investors' income on portfolio investment abroad was EUR 1.7 billion in the first half of 2009. In Finland, portfolio investment dividends and interest are traditionally paid in April and May. Portfolio and direct investment income are discussed in more detail in sections 2 and 3.

Overall, the deficit on income transfers grew considerably in the first half of 2009 and amounted to EUR 1.7 billion, which is three times the total for 2008. These are preliminary figures that will not be revised until in 2010, especially in respect of direct investment income.

The balance on current transfers posted a deficit of EUR 1.6 billion in 2008, which was slightly higher than in 2007 (EUR 1.4 billion). In January-June 2009 the deficit on current transfers totalled EUR 0.8 billion. The current transfers account includes transfers between Finland and EU institutions, with payments from Finland exceeding amounts received. The current transfers account has posted deficits for many years.

2 Sizeable relocation of direct investment capital from Finland in 2008

Direct investment[2] flows in 2008 diverged markedly from previous years' average flows. Even though considerable annual fluctuations in flows have been typical for Finland in recent years, the exceptional developments in the global economy are also reflected in the figures for 2008.

2.1 Direct investment flows

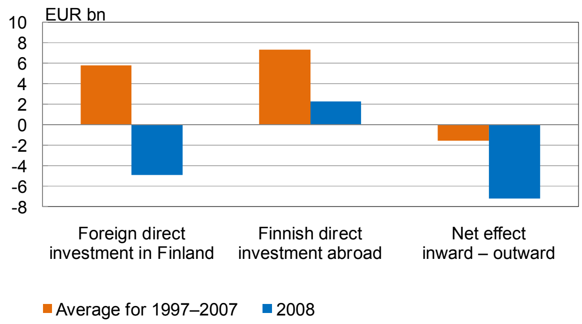
In 2008 Finnish direct investment recorded a capital outflow of EUR 2.3 billion. As foreign investors repatriated EUR 4.9 billion of direct investment in Finland, the result was a EUR 7.2 billion net outflow of direct investment.

Direct investment flows in 2008 diverged markedly from previous years' average flows (Chart 4). The figures were greatly affected by large capital restructurings by individual international groups during the year. These items have generally had a considerable impact on Finland's annual direct investment flow figures in the 2000s (Annex, Chart 38).

[2] A direct investment relationship exists between an investor and an enterprise resident in another country when the investor has control (over 50% of the voting power) or significant influence (at least 10% and at most 50% of the voting power) over the enterprise. The direction of the investment (*inward* or *outward*) is determined in the statistics on the basis of the direction of the control/ influence between the parties.

Direct investment inflows were particularly affected by individual groups' internal ownership restructurings in which foreign enterprises owned via subsidiaries resident in Finland were transferred to the ownership of the group's foreign parent enterprise. Excluding these ownership changes, direct investment was inward on net, but remained substantially below EUR 1 billion.

Chart 4. Net flows of direct investment, 1997–2008



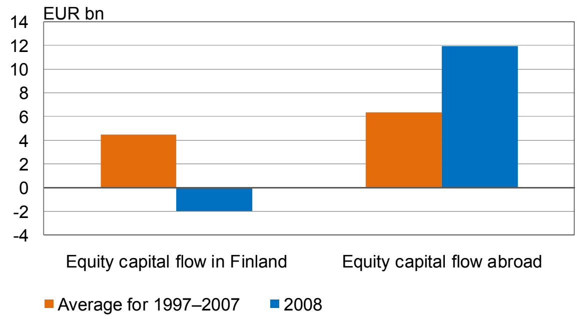
Source: Bank of Finland.

The same ownership changes also reduced **direct investment outflows**. On the other hand, individual corporate acquisitions and groups' large internal capital restructurings increased the outflows.

Although in the statistics the difference between the figure for 2008 and the average for the previous years is considerable, over EUR 5 billion, the difference is substantially smaller if the above-mentioned ownership changes and other capital restructurings are excluded. In such case, direct investment outflows approach the level of 2007, at approximately EUR 5 billion.

Separate analyses for equity capital (Chart 5) and other capital (Chart 6) shed additional light on the factors underlying direct investment flows.

Chart 5. Direct investment equity capital flows, 1997–2008



Source: Bank of Finland.

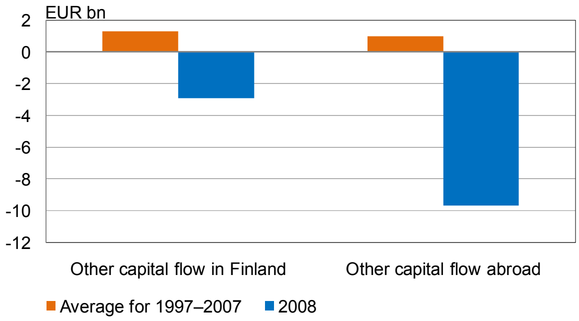
In 2008 **inward direct investment** was affected by relocation of equity capital from Finland to a total of EUR 2 billion, on net. Excluding the above-mentioned ownership changes, foreign investors imported equity capital in the form of direct investment on net, but even with the exclusion this amounted to less than a third of the average for the previous years.

The exceptional developments in the global economy in 2008 were reflected in the smaller number of international corporate acquisitions. The number of acquisitions in which a foreign enterprise was buyer and a Finnish enterprise was the target decreased notably. Nor were there any large acquisitions of Finnish enterprises recorded in 2008, in contrast to 2007. This reduced the inflow of equity capital.

However, there was a substantial **outflow of equity capital** in 2008, as individual Finnish groups made large foreign corporate acquisitions. These acquisitions boosted the equity capital outflow clearly above previous years' average levels, even though the above-mentioned intra-group ownership changes reduced the outflow.

Data on direct investment equity capital flows include the part of annual earnings from investment enterprises which remain there as reinvested earnings.[3] In 2008 reinvested earnings accounted for approximately EUR 1.2 billion of **direct investment inflows**, which is about the same as in the previous years on average. In respect of **direct investment outflows**, reinvested earnings accounted for EUR 1.9 billion, which is approximately EUR 1.5 billion more than in the previous years on average. Annual flows of reinvested earnings have fluctuated considerably in recent years, both for individual enterprises and the whole economy. For this reason, no firm conclusions can be drawn about the possible effects of the exceptional financial market developments on the basis of year-2008 figures.

Chart 6. Direct investment other capital flows, 1997–2008



Source: Bank of Finland.

In 2008 **Finnish investors' direct investment** in Finland in the form of other capital was EUR 9.7 billion. **Foreign investors** in turn repatriated EUR 2.9 billion of other capital invested in Finland. Thus net direct investment in Finland in the form of other capital increased to EUR 6.7 billion.

Since the early part of the 2000s, the outflow of direct investment other capital has been markedly

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[3] Dividends paid and received from abroad are not included in direct investment flows but are instead in the current account item 'investment income'.

affected by financial arrangements between Finnish groups' resident and foreign units. Direct investment in Finland in the form of other capital has become considerable, as large amounts of capital have been channelled to Finland via groups' foreign-located finance units. This is clearly visible in the **outflow** of other capital in 2008, when Finnish groups' corporate acquisitions were financed by capital borrowed from foreign group enterprises.

Even excluding the impact of the large individual capital restructurings from year-2008 figures, other capital inflows and outflows are still clearly negative on net. A possible explanation is that investors have repatriated other capital more than usual due to the exceptional developments in the financial markets in 2008.

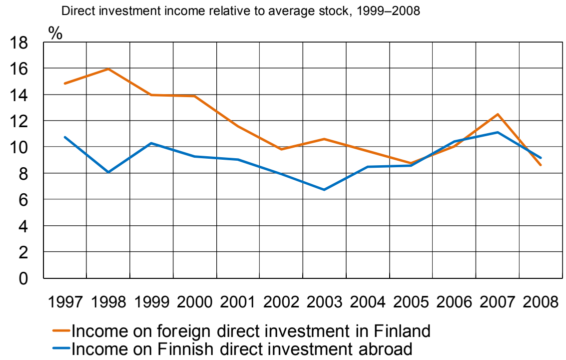
2.2 Direct investment income

Income paid to **foreign investors** on direct investment in Finland totalled EUR 5.1 billion in 2008. Income paid on equity capital was EUR 4.6 billion and interest on other capital EUR 0.5 billion. Of equity capital income, EUR 1.2 billion was reinvested in investment enterprises in Finland, and EUR 3.4 billion was paid as dividends to foreign investors.

Income received by **Finnish investors** on direct investment abroad totalled EUR 7.4 billion in 2008, of which income on equity capital was EUR 6.8 billion and interest on other capital EUR 0.7 billion. Of the equity capital income, EUR 1.9 billion was reinvested in foreign investment enterprises, and EUR 4.9 billion was paid as dividend to Finnish investors.

In previous years, the average income[4] on inward direct investment has generally been higher than the average income on outward direct investment (chart 7). Since the turn of the century the difference has clearly narrowed, and in 2008 income from abroad was higher on average than income paid abroad.

Chart 7. Direct investment income relative to average stock, 1997–2008



Source: Bank of Finland.

The annual income on **inward** direct investment ranged between 8.8% and 15.9% and averaged 12% in 1997–2007. In 2008 income on inward direct investment was 8.6%.

The annual income on **outward** direct investment ranged between 6.7% and 11.1% and averaged 9.2% in 1997–2007. In 2008 it was also 9.2%.

2.3 Direct investment stocks

The stock of **inward** direct investment was EUR 56 billion at the end of 2008. Of this, equity capital accounted for approximately EUR 45 billion and other capital for about 12 billion.[5]

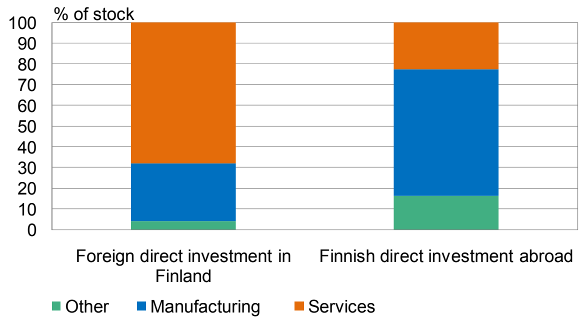
The stock of **outward** direct investment was about 82 billion at the end of 2008. Of this, equity capital

[4] The average annual income on investment is the sum of annual income divided by the average of investment stocks at the start and end of the year.

[5] For listed companies, the value of foreign investment is recognised at market value and for other enterprises at book value.

accounted for approximately EUR 78 billion and other capital for about EUR 5 billion.

Chart 8. Direct investment stocks by economic activity at the end of 2008, % of stock

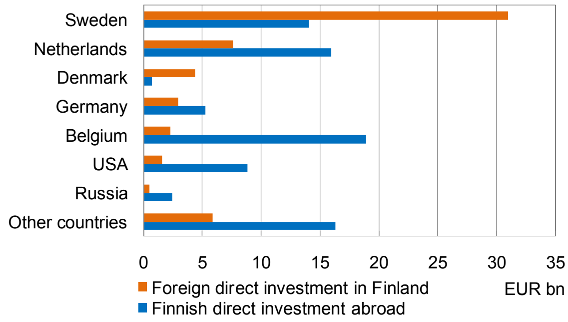


Source: Bank of Finland.

In terms of economic activity (Chart 8), service companies were the most important target of **inward** direct investment. At the end of 2008, they accounted for about EUR 38 billion of the stock of inward direct investment. Within the services, financial companies were the most important investment targets with EUR 16 billion of the total stock. Other key service subsectors were real-estate activities (EUR 9 billion), transportation (EUR 7 billion) and trade (EUR 6 billion). The second most important target group of inward direct investment was manufacturing companies, which accounted for approximately EUR 16 billion of the total stock. Manufacture of fabricated metal products was the major industry, with EUR 5 billion of the total stock. The stock of inward direct investment in other economic activities totalled about EUR 2 billion at the end of 2008.

Manufacturing accounted for a notably bigger share of the stock of **outward** than of inward direct investment and amounted to approximately EUR 50 billion at the end of 2008, ie 61% of the total stock at the end of the year. Service companies accounted for EUR 19 billion of the stock and enterprises in other economic activities for EUR 13 billion.

Chart 9. Direct investment stocks by country at the end of 2008



Source: Bank of Finland.

By country (Chart 9), capital from Sweden accounted for the largest part of **inward** direct investment at the end of 2008. Sweden accounted for EUR 31 billion of the stock, ie about 55%. Other major investor countries were the Netherlands (14% of the stock), Denmark (8%) and Germany (5%). In addition, Belgium and Luxembourg were important sources of other capital. The EU countries accounted for 92% of the stock of inward direct investment, but euro area countries for only 27%.

Of **outward** direct investment, Belgium and the Netherlands surpassed Sweden as the most significant immediate host countries in 2008.[6] Of these two, the Netherlands has gradually increased its importance as a host country ever since the early part of the 1990s, whereas the importance of Belgium has increased markedly in the past three years. These changes are based on Finnish groups' internal capital arrangements made increasingly via finance units located in these countries. The EU countries accounted for 78% of the stock of outward direct investment euro area countries for 54%. North America accounted for 14% and Asia for 12%.

[6] The immediate host country is here the country of location of the first institutional unit in the chain of control or significant influence of the Finnish investor.

Box 1. New statistical methodology applied to items of fellow enterprises reduces Finland's direct investment stocks

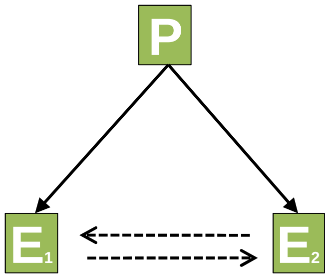
As international groups' internal financial arrangements are becoming more common, direct investment statistics also increasingly include investments that are not based on the investor's control or significant influence in the investment enterprise. Such investments include eg subsidiary's loans to a non-resident parent enterprise and items between fellow enterprises. The new methodology relating to fellow enterprises, to be introduced in direct investment statistics in 2011, will decrease direct investment flows and stocks.

Direct investment statistics are compiled according to the **directional principle**. This means that an investment is classified as *outward* or *inward* investment on the basis of the direction of the counterparties' control or significant influence. The size of the investment is the netted amount of the counterparties' claims and liabilities.

In line with the directional principle, in the **statistics of the parent enterprise's home country**, liabilities to a non-resident subsidiary are deducted from the claims on the subsidiary, and the resulting figure is recorded as *outward direct investment.* In the **statistics of the subsidiary's home country**, liabilities to the parent enterprise are deducted from the claims on the parent enterprise, and the resulting figure is recorded as *inward direct investment.*

However, the directional principle cannot be directly applied to items between fellow enterprises (previously referred to as 'fellow subsidiaries'), because there is no control or significant influence between fellow enterprises (Chart 10).

Chart 10. Fellow enterprises in direct investment statistics



In this picture the squares represent enterprises and arrows control or significant influence. Dotted-line arrows depict loan items between fellow enterprises. Companies E_1 and E_2 are fellow enterprises whose common parent enterprise is P. Loan items between fellow enterprises are recorded in Finnish direct investment statistics if one of the enterprises is resident in Finland and the other is resident abroad

In the current statistical framework, items between fellow enterprises are recorded according to the international statistical methodology approved in 1993.[7] This means that **fellow enterprise claims** are recorded in the statistics as *outward direct investment* and **fellow enterprise liabilities** as *inward direct investment*. Therefore, unlike with other items included in direct investment, investment positions between fellow enterprises are not defined as the net of claims and liabilities. This will increase the direct investment flows and stocks between countries, and it

[7] OECD (1993) *OECD Benchmark Definition of Foreign Direct Investment. 3rd edition*. OECD, Paris.

will – as transactions between fellow enterprises become more common – make their analysis more difficult.

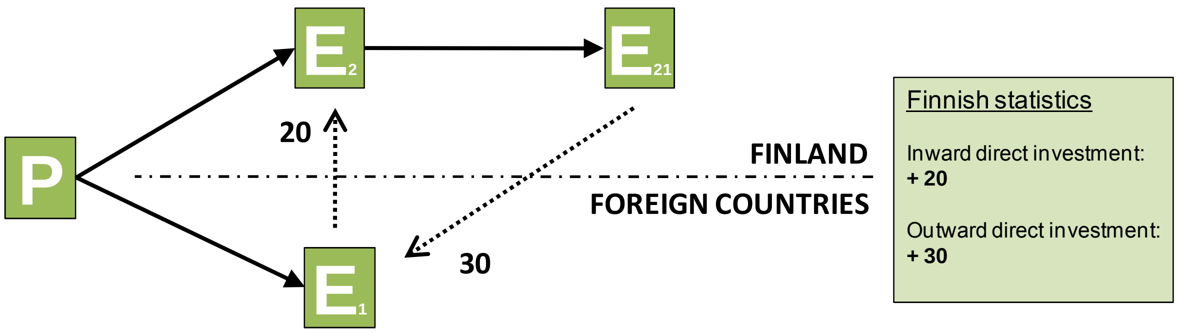
The revised edition of OECD guidelines relating to direct investment statistics, issued in spring 2008,[8] also extends the directional principle to fellow enterprises. In the new statistical framework, the direction of fellow enterprise investments is determined by the residency of the fellow enterprises' *ultimate controlling parent*. If an enterprise and its ultimate controlling parent are resident in the same country, claims and liabilities (netted) between the enterprise and its non-resident fellow enterprise are recorded in the statistics as *outward direct investment*. If an enterprise and its ultimate controlling parent are not resident in the same country, (netted) claims and liabilities between the enterprise and its non-resident fellow enterprise are recorded in the statistics as *inward direct investment*. The differences between the current and the new statistical framework are elaborated in examples 1 and 2.

The Bank of Finland aims to convert to the new statistical methodology applied to fellow enterprises in 2011. For this reason, the Bank of Finland Statistical unit made a report on the impact of the new statistical framework on Finnish direct investment stocks data. The background, implementation and results of the report will be elaborated on in a separate release later in autumn 2009.

According to the preliminary results of the report, the new statistical framework will reduce direct investment stocks by 10–15%. In respect of data on stocks in 2008, the new framework will have a greater relative impact on *outward direct investment* than on *inward direct investment.*

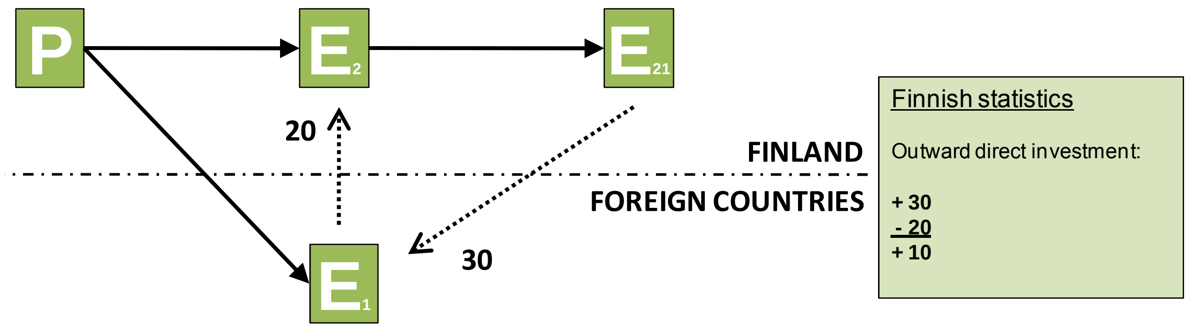
[8] OECD (2008) *OECD Benchmark Definition of Foreign Direct Investment. 4th edition.* OECD, Paris.

Example 1. Treatment of items between fellow enterprises in the current statistical framework



In the current statistical framework, the parent enterprise's (P in the example) country of residence is not relevant. In Finnish statistics, liabilities to non-resident fellow enterprises are recorded as positive items in *inward direct investment,* and claims on non-resident fellow enterprises are recorded as *outward direct investment.*

Example 2. Treatment of items between fellow enterprises in the new statistical framework



In the new statistical framework, country of residence of the ultimate controlling parent (P in the example) determines in which direction items between fellow enterprises are recorded. If the ultimate controlling parent is resident in Finland (as in the example), claims and liabilities (netted) between enterprises resident in Finland and their non-resident fellow enterprises are recorded as *outward direct investment.* If the ultimate controlling parent is resident abroad, claims and liabilities (netted) between fellow enterprises are recorded as *inward direct investment.*

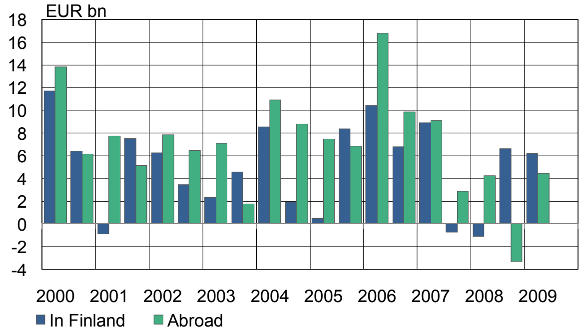
3 Portfolio investment recovered in the first half of 2009

In addition to the price rise in the security markets, growth of the stock of portfolio investment in the first half of 2009 was also abetted by capital flows. By contrast, dividends paid to and from Finland plunged from previous years' levels. In non-financial corporations' foreign financing, the role of bank loans in supplementing portfolio liabilities has expanded considerably in the past few years. A review of Finnish households' foreign portfolio investment reveals that retail investors prefer stock market risk and well-known issuers.

In the first half of 2009 portfolio investment in Finland amounted to EUR 6.2 billion. This extended the inflow of investment in Finnish debt securities, which recovered in the latter part of 2008. Growth in portfolio liabilities reflected a rise in government debt and increased borrowing from abroad by monetary financial institutions. In the early part of 2009 the net capital flow turned positive also in terms of foreigners' investments in Finnish equities, which totalled EUR 1.2 billion. In comparison, capital repatriations from equities in the previous two half-year periods totalled nearly EUR 1.2 billion.

Outward portfolio investment also turned positive in January-June 2009, as Finnish investors increased their investments by EUR 4.5 billion on net. In the latter part of 2008 the net capital flow was a negative EUR 3.3 billion. The second half of 2008 was indeed exceptional in Finnish history, with capital repatriations from foreign portfolio investment exceeding new outward investment for the first time in years. Especially Finland's biggest investors – the employment pension funds – reduced their investments in foreign equities and funds.

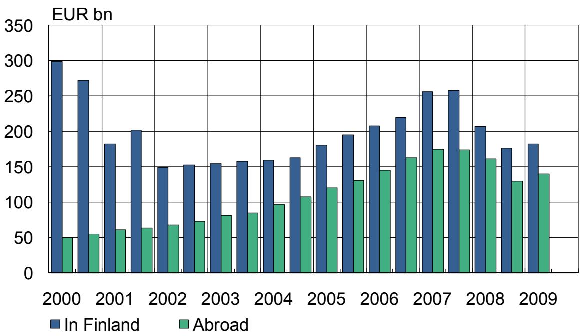
Chart 11. Portfolio investment, net capital flows 2000/1–2009/1



Source: Bank of Finland.

The stock of Finnish portfolio investment abroad totalled EUR 140 billion and foreign portfolio investment in Finland totalled EUR 182 billion at the end of June 2009.

Chart 12. Portfolio investment, stock 2000/1–2009/1



Source: Bank of Finland.

Table 2. Portfolio investment abroad and in Finland by investment type in the first half of 2009

EUR m	Investment stock, 31 December 2008	Net capital flows, January-June 2009	Exchange rate and other valuation changes, January-June 2009	Investment stock, 30 June 2009	Dividends and interest, January-June 2009
Finnish portfolio investment abroad					
Equity securities	16 370	1 378	1 439	19 186	317
Fund shares	28 334	1 281	1 077	30 692	75
Bonds and notes	80 686	2 716	2 924	86 325	1 206
Money market instruments	4 451	-906	147	3 692	56
Total	129 840	4 469	5 586	139 894	1 655
Foreign portfolio investment in Finland					
Equity and fund shares	71 340	1 181	271	72 792	2 426
Bonds and notes	81 696	10 295	-824	91 168	1 673
Money market instruments	23 527	-5 286	-311	17 929	204
Total	176 563	6 190	-865	181 888	4 303

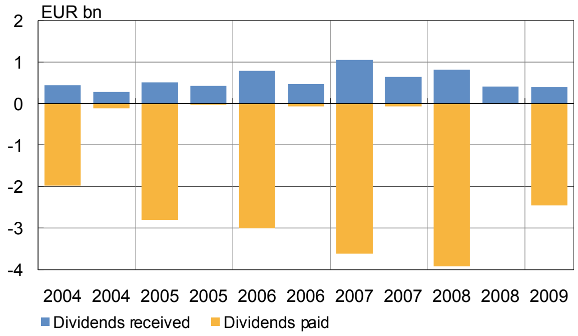
Source: Bank of Finland.

3.1 Dividends dried up in spring 2009

Dividends paid by Finnish non-financial corporations to foreign investors on portfolio investment in Finland amounted to EUR 2.4 billion in spring 2009, down by EUR 1.5 billion from spring 2008. In 2008 dividend payments abroad grew at a record rate and exceeded EUR 3.9 billion. Dividends received by Finnish investors from equity investment abroad also fell by half, to EUR 0.3 billion, in the first half of 2009. Compared with the situation in Finland, foreign non-financial corporations pay dividends more evenly during the year, which means that data on dividend income from abroad will accumulate in the latter part of 2009. Even so, dividends received remained smaller than in the previous reference periods already in autumn 2008.

Despite a plunge in dividend payments abroad, dividend yield grew to over 4% relative to the stock of outward equity investment. In contrast, dividend yield received on equity investments abroad remained below 2%. This was compensated by an appreciation of the investment stock of over EUR 1 billion in the early part of 2009.

Chart 13. Dividends received and paid, 2004/1–2009/1



Source: Bank of Finland.

Investment income on debt securities also decreased in the early part of 2009. Interest received amounted to

EUR 1.3 billion, which is almost one-third less than in the second half of 2008 and a year earlier. Interest payments abroad totalled EUR 1.9 billion. At the same time, Finnish investments in foreign debt securities and foreigners' investments in Finnish debt securities both increased by approximately EUR 4.5 billion, so that the decrease in interest income reflected a general fall in the level of interest rates.

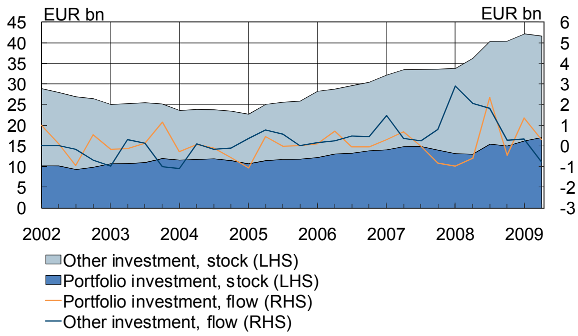
3.2 Foreign bank loans more important for non-financial corporations

Finnish non-financial corporations' foreign liabilities in the form of securities amounted to EUR 17.1 billion at the end of June 2009, up by EUR 4.1 billion from a year ago. This exceptional net change largely reflected a few large issuances of corporate debt in the early part of 2009. Excluding these issuances, foreign investors repatriated capital from the Finnish corporate sector in January-June 2009. The drying up of corporate finance in the form of securities began already in the latter part of 2007, and since then there has been a net outflow of corporate debt securities in every month, excluding the large individual issuances.

With the increased difficulties in obtaining financing in the international capital markets, non-financial corporations have increased their other foreign borrowing. While borrowing in the form of securities has declined, Finnish non-financial corporations have drawn down foreign bank loans to a total of almost EUR 10 billion in the last two years. Non-financial corporations' foreign bank financing has long been increasing, ever since the second half of 2005, and the stock of foreign bank loans continued to grow rapidly until the early part of 2009. In June 2009, corporate sector foreign liabilities other than securities[9] totalled EUR 24.6 billion. Bank loans accounted for EUR 17.9 billion, the bulk comprising loans with maturities of over one year. Loans from the euro area accounted for less than a third of total bank loans.

There was a change in non-financial corporations' financing in the first half of 2009: the stock of foreign bank loans began to contract again, and in January-June enterprises repaid over EUR 0.6 billion in foreign bank debt. Enterprises time their securities issuance and finance-raising from other sources to occur in different months. Bank loans are drawn down more in months when businesses are not actively issuing debt securities. On the other hand, drawdowns of bank loans signal greater issuance of debt securities in the near future, which is explained by the flexibility of bank financing compared to market-based financing.

Chart 14. Non-financial corporations' quarterly portfolio liabilities and other foreign liabilities, 2002/I–2009/II



Source: Bank of Finland.

In the past five years Finnish non-financial corporations have gradually increased their use of trade credits in short-term financing, but they also reduced trade-credit claims from abroad in 2008. Non-

[9] In the Bank of Finland's balance of payment statistics, other liabilities include loans, financial leasing, trade credits and other liabilities. Intra-group items are not covered here but rather in connection with direct investment in section 2.

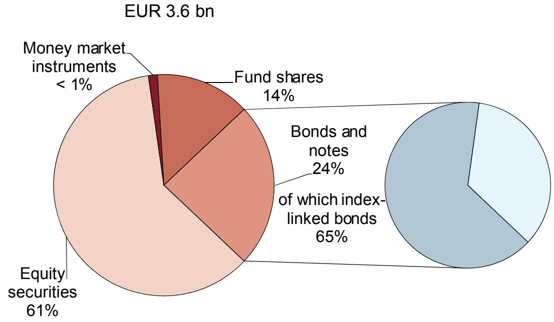
financial corporations' foreign trade credit liabilities amounted to EUR 5.0 billion at the end of June 2009. Viewed historically, Finnish enterprises' trade-credit claims have exceeded trade-credit liabilities, but the situation changed in the latter part of 2008 when liabilities exceeded claims. At the end of June 2009, Finnish non-financial corporations' foreign trade-credit claims were a fourth less than in the corresponding period a year ago, whereas trade-credit liabilities remained broadly unchanged.

3.3 Households continued to increase their shareholdings in the first half of 2009

Finnish households' foreign securities amounted to EUR 3.6 billion at the end of June 2009. The security-by-security data collection introduced in the Bank of Finland's balance of payments statistics in 2009 provides new information on households' foreign investment assets. In the first half of 2009 households increased their security holdings by EUR 0.6 billion on net. In January and February 2009 the decline in the international financial markets still took its toll especially on the value of equities and funds. Nevertheless, households have continued to increase their investments gradually in the early part of 2009, and by the end of the spring their holdings had also grown on account of the increased values. However, they repatriated capital from long-term bonds in the first half of 2009.

Investment in foreign equities and investment funds registered abroad account for three-quarters of households' total foreign assets. The bulk of fund investments is in the stock markets, and the majority of households' debt security investments is in indexed bonds linked to equity securities. This means that almost 85% of households' foreign investment is exposed to stock market risk. In addition to investments directly in foreign securities, households hold foreign securities via domestic funds and investment-linked pension insurance.

Chart 15. Household portfolio investment, 30 Jun 2009



Source: Bank of Finland.

Households' foreign shareholdings totalled EUR 2.2 billion at the end of June 2009. Investments in the well-known Swedish Nordea and TeliaSonera shares alone account for over 80% of the shareholdings. Even when these shares are excluded, half of households' shareholdings is focused on the Nordic countries, but the holdings are diversified across enterprises in different economic sectors. Investment in other European countries is particularly concentrated in shares of large Euro Stoxx 50 enterprises. As for the USA, Finnish households have favoured shares of IT and electronic enterprises and businesses with famous trademarks. Household dividend income in the first half of 2009 totalled EUR 71 million, so that the dividend yield on the stock of foreign equity securities was over 3%.

Fund shares include investment fund shares and exchange-traded funds (ETF). Household investments in foreign funds totalled EUR 0.5 billion at the end of June 2009. The Bank of Finland BOP statistics show holdings in 1 345 different investment funds and ETFs, but a tenth of these account for as much as four-fifths of the total. In terms of invested capital, the five most popular funds, which account for over EUR 10 million in household assets, are euro area corporate bond funds, 'large-cap' equity funds, and one mixed fund. Equity funds investing in developing markets, funds concentrating on a specific economic sector and funds seeking absolute returns have also attracted capital to an amount of over EUR 5 million. Investment in individual ETFs is modest and is spread across many indices, from stock to commodity indices. Foreign funds investing in short-term debt securities account for about EUR 10 million of household assets, which exceeds households' direct investment in foreign money market instruments.

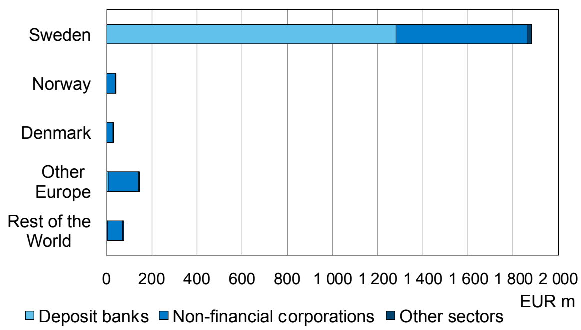
The households' holdings in foreign bonds and notes amounted to EUR 0.9 billion at the end of June 2009. These were spread more unevenly across countries than the shareholdings, as the majority of the bonds and notes were issued by financial-sector entities, the majority of these being registered in other than their main area of activity, for tax reasons. Households favour especially banks' and MFIs' structured bonds. Household holdings in structured bonds totalled EUR 0.6 billion, ie 16% of their security holdings. In June 2009, households had invested in over 300 structured index-linked bonds. These loans mature in 2012 on average, and the majority do not pay interest; rather, the possible return is eg interest linked to stock market developments. The household sector also seems to favour taking advantage of developing markets' return potential via structured bonds.

Household investments in bonds and notes issued by foreign non-financial corporations amounts to EUR 85 million. This is about a tenth of households' total bond and note holdings. In terms of quantity, slightly over half of these were issued by Nordic corporations, and in terms of market value, four-fifths. Half of household investment in corporate bonds is in fixed-coupon bonds; uncollateralised bonds account for only a small part.

Household holdings of bonds and notes issued by governments totalled EUR 15 million. The majority of this is in bonds issued by the German, French and Swedish governments. These bonds mature in 2012 on average and pay an average coupon interest of 4%.

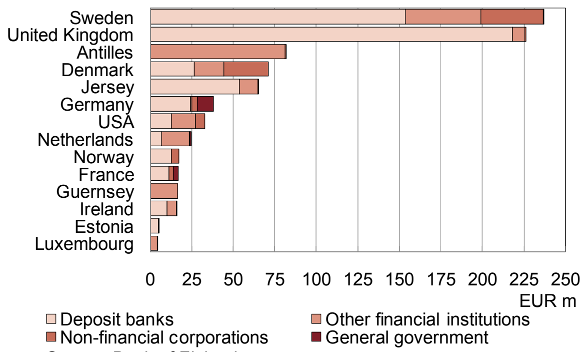
Chart 16. Household investment in equity securities and bonds and notes by country and sector, 30 Jun 2009

A. Equity securities



Source: Bank of Finland.

B. Bonds and notes



Source: Bank of Finland.

Box 2. Accuracy of portfolio investment statistics improved at start of 2009

The data collection and statistical compilation methods applied to BOP portfolio investment changed at the start of 2009. The aggregate-base data collection was abandoned and security-by-security reporting at the level of ISIN codes was introduced. In connection with the changeover, reporting agents' obligation to classify and sum up their portfolio investment data eased considerably. In the new statistical framework, the central bank classifies investments in accord with the Centralised Securities Database (CSDB) maintained by the ECB. Another major change in portfolio investment statistics at the turn of the year was the entry into force of the ECB's investment funds regulation, because of which the obligation to collect and compile investment fund balance sheet data moved from Statistics Finland to the Bank of Finland. In this connection, changes were also made to the statistical methodology applied to investment funds' foreign investment flows and stocks, and the old estimation methods relating especially to monthly BOP statistics are no longer used. At the turn of the year, data were collected on portfolio assets and liabilities using both the old and new methods. This box discusses the impact of the statistical changeover on the stock of portfolio investment.

Shifts in classifications of foreign investment in Finland

The stock of foreign portfolio investment in Finland was not changed by the statistical changeover and stood at about EUR 176 billion at the end of 2008. However, minor shifts occurred between individual instrument classes (Table 3). Foreign holdings of equity securities, fund shares and money market instruments increased, whereas holdings of bonds and notes decreased correspondingly, by just under EUR 5 billion. Data on foreign securities holdings are collected both directly from securities issuers and indirectly from domestic custodians. The majority of changes in instrument classes were due to either replacements of custodians' classifications by classifications of the ECB's CSDB or altered valuation factors.

The sectoral breakdown of portfolio liabilities was also made more accurate (Table 4). In the new statistical framework, the sectoral breakdown of issuers is based on Statistics Finland's Business Register instead of reporting agents' own classifications. The most significant improvement in the sectoral breakdown of issuers was in the data on investment funds, for which there was no breakdown previously in the BOP statistics. The most significant change in euro terms was in the non-financial corporations sector whose foreign portfolio liabilities increased by over EUR 7 billion. The reclassification concerned mainly equity liabilities, but foreign holdings of non-financial corporations' short-term debt securities also increased by over EUR 2 billion (Chart 17). The drop in general government debt was partly due to valuation factors and partly to genuine reclassification adjustments. Changes in the MFI sector are largely explained by more accurate data on investment funds.

Table 3. Foreign portfolio investment in Finland by investment type, 31 Dec 2008

EUR m

	Old aggregate data collection	New security-by-security data collection	Change, EUR m	Change, %
Portfolio investment, total	176 474	176 563	89	0
Equity securities	62 107	64 631	2 524	4
Investment fund shares	5 975	6 710	735	12
Bonds and notes	86 416	81 696	-4 719	-5
Money market instruments	21 977	23 527	1 550	7

Source: Bank of Finland.

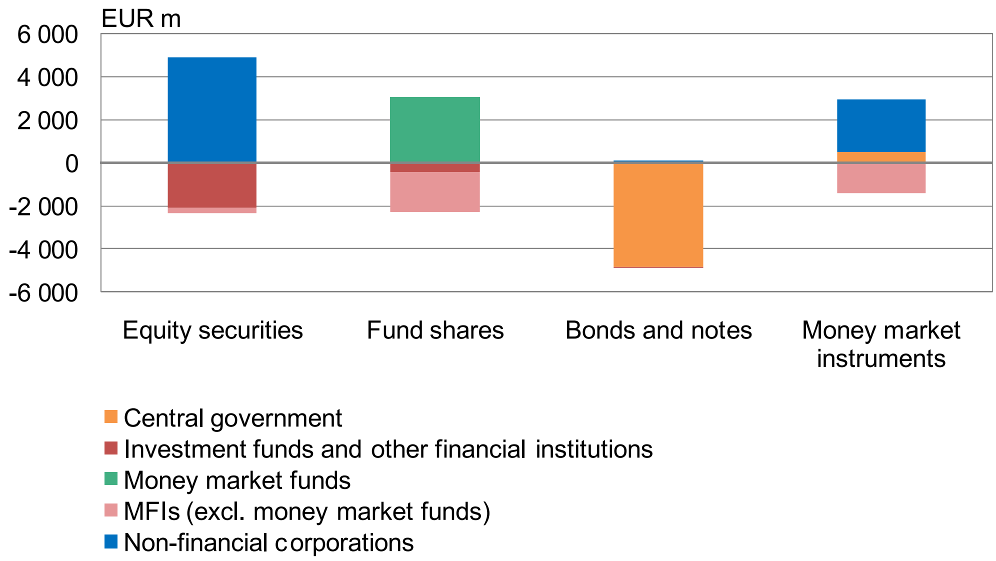
Table 4. Foreign portfolio investment in Finland by issuer sector, 31 Dec 2008

EUR m

	Old aggregate data collection	New security-by-security data collection	Change, EUR m	Change, %
Portfolio investment, total	176 474	176 563	89	0
Banks	28 116	26 487	-1 630	-6
Other MFIs	16 754	17 905	1 151	7
Other financial institutions and insurance corporations	7 880	5 354	-2 526	-32
General gorvernment	52 342	48 001	-4 341	-8
Non-financial corporations	71 382	78 818	7 436	10

Source: Bank of Finland.

Chart 17. Changes in stock of portfolio investment liabilities due to statistical changeover by investment type and issuer sector, 31 Dec 2008



Source: Bank of Finland.

Downward revision in the stock of Finnish investment abroad

The stock of Finnish portfolio investment abroad decreased on account of the statistical changeover by EUR 6 billion, to approximately EUR 130 billion at the end of 2008. This was mainly explained by improved investment funds data and more accurate treatment of securities lending agreements. The compilation of investment funds' foreign investment statistics was, until the end of 2008, based on Statistics Finland's quarterly data collection. Additional information needed for Eurosystem and Finland's BOP (eg investment flows, revaluation changes and country breakdown) was partly based on annual surveys, partly on market information and Bank of Finland estimates. In the old system, the quality of preliminary data in particular suffered from the roughness of the estimation method due to inadequate basic data.

Foreign portfolio assets decreased considerably in respect of equity securities and fund shares, whereas investment in debt securities remained broadly unchanged (Table 5). The new statistical framework enables a more accurate identification of securities that have moved in or out of investor portfolios in connection with securities lending, and possible short sales. The general principle relating to repurchase and lending agreements in the BOP statistics is that temporary changes arising from these operations do not affect the stock of portfolio assets. Therefore, borrowed foreign securities in Finnish investor portfolios should not be included in BOP portfolio assets.

The statistical changeover also caused considerable shifts in investment sectors in respect of investment abroad (Table 6 and Chart 18). The most significant change was a decrease of over EUR 4 billion in foreign investment by employment pension funds. In addition, the investment stock of money market funds increased by almost EUR 2 billion, and the stock of other investment funds contracted by almost a corresponding amount. Household investment stock also decreased considerably with the statistical changeover.

The geographical breakdown of investments changed slightly, although the most important target countries remained unchanged (Table 7). Sweden surpassed Germany as the biggest investment target. In relative terms, the greatest changes were observed in data on Russia and Japan: investment in these countries fell by well over half. In these cases, the figures of the old statistics were misleading due to the rough estimation methods for investment funds.

All in all, the change in statistical data collection and compilation applied to portfolio statistics caused surprisingly small changes in the balance of payment and international investment position statistics. However, the changes were considerable as regards some of the details, and from now on the new statistics can be considered more reliable.

Table 5. Finnish portfolio investment abroad by investment type, 31 Dec 2008

EUR m

	Old aggregate data collection	New security-by-security data collection	Change, EUR m	Change, %
Portfolio investment, total	135 843	129 840	-6 003	-4
Equity securities	19 189	16 370	-2 820	-15
Investment fund shares	31 396	28 334	-3 062	-10
Bonds and notes	80 772	80 686	-86	0
Money market instruments	4 486	4 451	-35	-1

Source: Bank of Finland.

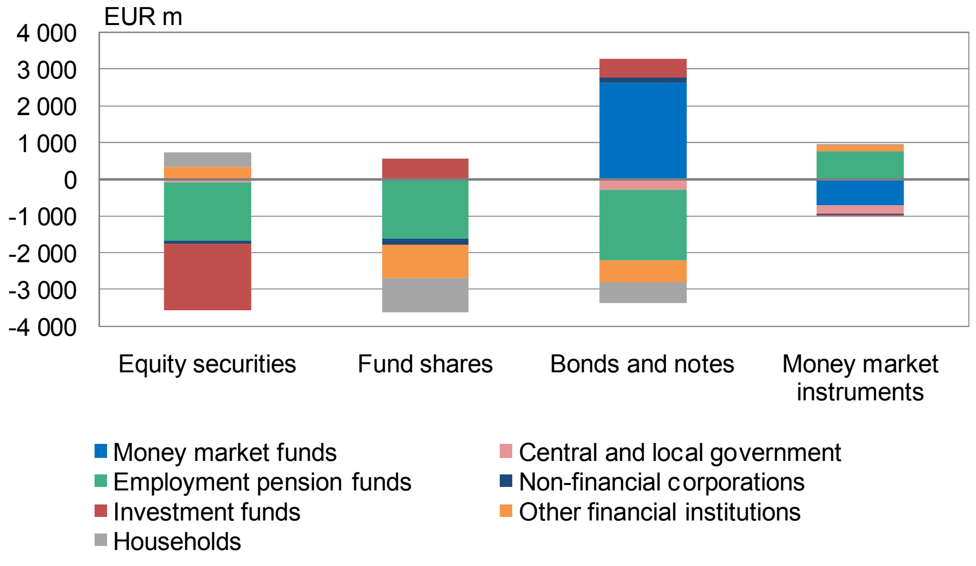
Table 6. Finnish portfolio investment abroad by issuer sector, 31 Dec 2008

EUR m

	Old aggregate data collection	New security-by-security data collection	Change, EUR m	Change, %
Portfolio investment, total	135 843	129 840	-6 003	-4
MFIs (excl. money market fund)	18 375	18 375	0	0
Money market funds	7 123	9 031	1 907	27
Investment funds and other financial institutions	41 753	39 982	-1 770	-4
Central government	8 257	7 909	-348	-4
Local government	559	314	-245	-44
Employment pension funds	54 034	49 682	-4 352	-8
Non-financial corporations	872	744	-128	-15
Households	4 869	3 803	-1 066	-22

Source: Bank of Finland.

Chart 18. Changes in stock of portfolio investment assets due to statistical changeover by investment type and issuer sector, 31 Dec 2008



Source: Bank of Finland.

Table 7. Finnish portfolio investment abroad, 25 biggest target countries, 31 Dec 2008

EUR m

Target country	Old aggregate data collection	New security-by-security data collection	Change, EUR m	Change, %
Sweden	17 529	19 588	2 058	12
Germany	17 571	16 610	-962	-5
France	14 255	14 228	-27	0
United Kingdom	10 115	9 603	-513	-5
USA	9 351	8 182	-1 169	-13
Luxembourg	9 220	7 931	-1 289	-14
Ireland	7 619	7 860	242	3
Netherlands	7 868	7 542	-327	-4
Spain	5 549	5 589	40	1
Cayman Islands	5 461	5 213	-248	-5
Italy	5 002	5 089	86	2
Denmark	5 302	4 251	-1 051	-20
Norway	2 536	2 186	-350	-14
Austria	2 101	2 024	-77	-4
Greece	1 753	1 829	77	4
Belgium	1 644	1 671	28	2
Guernsey	856	995	139	16
Switzerland	1 215	958	-257	-21
Portugal	906	893	-13	-1
Bermuda	715	886	171	24
Jersey	597	727	130	22
Australia	718	646	-71	-10
British Virgin Islands	476	533	57	12
Japan	1 414	527	-887	-63
Russia	1 293	505	-788	-61

Source: Bank of Finland.

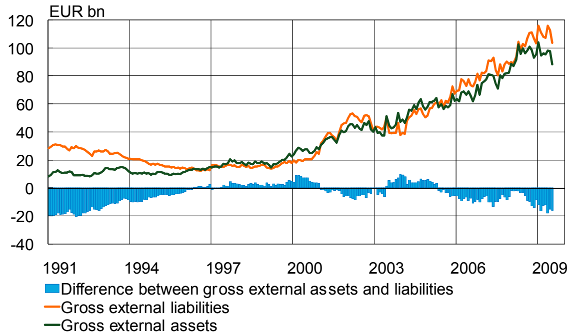
4 Finnish MFIs are net borrowers in the interbank market

Finnish monetary financial institutions' (MFIs) gross external assets and liabilities, excluding equity items and financial derivatives, have grown fivefold from the start of 2000. MFI issuance of debt securities abroad recovered in 2009. Internal financing by MFI groups has improved the operability of the markets.

At the end of June 2009, Finnish MFI gross external liabilities totalled EUR 113 billion and assets EUR 98 billion. Of gross assets, 78% consisted of assets relating to other investment, and the remainder was MFI holdings of foreign securities. Gross liabilities were divided slightly more evenly between those relating to other investment (60%) and debt security issues (40%). Other investment mainly consists of money market investments and deposits via the wholesale money market and internal items of international banking groups. Loan and deposit stocks of non-residents[10] are small in Finnish MFI balance sheets.

Over the past decade, the share of deposits in Finnish MFI funding has decreased, which has signified strong growth in international market-based financing. The difference between loans and deposits of Finnish and other euro area residents in Finnish MFI balance sheets was less than EUR 1 billion at the start of 1999, after which the difference has increased to over EUR 50 billion.

Chart 19. Finnish MFI gross external assets and liabilities and their difference, 1991–2009



Source: Bank of Finland.

The strong growth in Finnish loan stock in recent years is partly attributable to cheaper financing for banks in the international financial markets. The prolonged low level of market interest rates and increased loan demand led to growth in debt security issuance.

However, market-based financing responds more readily to market disruptions than deposits. The financial market crisis that began in August 2007 strained the financial markets by causing uncertainty about counterparties' creditworthiness, thereby undermining market liquidity. The bankruptcy of the investment bank Lehman Brothers in September 2008 brought the international markets almost to a complete standstill, resulting to increased difficulties for banks in obtaining finance. Many states were forced to support MFI balance sheets because of a sudden drop in the value of eligible balance sheet items.

[10] Residents comprise non-financial corporations, financial and insurance corporations (excl. banks), general government (excl. central government), non-profit institutions serving households and households.

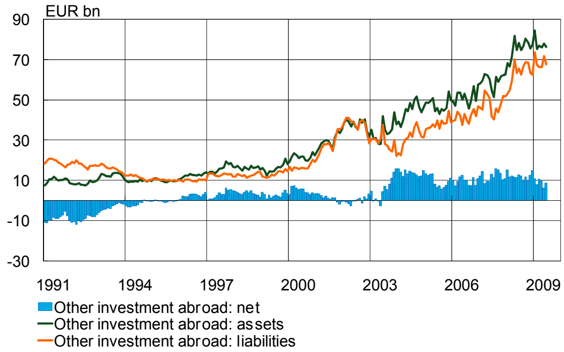
Due to the seizing up of the corporate bond markets in September 2008, large enterprises were in sudden need of large bank loans. At the same time, banks tried to secure their own liquidity by reducing loan maturities in order to be able to manage their own – mainly short-term – liabilities. Banks were also unwilling to grant credit to each other, because of concerns about their own liquidity.

While the demand for corporate loans was increasing, access to funding became more expensive for banks. In addition, risk premia in the interbank market rose considerably due to the crisis. Past risk premia of a few hundreds of percentage point rose to 1–2 percentage points. In addition, owing to the new Basel II capital accord, banks were forced to increase their own capital, as customers' credit ratings and collateral values descended. Banks issued equity in 2009 to strengthen their capital positions.

4.1 Growth in intra-group financing coming to an end

The stock of Finnish MFI assets relating to other investment abroad totalled EUR 76.3 billion at the end of June 2009, and the stock of corresponding liabilities EUR 67.6 billion. Other investment consists mainly of money market investments and deposits via the wholesale money market and intra-group items of international groups. Other investment also includes agreements to repurchase securities, ie repos. A repo corresponds to a collateralised loan where the securities originally owned by the seller are used as collateral.

Chart 20. Assets and liabilities of Finnish MFI other investment abroad and their difference, 1991–2009



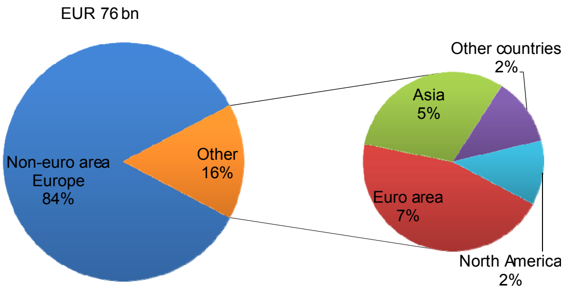
Source: Bank of Finland.

Financing transactions in the interbank market are mainly short-term assets and liabilities, which makes other investment a highly volatile item. In the case of Finnish MFIs, internal loans and deposits of MFI groups have improved the operability of the markets during the crisis. The bulk of the aggregate balance sheet of Finnish MFIs is from the balance sheets of foreign banks' affiliates and branches.

Other assets increased from EUR 51.5 billion in July 2007 to EUR 84.5 billion in January 2009. Correspondingly, the stock of other liabilities grew in the same period from EUR 40.1 billion to EUR 73.6 billion. Both stocks began to decrease after January 2009. Finnish MFI net assets from other investment abroad totalled EUR 8.7 billion at the end of June 2009.

The bulk of assets relating to other investment abroad are related to non-euro area European countries (84%), since banks operating in Finland have group units outside the euro area. The largest claims are on Sweden, Denmark and Norway. Other investment assets related to the euro area only amount to 7 %, the majority concerning Germany.

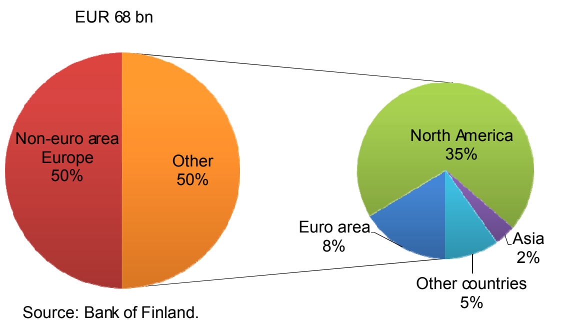
Chart 21. Other investment assets of Finnish MFIs by country group, 30 Jun 2009



Source: Bank of Finland.

Finnish MFI liabilities relating to other investment abroad are mainly to non-euro area Europe (50%), especially to Sweden, UK and Denmark. North America accounts for 35% of other investment liabilities.

Chart 22. Other investment liabilities of Finnish MFIs by country group, 30 Jun 2009

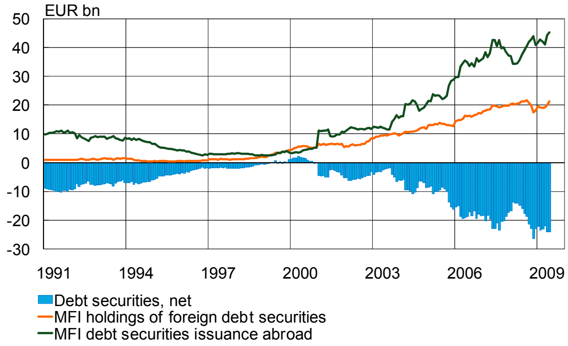


Source: Bank of Finland.

4.2 Foreign portfolio assets and liabilities of Finnish MFIs

Foreign portfolio liabilities consist mainly of issues of bonds and notes and money market instruments. Due to the financial market crisis, the volatility of bond markets increased markedly also in the euro area, as uncertainty in the US bond markets spilled over to Europe.

Chart 23. Debt securities issued by Finnish MFIs abroad and holdings of foreign debt securities, 1991–2009

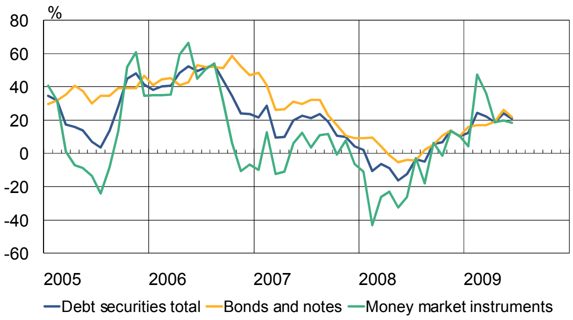


Source: Bank of Finland.

The stock of Finnish MFI debt security issues abroad began to contract in 2007. Investors preferred short-term liquid investments over long-term debt securities. As a result of investors' uncertainty about MFIs and their debt security issues, MFI emissions were not as successful as in the past. The drop in demand had a negative impact on debt security prices and liquidity. Debt security values fell also because of rising interest rates.

However, the stock of debt security issues started to grow again in the second quarter of 2008, and at the end of June 2009 it reached an all-time record of EUR 45 billion. Bond markets seem to have recovered further in 2009.

Chart 24. Finnish MFI debt securities issued abroad, annual growth 2005–2009



Source: Bank of Finland

Finnish MFI holdings of foreign debt securities are mainly bonds and notes. Equity securities, investment fund shares and money market fund shares accounted for 14% of MFI portfolio investment at the end of June 2009. The stock of portfolio investment abroad totalled EUR 22 billion at the end of June. Of this, the stock of bonds and notes amounted to EUR 19 billion.

5 The impact of the financial crisis on the quality of balance of payments statistics

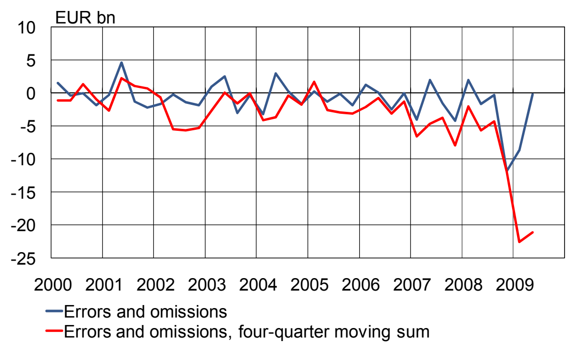
The errors and omissions item in Finland's balance of payments has been exceptionally large and almost continuously negative since the end of 2008. Several other EU countries have also encountered the same problem. The upturn in errors and omissions began with the deepening of the financial crisis.

Transactions between Finland and other countries are recorded in the balance of payments statistics on the basis of double-entry accounting. A real transaction recorded in the current account (eg sale of goods) is always linked to a financial transaction in the financial account. Following this principle, the balance of payments (BOP) is theoretically an identity in which balances sum to zero.

However, this identity is never realised in the practical collection of statistical data, since data for BOP subaccounts are derived with different surveys. For purposes of transparency, the BOP includes an item called errors and omissions. This item includes data recorded erroneously but also deficiencies and inconsistencies owing to the asymmetric data collection. In the national accounts, this balancing item is called statistical discrepancy.

In monthly statistics the errors and omissions item for one month can be quite large due to differences in timing. One practical example is a sale of goods where the goods are delivered in January but the related payments and credit transfers are not recorded in firms' accounts until February. Such differences in timing are a natural part of statistics and should cancel out when the data are viewed quarterly or annually. But when the errors and omissions remain continuously negative or positive, one should examine the underlying reasons.

Chart 25. Errors and omissions in Finland's balance of payments, quarterly data 2000/I–2009/II

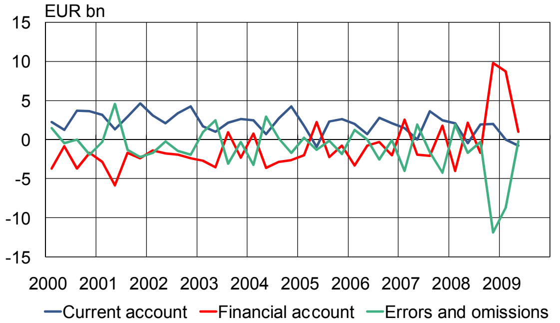


Source: Bank of Finland.

Errors and omissions have traditionally been fairly small in the Finnish balance of payments. Nor have they had a negative or positive bias apart from in a few exceptional years. Time series have naturally been revised from time to time when systematic reporting errors have been detected in surveys.

In the last 6 months the situation for Finland's BOP has changed considerably. Starting from October 2008 the errors and omissions have been negative except for one month. This means that there is either overestimation of capital inflow or underestimation of capital outflow in the statistics. Alternatively, there may be some overestimation of exports and underestimation of imports in the current account (Chart 26). As the current account approaches zero, the financial account should also stay in balance. This has however not been the case according to the current survey data. Instead, capital inflows have exceeded capital outflows.

Chart 26. Current account, financial account and errors and omissions, quarterly data 2000/I–2009/II



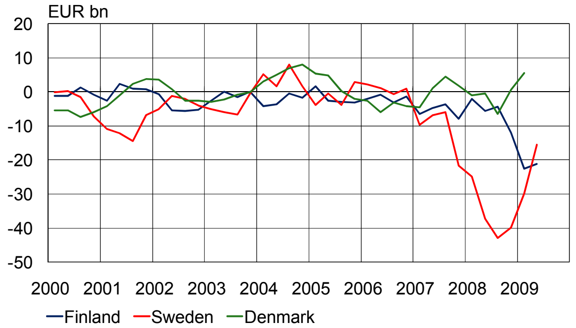
Source: Bank of Finland.

Factors behind growth in errors and omissions have been studied and some data have been improved as a result. However, the item was substantial in Finland's BOP in the first half of 2009. The upturn in the errors and omissions item began in October 2008, when there was also a marked deepening of the global financial crisis. The question arises as to whether the crisis introduced an element in the compilation of statistics which was not there before. The traditional BOP surveys have not provided an answer to this question.

At least the following factors can have an impact on growth of errors and omissions. Non-financial corporations, banks and investors are increasingly using financial derivatives. Current surveys do not appear to cover this area adequately. Interbank wholesale money markets involve large sums of money, and it is possible that this area is also not wholly covered with traditional statistics. In addition, the BOP statistics have only recently introduced a new method for the compilation of securities data on the basis of new types of information.

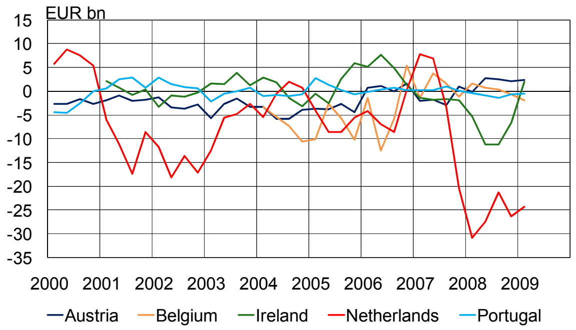
Errors and omissions started to increase in 2008 also in other EU countries. Their growth has been considerable at least in the Netherlands and Sweden (Charts 27 and 28).

Chart 27. Errors and omissions in Finland, Sweden and Denmark, 2000/I–2009/II, four-quarter moving sum



Sources: Bank of Finland, Statistiska centralbyrån and Eurostat.

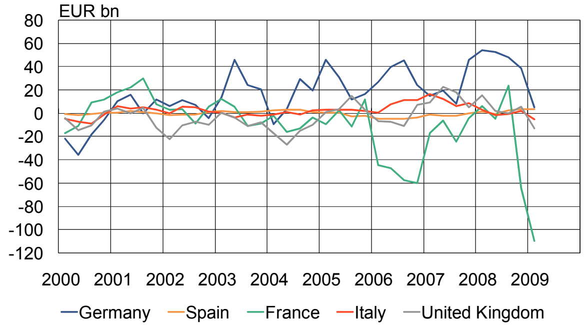
Chart 28. Errors and omissions in selected small EU countries, 2000/I–2009/I, four-quarter moving sum



Source: Eurostat.

Of the large EU countries, errors and omissions have been substantial at least in Germany and France, and with opposite signs.

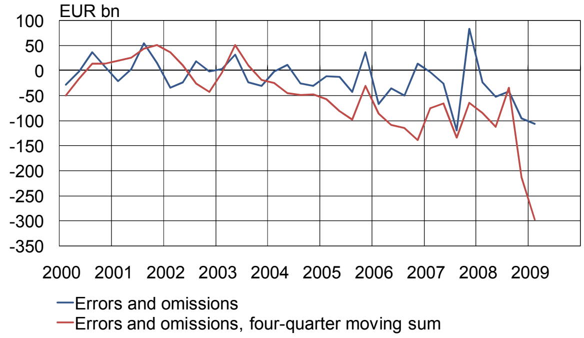
Chart 29. Errors and omissions in selected large EU countries, 2000/I–2009/I, four-quarter moving sum



Source: Eurostat.

The large size of errors and omissions in the euro area attracted attention in 2008. Several revisions were made in the statistics of individual countries, as bilateral comparisons revealed the need for corrections. However, bilateral comparisons are time-consuming, and due to the fast publication timetable for monthly statistics, revisions are always late in coming.

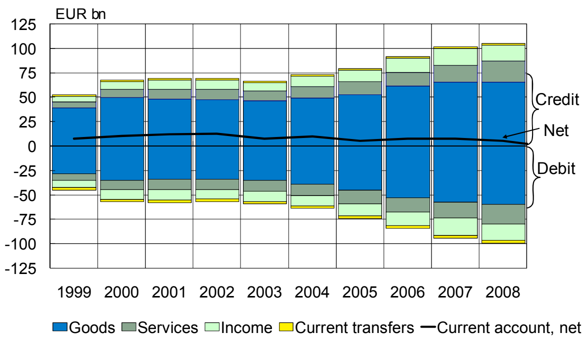
Chart 30. Errors and omissions in the euro area, quarterly data 2000/I–2009/I



Source: European Central Bank.

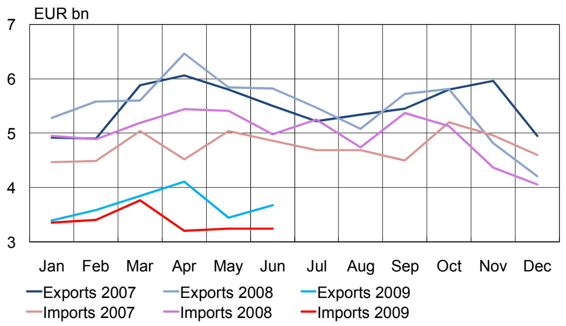
Appendix 1. Charts

Chart 31. Distribution of credit and debit in current account, 1999–2008



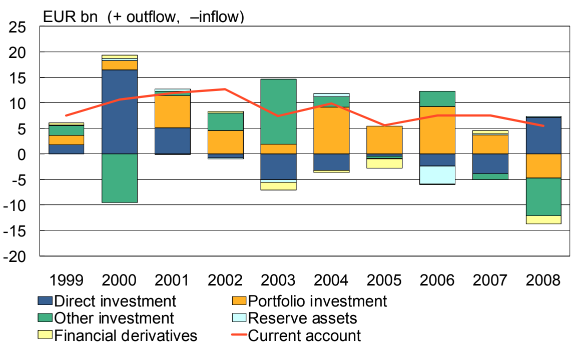
Source: Bank of Finland.

Chart 32. Finnish trade in goods, monthly data, 2007–2009



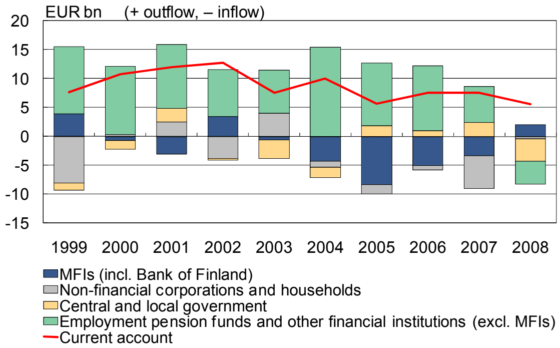
Sources: Bank of Finland and the Board of Customs.

Chart 33. Capital movements by investment type, 1999–2008



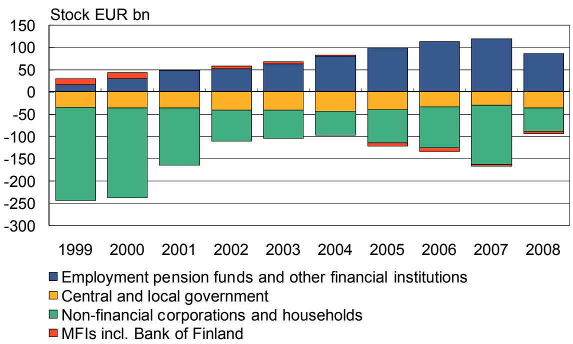
Source: Bank of Finland.

Chart 34. Capital movements by sector, 1999–2008



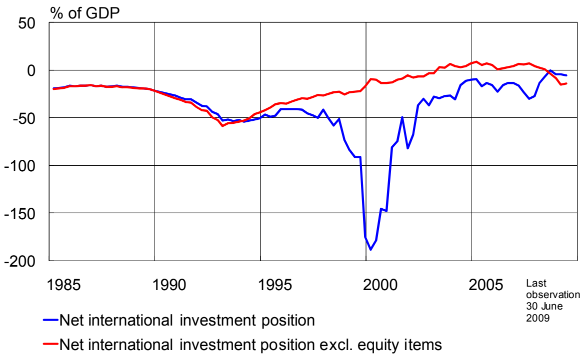
Source: Bank of Finland.

Chart 35. Finland's external assets and liabilities by sector, 1999–2008



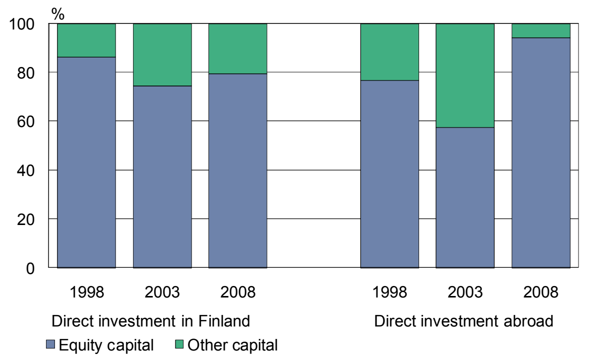
Source: Bank of Finland.

Chart 36. Finland's net international investment position (assets – liabilities), 1985/I–2009/II



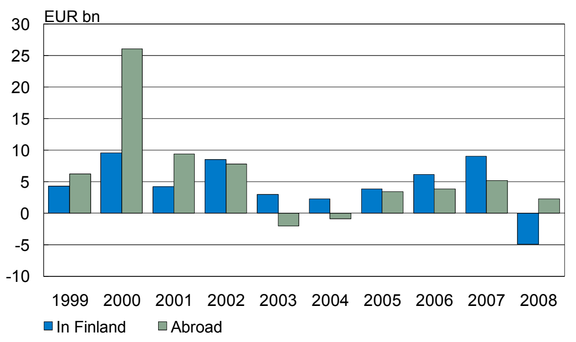
Sources: Bank of Finland and Statistics Finland.

Chart 37. Direct investment, stock by type of capital 1998, 2003 and 2008



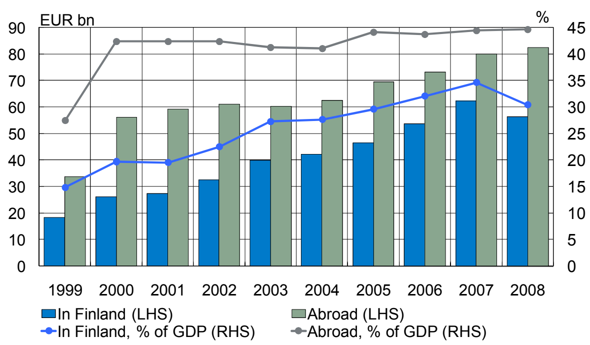
Source: Bank of Finland.

Chart 38. Direct investment, net capital flows 1999–2008



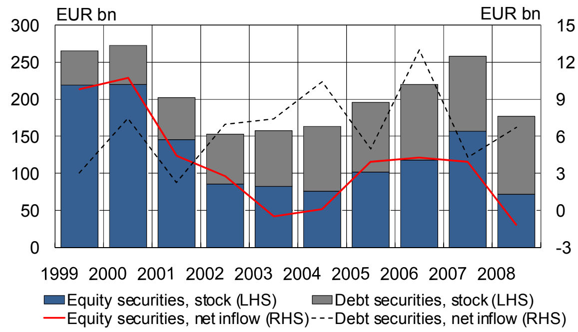
Source: Bank of Finland.

Chart 39. Direct investment, stock 1999–2008



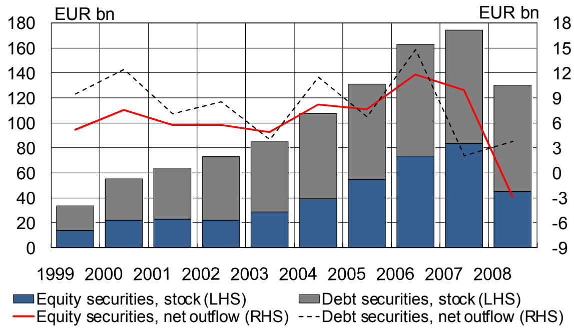
Sources: Bank of Finland and Statistics Finland.

Chart 40. Foreign portfolio investment in Finland, 1999–2008



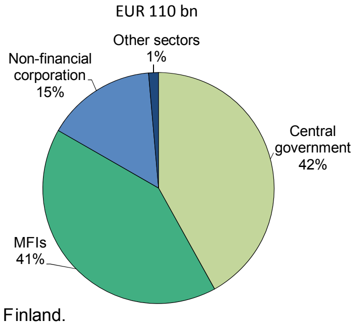
Source: Bank of Finland.

Chart 41. Finnish portfolio investment abroad, 1999–2008



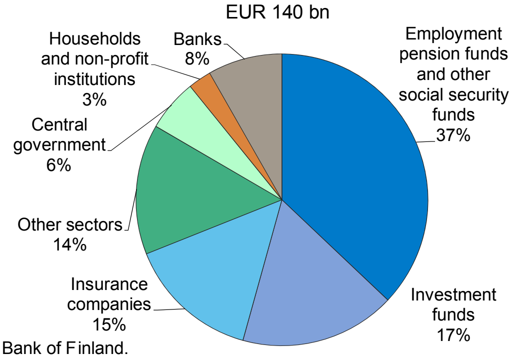
Source: Bank of Finland.

Chart 42. Foreign portfolio investment in Finland by sector: stock of debt securities, 30 Jun 2009



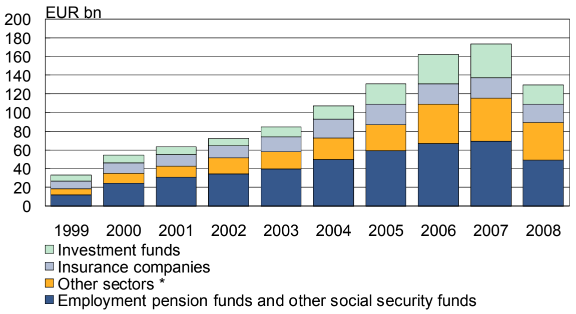
Source: Bank of Finland.

Chart 43. Finnish portfolio investment abroad by sector: stock, 30 Jun 2009



Source: Bank of Finland.

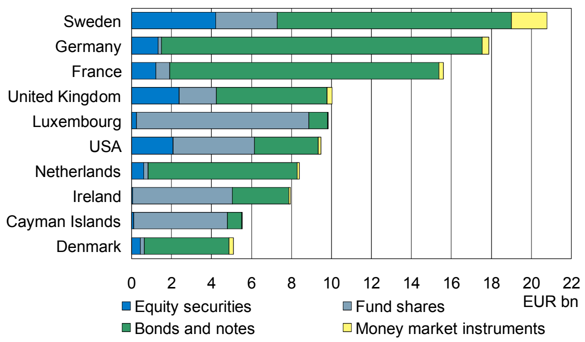
Chart 44. Finnish portfolio investment abroad by sector, 1999–2008



*Other sectors: central and local government, MFIs, non-financial corporations, households and non-profit institutions serving households.

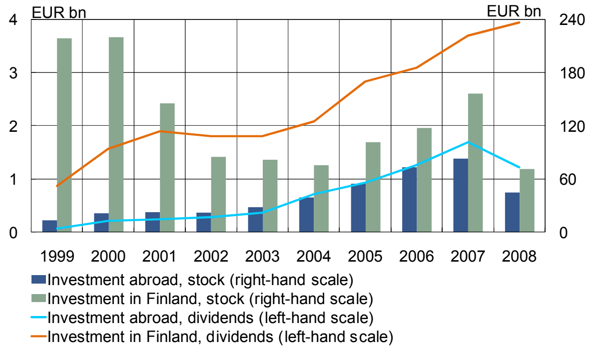
Source: Bank of Finland.

Chart 45. Geographical breakdown of Finnish portfolio investment abroad: stock 30 June 2009



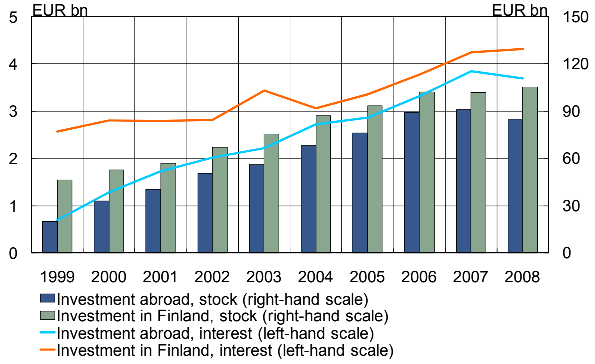
Source: Bank of Finland.

Chart 46. Portfolio investment, shares and fund shares, stock and dividends 1999–2008



Source: Bank of Finland.

Chart 47. Portfolio investment, debt securities, stock and interest 1999–2008



Source: Bank of Finland.