

The Finnish Economy

The Finnish economy expanded in 1989 for the 12th consecutive year, during which the gross national product (GNP) grew on average by 3.8% annually. The 1989 increase was 5%, compared with 5.2% in 1988. The national income per capita in 1989 was FIM 82,880 (C\$23,000), a growth of 11.7% over the previous year's national income of FIM 74,220 (C\$20,600).

During 1989, the inflation rate rose to 6.6%, leaving the real growth of income per capita at 5.1%. The favourable real wage growth, combined with an unemployment rate of only 3.5%, boosted private consumption for the third consecutive year. The overheating of the economy led to an increasing imbalance in Finland's 1989 balance of payments to FIM 21 billion (C\$5.8 billion). The deficit amounted to 4% of GNP and the total net debt to 17%.

Economic Forecast for 1990

At the end of 1989 the signs of an overheated Finnish economy became apparent. In 1989 private consumption had increased by 16%. This growth in consumption, which had continued for several years, culminated in a sharp increase in household indebtedness.

The favourable trend in exports of forest industry products in the past three years encouraged the industry to increase their investments by 20%. In order to curb demand and imbalance in the balance of payments, the Bank of Finland sought to keep financial markets tight and interest rates high during the latter part of 1989.

The government's 1990 budget proposal set forth a stabilization agreement for collective wage negotiations over the next two years. To reinforce measures already taken by the Bank of Finland, labour unions and employers' associations accepted this stabilization agreement in principle. The Ministry of Finance estimates the growth of GNP will slow to 2.5% in 1990.

Measures to curb consumption are expected to balance the deficit in the foreign trade balance. Investments in industry are expected to result in increased productivity, with exports growing by 3.5%. At the same time, decreased consumption is expected to slow growth in demand for imported products to about the same level of 3.5%. The deficit in the balance of payments should increase slightly.

The shortage of labour in southern Finland will help to keep unemployment at 3.5%. Inflation, which from January 1989 to January 1990 was 7.5%, is expected to decrease to 5% toward the end of the year. Consumption will be kept moderate by the prevailing high interest rates.

The average interest rate at major banks rose from 10% in 1988 to over 16% towards the end of 1989, and is expected to remain there. The housing market reacted quickly to this increase: prices stabilized and, in parts of suburban Helsinki, dropped 10 to 15%.