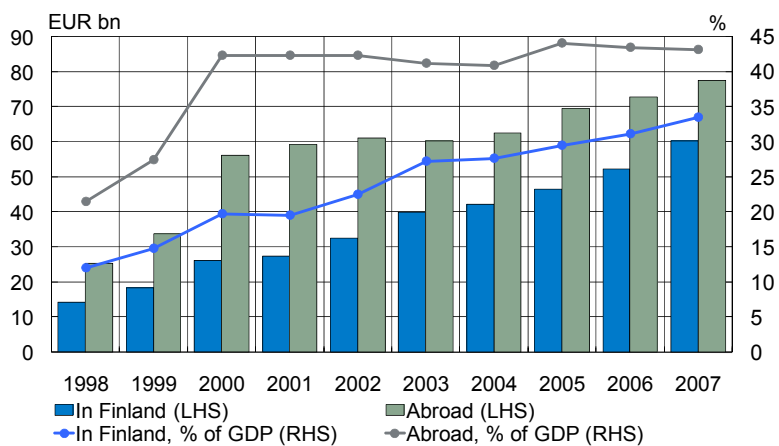


Finland's Balance of Payments

Annual Review • 2007

Direct investment, stock 1998–2007



Sources: Bank of Finland and Statistics Finland.



Bank of Finland

Financial Markets and Statistics

Statistics

6.10.2008

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**For further
information, please
contact**

Veera Vuorinen
+358 10 831 2412
maksutase@bof.fi

Postal address
PO Box 160
FI-00101 HELSINKI, FINLAND

Street address Snellmaninaukio
Phone +358 10 8311
Fax +358 9 174 872

Email
first name.surname@bof.fi
www.bof.fi

Swift SPFB FI HH
Business ID 0202248-1
Domicile Helsinki

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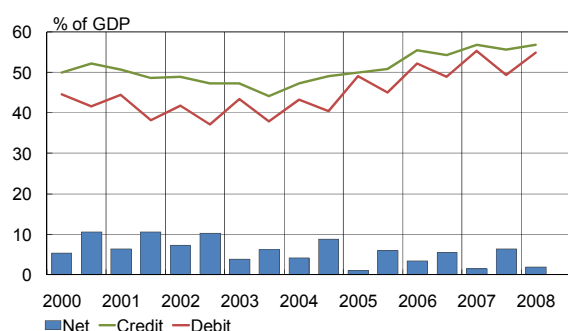
1 Overview of Finland's balance of payments and international investment position

Revised balance of payments statistics show that Finland's current account surplus for 2007 was EUR 7.3 billion, representing 4% of GDP. In the first half of 2008 current account developments continued as before. In the financial account, investment inflows and outflows were smaller than normal, and share price decreases substantially reduced portfolio investment values.

Revised balance of payments statistics show that the current account surplus stood at EUR 7.3 billion in 2007, representing 4% of GDP. In 2007, surpluses were recorded in the goods and services accounts, whereas the income account turned again to a deficit. The current transfers account has traditionally showed a deficit, as it includes transfers between Finland and EU institutions.

The current account surplus accumulated by EUR 1.8 billion in the first half of 2008, which is EUR 0.5 billion more than in the year-earlier period. Due to outflows of investment income (dividends), the current account surplus is always smaller in the first half of the year than in the second half of the year.

Chart 1. Current account credits and debits 2000/1–2008/1

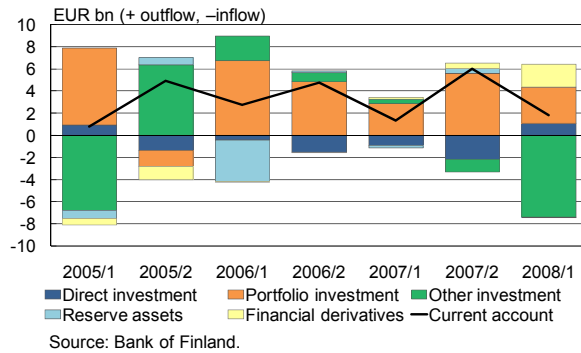


Sources: Bank of Finland and Statistics Finland.

Internationalisation generally increases direct investment flows, but in early 2008 both Finnish and foreign investors have exceptionally repatriated capital from their subsidiaries. However, this development only reflects internal restructuring of a few international groups (Table 1).

In general, Finnish investors have expanded their foreign portfolio investments since 2000. The first half of 2008 was exceptional also in this respect, as investors repatriated capital from abroad for three months. Foreign investors also repatriated capital from Finland, reducing their holdings of Finnish securities in the first half of 2008.

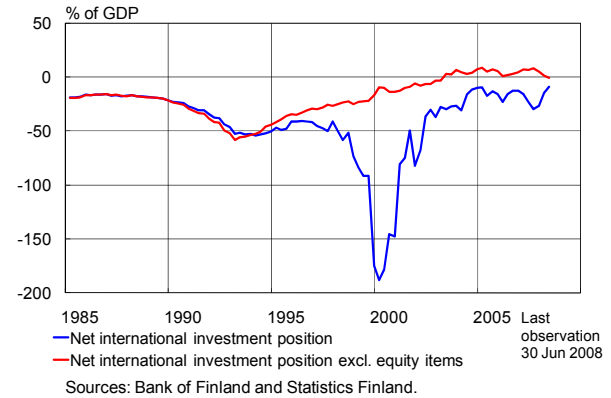
Chart 2. Capital movements by investment type, 2005/1–2008/1



Finland's net international investment position (assets – liabilities) stood at a negative EUR 48 billion at the end of 2007, indicative of a net liability position vis-à-vis the rest of the world. At the end of June 2008 the corresponding figure was a negative EUR 16 billion. This year's decline in the stock of liabilities is attributable to a fall in Finnish listed companies' market value, which has also reduced the value of foreign holdings of Finnish equity shares. Owing to share price developments in early 2008, revaluation

changes of both assets and liabilities have reduced the investment stock (Table 1).

Chart 3. Finland's net international investment position (assets – liabilities), 1985–2008



Excluding equity items from the net international investment position, Finnish resident's external assets exceeded external liabilities by EUR 10 billion. At the end of June 2008 the corresponding figure was a negative EUR 1.0 billion, indicating that Finland's external assets and liabilities (excluding equity items) were almost in balance.

Table 1. External assets and liabilities by investment type in the first half of 2008

EUR m	Investment stock, 31 Dec 2007	Net capital flows, Jan–Jun 2008	Exchange rate and other valuation changes, Jan–Jun 2008	Investment stock, 30 Jun 2008
Direct investment	17 319	1 060	947	19 326
Abroad	77 566	-3 383	6 198	80 381
In Finland	60 247	-4 443	5 251	61 055
Portfolio investment	-83 566	3 270	34 311	-45 984
Assets	174 017	1 663	-15 319	160 362
Liabilities	257 583	-1 607	-49 630	206 346
Other investment	11 237	-7 418	-427	3 393
Assets	84 426	17 865	-1 520	100 772
Liabilities	73 189	25 283	-1 093	97 379
Financial derivatives	1 561	2 082	-1 922	1 722
Reserve assets	5 695	-3	-231	5 461

Net capital flows = Assets – liabilities.

Source: Bank of Finland.

2 Current account

For 2007, the current account surplus was EUR 7.3 billion. Current account dynamics were supported by strong growth in service exports. However, the majority of the surplus stemmed from trade in goods.

The latest data indicate that the current account surplus for 2007 was EUR 7.3 billion, which is EUR 0.2 billion less than in the previous year. The value of both goods exports and imports increased in 2007 on the previous year, and the trade surplus – in BOP terms – amounted to EUR 8.7 billion. The value of goods exports and imports totalled EUR 65.8 billion and EUR 57.0 billion respectively.¹

Table 2. Finland's current account, 2003–2008/1

EUR m		2003	2004	2005	2006	2007	Jan–Jun 2008
Current account	Net	7 511	9 969	5 697	7 506	7 302	1 828
Goods	Net	11 393	10 245	7 698	9 133	8 746	4 332
	Credit	46 586	49 125	52 661	61 697	65 780	34 461
	Debit	35 193	38 880	44 963	52 564	57 033	30 129
Services	Net	-598	490	-583	-877	747	685
	Credit	10 149	12 212	13 666	13 945	16 829	8 631
	Debit	10 747	11 722	14 249	14 822	16 082	7 946
Income	Net	-2 305	142	-245	577	-809	-2 485
	Credit	8 292	10 560	11 580	14 579	16 848	8 389
	Debit	10 598	10 418	11 825	14 002	17 657	10 874
Current transfers	Net	-978	-908	-1 173	-1 327	-1 383	-704
	Credit	1 691	1 598	1 609	1 558	1 614	739
	Debit	2 669	2 506	2 781	2 884	2 997	1 443

Source: Bank of Finland.

In the first half of 2008 the value of goods exports grew by 4% from the corresponding period a year

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 added to transportation and insurance costs. In 2007, 4.9% and 0.2% of goods exports was transferred to transportation and insurance costs respectively.

earlier, and that of goods imports by 6% (Chart 5). However, the trade surplus remained smaller than in the previous year, as imports grew faster than exports.

Chart 4. Finland's current account, 1998–2007

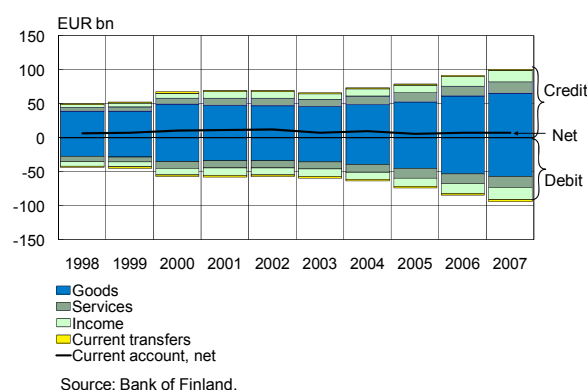
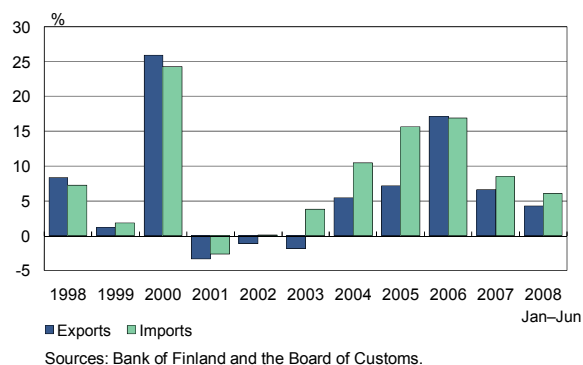


Chart 5. Change in value of goods trade on previous period, 1998–2008/1



In 2007 the services account recorded a surplus of EUR 0.7 billion. The value of service exports and imports rose respectively by 21% and 9% year-on-year. Transportation and travel services expenditures exceeded the corresponding income. In contrast, several services items were strongly in surplus. The surplus on business services totalled EUR 3.0 billion

in 2007. The item includes eg merchanting, leasing services and internal services within international groups.

The income account posted a deficit of EUR 0.8 billion in 2007. Income transfers include employees' wages and salaries as well as investment income, such as interest and dividends. Income flows to Finnish investors on outward direct investment has exceeded that of income paid to foreign investors thus far in the 2000s. In 2007, the net income on direct investment was EUR 1.0 billion. In contrast, income on portfolio investment was outward on net. In 2007 dividends and

interests paid by non-residents to Finnish portfolio investors amounted to EUR 1.7 billion and EUR 3.8 billion respectively. The corresponding payments to non-residents were EUR 3.7 billion and EUR 4.2 billion (see Excel appendix, Tables 2.1 and 2.2).

The current transfers account posted a deficit of EUR 1.4 billion in 2007. A significant part of current transfers consists of payments between Finland and the EU. In all, Finland received EUR 1.6 billion in current transfers from abroad and paid EUR 3.0 billion abroad in 2007.

Box 1. Travel account reflects a pick-up in leisure travel

The value of travel to Finland has increased in the past five years. In 2007 travel services brought as much as EUR 2.1 billion to Finland. Nevertheless, the travel account remained clearly in deficit, as the value of Finnish travel abroad totalled EUR 2.9 billion.

The largest income flows on travel services came from Russia, Sweden and Germany. Russia accounted for 26% of total travel service income, Sweden for 16% and Germany for 8%. Finns bought travel services mostly from Estonia, Spain and Sweden. Estonia accounted for 12% of total value of Finnish travel abroad, Spain for 10% and Sweden for 9%. Leisure travel to Thailand in particular has grown substantially. In the five years, Finnish expenditure on travel services to Thailand has more than quintupled (Chart 9). Expenditure on travel to Thailand accounted for as much as 8% of total Finnish expenditure on leisure travel in 2007.

Chart 6. Income from business and leisure travel to Finland, 2003–2007

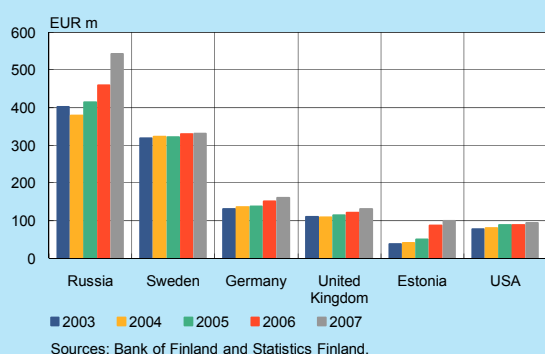


Chart 7. Finnish expenditure on business and leisure travel abroad, 2003–2007

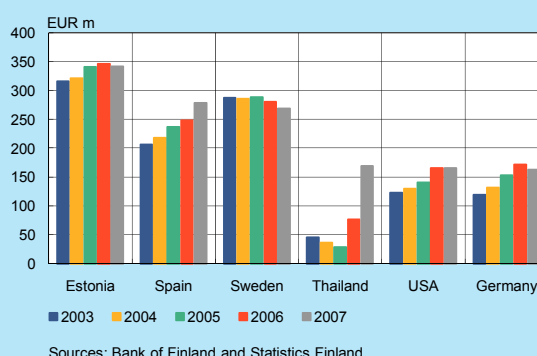


Chart 8. Income from leisure travel to Finland, 2003–2007

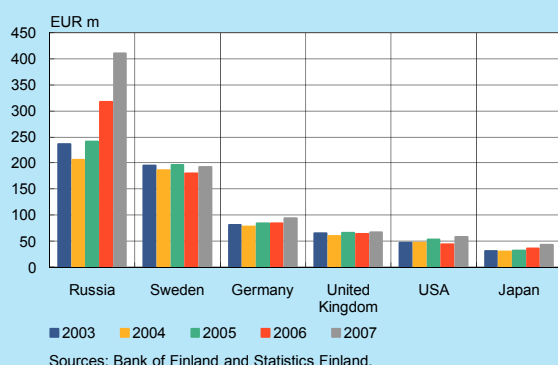
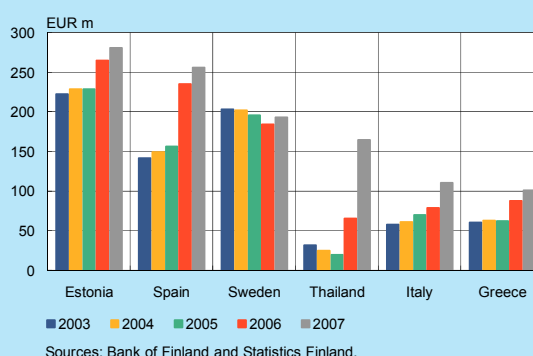


Chart 9. Finnish expenditure on and leisure travel abroad, 2003–2007



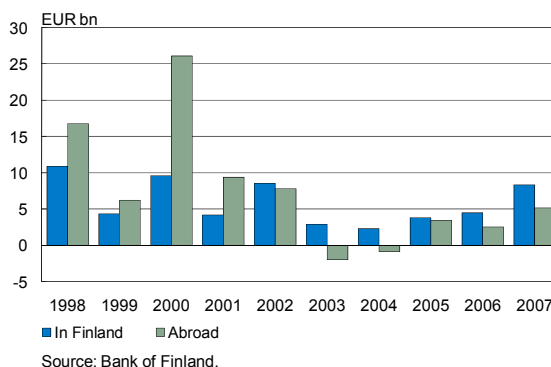
3 Direct investment in 2007

According to the Bank of Finland balance of payments statistics, there was a net inflow of EUR 3.1 billion in direct investment. Direct investment outflows were EUR 5.2 billion and inflows EUR 8.3 billion. At the end of 2007 the stock of outward and inward direct investment was EUR 77.6 billion and EUR 60.2 billion respectively. Finnish corporations' direct investment income was EUR 8.0 billion, compared with EUR 7.0 billion earned by foreign corporations from direct investment in Finland.

3.1 Foreign direct investment in Finland

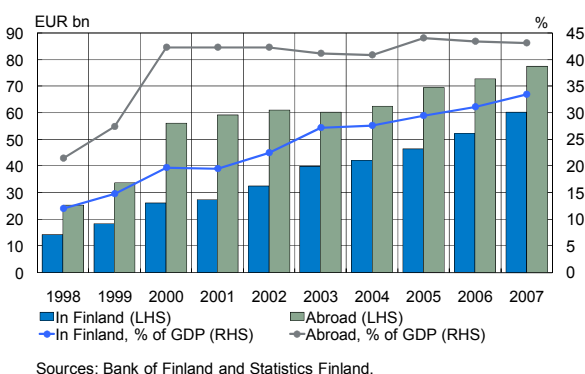
In 2007 foreign corporations invested on net EUR 8.3 billion in Finland in the form of direct investment. This is almost double the amount invested a year earlier (Chart 10). Direct investment in the form of equity was EUR 6.8 billion, and in other forms of capital EUR 1.5 billion (Table 3). Service companies attracted EUR 4.6 billion of inflows, manufacturing companies EUR 4.1 billion.

Chart 10. Direct investment, net capital flows 1998–2007



At the end of 2007 the stock of foreign direct investment in Finland totalled EUR 60.2 billion (Chart 11).² The value of the investment stock has more than quadrupled in ten years. Manufacturing companies accounted for EUR 18.9 billion of the investment stock. Service companies accounted for EUR 39.4 billion, of which financial and insurance corporations for EUR 17.2 billion and other service companies EUR 15.9 billion.

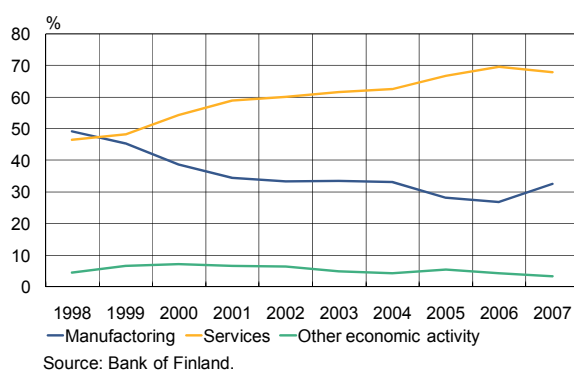
Chart 11. Direct investment, stock 1998–2007



² For listed companies, the value of foreign investment is recognised at market value and for other companies at book value.

Manufacturing companies' share in the stock of investment has declined by about 20 percentage points in the past ten years, while the share of investment in service companies has increased correspondingly. The value of manufacturing and service companies' investment has developed steadily throughout the period under review, with the former decreasing and the latter increasing smoothly so that, at the end of 2007, manufacturing companies accounted for 31% and service companies for 65% of the total investment stock. Before 1998 the stock of manufacturing companies' investment exceeded that of service companies' investment (Chart 12).

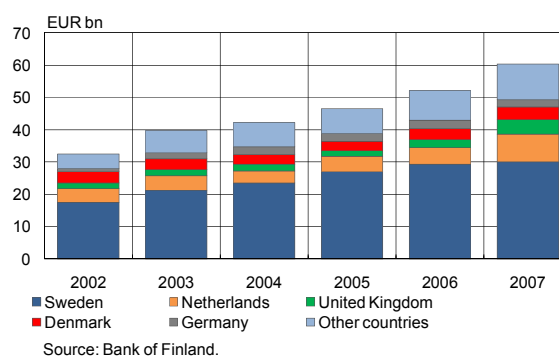
Chart 12. Foreign direct investment in Finland, 1998–2007: share of economic activity in investment stock



The degree of internationalisation can be measured as the ratios of direct investment flows and stocks to GDP. The ratio of direct investment flow to GDP has fluctuated considerably due to the timing of large business acquisitions and intra-group financial arrangements. The ratio of direct investment stock to GDP provides a smoother picture of the developments. Based on this ratio, internationalisation was still quite limited in the early 1990s but increased markedly at the turn of the century. At the end of 2007 the stock of foreign direct investment in Finland amounted to 33% of GDP (Chart 11).

The EU25 countries accounted for approximately 90% of the investment stock, the euro area just for a quarter. Accounting for about half of the stock, Sweden remained the most important investor country. Other major investors were the Netherlands, Denmark and the United Kingdom (Chart 13).

Chart 13. Foreign direct investment in Finland by country, 2002–2007



3.2 Finnish direct investment abroad

In 2007 Finnish corporations invested abroad, in net terms, EUR 5.2 billion in the form of direct investment (Chart 10). As with inward direct investment, this was double the amount for the previous year. Direct investment in the form of equity was EUR 6.9 billion, while EUR 1.7 billion of other capital investment was repatriated (Table 3).

Direct investment flows are affected by large individual business acquisitions and the related loan arrangements. International groups' financial arrangements between foreign and Finnish units are also reflected in the 'other capital' figures in direct investment. These fluctuate considerably during a year and from one year to another.

Of manufacturing companies, a net EUR 5.1 billion of capital was invested abroad by companies in the metal industry, whereas a net EUR 2.2 billion was

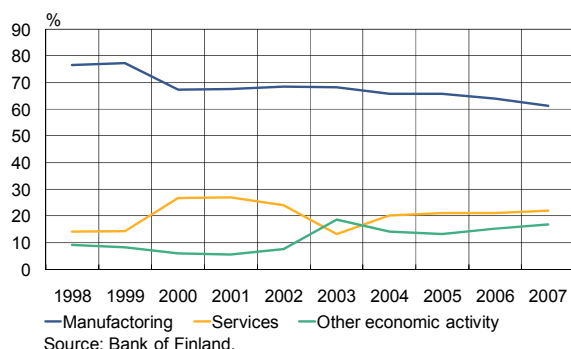
repatriated by other manufacturing companies.

Services companies' net direct investment was EUR 1.3 billion.

At the end of 2007 the value of outward direct investment totalled EUR 77.6 billion, representing 43% of GDP³ (Chart 11). The investment stock has remained over 40% of GDP so far in the 2000s.

Manufacturing companies continued to account for over 60% of the total investment stock, with metal industry companies remaining the most significant investor. Service companies accounted for slightly more than a fifth of the total investment stock, unchanged from the end of 2006. The share of manufacturing companies in the total investment stock has decreased in the past ten years, from just under 80% to about 60%. The share of service companies has in turn increased from about 14% to over 20%. The share of other economic activities has also increased slightly (Chart 14). Changes across economic activities have not been as significant as for inward direct investment.

Chart 14. Finnish direct investment abroad, 1998–2007: share of economic activity in investment stock



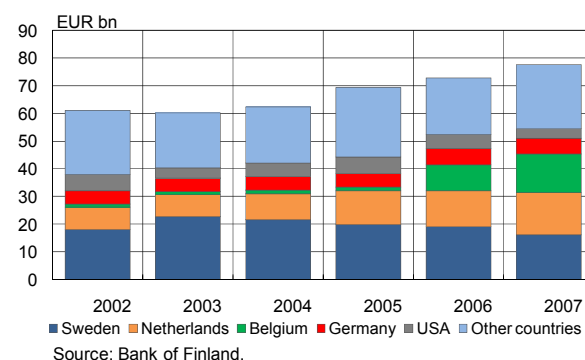
Within the manufacturing industry, the metal industry has continued to account for about a third of the total

³ For listed companies, the value of foreign investment is recognised at market value and for other companies at book value.

investment stock. Forest industry accounted for approximately a fourth, but its share fell to less than a fifth at the end of 2007. The share of the chemical industry has decreased from 10% to 6% in the corresponding period. The fall in the share of the manufacturing industry in the total investment stock has been reflected across the entire manufacturing industry.

As in the past year, Sweden, the Netherlands and Belgium remained the most significant immediate host countries⁴ of Finnish direct investment abroad at the end of 2007 (Chart 15). The EU hosted some 80% of the investment stock, which was slightly more than at the end of 2006. Euro area countries accounted for 51.7% of the investment stock, ie over 7 percentage points more than at the end of 2006.

Chart 15. Finnish direct investment abroad by country, 2002–2007



3.3 Direct investment income

Income accruing to foreign investors on direct investment in Finland totalled EUR 7 billion in 2007 (Chart 16). Of this, company profits accounted for EUR 6.6 billion and net interest payments to owners for EUR 0.4 billion. The ratio of annual income to average investment stock at the start and end of the

⁴ Country of location of the first institutional unit in the chain of controlling power or dominant influence of the Finnish investor.

year has varied between 9% and 16% since 1998. In 2007 income accounted for 12.5% of the investment stock (Chart 17).

Income earned on outward direct investment amounted to EUR 8 billion in 2007 (Chart 16). Of this, profits of foreign subsidiaries totalled EUR 7.4 billion and net interest payments to resident investors EUR 0.6 billion. The ratio of annual income to average investment stock at the start and end of the year was 10.7% (Chart 17). In the past ten years the ratio of income to average investment stock has varied between 7% and 10%.

The rate of return on capital invested in Finland has been lower than that on capital invested by Finnish investors abroad. However, relative to the average investment stock, the rate of return earned by foreign investors has been higher.

Chart 16. Direct investment income, 1998–2007

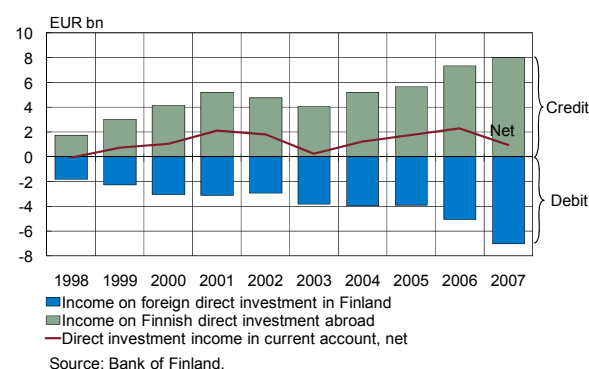


Chart 17. Direct investment income relative to average stock, 1998–2007

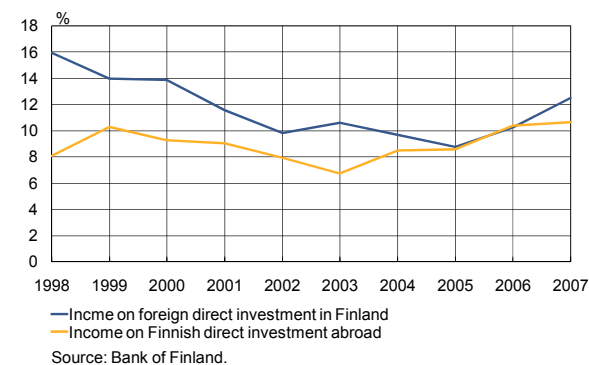


Table 3. Direct investment abroad and in Finland by type of capital, 2007

EUR m						
	Investment stock 31 Dec 2006	Net capital flows, 2007	Exchange rate and other valuation changes, 2007		Investment stock, 31 Dec 2007	Interest and dividends, 2007
Finnish direct investment abroad						
Equity and reinvested earnings	55 912	6 897	145		62 954	7 420
Other capital	16 815	-1 723	-480		14 612	589
Total	72 727	5 174	-335		77 566	8 009
Foreign direct investment in Finland						
Equity and reinvested earnings	40 927	6 780	305		48 012	6 609
Other capital	11 182	1 511	-458		12 235	413
Total	52 109	8 291	-153		60 247	7 022

Source: Bank of Finland.

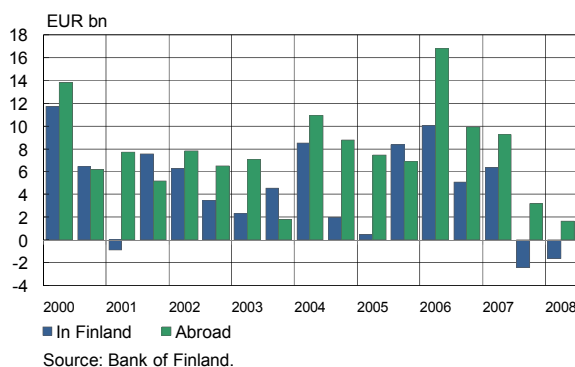
4 Portfolio investment in the first half of 2008

According to the Bank of Finland's balance of payments statistics, portfolio investment was outward on net in the amount of EUR 3.3 billion in the first half of 2008. Investment outflows decreased markedly on the year-earlier period. The net investment inflow dried up completely and foreign investors repatriated capital. Finnish investors' portfolio investment income totalled EUR 2.7 billion, compared with non-residents' income of EUR 6.0 billion on Finnish securities.

4.1 Finnish portfolio investment abroad

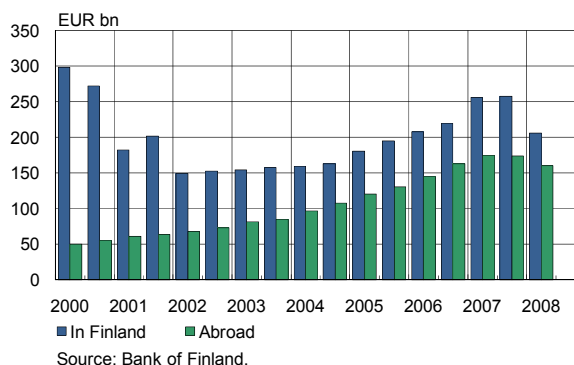
Finnish investors increased their foreign portfolios more moderately in the first half of 2008. The portfolio investment outflow amounted to EUR 1.7 billion, which was only 18% of the outflow in the first six months of 2007 (Chart 18). New capital flows into foreign mutual funds totalled to EUR 1.7 billion, but capital repatriations from foreign equity securities amounted to EUR 0.7 billion. In all, investment in foreign equities and debt securities was considerably smaller than in the corresponding period of the previous year.

Chart 18. Portfolio investment, net capital flows 2000/1–2008/1



The stock of outward portfolio investment fell in early 2008, to EUR 160.4 billion at the end of June 2008. The fall resulted from the global deterioration of share prices. Finnish holdings of foreign portfolio assets decreased for the first time since the mid-1990s (Chart 19).

Chart 19. Portfolio investment, stock 2000/1–2008/1



Dividend and interest income on foreign portfolio investment totalled EUR 2.7 billion in the first half of

2008. The majority of this income was from investments in bonds and notes. Dividend and interest income accruing to Finnish investors from outward portfolio investment has increased quite steadily since the mid-1990s, in line with the growth in foreign asset

holdings (Chart 20). However, Finnish investors suffered an imputed loss of EUR 15.3 billion as a result of changes in market prices and exchange rates amounting to about 9% of total outward portfolio investment (Table 4).

Table 4. Portfolio investment abroad and in Finland by investment type in the first half of 2008

(EUR m)

	Investment stock 31 Dec 2007	Net capital flows, Jan–Jun 2008	Exchange rate and other valuation changes, Jan–Jun 2008	Investment stock 30 Jun 2008	Dividends and interest, Jan–Jun 2008
Finnish portfolio investment abroad					
Equity securities	41 435	-692	-8 210	32 533	645
Mutual fund shares	41 765	1 693	-3 976	39 483	186
Bonds and notes	85 333	2 144	-3 234	84 243	1 768
Money market instruments	5 484	-1 482	101	4 103	53
Total	174 017	1 663	-15 319	160 362	2 652
Foreign portfolio investment in Finland					
Equity and mutual fund shares	155 873	-802	-49 585	105 486	3 928
Bonds and notes	83 543	3 065	-225	86 382	1 863
Money market instruments	18 167	-3 870	180	14 477	204
Total	257 583	-1 607	-49 630	206 346	5 994

Source: Bank of Finland.

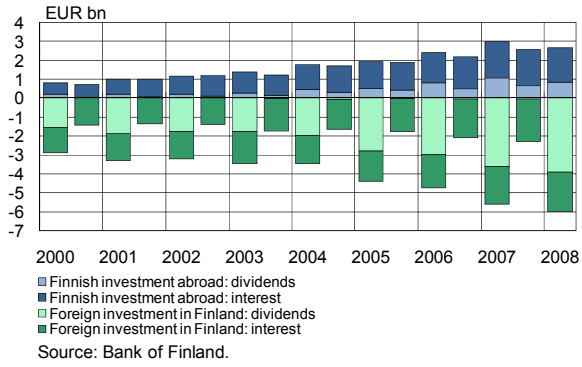
4.2 Foreign portfolio investment in Finland

Foreign investors sold Finnish assets on net in the first half of 2008 in the amount of EUR 1.6 billion (Chart 18). Of this, the net capital outflow on Finnish equities and fund shares was EUR 0.8 billion, compared with a net inflow of EUR 2.1 billion in the year-earlier period. Foreign holdings of Finnish portfolio assets decreased to EUR 206.3 billion due to a fall in market prices from a year earlier (Chart 19). According to the Finnish Central Securities Depository, foreign investors account for about half of the ownership of Finnish corporations registered in the Finnish book-entry system.

In the first half of 2008 foreign investors' dividend and other income from corporations and mutual funds amounted to EUR 3.9 billion – more than in 2007 as a whole – as the majority of Finnish corporations pay dividends in the spring. Interest outflows on Finnish bonds and notes and on money market paper totalled EUR 1.9 billion and EUR 0.2 billion respectively. Finnish corporations' outward dividend and interest payments have increased notably in recent years, in line with the value of foreign holdings of Finnish portfolio assets, which grew until the end of 2007 (Chart 20). Foreign investors' Finnish share and other equity portfolios posted an imputed loss on account of changes in market prices amounting to nearly 20% of the portfolio investment stock (Table 4). In the first six

months of 2008, Nokia's market value decreased by 44% and OMX Helsinki Index fell by 26%.

Chart 20. Interest and dividends on portfolio investment, 2000/1–2008/1



Appendix 1. Charts

Chart 21. Structure of current account, 1980–2007: credits

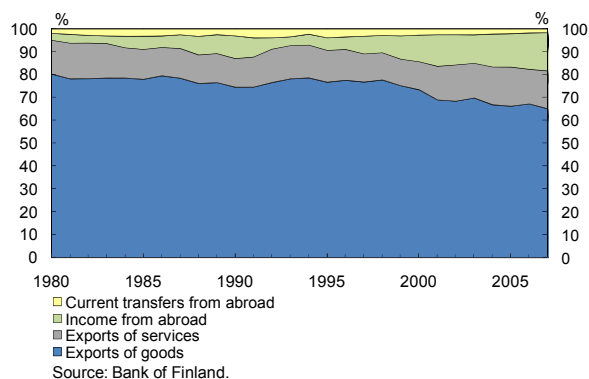


Chart 22. Structure of current account, 1980–2007: debits

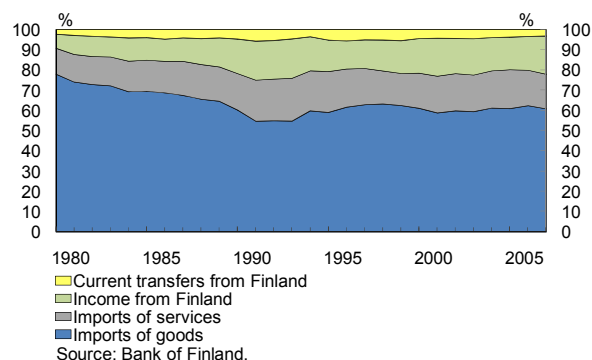


Chart 23. Contribution of trade in goods to GDP, 1998–2007

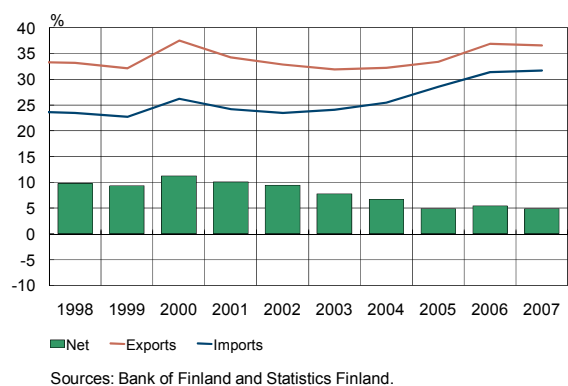


Chart 24. Finnish trade in goods, 1998–2007

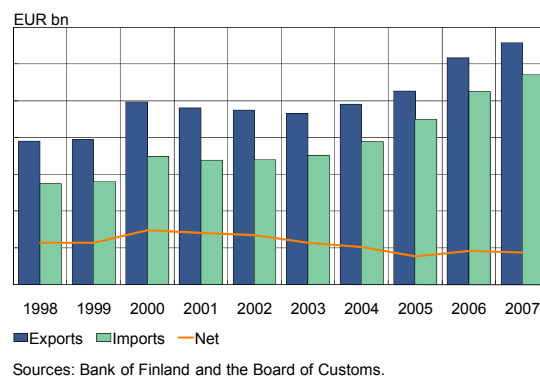


Chart 25. Percentage share of 10 most important export countries in total goods exports value, 2000 and 2007

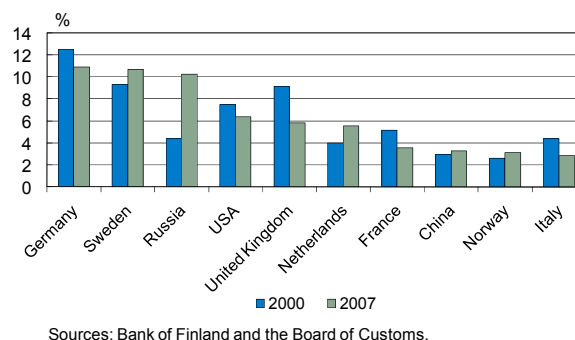
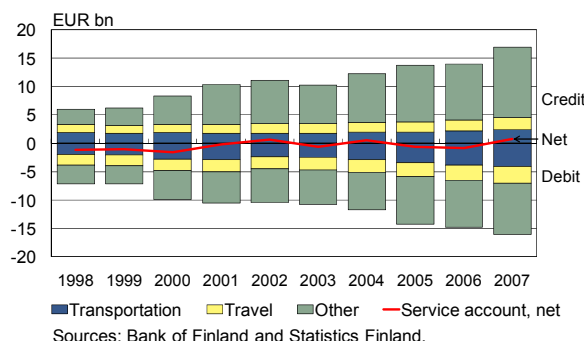


Chart 26. Current account in 1998–2007: breakdown of services exports and imports



FINLAND'S BALANCE OF PAYMENTS

Chart 27. Capital movements by sector, 1998–2007

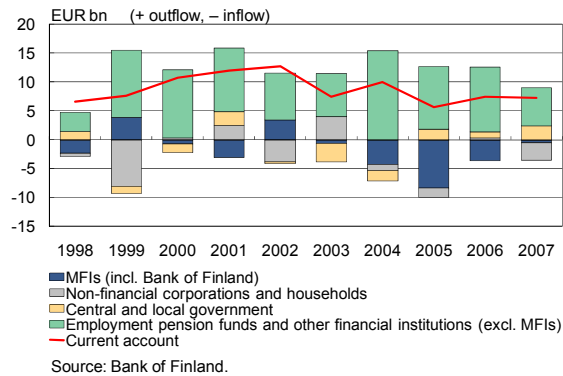


Chart 28. Finland's net international investment position by sector, 1998–2007

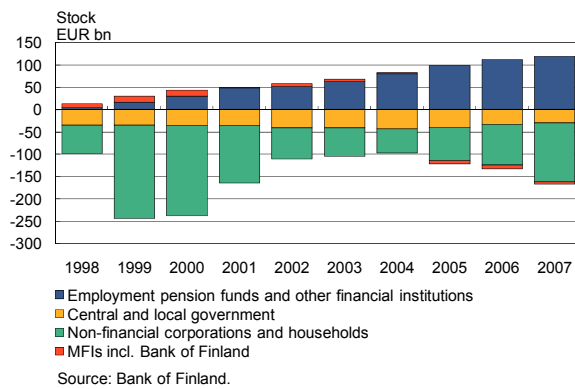


Chart 29. Direct investment, stock by type of capital 1999, 2003 and 2007

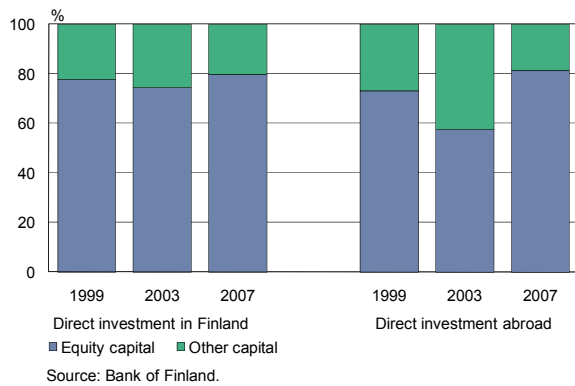


Chart 30. Stock of foreign direct investment in Finland, breakdown by sector, 31 Dec 2007

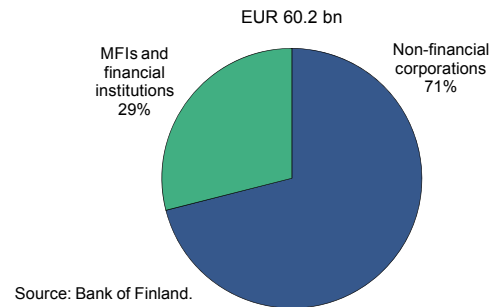


Chart 31. Stock of foreign direct investment abroad, breakdown by sector, 31 Dec 2007

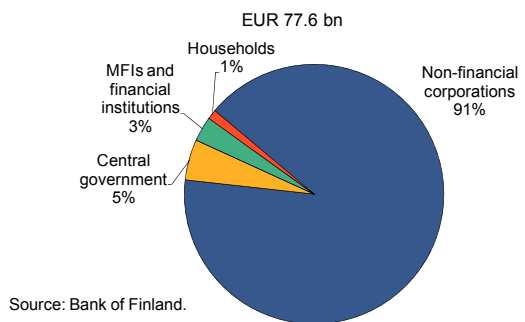


Chart 32. Portfolio investment, shares and other equity, net capital flows 1998–2007

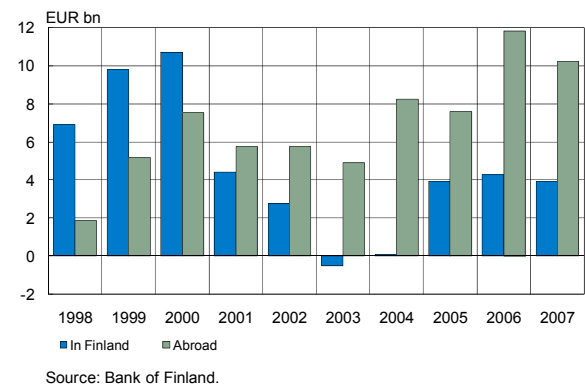


Chart 33. Portfolio investment, debt securities, net capital flows 1998–2007

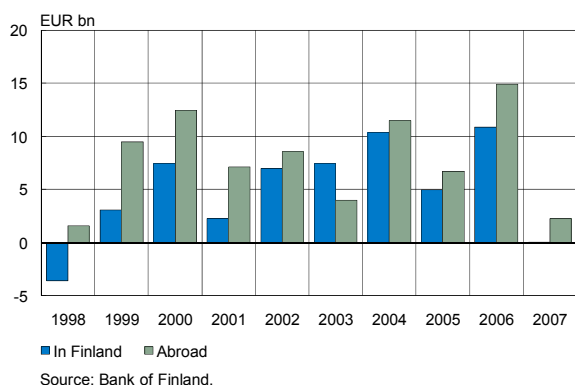


Chart 36. Central government liabilities: debt securities stock 1998–2007

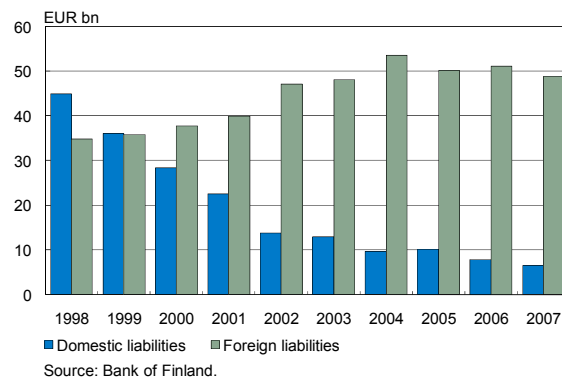


Chart 34. Finnish portfolio investment abroad by sector, 1999–2007

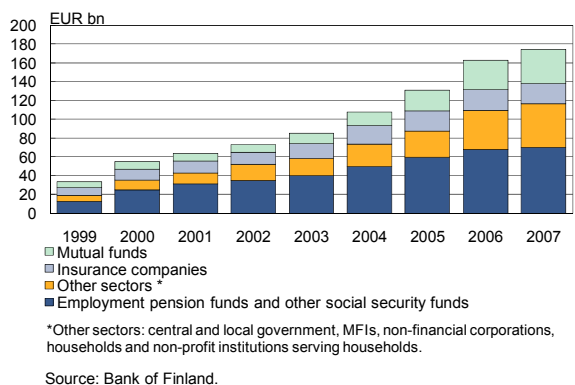


Chart 37. Foreign liabilities by sector: bonds and money market instruments 1998–2007

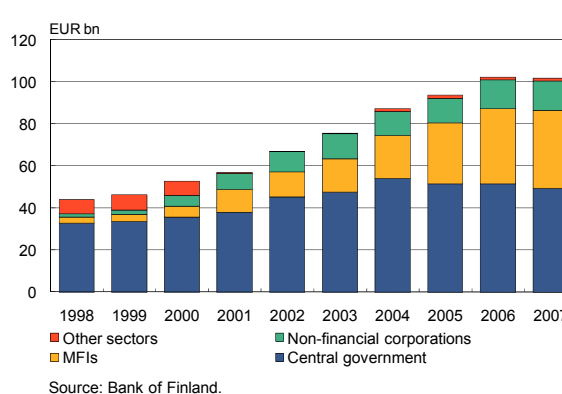


Chart 35. Finnish portfolio investment abroad by country, stock at end-2007

