



EUROJÄRJESTELMÄ
EUROSYSTEMET

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Finland and Sweden in a cross country comparison. What are the lessons?

Euroframe Conference
Warsaw, 24 May 2013

Outline

◆ Performance

- longer-term trends
- the recession experience

◆ Policy

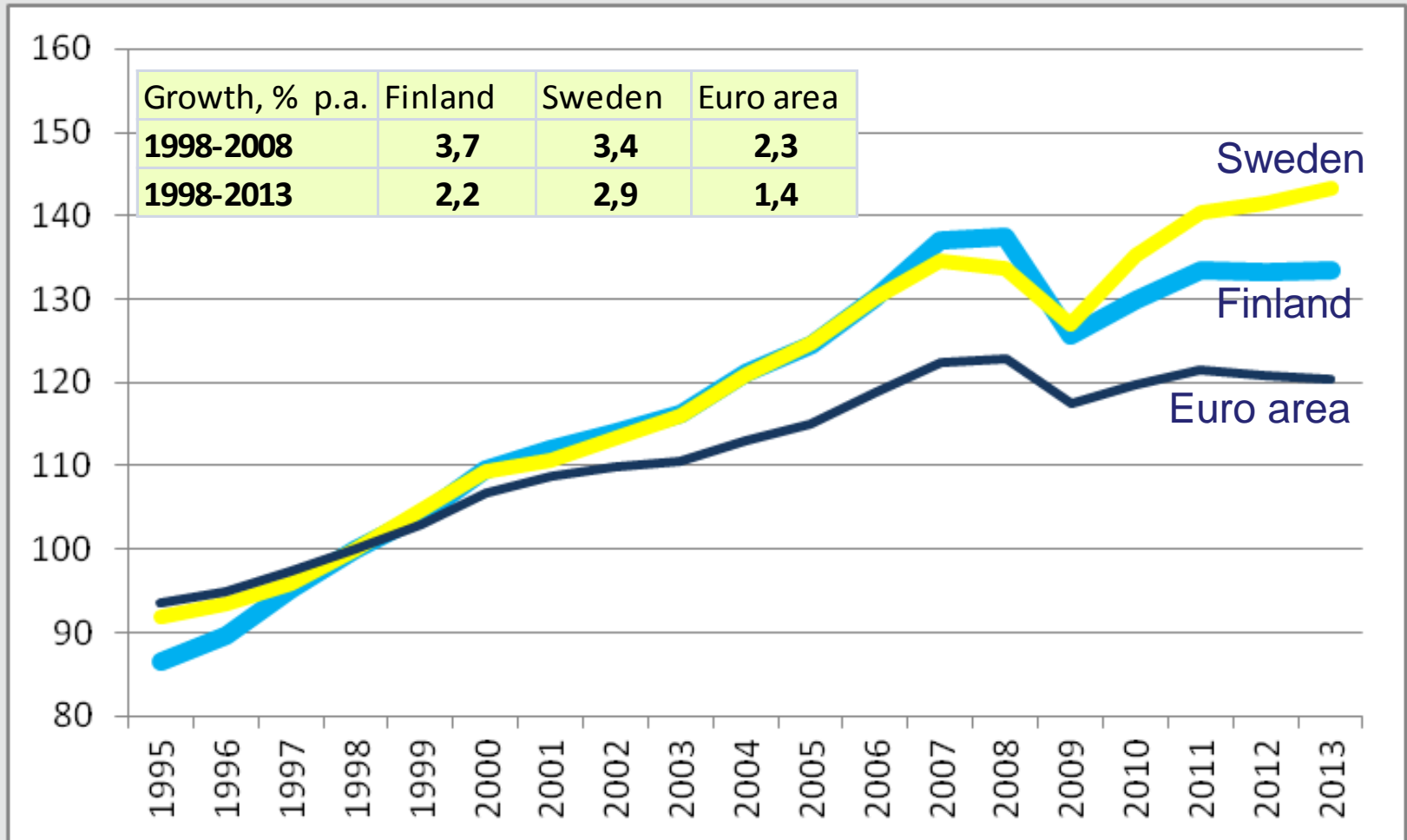
- monetary policy
- fiscal policy
- institutions and structural policy

◆ Concluding remarks

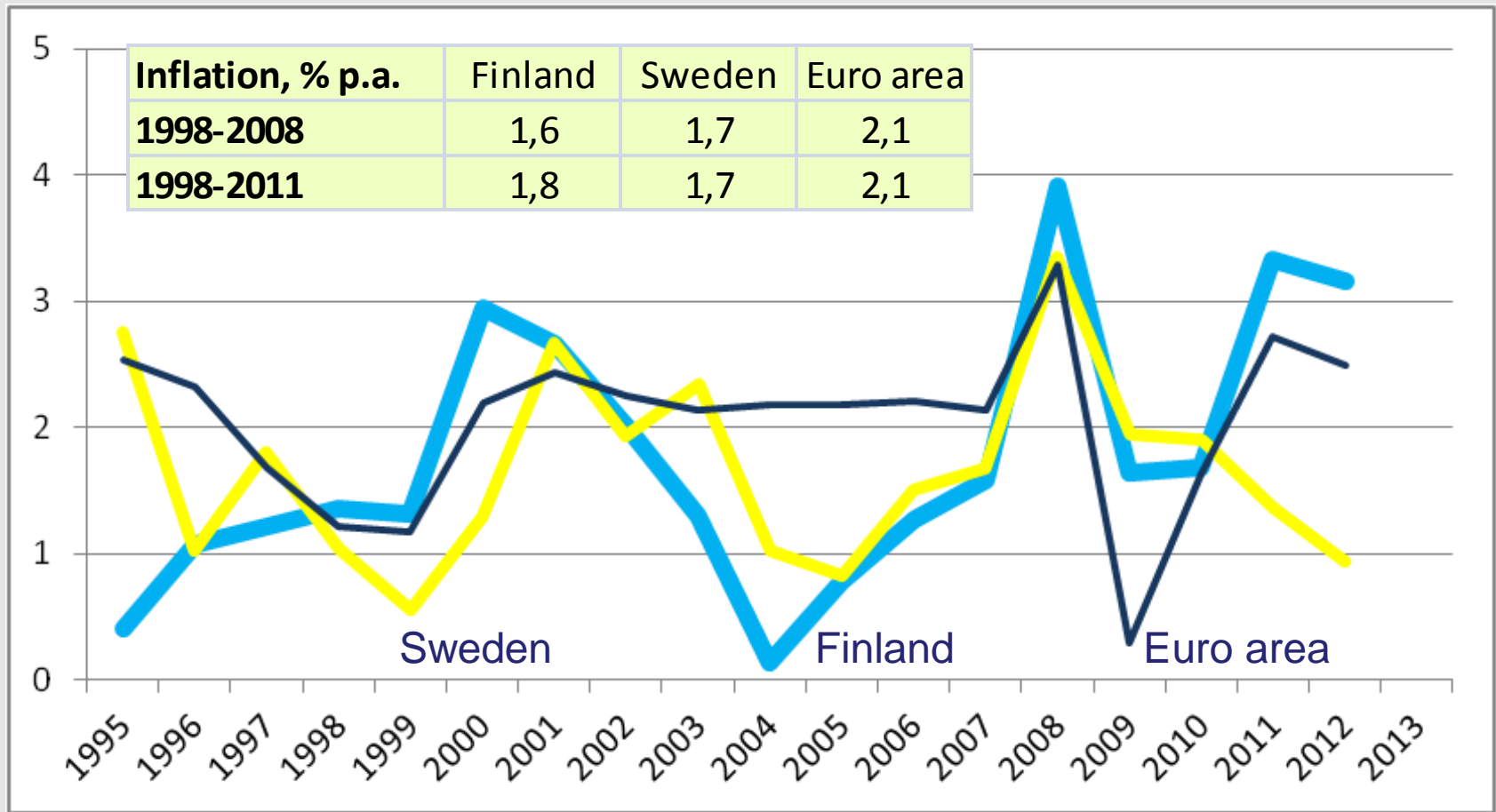
Performance

GDP

1998=100

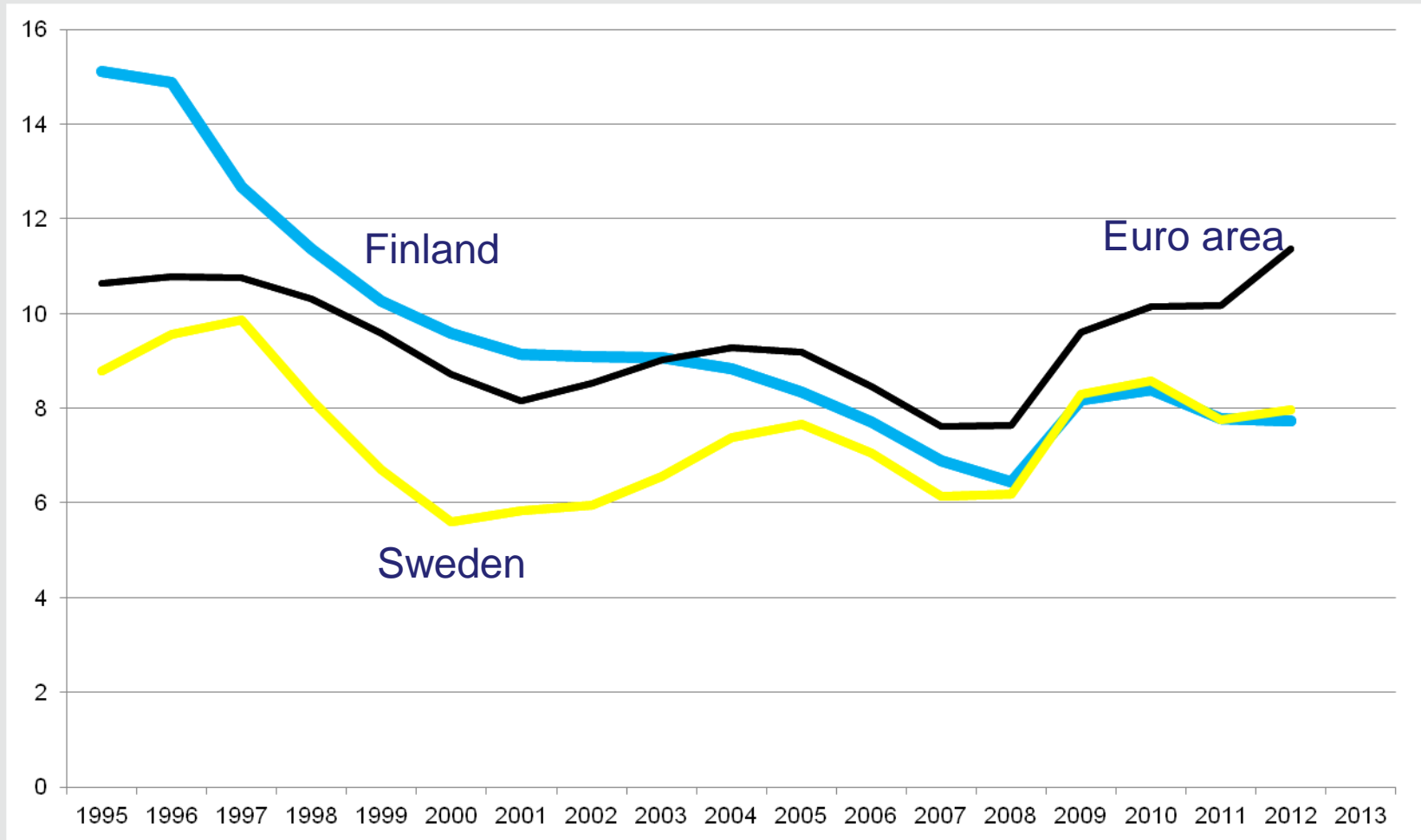


Inflation



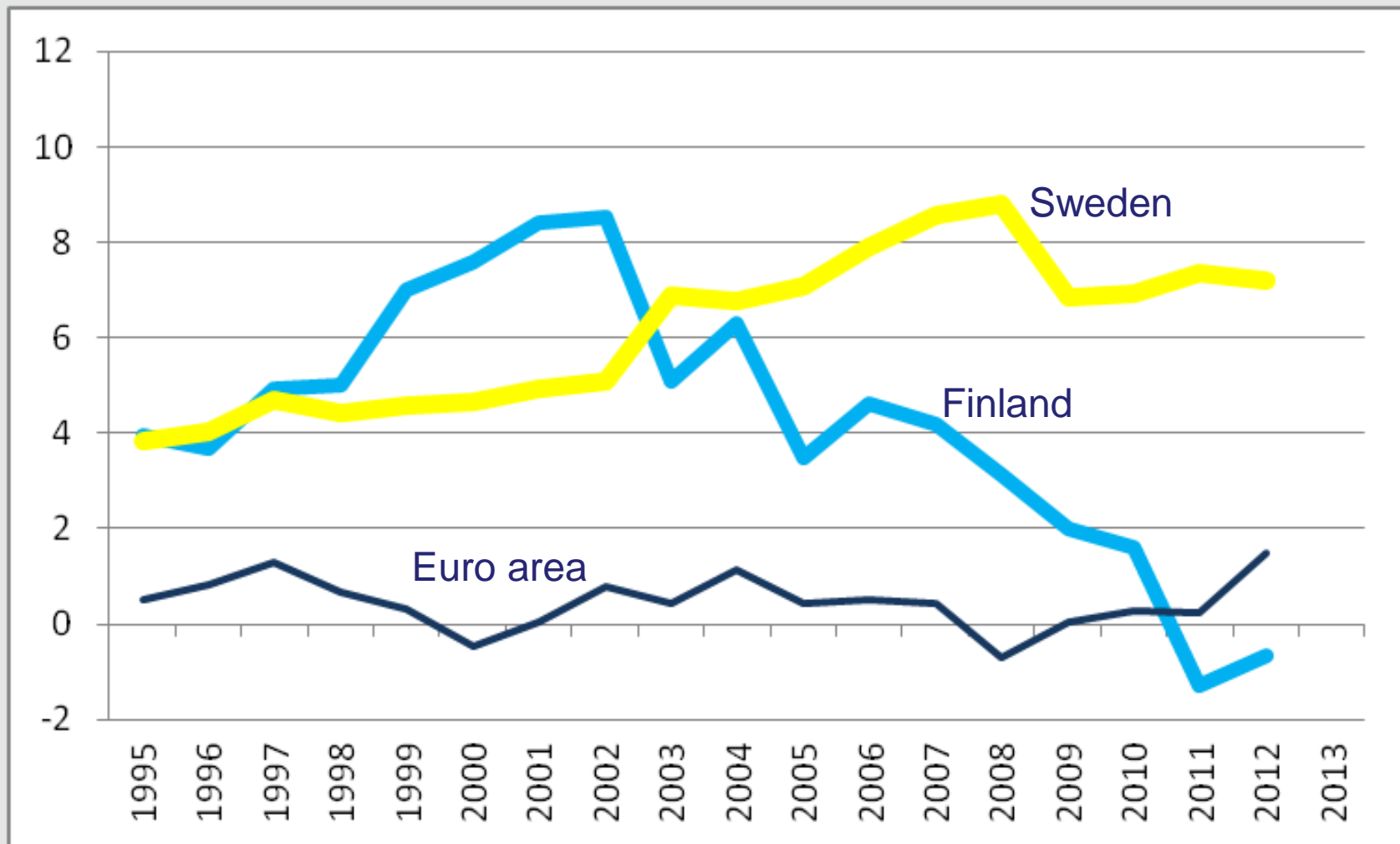
Unemployment

%



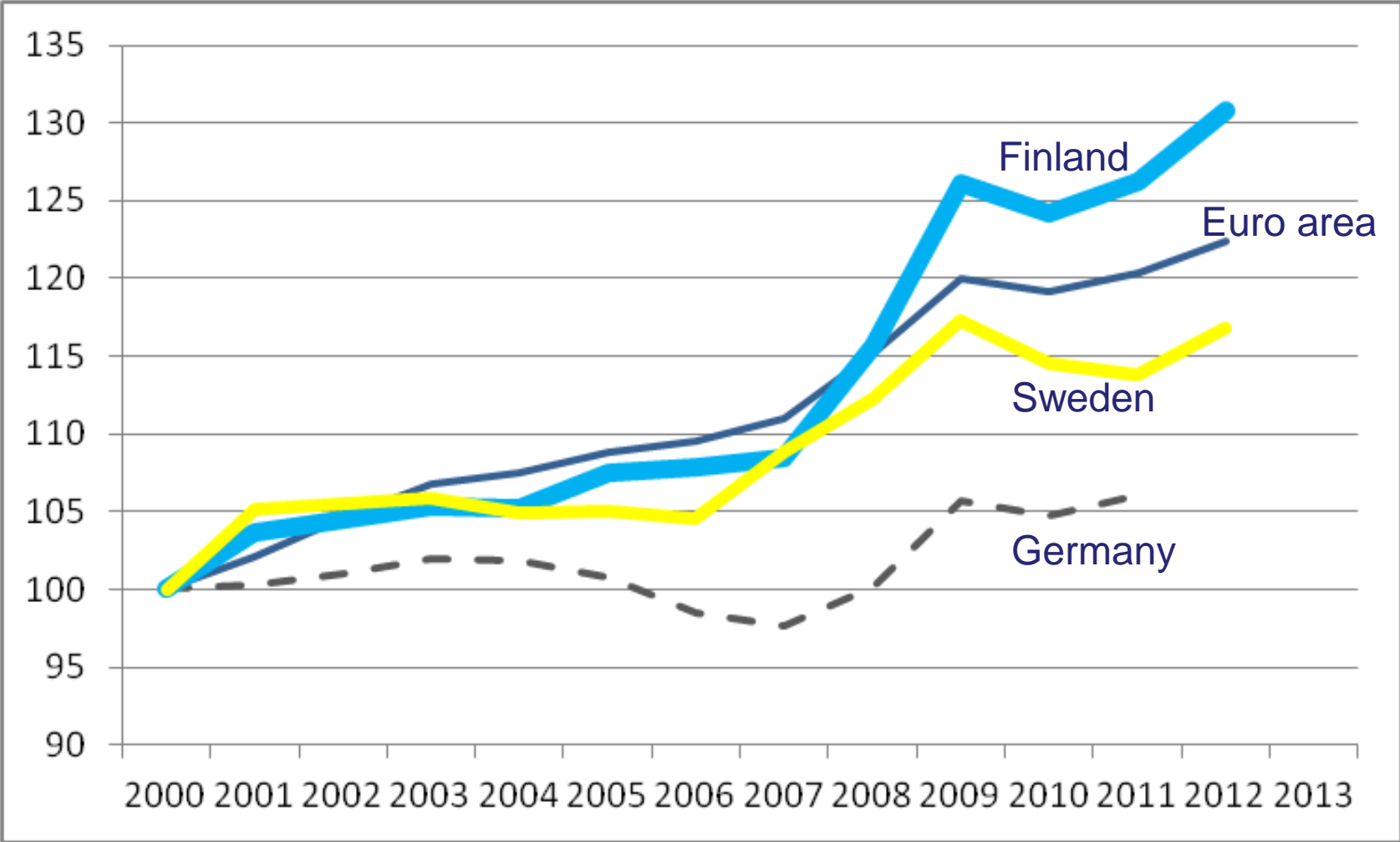
Current account

% of GDP



Unit labour cost

2000=100

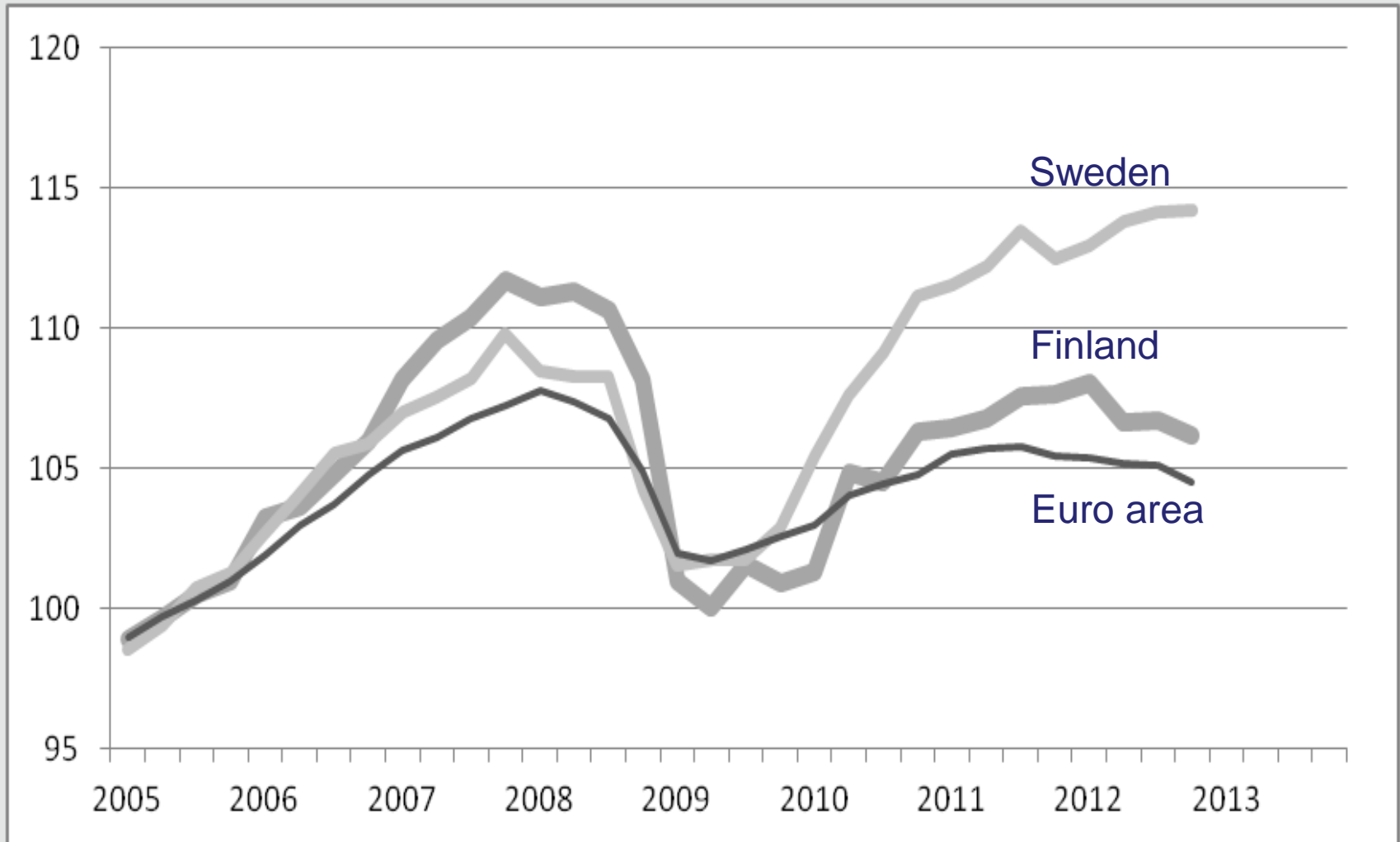


Observations 1

- ◆ Finland and Sweden have outperformed the euro area in terms of both growth and inflation
- ◆ Unemployment (and employment) trends more favourable than in the euro area
- ◆ Current account mostly in surplus
 - Finland has performed poorly in recent years
 - Finland lost cost competitiveness in 2008-2009

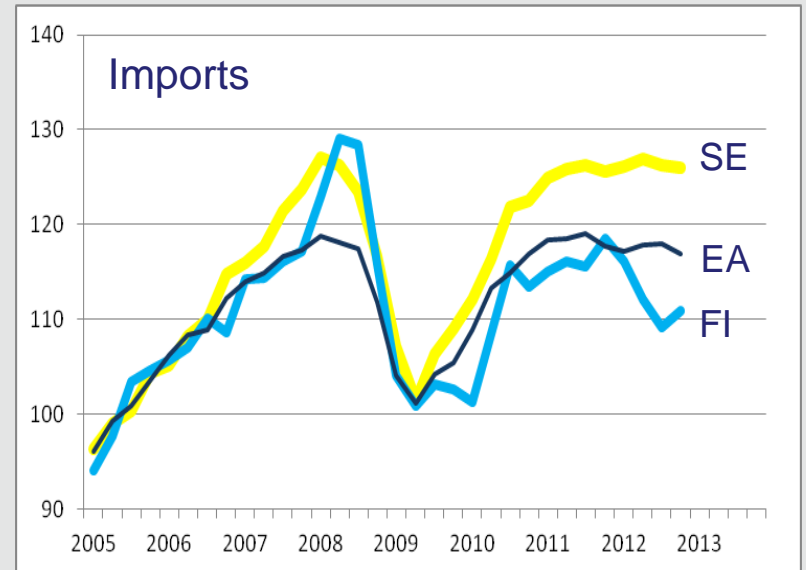
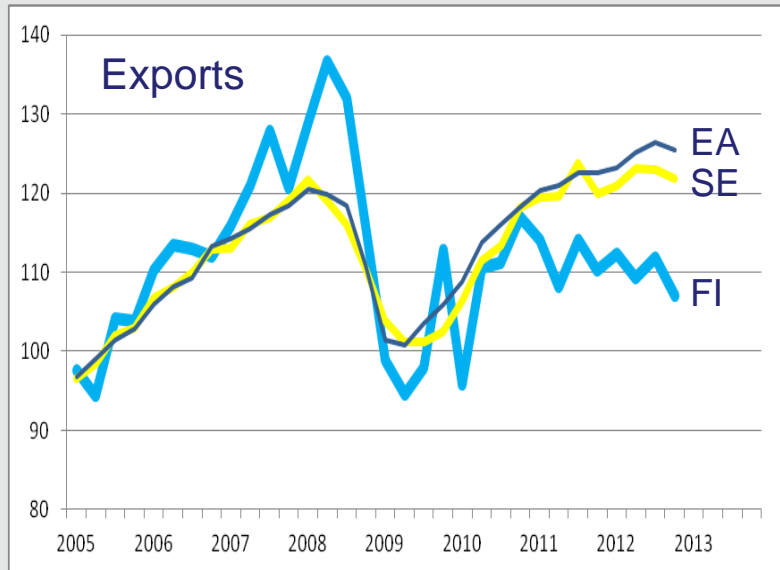
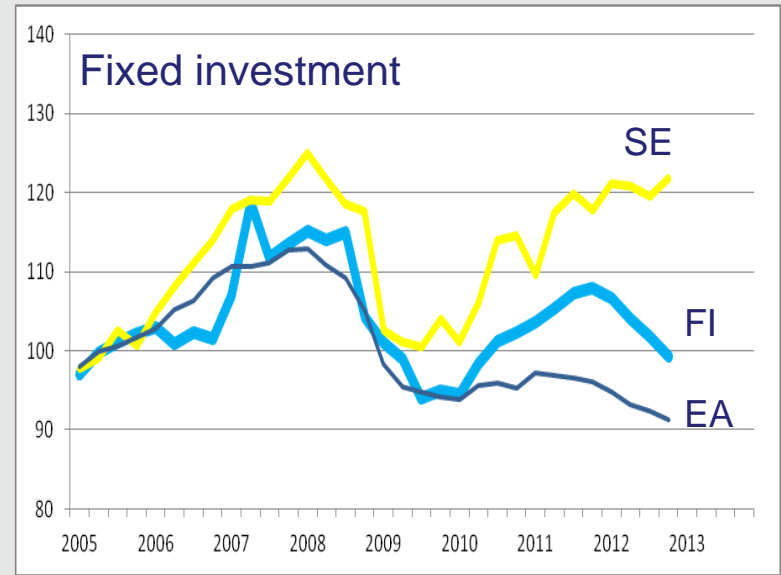
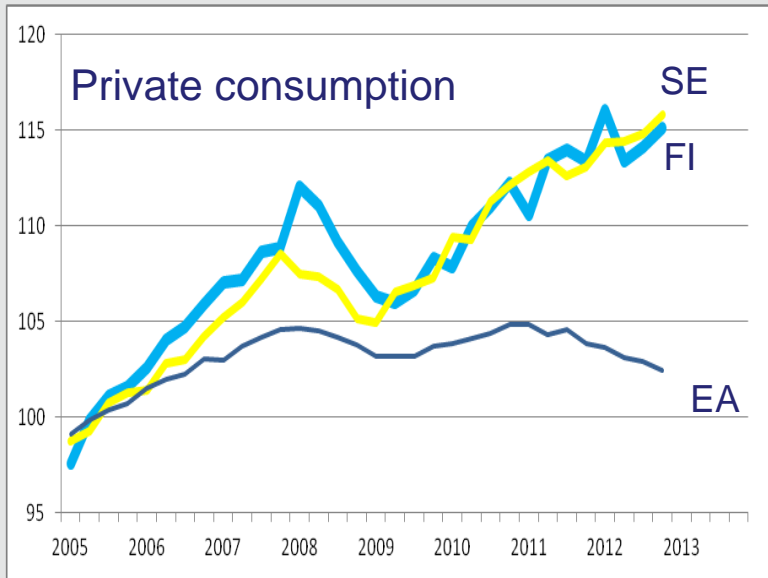
GDP

2005=100



2005=100

Components

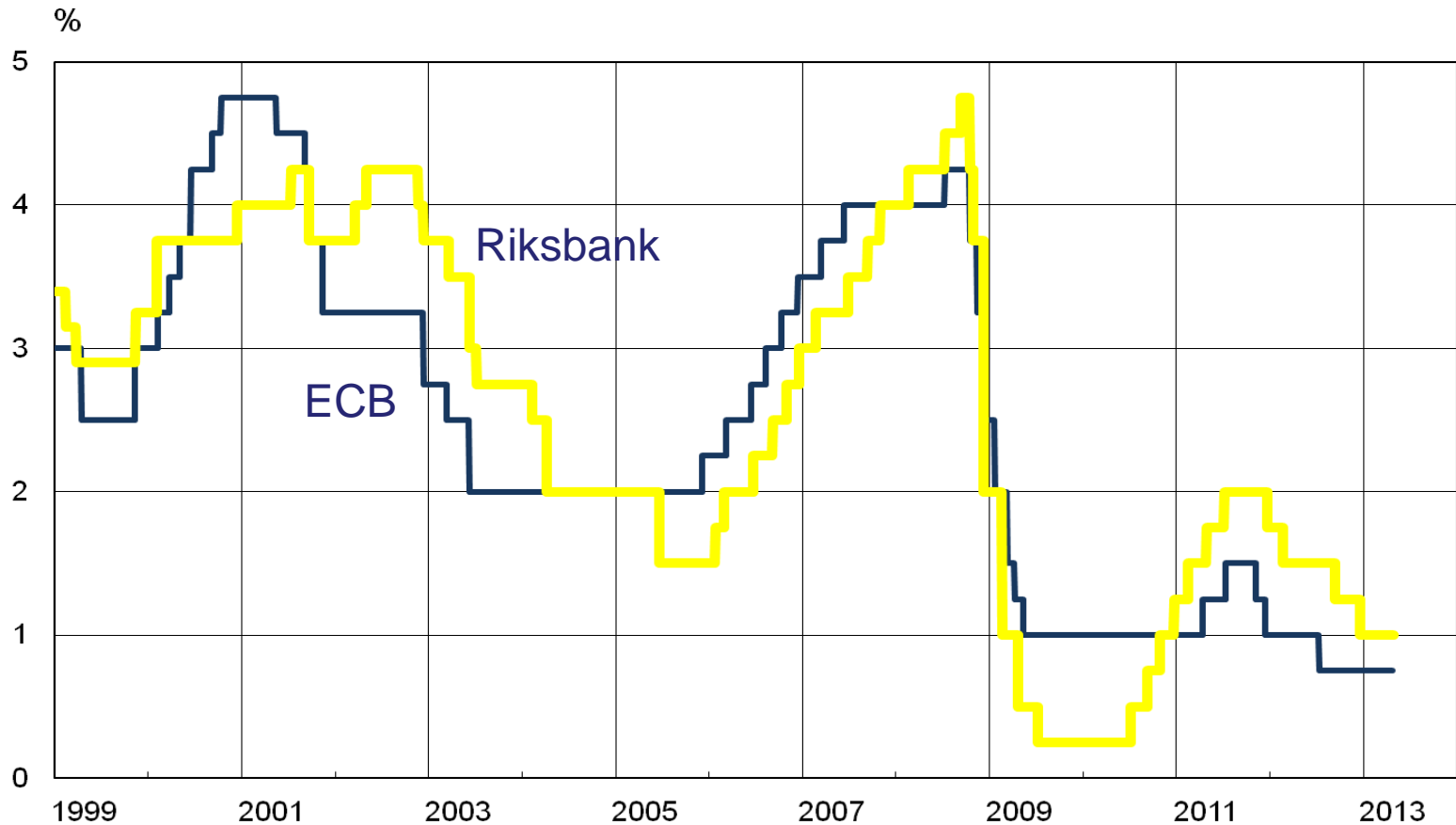


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- ◆ Current account mostly in surplus
 - Finland has performed poorly in recent years
 - Finland lost cost competitiveness in 2008-2009
- ◆ The drop of GDP in 2009 was the most pronounced in Finland
 - 2007 was probably unsustainably high in Finland
- ◆ Strong recovery in Sweden after the great recession, but mediocre (if not miserable) in Finland
 - strong export and investment pick-up in Sweden

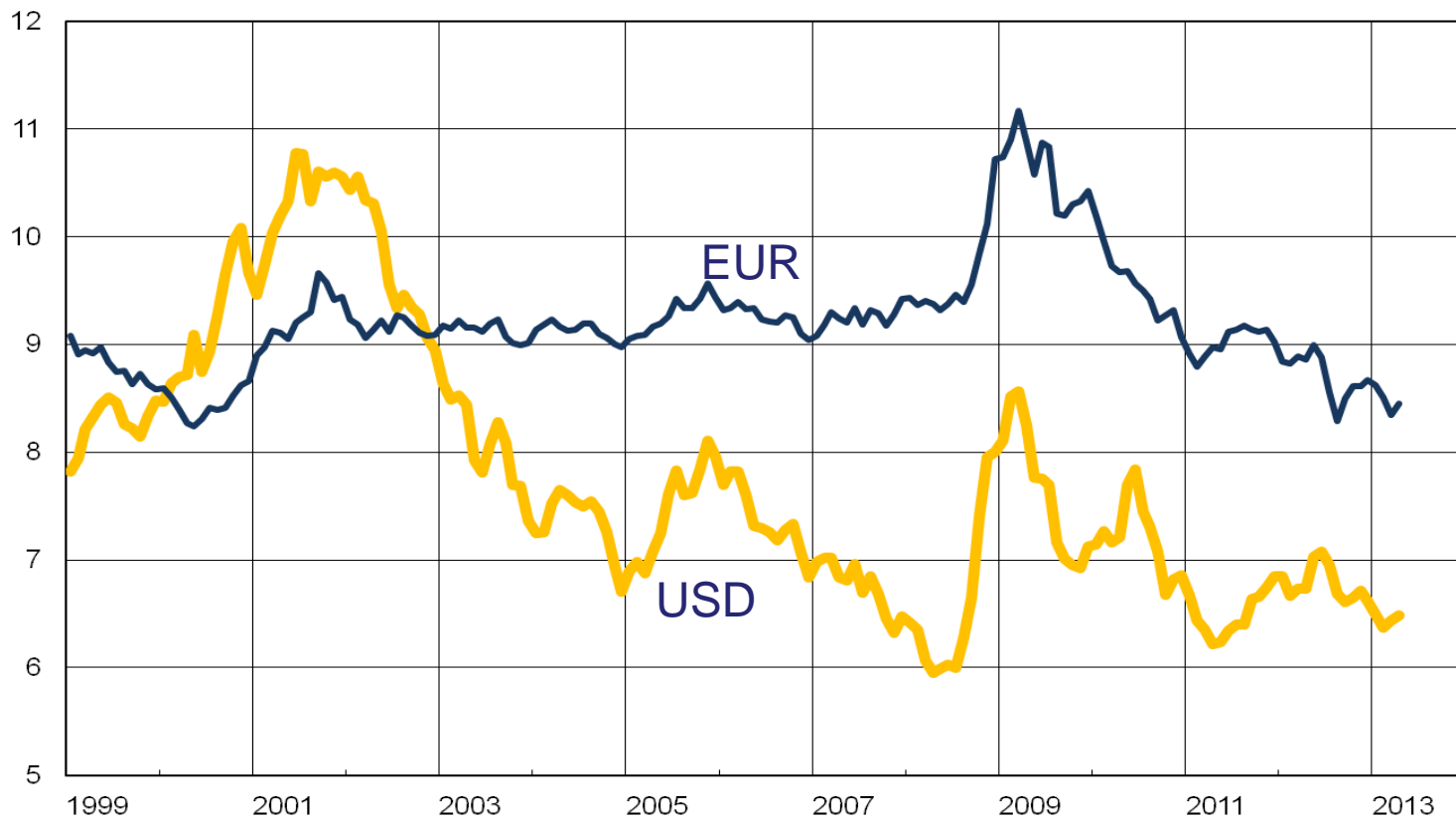
Policy

Central bank policy rates



Sources: ECB, Reuters and Bloomberg

SEK exchange rates



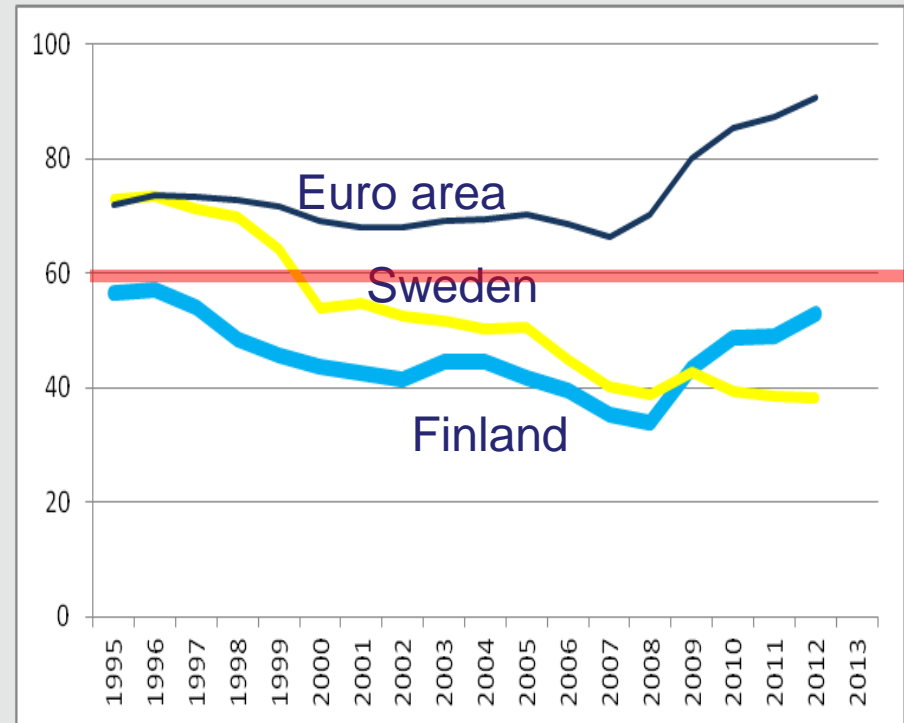
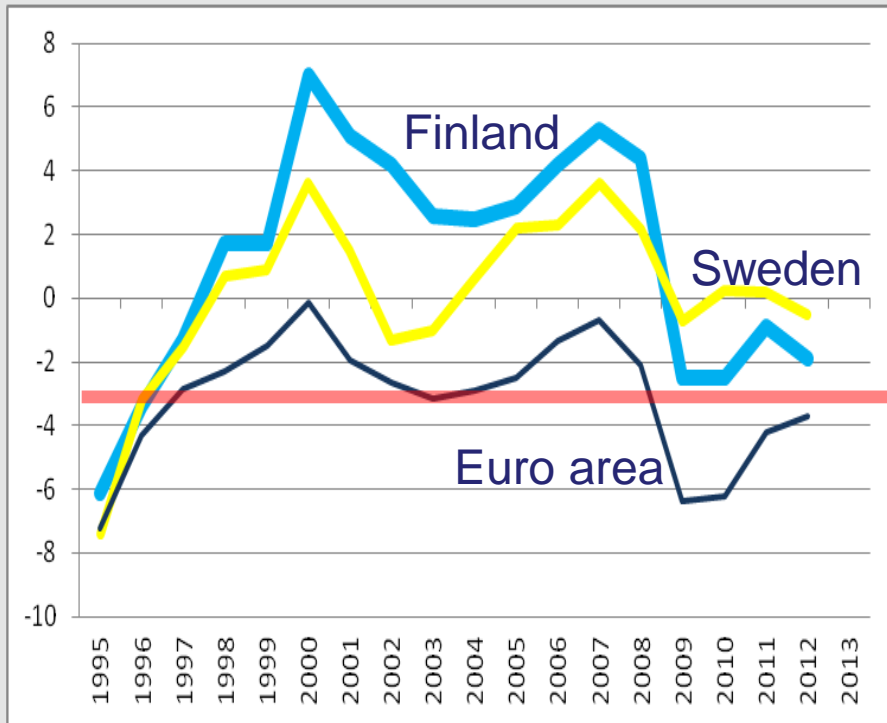
Source: Riksbank.

Observations 2

- ◆ Interest rate cycles of the ECB and Riksbank have been broadly similar
 - similar targets? similar shocks?
- ◆ SEK/EUR exchange rate fairly stable up to late 2008
 - some shock absorber properties during the recession

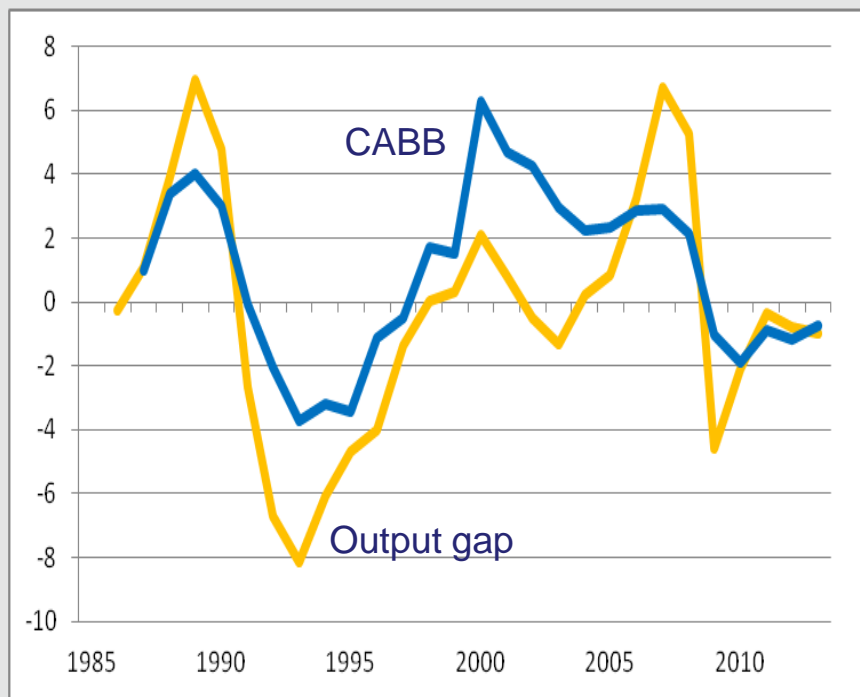
Public deficit and debt

% of GDP

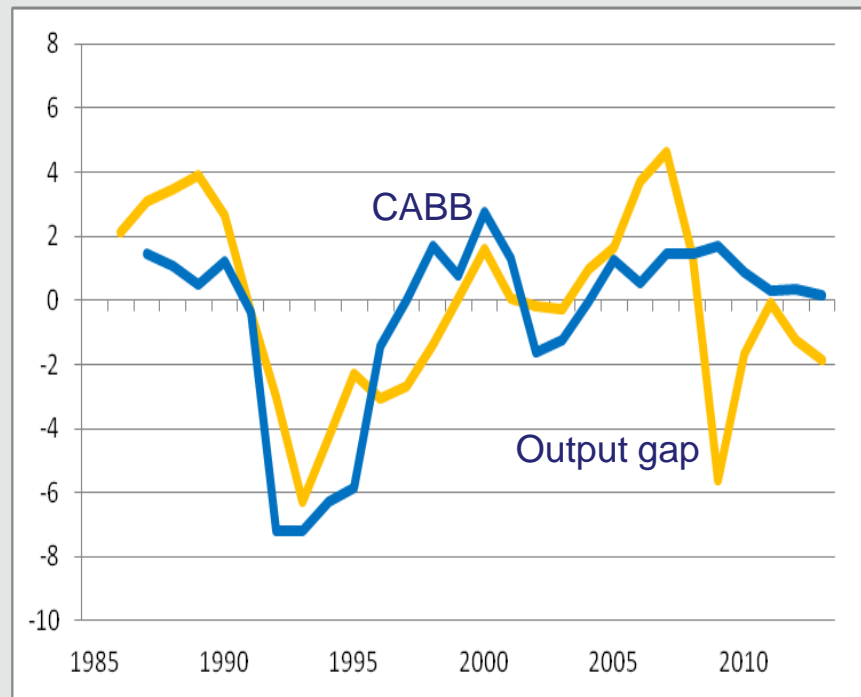


Output gap and the general government cyclically adjusted budget balance

% of GDP

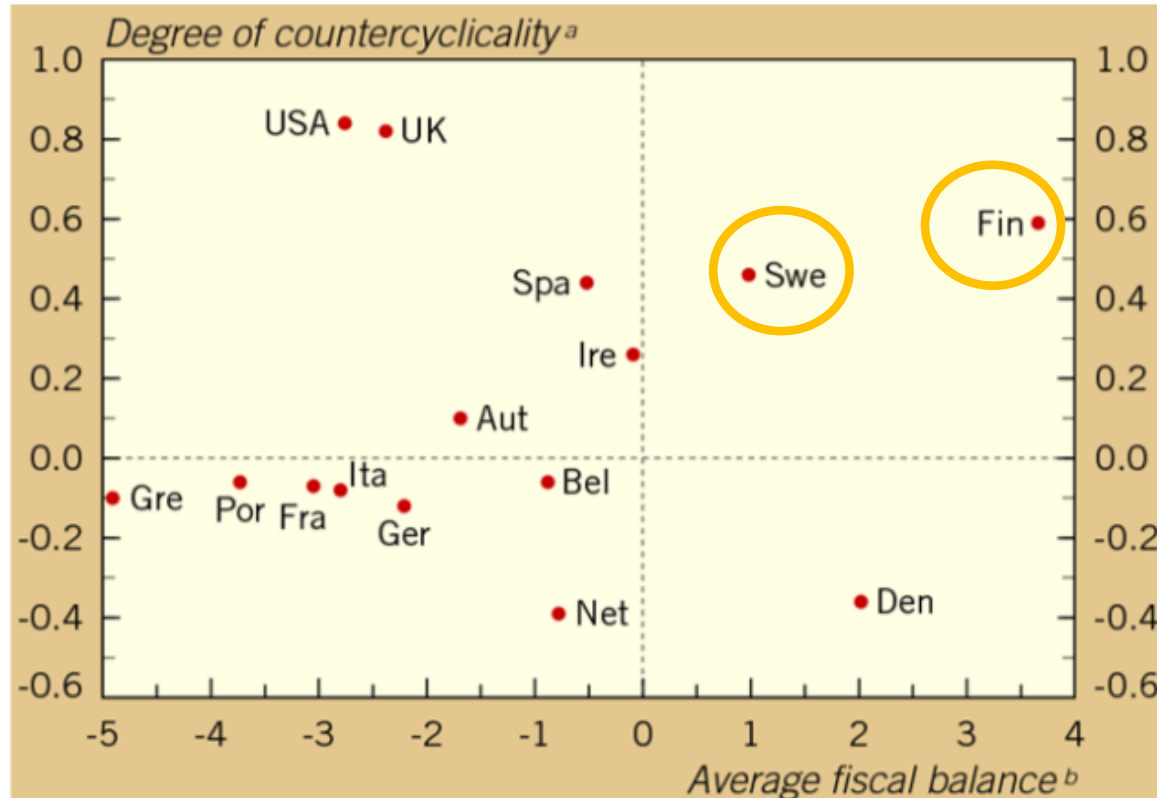


Finland



Sweden

Figure 13 Fiscal policy and consolidation 1999-2008 8



^a Correlation coefficient of output gap and fiscal impulse measured by change in cyclically-adjusted budget balance, % of GDP

^b General Government financial balance on average in 1999-2008, % of GDP

Source: OECD Economic Outlook No. 86, November 2009

Observations 2

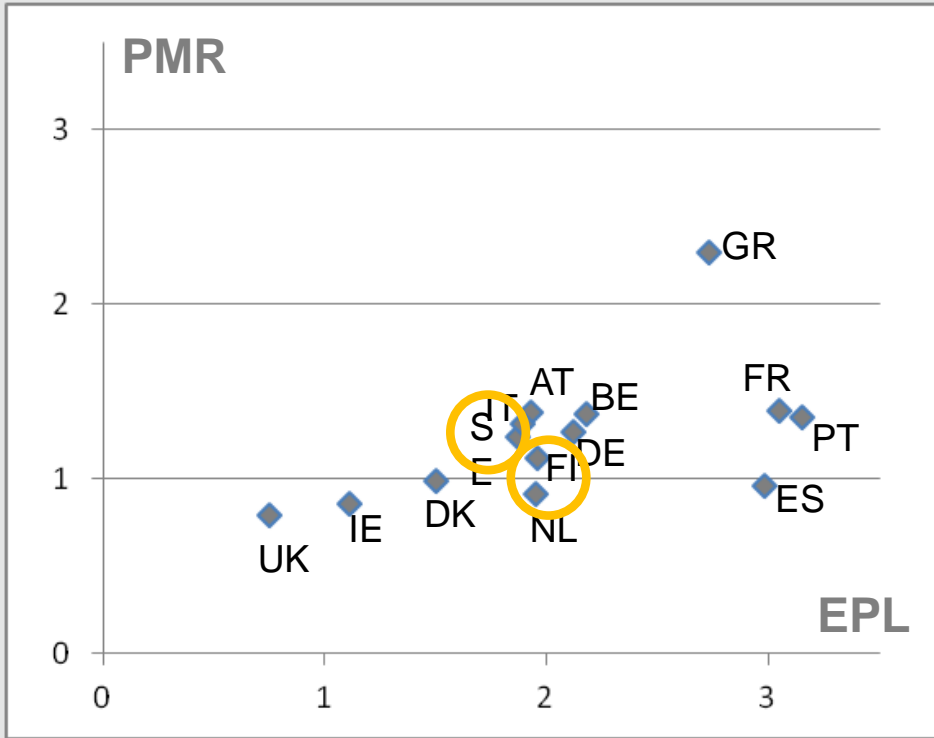
- ◆ Interest rate cycles of the ECB and Riksbank have been broadly similar
 - similar targets? similar shocks?
- ◆ SEK/EUR exchange rate fairly stable up to late 2008
 - some shock absorber properties during the recession
- ◆ Fiscal discipline respected
 - Maastricht criteria on deficit and debt have been met
- ◆ Finland and Sweden are the have pursued countercyclical fiscal policies while at the same time running budgetary surpluses

Table 1 Debt ratio and tax wedge on labour

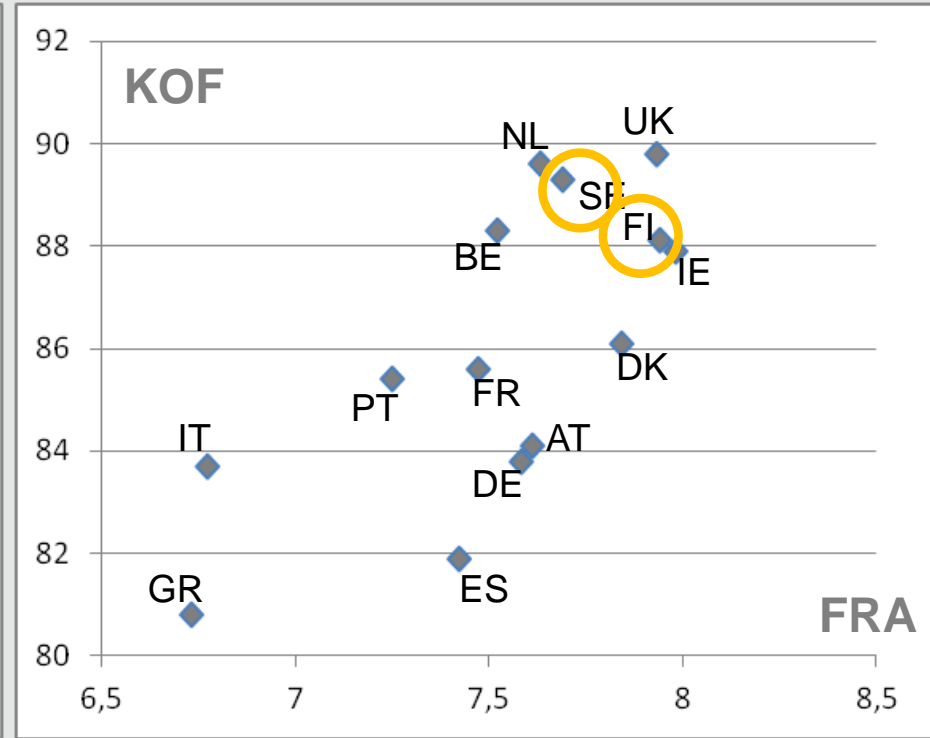
	General government debt, % of GDP						Tax wedge on wage income		
	1996	Gross 2011	Δ	2000	Net 2011	Δ	2000	2011	Δ
Austria	68.1	72.4	+4.3	40.2	45.2	+5.0	47.3	48.4	+1.1
Belgium	127.2	97.8	-30,5	115.3	80.4	-34.9	57.1	55.6	-1.5
Denmark	69.4	46.6	-22,8	33.3	2.4	-30.9	44.1	38.4	-5.7
Finland	57.0	49.0	-8,0	-6.7	-60.9	-53.8	47.8	42.7	-5.1
France	58.0	86.0	+28.0	41.9	62.7	+20.8	49.6	49.4	-0.2
Germany	58.5	80.5	+22.0	32.7	51.5	+18.8	52.9	49.8	-3.1
Greece	99.4	170.6	71.0	82.2	133.1	+50.9	35.2	38.2	+3.0
Ireland	71.7	106.4	+34.7	42.2	65.0	+22.8	28.9	26.8	-2.1
Italy	120.2	120.7	+0.5	103.9	100.2	-3.7	47.1	47.6	+0.5
Netherlands	74.1	65.5	-8.6	52.7	37.7	-15.0	40.0	37.8	-2.2
Portugal	58.2	108.1	49.9	26.5	75.8	+49.3	37.3	39.0	+1.7
Spain	67.4	69.3	1.9	55.5	45.5	-10.0	38.6	39.9	+1.3
Sweden	73.3	38.4	-34.9	26.6	-24.9	-51.5	50.1	42.8	-7.3
UK	51.3	85.0	+33.7	27.9	61,7	44.0	32.6	32.5	-0.1

Sources: Flodén (2012) and OECD

Structural indicators



PMR = Product market regulation
EPL = Employment protection legislation



KOF = Globalisation index (trade and capital)
FRA = Fraser freedom index

Observations 3

- ◆ Quality of public finances has improved
 - net financial asset position strengthened significantly
 - tax wedge on wage income reduced
- ◆ Labour and product markets are flexible in European comparison
- ◆ Openness to trade and competition ranks high in European comparison
- ◆ In addition e.g.
 - corporate tax reform
 - pensions reform
 - fiscal framework/expenditure ceilings

Concluding remarks

- ◆ The crisis in early 1990s
 - created a political situation that allowed significant reforms to be undertaken
 - contributed to more “responsible” policies later on
- ◆ Both countries have behaved as all EMU member states should have behaved according to the rulebook
- ◆ Current version of the “Nordic model”
 - successful in combining equity and efficiency
- ◆ Monetary regime matters less for economic performance than often argued
 - institutions and policies are far more important
 - **but the jury is still out ...**

Thank you?

Any questions?