Antti Suvanto

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
Inflation

<table>
<thead>
<tr>
<th>Inflation, % p.a.</th>
<th>Finland</th>
<th>Sweden</th>
<th>Euro area</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998-2008</td>
<td>1,6</td>
<td>1,7</td>
<td>2,1</td>
</tr>
<tr>
<td>1998-2011</td>
<td>1,8</td>
<td>1,7</td>
<td>2,1</td>
</tr>
</tbody>
</table>
Unemployment

%
Current account

% of GDP


Sweden

Finland

Euro area
Unit labour cost

2000=100


Finland
Euro area
Sweden
Germany
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
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
- 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 Blomberg
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

- Finland
- Sweden
- Euro area

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Output gap and the general government cyclically adjusted budget balance

% of GDP

Finland

Sweden
Figure 13 Fiscal policy and consolidation 1999-2008

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$^a$ 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

<table>
<thead>
<tr>
<th></th>
<th>General government debt, % of GDP</th>
<th>Tax wedge on wage income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>68.1</td>
<td>72.4</td>
</tr>
<tr>
<td>Belgium</td>
<td>127.2</td>
<td>97.8</td>
</tr>
<tr>
<td>Denmark</td>
<td>69.4</td>
<td>46.6</td>
</tr>
<tr>
<td>Finland</td>
<td>57.0</td>
<td>49.0</td>
</tr>
<tr>
<td>France</td>
<td>58.0</td>
<td>86.0</td>
</tr>
<tr>
<td>Germany</td>
<td>58.5</td>
<td>80.5</td>
</tr>
<tr>
<td>Greece</td>
<td>99.4</td>
<td>170.6</td>
</tr>
<tr>
<td>Ireland</td>
<td>71.7</td>
<td>106.4</td>
</tr>
<tr>
<td>Italy</td>
<td>120.2</td>
<td>120.7</td>
</tr>
<tr>
<td>Netherlands</td>
<td>74.1</td>
<td>65.5</td>
</tr>
<tr>
<td>Portugal</td>
<td>58.2</td>
<td>108.1</td>
</tr>
<tr>
<td>Spain</td>
<td>67.4</td>
<td>69.3</td>
</tr>
<tr>
<td><strong>Sweden</strong></td>
<td>73.3</td>
<td>38.4</td>
</tr>
<tr>
<td>UK</td>
<td>51.3</td>
<td>85.0</td>
</tr>
</tbody>
</table>

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?