

Macroeconomic Imbalances – Finland 2013

On 28 November 2012, the European Commission presented its second Alert Mechanism Report (AMR-2013) in accordance with the Regulation (EU) No. 1176/2011 on the prevention and correction of macroeconomic imbalances. The AMR serves as an initial screening device to identify Member States that warrant further in depth analysis into whether imbalances exist or risk emerging. According to Article 5 of Regulation No. 1176/2011, these country-specific “in-depth reviews” should examine the nature, origin and severity of macroeconomic developments in the Member State concerned, which constitute, or could lead to, imbalances. On the basis of this analysis, the Commission concludes whether it considers that an imbalance exists or not, and if so whether it is excessive or not, and what type of follow-up it will recommend to the Council to address to the Member State.

The 2013 in-depth reviews (for Belgium, Bulgaria, Denmark, Spain, France, Italy, Hungary, Malta, the Netherlands, Slovenia, Finland, Sweden and the United Kingdom) were published on 10 April 2013 together with a Commission communication summarising the results. On the basis of the analysis in the In-depth review the Commission concluded that:

FINLAND *is experiencing macroeconomic imbalances, which deserve monitoring and policy action.* In particular, the substantial deterioration in the current account position and the weak export performance, driven by industrial restructuring, as well as cost and non-cost competitiveness factors, deserve continued attention.

More specifically, the loss in competitiveness weakens the country's economic position and risks compromising future prosperity and living standards, especially as population ageing already poses a challenge in this regard. Finland has rapidly lost world market shares and the current account balance has been on a downward trend, and even turned into a deficit in 2011, which is forecast to widen. The decline of the current account balance seems mainly driven by deteriorating non-price competitiveness and delays in the necessary restructuring in some industries. In addition, cost-competitiveness suffers from significant increases in unit labour costs as a result of wage settlements that did not fully reflect the drop of productivity during the crisis and/or sectorial productivity developments. Finland is exporting intermediate and investment goods mainly to mature, slow growing economies and industry is vulnerable to energy price increases and the consequent deterioration in the terms of trade. In contrast, risks related to housing and household indebtedness appear relatively limited. The main concern in this respect relate to the financial position of Finnish households, with low savings rates and a net overall borrowing position.