Summary for non-specialists
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Macroeconomic Imbalances

Finland 2014

On 13 November 2013, the European Commission presented its third Alert Mechanism Report (AMR) 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, presented on 5 March 2014, the Commission will conclude 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 2014 in-depth reviews (for Belgium, Bulgaria, Germany, Denmark, Ireland, Spain, France, Croatia, Italy, Luxembourg, Hungary, Malta, Netherlands, Slovenia, Sweden, Finland and the United Kingdom) were published on 5 March 2014 together with a Commission communication summarising the results. On the basis of the analysis in the In-depth review the Commission concluded that:

Finland continues to experience *macroeconomic imbalances, which require monitoring and policy action*. In particular, the weak export performance during the last years, driven by industrial restructuring, cost and non-cost competitiveness factors, deserve continued attention.

More specifically, high import growth prior to the crisis and subdued exports afterwards explained the erosion in external balance. However, the current account has stabilised recently and external sustainability is not a concern. The country continued to lose export market shares at a fast pace, despite the recovery in world trade. Finland's integration into global value chains has played a role in the declining performance of exports, while the industrial restructuring has not yet been able to make up for the large downsizing of the electronics and forestry industries. In turn, the adjustment capacity of the economy is constrained by low productivity and weak competitive pressures in services as well as increasing costs due to dynamic wage growth and a high energy-intensity. Exporters have thus been able to sustain price competitiveness mainly by compressing profit margins, which have limited their capacity to translate the high innovation potential into new products. Non-cost factors appear to explain most of the deterioration in competitiveness: a limited number of large exporting firms selling a narrow product range, a lower propensity of small companies to export as well as less efficient R&D spending. In turn, weak investment, a declining working age population and a significant drop in productivity weigh on potential growth. As regards public finances, the structural deficit is expected to be slightly above its medium-term objective in 2014 while, partly due to the unfavourable growth dynamics, the public debt is projected to increase to above 60 per cent of GDP.