

# Finland

<b>Prime Minister:</b> Matti Taneli VANHANEN	<b>Population</b> (2007 est.): 5,276,955		
<b>Finance Minister:</b> Jyrki KATAINEN	<b>GDP</b> (2007): €179.9 billion		
<b>Central Bank Governor:</b> Erkki LIIKANEN	<b>GDP/capita:</b> €34,000		
	<b>GDP by sector:</b>		
<b>Joined the EU:</b> 1995	Agriculture	2.6%	
<b>Adopted the Euro:</b> 1999	Industry	31.9%	
<b>Currency prior to Euro:</b> Finnish Markka	Services	65.6%	
	<b>Life Expectancy</b> (women / men): 83 / 76		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
<b>Real GDP growth rate</b>	2.8%	4.9%	4.5%
<b>Inflation</b>	0.8%	1.3%	1.6%
<b>Unemployment Rate</b>	8.4%	7.7%	6.9%
			<b>2008*</b>
			2.4%
			4.2%
			6.3%

\* forecast

## Finland in the EU and the Euro Area

Finland joined the European Union, along with Austria and Sweden, on January 1, 1995. The addition of these three new members brought the EU membership to fifteen countries, including almost all of the major nations in Western Europe.

Finland was among the first group of countries to adopt the Euro on January 1, 1999, the official launch date of the single currency. Euro notes and coins entered circulation in Finland on January 1, 2002, replacing the Finnish Markka.

## Economic Overview of Finland

Although Finland is one of the least densely populated EU nations, with 5.2 million people producing only 1.4% of the EU GDP, it is one of the 15 richest countries in the world with a high GDP per capita. Finland has a highly industrialized, largely free-market economy. In the past few decades, Finland has transformed from an agrarian economy to a service based social market economy. Productivity has become innovation driven, with a great emphasis on research and development, and industry too has expanded, in particular where it is based around foreign products. Finland's key economic sector is manufacturing in the wood, metals, engineering, telecommunications and electronics industries.

As Finland depends on high-tech exports and raw materials and energy imports, trade is an important factor in its economic equation. Economic growth has also been helped by an excellent education system, good political institutions and increasing employment levels. Economic growth is expected to decelerate to 2.4% percent in 2008 and 1.3% in 2009, as the domestic slowdown coincides with the global downturn.

The Executive Board of the IMF<sup>1</sup> stressed that Finland's exceptionally rapid population aging and sluggish productivity in sheltered sectors raise concerns about long-term growth and soundness of its public finances. In addition, from a short-run perspective, the economy will need to face the challenges of rising geographic and skill-specific labor market shortages, which could stoke wage and inflationary pressures.

### Some Economic Challenges Facing Finland

Convergence in GDP per capita to the best performing countries has continued. However, structural unemployment remains high, and employment of older and low-skilled workers is relatively low.

#### *Ageing Population*

Finland is experiencing a rapidly ageing society and the working-age population is expected to begin to decline by the end of the decade, all of which will place a great burden on tax payers. In order to cope with this, the tax base must be expanded and labor participation increased, especially among youth and older workers.

#### *Early Retirement Pathways*

A great many people enter retirement early in Finland and the average number of years spent working is significantly lower than in other Nordic countries, all of which serves to magnify the effects of the aging population. Widespread early retirement is partly the result of the various packages of incentivised benefits, combined with the prospect of rising government taxes on salaries above the age of 50. Dramatic reversals are required in these spheres if early retirement is to be reduced and more prolonged labor participation fostered. To lengthen working lives, which are well below the Nordic country average, it is recommended that: workers over the age of 59 are made subject to the same activation requirements as younger workers in order to qualify for unemployment benefits; the disability pension be granted only on medical grounds, rather than on "social criteria" as permitted under the current system.

#### *Youth Unemployment*

Youth unemployment rates are comparatively high. This is partly because Finish youth spend longer periods of time in tertiary education as education prices are low and there are generous student allowances. There are also relatively low wages for youth who enter the workforce. Finland moderates wages (looks to keep wages down) to maintain its competitiveness, though this poses problems for youth and low skilled workers and tends to further discourage young people from getting jobs.

#### *Continue with product market deregulation as well as privatisation*

To increase competition, product markets should be further deregulated, in particular by easing regulations on shop opening hours and relaxing zoning laws to facilitate entry in retail distribution, and the on-going privatisation process should be continued. The government is planning to review the rules for shop opening hours, though no concrete steps have been taken to date.

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<sup>1</sup> International Monetary Fund (IMF), <http://www.imf.org/external/np/sec/pn/2007/pn0795.htm> 08/03/2007