Editorial

Editorial: Measures to strengthen the economy still needed

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Economic growth in Finland has accelerated following several years of weak performance, and growth is forecast to continue. Even so, the economy is still in a vulnerable condition. The industrial base has narrowed, the number of unemployed is high and general government finances are in deficit. Higher growth is now alleviating the problems in the economy but will not solve them. It is important to continue corrective measures that strengthen the economy.



The outlook for the Finnish economy has brightened. Economic growth has strengthened following several years of weak performance, and growth is forecast to continue.

Economic activity has become more balanced. Having witnessed a very subdued trend for a prolonged period, exports and machinery and equipment investment have been picking up since the end of 2016. At the same time, consumption and construction investment have continued to

expand.

Exports are predicted to increase further. One important factor underlying the better export performance is the improved external environment. Global trade has grown, and the economies important for Finnish exports are growing. This is, in part, attributable to the very accommodative stance of monetary policy in many countries – including Finland, as a member of the euro area.

Growth prospects for exports are currently also being enhanced by improvements in Finland's cost-competitiveness. During a number of years, labour costs in Finland rose more rapidly than in the country's advanced trading partners, on average. This trend was not immediately reversed after Finnish exports and average labour productivity contracted to an exceptional degree following the onset of the international financial crisis. More moderate wage settlements in recent years have halted further deterioration in cost-competitiveness, and the Competitiveness Pact, effective since the beginning of 2017, is expected to improve the prospects for exports and export sector employment.

Even if the outlook for the Finnish economy is brighter, the economy is not yet strong. Compared with 2008, export earnings continue to be lower, the industrial base has narrowed, and there has been an exceptionally steep decline in the number of industrial jobs. Unemployment and long-term unemployment are both high.

Fiscal consolidation measures taken in recent years have succeeded in reducing the general government deficit, although the baby-boomer generation reaching retirement has had an opposing effect. In any case, public expenditure is still substantially higher than revenue, and no decisive change to this situation is forecast, despite stronger economic growth.

Notwithstanding the recent pick-up in growth, it is expected to remain markedly lower in the longer term than in past decades. This is due to both weaker demographic developments and a long-term weakening in labour productivity growth that has been widely experienced in the advanced economies. These trends weigh on the general government fiscal balance.

The pension reform decided in 2015 improved the long-term outlook for the public finances. Even so, their long-term sustainability has not yet been ensured. Expected public revenue will not be sufficient for financing expected expenditure without new measures to strengthen the fiscal outlook.

Consequently, the Finnish economy is now embarking on a growth path in a vulnerable condition. Many advanced economies have already been witnessing ongoing growth for several years. If the global economy were to take its next turn for the worse before Finnish exports, employment and public finances are materially stronger than at present, we could end up in an increasingly difficult

situation. The outlook is in any case overshadowed by a growing need for care services for the ageing population in the 2020s.

In order to bring the economy back onto a sustainable and strengthening growth path, more steps will be needed to remedy the general government fiscal balance in the period ahead. Further measures will be required to improve the public finances over the long term.

With a view to boosting export earnings and export sector employment, cost-competitiveness will need to be enhanced even after the expiry of the Competitiveness Pact. For the immediate years ahead, this means a pace of increase in labour costs that, relative to productivity performance, is lower than the average of advanced trading partner countries. This will be equally necessary for both export sectors and home market industries whose price developments crucially affect the costs of production for export.

After major difficulties extending over several years, the outlook for the Finnish economy is more favourable. Domestic corrective measures have played a key role in helping the economy cope with a series of adverse shocks. These measures should be continued.

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cost competitiveness, Finnish economy, general government deficit