

FINLAND

- The GDP per capita gap relative to leading OECD economies has widened since 2007 as productivity and hours worked have fallen. The continued deterioration in the terms of trade further weighs on GDI per capita.
- The government has been promoting an ambitious structural reform package, aiming at consolidating municipal finances, raising the efficiency of public services, extending working careers, lowering structural unemployment and lifting potential output. These reforms are going in the right direction, but full implementation will require several years and sustained government commitment.
- A rapidly ageing population calls for enhancing work incentives and the efficiency of public services. Stronger competition in retail trade and transports could contribute to boosting productivity.
- Further improving the efficiency of the tax structure and strengthening active labour market policies would support more inclusive growth.

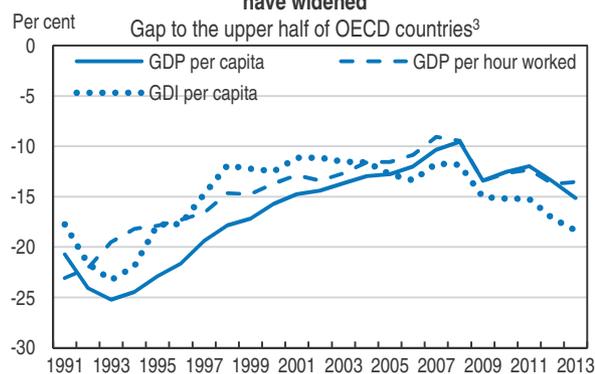
Growth performance indicators

A. Average annual trend growth rates

Per cent

| | 2003-08 | 2008-13 |
|--------------------------------------------------|---------|---------|
| Potential GDP per capita | 1.4 | -0.2 |
| Potential labour utilisation | 0.5 | -0.2 |
| <i>of which:</i> Labour force participation rate | -0.1 | -0.3 |
| Employment rate ¹ | 0.3 | 0.0 |
| Trend employment coefficient ² | 0.2 | 0.2 |
| Potential labour productivity | 0.9 | 0.0 |
| <i>of which:</i> Capital deepening | -0.2 | 0.4 |
| Labour efficiency | 0.6 | -0.8 |
| Human capital | 0.5 | 0.4 |

B. Gaps in GDP per capita and productivity have widened



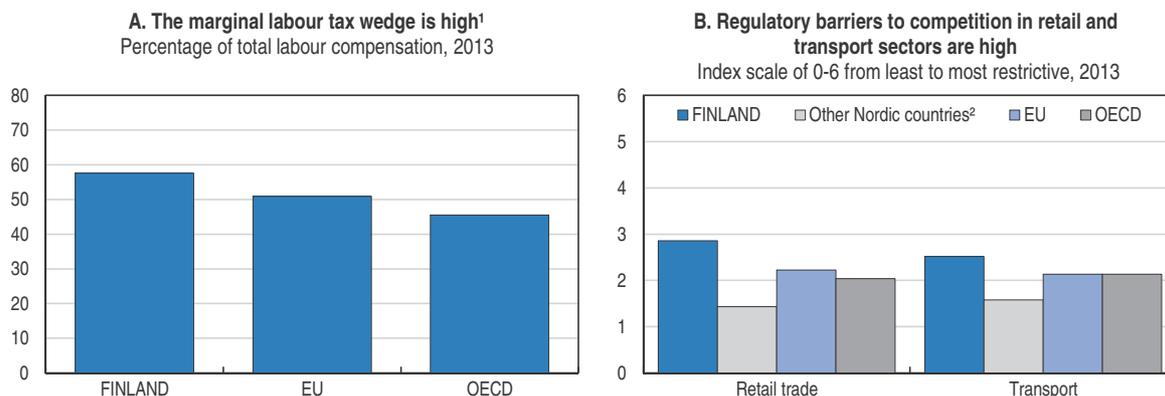
1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: Panel A: OECD, *Economic Outlook 96 Database*. Panel B: OECD, *National Accounts and Productivity Databases*.

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Policy indicators



1. Labour taxes include personal income tax and employee plus employer social security contributions and any payroll tax less cash transfers. Marginal labour tax wedge for a single person at 100% of average earnings without child.
2. Average of Denmark, Norway and Sweden.

Source: Panel A: OECD, *Taxing Wages Database*. Panel B: OECD, *Product Market Regulation Database*, www.oecd.org/economy/pmr.

StatLink  <http://dx.doi.org/10.1787/888933178198>

Going for Growth 2015 priorities

Priorities supported by indicators

Enhance competition in retail trade and transport. Relatively high regulatory barriers in retail trade and limited competition in rail, road and air transport hamper productivity growth.

Actions taken: The resources of the competition authority have been increased in 2013 to ensure that it can fulfil its mandate. A review of the current Land use and building act has been carried out.

Recommendations: Loosen zoning and planning restrictions on retail development to encourage competition and increase store-level scale economies. Ease road transport regulation and reduce state ownership in rail and air transport.

Strengthen activation and reform unemployment benefits. High income replacement rates for the unemployed combined with insufficient activation measures to promote the return to work are holding back employment.

Actions taken: The youth guarantee was put in place in 2013, whereby those below 25 and recent graduates under the age of 30 are offered a job or a study place, a work trial or workshop place within three months of registering as unemployed. From 2014, people unemployed for three months are being offered jobs beyond their initial profession and sanctions for refusing activation measures should be applied more consistently. From 2014, unemployed jobseekers may earn EUR 300 per month without losing unemployment benefits. Over 2013 and 2014, resources to accelerate return to work have been expanded in the area of: i) vocational education and training (VET); and ii) employment services targeted at requalifying the long-term unemployed. No action has been taken on income replacement rates.

Recommendations: Continue to strengthen activation by tightening work-search requirements and taper off unemployment benefit replacement rates throughout the unemployment spell.

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Reduce the labour tax wedge and improve the efficiency of the tax structure. Marginal tax wedges on labour income remain high, limiting employment growth.

Actions taken: VAT rates were increased by one percentage point at the beginning of 2013. Excise duties were also raised. In 2014, property assessment has come closer to market values.

Recommendations: Lower taxes on labour to improve work incentives. Offset the revenue loss with property and indirect taxes. Raise the revenue efficiency of the VAT by eliminating reduced rates.

Other key priorities

Increase productivity in municipalities. Declining productivity levels weigh on public finances, especially as population ageing increases demand for public services.

Actions taken: The government has pushed reform of municipalities through voluntary mergers, but it is facing strong resistance.

Recommendations: Continue to promote the merger of municipalities or scale back their responsibilities according to where economies of scale and scope can be achieved. Further develop benchmarking to enhance municipal-level productivity. Implement the health and social services reform as planned.

Improve incentives to work at older ages and continue to reduce early retirement through disability. The effective retirement age is still low by Nordic standards, shrinking the labour force.

Actions taken: The social partners have moved forward on reforming the earnings-related pension system. The reform is planned to be effective as of 2017. Changes include a progressive increase in the statutory retirement age, from currently 63 to 65 years in 2025 and, thereafter in relation to life expectancy. According to estimates, the planned reform would raise the effective retirement age to 62.4 years by 2025. In the next step, the government prepares new legislation for parliamentary approval.

Recommendations: Fully implement the earnings-related pension system reform. Access to disability pensions should be based on medical reasons only. Continue to promote lifelong training to help people stay in work longer.

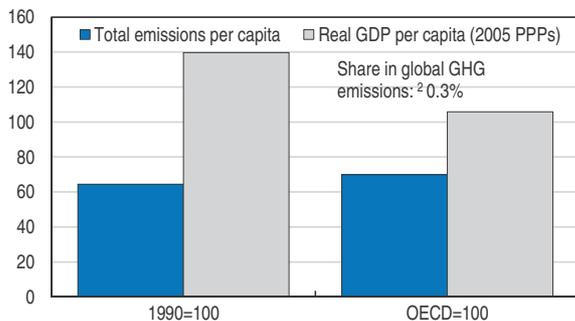
Reform areas no longer considered a priority in *Going for Growth*

For Finland, all priority areas from the 2013 issue of *Going for Growth* are maintained.

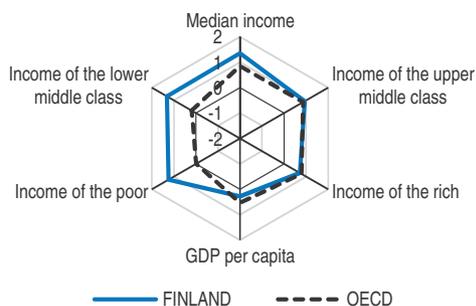
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Beyond GDP per capita: Other policy objectives

A. Emissions per capita are below the 1990 level and OECD average
Average 2008-12¹



B. Households across the distribution have experienced real income gains³
Average annual growth rate in real household disposable income, 2005-11⁴



1. Total GHG emissions including LULUCF in CO₂ equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. See methodological notes at the end of the chapter for the computation of household income across the distribution.
4. Data refer to 2005-12 for Finland.

Source: Panel A: OECD, *National Accounts and Energy (IEA) Databases*; and United Nations Framework Convention on Climate Change (UNFCCC) Database. Panel B: OECD, *National Accounts and Income Distribution Databases*.

StatLink  <http://dx.doi.org/10.1787/888933178626>