

FINLAND

- Finland's GDP per capita has been losing ground related to the OECD's best performers since 2008, as a result of weak labour productivity and declining employment. The gap in GDP per capita has almost doubled since 2008 to close to 20 percentage points in 2015, even though the gap in GDP per hour worked is somewhat narrower. Labour force participation has been driven down by population ageing and dismal job prospects, as the economy struggled with falls in demand for electronic and forestry products, a collapse in demand from the Russian Federation and eroding competitiveness.
- Income inequality has receded slightly from a peak in 2007, when strong capital earnings were boosting top incomes. During the prolonged downturn, the share of capital income has declined, while the social safety net has supported low-income earners, keeping unchanged their share in national income.
- The employment rate of older workers, which was the target of some of the recommendations in *Going for Growth 2015*, is rising. Furthermore, the retirement age will increase to 65 by 2025, and will thereafter be linked to life expectancy. Early retirement paths have been progressively narrowed. Improving incentives to work at older ages is thus no longer considered a *Going for Growth* priority. The government has an ambitious reform agenda, which includes reforming the tax structure, the labour market, education, health care and social services, as well as promoting entrepreneurship.
- Inclusive growth can be fostered by measures to increase competition, which would spur innovation and raise productivity, along with a more efficient use of a highly skilled workforce, especially in the context of a rapidly ageing population. A more efficient tax structure to increase work and entrepreneurship incentives, coupled with enhanced active labour market policies, would lift the employment rate, thereby contributing both to raising output and lowering income inequality. Reducing the combined duration of parental leave and the home-care allowance would encourage the labour market participation of women, with a positive impact on output and gender equality, as long leaves tend to affect women's career prospects. Continuing to provide high quality public services at a reasonable cost in the face of rising demand associated with population ageing will require efficiency gains through reorganising services and encouraging more competition in areas where it is viable.

Going for Growth 2017 priorities

***Reduce barriers to female labour force participation.*¹** Higher employment among women of child-bearing age would raise output growth and gender equality.

Recommendations: The combined duration of parental leave and the home care allowance should be reduced, as it lowers labour force participation among women in child-bearing age and tends to affect career prospects for women, thereby widening the gender pay gap.

Enhance competition in retail trade, transport and construction. Streamlining regulations in retail trade, transport and construction would encourage innovation and lift productivity.

Actions taken: Shops' opening hours were further liberalised in December 2015. The government plans to amend land-use planning regulations and promote competition in the construction industry. It is also considering opening up rail passenger transport to competition.

1. New policy priorities identified in *Going for Growth 2017* (with respect to *Going for Growth 2015*) are preceded and followed by an “*”.

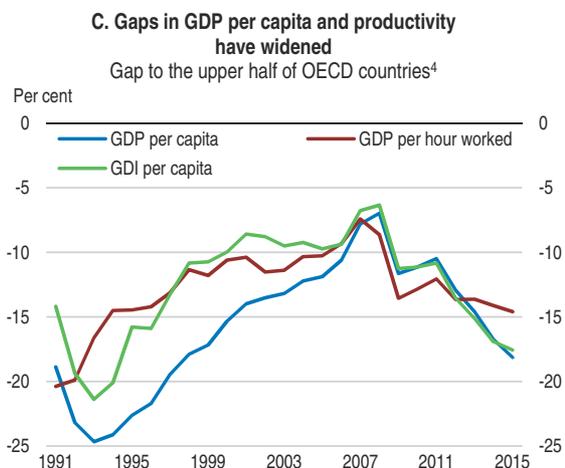
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Growth performance and inequality indicators

A. Growth		
Average annual growth rates (%)	2003-09	2009-15
GDP per capita	0.9	0.0
Labour utilisation	0.6	-0.4
of which: Labour force participation rate	0.1	-0.3
Employment rate ¹	0.1	-0.2
Employment coefficient ²	0.3	0.1
Labour productivity	0.3	0.5
of which: Capital deepening	0.4	0.2
Total factor productivity	0.0	0.3
Dependency ratio	0.0	-0.1

B. Inequality		
	Level	Annual variation (percentage points)
	2014	2008-14
Gini coefficient ³	25.7 (31.7)*	-0.1 (0)*
Share of national disposable income held by the poorest 20%	9.5 (7.7)*	0 (0)*

* OECD average

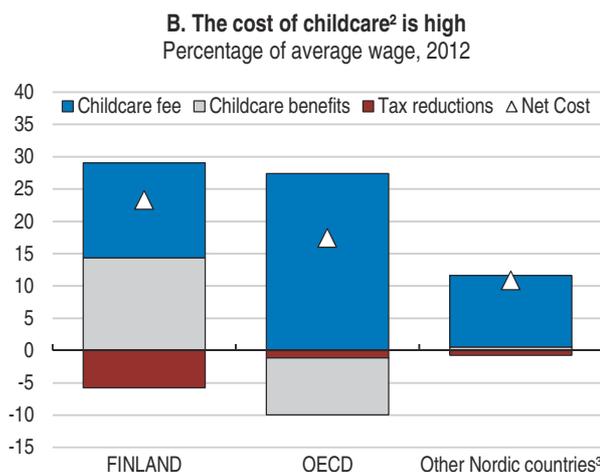
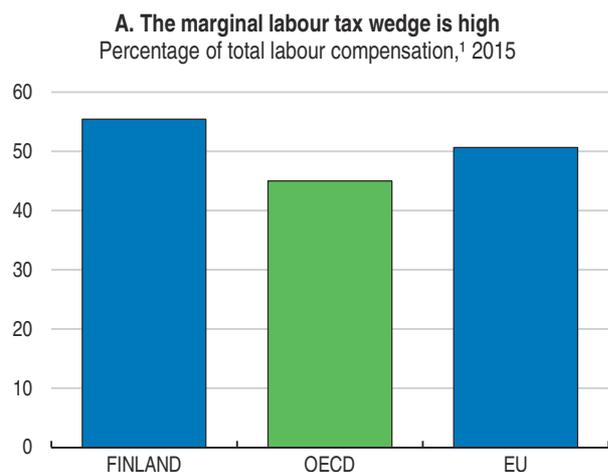


- The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice-versa.
- This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
- The Gini index measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.
- Percentage gap with respect to the weighted average using population weights of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2010 PPPs).

Source: Panel A: OECD, Economic Outlook No. 100 Database; Panel B: OECD, Income Distribution Database; Panel C: OECD, National Accounts and Productivity Databases.

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Policy indicators



- 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.
- Couples where the first earner earns 100% of the average wage and the second earner earns 67% of the average wage. Childcare benefits refer to childcare and other benefits.
- Average of Denmark, Norway and Sweden.

Source: Panel A: OECD, Taxing wages Database; Panel B: OECD, Tax-Benefits Models.

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FINLAND

Recommendations: Loosen zoning and planning restrictions on retail development to encourage competition and increase store-level scale economies. Streamline regulations in the construction and building materials industries.

Increase productivity in municipalities. Public services need to be produced more efficiently, to ensure adequate provision in the face of stretched public finances and rising demand as population ages.

Actions taken: A social welfare and health care reform will create autonomous regions responsible for organising healthcare and social services from 2019. The most demanding health care will be organised around larger university hospital areas.

Recommendations: Ensure that the reform achieves economies of scale and a better balance between primary and specialised care, while reinforcing equality in access to health care and social services. Encourage more competition where the population base and the nature of services make it viable.

Strengthen activation and reform unemployment benefits. Reducing income replacement rates in steps over the unemployment spell, combined with effective activation measures, would facilitate return to work.

Actions taken: Work-search requirements have been tightened further in 2015. The maximum duration of unemployment benefits will be reduced from 500 to 400 days for most claimants.

Recommendations: Systematically enforce mandatory job-search and reporting requirements starting early in the unemployment spell. Reduce unemployment benefits in steps over the unemployment spell so as to strike a better balance between income protection and incentives for job-search. Strengthen active labour market programmes to retrain displaced workers and upgrade their skills.

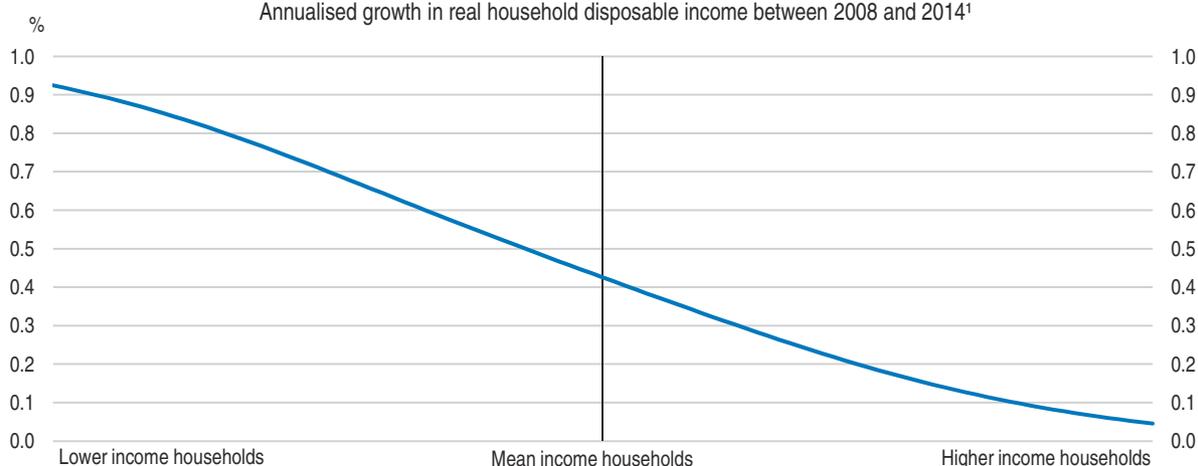
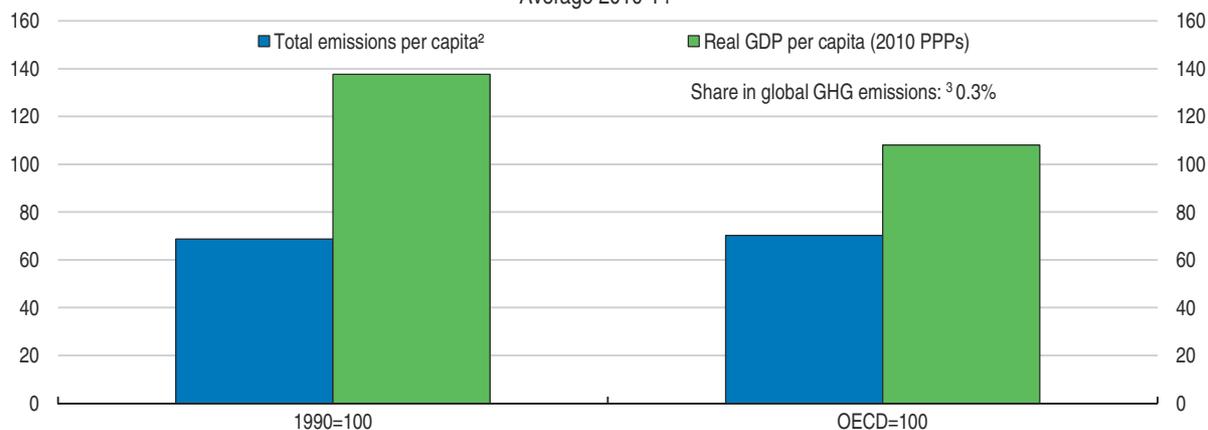
Improve the efficiency of the tax structure. Reducing marginal tax wedges on labour income would favour employment growth.

Actions taken: Tax and social contribution cuts related to the Competitiveness Pact signed by the social partners in 2016 will reduce the tax wedge from 2017 onwards.

Recommendations: Reduce taxes on labour to improve work incentives, and raise recurrent taxes on personal immovable property and indirect taxes. Reduce the number of products subject to reduced VAT rates.

FINLAND

Beyond GDP per capita: Other policy objectives

A. Household income increased by more in the lower half of the income distribution
Annualised growth in real household disposable income between 2008 and 2014¹B. Emissions per capita are below the 1990 level and OECD average
Average 2010-14

1. The data show average annual growth rates in disposable income (i.e. income after tax and transfers) across the distribution and refer to the period between 2008 and 2014. Disposable incomes cover the full population. Income data are expressed in constant prices (OECD base year 2010).
2. Total GHG emissions including LULUCF in CO₂ equivalents (UNFCCC). The OECD average (excluding Israel and Korea) is calculated according to the same definition.
3. Share in world GHG emissions is calculated using International Energy Agency (IEA) 2010 data.

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

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