

FINLAND

- The GDP per capita gap vis-à-vis leading OECD economies widened somewhat during the financial crisis due to a sharp fall in labour productivity and a smaller decline in employment, with some recovery lately. The remaining GDP per capita gap mainly reflects a shortfall in labour productivity, although labour utilisation also remains low compared to best-performing OECD countries.
- University admission and funding are being reformed to improve efficiency. The planned municipal mergers could yield significant productivity gains, if implemented successfully.
- Boosting labour productivity should be a priority, especially in the less efficient services sector. Stronger competition in retail trade and public services could contribute to higher productivity. Disincentives to work at older ages should be reduced to boost labour utilisation. Active labour market policies should be strengthened to facilitate labour reallocation and therefore sectoral changes.
- Continued shift of taxes from labour towards indirect taxes, including green ones, could boost GDP growth while enhancing environmental sustainability.

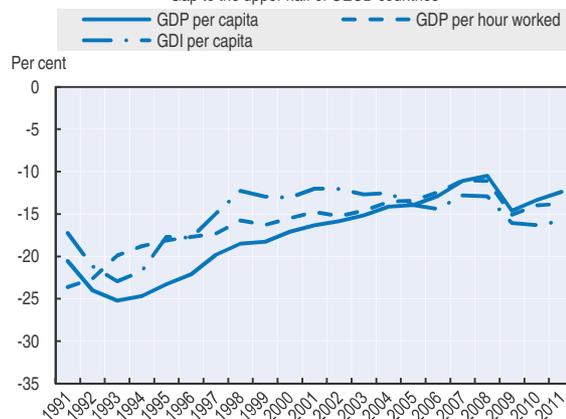
Growth performance indicators

A. Average annual trend growth rates

Per cent

	2001-06	2006-11
Potential GDP per capita	2.0	0.7
Potential labour utilisation	0.2	-0.2
of which:		
Labour force participation rate	0.0	-0.3
Employment rate ¹	0.3	0.1
Potential labour productivity	1.8	0.9
of which:		
Capital intensity	0.3	0.6
Labour efficiency	1.1	0.0
Human capital	0.4	0.3

B. Gaps in GDP per capita and productivity widened somewhat during the crisis

Gap to the upper half of OECD countries²

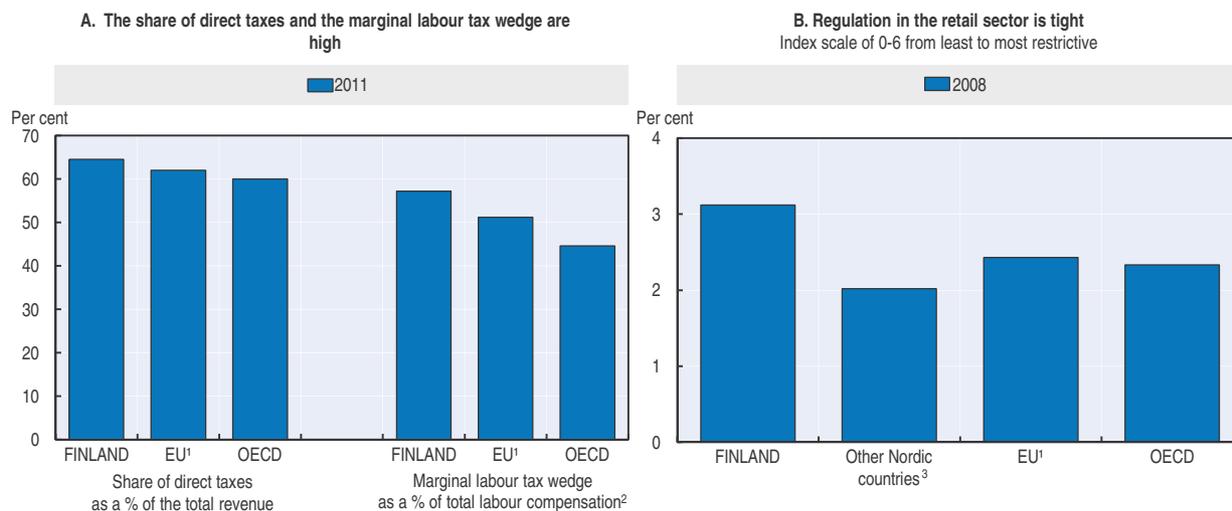
1. The employment rate is defined with respect to the economically active population and therefore captures the (inverse) changes in the structural unemployment rate.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: OECD, National Accounts and OECD Economic Outlook 92 Databases.

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Policy indicators



1. Average of 21 EU countries members of the OECD.
2. Labour taxes include personal income tax and employee plus employer social security contributions and any payroll tax less cash transfers. Evaluated at 100% of average earnings for a single person with no child.
3. Average of Denmark, Norway and Sweden.

Source: OECD, Revenue Statistics, Taxing Wages and Product Market Regulation Databases.

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Identifying Going for Growth 2013 priorities

Priorities supported by indicators

Enhance competition in the retail sector¹ Regulatory barriers in the retail sector are tight and labour productivity is low.

Recommendations: Loosen zoning and planning restrictions on retail development to encourage competition and to increase store-level scale economies. Ensure that the competition authority has sufficient resources to fulfil its mandate.

Strengthen active labour market policies. Insufficient activation of unemployed workers and high unemployment benefits are holding back employment.

Actions taken: As of 2013, youth and recent graduates under the age of 30 unemployed for more than three months will be guaranteed a tailored response from the employment offices. Shift of the responsibility of employment services to municipalities after 12 months of unemployment, with individual follow-up and monitoring, will be experimented.

Recommendations: Continue to adjust active labour market policies so that activation takes place earlier, reduce replacement rates and taper them off throughout the unemployment spell.

1. New policy priorities identified in *Going for Growth 2013* (with respect to *Going for Growth 2011*) are preceded and followed by an “*”.

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Reduce the labour tax wedge and improve efficiency of the tax structure. Marginal tax wedges on labour income remain high, hampering improvements in labour utilisation.

Actions taken: Value-added tax (VAT) rates will be increased by 1 percentage point in 2013, some exemptions have been removed and excise duties on some goods have increased. Taxes on transport fuels and the annual vehicle tax have been raised, and the car tax scale has been adjusted to reinforce environmental steering.

Recommendations: Lower labour taxation. Offset the revenue loss with higher indirect – including green – taxes. Increase property tax rates and align assessment values with market valuations. Raise the revenue efficiency of the VAT by eliminating reduced rates.

Other key priorities

Increase productivity in municipal services. Municipal services' productivity is declining, which weighs on public finances.

Actions taken: The government has announced an ambitious reform of municipalities and services, including through mergers, which could yield significant productivity gains, if implemented successfully.

Recommendations: Pursue further municipal mergers to increase efficiency and economies of scale in basic service provision. Further develop benchmarking to enhance municipal-level productivity.

Reduce disincentives to work at older ages. Implicit taxes on continued work are still high, contributing to low employment rates among older workers compared with other Nordic countries.

Actions taken: No action taken.

Recommendations: Raise the minimum statutory retirement age, review the disability pension system and fully close the unemployment pathway into retirement. Strengthen work incentives for older workers by increasing pension accrual rates after 65 and extending the actuarial adjustment of pensions to the full working life, including the period after the minimum retirement age.

Previous Going for Growth recommendation no longer considered as a priority

Improve the efficiency of the tertiary education system. To improve efficiency it was recommended to reform selection procedures and the financing of upper education.

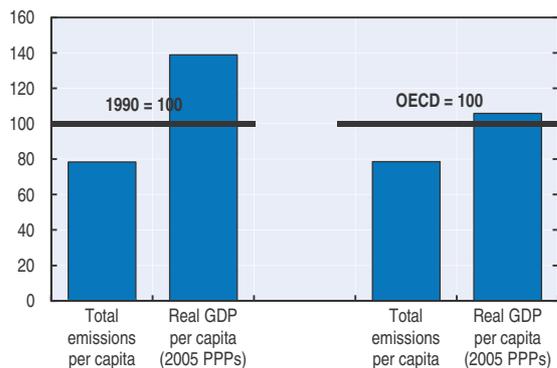
Actions taken: A major reform of the student selection process is underway including the development of a joint electronic admission system for both universities and polytechnics. A reformed university funding model, based on performance, will be adopted in 2013. The student financial aid system will be reformed from the beginning of 2014 to create incentives to shorten study times.

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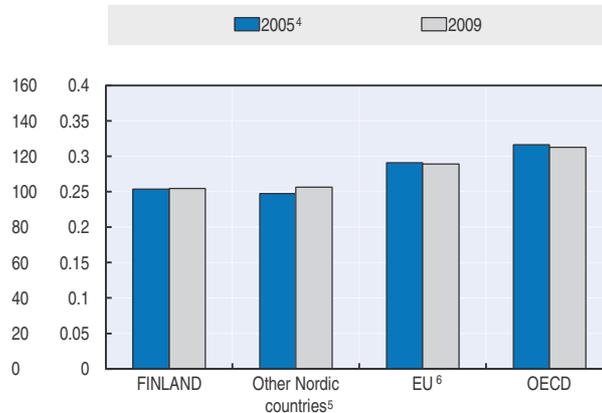
Other dimensions of well-being: Performance indicators

A. Emissions per capita are below the 1990 level and OECD average
Average 2006-10¹

Share in global GHG emissions:² 0.3%



B. Income inequality³ remains below the OECD average
Gini coefficient



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 and is an average of years 2005, 2008 and 2010.
3. Income inequality is measured by the Gini coefficient based on equivalised household disposable income for total population.
4. Data refer to 2004 for Finland.
5. Average of Denmark, Norway and Sweden.
6. Average of 21 EU countries members of the OECD.

Source: United Nations Framework Convention on Climate Change (UNFCCC) Database; OECD, Energy (IEA) Database and OECD Income Distribution Database, provisional data (www.oecd.org/social/inequality.htm).

StatLink  <http://dx.doi.org/10.1787/888932776504>