



20 May 2005

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35th ISC-Symposium at the University of St. Gallen, Switzerland, May 19 – 20, 2005

Thesis Sources of success for an economy – and the enterprises in it – in the euro area

Key points

Finland is a good example of a small economy in the monetary union. It is interesting to assess its economy before and after joining the euro area, and also compare conditions for the businesses in Finland to some countries which have stayed outside the common currency area. Monetary union helped but Finland would have been successful outside as well. If firms are weak, monetary union will expose that weakness, if they are strong they get a better opportunity to flourish.

Monetary union helps cut costs, expand the domestic market and lower interest rates for firms. However, it also increases the number of 'domestic' competitors and hence the pressure for continuous wide-ranging competitive improvement.

However, monetary union makes you more dependent on your partners and does not solve structural rigidities in the labour market or the disincentives of high tax rates.

Finland has outperformed much of the euro area. Its success is more than just Nokia and ICT and reflects its ranking at the top of competitiveness and trustworthiness indexes. Its levels of R&D are particularly high. Concrete examples help make the point.

Confidence has been high and domestic demand has been maintained despite the strong international cycle, which is a change from the period before monetary union.

Finland and enterprises in its economy face the same challenges as the rest of Europe in the future inside and outside EMU: an ageing society; increasing competition in an enlarged EU and globally, and limited natural resources.

A dynamic response will be needed.