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Finland and Her Economy in the Euro Area

Embassy of Finland, Washington D.C.

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Contemplations around the EU/EMU in Finland

- Not only economic considerations but also political
 - Maximise the country's political presence and influence
- Economic considerations very important
 - Generally some critique on the country's economic instability; several devaluations; severe economic crisis in the early 1990s
 - Through membership the economy would gain more stability and greater sense of reliability



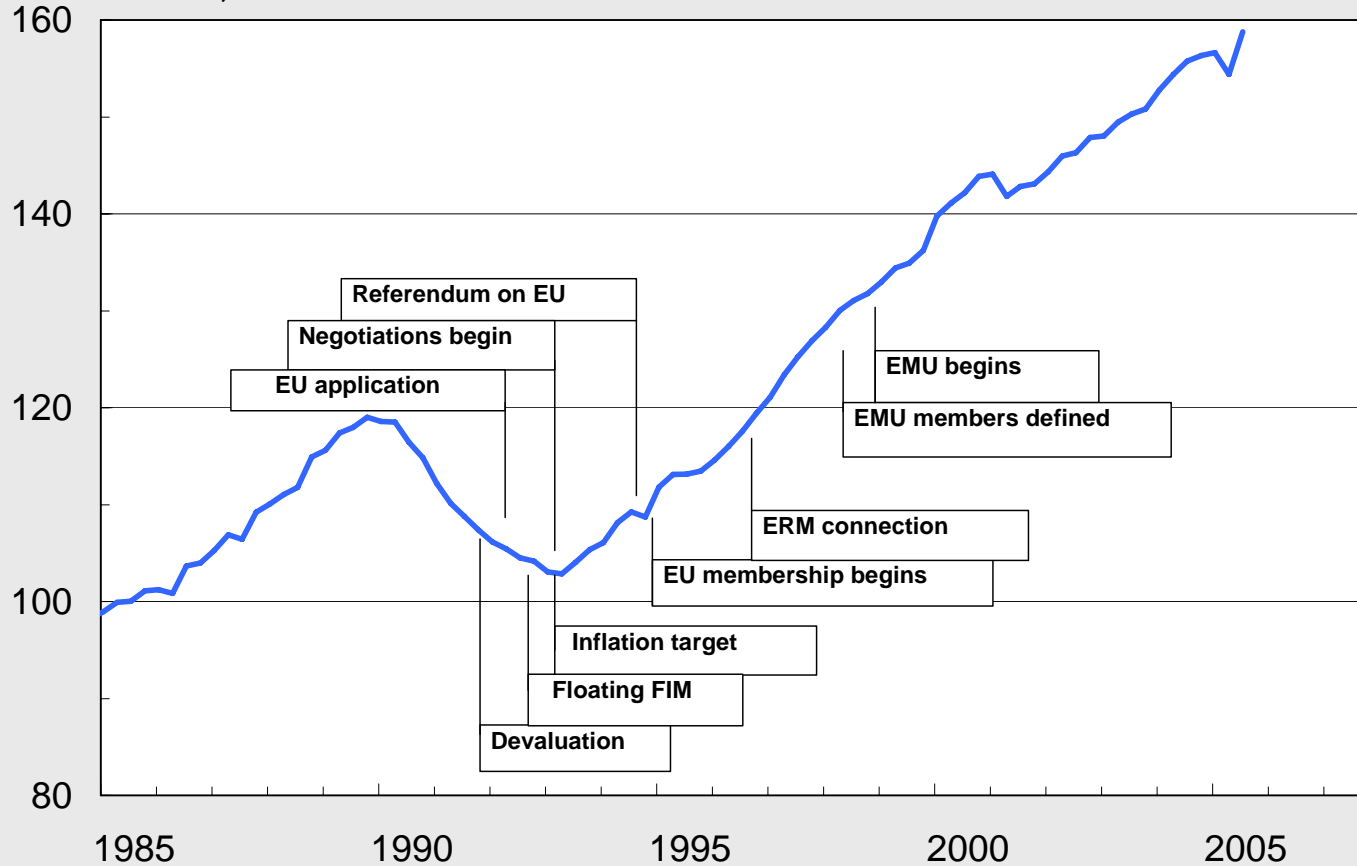
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Sweden: “No” Finland: “Yes”

- Calmfors Report (Sweden); negative in balance
 - Still higher unemployment, when macroeconomic disturbances cannot be countered by monetary and exchange rate policies
 - Deteriorating fiscal situation possible
 - More public debate to establish legitimacy
 - Anyway, some other countries stay outside the EMU
- Pekkarinen Report (Finland); positive in balance
 - Despite the same worries as in Calmfors Report, assumption of flexible labour markets and responsive fiscal policy
- Finland and Sweden – a major difference in approach
 - Sweden: improved economic position first, then EMU entry
 - Finland: membership itself forces changes in public policy and private sector behaviour

Real GDP and the Path to EMU

Index, 1985 = 100

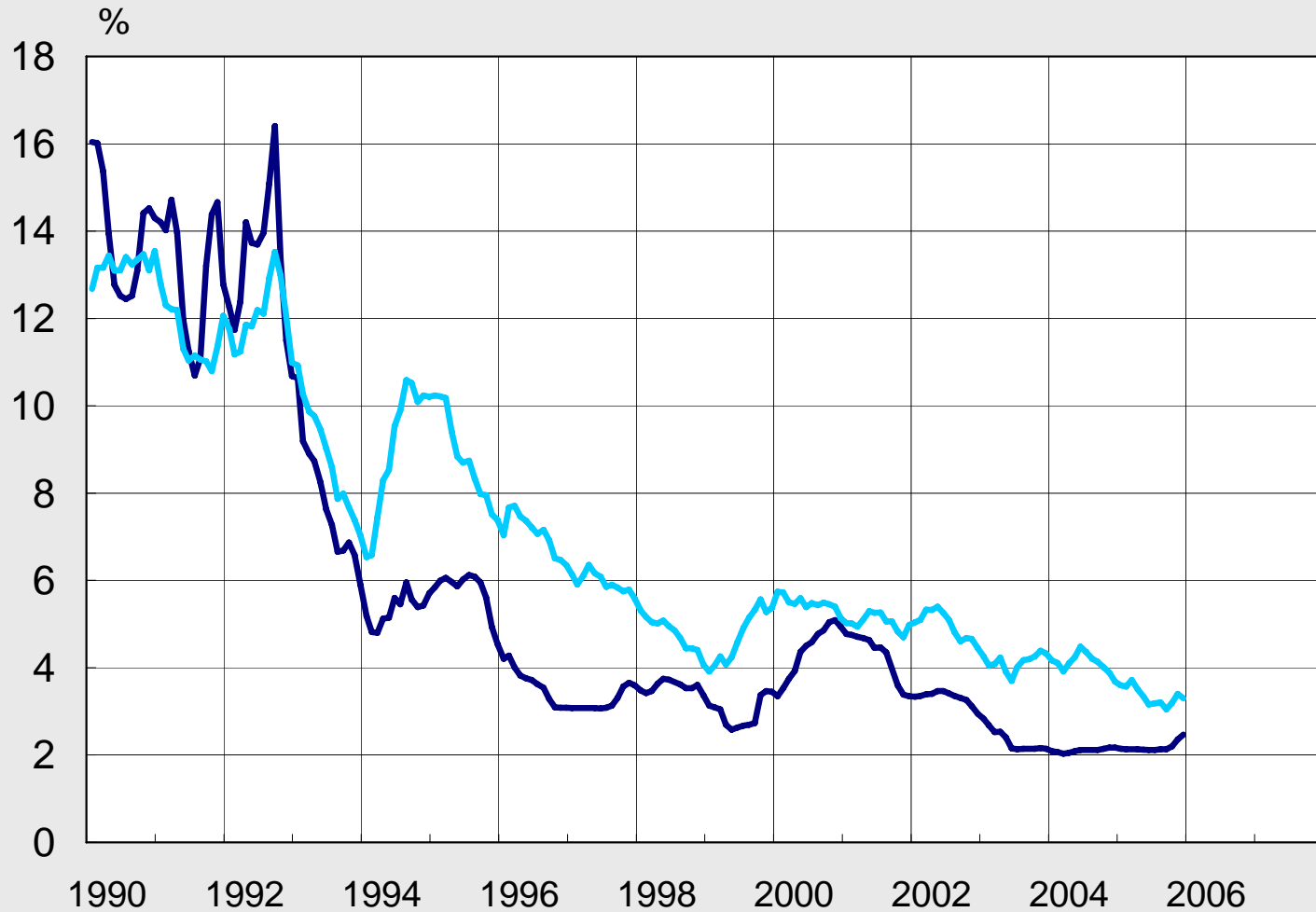


Source: Statistics Finland and Bank of Finland.

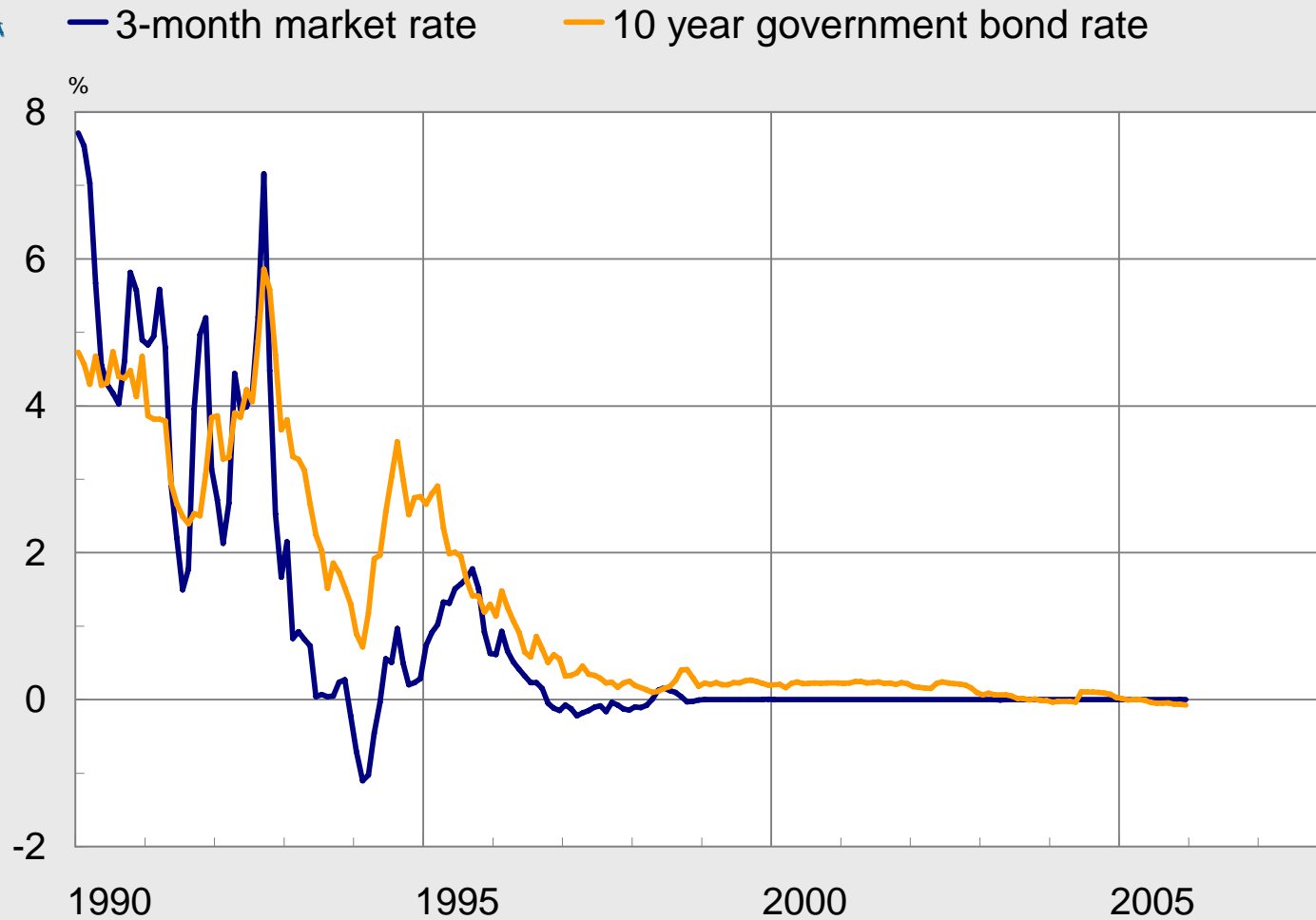
Interest rates in Finland

— 3-month

— 10-year



Interest rate differentials between Finland and Germany



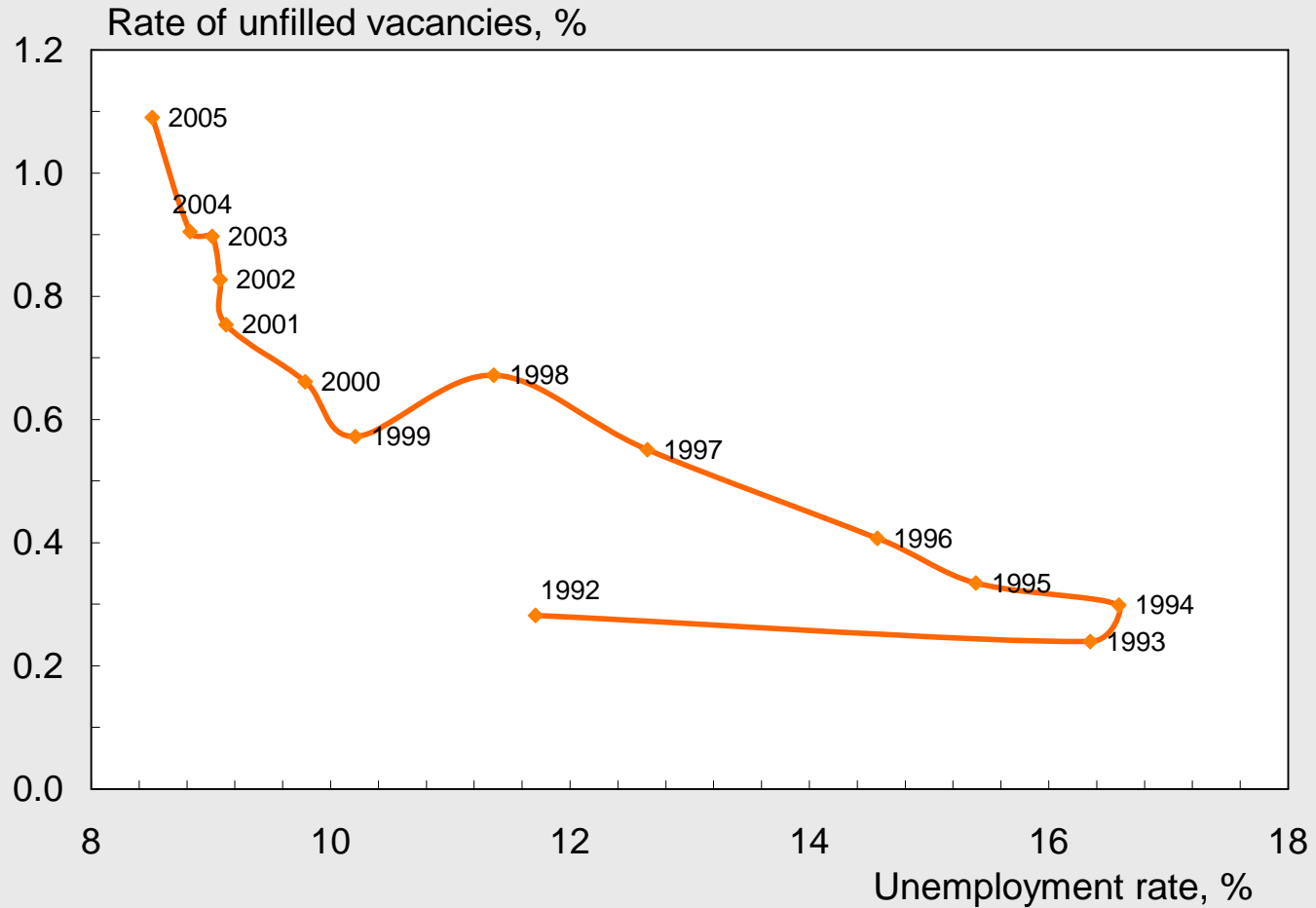
Source: Reuters.

Competitiveness indexes

- IMD
- World Economic Forum
- Finland 6th on IMD (US no. 1) 1st on WEF
- Finland does well on infrastructure and efficiency of the public sector, a little weaker on private sector efficiency and a lot weaker on economic development (just above EMU average)
- Weaknesses high wages, high taxes, slow labour force growth and limited incentives for job search from the welfare system

Unemployment

Beveridge-curve, 1992-2005



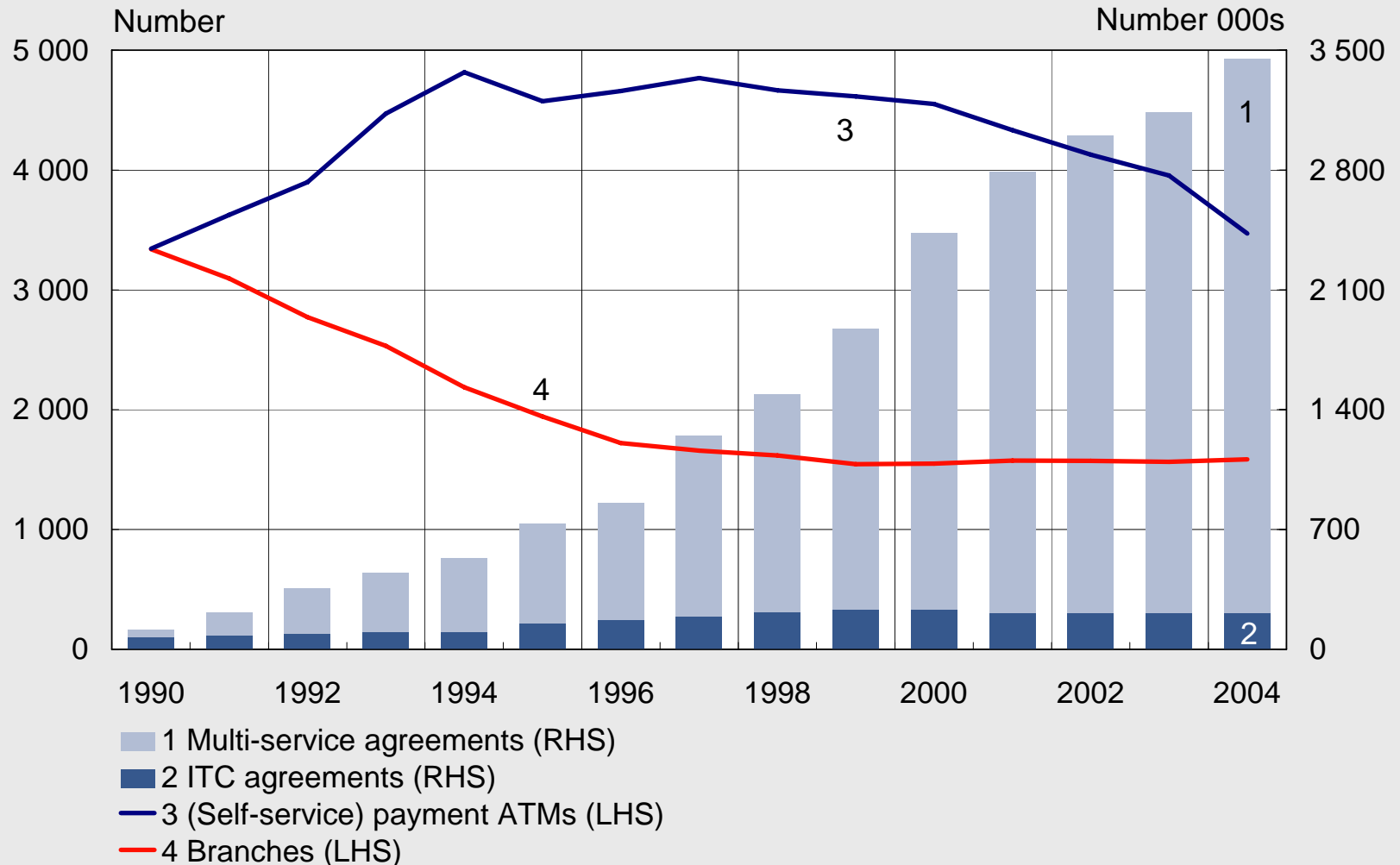
Macroec.

Sources: Ministry of Labour and Statistics Finland.



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Development of banks' distribution channels



Macroec.

Source: Finnish Bankers' Association.

Enterprise level openness

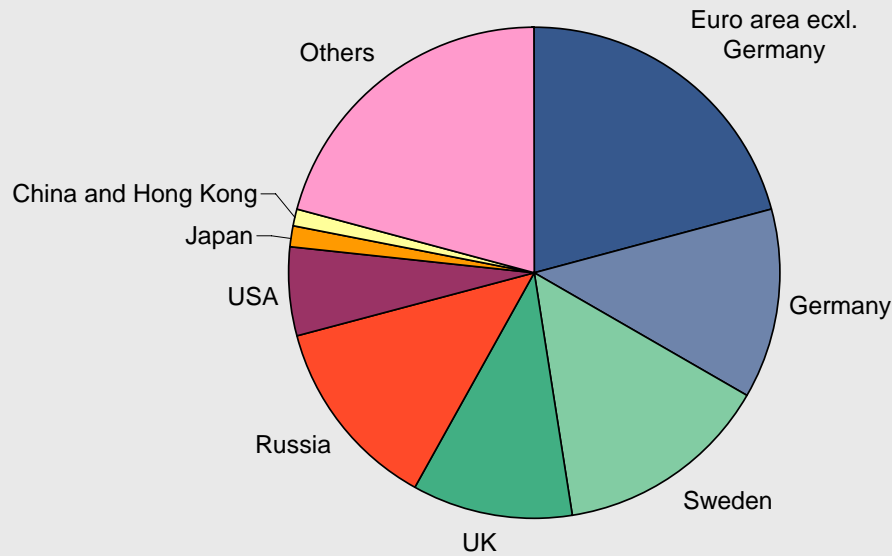
Exports in Finland



Sources: National Board of Customs and Statistics Finland.

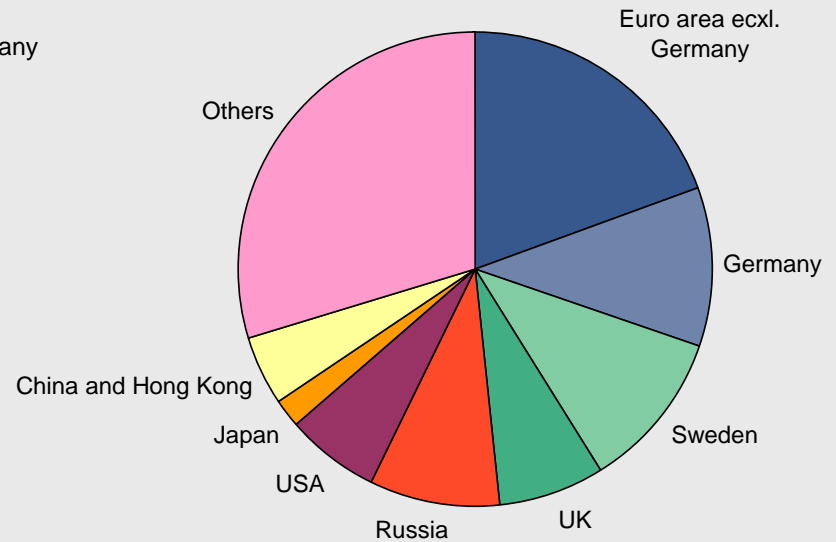
Finnish exports

Country distribution of Finnish exports 1990



Source: National Board of Customs.

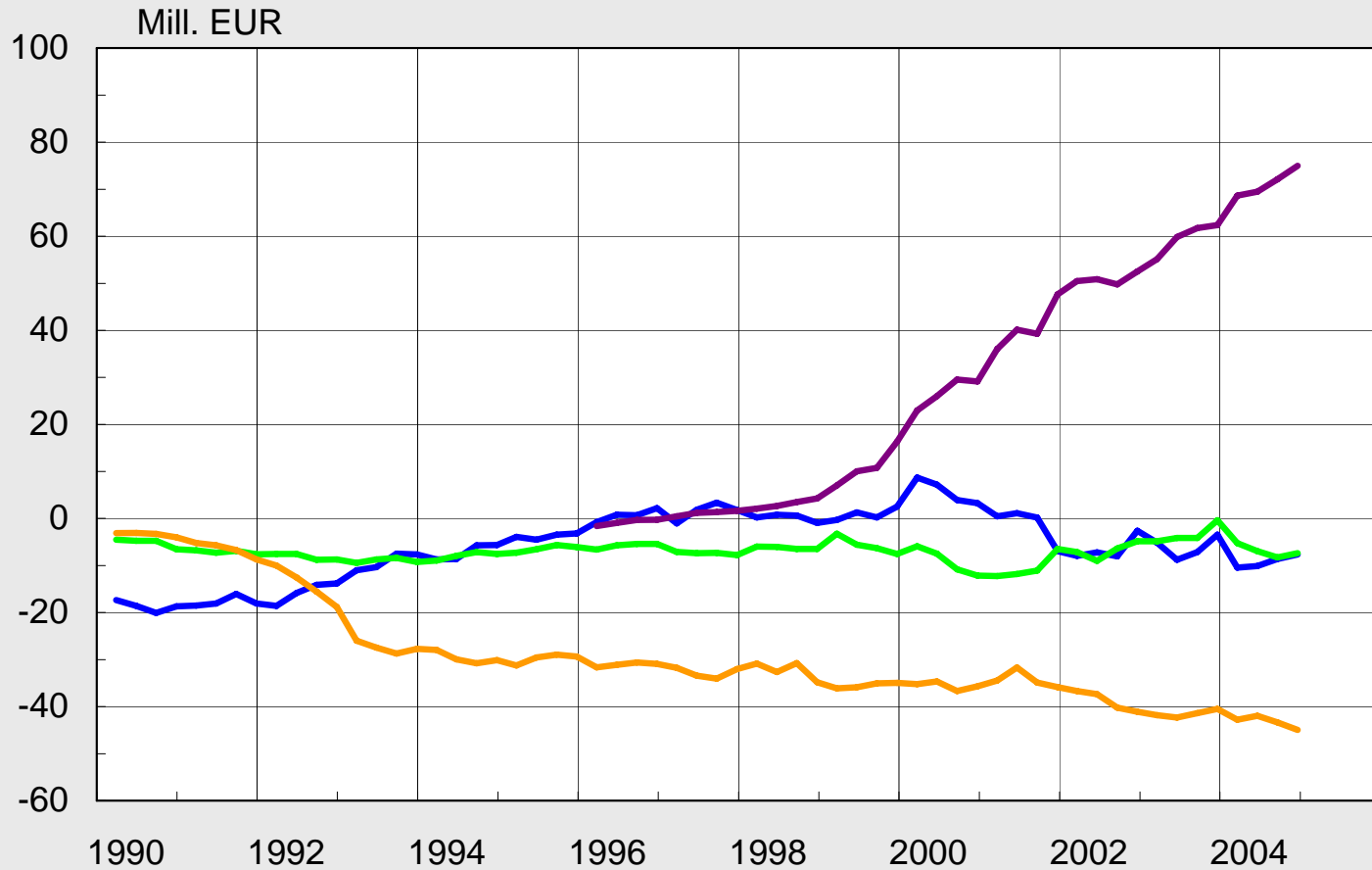
Country distribution of Finnish exports 2004



Source: National Board of Customs.

Finland's net international investment position by sector

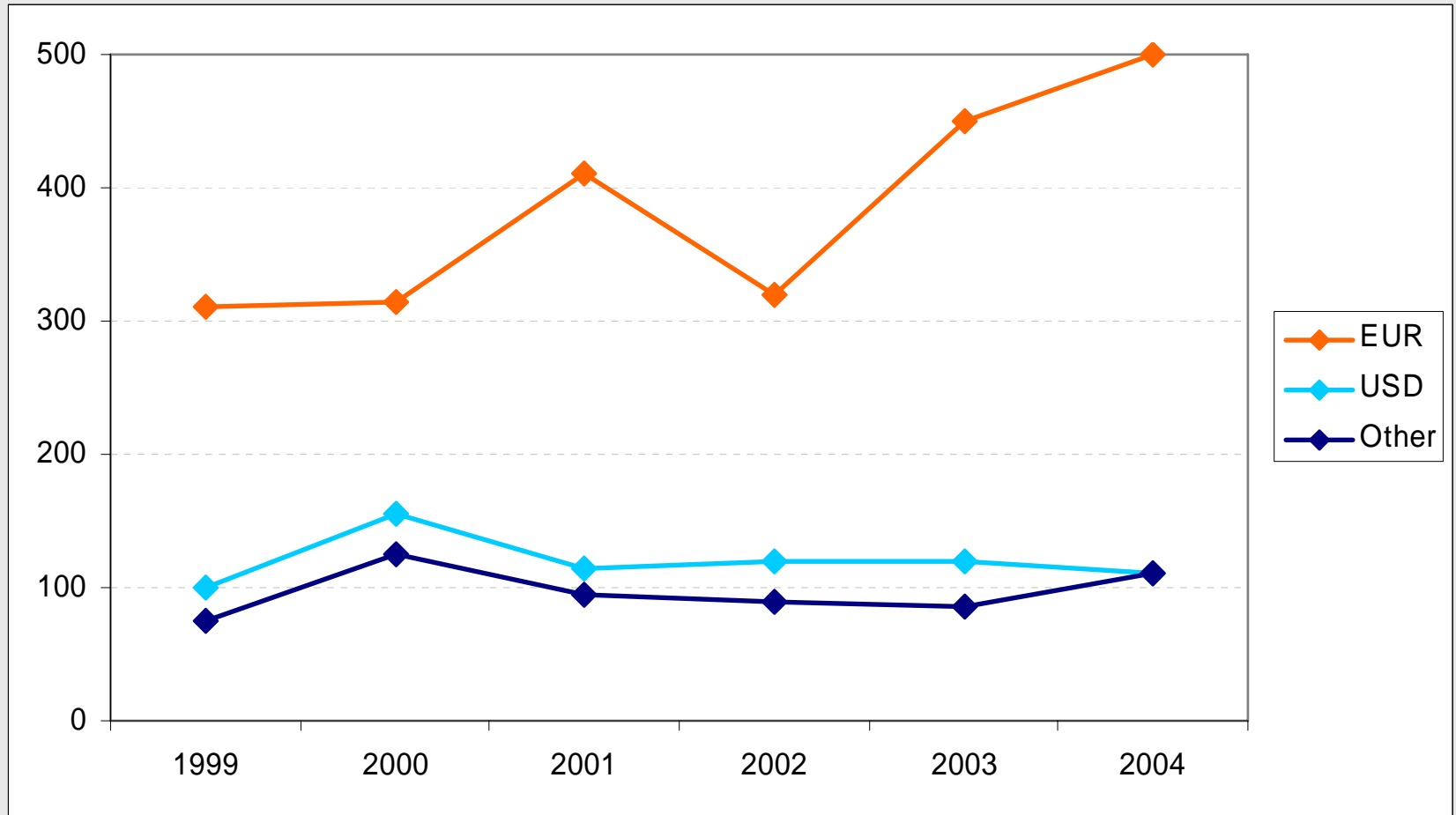
- Banks
- Enterprises excl. shares and other equity items
- Central government
- Employment pension institutions and other financial institutions



Source: Bank of Finland.

Enterprise

All European issuers (EURbn)



Effects on corporate financial management – a case study

Long-term financing from capital markets, syndicated loans markets and banks

- Broader markets
- More sources of financing available
- Internationally recognised currency

Money markets

- Well functioning euro MTN market
- More efficient and competitively priced European cash management solutions
- Group wide integration of banking services with electronic accounting (including invoicing)

Interest rate risk management

- More predictable, more stable interest rate outlook
- Risk expectation has diminished
- Mismatch of maturities (assets and liabilities) less critical i.e. a company could have – as an extreme example – most of its loans on a floating rate

Effects on corporate financial management - a case study

Foreign exchange management

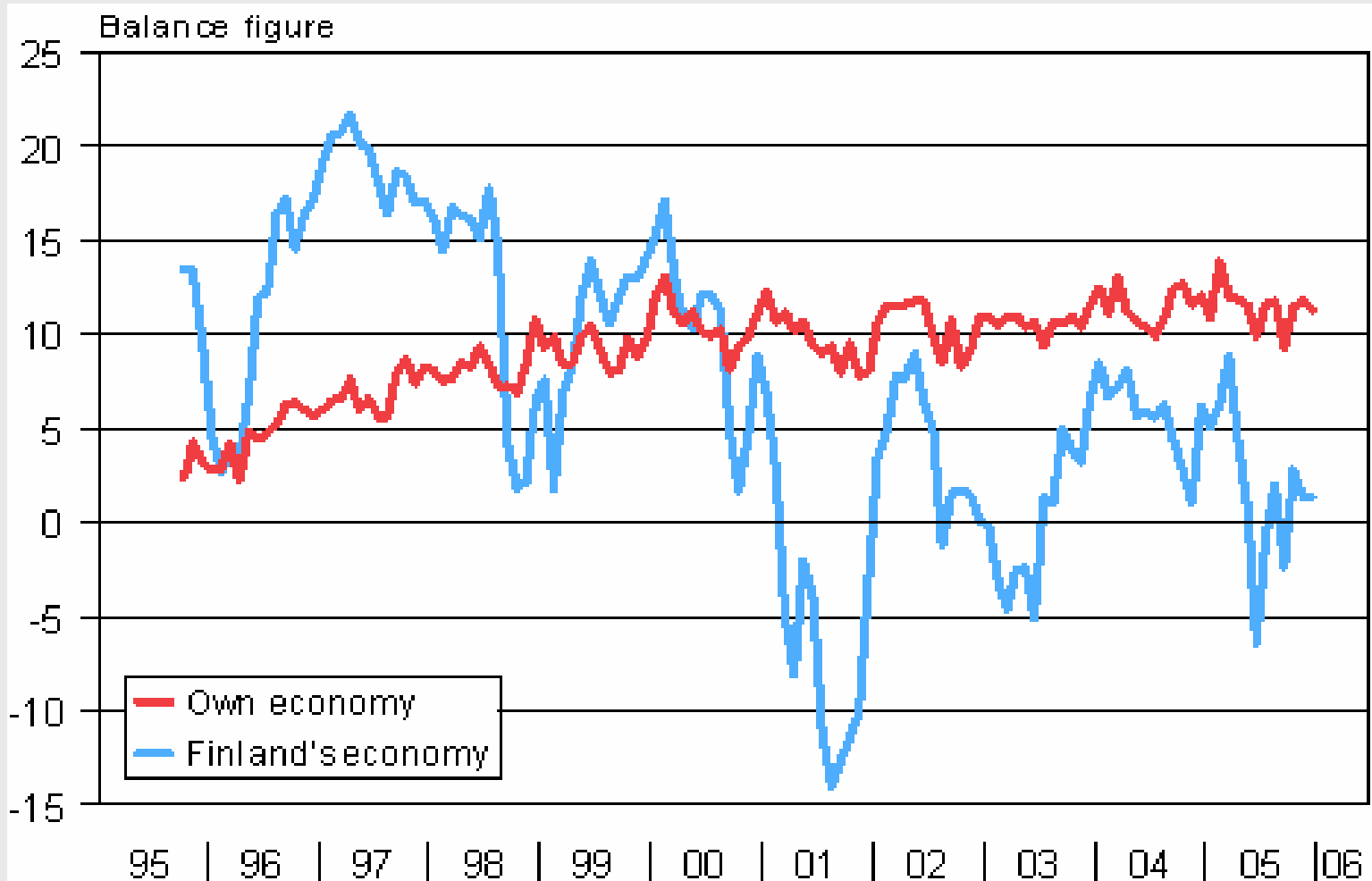
- Case study company's need to make FX-deals has decreased by 40%

This has led to substantial savings in FX-risk management, cf. case study: highly liquid currencies (EUR/USD, EUR/GBP etc.) significantly narrowed, already thin FX-spreads, annual FX-transaction costs decreased from EUR 4,4 million down to about EUR 1 million



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Consumers' expectations concerning their own and Finland's economy in 12 months' time



Households

http://www.tilastokeskus.fi/til/kbar/index_en.html



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Conclusions

- Dr Juha Tarkka, Bank of Finland, in 2002:
 - “Our preliminary review of the developments suggests that the microeconomic and structural effects of the EMU membership have been particularly strong. EMU appears to have increased the efficiency and openness of the enterprise sector of the economy, and to have improved the general stability of the whole economy in the process. This may be at least partly due to an improvement in the credibility of monetary policy, compared to Finnish historical experience.”
- Still too early days to draw final conclusions of the membership. It looks obvious that it has contributed to rather positive economic development. One could also speculate and ask why Finland would have chosen to stay outside the EMU and not participated in the common economic process in Europe with so many major economies.
- One important factor, very practical, for favourability of euro is the fact that there is no need to exchange money when travelling around Europe.
- Our own money is now valid almost all over Europe, and is accepted almost as well as USD in shopping around the world.