

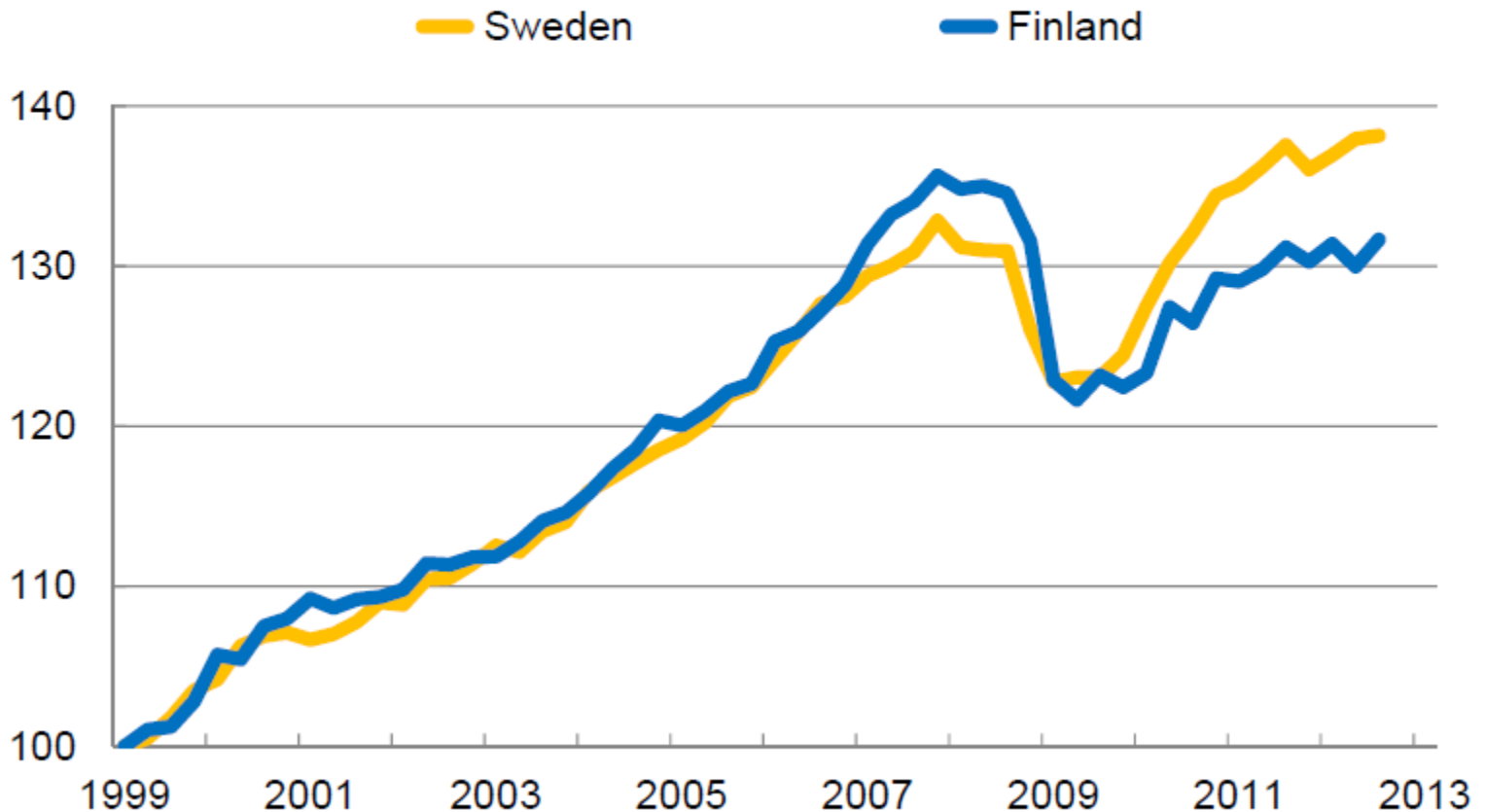
Euro – How Big a Difference: Finland and Sweden in Search of Macro Stability *

AIECE WG in Structural Change
Berlin May 3, 2013
Paavo Suni ETLA

* Based on paper by Paavo Suni and Vesa Vihriälä, ETLA to be presented in Euroframe Conferences in Warsaw in May 24 2013

GDP in Finland and Sweden

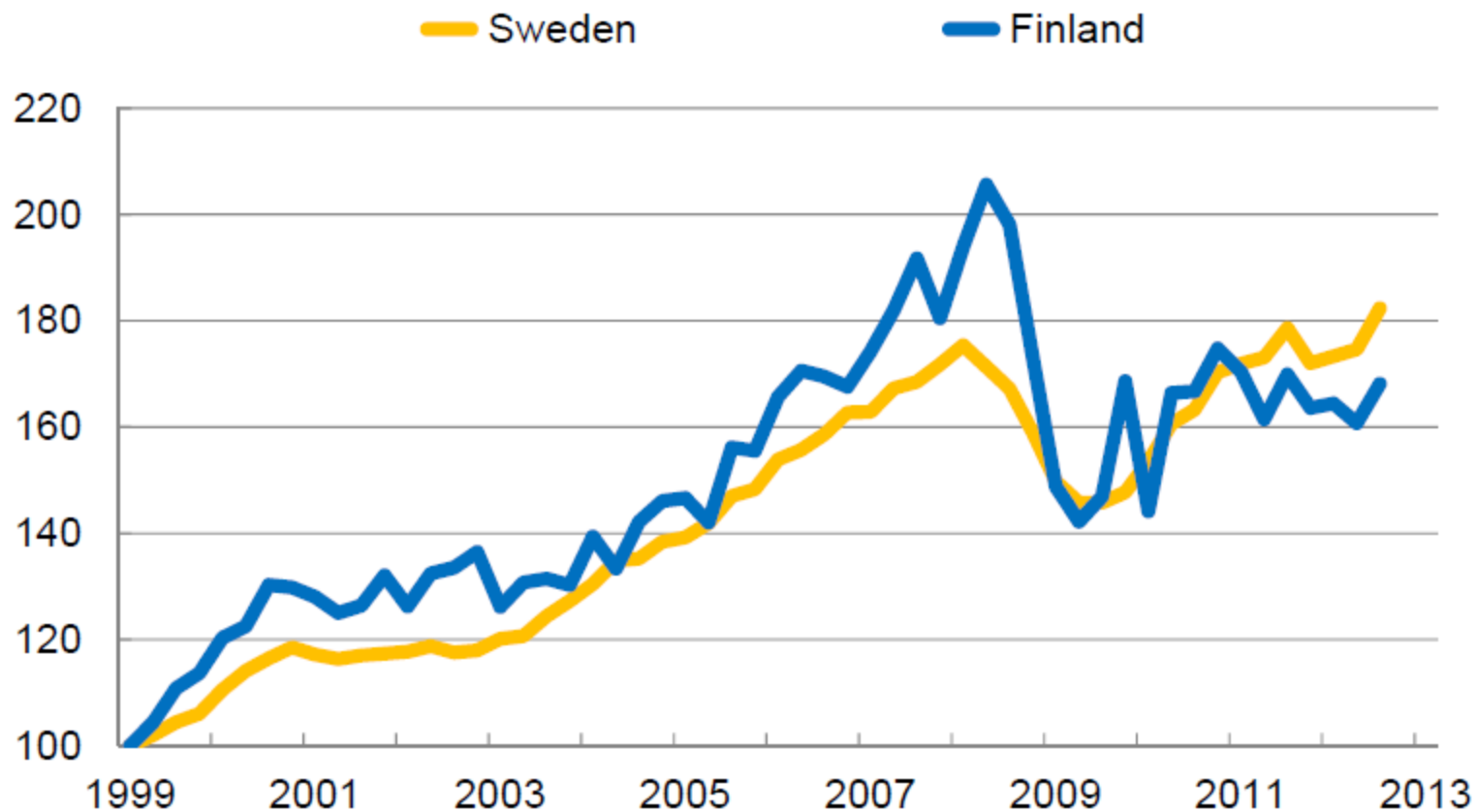
Quarterly data, index 1999/1 = 100



Sources: NIGEM, ETLA.

Exports of goods and services in Finland and Sweden

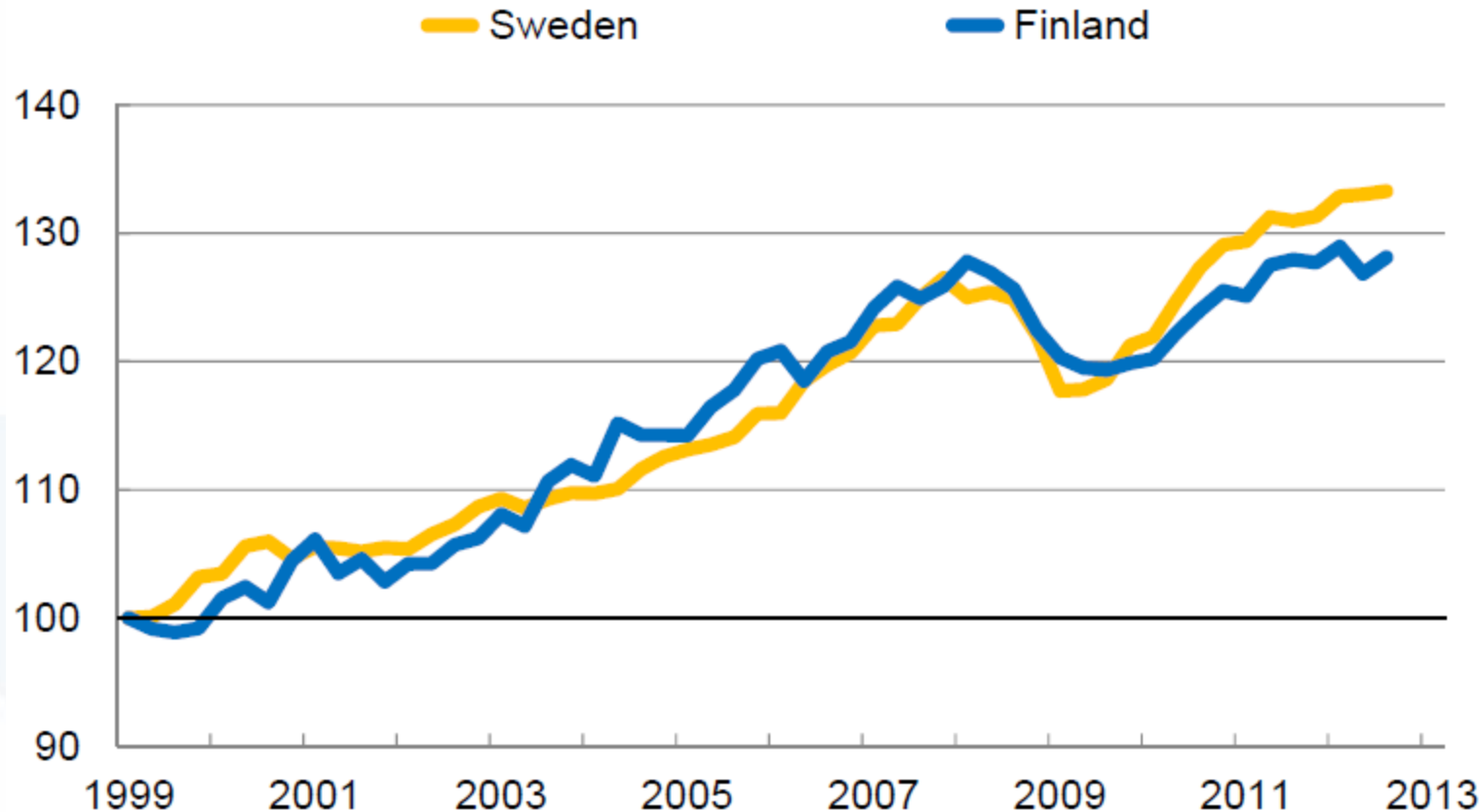
Quarterly data, index 1999/1 = 100



Sources: NiGEM, ETLA.

Total domestic demand in Finland and Sweden

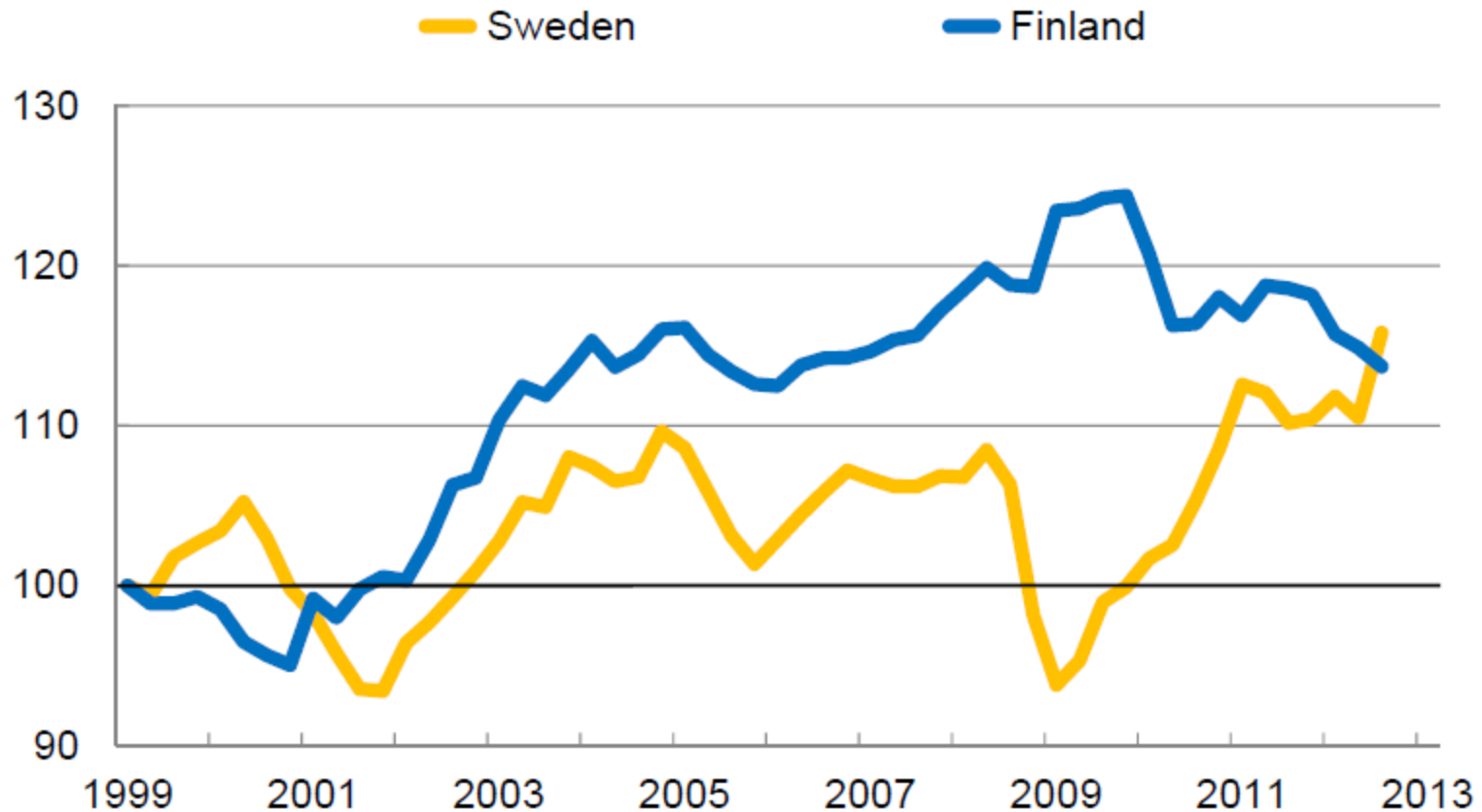
Quarterly data, index 1999/1 = 100



Sources: NiGEM, ETLA.

Effective exchange rate in Finland and Sweden

Quarterly data, index 1999/1 = 100*



* Currency strengthens, when index numbers rise.
Sources: NiGEM, ETLA.

Price and exchange rate stability before and after the start of EMU

		1985/1-1998/4		1999/1-2012/4	
		Sweden	Finland	Sweden	Finland
Inflation (National concept)	Mean	4.3	3.2	1.5	1.8
	Stdev	3.2	2.1	1.2	1.3
Private consumption deflator Change in per cent)	Mean	4.9	3.4	1.5	2.0
	Stdev	3.3	2.0	0.7	1.3
Effective exchange rate, level	Stdev	6.6	6.3	4.3	4.8

Background

- ❑ The euro crisis & pros and cons of the of membership in the EMU
- ❑ Different choices of Finland and Sweden
 - Economies are very much alike
 - Crisis of the 1990s
- ❑ Sweden has on average developed better
 - Monetary stability improved more
 - Growth faster than Finland, 2.6 % vs. 2.1 %

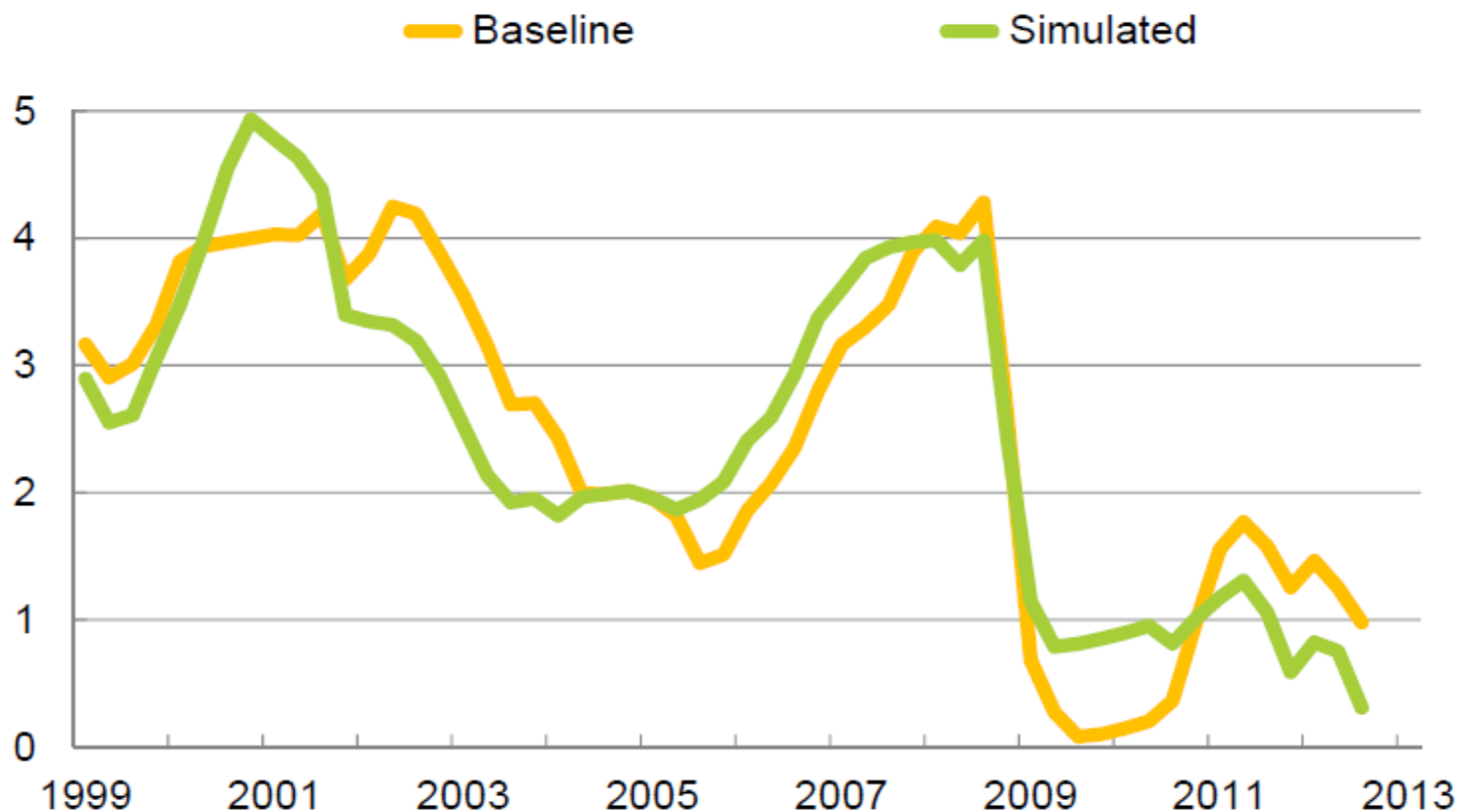
A counterfactual simulation for Sweden in "EMU"

□ NiGEM

- A counterfactual
- Adopting the EA monetary policy for Sweden.
 - EA steering rates and short-term interest rates.
 - Fixing the SEK in euros, about 9.5 kroner per euro.
- Backward-looking expectations (and fw-looking)
- The changing interest rates and exchange rates drive the changes

Simulated and baseline short-term interest rate in Sweden

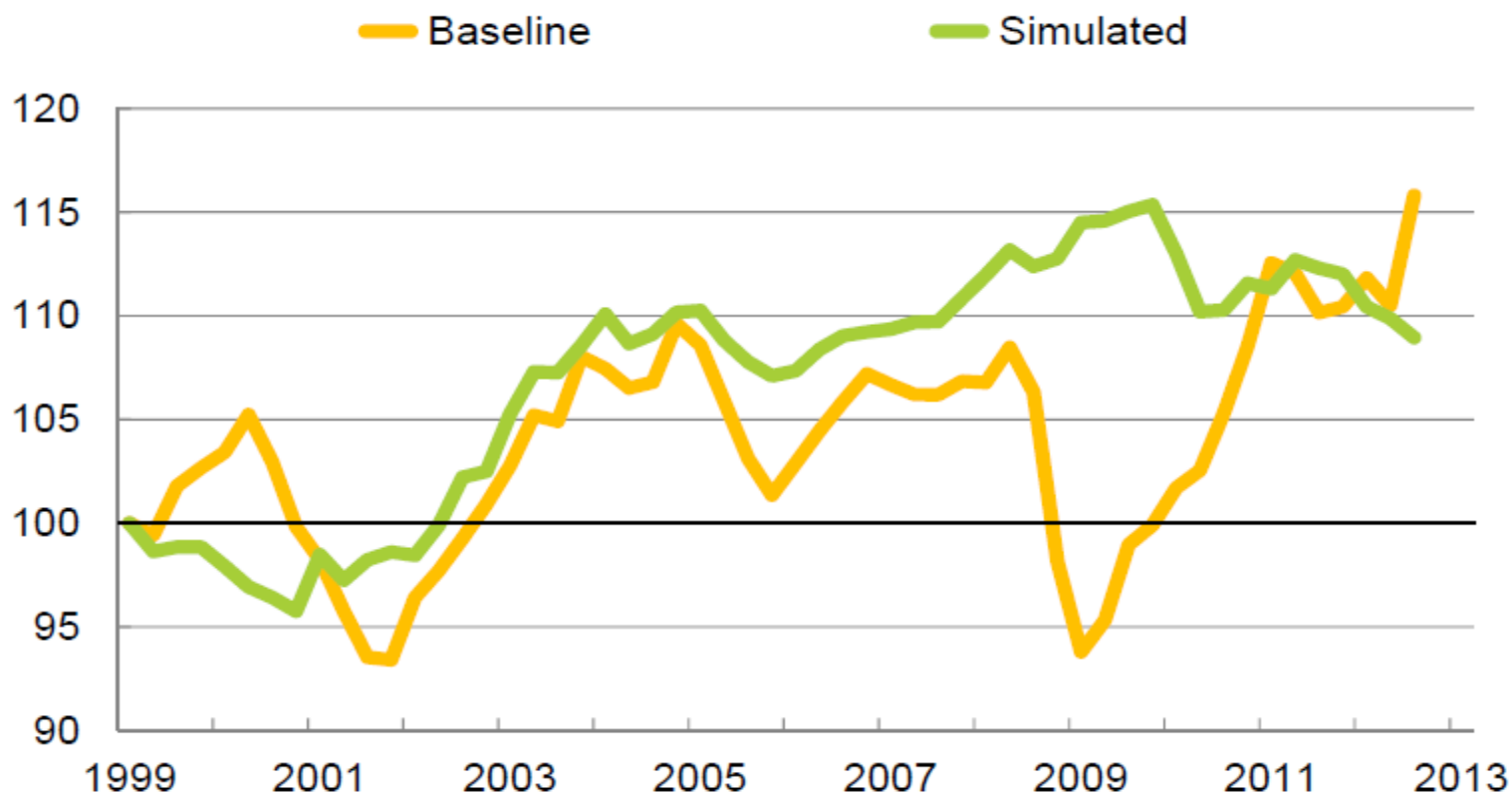
Quarterly data, %



Sources: NiGEM, ETLA.

Simulated and baseline effective exchange rate in Sweden

Quarterly data, index 1999/1 = 100*

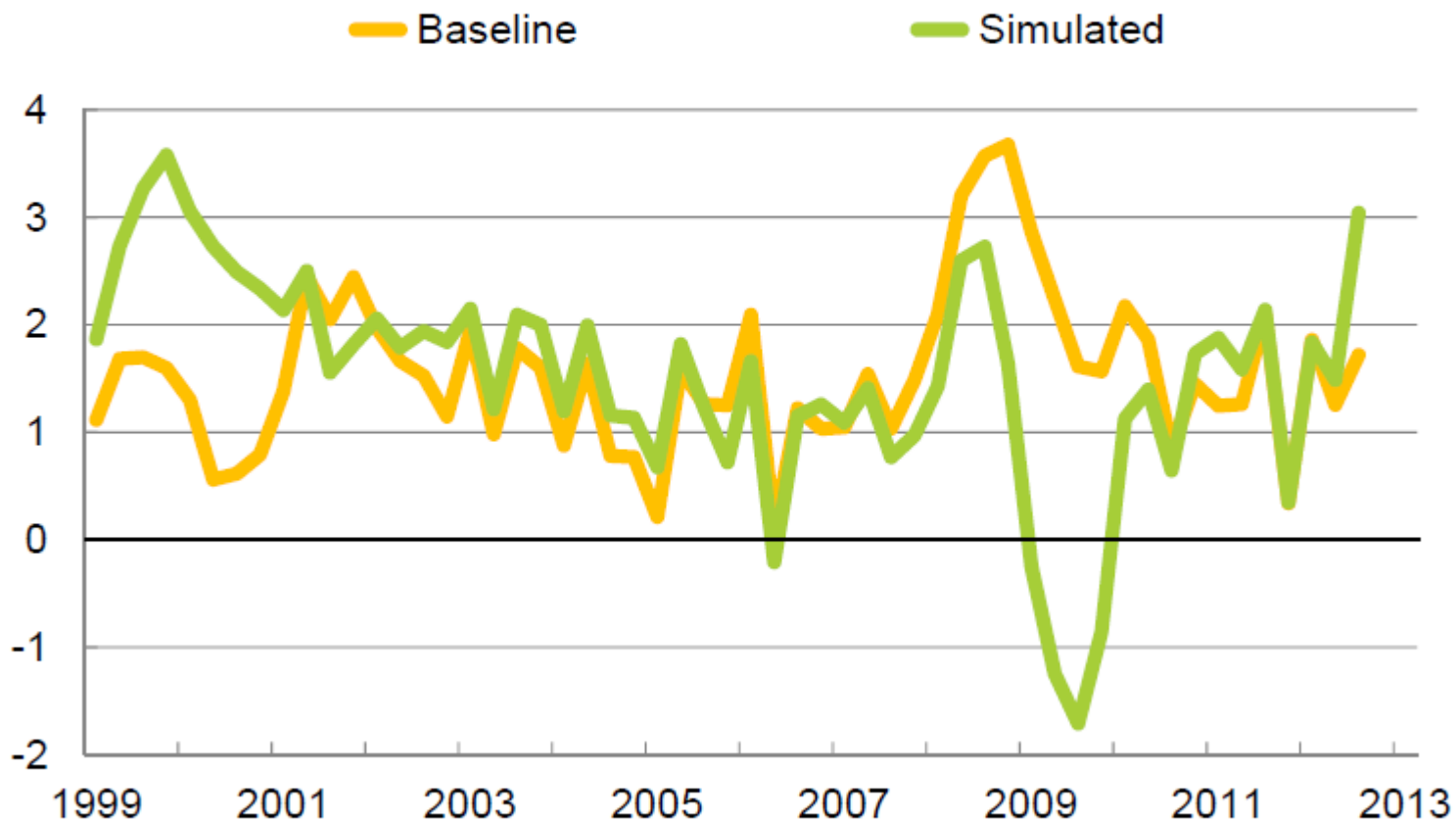


* Currency strengthens, when index numbers rise.

Sources: NiGEM, ETLA.

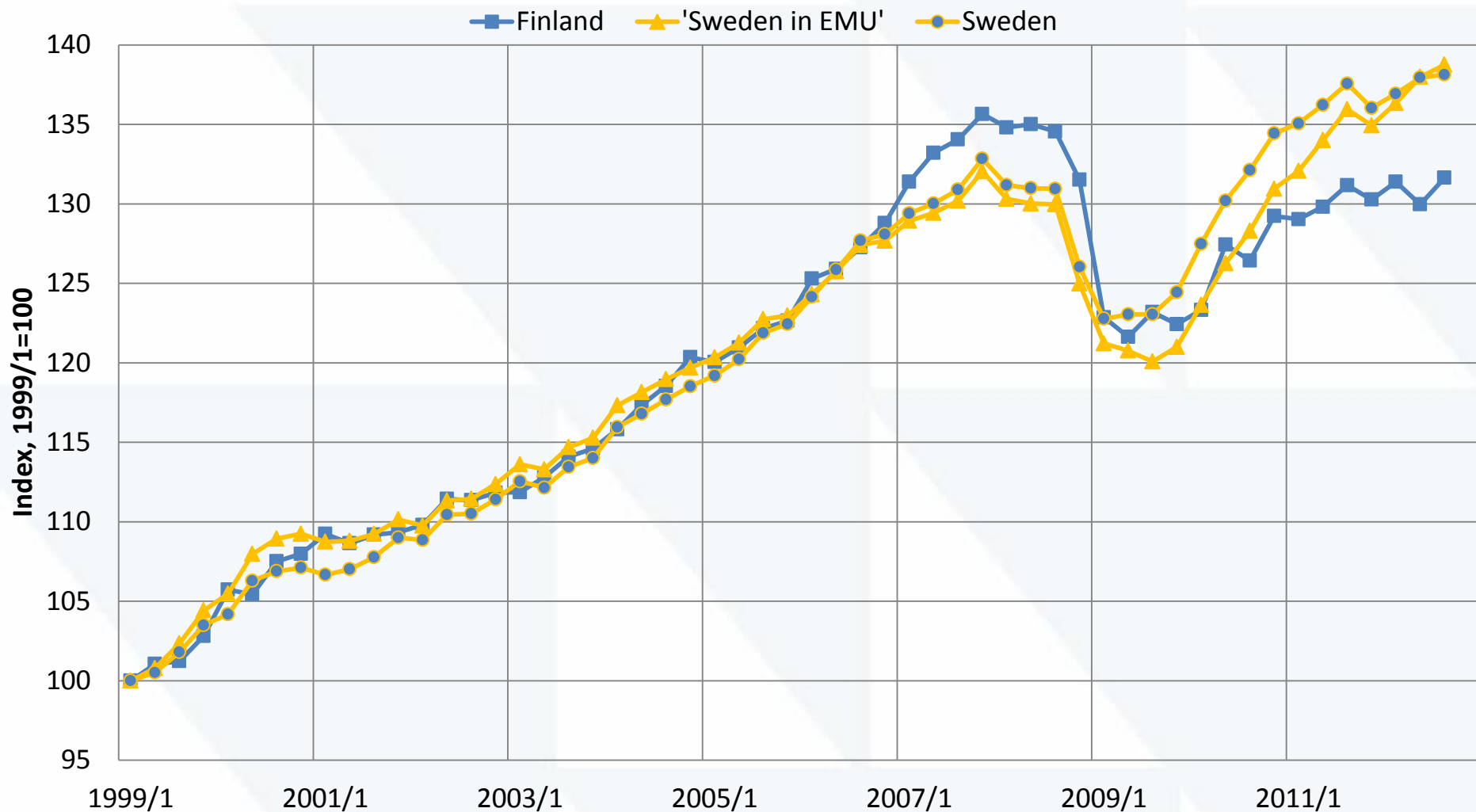
Simulated and baseline inflation rate* in Sweden

Quarterly data, %



* Private consumption deflator.
Sources: NIGEM, ETLA.

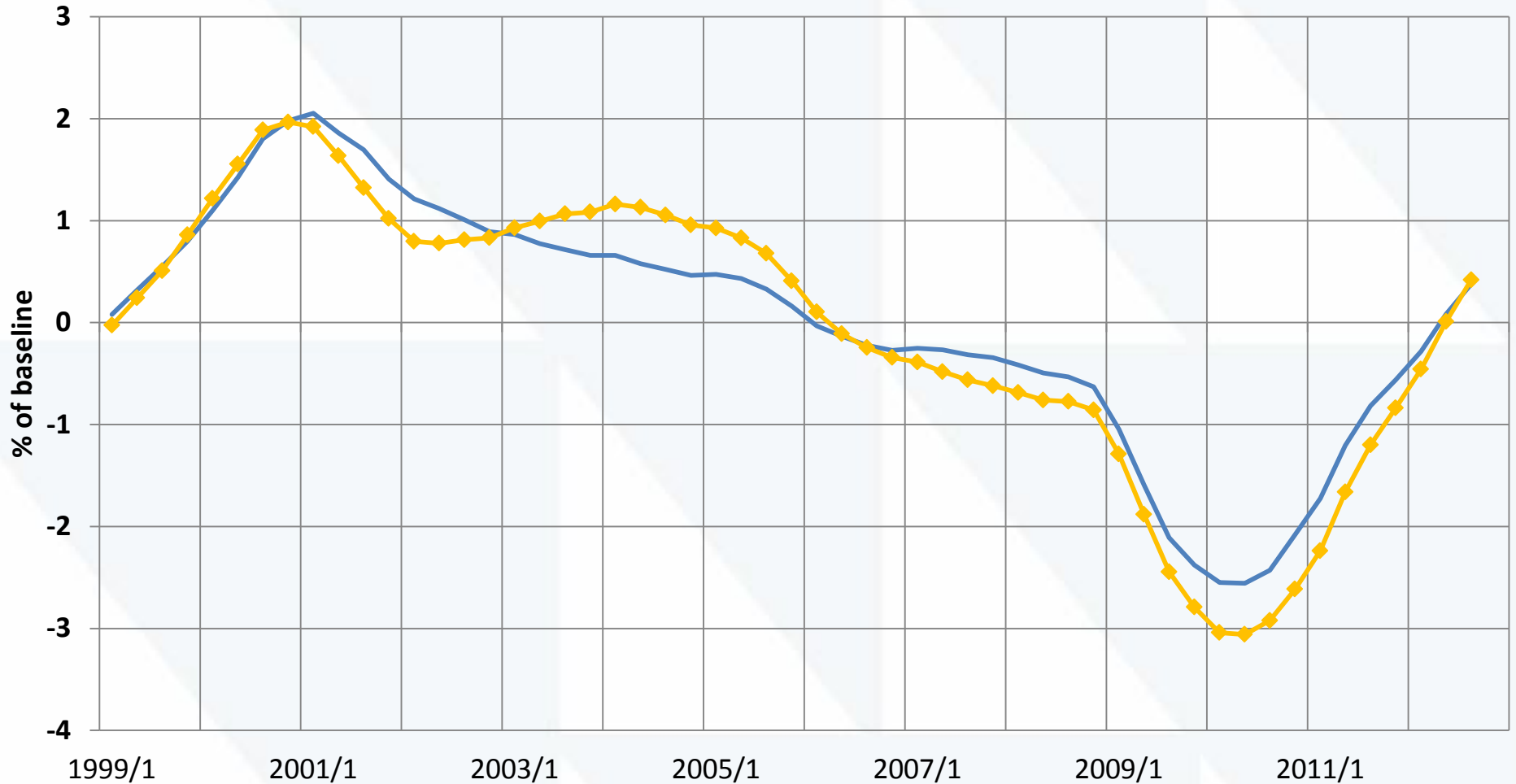
Gross Domestic Product in Finland and Sweden, 1999/1-2012/3



Sweden in EMU",

GDP with backward and forward-looking expectations

— Fw-looking ◆ BW-looking



Some findings

- ❑ Swedish average growth not much affected, but variation was different. Fw-looking expectations had smoothen the development
 - The krona interest and exchange rates mitigated the impact of the global shock in 2009 and spurred growth in 2010-11, but the growth smoothened since.
- ❑ Finnish GDP growth affected by non-monetary factors resulting low growth since mid-2010

Conclusions

- ❑ A membership of Sweden in EMU seems not to affect (average) growth as expected, but
- ❑ to rise instability as one could not expect.
 - Sweden performed initially better than simulated Sweden after 2009; exchange rates & Krone, but the growth gap has since closed.
 - The lower growth of Finland after 2009 due to non-monetary reasons. "Nokia & forest industry"
- ❑ The feared speculation against krone has not taken place, but it can't be taken as granted?