

# The Great Recession of 2009 and the Nordic economies

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# The Great Recession and the Nordic economies

- Global financial crisis and the great recession
- Europe: North vs. South
- European debt crisis and the European policy
- Slow growth and minor problems in Nordic countries
- Finland: export problems and common currency, and different policies

# Global financial crisis in 2008

- U.S. sub-prime loans and financial contagion 2007-2008
- Lehman Brothers in September 2008 and the global confidence crisis
- Threat of the collapse of the global financial system
- Crisis solved by central bank interventions and state guarantees

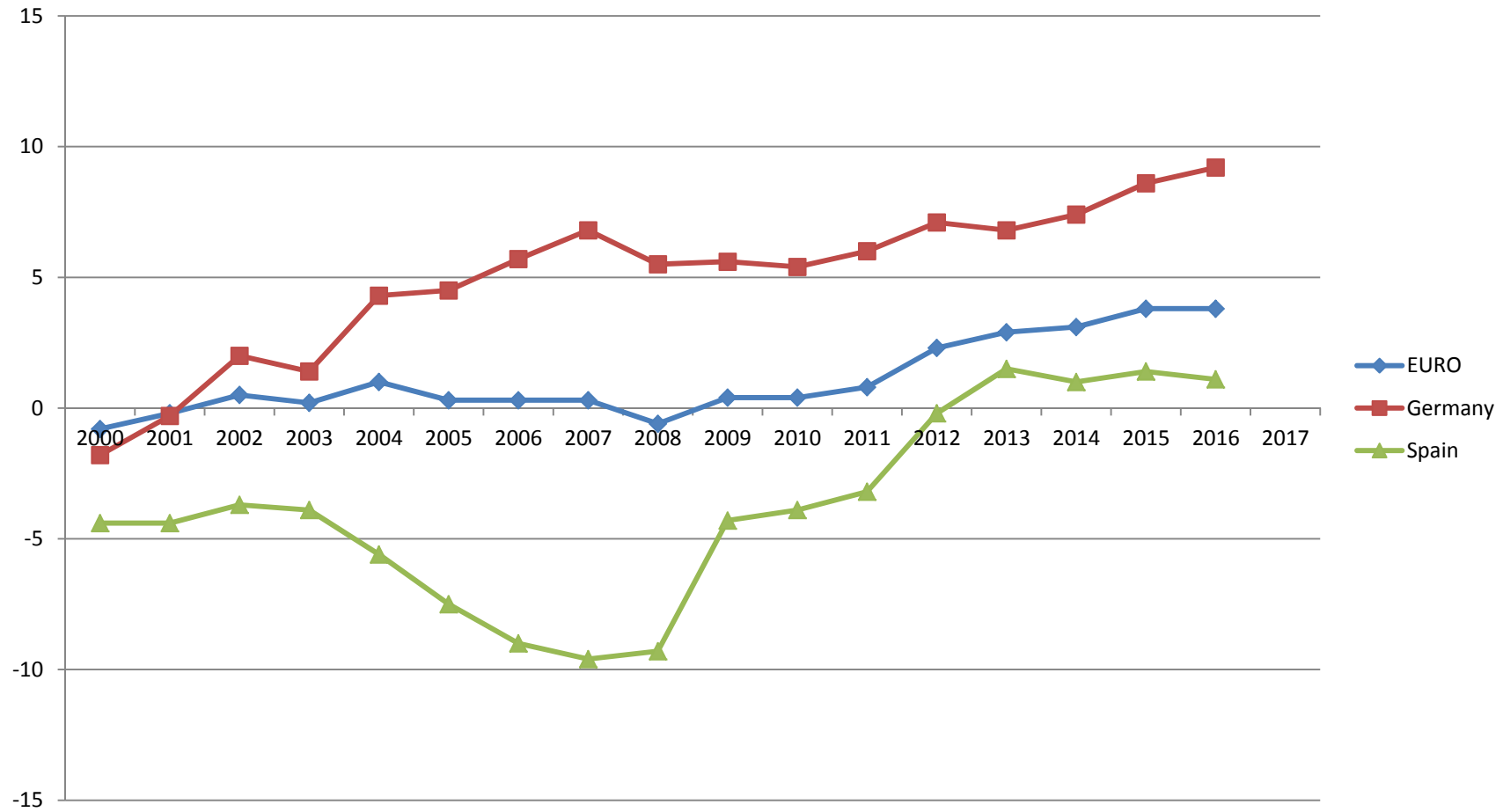
# The great recession in 2009

- As a consequence of the financial crisis the world economy faced a deep and short recession in 2009
- Output losses were bigger in Europe than in the USA
- Also Nordic economies were badly hit due to decrease in exports

# Europe: North vs. South

- Financial crisis hit badly several European economies
  - Mediterranean and Baltic countries
  - Ireland and Iceland
- Countries which had accumulated lots of foreign debt or had over-extended banking sectors were most vulnerable
- Debt-crisis was preceded by a period of rising macroeconomic imbalances

# Current account: huge deficits in Southern Europe before the crisis, then correction



# European debt crisis and the European macroeconomic policy

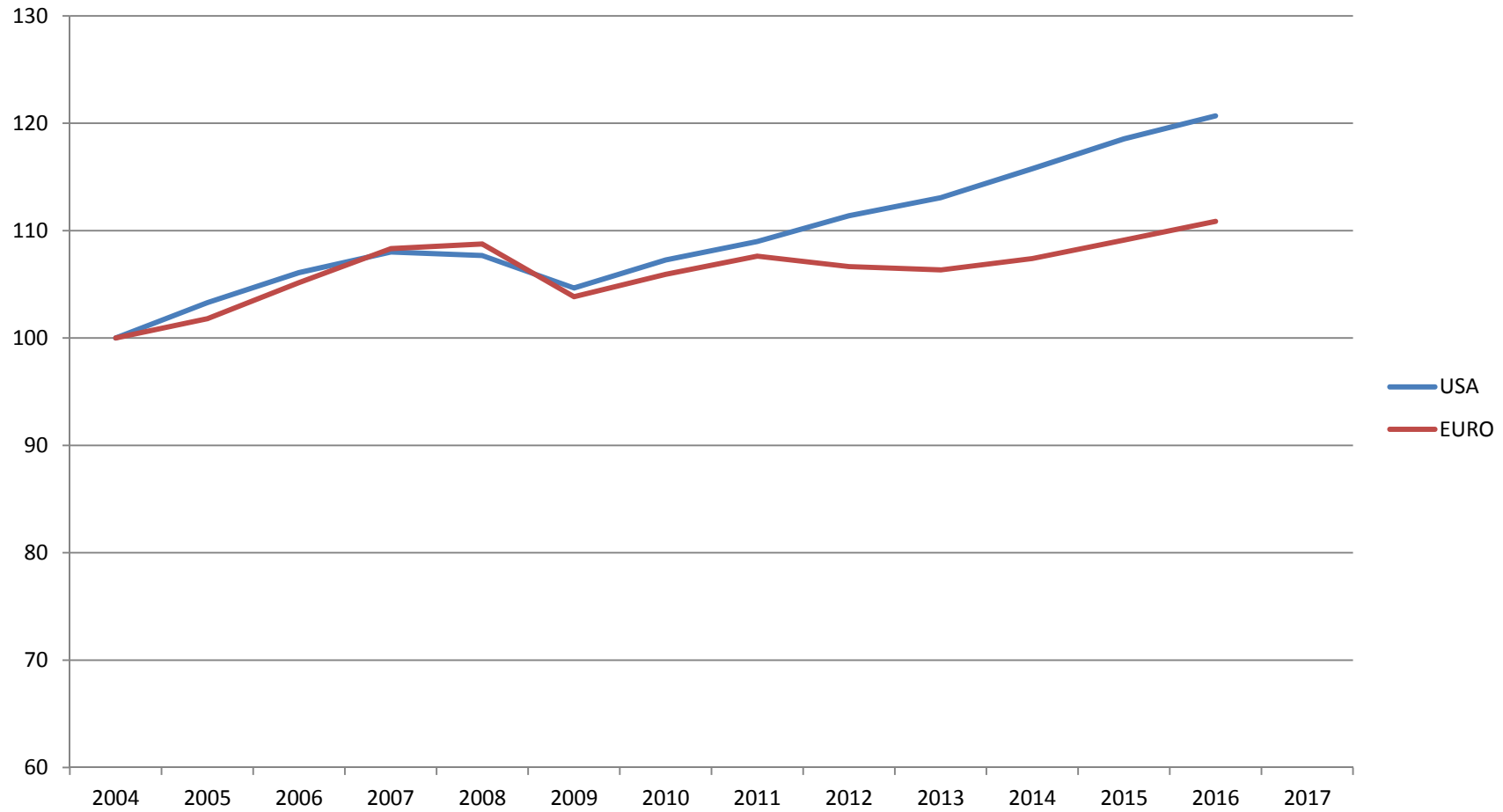
- Part of the EU countries faced a deep debt crisis
- ECB monetary policy was not as loose as in the US in 2008-2011
- After the outbreak of the Greek crisis EU adopted tight fiscal policy
  - Fiscal contraction in 2012-2014 caused minor recession in the Euro area (and in Finland and Denmark)

# US – EU divergence

- US macroeconomic policy more radical from the start of the crisis
  - Fiscal stimulus in 2010-2011
  - Zero interest rates in 2010
  - Quantitative easing 2010 →
  - USD depreciation
  - Quick and decisive banking crisis resolution



# Stronger post-crisis recovery in USA



# Problems of European macroeconomic policy

- ECB: indecisive monetary policy
- Postponed banking resolution
- European Commission: tight fiscal policy pursued by fiscal pact and fiscal policy coordination
- While overindebted countries should increase saving, the surplus countries should have increased spending – but Germany has opposed
  - Rising current-account surplus and stronger euro

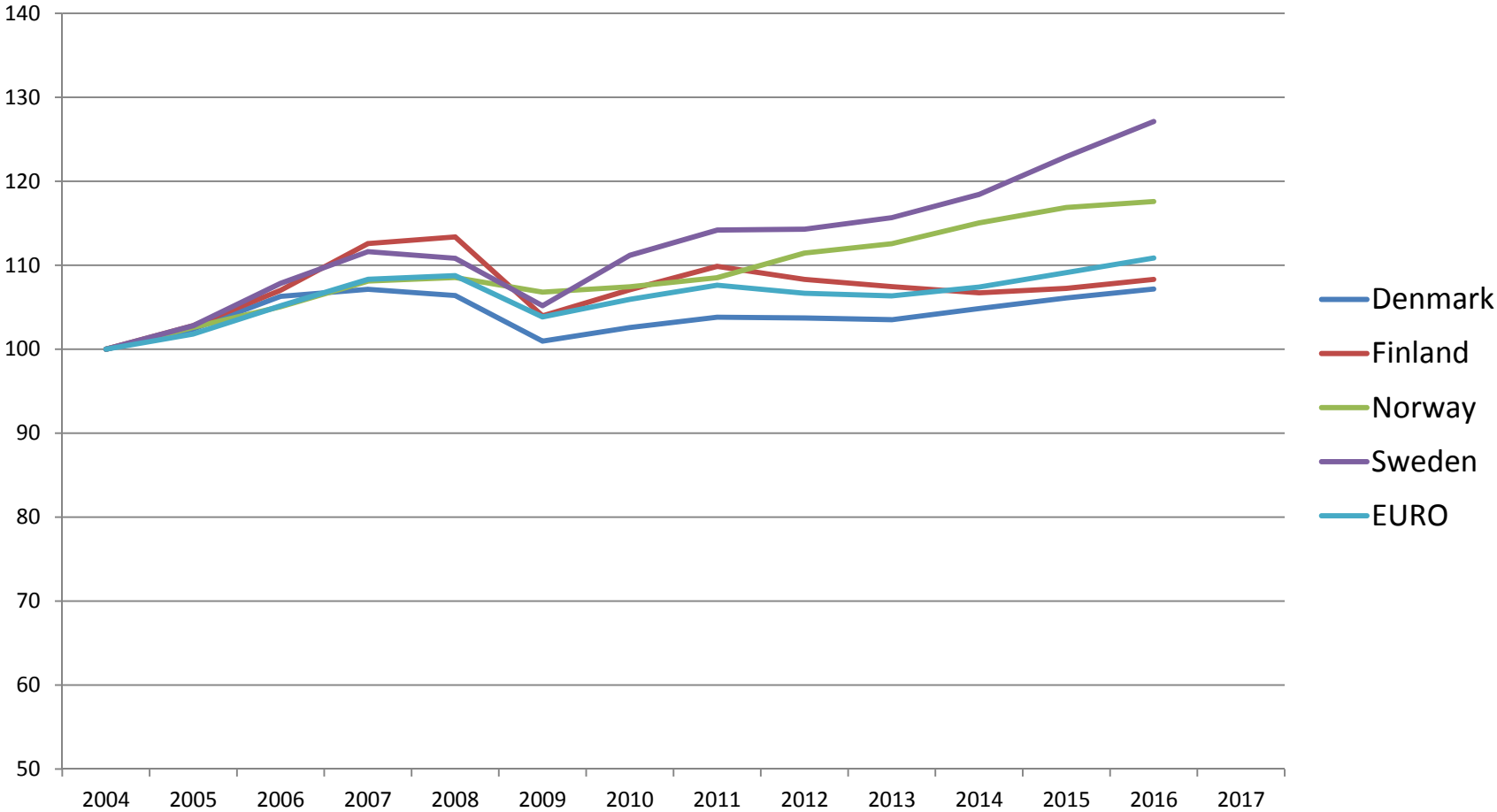
# Slow growth and minor problems in Nordic countries

- 2009: deep recession followed by rapid recovery
- 2008/2009: GDP collapse, minor banking problems (Danish mortgages, Baltic exposure)
- Recovery 2010->
  - Sweden: strong and continued recovery
  - Denmark & Finland: second recession in 2012
  - Norway: no problems (... until oil price collapse)

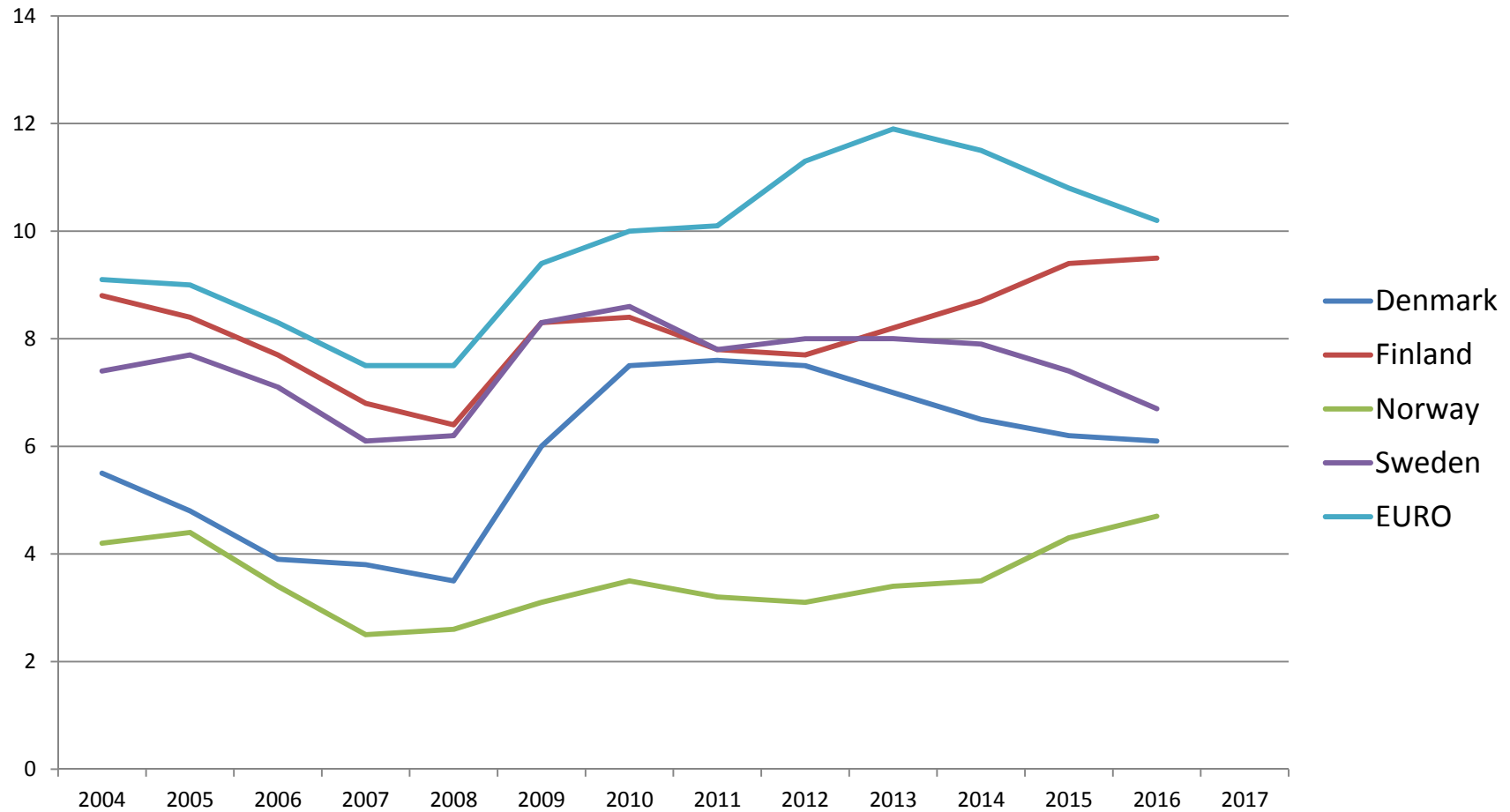
# Different monetary regimes

- Denmark: euro peg with market pressure to appreciate
- Sweden: aggressive monetary policy, but still deflationary pressures
- Norway: oil-price dependency
- Finland: common Euro area policy, fiscal policy restrictions from fiscal compact

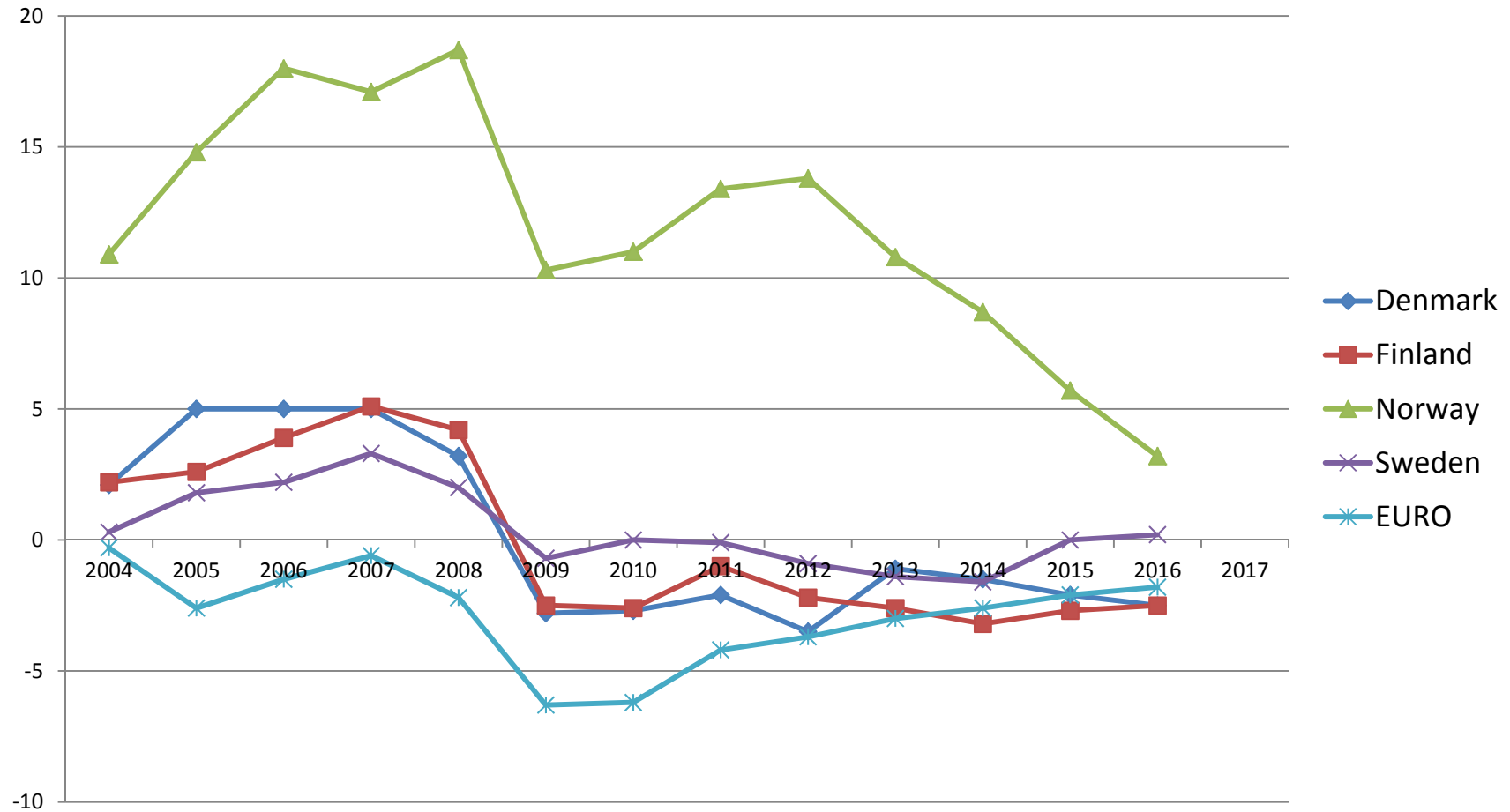
# Sweden clearly the strongest post-crisis economy while Finland and Denmark lagging behind Euro area



# After convergence in crisis, rising unemployment in Finland and Norway

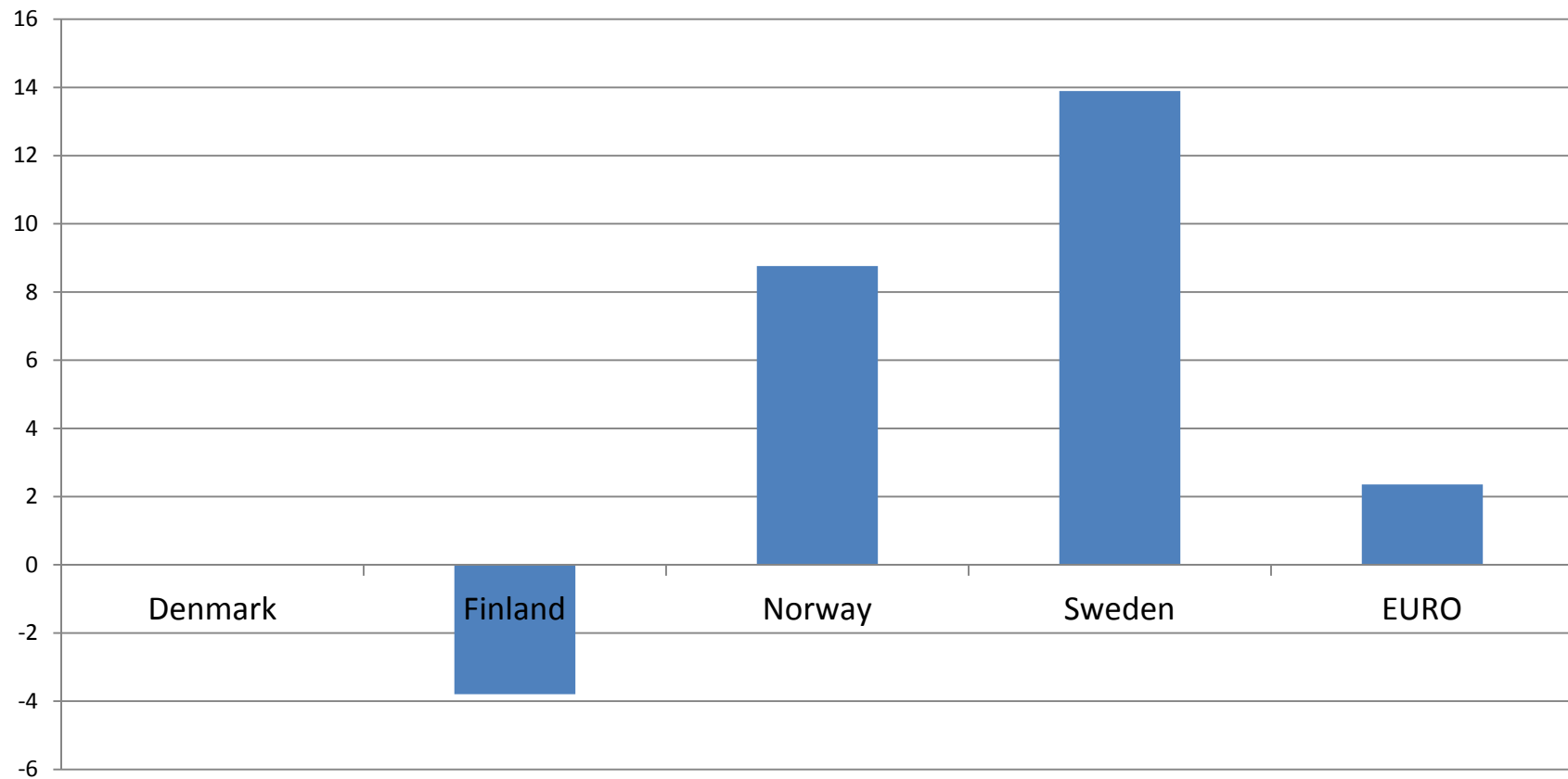


# Before crisis the Nordic states had very strong fiscal balances



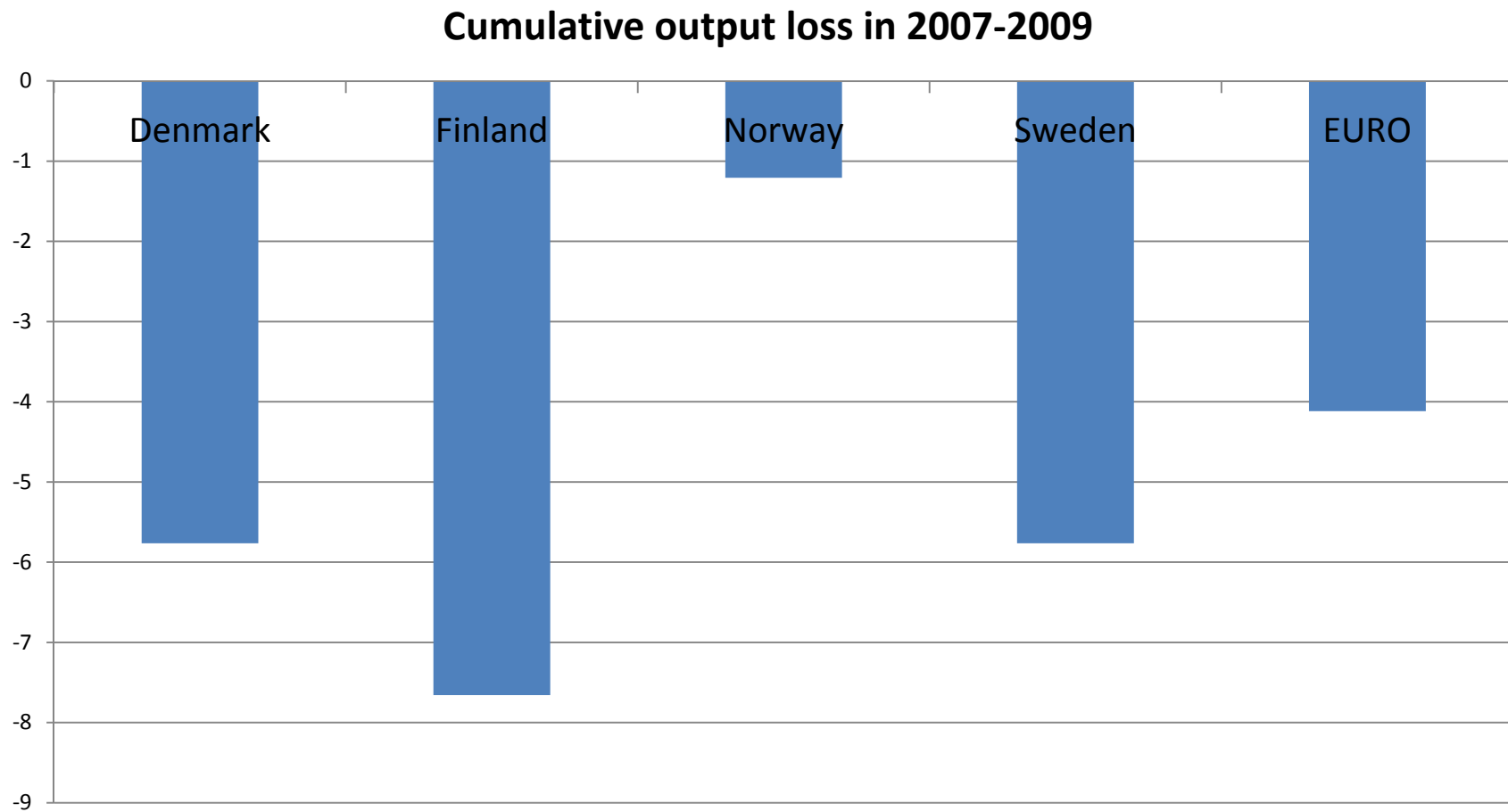
# Long period of zero growth in Denmark and Finland

Cumulative GDP growth from 2007 to 2016



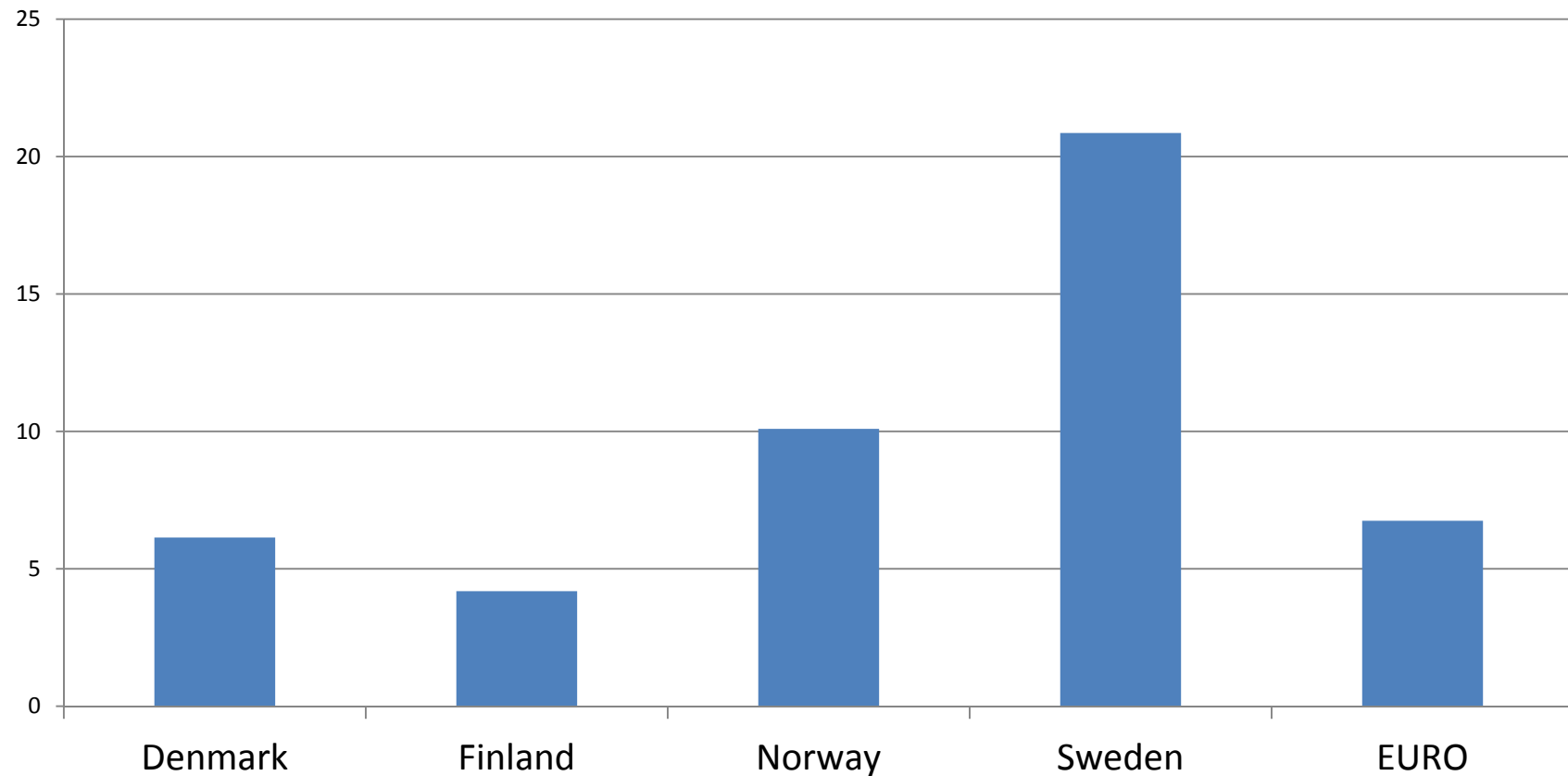


# Recession of 2009 was in Nordic countries deeper than in Euro area



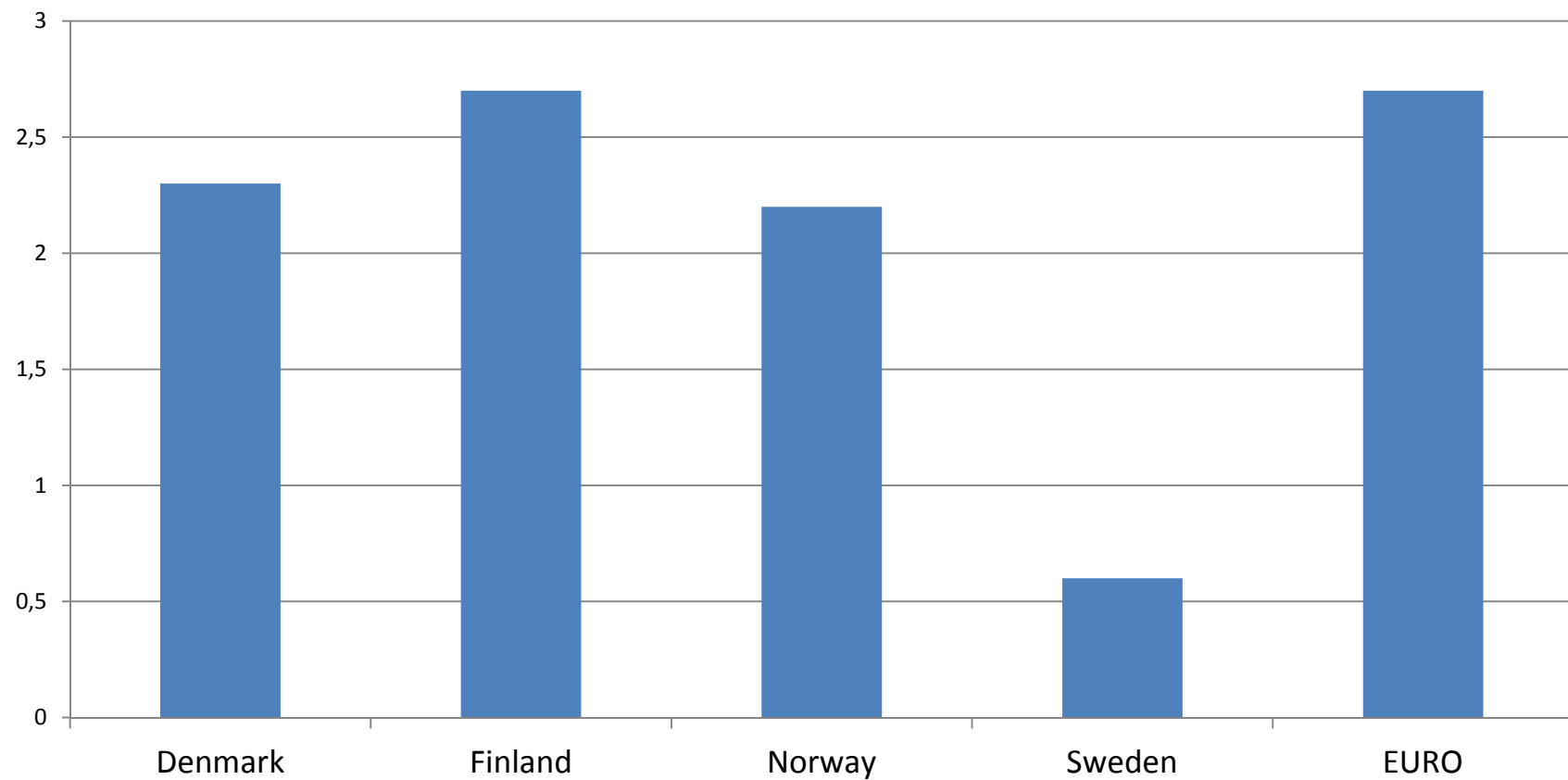
# Only Sweden was able to return to normal growth after the crisis

Cumulative output growth during the post-crisis recovery 2009-2016



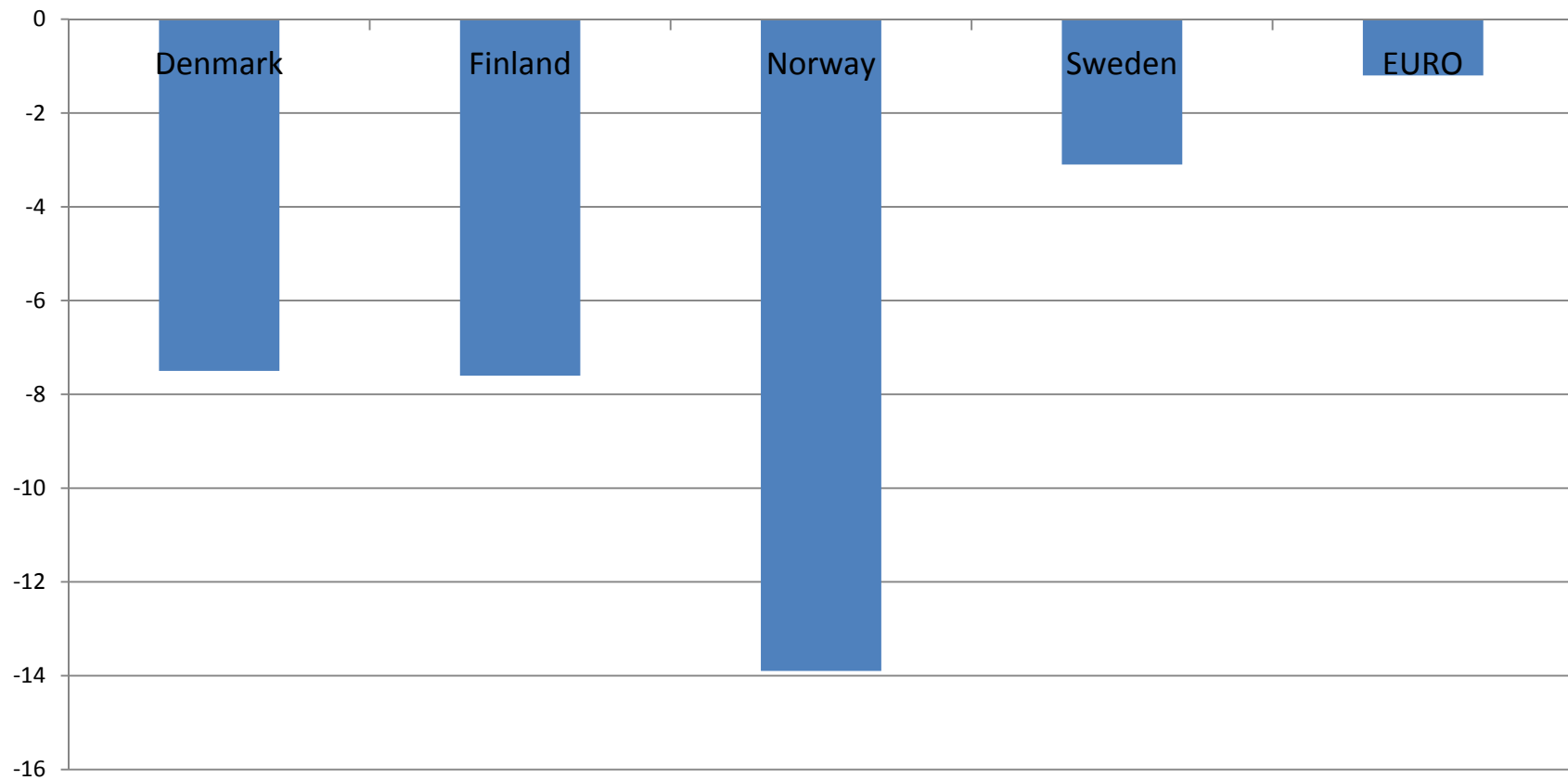
# Legacy of crisis: rising unemployment (except in Sweden)

Cumulative change in unemployment from 2007 to 2016



# Nordic countries used their fiscal surpluses to maintain welfare state

Cumulative change in the relative fiscal balance from 2007 to 2016



# The current state of Nordic economies

- Denmark
  - Fiscal deficit, high household debt, current account surplus, weak growth
- Finland
  - Fiscal deficit, high unemployment, export problems, domestic demand increasing
- Norway
  - Less revenue from oil, shrinking surplus, rising unemployment
- Sweden
  - Huge current account surplus, high household debt

# Finland: export problems and common currency, and different policies

- Finland hit especially badly due to collapse of the Nokia mobile phone business
- Need to improve competitiveness within Euro area and to reduce budget deficit
- National wage agreement achieved in June 2016
  - No wage increases in 2017
  - Part of employers' social insurance contributions will be transferred to employees
  - Annual working time increased 24 hours

# Conclusions

- Nordic economies avoided the deep problems of some European countries but were hurt by slowing growth
- Fiscal positions have deteriorated
- Sweden has performed much better than Denmark and Finland
- Prospects are good if the European economy recovers