Juha Kilponen

Ennustepäällikkö, Suomen Pankki

Outlook for the Finnish economy 2016-2018

Forecast comparison with the external environment

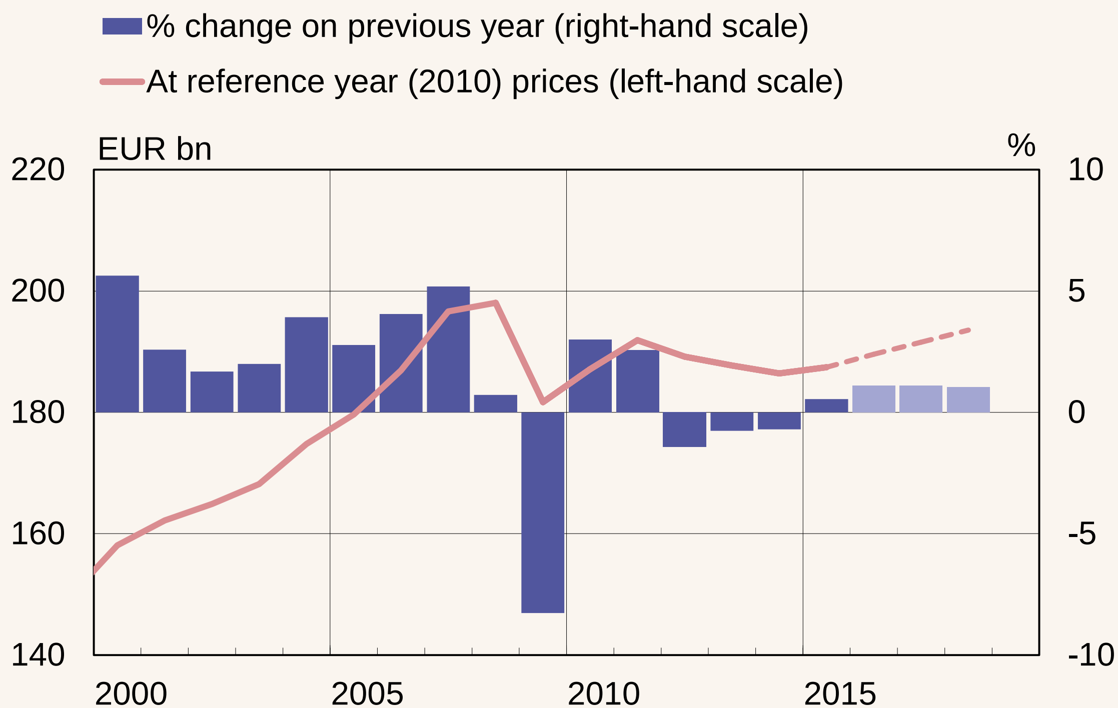
Annual change, %	Kesäkuu 2016				Joulukuu 2015			
	2015	2016	2017	2018	2015	2016	2017	2018
Global GDP (excl. the euro area)	3,1	3,1 ⬇	3,7 ⬇	3,8	3,1	3,6	3,9	X
Global trade (excl. the euro area)	0,7	1,8 ⬇	3,5 ⬇	4,0	0,5	2,9	3,8	X
Export demand for the euro area	0,6	2,0 ⬇	3,5 ⬇	4,0	–0,1	2,7	3,8	X

Sources: ECB, BMPE projections.

The Finnish economy is returning to growth, supported by domestic demand

- GDP growth will be only around 1% in 2016–2018.
- Inflation will be slow for a prolonged period.
- The labour market shows improvement, but the unemployment rate will remain high.
- Growth is dependent on consumption and investment – export growth remains weak.
- Sluggishness in the industrial sector and rising debt levels cause concern about the sustainability of growth.

We are leaving behind a long recession



Sources: Statistics Finland and Bank of Finland.

Real GDP, %		
	June	December
2015	0.5	-0.1
2016f	1.1	0.7
2017f	1.1	1.0
2018f	1.0	

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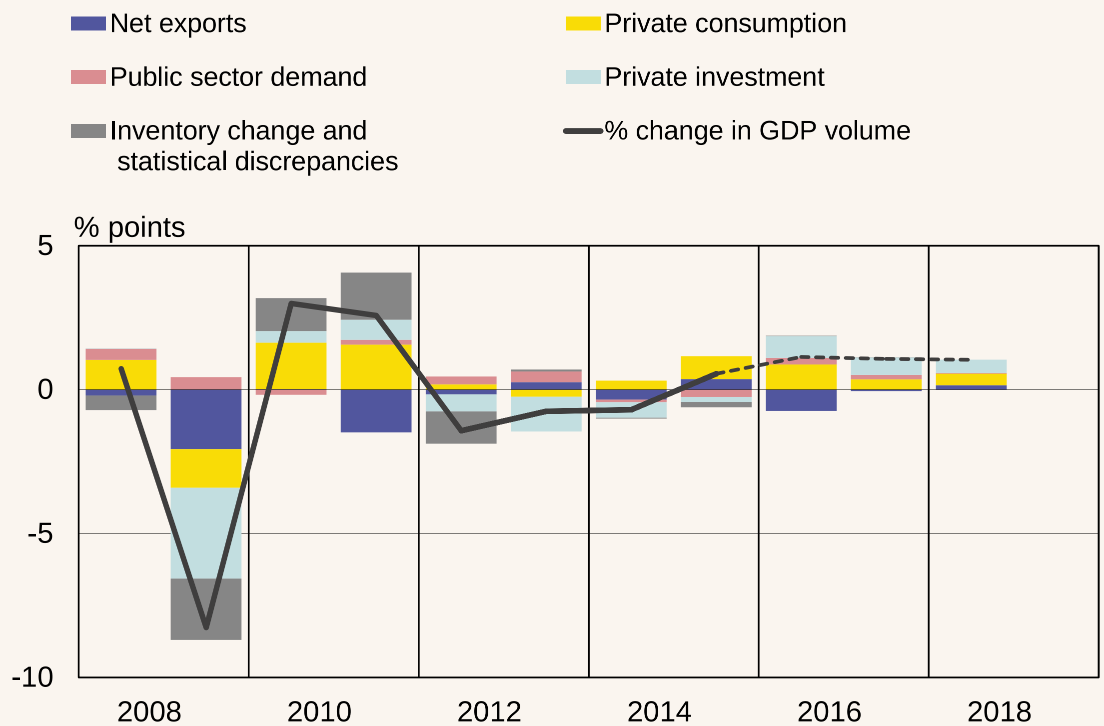
Growth strongly dependent on domestic demand



The chart is merely indicative. The GDP growth contribution of each demand item has been calculated on the basis of its volume growth and its value share in the previous year. The figures for 2016–2018 are forecasts.
Sources: Statistics Finland and Bank of Finland.

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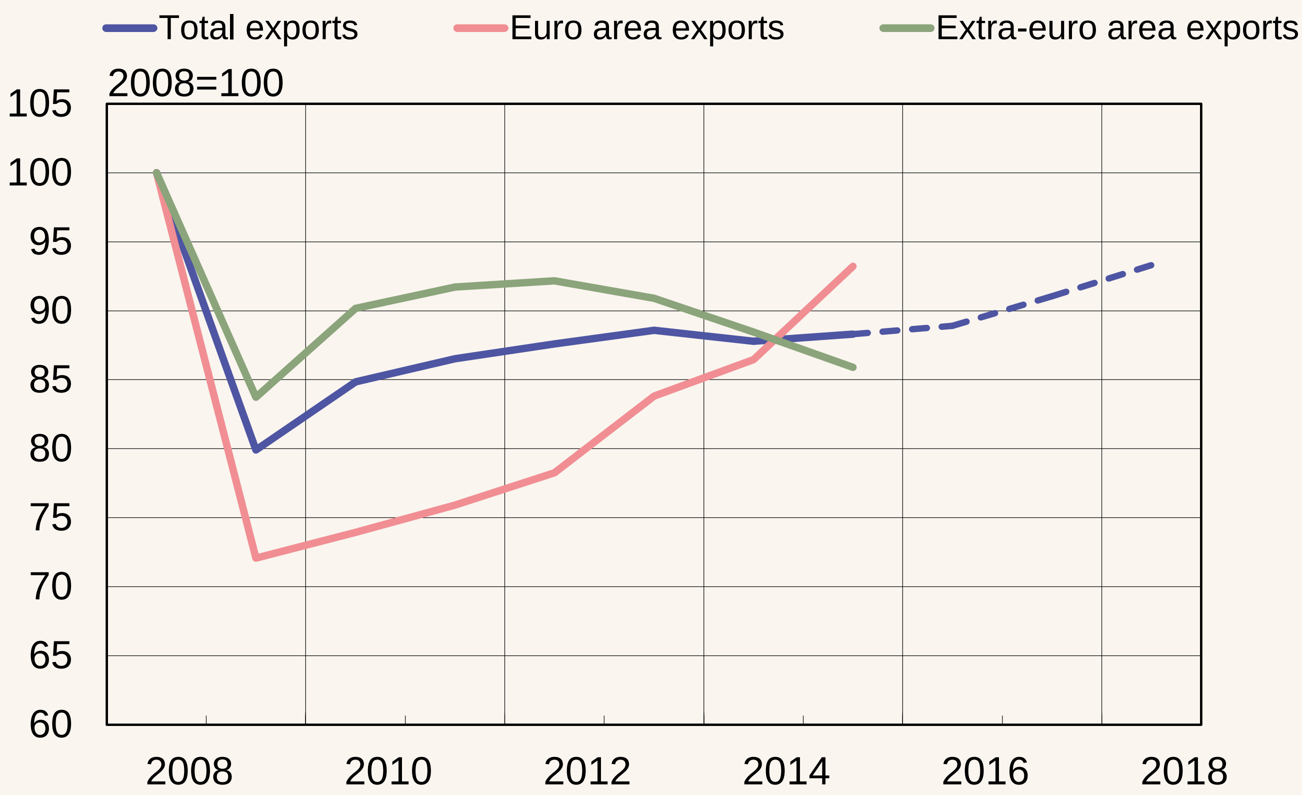
Balance of supply and demand

% change on previous year	2015	2016[e]	2017[e]	2018[e]
GDP	0.5	1.1	1.1	1
Private consumption	1.4	1.6	0.6	0.7
Public consumption	-0.9	0.6	0.3	0.2
Private fixed investment	-1.0	4.7	3.6	2.6
Public fixed investmentt	-1.2	2.3	1.6	-0.5
Exports	0.6	0.7	2.4	2.5
Imports	-0.4	2.7	2.5	2

Sources:B ank of Finland and Statistics of Finland

Increase in euro area exports, contraction in extra-euro area exports

Exports of goods and services; volume



Sources: Bank of Finland calculations and Statistics Finland.

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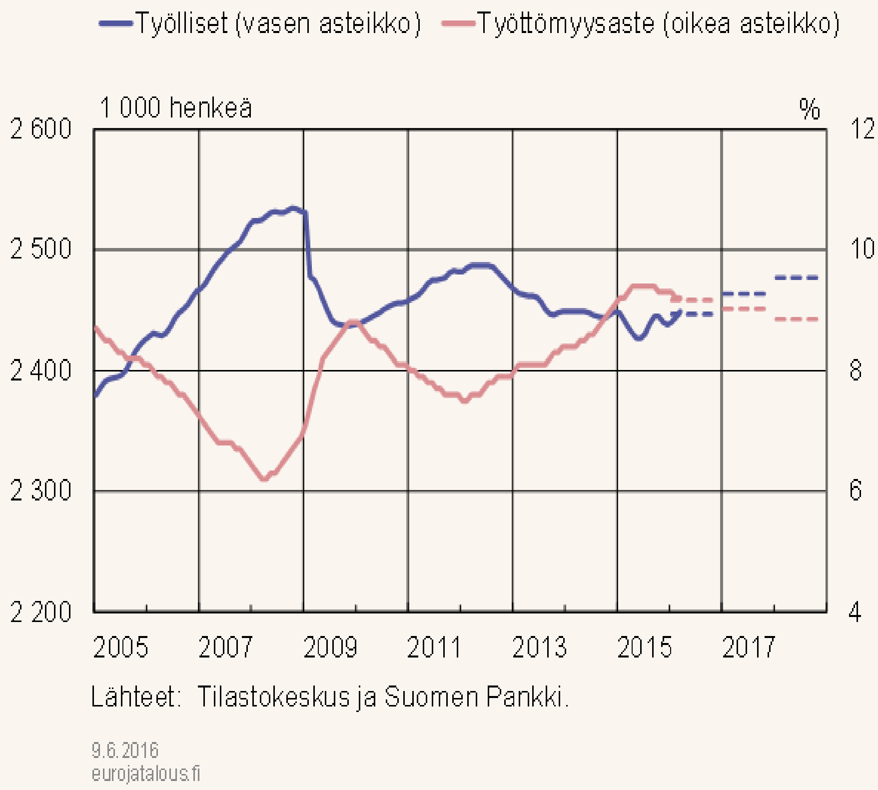
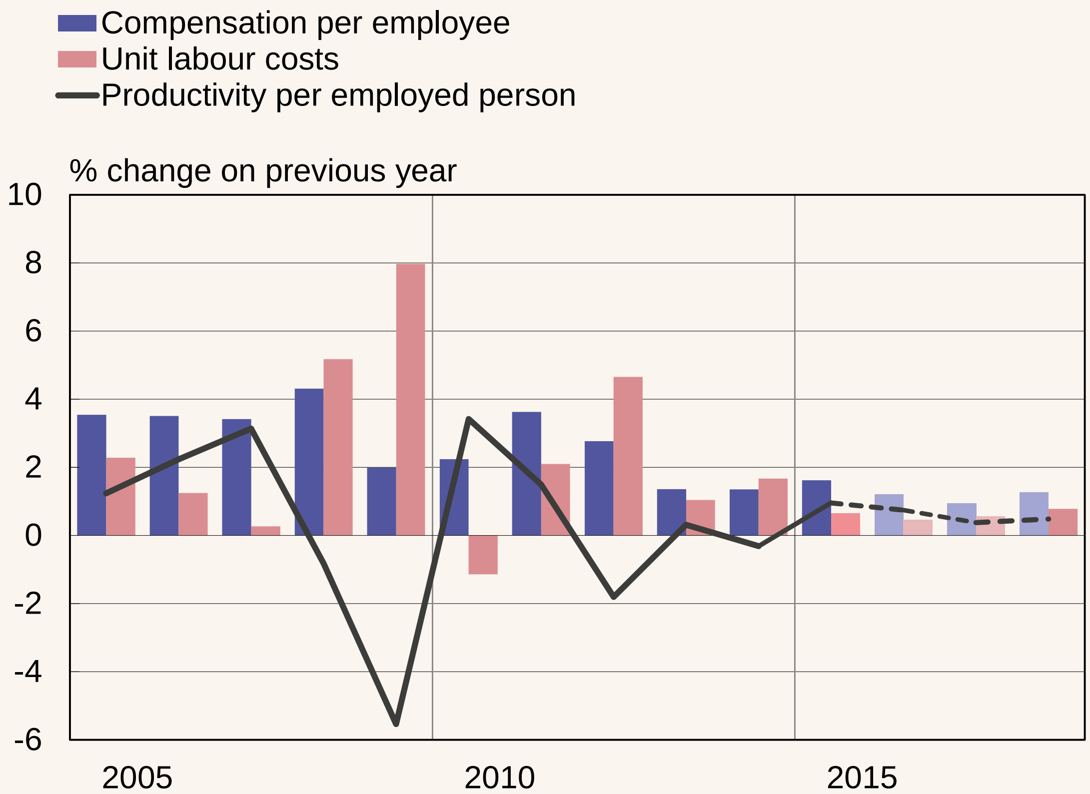
Upward trend on the labour market



Number of employed and unemployment rate		
	Employed persons	Unemployment rate
2015	2437	9.4
2016f	2447	9.2
2017f	2463	9.0
2018f	2477	8.9

Slower growth in unit labour costs



Sources: Statistics Finland and Bank of Finland.

Compensation per employee and productivity, %		
	Compensation per employee	Productivity
2015	1.6	1.0
2016f	1.2	0.7
2017f	0.9	0.4
2018f	1.3	0.5

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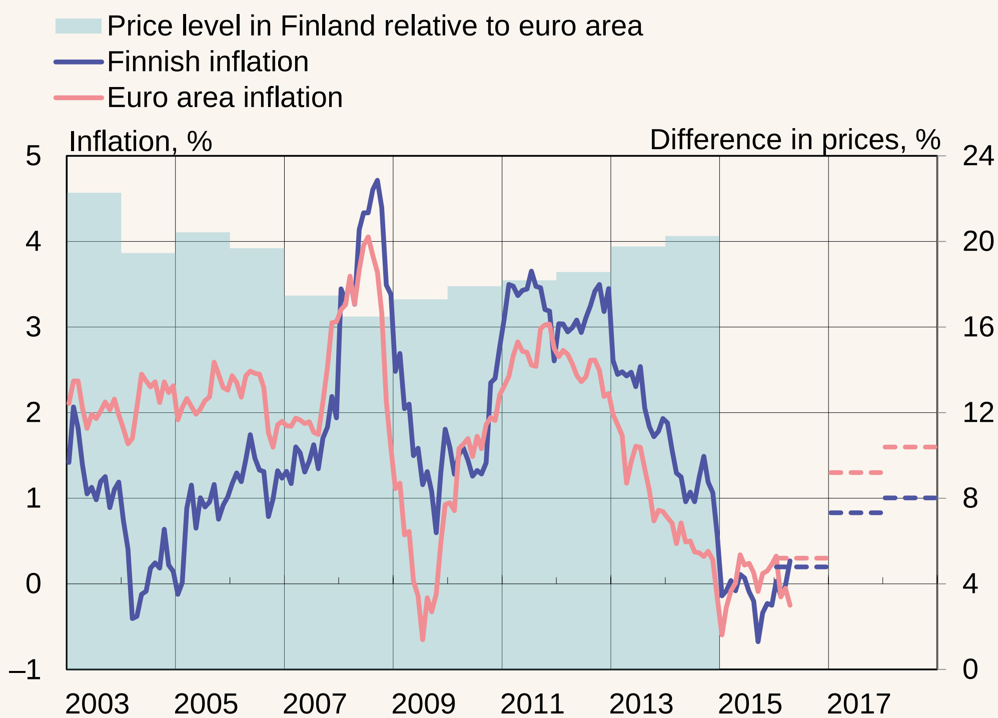
Inflation slow for a prolonged period



Price index is based on household consumption expenditure.
Sources: Eurostat and Bank of Finland.
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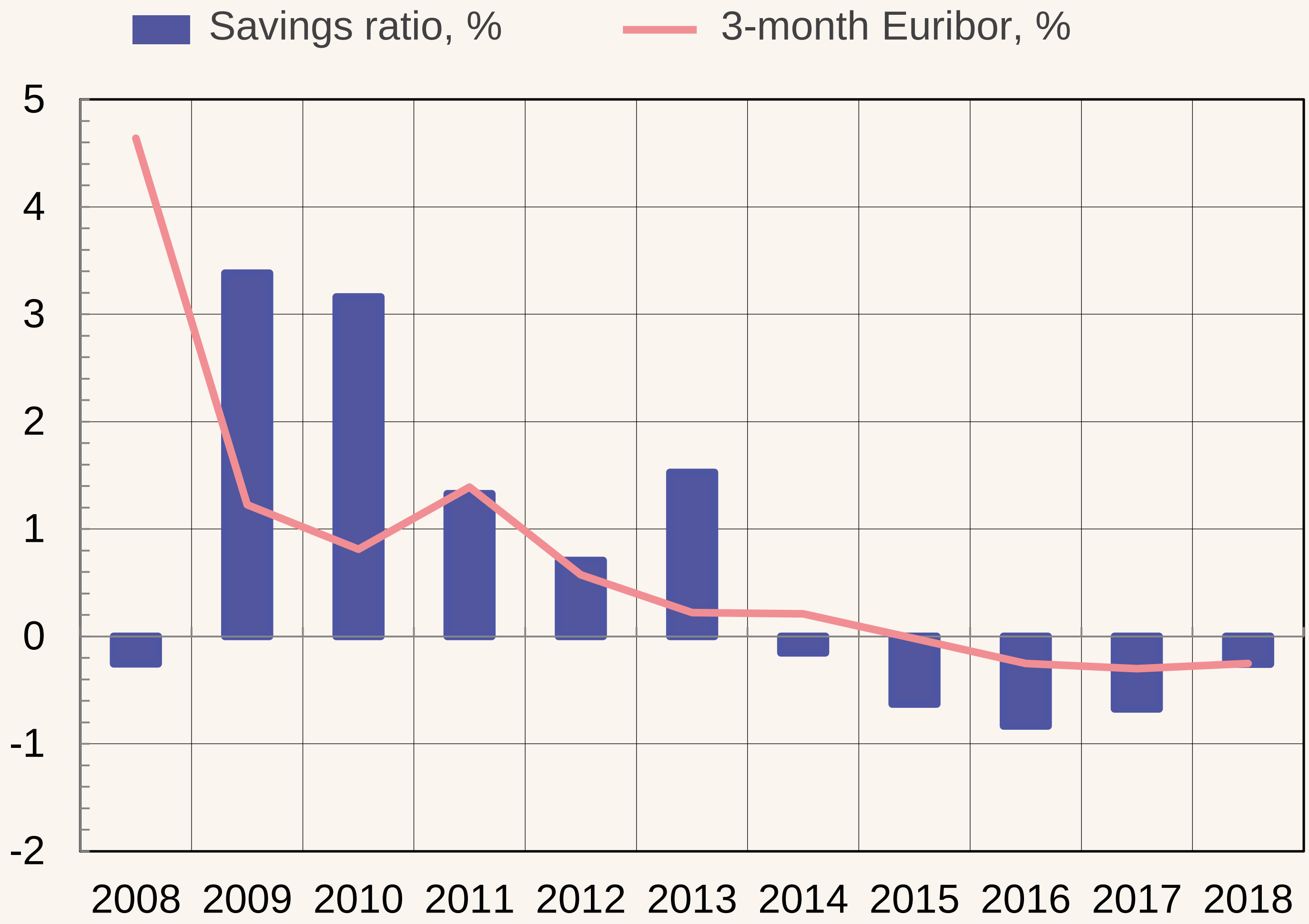
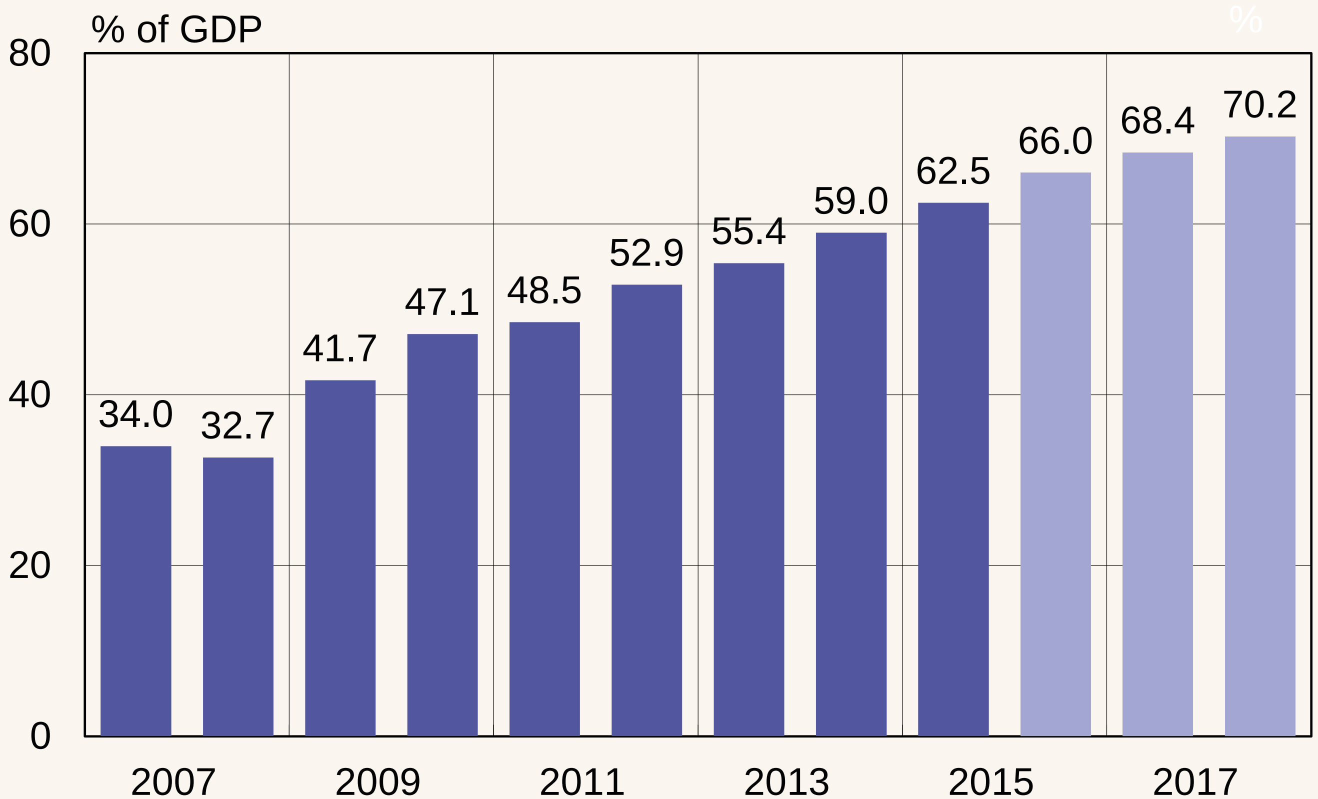
HICP, %		
	Finland	Euro area
2015	–0,2	0,0
2016e	0,2	0,2
2017e	0,8	1,3
2018e	1,0	1,6

Decline in household savings ratio



General government debt continues to grow – debt ratio will exceed 70%



Sources: Statistics Finland, State Treasury and Bank of Finland.

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General government deficit will shrink – no change in structural deficit

Sources: Statistics Finland and Bank of Finland.

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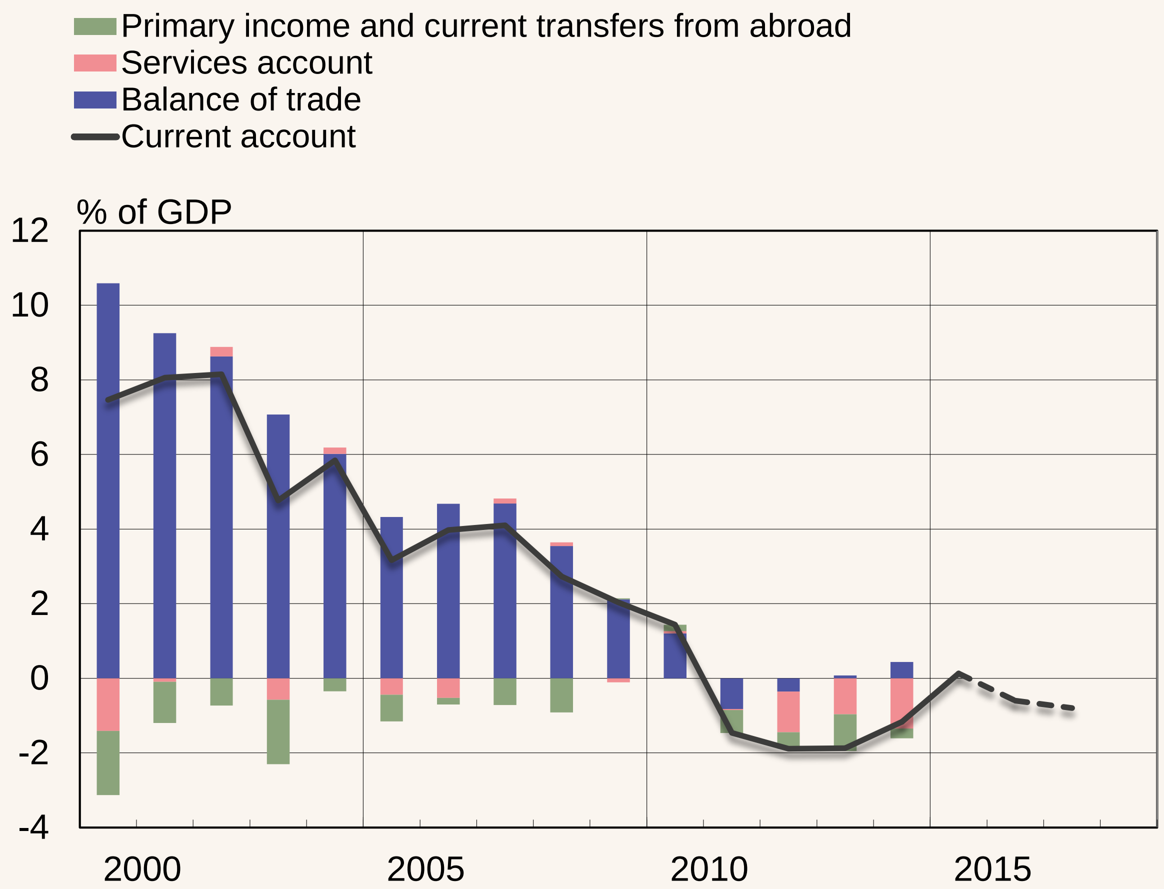
Current account remains in deficit



Source: Statistics Finland.
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Risks to the forecast more balanced than before

- The international environment is still subject to negative risks, particularly for emerging economies.
- The political situation in the United States and the UK’s EU referendum are also sources of uncertainty.
- The situation on the Swedish housing market is a risk to the Finnish financial system.
- The key domestic risks relate to the labour market situation, fiscal policies and progress with structural, reform and productivity developments.

Forecast summary

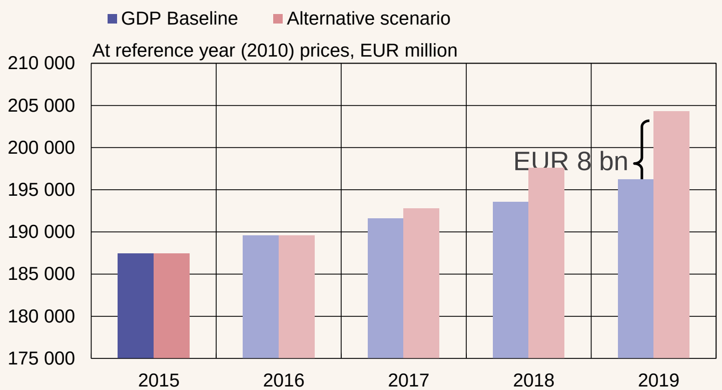
	2015	2016f	2017f	2018f		2015	2016f	2017f	2018f
Gross domestic product	0.5	1.1	1.1	1.0	**Labour market**				
Private consumption	1.4	1.6	0.6	0.7	Hours worked	-0.1	0.6	0.8	0.5
Public consumption	-0.9	0.6	0.3	0.2	Employed persons	-0.4	0.4	0.7	0.6
Private fixed investment	-1.0	4.7	3.6	2.6	Unemployment rate, %	9.4	9.2	9.0	8.9
Public fixed investment	-1.2	2.3	1.6	-0.5	**Unit labour costs**	0.7	0.5	0.6	0.8
Exports	0.6	0.7	2.4	2.5	Compensation per employee	1.6	1.2	0.9	1.3
Imports	-0.4	2.7	2.5	2.0	Productivity	1.0	0.7	0.4	0.5
Contribution to growth									
Domestic demand	0.4	1.9	1.1	0.9	**Gross domestic product, price deflator**	0.4	0.1	0.7	1.0
Net exports	0.4	-0.7	-0.1	0.2	Private consumption deflator	0.2	0.4	0.6	0.8
Inventory change + statistical discrepancy	-0.2	0.0	0.0	0.0					
Savings ratio, households, %	-0.6	-0.8	-0.7	-0.3	**Harmonised index of consumer prices**	-0.2	0.2	0.8	1.0
Current account, % of GDP	0.1	-0.6	-0.8	-0.7	Excl. energy Energy	0.3 -6.0	0.6 -4.4	0.6 3.2	0.9 2.8

Thank you!

Additional slides

A substantial increase in the employment rate would require much faster growth

GDP stagnates in alternative scenario



Source: Bank of Finland calculations.

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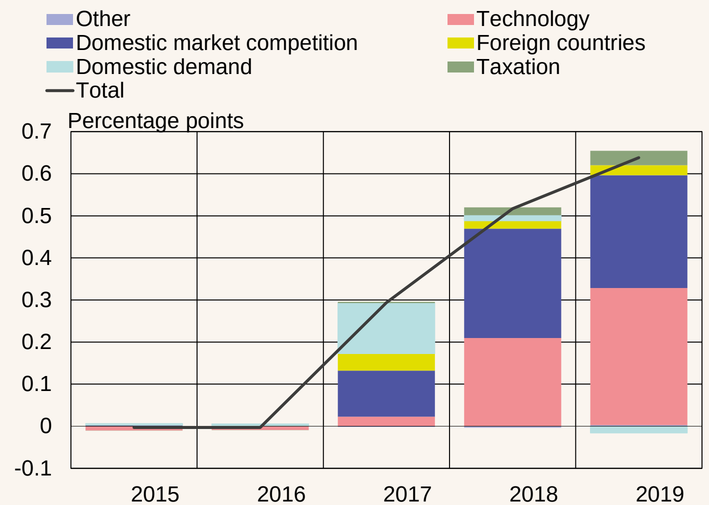
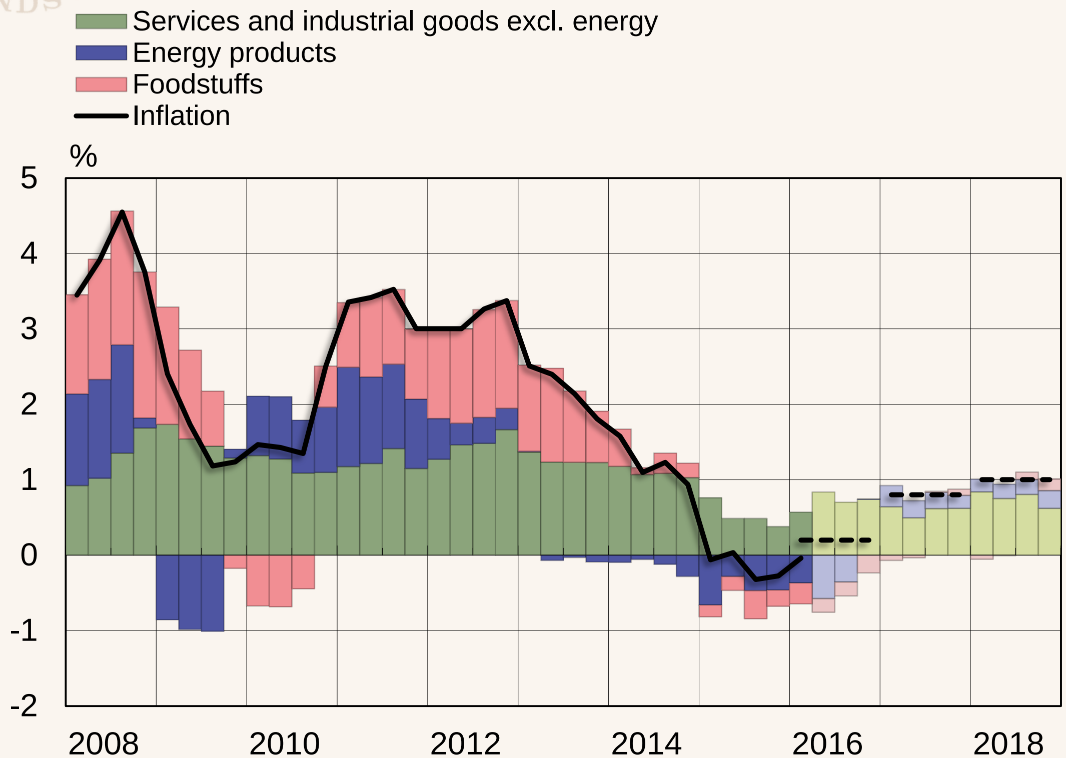
Decomposition of shock contribution to private output growth

Difference between alternative scenario and baseline forecast,



Sources: Statistics Finland and calculations by the Bank of Finland.

Components of HICP Inflation



Sources: Statistics Finland and Bank of Finland.

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HICP, %		
	June	December
2015	-0.2	-0.1
2016f	0.2	0.3
2017f	0.8	1.0
2018f	1.0	