



EUROJÄRJESTELMÄ  
EUROSYSTEMET

# Economic outlook for 2012–2014

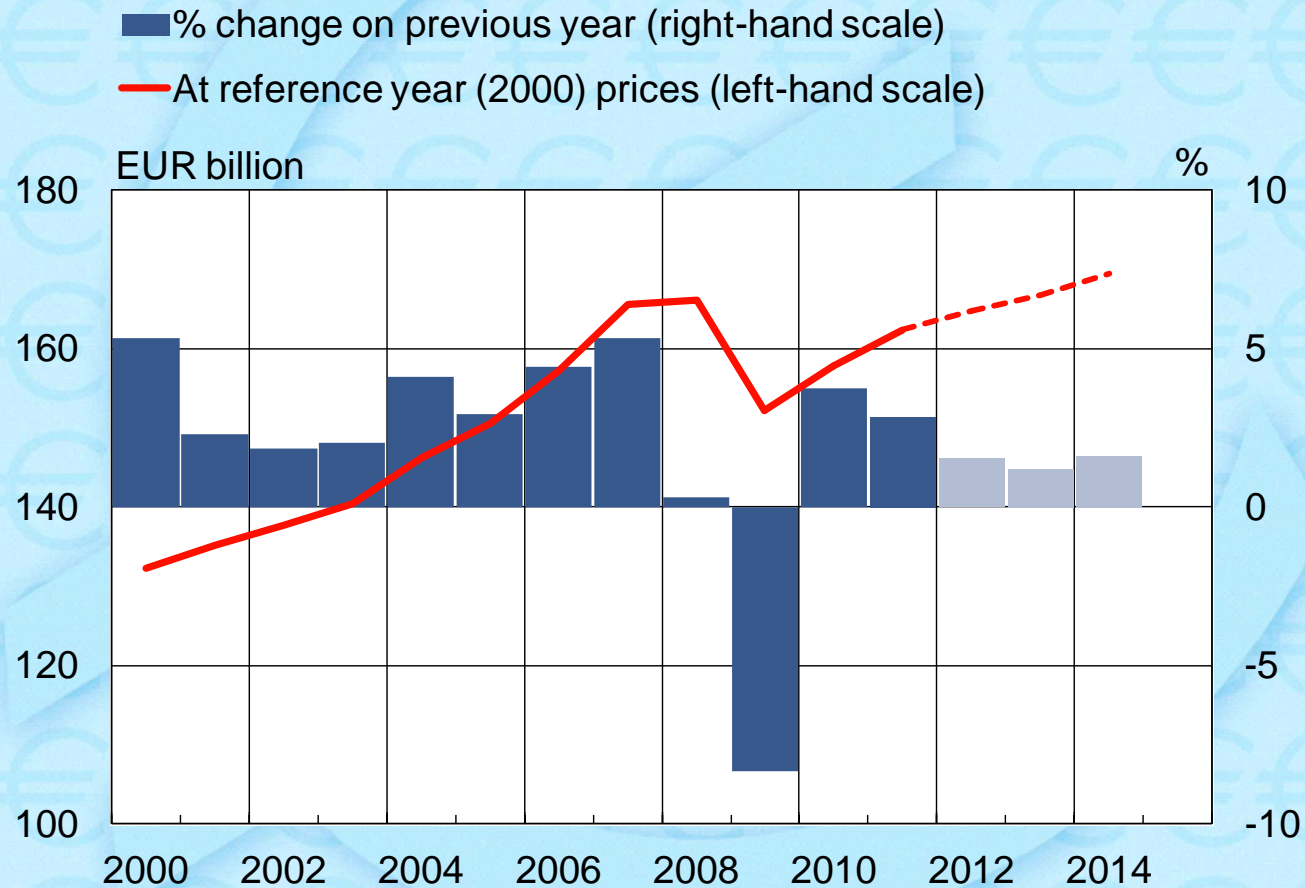
Euro & talous (Bank of Finland Bulletin) 3/2012

Governor  
Erkki Liikanen



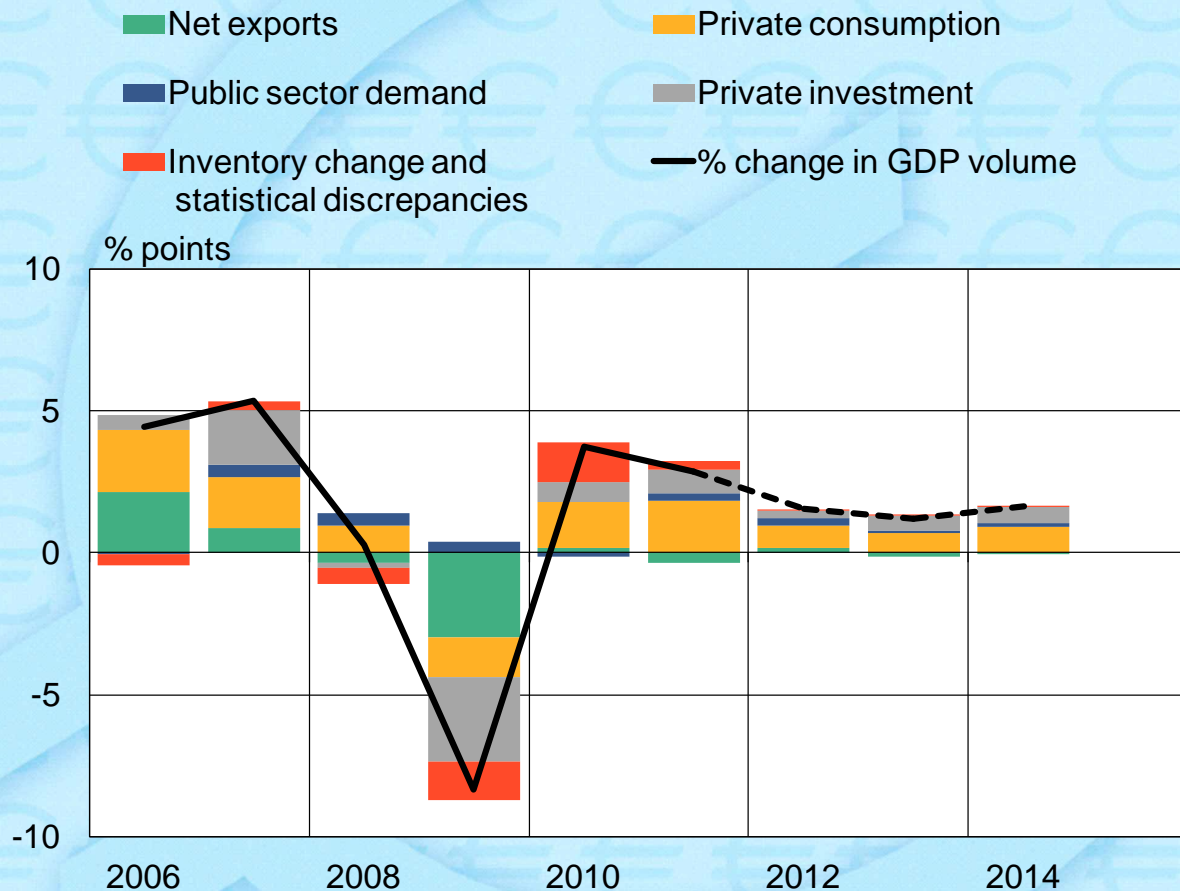
Growth outlook subdued

# Finnish economy will grow slowly



Sources: Statistics Finland and Bank of Finland.

# Growth 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 2012–2014 are forecasts.

Sources: Statistics Finland and Bank of Finland.

# Supply and demand

	2011*	2010	2011	2012f	2013f	2014f
	EUR billion	Volume, % change on previous year				
<b>GDP</b>	<b>191,6</b>	<b>3,7</b>	<b>2,9</b>	<b>1,5</b>	<b>1,2</b>	<b>1,6</b>
December forecast			2,8	0,4	1,8	
Change			0,1	1,1	-0,6	
Imports	75,9	7,7	0,1	1,8	5,3	5,2
Exports	74,9	7,8	-0,8	2,2	5,1	5,2
Private consumption	105,3	3,0	3,3	1,4	1,3	1,6
Public consumption	45,7	0,2	0,8	1,1	0,2	0,4
Private investment	31,9	4,1	5,0	1,5	3,3	3,5
Public investment	4,8	-6,7	2,4	0,2	0,6	0,6

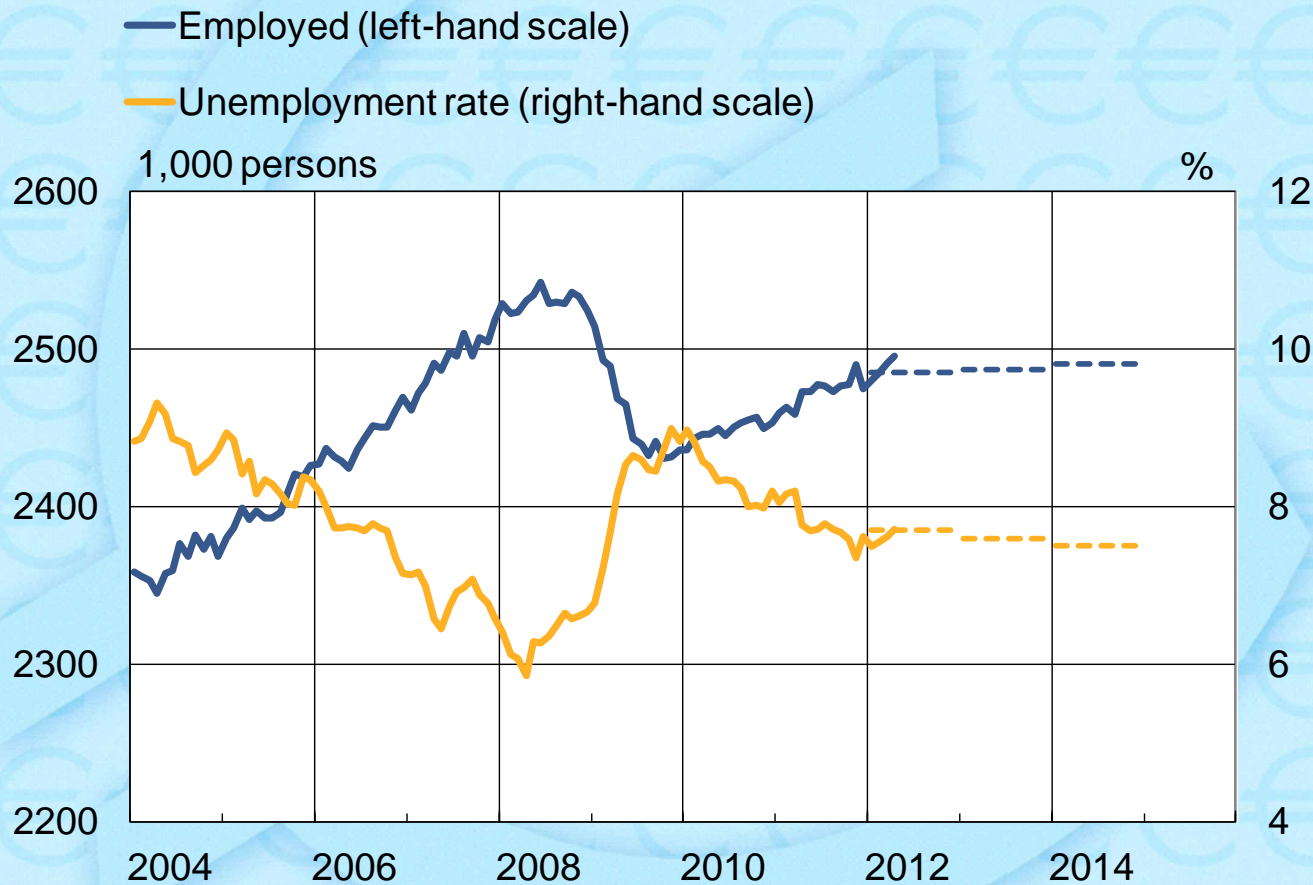
\* At current prices, EUR billion.

The data on 2011 are Statistics Finland's advance data; more precise National Accounts data will be published on 12 July 2012.



Employment growth comes to a halt

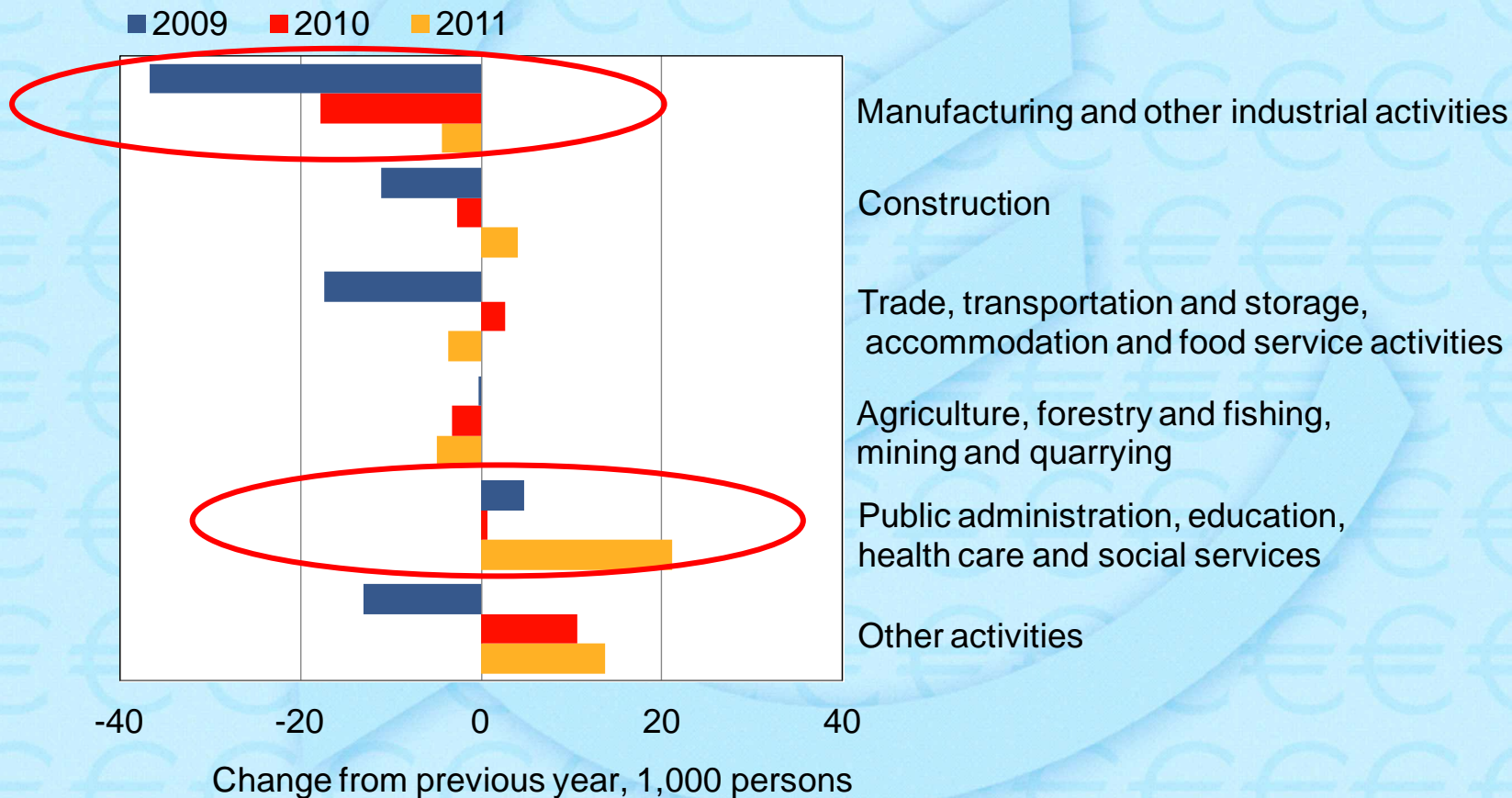
# No improvement in employment in immediate years ahead



Bank of Finland's seasonally adjusted figures  
Sources: Statistics Finland and Bank of Finland.

# New jobs in service sectors

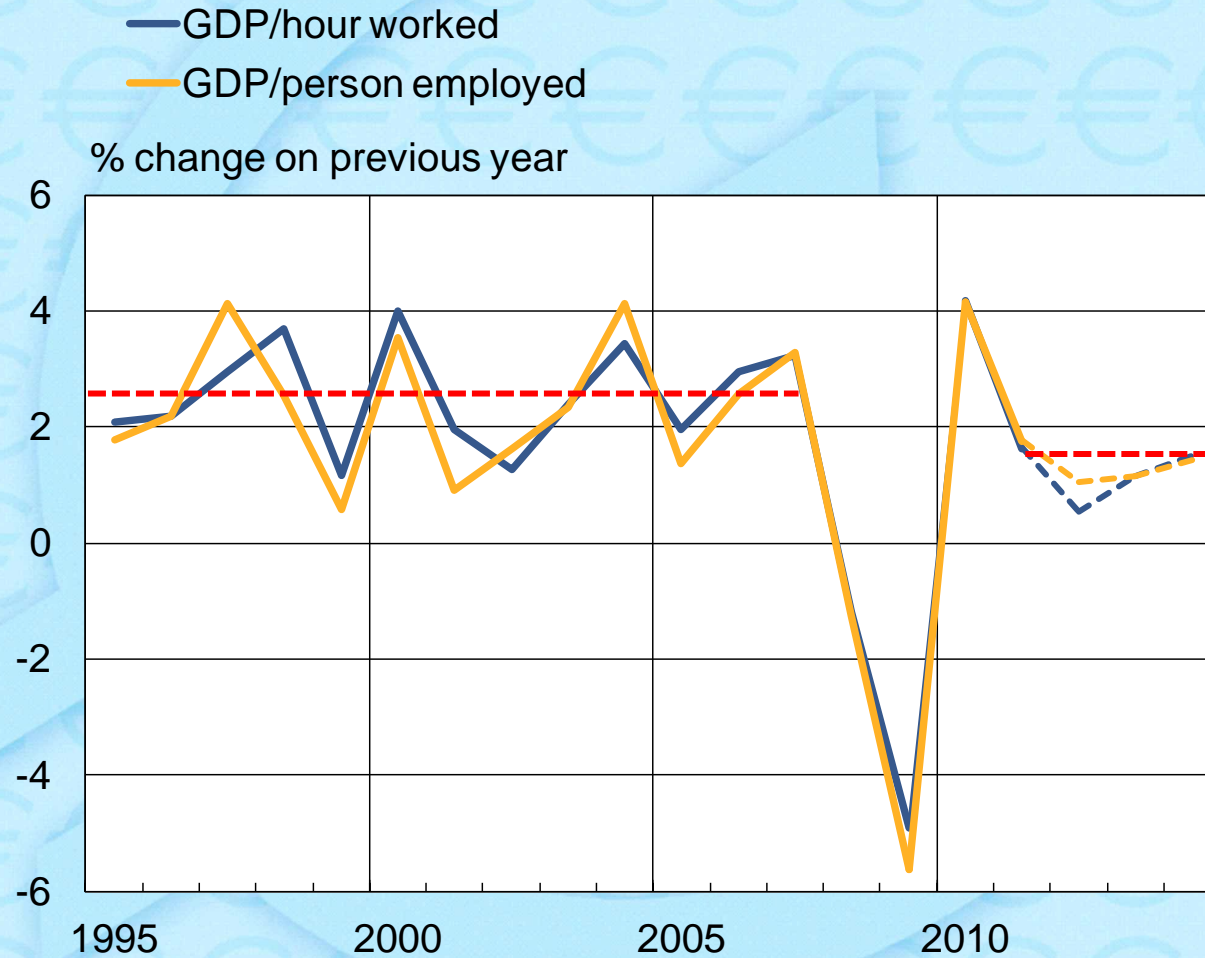
## Sectoral changes in employment



Source: Statistics Finland.

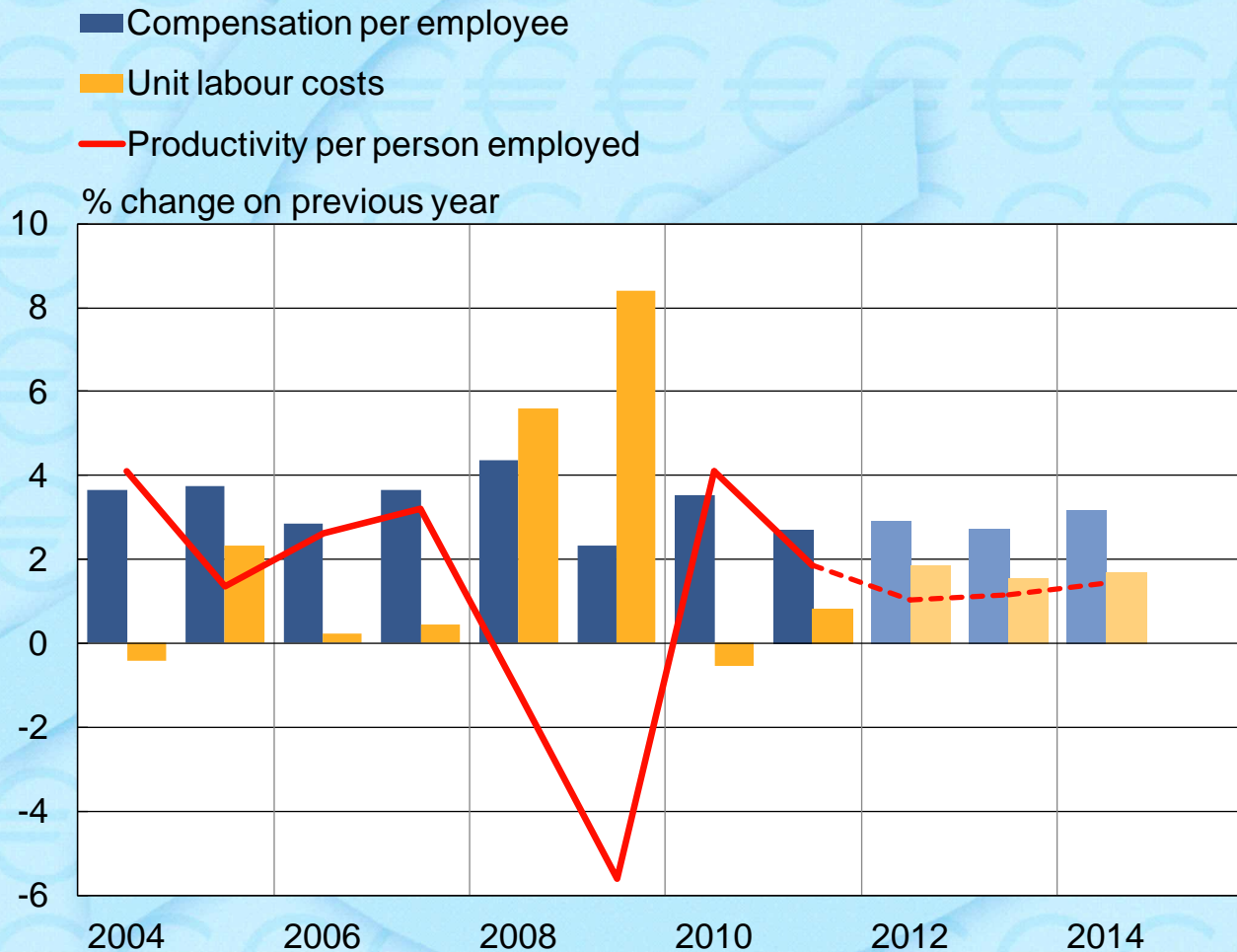


# Slower productivity growth



Sources: Statistics Finland and Bank of Finland.

# Labour costs increase substantially

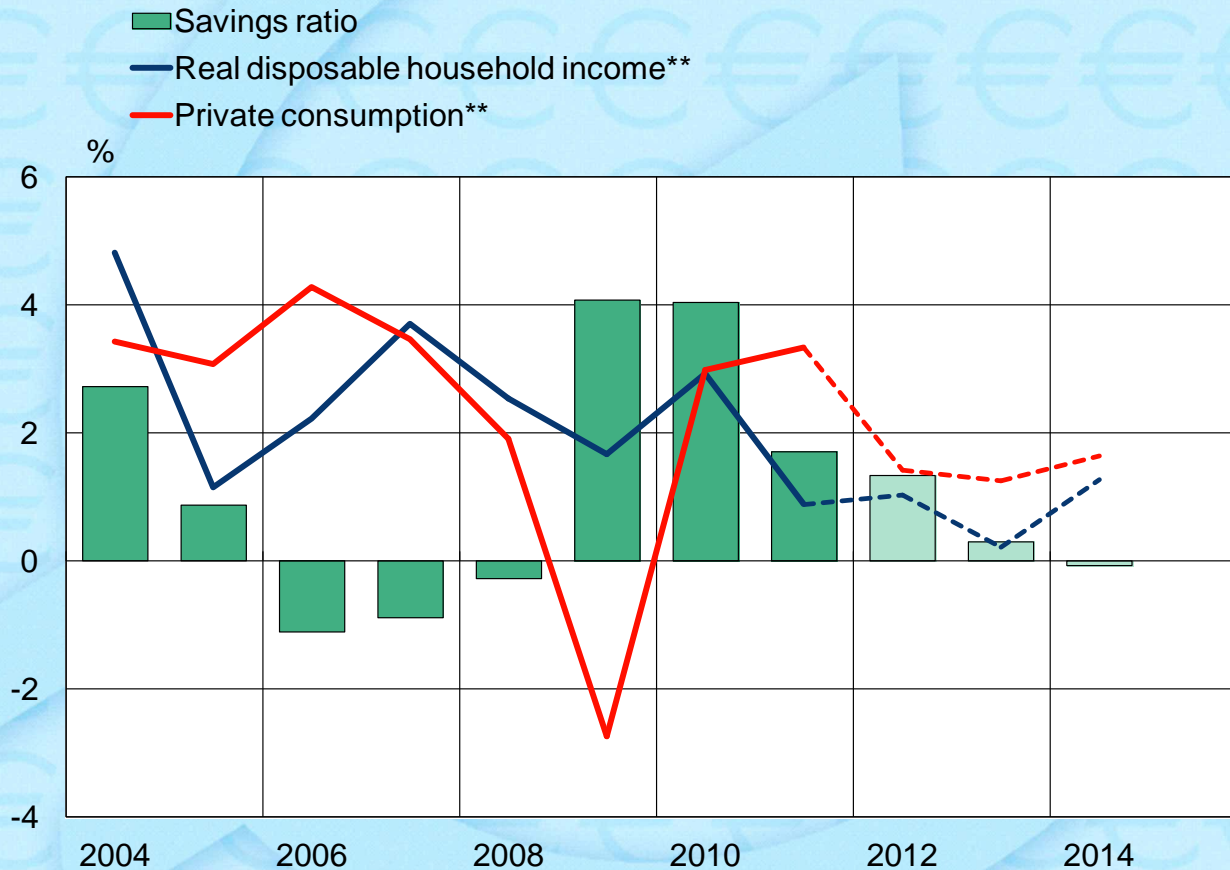


Sources: Statistics Finland and Bank of Finland.



Household demand fading, exports gradually picking up

# Household savings falling

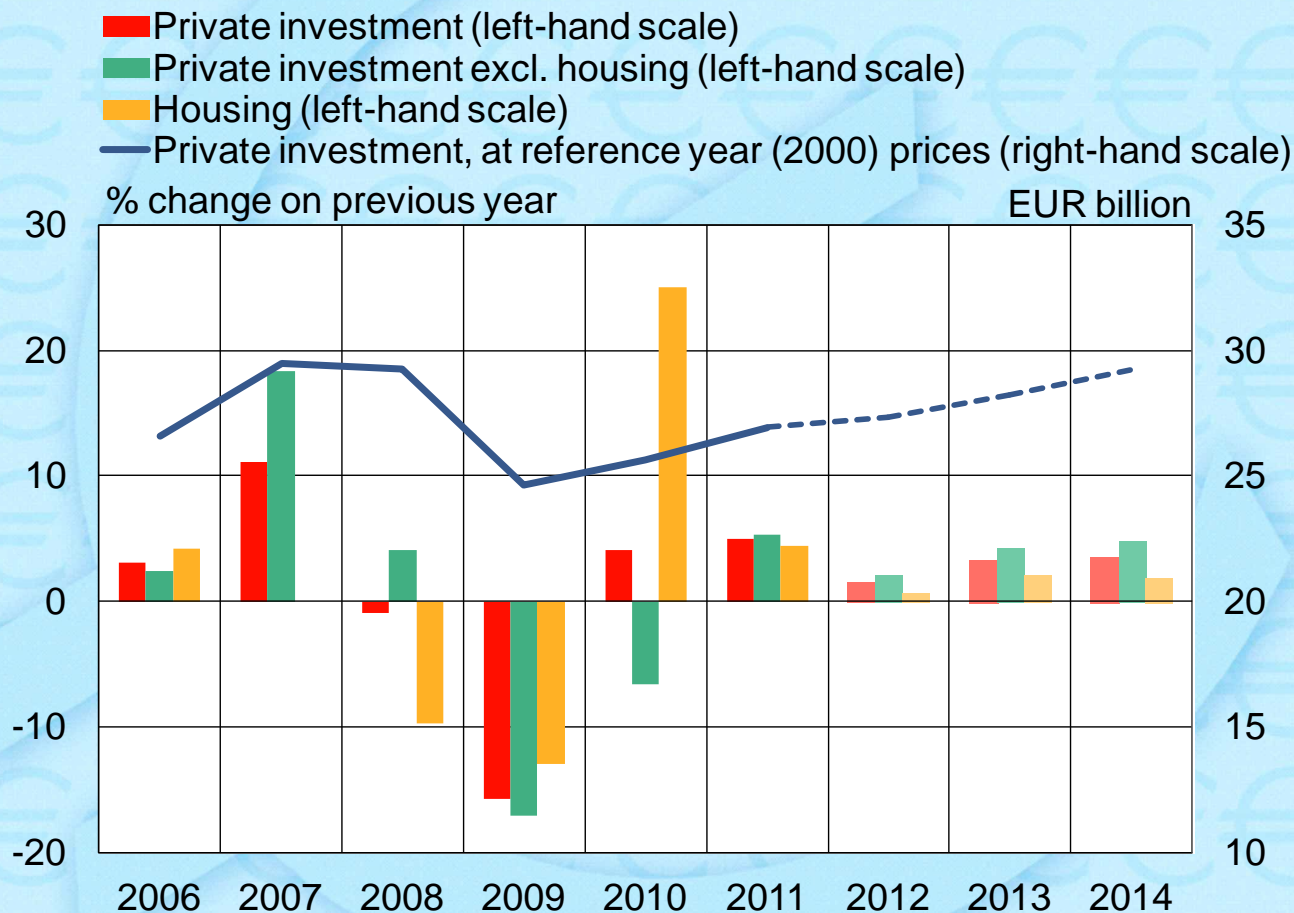


\* Households and non-profit institutions serving households

\*\* % change on previous year

Sources: Statistics Finland and Bank of Finland.

# Investment growing slowly



Sources: Statistics Finland and Bank of Finland.

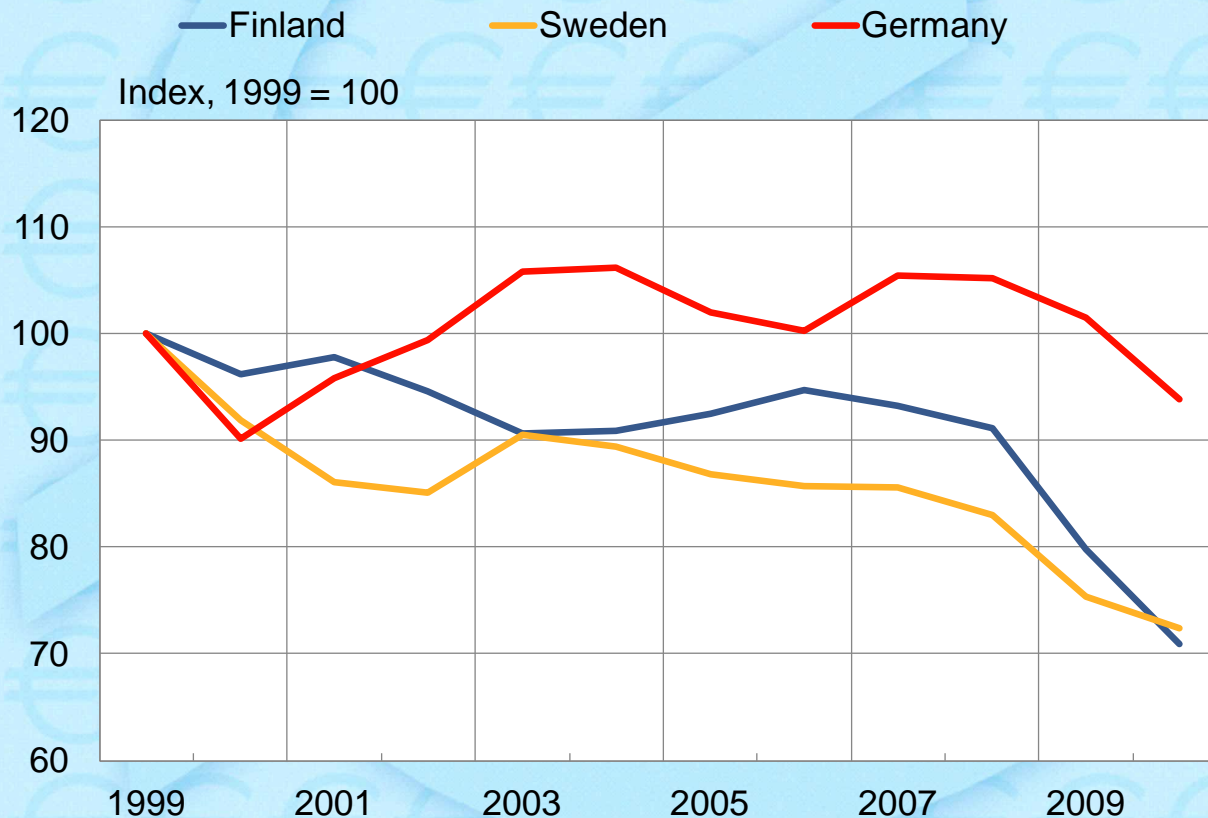
# World trade growth supports exports



Sources: Statistics Finland, Eurosystem and Bank of Finland.

# Market share of Finnish goods exports contracted sharply

## Market shares of Finland, Sweden and Germany

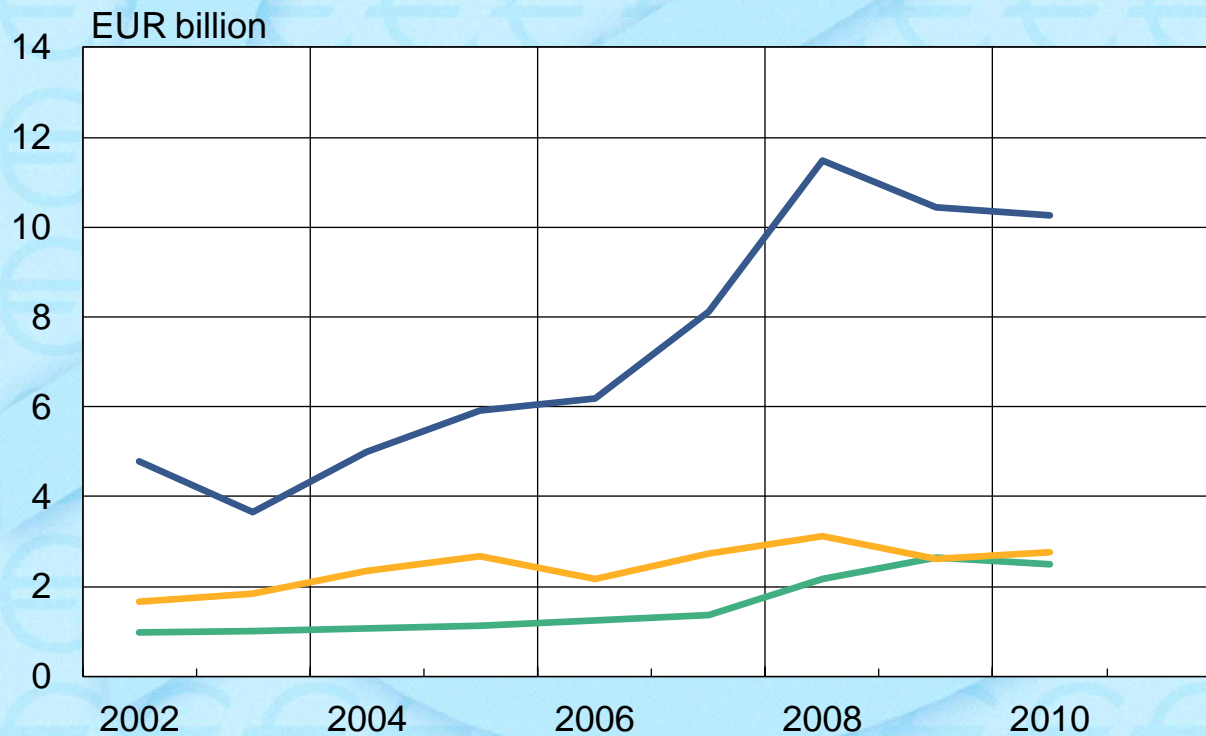


Sources: Comtrade and calculations by the Bank of Finland.

# Services exports narrowly based

## Other services exports by sector

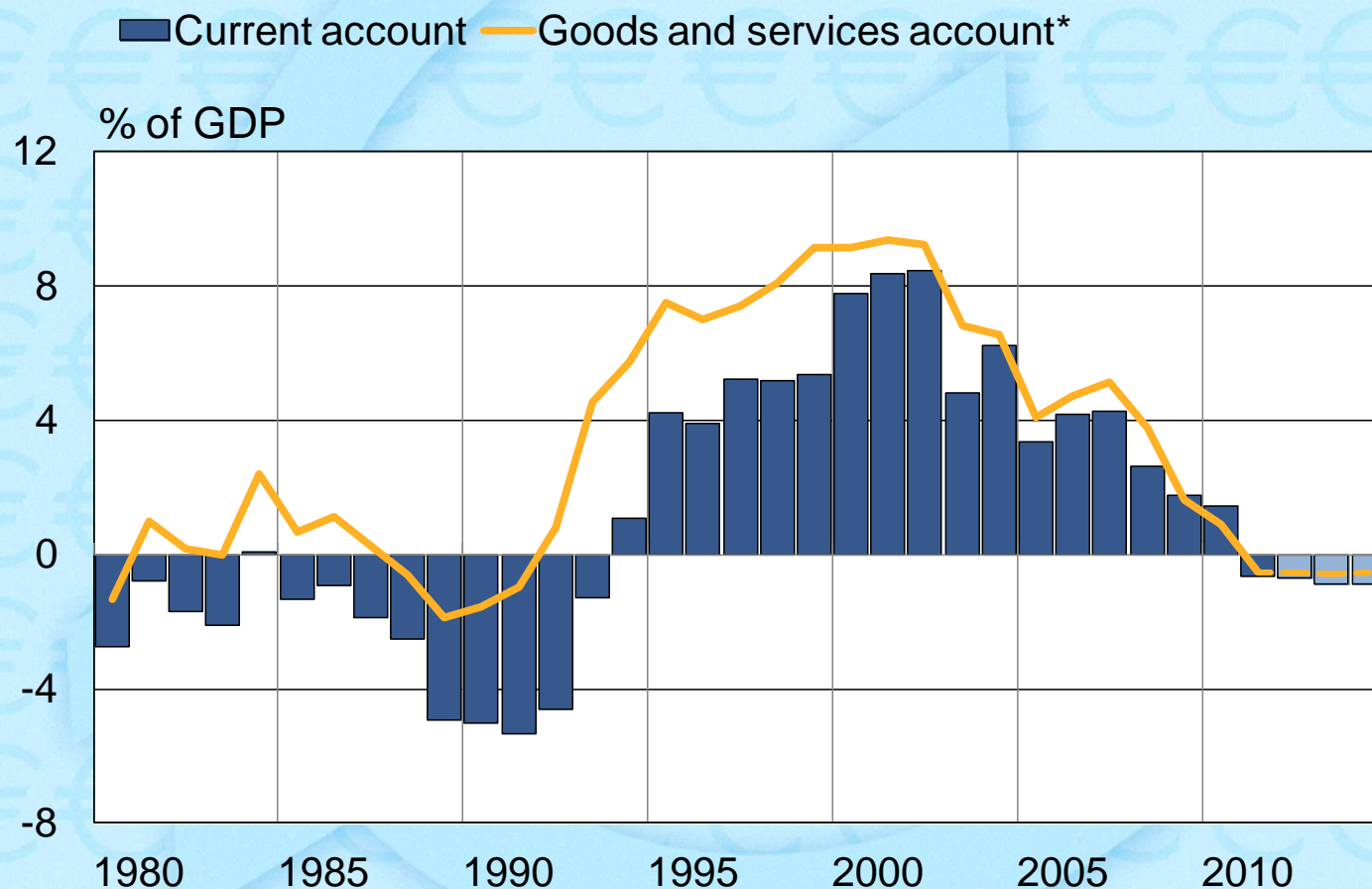
- Manufacture of radios, TVs and data communications equipment
- Other industry
- Non-industrial sectors



Source: Statistics Finland.



# Current account to remain in deficit



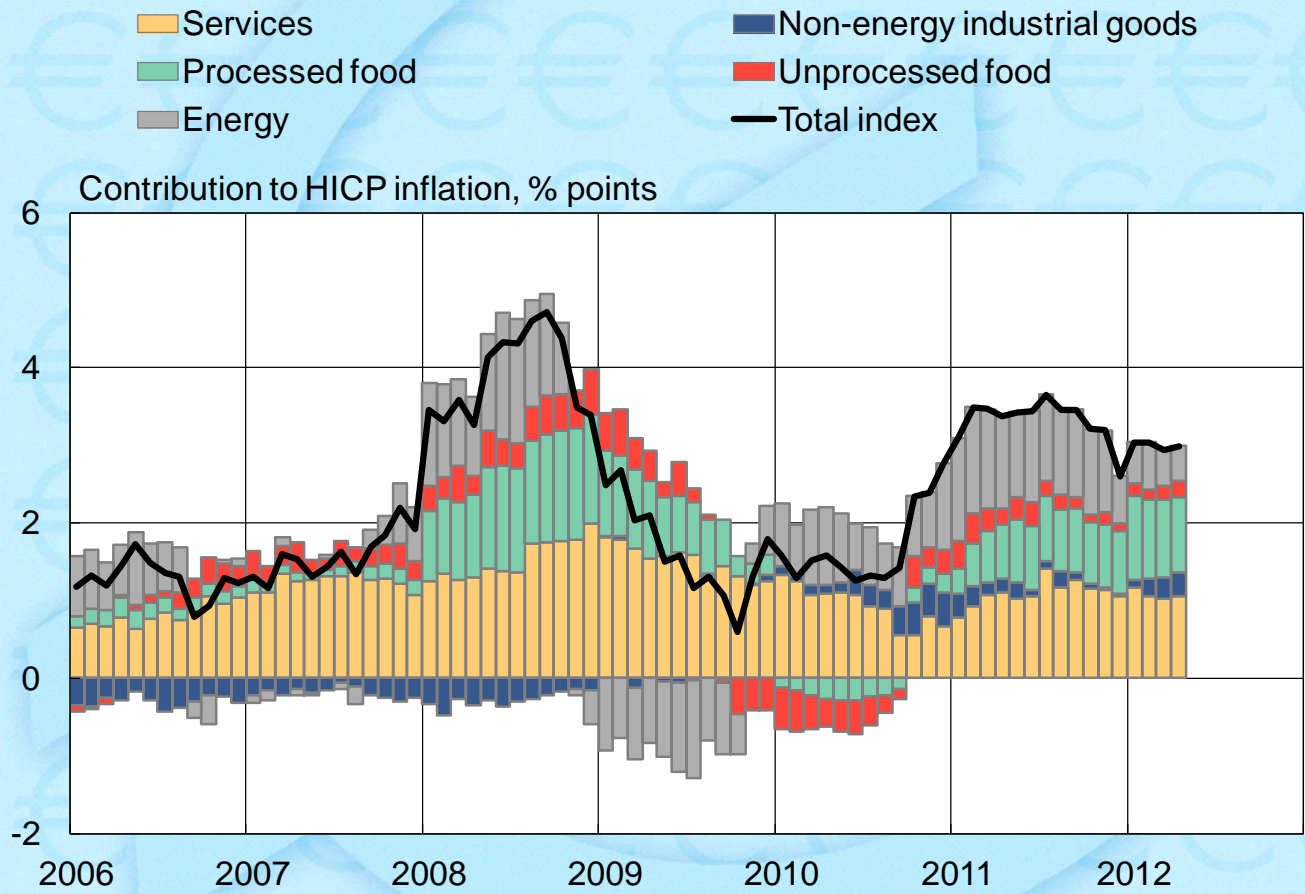
\* National Accounts.

Sources: Statistics Finland and Bank of Finland.



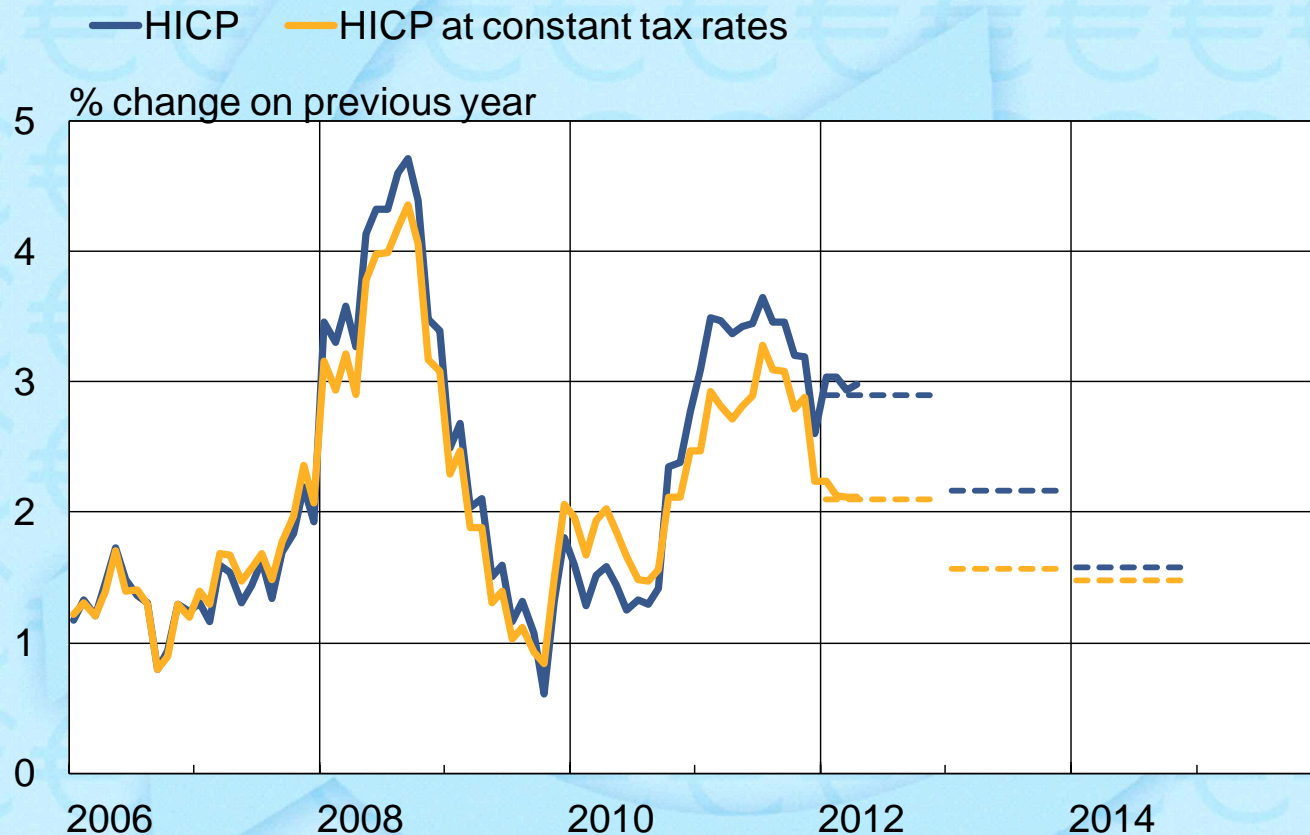
Inflation to gradually slow

# Inflation driven by service and food prices



HICP = Harmonised index of consumer prices  
Source: Statistics Finland.

# Increases in indirect taxes push up the price level

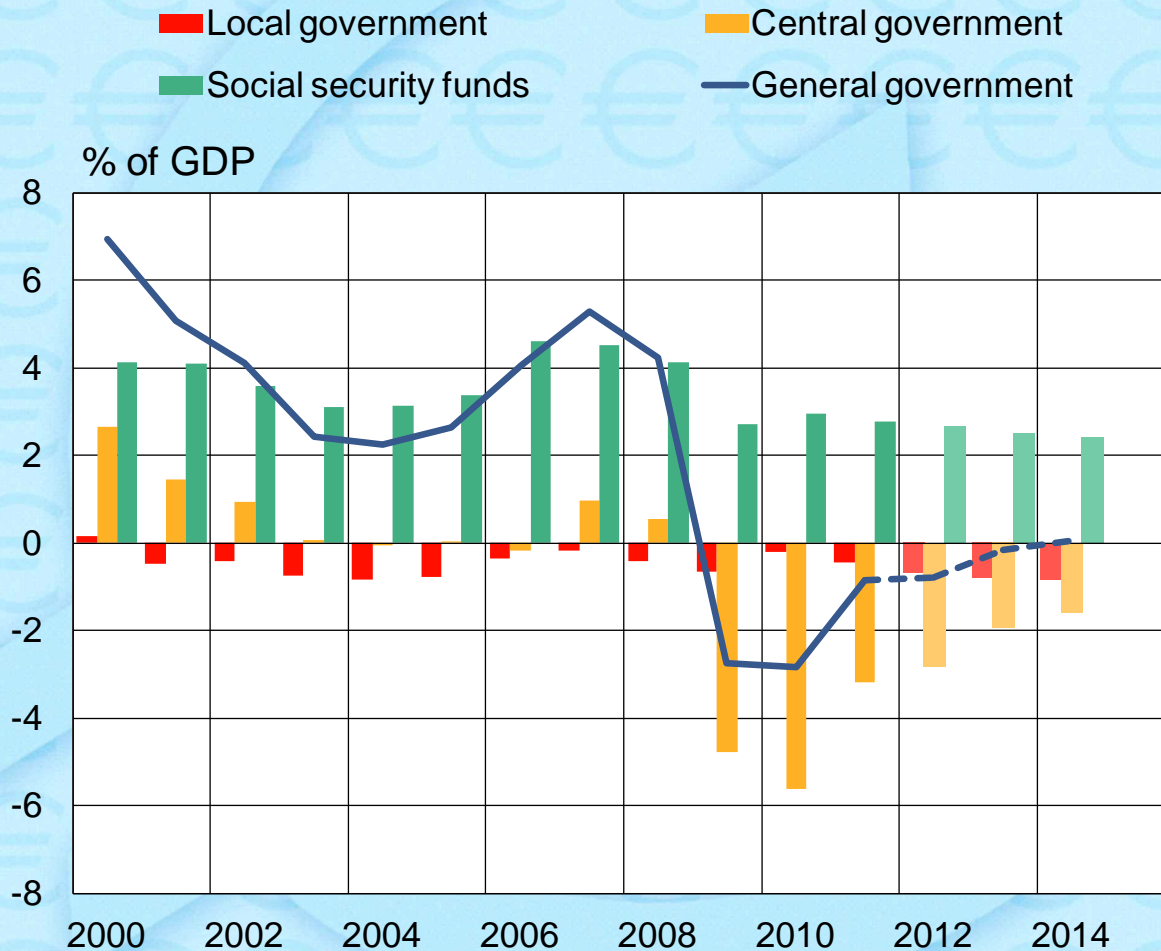


HICP = Harmonised index of consumer prices  
Sources: Statistics Finland and Bank of Finland.



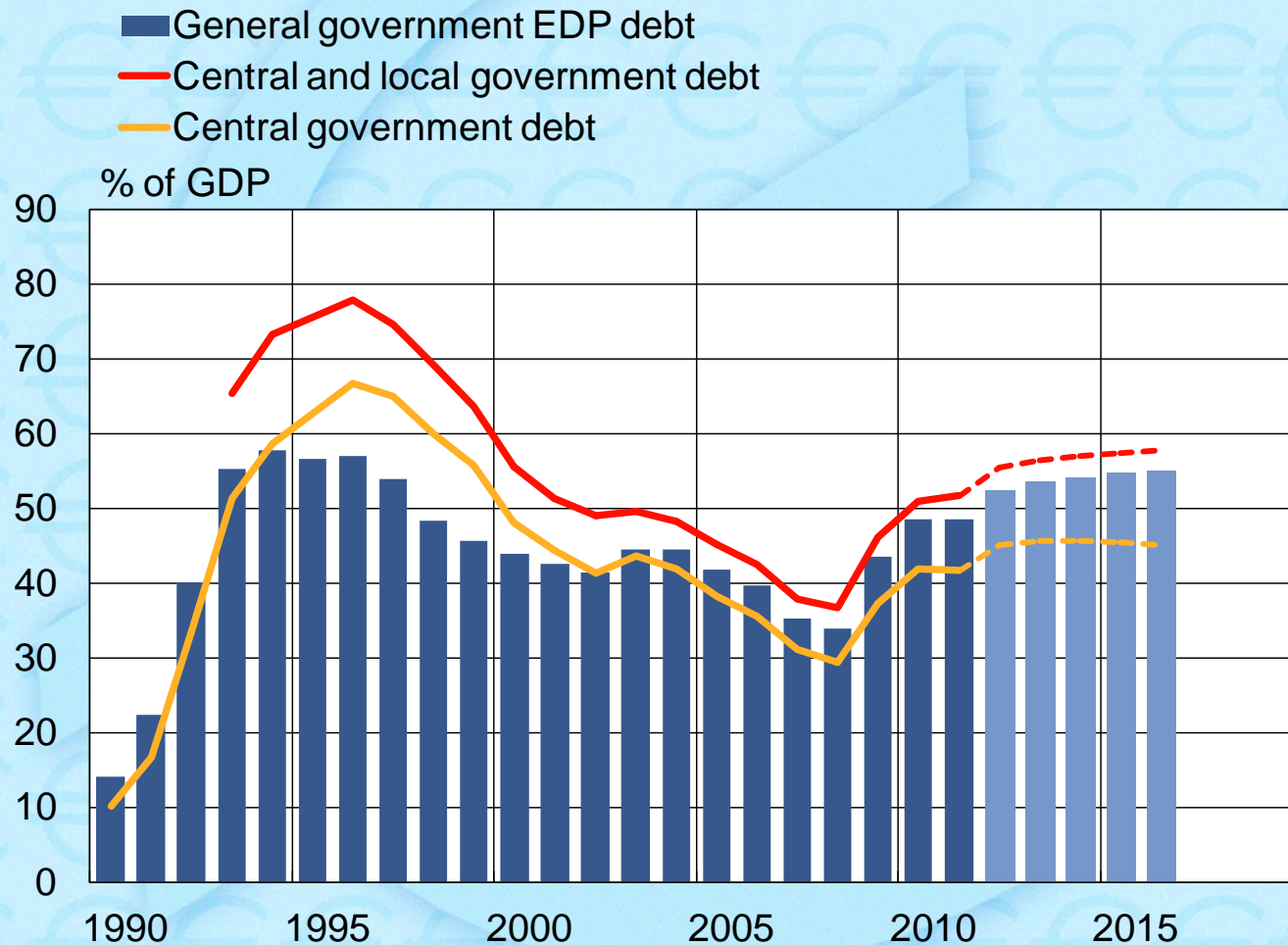
Fiscal policy tightening will strengthen public  
finances

# General government balance improves



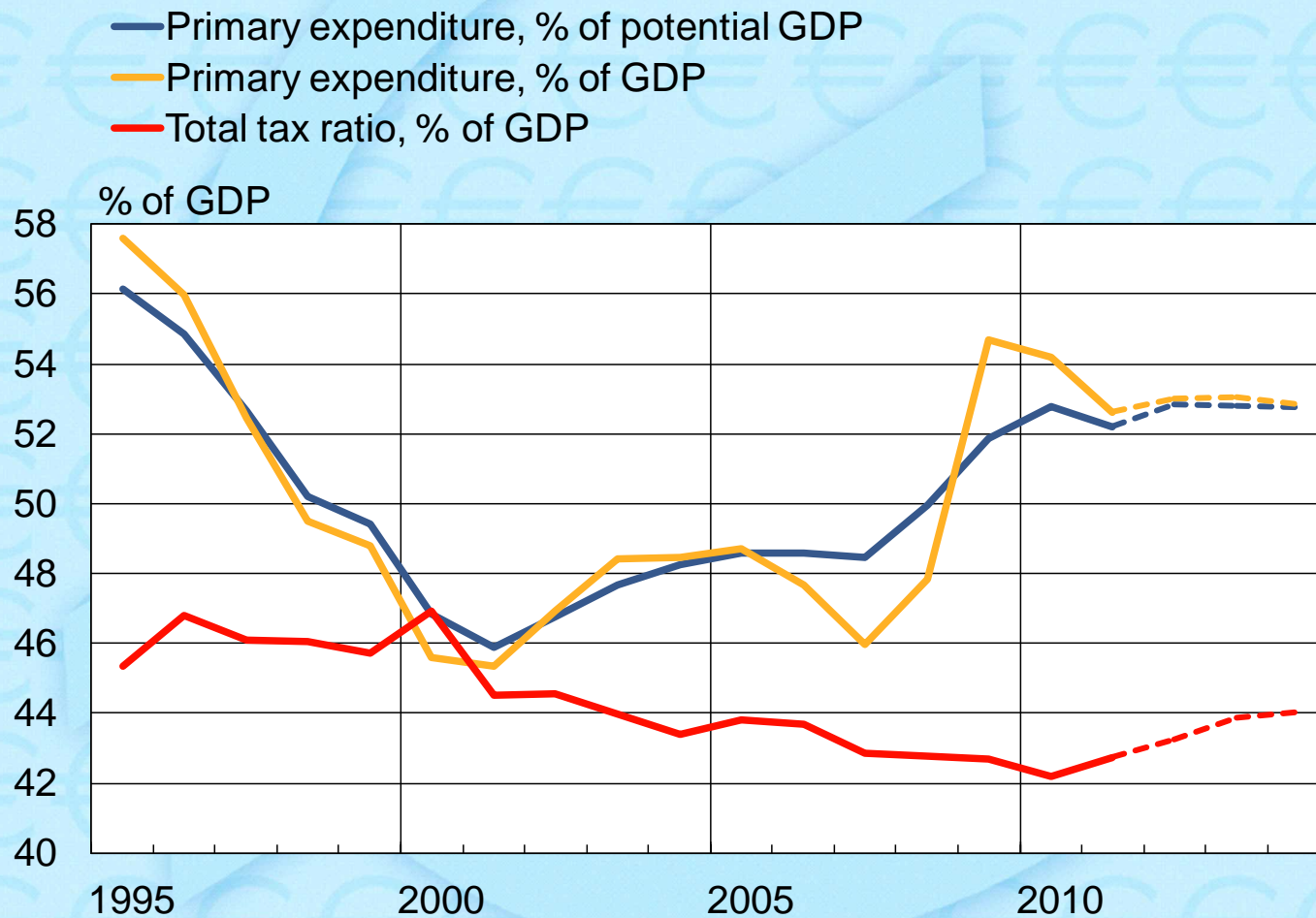
Sources: Statistics Finland and Bank of Finland.

# Central government debt ratio stabilizes



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

# Public expenditure share of GDP remains high



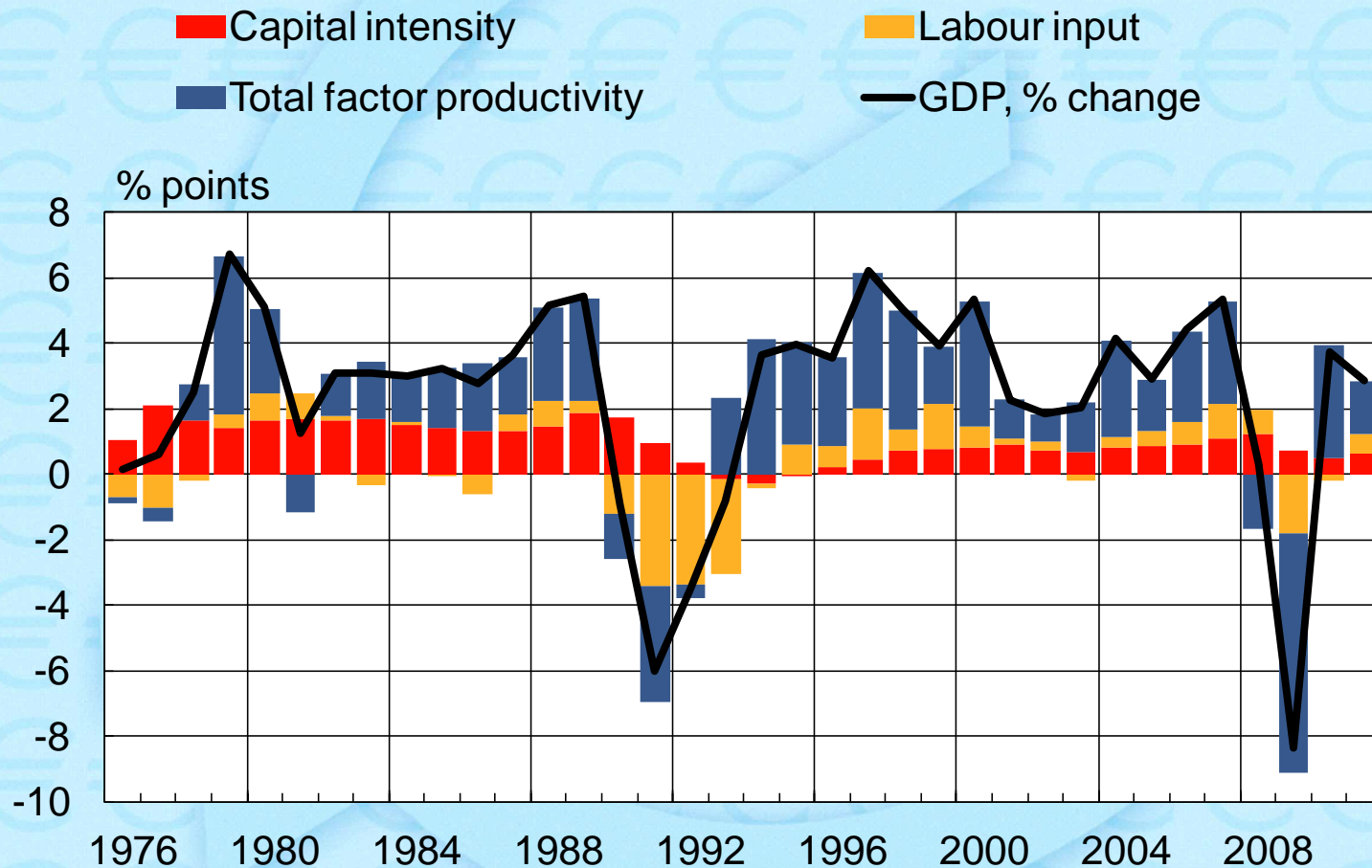
Sources: Statistics Finland and calculations by the Bank of Finland.





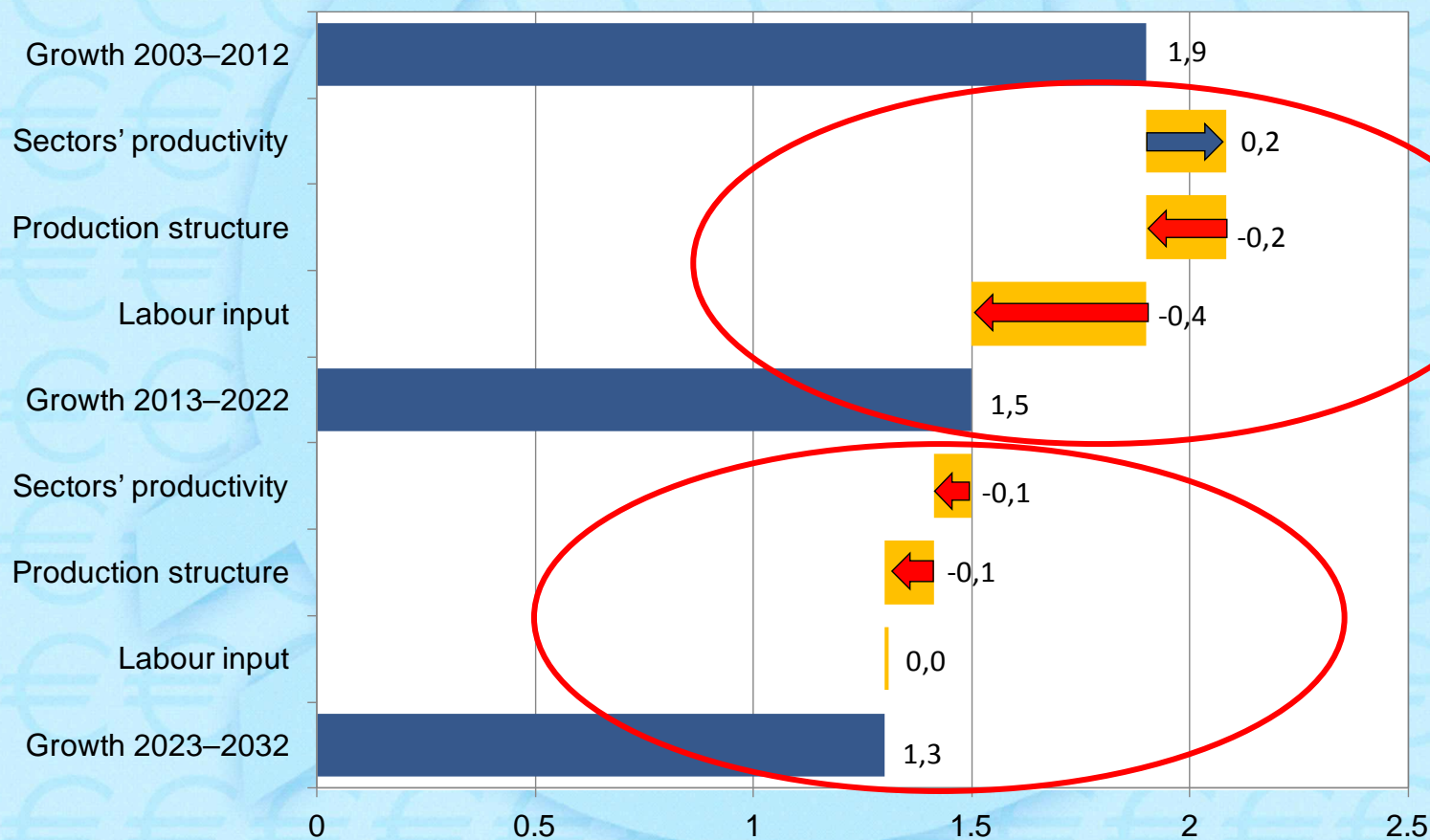
# Restructuring of the economy and the long-term outlook for growth

# Labour productivity is vital to growth



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

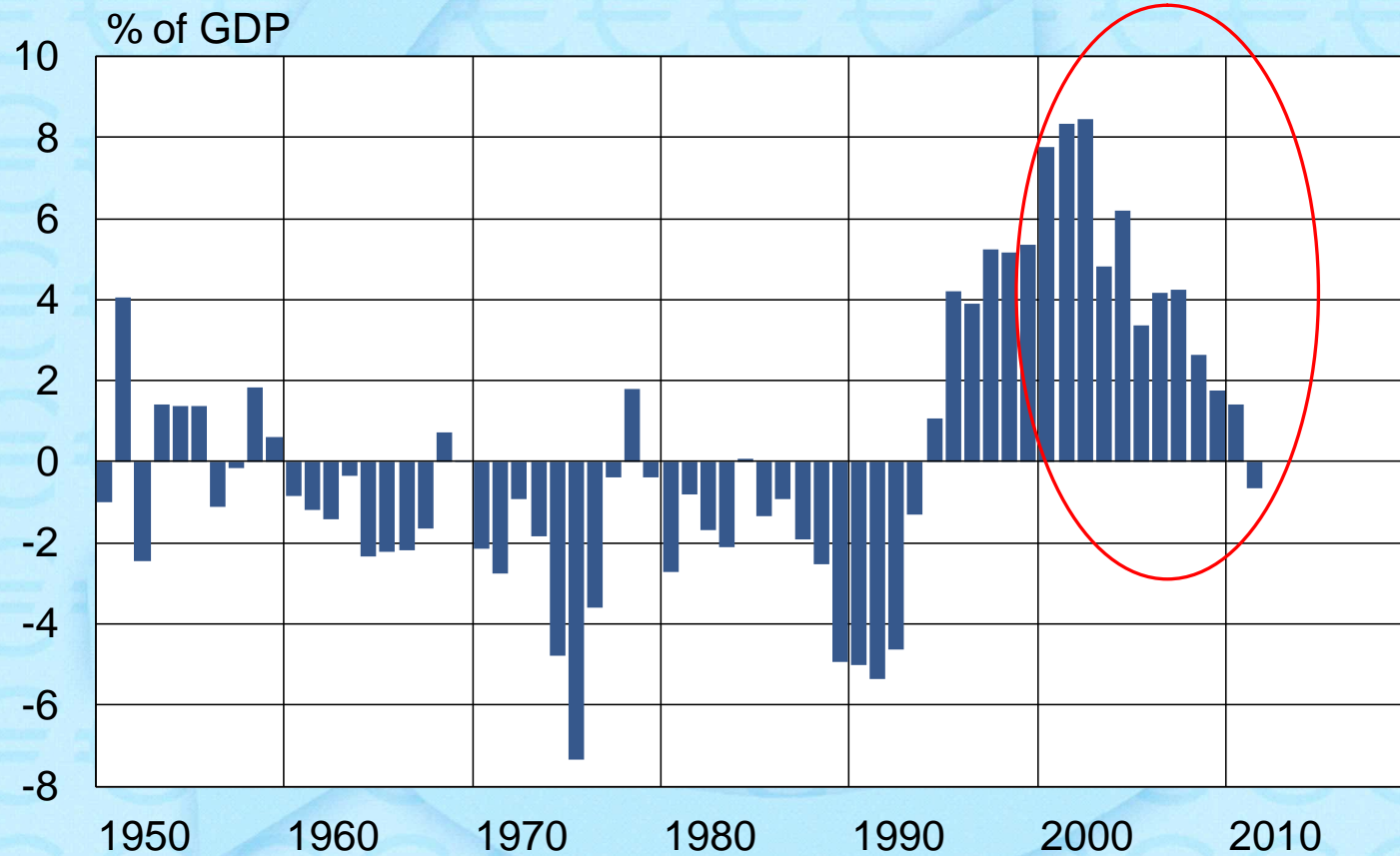
# Population ageing and growth of service sectors will slow long-term growth





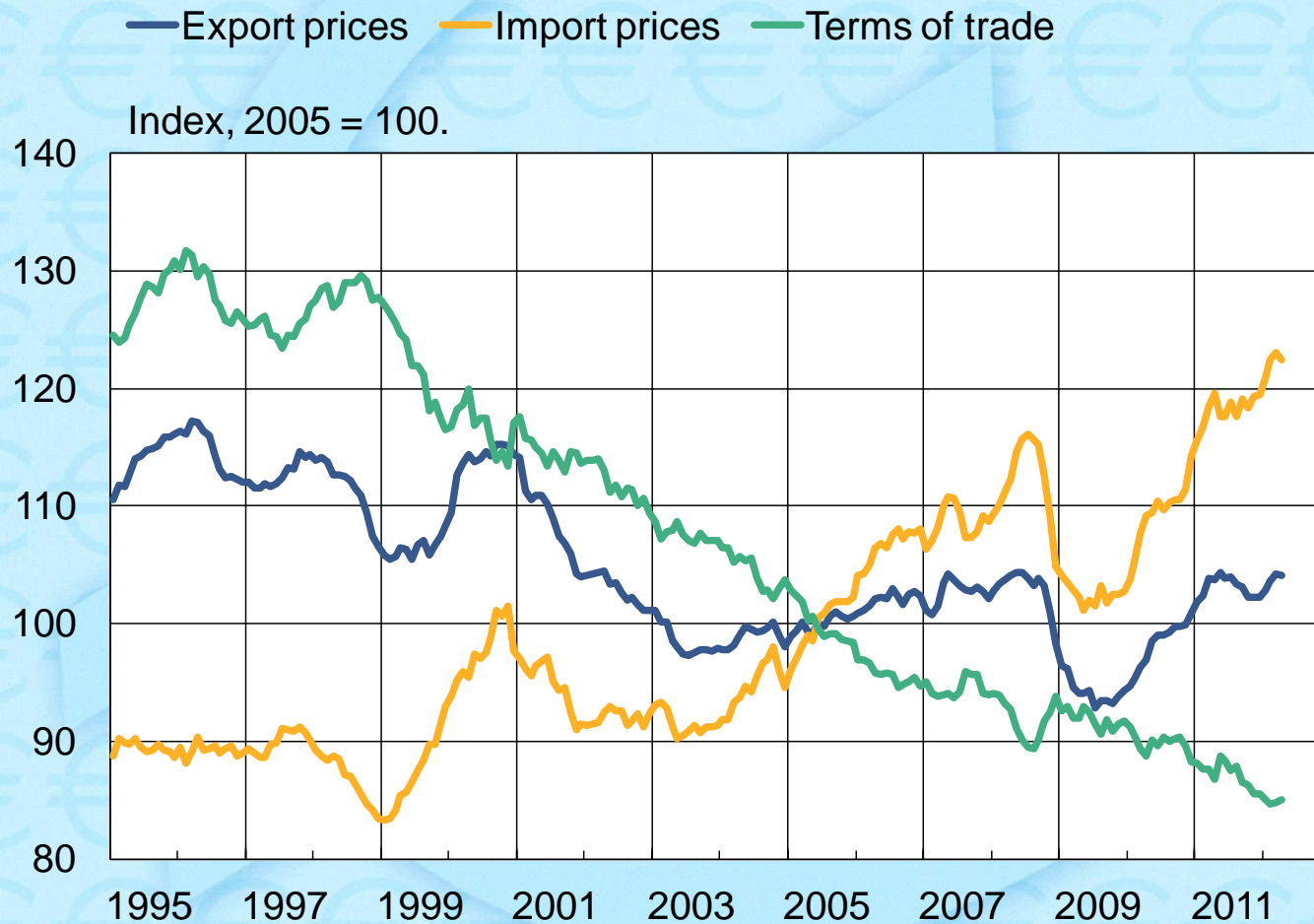
How can we avoid the imbalances threatening  
the economy?

# Current account has weakened during the last decade



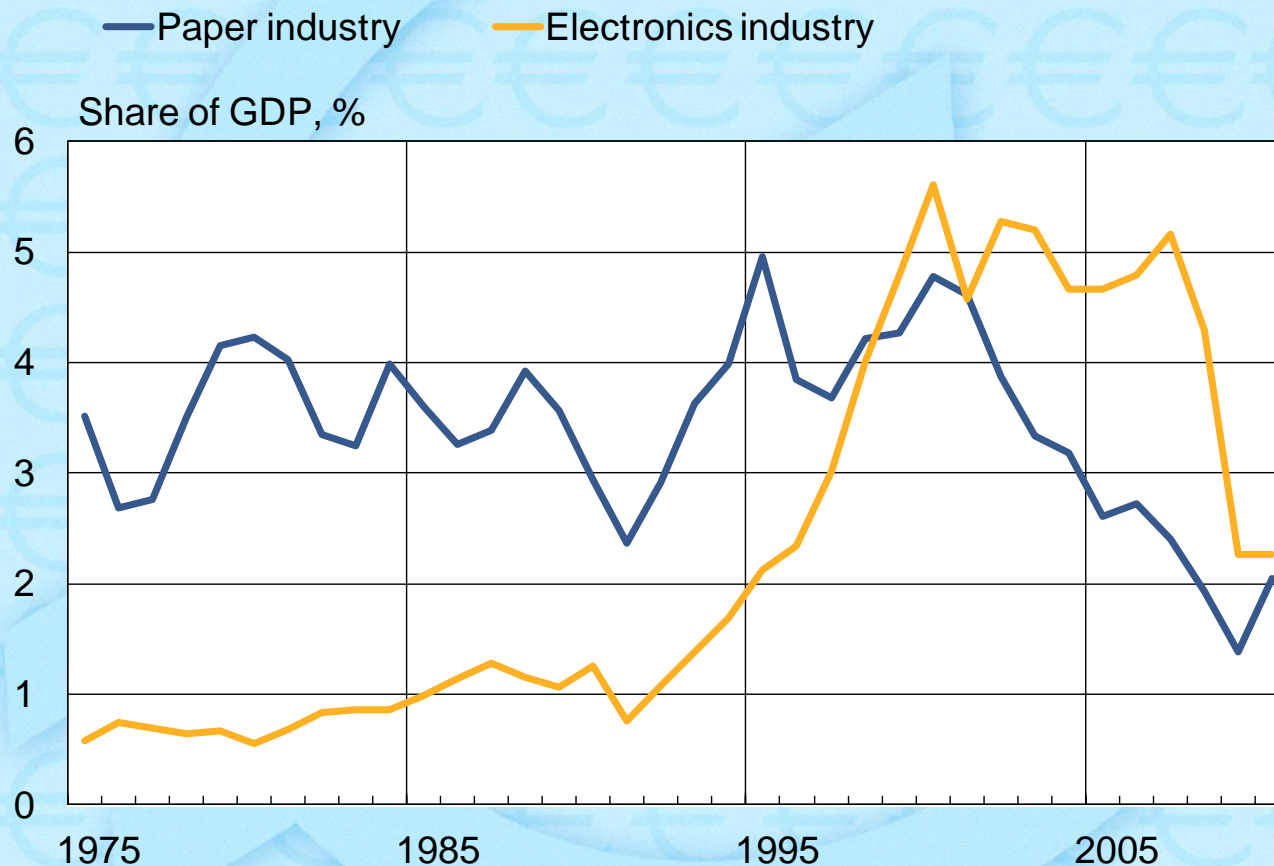
Sources: Bank of Finland and Statistics Finland.

# Import prices up relative to export prices



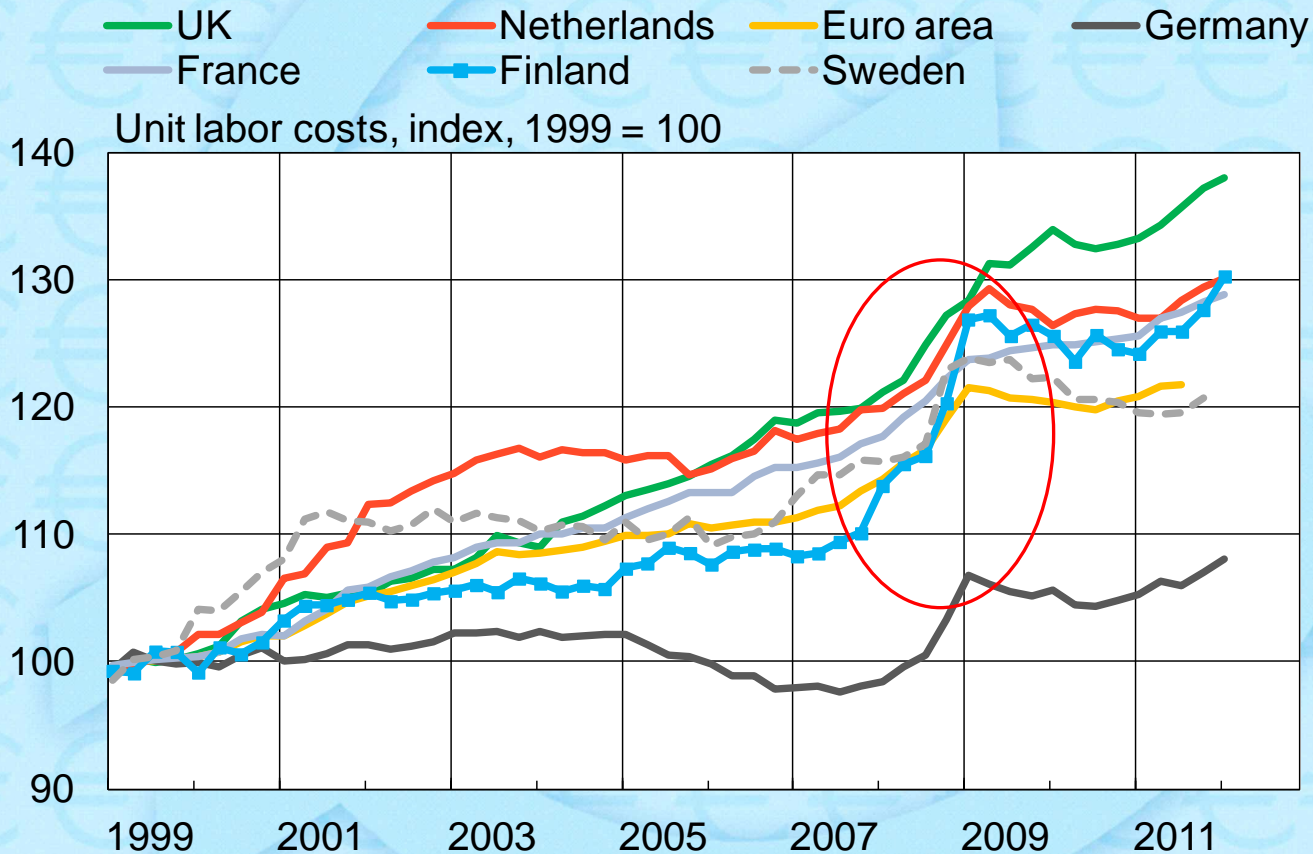
Source: Statistics Finland.

# Key export sectors declined



Source: Statistics Finland.

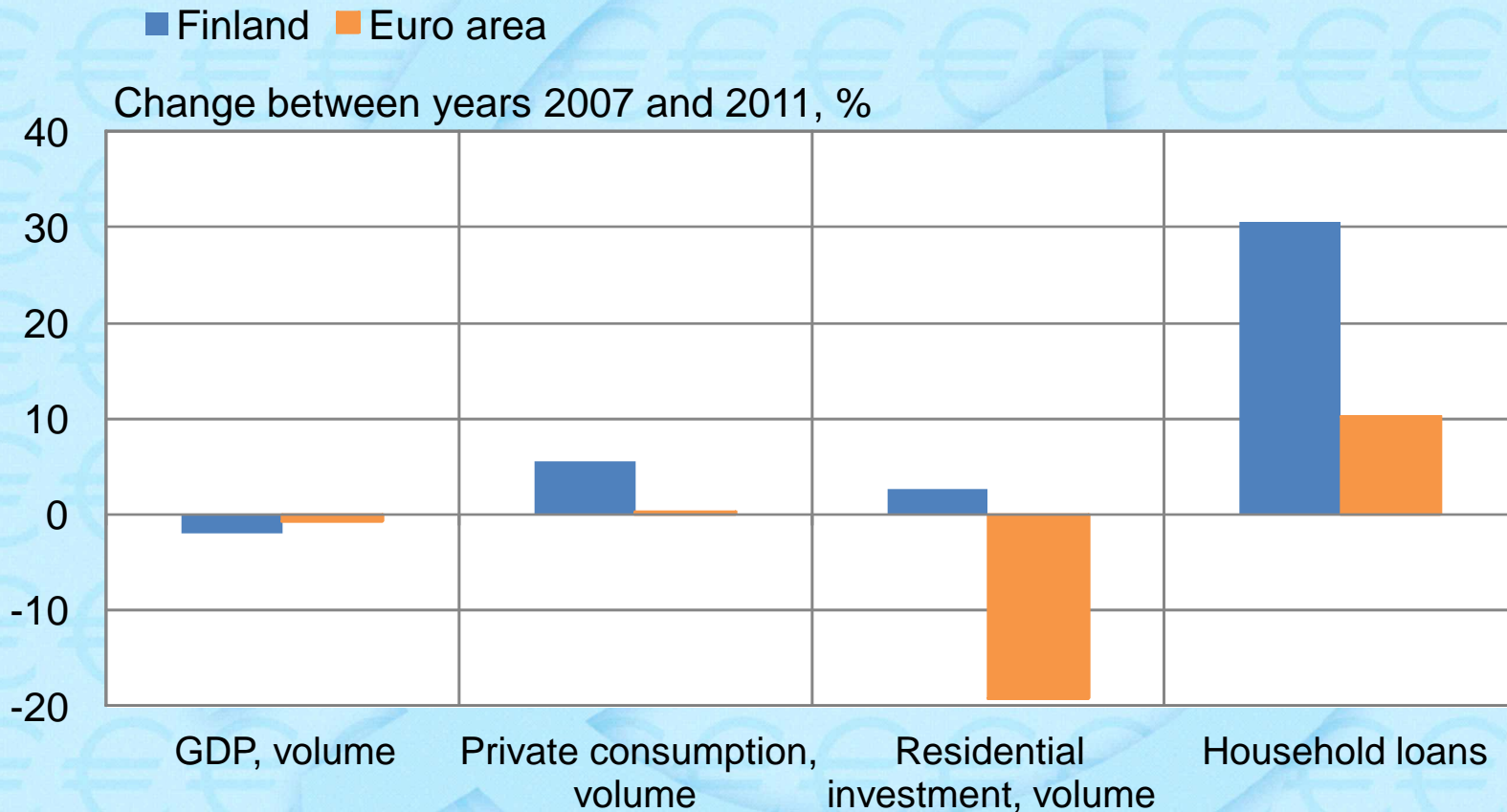
# Steep rise in Finnish unit labour costs in 2008-9



Seasonally adjusted.  
Source: European Central Bank.



# Finnish households moved deeper into debt



Sources: Eurostat and European Central Bank.

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## How the imbalances can be avoided

- ◆ Continued consolidation of public finances
- ◆ Lengthening working careers and other structural reforms to strengthen potential output
- ◆ Controlling the increase in household debt
- ◆ Ensuring cost-competitiveness


# Bank of Finland Bulletin Economic Outlook 3/2012

## Articles:

- ◆ *Assessing the Finnish house price development with various measures*  
-Jarkko Kivistö
- ◆ *Market share of Finnish goods exports contracted sharply in the 2000s*  
-Seppo Orjasniemi and Terhi Ravaska
- ◆ *The long-term growth forecast for the Finnish economy*  
-Helvi Kinnunen, Petri Mäki-Fränti,  
Elisa Newby, Seppo Orjasniemi and  
Jukka Railavo



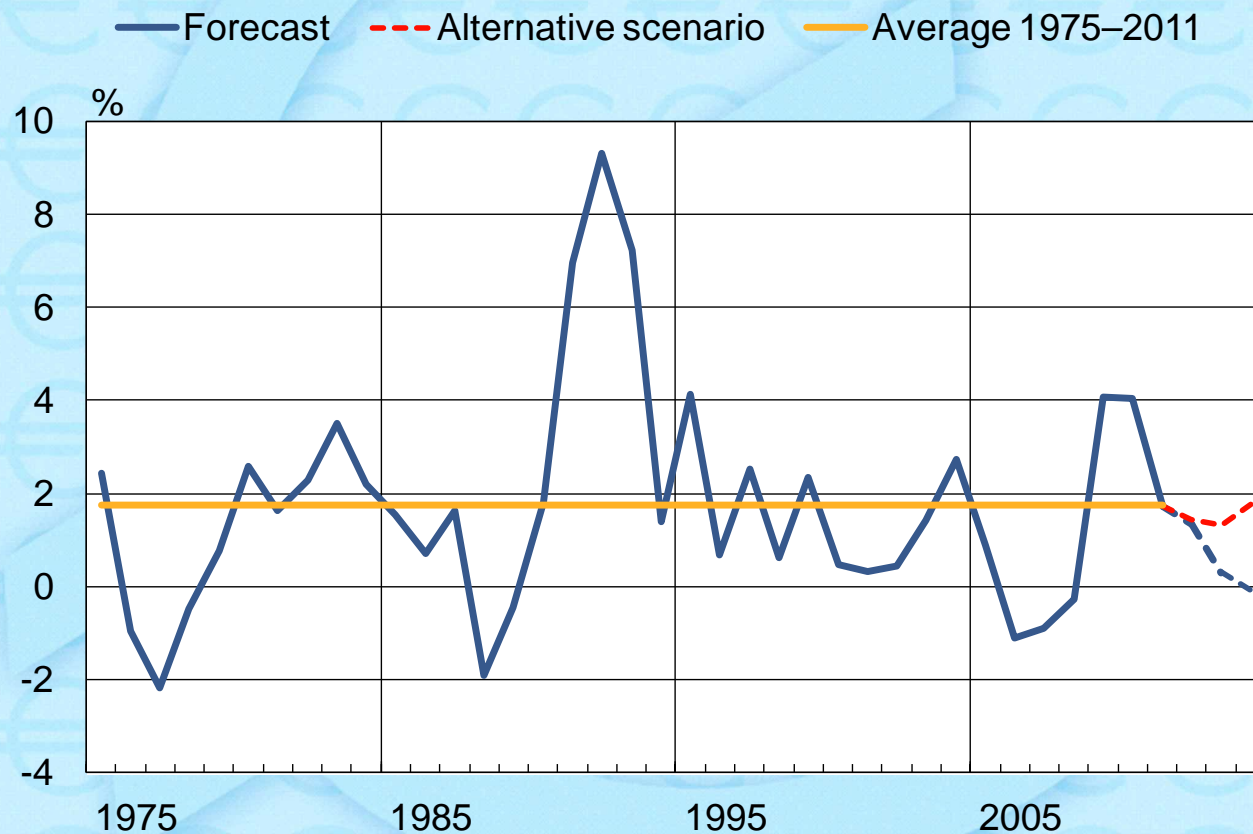
Thank you!



Alternative scenario:  
Households strengthen their financial position  
by adjusting demand

# Savings ratio rises to long-run average level

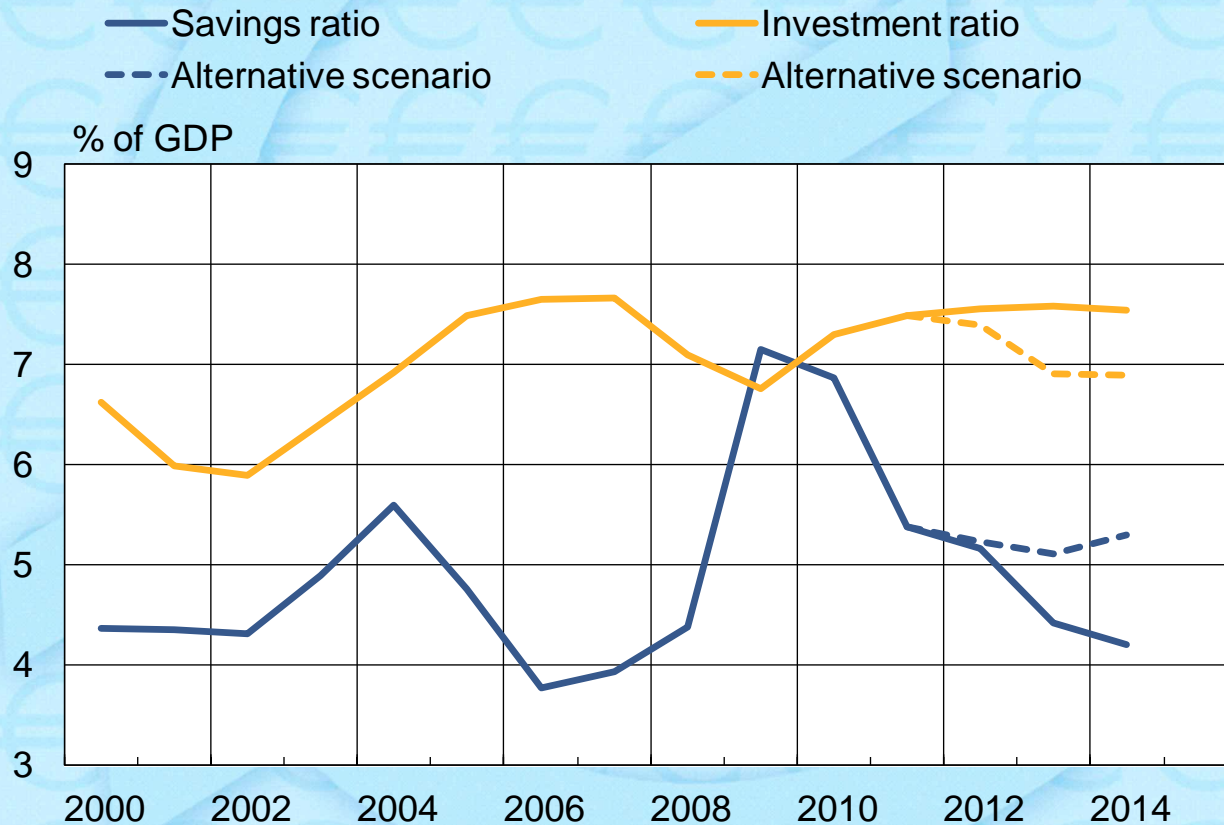
## Household savings ratio 1975–2014



Households and non-profit institutions serving households.  
Sources: Statistics Finland and calculations by the Bank of Finland.

# Also a decline in housing investment

## Households' gross savings and investment ratios



Households and non-profit institutions serving households.

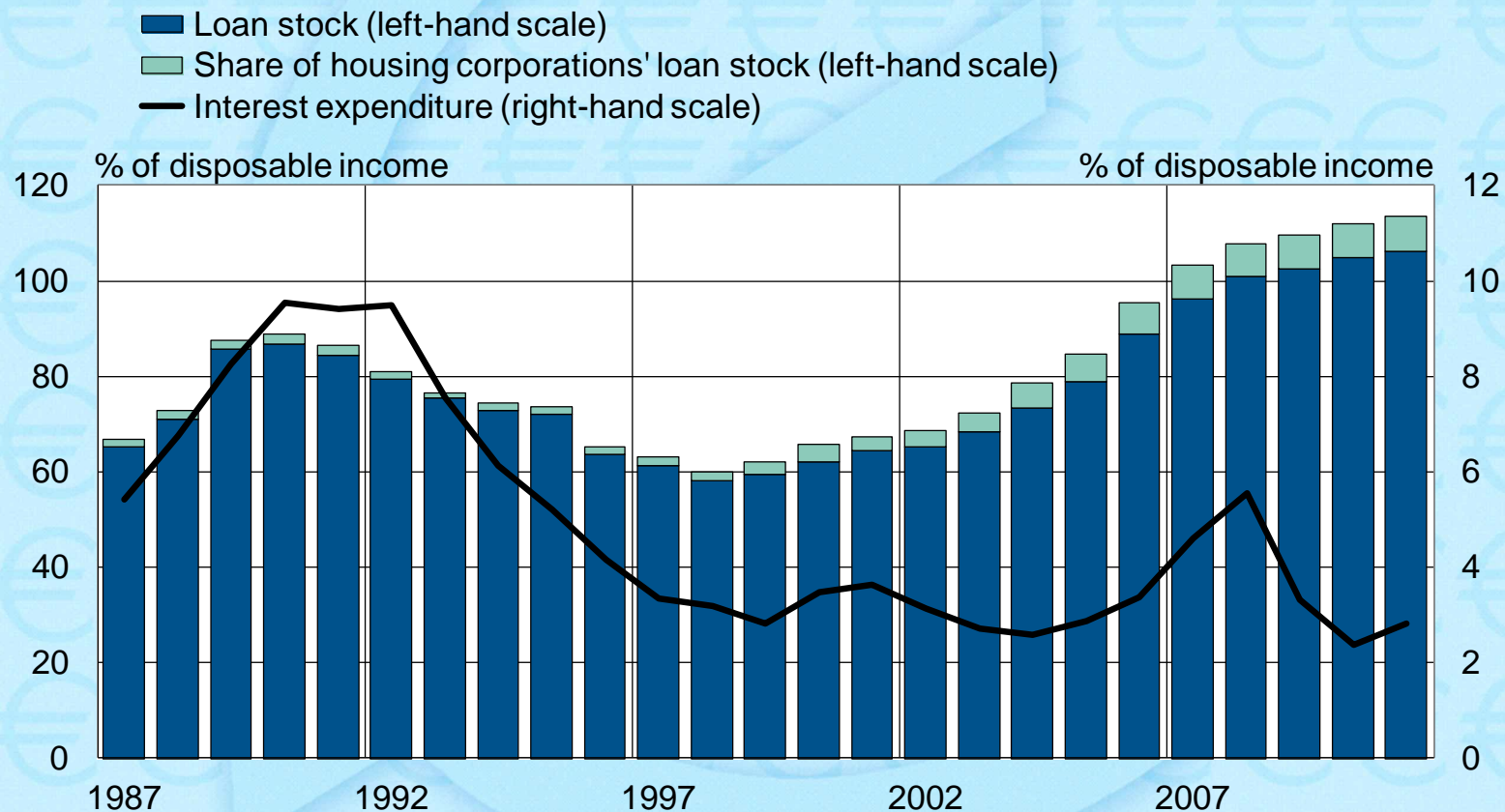
Sources: Statistics Finland and calculations by the Bank of Finland.

# Improved financial balance in household sector would weaken growth and public finances

	2011	2012	2013	2014
<b>GDP, % change</b>	2.9	1.3	0.5	1.5
Difference		-0.2	-0.7	-0.1
<b>Private consumption, % change</b>	3.3	1.0	-0.2	0.8
Difference		-0.4	-1.5	-0.8
<b>Household savings ratio, % of disposable income</b>	1.7	1.5	1.6	2.0
Difference		0.2	1.3	2.1
<b>Current account, % of GDP</b>	-0.7	-0.6	-0.3	0.1
Difference		0.1	0.6	1.0
<b>Net lending by public sector, % of GDP</b>	-0.9	-1.0	-0.7	-0.8
Difference		-0.2	-0.5	-0.9



# Household indebtedness and interest burden in Finland



Sources: Statistics Finland and Bank of Finland calculations.