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Outlook for the Finnish economy 2015–2017





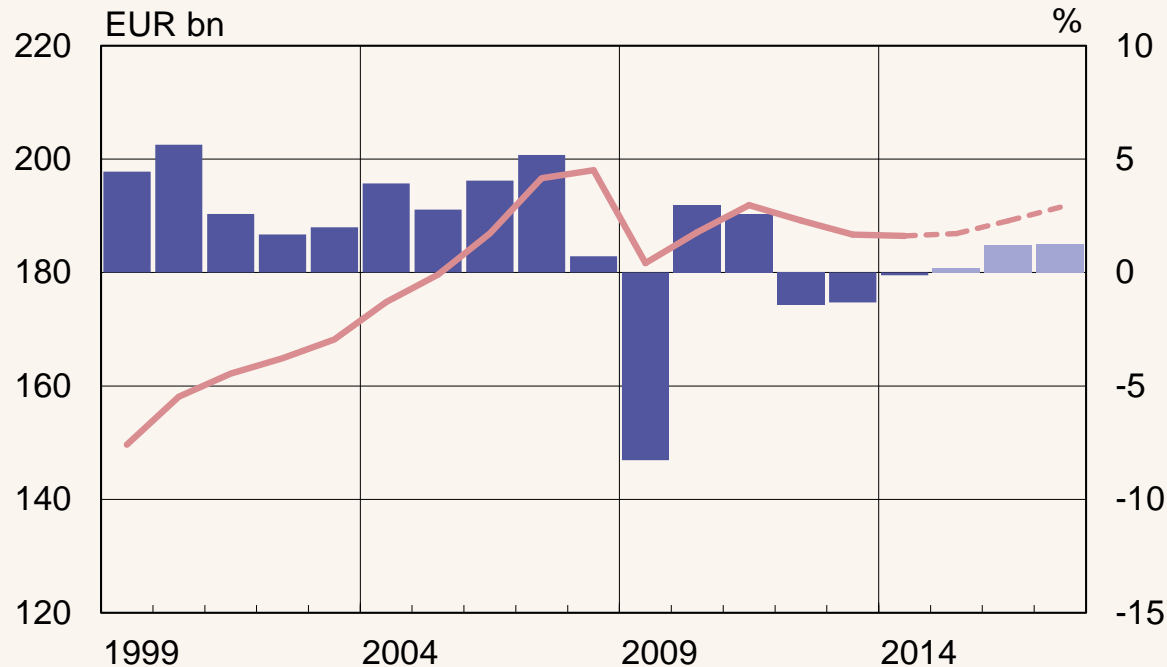
Finland falls further behind euro area growth

- Economic growth will be bolstered by a gradual pick-up in exports
- However, Finland will not reach the pace of euro area recovery during the forecast period
- Fiscal consolidation measures strengthen considerably the fiscal outlook
- The growth effects from fiscal consolidation measures will depend on whether also the cost-competitiveness can be improved



Recovery starts slowly

■ % change on previous year (right-hand scale)
 — At reference year (2010) prices (left-hand scale)



Real GDP, %

	June	December
2014f:	-0.1	-0,2
2015f:	0.2	-0,1
2016f:	1.2	1,0
2017f:	1.3	

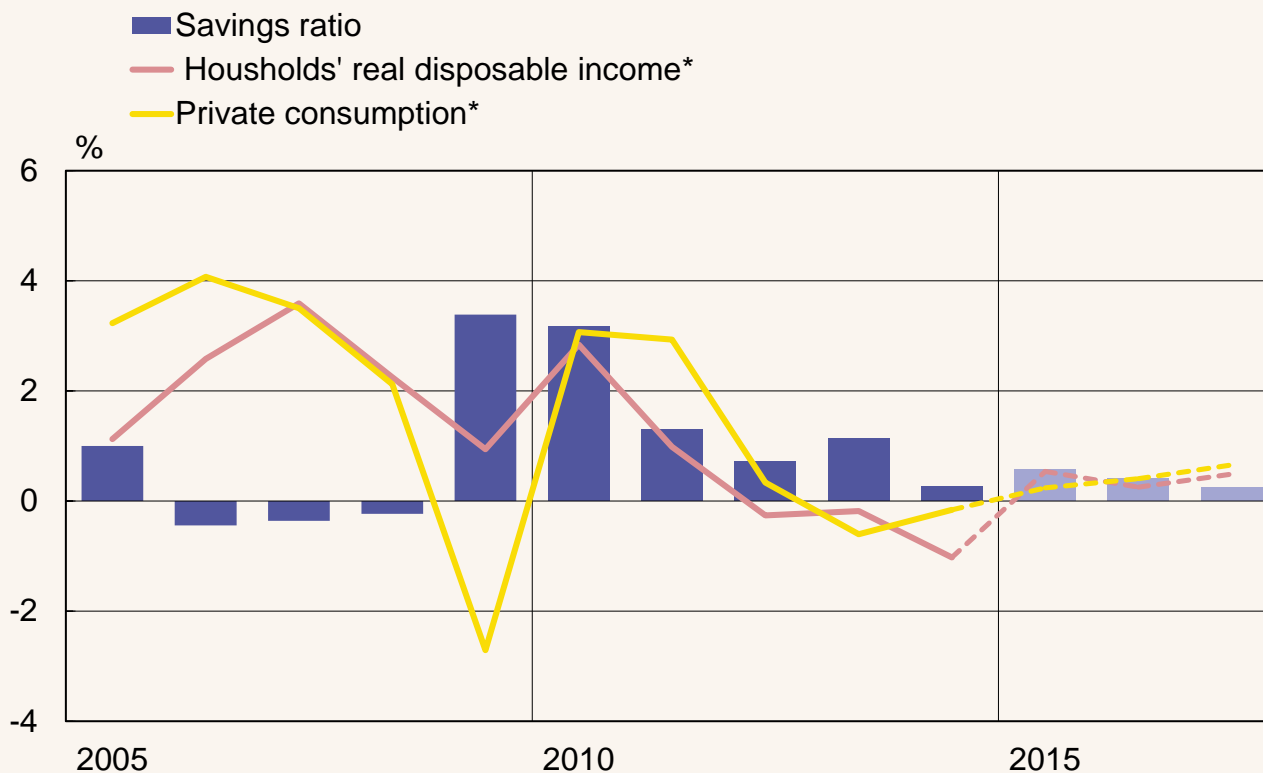
Sources: Statistics Finland and Bank of Finland.



Households and non-financial corporations



Consumption to begin slow growth – savings ratio only slightly positive



Households = households and non-profit institutions serving households.

* % change from previous year

Sources: Statistics Finland and Bank of Finland.

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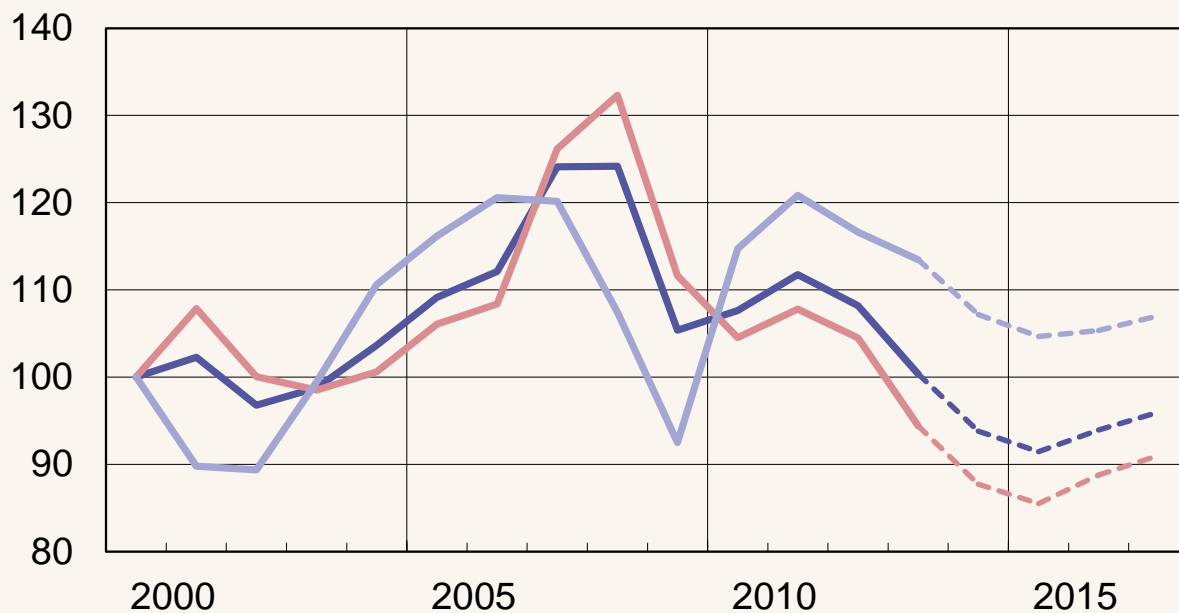


Slow take-off in investment

Investment volumes

- Private investment
- Private investment excl. housing construction
- Housing construction

Index, 2000 = 100



Sources: Statistics Finland and Bank of Finland.

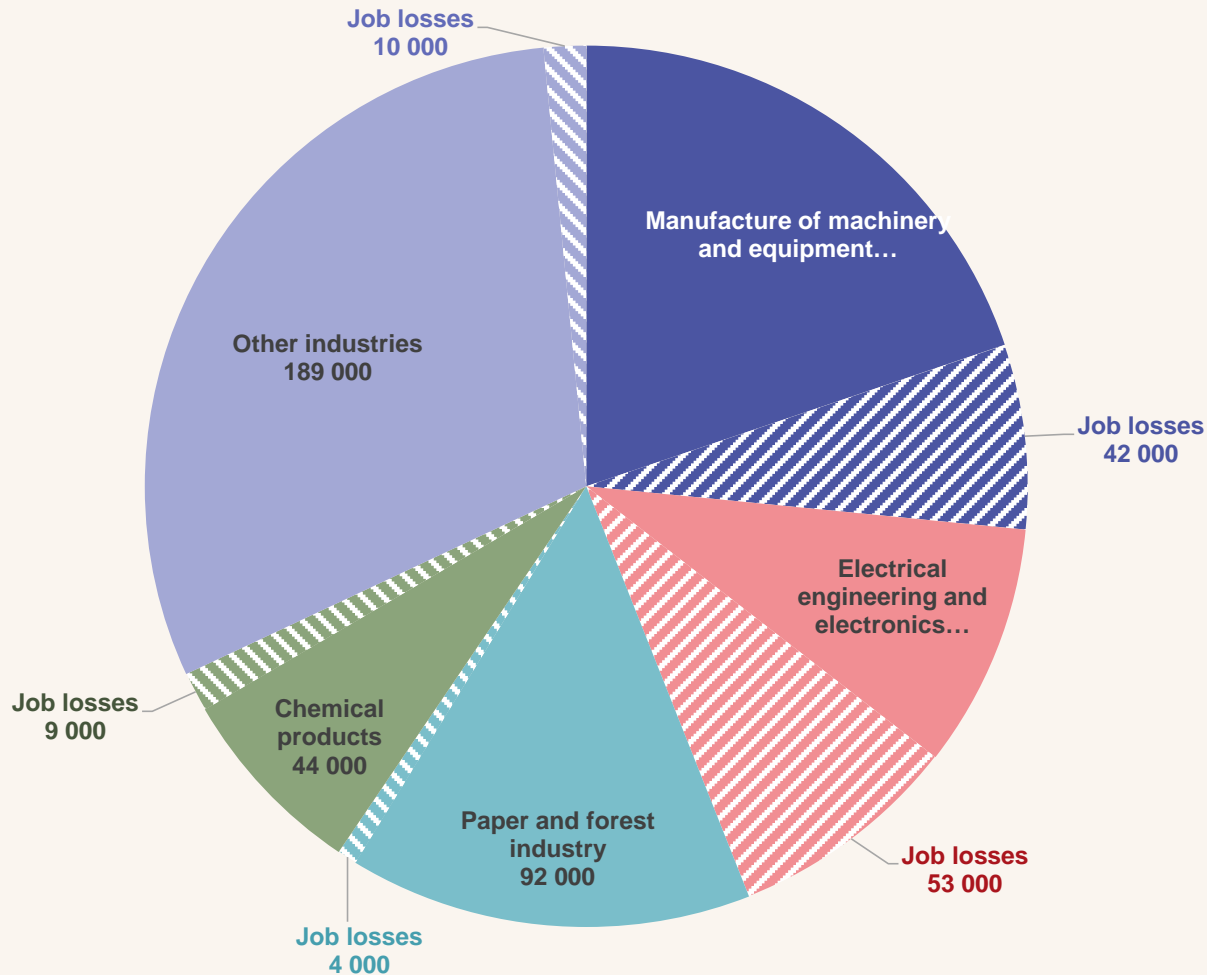
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Foreign trade

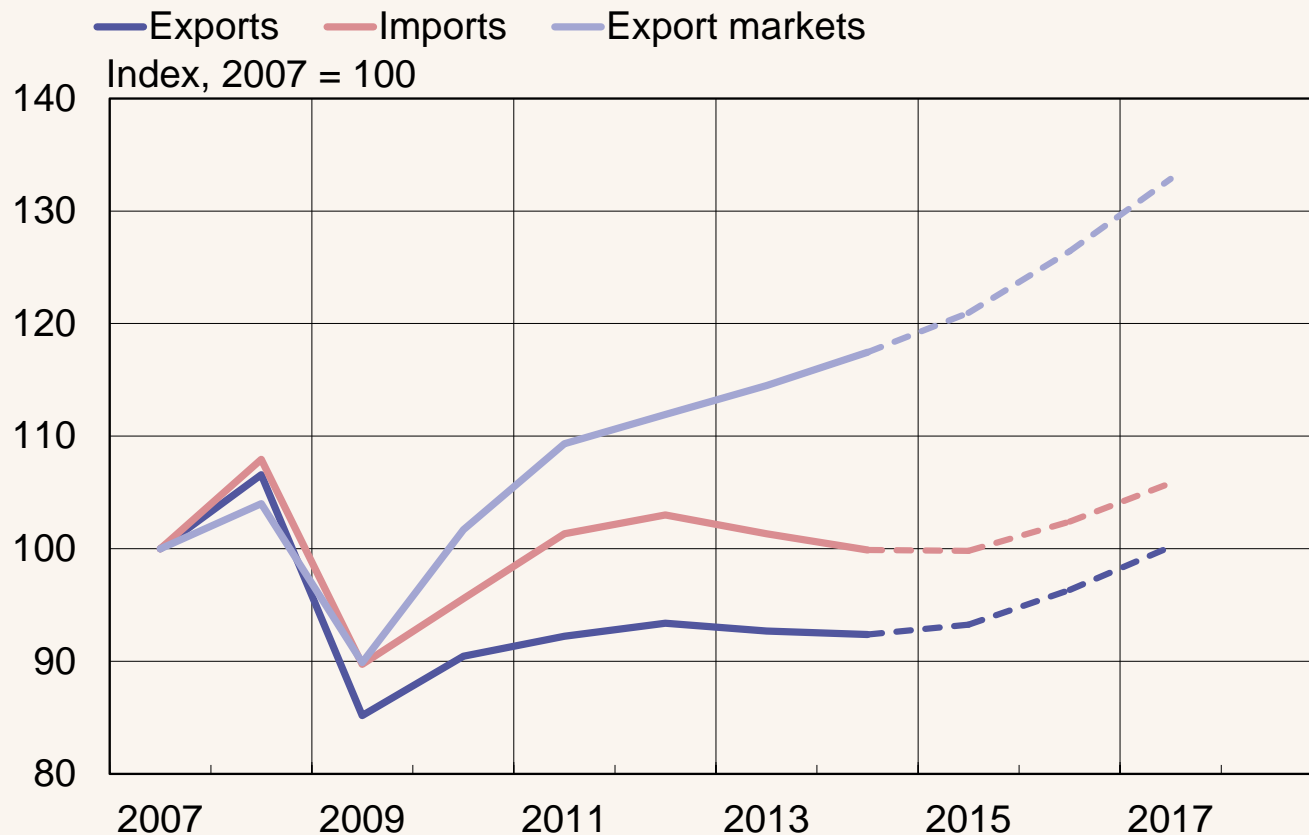


Contribution of exports to growth in 2012, and job losses since the financial crisis





Exports brighter, but export growth still only modest



Source: Statistics Finland and Bank of Finland.

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Labour market

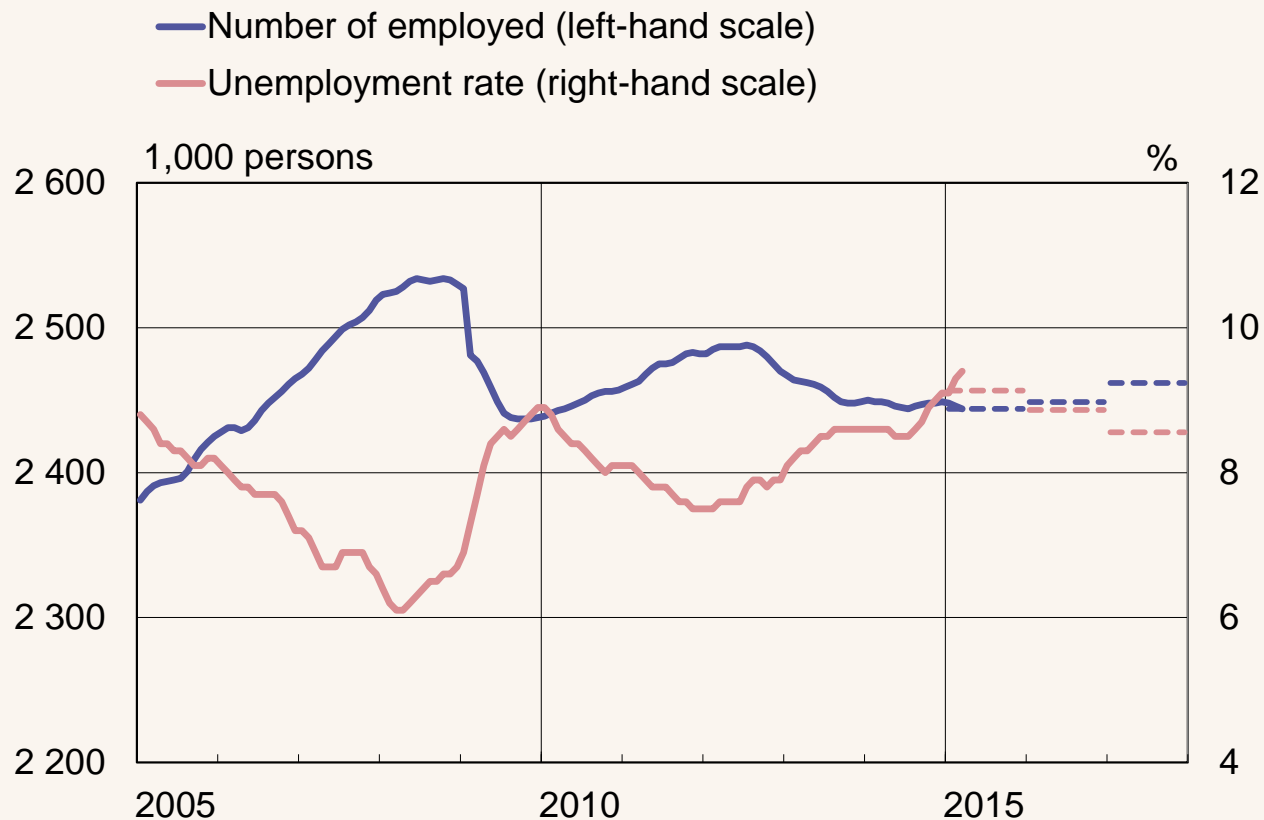


Unemployment already higher than in the recession year 2009

- Less new jobs available in recent years, and uptake slower
- Growth in unemployment increasingly explained by longer spells of unemployment
- Lack of new jobs due to shortage of business start-ups



Slight upward trend in employment



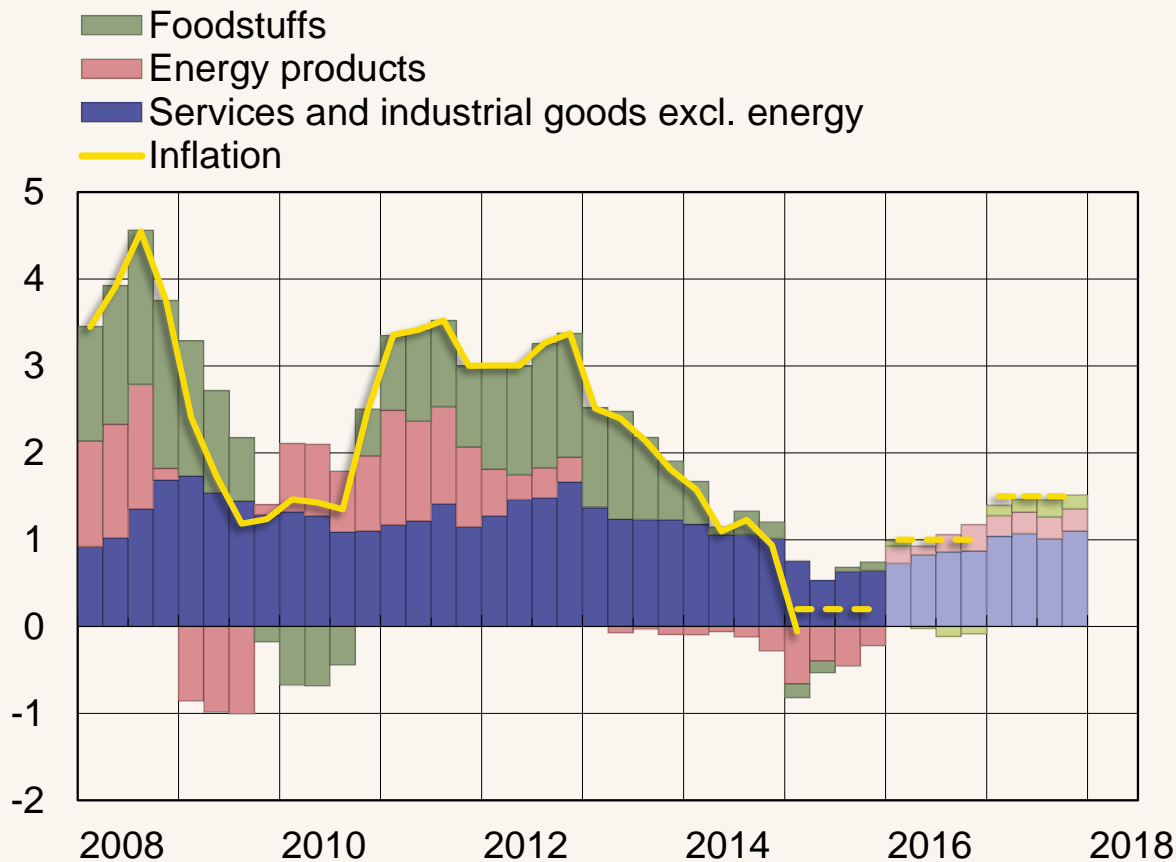
Sources: Statistics Finland and Bank of Finland.



Wages and prices



Inflation sustained by rising service prices



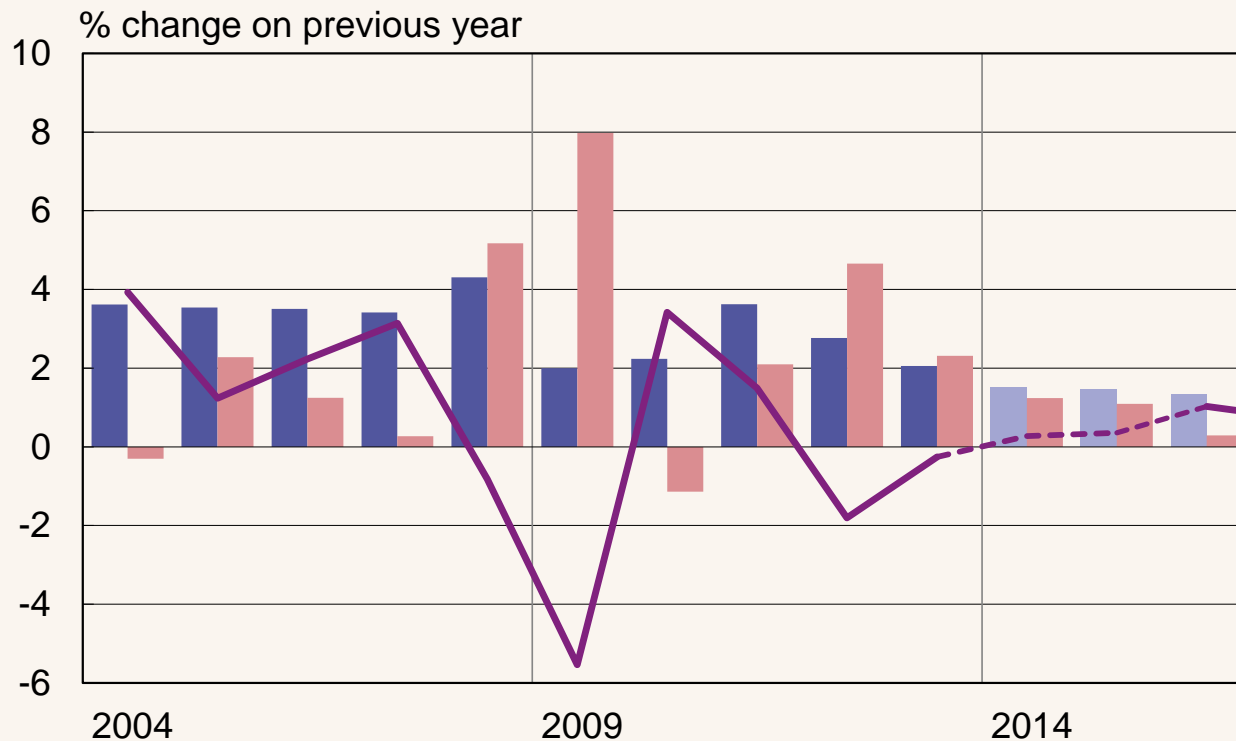
Sources: Statistics Finland and Bank of Finland.

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Slow growth in wages and labour productivity

- Compensation per employee
- Unit labour costs
- Productivity per person employed



Sources: Statistics Finland and Bank of Finland.

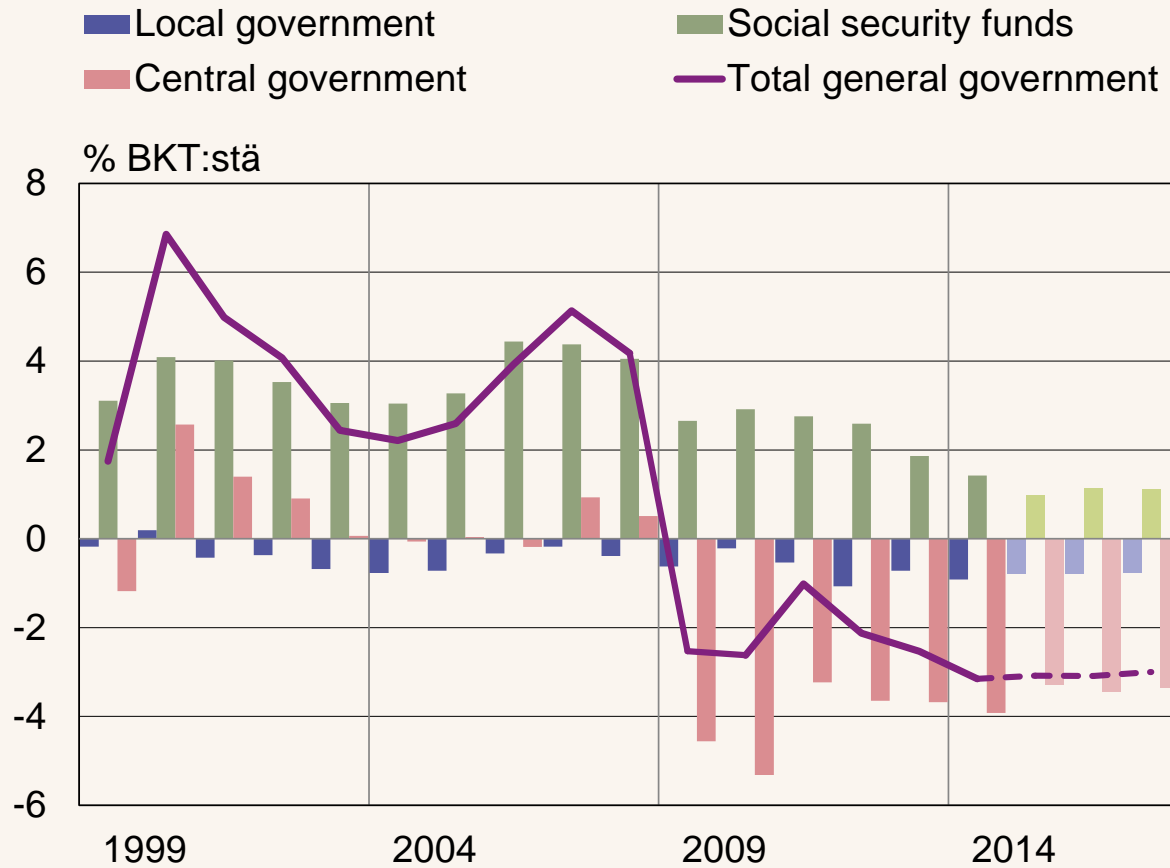
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Public finances



No room for manoeuvre in public finances

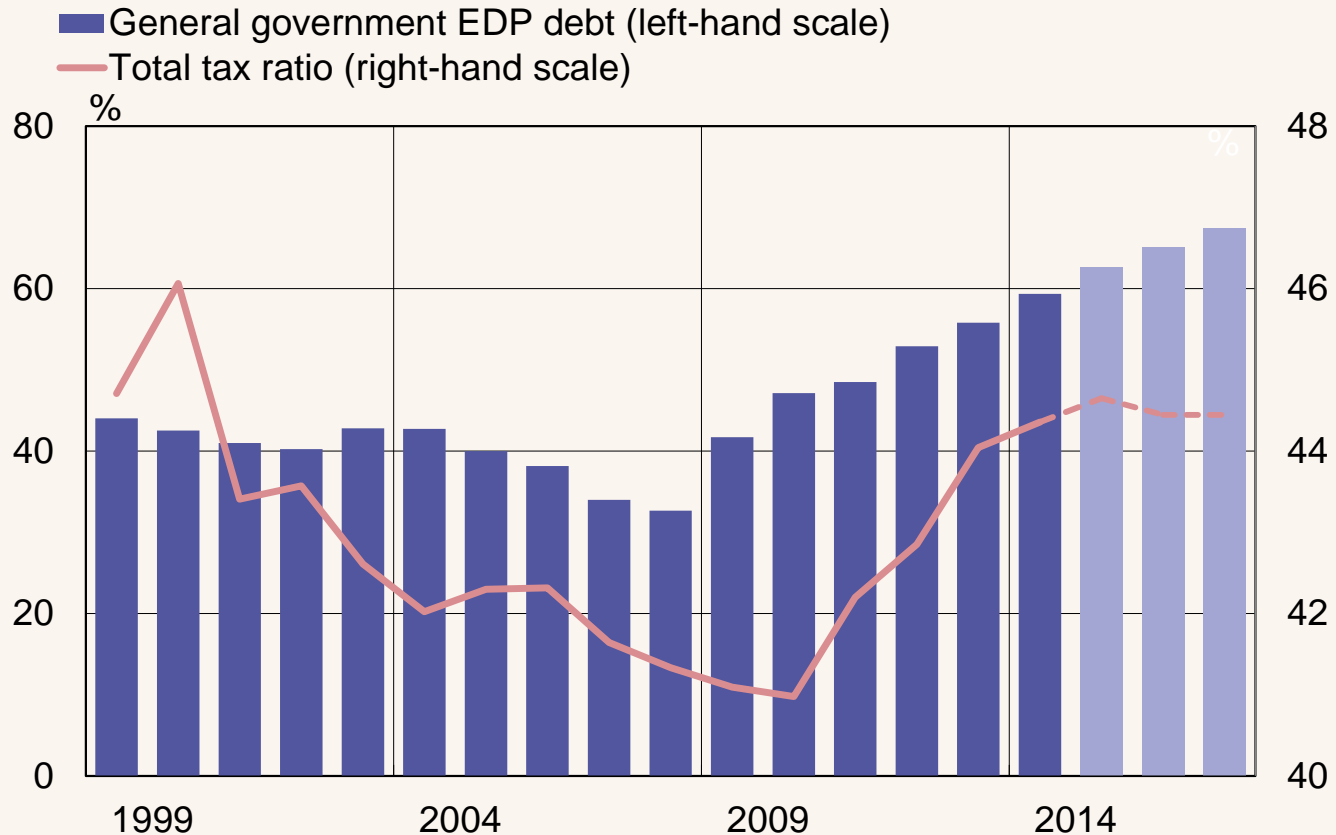


Sources: Statistics Finland and Bank of Finland.

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General government debt ratio continues to grow



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

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Forecast summary

Current and December 2014 forecast

	2015	2016	2017
GDP, % change	0,2	1,2	1,3
December 2014	-0,1	1,0	
Inflation (HICP) %	0,2	1,0	1,5
December 2014	1	1,4	
Current account, % of GDP	-1,1	-0,8	-0,6
December 2014	-1,7	-1,7	
General government net lending, % of GDP	-3,1	-3,1	-3,0
December 2014	-2,2	-2,2	
General government debt (EDP), % of GDP	62,5	65,1	67,3
December 2014	61,7	63,8	
Unemployment rate	9,1	8,9	8,6
December 2014	8,5	8,2	

Source: Bank of Finland.



Alternative scenario

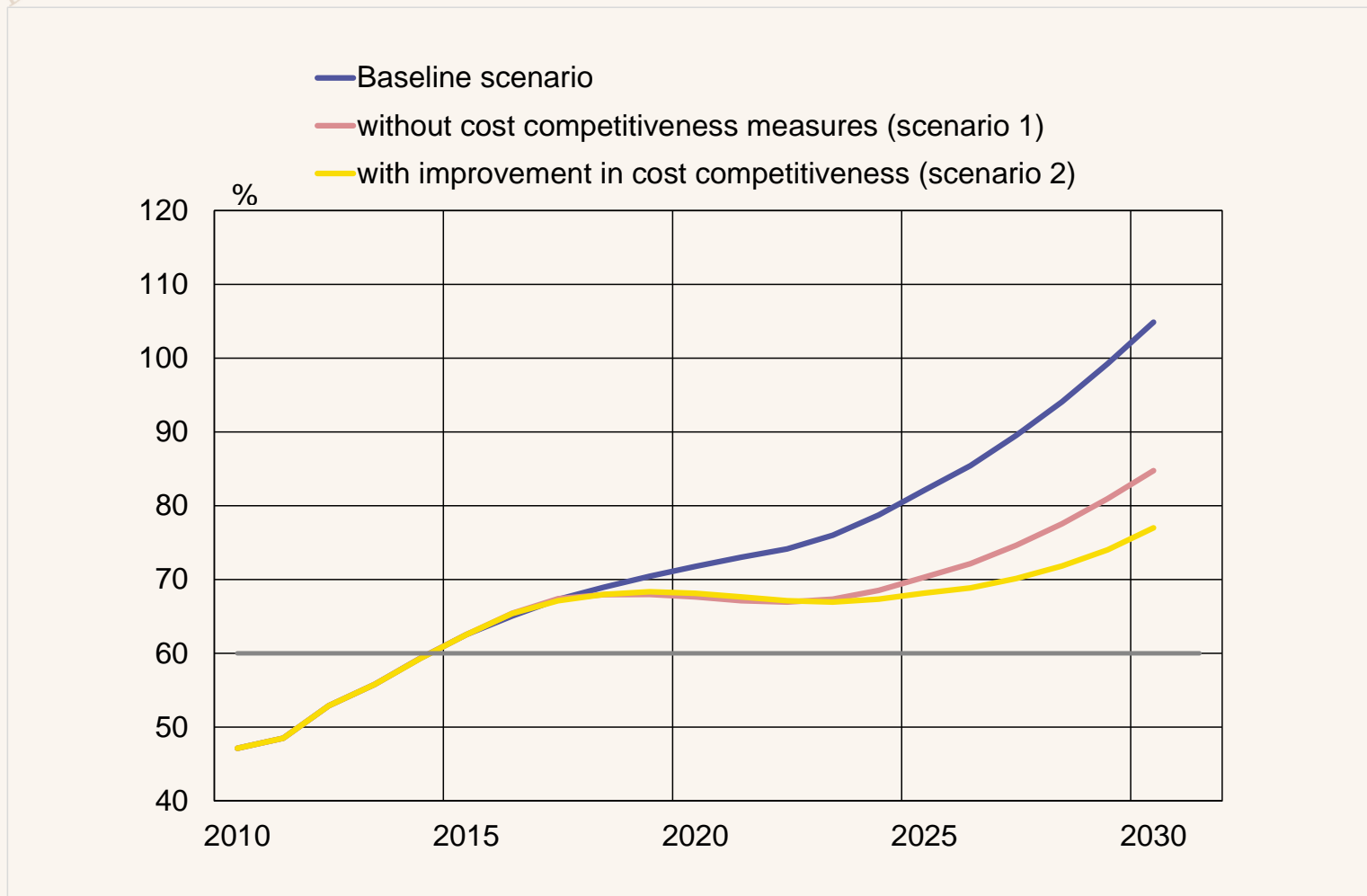


Fiscal consolidation programme will have macroeconomic effects

- **Scenario 1** assumes expenditure cuts in line with the Government's economic policy programme and conditional measures from 2018 onwards,
 - conditional measures to include tax increases and further expenditure adjustments in line with the economic policy programme.
- **Scenario 2** assumes expenditure cuts in line with the economic policy programme, and that unit labour costs will fall by around 5% by 2019.
 - This scenario additionally assumes income tax cuts in 2018 and 2019 in line with the conditional measures in the programme.



Public finances to strengthen if Government Programme implemented as planned





Comparison of alternative scenarios

% change on previous year	2016	2017	2019	2021	
GDP					
Baseline	1.2	1.3	1.4	1.3	↓
Scenario 1*	-0.5	0.0	-0.1	0.1	↑
Scenario 2*	-0.4	0.3	1.6	0.7	
Unit labour costs					
Baseline	0.7	1.1	1.6	1.7	
Scenario 1*	-0.3	-0.4	-0.1	0.1	↓
Scenario 2*	-0.6	-0.8	-2.0	-0.3	↓

* Deviation from baseline, %



Thank you