

Juha Kilponen
Suomen Pankki

Economic Outlook 2015-2017

Euro & talous 10 December 2015





Economic situation for Finland continues to be difficult

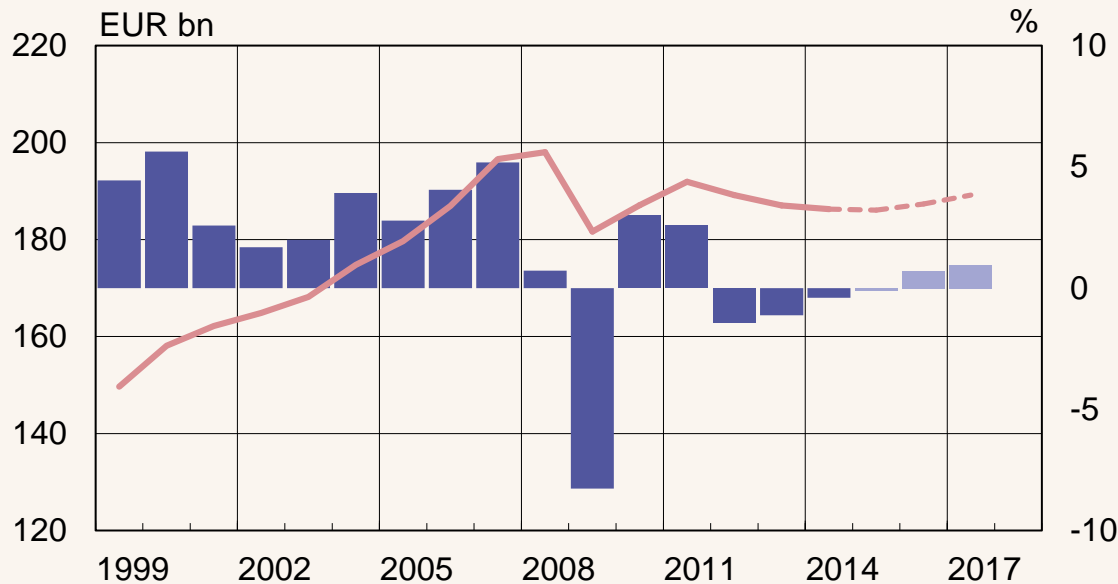
- Economic growth in Finland will be among the weakest in the euro area in the forecast period
- Finland's export market dynamics weaker than previously forecast
- Productivity growth will remain very slow, with no improvement in competitiveness
- No significant correction in the general government balance



Growth will remain subdued

Real GDP

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



Sources: Statistics Finland and Bank of Finland.

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Real GDP, %

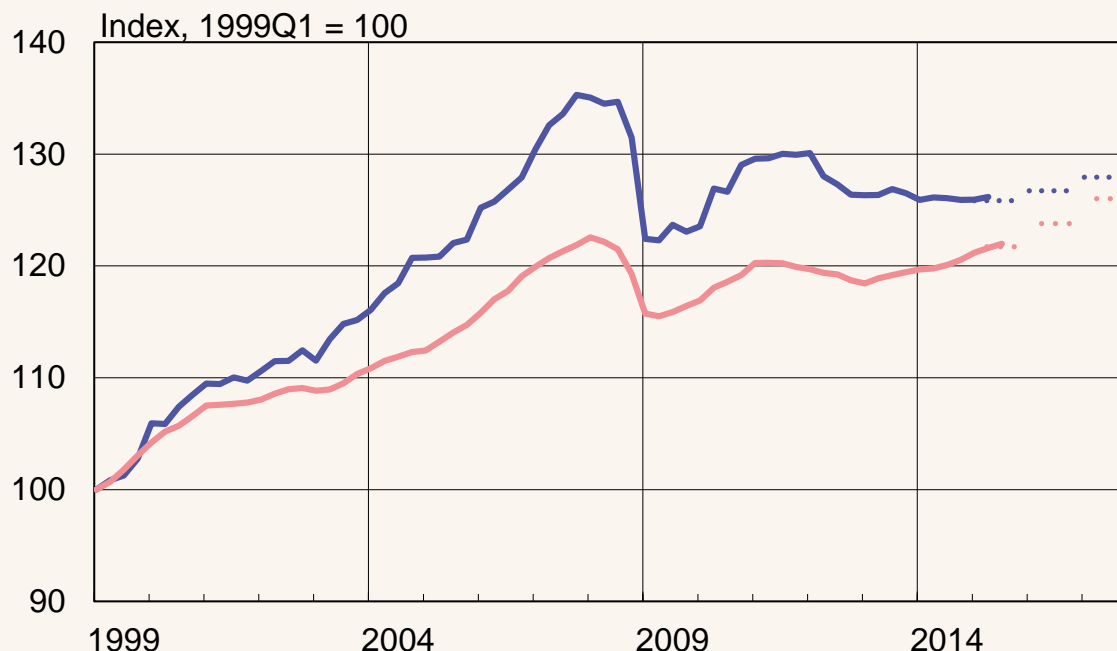
	December	June
2014f:	-0.4	-0.1
2015f:	-0.1	0.2
2016f:	0.7	1.2
2017f:	1.0	1.3



Euro area growth broadly based; Finland will fall behind

Real, GDP

— Finland — Euro area



Real GDP, %

	Finland (BoF)	Euro area (ECB)
2014:	-0.4	0.9
2015f:	-0.1	1.5
2016f:	0.7	1.7
2017f:	1.0	1.9

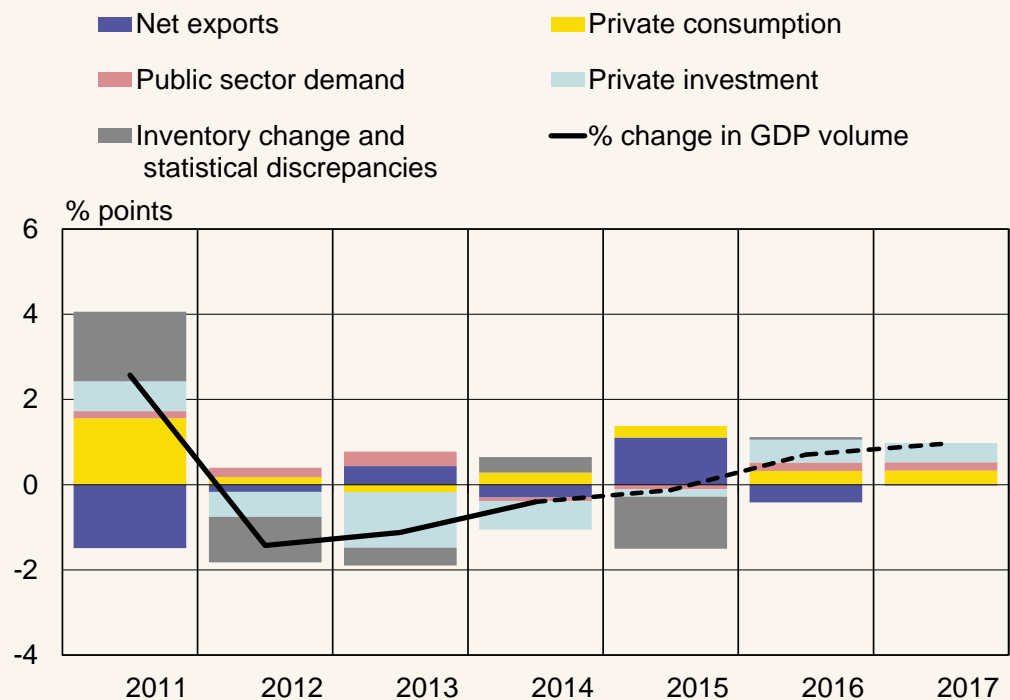
Forecasts: Bank of Finland (Finland) and European Central Bank (euro area).
Sources: Statistics Finland, Eurostat, Bank of Finland and ECB

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Frail growth dependent on domestic demand

Contributions to growth, components of aggregate 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 2015–2017 are forecasts.

Sources: Statistics Finland and Bank of Finland.

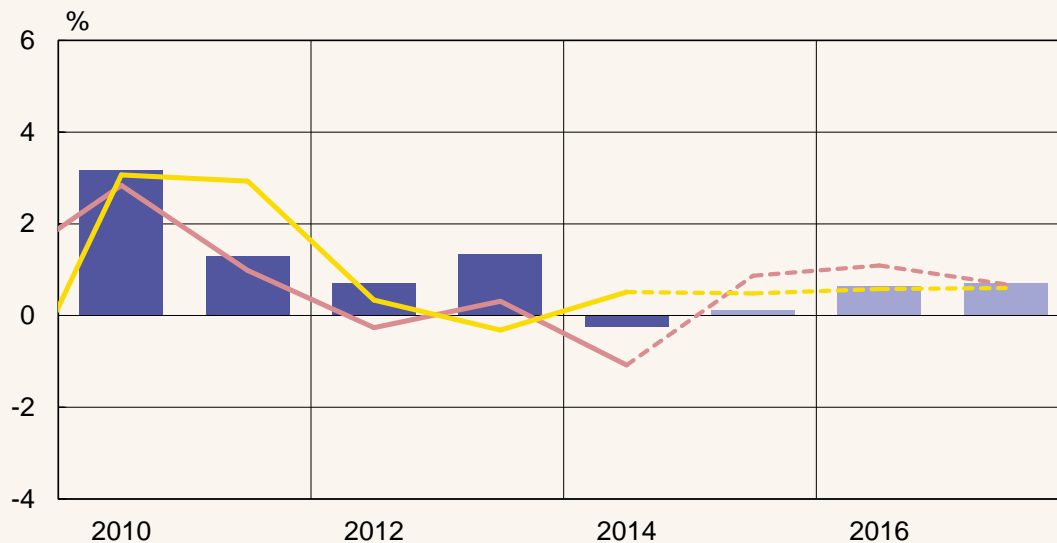
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Real income growth will sustain consumption

Household's disposable income, consumption and savings

- Savings ratio
- Households' real disposable income*
- Real private consumption*



Real private consumption, %

	December	June
2014:	0.5	-0.2
2015f:	0.5	0.2
2016f:	0.6	0.4
2017f:	0.6	0.7

Households = households and non-profit institutions serving households.

* % change from previous year

Sources: Statistics Finland and Bank of Finland.

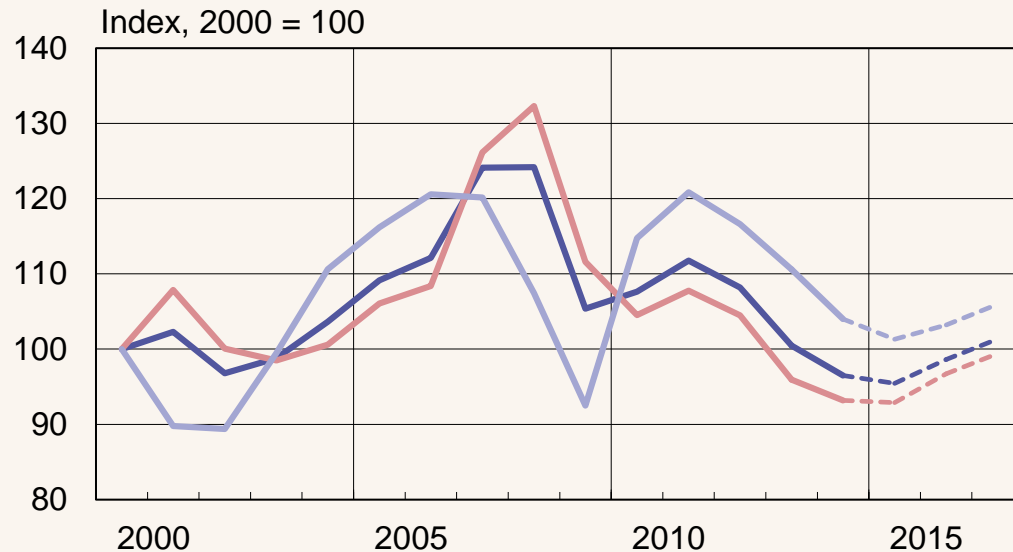
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Investment recovers slowly – investment rate remains low

Slight upturn of investments

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



Sources: Statistics Finland and Bank of Finland.

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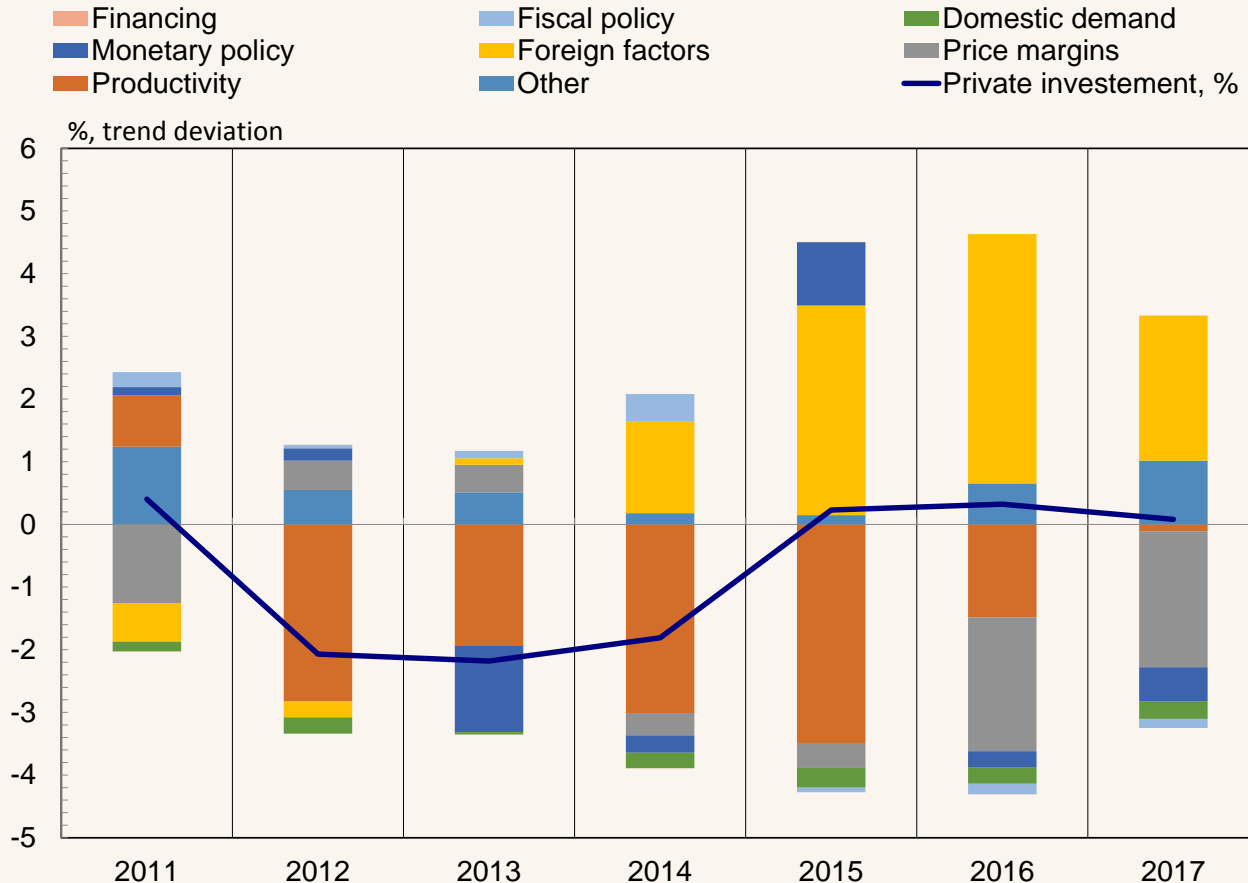
Private investment, %

December June

2014:	-3.9	-6.5
2015f:	-1.1	-2.5
2016f:	3.3	2.7
2017f:	2.8	2.2



What explains investment growth?



Source: Bank of Finland calculations.

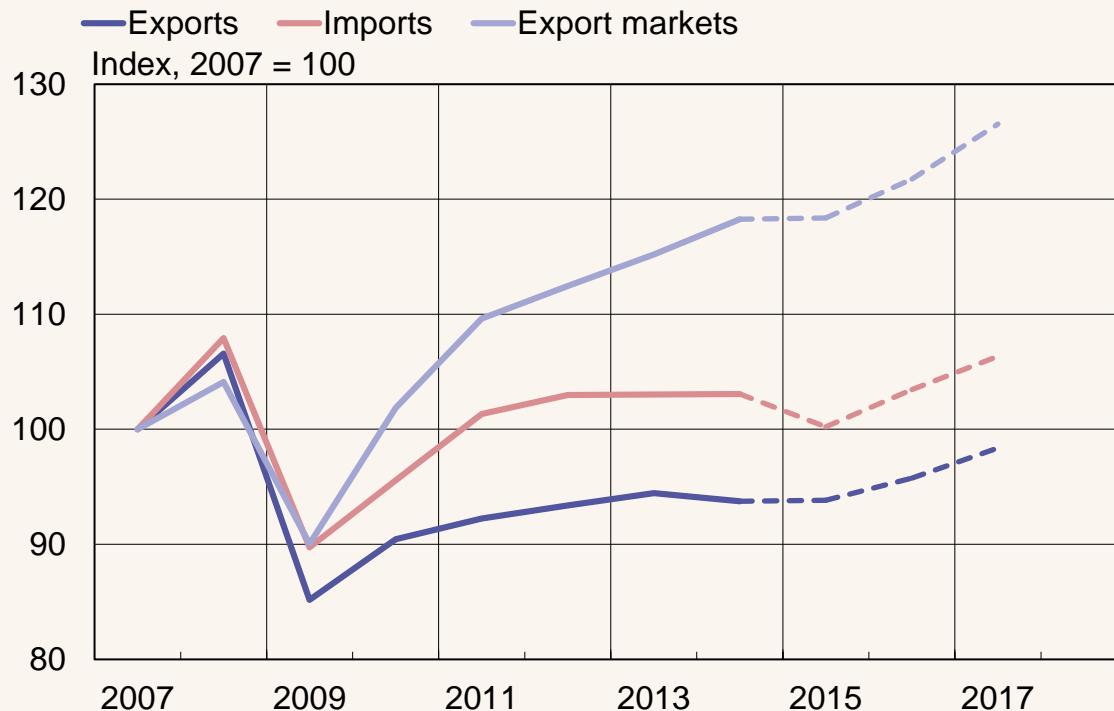


Foreign trade and external balance



The recovery of exports delayed

Developments in Finnish exports, imports and export markets



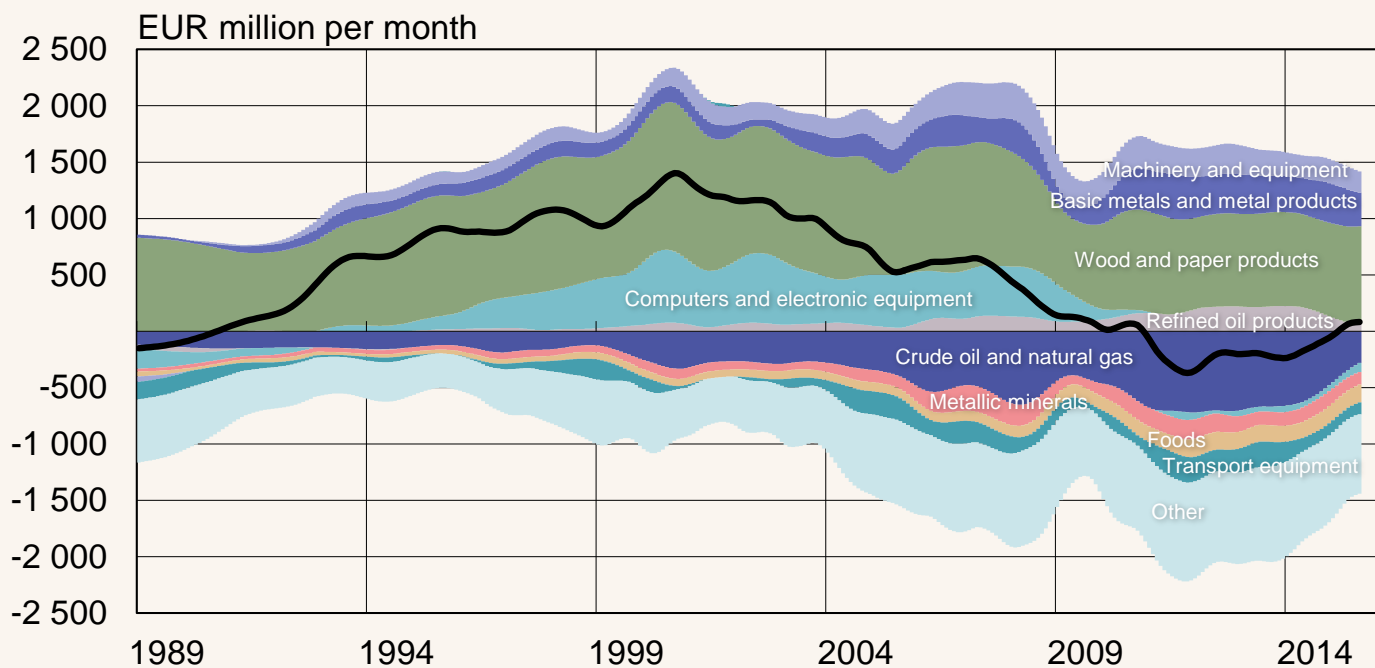
	Exports, %	
	December	June
2014:	-0.7	-0.4
2015f:	0.1	0.6
2016f:	2.1	3.3
2017f:	2.7	4.0

Source: Statistics Finland and Bank of Finland.



Forest industry still one of the pillars of foreign trade

Finland's trade balance by goods category



Converted into 2014 euros using the GDP deflator; data-smoothing by the HP filter.
Sources: Finnish Customs and calculations by the Bank of Finland.

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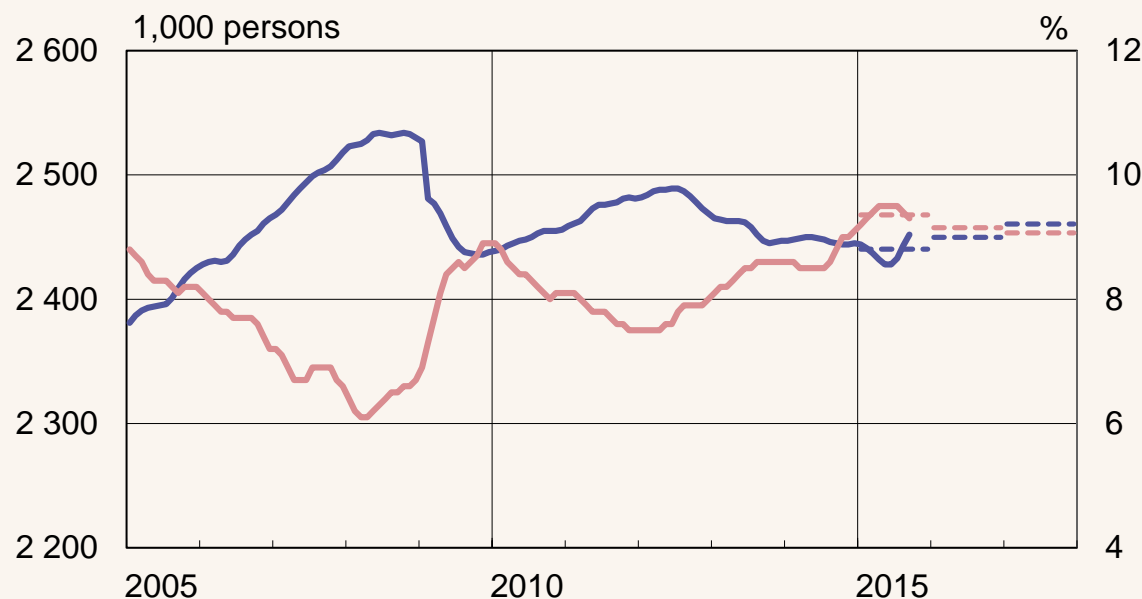
Labour market



Labour market decline bottomed out

Unemployment and employed population, trend

- Number of employed (left-hand scale)
- Unemployment rate (right-hand scale)



Unemployment rate, %

	December	June
2014f:	8.7	8.7
2015f:	9.4	9.1
2016f:	9.2	8.9
2017f:	9.1	8.6

Sources: Statistics Finland and Bank of Finland.

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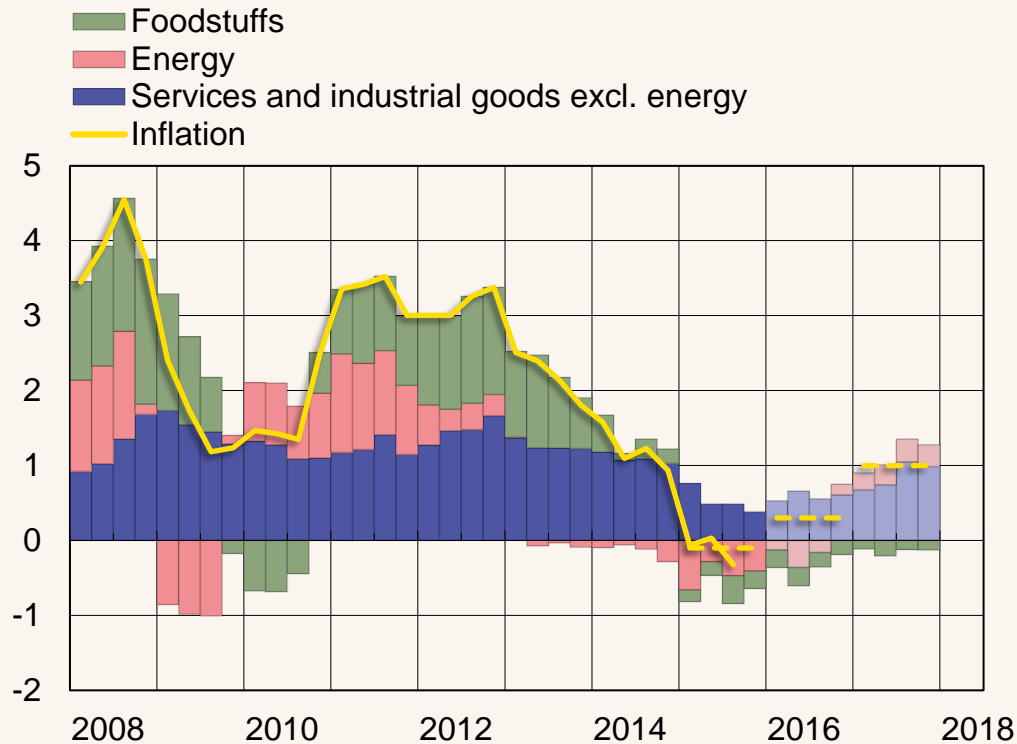


Wages and prices



Inflation sluggish

Components of HICP inflation



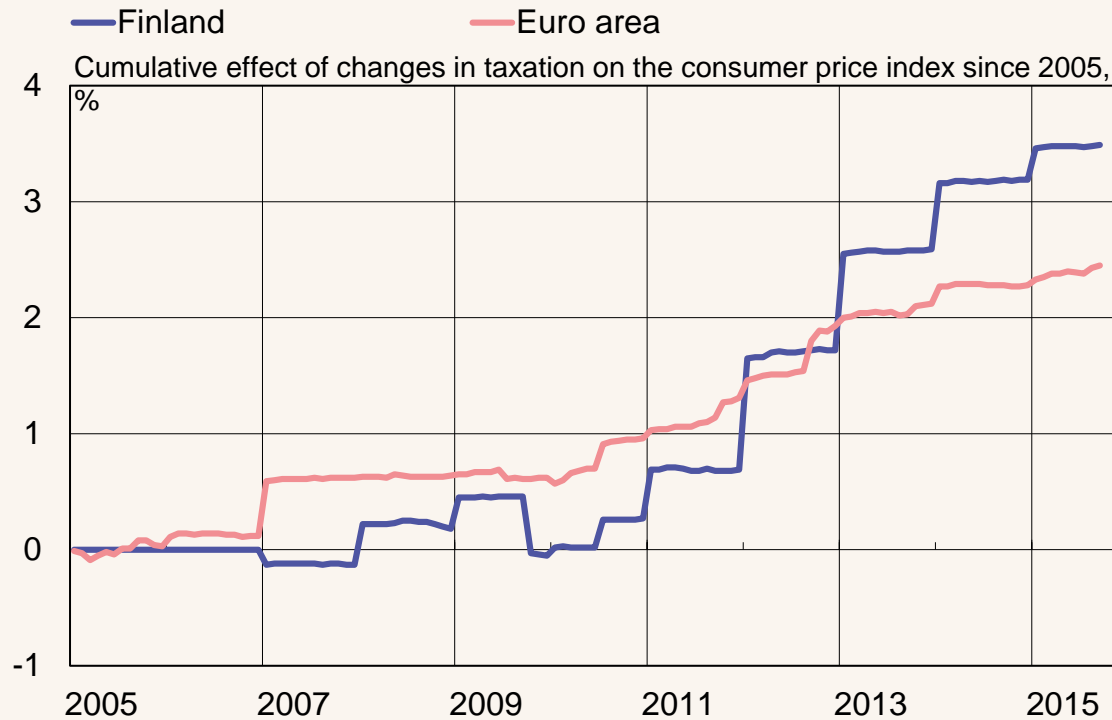
	HICP, %	
	December	June
2014:	1.2	1.2
2015f:	-0.1	0.2
2016f:	0.3	1.0
2017f:	1.0	1.5

Sources: Statistics Finland and Bank of Finland.

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Differences in Finnish and euro area inflation partly explained by increases in indirect taxation



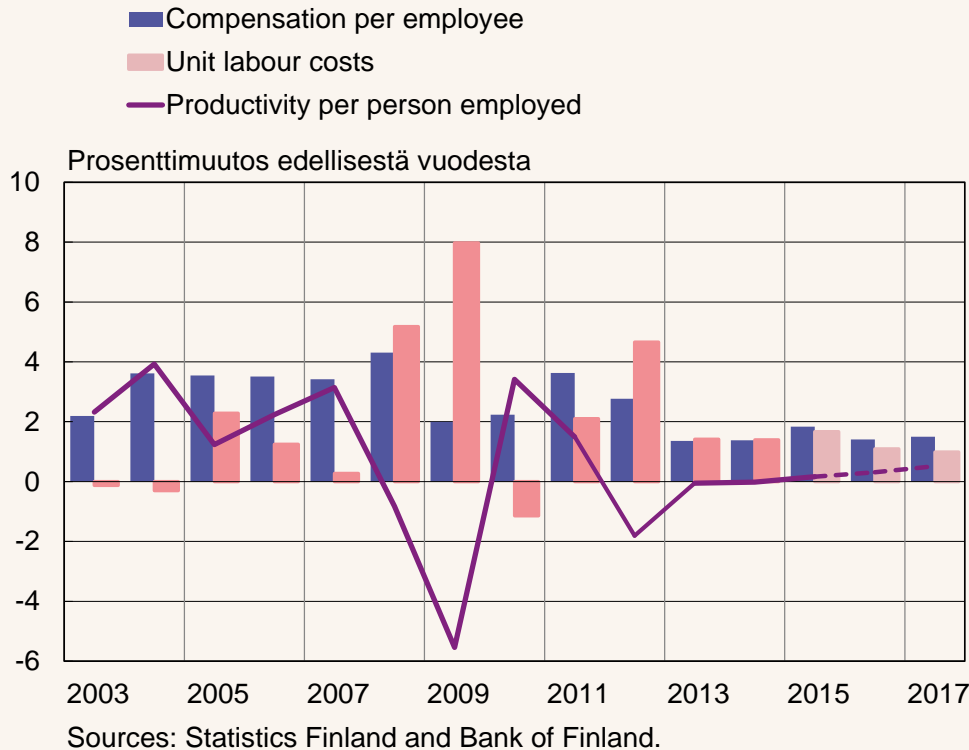
Source: European Central Bank.

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Slow growth in wages and labour productivity

Productivity and wage developments



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Compensation per employee and productivity, %

	Compensation per employee	Productivity
2014:	1.4	0.0
2015f:	1.8	0.2
2016f:	1.4	0.3
2017f:	1.5	0.5



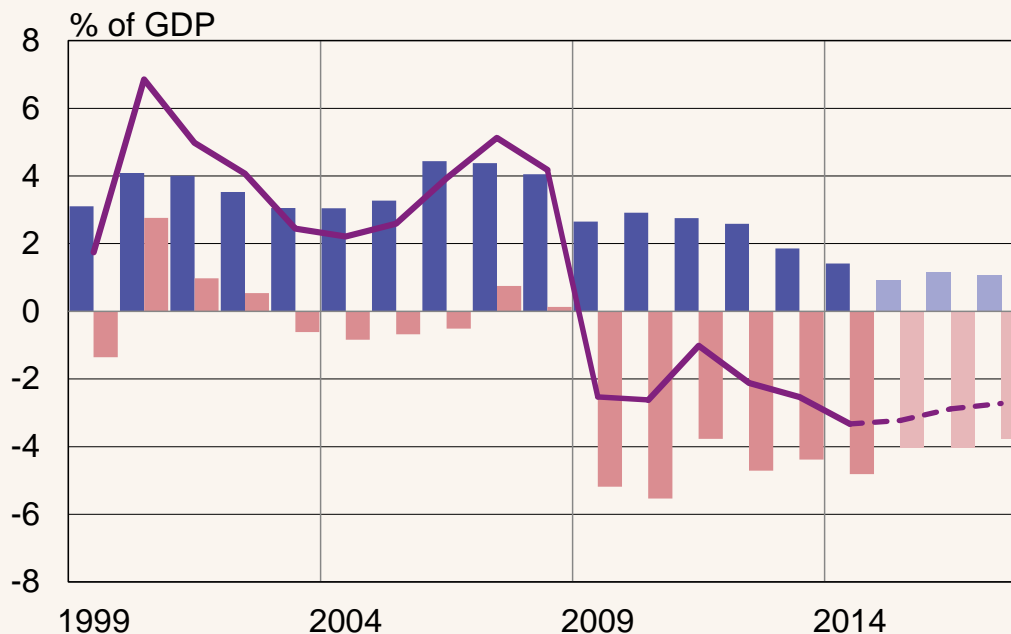
Public finances



Public finances will barely improve

General government net lending

- Social security funds
- Central government and local government
- Total general government



Sources: Statistics Finland and Bank of Finland.

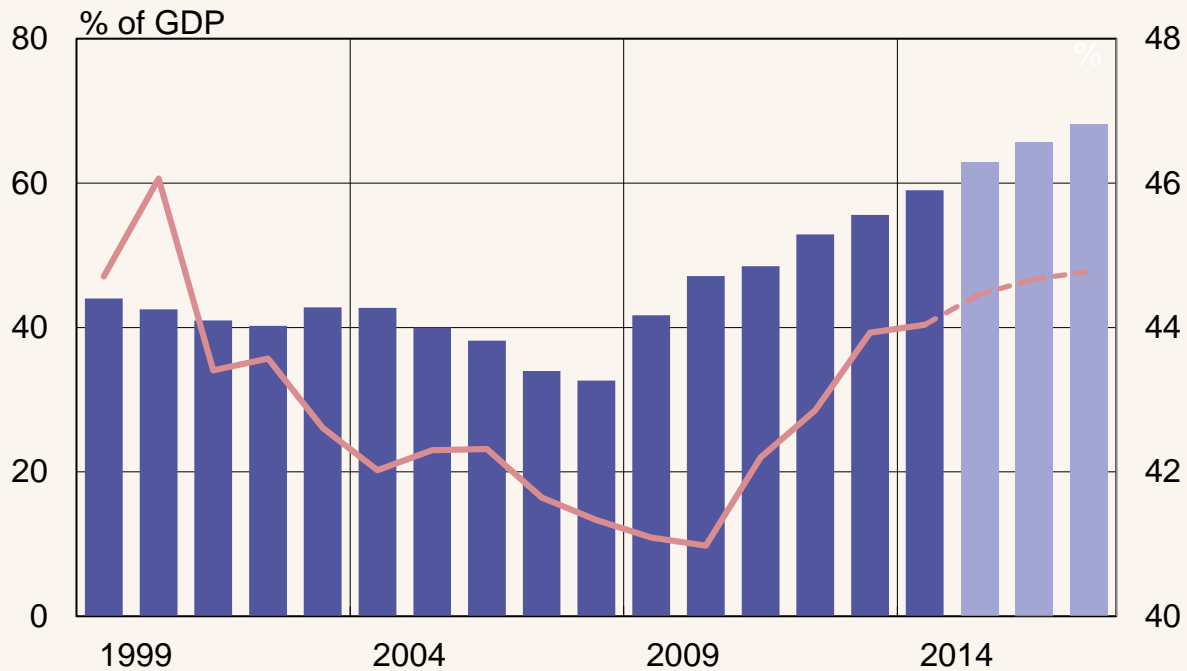
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Debt will continue to grow at a rapid pace – debt ratio will exceed 68%

General government debt and total tax ratio

- General government EDP debt (left-hand scale)
- Total tax ratio (right-hand scale)



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

Debt ratio, %

December June

2014:	59.3	59.3
2015f:	62.8	62.5
2016f:	65.7	65.1
2017f:	68.1	67.3



Risks and alternative scenario



Forecast risks more on the downside

- [-] Uncertainties in the global economy
- [+] Euro area demand may recover faster than expected
- [-] In the domestic economy, the main risks relate to economic policy and the labour market
- **Alternative scenario:** Finnish exports fall further behind export markets



Forecast summary

Forecast summary

Percentage change on previous year

	2014	2015 ^f	2016 ^f	2017 ^f		2014	2015 ^f	2016 ^f	2017 ^f
Gross domestic product	-0.4	-0.1	0.7	1.0	Labour market				
Private consumption	0.5	0.5	0.6	0.6	Hours worked	-0.7	0.1	0.5	0.5
Public consumption	-0.2	-0.1	0.6	0.6	Total employment	-0.4	-0.3	0.4	0.4
Private fixed investment	-3.9	-1.1	3.3	2.8	Unemployment rate, %	8.7	9.4	9.2	9.1
Public fixed investment	-0.9	-2.3	1.3	1.4	Unit labour costs	1.4	1.7	1.1	1.0
Exports	-0.7	0.1	2.1	2.7	Compensation per employee	1.4	1.8	1.4	1.5
Imports	0.0	-2.8	3.2	2.8	Productivity	0.0	0.2	0.3	0.5
Contributions to growth					Gross domestic product deflator	1.6	0.5	1.0	1.0
Domestic demand	-0.5	0.0	1.1	1.0	Private consumption deflator	1.6	0.2	0.4	1.0
Net exports	-0.3	1.1	-0.4	0.0					
Inventory change + statistical discrepancy	0.4	-1.2	0.1	0.0					
Household saving ratio, %	-0.3	0.1	0.6	0.7	Harmonised index of consumer prices	1.2	-0.1	0.3	1.0
					Excluding energy	1.5	0.3	0.5	0.8
Current account, % of GDP	-0.9	-0.1	-0.2	-0.3	Energy	-1.7	-5.8	-1.8	3.6

f = forecast

Sources: Statistics Finland and Bank of Finland.



Thank you