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Upswing more broadly based
– Improved chances for
balanced growth in Finland

18.12.2017



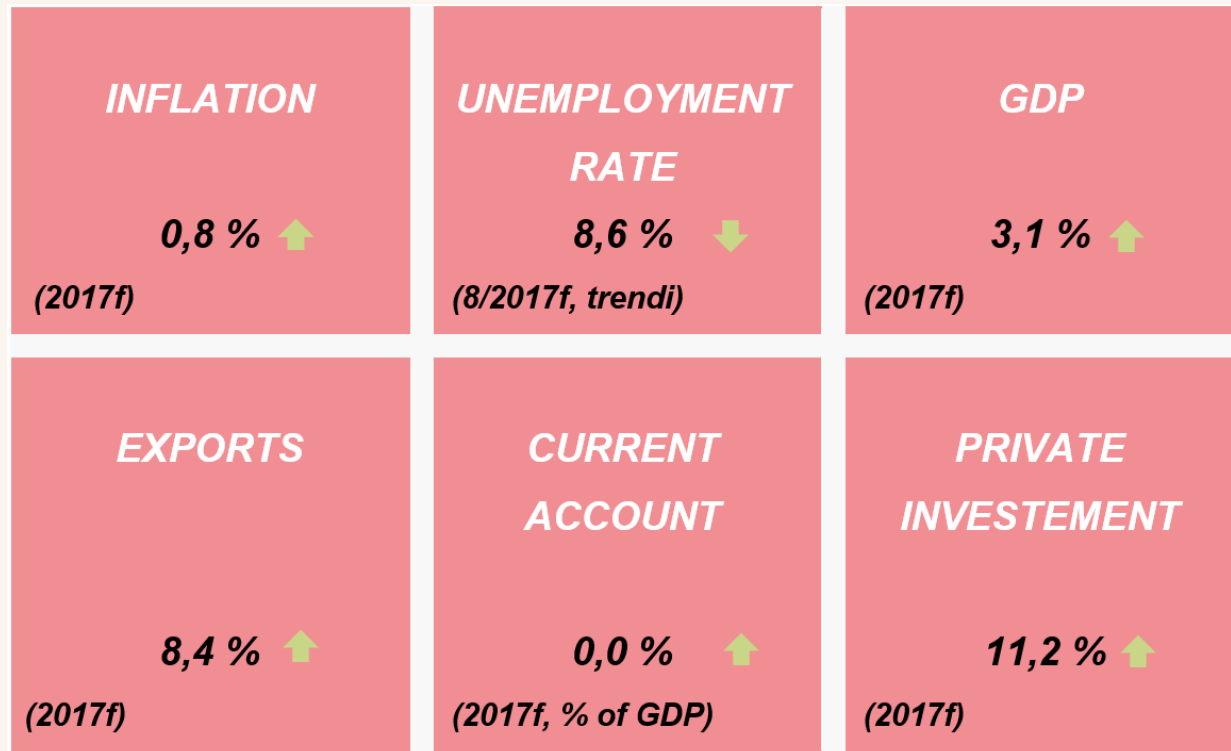


Overall picture of the economy

- Growth has broadened to exports and productivity growth has improved
- Current account close to balance in the forecast period
- Household debt increases further, situation for other economic sectors improves
- Unemployment decreases slowly as supply factors restrict availability of labour
- Inflation below euro area average



Key figures for the Finnish economy 2017



f=forecast

Sources: Bank of Finland and Statistics Finland.



Conditions for continued growth in place

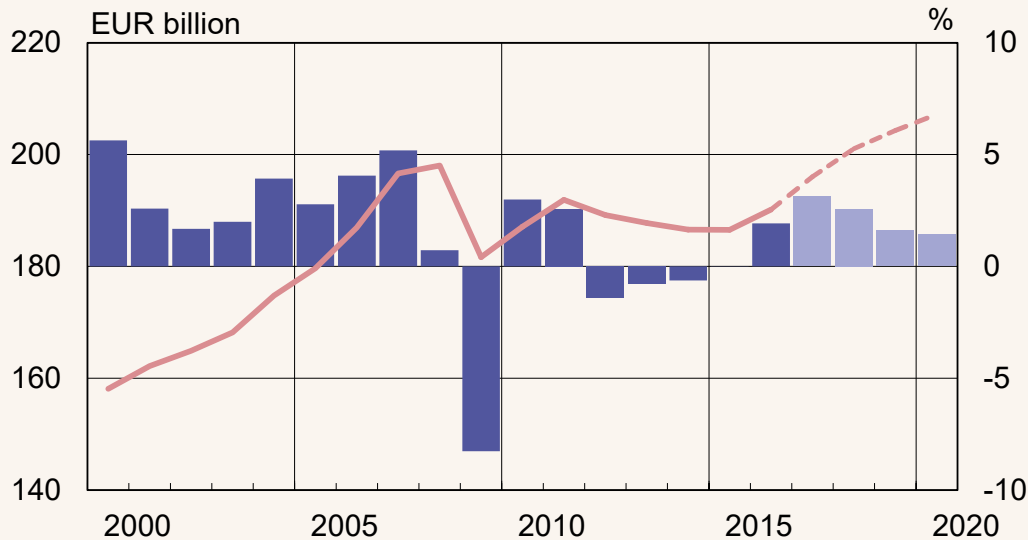
- Finland's export markets growing at a rate of slightly over 4% in the forecast period
- Financing conditions remain favourable
- Cost-competitiveness has improved
- Productivity improved and employment growing, albeit slowly
- Confidence indicator and short-term information point to continued growth



GDP growth forecast revised upward

GDP volume

- % 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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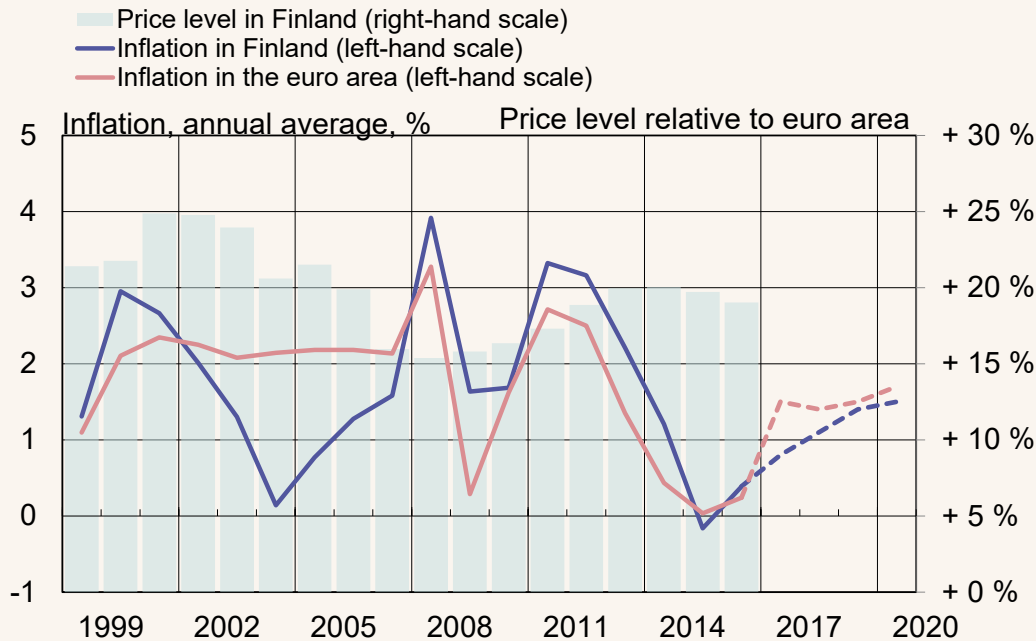
GDP, %		
	December	June
2017f	3.1	2.1
2018f	2.5	1.7
2019f	1.6	1.4
2020f	1.4	--

f = forecast



Inflation remains moderate throughout the forecast period

Inflation and price level relative to euro area



Sources: Bank of Finland, Eurostat and European Central Bank.

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Inflation, %		
	Finland	Euro area
2017f	0.8	1.5
2018f	1.1	1.4
2019f	1.4	1.5
2020f	1.5	1.7

f = forecast.



Growth in compensation of employees supports improvement in cost-competitiveness

Wages, inflation and productivity			
	Compensation of employees*, %	Inflation, %	Productivity*, %
2017f	-0.6	0.8	2.3
2018f	1.3	1.1	1.8
2019f	2.0	1.4	1.1
2020f	2.8	1.5	1.1

*Per employee, total economy.

f = forecast.

Sources: Bank of Finland and Statistics Finland.



Balance of supply and demand at reference year (2010) prices

% change on previous year	2017f	2018f	2019f	2020f	Revision
GDP	3.1	2.5	1.6	1.4	↑
Private consumption	1.9	1.8	1.3	1.0	↑
Public consumption	0.5	0.7	0.1	0.4	↑
Private fixed investment	11.2	5.8	3.2	2.5	↑
Public fixed investment	-1.1	3.3	-0.5	-1.2	↓
Exports	8.4	3.8	3.5	3.0	↑
Imports	2.2	3.4	2.9	2.7	↑
f = forecast. Sources: Statistics Finland and Bank of Finland.					



Factors underlying investment and export growth

- External demand, monetary policy and domestic cost developments have supported investment and export growth
- Investment growth strongest in construction
- About 2/3 of pick-up in exports in 2015–2017 explained by external factors
- Impact of domestic cost factor more moderate during 2015-2017



Finland getting back on track of the global economy

Value of goods and services exports

— Global — Finland - - - Forecast



Sources: Statistics Finland, World Bank and the Bank of Finland forecast.

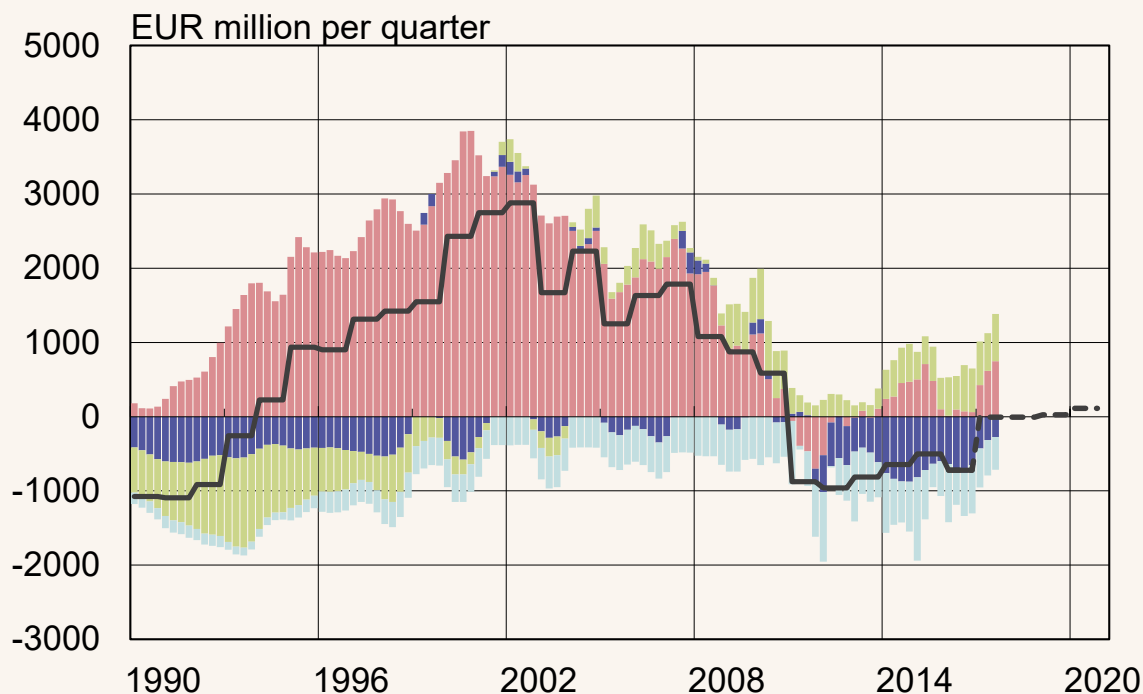
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Towards more balanced growth?

Current account items

- Goods
- Services
- Primary income
- Current transfers
- Forecast
- Current account



Sources: Statistics Finland and the Bank of Finland forecast.

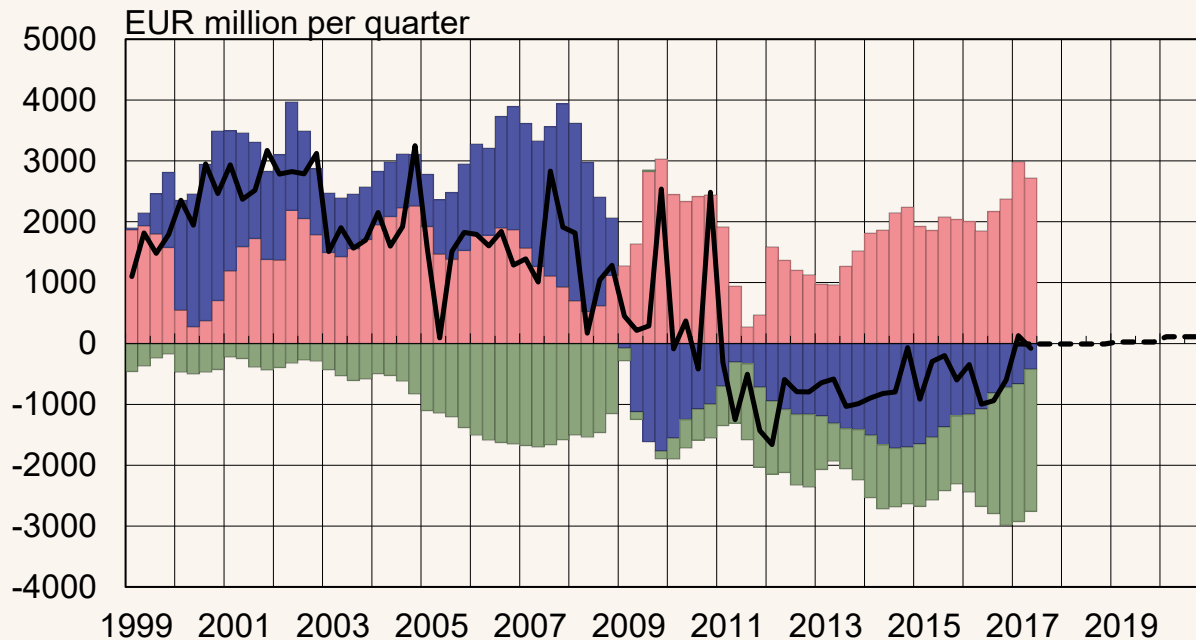
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...based on corporate sector net lending

Current account and net lending by sector

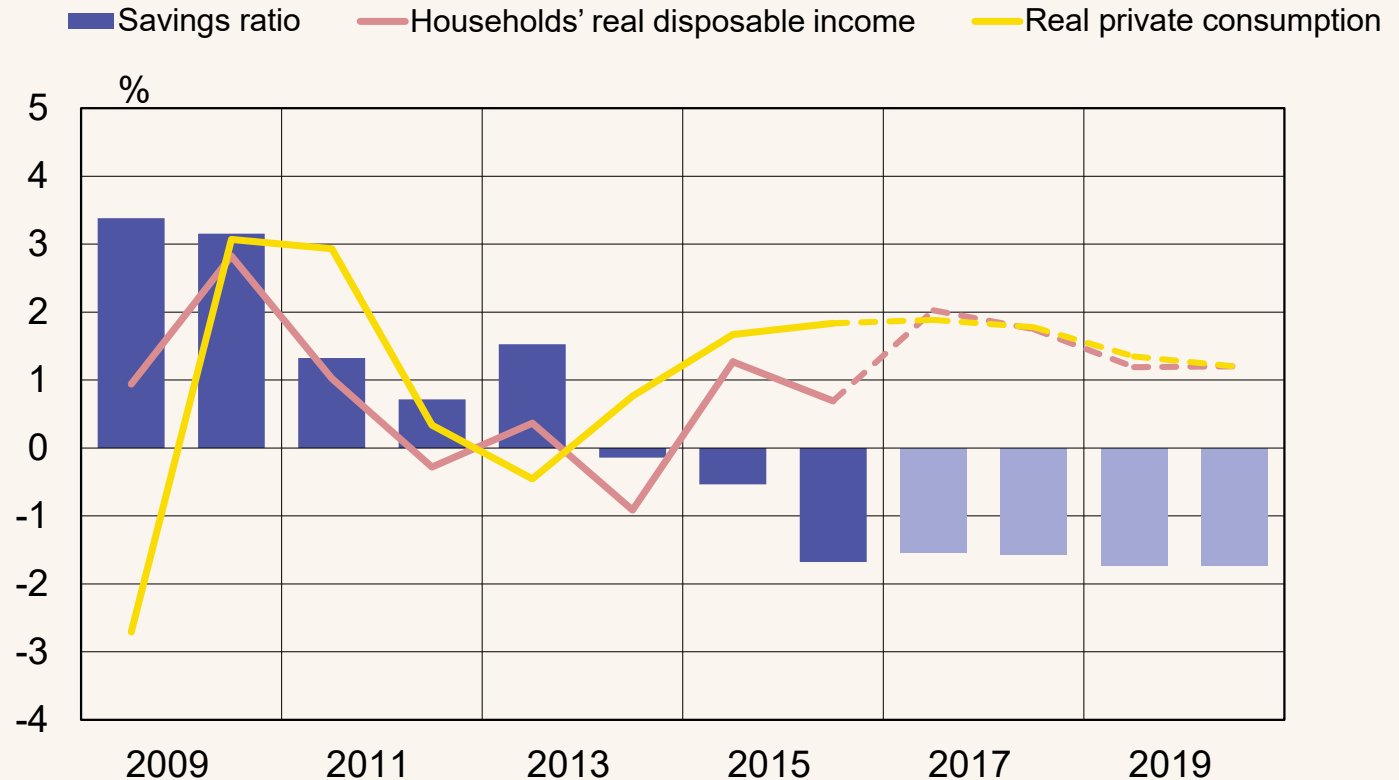
- Non-financial corporations (S11 + S12)
- Households (S14 + S15)
- General government (S13)
- Current account
- Forecast



Source: Statistics Finland and the Bank of Finland forecast.
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Households' willingness to save low



Households = households and non-profit corporations serving households.

* % change on previous year.

Sources: Statistics Finland and Bank of Finland.

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Slow recovery in labour markets

— Employment rate, 15–64-year-olds, trend (left-hand scale)
 — Unemployment rate, 15–74-year-olds, trend (right-hand scale)



Employment and unemployment rate		
	Employment, %	Unemployment, %
2017f	69.3	8.6
2018f	69.9	8.2
2019f	70.4	7.9
2020f	70.7	7.6

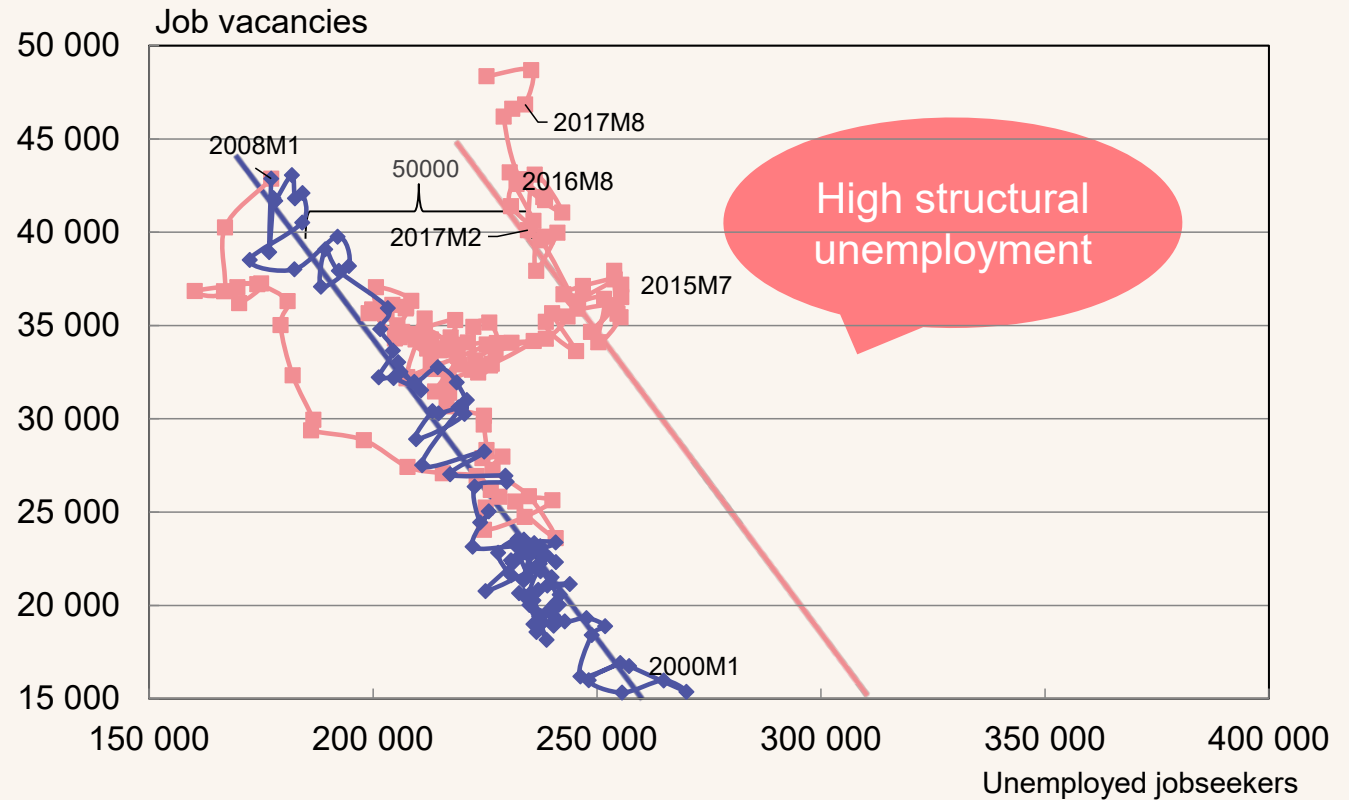
f = forecast.

Sources: Statistics Finland and Bank of Finland (forecasts).

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Increase in mismatch problems





Structural unemployment still high



*Seasonal adjusted, BoF.

Sources: Ministry of Employment and the Economy, Statistics Finland and Bank of Finland.

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Flows out of unemployment slower since the financial crisis

Unemployment currently close to the structural level

Employment probability is, however, improving



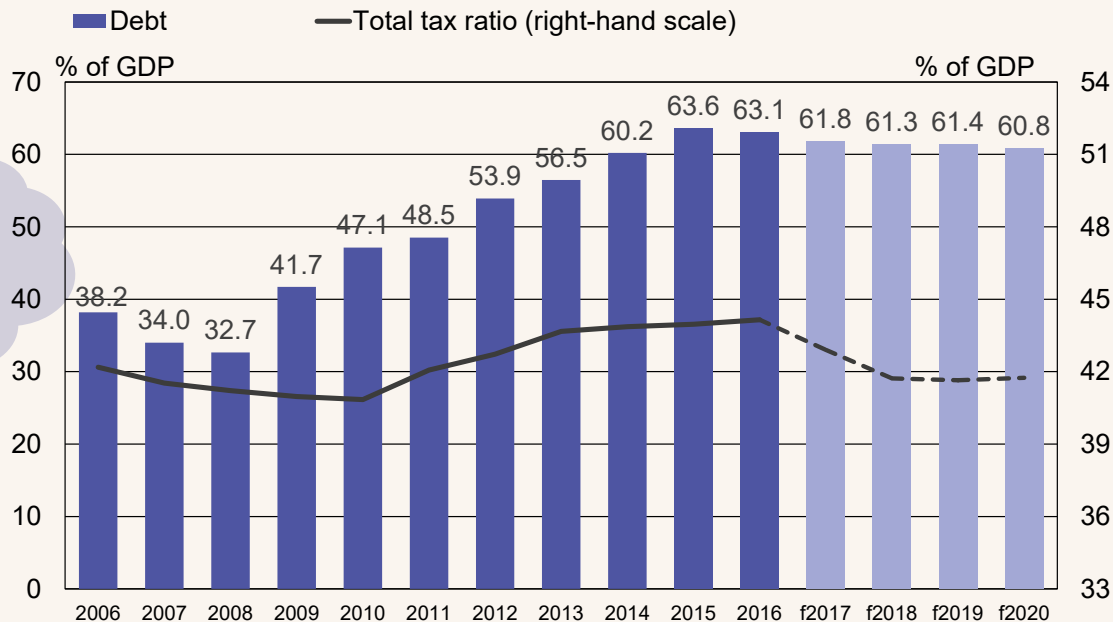
Fiscal policy to ease despite reduction in deficit

- General government deficit shrinks by over half
-1.8% 2016 → -0.7% 2020
- However, cyclically adjusted deficit will increase
- Cyclical and structural factors justify tighter fiscal policy in the next few years
- Fiscal sustainability gap still around 3%



Less new debt and a drop in the tax ratio

Public debt and total tax ratio



DEBT/GDP
-2.3 pp

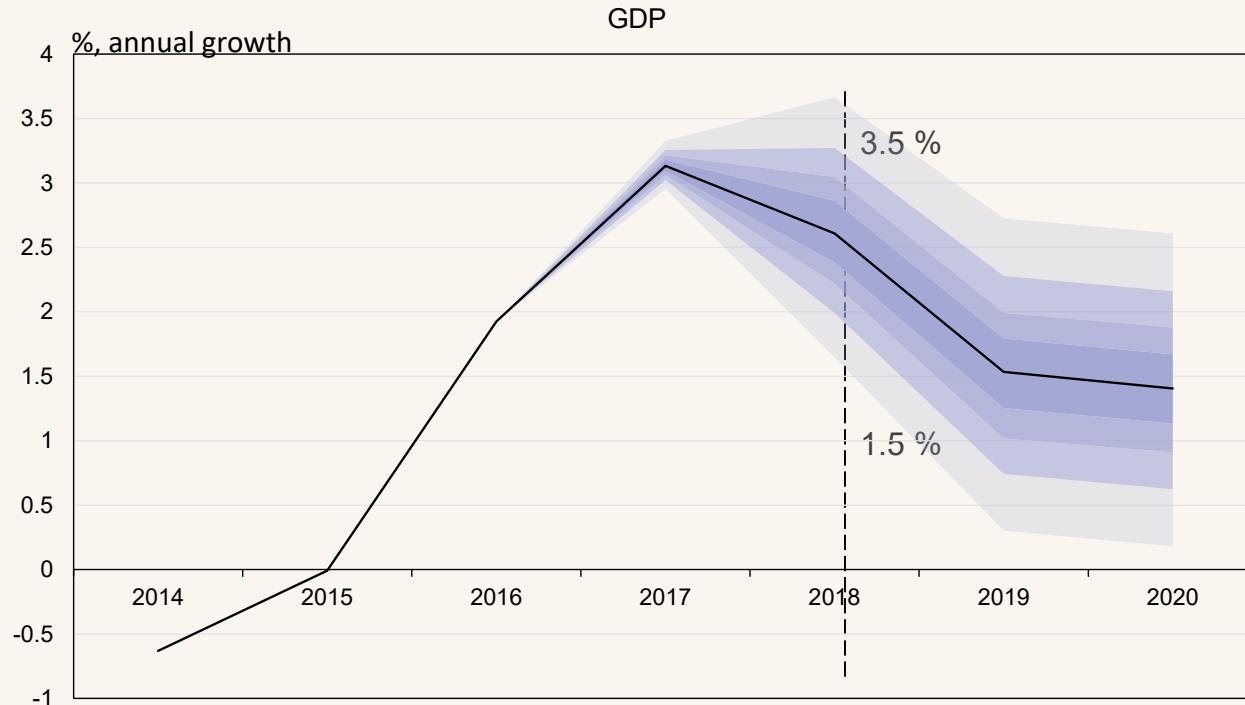
TAX RATIO
-2.4 pp

Sources: Statistics Finland, Bank of Finland (forecasts).

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Impact on GDP growth forecast of uncertainty relating to external factors



Sources: European Commission and Bank of Finland.

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Thank you!