

Executive summary

Finland's GDP grew by 2.9% in 2011.¹ The pace of growth slowed towards the end of the year, but advance data suggests it picked up again in the first quarter of 2012. The Bank of Finland forecasts GDP growth of 1.5% in 2012, slowing to 1.2% in 2013 and picking up again to 1.6% in 2014.

In the forecast period, GDP growth will be bolstered by growth in private consumption and investment. The increase in households' disposable income is expected to still support growth in consumption in 2012, but in 2013 there will be no improvement at all in purchasing power. The low level of interest rates and the decline in the household savings ratio to close to zero will, however, sustain consumption growth. In 2014, real incomes are expected to return to gentle growth, which will help to fuel the pace of consumption growth. Even so, private consumption growth during the forecast period will be much more subdued than in recent years.

The uncertain economic outlook has slowed the recovery of private investment from the slump caused by the recession. Capital investment is still mainly focused on replacement investment and construction. The structure of private investment will, however, change during the forecast period, with capital investment growth forecast to pick up most clearly in 2013 and 2014, while housing investment will increase only slightly.

The value of Finnish goods exports grew much more slowly than imports in

2011, which has led to a trade and current account deficit. The volume of exports is forecast to grow slowly in 2012. Domestic demand growth will subside, and imports will grow slightly less than exports. In 2013–2014, imports and exports will both grow at a good 5% per annum. The terms of trade are forecast to stop deteriorating towards the end of the forecast period, when the price of crude oil is expected to decline. The current account is forecast to remain in deficit in the amount of just under 1% of GDP throughout the forecast period. During the forecast period, Finland's exports will continue to lag behind growth in the export markets.

Private consumption has been bolstered by the positive trend in employment. In 2013, employment growth will come to a halt as economic growth slows. The unemployment rate is forecast to fall slightly during the forecast period, to around 7½%. The labour force will not contract during the forecast period despite the strong decline in the size of the working-age population (15–64-year-olds).

The improved central government balance in 2011 reduced the overall general government deficit to 0.9% of GDP. In 2012, the general government deficit will remain almost unchanged, but in 2013 the general government fiscal position will improve when the consolidation measures agreed in the government's decision on spending limits come into effect. In 2014, the pace of growth in general government income will slow and expenditure will increase at almost the same pace as in 2013.

¹ This publication is based on the statistical data available on 23 May 2012.

Central government will continue to accumulate debt in 2012–2014, but the increase in the debt ratio will come to a halt at slightly around 45½% of GDP in 2014. The tax rate for the economy as a whole will rise substantially during the forecast period, and by the end of the period it will be 1.8 percentage points above the figure for 2010.

In 2012, a rise in the general level of consumer prices will be driven particularly by increases in indirect taxation. The inflation forecast for 2012 is 2.9%. The increase in value-added tax being implemented in 2013 will raise the general level of prices, but at the same time the faltering pace of economic growth is expected to reduce general price pressures in the economy. The forecast for inflation as measured by the harmonised index of consumer prices (HICP inflation) in 2013 is 2.2%, slowing to 1.6% in 2014.

The Bank of Finland forecast is based on the assumption that the euro area debt crisis will not escalate and the measures planned to stabilise the financial markets will prove effective. Under these assumptions, growth in the

global economy and international trade will already gather pace towards the end of 2012. It is, however, difficult to predict the future course of the debt crisis, and there is thus a great deal of uncertainty regarding Finland's external environment. The downside risks to the forecast are, therefore, substantial. Serious disturbances in the global economy would impact strongly on the Finnish economy through the effect on exports.

In the domestic economy, the greatest risks relate to the consumption behaviour and debt trajectory of households. The more subdued income development in the household sector has not significantly affected household consumption and investment. The household savings ratio has declined and the level of debt is still climbing. If the upward trend in household consumption does not ease off, GDP will grow more quickly than forecast in the immediate years ahead. This sort of debt-funded, consumption-driven growth contains considerable risks for the balance of the entire economy. The current account deficit would deepen more than forecast, and households debt could become unsustainable.

Table 1.

Forecast summary						
Supply and demand						
	2011	2010	2011	2012 ^f	2013 ^f	2014 ^f
	At current prices EUR billion	Volume, % change on previous year				
Gross domestic product	191.6	3.7	2.9	1.5	1.2	1.6
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 fixed 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
Key economic indicators						
		2010	2011	2012 ^f	2013 ^f	2014 ^f
<i>% change on previous year</i>						
Harmonised index of consumer prices		1.7	3.3	2.9	2.2	1.6
Consumer price index		1.2	3.5	2.9	2.1	1.7
Wage and salary earnings		2.6	2.7	3.2	2.7	3.2
Labour compensation per employee		3.5	2.8	2.9	2.7	3.1
Productivity per person employed		4.1	1.8	1.0	1.2	1.4
Unit labour costs		-0.6	1.0	1.9	1.5	1.7
Number of employed		-0.4	1.1	0.5	0.0	0.2
Employment rate, 15–64-year-olds, %		67.8	68.6	69.2	69.6	70.1
Unemployment rate, %		8.4	7.8	7.7	7.6	7.5
Export prices of goods and services		3.9	4.7	2.4	1.7	1.8
Terms of trade (goods and services)		-2.3	-2.7	-0.4	0.1	0.2
<i>% of GDP, National Accounts</i>						
Tax ratio		42.2	42.7	43.2	43.9	44.0
General government net lending		-2.8	-0.9	-0.8	-0.2	0.1
General government debt		48.4	48.6	52.4	53.5	54.1
Balance on goods and services		0.9	-0.5	-0.5	-0.6	-0.5
Current account balance		1.4	-0.7	-0.7	-0.9	-0.9
<i>f = forecast</i>						
<i>Sources: Statistics Finland and Bank of Finland.</i>						