



EUROJÄRJESTELMÄ
EUROSYSTEMET

Economic outlook 2011–2013

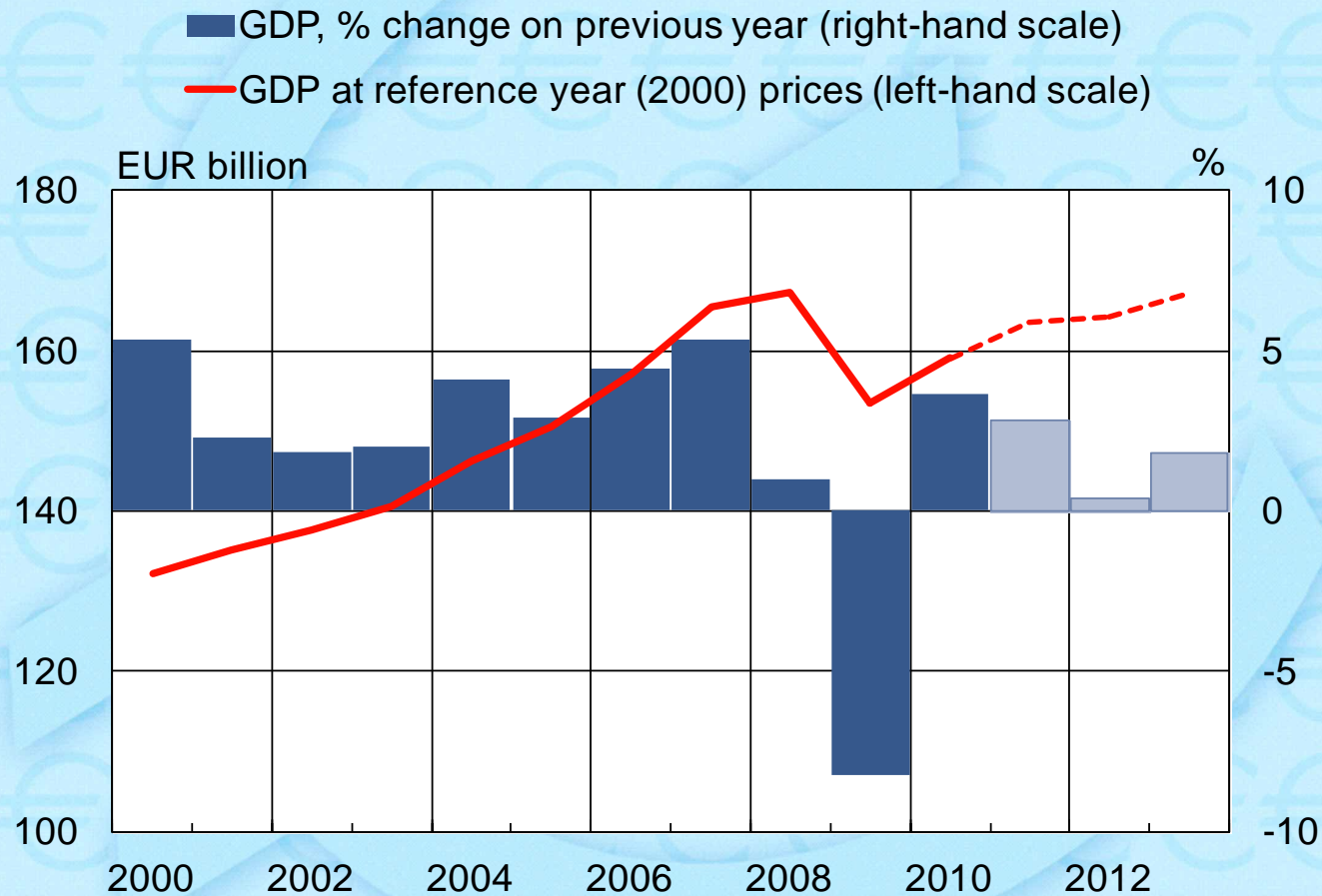
Euro & talous (Bank of Finland Bulletin) 5/2011

Governor
Erkki Liikanen



Marked slowdown in Finnish economic growth

Economic recovery stalls



Sources: Statistics Finland and Bank of Finland.

Supply and demand

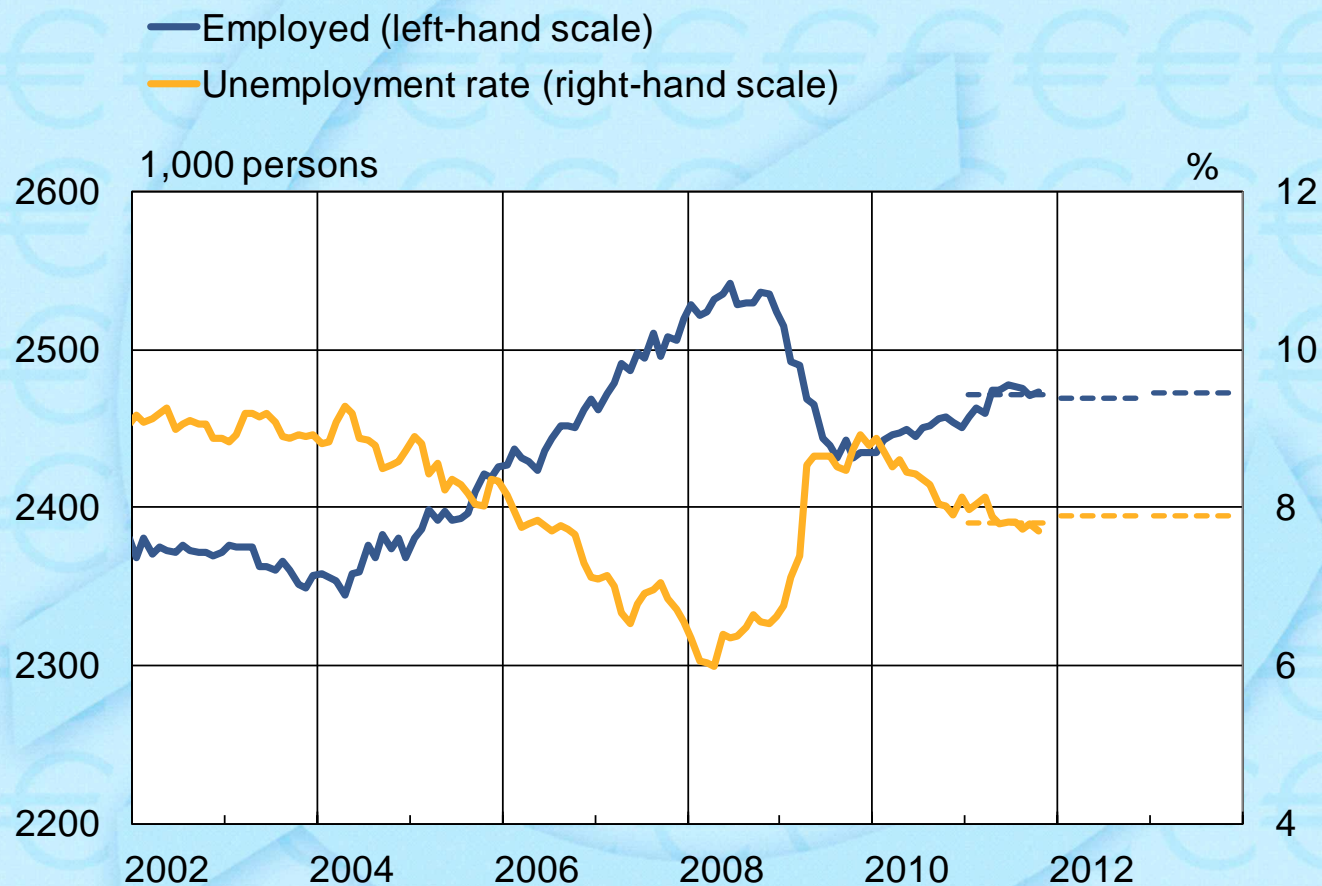
	2010*	2009	2010	2011f	2012f	2013f
		% change in volume on the previous year				
GDP	180,3	-8,2	3,6	2,8	0,4	1,8
June 2011 forecast				3,8	2,6	2,4
Change				-1,0	-2,2	-0,6
Imports	70,3	-16,1	7,4	-0,7	0,0	5,6
Exports	72,6	-21,5	8,6	-3,2	0,4	6,0
Private consumption	98,5	-3,1	2,7	3,7	1,2	1,4
Public consumption	44,3	0,9	0,6	0,1	0,4	0,7
Private investment	29,3	-15,9	3,9	6,6	1,8	4,8
Public investment	4,6	4,7	-3,8	2,9	-0,4	-1,7

* At current prices, EUR billion



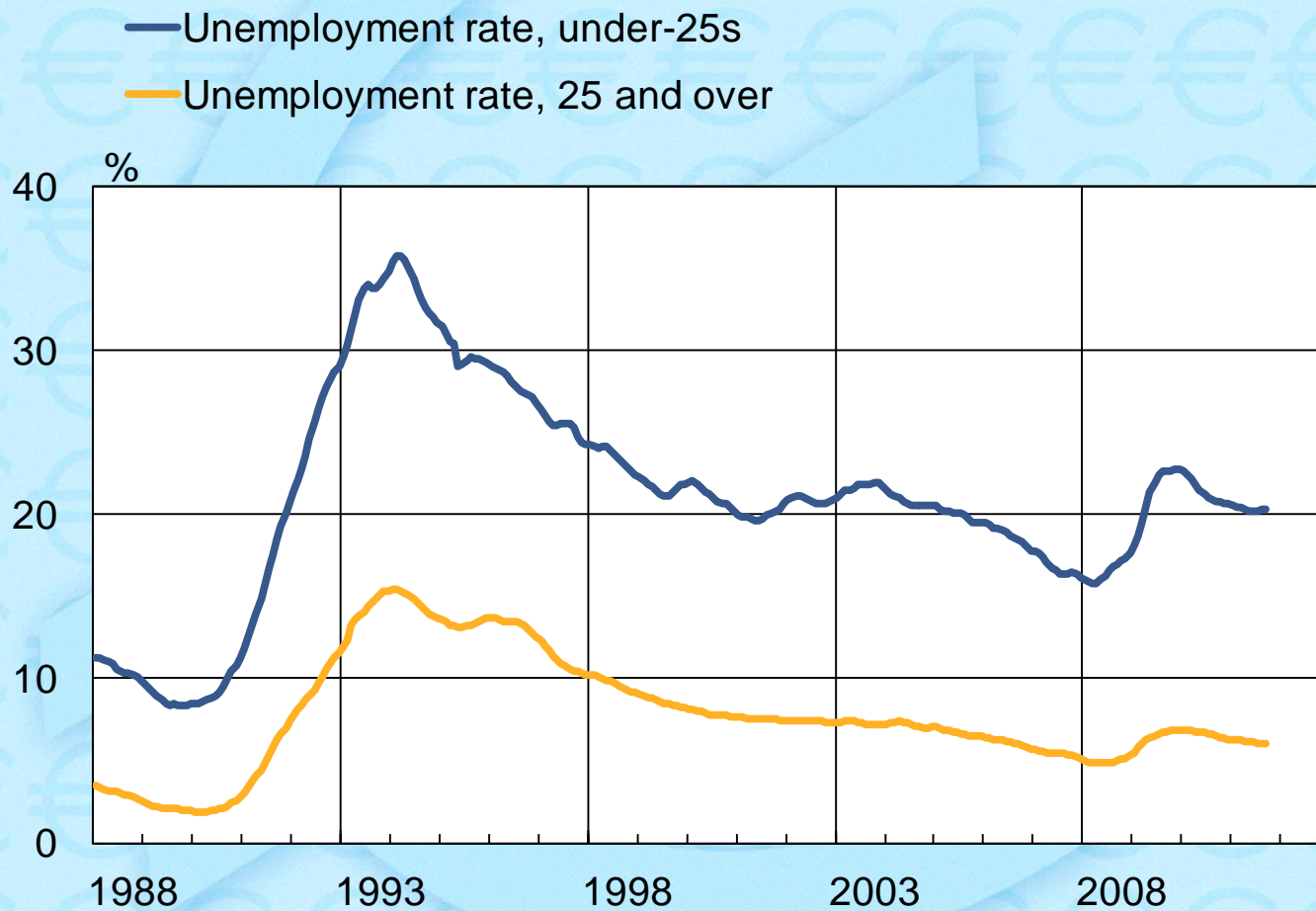
Drop in unemployment comes to a halt

No improvement in employment in immediate years ahead



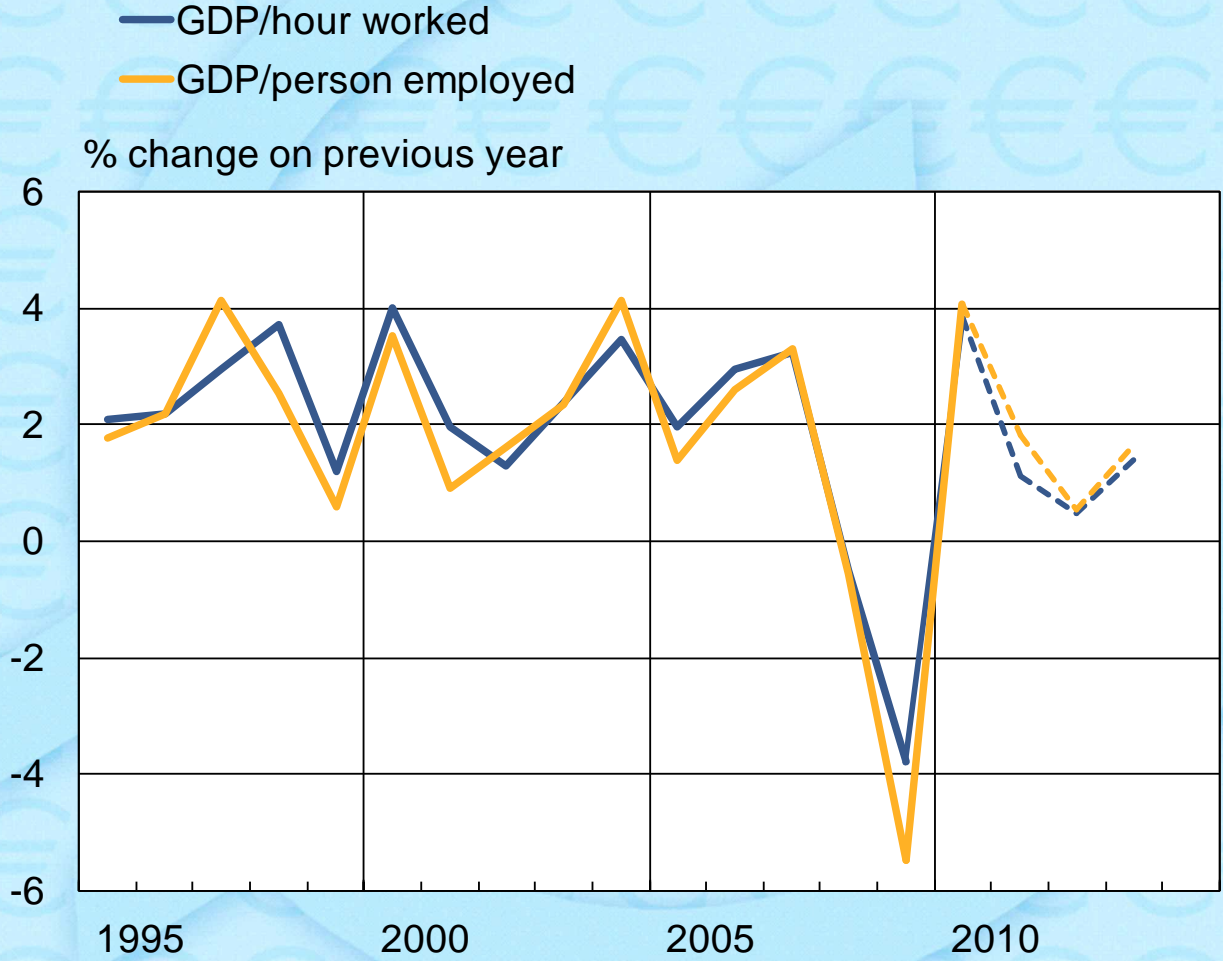
Bank of Finland's seasonally adjusted figures
Sources: Statistics Finland and Bank of Finland.

Youth unemployment high



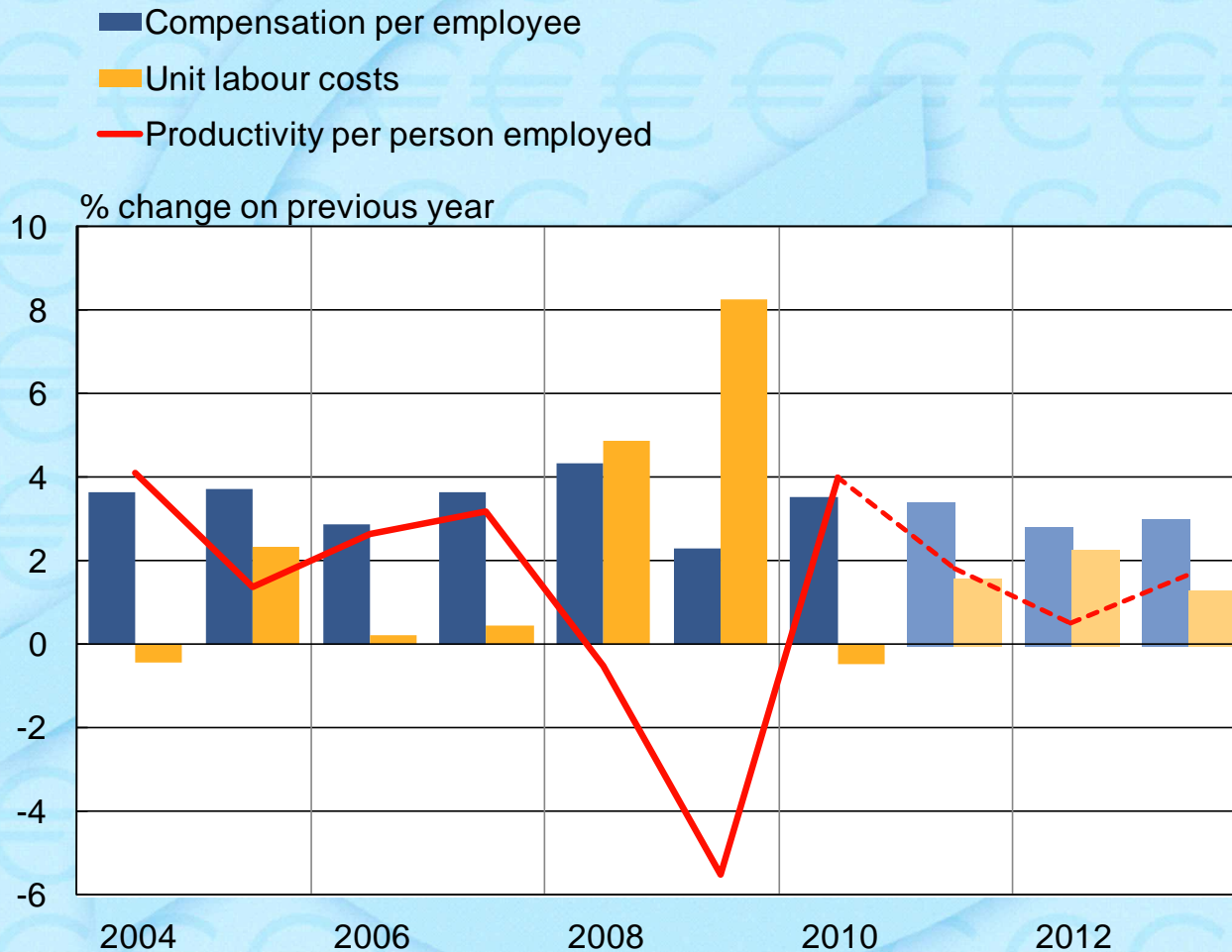
Source: Eurostat.

Labour productivity growth slows



Sources: Statistics Finland and Bank of Finland.

Slowing productivity development pushes up unit labour costs

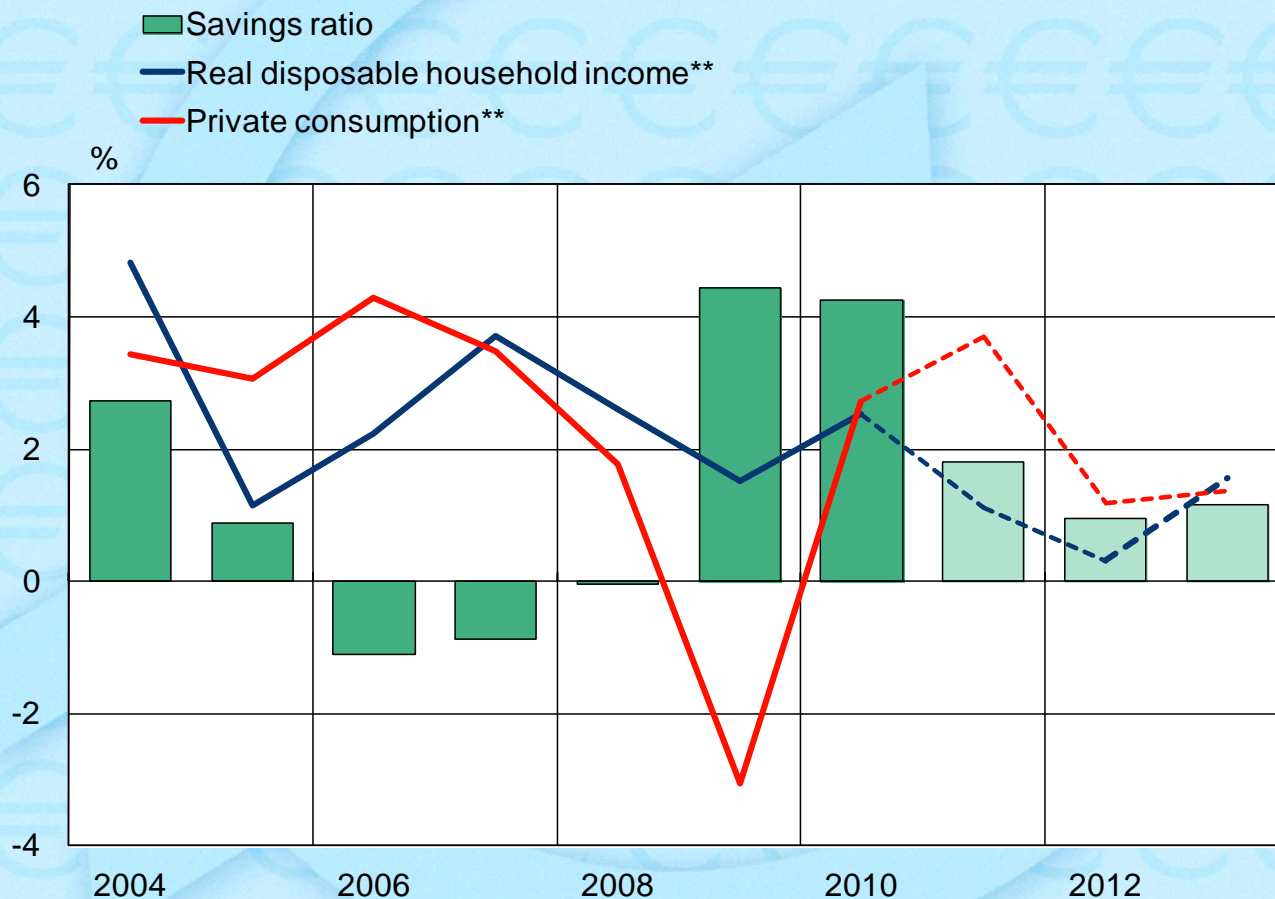


Sources: Statistics Finland and Bank of Finland.



Demand outlook weakens

Household consumption growth becoming subdued



* Households and non-profit institutions serving households

** % change on previous year

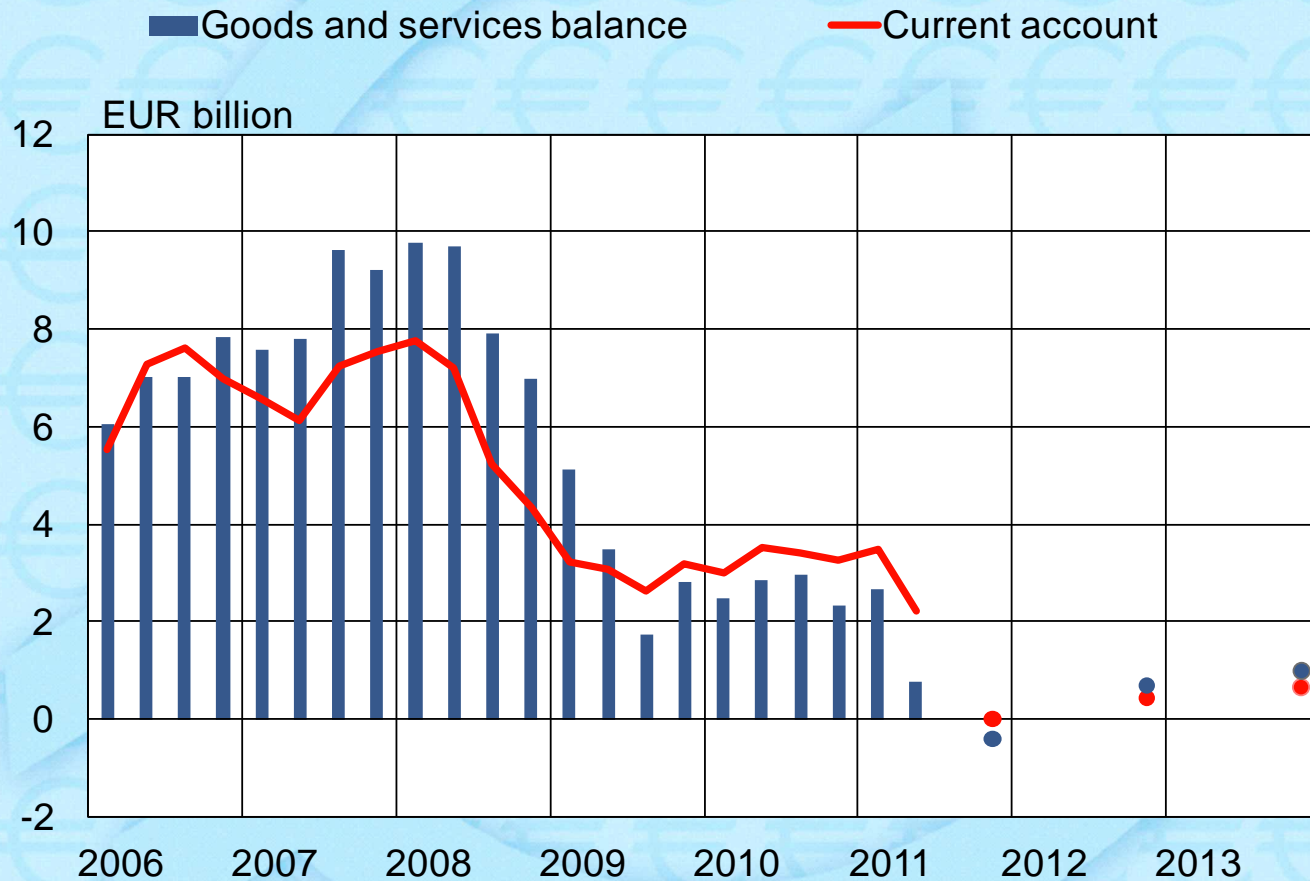
Sources: Statistics Finland and Bank of Finland.

Finnish export growth sluggish



Sources: Statistics Finland, Eurosystem and Bank of Finland.

Current account surplus melting

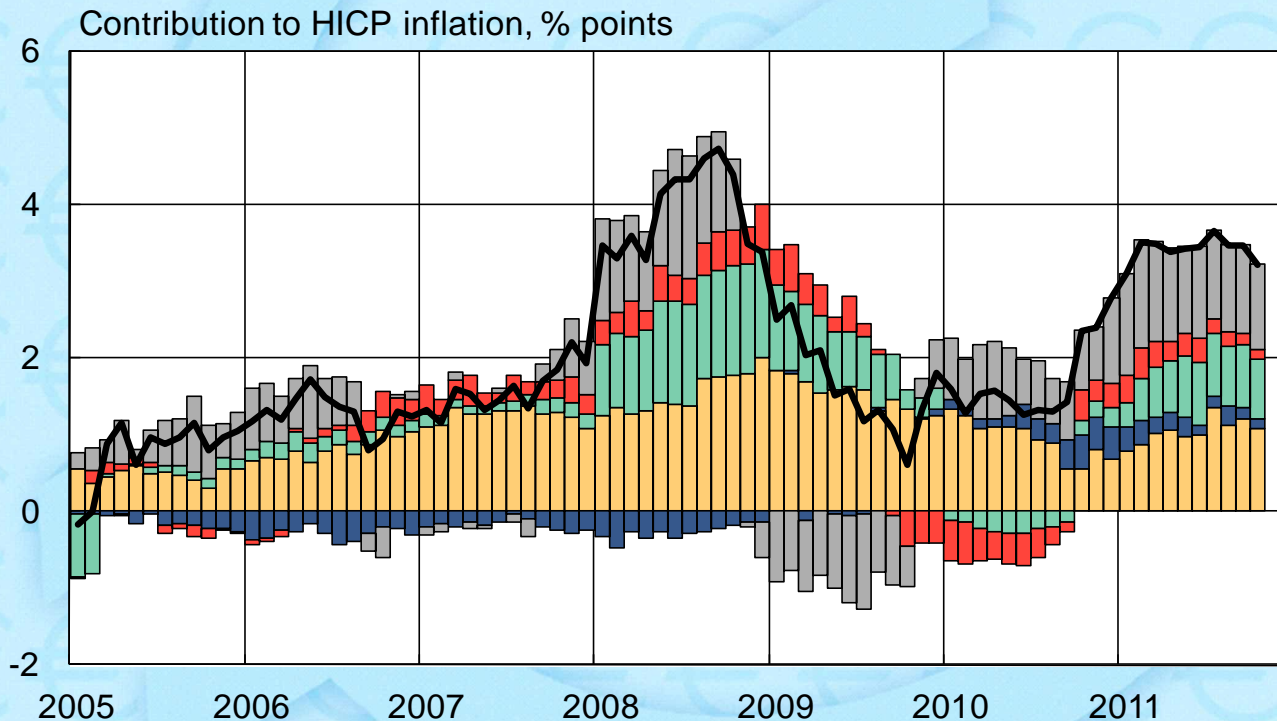


4-quarter moving total
Source: Bank of Finland.



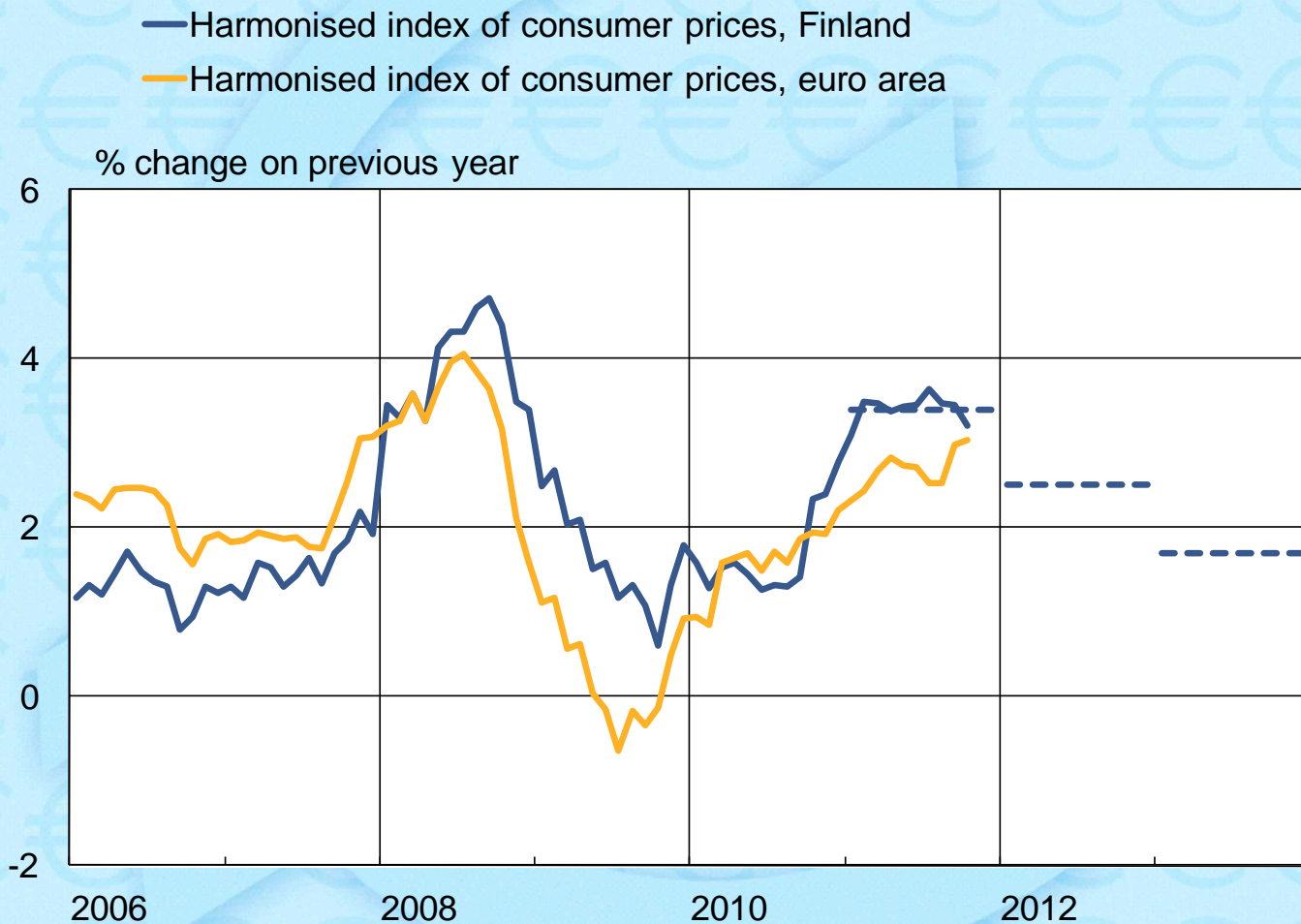
Inflation slowing gradually

Energy and food prices have driven inflation



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

Forecast: Inflation will gradually slow

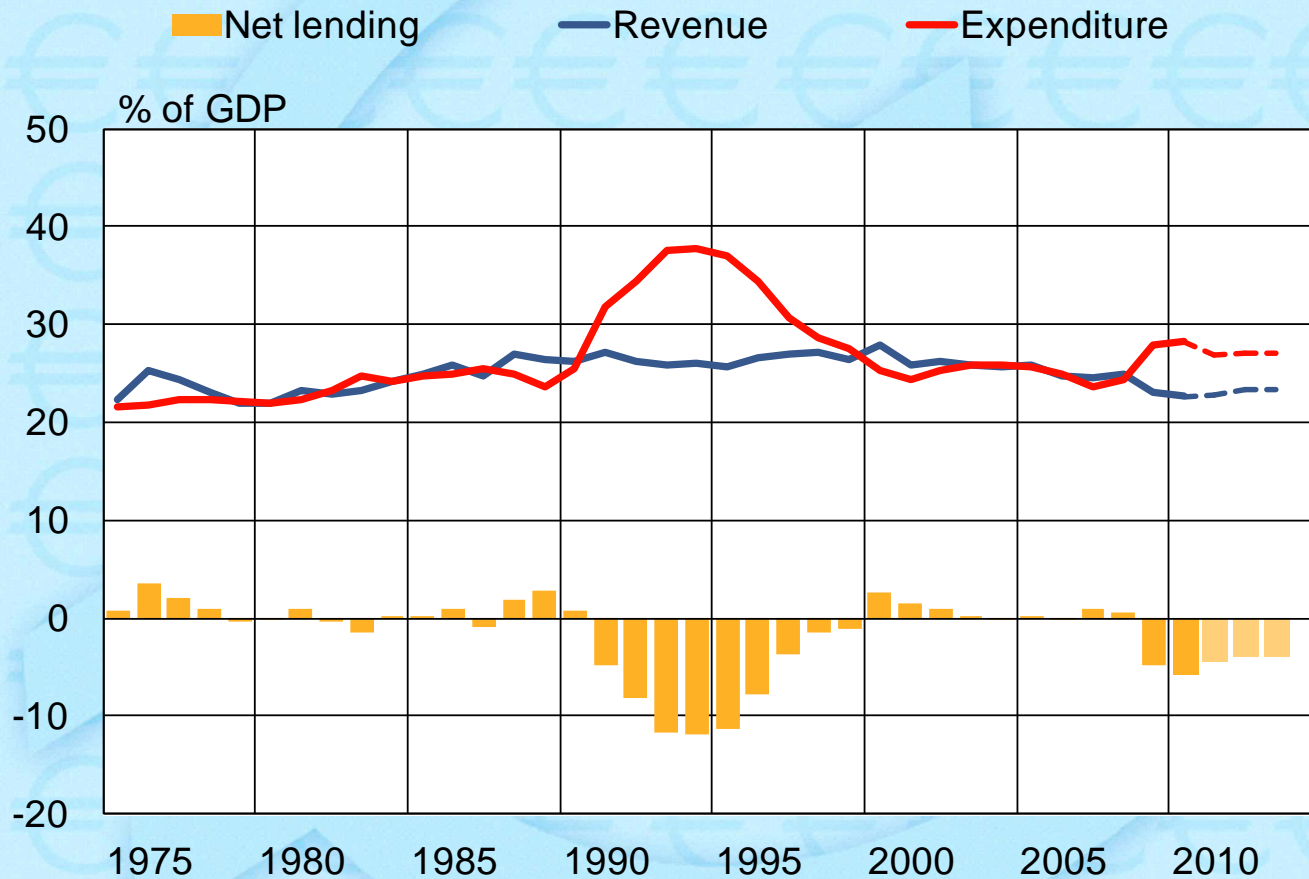


Sources: Statistics Finland, Eurostat and Bank of Finland.



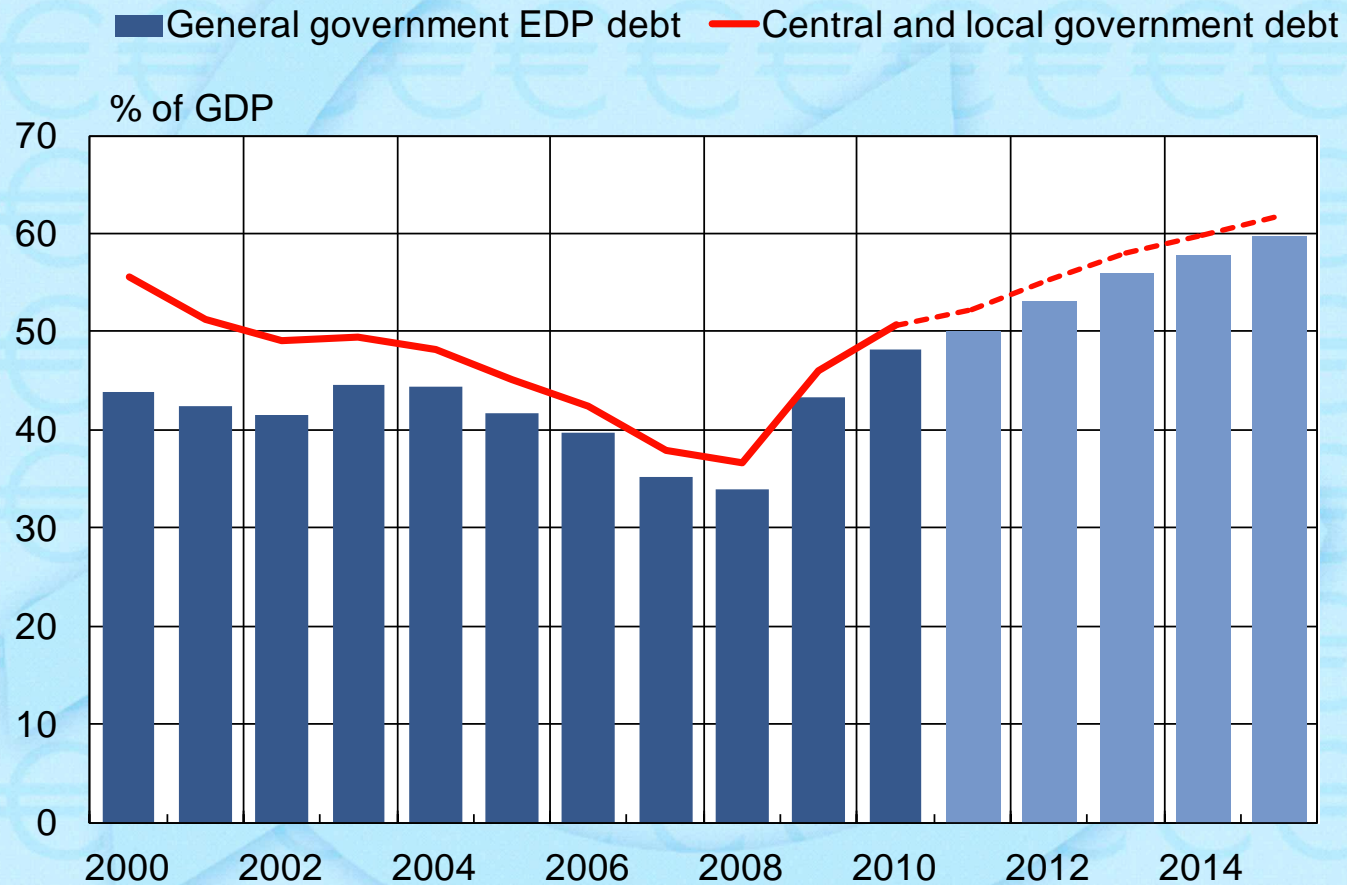
Public finances facing challenges

Central government deficit sizeable



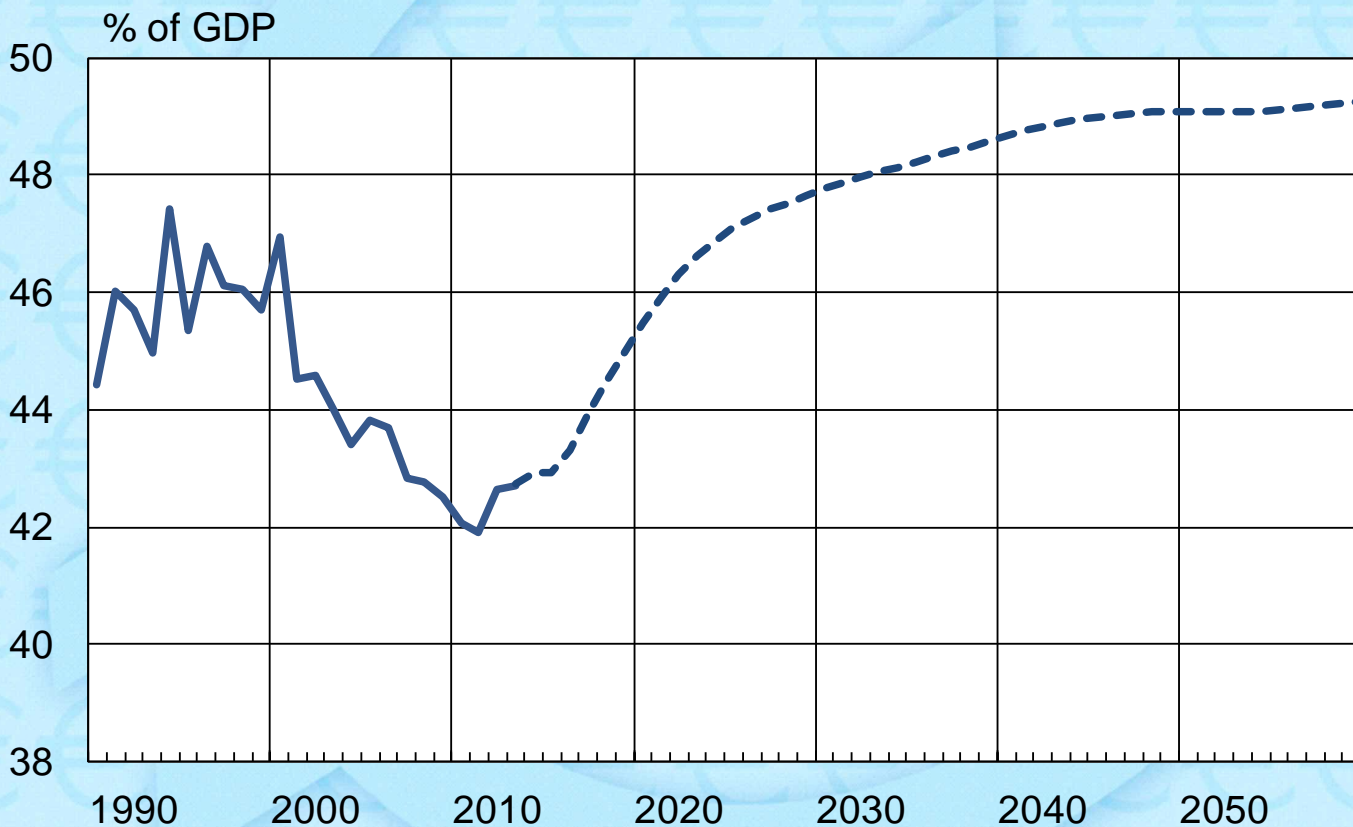
Sources: Statistics Finland and Bank of Finland.

Public debt will continue to grow without new measures



Sources: Statistics Finland and Bank of Finland.

General government adjustment need in terms of the tax ratio



Sources: Statistics Finland and Bank of Finland.

Finland's public finances:

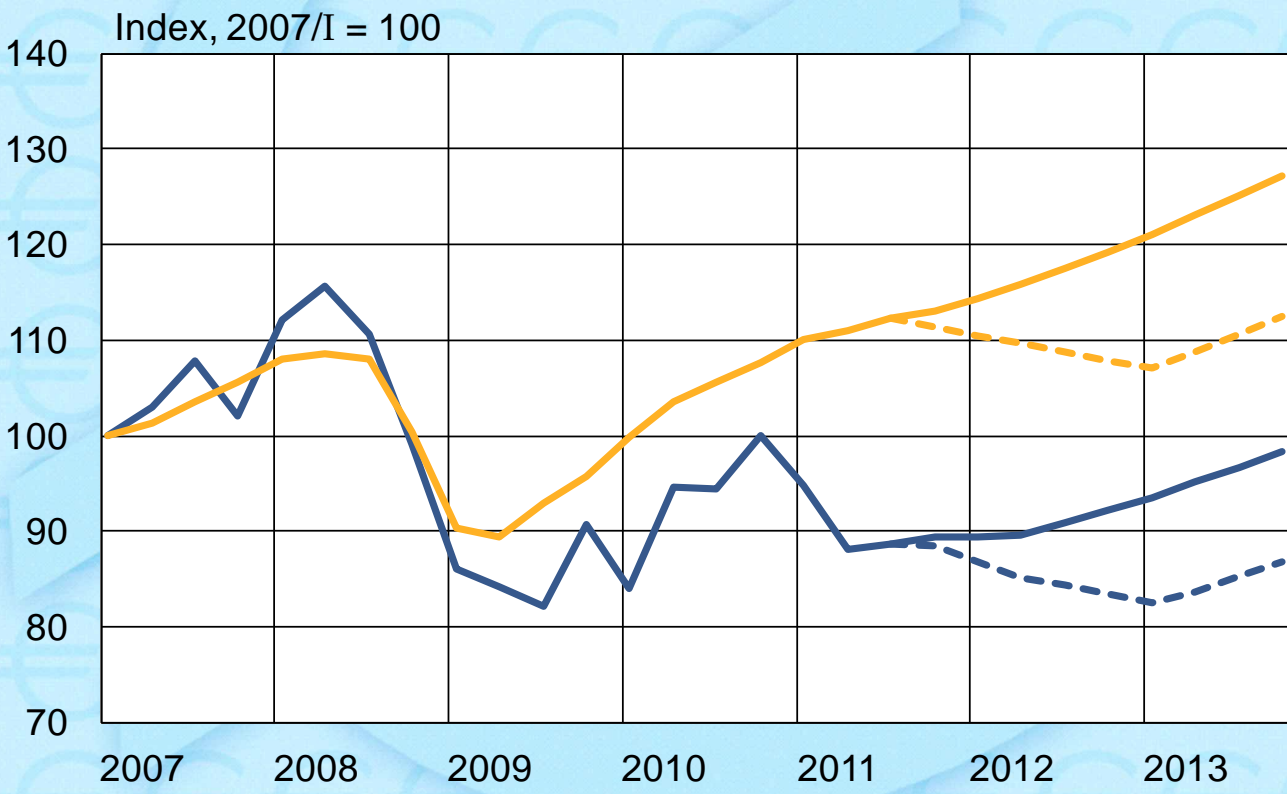
- ◆ ***Expenditures and tax rates have been set according to faster economic growth than currently envisaged.***
- ◆ ***The public finances will already hit the debt ceiling in the next few years.***
- ◆ ***Public finance sustainability problems are increasing the pressure for structural reforms.***
- ◆ ***The threat of a rapid deterioration in the Finnish economy and budgetary position is real.***



Alternative scenario: debt crisis leads to
global recession

Alternative scenario: debt crisis leads to global recession

- Finland's exports of goods and services
- Finland's export markets
- - - Alternative scenario
- - - Alternative scenario



Sources: Statistics Finland, Eurosystem and Bank of Finland.

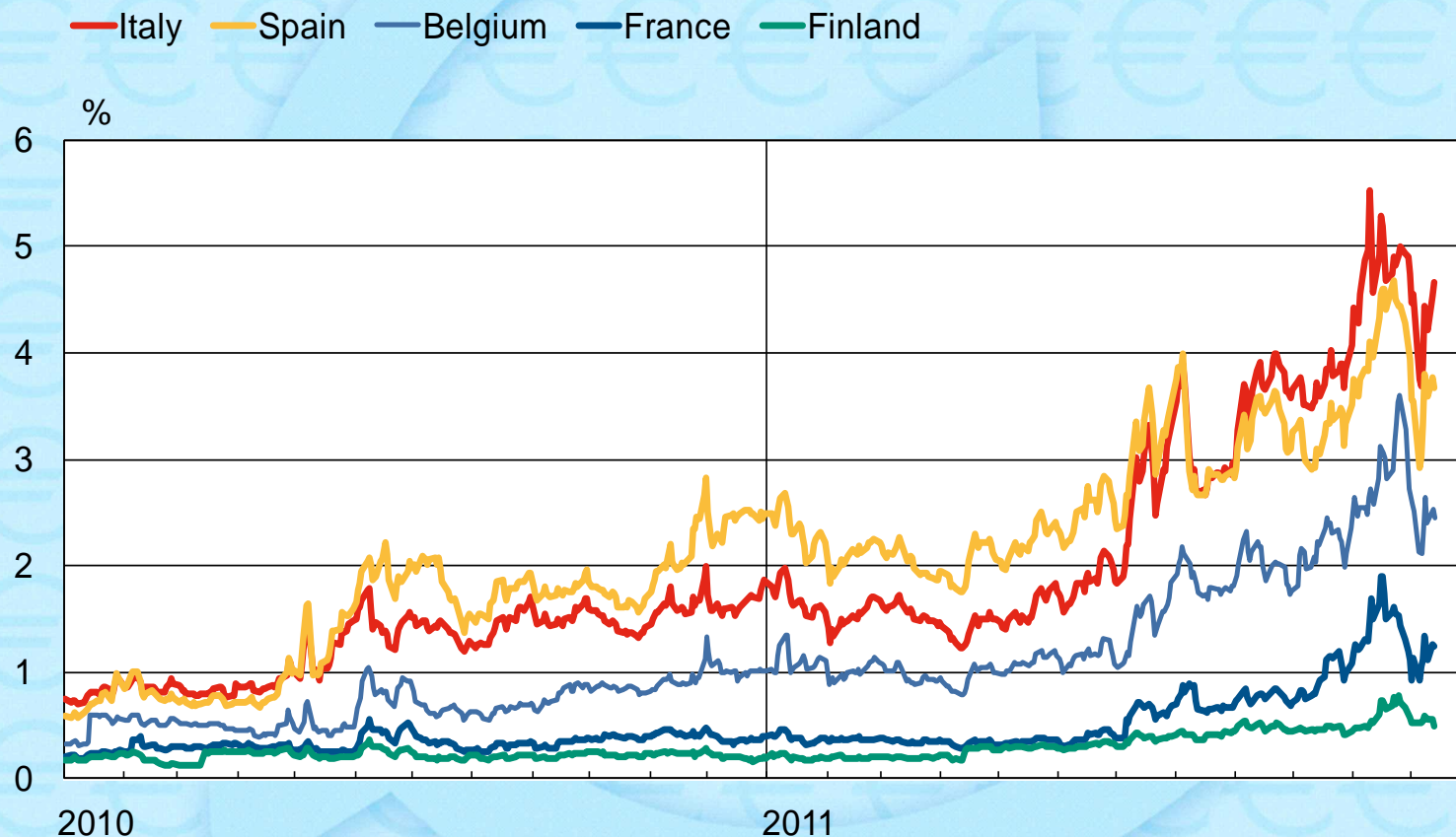
Finnish economy would enter a deep recession

	2011	2012	2013
Real GDP, % change	2,5	-2,0	0,7
Change relative to the forecast	-0,3	-2,4	-1,1
Unemployment rate, %	7,9	9,0	10,1
Change relative to the forecast	0,1	1,1	2,2
Private consumption deflator, % change	2,6	0,3	-0,3
Change relative to the forecast	-0,2	-2,2	-1,9
General government net lending, % of GDP	-1,5	-2,8	-4,5
Change relative to the forecast	-0,2	-1,6	-3,3



Financial stability

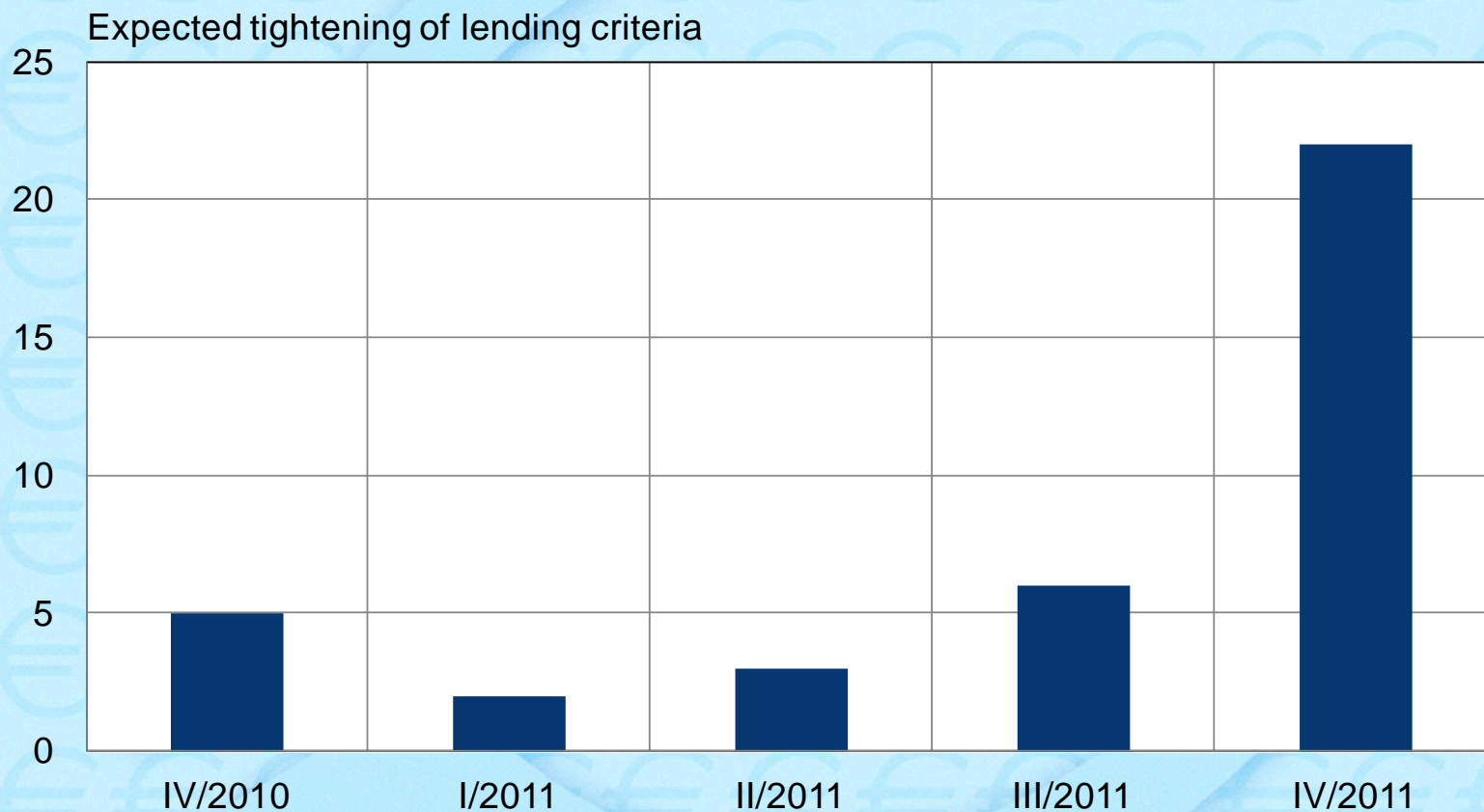
Sovereign debt crisis significantly impairs the functioning of the European financial system



Ten-year bond spreads vis-à-vis Germany.

Source: Bloomberg.

An increasing number of euro area banks tighten their lending



*The weighted share of those large euro area banks that expect a tightening of corporate lending criteria during the next 3 months.

Source: European Central Bank, Bank Lending Survey (October 2011).

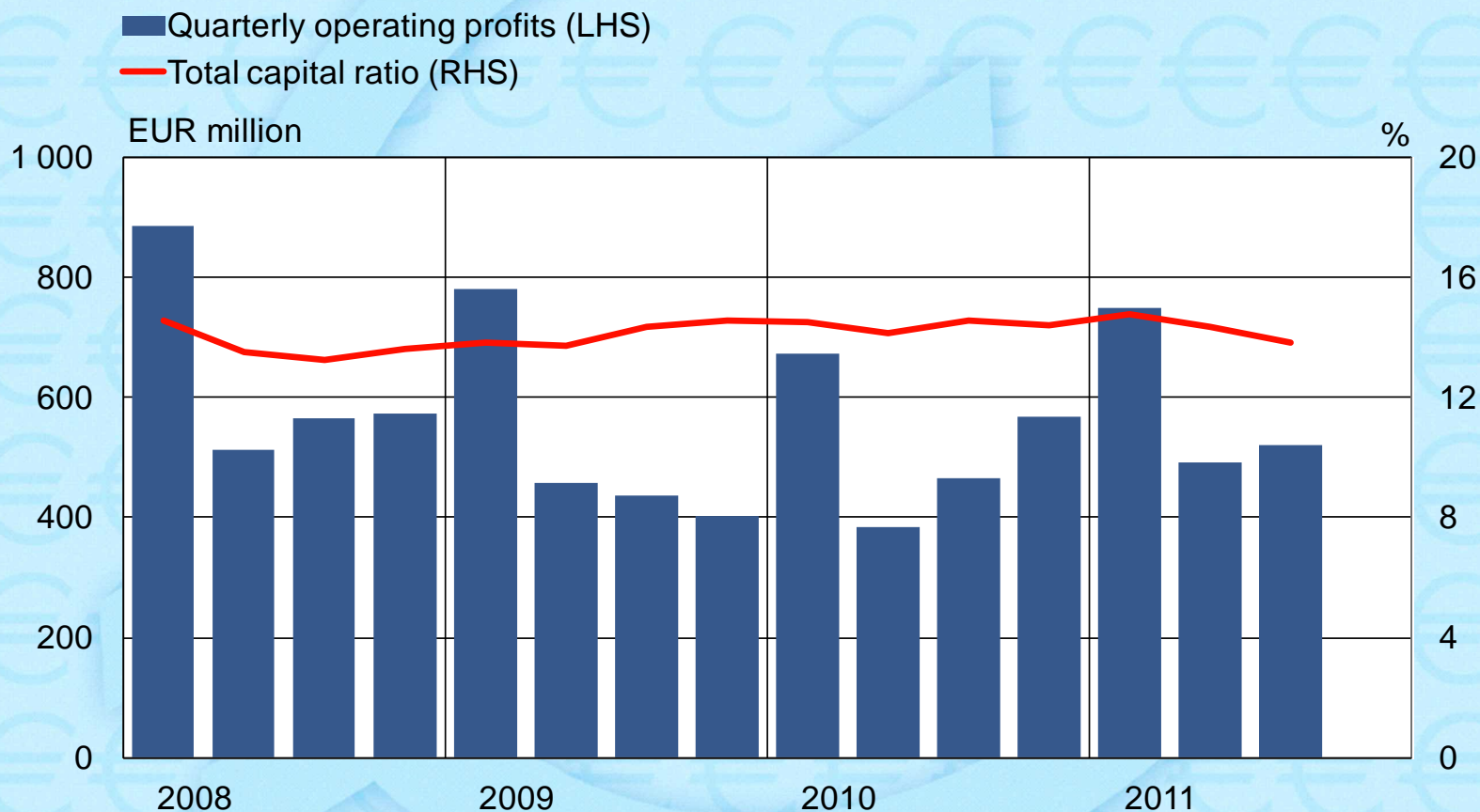
Strengthening of the European banking system necessary for safeguarding banks' lending capacity

◆ **European banking system needs more capital**

– October 2011 summit decisions on bank recapitalisation

◆ **High borrowing relative to total assets (high "leverage") makes banks vulnerable to wholesale bank runs**

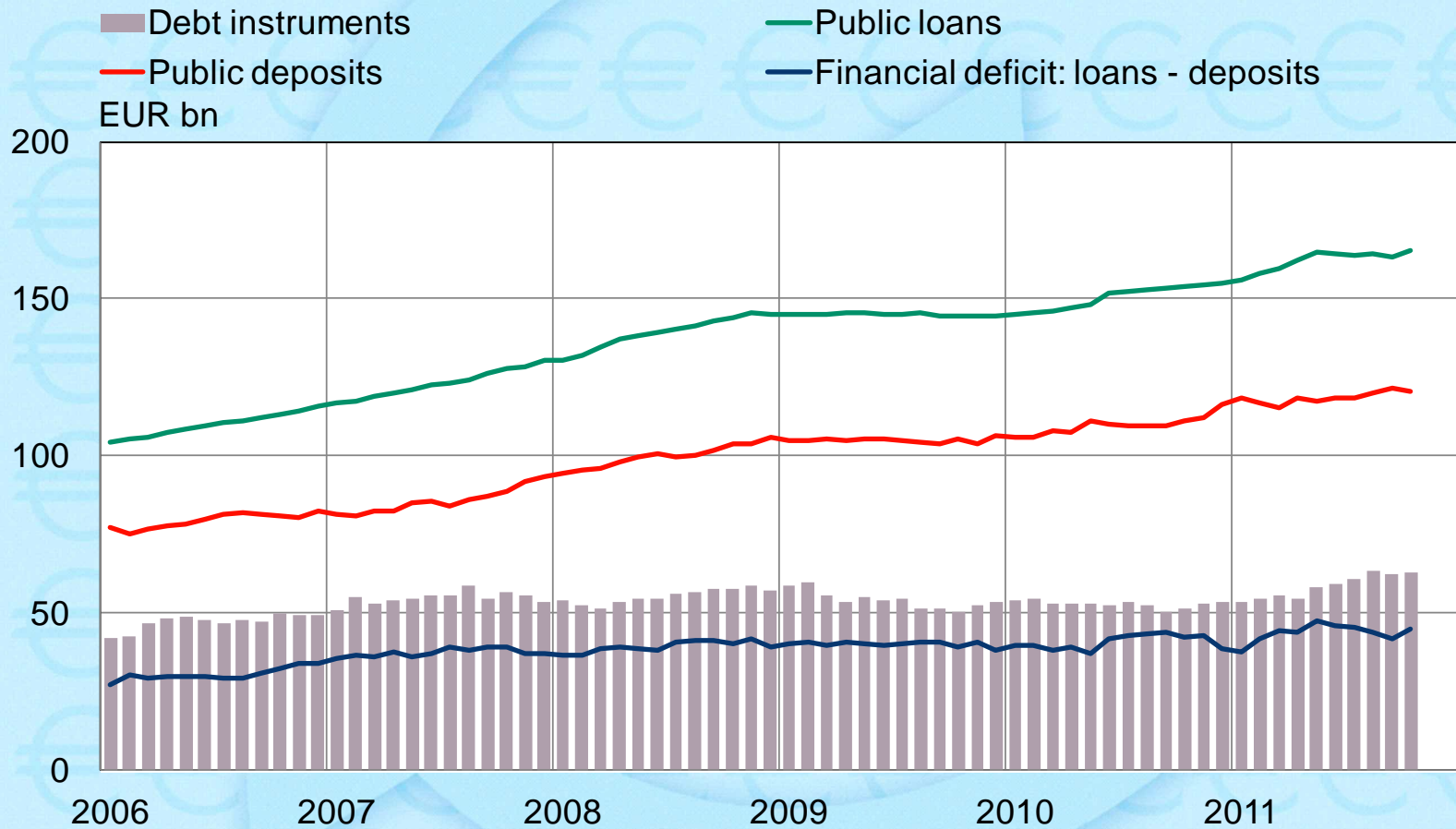
Finnish banks' profitability and capital adequacy have remained stable



*Operating profits are based on individual bank data, capital ratio on group-level data.

Sources: Financial Supervisory Authority and Bank of Finland.

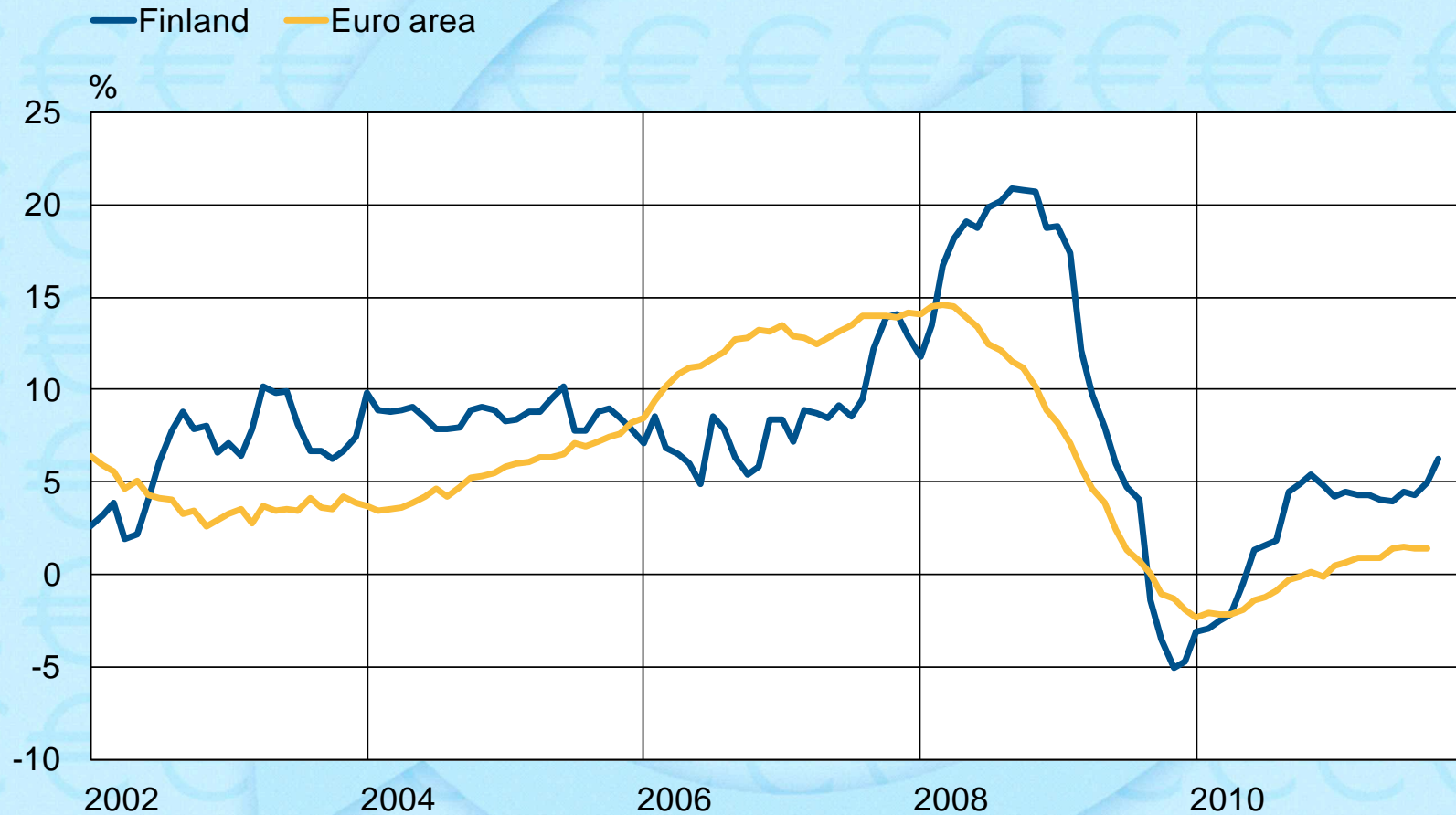
Finnish banks dependent on money and capital markets



*Deposit banks operating in Finland(excl. foreign branches) and mortgage banks.
Source: Bank of Finland.

Stable bank loan growth

Euro-denominated MFI loans to euro area non-financial corporations
(incl. housing corporations), annual growth of stock



Sources: Bank of Finland and ECB.