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Outlook for the Finnish economy 2016 - 2019





Global growth slightly slower

Annual change, %	June 2016				December 2016				
	2016	2017	2018	2019	2016	2017	2018	2019	
Global GDP (excl. euro area)	3.1	3.7	3.8	-	3.0	3.5	3.7	3.8	↓
Global trade (excl. euro area)	1.8	3.5	4.0	-	0.9	2.8	3.7	3.8	↓
Euro area export demand	2.0	3.5	4.0	-	1.5	2.5	3.4	3.6	↓

Source: ECB, BMPE projections.



The global economic situation contributes to the weakening outlook for the Finnish economy

- All other things being equal, the situation in the global economy would
 - Slow GDP growth by 0.2%
 - Cause export growth to decelerate by almost 1%
- Geopolitical factors pose a downside risk to the forecast
- Uncertainty exceptionally high

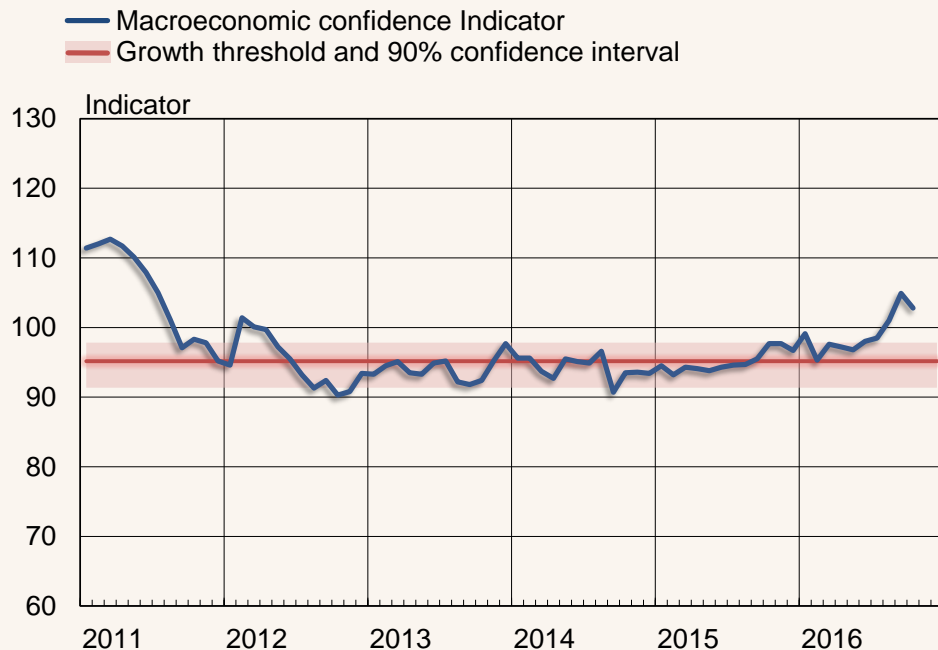




BUT



Positive news from the domestic economy



Sources: European Commission and calculations by the Bank of Finland.

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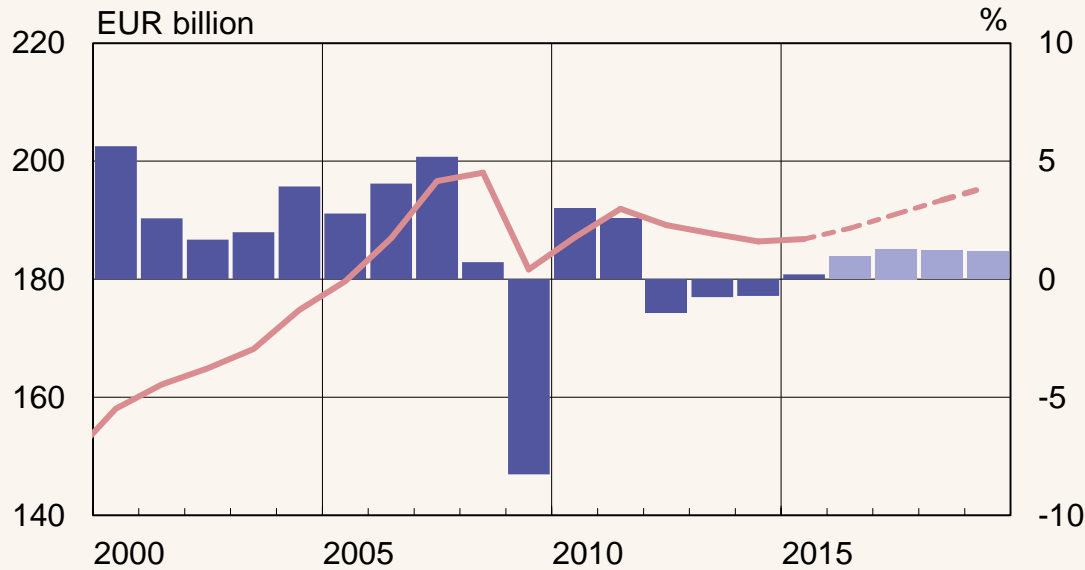
- The labour market has strengthened
- +
- The downtrend in industrial output has bottomed out
- +
- Competitiveness Pact improving competitiveness, monetary policy supporting growth
- **Confidence in the economy has improved**



Long recession receding

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, %		
	June	Dec.
2016f	1.1	1.0
2017f	1.1	1.3
2018f	1.0	1.2
2019f		1.2



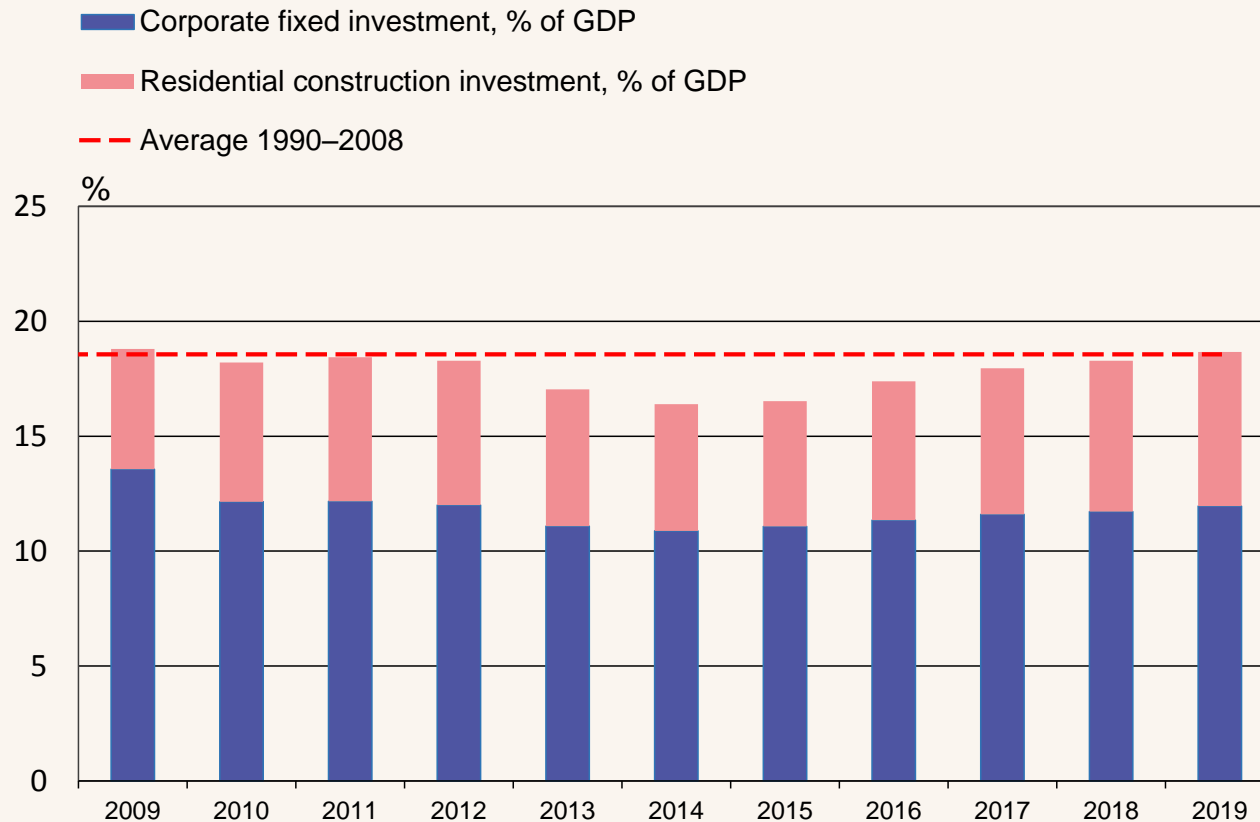
Balance of supply and demand

% change on previous year	2016 ^f	2017 ^f	2018 ^f	2019 ^f
GDP	1.1	1.3	1.2	1.2
Private consumption	1.9	1.4	1.0	0.9
Public consumption	0.3	0.3	0.3	-0.3
Private fixed investment	5.8	3.4	2.5	2.7
Public fixed investment	3.1	0.6	-0.2	-0.1
Exports	0.7	2.1	2.5	2.6
Imports	1.2	2.0	2.1	1.9

Sources: Statistics Finland and Bank of Finland.



Recovery in investment raises investment ratio



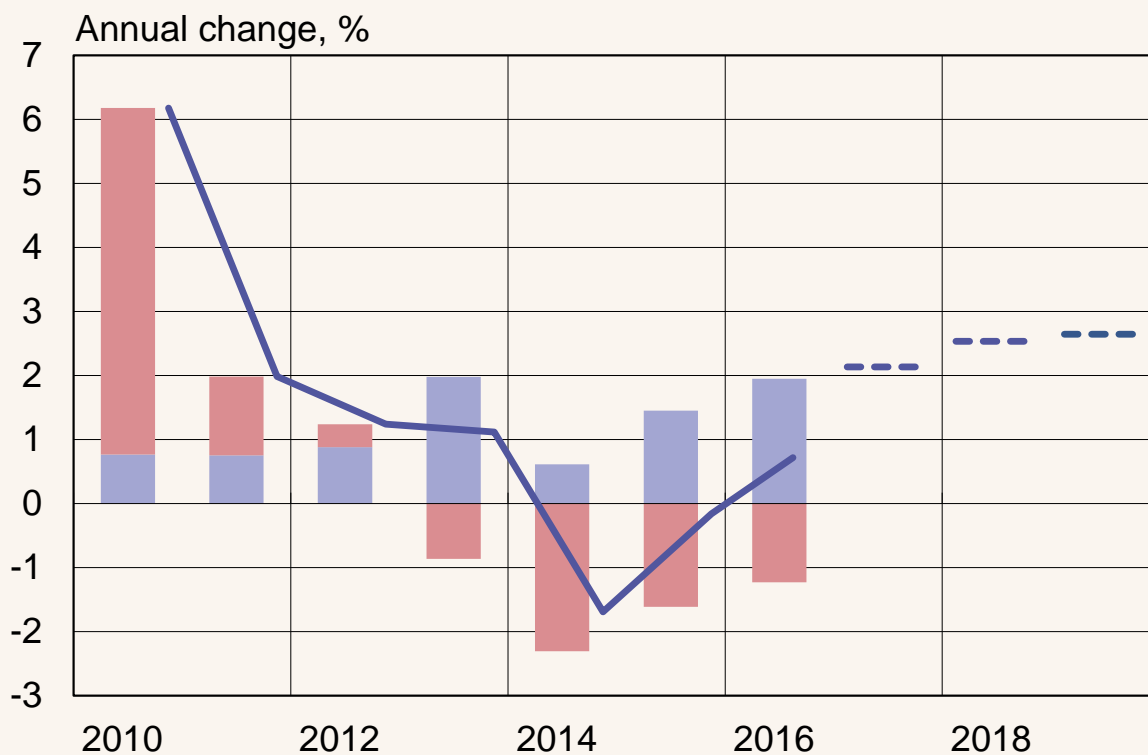
Source: Statistics Finland.

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Pace of export growth determined primarily by euro area

■ Exports to euro area ■ Exports to outside euro area — Exports



Sources: Statistics Finland and Bank of Finland.

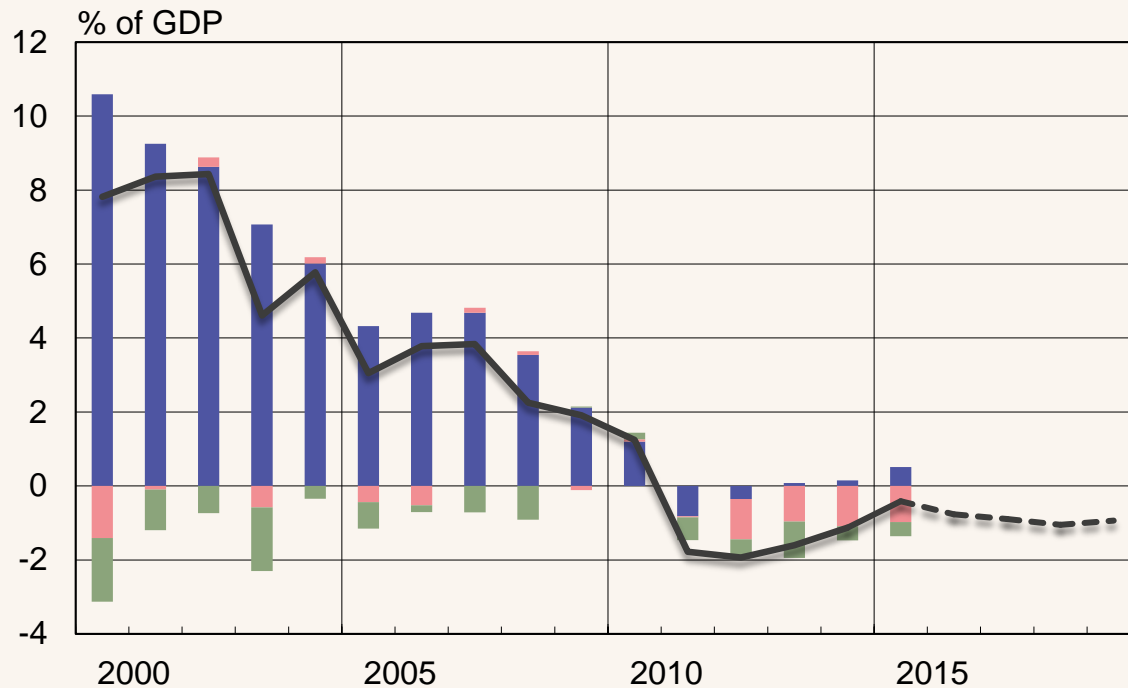
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Current account remains in deficit

Current account in deficit

- Primary income and current transfers from abroad
- Services account
- Balance of trade
- Current account



Source: Statistics Finland.

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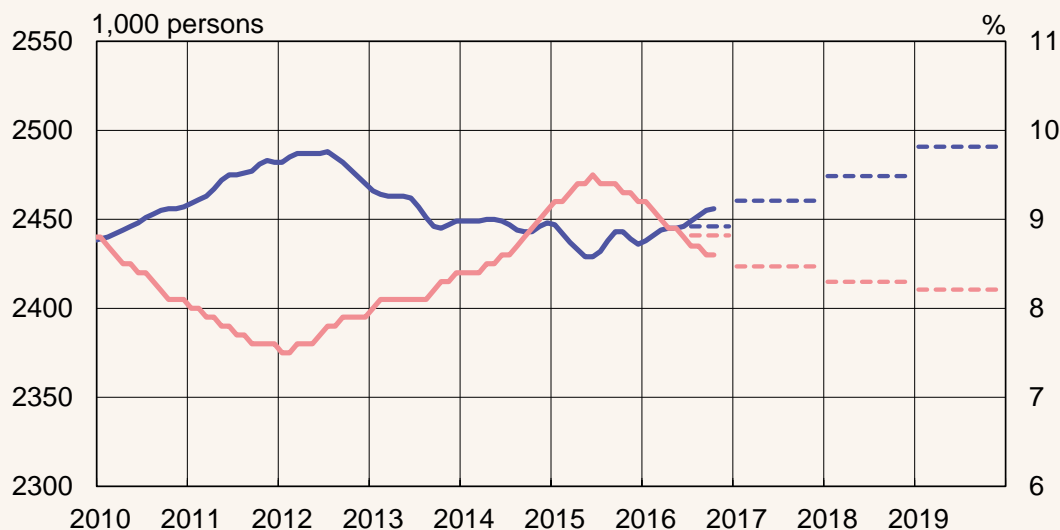
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Labour market strengthens

Trends for employment and the unemployment rate

- Number of employed, trend
- - - Number of employed, Bank of Finland forecast, December 2016
- Unemployment rate, trend
- - - Unemployment rate, Bank of Finland forecast, December 2016



Sources: Statistics Finland and Bank of Finland.

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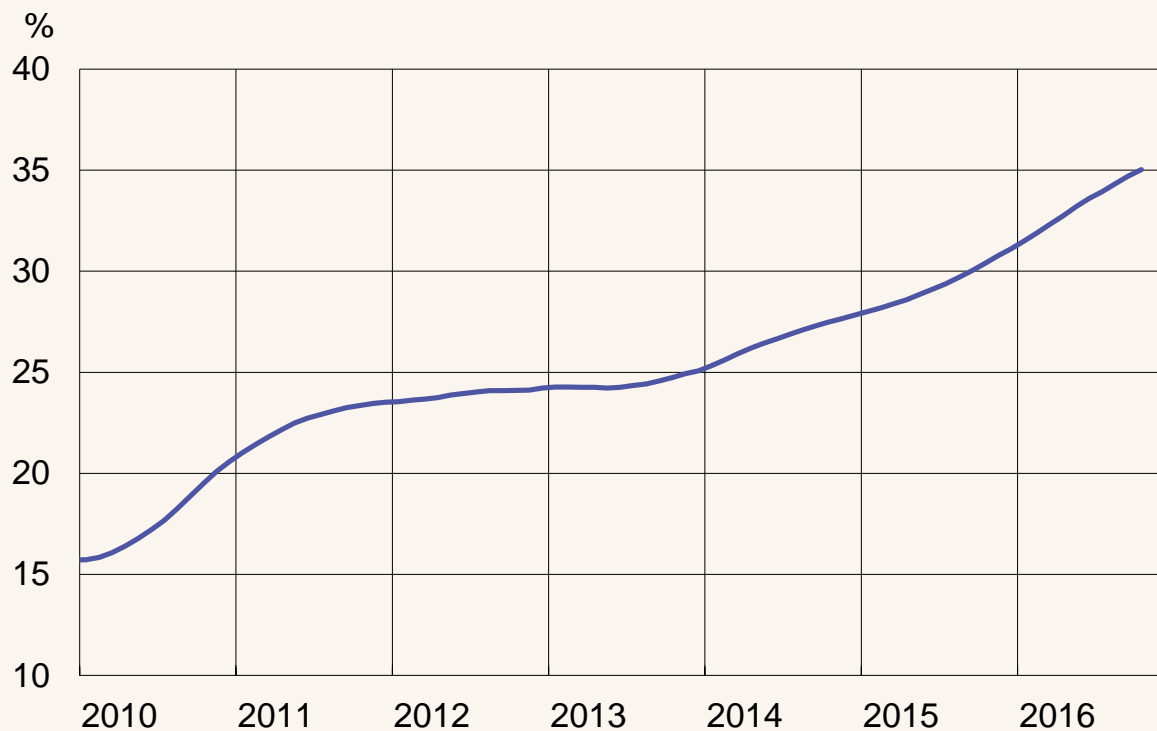
Number of employed and unemployment rate

	Employment rate, %	Unemployment rate %
2016f	68.6	8.8
2017f	69.1	8.5
2018f	69.7	8.3
2019f	70.2	8.2



Long-term unemployment has risen to very high levels

Proportion of the total number of unemployed people who are long-term unemployed

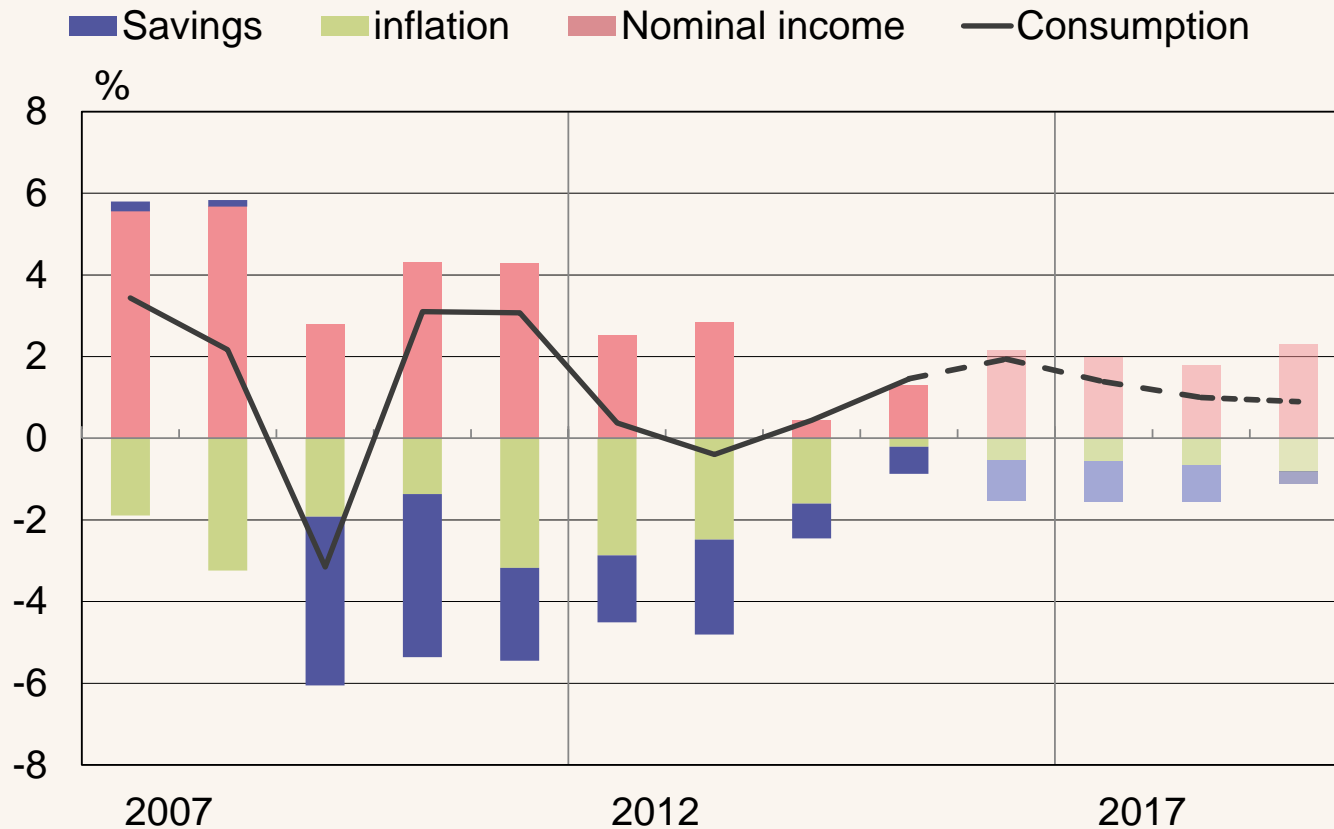


Source: Ministry of Economic Affairs and Employment.
12-month moving average.

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Growth sustained by consumers



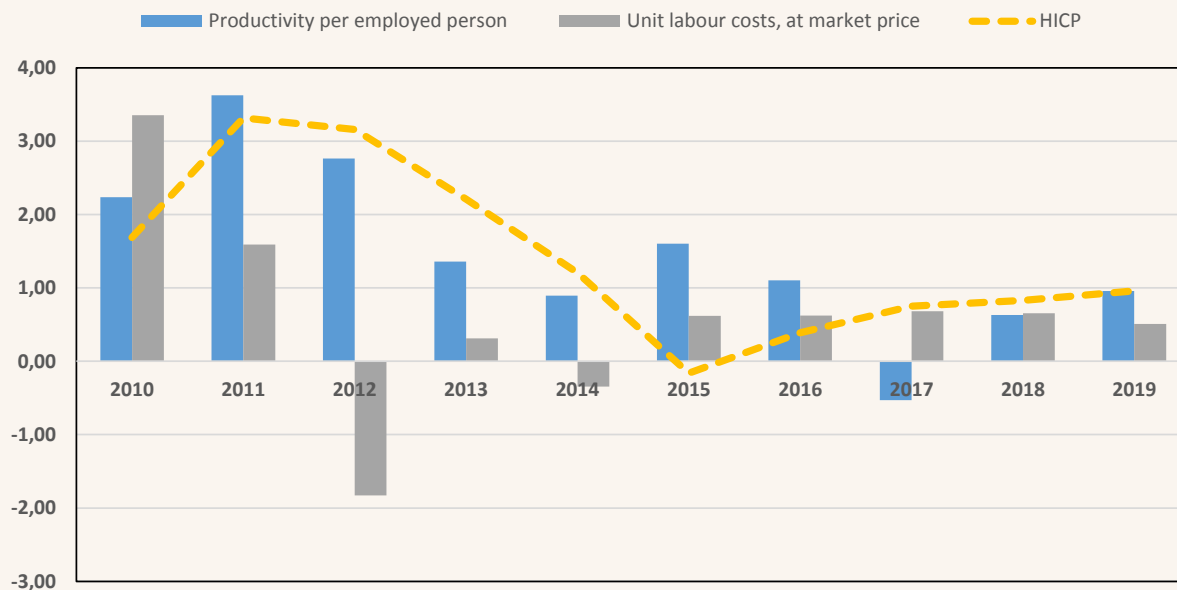
Source: Statistics Finland.

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Wages and prices rising slowly

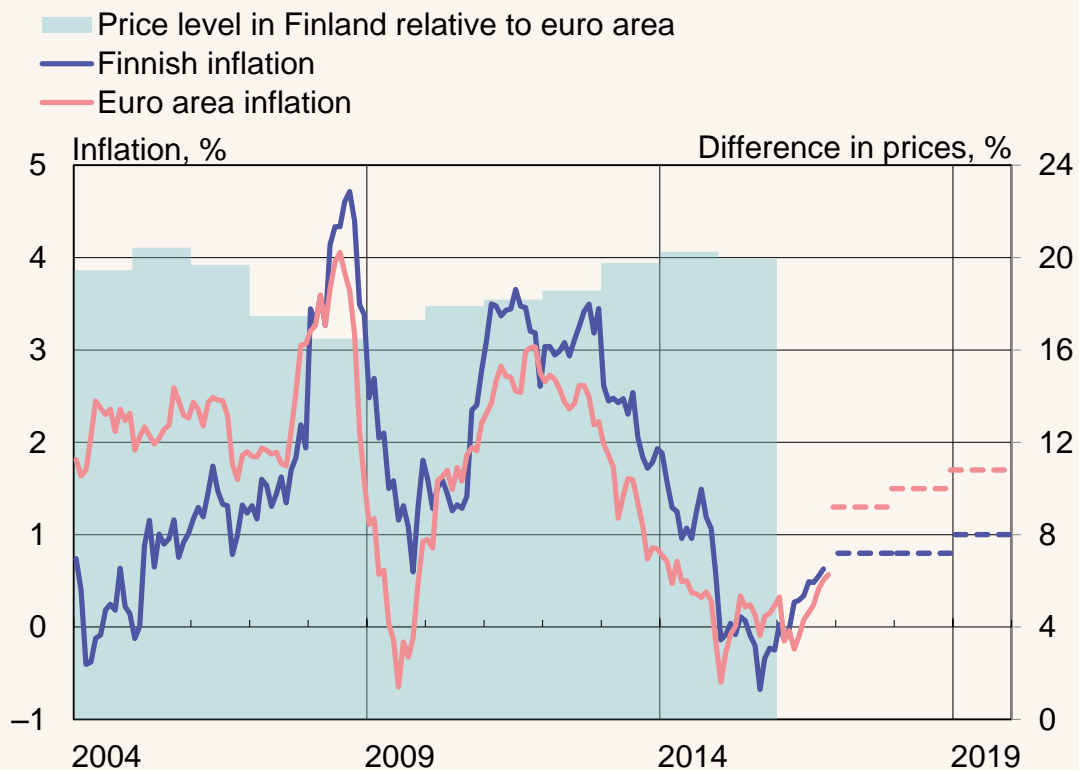
HICP, productivity and unit labour costs



Wages and prices, %		
	Wages	HICPI
2016f	1.1	0.4
2017e	-0,5	0.8
2018f	0.6	0.8
2019f	1.0	1.0



Inflation slower than euro area



HICP, %		
	Finland	Euro area
2016f	0.4	0.2
2017f	0.8	1.3
2018f	0.8	1.5
2019f	1.0	1.7

Price index is based on household consumption expenditure.

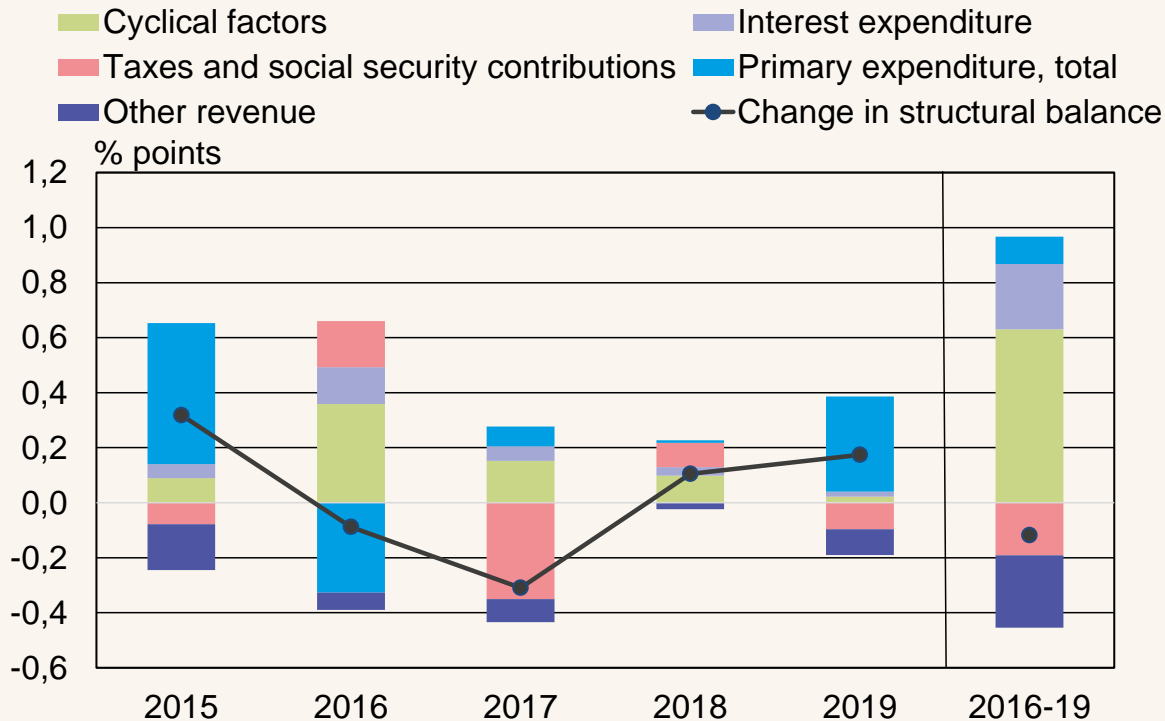
Sources: Eurostat and Bank of Finland.

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Weakening of general government budget balance comes to a halt

Factors affecting the general government budget balance



Sources: Statistics Finland and calculations by the Bank of Finland.

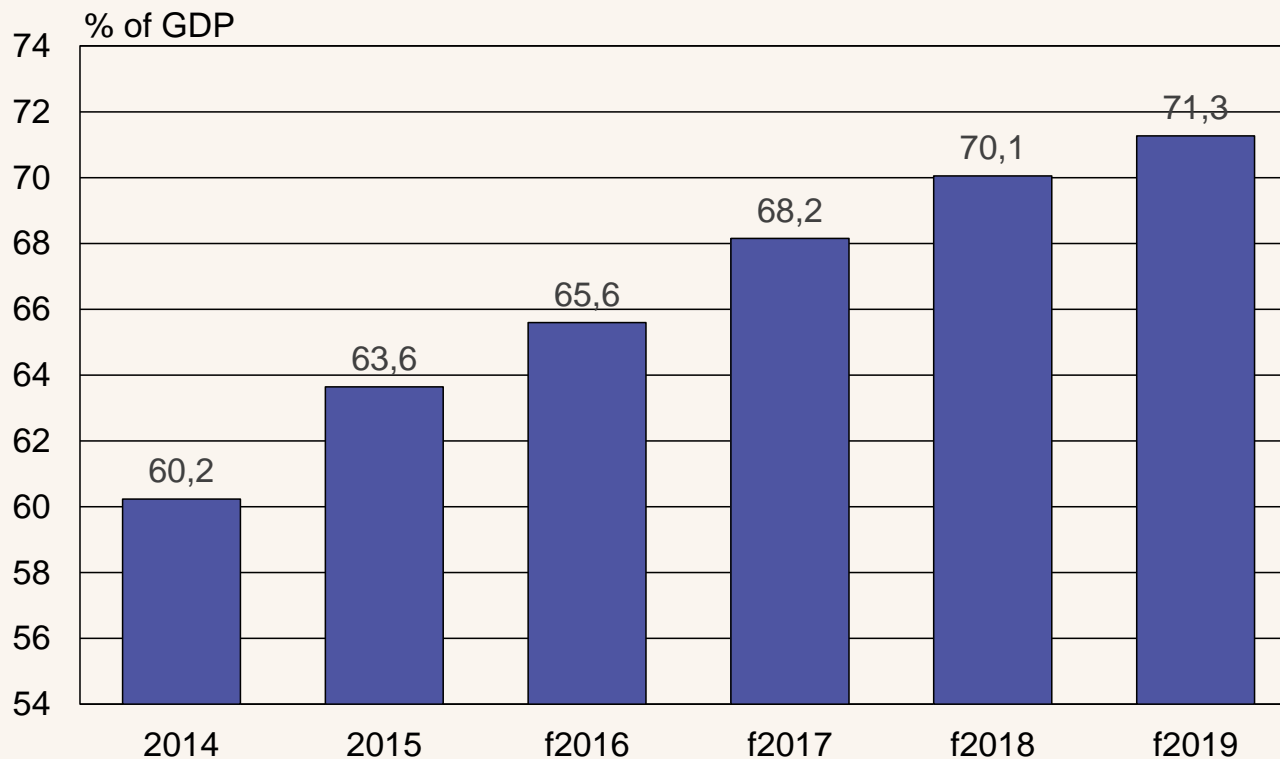
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General government net lending, %		
	EUR bn	% of GDP
2016f	- 5.3	-2.5
2017f	- 5.7	-2.7
2018f	- 5.3	-2.1
2019f	- 4.9	-1.7



General government debt ratio will exceed 70%

General government debt



Source: Statistics Finland.

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Risks to the forecast on the downside

- Uncertainty in the global economy has reached exceptionally high levels
 - Impacts of Brexit ?
 - Future US economic policy ?

- Sensitivity of the housing market to business cycle and the impact of the competitiveness pact (+, -)

- Alternative scenario assesses effects if global growth declines by half
 - GDP would remain cumulatively 1.2% lower
 - The need for fiscal consolidation would increase further



Thank you!

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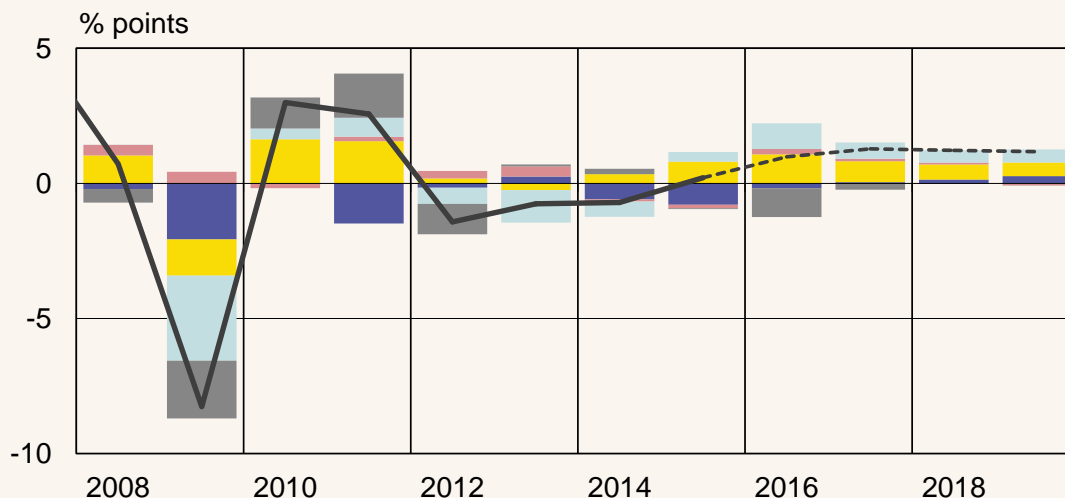
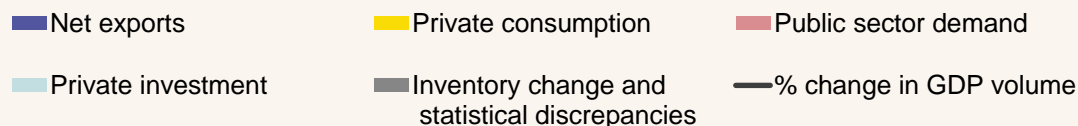


Additional slides



Growth supported particularly by domestic demand

Contribution of different demand components to GDP growth



The chart is merely indicative. The GDP growth contribution of each demand component has been calculated on the basis of its volume growth and its value share in the previous year. The figures for 2016–2019 are forecasts.

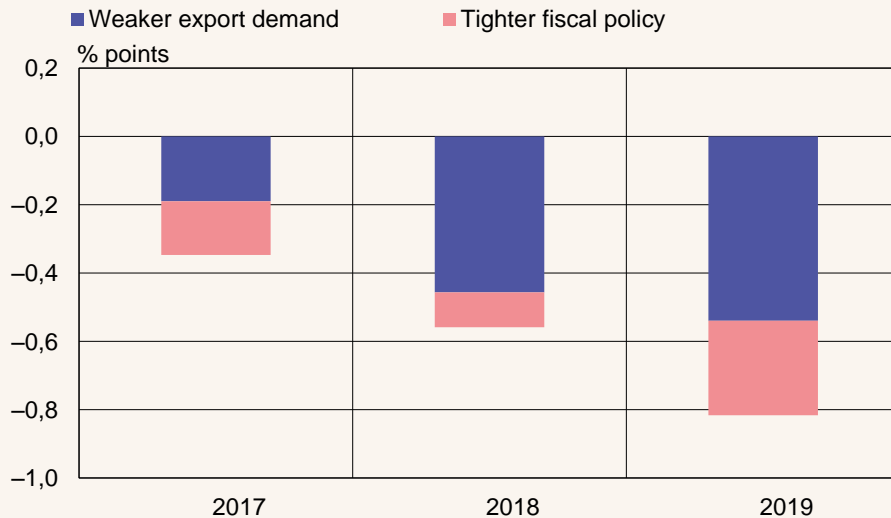
Sources: Statistics Finland and Bank of Finland.

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Alternative scenario

Change in GDP relative to baseline scenario

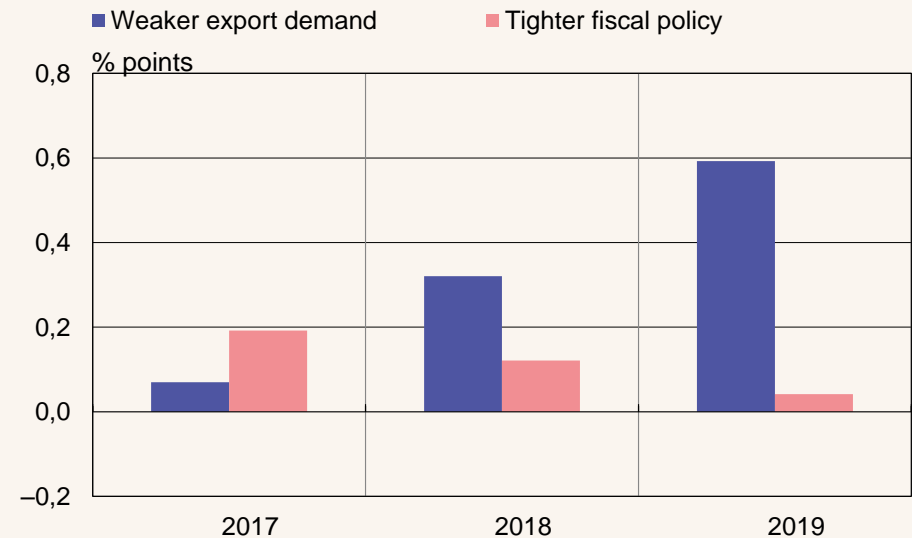


Source: Bank of Finland calculations.

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Change in debt ratio relative to baseline scenario



Source: Bank of Finland calculations.

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