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Outlook for the Finnish Economy 2017-2019





Increasingly favourable global environment for economic growth

- Finland's export demand will strengthen along with the pick-up in the global economy

- Global economic recovery generates a need for investment and provides structural support for Finnish exports

- External price factors also favourable
 - *Oil prices will remain at current levels and the rise in commodity prices will moderate.*
 - *Competitors' export prices will increase faster than in Finland.*
 - *Interest rates will remain low.*



Upward trend also in Finland

- Financing conditions remain favourable and monetary policy continues to support economic recovery

- Improvements in price competitiveness
 - *Competitiveness Pact*
 - *Trade-weighted exchange rate has weakened*

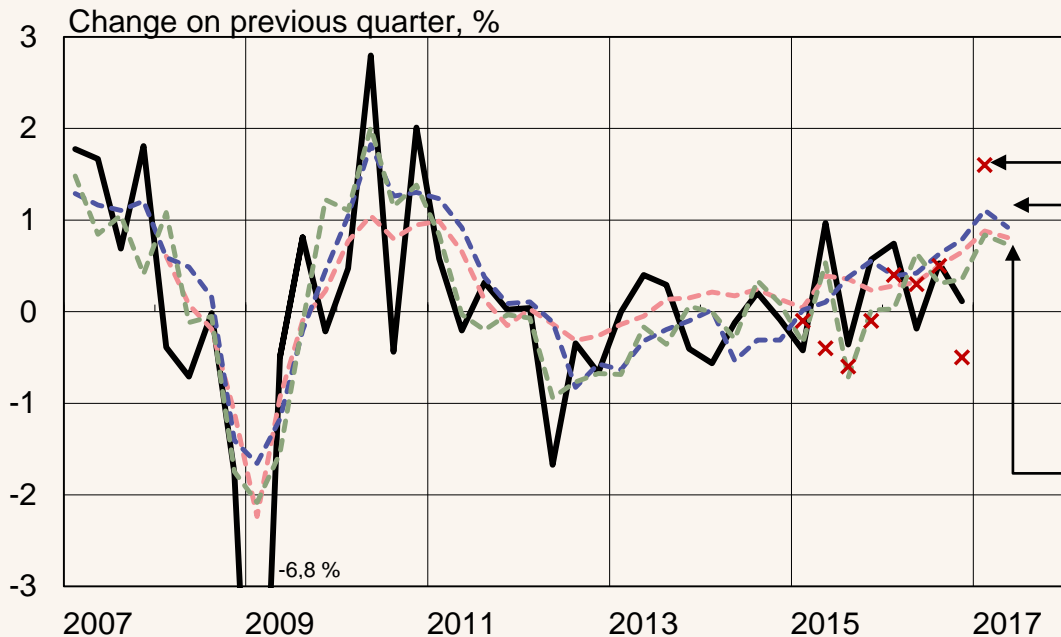
- Significant improvement in confidence
 - *Economic data published in the early part of 2017 has surprised mainly on the upside*

- Pick-up in productivity growth



Short-term forecasting models predict robust growth for early 2017

- GDP
- × Statistics Finland's flash estimate
- - - Mean forecast of bridge models
- - - Dynamic factor model
- - - Bayesian vector autoregressive model



Statistics Finland's flash estimate and first data release, and indicative forecast for early 2017, GDP change on previous quarter, %

	2017Q1	2017Q2	2017Q3
Flash estimate	1.6%		
1 st data release	1.2%		
Bridge models	0.9%	0.8%	0.9%
Factor model	1.2%	1.0%	0.9%
BVAR	0.8%	0.5%	0.6%

Sources: Statistics Finland, and Bank of Finland forecasts.

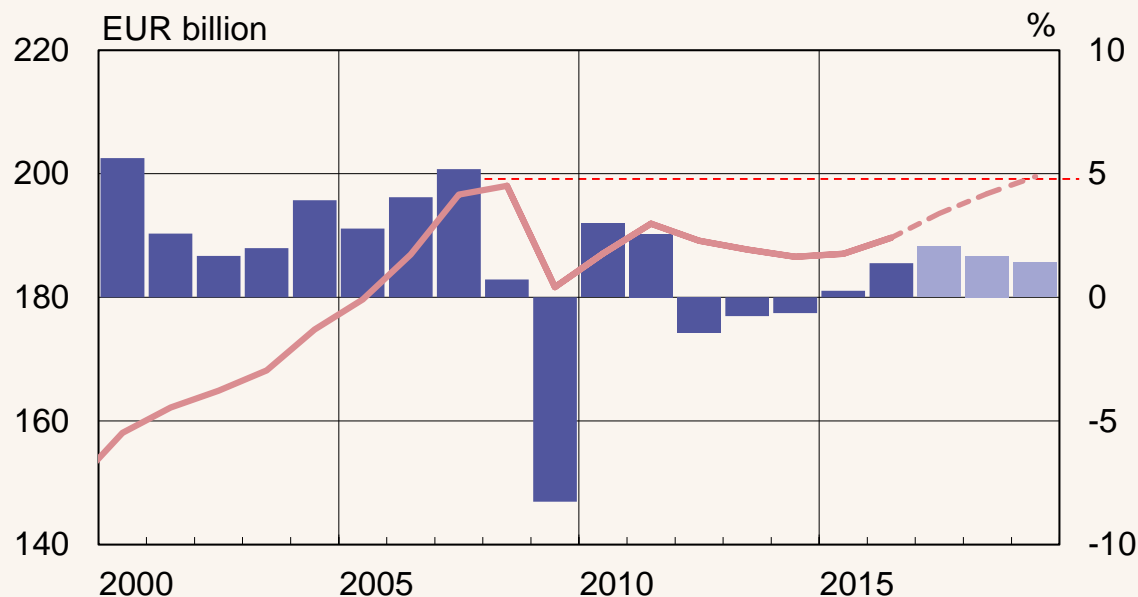
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Upswing strengthens – GDP finally above the level of 2008

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, %		
	March'17	June
2016	1.6	1.4
2017f	1.6	2.1
2018f	1.5	1.7
2019f	1.3	1.4



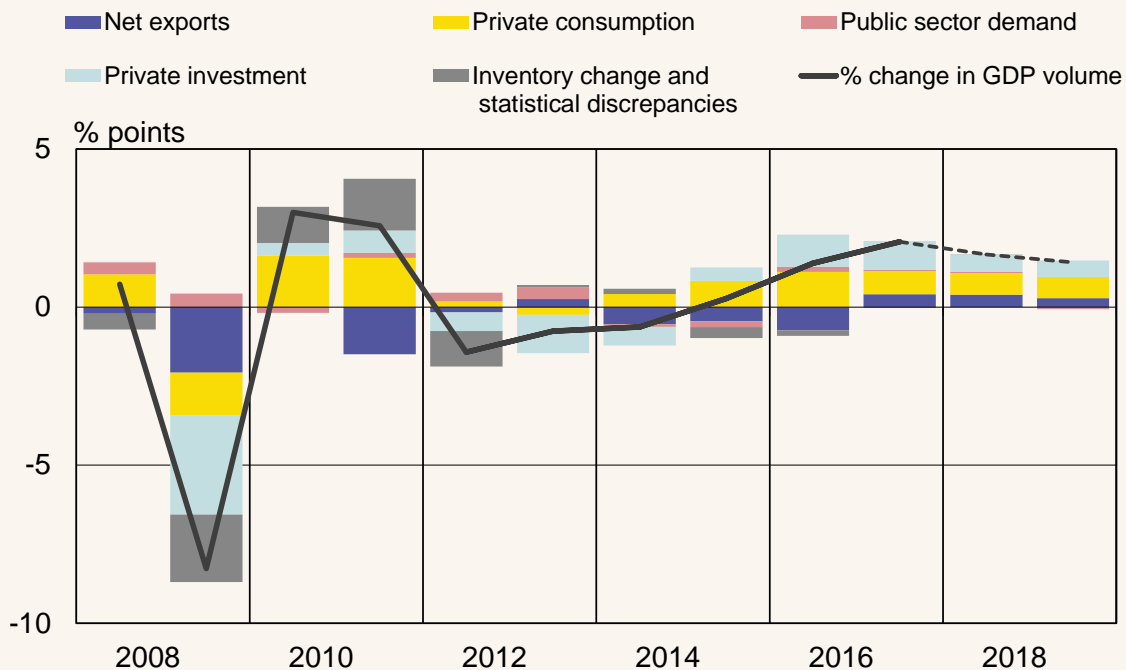
Balance of supply and demand: projections for GDP sub-components

% change from previous year	2016	2017 ^f	2018 ^f	2019 ^f
GDP	1.4	2.1	1.7	1.4
Private consumption	2.0	1.3	1.3	1.2
Public consumption	0.5	-0.2	0.1	-0.2
Private fixed investment	4.6	5.1	2.9	3.3
Public fixed investment	1.4	2.4	0.2	-0.1
Exports	0.5	3.9	3.4	2.9
Imports	2.5	2.7	2.3	2.1

Sources: Statistics Finland and Bank of Finland.



Exports join private demand in supporting 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.

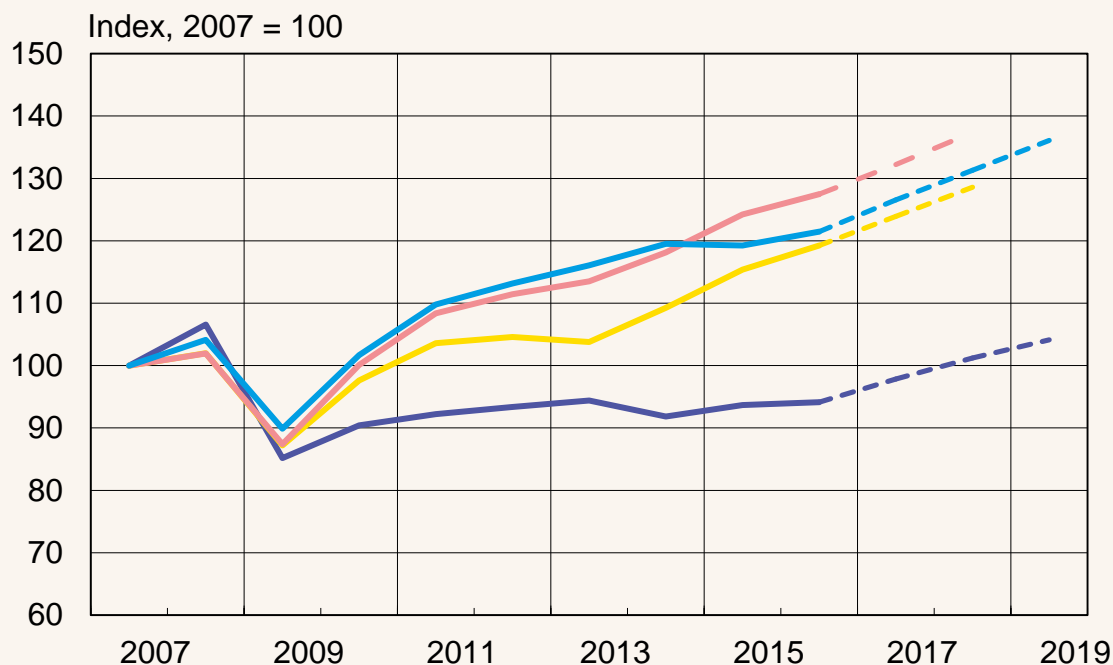
Sources: Statistics Finland and Bank of Finland.

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Notable turn in export growth, but defending market shares still difficult

— Finland — Sweden — Germany — Finland's export markets



Exports and export markets, %

	Exports	Export markets
2016	0.5	1.9
2017f	3.9	4.2
2018f	3.4	3.7
2019f	2.9	3.7

Sources: Bank of Finland and European Commission.

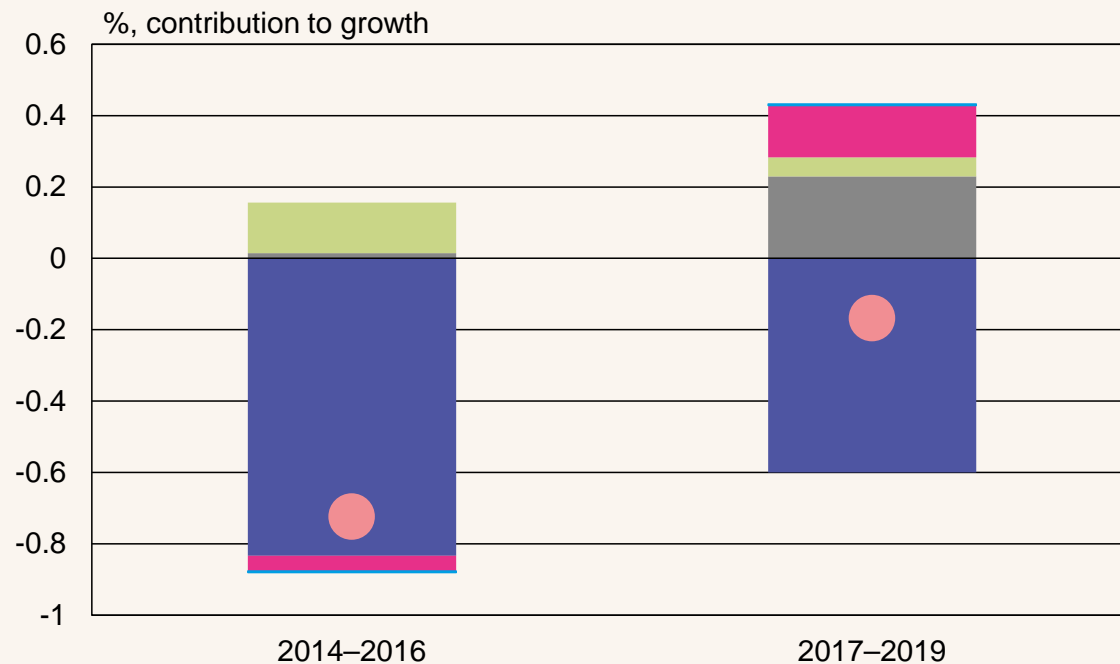
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Why does export growth still deviate from its historical trend?

Factors contributing to exports

- Domestic cost and structural factors
- Interest and exchange rates
- Other
- External factors
- Taxation and social security contributions
- Deviation of exports from historical average growth



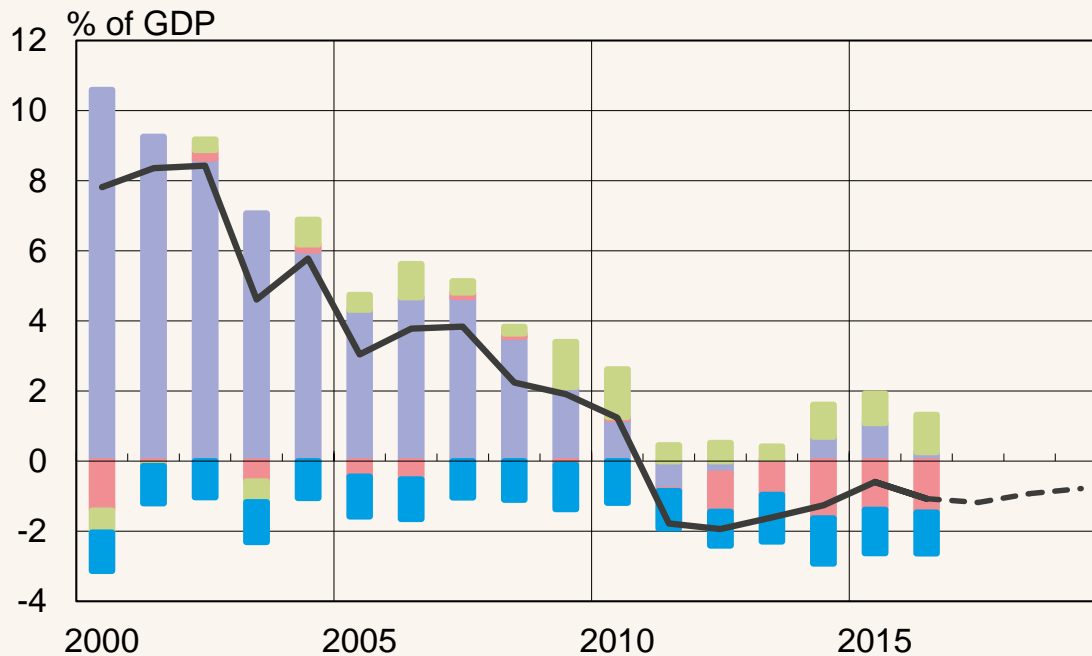
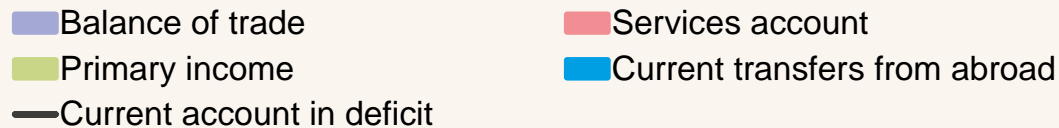
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Persistent deficit on the current account

Current account in deficit



Source: Statistics Finland.

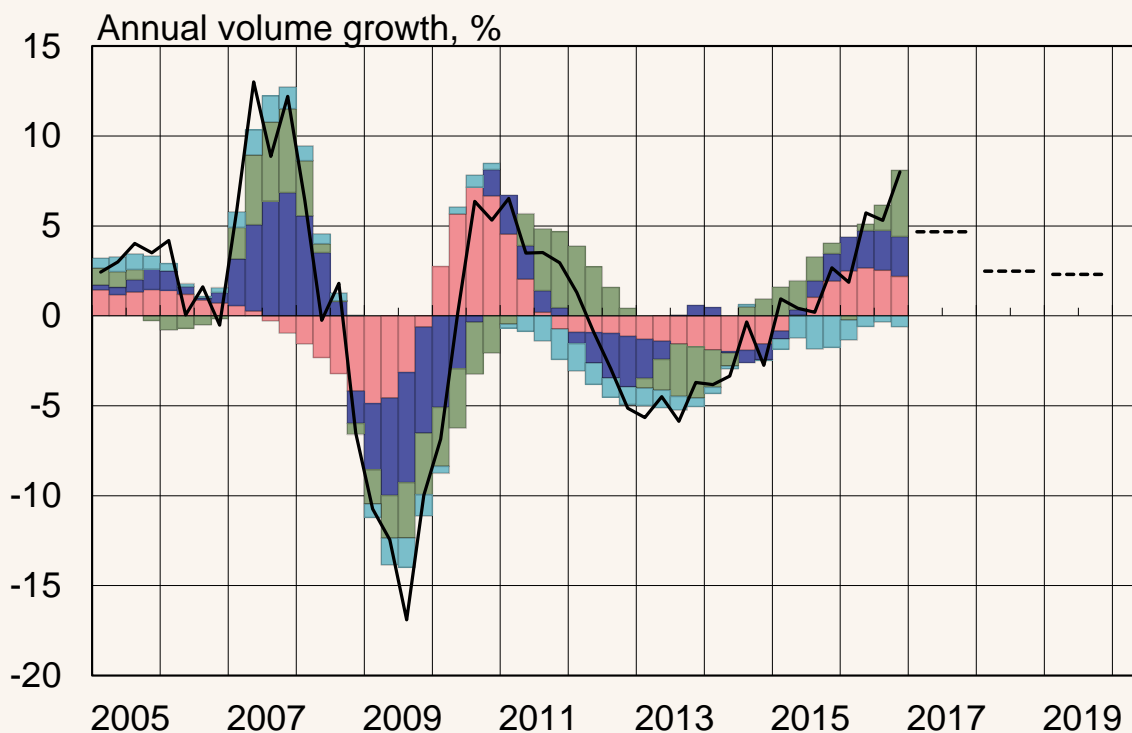
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- Balance of trade surplus is not sufficient for turning the current account positive
- Current account deficit reflects strong growth in private demand and a deterioration in the terms of trade



Investments supported by improved growth outlook and profitability

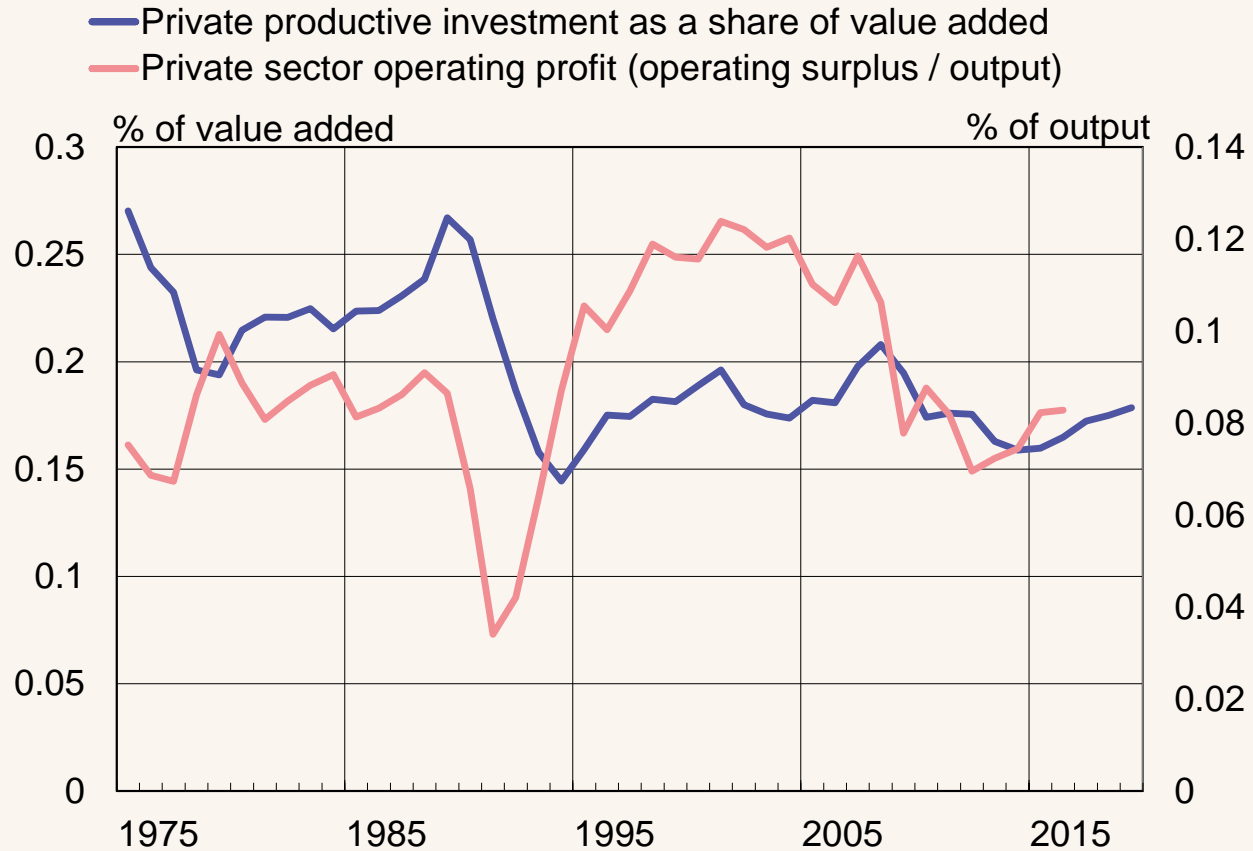
- Cultivated assets and intellectual property products
- Machinery and equipment, transport equipment and weapons systems
- Other construction investment
- Residential construction
- Total investment



Sources: Statistics Finland and forecast by the Bank of Finland.
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Improving profitability of non-financial corporations supports investment



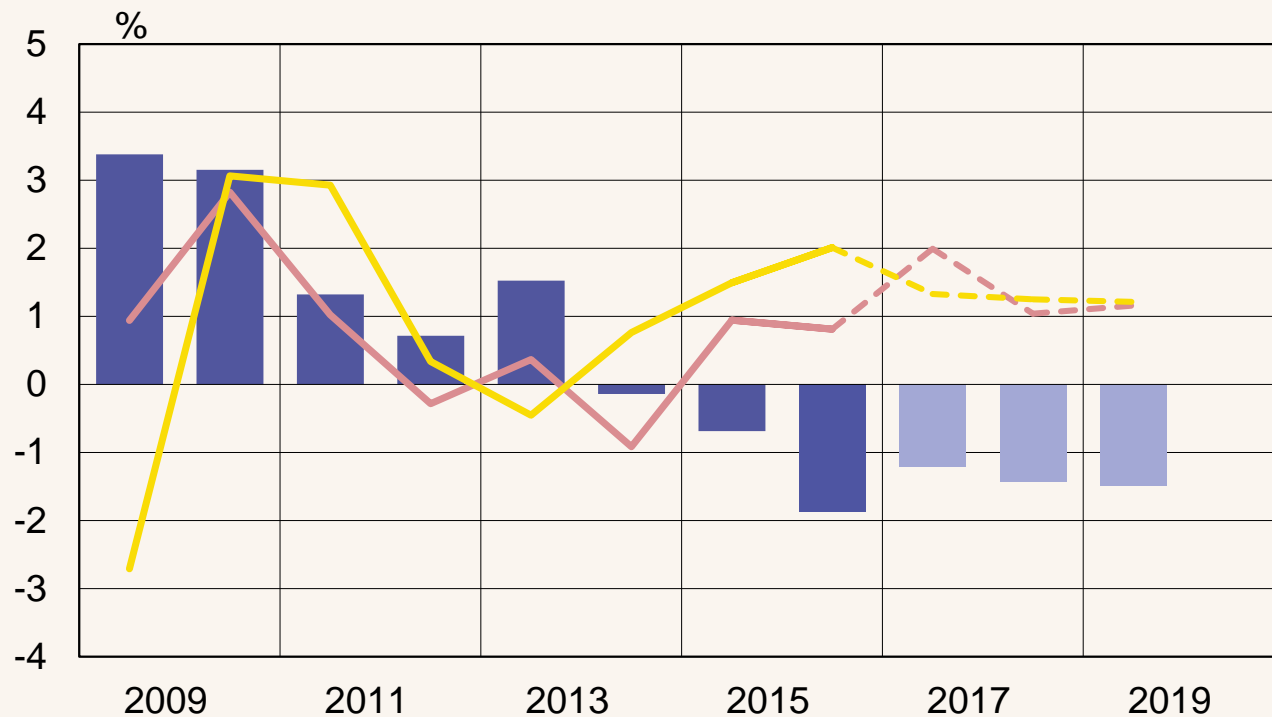
Source: Statistics Finland.

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Savings ratio declines, household debt continues to grow

■ Savings ratio — Households' real disposable income — Real private consumption



Households = households and non-profit corporations serving households.

* % change on previous year.

Sources: Statistics Finland and Bank of Finland.

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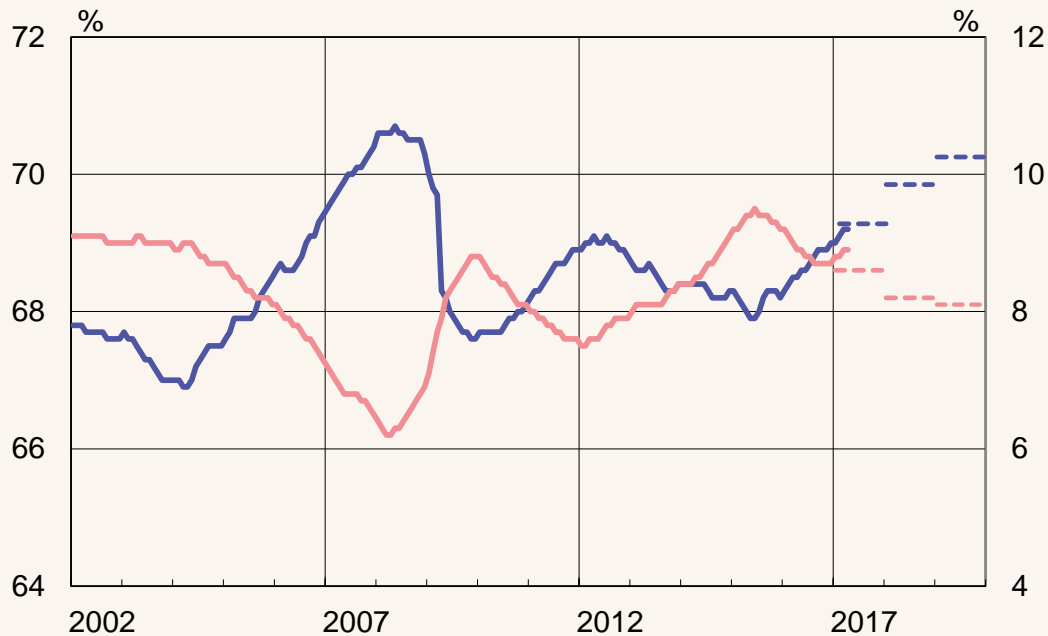
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Labour market strengthens

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



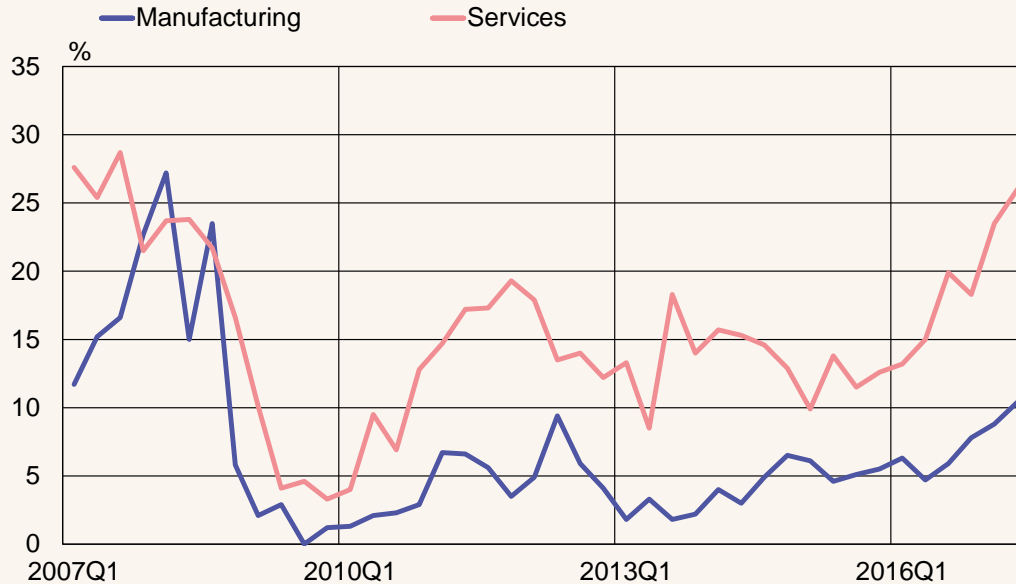
Employment and unemployment rate		
	Employment rate, %	Unemployment rate, %
2016	68.7	8.9
2017f	69.3	8.6
2018f	69.9	8.2
2019f	70.3	8.1

Sources: Statistics Finland and Bank of Finland (forecasts).
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Many factors slowing improvement in employment rate

Labour supply as a factor constraining production*



*Share of companies whose production/business is constrained by labour supply
 Source: European Commission, BCI Survey

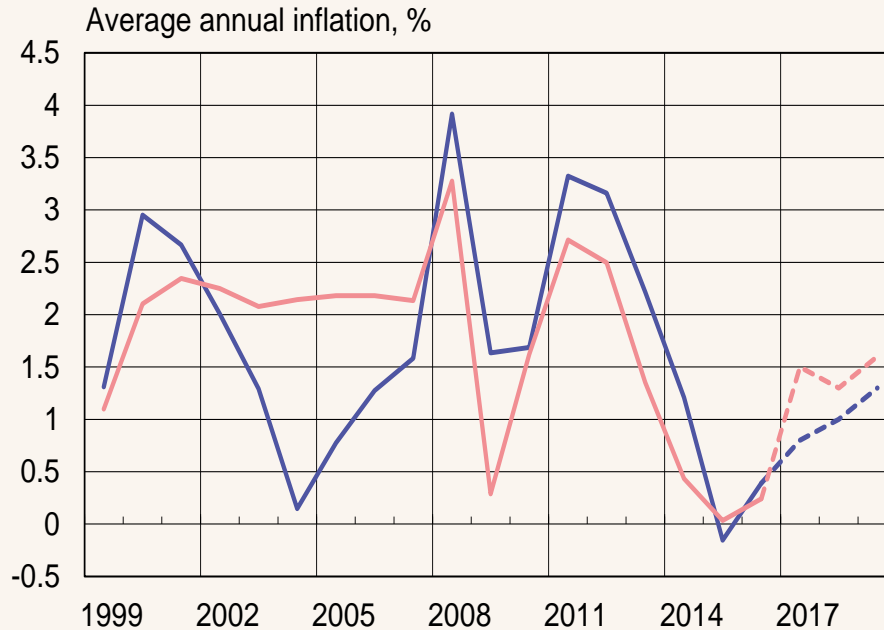
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- Structural employment a problem. However, difficult to assess the amount of slack.
- Labour market mismatch
 - *Construction and IT sectors have already reached full employment, and skilled labour is hard to find.*
- On the other hand, the number of persons returning to the labour market is on the increase.



Finnish inflation slower than euro area

— Finland - - - Suomi: ennuste
 — Euro area - - - Euro area, forecast



Sources: Bank of Finland and European Central Bank.

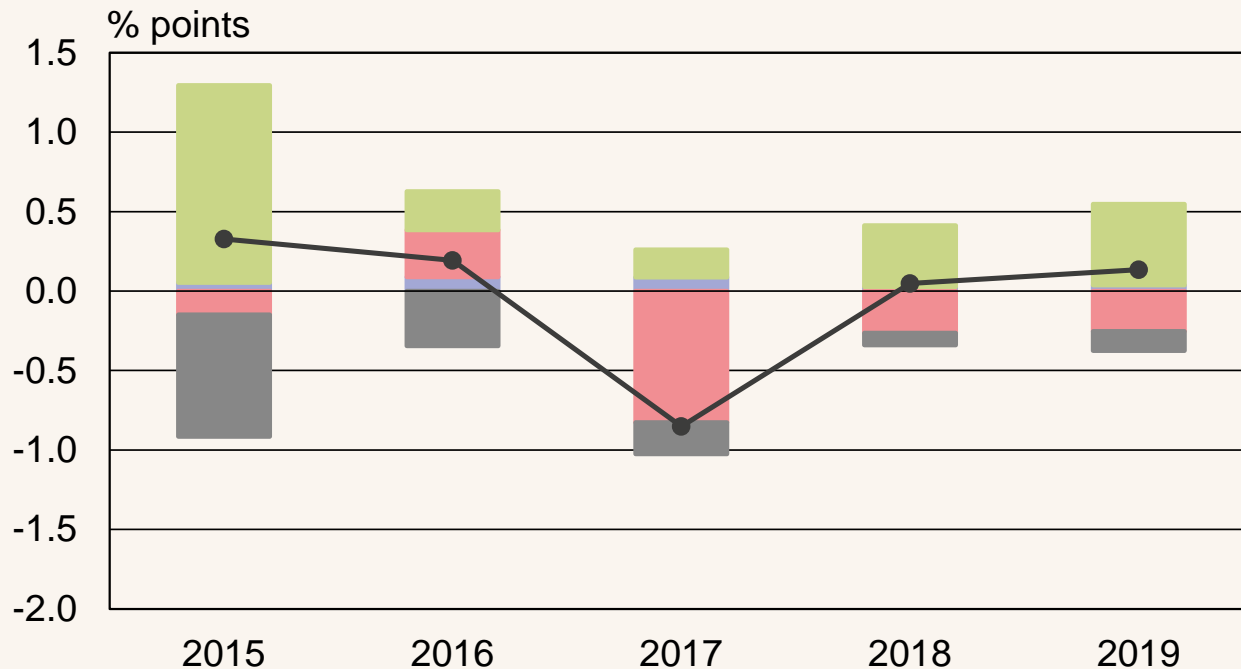
HICP, %		
	Finland	Euro area
2016	0.4	0.2
2017f	0.8	1.5
2018f	1.0	1.3
2019f	1.3	1.6

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General government structural balance remains in deficit

- Interest expenditure
- Primary expenditure, total
- Taxes and social security contributions
- Other revenue
- Change in structural primary balance

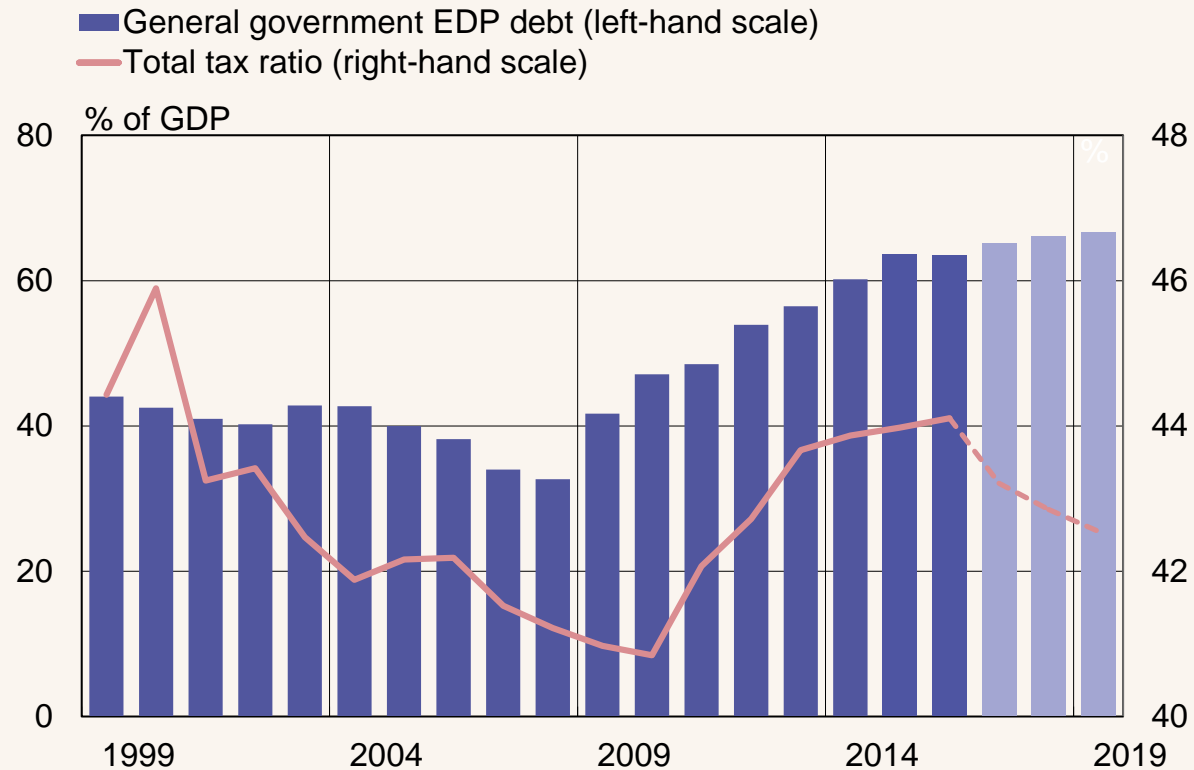


Sources: Statistics Finland and calculations by the Bank of Finland.

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Debt ratio will grow until 2019



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

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Forecast risks and alternative scenario

- Risks to the forecast on the upside in the short term, but weaker-than-expected developments possible over the longer term
 - *Rapid growth in investments and exports may continue stronger and for a prolonged period.*
 - *Realisation of global uncertainties could weaken exports.*
 - *A stronger rise in wages than in productivity would erode the benefits of the Competitiveness Pact.*
- **Alternative scenario:** Stronger growth in export demand and total factor productivity



Thank you!

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