Economic Survey

Autumn 2016 Summary

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For the reader

The autumn 2016 Economic Survey is an offprint of an annex to the Government's 2017 budget proposal. This Economic Survey offers projections of economic developments in 2016–2018. In addition to short-term prospects, it includes a medium-term economic outlook extending to 2020.

The forecast and trend projections in the survey are prepared independently by the Ministry of Finance Economics Department based on the Act on the implementation of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union and on multi-annual budgetary frameworks (869/2012).

The forecasts are based on national accounts data for 2015 published by Statistics Finland in July 2016 and on other public statistical sources available by 2 September 2016.

Summary

The Finnish economy is predicted to post year-on-year growth of 1.1% in 2016. Over the next two years growth will hover around 1%, and cumulative growth for the whole outlook period will reach no more than some 3%.

Despite the slight rebound, the outlook for Finland's immediate future is one of continued economic weakness. The 2018 forecast is that GDP will still be some 3% lower than in 2008, and that industrial output will be around one-fifth lower than 10 years ago. The performance of exports will remain weaker than global trade, and therefore Finland will continue to lose market shares in world trade.

In the next few years ahead private consumption and investment will be the main drivers of economic activity. In the medium term potential output growth, which reflects the level of output possible given the resources on hand, will be less than 1%.

The growth outlook for the global economy and trade has deteriorated recently. Worldtrade growth will reach just 2% this year, one percentage point slower than global trade growth.

The UK's exit from the EU is primarily a negative shock for the British economy itself. UK economic growth will slow appreciably in the immediate future.

In Finland, public finances will remain in deficit until the end of the decade. Successive governments have undertaken substantial fiscal adjustment efforts, but nonetheless failed to significantly reduce the deficit. Slow economic growth is not generating enough tax revenue to finance public expenditure.

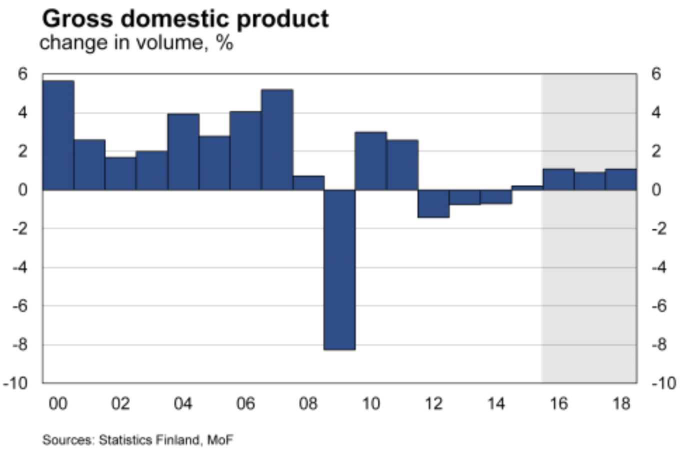
Key forecast figures

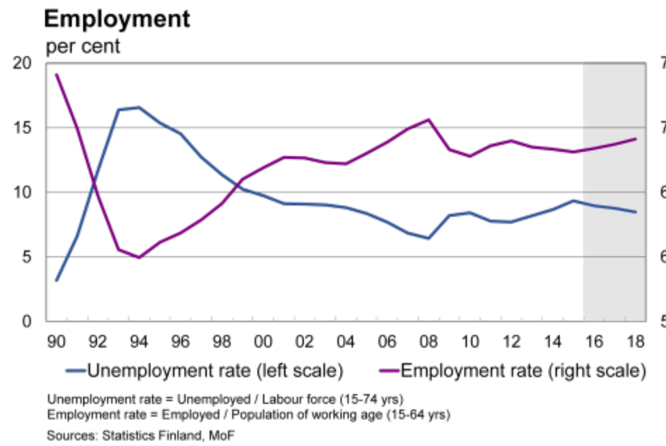
	2015 EUR bn	2013	2014	2015	2016**	2017**	2018**
		change in volume, %					
GDP at market prices	209	-0.8	-0.7	0.2	1.1	0.9	1.1
Imports	78	0.5	-0.2	1.9	2.0	2.9	3.6
Total supply	287	-0.4	-0.6	0.7	1.3	1.4	1.8
Exports	77	1.1	-1.7	-0.2	1.0	3.0	3.8
Consumption	167	0.0	0.3	1.1	0.8	0.1	0.4
private	116	-0.5	0.6	1.5	1.2	0.7	0.6
public	51	1.1	-0.5	0.4	-0.1	-1.3	0.0
Investment	43	-4.9	-2.5	0.7	4.3	3.3	2.9
private	35	-6.6	-3.4	2.2	4.3	3.9	3.8
public	8	2.6	0.9	-5.1	4.3	0.6	-0.8
Total demand	288	-0.4	-0.6	1.0	1.3	1.4	1.8
domestic demand	211	-1.1	-0.1	1.4	1.5	0.9	1.1

Other forecast figures

	2013	2014	2015	2016**	2017**	2018**
GDP, EUR bn	203	205	209	213	218	223
Services, change in volume, %	-1.4	-0.5	0.8	0.8	0.8	0.9
Industry, change in volume, %	0.0	-0.5	-2.5	-2.2	1.9	2.6
Labour productivity, change, %	0.5	-0.1	0.2	0.0	-0.3	1.0
Employed labour force, change, %	-1.0	-0.4	-0.4	0.4	0.3	0.5
Employment rate, %	68.5	68.3	68.1	68.5	68.8	69.3
Unemployment rate, %	8.2	8.7	9.4	9.0	8.8	8.5
Consumer price index, change, %	1.5	1.0	-0.2	0.4	1.1	1.3
Index of wage and salary earnings, change, %	2.1	1.4	1.3	1.2	0.8	1.2
Current account, EUR bn	-3.3	-1.9	0.3	0.6	0.7	0.7
Current account, relative to GDP, %	-1.6	-0.9	0.1	0.3	0.3	0.3
Short-term interest rates (3-month Euribor), %	0.2	0.2	0.0	-0.3	-0.3	-0.1
Long-term interest rates (10-year govt. bonds), %	1.9	1.4	0.7	0.3	0.4	1.0
General government expenditure, relative to GDP, %	57.5	58.1	57.7	57.4	56.6	55.9
Tax ratio, relative to GDP, %	43.7	43.9	44.1	44.3	43.3	42.9
General government net lending, relative to GDP, %	-2.6	-3.2	-2.8	-2.4	-2.6	-2.0
Central government net lending, relative to GDP, %	-3.7	-3.7	-3.0	-2.8	-2.8	-2.3
General government gross debt, relative to GDP, %	55.4	59.3	62.6	64.3	65.8	66.4
Central government debt, relative to GDP, %	44.1	46.3	47.7	49.7	51.2	52.1

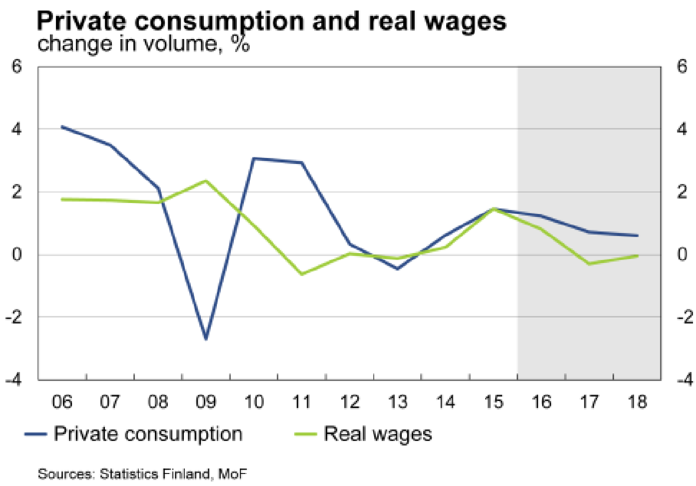
Domestic economy



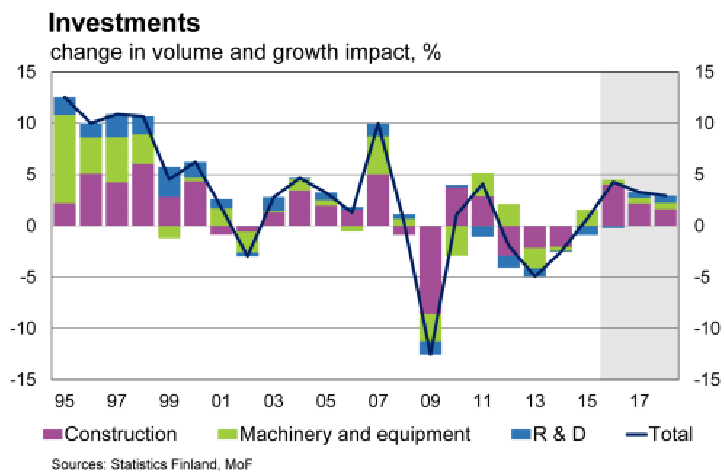


Finland's GDP in 2016 is forecast to show growth of 1.1 %. Over the outlook period the Finnish economy will grow slightly faster than potential output, and therefore the negative output gap will shrink.

In 2016 employment is expected to increase marginally and the forecast for unemployment rate is 9.0%. Employment is expected to grow moderately in 2017 and 2018, but unemployment falls slowly. The continuing growth of structural unemployment in 2016 is troubling.



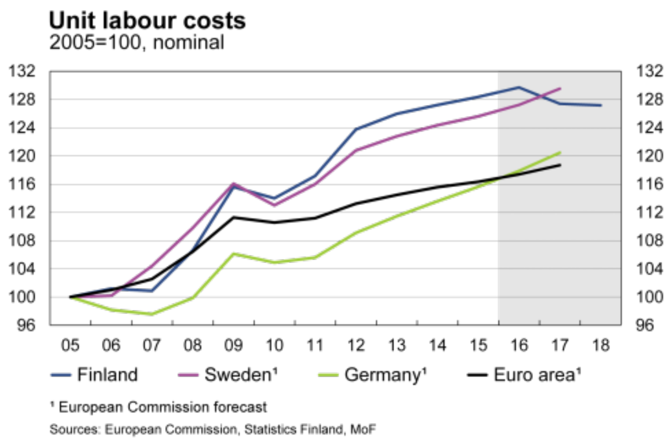
Household real income growth will slow towards the end of the forecast period due to higher inflation. Private consumption will increase more than real income because of improving consumer confidence. Private consumption will increase almost one percent per year 2017-2018.



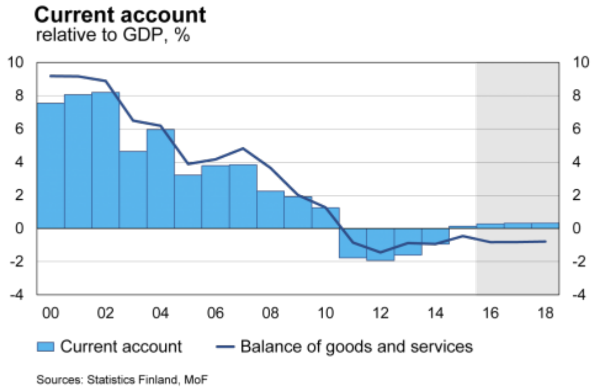
The private investment forecast for the current year projects a growth rate of over 4%, which will then slowly fall back over the coming years. The private investment growth will primarily be driven by construction.

Foreign trade and competitiveness

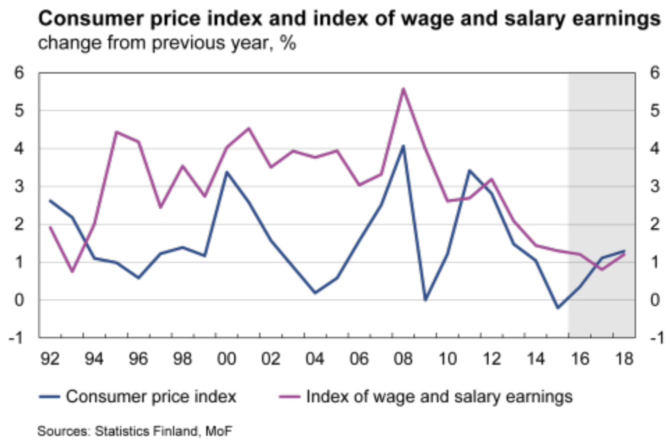
It is projected that exports will return to moderate growth. This will be on the back of moderate economic growth in Finland's most important export markets as well as improving price competitiveness.



When measured by unit labour costs, Finland's competitiveness improved slightly last year over the euro area average. Over the outlook period Finnish unit labour cost competitiveness will continue to improve as the Competitiveness Pact drives down wage costs and bolsters labour productivity growth.

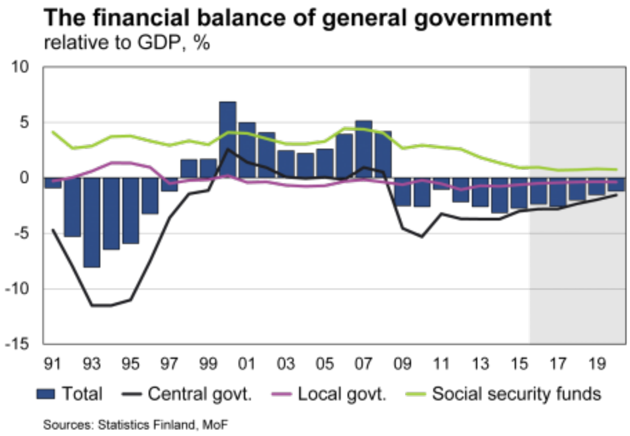


The current account deficit decreased rapidly in the first half of 2015, and by year-end the current account was marginally in surplus. Over the outlook period the trade and current account will remain close to balance. It is predicted that foreign trade prices will begin to edge up. However import prices will rise only slowly as muted world trade growth means that the development of export prices from rival countries will remain moderate.

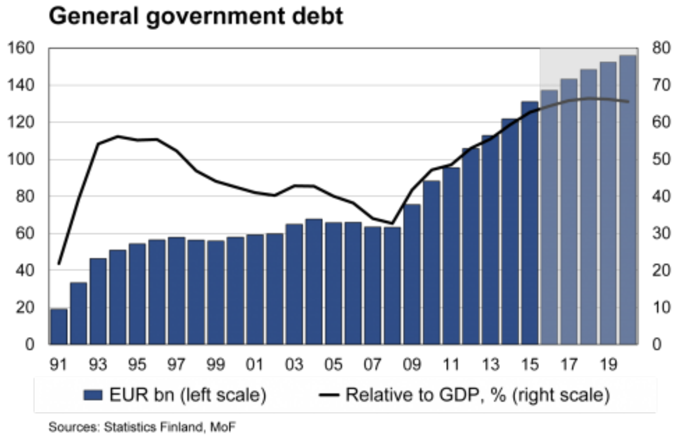


Inflation will remain slower than usual during the forecast horizon 2016-2018. Consumer prices are expected to grow only 0,4 % in 2016 and in the following two years 1,1 % and 1,3 %, respectively. The forecast is based on expectations on gradual growth of import and oil prices, on low interest rates, a slightly weakening euro, and moderate wage development.

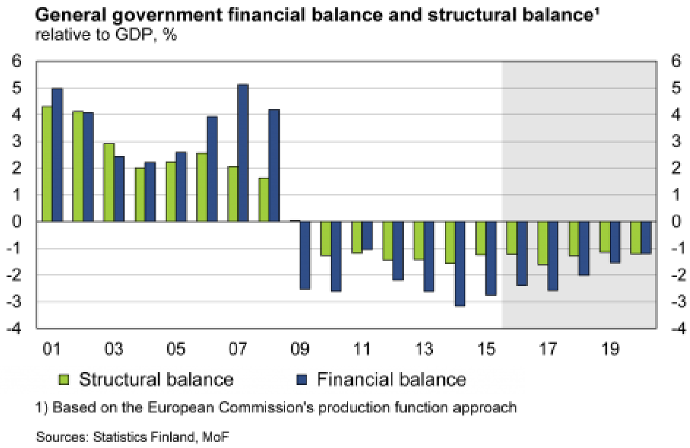
Public finances

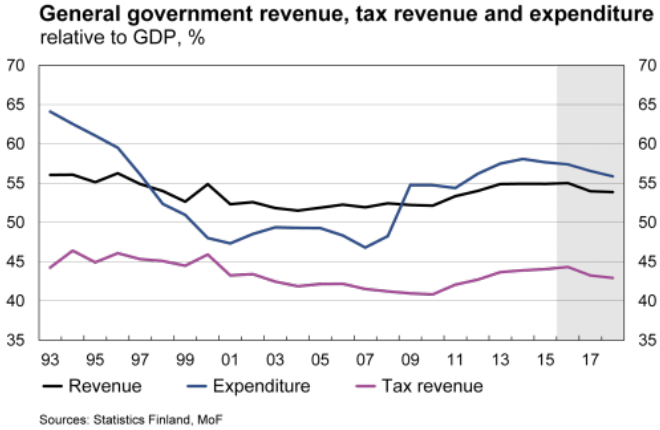


General government finances will remain in deficit through to the end of the decade. Successive governments have undertaken substantial fiscal adjustment efforts, but nonetheless failed to significantly reduce the deficit. In order to be able to meet the expenditure pressures from population ageing in the coming decades without further adjustment, the budgetary position of general government would need to show a surplus of around 2% of GDP by the beginning of the next decade.



General government debt increased to EUR 131 billion last year, more than twice the figure recorded at year-end 2008. At the same time, the public debt-to-GDP ratio breachedthe 60% reference value set out in the EU Treaty. It is estimated that the general gov-ernment deficit is so high that public debt will continue to increase in the years ahead, although the debt rate is projected to plateau in the medium term.





It is forecast that the structural balance will deteriorate clearly in 2017 among other things as a result of lowered taxes and employer contributions. Beyond 2017, it is thought that fiscal adjustment will improve the structural balance. Increasing age-related expenditure contributes to increase the structural deficit throughout the outlook period even in the absence of any decisions to increase expenditure.

The Competitiveness Pact will significantly reduce the tax rate because the employers' sickness insurance contributions will be lowered and taxes on earned income will be reduced in 2017. The expenditure rate or the ratio of public expenditure to GDP will also fall over the forecast horizon because the Competitiveness Pact will contribute to reduce public sector operating expenditure. Furthermore, fiscal adjustment and cuts to unemployment-related expenditure will lower the expenditure rate.

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