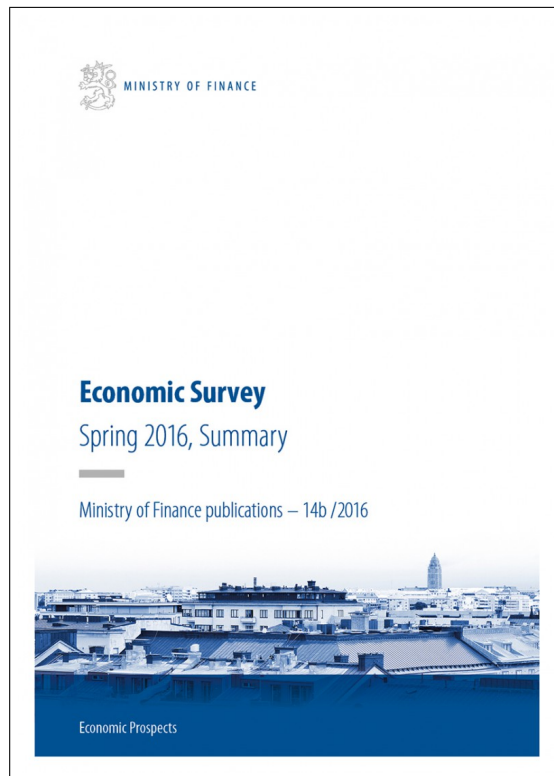


# Economic Survey

Spring 2016 Summary



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# For the reader

The Spring 2016 Economic Survey is prepared as background material for the Government's spending limits decision. It offers projections of Finland's economic outlook for 2016–2018. In addition to short-term prospects, the Economic Survey includes mediumterm projections 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 provisional na-

tional accounts data for 2015 published by Statistics Finland in March 2016 and on other public statistical sources available on 22 March 2016. Both the short-term and medium-term projections take account of the decisions taken by the Government in its spending limits discussions on 5 May 2016.



# Summary

The Finnish economy posted GDP growth of 0.5% in 2015, after three years of recession. In early 2015 the main drivers of slow growth were exports and consumption, towards the end of the year the principal driver was investment.

In 2016 the Finnish economy is expected to grow by 0.9% from last year.

The growth outlook for the global economy and trade is modest. World trade will increase by 3% in 2016, accelerating only slightly to 5% in 2018. The performance of exports will remain weaker than global trade, and therefore Finland will continue to lose market shares. Lower energy prices, and oil prices in particular, are bolstering the growth prospects of energy-intensive economies such as Finland. The sharpest falls in energy and raw material prices have bottomed out, and the price of oil will start to move moderately higher. In 2017 consumer prices will accelerate to 1.3%. Nominal earnings will rise annually by around one per cent over the outlook period. Assuming that these projections are accurate, Finnish competitiveness will improve in comparison with Sweden and Germany, for instance.

Investment will return to clear growth in 2016 and continue to grow on a broad base throughout the outlook period. Private consumption growth will be supported this year by moderate price trends. In 2017–2018 consumption growth will continue to outpace

real income growth on the back on strengthening consumer confidence. Projections for 2017 and 2018 forecast muted GDP growth at 1.2%. During the forecast horizon the Finnish economy will grow slightly faster than potential output, and therefore the negative output gap will shrink.

The number of persons employed will turn to growth of 0.3% in 2016 as the economy continues to rebound. Employment will improve throughout the outlook period, and the unemployment rate will drop back to 8.7% by 2018.

Finnish public finances have been running a deficit since 2009. The general government budgetary position will improve in the years ahead in response to fiscal adjustment and rebounding economic growth, but nonetheless remain in deficit. General government debt to GDP has long been rising, and the same trend is set to continue. Finland's budgetary deficit came within the 3% of GDP target as set out in the EU Treaty, but public debt remains in breach of the 60% limit.

Central government has the largest deficit of all general government sectors, although its deficit is shrinking. Local government finances will also remain firmly in deficit, and other social security funds are gradually moving back to balance. Earnings-related pension institutions are running a deficit of around 1% of GDP.

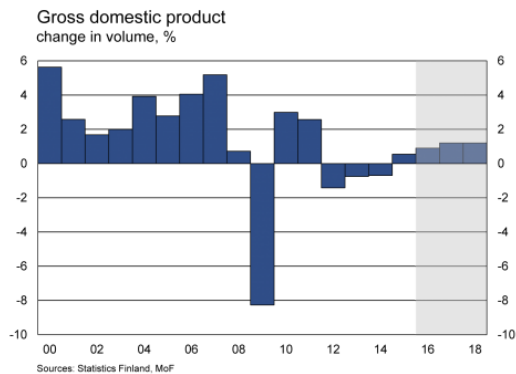
## Key forecast figures

	2015 EUR bn	2013	2014	2015	2016**	2017**	2018**
		change in volume, %					
GDP at market prices	207	-0.8	-0.7	0.5	0.9	1.2	1.2
Imports	77	0.5	0.0	-0.4	2.6	3.0	3.5
Total supply	284	-0.8	-0.3	0.0	1.4	1.6	1.8
Exports	77	1.1	-0.9	0.6	1.3	2.9	3.6
Consumption	167	0.0	0.3	0.7	0.7	0.6	0.6
private	116	-0.5	0.6	1.4	1.0	0.8	0.9
public	51	1.1	-0.3	-0.9	-0.1	0.0	0.0
Investment	42	-4.9	-2.6	-1.1	5.2	3.3	3.0
private	34	-6.6	-3.1	-1.0	5.8	4.1	4.0
public	8	2.6	-0.6	-1.2	2.7	0.1	-1.3
Total demand	285	-0.4	-0.1	-0.4	0.8	1.1	1.3
domestic demand	207	-1.1	0.2	-0.7	0.6	0.4	0.4

## Other forecast figures

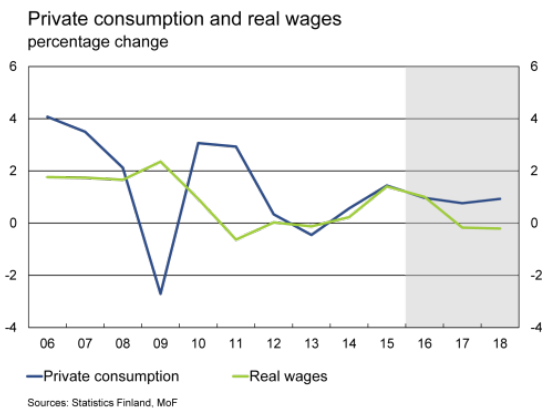
	2013	2014	2015	2016**	2017**	2018**
GDP, EUR bn	203	205	207	211	215	221
Services, change in volume, %	-1.4	-0.2	0.9	0.7	1.2	1.0
Industry, change in volume, %	0.0	-1.7	-0.6	0.8	2.1	2.4
Labour productivity, change, %	0.5	0.0	0.7	0.4	1.0	1.0
Employed labour force, change, %	-1.0	-0.4	-0.4	0.3	0.4	0.4
Employment rate, %	68.5	68.3	68.1	68.4	68.8	69.1
Unemployment rate, %	8.2	8.7	9.4	9.3	9.0	8.7
Consumer price index, change, %	1.5	1.0	-0.2	0.3	1.3	1.5
Index of wage and salary earnings, change, %	2.1	1.4	1.2	1.2	1.0	1.2
Current account, EUR bn	-3.3	-1.9	0.3	0.2	0.3	0.6
Current account, relative to GDP, %	-1.6	-0.9	0.1	0.1	0.1	0.3
Short-term interest rates (3-month Euribor), %	0.2	0.2	0.0	-0.2	-0.1	0.1
Long-term interest rates (10-year govt. bonds), %	1.9	1.4	0.7	0.6	1.1	1.6
General government expenditure, relative to GDP, %	57.5	58.1	58.3	58.2	57.6	57.0
Tax ratio, relative to GDP, %	43.7	43.9	44.5	44.6	44.4	44.1
General government net lending, relative to GDP, %	-2.6	-3.2	-2.7	-2.5	-2.1	-1.8
Central government net lending, relative to GDP, %	-3.7	-3.8	-3.1	-2.9	-2.6	-2.2
General government gross debt, relative to GDP, %	55.4	59.3	63.1	65.0	66.7	67.4
Central government debt, relative to GDP, %	44.1	46.3	48.2	50.0	51.6	52.4

# Domestic economy



\* Download image in PDF-format.<sup>1</sup>

Finland's GDP in 2016 is forecast to show growth of 0.9 %. Over the outlook period the Finnish economy will grow slightly faster than potential output, and therefore the negative output gap will shrink.



\* Download image in PDF-format.<sup>2</sup>

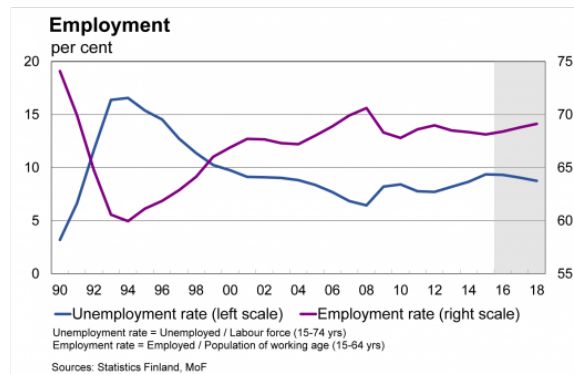
Household real income growth will slow towards the end of the forecast period due to

<sup>1</sup>[http://verkkojulkaisut.vm.fi/wp-content/uploads/2013/09/ZINE\\_2\\_Gross-domestic-product\\_32516\\_Mark\\_EN.pdf](http://verkkojulkaisut.vm.fi/wp-content/uploads/2013/09/ZINE_2_Gross-domestic-product_32516_Mark_EN.pdf)

<sup>2</sup>[http://verkkojulkaisut.vm.fi/wp-content/uploads/2013/09/ZINE\\_1\\_Private-consumption-and-real-wages\\_32516\\_Mark\\_EN.pdf](http://verkkojulkaisut.vm.fi/wp-content/uploads/2013/09/ZINE_1_Private-consumption-and-real-wages_32516_Mark_EN.pdf)

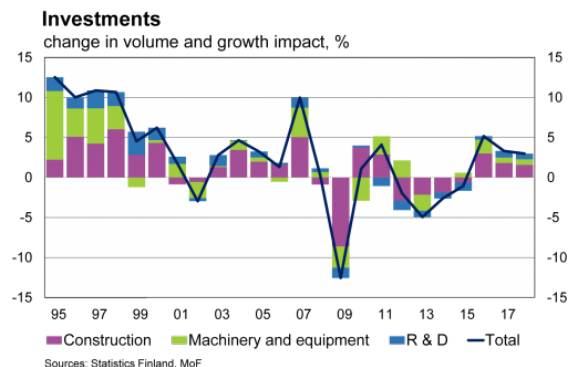
<sup>3</sup>[http://verkkojulkaisut.vm.fi/wp-content/uploads/2016/04/15\\_1\\_Employment\\_32517\\_Laura\\_EN.pdf](http://verkkojulkaisut.vm.fi/wp-content/uploads/2016/04/15_1_Employment_32517_Laura_EN.pdf)

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.



\* Download image in PDF-format.<sup>3</sup>

In 2015 the number of persons employed will be 0.7% lower than last year, and the annual average unemployment rate is predicted to come in at 9.6%. The sharp rise in long-term and structural unemployment is a particular cause for concern.



\* Download image in PDF-format.<sup>4</sup>

Investment is estimated to rebound to broad-based growth in 2016, reaching in average around 5%. The main drivers now are con-

struction investment and investment in machinery, equipment and transport equipment. Investment forecasts for 2017–2018 predict growth to slow to around 3%.

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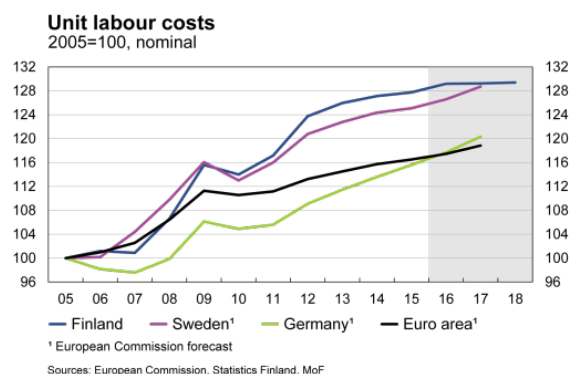
<sup>4</sup>[http://verkkojulkaisut.vm.fi/wp-content/uploads/2016/04/13\\_5\\_Investments\\_32517\\_Laura\\_EN.pdf](http://verkkojulkaisut.vm.fi/wp-content/uploads/2016/04/13_5_Investments_32517_Laura_EN.pdf)

# Foreign trade and competitiveness



\* Download image in PDF-format.<sup>5</sup>

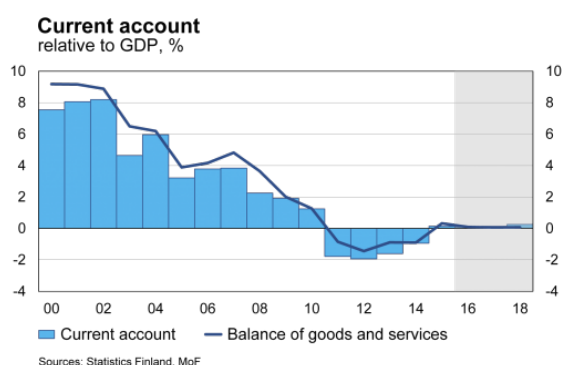
It is projected that exports will return to moderate growth, mainly on the back of a slight rebound in world trade and rebounding economic growth in Finland's most important export markets. Improving price competitiveness will also support the growth of exports.



\* Download image in PDF-format.<sup>6</sup>

When measured by unit labour costs, Finnish competitiveness improved slightly in 2015 compared with the euro area average. Over

the outlook period Finnish unit labour cost competitiveness will continue to improve as wage growth remains moderate and as labour productivity starts to increase.



\* Download image in PDF-format.<sup>7</sup>

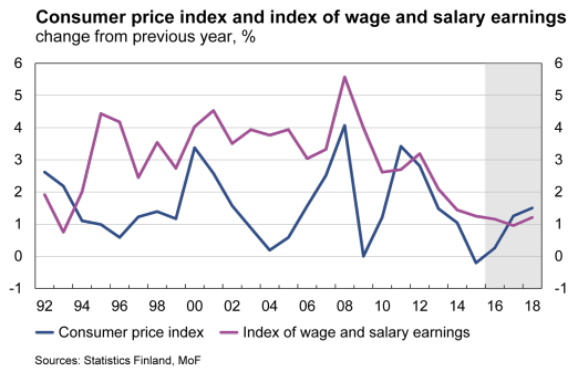
The current account deficit decreased rapidly during 2015. Over the outlook period the trade and current account surpluses will remain close to balance. Over the outlook period export prices will follow the same trends as in rival countries. The improvement in the terms of trade will therefore come to a halt and therefore no longer contribute to improving the current account surplus.

<sup>5</sup>[http://verkkojulkaisut.vm.fi/wp-content/uploads/2016/04/11\\_2\\_World-trade\\_32579\\_Mirjam\\_EN.pdf](http://verkkojulkaisut.vm.fi/wp-content/uploads/2016/04/11_2_World-trade_32579_Mirjam_EN.pdf)

<sup>6</sup>[http://verkkojulkaisut.vm.fi/wp-content/uploads/2016/04/12\\_2\\_Unit-labour-costs\\_32579\\_Mirjam\\_EN.pdf](http://verkkojulkaisut.vm.fi/wp-content/uploads/2016/04/12_2_Unit-labour-costs_32579_Mirjam_EN.pdf)

<sup>7</sup>[http://verkkojulkaisut.vm.fi/wp-content/uploads/2016/04/12\\_3\\_Current-account\\_32579\\_Mirjam\\_EN.pdf](http://verkkojulkaisut.vm.fi/wp-content/uploads/2016/04/12_3_Current-account_32579_Mirjam_EN.pdf)



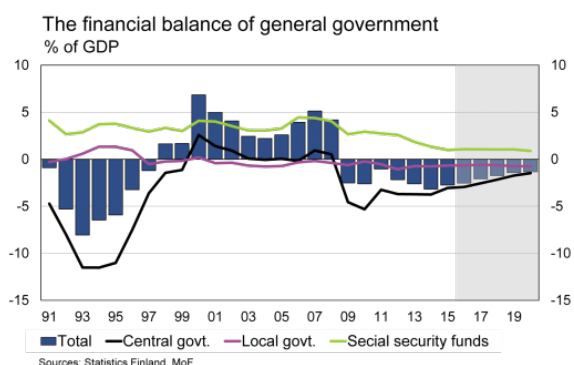


Inflation is going to remain slower than usual over the forecast period. The inflation forecast for the current year is 0.3 % as measured by the national consumer price index. The corresponding figures for 2017 and 2018 are 1.3 % and 1.5 %, respectively. The forecast is based on assumptions of slightly increasing import and crude oil prices, low interest rates, a slightly weakening euro, and moderate wage increases.

\* Download image in PDF-format.<sup>8</sup>

<sup>8</sup>[http://verkkojulkaisut.vm.fi/wp-content/uploads/2016/04/16\\_1\\_Consumer-price-index-and-index-of-wage-and-salary-earnings\\_32579\\_Mirjam\\_EN.pdf](http://verkkojulkaisut.vm.fi/wp-content/uploads/2016/04/16_1_Consumer-price-index-and-index-of-wage-and-salary-earnings_32579_Mirjam_EN.pdf)

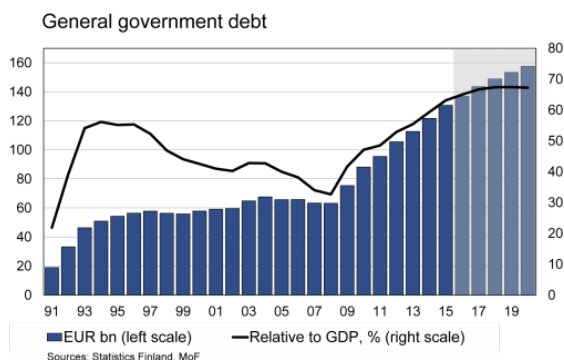
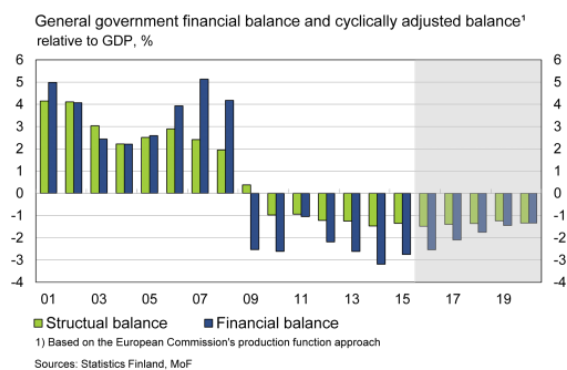
# Public finances



General government debt increased to over EUR 130 billion last year. At the same time, debt-to-GDP breached the EU's 60% limit for the first time during Finland's EU membership. In eight years, general government debt has more than doubled and the debt ratio risen by 30 percentage points. The debt ratio will continue to climb in the years ahead, albeit at a slower rate.

\* Download image in PDF-format.<sup>9</sup>

Finnish public finances have been running a deficit since the end of the last decade. The budgetary position is set to improve slowly in the years ahead, but still threatens to remain in deficit. To achieve long-term sustainability in general government finances, the budgetary position should recover to show a surplus of around 2 % of GDP by the end of the decade.



\* Download image in PDF-format.<sup>11</sup>

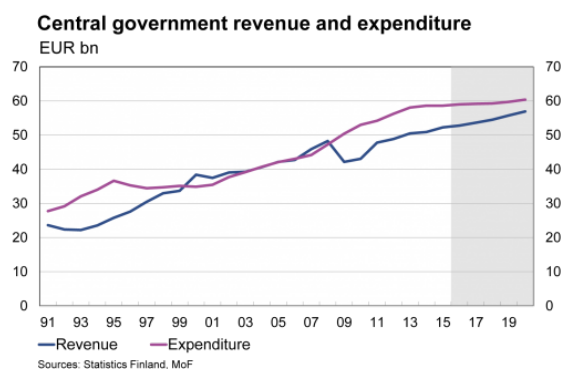
It is forecast that the structural balance will slightly deteriorate in 2016, in contrast to the conclusion suggested by an examination of individual measures. However, the structural balance will improve moderately starting from 2017.

\* Download image in PDF-format.<sup>10</sup>

<sup>9</sup>[http://verkkojulkaisut.vm.fi/wp-content/uploads/2016/04/21\\_1\\_The-financial-balance-of-general-government-subsectors\\_32516\\_Mark\\_EN.pdf](http://verkkojulkaisut.vm.fi/wp-content/uploads/2016/04/21_1_The-financial-balance-of-general-government-subsectors_32516_Mark_EN.pdf)

<sup>10</sup>[http://verkkojulkaisut.vm.fi/wp-content/uploads/2016/04/21\\_4\\_General-government-debt\\_32516\\_Mark\\_EN.pdf](http://verkkojulkaisut.vm.fi/wp-content/uploads/2016/04/21_4_General-government-debt_32516_Mark_EN.pdf)

<sup>11</sup>[http://verkkojulkaisut.vm.fi/wp-content/uploads/2016/04/21\\_3\\_General-government-financial-balance-and-cyclically-adjusted-balance1\\_32516\\_Mark\\_EN.pdf](http://verkkojulkaisut.vm.fi/wp-content/uploads/2016/04/21_3_General-government-financial-balance-and-cyclically-adjusted-balance1_32516_Mark_EN.pdf)



\* Download image in PDF-format.<sup>12</sup>

The expenditure to GDP ratio or the expenditure rate continued to rise last year. A major contributing factor was the growth of unemployment-related expenditure, but slow GDP value growth and rising ageing-related expenditure also made an impact. The expenditure rate will stop rising during the forecast period in response to the Government's adjustment measures and the slowdown of unemployment expenditure growth. It is predicted that the tax rate will fall slightly over the outlook period.

<sup>12</sup>[http://verkkojulkaisut.vm.fi/wp-content/uploads/2016/04/22\\_1\\_Central-government-revenue-and-expenditure\\_32517\\_Laura\\_EN.pdf](http://verkkojulkaisut.vm.fi/wp-content/uploads/2016/04/22_1_Central-government-revenue-and-expenditure_32517_Laura_EN.pdf)

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<sup>13</sup>[http://www.vm.fi/vm/en/01\\_main/index.jsp](http://www.vm.fi/vm/en/01_main/index.jsp)

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