

Finland Research

Public budget close to balance despite election year

- The Finnish economy has continued to perform well in 2018. GDP rose 2.5% y/y wda in Q2 and growth was broad based. Employment has continued to rise strongly, which has a positive impact on government tax revenues. Leading indicators have peaked, but the level remained strong in summer 2018. We have largely kept our GDP forecast unchanged, but expect unemployment to fall more than expected before and the general government budget could reach a small surplus in 2019 already.
- Finland has emerged from an unusually long recession. Genuine growth has been achieved only since 2016, which is a lot later than in most other EU countries. GDP broke the pre-crisis 2007 quarterly record in Q2 18. Exports and investment played an important role in the recovery in 2017, but consumption has taken a stronger role in 2018. Thanks to a good employment outlook and rising wages, consumer confidence remains elevated. Going forward, wages are forecast to rise by 2.0% in 2018 and 2.3% in 2019. The wage agreements are slightly below levels seen in Sweden or Germany, which helps to maintain price competitiveness in exports. A shortage of skilled labour is appearing in some key industries from construction to IT services. The future growth outlook depends partly on structural reforms to raise labour participation.
- The housing market is divided geographically and by type of housing. The demographic shift towards smaller families and migration to growth centres has increased demand for small apartments. Strong demand has raised prices and fuelled a construction boom in Helsinki and a few other towns, while dwelling prices fall in some parts of the country.
- General government debt to GDP ratio is set to fall below 60% in 2018. The government has refrained from drawing an expansionary budget into a parliamentary election year 2019. Central government is still running a small deficit, but general government is expected to reach a balance with the help of rising tax revenue and expenditure under control. Cyclically adjusted, the budget is slightly contractionary. Structural reforms are still needed to manage the needs of an ageing population and to boost potential growth. Otherwise, the debt ratio is likely to get back to a rising trend in the medium term. The rating outlook is getting brighter, but rating agencies need further evidence of successful structural reforms. Social and health care reform (SOTE) may be the key to regaining AAA sovereign credit ratings but its fate is still quite unclear.

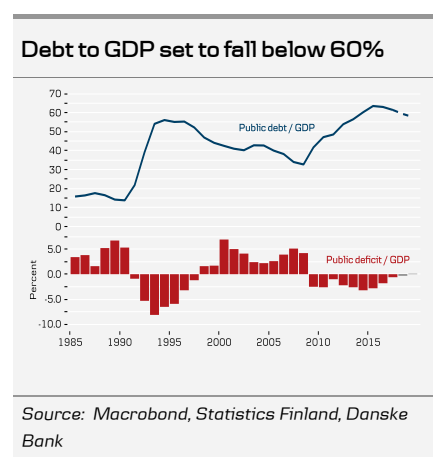
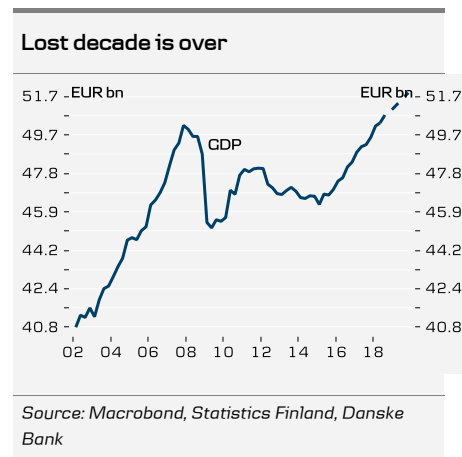


Table 1. Finland forecasts

	Current forecast			Previous forecast	
	2017	2018E	2019E	2018E	2019E
GDP (%)	2.8	2.7	2.0	2.7	2.0
Unemployment rate (%)	8.6	7.6	7.3	8.0	7.7
Inflation (%)	0.7	1.1	1.5	1.0	1.4
Earnings (%)	0.2	2.0	2.3	2.0	2.3
Housing prices (%)	1.1	0.8	1.2	1.2	1.5
CA (% of GDP)	0.7	0.2	0.4	0.5	0.7
Public deficit (% of GDP)	-0.4	-0.3	0.1	-0.3	-0.1
Public debt (% of GDP)	61.3	59.3	57.7	59.1	57.6

Source: Danske Bank

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This research report has been prepared by Danske Bank A/S ('Danske Bank'). The author of this research report is Pasi Kuoppamäki, Chief Economist.

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None.

Date of first publication

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