

Finland Research

Farewell to austerity

- The Finnish economy continues to slow down after a strong three-year expansion. GDP grew 1.2% y/y in Q2 19, largely on the back of public consumption and surprisingly strong services exports. Private consumption recovered from a very weak Q1. Economic sentiment has cooled somewhat in 2019, the export outlook is murky and investment activity looks more cautious. The government has announced its budget plan, which expands expenditure and leads to a slightly larger deficit than we had forecast earlier. We expect GDP to grow 1.2% in 2019 and 0.8% in 2020.
- The central government budget deficit is set to rise to over EUR2bn in 2020. Despite a lower GDP growth outlook and a more generous central government budget, we expect only a modest 0.4% general government budget deficit per GDP. A smaller deficit at the local government level and a surplus in social security lend some support to the overall numbers. The general government debt to GDP ratio fell from 60.8% to 58.7% in 2018, according to our latest estimate based on the revised GDP numbers. We expect the debt ratio to keep falling in 2019-20, but ageing will hit public finances hard over the next decade. This means the space for active fiscal policy is more limited than the current numbers would suggest.
- Private and public consumption play a major role in the outlook, while exports are flattening and corporate investment activity looks cautious. Employment improved markedly in 2018, but its development has been unimpressive in 2019. Open vacancies are still plentiful, but a lack of skilled labour has kept many vacancies open. Thanks to rising wages, low inflation and very low interest rates, the outlook for private consumption is generally positive. Consumers have become somewhat cautious, however, and part of the growing income is flowing to savings.
- The sovereign rating outlook has improved in recent years, but the rating agencies need further evidence of sustained growth and successful structural reforms to make an actual rating upgrade. There is a pause in many reforms, because the new left-leaning government is only just starting to draw up serious plans. Labour market reforms look unconvincing so far and social & healthcare reform is not high on the agenda. The sovereign rating is likely to remain unchanged for a while, we believe.

FINLAND	Current forecasts			Previous forecasts	
	2018	2019	2020	2019	2020
GDP, %	1,7	1,2	0,8	1,3	1,0
Unemployment rate, %	7,4	6,6	6,6	6,5	6,4
Inflation, %	1,1	1,1	1,4	1,2	1,5
Earnings, %	1,7	2,5	2,7	2,5	2,5
Housing prices, %	0,6	0,2	0,5	0,0	0,5
CA, % of GDP	-1,6	-0,8	-0,8	-1,7	-1,4
Public debt, % of GDP	58,7	58,4	57,7	58,3	57,3
Public deficit, % of GDP	1,7	1,2	0,8	1,3	1,0

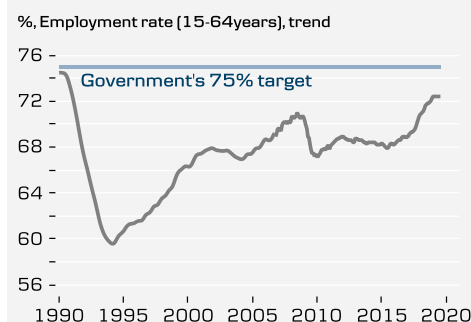
Source: Statistics Finland, Danske Bank estimates

Housing construction slowing down



Source: Macrobond Financial, Statistics Finland, Danske Bank

Employment rate falls short of target



Source: Macrobond Financial, Statistics Finland, Danske Bank

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

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Expected updates

None.

Date of first publication

See the front page of this research report for the date of first publication.

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Report completed: 23 September 2019, 21:04 CEST

Report first disseminated: 24 September 2019, 10.30 CEST