Finland

Country note, January 2018

Key messages:

- **GDP growth remains relatively strong in 2017 and 2018**
- **General government fiscal position has improved significantly in 2017 due to higher than expected tax revenue**
- **Structural balance, however, weakens in 2017 and 2018, and the MTO will not be met in this parliamentary term**
- **Government proposals for health, social services and county reforms were vague on their impacts on the sustainability**
- **Fiscal stance for 2017 and 2018 is slightly expansionary – NAOF recommends tighter fiscal policy**

Macroeconomic outlook

Economic growth accelerated in 2017. According to the autumn forecast by the MoF, the GDP grew by 2.9 per cent in 2017. For 2018, the growth is forecast to be 2.1% and for 2019, 1.8%. The decrease in Finland’s export share in world trade seems to have halted in 2017, and exports have started to grow. In addition to positive developments in exports, the growth estimates for private final consumption and investments have been revised upwards. Also the labour market has shown some positive developments.

The planning of general government finances has to be based on realistic macroeconomic and fiscal forecasts. According to NAOF’s assessment, MoF forecast errors have not been bigger than errors of other main forecasters.

Short-term fiscal outlook

The nominal general government balance has improved significantly in 2017. This has been mainly due to faster than expected growth of the tax revenue. However, despite this improvement, the government will not achieve its target of a balanced budget during the current parliamentary term. The reduction in the GG fiscal balance has helped to curb the growth of the debt ratio. The GG debt ratio exceeded the 60 % limit in 2014. The reduction of the nominal deficit has not however been reflected into the development of the structural balance. It will weaken in 2017 and 2018, and the MTO of -0.5% will thus not be achieved.

Major structural reforms underway

Health, social services and regional government reforms were deferred for further preparation in summer 2017. In NAOF’s view the impact of the reforms on the sustainability gap are still very vague. Thefore, the deferment enables making effective decisions in terms of general government finances. Overall, the savings target of EUR 3 billion set by the Government for the reforms is high even from the long-term perspective. Compared with other EU Member States, Finland’s health and social services expenditure is not particularly high, and the quality of the current health and social services is considered good in general. On the other hand, differences in cost-effiency between local government units can be observed and the overall productivity is suggested to have weakened in the 2000’s. Taken into account the reforms’ aim to improve accessibility to services and narrow health gaps, the savings target is challenging.

Fiscal framework and national fiscal rules

According to NAOF’s assessment, Finland will comply with the rules of the SGP in 2017 and 2018. Structural balance is estimated to be approximately -0.8% in 2017, which is 0.4 percentage points weaker than the previous year. Finland has benefitted from the flexibility inbuilt in the SGP. Based on the structural reform and investment clauses, Finland has been granted flexibility of 0.6 percentage points from the original requirements for 2017–2019. Finland will also comply with the expenditure benchmark in 2017 and 2018.

NAOF has assessed compliance with the central government spending rule. The 2017 supplementary budgets comply with the spending rule. The 2018 budget proposal, however, contains an exception to the spending rule, which concerns the financing of the Finnish Broadcasting Company.

Chart 1: GG nominal balance and structural balance

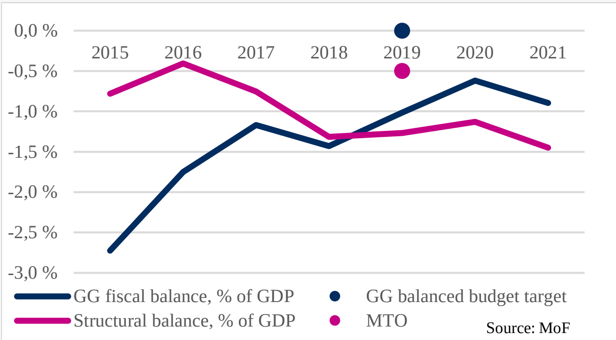


Chart 2: GG debt and cyclically adjusted debt (%GDP)

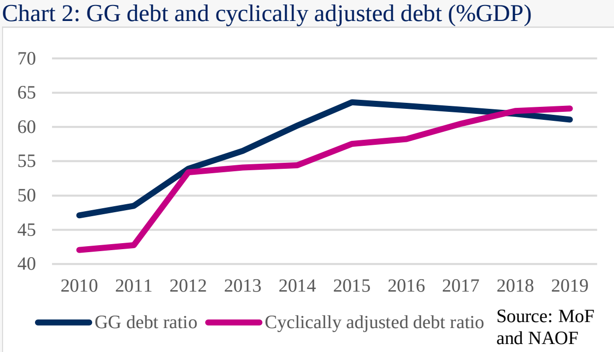
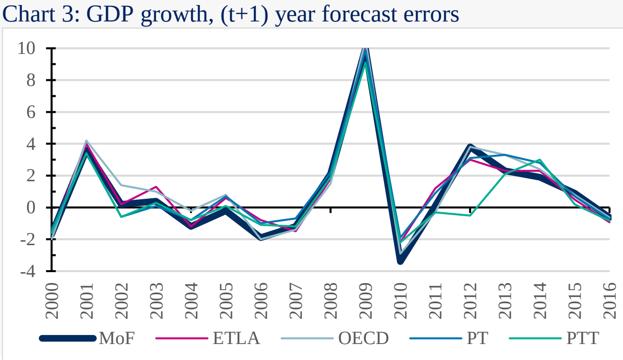


Chart 3: GDP growth, (t+1) year forecast errors



Key indicator forecast

Source: Mof autum forecast		2015	2016	2017 f	2018 f	2019 f	2020f
Real GDP growth rate - MoF forecast	[% y-to-y]	0.0	1.9	2.9	2.1	1.8	1.3
Output Gap - MoF forecast	[%]	-3.4	-2.3	-0.7	0.0	0.4	0.4
GG balance - MoF forecast	[% of GDP]	-2.7	-1.8	-1.2	-1.4	-1.0	-0.9
Central government - MoF forecast	[% of GDP]	-3.0	-2.7	-2.3	-2.0	-1.4	-1.1
Local government - MoF forecast	[% of GDP]	-0.6	-0.4	-0.1	-0.3	-0.4	-0.2
Social sec. and pension funds - MoF forecast	[% of GDP]	0.9	1.3	1.1	0.9	0.8	0.6
GG debt - MoF forecast	[% of GDP]	63.6	63.1	62.5	61.9	61.1	60.2
GG structural balance - NAOF estimate	[% of GDP]	-0.8	-0.4	-0.8	-1.3	-1.3	-1.0