

Country note, July 2019

## Key messages:

- GDP growth has revised downwards and growth in 2018 resulted 0.7 percentage points slower than expected.
- No policy change scenario shows slowly improving government finances.
- The new government has announced a program with spending increases, partly financed through property income.

## Macroeconomic outlook

According to the forecast by the Ministry of Finance (MoF) (published on June 20), real GDP is projected to grow by 1.6 % and 1.1 % in 2020 and 2021, respectively. The MoF projects that the positive output gap of 0.4% of potential GDP in 2019 is closing slowly by 2023. The projected level of overutilization is lower than the one estimated by the European Commission. After the publication of the forecast the National Accounts were revised to show GDP growth of 1.7% in 2018 instead of the previous estimate of 2.4%. In its programme, the new government has indicated that fiscal stimulus is to be expected in years 2020-2023. However, the measures have not yet been fully specified and are not included in latest forecasts.

## Short-term fiscal outlook

According to the latest fiscal forecast presented by the MoF, the general government net lending will improve by 0.1 percentage points in 2019 to -0.6% of GDP. While the central government net lending is forecast to improve by 0.5 percentage points, the balances of both local government and social security funds are forecast to worsen by 0.4 percentage points in total. When adjusted for the cyclical component and temporary effects the fiscal deficit translates into a structural deficit of -1 % of GDP in 2019.

## Medium-term fiscal outlook

According to the MoF, the general government net lending will improve in 2020 but will start to worsen again from 2021 onwards as local government deficits start to grow again. Under the no policy change projection, the general government structural balance is projected to improve to -0.4% to GDP in 2020, which is slightly above the MTO. The structural balance is projected to worsen in 2021 and 2022.

The new government took office in early June. The Government Programme describes the spending limits and the scale of the permanent changes in expenditure and taxation at 2023 level, but the timing of the measures will be specified at a future date. According to the programme the permanent spending increases total EUR 1.3 billion (0.5% of GDP) at 2023 levels and a tax package with a net impact of slightly more than EUR 0.7 billion on general government finances. Alongside of the permanent spending increases, the programme describes one-off expenditures totalling EUR 3.05 billion (1.1% of GDP) between 2020 and 2022. Most of the one-off expenditures will be funded through property income.

Under the Government Programme, the key targets for the government term are as follows: raising the employment rate to 75% by the end of 2023 and balancing Finland's general government finances by the year 2023 in a situation where the world economy grows at a normal rate. The target of balancing the general government finances is based on raising the employment rate to 75% by the year 2023.

Chart 1: Economic growth slowing down

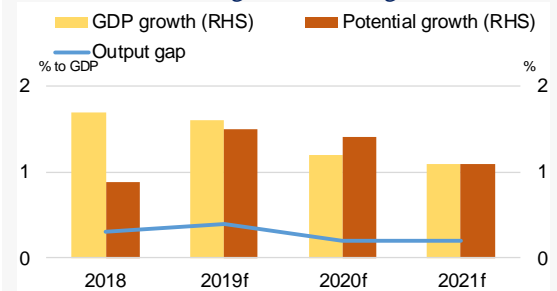


Chart 2: Net lending expected to improve in 2020

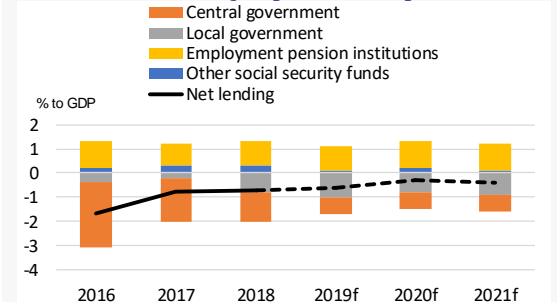
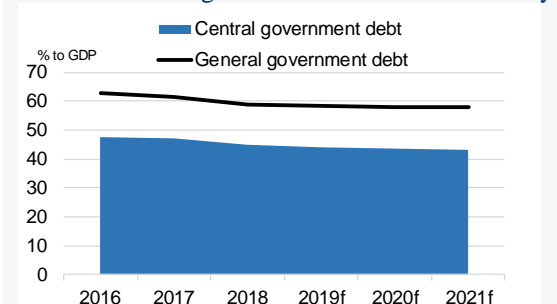


Chart 3: Central government debt declines slowly



## Key indicator forecast

		2017	2018	2019 f	2020 f	2021 f	2022 f	Source
Real GDP growth rate	[% y-to-y]	3.0	1.7	1.6	1.2	1.1	0.9	1
Output Gap	[%]			0.4	0.2	0.2	0.2	1
GG balance	[% of GDP]	-0.8	-0.7	-0.6	-0.3	-0.4	-0.6	1
Central Government	[% of GDP]	-1.8	-1.2	-0.7	-0.7	-0.7	-0.7	1
Local Government	[% of GDP]	-0.2	-0.8	-1	-0.8	-0.9	-1	1
Pension and Social Security Funds	[% of GDP]	1.2	1.3	1.1	1.3	1.2	1.1	1
GG structural balance	[% of GDP]	-0.5	-0.8	-1	-0.4	-0.6	-0.3	1
GG Debt	[% of GDP]	61.3	58.9	58.3	57.8	58.1	58.6	1
Employment rate	[%]	69.6	71.7	72.6	73.2	73.5	73.5	1

Sources: 1 - Statistics Finland, Ministry of Finance Spring 2019 Forecast;

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