

Key messages:

- Despite income tax reductions, the faster than expected economic growth has increased the revenue.
- General government net lending is expected to improve in the coming years but will not turn into a surplus.
- Finland complies with SGP rules in 2018 and 2019

Macroeconomic outlook

Based on the Winter forecast of the Ministry of Finance, the annual GDP growth is expected to slow down from 2.5% in 2018 to 1.5% in 2019, mainly due to a fall in investments. The Finnish economy has been growing faster than its estimated potential growth rate since 2015 and is now above the potential level. As the unemployment rate is still above the estimated structural rate, there are no immediate wage pressures. In the medium-run the economic growth is forecast to settle towards 1.1% annual growth. Main risks surrounding the economic projections are associated with the developments in the global economy. The main domestic risk is that the boom in construction could end sooner than expected.

Short-term fiscal outlook

The general government net lending is projected to improve by 0.4 percentage points to -0.4% to GDP in 2019. The improvement in the balance is due to consolidation measures in central government, by 0.6 percentage points, and are partly offset by a decrease in the surplus of social security funds. As the cyclical situation is forecast to remain unchanged in 2018-2020, the structural balance is also projected to improve by 0.3 percentage points in 2019 and 2020.

Long-term fiscal sustainability

The long-term fiscal sustainability, as measured by S2 indicator, has improved in latest years due to the improvement of structural balance. According to the latest estimate by the Ministry of Finance, the S2 indicator now stands at 3.8 percent in relation to GDP. Hence, a considerable long-term sustainability challenge remains. In its programme, the Government aimed at bending the cost-curve of social and health care expenditure by reforming the system for delivering those services. However, the preparation led to a very large and complex proposals. The impacts of the reform are uncertain and there are even risks of increasing costs. The reform is still under consideration in Parliament. Even if adopted, it is likely that the reform – in its current form – will not deliver all the expected outcomes in terms of cost-containment and service accessibility and quality.

Fiscal framework and national fiscal rules

According to the NAOF's assessment, Finland will comply with preventive and corrective arm of the SGP in 2018 and 2019. However, despite successfully narrowing the nominal deficit with the help of the recent economic tailwind, the government will not quite reach the structural balance objective set for the parliamentary term ending in 2019. The structural balance is estimated to weaken by 0.7 percentage points to -1.1% in 2018 yet the deviation from the structural balance rule is assessed being non-significant. In 2019, the structural balance is expected to barely fulfill the medium-term objective.

Chart 1: Real GDP and GDP Potential (% growth y-on-y, MoF)

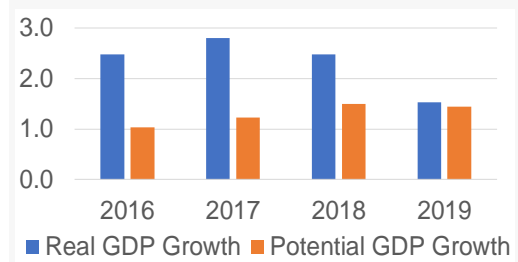


Chart 2: Government balance in 2019 [% of GDP]

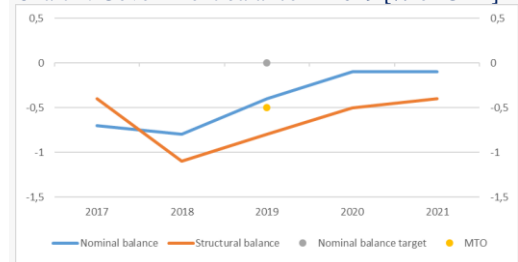
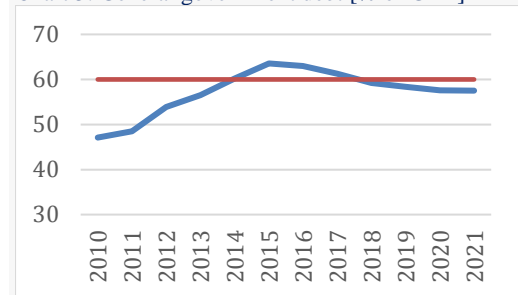


Chart 3: General government debt [% of GDP]



Key indicator forecast

		2015	2016	2017	2018 f	2019 f	2020 f	Source
Real GDP growth rate	[% y-to-y]	0,1	2,5	2,8	2,5	1,5	1,3	1
Output Gap	[%]	-3,4	-2,0	-0,5	0,5	0,6	0,6	1
GG balance	[% of GDP]	-2,8	-1,7	-0,7	-0,8	-0,4	-0,1	1
Central Government	[% of GDP]	-3,0	-2,6	-1,8	-1,3	-0,7	-0,7	1
Local Government	[% of GDP]	-0,7	-0,4	-0,1	-0,6	-0,5	-0,4	1
Pension and Social Security Funds	[% of GDP]	0,9	1,3	1,2	1,1	0,8	1,0	1
GG debt - MoF est.	[% of GDP]	63,6	63,0	61,3	59,2	58,4	57,6	1

Sources: 1 - Statistics Finland, Ministry of Finance Winter 2018 Forecast;

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