



EUROJÄRJESTELMÄ
EUROSYSTEMET

Economic Outlook for Europe and Finland

Finnish-British Chamber of Commerce

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Seppo Honkapohja

Member of the Board

Bank of Finland

World economy:

World industrial output improved,
but international trade decreased slightly
in the end of 2012



Source: CPB.

◆ The Bank of Finland forecast for the world gdp:

2013: 3,2 %

2014: 3,7 %

2015: 3,8%

◆ The Bank of Finland forecast for the world trade:

2013: 4 %

2014: 5,7 %

2015: 6,3 %

◆ The volume of world trade decreased 0,5% in December 2012, following a revised increase of 0,7% in November (CPB World Trade Monitor)

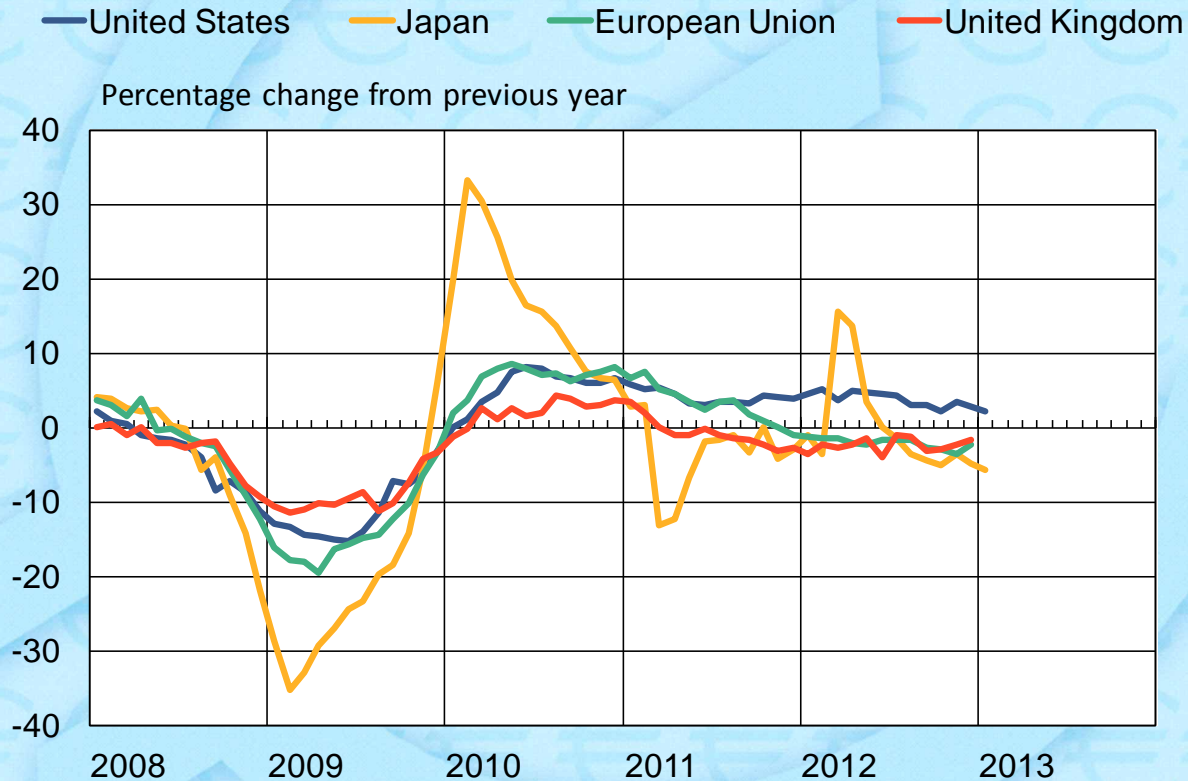
Bank of Finland forecast: GDP and world trade growth (% change from previous year)

	2011	2012f	2013f	2014f	2015f
USA	1,8	2,2	1,8	2,4	2,8
EU20	1,4	-0,4	-0,4	1,1	1,5
Japan	-0,5	1,9	1,1	1,7	1,0
China	9,2	7,8	8,0	7,0	7,0
Russia	4,3	3,4	3,4	3,4	3,0
World	3,8	3,1	3,2	3,6	3,8
World trade	6,2	3,3	3,8	5,7	6,3

EU20 = Euroarea, Sweden, Denmark and UK
f = forecast

Industrial production weak in main advanced economies

Industrial production



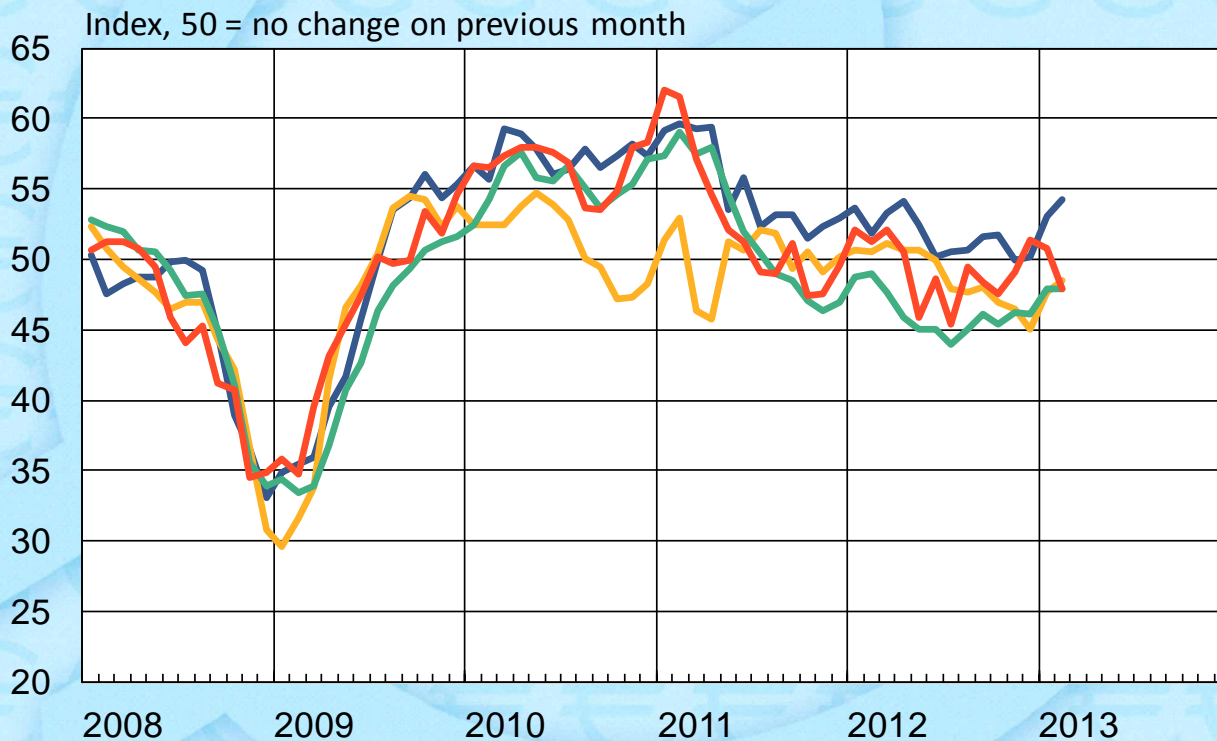
Sources: ECB and Bloomberg.

26750@Chart2

Purchasing managers' index in manufacturing

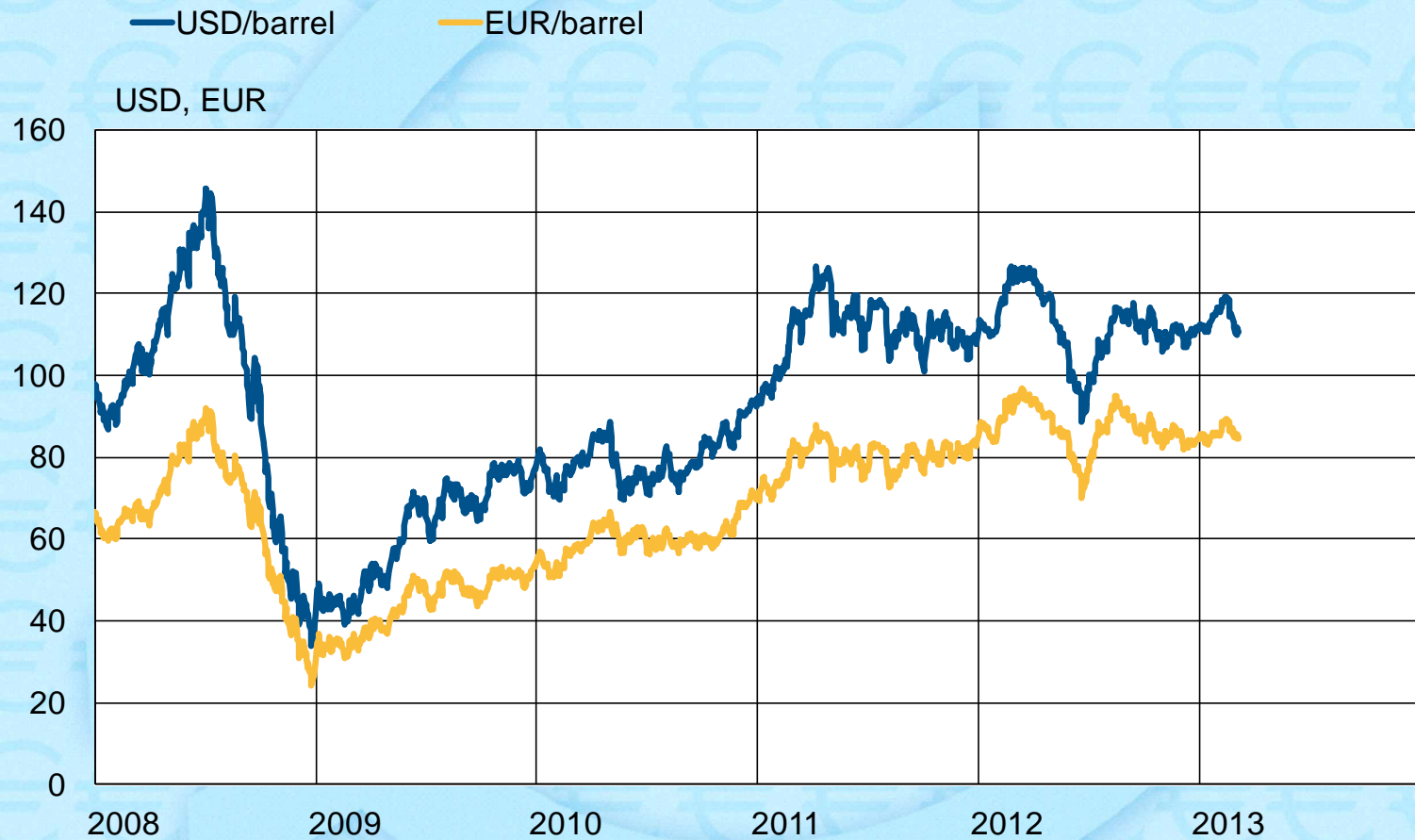
PMI manufacturing

— United States — Japan — Euro area — United Kingdom



Sources: Markit and ISM.
26750@Chart3

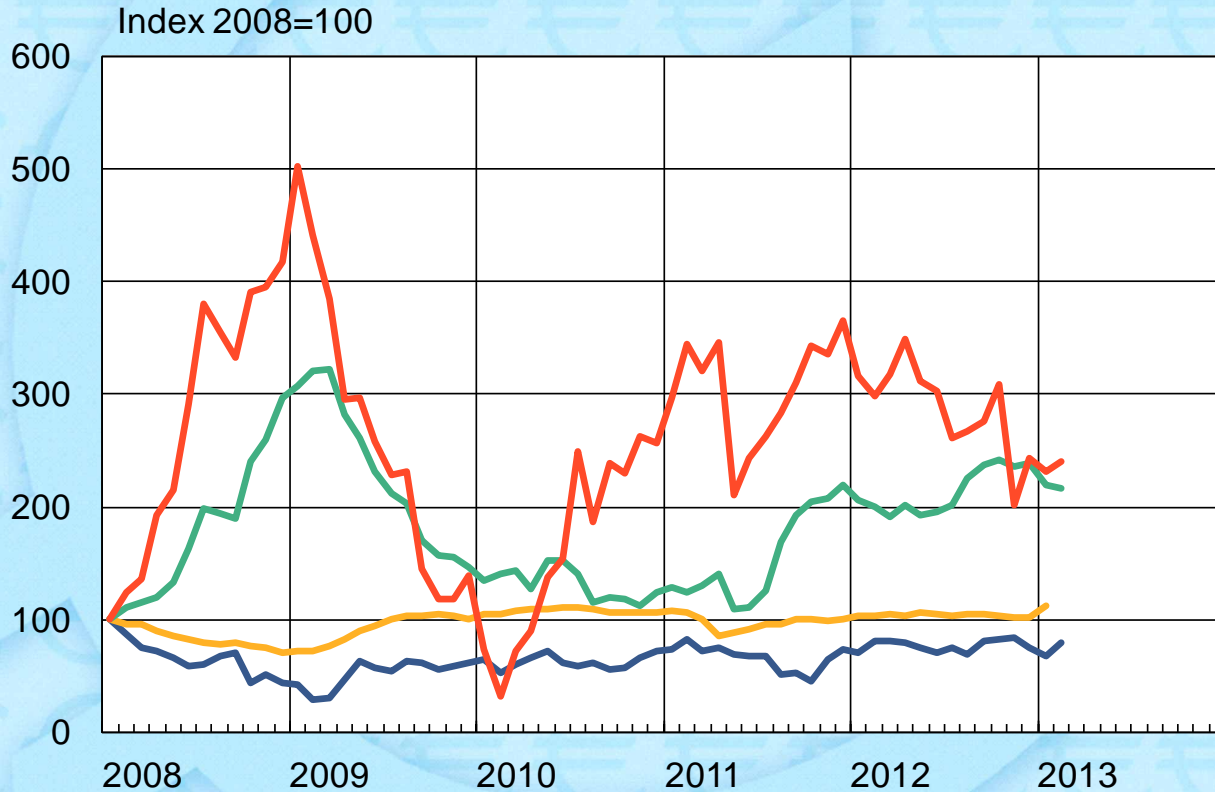
Price of crude oil coming down



Brent, spot prices
Source: Bloomberg.

Consumer confidence

— United States — Japan — European union — United Kingdom

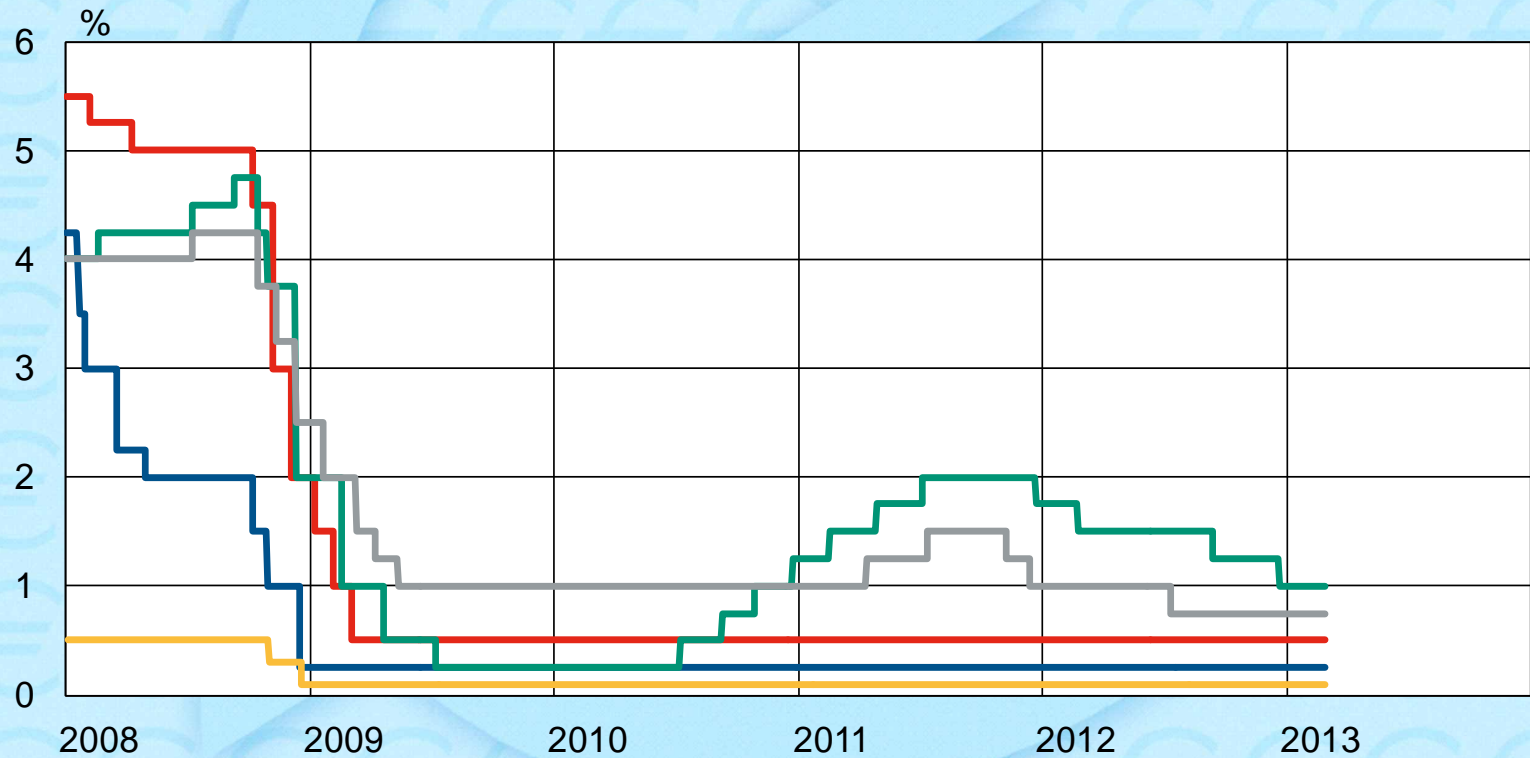


Source: European Commission, Conference Board and OECD .

26750@Chart4_index

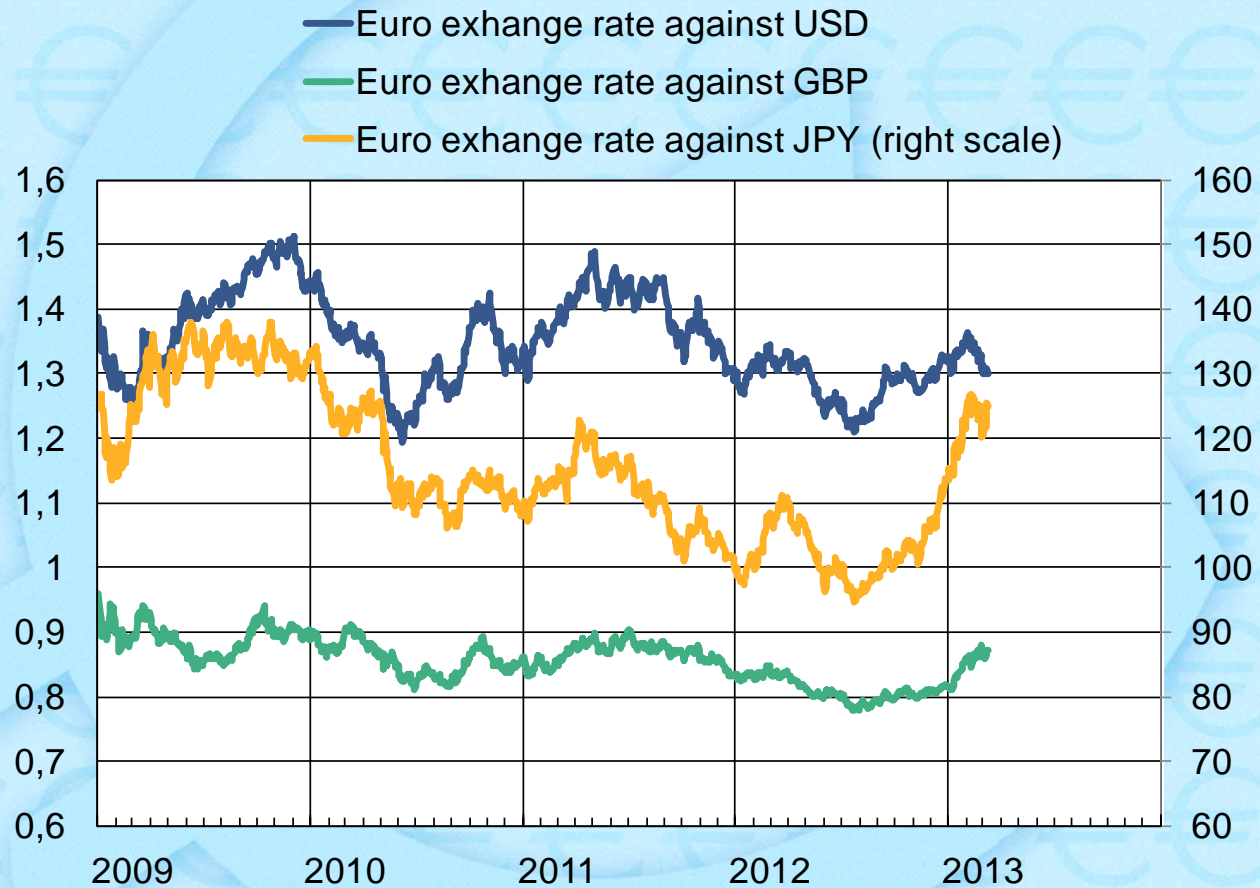
Monetary policy: low interest rates and widely used quantitative easing

- US fed funds target rate
- Uncollateralized overnight call rate, Japan
- United Kingdom: repo rate
- Sweden: Repo rate
- Eurosystem: minimum bid rate in the main refinancing operations



Source: Bloomberg.

Exchange rates: depreciation of Yen has been the main change recently

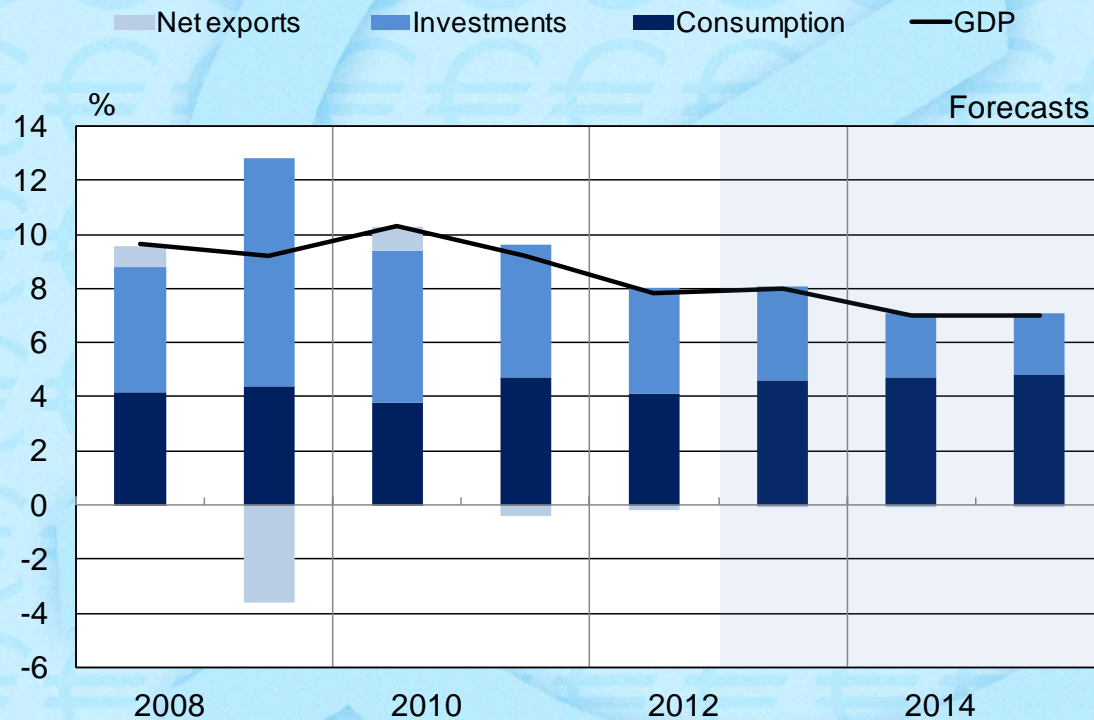


Source: ECB.

25200@Euro per USD, JPY, GBP

Structure of growth in China changing from investment to consumption

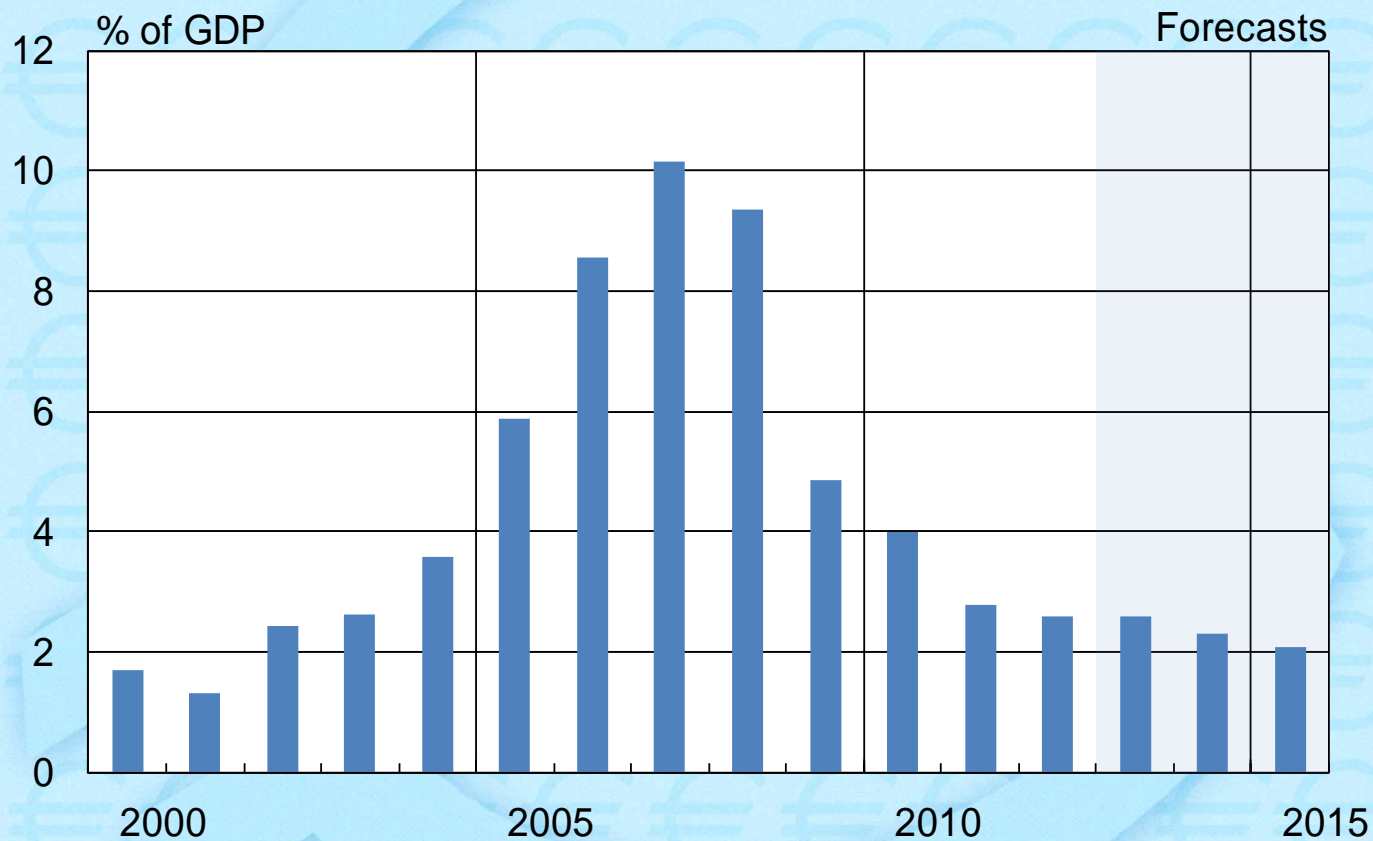
China gdp growth and growth contributions



Sources: CEIC, BOFIT.

◆ Bank of Finland forecast for China's gdp growth rates are:
 2013: 8 %
 2014: 7 %
 2015: 7 %

China's current account surplus is diminishing

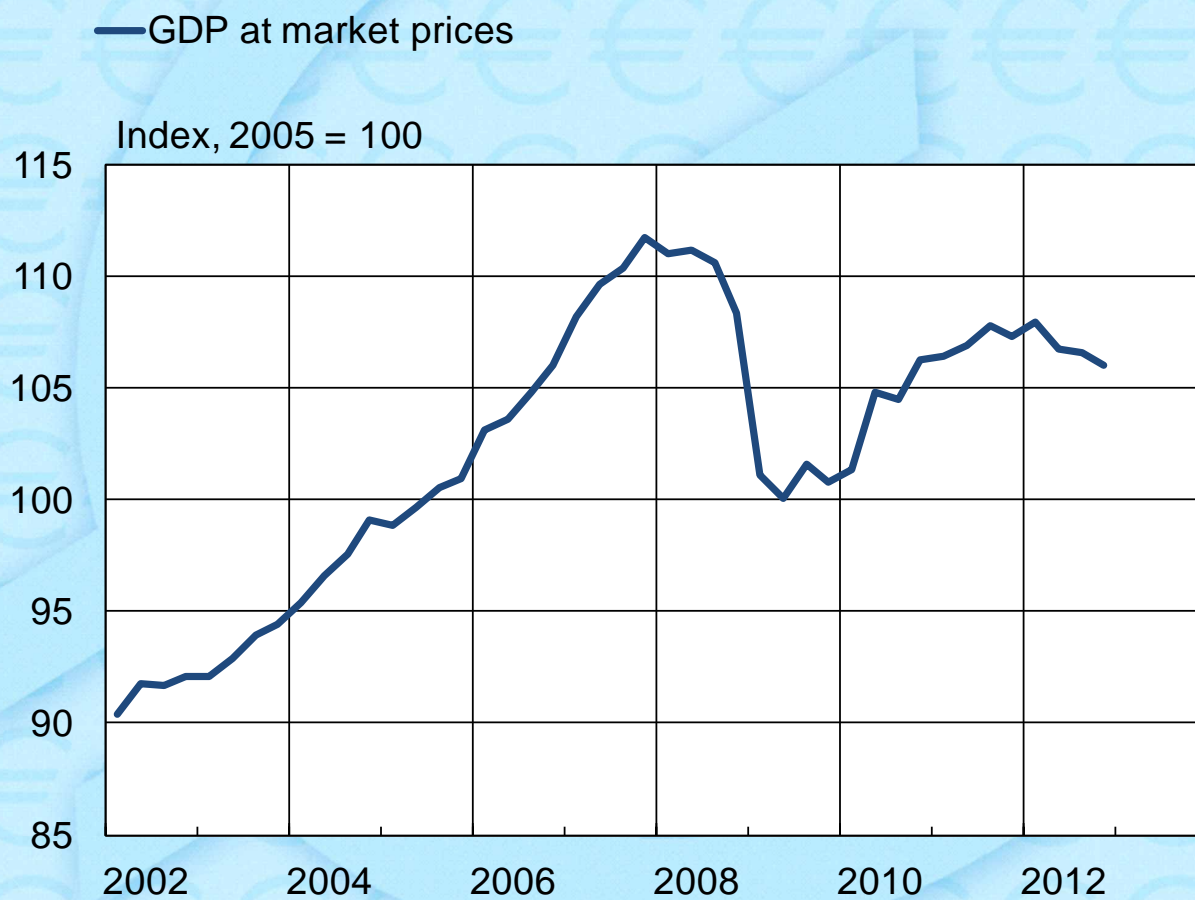


Lähde: Macrobond.



Finnish economy at a standstill

Finland: GDP growth halted



Source: Statistics Finland.

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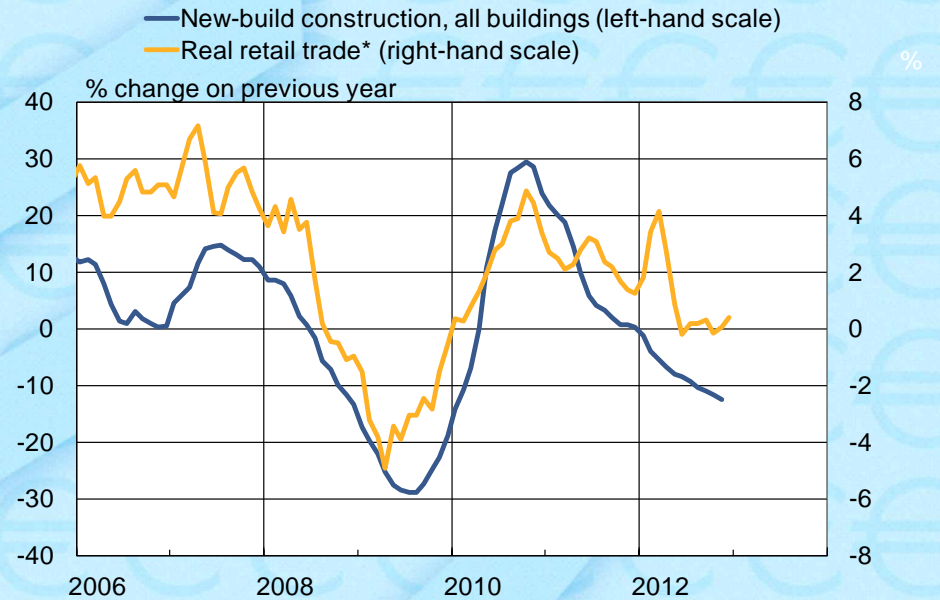
Finland: Domestic demand weakened

Manufacturing output and exports of goods



Figures are seasonally adjusted.
Sources: Statistics Finland and National Board of Customs.

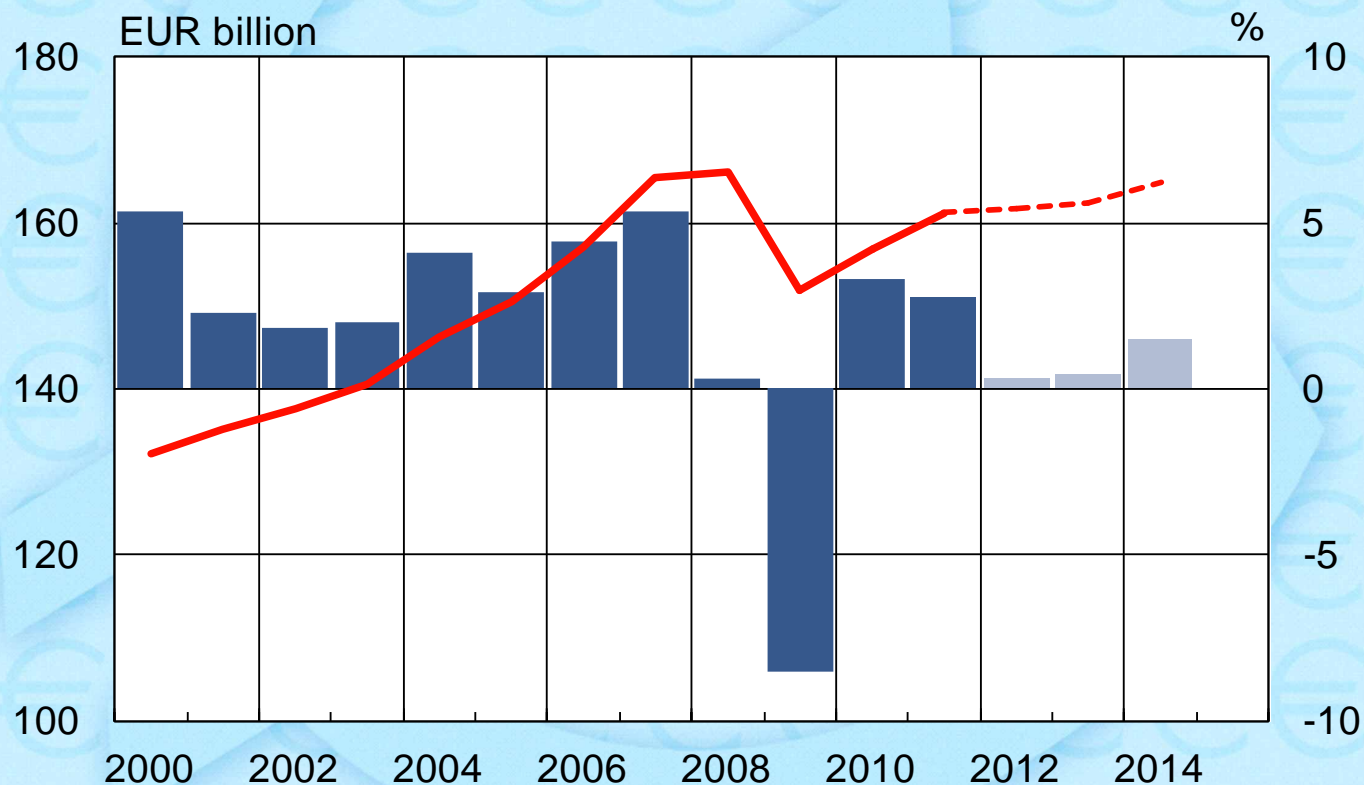
New building construction and retail trade



Seasonally adjusted data
*3-month moving average.
Sources: Statistics Finland and Bank of Finland.

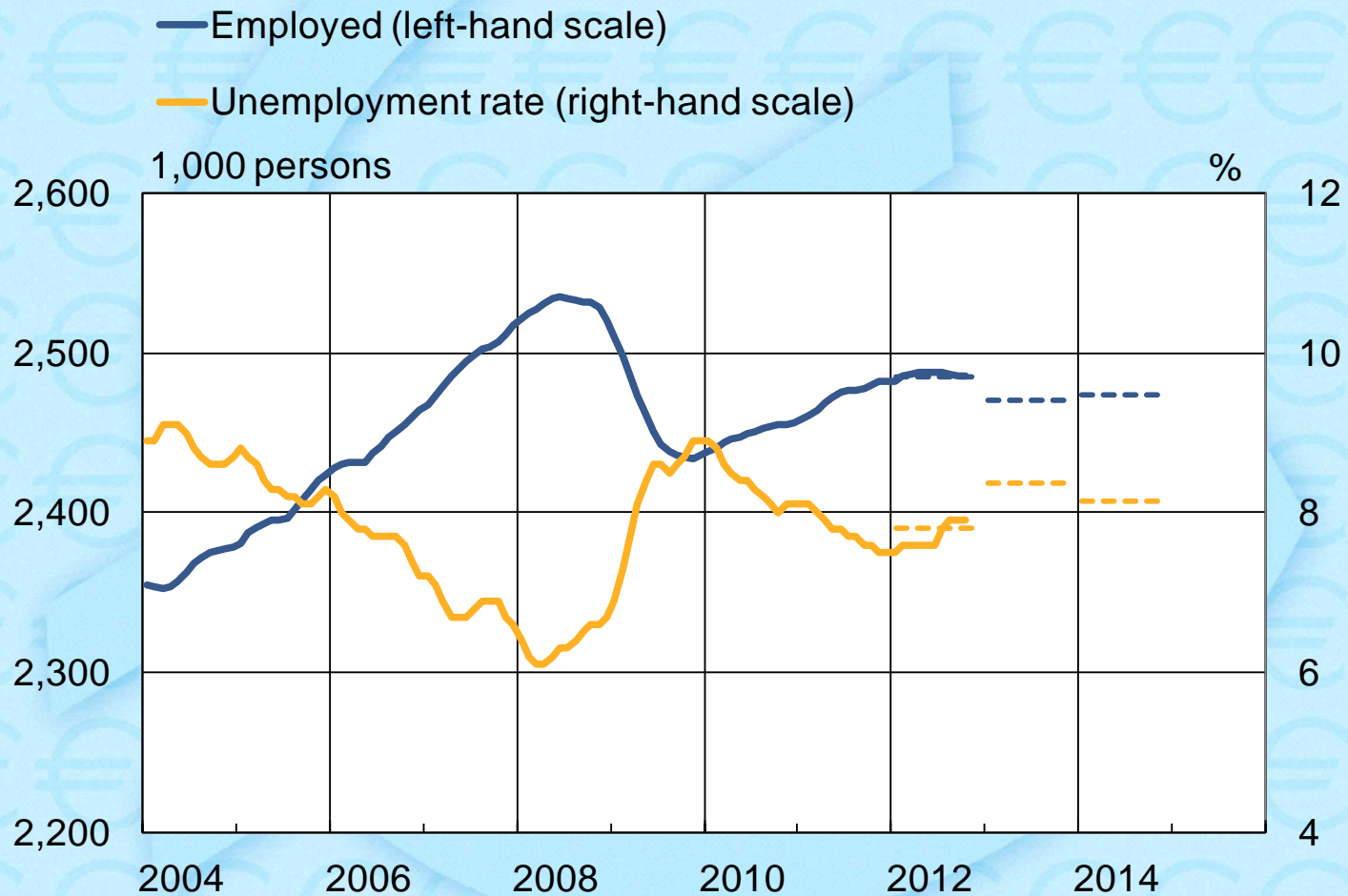
Finnish GDP growth: estimate at -0.2% in 2012, growth outlook very weak

- GDP: % change on previous year (right-hand scale)
- GDP at reference year (2000) prices (left-hand scale)



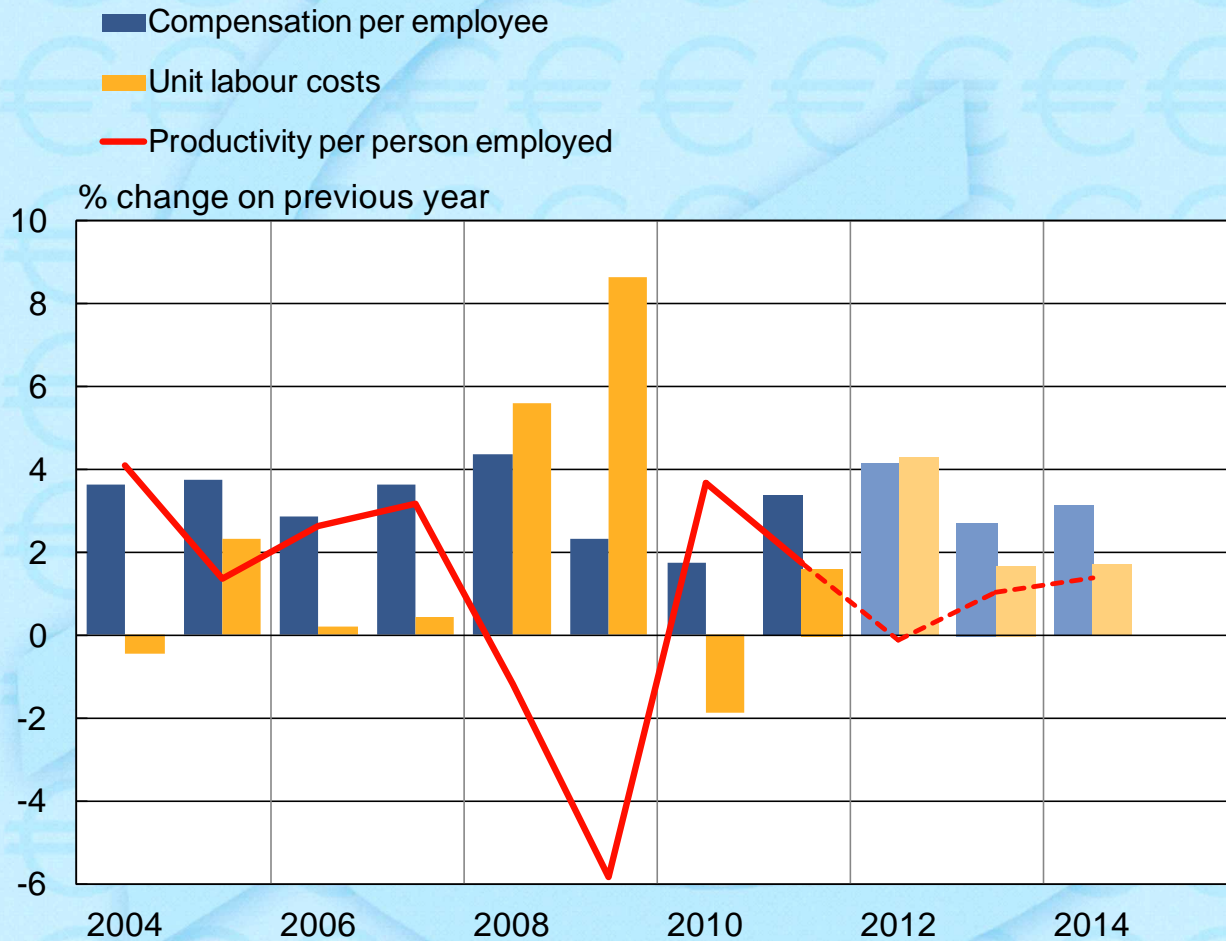
Sources: Statistics Finland and Bank of Finland.

Slow growth will push up unemployment in Finland



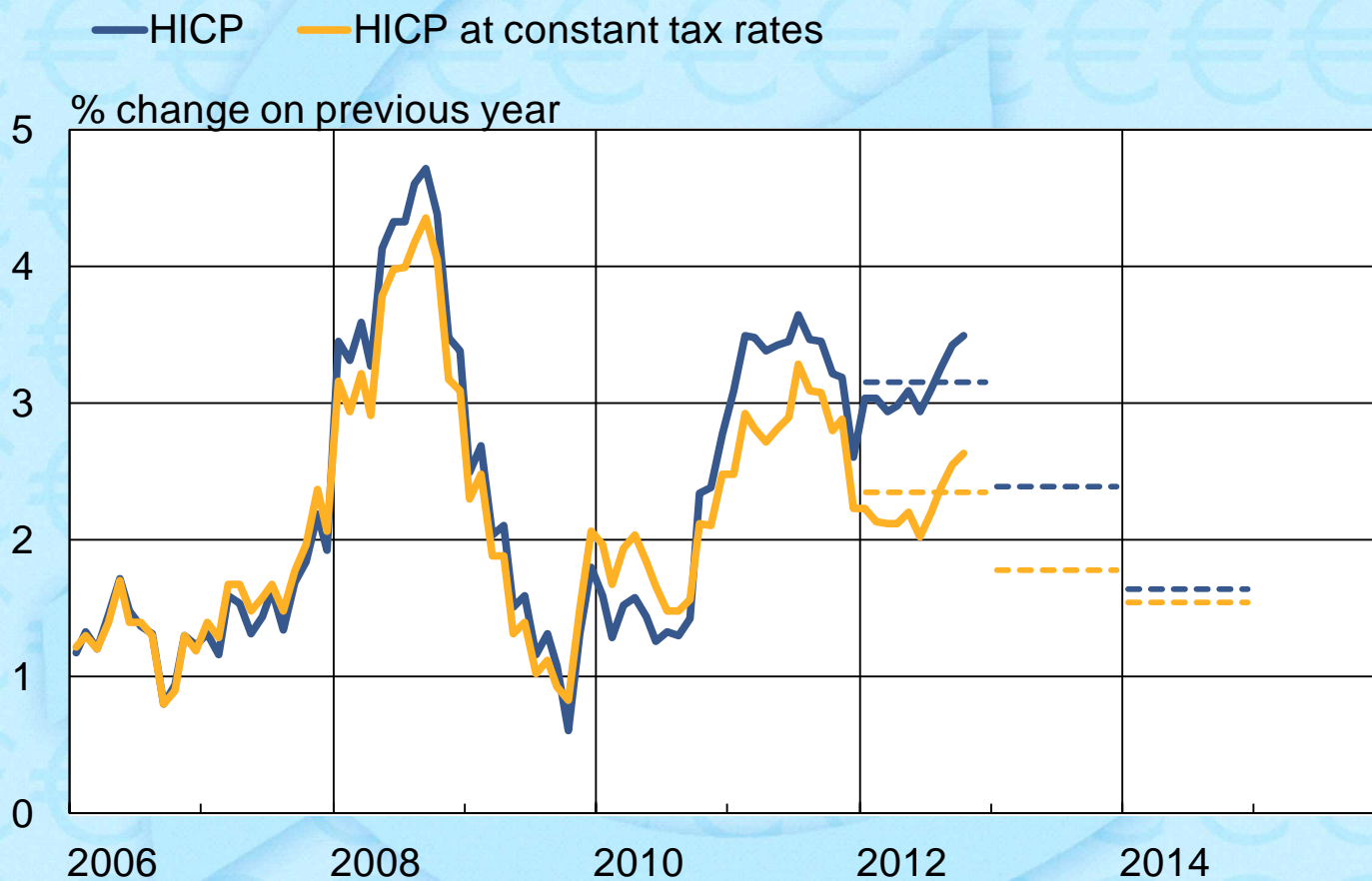
Sources: Statistics Finland and Bank of Finland.

Labour costs have risen in Finland



Sources: Statistics Finland and Bank of Finland.

Inflation will slow down in Finland despite increases in indirect taxation

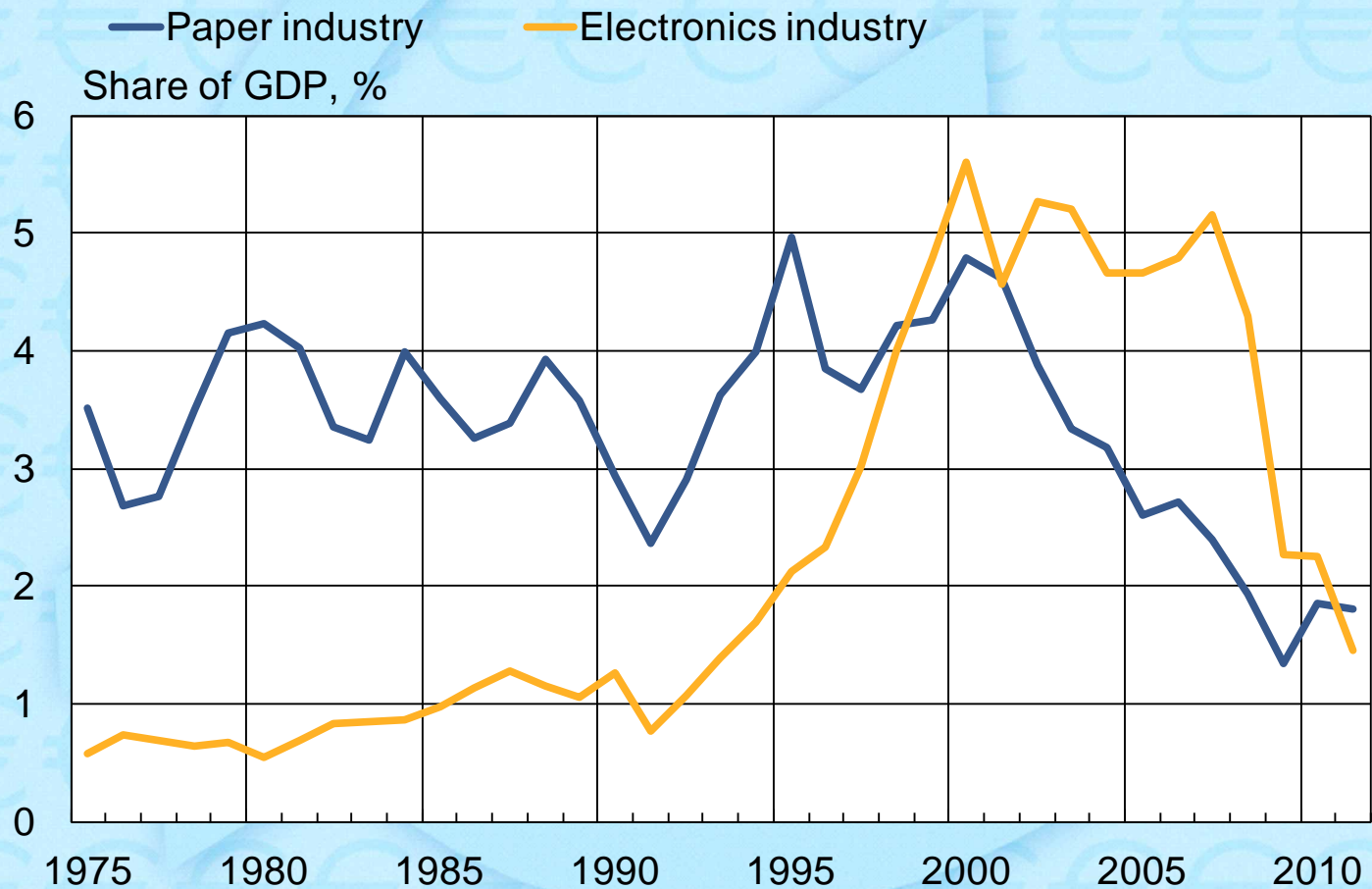


HICP = Harmonised index of consumer prices
Sources: Statistics Finland and Bank of Finland.



In Finland weak outlook for exports and
domestic demand

Finland: Key export industries in decline



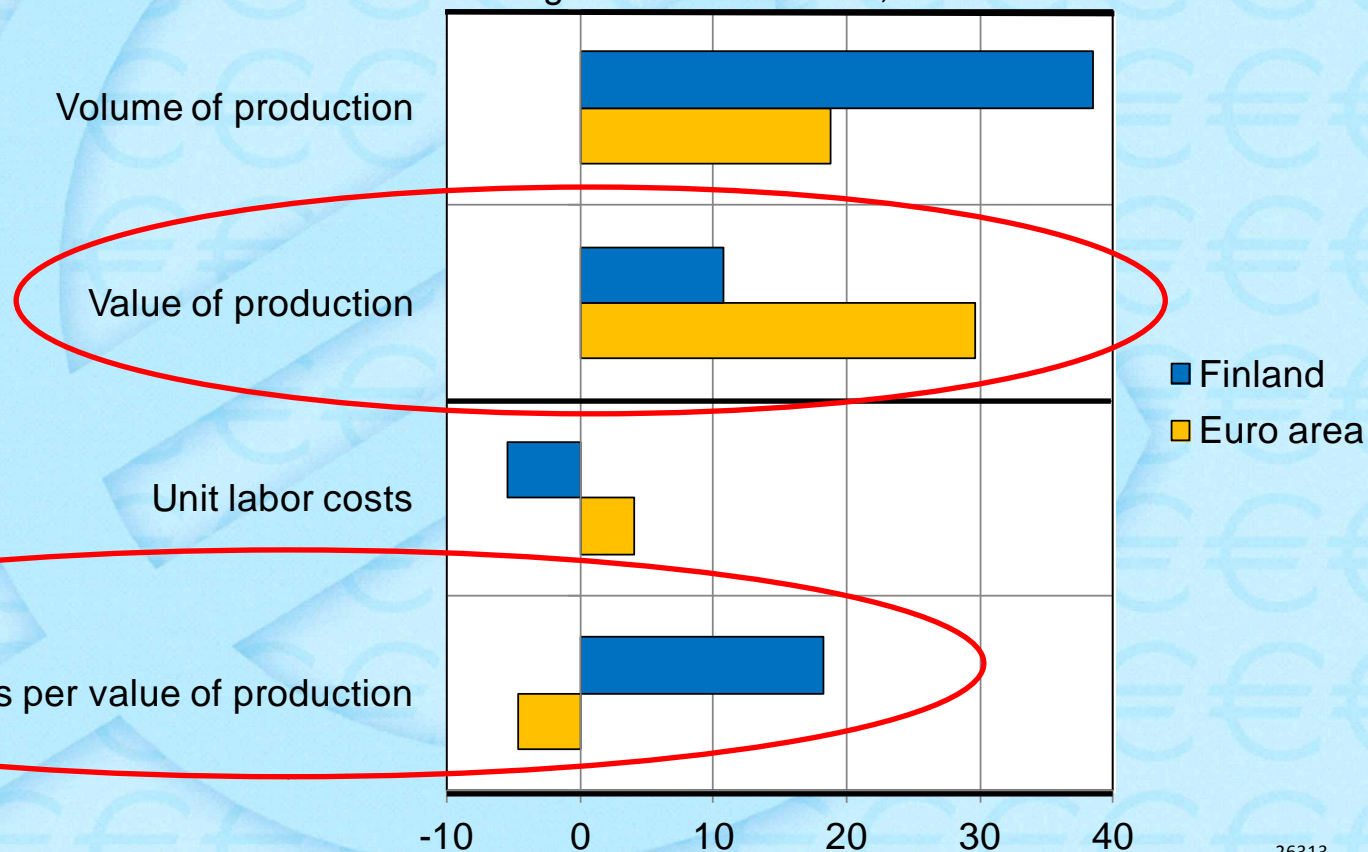
Source: Statistics Finland.

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Competitiveness in Finland weaker than manufacturing unit labour costs suggest

Manufacturing

Change 1999Q1-2012Q2, %



26313

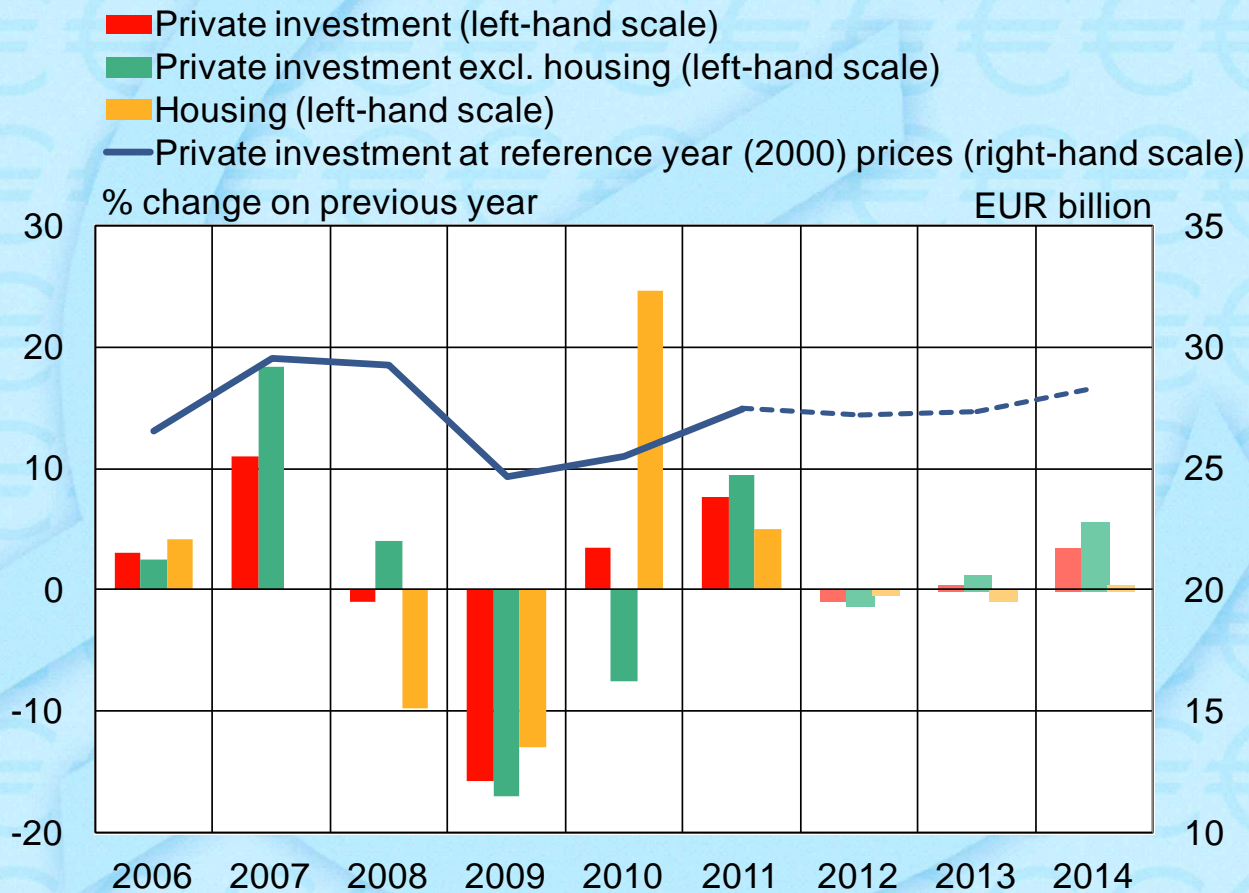
Source: Eurostat. Production is gross value added.

Finland: Export growth weak



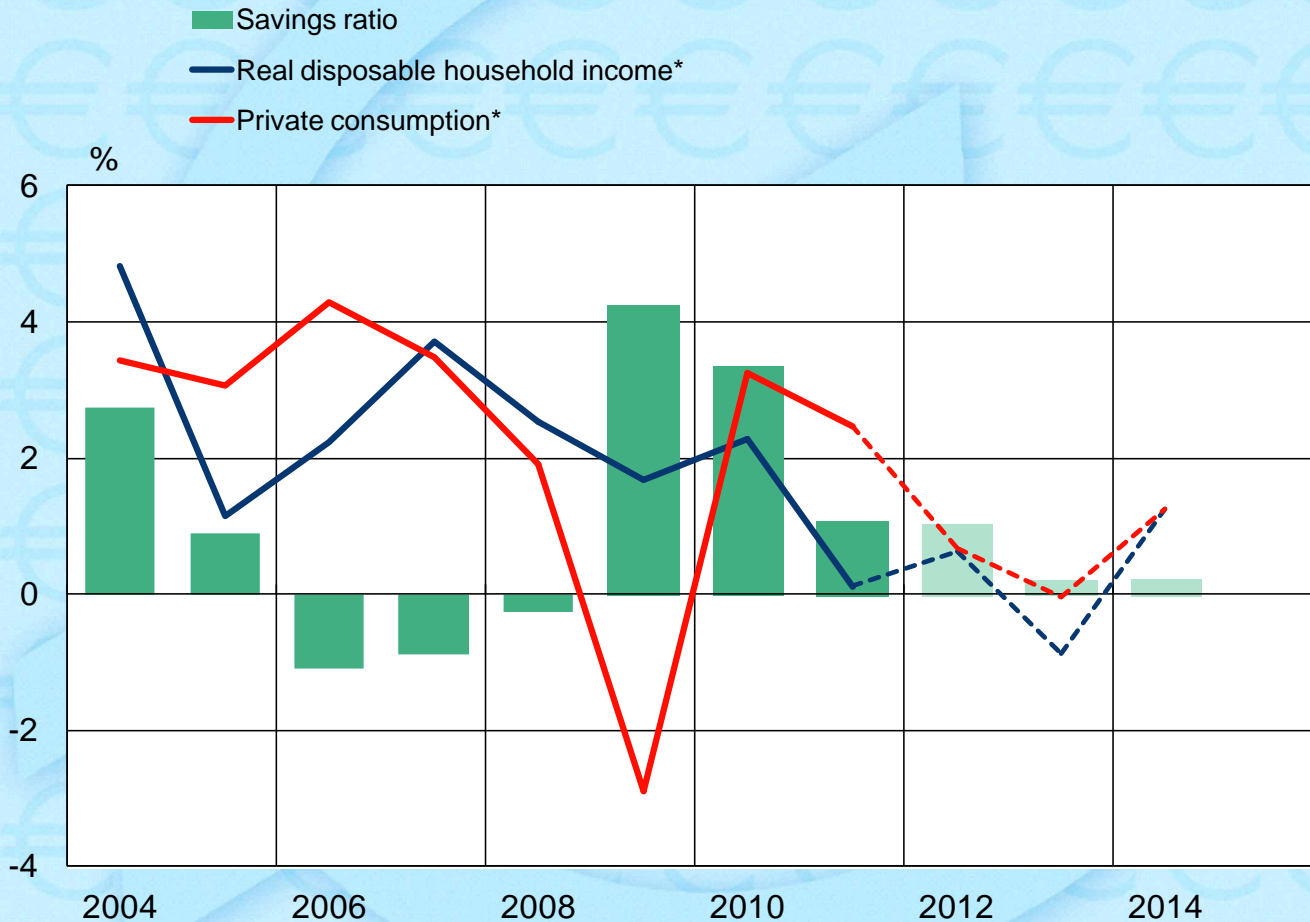
Sources: Statistics Finland, Eurosystem and Bank of Finland.

Finland: Investments at a standstill



Sources: Statistics Finland and Bank of Finland.

Weak consumption growth in Finland, savings rate lower than forecast (-0.3%) in 2012

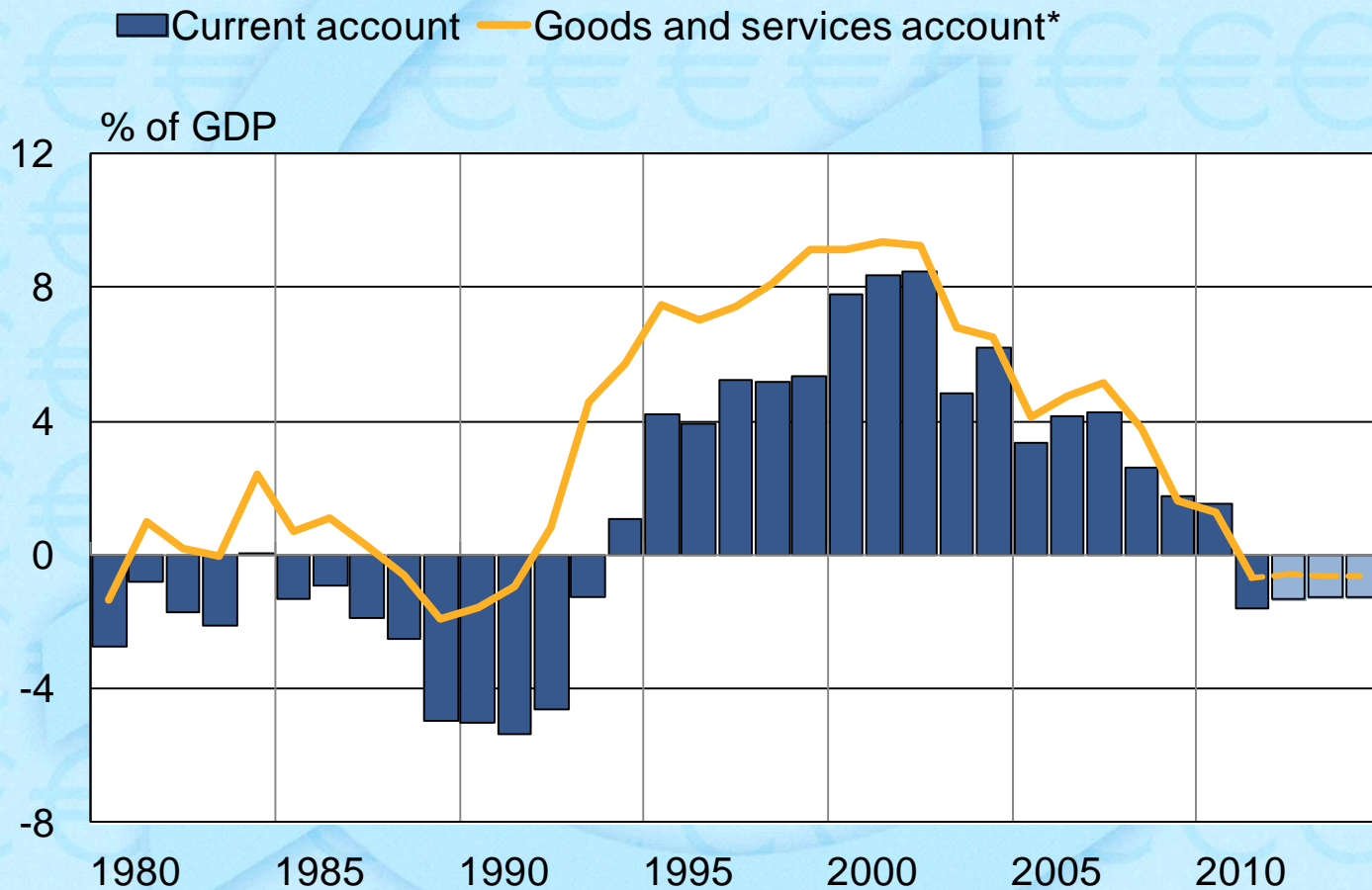


Households = households and non-profit institutions serving households

* % change on previous year

Sources: Statistics Finland and Bank of Finland.

Current account remains in deficit



* National Accounts

Sources: Statistics Finland and Bank of Finland.

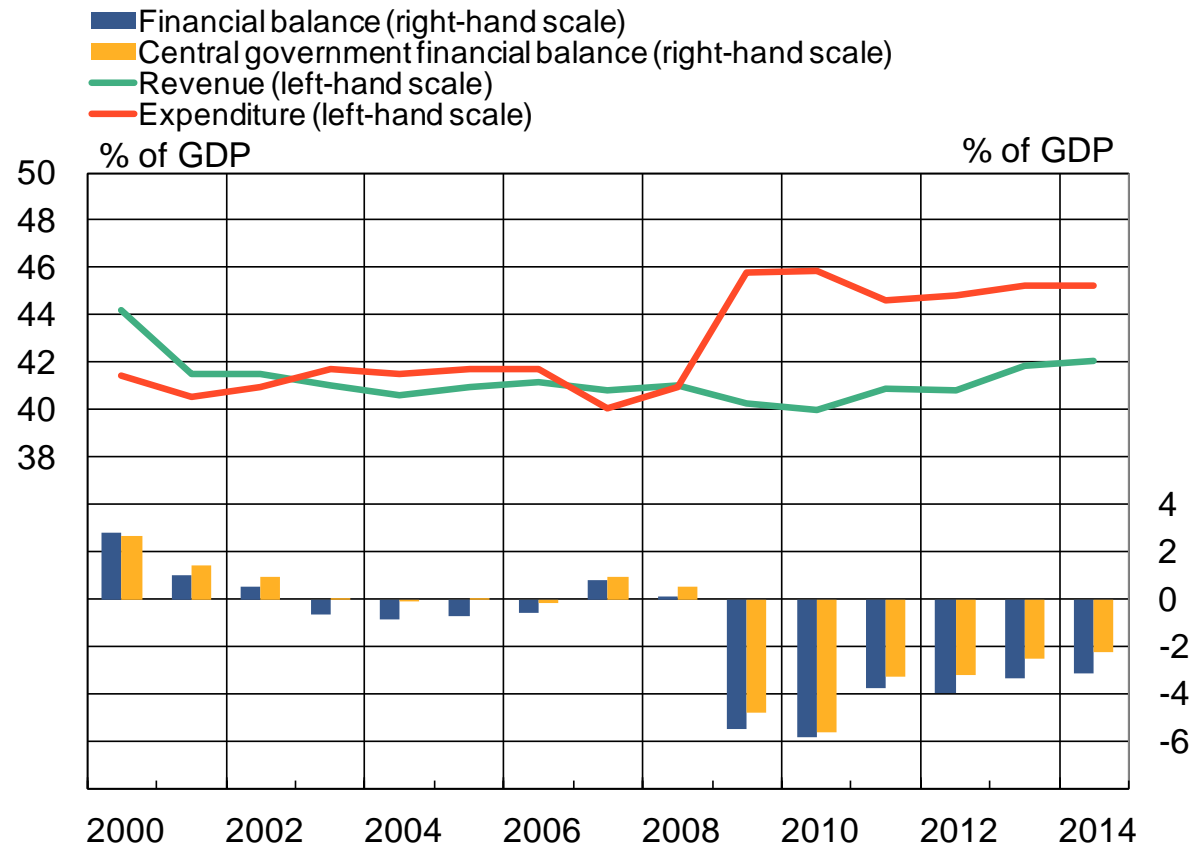
Situation of the open sector must be taken into account in pay agreements of the Finnish labour market

- ◆ ***Exports developed weakly, outlook still weak.***
- ◆ ***Background:***
 - ***Sluggish international growth***
 - ***Special problems of electronics and paper industries***
 - ***Growth in labour costs***
- ◆ ***Export success, open sector employment and the foreign trade balance all require that the competitiveness of the open sector is strengthened.***



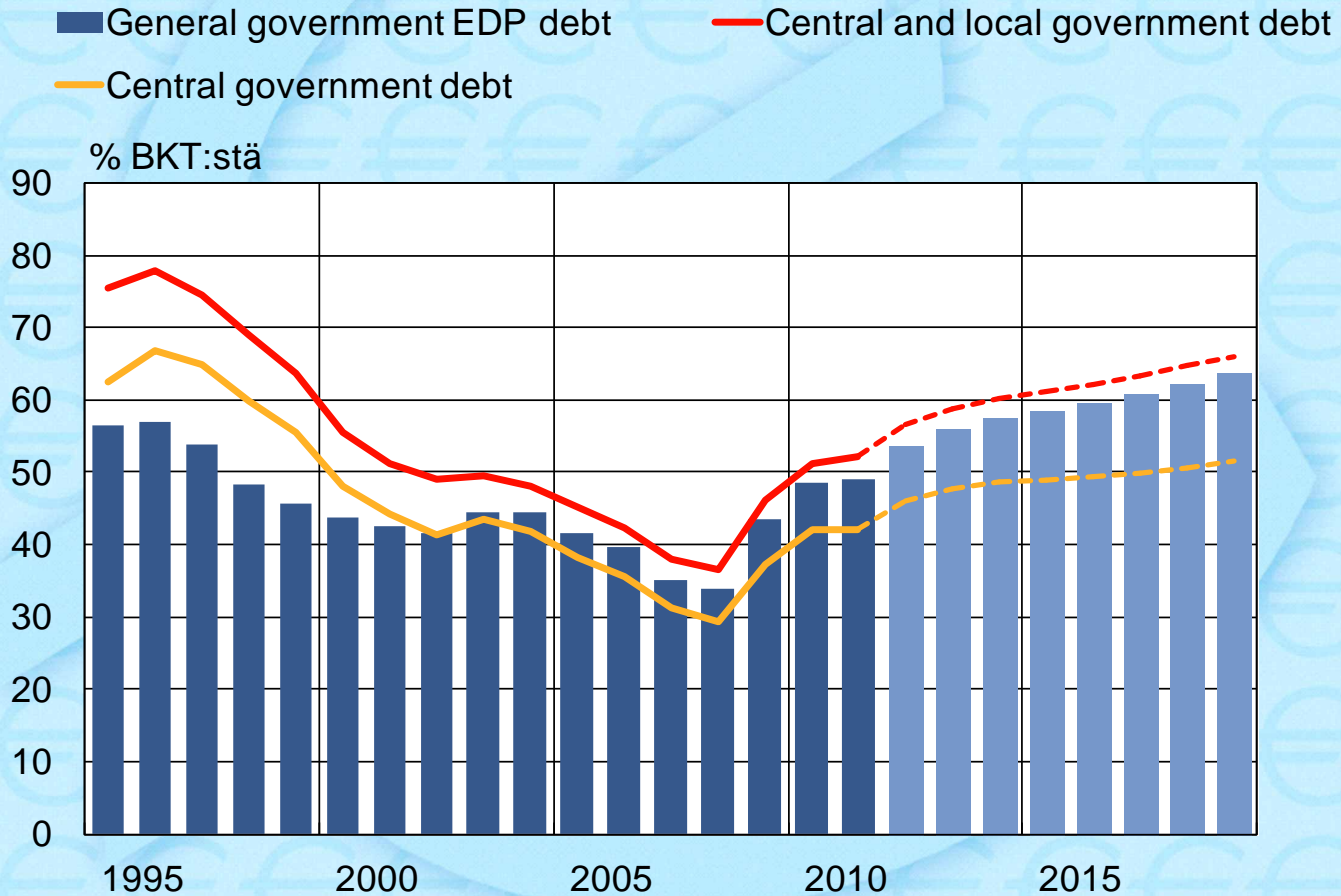
Finnish public finances

Central and local government deficit to contract slightly



Sources: Statistics Finland and Bank of Finland.

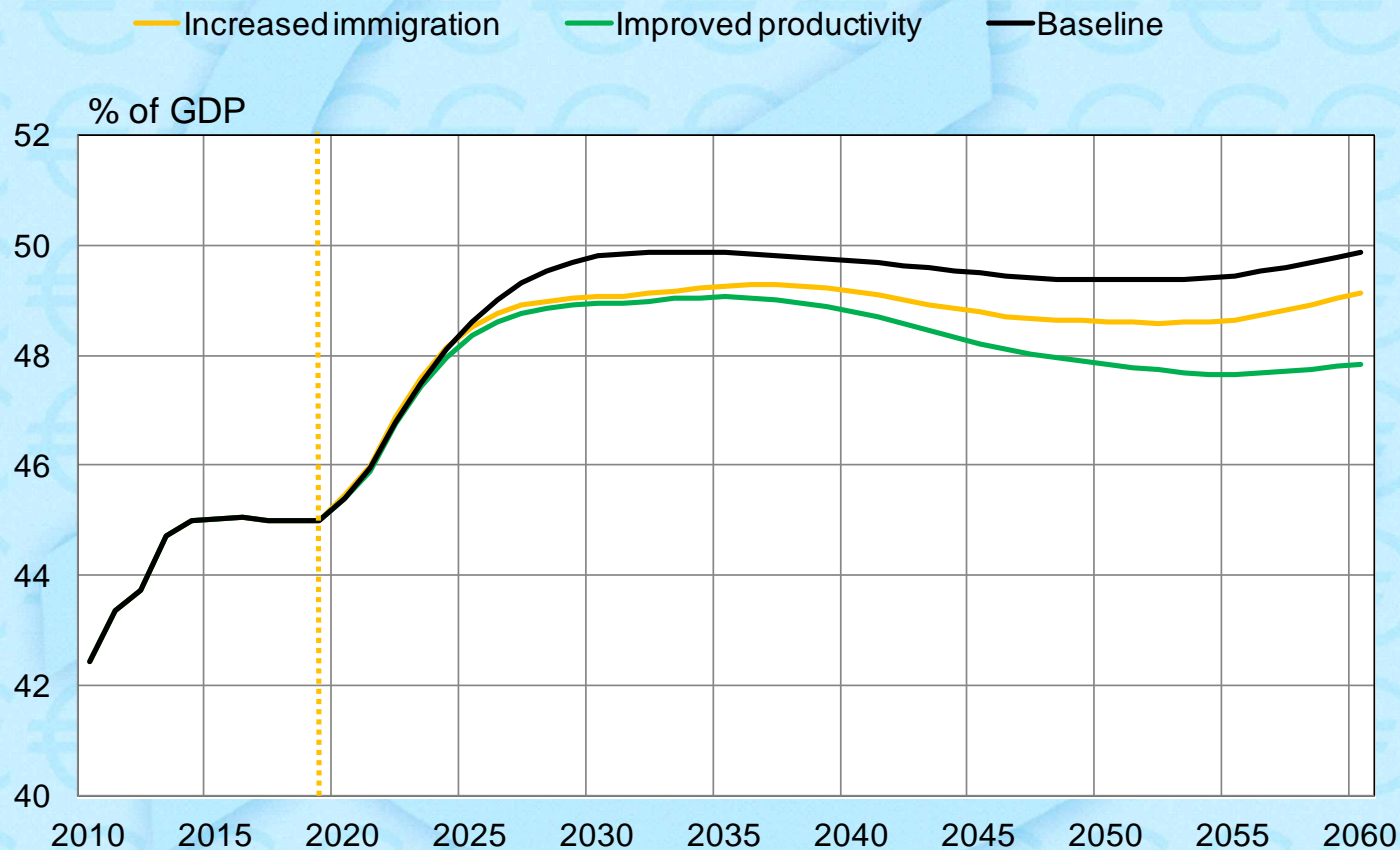
Trend in the public debt ratio will not reverse in Finland without additional measures



Sources: Statistics Finland, State Treasury and Bank of Finland.

Sustainability problem in Finland is substantial

Need for public finance adjustment measured in terms of total tax rate



Sources: Statistics Finland and Bank of Finland.

Finnish fiscal situation: Summary

- ◆ ***The need for adjustment in the public finances is already substantial in the present decade.***
- ◆ ***Long-term sustainability of public finances cannot be achieved without structural measures.***