# Finland

## Growth slows

*Finnish growth had only just regained some momentum in 2015 before slowing again in 2018. GDP growth is expected to weaken further in the quarters ahead. The country's openness to trade exposes it to the deterioration of the global economic environment. Slower export growth and uncertainty linked to protectionist policies will undermine investment. Households, in contrast, should benefit from stronger wage growth. The unemployment rate has fallen to the lowest level since year-end 2008, and should continue to decline despite the slower pace of job creations.*

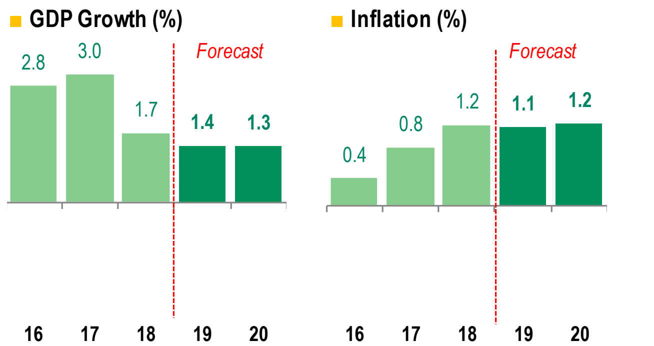
Finnish growth slowed sharply to 1.7% in 2018 (from 3% in 2017) and is expected to slow again this year. After rising 0.5% q/q in the first and second quarters, GDP is expected to increase by nearly 1.4% this year and by 1.3% in 2020.

### A less favourable international environment

Finland will continue to reap the benefits of reforms to boost competitiveness[1] implemented in recent years. Its openness to world trade, however, exposes it to protectionist trade policies and the slowdown in the economic growth of its main trading partners, especially Germany[2]. The deterioration of the international cyclical environment and the resulting sluggishness of non-resident investment will strain goods export momentum in the months ahead, especially since nearly a third of exports are comprised of capital goods. Moreover, there is still uncertainty over Brexit, the terms of which are still unknown.

Non-resident investment will slow in the months ahead due to the slowdown in exports. Residential investment provided major support for growth between 2016 and early 2018, but will now grow more moderately due to the slowdown in real estate price increases. Private household consumption should slow down slightly. Job creations grew at a hefty pace of 2.7% y/y in 2018, but should slow this year due to the slowdown in economic growth. Consumer spending, in contrast, will still be one of the main growth engines. Even a small decline in the unemployment rate should ensure a slight upturn in wages, which have long been contained by the "Competitiveness Pact". Job market pressures have increased, and the unemployment rate, at 6.6% in July, has returned close to NAWRU[3], which the European Commission estimates at 6.5% in 2019. The growth of household disposable income will apparently offset the very slight acceleration in the inflation rate. Higher taxes on cigarettes and beverages should boost price inflation this year and in 2020. Yet these upside pressures will remain limited. Consequently, consumer price inflation, which was 1% y/y in August, should hold below the threshold of 2% y/y in 2019 and 2020.

**1- Growth and inflation**




*Source: National Accounts, BNP Paribas*

In recent years, Finland managed to clean up its public finances thanks to fiscal consolidation measures and a rebound in economic growth. The fiscal deficit is expected to contract slightly again this year (from -0.7% of GDP in 2018). Ongoing growth and the increase in indirect taxes should help offset the decline in income taxes and social security contributions. The arrival of a coalition government led by the Social Democrats in June 2019 could change matters as of next year. Wanting to end austerity, they plan to increase spending significantly. Yet new tax increases and privatisation schemes will probably not suffice to totally offset the increase in spending at a time of slowing growth. Public debt fell back below the 60% threshold in 2018 (to 58.9% of GDP), and should diminish again in 2019 thanks to a primary surplus, low interest rates and nominal GDP growth. Thereafter, it could decline more slowly than expected.

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[1] The "Competitiveness Pact", signed between the government and its social partners in 2016, extended the annual number of working hours by 24 hours without a wage increase, froze wages in 2017, and reduced employer social welfare contributions.
[2] In 2018, 15.1% of merchandise exports were shipped to Germany.
[3] NAWRU, the Non-Accelerating Wage Rate of Unemployment, is the unemployment rate that does not trigger an acceleration in wages.