

Nordea's economic forecast: Finland's economic growth will accelerate to 3%

Nordea is more than doubling its economic growth forecast for Finland in 2017, raising it to 3% from 1.3% previously. In the coming years, growth will slow down considerably, which means the autumn wage negotiations should not focus on just one year of good growth.

"The reasons for this significant upgrade are brisker global economic growth and the fact that Finland's exports are now supporting growth alongside domestic demand. Finland's growth figures for last winter have been revised clearly upwards, with the figures for the first quarter of this year particularly impressive," says Chief Economist Aki Kangasharju.

"We are now actually predicting that global economic growth will continue at least until the end of this decade." As recently as last autumn, things looked much bleaker. But lately growth in Finland's export markets has matched the rates seen before the financial crisis.

"The past winter season gives reason to expect growth of almost 3.5%, but we are conservative in our forecasts. Early-year data includes some figures that lack an explanation, especially when it comes to the massive growth in the consumption of services," says Economist Pasi Sorjonen. He adds that such figures have often had to be revised down in previous years.

"The growth outlook is also obscured by the trend in working hours. While the Competitiveness Pact increases the number of hours performed, there are more public holidays this year than last."

The continued strong growth in private consumption is surprising, considering the fact that workers' purchasing power is improving only marginally. Growth in consumption is propped up by record-high consumer confidence, lower saving rates and improved employment. The employment rate may even climb up to 71% by the time the current government's term ends. The recovery in investment will continue, in addition to which the decline in research and development spending is finally coming to an end, another positive factor.

"Keep a cool head"

The good economic situation will re-test Finland's ability to prosper within the currency union.

"We cannot get ahead of ourselves in the collective bargaining negotiations set for this autumn. Wages are increasing at a rate of 2% in Sweden and Germany. Finland must clearly aim for a lower increase, even when accounting for wage drift, or otherwise our competitiveness will improve too slowly. One year of rapid economic growth does not make up for a decade-long slump," says Aki Kangasharju.

"Growth will again slow down in the coming years, once free capacity is utilised and the workforce shrinks. We estimate growth to amount to 2% next year and 1% in 2019," he adds. The only way to stop growth from stalling is to maintain wage discipline and to continue implementing labour market and other economic reforms.

"We cannot afford a government crisis or a delay of the reforms."

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