Forecast

What if exports don’t recover in the years ahead?

Finnish economy | 18 December 2015

Finnish exports declined 0.8% in 2014, lagging further behind the export markets and world trade growth, and they are set to barely grow at all in 2015. The scale of the problem is illustrated by the fact that the volume of exports is still approximately EUR 10 billion lower than in 2007. If exports had continued to grow on their long-term trend after 2007, the loss now would be that much greater. If the negative indirect impact of poor export performance on e.g. investment were taken into account, the final bill would increase further still.

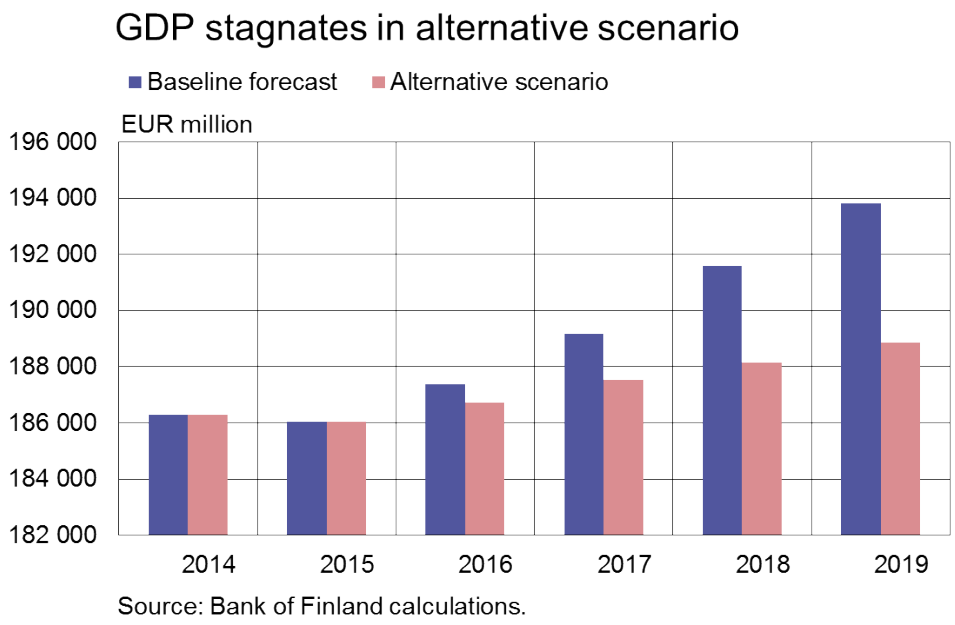


The loss of export markets has now continued for almost a decade. Structural changes in industry and an erosion of competitiveness have shifted the focus of growth to the domestic market, and the public finances have deteriorated sharply. There is a threat that this sort of development will continue in the years ahead if cost-competitiveness and export performance cannot be improved.

This alternative scenario assesses the dynamic effects of exports on the Finnish economy in a situation where export performance remains much weaker than in the baseline forecast. In the scenario, exports fail to equal export market growth, remaining at the level of 2015 for three years. Wages and salaries are assumed to develop as foreseen in the baseline, with no improvement in cost-competitiveness. Moreover, poor export performance gradually begins to erode investor and consumer confidence in the Finnish economy. Deteriorating confidence leads to rising risk premia on domestic interest rates and an increase in the savings ratio in 2018 and 2019. Higher risk premia also add to the interest expenditure on government debt.

The alternative scenario foresees a GDP volume in 2019 of about EUR 5 billion below that of 2015. GDP growth in 2016–2019 is, on average, 1 percentage point slower than the baseline. The export volume envisaged in the scenario for 2019 is approximately EUR 8 billion smaller than in 2015. Given the considerable use of imported inputs in exports, imports also fade in the wake of the declining export performance. Losses in GDP growth thus remain more limited. However, imports contract by less than exports, because private consumption and investment continue to support the weakening economic growth. Net exports turn negative, and Finland accumulates foreign debt.

Chart 1.



The fragile export performance is also reflected in employment, total wages and salaries, and consumer confidence, with their resultant weakening gradually beginning to dampen private

consumption growth. Although consumers' growing uncertainty raises the savings ratio, it remains below the baseline figure amid slower income developments. Price increases in the economy are also sluggish. Poor export performance adds to uncertainty over investment decisions, thus reining in private investment growth. Improvements in investment are also constrained by higher risk premia.

The direct impact of the anaemic export performance on the public finances is limited, as exports generate no tax revenues, but the indirect impact is substantial. Consequently, the alternative scenario assumes a significant deterioration in the public finances compared with the baseline. The deficit grows by close to 1 percentage point in a few years, and the debt ratio at the end of 2019 is 2.6 percentage points (around EUR 5 billion) higher.

If Finland's international competitiveness remains unchanged or weakens further still, it is possible that exports cannot be increased as hoped for in the immediate years ahead, resulting in a deepening gap between Finland's exports and the export markets. Such developments would have very damaging implications for economic growth and the public finances over a relatively short horizon.

Table.

Alternative scenario: Exports stagnate					
Supply and demand 2015–2019 at 2010 prices					
		2015	**2016**	**2017**	**2018**
% change on previous year					
GDP	Baseline forecast	-0.1	0.7	1.0	1.3
	Alternative scenario	-0.1	0.4	0.4	0.3
	Difference	0	-0.3	-0.5	-1
Imports	Baseline forecast	-2.8	3.2	2.8	3
	Alternative scenario	-2.8	2	1	0.6
	Difference	0	-1.2	-1.8	-2.4

Source: Bank of Finland.

Alternative scenario: Exports stagnate					
Exports	Baseline forecast	0.1	2.1	2.7	2.9
	Alternative scenario	0.1	0	0	0.1
	Difference	0	-2.1	-2.7	-2.8
Private consumption	Baseline forecast	0.5	0.6	0.6	1.3
	Alternative scenario	0.5	0.6	0.5	0.2
	Difference	0	0	-0.1	-1
Private investment	Baseline forecast	-1.1	3.3	2.8	2.6
	Alternative scenario	-1.1	3.2	2.1	1.2
	Difference	0	-0.2	-0.7	-1.4
Export markets	Baseline forecast	0.1	2.8	3.9	4
	Alternative scenario	0.1	2.8	3.9	4
	Difference	0	0	0	0
Private sector output price	Baseline forecast	0.2	0.8	1.2	1.3
	Alternative scenario	0.2	0.5	0.7	0.4
	Difference	0	-0.3	-0.5	-0.9
Private consumption deflator	Baseline forecast	0.2	0.4	1	1.1
	Alternative scenario	0.2	0.2	0.6	0.6
	Difference	0	-0.3	-0.4	-0.6
Hours worked	Baseline forecast	0.1	0.5	0.5	0.5
	Alternative scenario	0.1	0	-0.3	-1
	Difference	0	-0.5	-0.8	-1.5
Disposable household income	Baseline forecast	1.1	1.5	1.6	2.4
	Alternative scenario	1.1	1	0.8	0.9

Source: Bank of Finland.

Alternative scenario: Exports stagnate					
	Difference	0	-0.5	-0.8	-1.5
Current account	Baseline forecast	-0.3	-0.5	-0.5	-0.5
	Alternative scenario	-0.3	-0.9	-1.4	-1.7
	Difference	0	-0.4	-0.9	-1.2
General government net lending	Baseline forecast	-3.1	-2.9	-2.7	-2.7
	Alternative scenario	-3.1	-3	-2.9	-3.2
	Difference	0	-0.1	-0.2	-0.5
General government debt	Baseline forecast	62.8	65.7	68.1	69.7
	Alternative scenario	62.8	66.1	69	71.5
	Difference	0	0.4	0.9	1.8
Household savings ratio	SP:n ennuste	0.1	0.6	0.7	0.6
	Vaihtoehtoinen kehitys	0.1	0.4	0.1	0.2
	Poikkeama	0	-0.3	-0.6	-0.4
Employed	Baseline forecast	-0.3	0.4	0.4	0.4
	Alternative scenario	-0.3	0.1	-0.4	-0.9
	Difference	0	-0.3	-0.8	-1.3

Source: Bank of Finland.

Keywords

economic situation, exports, Finland