

Heading towards a fourth consecutive year of recession



General Information

GDP	USD267.3286 bn (World ranking 42, World Bank 2013)
Population	5.44 mn (World ranking 113, World Bank 2013)
Form of state	Republic
Head of government	Alexander Stubb (National Coalition Party, KoK)
Next elections	19 April 2015, legislative



Strengths

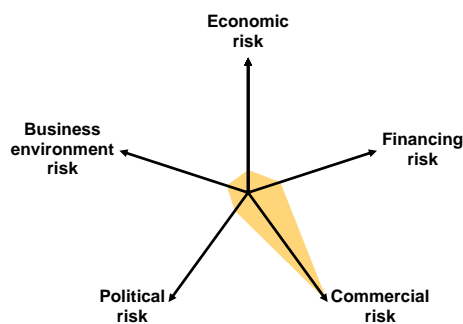
- Strong business environment
- High R&D spending
- Low fiscal deficit
- Contained public debt

Weaknesses

- Trade sector highly dependent on Russia
- Dwindling competitiveness
- Loss of export market share
- Rapidly deteriorating current account balance
- High private debt

Country Rating

AA2



Source: Euler Hermes

Trade Structure

By destination / origin (% of total)

Exports	Rank			%
Sweden	11	1	18	Russia
Russia	9	2	12	Germany
Germany	9	3	11	Sweden
United States of America	6	4	6	China
Netherlands	6	5	5	Netherlands

By product (by % of total)

Exports	Rank			%
Machinery, nuclear reactors, boilers	14	1	23	Mineral fuels, oils, distillation products
Paper and paperboard, articles of pulp, paper and board	13	2	11	Machinery, nuclear reactors, boilers
Mineral fuels, oils, distillation products	12	3	8	Electrical, electronic equipment
Electrical, electronic equipment	8	4	6	Vehicles other than railway, tramway
Iron and steel	7	5	3	Iron and steel

Source: ITC (2014), Chelem (2012)



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Economic Overview

As expected, 2014 has been far from a happy ending

Finland's economy contracted for the third year in a row in 2014 (-0.1%). The contraction could have been much worse had inventories not contributed +0.6pp to GDP growth. Looking at the breakdown, all components show weaknesses (see Table 1). Private consumption fell for the second consecutive year (-0.2%) as unemployment increased to 9.1% in December 2014 from 8.2% a year earlier. Further, wage growth slowed to 1.4% on average in 2014 compared to 2.1% in 2013. Household debt has almost doubled over the last decade and now stands at above 60% of disposable income. For companies the prospects are not at all rosy. On top of competitiveness issues, non-financial corporations have registered strong contractions in turnovers (-17% since Q1 2008 vs -6% in the eurozone) and profitability (-9pp in margins to 36% vs -3pp in the eurozone). Total investment contracted for the third year in a row (-5.1%) with both construction (-4.3%) and equipment (-6.1%) in negative territory. Exports contracted by -0.4%, for the second consecutive year, and imports fell by -1.4%.

Domestic weaknesses and exposure to Russia will trigger a fourth consecutive year of recession in 2015

Economic prospects remain poor for the year ahead with two more negative quarters of GDP growth and -0.4% over the whole year. On the domestic side, private consumption is expected to remain in contraction (-0.6%) as well as investment (-3.5%), given the weak demand expectations and the fall of the manufacturing sector as a share of GDP over past years. However, firms should benefit from the lower euro, lower oil prices, the ECB QE program and the cut in the corporate tax rate introduced in March 2014 (-4.5pp to 20%), the lowest rate in the eurozone after Ireland (12.5%) and before the UK (21%). We expect firms' margins to improve by as much as 0.8pp in 2015 (to 37% of value added). Exports are expected to contract at a higher pace (-1%) mainly on the back of the strong recession in Russia (-5.5% in 2015), the second largest export market for Finland after Sweden (9% of total exports), with over 60% concentrated in the metal sector (USD3.1bn) and chemicals (USD1.7bn). Negative headwinds are already visible since H2 2014 (see Chart 1) with exports contracting by -14% over the whole of 2014. Despite a downside trend since mid-2014, business insolvencies remain 35% above their 2007 levels.

Table 1: Key economic forecasts

Finland	share	2013	2014	2015	2016	
GDP	100%	-1.3	-0.1	-0.4	0.6	
Consumer Spending	55%	-0.6	-0.2	-0.6	0.6	
Public Spending	24%	0.6	0.2	0.8	0.4	
Investment	20%	-5.3	-5.1	-3.5	0.2	
Stocks	*	%	-0.3	0.6	0.3	0.2
Exports	40%	-0.7	-0.4	-1.0	1.1	
Imports	39%	-1.6	-1.4	-1.4	1.2	
Net exports	*	0%	0.4	0.4	0.0	
Current account	**		-2	-2	-2	-1
Current account (% of GDP)			-1.2	-1.1	-0.8	-0.5
Employment			-1.1	-0.4	0.2	0.7
Unemployment rate			8.2	8.7	9.0	8.4
Wages			2.1	1.4	1.4	1.2
Inflation			1.5	0.9	-0.3	0.8
General government balance	**		-5	-7	-6	-5
General government balance (% of GDP)			-2.5	-3.4	-3.0	-2.5
Public debt (% of GDP)			57	60	61	62
Nominal GDP	**		202	204	203	206

Change over the period, unless otherwise indicated:
 *contribution to GDP growth
 **EUR bn

Sources: National sources, IHS, Euler Hermes

Chart 1: Exports to Russia



Sources: IMF, Tulli, Euler Hermes

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