Forecast

Weaker outlook for emerging economies

Finnish economy | 18 December 2015

Near-term growth in the global economy and world trade will be slower than previously forecast. However, low commodity prices and the condition of the monetary economy will support global growth. Economic recovery is expected to gradually gather strength in the euro area, becoming more broadly based. Exchange rate developments to date serve to bolster the outlook for euro area growth and inflation. The Russian economy will contract over the next two years, given the low price of oil. Economic growth in China has slowed, but will continue to be relatively robust.



The outlook for the global economy has weakened during the past six months. The sudden slowdown in economic growth in China was reflected in a considerable decline on global stock markets and rising long-term interest rates, but the situation has stabilised in the autumn. Capital inflows turning into capital outflows from emerging economies has impaired their prospects. The global economy is also being affected by uncertainty about the timing and size of the US Federal Reserve's monetary policy tightening. The ECB's macroeconomic projections envisage average

global growth of 3.3% in 2015–2017.

Euro area monetary policy is exceptionally accommodative: policy interest rates are at the zero lower bound and a combination of forward guidance and asset purchases has brought long-term interest rates down. Credit operations have lowered the costs of bank funding and eased securities-based borrowing. Clear signs of an improvement in the economic situation are visible, for instance on the private credit markets.

Confidence in the economy has improved in the euro area, reinforcing the effects of the Eurosystem's measures on the real economy. Economic recovery is expected to gradually gather strength in the euro area and become more broadly based. Growth will be supported by rising real income in response to the fall in the oil price, low interest rates and depreciation of the euro. The underpinnings of growth will be domestic demand and, notably, private consumption. The growing number of asylum seekers will increase public expenditure and transfers to households. However, asylum seekers' integration into the labour force and the ranks of the employed will take time. In the ECB's macroeconomic projections, euro area growth is expected to pick up to 1.5% in the current year, to 1.7% in 2016 and 1.9% in 2017.

The US outlook is the strongest amongst the advanced economies, with the economy growing 2.6%, on average, in 2015–2017, according to the ECB projections. US growth will be sustained by strong private consumption and investment.

The near-term outlook for Japan is moderately positive. In China, economic growth is expected to climb to roughly 6.8% this year and to moderate to around 6.3% towards the end of the forecast period. Russian growth has now been contracting significantly for three consecutive years. In the current year, the country's economy will shrink by more than 4%, driven by the low price of oil. In response to an assumed slight rise in the price of oil, the contraction in Russian GDP will bottom out during the forecast period.

World trade growth will remain much slower in 2015 than assumed in June. The ECB's macroeconomic projections foresee average world trade growth of 3.1% in 2015–2017. Growth in Finland's export markets will remain slower than world trade growth, averaging 2.3% in 2015–2017, which is in part attributable to the weakness of economic prospects in Russia in particular.

World market prices of commodities, and energy in particular, fell considerably in the summer and early autumn. The decline in the price of oil will make a positive contribution to global output prospects. In the course of 2016, the prices of crude oil and other commodities are forecast to begin to edge up slowly, but will remain well below those witnessed in recent years.

Based on market expectations, the 3-month Euribor will remain exceptionally low in 2017, at -0.1%. The yield on Finnish 10-year government bonds will rise slowly, reaching an average of 1.3% in 2017.[1]

Table

Forecast assumptions					
	2013	2014	2015[f]	2016[f]	2017[f]
Finland's export markets[1], % change	2.4	2.7	0.1	2.8	3.9
Oil price, USD/barrel	108.8	98.9	53.8	52.2	57.5
Euro export prices of Finland's trading partners, % change	-2.9	-0.1	4.5	2.6	2.9
3-month Euribor, %	0.2	0.2	0.0	-0.2	-0.1
Yield on Finnish 10-year government bonds, %	1.9	1.4	0.7	1.0	1.3
Finland's nominal competitiveness indicator[2]	101.3	102.2	98.2	97.5	97.5
US dollar value of one euro	1.33	1.33	1.11	1.09	1.09
[1] Growth in Finland's export markets equals growth in imports by countries to which Finland exports, on average, weighted by their respective shares of Finnish exports.					
[2] Narrow plus euro area, 1999Q1 = 100					
f = forecast					

Sources: Eurosystem and Bank of Finland.

Notes

1. The interest rate assumptions in the forecast are derived from market expectations current on 16 November 2015. The interest and exchange rate assumptions are purely technical and do not anticipate the monetary policy decisions of the Governing Council of the European Central Bank or estimates of equilibrium exchange rates. ↑

Keywords

Finland, forecast