FORECAST

Forecast assumptions: Global economic environment favours growth

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The uncertainty surrounding the outlook for the global economy has decreased, and the global economy is forecast to grow by over 3% in 2017–2019, i.e. somewhat faster than in 2016. Global trade, in turn, is expected to pick up slightly over the forecast period, following lacklustre developments in 2016.

Political uncertainty in both the euro area and the United States has eased since the recent elections, which provides a firm foundation for continued economic expansion. However, economic growth has not improved as rapidly as the positive sentiment on the financial markets. The latter is largely related to the optimistic expectations about a swift implementation of the fiscal stimulus measures envisaged by the new US administration. It would seem, however, that these measures will be postponed. Overall, the risks to the global economy are not as negative as before.

Economic growth in the United States will pick up moderately. The fiscal stimulus measures envisaged by the new US administration, if carried out, can fuel growth at least temporarily. However, any assessment of the impact of these measures is still subject to considerable uncertainty. Moreover, in Europe, some degree of uncertainty still surrounds Brexit. The substantial debt levels accumulated by euro area general government and banks are still reining in the economic recovery. Nevertheless, the euro area economy has shown signs of improvement. In China, the debt-driven growth cycle of the economy continues, sustaining global economic growth.

The ECB's macroeconomic projections foresee the euro area economy growing smoothly at a pace of just under 2% in 2017–2019, driven by domestic demand. Growth will be supported by an accommodative monetary policy and relatively neutral fiscal policy. Employment is expected to improve slowly in the forecast period. Euro area inflation will edge up in 2017, spurred by temporary factors, i.e. rises in oil and fresh food prices. However, the oil price is projected to remain at its present level for an extended period. Labour costs will continue to grow moderately, and inflation is expected to remain slightly below the inflation target at the end of the forecast horizon.

Following the dip in 2016, economic growth in the United States is forecast to accelerate, with the recent improvements in confidence boosting growth in the short term. Hence, the US economy will continue to grow at a solid pace over the forecast period, lending support to favourable developments in the global economy. Inflation in the United States is expected to pick up notably, to over 2%, as output exceeds its potential level in the short term. The fiscal stimulus measures envisaged by the new US administration, if carried out, can fuel economic growth at least throughout the forecast period. The Federal Reserve is expected to generally continue the gradual normalisation of monetary policy, which is assessed to keep economic growth on an even keel.

Developments in the emerging economies will remain stable. Chinese economic growth will weaken as expected. Nevertheless, China continues to significantly sustain global economic growth. The moderation in Chinese growth stems from the gradual shift of the economic structure to rest increasingly on domestic consumption. However, the gradual weakening of Chinese growth means that global growth will not accelerate markedly over the forecast horizon.

According to market expectations, major central banks will keep their respective monetary policies accommodative for a prolonged period. Interest rates in the United States are expected to rise gradually. The euro area price outlook is stable but muted. In line with the decision taken by the Governing Council of the ECB in December 2016, the asset purchase programme will continue at least until the end of 2017, and since April 2017 the purchases have been made at a monthly pace of EUR 60 billion.

The interest rate assumptions in the forecast have been derived from financial market prices, and interest rates will rise very slowly over the forecast horizon. According to market expectations, the 3-month Euribor will remain exceptionally low, i.e. slightly negative almost throughout the forecast period. The yield on Finnish 10-year government bonds will also remain unusually low, rising gradually by about 1 percentage point in 2018–2019. The exchange rate of the euro relative to the US dollar is assumed to remain stable throughout the forecast period. Finland's nominal competitiveness indicator, i.e. the trade-weighted exchange rate, will also be almost unchanged over the forecast horizon. The gradual recovery in the global economy is assumed to push up euro-denominated import prices in countries to which Finland exports.

Table.

Forecast assumptions

	2015	2016	2017[f]	2018[f]	2019[f]
Finland's export markets[1], % change	–0.2	1.9	4.2	3.7	3.7
Oil price, USD/barrel	52.4	44	51.6	51.4	51.5
Euro export prices of Finland's trading partners, % change	0.3	–4.8	5.8	2.3	2.3
3-month Euribor, %	0	–0.3	–0.3	–0.2	0
Yield on Finnish 10-year government bonds, %	0.7	0.4	0.6	0.9	1.1
Finland's nominal competitiveness indicator[2]	102.8	105.6	103.9	104.3	104.3
US dollar value of one euro	1.11	1.11	1.08	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]Broad nominal effective exchange rate.

Sources: Eurosystem and Bank of Finland.

Key words

economic development, Finland, forecast