



Quarterly Review

Q3/2018

Valtiokonttori
Statskontoret
State Treasury

The State Treasury publishes a quarterly review, which includes information on recent developments in debt management and an outlook for the upcoming quarter of a year.

OUTLOOK FOR THE FINNISH ECONOMY AND PUBLIC FINANCES

Finnish GDP is expected to grow by 3.0 per cent this year, according to the forecast of the Ministry of Finance. The business outlook for output is positive, construction activity remains strong and expectations in the service sector have improved. Reflecting solid economic conditions, the unemployment rate is decreasing. At the same time, inflation is expected to be rather subdued at 1.1 per cent. Strong world trade growth will provide a boost to Finnish exports, and the export sector is also bolstered by the completion of sizeable investment projects in the forest industry. The current account will continue to run a small surplus.

In 2019, economic growth is expected to slow down to 1.7 per cent in Finland. In particular, construction investment is forecast to contract from the current high level. Exports and private consumption will show solid growth also next year.

Economic growth and the government's consolidation measures will continue to balance general government finances in the next couple of years. The general government budgetary position will return to surplus at the turn of the decade and the debt-to-GDP ratio will continue to fall. According to the Ministry of Finance, the ratio will fall slightly below 60 per cent this year. In comparison, the central government's debt ratio will be clearly lower: it is forecast to be 46 per cent in relation to GDP at the end of 2018. General government deficit is expected to be 0.7 per cent relative to GDP this year while central government deficit will stand at 1.5 per cent. Both deficits are expected to fall next year.*

Finland's relatively strong public finances and modern economy, among many other things, are reflected in Finland's high credit ratings. The central government of Finland has solicited credit ratings from three credit rating agencies: S&P Global Ratings, Moody's Investors Service and Fitch Ratings. For long-term debt, they are AA+, Aa1 and AA+, respectively. S&P and Moody's have assigned a stable outlook on the rating while Fitch recently changed the outlook from stable to positive, reflecting improved public debt dynamics and better medium-term potential growth prospects.

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* Ministry of Finance: Economic Survey, Autumn 2018.

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REVIEW OF TREASURY OPERATIONS BY THE STATE TREASURY, JULY TO SEPTEMBER 2018

In line with the strategy of issuing two new euro benchmark bonds annually, the Republic of Finland issued a new 10-year euro-denominated benchmark bond on 28 August. More than 120 investors participated in the transaction, with the order book growing to approximately EUR 13 billion. The issue size was EUR 3 billion. The bond carries a coupon of 0.5 per cent and was priced at 28 basis points below the euro mid-swap curve.

In terms of short-term funding operations, the Treasury bill window was reopened in September. The Republic of Finland sold EUR 200 million worth of euro-denominated Treasury bills maturing on 12 February 2019 and USD 3 175 million worth of dollar-denominated T-bills maturing on 20 February 2019. Total outstanding amounts of T-bills are EUR 515 million and USD 4 275 million.

NEAR-TERM OUTLOOK FOR THE PERIOD OF OCTOBER TO DECEMBER 2018 AND BEYOND

The first supplementary budget proposal for 2018 by the government, dated 31 May, lowered the central government net borrowing requirement by EUR 1.3 billion to EUR 1.8 billion. With redemptions, the gross funding requirement for the year is EUR 16.8 billion. This means that the foreseen long-term funding for the year is in the range of EUR 11-12 billion. At the end of September, over 70 per cent of the estimated long-term funding for the year has been completed.

To complete the long-term funding requirement for the year, two tap auctions of existing euro benchmark bond lines are likely to be arranged in the last quarter of the year. The timing, frequency and size of the auctions can be adjusted subject to the central government liquidity position and prevailing secondary market conditions of the Republic of Finland euro benchmark bonds. Details and further information of each auction is published one week prior to the auction date.

In addition to euro benchmark bonds, Finland can also issue long-term debt instruments in currencies other than the euro. The option to issue a USD-denominated benchmark-sized bond under the EMTN programme will be considered in the second half of the year, the timing being subject to conducive market conditions and the state's refinancing needs.

Regarding short-term funding, the timing of the Treasury bill issuance is subject to the liquidity position and refinancing needs of the central government. The tapping window is likely to reopen in the last quarter of the year. Treasury bills are issued in euros and US dollars with monthly maturity dates.

The next Quarterly Review will be published on 20 December 2018.