



# Quarterly Review

## Q4/2018

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

The economic growth in Finland will slow in the coming years from the current rather high rate. According to the recent forecast of the Ministry of Finance, Finnish GDP is expected to grow by 2.5% in 2018 and 1.5% in 2019. World trade is slackening and affecting the growth of Finnish exports and investments. Also housing investment will slow down from the present high level.

The overall balance of the economy remains rather positive. According to the forecast of the Ministry, the current account is expected to be balanced next year and show small surpluses thereafter. Inflation remains subdued: the change in the consumer price index next year is expected to be 1.4%. The unemployment rate will continue to decrease to 6.9% in 2019 and the employment rate will increase to over 72% in 2019.

Economic growth and the measures to curb public expenditure growth are strengthening general government finances. Finland's general government finances will be almost balanced in the next few years and general government debt in relation to GDP will continue to decline. The challenge of balancing public finances is compounded by population ageing, which is driving up pension expenditure as well as health care and long-term care costs.

The general government debt-to-GDP ratio started to decline already a couple of years ago. According to the Ministry of Finance, by 2019 the debt ratio will shrink to 58.4%. In comparison, the central government debt will be clearly smaller; it is forecast to be 44.5% in relation to GDP next year. \*

Finland's relatively strong public finances and modern economy, among many other things, are reflected in Finland's high credit ratings. Overall 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 changed the outlook from stable to positive earlier this year, reflecting improved public debt dynamics and better medium-term potential growth prospects.

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### REVIEW OF TREASURY OPERATIONS BY THE STATE TREASURY, OCTOBER TO DECEMBER 2018

The Republic of Finland conducted two bond auctions in the final quarter of the year 2018. The first auction was arranged on Tuesday 16 October, and it increased the outstanding amount of the 10-year benchmark bond maturing on 15 September 2028 by EUR 1 000 million. The total bid amount was EUR 1 647 million, and the total outstanding amount of the bond after the auction is EUR 4 000 million.

The second auction of the quarter, and fourth of the year, was a twin-line tap auction of two government bonds on Tuesday 20 November. One of the auctioned bonds is maturing on 15 September 2023, and the other on 15 April 2047. The total amount of bids for the benchmark bond maturing in 2023 was EUR 920 million, and the accepted amount was EUR 475 million. This increased the outstanding amount of the bond to EUR 5 475 million after the auction. For the serial bond maturing in 2047, EUR 587 million of bids were received, and the accepted amount was EUR 500 million. The outstanding volume for the bond after the auction is EUR 2 500 million.

In terms of short-term funding operations, the Republic of Finland issued Treasury bills in November. The issued Treasury bills are denominated in US dollars and the maturity date is 20 March 2019. The outstanding volume of the current line in US dollars is 1400 million. Additionally, there is USD 3175 million of Treasury bills maturing on 20 February 2019. The majority of currently outstanding Treasury bills are dollar-denominated. However, the outstanding amount of euro-denominated Treasury bills is currently 403 million.

The budgeted gross borrowing in 2018 was EUR 16.3 billion, which included EUR 1.3 billion of net borrowing. However, due to reduced funding needs, the gross borrowing of EUR 14.1 billion was sufficient to cover expenditure on a cash-flow basis and safeguard sufficient liquidity. This has been the standard approach to determining required borrowing since 2011, as budgeted net expenditure may and typically has differed from realised net expenditure for various reasons, such as adjustments in income, expenditure and cash buffers and transfers of allowances. These differences are then accounted for in the government financial statements. Due to redemptions of EUR 15.0 billion, the net borrowing amounted to EUR -0.9 billion. As a result, the central government debt stock is estimated at EUR 105.0 billion at year-end, i.e. EUR 0.9 billion lower than at year-end 2017.

### NEAR-TERM OUTLOOK FOR THE PERIOD OF JANUARY TO MARCH 2019 AND BEYOND

The government's budget proposal for 2019 includes a net borrowing requirement of EUR 1.7 billion. The redemptions next year amount to EUR 13.4 billion. The gross borrowing requirement in 2019 is EUR 15.0 billion.

The funding strategy of the Republic of Finland remains in line with previous years. Approximately 70 per cent of the total required will be funded in long-term maturities, and the rest will be covered with short-term Treasury bills.

The funding operations are expected to start in the first quarter of the year. The operations are expected to be in line with the previously communicated strategy of issuing new euro benchmark bonds annually in the 10- and 5-year maturity sectors.

In addition to the new issues, quarterly tap auctions of existing euro benchmark bonds are expected for next year. The timing, frequency and size of the auctions can be adjusted subject to the central government's liquidity position and the prevailing secondary market conditions of the Republic of Finland's euro benchmark bonds. Details and further information of each auction are published one week prior to the auction date. As in previous years, issues under the EMTN programme are likely to complement the EUR-benchmark funding during the year market conditions permitting.

### TREASURY BILL AUCTIONS

Starting in the first quarter of 2019, the State Treasury is planning to start issuing euro-denominated Treasury bills in auction format to complement the current issuance method. The auction calendar will be published quarterly. The auctions will be arranged in the Bloomberg Auction System, and are open to the RFTB dealer group. Further

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information on Treasury bill auctions and the quarterly calendar will be published on [www.treasuryfinland.fi](http://www.treasuryfinland.fi) in early 2019.

In addition to Treasury bill auctions, a sporadic issuance window is likely to open during the first quarter of the year. The timing of the Treasury bill issuance is subject to the liquidity position and refinancing needs of the central government. Treasury bills are issued in euros and US dollars with monthly maturity dates.

The next Quarterly Review will be published on 29 March 2019.