

A woman with blonde hair, wearing a dark blue blazer over a striped shirt, is holding a tablet computer. She is looking upwards and to the right with a thoughtful expression. The background is a blurred office setting.

The prosperity of Finns is slowed down by the low amount of investments

In the future, the role of investments in wealth creation will increase

The growth potential of the Finnish economy is weak. Ministry of Finance also came to this conclusion in its publication.

Over the next 10 years, the average growth potential of Finland's gross domestic product (GDP), i.e. the economy, is estimated to be approximately 1.0 per cent. The weak potential is primarily a result of the shrinking amount of working-age population.

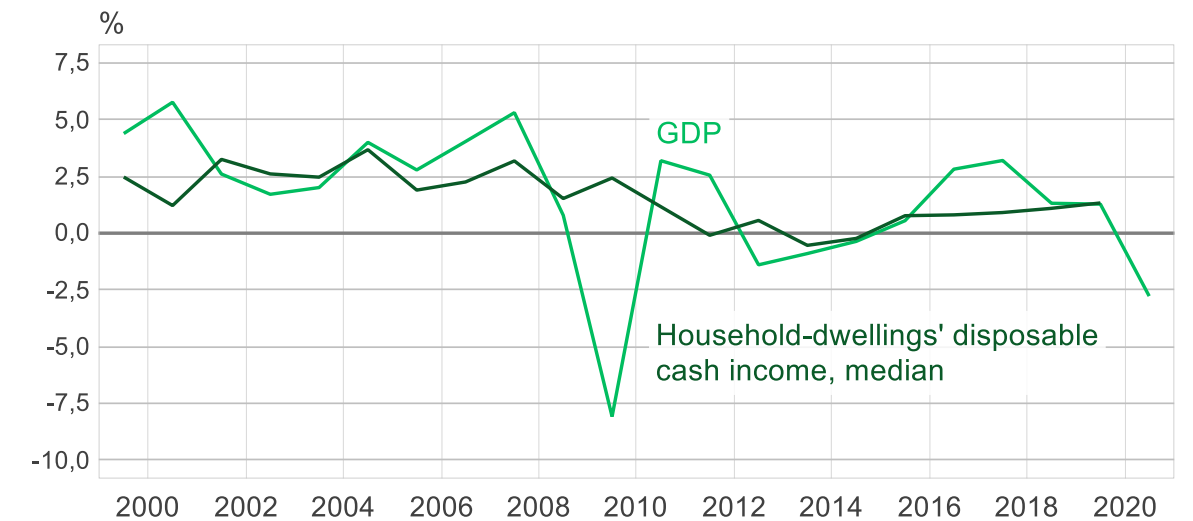
Growth in household-dwellings' disposable cash income which measures household income, has been slow in Finland over the past ten years. At the same

time, Finland's GDP growth has been equally slow.

Slow economic growth, an aging population and a lack of investments carry a risk of a weakening development of income. New jobs may not be created and, at the same time, pressures on public spending threaten to raise tax rates. As a result, households are less able to increase their wealth through work.

Disposable income and GDP

Annual growth, constant prices



Source: Aktia, Macrobond and Statistics Finland.

In an environment of low income growth, the importance of return on assets invested by households is emphasized as a means of accumulating wealth. The investment market allows households to access the benefits of higher growth. Both domestic and international companies, rely on global markets, where economic growth expectations are also clearly better. Thus, with the right

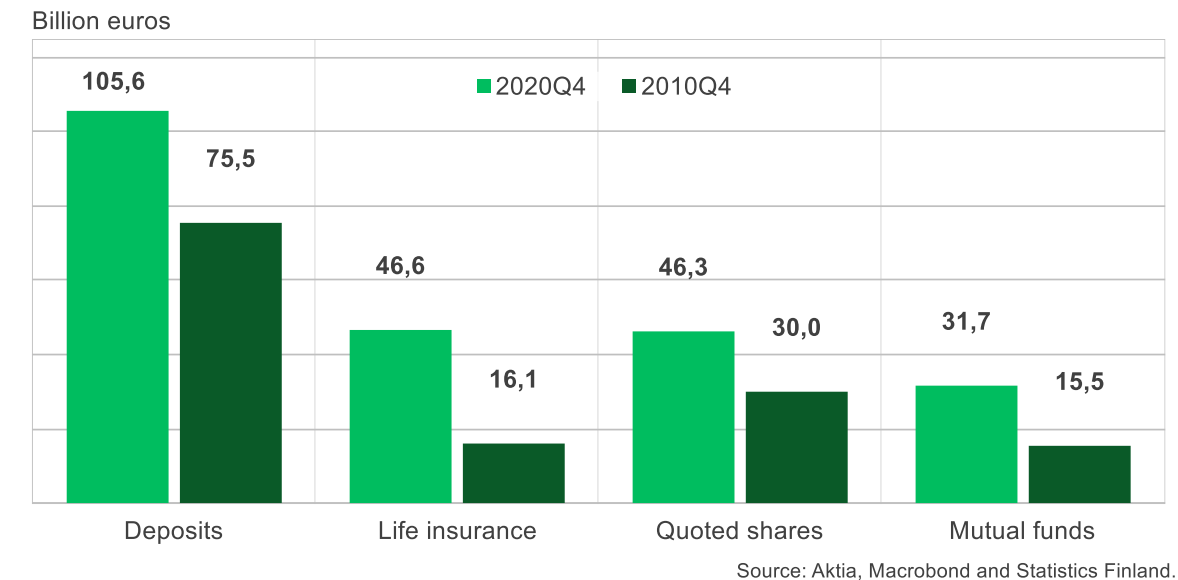
The investment market allows households to access the benefits of higher growth.

investment strategy, sources for wealth can be diversified outside the domestic sphere and access benefits of faster growth present in the international economy.

Value changes of investments increased the wealth of households by 40 billion in 10 years

At the end of 2020, the value of household investment assets was EUR 230 billion.

Households' investment assets



The amount does not include savings through the pension system. In Finland unlike most countries, pension savings are recorded in official statistics under the public sector. This practice makes it difficult to compare the investment assets of households internationally.

We count deposits, quoted shares, mutual funds, and life insurance savings as investment assets. Households also have investments in both owned and rented properties, but these have been excluded from this comparison. Deposits represent by far the largest sum of these investment assets (deposits, shares, funds, and life insurance savings). Both life insu-

rance savings and listed shares amounted to about 46 billion. The value of savings in mutual was EUR 32 billion at the end of 2020. In ten years, investment assets have grown by about 93 billion euros.

The growth in deposits over the last ten years has almost exclusively come from new deposits made, as there are no significant value changes

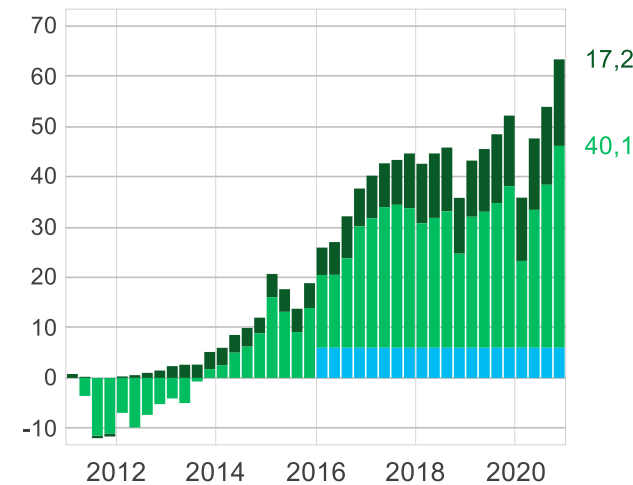
Change in households' investment assets, cumulative

Shares, mutual funds and life insurance

■ Transactions ■ Value change

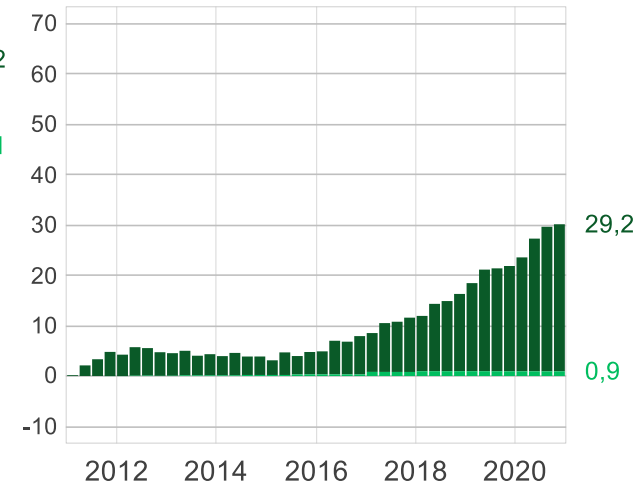
■ Life insurance reclassification (1)

Billion euros



Deposits

Billion euros



Source: Aktia, Macrobond and Statistics Finland.
1) Not included in investment assets' value change

involved. At the same time, new investments in shares, mutual funds and life insurance amounted to EUR 17 billion. Unlike deposits, these investments also accumulate value changes, i.e. generate a return. This change in value has increased households' investment assets by almost EUR 40 billion over the past 10 years. In other words, over the

past ten years, value changes of investments has thus increased household wealth more than new deposits made.

It is also important to remember that statistics do not take into consideration return on deposits and investments. For example, dividends are paid on shares and interest on deposits. In addition to the value change, the accumulated return paid has

”

Change in value has increased households' investment assets by a total of EUR 40 billion over the past 10 years.

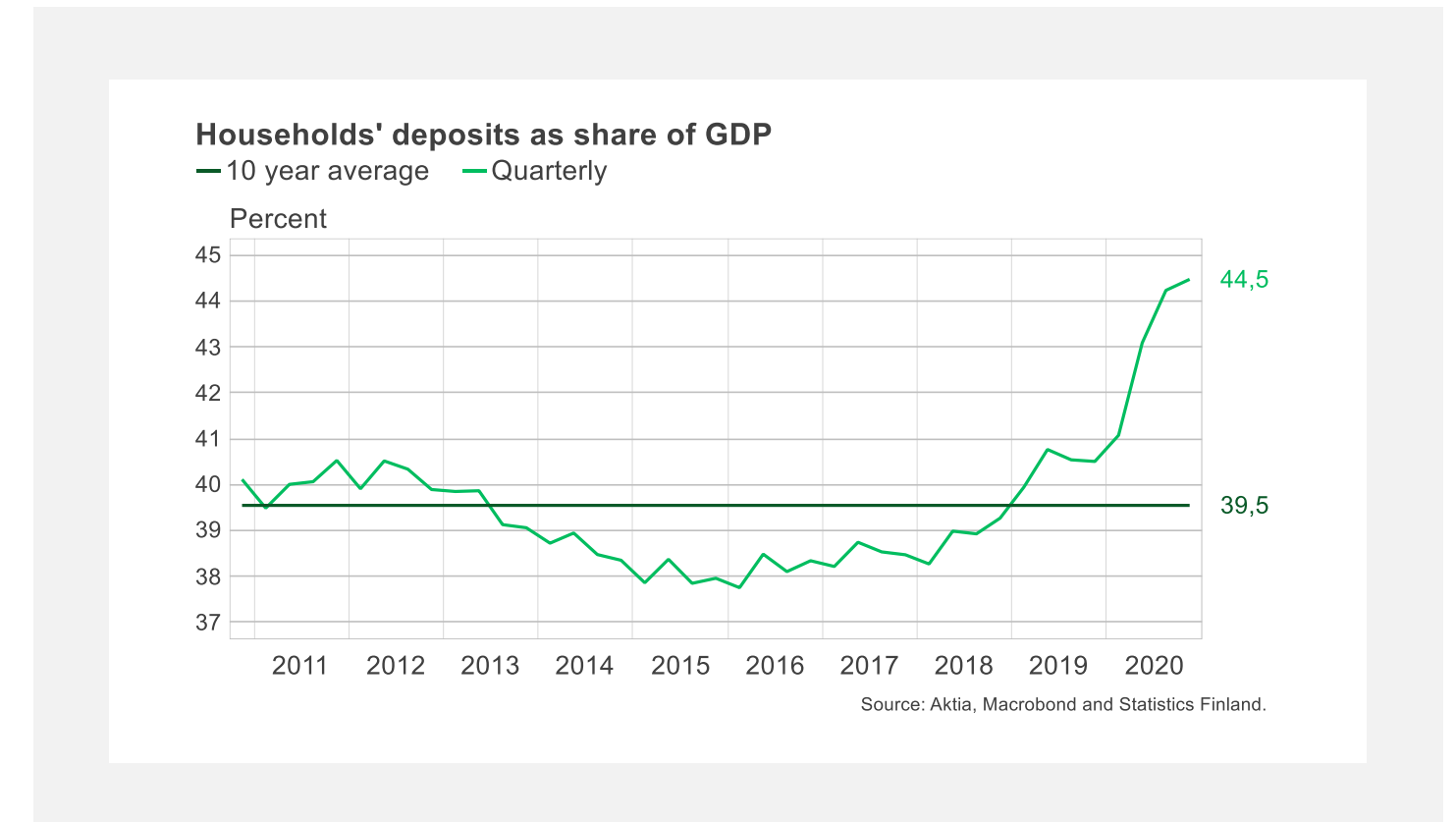
a significant effect on the total long-term return on investments. For example, the average dividend yield on the Helsinki Stock Exchange last year was 2.5 percent. In contrast, deposits have not benefited from a similar return, as interest rates are near to non-existent

Households have an estimated € 12 billion in additional deposits

The general argument is that households hold in their accounts a considerable amount of excessive deposits.

There is no clear definition for an excessive deposit. The growth of the deposit stock is influenced by several factors, such as the situation in the labour market, the growth of household debt and the willingness to invest. However, in terms of wealth, it is essential that any extra deposits are invested with higher return expectations, such as in shares or mutual funds.

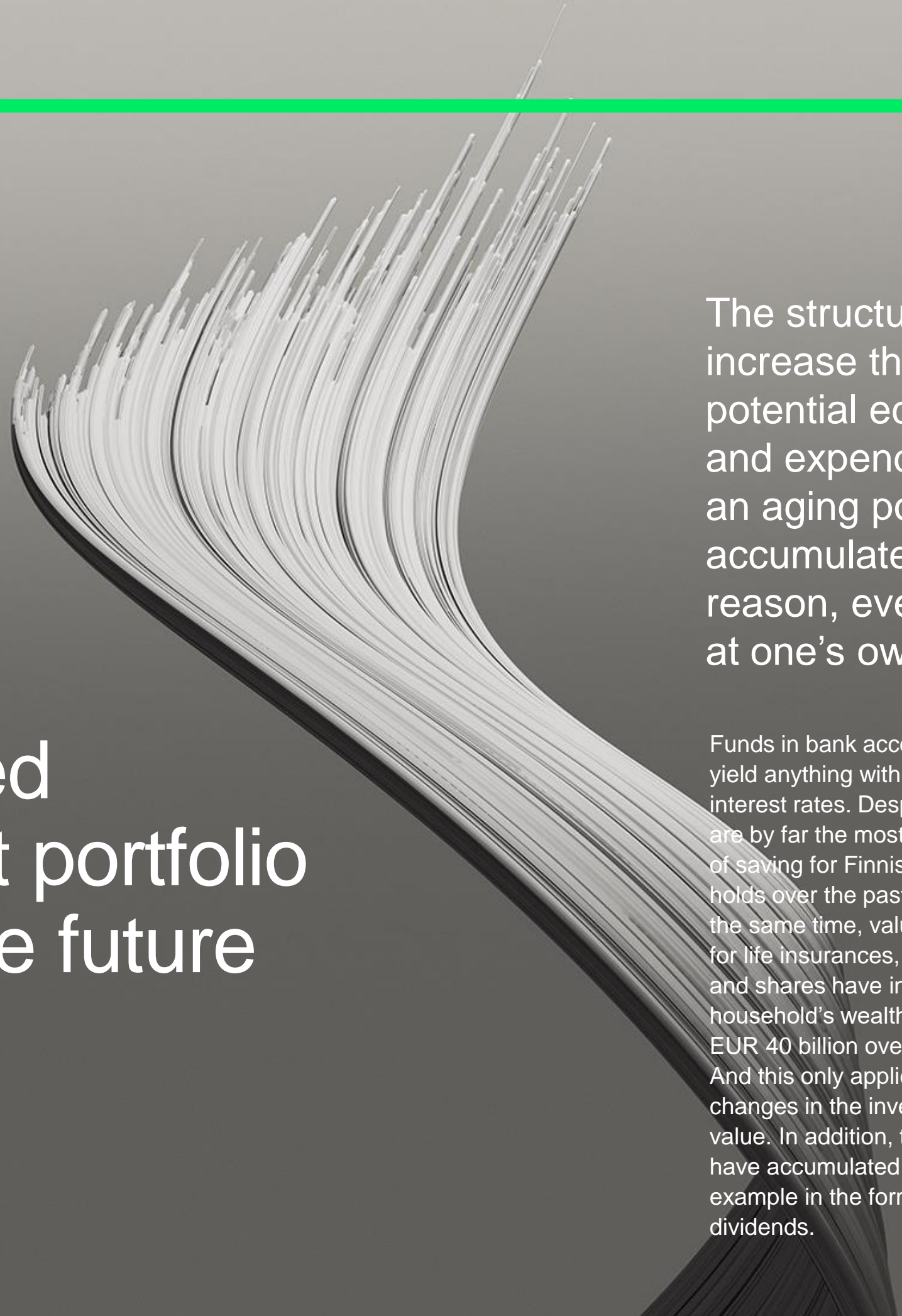
By comparing the ratio of household deposits to GDP, we can assess the development of the deposit stock. The ratio of the deposit stock to GDP has averaged 39.5 per cent over the last ten years. At the end of last year, the ratio was 44.5 percent. If the difference between the current situation and the 10-year average is considered to indicate extra deposits, these deposits would be worth around EUR 12 billion.



The household deposit stock turned to clear growth in 2016. The turnaround coincides with the Finnish labour market strengthening. At that time, the employment rate turned to growth. The higher employment rate increased the wage bill and thus the deposit stock. The growth of the deposit stock accelerated in 2019, although economic growth became significantly slower. Uncertainty of the Covid-19 year boosted

further this trend, with the result that the ratio of household deposits to GDP was at its peak at the end of last year.

EUR 12 billion offers households a great opportunity to diversify their own investments into higher-yielding targets and thereby increase their own opportunities for accumulation wealth.



A diversified investment portfolio secures the future

The structural challenges of the Finnish economy increase the risks of weak income growth. Slow potential economic growth, an investment deficit, and expenditure pressures on public finances from an aging population threaten to make it difficult to accumulate wealth solely by working. For this reason, everyone would benefit from a critical look at one's own investment assets would be welcome.

Funds in bank accounts do not yield anything with the current interest rates. Despite this, they are by far the most popular form of saving for Finnish households over the past 10 years. At the same time, value changes for life insurances, mutual funds and shares have increased household's wealth by almost EUR 40 billion over 10 years. And this only applies to changes in the investment value. In addition, these also have accumulated return, for example in the form of dividends.

We estimate that households have are EUR 12 billion in excessive deposits in their bank accounts. If this amount was invested in the Helsinki Stock Exchange, it would have generated a dividend income of approximately EUR 300 million.

If the opportunities to accumulate wealth decreases through working, the role of investing as a wealth accumulator will increase.



Thanks!

Lasse Corin

CHIEF ECONOMIST, AKTIA BANK OYJ

Lasse Corin has functioned as Aktia's Chief Economist since spring 2020 and in this role, he monitors and analyses the development of macroeconomics and the investment market. Lasse Corin has an extensive experience of expert positions in the banking sector and his goal is to focus especially on domestic economy and to discuss how changes in the world economy affect Finland and Finnish households.

lasse.corin@aktia.fi

Twitter [@lassecorin](https://twitter.com/lassecorin)



Think
further
Aktia