

# Finland: can it bounce back from recession as structural challenges mount?

The Finnish economy is set to undergo a milder economic winter than previously expected, but structural challenges will work against a swift recovery in 2023



Sanna Marin has been prime minister of Finland since 2019

## No vigorous bounce back in the making

The Finnish economy shrank in the third quarter of 2022 and is expected to currently be in recession. This is mainly because of the energy crisis and subsequent purchasing power squeeze. Thanks to the warmer winter weather Europe is experiencing, the impact of the energy crisis is smaller than initially expected, which means that a recession in Finland is likely to be rather mild. That means the big question for 2023 is how fast Finland can recover.

The Finnish economy is set to remain under strain over the course of 2023. A fast recovery seems unlikely as the current drivers of economic weakness are set to persist over the coming quarters. While inflation is expected to moderate during 2023, real wage growth is set to remain negative for quite some time to come as energy prices are expected to remain elevated. That will put pressure on consumption growth as purchasing power will remain squeezed.

## Exporters continue to face a challenging environment

Exports are also set to remain under pressure in Finland as the main export markets are likely to experience mixed economic activity this year. Concerns about Germany and China remain significant, where weak recovery in Germany is likely to dampen external demand for Finnish products, while China remains a big uncertainty in terms of how it will recover from the current wave of Covid-19. Russia – traditionally one of the largest trade partners of Finland – is unlikely to return to that position given the sanctions in place.

In the meantime, it is not just the energy crisis and Russia that provide persistent headwinds for 2023. The housing market is also cooling off on the back of the aggressive ECB rate hikes as mortgage rates rise quickly. Home sales have been on the decline since the beginning of 2022 as rates started to increase. Prices have also started to correct with December showing a 3.4% year-on-year drop. On the back of this, building activity has started to moderate. As rates are not expected to show a correction again, we expect the housing market to continue to have a dampening effect on economic activity over the course of 2023.

## A robust labour market and government support dampen inflation impact

So no miracles are to be expected for 2023; a mild recession followed by a sluggish recovery. Still, there are positives to mention despite this environment. Like much of Europe, Finland has a very strong and resilient labour market at the moment, which is not expected to show a large surge in unemployment despite economic challenges. That means that labour shortages are likely to remain elevated in 2023 and beyond, which will keep wage pressures more significant than before the pandemic. While this is a concern from a competitiveness perspective, it also dampens the negative income impact of this winter's downturn.

From a government finance perspective, Finland has challenges ahead. Debt-to-GDP has fallen to 71.6% after peaking at 75.6% in early 2021 after government support during the pandemic caused spending to soar. The high inflation rate has been beneficial for government finances, but forecasts for 2023 and 2024 see government debt increasing again. Compensation measures for the energy crisis and increased defence spending are set to contribute to higher debt levels for Finland this year.

## Finland in a nutshell

	2021	2022F	2023F	2024F
GDP	3.0	2.0	0.0	1.1
Private consumption	3.7	2.1	0.2	1.0
Investment	1.5	3.2	0.4	1.3
Government consumption	2.9	1.2	0.1	0.4
Net trade contribution	-0.2	-0.4	-0.3	0.1
Headline CPI	2.1	7.2	5.1	2.2
Unemployment rate (%)	7.0	6.8	7.1	7.0
Budget balance as % of GDP	-2.7	-1.5	-2.5	-1.9
Government debt as % of GDP	72.4	71.2	72.5	73.5

Source: Macrobond, all forecasts ING estimates

## Author

### Bert Colijn

Chief Economist, Netherlands

[bert.colijn@ing.com](mailto:bert.colijn@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.