

Finland: Milder than the rest

The Finnish economy shrank by -0.9% in 1Q, but will be harder hit in the second quarter. Still, the impact will likely be smaller than in most of the eurozone



Finnish Prime Minister Sanna Marin speaks during a press conference on the ongoing COVID-19 pandemic in Helsinki, Finland

Source: Shutterstock

The Finnish economy was among the least hit from the Covid-19 pandemic in comparison to other eurozone countries in the first quarter, but among the first to slide into recession.

Given the economy contracted in the fourth quarter of 2019, the drop of -0.9% in 1Q confirmed the recession. The decline for the first quarter was modest and the lockdown had a much milder impact on the economy than in most eurozone economies. Household consumption and investment declined by just -0.6% and -0.5% respectively, while the largest hit actually came from exports. Gross exports dropped by -7.4%, which indicates that the global recession will significantly hurt countries with milder lockdowns.

Our lockdown index based on Google mobility data suggests, the lockdown in Finland has been mild, mainly because the virus didn't spread as rapidly as it did in other countries. The fatality rate in Finland was much lower too than the average in the eurozone and also lower than in Denmark and Sweden. The impact of the lockdown was mild too and has since then been more or less on track with Germany towards normalcy. At the start of June, our index-tracking daily visits to

workplaces, retail and grocery stores ranked between 0 and 20%, lower than it was in January and February.

The Finnish economy was among the least hit in the eurozone in the first quarter, but among the first to slide into recession

To counter the negative impact of the crisis on the economy, the Finnish government has announced a spending and tax package amounting to about 3% of GDP, which is complemented by a tax deferral scheme that is also worth about 2% of GDP. This includes grants to SMEs and self-employed for 650 million euros and expanded parental allowance, social assistance and unemployment insurance for 3 billion euros. The latest announcements for additional spending happened in early June and include 1.2 billion euros in support for households and businesses and 1 billion euro in public spending, clearly focusing on kickstarting the economy in the recovery phase.

The reopening of the economy has been relatively quick as domestic movement restrictions were already lifted on 14 April. The reopening of schools and restaurants has happened now and events with over 500 people will be allowed again at the end of July, which is earlier than most European countries. With that, the overall impact of the lockdown on the Finnish economy in the second quarter is expected to be relatively mild as well.

According to Statistics Finland, the decline in activity in April was 2.1% compared to March, which was, in fact, smaller than the drop in March at 5%. An uptick can be expected for May and June as restrictive measures on the economy gradually get lifted, which would mean that the overall lockdown impact would remain relatively mild. One has to be careful with the extrapolation of the monthly output index on GDP though as the March decline would have caused a much larger 1Q decline than just 0.9%.

Still, compared to many countries with stricter lockdowns, Finland is expected to recover more quickly. In a note comparing vulnerability to a weak recovery from this specific crisis, we find that Finland has a very low chance of recovering poorly compared to the eurozone average. The mild lockdown, strong automatic stabilizers, an economic structure that has smaller sectors that are impacted more and a lower number of employees that work for small businesses and relatively strong support in terms of emergency spending will be just a few factors that position Finland well for a milder contraction and quicker recovery to pre-crisis levels.

While the crisis will definitely be deep, it is likely to be less deep than in most of Europe.

The Finnish economy in a nutshell

	2019	2020F	2021F	2022F
GDP (%)	1	-4.8	4	1.9
Private consumption (%)	1	-5.3	4.8	2.3
Investment (%)	-0.8	-7.6	7.1	2.5
Government consumption (%)	0.9	6	-2.4	1
Net trade contribution (%)	1.9	-0.7	-0.2	0
Headline CPI (%)	1.1	0.4	1.5	1.9

Source: Macrobond, ING Research

Author

Bert Colijn

Chief Economist, Netherlands

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 www.ing.com.