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

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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.

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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 are 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

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