# Finland's recovery on par with Nordic neighbours

The Finnish economy has recovered quickly from the crisis, but growth is muted as rebound effects fade and shortages bite

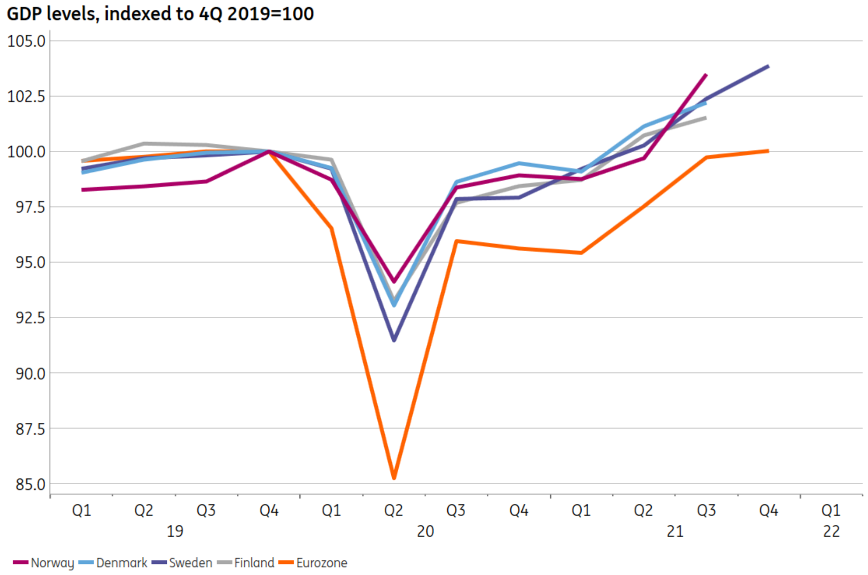
Like most of Europe, Finland has managed to limit the scarring impact from the pandemic

## A quick rebound with limited further potential

Finland has maintained its position as one of the eurozone countries that limited economic losses from Covid-19 most successfully. The economy has already surpassed pre-pandemic levels of economic activity and is set for another year of decent growth in 2022. With economic activity already closer to trend than other countries, don't expect Finnish gross domestic product (GDP) growth to still show sizable rebound effects. We expect GDP to come in at just 2.5% growth for the year.

Like most of Europe, Finland has managed to limit the scarring impact from the pandemic and has done so quite efficiently when looking at government spending. The labour market saw a hit to unemployment in May 2020, but has since seen the rate drop steadily to 7%, marginally above the 6.7% seen prior to the pandemic. The labour market is showing significant signs of tightness as more businesses than ever in both the service sector and in industry now report labour as a factor hindering their business. This is set to translate to higher wage growth, for which the first signs are there. Wage growth at above 5% seems significantly influenced by compositional effects in the labour force, meaning that these data have to be taken with a pinch of salt.

## Finland has recovered well ahead of other eurozone economies, but in line with rest of the Nordics




Source: Macrobond, ING estimates

## Effective stimulus set to fade

Nevertheless, private consumption is recovering steadily and is just 1% below pre-pandemic levels. Exports and imports have yet to recover as well, while investments saw a tick down in the third quarter but had been above par already before. The main component of GDP that has led Finland out of the recovery has of course been government spending, which is about 4% above pre-crisis levels. Yet, Finland did not have a particularly expensive crisis either from a government spending perspective. The additional stimulus over the past years has been on the low-end compared to other advanced markets, though packages were slightly bigger than in Sweden and Denmark.

Government debt has risen by about 10 percentage points since the start of the pandemic and is set to stabilise around 70% of GDP in the aftermath. Finland is expected to reduce its government deficit to below 3% this year and see a further decline in 2023, but the budget does remain expansionary. While Finland is above the 60% government debt threshold imposed by the stability and growth pact, this hardly seems to be a problem in financial markets as current 10-year yields are at 50 basis points.

## Finland in a nutshell

| | 2020 | 2021F | 2022F | 2023F |
|---|---|---|---|---|
| GDP (%) | -2.8 | 3.5 | 2.5 | 1.6 |
| Private consumption (%) | -4.7 | 3.4 | 3.2 | 1.4 |
| Investment (%) | -0.8 | 2.8 | 4.1 | 3.2 |
| Government consumption (%) | 0.2 | 3.4 | 0.1 | -0.2 |
| Net trade contribution (%) | 0.1 | 0.2 | -0.4 | 0 |
| Headline CPI (%) | 0.4 | 2.1 | 2.5 | 1.8 |

Source: Macrobond, ING estimates

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