

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



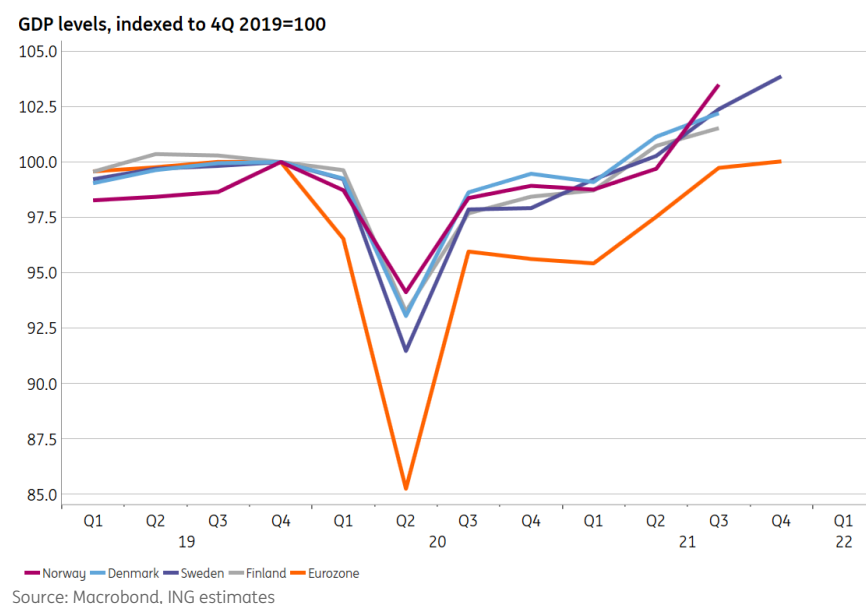
Like most of Europe, Finland has managed to limit the scarring impact from the pandemic

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



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

Author

Bert Colijn

Senior Economist, Eurozone

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>.