

Finland in 2021: Strong Covid-19 report card provides no guarantees

The Finnish economy has been exemplary in its performance this year. A contraction could not be avoided – obviously – but the economy is experiencing a much milder coronavirus crisis than most of the eurozone



A relatively mild economic decline in 2020

The Finnish economy has undergone one of the mildest of all eurozone contractions in the first half of 2020. The restrictive measures imposed were relatively lenient, which was in line with a relatively small number of infections per 100 thousand people in the first wave. The declines of -1.4 and -4.4% in the first two quarters of the year do represent a historically large decline however and therefore adequate fiscal stimulus has been necessary to allow the economy to bounce back in the third quarter. Additional fiscal spending has been below average for the eurozone at 2.6% of GDP, but also taking 1.8% accelerated spending into account, it's a decent package given the relative decline in output and will bring debt-to-GDP ratios well above the 60% threshold again at 71.8% in 2021.

Also in the second wave, Finland managed to outperform the eurozone. After a rise in new cases in September, new regional restrictive measures have been introduced, which mainly impact

hospitality and events, while nationally working from home is strongly advised. These are among the lighter restrictions seen in the eurozone, which shows up in Google mobility data indicating that Finland has seen just a modest drop from the peak in activity in early October. All that means that the domestic economy has limited downside risk in the fourth quarter, but exports are likely to be battered as the rest of the eurozone sees activity impaired much more significantly at this point.

Uncertainty around the recovery remains enormous

While Finland is clearly ahead of other countries in terms of its economic performance over the course of the Covid-19 crisis, this provides no guarantee to the outlook for 2021. As the country is closer to its pre-coronavirus level of economic activity than most countries, concerns about second-round effects on the economy are lower. Still, unemployment has been trending higher and once supportive measures from banks and governments end, bankruptcies are also expected to trend somewhat higher again. That would curb the potential of the domestic recovery, although a quick rollout of an effective vaccine is a clear positive for the outlook.

The latter is obviously the big game changer for 2021 as it would also lift global demand significantly, helping the crucial Finnish export sector to recover. If rollouts take longer than expected, the export sector could suffer disproportionately and cause the Finnish economy to take longer to get back to pre-Covid levels.

The Finnish economy in a nutshell

	2019	2020F	2021F	2022F
GDP (%)	1.1	-4.1	2.3	2.3
Private consumption (%)	0.8	-4.2	3.2	3.6
Investment (%)	-1.0	-5.0	3.8	4.3
Government consumption (%)	1.1	4.8	0.1	-0.7
Net trade contribution (%)	1.7	-1.6	-0.2	0.0
Headline CPI (%)	1.1	0.4	1.3	1.5

Source: Eurostat and ING Research forecasts

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 <http://www.ing.com>.