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

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