Finland

Entering recession

Economic activity will plummet under the impact of the Covid-19 pandemic, but not only via the export channel. The recession could become more virulent if household consumption and production channels were also to freeze up. In addition to the ECB's monetary policy support, the government will also try to use fiscal policy to buffer the shock and limit the decline in employment.

Through 2019, the Finnish economy was still looking good, even though growth was slowing. A major boat shipment bolstered exports, while GDP growth, at 1.5%, exceeded the European average. In 2020, the global economy has come to a standstill due to the Covid-19 pandemic, which will drive Finland into recession, the size of which is yet to be seen.

As activity declines, a fiscal stimulus is launched

A major supplier of capital goods and refined oil (one of its top export items), Finland has been particularly hard hit by the shutdown of global supply chains. The decline in exports, notably to its eurozone trading partners (47% of total exports), and the downturn in corporate investment spending will be the main drivers of the recession. Last year's decline in the number of building permits (down 17.7% y/y in Q4 2019) was already a warning signal for residential investment, which is also expected to decline.

Finnish households will be holding back on purchases. Implementation of the Competitiveness Pact, which curbed wage growth, had already begun to erode consumer confidence, and the index fell sharply in March when it became clear that the country would not be spared the Covid-19 epidemic. Declining household consumption could accentuate the drop-off in GDP in 2020.

In evaluating the economic impact of the Coronavirus pandemic, the Finnish central bank has drawn up two scenarios. If the economy is hit solely by plummeting exports, then stimulus measures should suffice to limit the recession to an average annual decline of 1.5% in 2020 GDP. Yet if household consumption also slumps, then the decline in GDP would be closer to 4%.

Fiscal policy is still neutral for the moment, but the government will take a more expansionist stance to counter the crisis. In addition to ECB measures to support liquidity and finance the economy, the coalition government (with the Social Democrats in the majority) adopted a private sector rescue package totalling EUR 15 bn (6.4% of GDP). It calls for direct transfers to small businesses and social security organisations as well as measures to reduce and/or defer corporate charges, such as the EUR 910 m reduction in employer pension contributions in 2020.

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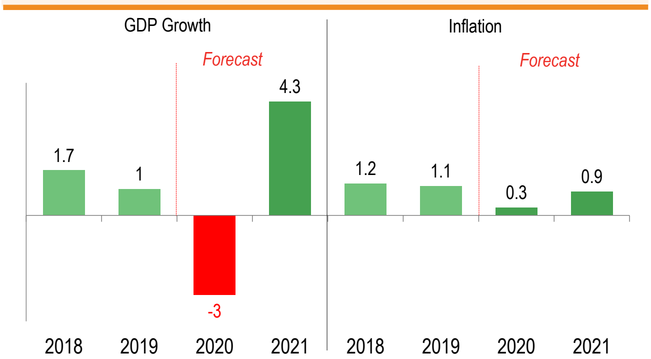
1- GDP Growth and inflation
(Y/Y, %)



Source: National Statistics, BNP Paribas