FINLAND

GOOD STUDENT

Confronted like the rest of Europe by an upsurge in Covid-19 cases, Finland has reintroduced protective health measures that could temporarily dampen its recovery. Estimated at 3.4% in 2021, GDP growth could still reach 2.8% in 2022 according to the European Commission. After taking a reasonable approach to "whatever the cost", the government is now seeking to consolidate public finances.

Relatively sheltered so far, Finland reported a record number of new Sars-Cov-2 cases in early December 2021. Thanks to a high vaccination rate (77% of the total population), it was able to limit the upturn in severe cases and deaths, which were not as high as in most of the other EU member countries. At the same time, the government reintroduced protective health measures, such as the closing of bars and restaurants as of 6 p.m. in certain regions.

After the lockdown restrictions and forced savings of spring 2020, household consumption rebounded rapidly and became the main growth engine behind Finland's recovery. In 2021, it will be the biggest contributor to GDP growth, which the European Commission is estimating at 3.4% (see chart).

SUPPLY CHAIN DISRUPTIONS AND PRICING PRESSURES

Despite encouraging statistics for industrial orders and the high level of confidence expressed by business leaders, investment has been sluggish and even declined in Q3 2021. This is mainly due to the global shortage of inputs, notably components, resulting in supply chain disruptions in numerous business lines, and in the automotive industry in particular.

Squeezed between strong demand and supply-side constraints, the situation in Finland, like elsewhere, resulted in higher prices. Inflation surged to 3.4% year-on-year in November 2021, the highest level since 2012, driven up by a higher energy bill, but other factors are also to blame. Core inflation, which excludes energy and food prices, has accelerated since spring 2021, notably in services, where the shortage of skilled labour has driven up wages and prices. According to the Chamber of Commerce surveys, the IT and communications, technology and retailing sectors were very sensitive to this phenomenon.

Thanks to major automatic stabilisers that were already in place, "whatever the cost" did not have to be taken as far in Finland as in most of the other countries. According to IMF estimates, direct fiscal transfers engaged to combat the Covid-19 pandemic (excluding state-backed loans) amounted to 4.8 points of GDP in 2020-21, which is high in absolute terms but relatively low compared to the European average (which is closer to 10 points of GDP). As a result, the public accounts did not deteriorate very much (debt was limited to 71% of GDP in 2021, while the deficit was less than 4% of GDP). Since most of the emergency measures have expired, the fiscal impulse to the economy has become negative (-0.5 points in 2022 according to the European Commission). Growth could slow this winter, and is estimated at 2.8% in 2022.

Jean-Luc Proutat
Jean-luc.proutat@bnpparibas.com

with Romane Surel

GROWTH AND INFLATION

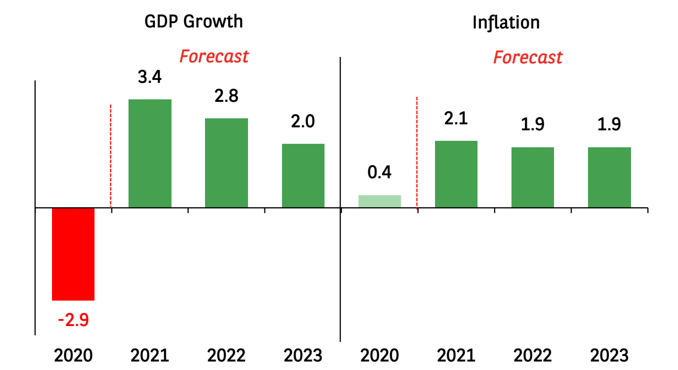

CHART 1 SOURCE: EUROPEAN COMMISSSION, BNP PARIBAS

CONTRIBUTIONS TO GROWTH

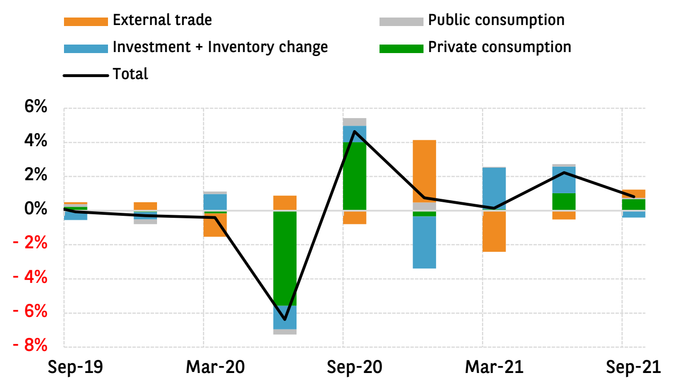

CHART 2 SOURCE: STATISTICS FINLAND