

FINLAND

HOUSING POLICY: A GREAT SUCCESS STORY

Finland, like other Nordic countries, has so far shown itself to be particularly resilient to the current financial shocks, but the clouds are gathering over the “Land of the Midnight Sun”. After five consecutive quarters of growth, buoyed by robust domestic demand, activity is expected to slow significantly in the second half of 2022 due to the persistent geopolitical tensions, tightening of financial conditions and price rises that are impacting on corporate margins and on the purchasing power of households. In an increasingly less favourable economic environment Finland can, nonetheless, be pleased with its structural efforts and in particular with the success of its housing policy. With the eradication of homelessness, a growing supply of residential housing and property inflation that remains under control, the results are spectacular.

Economic activity in Finland recorded a 5th quarter of expansion in Q2 2022, with dynamic GDP growth of +0.9% (q/q). It is now +3.5% above its pre-Covid level and Finland’s GDP has even closed the output gap. This progress is driven by robust domestic demand in which both private consumption and investment are significantly ahead of their pre-Covid levels (+3% and +3.7% respectively, compared to Q4 2019). On the other hand, foreign trade continues to be hampered by exports, which remain -3.7% below their pre-Covid level, unlike imports, which are experiencing strong growth (+9.7% compared to Q4 2019).

However, the second half of the year is likely to be much less positive. The Finnish economy is expected to slow significantly, on the one hand because of a decline in investment caused by the sharp rise in business production costs and, on the other, because of a decrease in private consumption due to the erosion of household purchasing power. Economic surveys point to these less favourable prospects with quite a marked decline in household confidence (-19 pts in August over a year) and sector-based business climates, all of which are now below their long-term average (apart from in the industrial sector).

The European Commission forecasts annual average GDP growth of 1.8% in 2022, but Brussels did not yet have the figures for the 2nd quarter available at the time of its forecast. However, as these were better than expected, growth should be stronger than anticipated. As for inflation, it is expected to reach an annual average of 6.4% in 2022 before falling significantly to 2.8% in 2023.

From a more structural point of view, Finland stands out with its exemplary housing policy. Faced with growing needs, the country has invested heavily in the construction sector so that the number of houses built will continue to increase. Over the first 6 months of the year, the number of building permits was +13.8% above the average figure between 2010 and 2019. For their part, the professionals in the construction industry are managing to overcome the current difficulties (supply problems, higher construction costs) and residential housing starts over the first 6 months of the year were 15.5% above their 2010–2019 average. This ambitious housing policy, combined with a so-called “zero homeless” strategy¹, has had the direct result of almost completely eradicating homelessness in the country. Indirectly, the massive flows of housing stock brought to the market and destined for sale have enabled property inflation to be controlled (Chart 2). As a result, prices for Finnish residential housing only rose by 10.3% between Q4 2019 and Q2 2022, while they rose by an average of 32.9% in the OECD countries over the same period. This gives the country greater financial stability with a lower risk of a downward correction in housing prices in the current context of generalised monetary tightening.

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¹ OECD (2021) “Finland’s Zero Homeless Strategy: Lessons from a Success Story”

GROWTH & INFLATION

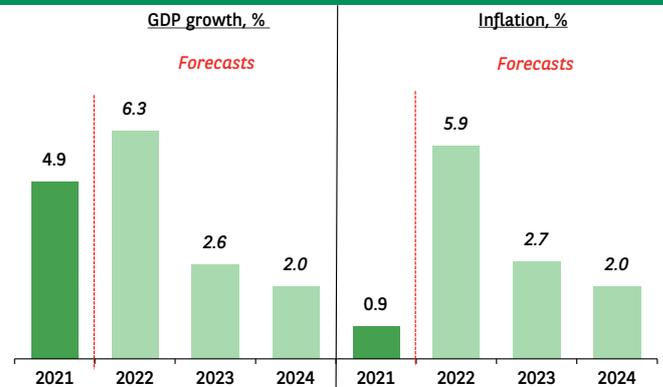


CHART 1

SOURCE: OECD, BNP PARIBAS

FINLAND: NOMINAL HOUSE PRICES

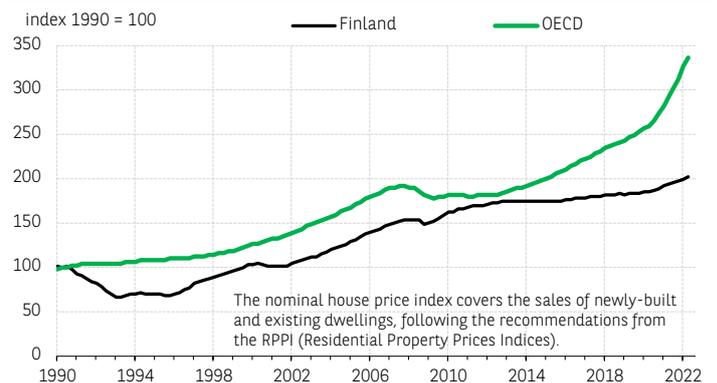


CHART 2

SOURCE: MACROBOND, OECD, BNP PARIBAS

