

FINLAND

20

RESILIENT

Although Finland was one of the European countries hit the least by the Covid-19 pandemic, its economic recovery was nonetheless pushed back by a third wave of contaminations in late winter 2020 and early spring 2021. The economy will rebound in the second half of this year, buoyed by consumption and the upturn in global trade. GDP growth should range between 2.5% and 3% in 2021 and 2022. Very concerned about the solidity of its public finances, the country saw its public debt swell by about 10 points of GDP last year while the deficit rose to 5.4% of GDP.

RECOVERY IN SIGHT

Like its Norwegian neighbour, Finland is one of the countries that was spared the most from the Covid-19 pandemic, with one of the lowest Covid infection rates in Europe (175 deaths per million inhabitants at mid-June). Even so, Finland was hit by a third wave of the pandemic that was slightly more severe than the previous ones, which led the authorities to tighten health restrictions last winter. This temporarily halted the economic recovery and led to a mild downturn in Q1 GDP.

The health situation is now under control again and social distancing restrictions are gradually being lifted. Moreover, Finland has managed to reach a high vaccination rate, with over 55% of the population having received at least one dose of the vaccine at 20 June. The economy apparently began to rebound in May, and everything suggests that the recovery will accelerate in H2 if the pandemic continues to ebb nationally and across Europe.

Last year, given the pandemic's low infection rate, industry was not affected much by the problems of factory shutdowns or supply chain disruptions, so industrial activity is now poised to benefit from the rebound in global demand. Household spending is expected to act as a second growth engine for the recovery, as consumption is stimulated as of this summer by the lifting of social restrictions and by the accumulation of forced and precautionary savings during the pandemic. In the end, business sentiment has surged in recent months and is now approaching the cyclical peak of year-end 2017. After a mild contraction in 2020 (-2.8%), GDP growth is expected to rise above 2.5% this year and in 2022.

MOBILISATION OF PUBLIC FINANCES

Throughout 2020, the Finnish government adjusted and reinforced healthcare spending as necessary to combat the pandemic while adopting measures to support companies through a total of seven supplemental finance bills. The fiscal deficit rose to 5.4% of GDP, the highest level since 1995 and 4.5 percentage points higher than in 2019. The public debt ratio rose even further, up 10 percentage points to 69% of GDP, swollen by measures with no impact on the fiscal balance, such as tax deferrals, loans and capital injections.

Only part of last year's emergency measures were extended into 2021. According to the European Commission, temporary fiscal expenditures pertaining to the pandemic could be reduced to about 1.5% of GDP, down from 3% in 2020, which would allow the fiscal deficit to begin to consolidate this year and the public debt ratio to begin to level off.

Completed on 28 June 2021

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GROWTH AND INFLATION (%)

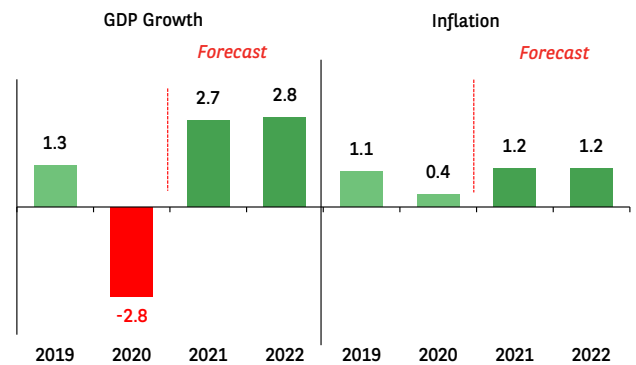


CHART 1

SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

GDP GROWTH AND ECONOMIC SENTIMENT

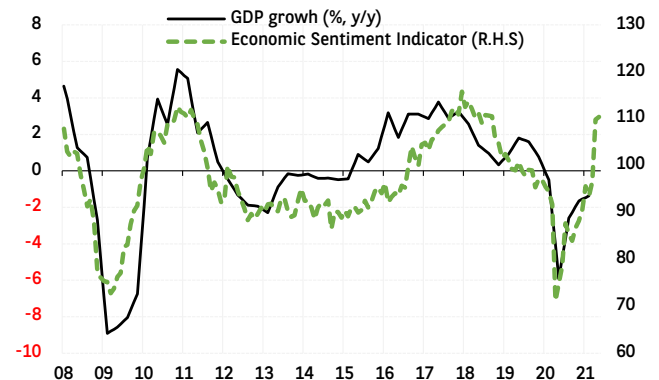


CHART 2

SOURCE: STATISTICS FINLAND, EU, BNP PARIBAS CALCULATIONS



BNP PARIBAS

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