FINLAND

ON THE FRONT LINE

Thwarted since the beginning of the year by a strong surge in the Covid-19 pandemic, the economic recovery is now threatened by the repercussions of Russia's military offensive in Ukraine. Given its geographic location, Finland is highly dependent on Russia for its energy imports, and its energy bill has already risen considerably. After reporting GDP growth of 3.3% in 2021, Finland is unlikely to meet the European Commission's 2022 forecast of 3%.

Early in 2022, Finland has been hit by a very strong surge in Covid-19 cases, which led Sanna Marin's government to introduce restrictive measures, including limitations on the size of big events and early closing hours for restaurants. These measures were lifted on 1 March, but Finland, which shares a 1,340 km border with Russia, must now face up to the repercussions of the war in Ukraine.

ENERGY PRICES UNDER PRESSURE

The year 2021 ended on a strong note. Long hampered by a global shortage of components, investment rebounded by 3% q/q in Q4. Survey results on confidence and industrial orders confirmed this momentum. These strong figures can be attributed to fewer supply chain disruptions and a catching-up movement for the delayed shipment of transport equipment. This improvement also resulted in a 7.1% q/q increase in exports in Q4 2021. On average, Finland's external trade contributed 1.2 points to growth in 2021, which is estimated at 3.3%. In the last months of 2021, private consumption also benefited from strong momentum.

Yet how much longer can this go on? With Russia's invasion of Ukraine, the household confidence index collapsed in March 2022, with the biggest drop on record. The reassessment of political risk – which has already led public opinion to swing in favour NATO membership – is coupled with a serious economic threat. Given its dependence on Russian hydrocarbons (chart 2), Finland is one of the European Union countries that has the most to lose from an escalation of sanctions against Moscow.

The surge in inflation to 5.6% in March was already problematic, forcing the Finnish government to react. Finnish taxpayers can now deduct up to EUR 8,400 annually in travel expenses for commuting to work, up from a maximum of EUR 7,000 previously. These measures, combined with the increase in public spending on security and defence, call into question the authorities' plans to reduce the public debt ratio (66.9% of GDP in 2021). The European Commission will almost certainly have to revise downwards its growth forecast of 3% in 2022.

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GROWTH & INFLATION

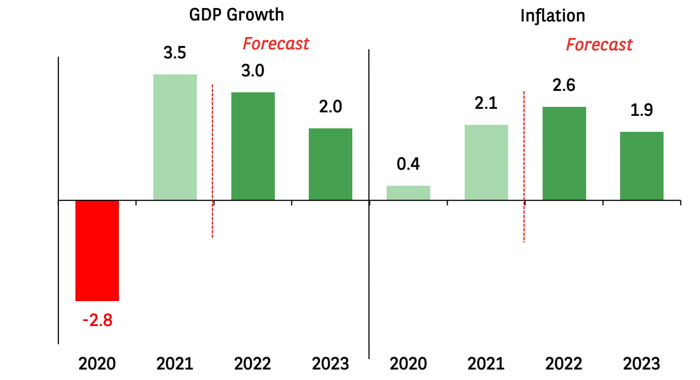

CHART 1 SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

RUSSIA'S SHARE OF OIL IMPORTS

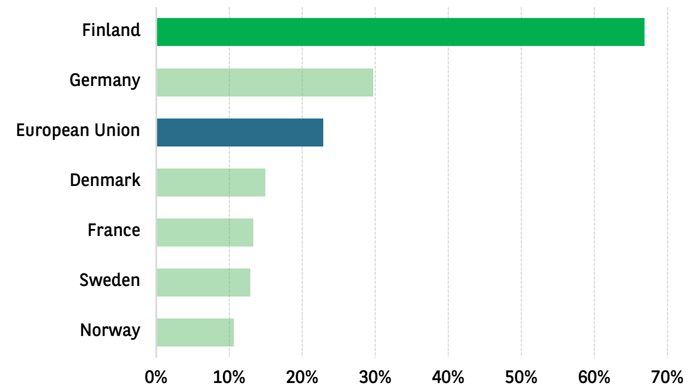

CHART 2 SOURCE: EUROSTAT, INTERNATIONAL TRADE CENTRE, BNP PARIBAS