FINLAND

A RESILIENT, BUT NOT VERY DYNAMIC, ECONOMY

In Q2 2020, Finland stood out from the rest of Europe as the country that reported the smallest decline in GDP – "only" -4.4%. Yet the ensuing recovery was less vigorous than for its EU neighbours, and Finland will surely continue to underperform in the months ahead. Even so, the Finnish economy is still one of the most resilient in Europe, thanks notably to the relatively feeble spread of the virus and robust support from the fiscal and monetary authorities.

In the first half of 2020, Finland was not hit as hard economically as most other developed countries. The country did not suffer as much from the pandemic, which allowed the authorities to impose less stringent restriction measures than in most other European countries.

THE ECONOMIC SITUATION IN 2020

Nonetheless, the economic recovery in the second half of 2020 has been weaker than in the rest of Europe. The Finnish economy was already showing signs of weakness before the Covid-19 crisis started, and GDP even contracted in Q4 2019. In particular, exports dropped sharply, which is likely to be the main factor behind the decline in GDP this year. The Ministry of Finance, the European Commission and the OECD all expect exports to fall by about 12% this year.

Considering growth in 2020 as a whole, it is worth comparing Finland with its Nordic neighbours. In the first half, GDP in Sweden and Denmark plummeted by 8.1% and 8.3%, respectively, while it declined by "only" 5.7% in Finland. However, in its Autumn Economic Forecast[1], released in November, the European Commission expects GDP to decline more sharply in Finland than in Denmark or Sweden in 2020 as a whole, which means that the economic recovery will be more vigorous in these latter two countries. Moreover, the European Commission expects this trend to continue in 2021 and 2022 (see chart 2).

WHAT TO EXPECT NEXT YEAR AND AFTER?

The Finnish economy is not expected to return to its pre-crisis level particularly quickly. One reason is that the second wave of the pandemic, which is currently sweeping Finland and its European trading partners, is bound to slow the economic recovery further. Indeed, although the recent announcements concerning the effectiveness of different vaccines against the virus raise hopes that the crisis will wind down in the months ahead, a third wave of the virus could hit Europe before a vast vaccination campaign can be rolled out.

In any case, the Finnish economy should be able to count on the monetary and fiscal authorities to provide the necessary support to return to sustainable growth.

At its December meeting, the European Central Bank (ECB) further eased its monetary policy stance, notably by increasing the envelope of its asset purchase programme by EUR 500 bn and by extending its horizon for net purchases until at least March 2022[2].

In its *Autumn Economic Survey*[3], the Ministry of Finance forecasts that the deficit will swell to 7.7% of GDP in 2020. Although it should narrow in the following years, the deficit is still expected to be near 3% of GDP in 2024. In comparison, it stood at only 1% of GDP in 2019. In 2020, the support measures put in place by the government to tackle the sanitary and economic crises have amounted to a little more than 2% of GDP. The government's draft 2021 budget suggests that these will still be worth nearly 1% of GDP in 2021. That is because while private consumption and exports are expected to support growth in the months ahead, certain segments of the economy could take much longer to recover from the crisis. In its latest *Economic Outlook*[4], the OECD anticipates that it will take a long time for investment to return to pre-crisis levels. Moreover, according to the Ministry of Finance, the unemployment rate could hit 8.2% next year, and will still be above 7.5% in 2024.

GROWTH AND INFLATION (%)

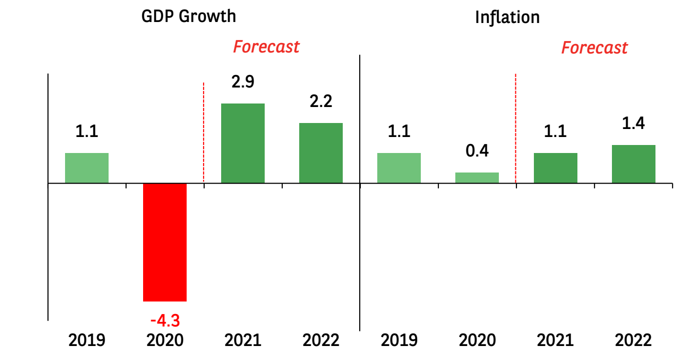

CHART 1 SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

EUROPEAN COMMISSION GDP FORECASTS (%)

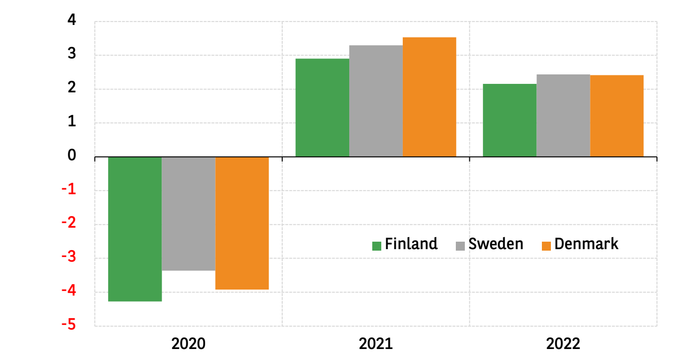

CHART 2 SOURCE: EUROPEAN COMMISSION

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1 Autumn 2020 Economic Forecast, European Commission.
2 Monetary policy decisions, 10 December 2020, European Central Bank
3 Economic Survey: Autumn 2020, Ministry of Finance.
4 Economic Outlook, December 2020, OECD.