15 June 2021

Finland Outlook

Recovery does not translate to a balanced budget

Covid-19 cases have fallen to a low level in Finland. The government has started to lift Covid-19 related restrictions and service businesses can operate almost normally soon. Travel and large event related restrictions continue during summer. Finnish health authorities have preferred to focus on the first vaccine shot and over 60% of adult population has already had at least one shot. Authorities expect all (willing) adults to have received the first vaccine dose during summer.

Finnish economy has been more stable than expected so far. In full year 2020, the Finnish GDP contracted 2.7% and the economy contracted only 0.1% q/q in Q1, despite the second wave and lockdown measures. The short-term outlook is good especially for service businesses, which have suffered most from the Covid-19 pandemic. Outlook for retail sales and manufacturing is also good. Manufacturing capacity utilisation has increased and corporates plan to invest more in 2021. We expect broad based recovery and have raised our GDP growth forecast to 2.6% in 2021.

Labour market recovery continued during spring and open vacancies are plentiful considering the severity of the crisis. Household financial situation is stable and consumer confidence was good in May. Housing market remains very active and housing construction is going to increase in growth centres, which should reduce price pressures.

Public deficit remains large despite the economic recovery. Central government net borrowing stands at over EUR 14 bn in 2021, according to the third supplementary budget, which implies no real improvement from 2020. Debt is projected to rise to over EUR 139 bn. This looks slightly pessimistic, if the economy recovers and the cash holdings from last year are used. The government has also announced that the earlier expenditure framework would be exceeded by 900 million euros in 2022. We expect public debt-to-GDP ratio to exceed 70%. This will narrow fiscal policy space in coming years, even if Finland stays well below euro area average debt ratio. Sizable guarantee liabilities (roughly 25% per GDP) pose an additional risk to public finances. Rating agencies are patient but expect structural reforms. Ageing population implies significant increase in age-related costs.

Outlook for the Finnish economy

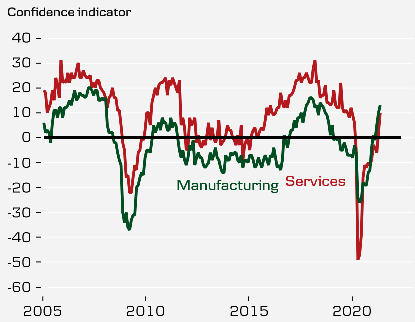
Finland	Current forecast			Previous forecast	
	2020	2021	2022	2021	2022
GDP (%)	-2,7	2,6	2,9	2,3	3,0
Unemployment rate (%)	7,8	7,7	7,1	8,0	7,2
Inflation (%)	0,3	1,7	1,6	1,4	1,5
Earnings (%)	1,8	2,5	2,7	2,5	2,5
Housing prices (%)	1,4	2,2	1,5	1,7	1,5
Current account (% of GDP)	0,3	-0,2	-0,2	-0,2	-0,2
Public debt (% of GDP)	69,2	70,8	70,5	70,0	69,6
Public deficit (% of GDP)	-5,4	-4,7	-2,3	-3,5	-2,3

Source: Danske Bank

Today's key points

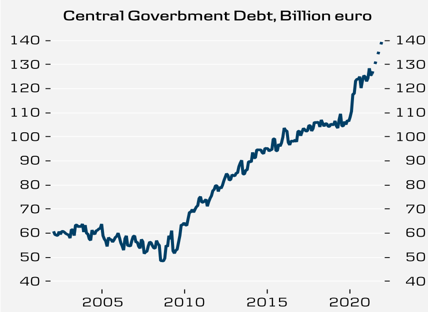
- Finland has started to lift Covid-19 restrictions and a broad based economic recovery is taking off
- Public debt keeps growing fast despite the recovery

Business confidence has improved



Source: Macrobond Financial, EK, Danske Bank

Central government debt projection



Source: Macrobond, State Treasury, Danske Bank

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