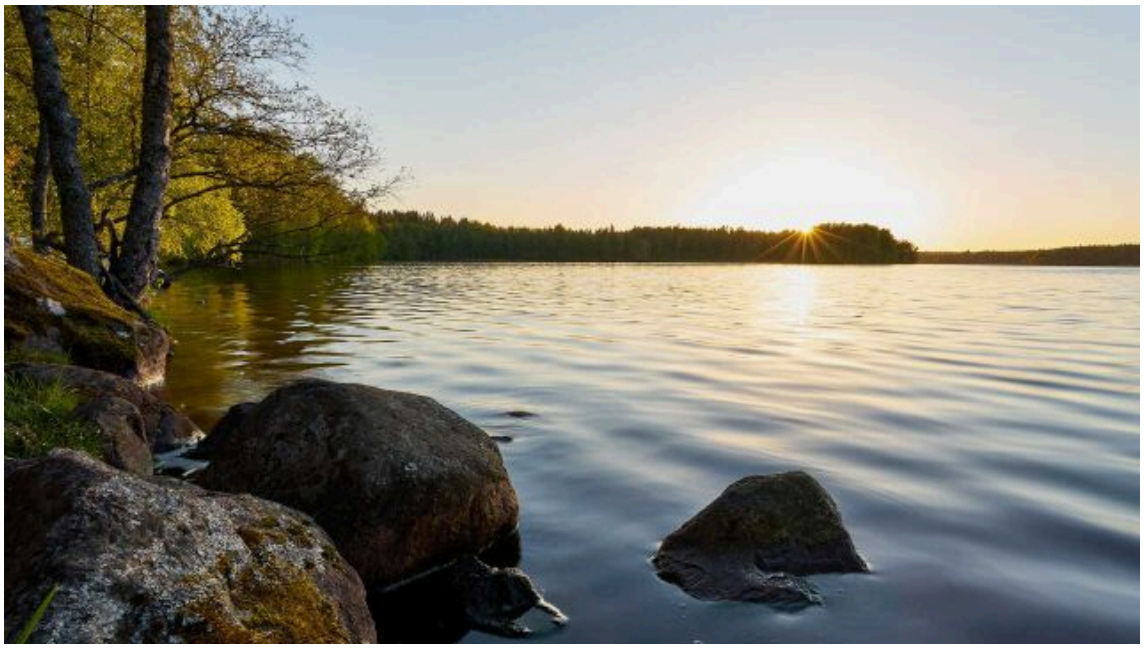
Forecast

Finland’s economy on a faltering return to growth

Finnish economy | 01 October 2025

Finland’s economy is still sluggish, but growth is picking up little by little. Due to the economy’s weak performance in the early months of the year, the full-year growth for 2025 will be 0.3%. However, growth will pick up to 1.3% in 2026 and to 1.7% in 2027. The unemployment rate for 2025 will rise to 9.4%, due to the weak cyclical conditions, but will start to fall during 2026–2027 as the economy improves. The inflation forecast for 2025 is 1.8%, and in the subsequent years of the forecast period it will remain below 2%.



The Bank of Finland’s interim forecast[1] is based on data available on 10 September 2025, on the trade negotiation situation that prevailed on 28 August 2025 and on other assumptions updated on 15 August 2025 regarding changes in Finland’s external operating environment and key financial market variables in the immediate years ahead.[2]

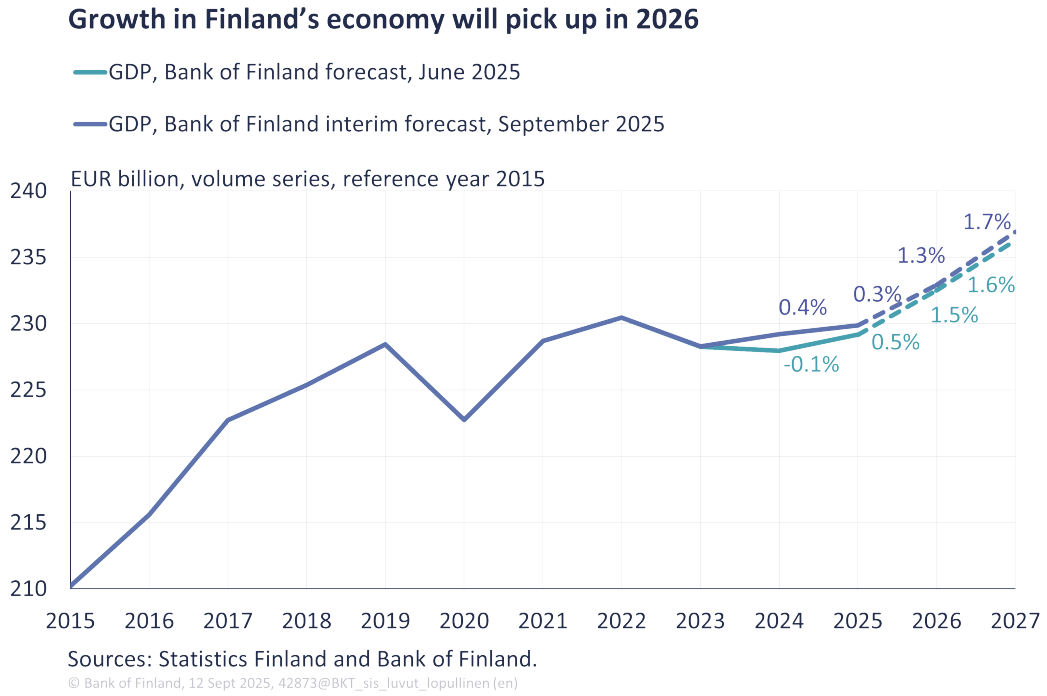
Forecast in brief

The Bank of Finland’s interim forecast for the Finnish economy is quite similar to its June forecast. Finland’s economic recovery will continue to be slow initially, although the most recent statistical

data provide some indication that growth is gradually picking up. Household confidence has remained weak and – despite the growth in earnings – the resurgence of private consumption is delayed. Uncertainty about the global situation has eased slightly since the spring, although it remains high. There are signs of improvement in the business outlook.

During the forecast period, 2025–2027, Finland's economy will gradually improve and grow at a faster pace (Chart 1). In 2025, growth will still be slow, at 0.3%, rising in 2026 to 1.3% and further to 1.7% in 2027 (Chart 1 and Table 1). Compared with the June forecast, the figures for 2025 and 2026 have been revised slightly downwards, and for 2027 marginally upwards. The downward revision is primarily a result of weaker than expected growth in the first half of 2025. The growth outlook for the remainder of this year and beyond is similar to the outlook in the June forecast.

Chart 1.



Despite the economy's growth rate being revised downwards a little in the forecast, the Bank of Finland's gross domestic product (GDP) forecast remains almost unchanged (Chart 1). This is explained mainly by the fact that the most recent National Accounts data published by Statistics Finland show that economic growth in 2024 was substantially stronger than previously anticipated, and so the starting point in 2025 was higher. However, as growth in the first half of 2025 was weaker than expected, this will also curtail growth in the first years of the forecast, 2025 and 2026.

The labour market has been weaker than forecast. The unemployment rate has increased more quickly than anticipated and the number of people employed declined in the first half of 2025. As economic growth strengthens, the unemployment rate will also start to gradually fall during 2026. The unemployment rate will decline from 9.4% in 2025 to 8.6% in 2027.

Inflation will remain moderate throughout the forecast period. Weak consumer demand and lower import prices will help to keep inflation down. But services prices will rise at an annual rate of more than 2% throughout the forecast period, because of a gradual increase in wages. Wage growth and moderate inflation will support a rise in households' purchasing power during the forecast period.

The forecast still contains both upside and downside risks, which may cause the economic outlook to diverge from the forecast. There are risks associated with trade policy and geopolitics that could dampen growth in the Finnish economy. In Finland, an upturn in private consumption and the recovery of the construction sector may be delayed. On the other hand, Finland's GDP growth could be boosted by an increase in defence spending, higher than expected growth in external demand or a reduction in uncertainty.

Table 1. INTERIM FORECAST SUMMARY

	2024	2025^{f}	2026^{f}	2027^{f}
Annual GDP growth (%)				
Interim forecast, September 2025	0.4	0.3	1.3	1.7
Forecast, June 2025	-0.1	0.5	1.5	1.6
Unemployment rate (%)				
Interim forecast, September 2025	8.4	9.4	9.2	8.6
Forecast, June 2025	8.4	9.2	9.0	8.5
Inflation* (%)				
Interim forecast, September 2025	1.0	1.8	1.3	1.7
Forecast, June 2025	1.0	1.7	1.4	1.8

^{f} = forecast.

** Harmonised Index of Consumer Prices (HICP).*

*** Harmonised Index of Consumer Prices (HICP) excl. food and energy.*

Sources: Bank of Finland and Statistics Finland.

	2024	2025[f]	2026[f]	2027[f]
Core inflation** (%)				
Interim forecast, September 2025	2.2	2.4	1.6	1.8
Forecast, June 2025	2.2	2.3	1.6	1.8

[f] = forecast.

** Harmonised Index of Consumer Prices (HICP).*

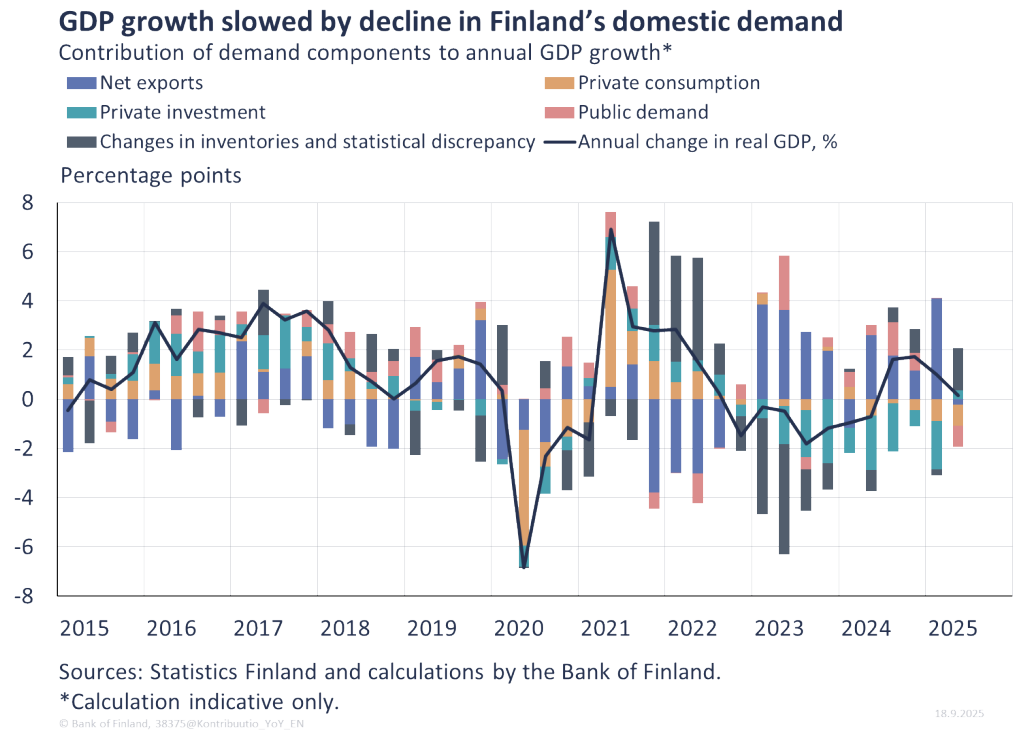
*** Harmonised Index of Consumer Prices (HICP) excl. food and energy.*

Sources: Bank of Finland and Statistics Finland.

Output growth will remain slow

Finland's GDP growth in the first half of 2025 has been weak. According to the latest data from Statistics Finland, GDP remained almost unchanged in the first quarter, but in the second quarter it contracted by 0.4% from the previous quarter. Positive contributions to GDP growth in the first half of 2025 included the strong first-quarter growth in exports and an increase in investment, especially in the second quarter (Chart 2). However, factors impeding GDP growth included a decline in private consumption in the first six months and a decrease in exports in the second quarter.

Chart 2.



Although the statistics show that the economy's performance has been predominantly weak, business confidence has strengthened in recent months. Service companies' views on future turnover have become more positive, despite service turnover and volume having barely grown in recent months. The output expectations of manufacturing companies are positive, and industrial orders have clearly increased. Industrial production grew in January–June, but there is considerable variation across industries.[3]

Exports have held on despite the trade policy turbulence. Exports grew during the first quarter, which was attributable largely to goods exports, but export growth halted in the second quarter, due to weaker service exports.

Growth in purchasing power faded in the first part of the year. Although moderate inflation has supported growth in households' real incomes, household purchasing power is still slightly below its 2021 peak level. While wage growth has raised incomes, the weak employment trend and the Government's fiscal adjustment measures have dampened growth in purchasing power. The slowing purchasing power trend and weak confidence contributed to the continued contraction in private consumption throughout the first half of the year.

In contrast, the investment trend has turned positive since the end of 2024. Business investment has grown, in particular, supporting the economy's growth potential. Housing and other

construction remain subdued and are not expected to recover quickly.

Despite the positive trend in business investment, surveys indicate that manufacturing and service companies continue to have ample unused production capacity, which may reduce companies' investment intentions. Companies reported that insufficient demand – rather than a shortage of production capacity – was the most significant factor limiting production.

The easing of monetary policy has been transmitted to lending rates relatively quickly. Interest rates on corporate loans and mortgages have declined at the same pace as market interest rates. With market rates remaining at current levels, the most significant decline in financing costs has already passed. However, low financing costs will support future growth in business investment and residential investment.

According to the Bank of Finland's short-term forecasting models (nowcasting models), which interpret the latest economic data, GDP growth will continue to be low but positive (Table 2). According to the average of the models, GDP growth in the third and fourth quarters of 2025 will be 0.1% and 0.4%.

Table 2. NOWCASTING MODEL RESULTS

GDP, quarterly growth	2025Q1	2025Q2	2025Q3	2025Q4
BVAR model	0.2%	0.4%	0.0%	0.4%
Factor model	0.0%	-0.3%	0.0%	0.4%
Bridge model	0.2%	0.2%	0.2%	
Model average	0.1%	0.1%	0.1%	0.4%
Actual growth*	0.0%	-0.4%		

Nowcasting models updated 11 September 2025.

** Updated after release of National Accounts 29 August 2025.*

Sources: Statistics Finland and calculations by the Bank of Finland.

External assumptions underlying the interim forecast

The external assumptions underlying the interim forecast (Table 3) are close to those made in the June forecast. The greatest changes concern the exchange rate and external demand: the euro has strengthened, and Finland's export markets are expected to grow more slowly than in the June

forecast. Because of these changes, the GDP growth forecast for 2025 and 2026 has been adjusted slightly downwards.

Table 3. INTERIM FORECAST ASSUMPTIONS

Volume percentage change on previous year	2024	2025f	2026f	2027f
Euro area GDP	0.8	1.2	1.0	1.3
World GDP (excl. euro area)	3.6	3.3	3.1	3.3
World trade (excl. euro area)[1]	4.2	2.8	1.5	3.1
	2024	2025f	2026f	2027f
Finland's export markets, % change[2]	2.2	2.5	1.6	2.9
Oil price, USD/barrel[3]	81.2	69.7	65.1	65.1
Raw material prices (excl. energy), USD, % change[4]	9.2	4.8	-1.0	0.9
Export prices of Finland's competitors, EUR, % change	0.2	-0.2	0.5	2.2
3-month Euribor, %[3]	3.6	2.2	1.9	2.1
Finland's nominal effective exchange rate[5,6]	103.0	104.7	106.0	106.0
USD value of one euro[6]	1.08	1.13	1.16	1.16

[1] *Calculated as a weighted average of imports.*

[2] *The growth in Finland's export markets is the import growth in the countries Finland exports to, weighted by their average share of Finland's exports.*

[3] *Technical assumption derived from market expectations.*

[4] *Technical assumption derived from market expectations. In the longer term, raw material prices are assumed in part to follow movements in global economic activity.*

[5] *Broad nominal effective exchange rate, 2020 = 100. The index rises as the exchange rate appreciates.*

[6] *Assuming no changes in the exchange rate.*

f *= forecast.*

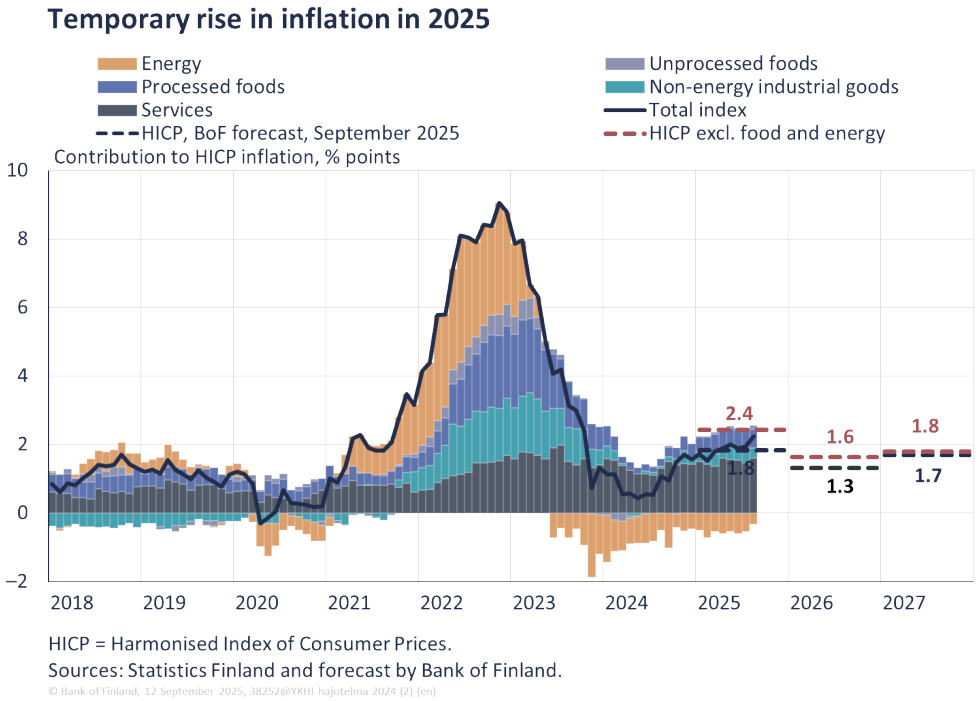
Sources: European Central Bank and Bank of Finland.

In addition to adjusting the external assumptions, the GDP forecast has been revised on the basis of the latest economic indicators and data and the outcomes of the nowcasting models. According to the latest National Accounts data, GDP growth in the first part of 2025 was lower than previously forecast. GDP growth for 2024, on the other hand, was revised upwards in accordance with the data, and so the starting level for GDP in 2025 is now higher than previously forecast. Therefore, GDP in the forecast period is expected to be slightly higher than was forecast in June, even though the growth rate has been revised slightly downwards for 2025 and 2026.

Inflation moderate throughout the forecast period

Inflation will rise this year but will then fall clearly below 2% from next year onwards, as the impact of the increase in value added tax dissipates (Chart 3). Weak consumer demand will slow inflation in 2025 and 2026. Import prices will also have a slight disinflationary effect overall. However, the rise in services prices will continue because of wage increases. As a whole, inflation will remain below 2% annually throughout the forecast period.

Chart 3.



HICP = Harmonised Index of Consumer Prices.
Sources: Statistics Finland and forecast by Bank of Finland.
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Unemployment has continued to rise

The continuation of weak GDP growth has further cooled the labour market (Chart 4). The employment rate has further declined in recent months, and the number of people employed is

lower than at the end of 2024. The trend unemployment rate increased to 9.6% in July and the total number of people unemployed rose. The rise in the unemployment rate has been faster than was expected in the June forecast. Despite the weak labour market, the labour force participation rate has remained high. The high unemployment rate is partly explained by the higher participation rate.

Chart 4.



The high unemployment is explained in particular by the weak demand for labour. According to data from the Ministry of Economic Affairs and Employment, the number of job vacancies in July remained low, at under 35,000, which is the lowest in nearly 10 years. Due to the high unemployment rate and low number of job vacancies, jobseekers' employment prospects are historically low. However, according to the Confederation of Finnish Industries' Business Tendency Survey, companies are expecting to slightly increase recruitment again, which may indicate that there will be an increase in the number of job vacancies in the near future.

The unemployment rate is expected to gradually decrease as the economy improves. The unemployment rate projection has been adjusted upwards because the latest labour market statistics were weaker than expected. The average unemployment rate for 2025 is forecast to be 9.4%, and during the rest of the forecast period it is expected to decline by slightly less than 1 percentage point. Typically, there will be time lag between a pick-up in the economy and its effect on the labour market, because hiring decisions and the process of filling vacancies takes time.

Risks

There are still uncertainties surrounding GDP growth that could not be fully included in the baseline scenario. Uncertainty over the general economic situation and economic policy continues to be high in Finland and abroad, according to various indicators. The European security situation also continues to be uncertain. Uncertainty regarding the economy and geopolitics is already reducing both consumption intentions and investment intentions, and GDP growth could be further dampened by unexpected events. The caution which is inhibiting household consumption could continue for longer than forecast.

The United States and the EU concluded a trade agreement in which higher tariffs were imposed on US imports from Europe. However, the final form and scope of the tariffs is still difficult to assess, as many of the details remain unresolved. Nevertheless, the agreement has reduced uncertainty over trade policy, which has a positive impact on the economy.

The forecast is also subject to upside growth risks. A significant reduction in uncertainty could lead to more positive economic performance than forecast. An increase in defence spending and other public spending by European countries could also boost the demand for Finnish investment goods and defence equipment. GDP growth and employment would also be boosted if, in Finland, the recovery of residential construction were to be faster than anticipated, or if investments in the green transition were to be completed in greater numbers.

Notes

1. The Bank of Finland publishes interim forecasts for the Finnish economy twice a year, in March and September. These are technical updates of the forecast, in which the outlook for GDP, unemployment and inflation is updated. The interim forecast does not necessarily reflect the views of the Eurosystem. The Bank's more extensive forecasts for the Finnish economy are published in June and December each year. ↑
2. The forecast's underlying assumptions about changes in Finland's external environment and financial market variables are based on the assumptions made in the European Central Bank's September 2025 projections. ↑
3. In the second quarter, industrial growth occurred mainly in the manufacture of chemicals and chemical products, while output in other manufacturing sectors contracted. ↑

Keywords

economic growth, employment, forecast, GDP, inflation