FORECAST

Grey clouds hanging over Finnish economy's recovery

Finnish economy | 26.03.2025

The Finnish economy is recovering from a recession. Growth in the economy will nevertheless be modest in the near term and is being restrained by the low level of investment, in particular. The Bank of Finland's March 2025 interim forecast expects GDP to grow at the same pace as the Bank had forecast in December 2024. However, uncertainty about the economic environment has grown substantially compared with December.

The Bank of Finland's interim forecast[1] is based on data available on 6 March 2025, and on assumptions updated on 7 February 2025 regarding changes in Finland's external operating environment and key financial market variables in the immediate years ahead[2].

Forecast in brief

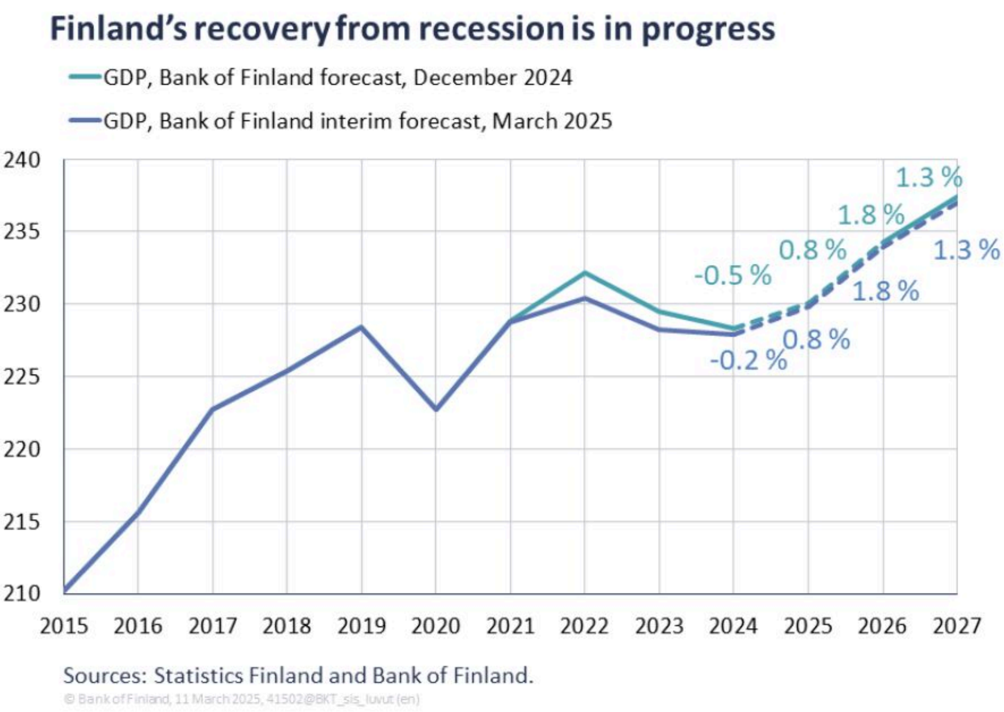
The Bank of Finland's interim forecast for the Finnish economy is very similar to its December forecast. Finland's economic recovery from recession is in progress. The recovery is slow, however, and the uncertainty surrounding both the global situation and Finland's economic environment is greater than in December.

Finland's gross domestic product (GDP) is projected to grow during the 2025–2027 forecast period at the same rate as was forecast in December. GDP growth is forecast to be 0.8% for 2025, and will rise to 1.8% in 2026 (Chart 1 and Table 1). In 2027, the final year of the forecast, growth will slow to 1.3%.

When the economy picks up, the demand for labour will also start growing again. Nevertheless, as it takes time before growth in the economy affects the unemployment rate, 2025 will still see a rise of 0.5 percentage points in the trend unemployment rate (15–74-year-olds), to 8.9% (Table 1). The unemployment rate will still start to decline in 2026, when GDP growth gathers pace and begins to have a visible impact on the labour market. The unemployment rate is forecast to be 8.0% in 2027, which is still significantly above its 2022 pre-recession level.

Inflation slowed to 1% in 2024, fostering a rise in consumers' purchasing power. As the economy picks up, inflation will also increase slightly. Consumer prices are projected to rise by 1.9% in 2025, partly owing to changes in indirect taxes. Next year, inflation will slow to 1.6%. At the end of the forecast period, inflation will increase slightly to about 1.7%.

Chart 1.



Although the economic data for the early months of the year does not yet warrant any change in the growth figures of the December forecast, the risk that growth will be lower than forecast has increased since December. Geopolitical risks have increased and uncertainty regarding trade policy is high. The elevated uncertainty may in itself curb private consumption and investment, as well as growth in Finland's export markets.

Table 1. INTERIM FORECAST SUMMARY

	2024	2025[f]	2026[f]	2027[f]
Annual GDP growth (%)				
Interim forecast, March 2025	-0.2	0.8	1.8	1.3
Forecast, December 2024	-0.5	0.8	1.8	1.3
Unemployment rate (%)				
Interim forecast, March 2025	8.4	8.9	8.4	8.0
Forecast, December 2024	8.3	8.7	8.2	7.7
Inflation* (%)				
Interim forecast, March 2025	1.0	1.9	1.6	1.7
Forecast, December 2024	1.0	1.9	1.5	1.7
Core inflation** (%)				
Interim forecast, March 2025	2.2	2.4	1.6	1.7
Forecast, December 2024	2.2	2.5	1.5	1.6

[f] = forecast.

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

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

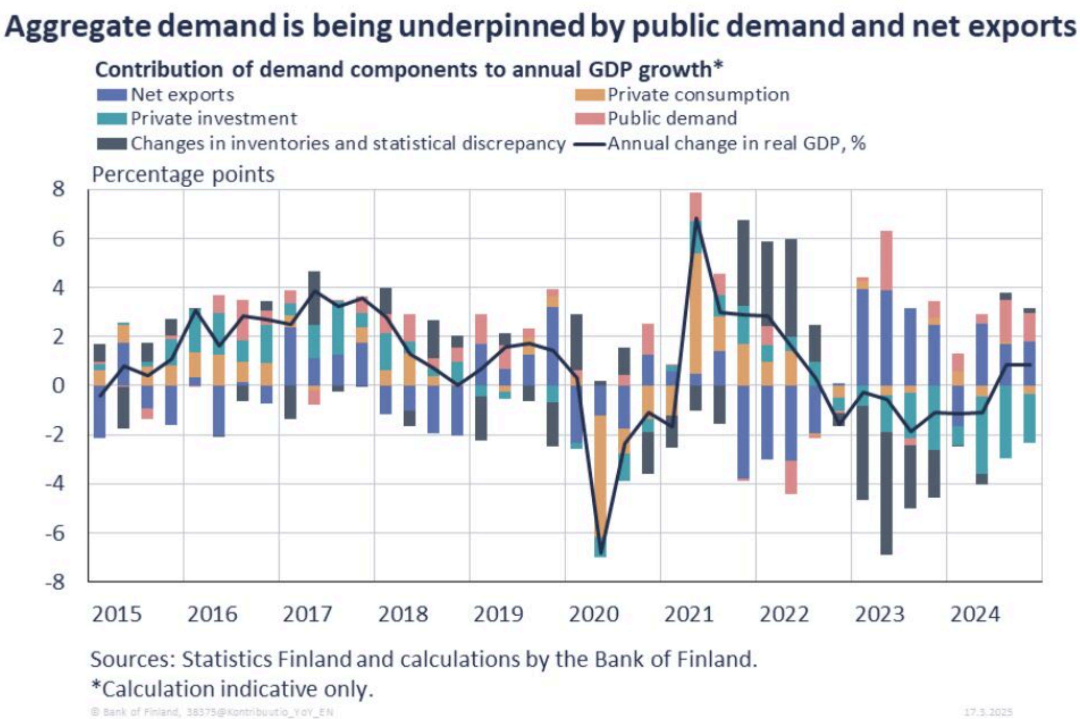
Sources: Bank of Finland and Statistics Finland.

Output will grow slowly

Although Finland's GDP was 0.2% lower in 2024 than the previous year, the economic figures for the latter part of the year contain signs of the recession ending (Chart 2). In the third quarter, the working day adjusted and seasonally adjusted GDP was up by 0.5% from the previous quarter, and by 0.9% year on year. In the final quarter of 2024, GDP contracted by 0.2% from the third quarter but nevertheless grew year on year. According to the trend indicator of output, working day adjusted output grew in January by 2.4% year on year, but seasonally adjusted output decreased by 0.5% from the previous month.

The country's GDP growth was still on a narrow foundation in the autumn, relying on public demand and net exports. The growth in net exports (exports minus imports) was primarily attributable to the weakness of imports, rather than strong exports.

Chart 2.



Industrial production grew slightly in late 2024 compared with the previous year. On the basis of the Confederation of Finnish Industries' Business Tendency Survey, companies' assessments of cyclical conditions over the immediate years ahead have slightly improved, but they expect production growth to remain slow during the spring. Business growth continues to be restricted mainly by the insufficient level of demand. In 2024, manufacturing companies received a similar amount of new orders, in terms of value, as the previous year. However, in the final quarter, orders increased year on year.

The value of exports decreased in the final quarter of 2024 by around 1% from the previous year. Exports were strengthened by brisk growth in service exports, and the export of services to the United States, in particular, grew substantially. By contrast, the value and volume of goods exports in the latter part of the year declined significantly from the previous year. Nevertheless, in January, the export turnover of manufacturing companies rose in almost all the main sectors.

With wage increases no longer being eroded by high inflation, employees' real earnings grew during the autumn, when compared with a year earlier. Although rapid inflation has now receded, consumer prices are still high and real earnings remain significantly below their 2021 peak. Household purchasing power is also being eroded by the decline in employment.

Consumers' confidence in their own finances and in Finland's economy has remained low, despite there being solid income growth. Weak consumer confidence has hindered growth in private consumption, and the December forecast projected that economic uncertainty will curb consumption again in 2025. Elevated geopolitical risks may slow the return of consumer confidence.

Private consumption has been underpinned mainly by the demand for services, and in the latter part of the year the growth in aggregate turnover of the services sector was slightly above the inflation rate. The turnover of the services sector continued to grow in January. However, the slowing of car sales, in particular, has curbed demand for durable consumer goods.

A strong boost to the economy is not foreseeable from investment either. Investment continues to be hindered especially by the stagnation in new-build housing construction. During September-November, fewer than 5,000 new dwellings were completed in Finland, which is 50% less than a year earlier. Despite this, construction companies continued to report thousands of unsold dwellings. The number of building permits and new construction site starts decreased sharply in 2024, but the lowest point has already been reached. A rapid recovery in residential construction is not in sight, however. Growth in business investment was also very weak last year.

Housing demand among both households and investors has been curbed by high interest rates. However, market interest rates have declined substantially, to levels even lower than in the early 2000s. A slight improvement is expected in the housing market during the latter half of 2025.

The impacts of new economic data on the short-term economic outlook for Finland have been systematically assessed using the Bank of Finland's short-term forecasting, or nowcasting, models (Table 2). The nowcasting forecasts also indicate that the lowest point of the recession has already been reached. According to the average calculated from these forecasts, GDP will grow by 0.2% in the first quarter of 2025 and by slightly more in the second quarter.

Table 2. NOWCASTING MODEL RESULTS

GDP, quarterly growth	2024Q3	2024Q4	2025Q1	2025Q2
BVAR model	0.1%	0.0%	0.3%	0.3%
Factor model	-0.2%	-0.4%	0.2%	0.3%
Bridge model	0.2%	0.2%	0.1%	
Model average	0.0%	-0.0%	0.2%	0.3%
Actual growth*	0.5%	-0.2%		

Nowcasting models updated 6 March 2025.

** Updated after release of quarterly National Accounts 28 February 2025.*

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

Only minor adjustments to external assumptions

The technical assumptions of the interim forecast regarding export markets, market interest rates, exchange rates and raw material prices are based on the assumptions of the ECB's March 2025 forecast (Table 3). The assumptions have not changed substantially compared with the December forecast.

Finland's export markets outside the euro area are expected to grow slightly more quickly than was forecast in December, but the forecast for its export markets within the euro area remains unchanged.

In the ECB's March projections, GDP growth in the euro area is expected to be 0.9% in 2025, 1.2% in 2026 and 1.3% in 2027. Compared with its December projections, the GDP growth outlook for the euro area has been adjusted slightly downwards for 2025 and 2026.

The update of the technical assumptions takes account of recent changes in trade policy. However, there is still no certainty over whether and to what extent the import tariffs planned by the Trump administration will materialise. The possibility of new tariffs increases the risk of export performance being weaker than expected.

The assumptions regarding future energy and raw material price developments are based on market expectations. The prices of crude oil, natural gas and electricity are expected to fall slightly during the forecast period. These expectations are approximately the same as in December.

Raw material prices are projected to increase, and price expectations have also been adjusted significantly upwards. Price expectations for industrial raw materials such as metals have declined, but for other raw materials such as agricultural products, price expectations have increased substantially.

The interest rate expectations of the forecast are also based on market forecasts. Market expectations regarding interest rates are currently slightly lower than they were still in December, and the 3-month Euribor rate is expected to remain low.

Table 3. INTERIM FORECAST ASSUMPTIONS

Volume percentage change on previous year	2024	2025f	2026f	2027f
Euro area GDP	0.8	0.9	1.2	1.3
World GDP (excl. euro area)	3.4	3.4	3.2	3.2
World trade (excl. euro area)[1]	4.4	3.5	3.1	3.2
	2024	2025f	2026f	2027f
Finland's export markets, % change[2]	2.1	2.6	2.9	2.9
Oil price, USD/barrel[3]	82.0	74.7	70.3	68.7
Raw material prices (excl. energy), USD, % change[4]	9.2	12.0	-1.3	-2.8
Export prices of Finland’s competitors, EUR, % change	0.1	2.6	2.2	2.0
3-month Euribor, %[3]	3.6	2.2	2.0	2.1

[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.

Volume percentage change on previous year	2024	2025[f]	2026[f]	2027[f]
Finland’s nominal effective exchange rate[5,6]	102.7	101.8	101.8	101.8
USD value of one euro[6]	1.08	1.04	1.04	1.04

[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.

The extent to which the updates to GDP growth history, to the nowcasting models and to the external assumptions affect the economic outlook is so slight overall that the Bank of Finland’s growth forecast for the immediate years ahead remains the same as in the December 2024 forecast. Finland’s GDP is expected to grow by 0.8% in 2025, and to accelerate to 1.8% the following year. In 2027, growth will no longer be driven by the recovery from the recession but will slow to 1.3%, close to the long-term growth potential.

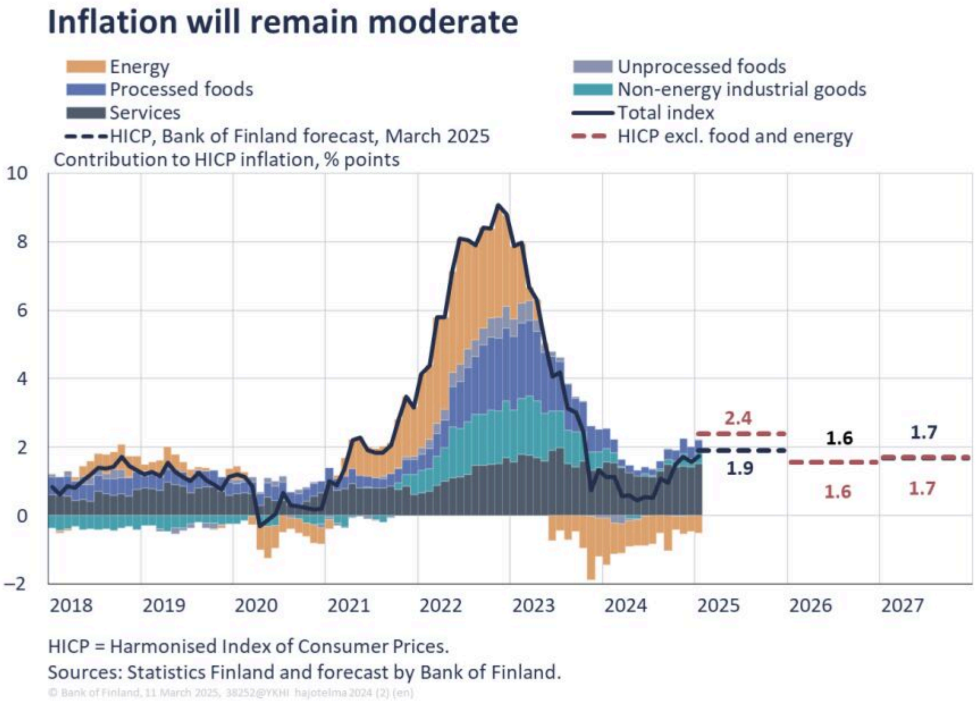
Inflation will remain moderate

The inflation rate in Finland will be sustained by domestic consumer demand, as the economy improves and household purchasing power rises. However, the increase in consumer prices will remain low. In January, the Harmonised Index of Consumer Prices (HICP) grew by 1.7% year on year (Chart 3). Inflation has continued to be restrained by a fall in energy prices, mainly lower electricity prices. Services inflation, on the other hand, has remained persistently above 3%.

Inflation is projected to accelerate a little in 2025 and to reach an average rate of 1.9%. Increases in indirect taxes will temporarily push up the inflation rate. In 2026, inflation will slow to 1.6% when the effect of the tax and excise duty increases wears off, but it will rise to 1.7% in 2027.

Core inflation, which excludes the impact of energy and food, will rise to 2.4% in 2025. The increase in core inflation will also be temporary. In 2026 it will slow significantly to 1.6%, but will pick up slightly to 1.7% in 2027.

Chart 3.

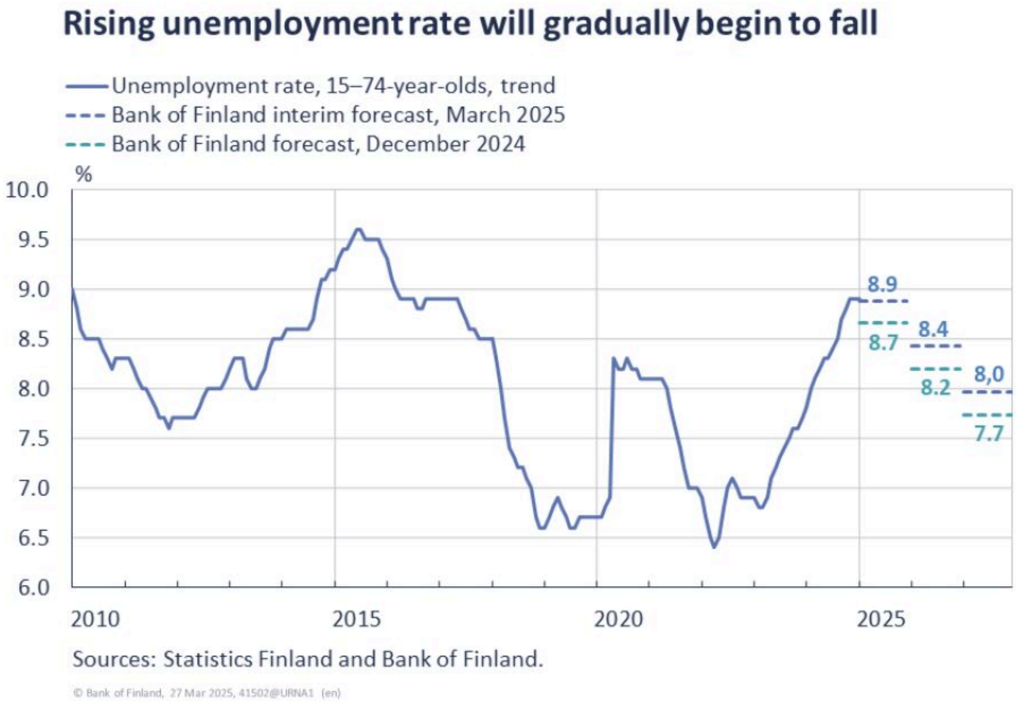


Further decline in job vacancies

The weakness in the economy is also evident in the labour market. The trend employment rate (20–64-year-olds) was 76.5% in January, which was just over 1 percentage point less than a year earlier. The fall in the employment rate is already about to turn around, but the number of employed people was still 32,000 fewer in January than a year earlier. The employment rate did not improve in the latter part of the year even in health and social services, where employment had been rising for a long time.

The unemployment rate has climbed from its spring 2022 low by nearly 2.5 percentage points, and the trend rate reached 8.9% in January this year. An increasing number of jobseekers are competing for fewer jobs. There were 33,000 job vacancies in the last quarter of 2024 compared with 42,000 a year earlier. The decline in vacancies at the end of 2024 was particularly noticeable in the public sector in areas such as administration and health and social services. Vacancies also declined in the private sector.

Chart 4.



The average unemployment rate is expected to increase slightly in 2025 (Chart 4). However, as economic growth picks up, the unemployment rate will gradually start to decline. The unemployment rate projection has been adjusted slightly upwards compared with December. The unemployment rate for 2025 is projected to rise to 8.9%, while 2026 will see a decline to 8.4% on average, and 2027 a further decline to 8.0%.

Greater uncertainty about the global situation

The forecasting risks concerning the economy in the context of the international operating environment have increased substantially compared with the previous forecast. The weakening security situation in Europe, in particular, is keeping consumers and companies cautious. Russia's hybrid operations could further increase uncertainty.

Furthermore, the United States is set to impose new tariffs on imports from Europe. The extent to which they may or may not be eventually implemented is still difficult to assess, however. There is also an upside growth risk associated with the changed geopolitical situation, in that European countries' defence expenditure is currently subject to significant upward pressure. Higher public spending could increase the demand for Finnish investment goods and defence equipment.

The economic data published early this year, and the external assumptions made, nevertheless justify only minor changes to the December forecast for the Finnish economy.

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 March 2025 forecast. ↑

Key words

employment, Finnish economy, forecast, GDP, inflation