FORECAST

Alternative scenario: Finland’s economic woes continue

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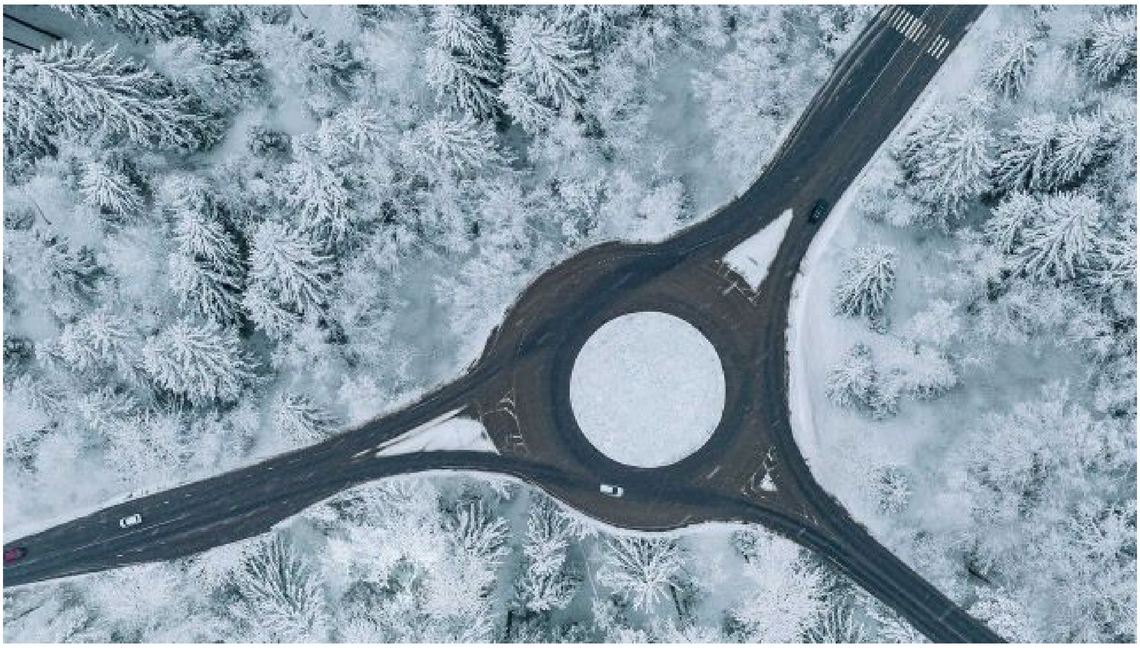
According to the Bank of Finland’s December 2025 forecast the Finnish economy will begin to recover in 2026. The alternative scenario presented here assumes a delayed economic recovery and slower growth than in the baseline scenario. Consumer confidence will not improve but will instead remain low due to the uncertain times. Confidence is undermined on a longer term basis by the threat of unemployment, the extremely weak state of the public finances and Russia’s war in Ukraine. In addition to this, residential property values, which form the basis of household wealth, have been declining in recent years. Households tend to be risk-averse and consequently prefer to build up their savings and reduce their debt. Uncertainty about the global economy will also remain elevated, and the implementation of tariffs will slow Finnish export growth more than anticipated. In this alternative scenario, Finland’s economy will be almost 2% smaller in 2028 than under the baseline scenario.



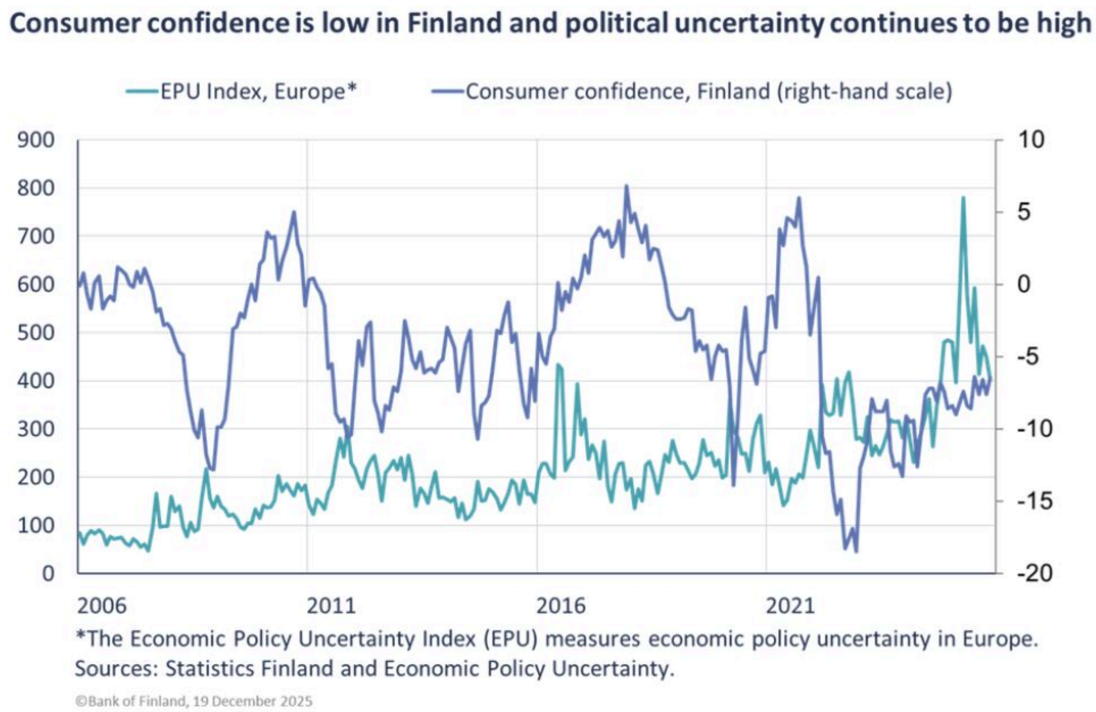
No glimmer of light for the Finnish economy until 2028

The Finnish economy has been struggling to move forward for many years. Furthermore, Finland is currently experiencing a recession. Its public finances are severely in deficit, with debt increasing rapidly. Government spending has been cut, and difficult fiscal consolidation measures will also have to be made by future governments as well. Household confidence in the economy is weak, the threat of unemployment has clearly increased, the savings rate has risen, and households have reduced their indebtedness.

A high level of uncertainty about the future is perpetuated by the geopolitical situation in Europe. Exports, focusing heavily on capital goods, have grown significantly more slowly on average than the growth in Finland's main export markets. With uncertainty high and with rising protectionism starting to dampen international trade growth, it is possible that export growth will also fall short of forecasts in the coming years. The competitiveness issues of the entire euro area indicate that there are longer term challenges to be overcome to achieve growth.

Finland has lost significant export market shares for several years since the beginning of Russia's war in Ukraine. Growth in Finland's export markets has also declined, and fluctuations have been considerable. Although there are many reasons for Finland's modest export performance, the collapse of trade with Russia to only a fraction of its former volume is likely to be one of the factors. Despite efforts to achieve peace in the Ukraine war, lasting peace has not been attained. This perpetuates the heightened uncertainty, particularly in Finland and its main export markets in Europe (Chart 1). The services-driven growth in the euro area in recent years has not especially favoured Finland, in view of the structure of its exports.

Chart 1.



The Economic Policy Uncertainty Index (EPU) measures economic policy uncertainty in Europe.[1]

The problems being experienced by German industry, and its reduced level of investment, are also dampening the growth in Finland's export markets and in Finnish exports. Although exports to the United States have risen in recent years, tariffs will inhibit these exports. Moreover, the full effect of tariffs on international trade has not yet been evident. Finland's exports consist mainly of raw materials and intermediate goods such as capital goods, and the demand for these exports has been muted and subject to considerable fluctuation. The heightened uncertainty is toxic for corporate investment decisions. Consequently, export demand may stay weak even if there is a recovery in the global economy and improved conditions for demand growth.

This alternative scenario assumes that Finland's main export markets will grow more slowly than projected in the baseline forecast. It also assumes that export growth will be lower than the growth in export markets, resulting in a continued loss of market share. This will also impede Finland's future economic growth and slow the recovery in the country's economy. In this scenario, growth in the export markets refers to Finland's most important trading partners. Fluctuations in Finland's exports are often substantial, and are attributable not only to the growth variations in export markets but also the changing composition of our trading partners' imports

(Table 1).

Assumptions made in the alternative scenario: long-term challenges in Finland and Europe		
Concerns of households will persist and confidence will remain low amid uncertain times	Confidence is being undermined on a long-term basis by the threat of unemployment, the extremely weak state of the public finances and Russia's war in Ukraine.	Residential property values have decreased over the past few years. Households are risk-averse and prefer to reduce their debt rather than increase spending.
Export markets will grow more slowly than anticipated	The international operating environment is more challenging than anticipated, with greater uncertainty than before.	The structure of Finland's exports is not favourable.
Banks' risk appetite will be reduced as many businesses are struggling	Risk premia on corporate loans are increasing slightly.	

Source: Bank of Finland.

In the alternative scenario presented here, export growth will slow more rapidly than anticipated because demand in Finland's export markets is assumed to focus not on investment but on services, consumption and the defence industry, and because export market shares cannot be expanded as quickly as they would if demand were focused on capital and intermediate goods. The production of defence equipment for export is relatively low in Finland and is therefore insufficient by itself to significantly boost the country's overall exports. Consequently, export growth will clearly fall short of the growth in export markets in the coming years, making it difficult to regain the previously lost export market shares.

In this alternative scenario, rising unemployment, weak public finances and the threat posed by Russia continue to make households cautious, leading to a higher saving rate and reduced consumption. Residential property values, which form the basis of many households' wealth as well as their debt, have declined in recent years. Households are consequently risk-averse and prefer to reduce their debt rather than increase their spending.[2] Household consumption is also held back by the greater uncertainty over the future state of Finland's public finances and the extent and continuation of fiscal consolidation measures.

When exports are weak and households are building up their savings, aggregate demand will slow down, leading to lower corporate earning capacity. This raises financing risks and increases companies' loan margins. Put simply, companies' financing costs will increase. As financing costs rise, companies will need to re-evaluate their planned investment projects. This will reduce the pace of investment growth. Additionally, low labour demand means that wage drift will be slightly less than in the baseline forecast. As financing costs increase, investment in the green transition is likewise expected to progress more slowly than in the baseline forecast.

The alternative scenario was prepared using the Bank of Finland's Aino model.

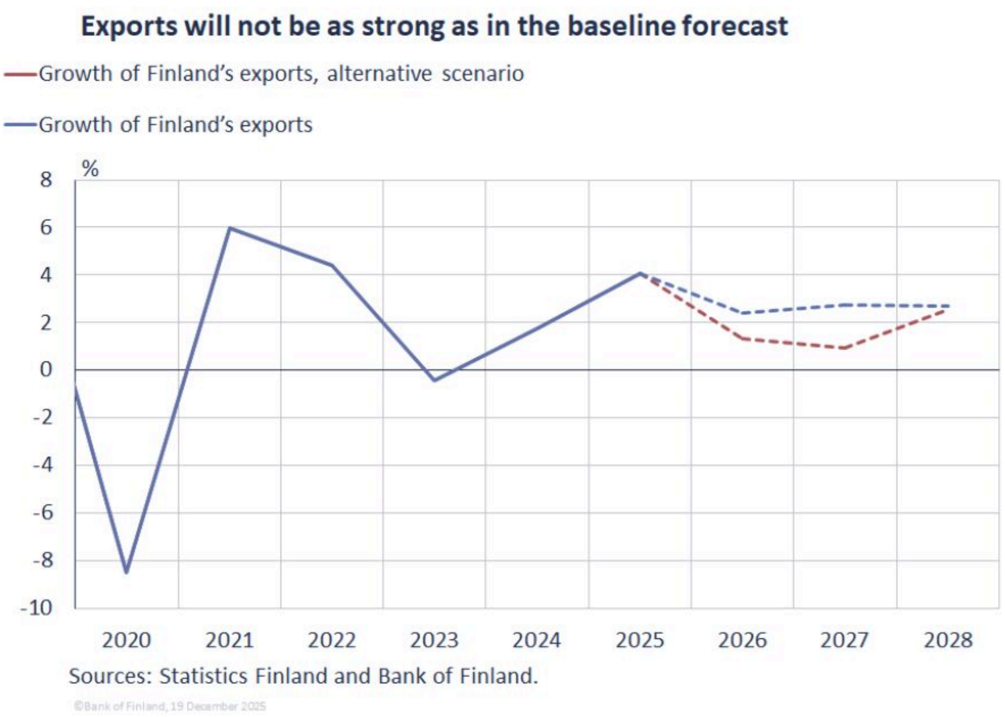
Period of slow growth will continue

As a result of lower growth in demand, growth in the Finnish economy will slow to 0.1% in 2026 and to 0.8% in 2027 (Chart 2). Thus, in 2026 and 2027 GDP will grow 0.7 and 0.9 percentage points more slowly than in the baseline scenario, corresponding to a GDP that is approximately EUR 4 billion lower in 2027 and 2028 than in the baseline. This is a substantial reduction in GDP growth. GDP growth is also expected to be somewhat slower at the end of the forecast period, in 2028. Key results are presented in Table 2.

Chart 2.

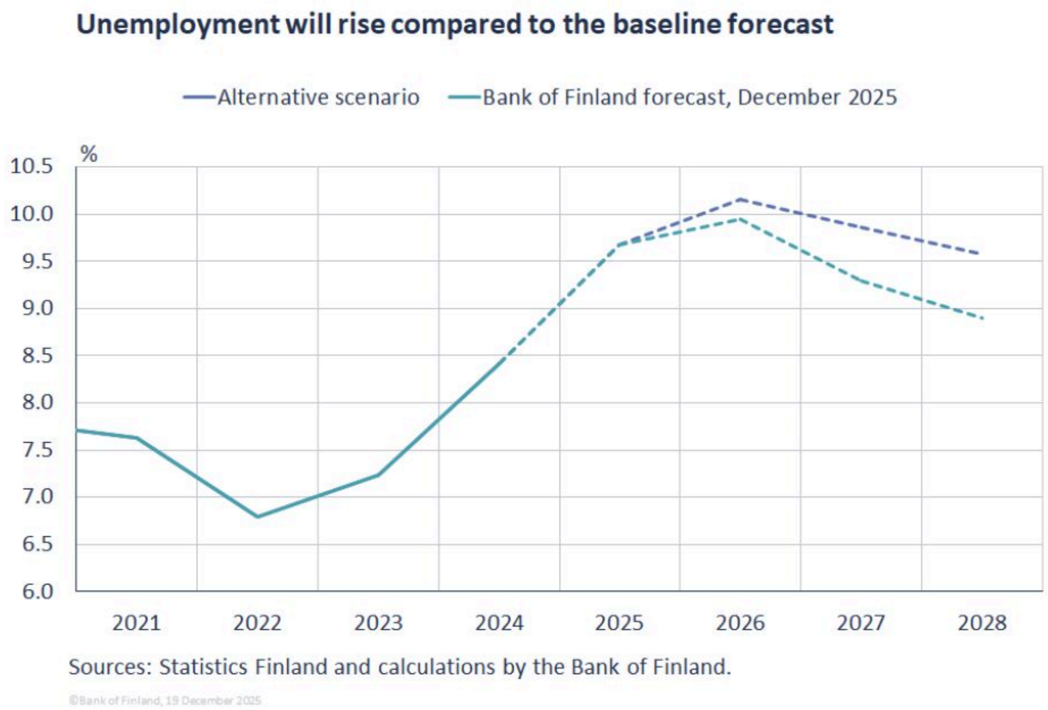
Slower growth in consumption, investment and exports will have a detrimental impact on domestic production and employment. The weak economic conditions, risk aversion and higher risk premia will also dampen investment, which, in 2028, will be roughly 3.5% below the baseline level. The decline in domestic demand and the weakness of exports will also cause imports to slow down compared to the baseline. Exports will be over EUR 3 billion lower in total (Chart 3). The economy's resources will be increasingly underutilised.

Chart 3.



As production growth slows, the number of hours worked will decline and employment will weaken compared to the baseline forecast. Employment will decrease over three years so that at the end of 2028 there will be a total of 36,000 fewer people employed than under the baseline scenario. Correspondingly, the unemployment rate will be about 0.5% higher than in the baseline forecast (Chart 4). The weaker employment situation will lower household incomes, further dampening private consumption. Private consumption will decline by over EUR 2 billion in total.

Chart 4.



In 2026–2028, inflation will be about 0.1 percentage points lower than in the baseline scenario, due to weak exports and low domestic consumption. However, the downward impact of reduced demand on inflation will be moderate, which is expected and reflects the fact that the Phillips curve is relatively flat.[3] On the other hand, the output gap will remain fairly wide in 2028, even though prices will continue to rise in the economy, but inflation will stay close to 2% in this scenario. The inflexibility of negotiated wages explains the rigidity of inflation.

The average hourly earnings growth will slow slightly as wage drift decreases, because weaker consumer demand and export demand will lead to reduced labour demand. This will lower households' purchasing power compared to the baseline forecast.

In conclusion

Under the alternative scenario presented here, Finland's economic woes will persist in the immediate years ahead. This will be attributable to the uncertainties stemming both from the international environment and within Finland. In Finland, the concern relates primarily to the level of public debt and fears of unemployment. This will be reflected in the persistently weak cyclical conditions in Finland. Consumers will remain cautious and businesses will not view investments as worthwhile. During prolonged uncertain times, the impact is clearly seen not only in investments but also in consumption.

Besides domestic concerns, the current international environment is also unfavourable for Finland. The sluggish economy in Europe will not improve overnight, and the threat posed by Russia will continue to fuel citizens' concerns. Europe's slow economic growth, driven by services and private consumption but affected by weak competitiveness, will have a detrimental impact on Finland's export markets and exports, thereby prolonging the slow growth. The problems will be enduring rather than cyclical.

As economic growth will be modest, the implementation of fiscal consolidation measures will become significantly more challenging. Tax revenues will not be increasing as anticipated, while the weak labour market will drive up expenditure, despite the fiscal consolidation efforts. Bringing the public debt onto a declining trend will be significantly more difficult while the economy is weak than in a phase of rapid growth. The continuation of uncertainty and the eventual full effects of tariffs on international trade flows will be harmful, significant and enduring.

Alternative scenario: Economic slowdown will continue

		2025[f]	2026[f]	2027[f]	2028[f]	2028 level and difference, %*
Percentage change on previous year unless otherwise specified						
Gross domestic product	Baseline forecast	0.2	0.8	1.7	1.5	239,170
	Alternative scenario	0.2	0.1	0.8	1.4	234,954
	Difference	**0.0**	**-0.7**	**-0.9**	**-0.2**	**-1.8**
Exports	Baseline forecast	4.1	2.4	2.7	2.7	107,145
	Alternative scenario	4.1	1.3	0.9	2.6	103,994
	Difference	**0.0**	**-1.1**	**-1.8**	**-0.2**	**-2.9**

Sources: Statistics Finland and Bank of Finland.

Alternative scenario: Economic slowdown will continue						
Private consumption	Baseline forecast	-0.1	1.1	1.9	1.9	124,177
	Alternative scenario	-0.1	0.2	1.3	1.8	122,144
	Difference	**0.0**	**-0.9**	**-0.6**	**-0.1**	**-1.6**
Private investment	Baseline forecast	-0.3	3.9	3.8	3.3	42,398
	Alternative scenario	-0.3	2.6	2.2	2.4	40,838
	Difference	**0.0**	**-1.3**	**-1.6**	**-0.9**	**-3.7**
Export markets	Baseline forecast	3.5	2.1	2.9	2.9	136.0
	Alternative scenario	3.5	1.6	2.3	2.8	134.5
	Difference	**0.0**	**-0.5**	**-0.6**	**0.0**	**-1.1**
Savings rate. %	Baseline forecast	4.7	5.6	4.9	4.0	4.0
	Alternative scenario	4.7	5.5	4.7	3.8	3.8
	Difference	**0.0**	**-0.1**	**-0.2**	**-0.2**	**-0.2**
Households' disposable income	Baseline forecast	1.6	3.4	2.9	2.9	164,070
	Alternative scenario	1.6	2.4	2.0	2.6	160,603
	Difference	**0.0**	**-1.0**	**-0.9**	**-0.2**	**-2.1**
Harmonised index of consumer prices	Baseline forecast	1.8	1.4	1.7	1.9	128.2
	Alternative scenario	1.8	1.3	1.6	1.8	127.8

Sources: Statistics Finland and Bank of Finland.

Alternative scenario: Economic slowdown will continue						
	Difference	**0.0**	**-0.1**	**-0.1**	**-0.1**	**-0.3**
People employed. age 15–74, change, 1,000 persons	Baseline forecast	-11	20	23	19	2,655
	Alternative scenario	-11	9	4	14	2,619
	Difference	**0**	**-11**	**-19**	**-6**	**-36**
Unemployment rate. %	Baseline forecast	9.7	9.9	9.3	8.9	8.9
	Alternative scenario	9.7	10.2	9.9	9.6	9.6
	Difference	**0.0**	**0.2**	**0.6**	**0.7**	**0.7**

Baseline forecast: The Bank of Finland's December 2025 forecast.
* = components of aggregate demand. EUR million. at 2015 prices. In the export market indicator and price indices. 2015 = 100. Thousands of people employed. The savings rate is net savings relative to disposable income.
f = forecast.

Sources: Statistics Finland and Bank of Finland.

Notes

1. Baker, S., Bloom, N. and Davis, S. (2016), 'Measuring Economic Policy Uncertainty'. ↑
2. On why a fall in residential property values can lead to slow household deleveraging and prolonged weak consumption, see e.g. Guerrieri, Lorenzoni and Prato (2020, Schumpeter Lecture 2019): Slow Household Deleveraging, Journal of the European Economic Association, volume 18, issue 6, December 2020, pp. 2755–2775, https://doi.org/10.1093/jeea/jvaa049). ↑
3. The relationship between changes in aggregate demand and inflation is shown by the Phillips curve, which, under this scenario, is relatively flat in Finland. In this connection, the Phillips curve refers more specifically to the relationship between inflation and the output gap, and the slope of the curve measures the strength of the relationship. In other words, the relationship indicates that if output grows higher than its potential level, this will drive up inflation. High demand in relation to the production capacity of the economy increases companies' production costs. It also enables the transfer of these costs to the

consumer prices of products, thus accelerating inflation. The original Phillips curve measured the relationship between the unemployment rate (as a measure of economic activity) and wage inflation. ↑

Key words

alternative scenario, consumer confidence, forecast, GDP, international trade, uncertainty