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Finland's economy will gradually recover from the sudden shutdown

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The Finnish economy is experiencing a sharp contraction on account of the coronavirus pandemic. Gross domestic product will decline by around 7% in 2020. In the next 2 years, the economy will grow around 3% per annum. The forecast contains an exceptionally large degree of uncertainty. The contraction in the economy in 2020 could be only 5% or as much as 11%, depending on how the epidemic progresses in Finland and around the world, and what success there is in bringing it under control. The degree of success in controlling the epidemic will also determine how quickly the economy will recover. It will probably not be possible to avoid permanent losses of output, but economic policy can be used to mitigate their scale.



The global economy will drift into recession this year, and the economies of Finland's most important trading partners will suffer considerably from the corona pandemic. Important trading partners for Finland include the euro area, Sweden, the United States and China. This means that in the immediate years ahead these countries will not be buying goods and services offered by Finnish companies to the same extent as before. This casts a shadow over Finland's economic prospects in addition to the restrictions imposed domestically and the weakened confidence among Finnish households and businesses. Key to a recovery in the global economy will be how

successfully the virus can be brought under control around the world and how long the restrictive measures have to be kept in place. Worries over the economy and health will continue to slow growth in consumption and investment even after the lifting of restrictions.

The forecast assumes that the acute phase of the corona crisis will end sometime next year, when a vaccine or effective treatment is found for the virus. Thereafter, the economy will begin to slowly recover, led by private consumption, as households once more dare to consume and unemployment eases slightly.

Even though the international economy will begin to slowly recover, Finnish export growth will be sluggish. This is because the corona crisis has caused companies in other countries to reduce their volume of investment and Finland exports industrial products needed in such investment, such as machine parts. The outlook for exports is also subdued by Finland's slightly weakening cost-competitiveness. 'Cost-competitiveness' means how the costs and profitability of domestic output develop relative to other countries.

The corona pandemic will cause lasting damage to the Finnish economy, as not all companies will survive the deep recession and some job losses will be permanent. Employment will decline much less than during the depression of the 1990s, but slightly more than in the financial crisis of around a decade ago. Not all those who lose their job will find another, and therefore employment will recover only partially in 2022.

Finland's public finances were already in deficit before the corona crisis. This means central and local government revenues are insufficient to cover all expenditures. The crisis will cause a further deepening of the general government deficit, and public debt will grow by a record amount in a short time. Public debt will grow more than before because the corona crisis will cause a dip in tax revenues at the same time as expenditure on e.g. unemployment will grow. In addition, the public finances will also be weakened by the expenditure increases already agreed in the Government Programme before the corona crisis. In 2022, the ratio for debt relative to GDP will already be approaching 75%, and it will continue to grow thereafter. Thus, the debt ratio will be higher than ever before since Finland adopted the euro or during the depression of the 1990s.

Keywords

COVID-19, economic forecast, economic growth, economic outlook, forecast