Simply Short

Pandemic eases and economy begins to grow

Finnish economy | 15 June 2021

The COVID-19 pandemic will ease due to the vaccination programme, and as a consequence the Finnish economy will start to grow at a brisk pace. As the COVID restrictions end and uncertainty decreases, households will be able to consume more freely. With economic growth also strong globally, this will give a fillip to Finland's foreign trade. The pandemic is, however, not yet finally over. There is still the threat that it could worsen again, and this casts a shadow over both the growth outlook for Finland and that for the global economy as a whole. The Finnish economy will grow 2.9% in 2021 and 3.0% in 2022. The rapid growth will, however, be temporary, and the pace will slow to 1.3% already in 2023.



The COVID-19 pandemic is expected to ease worldwide as the vaccination programmes progress. The reduced uncertainty and economic recovery fuelled by monetary and fiscal policy will stimulate growth in the global economy. This will also boost demand for the goods and services of Finland's export companies. Finnish exports will be bolstered particularly by accelerating growth in the euro area towards the end of the current year, and also by increased investment worldwide. The recovery in Finnish exports will indeed be rapid and will this year already reach the heights of the pre-pandemic figures. The pandemic will, however, not be over until it has been defeated

worldwide. The uncertainty relating to the pandemic will still overshadow the growth outlook both for Finland and for the global economy for a long time to come. In the immediate years ahead, global growth may also be restricted by a rise in commodity prices, particularly oil. World trade will also suffer from difficulties in deliveries, for example with regard to electronics components.

Chart 1.

Economy will take off once pandemic eases



Household consumption will stimulate a growth spurt in the Finnish economy.

Strong global growth will boost exports.

Rapid growth is in sight, but the pandemic poses a threat to recovery.

Source: Bank of Finland.

Finnish growth in the immediate years ahead will be led particularly by household consumption. The restrictions on e.g. restaurant opening hours and public events reduced the opportunities for consumption during the pandemic. In addition, individuals' caution regarding their health reduced consumption demand. As the restrictions are relaxed and uncertainty recedes, households will once again be able to spend more freely. Household incomes will continue to grow, particularly due to improvements in employment. Moreover, households have also accumulated a lot of savings during the pandemic, and some of these may already be used for consumption in the coming years. The purchasing power of the higher household incomes and savings will be eroded somewhat by a rise in the prices for goods and services, which will accelerate in the immediate years ahead.

The positive tone is further bolstered by the fact that most Finnish companies have come through the pandemic relatively unscathed. It has been most difficult for services companies such as

restaurants. The economic uncertainty has, however, caused many companies to postpone or cancel their investments, such as new production facilities. As the pandemic recedes and the uncertainty is reduced, companies will begin to invest again. There will also be strong demand for housing, and new housing construction will be brisk in the immediate years ahead.

The COVID crisis has placed a strain on central and local government, whose expenditures have grown substantially during the crisis. At the same time, tax revenues have declined on account of the slowdown in growth. The general government deficit, i.e. the imbalance between income and expenditure, has grown during the pandemic. The central government deficits have been funded by borrowing. Central government debt relative to GDP will continue to grow in 2021 despite the brisker pace of growth. The public purse will continue to accumulate debt over the years 2021–2023. In 2023, general government debt will stand at 73% relative to GDP.

The economy could develop better or worse than expected, and the upside and downside risks for the immediate years ahead are more or less equal. The greatest risks relate to the unpredictability of the COVID pandemic. It will not be over until it has been defeated everywhere in the world. The new virus variants, in particular, could still bring unpleasant surprises, and a deterioration in the situation could cause a substantial slowing of growth. On the other hand, the economy could develop more positively than forecast if households begin to use the savings accumulated during the pandemic for consumption.

Keywords

COVID-19, COVID-19 crisis, economic growth, forecast, households, uncertainty