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EUROJÄRJESTELMÄ



FINLANDS BANK
EUROSYSTEMET

Finland's economy will pick up gradually

Bank of Finland Bulletin
17 December 2024

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Finland's economy will pick up gradually



Economic growth slowly returning, risks still elevated

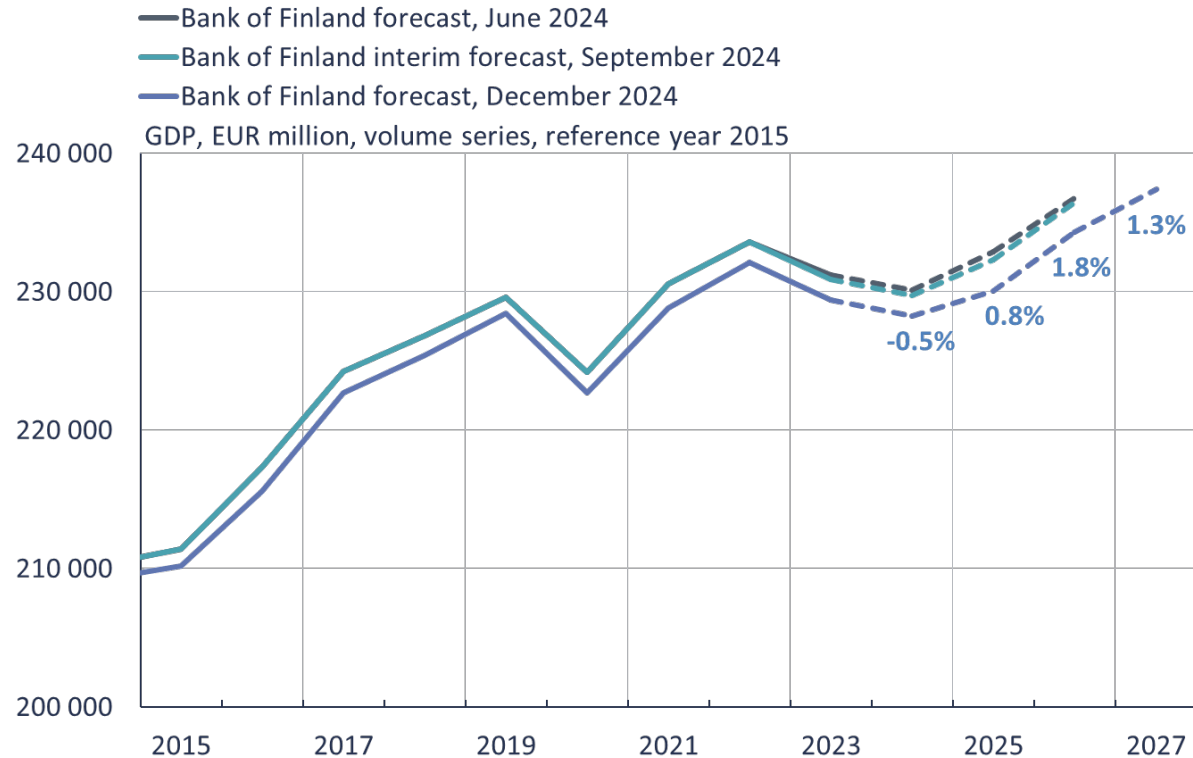


Moderate inflation rate



Sustained efforts needed to turn public debt ratio around

Finnish economy will slowly pick up

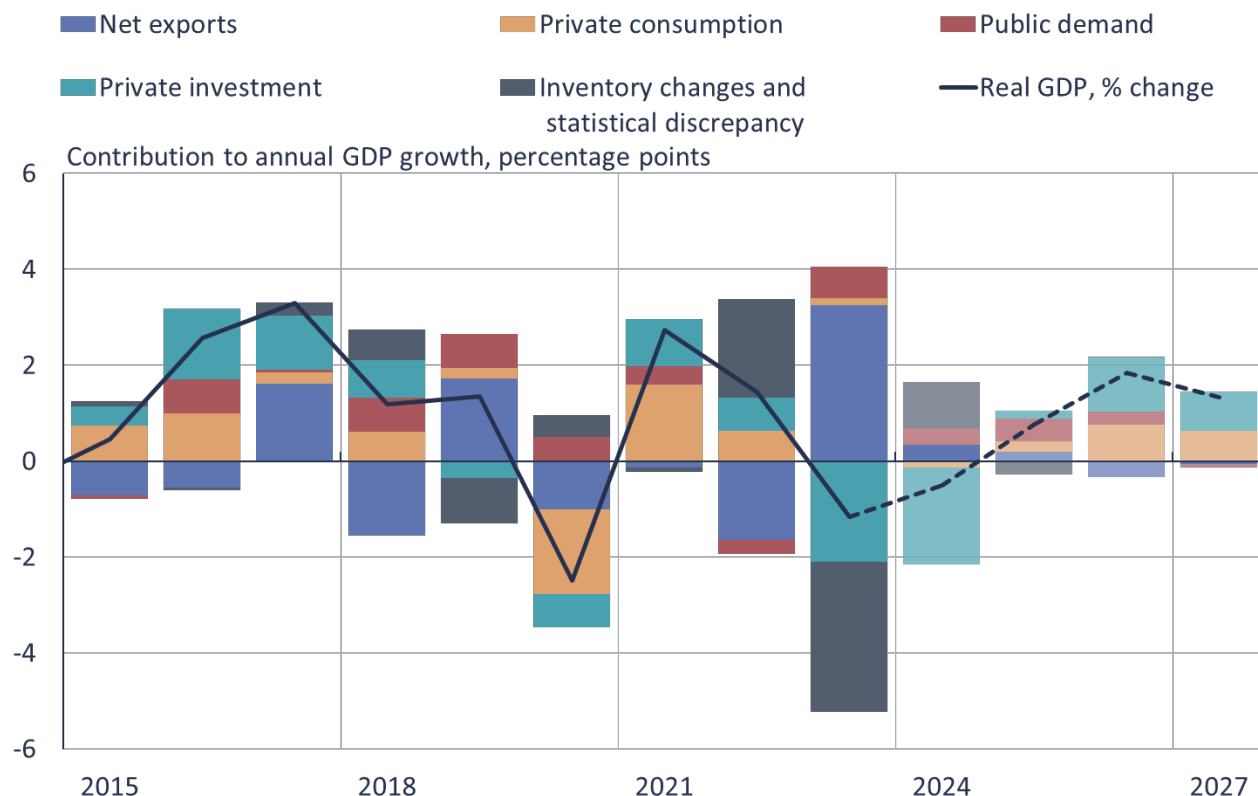


Sources: Statistics Finland and Bank of Finland.

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- Forecast revised downwards
- Modest domestic demand and weak growth in Finland's key export markets
- Towards end of forecast period, growth close to long-term growth potential
- Inflation will remain moderate and interest rates expected to come down further

Modest recovery to start in 2025, growth will gather pace in 2026



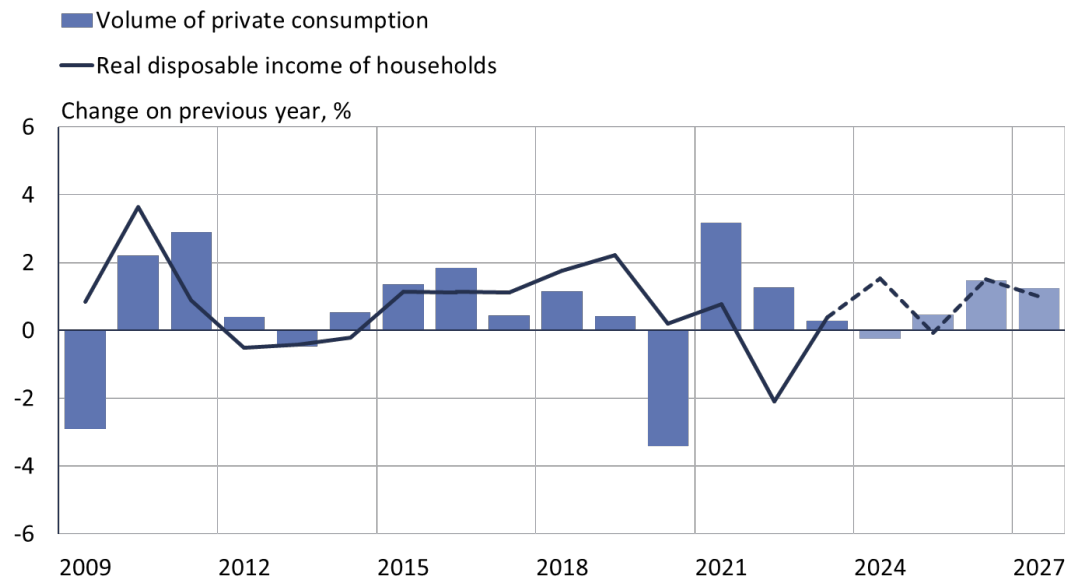
- Private consumption will be subdued
- Confidence in investment will gradually start to recover
- Export growth overshadowed by uncertainties

The contribution of each demand component to GDP growth is calculated on the basis of its volume growth and its value share in the previous year. The figures for 2024–2027 are forecasts.

Sources: Statistics Finland and Bank of Finland.

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Private consumption will be subdued

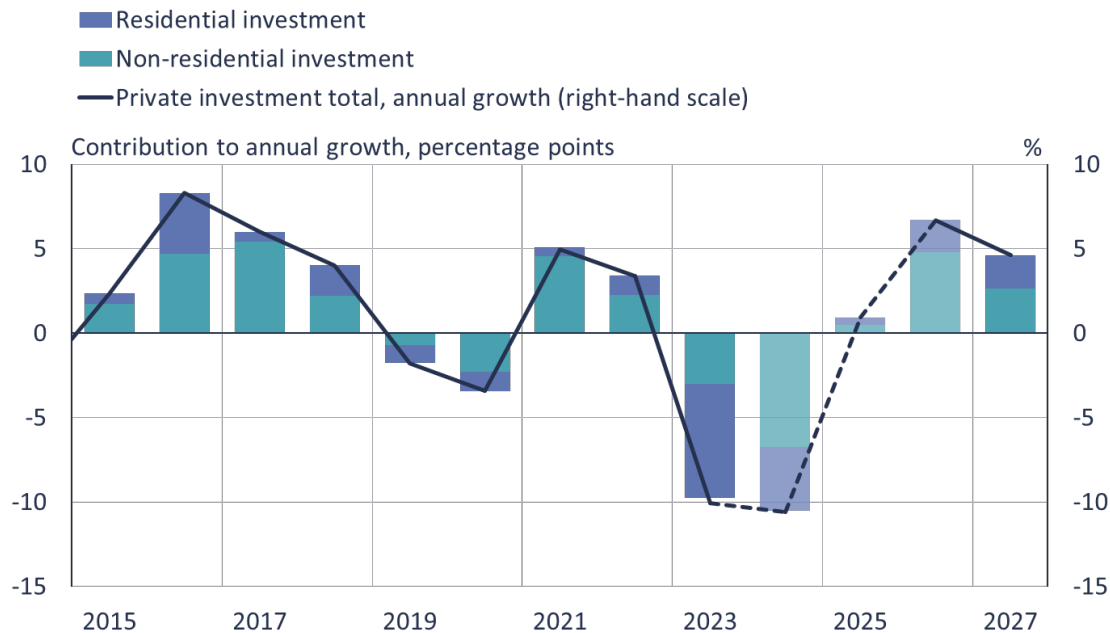


Households = households and non-profit institutions serving households (NPISH).
Sources: Statistics Finland and Bank of Finland.

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- Private consumption will recover slowly to begin with – weak confidence, unemployment still rising and fiscal policy growing tighter
- Purchasing power will start to rise again, interest rates are expected to come down further – consumption will strengthen

Investment confidence will gradually start to return

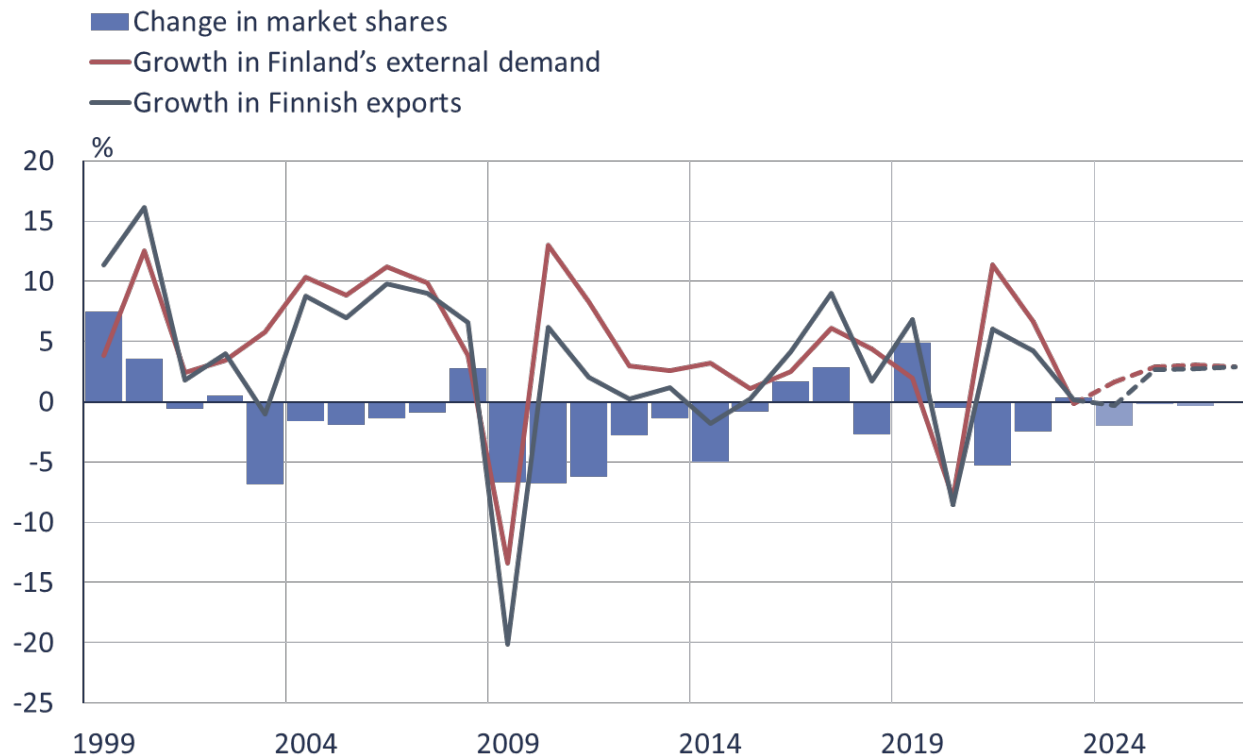


- Private non-residential investment will slowly begin to grow in 2025 – markets expecting interest rates to come down further
- In residential construction a clear improvement will take longer to come about

Sources: Statistics Finland and Bank of Finland.

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Export growth overshadowed by uncertainties



Sources: Statistics Finland and Bank of Finland.

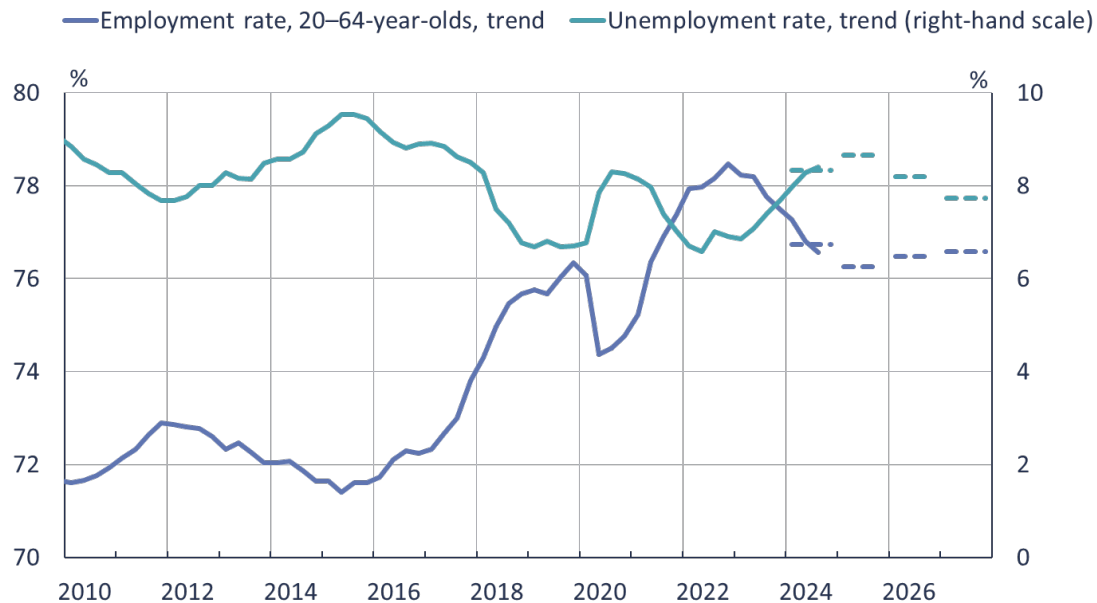
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- Economy will pick up in Finland's export markets but euro area will trail
- Worldwide reduction in interest rates will spur demand for Finnish exports of investment goods.

Alternative scenario: Import tariffs and trade policy uncertainty will dampen economic growth
Petteri Juvonen, Aino Silvo ja Hannu Viertola

IT services are a key part of Finland's service exports
Petri Mäki-Fränki and Hannu Viertola

Weak cyclical conditions weighing on the labour market

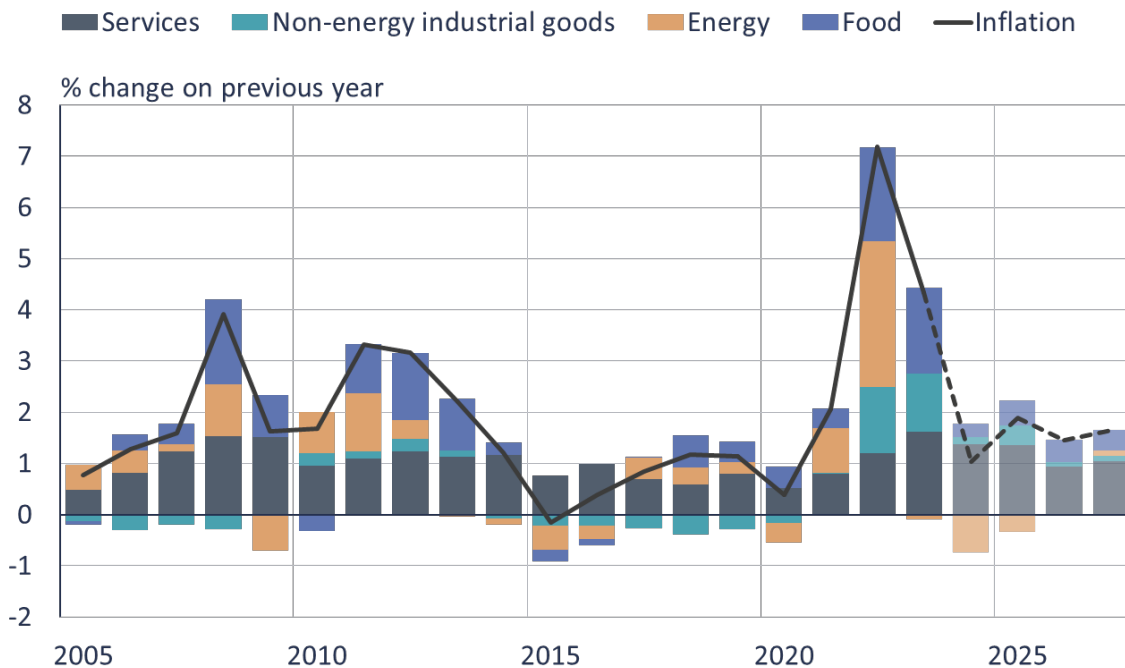


Sources: Statistics Finland's Labour Force Survey and Bank of Finland.

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- In the early part of the forecast period the economy will not yet boost the demand for labour by enough to lift the employment rate
- Labour demand will pick up in the immediate years ahead and the unemployment rate will fall to 7.7%

Price pressures are low but will increase as the economy improves



Sources: Eurostat and forecast by the Bank of Finland.

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- Inflation has fallen considerably in 2024
- Increases in taxation will affect consumer prices in 2025
- In 2026–2027, the economy will strengthen and purchasing power will rise – modest inflation will be sustained by consumption
- Inflation will stay below 2%

Employees' nominal and real earnings will rise in the immediate years ahead

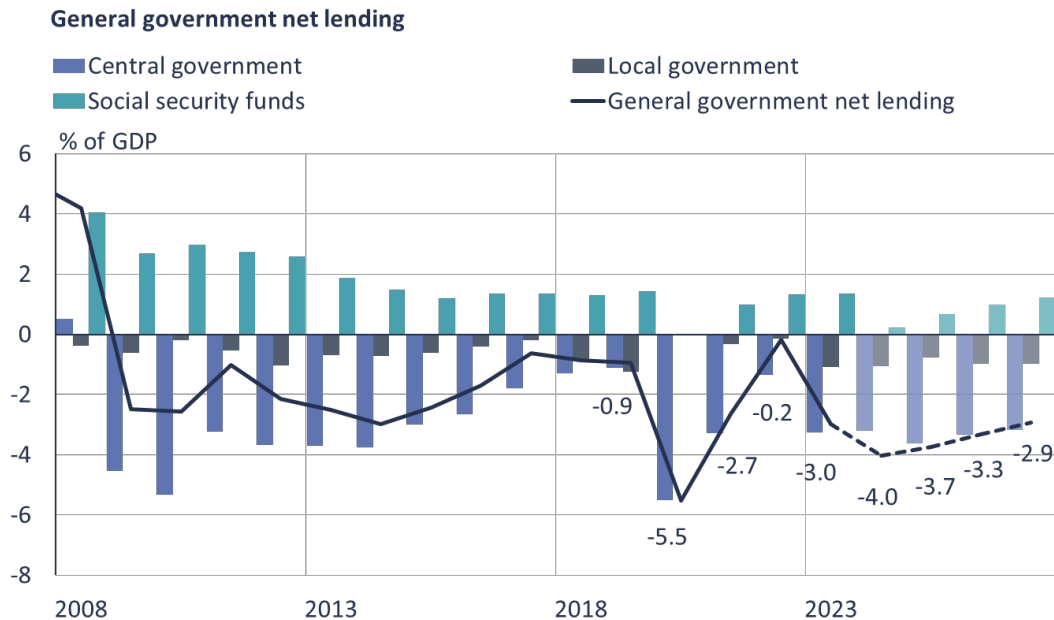


Sources: Statistics Finland and Bank of Finland.

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- Nominal earnings are assumed to rise by 3% in 2025 and by 2.6% in each of the two subsequent years
- With inflation averaging significantly less than 2%, employees' real earnings will exceed their 2021 level at the end of the forecast period

General government deficit will deepen in 2024

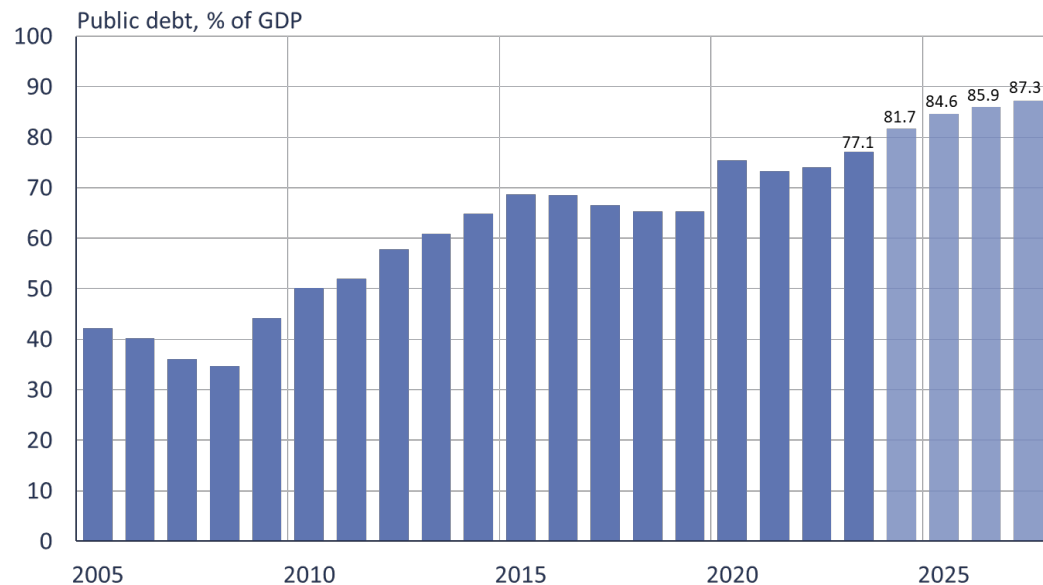


Sources: Statistics Finland and Bank of Finland (forecasts).

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- Deficit will deepen to 4% in 2024 and will not fall below 3% until 2027
- Fiscal balance will start to improve from 2025 as a result of the Government's fiscal adjustment measures
- In parallel with this, public finances burdened by expenditure growth

Deficit and weak economic growth will push up the debt-to-GDP ratio



Sources: Statistics Finland and Bank of Finland (forecasts).

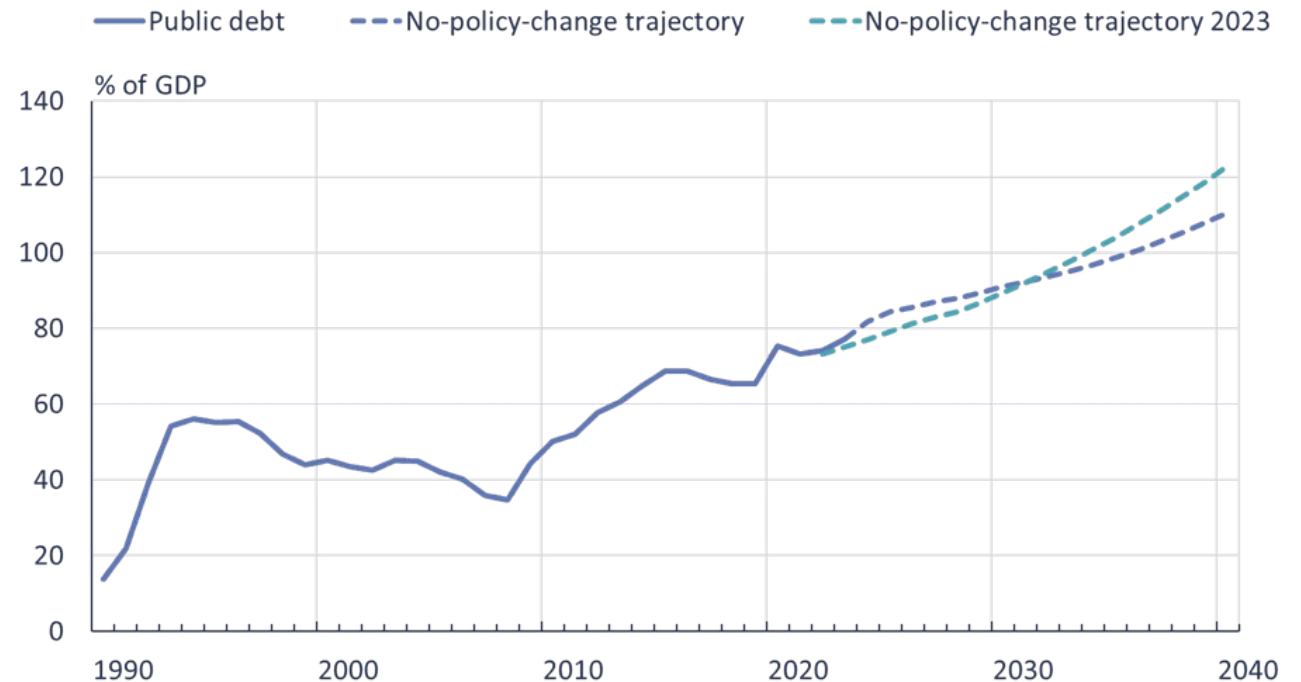
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- Public debt 77% of GDP at end of 2023, will approach 82% in 2024
- Rise in debt ratio due to deep deficits in central and local government finances and weak nominal GDP growth
- Public debt ratio will rise to 87% by the end of 2027

Assessment of public finances 2024: Sustained efforts needed to turn public debt ratio around

- Updated assumptions on net immigration (25,000) and long-term growth, plus the fiscal adjustment measures to date, have improved the estimate of the sustainability gap to 2%
- Debt accumulation still on an unsustainable path
- Substantial challenges related to short- and medium-term indebtedness remain unchanged
- New fiscal policy rules and the related medium-term plan aim at reducing debt ratios

Upward pressures on public debt are not easing



Sources: Statistics Finland and Bank of Finland.

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Forecast summary

% change on previous year

	2023	2024 ^f	2025 ^f	2026 ^f	2027 ^f		2023	2024 ^f	2025 ^f	2026 ^f	2027 ^f
GDP	-1,2	-0,5	0,8	1,8	1,3	Labour market					
Private consumption	0,3	-0,3	0,5	1,5	1,2	Hours worked	0,2	-1,2	0,0	0,9	0,5
Public consumption	3,4	0,2	-0,4	0,3	0,0	Employment rate (20–64-year-olds), %	77,9	76,7	76,3	76,5	76,6
Fixed investment	-9,0	-7,5	3,4	6,1	3,3	Unemployment rate, %	7,2	8,3	8,7	8,2	7,7
Private fixed investment	-10,1	-10,6	0,9	6,7	4,6	Unit labour costs	5,3	-0,6	2,5	1,7	1,8
Public fixed investment	-3,6	7,1	13,3	4,2	-1,3	Compensation per employee	3,5	-0,1	3,5	2,7	2,5
Exports	0,2	-0,3	2,7	2,7	2,9	Productivity	-1,7	0,5	1,0	1,0	0,7
Imports	-6,6	-1,1	2,2	3,5	3,0						
Contributions to growth from components of demand						Gross domestic product, price index	3,9	1,1	1,5	1,7	2,0
Domestic demand	-1,3	-1,8	0,9	2,2	1,4	Private consumption, price index	4,6	1,0	1,9	1,6	1,8
Net exports	3,2	0,3	0,2	-0,3	-0,1						
Inventory change + statistical discrepancy	-3,1	1,0	-0,3	0,0	0,0	Harmonised index of consumer prices	4,3	1,0	1,9	1,5	1,7
Savings ratio, households	1,4	3,1	2,6	2,6	2,4	Excl. energy	5,0	2,0	2,5	1,6	1,7
Current account, % of GDP	-0,4	0,5	0,1	-0,4	-0,5	Energy	-1,8	-7,9	-3,6	-0,1	1,0
General government, % of GDP											
General government balance	-3,0	-4,0	-3,7	-3,3	-2,9						
General government gross debt (EDP)	77,1	81,7	84,6	85,9	87,3						

32346##Taulukko vaaka e

f = forecast

Sources: Statistics Finland and Bank of Finland.