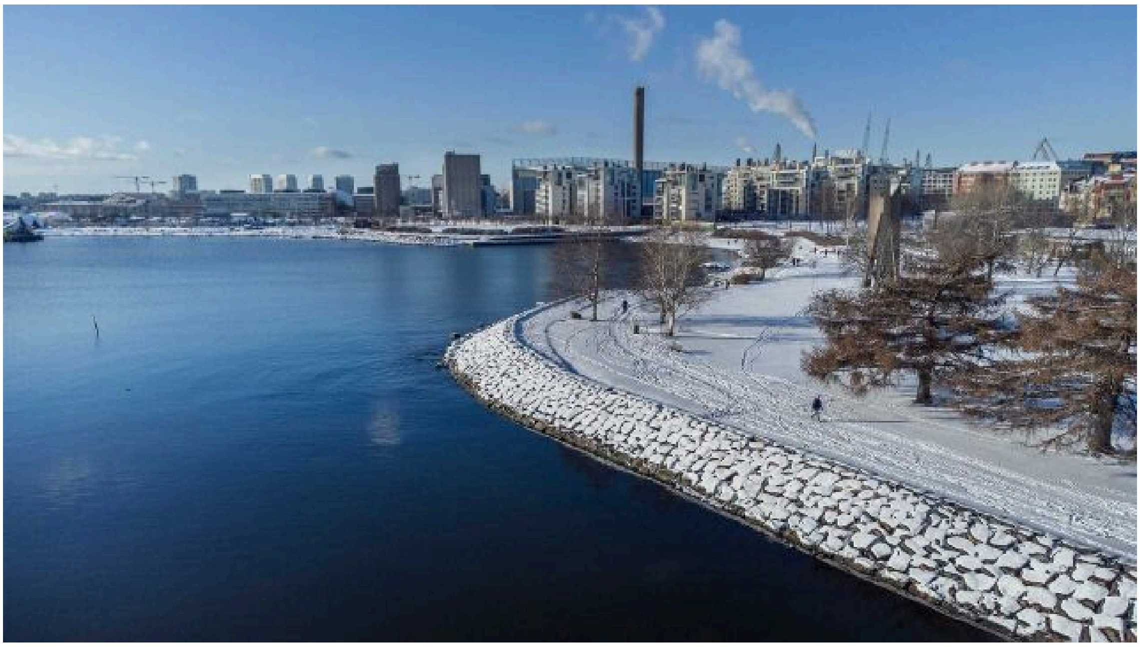
FORECAST

Finland’s economy heading out of recession

Finnish economy | 21.01.2026

Finland’s economy is emerging from a phase of extremely low growth. Nevertheless, although the economy will improve, there is no strong expansionary phase in sight in the immediate years ahead. The risks surrounding the growth forecast are predominantly on the downside. For the full year 2025, growth in the Finnish economy will be almost at a standstill, but in 2026 it will rise to 0.8%. Household purchasing power will strengthen and private consumption will begin to pick up. Exports will increase and there will be a revival in corporate investment too, although economic uncertainty will not fade entirely. Growth in the Finnish economy will climb to about 1.5% in the years 2027–2028. Inflation will stay below 2% in the immediate years ahead, and the employment rate will gradually improve. Despite the stronger economic conditions, Finland’s public finances will continue to be deeply in deficit.



Overview

The global economy has continued to show steady growth despite the political and tariff-related uncertainties. However, in the immediate years ahead the growth in the global economy will slow a little and growth in Finland’s export markets will moderate. The growth outlook will continue to be overshadowed by uncertainties surrounding international relations and global trade.

Financing conditions eased in the first part of 2025 and have remained more or less unchanged in the second half of the year. These easier financing conditions will support the growth pick-up in both the Finnish and euro area economies. The financial markets are expecting a slight rise in the 3-month Euribor rate at the end of the 2025–2028 forecast period.

Finland's economy is emerging from a phase of extremely low growth. Nevertheless, although the economy will improve, there is no strong expansionary phase in sight in the immediate years ahead. Growth in the Finnish economy for the full year 2025 will be just 0.2%. In 2026, the economy will grow by 0.8%, and in 2027 growth will climb to 1.7%. In 2028, the final year of the forecast period, growth will level out at 1.5%. At the end of the forecast period, growth in Finland's economy will be above its long-term potential as a result of cyclical factors.

Due to the weakened labour market and the still fragile level of consumer confidence, the full year 2025 will show no growth in private consumption. Consumption will start to rise in 2026, when real earnings growth gathers pace and the labour market gradually strengthens. Purchasing power will also be boosted by the reduction in the amount of interest payments made by households. As economic growth picks up, the labour market will also continue to recover, which will strengthen consumer confidence and support consumption growth in 2027–2028.

Business investment will show a modest further contraction for 2025 as a whole, but will rebound to growth in 2026. This growth will stay strong in 2027 and 2028 as well. The factors behind this growth will include data centre investments and green transition projects, even though uncertainty and low production capacity utilisation will curb some investment plans. Growth in housing construction in the immediate years ahead will remain subdued. New-build housing construction is being held back by the difficult market for new homes, although this will be eased gradually when household incomes and consumer confidence grow.

Export growth will be up for 2025 as a whole. This reflects brisk growth in goods exports, whereas service exports have slowed this year. The gradual improvement in export markets and the pick-up in investment demand as a result of the worldwide reductions in interest rates will support a modest increase in Finland's exports in the years 2026–2028. Geopolitics and trade policy tensions will nevertheless curtail demand for some time to come. Imports will grow considerably, bolstered by defence procurement in particular.

Inflation has fallen towards the end of 2025, to below 1.5%, and it will remain close to this in 2026 as well. In the early part of the forecast period, price pressures will be curbed by the weak economy and the fact that import prices have risen only modestly overall, but a rise in wages will have the opposite effect on consumer prices. Inflation will rise gradually as the economy strengthens, and will reach 1.9% in 2028.

A turn for the better in the labour market has again been delayed on account of the weak cyclical conditions. Although the employment rate will rise in the immediate years ahead, the unemployment rate will still be almost 9% in 2028. The labour force participation rate and the supply of labour will remain high. The employment rate will rise steadily in the years of the forecast, but in 2028 it will still be below its 2022 peak.

Finland's public finances are deeply in deficit, and public debt is continuing to grow. The general government deficit as a percentage of gross domestic product (GDP) for the full year 2025 will be 3.7%. Fiscal consolidation in 2025–2027 is being implemented through cuts in public expenditure and increases in indirect taxation, but the reductions in personal and corporate income taxes will slow the fiscal adjustment. Major defence investments from 2026 onwards will initially deepen the deficit again, but in the two subsequent years the deficit will shrink, though only marginally. The public debt-to-GDP ratio will exceed 88% in 2025 and rise to 93% in 2028.

The risks related to the growth forecast are predominantly on the downside. The recovery in the Finnish economy could be impeded by trade policy tightening, geopolitical tensions, financial market disruptions and any additional fiscal consolidation measures. It is also possible that the economy could grow more quickly than expected in the immediate years ahead. The pace of economic recovery at turning points in the business cycle has often proved to be faster than initially expected, and investments in particular could provide a positive surprise. The risks concerning the inflation forecast are evenly balanced.

Table 1. Key forecast outcomes (1/2)

Percentage change on the previous year	2024	2025[f]	2026[f]	2027[f]	2028[f]
GDP	0.4	0.2	0.8	1.7	1.5
Private consumption	-0.4	-0.1	1.1	1.9	1.9
Public consumption	1.7	-2.0	-0.4	0.2	0.7
Fixed investment	-5.0	0.2	6.8	2.8	2.0
Private fixed investment	-7.7	-0.3	3.9	3.8	3.3
Public fixed investment	7.7	2.3	18.3	-0.4	-2.6
Exports	1.8	4.1	2.4	2.7	2.7
Imports	-0.8	1.9	5.2	2.6	2.9

Percentage change on the previous year	2024	2025f	2026f	2027f	2028f
Effect of demand components on growth					
Domestic demand	-0.9	-0.5	1.9	1.6	1.6
Net exports	1.1	0.9	-1.1	0.1	-0.0
Changes in inventories and statistical error	0.2	-0.2	0.0	0.0	0.0
Savings rate, households, %	4.3	4.7	5.6	4.9	4.0
Current account, % of GDP	-0.7	1.1	0.2	0.3	0.4

Table 1. Key forecast outcomes (2/2)

	2024	2025f	2026f	2027f	2028f
Labour market					
Number of hours worked	-0.9	-1.4	0.8	0.9	0.7
Employment rate (20–64-year-olds), %	76.7	76.1	76.2	76.5	76.6
Unemployment rate, %	8.4	9.7	9.9	9.3	8.9
Unit labour costs	0.2	2.5	3.1	2.4	1.7
Labour compensation per employee	1.8	3.1	3.1	3.2	2.5
Productivity per employee	1.5	0.6	0.1	0.8	0.8
GDP, price index	0.7	1.7	2.3	2.2	2.2
Private consumption, price index	1.0	1.2	1.4	1.7	1.9
Harmonised index of consumer prices	1.0	1.8	1.4	1.7	1.9
Excl. energy	1.9	2.4	1.7	1.8	1.7
Energy	-8.0	-3.9	-2.0	0.8	4.0
General government, % of GDP					

f = forecast.

Sources: Bank of Finland and Statistics Finland.

	2024	2025f	2026f	2027f	2028f
General government balance	-4.4	-3.7	-4.3	-4.1	-3.9
General government gross debt (EDP)	82.5	88.2	90.6	91.5	93.1

f = forecast.

Sources: Bank of Finland and Statistics Finland.

Operating environment: assumptions and financing conditions

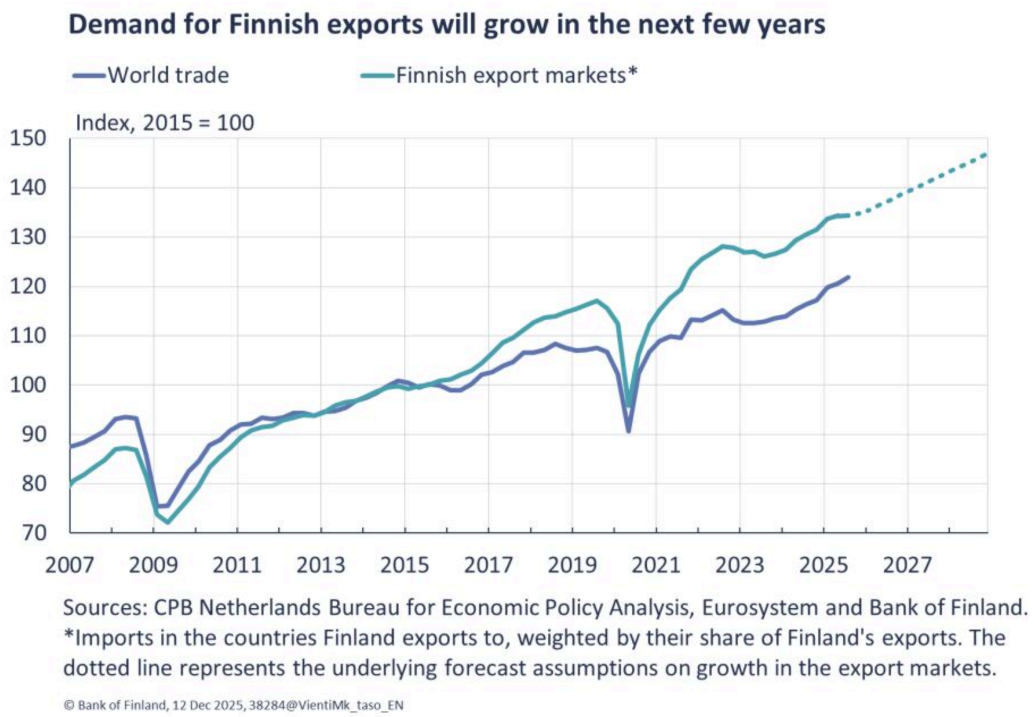
Growth in world trade and the global economy has remained robust despite the trade war, and the outlook for Finnish exports has improved. Uncertainty surrounding trade policy has declined from its peak levels seen in the early part of 2025. However, in the immediate years ahead growth in the global economy will slow slightly. Inflation will fall in the major economies in the immediate years ahead and financing conditions will remain almost unchanged. The growth outlook will nevertheless continue to be overshadowed by uncertainties surrounding international political developments and world trade. The Bank of Finland forecast is based on data available on 3 December 2025.

Growth in the global economy has continued despite tariffs and uncertainties

The global economy has continued to show steady growth despite the political and tariff-related uncertainties. Data on growth rates for 2025 indicate that growth in the global economy and world trade for the full year will be stronger than expected. With the outlook for the global economy also being reasonably good, Finland's export markets will grow at a higher rate than assumed in the Bank of Finland's September forecast (Chart 1). In the immediate years ahead, global economic growth will moderate to just over 3% (Table 1). The increase in barriers to trade will essentially have an inhibiting effect on world trade. Inflation will decline further in the major economies.

Growth in the major economies has remained robust despite the escalation of trade policy tensions and the subsequent increase in trade barriers. Growth has been higher than expected particularly in the United States and China. In the United States, domestic demand has been supported by expansionary fiscal policy, growth in incomes and asset values, and particularly investment in artificial intelligence. Productivity growth, too, has remained strong. In China, the subdued level of domestic private demand has been counterbalanced by export growth and fiscal stimulus.

Chart 1.



Uncertainty over trade policy has faded since the early part of 2025. The United States has reached trade agreements with the EU and other countries, and under these agreements tariffs on imports to the US are considerably higher than before. The effective tariff rate on US imports from the EU is going to be around 12%. The final level of tariffs on some products, such as pharmaceuticals, is nevertheless still uncertain. In addition, the risk of an escalation in the trade war, particularly between China and the United States, continues to cast a shadow over the outlook for the global economy.

According to the European Central Bank's (ECB) December projections, the euro area GDP growth rate will remain positive but slow throughout the forecast period. GDP growth so far in 2025 has nevertheless been higher than expected, reflecting favourable growth in goods exports in particular, despite the trade war, and a strengthening of domestic demand. In the ECB's December projections, GDP growth has been revised upwards slightly compared with the projections it made in September. Growth in the euro area's export markets is also projected to be stronger than previously expected. However, due to competitiveness challenges of a structural nature and higher barriers to trade, growth in euro area exports will be slow.

Growth in the euro area economy will come mainly from services, but growth will be weak. Industrial activity will remain subdued, but confidence indicators suggest that the long contraction in industrial production has come to an end. Despite the continued weakness of consumer confidence in the euro area, private consumption has picked up slightly, underpinned by the strengthening of purchasing power and the favourable trend in employment (see also 'Finland's labour market weaker than that of the euro area'). In the forecast period, economic growth will also be sustained by private and public investment, such as investment in defence and infrastructure. The pick-up in the euro area economy, and particularly in investment, will have a positive impact on the outlook for Finland's exports.

Euro area inflation will remain moderate throughout the forecast period. Energy prices have declined slightly compared to the path assumed in the ECB's September forecast. On the other hand, other raw material prices have risen moderately. The forecast's assumptions on raw material and energy prices and exchange rates are close to those made in September. Changes in the assumptions thus have only a minor impact on Finland's GDP forecast and inflation forecast.

Table 2. Forecast assumptions

Volume change year on year, %	2024	2025[f]	2026[f]	2027[f]	2028[f]
Euro area GDP	0.9	1.4	1.2	1.4	1.4
World GDP (excl. euro area)	3.6	3.5	3.3	3.3	3.3
World trade (excl. euro area)[1]	4.3	4.4	2.0	3.1	3.1
	2024	2025[f]	2026[f]	2027[f]	2028[f]
Finland's export markets, % change[2]	2.4	3.5	2.1	2.9	2.9

[1] Calculated as the 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 change year on year, %	2024	2025f	2026f	2027f	2028f
Oil price, USD/barrel[3]	81.2	69.2	62.5	62.6	64.0
Raw material prices (excl. energy), USD, % change[4]	9.2	5.7	0.1	0.5	-0.3
Export prices of Finland's competitors, EUR, % change	0.2	-0.9	0.2	1.9	1.9
3-month Euribor, %[3]	3.6	2.2	2.0	2.1	2.3
Finland's nominal effective exchange rate[5,6]	103.0	104.7	105.8	105.8	105.8
USD value of one euro[6]	1.1	1.1	1.2	1.2	1.2

[1] *Calculated as the 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.

Interest rates are expected to remain virtually unchanged

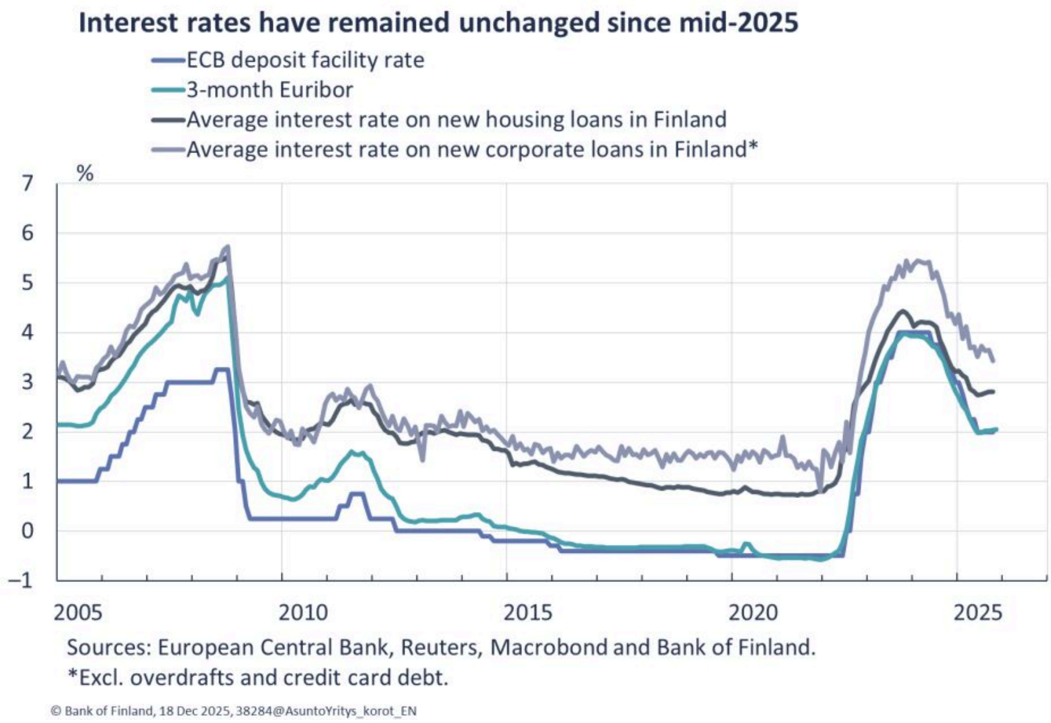
The Governing Council of the European Central Bank (ECB) decided in its December 2025 monetary policy meeting to keep the three key ECB interest rates unchanged. According to the Governing Council, inflation is expected to stay at around the 2% medium-term target. The Governing Council will follow a meeting-by-meeting and data-dependent approach to determining the monetary policy stance. In particular, the interest rate decisions of the Governing Council will be based especially on an assessment of the inflation outlook and the related risks in the light of the incoming economic and financial data, the dynamics of underlying inflation and the strength of monetary policy transmission. The ECB's Governing Council is not pre-committing to a particular rate path.

Financing conditions have remained broadly unchanged in the second half of 2025, and the

3-month Euribor is currently at around 2% (Chart 2). According to the market expectations used in the forecast, the ECB's deposit facility rate, and thus also the 3-month Euribor, will remain at current levels in 2026–2027 (Table 1). However, short-term interest rates are expected to rise slightly towards the end of the forecast period. The interest rates on new housing and corporate loans have not declined significantly in Finland since the summer (Chart 2). The impact of monetary policy easing has probably already largely passed through to lending rates in Finland.

According to the euro area Bank Lending Survey (BLS), credit standards for corporate loans tightened in Finland in the third quarter of 2025, whereas credit standards for household loans remained unchanged. On the other hand, the terms of corporate loans eased and the margins on housing loans decreased. The credit standards for housing loans are expected to ease towards the end of 2025. The results of the BLS show that the demand for corporate and household loans increased in the third quarter. According to the Business Tendency Survey carried out by the Confederation of Finnish Industries in October 2025, access to finance by manufacturing and service sector companies in Finland is not a significant factor limiting production. In the construction sector, however, financing difficulties are more common, even though the proportion of such companies reporting difficulties in access to finance has decreased since 2023 by almost a half, to slightly over 10%.

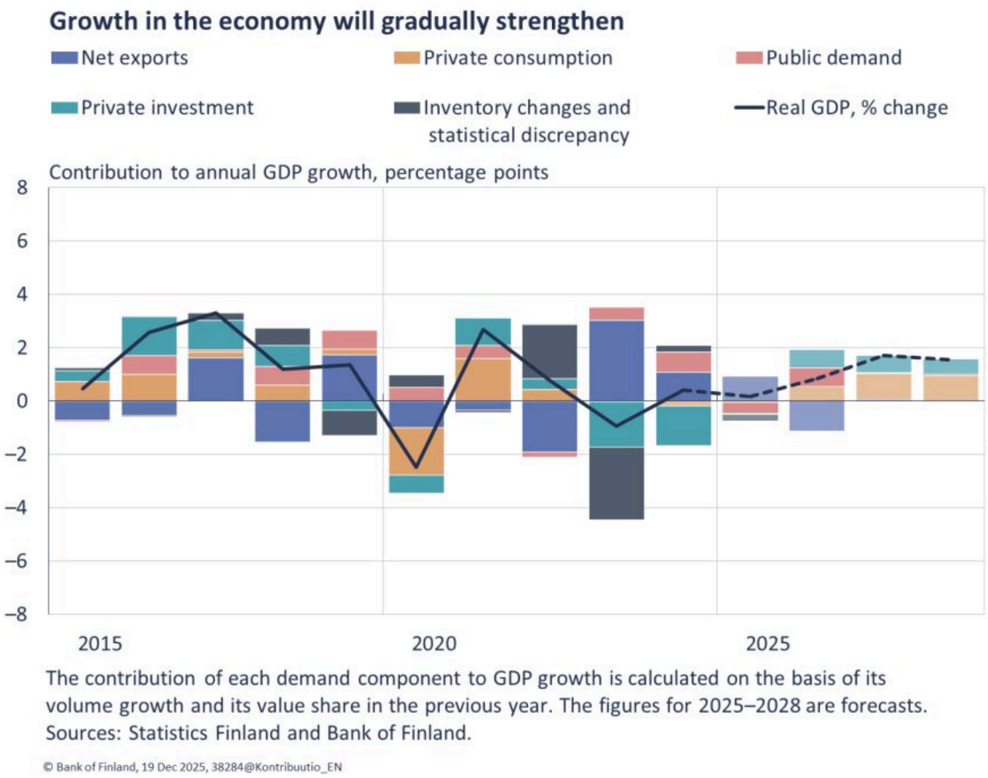
Chart 2.



Demand and the public finances

Finland's economy will grow moderately in 2026, as domestic demand gradually strengthens and exports grow, but imports will be increasing briskly at the same time (Chart 3). In the years following this, growth in the Finnish economy will pick up as both private consumption and investment increase and exports also continue to grow. Despite the improved economic conditions, Finland's public finances will remain deeply in deficit.

Chart 3.



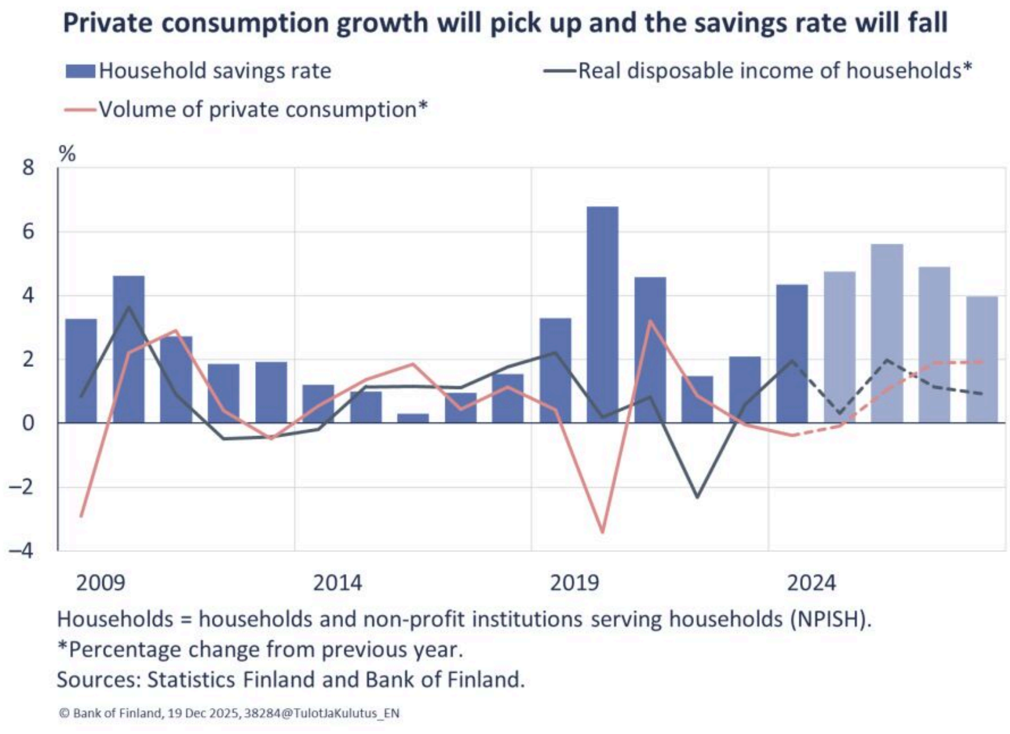
Private consumption will gradually pick up

Due to the weakened labour market and the still fragile level of consumer confidence, private consumption for the full year 2025 will not show any growth (Chart 4). The real purchasing power of households will rise further in 2025, but relatively slowly, and the savings rate will remain high. Household incomes will grow more moderately than in recent years, because of a contraction in hours worked. The increase in benefit income has slowed due to the cuts made to social security and lower index-linked increases. On the other hand, households' interest payments have decreased as a result of lower market rates, and this will strengthen the purchasing power of indebted households.

Private consumption will start to grow in 2026, when growth in purchasing power picks up, the economy strengthens and the weakening of the labour market comes to a halt (Chart 4). Consumption growth will strengthen in 2027–2028. As economic growth picks up, the labour market will recover, which will strengthen consumer confidence and support consumption growth.

The growth in purchasing power in the years of the forecast will be fuelled by higher nominal earnings, the gradually improving labour market and subdued inflation. The increase in benefit income will remain moderate. The savings rate will fall in 2027–2028 as private consumption grows at a faster pace than disposable income. Because of the favourable growth in incomes, the savings rate will still be relatively high at the end of the forecast period (Chart 4).

Chart 4.

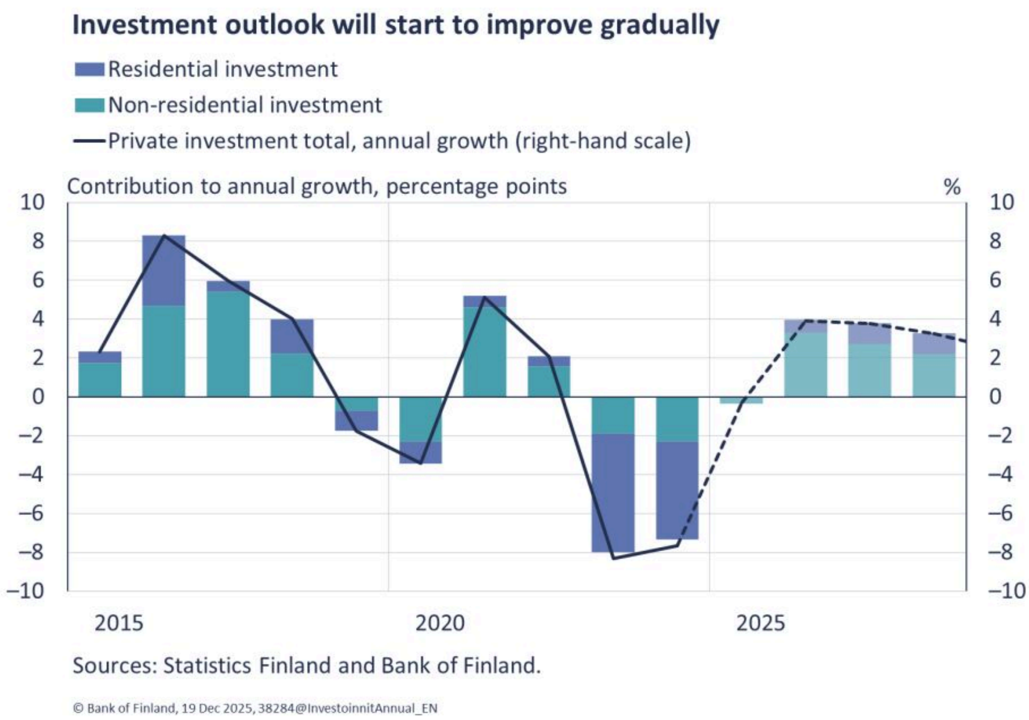


Investment slowdown will ease

Private investment has been very weak in recent years. Housing construction, in particular, has been in difficulty, but non-residential investment has also been subdued. Private investment for the full year 2025 will show a further decline, but by much less than in recent years. There will be no growth in housing construction, and non-residential investment will show a further slight decline (Chart 5).

The difficulties experienced in the housing construction sector have been of historical proportions in recent years, and the production of non-subsidised housing has plummeted to a fraction of what it was a few years ago. At present, housing construction largely rests on publicly subsidised construction. Investment in the green transition has also advanced more slowly in recent years than expected. However, a historically large number of new projects are planned for the years ahead, and even if only a proportion of these projects are implemented, this would spur rapid growth in investment.

Chart 5.



Private investment will start to grow in 2026, as the downturn in the economy gradually recedes. Financing costs have fallen over the past year, and a trade agreement has been reached between the United States and the EU. Business and consumer confidence will also strengthen.

Growth in non-residential investment will also pick up in 2026 and will stay strong in 2027 and 2028 as well. This growth will be attributable to data centre investments and increased investments in the green transition, among other things. Investment growth will be underpinned by the gradual recovery of the economy, as confidence and demand growth strengthen both domestically and in Finland’s key export markets. Uncertainty related to trade policy tensions has eased, and this will also slowly start to support the growth in non-residential investment. The lower level of interest rates than in recent years will also improve the attractiveness of investments. In addition, the defence equipment industry will increase its investments in the immediate years ahead.

Housing construction will slowly start to grow in 2026, but, overall, this growth will remain subdued in the immediate years ahead. The economy will recover slowly, and this will also be reflected in housing construction. As a result, housing construction will remain far behind the peaks of 2021 and 2022. New-build housing construction is being held back by the difficult market for new homes: the market is weak, and it is difficult to find buyers. However, the number of unsold new homes is continuously declining, because the amount of new-build housing construction has been very minimal in 2025 and this will continue in 2026. The slow improvement of the economy, higher household incomes and stronger consumer confidence will also slowly start to stimulate new home sales and new-build housing construction, particularly in 2027 and 2028. The lower level of mortgage interest rates will also create better conditions for strengthening the market for new housing.

Export growth and current account surplus

Export growth will be up for 2025 as a whole, mainly due to growth in goods exports (Chart 6). This includes deliveries of vessels to the United States. Service exports, in turn, are expected to slow in 2025 as a whole, due to the weak figures for the first half of the year. Exports of IT services in particular have decreased in 2025.

Chart 6.

In 2026, however, export growth will slow. It will only improve slightly in 2027 and 2028, but will nevertheless stay at a moderate level. Growth in Finnish exports will be underpinned by the more favourable situation in export markets than in the past couple of years. Exports will grow at almost the same pace as the export markets. Vessel deliveries to the United States over the coming years will also sustain exports. The US has become one of Finland’s most important trading partners in recent years.

As the economic outlook gradually strengthens in Europe and around the world, the demand for investment will also pick up. This will bolster the growth in Finnish exports. The reductions made in interest rates will raise the profitability of investments in the export markets, which will in turn strengthen Finnish’ exports as these have a strong focus on capital goods and intermediate goods.

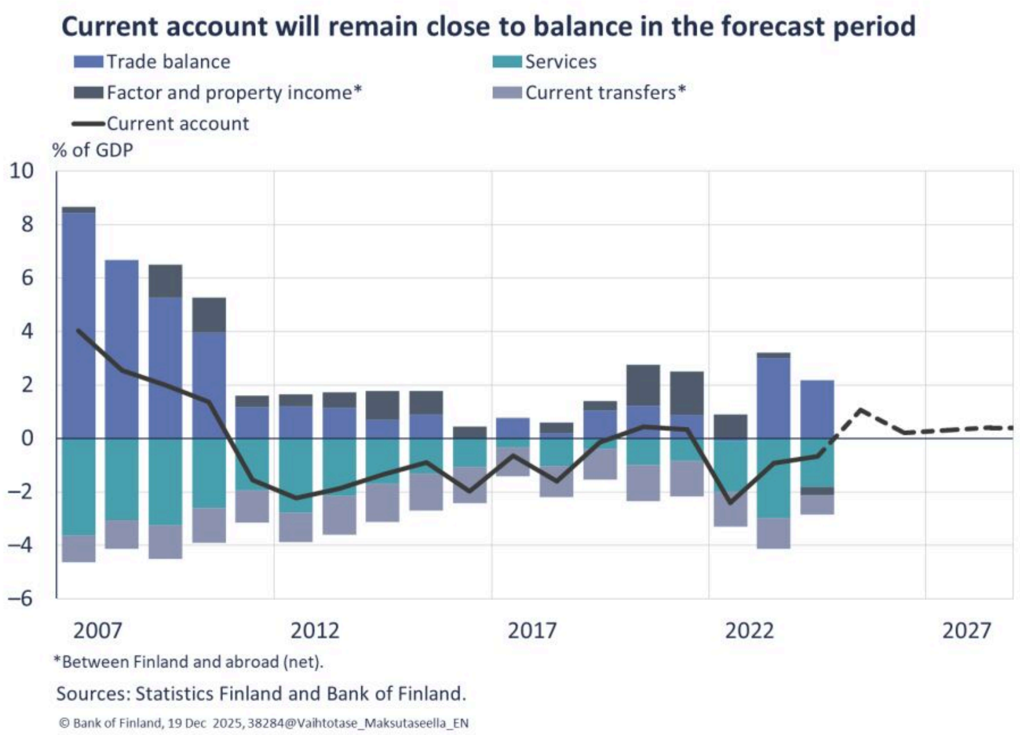
Despite the growth in exports and export markets, shifts in trade policy will curtail the demand for exports for some time to come. Trade policy tensions will ease but will nevertheless remain elevated. Uncertainties regarding the situation in Ukraine and the path of the global economy will also remain high in the immediate years ahead. This will affect companies’ investment decisions, which, in turn, will be reflected in Finland’s exports.

Imports have contracted for the second year in succession, and import growth for the full year

2025 will remain fairly moderate, reflecting the weak demand in the Finnish economy. Import growth will, however, pick up substantially in 2026, when the demand for exports gradually strengthens. The growth in imports will also be sustained by the gradual revival of domestic demand. During the forecast period, imports will be bolstered in particular by defence equipment procurements from 2026 onwards. The procurement of fighter aircraft will boost imports by several billion euros in the coming years.

Finland's current account is almost regularly in deficit but will show a surplus for 2025 (Chart 7). The trade balance has strengthened, as goods imports have been lower than goods exports. However, growth in imports will pick up in 2026, reflecting factors such as higher domestic demand and the fighter aircraft procurement, and this will reduce the current account surplus. The current account will show a slight surplus in the years ahead as well. The trade balance will be bolstered by the export pick-up and the vessel deliveries, but weakened by the defence equipment procurement spreading over several years.

Chart 7.

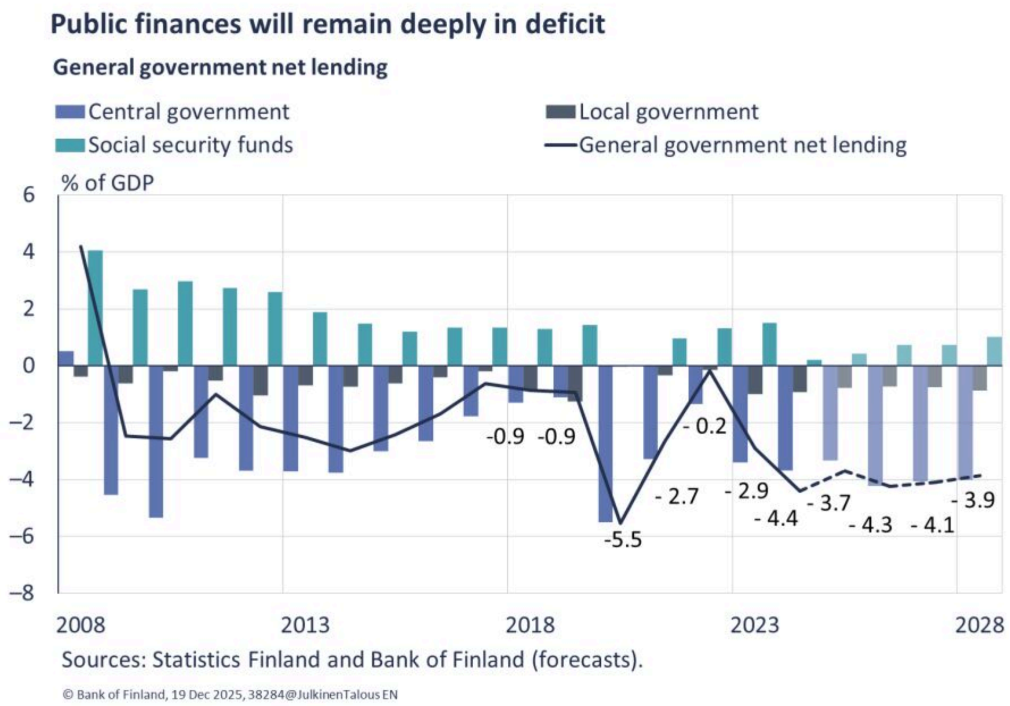


Public finances deeply in deficit

Finland's public finances will continue to be deeply in deficit, and public debt will continue to increase. The general government deficit relative to gross domestic product (GDP) for the full year

2025 will be 3.7% (Chart 8). Despite the weak cyclical conditions, growth in public revenues will be sufficient to exceed growth in expenditure in 2025. Fiscal consolidation in 2025–2027 is being implemented through cuts in public expenditure and increases in indirect taxation, but the reductions in personal and corporate income taxes will slow the fiscal adjustment. Major defence investments from 2026 onwards will deepen the deficit again. In the subsequent two years, the deficit-to-GDP ratio will decrease only marginally.

Chart 8.



Tax revenue growth will be subdued in 2025 as a whole. The weakness of private consumption is dampening the impact of the increases in value added tax rates that have already been implemented. Growth in direct taxes will slow in 2026 and 2027, the former due to a reduction in earned income tax, and the latter due to a reduction in corporate income tax. The pick-up in private consumption and the tax increases will improve the revenue from VAT and other indirect taxes. Social security contributions collected will increase, after having decreased in 2024. Overall, however, revenue growth will remain modest in relation to the structural growth in expenditure.

Health and social services expenditure, defence spending and debt interest payments will push up expenditure irrespective of cyclical conditions, but the growth in total expenditure will slow down due to the cost-saving measures. The cost-saving measures target public final consumption expenditure, social benefits and current transfers to organisations and to entities abroad. The volume of public final consumption expenditure for 2025 will show an exceptionally large decrease and will subsequently remain almost unchanged. However, the large wage increases will sustain nominal growth in public consumption in 2026–2028. Defence investments will boost expenditure substantially from 2026 onwards.

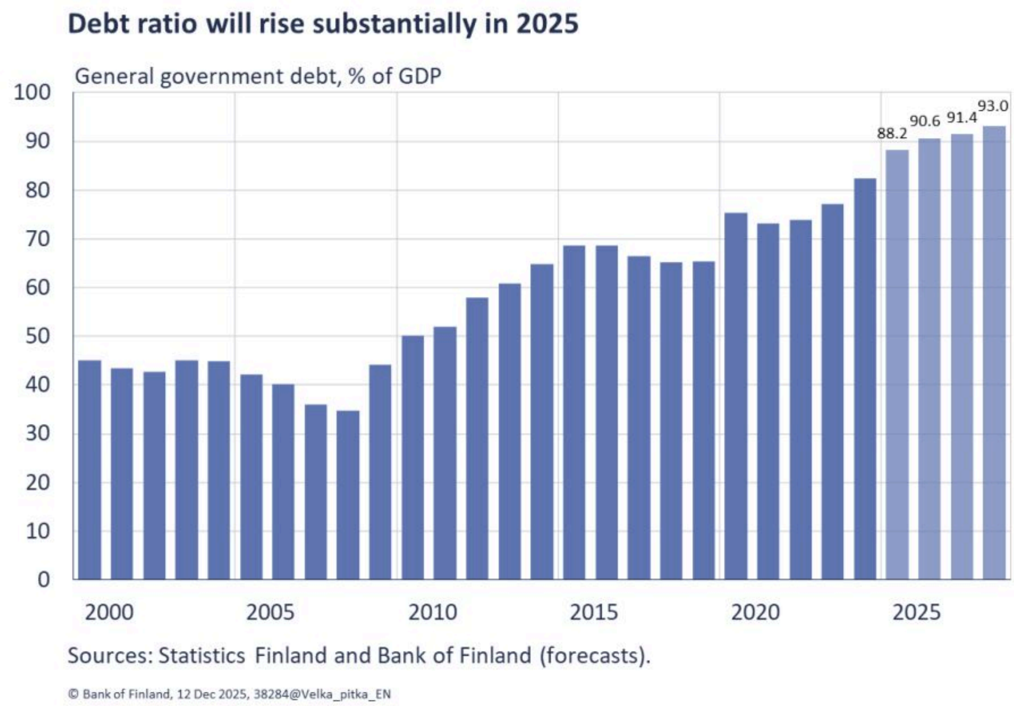
Although the operating expenses of central government are the focus of a cost-savings programme, spending on defence and investment in research and development (R&D) will drive up total expenditure significantly. The deliveries of the F-35A fighter jets will begin in 2026, and the first new vessel for the Finnish Navy will also be delivered during the same year. R&D expenditure will increase as a result of implementation of the targets set under the Act on Research and Development Funding in 2024–2030 (1092/2022). Central government finances will remain deeply in deficit.

The considerable cost-savings measures in the municipal sector and in the wellbeing services counties concern staff costs, intermediate consumption and purchased services. Although the measures will curb expenditure growth, challenges will persist regarding the increasing number of older people and, in many areas, the shrinking working-age population. The counties' finances as measured in the National Accounts will nevertheless come close to being in balance.

The surplus of the earnings-related pension providers will strengthen at a slower rate due to transfers made from the State Pension Fund to the central government budget. Due to the cuts in social security, the growth in social benefits paid will be moderate. In response to this and to the 2026 increase in unemployment insurance contributions, the social security funds other than those managing earnings-related pensions will also move into surplus. Overall, the combined surplus of the social security funds is on an upward trend.

The public debt-to-GDP ratio will continue to rise and will exceed 88% in 2025 as a whole (Chart 9). This increase in debt is due to the slowly strengthening negative primary balance, the amount of debt interest payments and, particularly in 2025, one-off factors related to debt management. The stock of ARA interest subsidy loans (for rental and right-of-occupancy housing), which is included in public debt, will grow at a slower pace in the forecast period. As GDP growth gathers pace in 2027, its impact on curbing the size of the debt-to-GDP ratio will strengthen, but the debt ratio will nevertheless continue to rise after this. The debt ratio will rise to 93% by the end of 2028.

Chart 9.



Supply and cyclical conditions

Finland's economy remains in recession in 2025, and the recovery will be slow. The economy will improve slightly in 2026, and in 2027 growth will noticeably gather pace. Despite this, the output gap will remain significantly negative in 2026–2027, indicating that economic resources will not be fully utilised. Unemployment has increased sharply, exceeding its structural level, and will not begin to decline significantly until 2027. Employment, on the other hand, has remained robust and will improve steadily as the economy strengthens. By 2028, the output gap will be close to neutral.

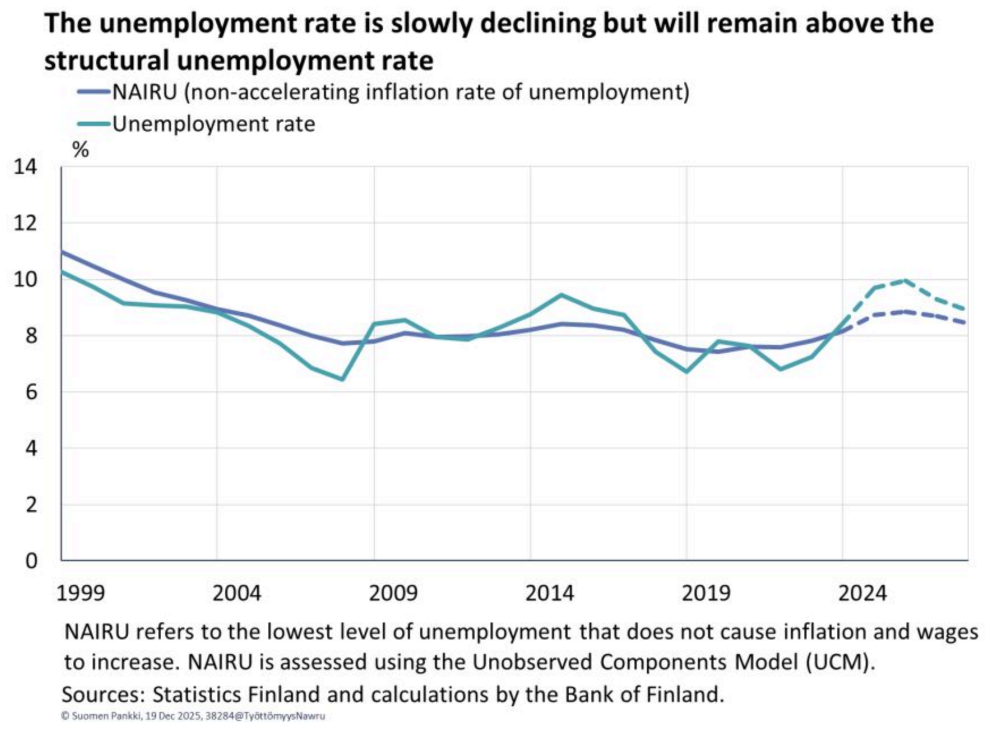
Employment will improve but the unemployment rate will remain high

The continuing recession in 2025 has weighed on the labour market, and a turn for the better has been further delayed. In the autumn, the unemployment rate rose to the remarkably high level of over 10%. The number of temporary lay-offs has also been increasing slightly. Despite the increase in unemployment, the employment rate is at a good level. The supply of labour has remained strong. During the autumn, the number of people employed has even increased at the same time as a rise in the number of people unemployed, which means that the participation rate has been on the increase. The employment rate paints a slightly brighter picture of the labour market than the record high unemployment rate.

The sluggishness of the labour market is being prolonged by weak labour demand. There have been very few vacancies. In recent surveys, employers have also expressed rather pessimistic views about the need for labour in the coming months. The brightest situation is in manufacturing, where the number of vacancies has increased and recruitment expectations have improved.

Low labour demand weakens the prospects of unemployed people finding work. At the same time, large numbers of people who were previously economically inactive have entered the labour force, but a significant proportion of these new entrants to the labour force have not found jobs. The rise in the labour force participation rate has been attributable to several structural factors unrelated to cyclical conditions, which means that the participation rate will remain at a good level in the future too.[1] Growth in the supply of labour will slow the decline in unemployment in the future. In addition, there is a time lag between an upturn in the business cycle and a decline in unemployment, and so the unemployment rate will remain significantly above the structural unemployment rate in the years ahead (Chart 10).

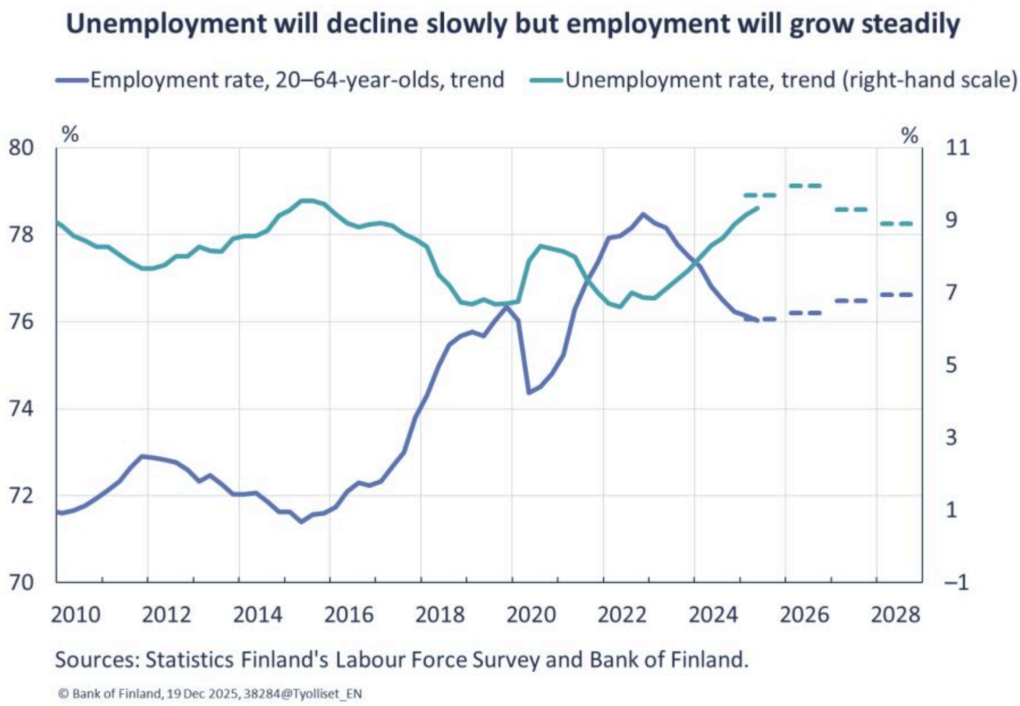
Chart 10.



Finland’s economic growth has been subdued in 2025 and recovery will still be slow in 2026. The annual unemployment rate for 2025 is forecast to be 9.7%, from which it will rise further to 9.9%

in 2026 (Chart 11). As the recovery picks up, the unemployment rate will fall to 9.3% in 2027 and further to 8.9% in 2028. The improvement in cyclical conditions will be evident as an increase in the demand for labour, which will raise the employment rate steadily throughout the forecast period, reaching 76.6% in 2028 (Chart 11). However, the employment rate will not return to its 2022 record high of 78% even at the end of the forecast period.

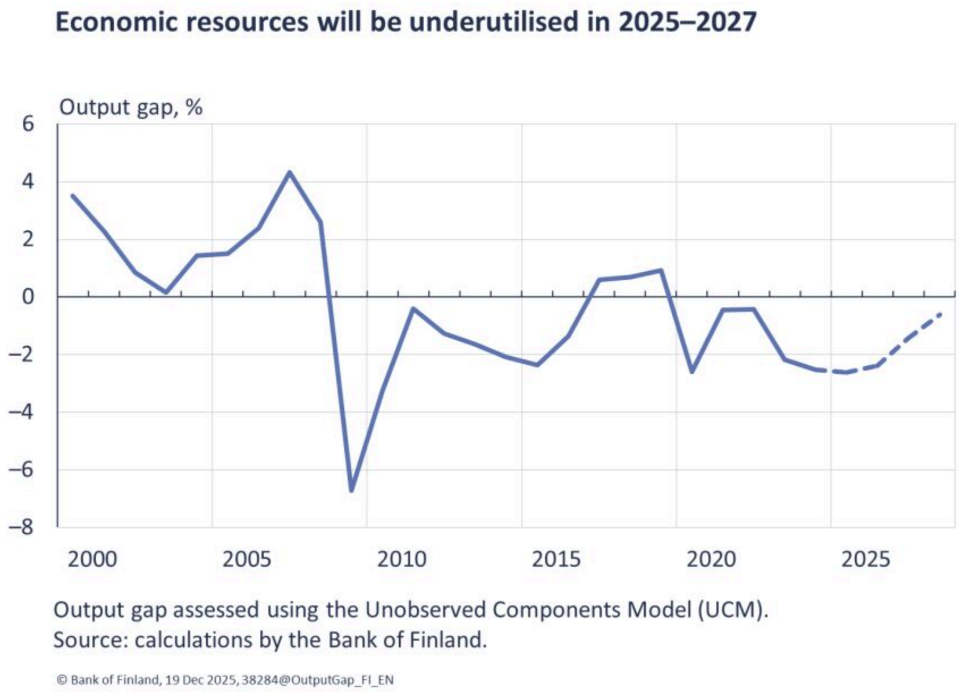
Chart 11.



Economy will improve gradually

The Finnish economy remains in recession in 2025. The recovery will be fragile and cyclical conditions will improve only slightly in 2026. In 2027, the economy will continue to recover and GDP growth will be unusually high. However, in 2026–2027, the output gap will remain clearly negative, indicating that economic resources will continue to be underutilised.[2] The unemployment gap, on the other hand, will stay positive, as unemployment will exceed its structural level (Chart 10). In 2028, the output gap will be close to neutral (Chart 12).

Chart 12.



Growth in Finland's potential output will be slow in 2025–2028, rising at an average annual rate of less than 1% (Chart 13). The growth in all production factors (capital, labour input, total factor productivity) will be subdued.

Growth in investment and therefore also in the capital stock will be slow especially in the early part of the forecast period, which will curb growth in potential output. Lower interest rates than in previous years will encourage investment, but unfortunately economic uncertainty makes corporate fixed investments less appealing and reduces risk-taking. High uncertainty about the international operating environment, coupled with domestic economic difficulties and very low capacity utilisation will curb companies' investment appetite. Therefore, growth in the capital stock will strengthen only slowly towards the end of the forecast period.

The crises of recent years have weakened growth in total factor productivity due to the cessation of trade with Russia, the reorganisation of supply chains and the use of more expensive inputs.[3] Higher tariffs are exacerbating the situation by causing production losses due to inefficient reallocation of resources across different sectors and countries.[4, 5] Weak productivity growth is also attributable to the fact that a majority of the high employment growth of previous years was not in the private sector but in public services, where productivity growth is lower on average. Defence investment is not expected to boost productivity in the same way as investment in productive capacity or in education.[6]

The supply of labour will grow slightly in the years ahead. After a long decline, the number of working-age people has been growing in the years 2023–2025, due to increased immigration. According to Statistics Finland’s population projection, the working-age population will continue to grow in the future as a result of net immigration. This would support growth in potential output (Chart 13). However, the supply of labour will be weakened by employees working considerably fewer hours on average than before the COVID-19 crisis, and this declining trend is not expected to turn around. Population ageing is increasing part-time employment, which weakens the prospects for growth in the average number of hours worked but also improves the participation rate. Furthermore, the increase in structural unemployment, which is due to the prolonged weak economic cycle and subsequent unemployment, will reduce the importance of labour as a source of potential output.[7]

Chart 13.

The chart presents estimates of the growth in potential output (produced using the Bank of Finland’s Unobserved Components Model) and the contributions of the different components.
Source: calculations by the Bank of Finland.

Crises hamper estimation of potential output

The economy has been hit by various different crises in recent years. This has led to uncertainty in the growth potential estimates for the economy. The growth potential could be affected by permanent changes in, for example, trade barriers, tariffs, globalisation, production methods, energy prices, household behaviour or immigration.[8] Climate change is also causing uncertainty over the long-term prospects for growth.[9] Estimating these impacts is challenging.

Russia's invasion of Ukraine and geopolitical tensions will weaken the growth potential of the economy in the long term if these result in a permanent reduction in international trade and lead to a less effective global division of labour. This will weaken productivity growth. Allocating resources to defence instead of more productive activities and education impedes productivity growth in the long term. On the other hand, technological advances, such as the use of artificial intelligence, could boost productivity.

The future development of the capital stock will be affected by a number of factors which are pulling in opposing directions. The reorganisation of production and possible extensive investments in the green transition would strengthen the capital stock. On the other hand, investments may be cancelled or postponed due to geopolitical and trade policy uncertainties, which would weaken the growth of capital stock, at least in the short term.[10]

Part of the capital stock may also become obsolete if there are significant disruptions in the availability of energy or important raw materials. Furthermore, the removal of polluting capital stock would also reduce the capital stock overall and would require new investment to replace it with less polluting capital.

There is much uncertainty about the growth in labour input concerning for instance the volume of immigration and how immigrants will be integrated into the labour market. The increase in working remotely following the crises of recent years may have boosted the labour supply if this greater flexibility means that more economically inactive people are attracted to the labour market than before. The increase in the supply of labour would then strengthen potential output.

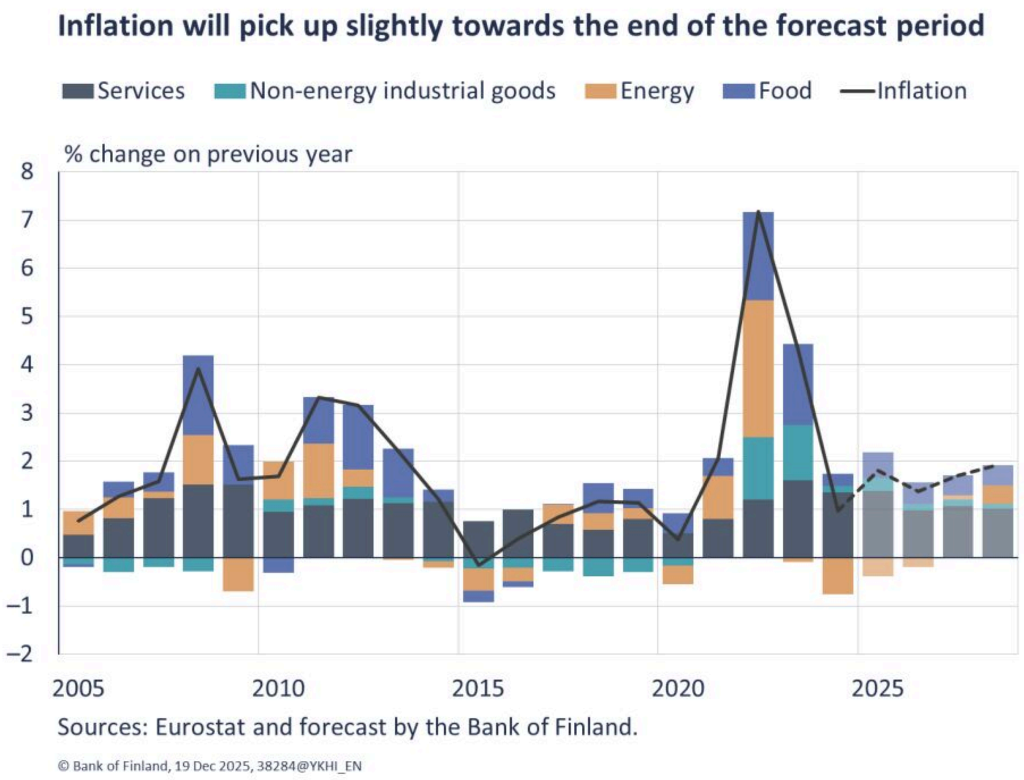
Prices and costs

Inflation will be low in the forecast period 2025–2028, due to weak demand and moderate price pressures. However, inflation will rise gradually towards the end of the forecast period, reaching 1.9% in 2028. The increase in nominal earnings will stay above the inflation rate, but the rise in wages will gradually pass through to prices. Finland's cost competitiveness relative to the euro area will remain virtually unchanged.

Inflation will be low during the forecast period

Inflation has slowed towards the end of 2025, to approximately 1.5%, as measured by the Harmonised Index of Consumer Prices (HICP). The rise in food prices has slowed, and the consumer prices for energy have declined further. At the same time, core inflation (i.e. inflation excluding energy and food prices) has slowed to slightly over 1.5%. The prices of consumer goods in November were at the same level as a year earlier, and the rise in services prices slowed to 2.5%. Among the items included in the services component, the rise in rents, for example, has slowed and the rents of non-subsidised dwellings have even declined.

Chart 14.



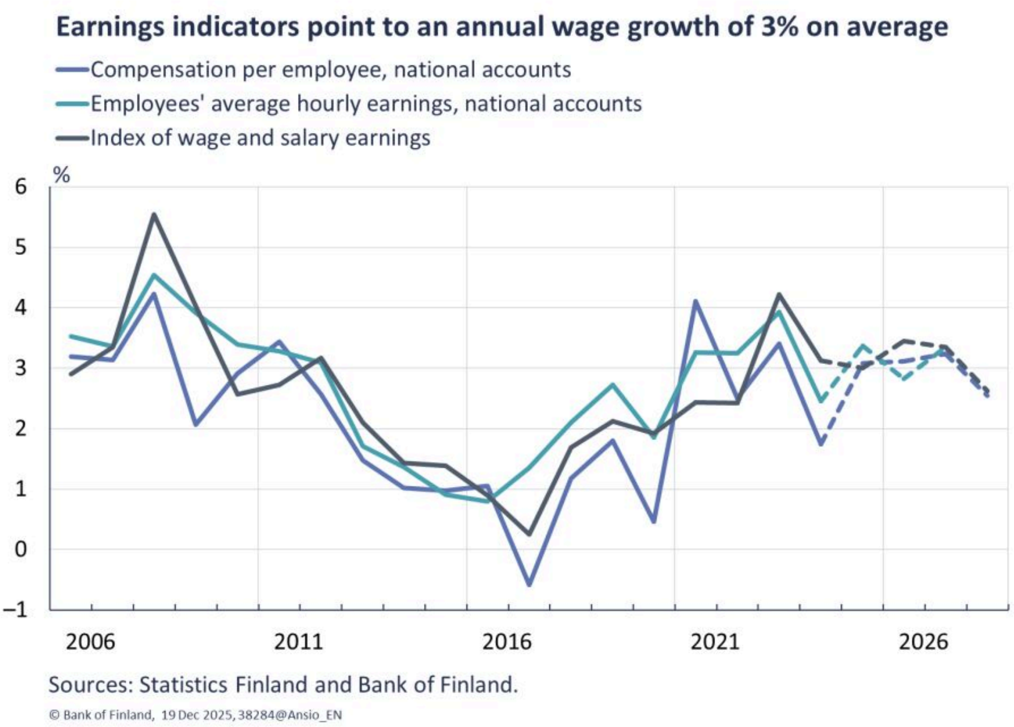
In 2026, inflation will remain close to current levels, and core inflation will barely rise. Price pressures will be curbed by the weak economy and the fact that import prices have increased only modestly overall, but the rise in wages will sustain inflation. Several changes in commodity taxation will enter into force in 2026, and they will have a slight upward impact on prices.[11] As a result of the changes, the prices of tobacco products, soft drinks and alcoholic beverages will rise. Energy prices will continue to decline, though at a slower pace, in 2026.

Inflation will pick up gradually towards the end of the forecast period, reaching 1.9% in 2028. The strengthening of the economic cycle and continued rise in wages will increase price pressures, but both the output and the unemployment gap will nevertheless remain slightly open at the end of the forecast period. This means that there will still be slack in the economy, as a result of which inflation will not rise significantly either. According to current information, the emissions trading system (ETS2) for fuel combustion will enter into force in 2028, which will push up energy prices.

Wage growth higher than inflation in the immediate years ahead

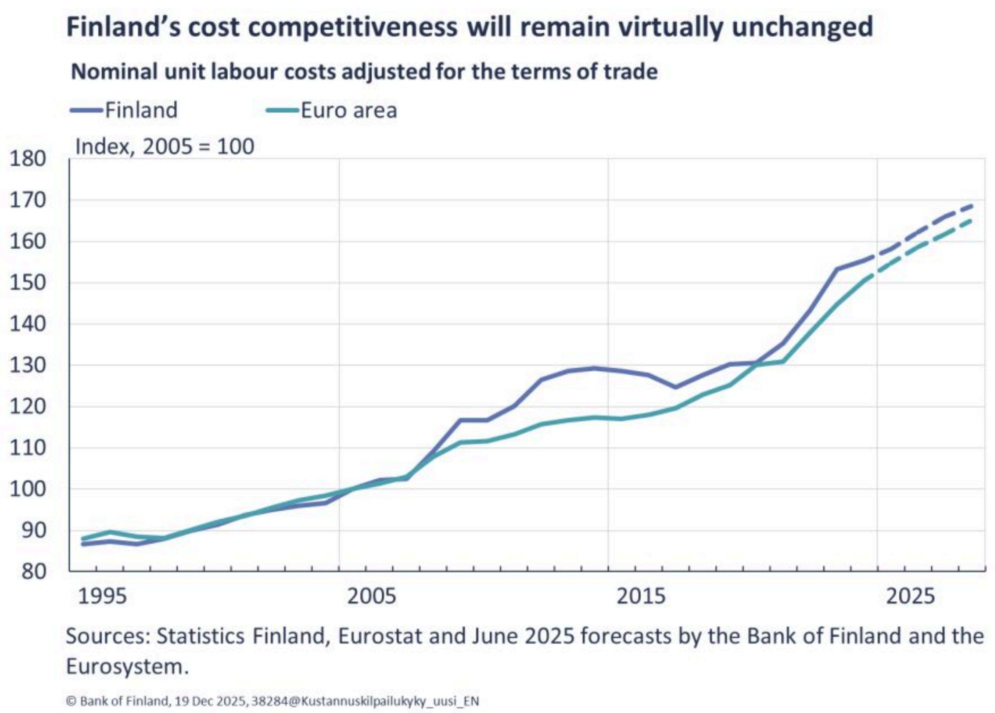
Earnings will rise notably in the immediate years ahead. The collective bargaining agreements concluded in 2025 will largely determine the growth in nominal earnings for the years 2025–2027. Growth in nominal earnings in 2025 is expected to be 3%, measured by the index of wage and salary earnings. Various earnings indictors show that wages will continue to rise throughout the forecast period 2025–2028 at an average annual rate of 3% (Chart 15). With inflation remaining below 2% on average in the forecast period, employees' real wages will also grow significantly in the immediate years ahead.

Chart 15.



Finland's cost competitiveness, measured using relative unit labour costs adjusted for the terms of trade, will remain virtually unchanged during the forecast years 2025–2028 compared with the euro area average (Chart 16). Labour productivity per person employed will grow in Finland at a slightly slower pace than the euro area average, which will weaken cost competitiveness. On the other hand, the cost of labour (i.e. compensation per employee) will also rise in Finland at a slightly slower pace than the euro area average, which in turn will improve cost competitiveness. The relative decline in labour costs is therefore still compensating for the weak growth in labour productivity, which is a longer term phenomenon in the Finnish economy.

Chart 16.



Risk assessment

The risks surrounding the growth forecast for the Finnish economy are predominantly on the downside. The risks concerning the inflation forecast are evenly balanced.

The unpredictability of the US administration is prolonging uncertainty within the global economy, especially in relation to trade policy. In addition to tariffs, other new barriers to trade may appear, and the full impact on world trade from the tariffs already agreed upon will not be felt until the coming months. Export restrictions on, for example, rare earth metals and semiconductors may cause disruptions to supply chains and especially to industrial production. Regardless of how the trade war progresses, growth in world trade could focus on areas and product groups that are not within the Finnish export structure, causing the country's export growth to fall behind the growth in world trade.

Geopolitical tensions continue to give rise to risks which, should they materialise, would hinder global economic growth. If Ukraine is forced into a peace agreement on terms that seem untenable in the long run, uncertainty will increase in both Finland and Europe, hindering investment and consumption.

Risks have also increased in the financial markets. Technology companies have invested heavily in artificial intelligence largely using borrowed money, and their market valuations have risen to a high level. Any disruption in the private capital markets would also threaten the stability of the banking sector. The financial markets are also being kept alert by the unpredictability of US government policy, which has been reflected in US dollar exchange rate fluctuations. A further weakening of the US dollar would also hinder the recovery of the Finnish economy.

In Finland, the biggest risks surrounding the growth forecast concern the path that private demand will take. Consumer confidence could remain low for a long time for various reasons. There is a risk that the chronic weakness of public finances will be seen and felt through new spending cuts and tax increases in the future. The labour market recovery has been slower than expected, and high unemployment figures are a particular cause for concern. The weakened security situation in Finland and Europe is also on people's minds.

The demand for new dwellings will not pick up until home buyers' confidence is restored. The stock of completed new dwellings is diminishing slowly, as new homes remain expensive compared with existing homes. In addition, the types of new homes on the market do not always match the current market demand.

Reducing the general government deficit and turning the debt ratio around appear to be taking longer than expected. The risk of higher government borrowing costs will grow if investor confidence in the resilience of Finland's public finances weakens. However, the labour market and taxation reforms introduced by the Government may partly restore investor confidence in the Finnish economy more quickly than expected.

The Finnish economy also contains some positive growth risks for the coming years. The pace of economic recovery at turning points in the business cycle has often proved to be faster than initially expected, and investments in particular could provide a positive surprise. Even the stagnation in housing construction could provide a positive surprise. The longer that housing production remains low, the greater the cumulative need for new housing in the future.

Non-residential investment could also grow more quickly than forecast. In recent years, high expectations have been set for investments in the clean energy transition in Finland. An even larger proportion of the planned investments in the green transition than currently anticipated could come to fruition.

The weakening of the security situation is significantly expanding investment in infrastructure and defence equipment in Europe. Investments in defence could offer more export opportunities for Finnish companies than anticipated.

The risks surrounding the forecast for inflation are evenly balanced. The weakness in the economy will curb inflation especially in the first half of the forecast period. On the other hand, wage increases that have already been negotiated will put upward pressure on services prices, in particular. When the economy improves, wage increases may pass through more readily to prices than anticipated. On the other hand, import prices also carry downside risks for the inflation outlook if, for example, the prices of goods imported from China decline because of changes in trade flows. Due to geopolitical tensions, the prices of raw materials and energy may fluctuate more than expected.

Footnotes

1. These factors include longer working careers, higher retirement age and increased immigration. ↑
2. Potential output is the volume of GDP when all the inputs in the economy are in normal use. The output gap is the difference between the economy’s actual and potential GDP. When actual and potential GDP are at the same level and are growing at the same rate, the output gap will be zero and the economic cycle is said to be neutral. ↑
3. Higher and more volatile prices of energy may weaken potential output through various channels. See e.g. Deutsche Bundesbank (2022b), Impact of permanently higher energy costs on German potential output, Monthly Report, December 2022, p. 29), and the ECB’s projections (ECB Bulletin 5/2022, Box 4). ↑
4. See: e.g. IMF (2020) Modelling Trade Tensions: Different Mechanism in General Equilibrium. ↑
5. According to the Finland Chamber of Commerce’s survey of exporting companies in September, more than half of the respondent companies are dissatisfied with the EU’s tariff agreement with the United States. Only one tenth of respondents are satisfied. Uncertainty has continued due to new initiatives from the United States since the agreement was made. Two thirds of companies report that the tariffs in general have a negative impact on the company’s operations. ↑
6. See: e.g. Lehmus, M., Nelimarkka, J. and Vilmi, L. (2025), ‘Will higher defence spending boost euro area growth?’, Bank of Finland Bulletin. ↑

7. In estimating the potential output in the forecast period, a technical assumption is made in which the participation rate is set at the average level of the previous business cycle. ↑
8. European Commission's Spring 2023 Economic Forecast, special issues. ↑
9. See the ECB's article on the impacts of climate change on potential output (How climate change affects potential output, ECB Economic Bulletin, Issue 6/2023). ↑
10. Greater uncertainty and the high cost of energy, for example, will discourage investors. ↑
11. Excise duty on tobacco, alcohol and soft drinks will be increased, but on the other hand, the 14% VAT rate will be reduced to 13.5%, and the CO2 tax on transport fuels will be lowered. ↑

Key words

forecast