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Pick-up in the economy not expected soon

Finnish economy | 19 December 2023

Finland’s economy is in recession and will not start to pick up until the end of 2024. The prices of goods and services have remained high since the earlier peak in inflation, and elevated interest rates on loans are further weakening the purchasing power of households. Inflation is nevertheless slowing, which will improve purchasing power. Consumers remain cautious, however. The slump in housing construction is undermining the basis for a pick-up in the economy. Despite cuts in public spending, expenditure will continue to exceed public revenues in the immediate years ahead.

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- Finland's economy is in recession and the recovery will be slow.
- Inflation will continue to come down as expected.
- Bringing the public finances onto a different path is more challenging than expected.



The Finnish economy is in recession. The economy will continue to be weak across a broad front in

2024. One of the reasons is that higher prices and interest rates are restricting growth in consumer spending. High interest rates encourage households to save rather than spend. A further factor restraining economic recovery is the low level of investment. Few new homes are being built, as housing sales have fallen considerably from the level of recent years. High interest rates are also dampening the desire of businesses to invest in machinery and equipment. Economic growth in Finland's export markets is also subdued, especially in European countries, and this is curbing Finnish exports. The employment situation is temporarily weakening, although it will remain relatively good despite the slower growth in the economy.

A pick-up in the Finnish economy is not expected until the end of 2024. Inflation, or the general rise in prices, is now slowing markedly, and household income will rise noticeably in 2024. With this rise in incomes, consumer spending will start to pick up gradually. The financial markets are expecting interest rates to start declining too. A fall in lending rates would help housing construction recover from its present difficulties, as people would again be ready to take on mortgages. Finland's export markets will also begin to recover, and exports will start to pick up gradually from the end of 2024.

Chart 1.

Pick-up in the economy not expected soon



Finland's economy is in recession and the recovery will be slow.



Inflation will continue to come down as expected.



Bringing the public finances onto a different path is more challenging than expected.

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Consumer spending, investment and exports will remain fairly modest though, despite picking up, and so the economy's recovery from recession will be rather subdued. Growth in the Finnish economy in future years will be held back by the decrease in the proportion of people of working age, due to the overall ageing of the population. In addition, war and climate change bring with them the risk that the costs of energy and raw materials could remain permanently higher than in

the past.

Finland's public finances are also facing problems. The Government is planning major cuts in public expenditure, but the level of public spending in the immediate years ahead will nevertheless still exceed public revenues. The factors contributing to this include slow growth in tax revenues due to the recession, the rapidly rising expenditure on pensions and older people's care, and the interest payments on government borrowing. The Government will cover the imbalance in revenues and spending by taking on additional debt. All in all, the aim of bringing the public finances onto a different path is proving to be an even more challenging task than was expected.