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Finland’s economy moving out of recession

Finnish economy | 11 June 2024

The Finnish economy is gradually recovering from the recession. Consumption is growing because prices are rising less quickly, and because household income is growing faster than prices. Business and consumer confidence in the prospects for an improvement in the economy in the near future is also beginning to gradually rise. When the economy picks up, jobs will also be created.

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- Upward pressures on prices are moderate
- Consumer spending is supported by improved purchasing power
- Economy is starting to move out of recession



The Finnish economy is recovering from the recession. The rise in prices and interest rates has been eroding the purchasing power of households and curbing the willingness of companies to acquire machinery and equipment that would enable them to expand their business. The situation now appears better, however. In recent months, inflation – or the general rise in prices – has

slowed significantly and is projected to remain low during the rest of this year. Household income is rising faster than prices, which means that consumers can better afford to spend money on goods and services. A gradual decrease in lending rates is anticipated by the financial markets, which would ease the situation for mortgage borrowers.

The move out of recession will be slow, and the output of the Finnish economy in 2024 will in fact be below the level of the previous year. Consumer confidence in the economy will steadily improve, which will encourage households to spend more. Companies will slowly start to spend more on machinery and equipment and to produce more goods and services to satisfy a rise in export demand, and this will help the economy to recover. The Government has taken decisions to implement public spending cuts and tax increases. These will strengthen the public finances but will also slow down the growth in households' purchasing power. The number of people in work is expected to decline somewhat further this year, as developments in the economy are usually reflected in the labour market after a short time lag.

Chart 1.



In 2025, the recession will be over and the economy will grow by more than 1%. Growth in the Finnish economy in 2026 will be a little higher still. A fall in lending rates as expected by the markets would help housing construction in particular to recover from its present difficulties, as people would again be ready to take on mortgages. Companies will also start to invest more in machinery and equipment. Exports will pick up as economic growth in Finland's export markets gathers pace.

When growth in the Finnish economy is on a firmer foundation in 2025, there will again be more jobs available than in the preceding years, and so the employment situation will improve. As the economy improves, the level of prices and costs will also rise slightly more in 2025 than in the previous year.

Despite the recession coming to an end, growth in Finland's economy in the immediate years ahead will be subdued. A key reason for this is that in recent years investment by companies in machinery, equipment and other production-related items has been low, which limits their potential for rapidly expanding their business. Growth in the Finnish economy will also be held back by the ageing of the population. The opportunities for economic growth may also have been eroded on a longer term basis by the various crises of recent years, such as Russia's war in Ukraine and the COVID-19 pandemic.