



Economic outlook for Finland

Economic Research

OP Financial Group

Q3/2024

The pace of Finland's economy accelerates in 2025

- Finland's economy turned to growth at the beginning of the year. According to preliminary data, the GDP grew slightly in the early part of the year compared to the second half of the previous year. Economic surveys have also strengthened in recent months. However, in the latter half of the year, the recovery is overshadowed by the weakness in the industrial cycle of the export markets and economic policies that weaken purchasing power.
- The economy continues steady recovery at the end of the year. Economic momentum will strengthen next year, supported by lower interest rates and a strengthening export market. Economic growth will be relatively good in 2025. However, this is fundamentally a return to a sluggish growth trend, and GDP will grow more slowly in 2026.
- Exports suffered from strikes in the spring but recovered in early summer. As key export markets in Europe recover, exports will gain additional momentum and grow at a good pace next year.
- Private consumption has grown in recent years despite the spike in inflation. This was based on savings accumulated during the coronavirus period in recent years. This year, real disposable income is growing more than consumption, and the savings rate is rising to around its long-term average. In the coming years, consumption will grow roughly in line with income development.
- The rise in interest rates particularly hit residential building investments, which have been the weakest link in the economy. Construction is already starting to recover, and this will be clearly reflected in next year's investments. Investments will grow at a good pace in the coming years.
- Inflation in Finland has been low in recent months. In the fall, inflation will rise, partly due to the increase in value-added tax, and inflation will return to around two percent in the coming years.
- Unemployment rose, and employment weakened until last spring. At this point, the labor market situation appears to have stabilized, and with the economic recovery, the labor market will start to pick up again.
- The public deficit is at its largest this year and will begin to decrease in the coming years due to adjustment measures and economic recovery. By 2026, the deficit will be roughly at its structural level. Consequently, the debt to GDP ratio is set to stabilise.
- The biggest risks are related to the development of the global economy, inflation, and interest rates.

Forecasts for the Finnish economy

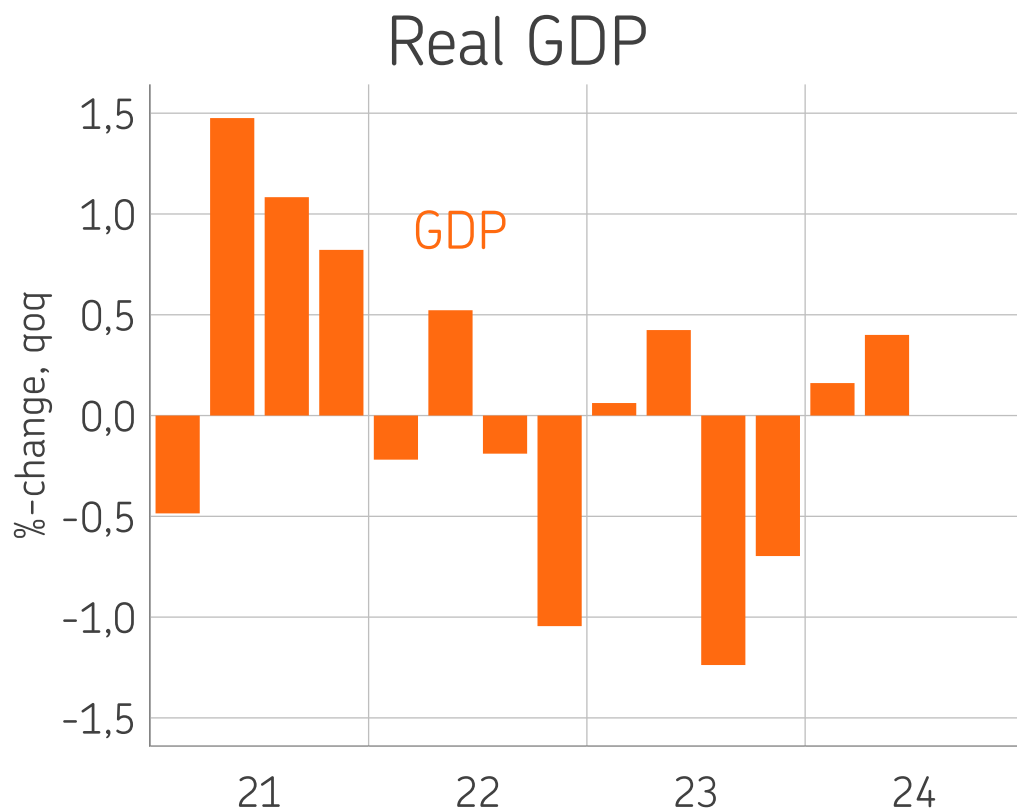
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Forecasts for the Finnish economy, August 2024

	EUR bn				
Volume, % change on previous year	2023	2023	2024f	2025f	2026f
GDP	274,9	-1,2	-0,5	2,0	1,3
Imports	116,3	-6,6	-1,0	4,6	3,6
Exports	115,6	-0,1	-2,0	5,0	3,5
Consumption	215,8	1,2	0,6	1,0	1,0
- Private	145,3	0,2	0,7	1,5	1,3
- Public	70,4	3,4	0,5	0,0	0,5
Fixed investment	61,8	-8,8	-3,0	5,0	3,0
Other key indicators		2023	2024f	2025f	2026f
Consumer price index, % change y/y		6,3	2,0	2,2	2,0
Change in wage and salary earnings, %		4,2	3,0	3,5	3,0
Unemployment rate, %		7,2	8,2	7,9	7,6
Current account balance, % of GDP		-1,1	-0,8	-0,7	-0,8
General government net lending, % of GDP		-2,9	-3,5	-3,0	-2,0
General government debt, % of GDP		76,6	80,1	81,2	81,4

Sources: Statistics Finland and OP Financial Group

The pace of the Finnish economy is picking up

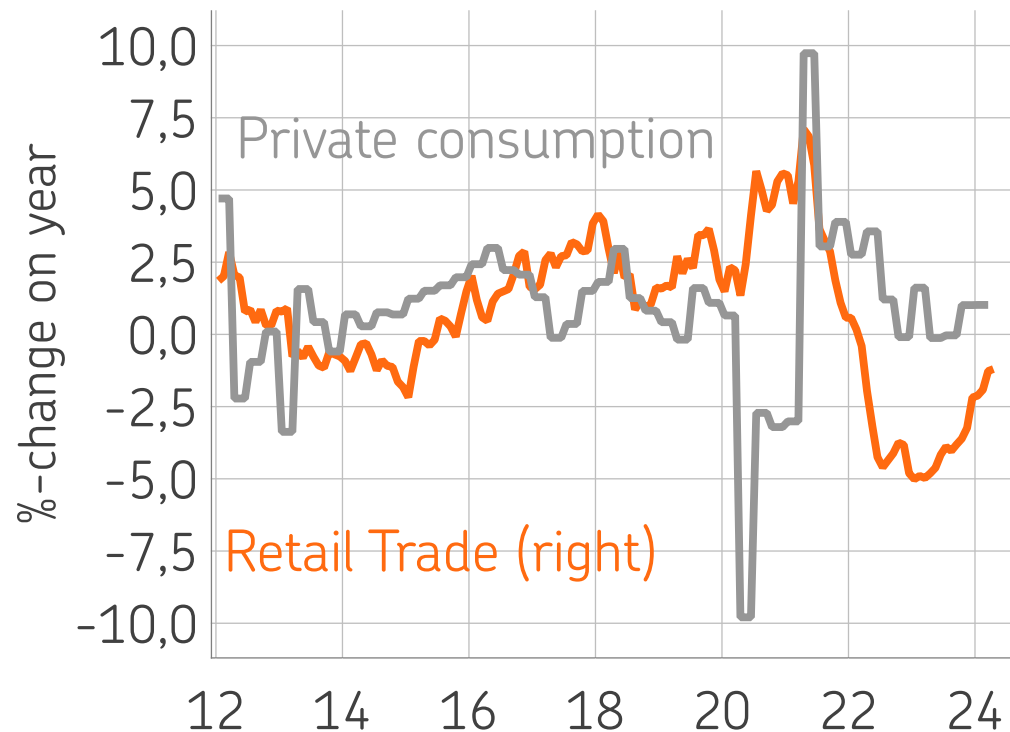


Source: Macrobond, StatFin, OP

- The Finnish economy grew moderately in the first half of year 2024. In the first quarter the growth was weighted down by the strikes, which affected especially exports adversely.
- The economy is set to recover gradually driven by exports and consumption demand.
- GDP is foreseen to decline 0.5 % this year due to negative carry over. However, as of now the risk in the forecast is on the upside.
- In 2025 the economy is forecast to expand by 2 % and 1.3% in 2026

Private consumption strengthens steadily

Consumer confidence and retail trade



Lähde: Macrobond, OP

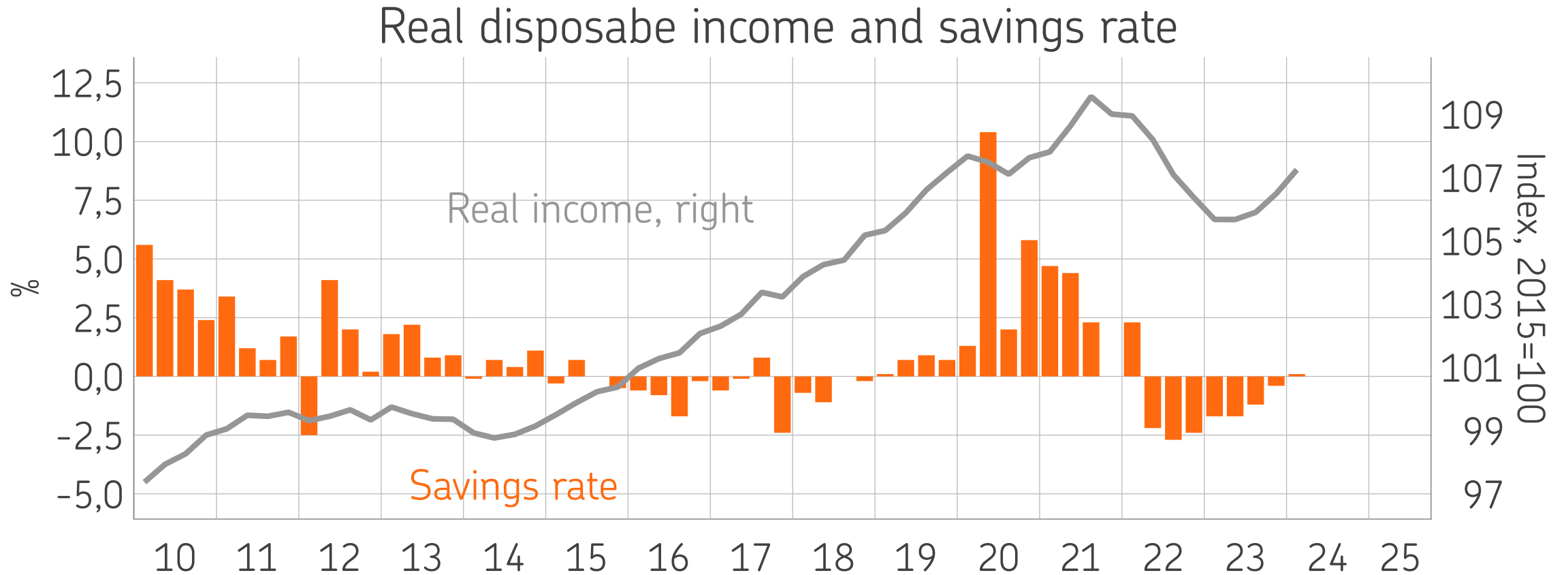
- Private consumption grew slightly based on revised data during the year 2023. The growth continued in the first quarter.
- The growth has been driven by services while consumption of goods has been weaker. Retail trade is expected to continue to strengthen gradually.
- This year, disposable real incomes are expected to grow by 2.3%, enabling a recovery in private consumption, even though the savings rate is anticipated to rise from the previous year.

Consumption and income, % change

	2023	2024e	2025e	2026e
Wage and salary index	4,2	3,0	3,5	3,0
Private consumption	0,2	0,7	1,5	1,3
Disposable real income	-1,3	2,3	1,6	1,5
Saving rate	-1,2	0,4	0,2	0,3

Sources: Statistics Finland and OP

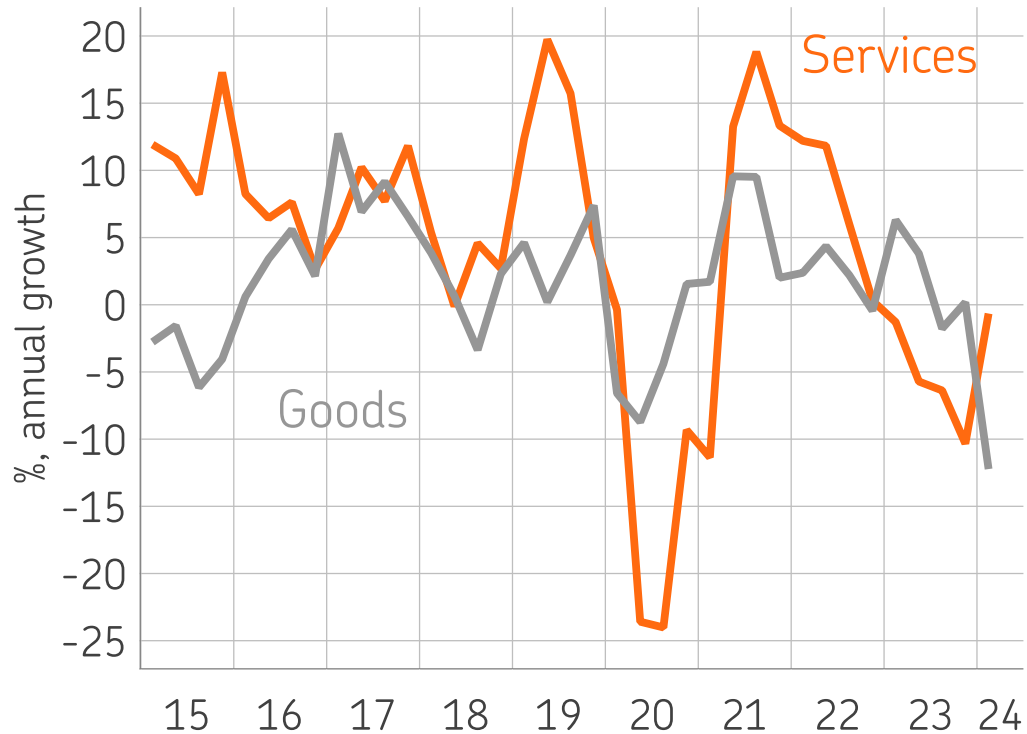
Purchasing power is gradually improving



Source: Macrobond, StatFin, OP

Exports set to pick up

Finland's exports of goods & services

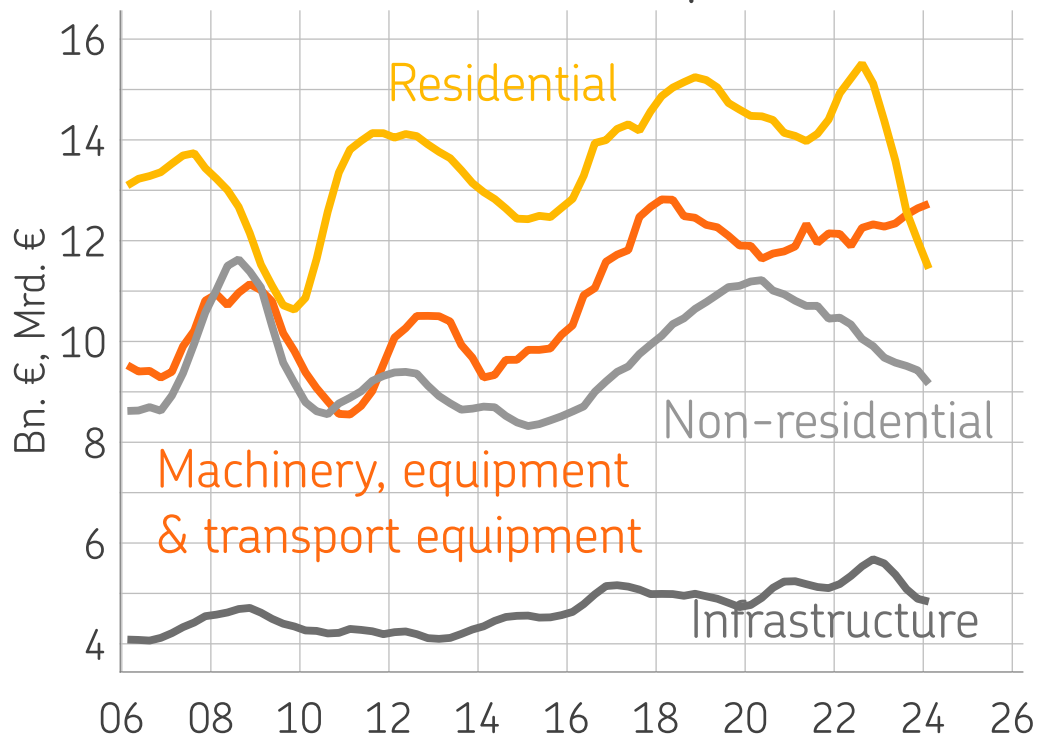


Sources: Macrobond, StatFin, OP

- The volume of merchandise exports grew by 0.4 percent last year. However, in services, a weak end of the year resulted in a significant decline of 7.4 percent in growth, according to current data. In Q1 services exports picked up but goods exports were affected adversely by strikes.
- We expect that exports will bounce sharply up after the strikes ended and the recovery will continue as export demand will strengthen during the rest of the year. Next year, we expect to see a rapid growth in exports.
- The trade share of Russia fall close to zero in 2022-23. In 2013 the share of Russia was 10 % of trade in goods. The Finnish export sector has redirected exports and firms import goods from other sources. The export share of GDP was 36,8 in Q4 2013 and in Q4 2023 41,5 %. Hence the firms have adjusted reasonably well to adverse impact of the decline in trade with Russia.

Investments to recover in 2025

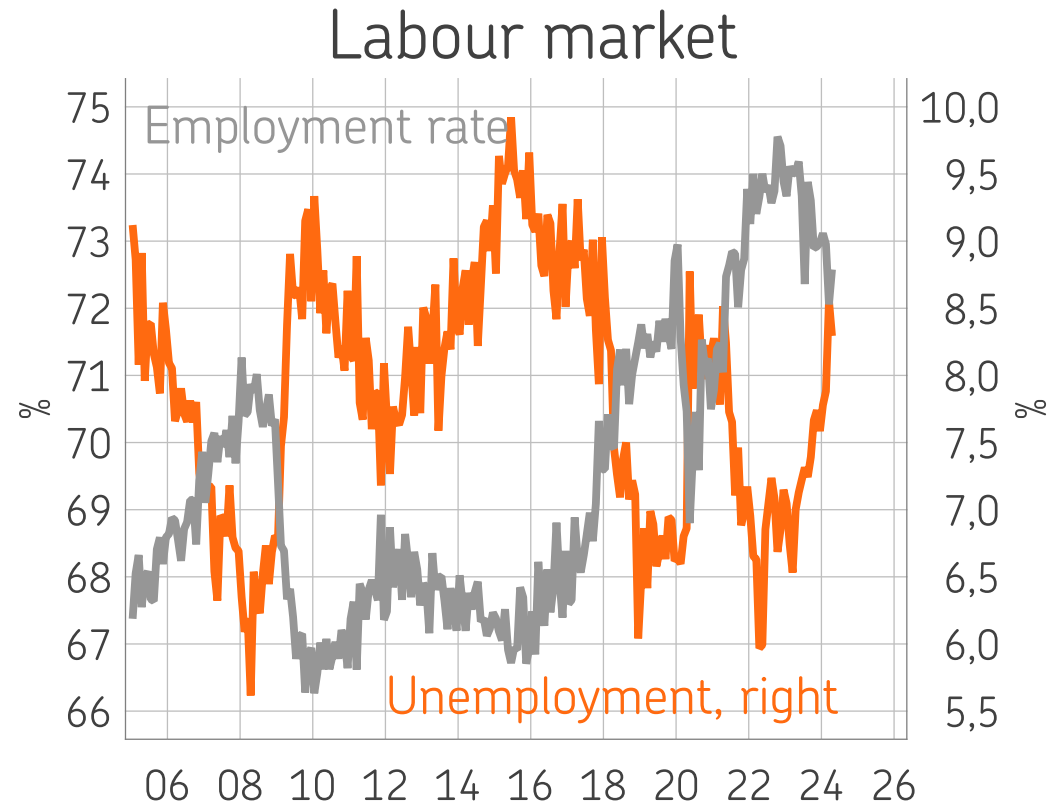
Finland, Investment, 4-qrt sum, EUR



Lähde: Macrobond, StatFin, OP

- Construction investments fell sharply following the increase in interest rates, but lately residential housing starts have shown signs of bottoming out. However, it is only next year, when construction investments are expected to start to recover.
- Machine and equipment investments have performed relatively well, and the growth is expected to continue this year.
- Research and development investments receive growth support from government actions. As a result of these measures, R&D investments are expected to increase both this year and next.
- Additionally, next year, the fighter jet acquisitions will impact the growth of public investments.
- Overall, investments are expected to contract by 3% this year and grow 5% next year.

Labour market bottoming out



Lähde: Macrobond, StatFin, TEM, OP

- Unemployment rose, and employment weakened until last spring. At this point, the labor market situation appears to have stabilized, and with the economic recovery, the labour market will start to pick up again.
- The development varies significantly across industries, with a notable decrease in employment in the construction sector, while the labour-intensive service sector remains relatively stable.

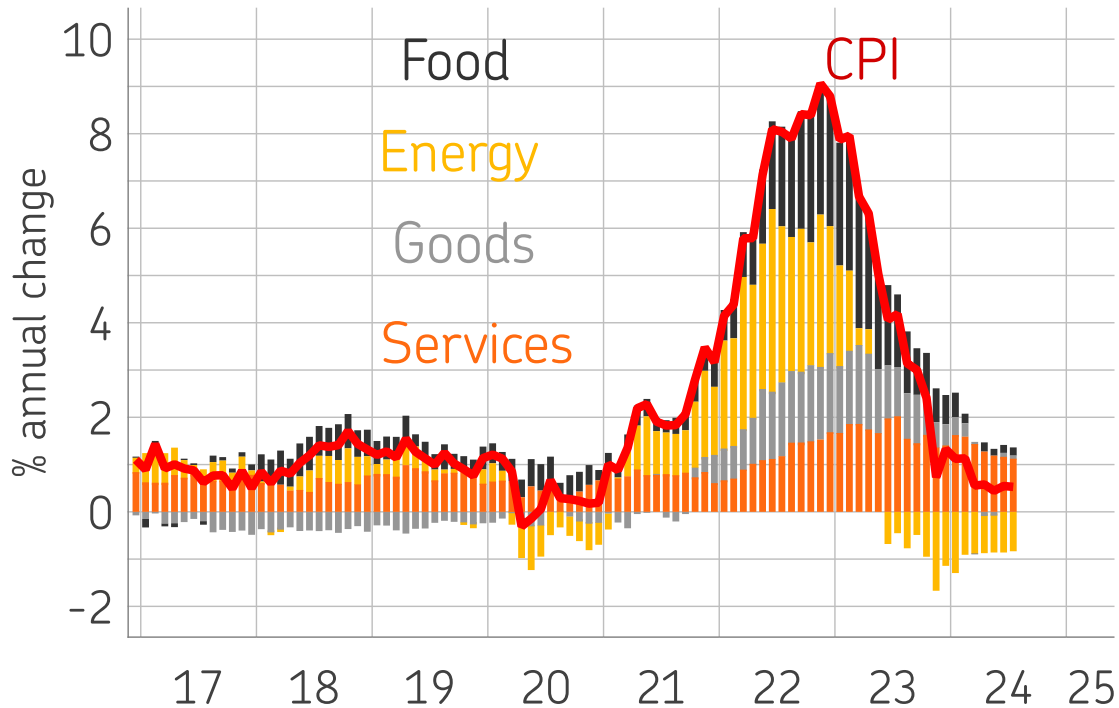
Labour markets

	2023	2024e	2025e	2026e
Unemployment rate, %	7,2	8,2	7,9	7,6
Employment rate, %	73,6	72,5	72,7	73,1
Employment '000	2628	2602	2616	2634
Unemployed, '000	204	234	225	216

Source: Statistis Finland, OP

Inflation will rise but remains moderate

Inflation (CPI)



Source: Macrobond, ECB, OP

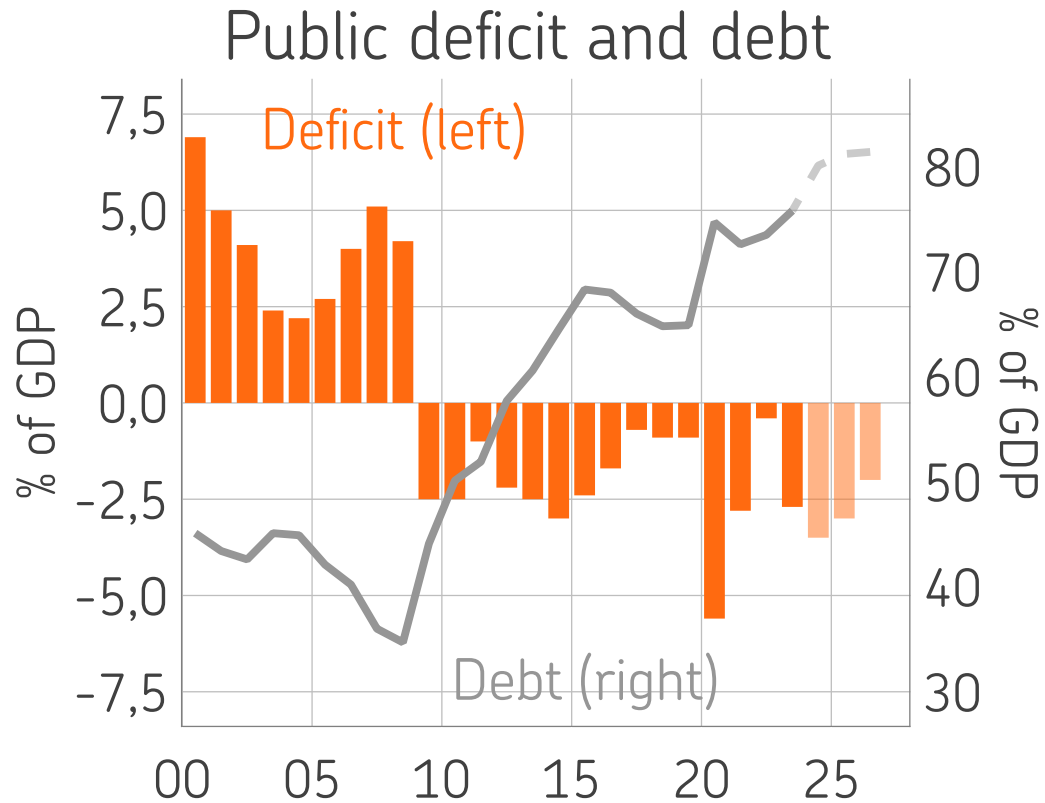
- Inflation in Finland is currently slow. According to the harmonized index measured by EU guidelines, inflation in July was 0.6 %.
- However, inflation is expected to accelerate in August and September. Inflation accelerates because the measurement error in electricity price is removed and value-added tax rate is increased. We estimate that the tax increase will raise the consumer price index by 0.5%.
- These changes will clearly raise inflation, and inflation is forecasted to exceed the two percent level by the end of the year. For most of next year, inflation will also be above the two percent level. Overall, inflation is accelerating but will remain moderate.

Inflation in Finland, %

	2023	2024e	2025e	2026e
Headline inflation, HICP	4,4	1,2	2,3	2,0
Core inflation, HICP without food and energy	4,1	2,4	2,6	2,0

Sources: Statistics Finland and OP

The public finances are improving in 2025



Source: Macrobond, StatFin, OP

- The public sector deficit deepens to 3.5 % of GDP this year despite expenditure cuts and some increases in taxes due to cyclical conditions, higher cost level, increases in defense spending and costs of the social security system reform.
- In 2025, the balance of public finances improves due to both cyclical factors and expenditure and revenue adjustments and the positive development continues in 2026. Consequently, the deficit is set to narrow and the increase in the public debt ratio stabilize.

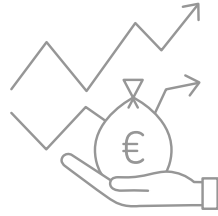
General government finances

	2023e	2024e	2025e	2026e
Surplus, % of GDP	-2,9	-3,5	-3,0	-2,0
Debt, % of GDP	76,6	80,1	81,2	81,4

Sources: Statistics Finland, OP

Housing prices

The decline in housing prices have moderated in the summer. We expect house prices to fall by an average of 2% this year. According to our estimate, prices will rise by 2.8% next year.



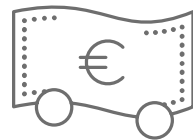
Construction

The difficulties in residential construction continue, although the first signs of stabilisation are visible. However, a rapid housing shortage is not expected.



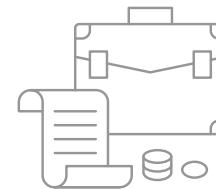
Interest rates

Euribor rates have fallen rapidly recently. The decline is expected to continue at a more moderate pace. Lower interest rates are gradually supporting the housing market.

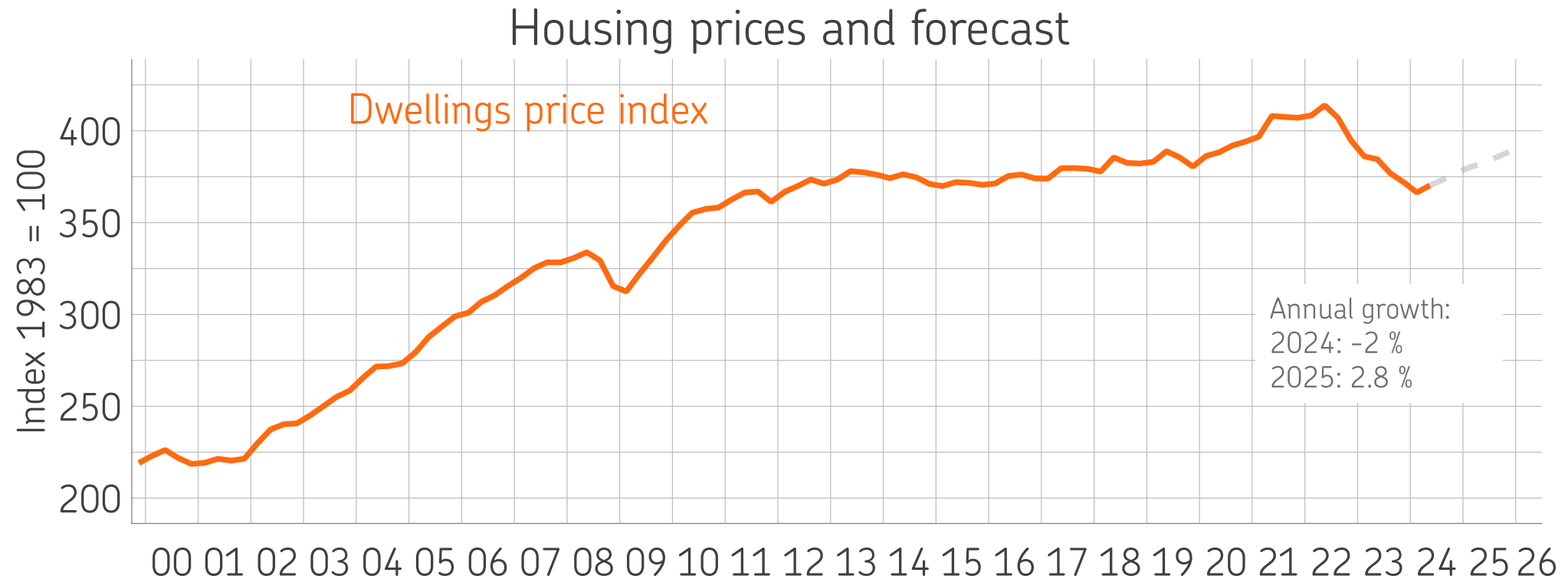


Mortgage market

The demand for housing loans in the early part of the year has been very weak. However, the decline in interest rates will support housing sales and thus the demand for housing loans in the future. A quick recovery is not expected.

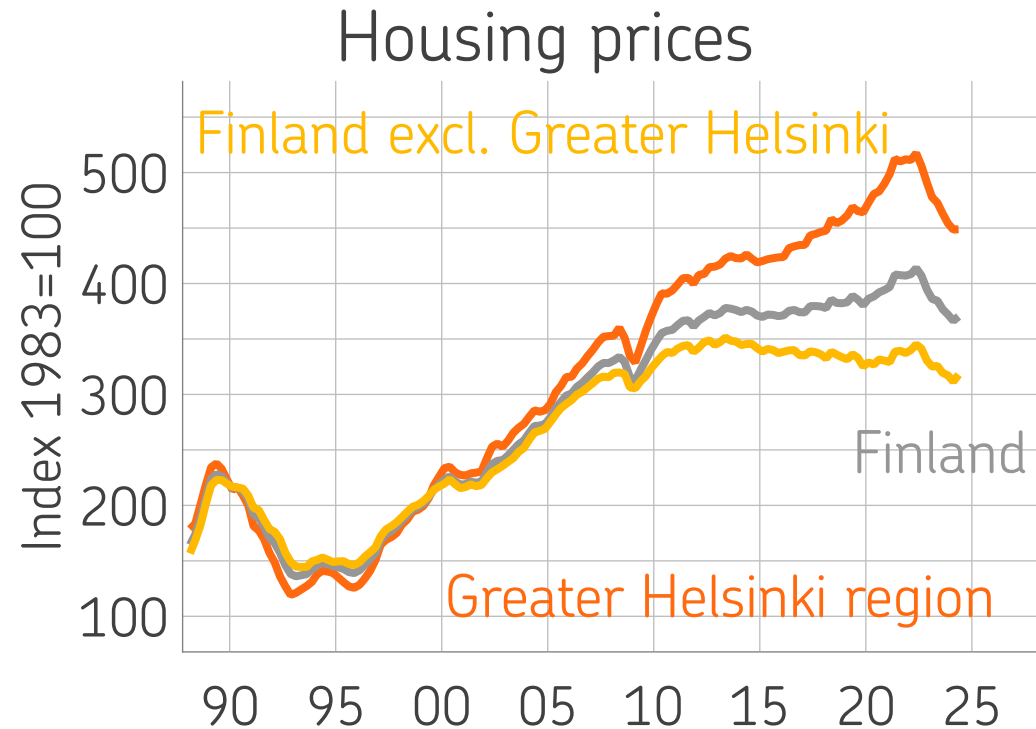


Slow and steady recovery in housing markets

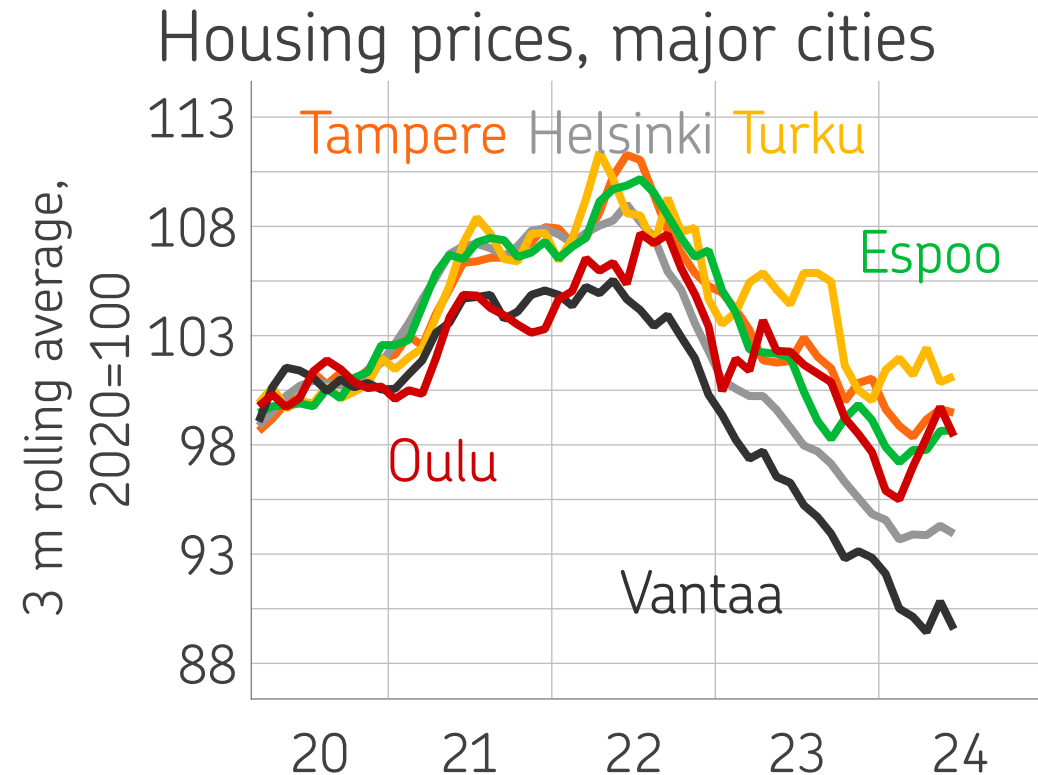


Source: Macrobond, StatFin, OP

Regionally, the development is roughly similar

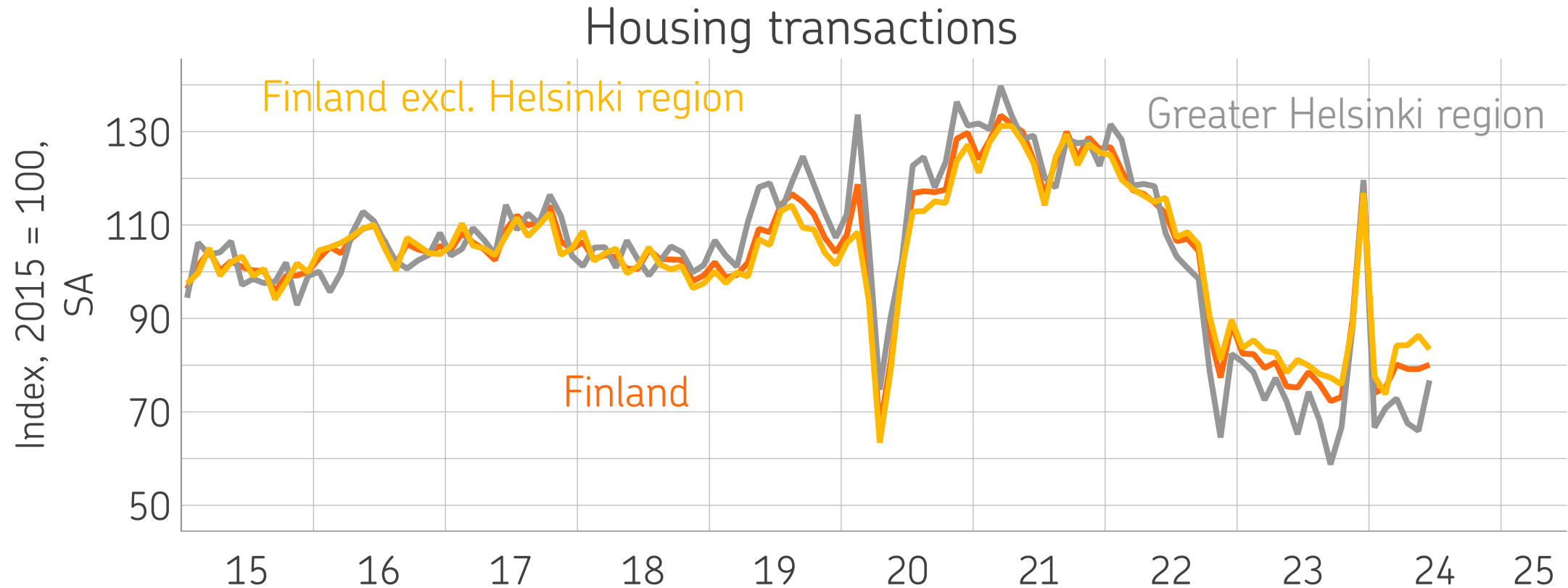


Old dwellings prices
Source: Macrobond, StatFin, OP



Old dwellings prices
Source: Macrobond, StatFin, OP

The housing transaction volume is still weak, but has risen from the bottom



Source: Macrobond, Tilastokeskus, OP

Thank you!