



## SIMPLY SHORT

# Growth in Finland's economy close to zero this year

20 Jun 2023 – Simply Short – Finnish economy

Prices have risen sharply and mortgage costs are taking a larger slice of household income. Consumption for the full year 2023 will be down slightly from last year, although household purchasing power has already started gradually to pick up. With the rise in interest rates, business investment is decreasing and residential construction slowing significantly. Inflation is nevertheless steadily falling, which will strengthen household purchasing power and consumption. Although the Finnish economy will not grow this year, there will be a return to growth in 2024. Employment remains a bright spot in the economy.

Growth close to zero this year Lower inflation will revive purchasing power and private consumption

Employment is a bright spot in the economy



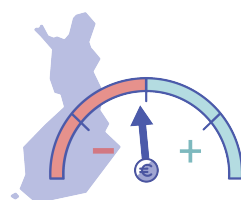
The decline in households' purchasing power will come to an end as wages, pensions and social benefits rise swiftly and inflation falls. Electricity and fuel prices have decreased in the early part of 2023, and the European Central Bank's (ECB) interest rate rises – which continued during the spring – are also gradually starting to curb other price increases.

Growth will return to household consumption during 2023, although the full year's consumption will fall short of last year's level due to the weakness of the early months. For households with outstanding loans, interest payments are now taking a larger slice of family income. For some households, it has been possible to cover the rising cost of living by using savings accumulated during the pandemic, for instance.

The position of households has been strongly supported by the availability of new jobs and by the retention of existing jobs despite companies being in economic difficulty. Companies want to hold on to their staff in situations where many are finding it difficult to recruit sufficient skilled employees.

Chart 1.

## From shallow recession to moderate growth



Growth close to zero this year



Lower inflation will revive purchasing power and private consumption



Employment is a bright spot in the economy

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With interest rates having risen and the economic outlook being uncertain, companies have had to consider carefully the investments they make. Significantly fewer new homes are being constructed, for example, and companies are being cautious in other investment decisions, too. Finnish exports are also languishing this year, as growth in the economies of Finland's key export markets is weak.

The fight against inflation is not over yet, and so the lending rates for households and businesses will remain above normal for the time being. High interest rates will continue to curb growth in the economy in the immediate years ahead, but the recession will nevertheless be short-lived. The economy will start to grow again in 2024, boosted by private consumption and by a recovery in exports.

Public expenditure will remain higher than public revenue in the next few years, and this shortfall will be made up by taking on further debt. Health and social care expenditure will rise year by year as the population ages, and other additional expenditure will include the new fighter aircraft purchases and other spending on crisis preparedness. The Government's interest payments have also grown as interest rates have risen. Additional government funding will be needed to cover the expenditures of the new wellbeing services counties, which began operating in 2023.

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