ANALYSIS

Finland's labour market weaker than that of the euro area

Yesterday – Analysis – Finnish economy


Jaakko Nelimarkka
Senior Economist


Juho Peltonen
Economist

In recent years the Finnish labour market, with declining employment and rising unemployment, has been considerably weaker than the euro area labour market. Finland's high unemployment rate is attributable to the weak economic conditions and the exceptionally low demand for labour, resulting in fewer job opportunities. By contrast, labour supply, both in Finland and across the euro area, has been bolstered by rising labour force participation rates and an increase in work-based immigration.

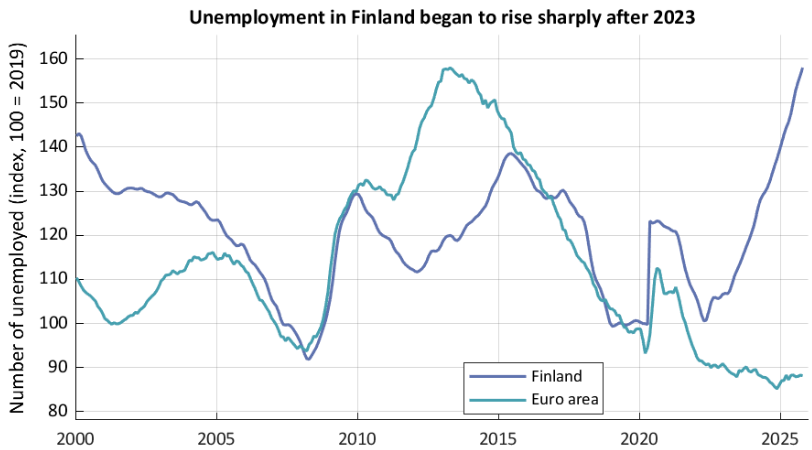
Labour market trends in Finland and the euro area started to diverge in 2023

The euro area countries constitute significant export and import markets for Finland,

and so developments in the euro area labour market will have an impact on Finland's economy and cost pressures. As a member of the euro area, Finland is also subject to the euro area's single monetary policy. Since the pandemic, European economies have each encountered the same negative shocks, including the energy crisis, the trade war and rising uncertainty. Despite this, Finland's unemployment has risen very rapidly and employment has fallen, whereas unemployment in the euro area remains historically low and employment is at a record high. This article examines both cyclical and structural factors underlying recent labour market developments in Finland and the euro area.

Before 2022, the labour market in Finland and in the euro area was in recovery from the economic consequences of the COVID-19 pandemic, and this recovery was very similar in both cases. Unemployment, which rose sharply in early 2020, began to decline before the year was over (Chart 1). By 2022, the number of unemployed people in Finland had decreased to its 2019 level, and in the euro area it had fallen even lower. The trend unemployment rate also declined at this time, and in Finland it reached its lowest point, 6.5%, in March 2022. Then, in the second half of 2022, the employment rate of people aged 20 to 64 in Finland reached a record high of approximately 78.5%. In the first half of 2022, in both the euro area and Finland, the number of people employed was approximately 4% higher on average than in 2019 (Chart 2).

Chart 1.



Sources: Eurostat, Statistics Finland and calculations by the Bank of Finland.
Unemployment figures from the Labour Force Survey (15–74-year-olds).

However, Finland's labour market started to weaken during 2022. The number of people unemployed increased (Chart 1), and the unemployment rate began to rise. By October 2025, the average number of people unemployed in Finland had already exceeded the 2019 figure by more than 50%, and the trend unemployment rate had climbed to 10.3%.[1] At the same time, the labour market in the euro area remained robust, with the

1. The rise in Finland's unemployment is also evident from the register-based employment service statistics compiled by the Employment, Administration and Development Agency (KEHA Centre), although the increase is smaller than in Statistics Finland's sampling-based Labour Force Survey. According to the employment service statistics, both the unemployment rate and the number of unemployed people were lower in October 2025 than in 2015. These statistics regard as unemployed all job applicants registered as unemployed jobseekers who are not in an employment relationship. In the Labour Force Survey, an unemployed jobseeker is defined as a person who has

number of unemployed continuing to decline (Chart 1). In October 2025, nearly 1.5 million people were unemployed in the euro area, which is about 12% fewer, on average, than in 2019, and the unemployment rate was low by historical standards, at 6.4%. The euro area employment rate for people aged 20 to 64 reached as high as 75.8% in the third quarter of 2025.

Although unemployment has increased significantly in Finland, the number of people employed is still higher than in 2019, before the pandemic (Chart 2). If the focus is solely on the number of people in employment, the labour market in Finland appears somewhat less bleak.[2] According to National Accounts data, employment grew rapidly up to 2022, when the number of people employed was already 5% higher than in 2019 and represented the highest level on record. After this, employment in Finland began to decline. Conversely, employment in the euro area has been steadily increasing for the past four years. In the third quarter of 2025, the number of employed people was slightly over 6% higher than in 2019.

Chart 2.

Sources: Eurostat and calculations by the Bank of Finland.
National Accounts data (total employment).

The reason the employment figures in Finland have declined less than the rise in unemployment is primarily that the labour force participation rate has increased and the labour force has expanded.[3] The labour supply has increased in both Finland and the

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been laid off, is without work but actively seeking work or waiting for an agreed job to start. For more information, see Statistics Finland's statistical guide (in Finnish).

2. Statistics on the number of people employed are recorded in two ways. The Labour Force Survey assesses the labour market status of the population by conducting a sample survey among different age groups. In contrast, employment data in the National Accounts are gathered from companies – currently through the national Incomes Register and from the structural business and financial statement statistics. However, the employment data from the Labour Force Survey are used in compiling the employment figures in the quarterly National Accounts. For more information, see the article by Mänttäri and Järvelä (2024) in Tieto & trendit (in Finnish).

3. The increase in unemployment in Finland has also prompted concerns about structural unemployment. According to the European Commission's estimate of structural unemployment (NAWRU, non-accelerating wage rate of unemployment), this has increased in Finland by just under one percentage point in the period 2019–2025. In the euro area, on the other hand, structural unemployment has declined, according to the Commission's estimate, by approximately two percentage points during the same period.

euro area, supported by similar factors (see also Vilmi and Nelimarkka (2024), 'Will the euro area's robust employment growth continue?', *Bank of Finland Bulletin*).[4]

In Finland, the labour force participation rate of 15–74-year-olds has increased to approximately 71%, while in the euro area it stands at about 66%. These participation rates are historically high: participation in the labour market (which includes both employed and unemployed persons) by those who are of working age has steadily increased over the past decade. Even after 2022, the participation rate in Finland has remained high; in other words, the weak labour market has not led to an increase in the proportion of working-age people who are not participating in the labour force.

The increase in participation rates is due to a greater inflow into the labour force from outside it and a reduced outflow from the labour force. Older people, in particular, have stayed in the labour force for longer. For example, since 2014, the participation rate of people aged 55 to 64 has increased by 14 percentage points to 78% in Finland and by 12 percentage points to 69% across the entire euro area. Participation rates have also risen in other age groups in both the euro area and Finland.

A larger share of Finland's recent growth in unemployment is due to people transitioning from economic inactivity (i.e. from outside the labour force) to become unemployed jobseekers rather than to those moving from employment to unemployment. According to labour market flow data calculated from Finland's statistics, many people have in recent years transitioned from outside the labour force to employment (see: Juvonen and Peltonen (2025), 'Labour market flows run deeper: Participation has raised both employment and unemployment', *Bank of Finland Bulletin*). Therefore, job losses account for only part of the increase in unemployment. The decrease in the number of people employed has been smaller than the increase in unemployment.

Another factor contributing to the increase in labour supply is work-based immigration. The working-age population has begun to increase once more, primarily due to immigration. Since the pandemic, the labour force in Finland and the euro area has increased by approximately 1% each year. Around half of this growth can be attributed to an increase in the number of people in the labour force who were born outside the EU, in so-called third countries. This is explained not only by immigration, but also by the increased participation rate among those who have arrived – both recently and in the past – from third countries. Besides more active participation, immigrants' employment rates have also steadily risen.

However, the increase in the labour supply appears more moderate when measured as hours worked. In both the euro area and Finland, employees' average working hours have been significantly shorter than they were before the pandemic. In other words, although the number of employed people has risen, the increase in total hours worked – that is, the labour input of the entire national economy – has been only modest, particularly in Finland. Because the increase in hours worked has been slower than the growth in the number of people employed, sustaining the same output has necessitated

4. The factors influencing labour market dynamics in the euro area have been studied by Juvonen, P., Nelimarkka, J., Obstbaum, M. and Vilmi, L. (2025), 'Drivers of post-pandemic price dynamics and labour market tightness in the euro area', *BoF Economic Review*, 1/2025.

employing more people, particularly in the current environment of slow productivity growth.

Overall, the euro area labour market has performed strongly since the pandemic, although the situation has varied across the different euro area countries. In practice, the euro area labour market is composed of multiple distinct labour markets shaped by cultural, linguistic and geographical boundaries. Employment has increased most rapidly in Spain and Italy, whereas the number of people employed in Germany, France and the Netherlands, for instance, has remained approximately unchanged over the past two years. The drop in unemployment in the euro area is similarly a consequence of the decreases in unemployment in Spain and Italy. In Germany, on the other hand, the unemployment rate was already lower than in southern Europe and has remained steady at around 3.7%.

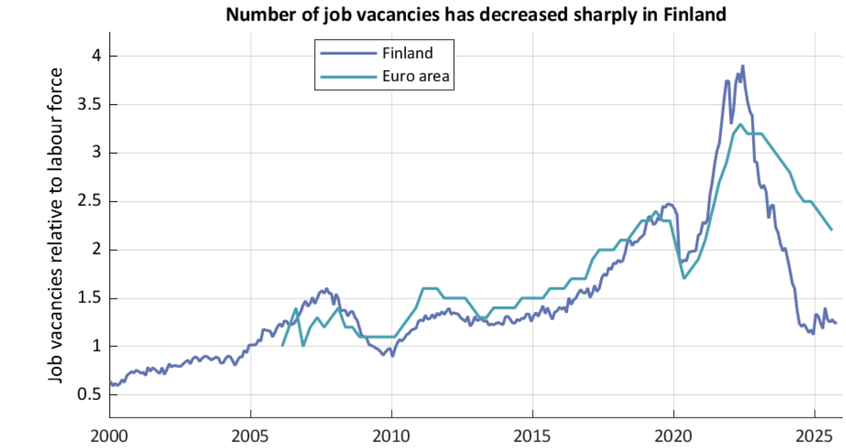
Labour demand in Finland has remained weak in recent years

The lacklustre performance of the Finnish labour market in recent years is primarily attributable to weak labour demand. Between 2006 and 2021, the number of job vacancies relative to the size of the workforce followed a remarkably similar path in both Finland and the euro area (Chart 3).[5] In 2021 and 2022, the number of vacancies in Finland reached a record high, surpassing 110,000 positions. The peak in labour demand in the euro area also occurred in 2021–2022, although the peak in vacancies relative to the workforce was lower than in Finland.

Following the peak in 2022, the number of job vacancies started to decline in both Finland and the euro area. In Finland, the decline turned into a complete collapse, with the number of vacancies shrinking to a historical low, where it still remains. In the euro area, the decline has been more moderate and there are now approximately as many vacancies as in 2019, just before the turbulence brought by the COVID-19 pandemic (Chart 3). Overall, the demand for labour in Finland has fluctuated over the past five years, ranging from a historical high to a historical low.

5. Eurostat uses a standardised methodology to determine job vacancies across the EU. The method used by Statistics Finland to determine vacancies in the country differs slightly from this. For more information, see Statistics Finland’s detailed description (in Finnish).

Chart 3.



Sources: Eurostat, Statistics Finland and calculations by the Bank of Finland.

Following the pandemic, the new jobs generated in Finland and the euro area were predominantly in the same sectors. Employment growth was most rapid in the service sectors and the public sector. In manufacturing and construction, growth was somewhat slower than this. In the euro area, this trend has persisted up to the present, although the pace of new job creation has gradually slowed down. In Finland, employment started to weaken in 2023, when the positive employment trend in the service sectors came to a halt. New jobs in the public sector continued to support employment until 2024, when fiscal consolidation measures brought recruitment to an end. Public sector employment decreased in 2025.

The number of job vacancies in Finland in 2025 has stayed low. In the third quarter of 2025, there were approximately 27,000 vacancies, which is 22% fewer than a year earlier.[6] Throughout 2025, the decline in vacancies has been widespread across different sectors. At the beginning of the year, the hiring of new employees came to an end in health and social services. Later in the spring, vacancies declined most in the construction sector, and during the autumn in the service sectors. Only in the manufacturing sector has the number of job vacancies increased slightly in recent months.

In the euro area, employment has been underpinned in recent years by the steady strong demand for labour in the service sectors in particular. The number of vacancies in services has stayed high over the past three years. The sector with the highest relative demand for labour is construction, although this demand has also declined in recent years. By contrast, growth in the demand for labour in manufacturing has been fairly modest compared to the other main sectors, although the number of manufacturing vacancies in 2025 has been as high as in the pre-pandemic years. A substantial portion of the employment growth can also be attributed to an increase in public sector jobs.

The tightness of the labour market from the employer's perspective is typically measured

6. Job vacancies in the third quarter, Statistics Finland, 19 November 2025.

by the ratio of vacancies to unemployed jobseekers. According to this indicator, the labour market in Finland has cooled considerably over the past two years. In other words, many people have been unemployed and there have been few job vacancies. Therefore, employers in Finland are unlikely to face a labour shortage at present, as there are generally plenty of jobseekers available for each vacancy. This situation is also reflected in the latest findings of the European Commission's business survey, which indicate that Finnish companies do not view labour shortages as a factor limiting production.

Since 2022, the labour market in the euro area has cooled somewhat. In other words, the number of vacancies relative to unemployed jobseekers has fallen. The main difference compared to Finland in this regard is that despite the moderate decrease in vacancies, unemployment has stayed very low. The euro area labour market is in fact still fairly tight, in historical terms, being significantly above the average level of the past 25 years. The European Commission's business survey indicates that a substantial share of businesses in the euro area are still reporting labour shortages.

Employment growth in Finland is weak relative to cyclical conditions

The primary difference between the labour market trends in Finland and the euro area appears to stem from differences in labour demand. The number of job vacancies in Finland is approximately 75% less than in 2022. In the euro area, the corresponding decrease is only about 30%. Thus, a substantial decrease in labour demand, coupled with a plentiful labour supply, has led to higher unemployment in Finland. In the euro area, employment has remained high and unemployment has not risen, because although labour demand has declined, it has still supported employment growth.

The apparent reason for the weak demand for labour in Finland is the country's lower economic growth compared to the euro area. On the other hand, the increased labour supply in Finland can be attributed to structural factors like demographics, as well as policy changes, including reforms to the pension system and unemployment benefits. The sustained strong supply of labour has thus caused the unemployment rate in Finland to rise more rapidly than the decline in employment figures.

According to Okun's (1962) law, economic growth and changes in unemployment are strongly and negatively correlated, meaning they are closely linked statistically.[7] In the charts below (Chart 4 and Chart 5), this statistical relationship is shown for Finland and the euro area in terms of employment.[8] The vertical axis represents annual employment growth. The horizontal axis represents the lagged annual GDP growth for each quarter.[9]

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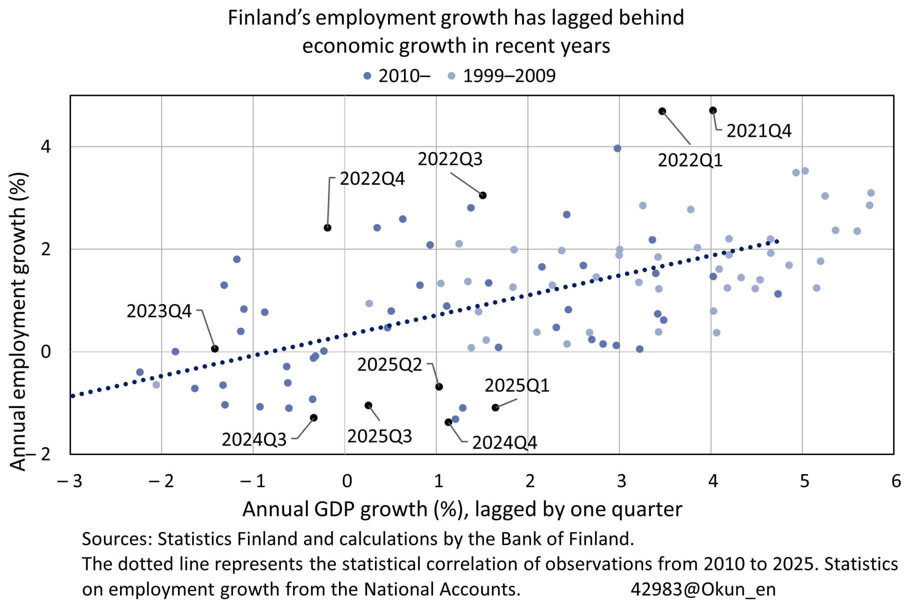
7. Okun, A. (1962), 'Potential GNP: Its Measurement and Significance', *Proceedings of the Business and Economics Statistics Section*, American Statistical Association.
8. The period covered in the charts is 1999–2025. The darker dots indicate observations made after 2010. Observations from the pandemic year 2020 have been omitted due to significant fluctuations. The chart illustrates the change in employment rather than unemployment, and so it does not take account of variations in labour supply that influence the level of unemployment. As discussed above, the rise in unemployment has been attributed not only to cyclical conditions, but also significantly to the expansion of the labour force.
9. Typically, the labour market responds to business cycles with a delay, since recruitment and dismissal decisions

The dotted line represents the longer term relationship between these variables, and, in line with Okun's law, this connection is positive in both the euro area and Finland.[10] Therefore, on average, economic growth results in faster employment growth.

Chart 4.



To what extent can the trend in the Finnish labour market be attributed to weaker cyclical conditions? According to Okun's law, moving along the dotted line in the chart indicates that employment growth will change in proportion to GDP growth in the same way as the long-term average. If employment growth falls below the dotted line, the labour market is performing weaker than average relative to the cyclical trend. Finland's employment growth was exceptionally rapid in 2021 and 2022, as the observations for these years indicate, being positioned at the top of the chart. Consequently, employment growth outpaced economic growth on average. In contrast, employment growth has slowed to an unusually large extent over the past two years. Employment growth seems to be exceptionally subdued, even within the framework of a weak economic cycle.

In the euro area, recent employment growth has been more closely aligned with the average cyclical trend. In 2023, the growth in employment was unusually high, but has since slowed to a rate more consistent with the long-term statistical trend. Indeed, the robust economic conditions appear to have supported employment growth in the euro area.

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take time.

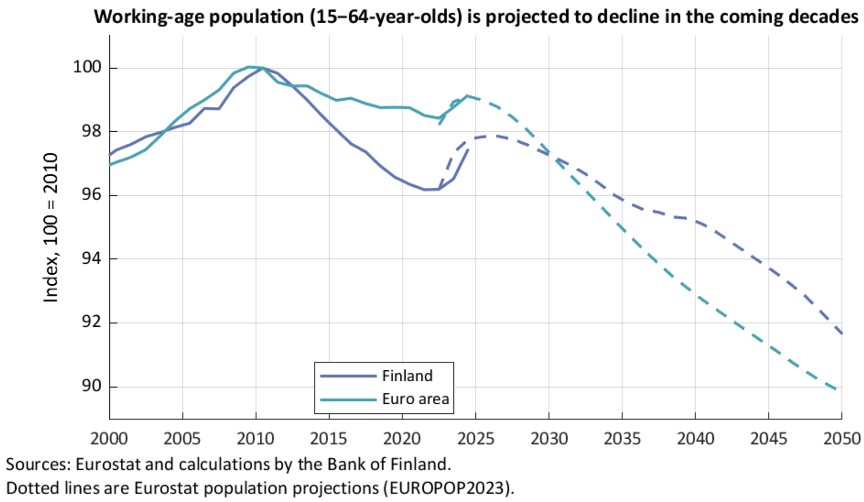
10. The dotted line represents the regression fit, explaining employment growth using a constant, lagged GDP growth and its square.

Chart 5.

Population growth in the coming years will be affected by ageing

Demographic development is a key factor affecting the labour supply in both Finland and the euro area. In both cases, the working-age population started to decrease in 2010. In Finland, the working-age population has declined significantly faster than in the euro area (Chart 6). Over the past three years, however, the working-age population has started to grow due to a high level of net immigration. In Finland, the working-age population has grown more rapidly than in the euro area, but the size of the working-age population relative to its 2010 level is still lower in Finland than in the euro area as a whole.

Chart 6.



In Eurostat's latest population projection, for 2023 (EUROPOP2023), net immigration is not expected to continue at its current level. Instead, the working-age population in relation to its 2010 level will begin to decline again in the coming decades.[11] The Eurostat projection indicates that the decline in the euro area will be more pronounced than in Finland, with the working-age population in the euro area in relation to its 2010 level falling below that of Finland sometime in the 2030s (Chart 6). In both Finland and the euro area, this decline is projected to persist over the subsequent decades. In the 2050s, Finland's working-age population is projected to be approximately 8 percentage points smaller, and the euro area's about 10 percentage points smaller, compared to 2010.

Therefore, despite immigration, the contraction of the working-age population appears inevitable and will reduce the future labour supply. In Finland, as in the euro area, net immigration levels have remained high in the years following the pandemic. Since most immigrants are of working age, net immigration has increased the number of people of working age. However, according to the Eurostat forecast, immigration is expected to normalise from 2025 onwards.

Significant country-specific differences exist among euro area countries concerning both immigration and demographic trends. In Eurostat's population projection for the major euro area countries, the populations of Spain and France are projected to grow until the 2050s, whereas Italy's population is expected to decline throughout the forecast period.[12] In Finland, there are significant regional disparities in demographic trends, accentuated by the large geographical distances.[13] The regional differentiation that has been occurring is also expected to continue. Although the working-age population of the euro area is declining more rapidly than in Finland according to the Eurostat projection, the major regional disparities in Finland may exacerbate the labour supply challenges the country faces.

Cyclical conditions have created a divergence between the labour markets of Finland and the euro area

In recent years, the labour market has deteriorated considerably more in Finland than in the euro area. Since 2023, a collapse in the demand for labour in Finland has led to a reduction in job vacancies and a rise in unemployment. At the same time, the number of people employed has decreased, although it is still higher than before the pandemic. In the euro area, recent trends have been quite the opposite: the number of people

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11. The Finnish Population Forecast published by Statistics Finland assumes the continuation of net immigration at levels higher than those projected by Eurostat. Currently, the working-age population (defined as 15–64-year-olds) makes up about 62% of the total population, and Statistics Finland estimates that, with present net immigration rates, this proportion will remain stable until the early 2050s.
12. Among the small euro area countries, the populations of Belgium, Ireland, Cyprus, Luxembourg, Malta, the Netherlands and Austria are projected to grow by nearly 10% by the year 2100. By contrast, in Estonia, Greece, Croatia, Latvia, Lithuania, Portugal, Slovenia, Slovakia and Finland, the population is projected to decline by nearly 20% during the same period. Source: ECB Economic Bulletin, 3/2023.
13. The population dependency ratio, i.e. the number of under-15s and over-65s per 100 people of working age, was, for example, 82.3 in the province of South Savo in 2023, compared to just 51.3 in the province of Uusimaa.

employed has risen to a historically high level, while unemployment has declined.

In recent years, the labour supply in both the euro area and Finland has grown for the same reasons, driven by an increase in the participation rate and positive net immigration. In Finland, the current cyclical conditions and weak employment opportunities have meant that this increase in the labour supply has led to a rapid increase in unemployment. In the euro area, the labour market has been stronger, and has also been supported by the more robust cyclical conditions. However, over the longer term, a contraction in the labour force seems inevitable in both the euro area and Finland. Population ageing and the normalisation of immigration may reduce the labour supply and ultimately hinder long-term economic growth.

Tags

labour, labour markets, employment