

Publishable April 8, 2020

Economic Forecast 2020–2021

Finland stopped

A fast recovery from the crisis might still be possible



ADDITIONAL INFORMATION

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The economic development in the current and the next year depends on the duration of the standstill which the corona virus has caused. Our forecast is based on the assumption of a deep and relatively short dive of the Finnish economy which will end by the next fall. In our forecast the GDP will be reduced by approximately five percent this year, and it will grow by about four and a half per cent during next year.

The costs of a wave of bankruptcies would be much larger than the costs from compensating the losses that the current temporary suspension of business causes. There should be more direct support for the firms and for the households which suffer the greatest losses because of the crisis.

Internationally, we expect the coronavirus epidemic to become largely under control in the world over the course of this coming summer. The world economy is contracting into a recession, exacerbated by widespread lockdowns. Many countries are introducing unprecedented and very large economic policy actions which will prevent a deep depression and contribute to a recovery, beginning later this year.

The goods exports of Finland are restricted by both sinking demand and shortages in intermediate inputs. This year both goods exports and imports will be faced by a collapse which is comparable with the events of 2009, but since the reasons behind the current crisis are temporary in our forecast scenario, exports will grow rapidly already next year. Although the import and export of travel services will collapse, the trade of some other services might even increase.

Investments are forecasted to decrease by 5 per cent this year because of the corona crisis. All investments (construction, machinery and equipment, as well as R&D investments) will decline. Most investment projects are rescheduled and postponed, but investments will also be discarded while the overall economic activity declines. Next year investments grow 4 per cent according to our forecast.

We forecast that the private consumption plummets 5.0 per cent this year, although continued uncertainty might cause an even larger decline. Still, our baseline scenario assumes that restrictions on service sector will last only 90 days, so that private consumption bounces back strongly in the following year. We expect that inflation will remain close 0.5 per cent this year, gathering pace and reaching 1 per cent in 2021.

The unprecedented coronavirus shock hits the labor-intensive service sector in the first half of 2020 while the demand shock affects the employment in the

industrial sector later in the year. We expect the unemployment rate to jump to 8.5 per cent in 2020 despite governments actions. We see that government should start to prepare significant plans to support unemployed workforce if our scenario of a V-shaped recovery does not seem to be realistic at midsummer.

The general government budget deficit and debt are increasing at an enormous pace due to the corona crisis. The central government has taken a pro-active role in helping both firms and labour force to survive over the crisis. Not only do the private market activities need an extra financial support, but support is needed also by the municipalities who are responsible for health care services. The local governments in Finland have suffered from weak economic balances during the past years due to lagged tax revenue and a cutback of the state grants. It is therefore obvious that debt will increase also on the local government level. Furthermore, the social security funds will go deficit in 2020 due to a huge increase in unemployment rates.

In total we anticipate that the general government budget deficit will be about 6 percent to GDP and the debt to GDP ratio up to 70 percent in 2020. When the economy recovers as predicted in 2021, also the general government's financial position is expected to recover, although slowly, during the next coming years. ■

DEMAND AND SUPPLY

	2018	2018	2019f	2020f
	Bill. €	Percentage change in volume (%)		
Gross Domestic Product	232.1	1.7	1.3	1.1
Imports	92.4	4.1	1.5	1.0
Total supply	324.5	2.3	1.3	1.1
Exports	90.9	1.1	4.0	2.0
Consumption	178.0	1.8	1.0	1.2
private	124.8	2.0	1.0	0.9
public	53.2	1.4	1.0	2.0
Investment	52.6	3.1	1.4	-1.0
private	42.7	2.3	1.4	-1.6
public	9.9	6.2	1.5	1.6
Total demand	324.5	2.3	1.3	1.1

Source: Statistics Finland, Labour Institute for Economic Research