

Publishable September 16, 2021

Economic forecast 2021–2023

Growth is strongest next year

The dynamics of Finnish economy is better than its reputation

ADDITIONAL INFORMATION

Ilkka Kiema
Chief of forecasting
+358 40 940 2287
ilkka.kiema@labour.fi

Essi Lindberg
Information officer
+358 40 940 2835
essi.lindberg@labour.fi

www.labour.fi



LABOUR INSTITUTE FOR ECONOMIC RESEARCH



Economic forecast 2021–2023

Growth is strongest next year

The dynamics of Finnish economy is better than its reputation

ADDITIONAL INFORMATION

Chief of forecasting Ilkka Kiema
 +358 40 940 2287
 ilkka.kiema@labour.fi
www.labour.fi

The Labour Institute for Economic Research forecasts a growth rate of 3.0 per cent for the current year and of 3.5 per cent for the next one. In 2023 growth slows down to 1.8 per cent. In comparison with the forecast from last spring, these estimates have been adjusted upwards by 0.5, 0.4, and 0.4 per cent, respectively.

Our forecast depends on assumptions concerning the development of the coronavirus epidemic. We assume that the epidemic fades out before the end of the year in Finland and that also the current boom of the global economy continues.

During this year, economic growth in strengthened mostly by the rapid increase in private consumption. In accordance with our previous forecast, the corona crisis did not end in a sudden outburst of private consumption. Rather, private consumption has increased gradually, and in our forecast its growth rate will be 4.0 per cent this year.

In comparison, the growth of the volume of exports has until now remained moderate this year. However, e.g. the business sentiment indicators of the Confederation of Finnish Industries and growth in the value of order books in the technology industry suggest that there will be rapid growth in the exports of goods next year.

The trade in transport and travel services collapsed during last year, and their recovery will cause a rapid growth of both imports and exports of services. In our forecast also this will happen mostly during next year.

The EDP debt ratio of Finland has grown rapidly during the pandemic, and it will approach 75 per cent during the current year. The deficit of the public sector will be reduced during the next years, but government finances will nevertheless remain in deficit during the forecast period, although in our forecast the EDP debt ratio will be slightly reduced after 2021.

It seems that the corona crisis has had a positive effect on the cost competitiveness of the Finnish economy. Nevertheless, the unpredictability of the situation, as well as the fact that the standard competitiveness indicators currently vary also because of temporary effects, like e.g. temporary changes in the sizes of various industries, are arguments for moderation in wage agreements.

The current Finnish government aims at improving the sustainability of public finances through an increase in the employment rate. According to the government program, the government is committed to achieving an employment rate of 75 per cent by 2023. According to our forecast this aim will be realized, but this will be the ca-

se mostly for reasons which are unrelated to the government's policy measures.

Measured by the number of hours worked, the level of employment is not exceptionally low in Finland, when compared with similar countries or with the EU average. The future development of the productivity of labour depends on the dynamism within the labour market, like e.g. on the number of the new jobs that emerge to replace the disappearing ones, and on the chances of unemployed persons to find new employment. We point out that the dynamism of the Finnish labour market is better than its reputation, judged by such standard criteria as excess job reallocation rate or the number of unemployed persons who become employed.

In other words, both the number of hours worked and the changes to increase the productivity of labour are on a moderately good level in Finland already now, and the number of employed persons is also actually increasing. There are nevertheless good reasons for reforming the labour market, but whenever possible, one should proceed in a piecemeal fashion in such reforms and whenever possible, base them on carefully designed experiments. ■

DEMAND AND SUPPLY

	2020	2020	2021f	2022f	2023f
	Bill. €	Percentage change in volume (%)			
Gross Domestic Product	236.2	-2.9	3.0	3.5	1.8
Imports	84.6	-6.4	2.0	7.5	3.5
Total supply	320.8	-3.9	2.7	4.6	2.2
Exports	85.5	-6.7	2.0	8.7	5.0
Consumption	178.4	-3.1	3.5	2.5	0.9
private	120.7	-4.7	4.0	4.0	1.5
public	57.7	0.5	2.4	-0.8	-0.5
Investment	57.1	-0.7	2.1	3.3	2.1
private	45.5	-3.4	2.8	3.8	2.8
public	11.7	11.0	-1.0	1.2	-1.0
Total demand	320.8	-3.9	2.7	4.6	2.2

Source: Statistics Finland, Labour Institute for Economic Research