

ADDITIONAL
INFORMATION

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ECONOMIC FORECAST 2024–2026

Growth is Underway – Risks Ahead



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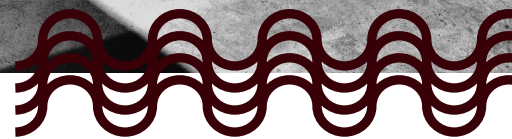
Growth is Underway – Risks Ahead

Finland is currently experiencing sluggish economic growth; however, our forecast suggests brighter developments in the coming years compared to the past. We predict this year's GDP growth at 0.4 percent, with projected growth rates of 2.1 percent and 2.0 percent for 2025 and 2026, respectively. This year's economic growth estimate has been revised downward due to persistent problems in the construction sector, but we expect the economy to grow faster in 2025 than previously projected in our autumn forecast (1.7 percent). After a contraction of 1.0 percent in 2023, according to preliminary data from Statistics Finland, the economy is expected to return to more typical growth levels in the coming years. However, it's important to note that compensating

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- » The economy is rising from a recession, but there are plenty of risks on the path to recovery.
 - » Government austerity measures could lead to a greater than anticipated reduction in private consumption as households preemptively react to cuts in social benefits.
 - » Labor market dynamics are under strain, and challenges in reaching agreements could lead to new instances of economic slowdown.
 - » The international environment is in a state of uncertainty, as the deteriorated security situation in the Middle East and the upcoming U.S. elections could lead to negative surprises in international trade, the stability of which is crucial for the recovery of Finland's economy.



Photo: Peter H, Pixabay.



for the previous year's weak economic performance is only expected to happen next year.

TOWARDS BETTER TIMES

From the perspective of key export markets, we assess that the euro area will gradually overcome its recent economic problems, while the United States has not faced these issues at all. Recovery from the energy price spikes and supply disruptions caused by Russia's war in Ukraine is underway in the euro area, with better times anticipated. In contrast, the U.S. economy, heavily reliant on private consumption and stimulative fiscal policy, has navigated the post-pandemic inflation shock and monetary tightening almost unscathed. Central banks in both economies are initiating rate cuts this year, with further reductions planned for 2025, aligning interest rates with their long-term target levels.

Despite sluggish economic growth, we anticipate stable labor markets throughout the forecast period. The unemployment rate is expected to stay consistent with 2023 levels this year and next, but is projected to rise to 7.4 percent in 2026. The employment rate is also expected to decline despite government efforts to support employ-

ment, reflecting broader labor market challenges. However, an increase in labor productivity by 2.1 and 2.9 percent in 2025 and 2026 should help offset the impact of fewer people working and maintain a stable economic outlook.

Regarding exports, Finland is at a watershed. We expect exports to contract by 0.9 percent this year, but they are projected to rebound to just under three percent growth in 2025–2026. The export outlook is closely linked to the international business cycle, which we predict will improve towards the end of the forecast period, particularly in the euro area. Expectations of improved exports are bolstered by enhanced data on industry confidence indicators and cost competitiveness.

We expect inflation to significantly decrease from last year's high levels, influenced by the diminishing impact of supply shocks following Russia's military actions and by stringent monetary policy. We forecast that the price level will rise by 2.2 percent this year, then stabilize at approximately two percent in 2025–2026. Concurrently, private consumption is expected to grow, aligning with the rise in real incomes during the forecast period. We estimate that growth in private consumption will remain at 0.4 percent this year, but will accelerate to 1.2 percent in 2025 and 1.9 percent in 2026.

DEMAND AND SUPPLY

	2023 Bill. EUR	2023	2024f	2025f	2026f
		Percentage change in volume (%)			
Gross Domestic Product	277.6	-1.0	0.4	2.1	2.0
Imports	114.9	-7.1	0.2	2.2	2.1
Total supply	392.5	-3.0	0.3	2.1	2.0
Exports	113.7	-1.7	-0.9	2.9	2.6
Consumption	215.6	1.5	0.2	1.4	1.5
private	145.7	0.4	0.4	1.2	1.9
public	69.9	3.8	-0.2	1.9	0.6
Investment	64.8	-4.2	-1.3	3.1	2.7
private	53.6	-4.1	-3.0	0.7	3.9
public	11.2	-4.3	7.0	13.5	-1.8
Total demand	392.5	-3.0	0.3	2.1	2.0

Source: Statistics Finland, Labour Institute for Economic Research LABORE.

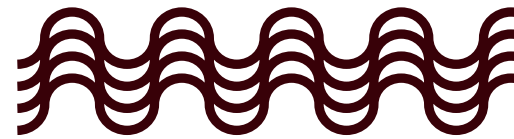
Investments are particularly impacted by a shortage of construction investments, leading to our forecast that investment figures will decrease by 1.2 percent this year. However, the easing of monetary policy this year and next is expected to improve the investment outlook for the coming years. We estimate that investments will grow by about three percent annually in 2025–2026. Additionally, significant national defense acquisitions are expected to contribute to this more positive development in future years.

Public finance issues continue to persist. We estimate that public finances will remain in deficit, with the state budget showing an average annual shortfall of ten billion. This deficit is driven by familiar challenges: weaker-than-expected growth in tax revenue and increased debt servicing costs on the expenditure side. Furthermore, according to our forecast, government actions are not sufficient to reverse the trend of increasing debt-to-GDP ratio.

MAINTAINING MOMENTUM REQUIRES STANDING FIRM

Despite the optimistic baseline of the Labore spring 2024 forecast, we have identified several clear risks that could

impede growth. The first risk involves fiscal consolidation measures, which we believe may cause a larger than anticipated reduction in private consumption as households start adjusting their spending in anticipation of income reductions, potentially leading to a preemptive drop in demand. The second risk concerns ongoing labor market reforms. Traditional negotiation practices significantly reduce the costs of negotiations, and any abrupt changes could escalate these costs substantially. The third risk is associated with the international economy. While the immediate impacts of the energy price shock from Russia's aggressive actions have waned, geopolitical risks remain. Specifically, the unstable security situation in the Middle East and the upcoming U.S. presidential elections could lead to unpredictable disruptions in the international economy, to which Finland, as a small open economy, is particularly vulnerable. ■



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