

ADDITIONAL
INFORMATION

Juho Koistinen
Head of Forecasting
+358 40 940 2833
juho.koistinen@labore.fi

Essi Lindberg
Communications Manager
+358 40 940 2835
essi.lindberg@labore.fi

ECONOMIC FORECAST 2024–2026

Growth Delayed, Not Halted



INSTITUTE FOR ECONOMIC
RESEARCH
EST 1971
Labore

ECONOMIC FORECAST 2024–2026

Growth Delayed, Not Halted

Finland's economic downturn appears to be coming to an end, though growth remains moderate for now. We anticipate a GDP contraction of 0.2 percent this year compared to last year. For 2025 and 2026, we project growth to accelerate to 1.7 and 1.8 percent, respectively. Our forecast for this year has been revised downward from the spring estimate of 0.4 percent, reflecting weaker-than-expected economic performance in the first half of 2024. In particular, investments and private consumption have shown sluggish growth, according to preliminary data from Statistics Finland's quarterly accounts. Growth forecasts for 2025 and 2026 have also been adjusted slightly downward, partly due to anticipated cuts in public spending as part of the government's austerity measures. Nevertheless, the expected economic recovery in 2025–2026 is notable following two consecutive years of negative growth. Growth expectations rely primarily on private consumption and exports, which are expected to benefit from an easing of monetary policy throughout the forecast period.

-
- » Economic growth was subdued in early 2024, but we believe the turning point is at hand.
 - » Exports have begun to grow after a slump earlier this year.
 - » Inflation has slowed, and private consumption is rising along with purchasing power.
 - » However, there remains uncertainty about the speed and strength of the improvement in investments.



Photo: Marcin, Pixabay.

OUTLOOK FOR THE COMING YEARS

Globally, we expect the divergent economic growth rates between the United States and the Euro area to converge, with both economies growing at a similar pace in 2025–2026. Although concerns have emerged over a potential U.S. recession due to financial market instability, we do not believe this turbulence signals a significantly heightened risk of recession. The Euro area's economy, particularly in Southern European countries, has been buoyed by strong demand for services, especially tourism. For Finland, it is crucial that Germany's economy, a key export market, recovers quickly. Monetary policy is easing in both the U.S. and the Euro area, with interest rates anticipated to decrease by approximately 1.5 percentage points by the end of 2025.

The labor market remained relatively stable for a prolonged period despite the economic downturn, but it has weakened over the past year. Employment typically responds to economic cycles with a lag, which accounts for recent trends. We expect unemployment to remain higher than in previous years despite the economic recovery. Toward the end of the forecast period, a turnaround is anticipated in the labor market. Produc-

tivity growth is projected to accelerate as the economy improves, supporting economic growth even if employment initially declines.

Exports of goods were impacted earlier this year by labor disputes, but overall export performance showed promising improvement in the second quarter. We estimate that exports will still decline in 2024, with a return to growth expected in 2025–2026. Positive export prospects are supported by improving economic conditions in key export markets and stable cost competitiveness, which remains close to the long-term average. Easing monetary policy also supports the export outlook, as a substantial share of Finnish goods exports consists of investment goods, for which demand increases as financing conditions improve.

The tightening of monetary policy and the easing of supply constraints have contributed to slowing inflation. We expect inflation to decelerate further and stabilize near the European Central Bank's two-percent price stability target over the forecast period. However, the 1.5 percentage point increase in the general VAT rate, effective from September, will temporarily push up prices at the beginning of the forecast period. We anticipate private consumption to grow as purchasing power im-

DEMAND AND SUPPLY

	2023 Bill. EUR	2023	2024f	2025f	2026f
		Percentage change in volume (%)			
Gross Domestic Product	274.9	-1.2	-0.2	1.7	1.8
Imports	116.3	-6.6	-0.2	1.9	1.9
Total supply	391.2	-2.9	-0.2	1.8	1.8
Exports	115.6	-0.1	-0.1	3.1	2.3
Consumption	215.8	1.2	0.1	0.7	1.3
private	145.4	0.2	0.5	1.4	1.5
public	70.4	3.4	-0.7	-0.8	0.9
Investment	61.8	-8.8	-1.2	3.1	2.7
private	50.7	-9.4	-3.2	0.9	3.7
public	11.1	-5.7	7.7	12.0	-0.8
Total demand	391.2	-2.9	-0.2	1.8	1.8

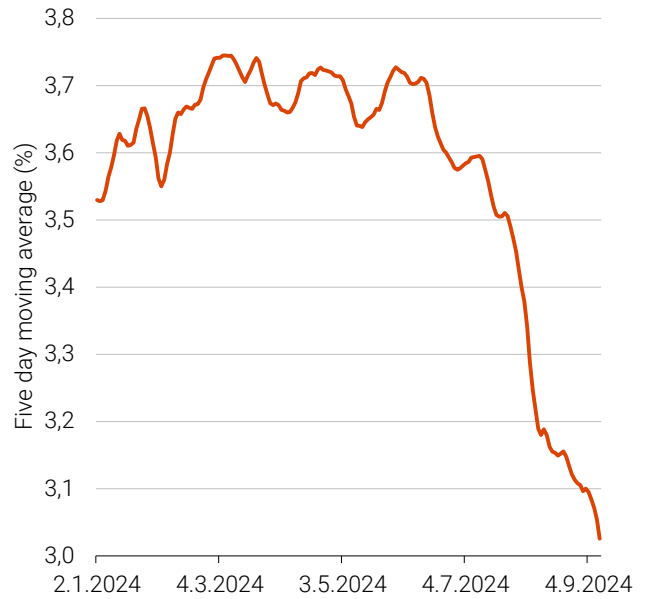
Source: Statistics Finland, Labour Institute for Economic Research LABORE.

proves. Strengthening consumer confidence in the economy is also likely to boost sales of durable goods, such as automobiles.

Investments have declined sharply since 2022, primarily due to a slowdown in construction impacted by tight monetary policy. We expect investments to recover as monetary policy eases and public sector spending on defense and R&D increases.

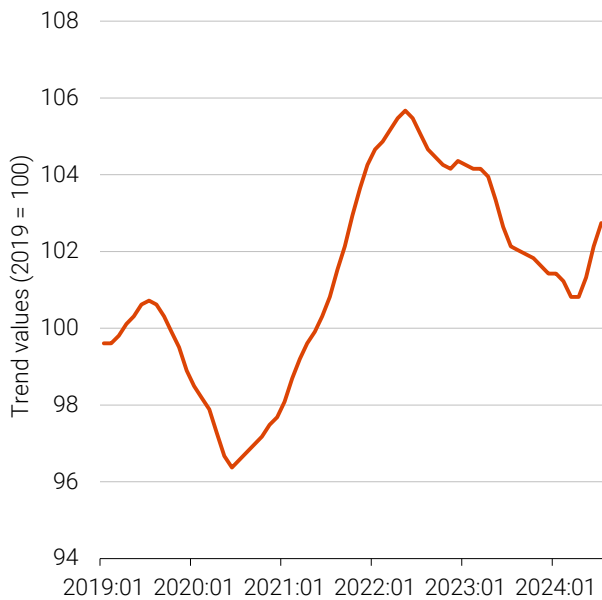
We estimate that public finances will gradually strengthen over the forecast period, primarily due to improving economic conditions. The government has launched a substantial public sector adjustment program aiming to reinforce public finances by nine billion euros, which would stabilize the debt-to-GDP ratio by 2027. Notably, significant parts of this adjustment program rely on factors beyond the government’s immediate control, such as increases in the employment rate, efficiency gains in regional health and social care sectors, and pension reforms.

FIGURE 1. 12 MONTH EURIBOR IN 2024



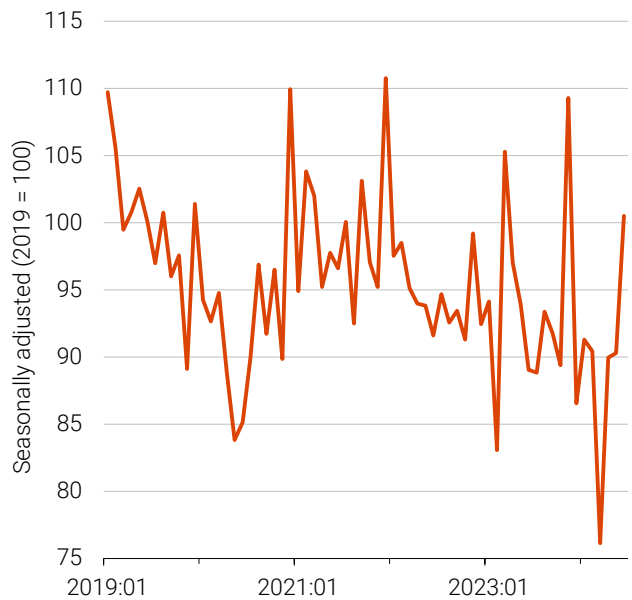
Source: Bank of Finland.

FIGURE 2. VOLUME INDEX OF INDUSTRIAL OUTPUT 2019:01–2024:07



Source: Statistics Finland.

FIGURE 3. EXPORTS OF GOODS 2019:01–2024:06

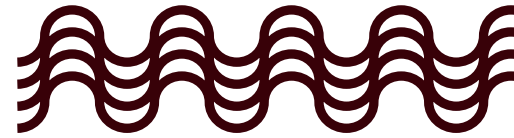


Source: Customs Finland, Statistics Finland, Labore.

FOUNDATIONS FOR RECOVERY

Public discussion on Finland's economic and fiscal outlook has offered little optimism lately. While maintaining a realistic perspective is essential, the discussion has perhaps leaned toward an overly pessimistic tone at times. However, there are grounds for economic recovery. First, short-term interest rates have recently responded strongly to anticipated rate cuts, as reflected in a steep decline in the 12-month Euribor rate since early summer (see Figure 1). Easing financial conditions are expected to support the housing market, private consumption, and corporate investment. Second, there are encouraging signs of recovery in Finnish industry, a vital sector of the economy, with industrial production growing over the past three months (see Figure 2). Third, Finnish goods exports have accelerated significantly over the summer, with a ship delivery recorded in June as one contributing factor (see Figure 3). Preliminary data for

July indicate that this growth was not merely temporary. The early-year downturn now appears to be behind us, and the adverse effects of labor disputes may be offset by year-end. Growth expectations for this year are still on a fragile foundation but need not rely solely on wishful thinking. ■



ADDITIONAL INFORMATION

JUHO KOISTINEN

Head of Forecasting

+358 40 940 2833

juho.koistinen@labore.fi

www.labore.fi

