Russia's war in Ukraine is stifling Finland's economic recovery

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Russia’s war in Ukraine is stifling Finland’s economic recovery

Economic growth being slowed by the war and the uncertainty it brings

Problems of energy and materials availability, causing prices to rise

Weakening of households’ purchasing power and of business profitability

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External operating environment has deteriorated again – growth in Finland’s export markets is grinding to a halt

Sources: CPB, Eurosystem and the Bank of Finland.
*Imports in the countries Finland exports to, weighted by their share of Finland's exports. The dashed line represents the underlying forecast assumptions on growth in the export markets.

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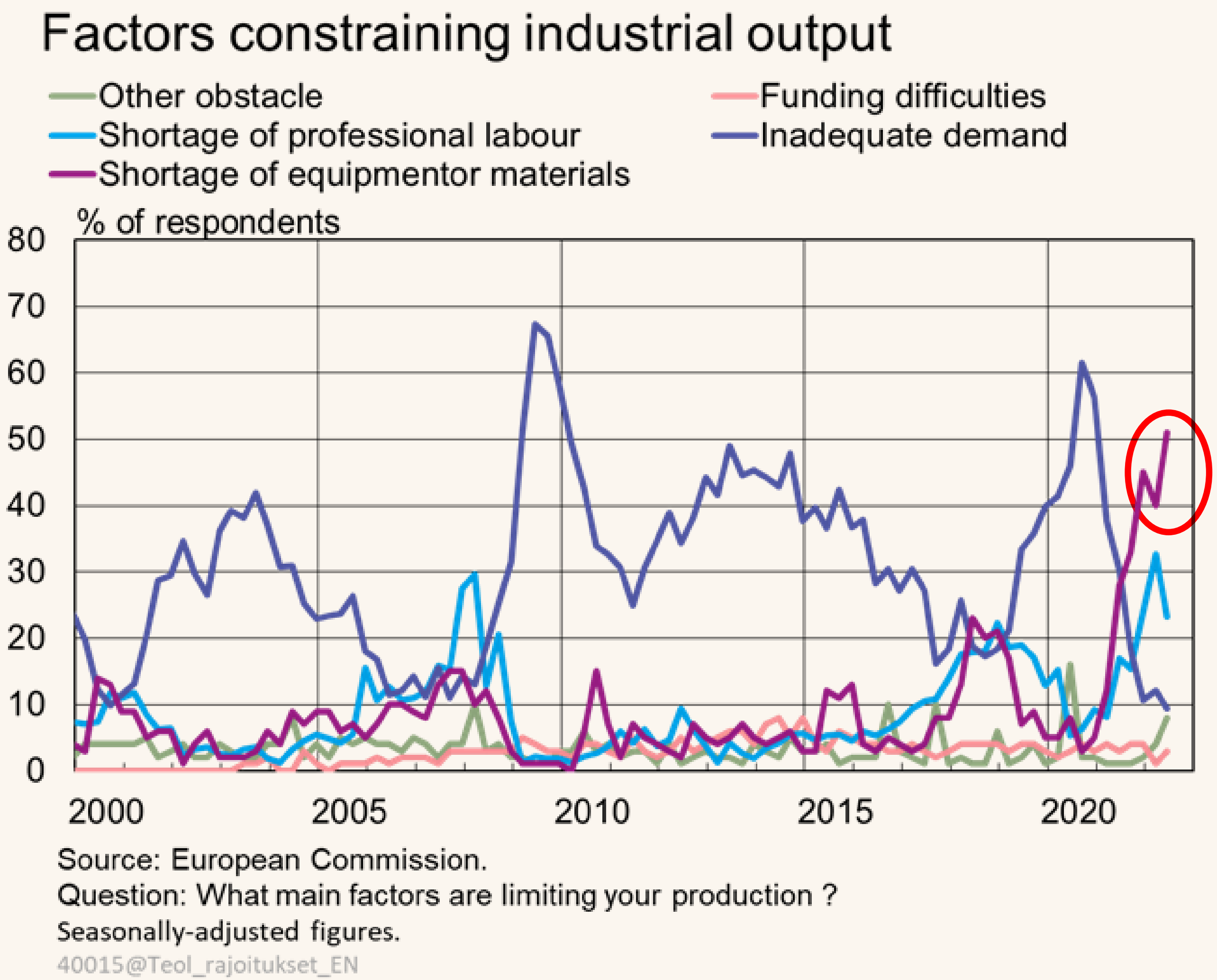
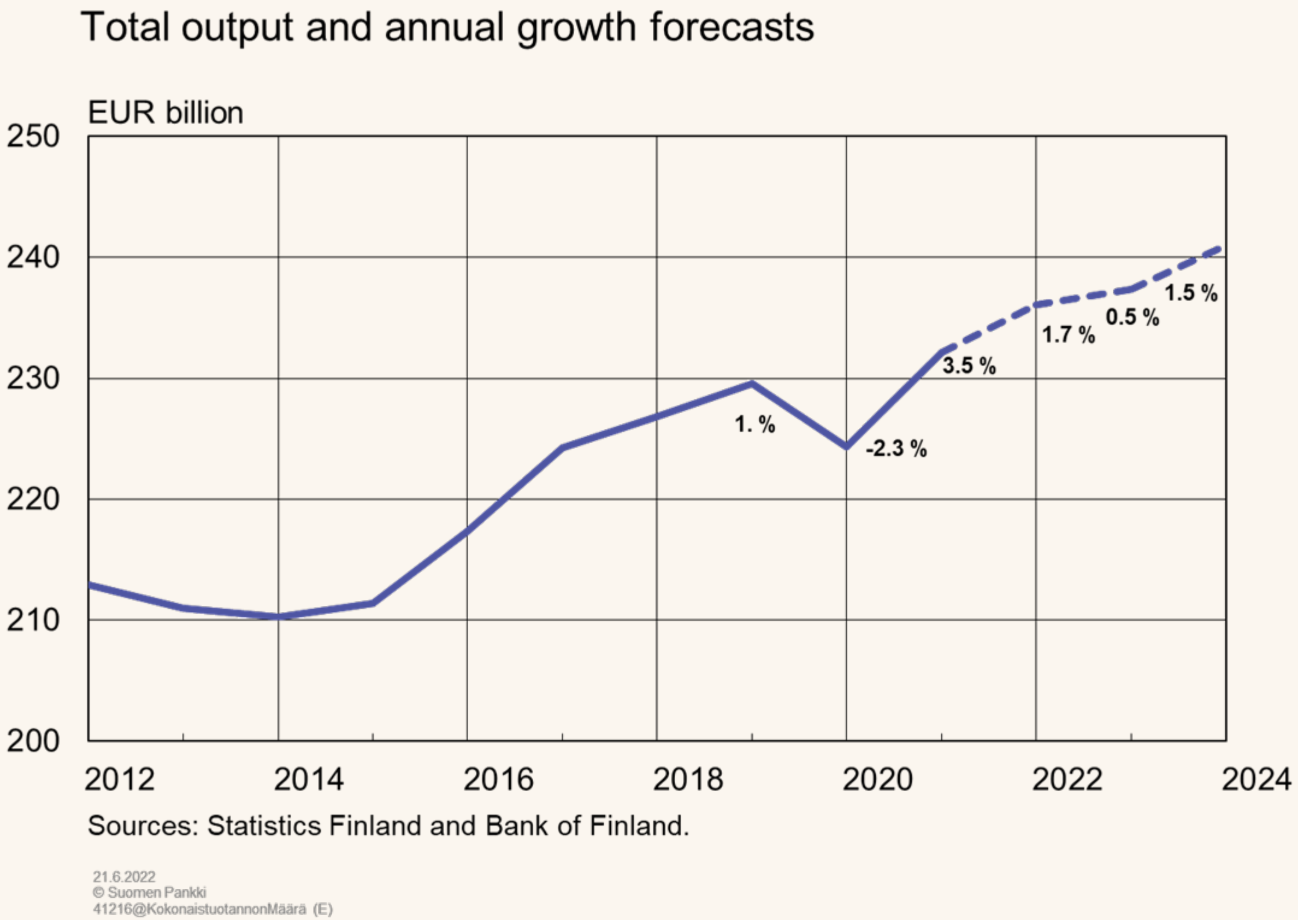
Energy prices have surged and material shortages are raising price pressures

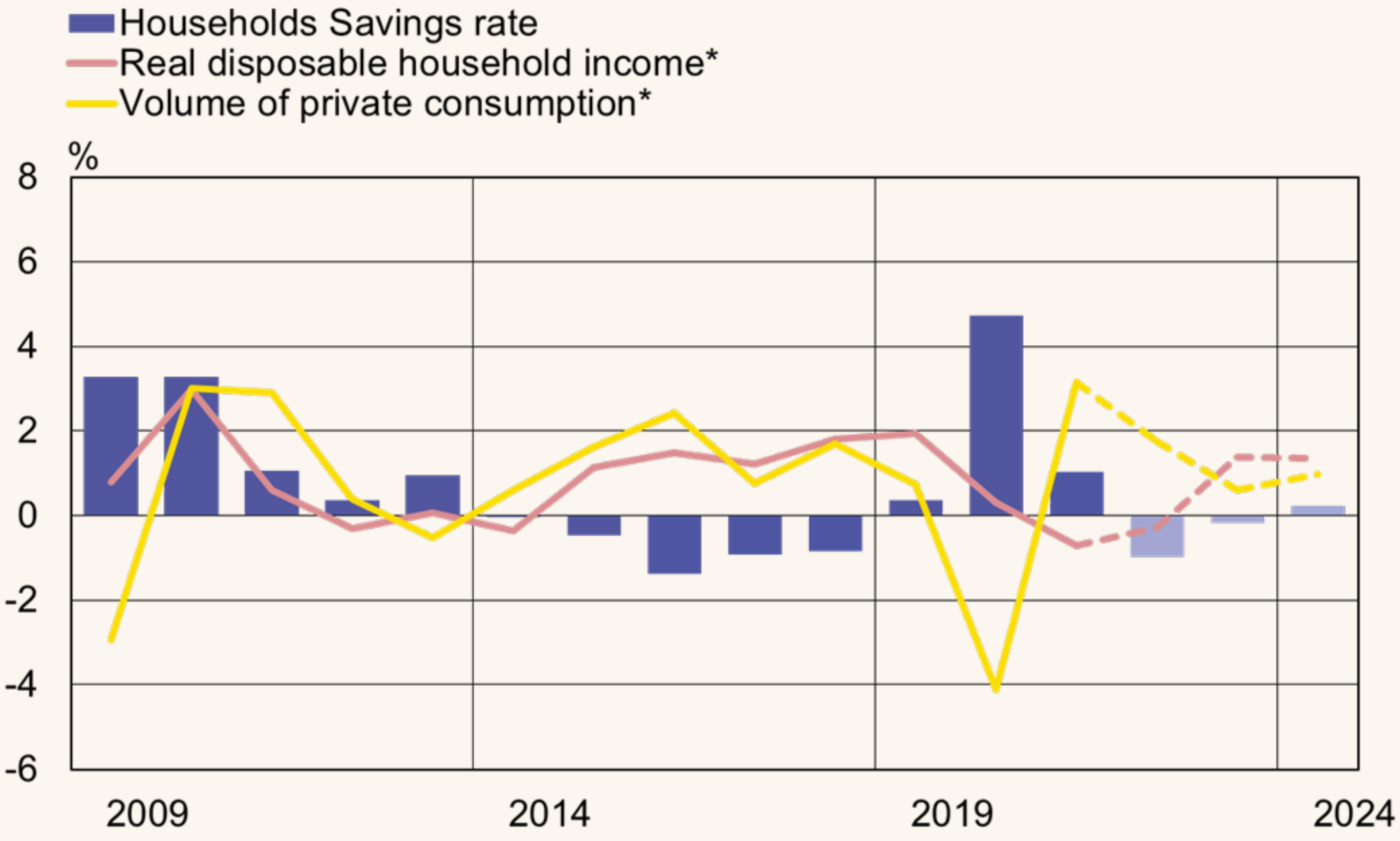


Ukraine war will clearly slow Finland's economic growth



	June 2022	December 2021
2021	3.5%	3.5%
2022	1.7% ↓	2.6%
2023	0.5% ↓	1.5%
2024	1.5%	1.3%

Private consumption is slowing down – households compensate for decreased purchasing power by using savings



Households = households and non-profit institutions serving households.
* Percentage change on previous year.
Sources: Statistics Finland and Bank of Finland.

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Feature article: Nyholm and Silvo *"Household indebtedness is in line with the economic cycle"*
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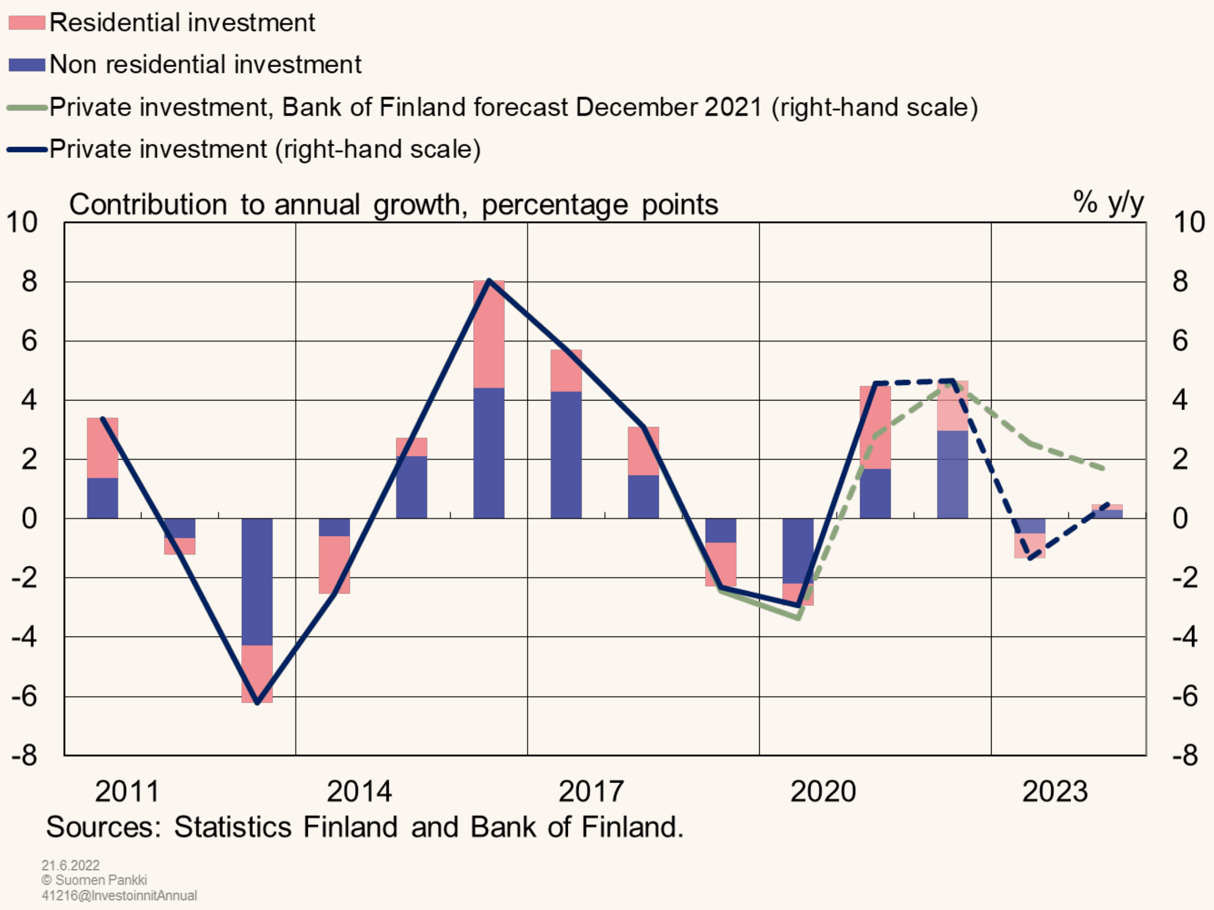
SUOMEN PANKKI EUROJÄRJESTELMÄ FINLANDS BANK EUROSYSTEMET

Looming investment boom now dampened by uncertainty



- Investment has been stronger than previously estimated – growth will remain brisk in 2022

- Investment in the near term will be curbed not only by uncertainty but also by:
  - material and component shortages
  - cyclical turnaround in construction
  - rising costs
  - rising interest rates

Feature article: Mäki-Fränti and Vanhala
"Ukraine war is weakening the business environment in Finland"
www.eurojatalous.fi

SUOMEN PANKKI EUROJÄRJESTELMÄ FINLANDS BANK EUROSYSTEMET

Employment will temporary decline, but number of employed will remain high

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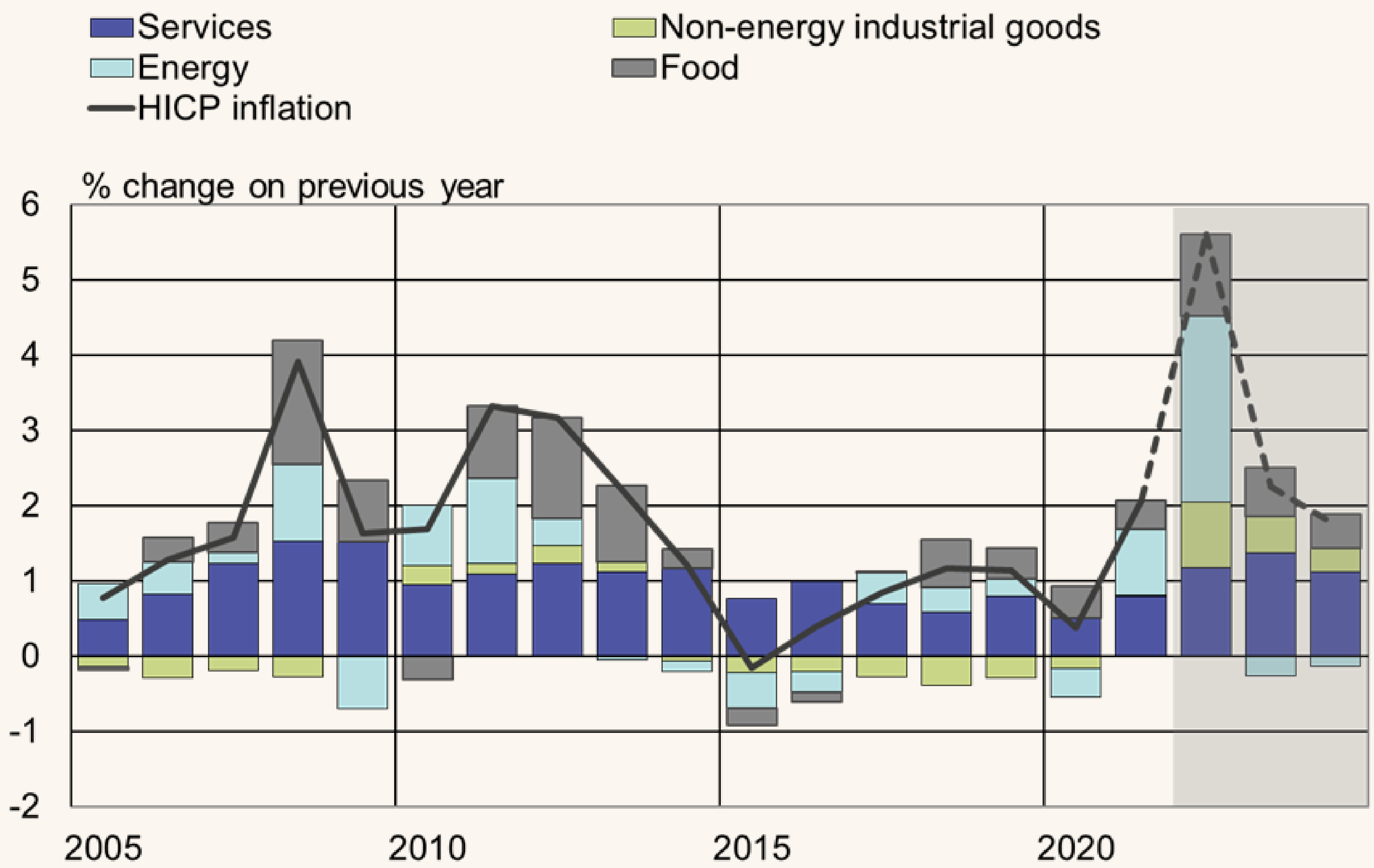
Supply side bottlenecks and high raw material prices are pushing up inflation



Sources: Eurostat and Bank of Finland forecast.

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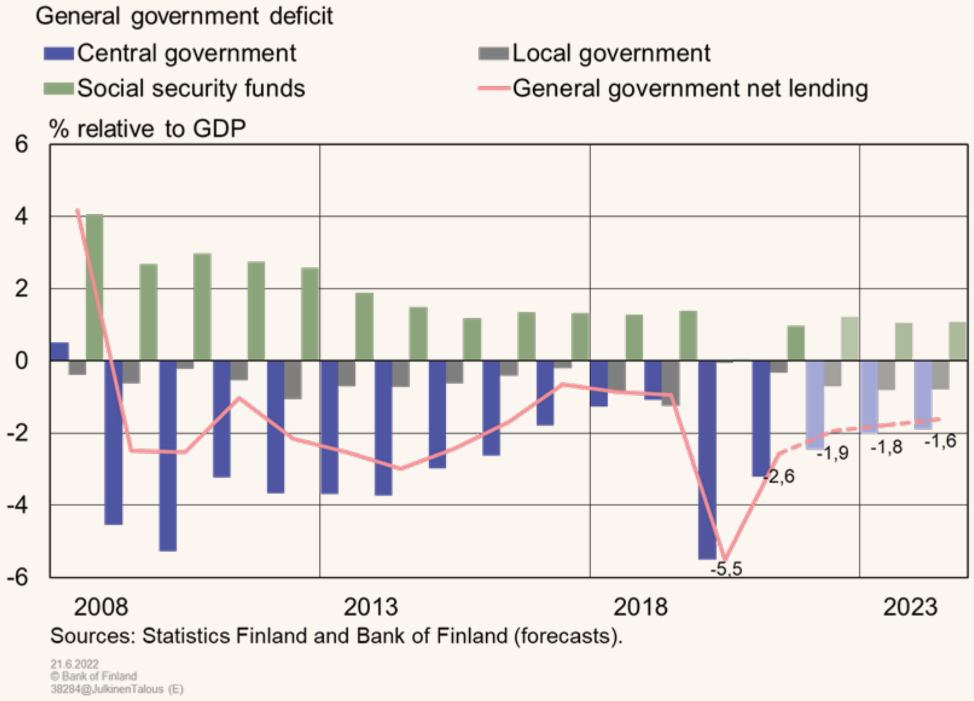
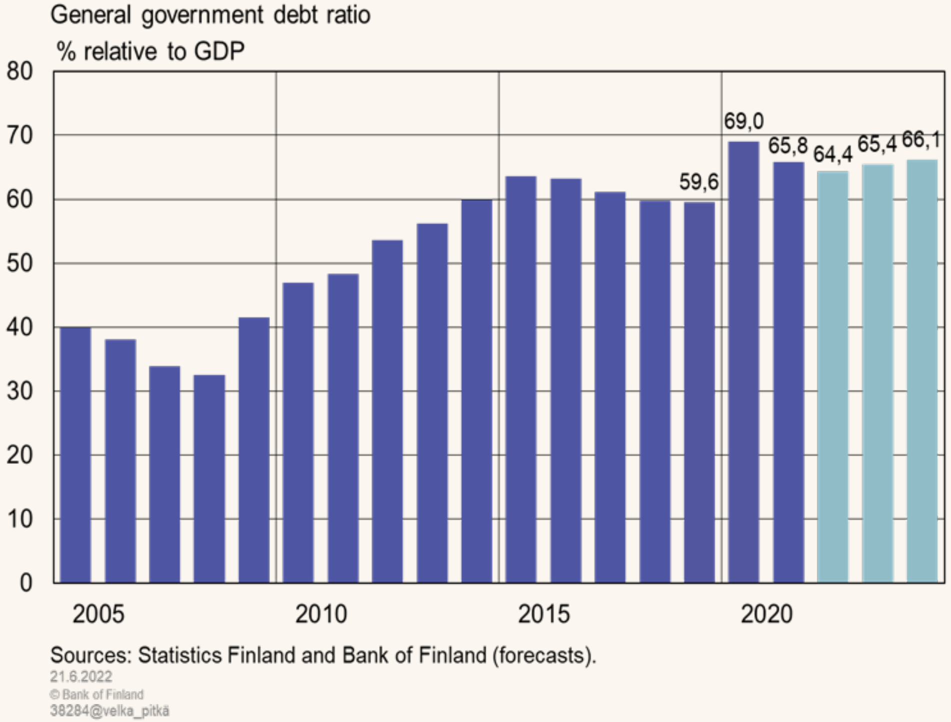
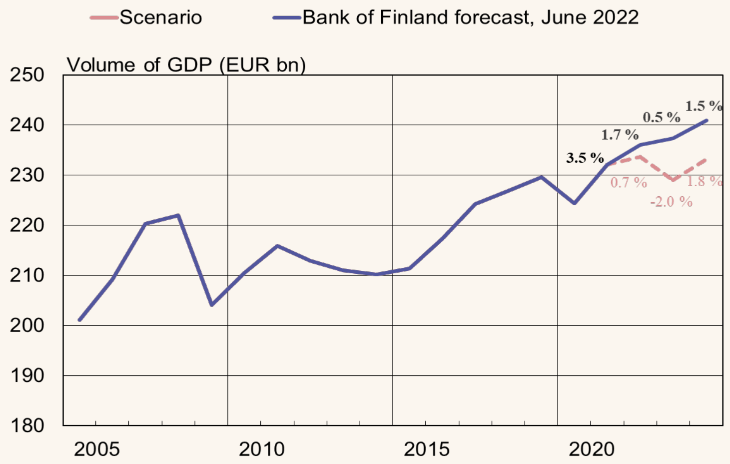
General government finances will remain in deficit and the debt ratio will begin to increase again





Alternative scenario: In the worst case, the war threatens to push Finland and the whole euro area into an economic recession



Sources: Statistics Finland and Bank of Finland calculations.

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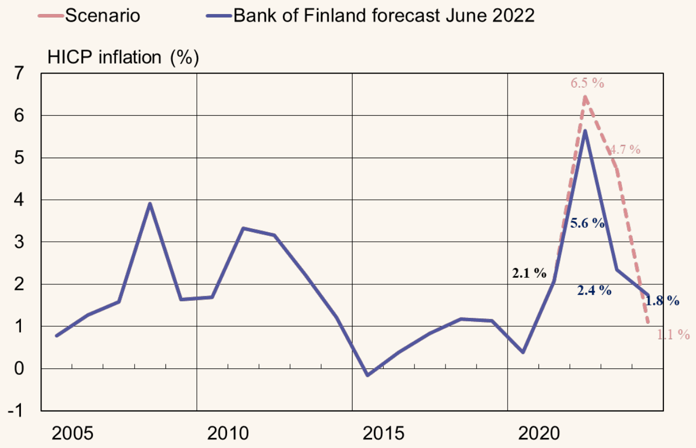

Harmonised consumer price inflation (HICP)

Sources: Statistics Finland and Bank of Finland calculations.

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- The alternative scenario anticipates further escalation of the war
- Uncertainty will lead to a sharp slowdown in the international economy, problems with energy availability, greater supply chain disruptions and higher interest rates
- In this scenario, GDP growth will slow down noticeably already in 2022 and turn negative in 2023
- Inflation will still be very high in 2023

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Comparison: current and December 2021 forecast

	2020	2021	f 2022	f 2023	f 2024
GDP, % change	-2.3	3.5	1.7	0.5	1.5
December 2021	-2.9	3.5	2.6	1.5	1.3
Inflation (HICP), %	0.4	2.1	5.6	2.4	1.8
December 2021	0.4	2.1	2.0	1.6	1.8
Employment rate, 15 – 64-years old %	70.7	72.2	73.7	73.8	74.3
December 2021	70.7	72.0	72.8	73.3	73.6
Unemployment rate, %	7.8	7.6	6.5	6.5	6.4
December 2021	7.8	7.7	7.1	6.6	6.6
Current account, % to GDP	0.7	0.7	-1.0	-0.6	0.1
December 2021	0.8	1.5	0.0	0.1	0.1
General government net lending, % to GDP	-5.5	-2.6	-1.9	-1.8	-1.6
December 2021	-5.5	-2.9	-1.9	-1.3	-1.2
General government (EDP), % to GDP	69.0	65.8	64.4	65.4	66.1
December 2021	69.5	66.9	66.5	67.1	67.5

Thank you!

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