



Finland and Germany: latest developments, new opportunities and prospects for integration

German-Finnish Chamber of Commerce, 30.1.2024

Acting Governor Marja Nykänen
Bank of Finland

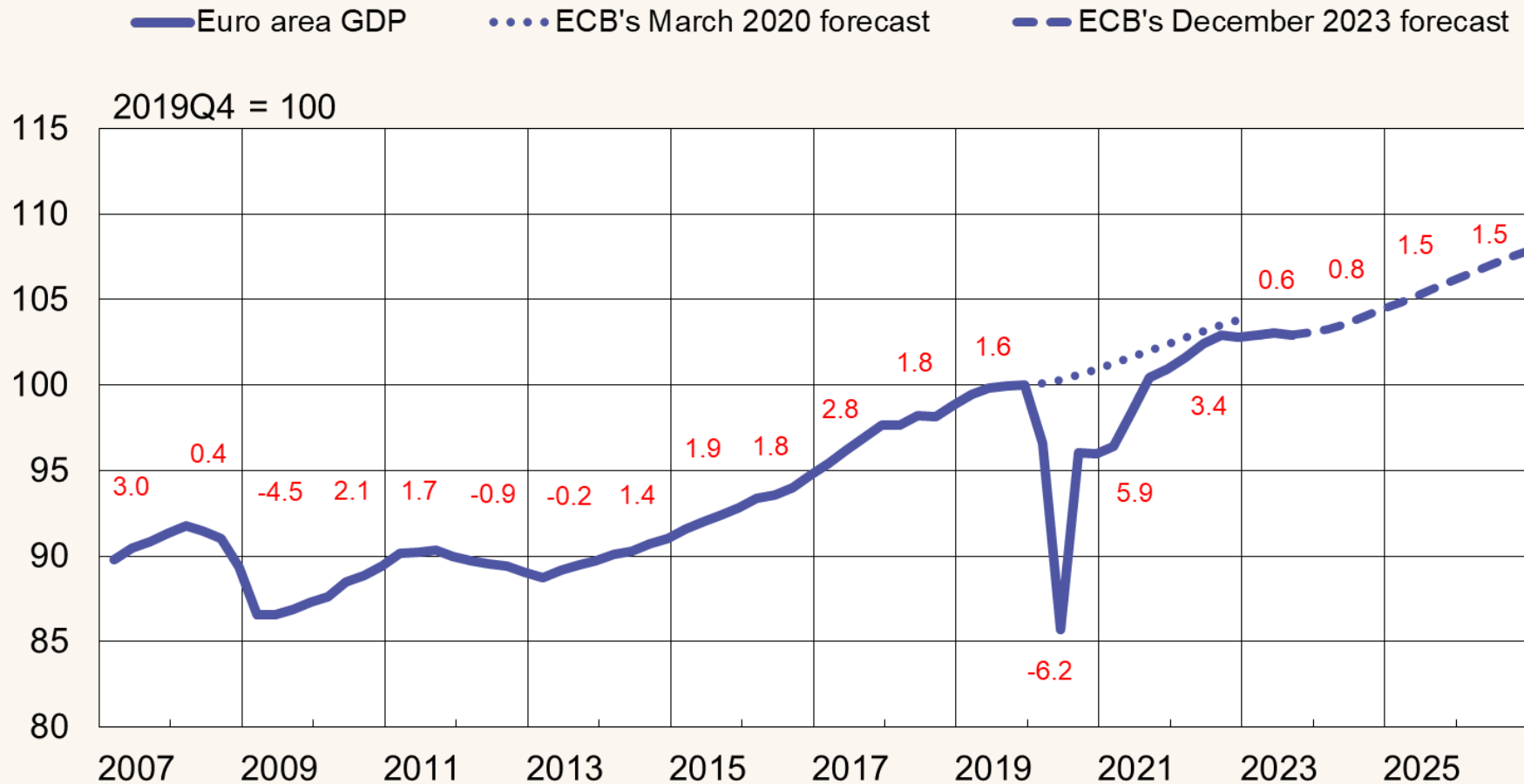
Topics of the presentation

- Euro area's economic and inflation outlook
- Trade between Finland and Germany
- Future prospects: where to find new opportunities for trade?
 - Green transition
- Economic growth can only be sustained by a strong banking sector
- Completion of the EU's capital markets union is an important aim

Finland and Germany close together in a fragmented world

- World being shaped by great challenges, technological change and geopolitical stress
 1. Climate change and the green transition
 2. Ongoing digitalization and AI-related distortions
 3. Russia's war in Ukraine and tensions in the Middle East
 4. China dependency
- ... Amid painful withdrawal from Russian fossil energy

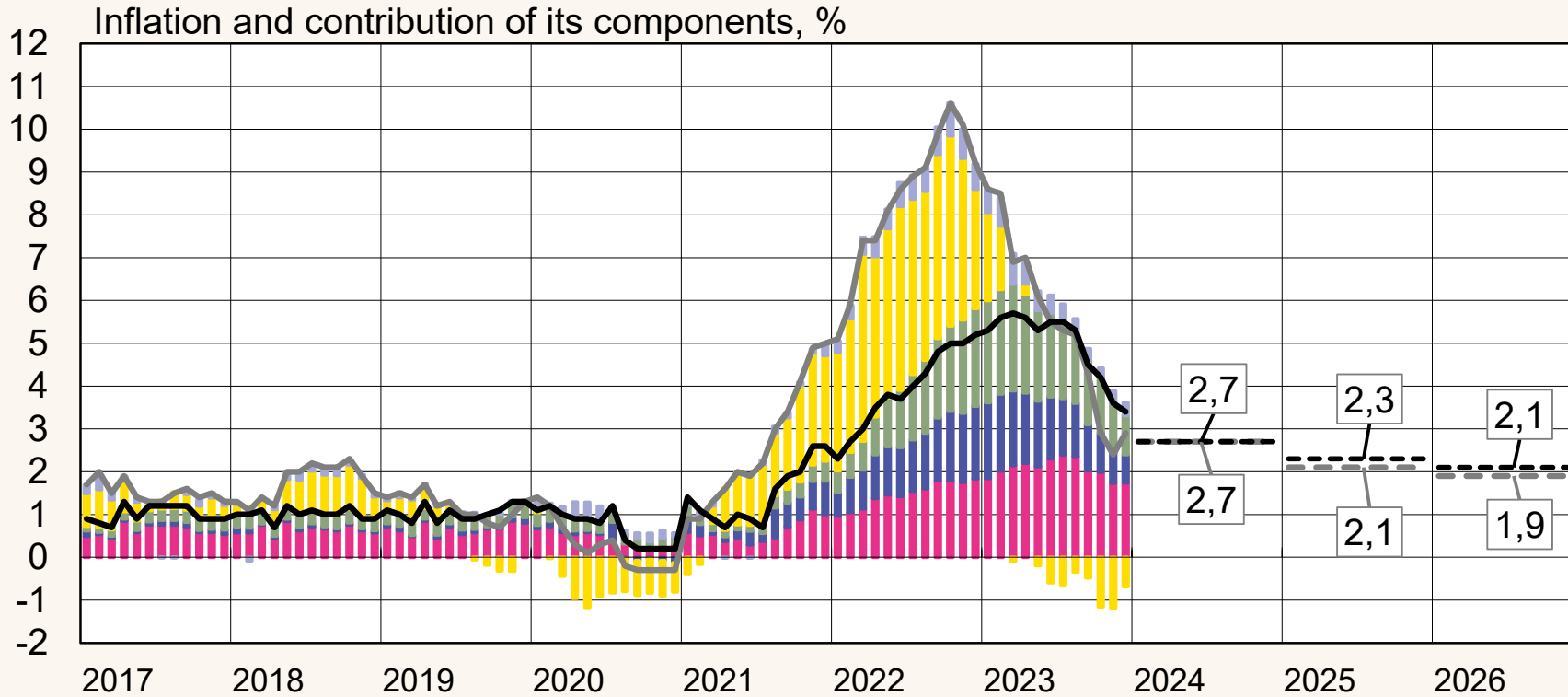
Euro area's economic growth is expected to remain subdued in the near term



Figures next to the curve are annual growth rates, %

Euro area inflation is on the right track

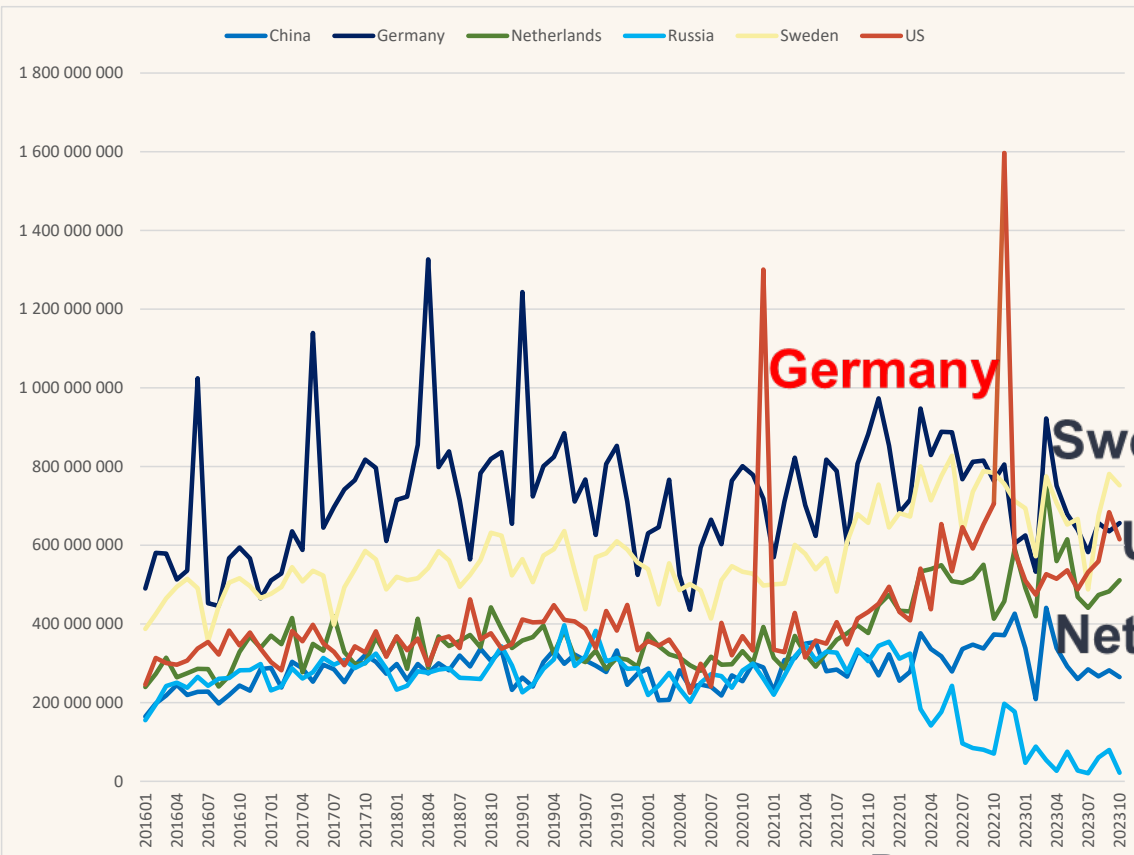
- Services
- Processed food
- Unprocessed food
- Core inflation
- Core inflation, ECB forecast
- Non-energy industrial goods
- Energy
- HICP inflation
- HICP, ECB forecast



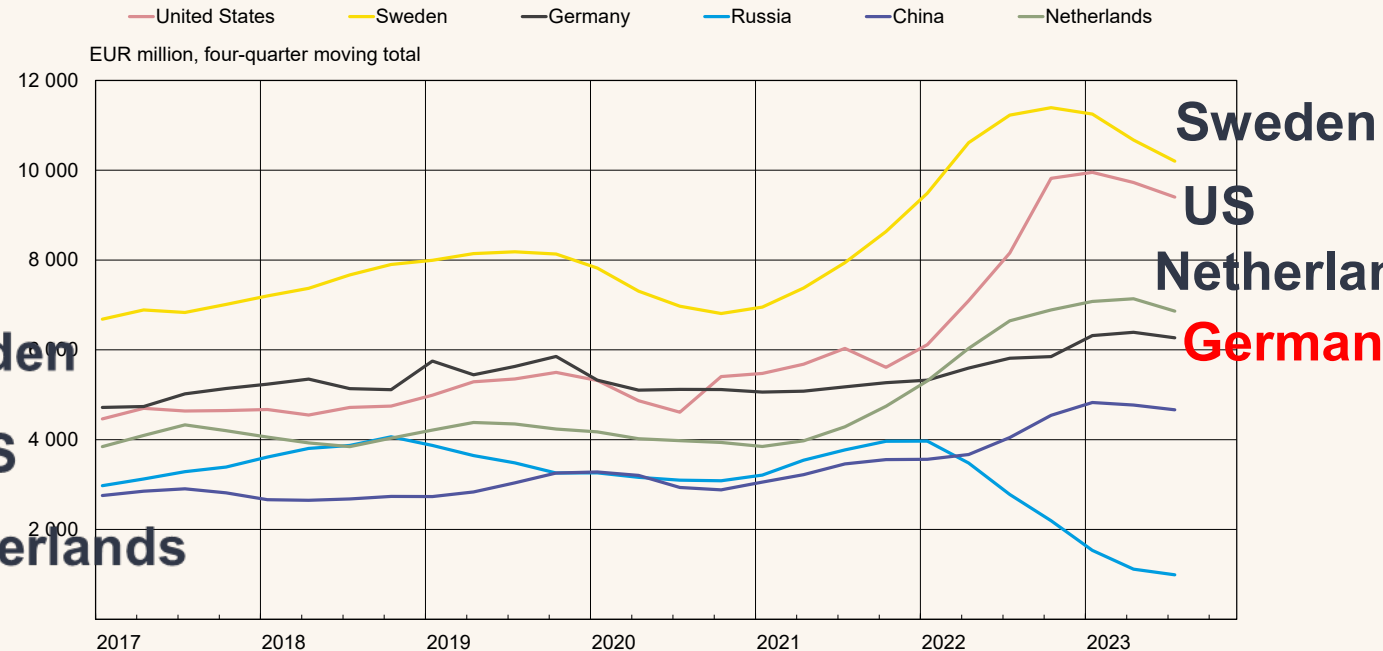
Sources: Eurostat and ECB.

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Trade: Germany still ranked number 1 in 2022 among destinations for Finland's goods exports (according to Finnish Customs)



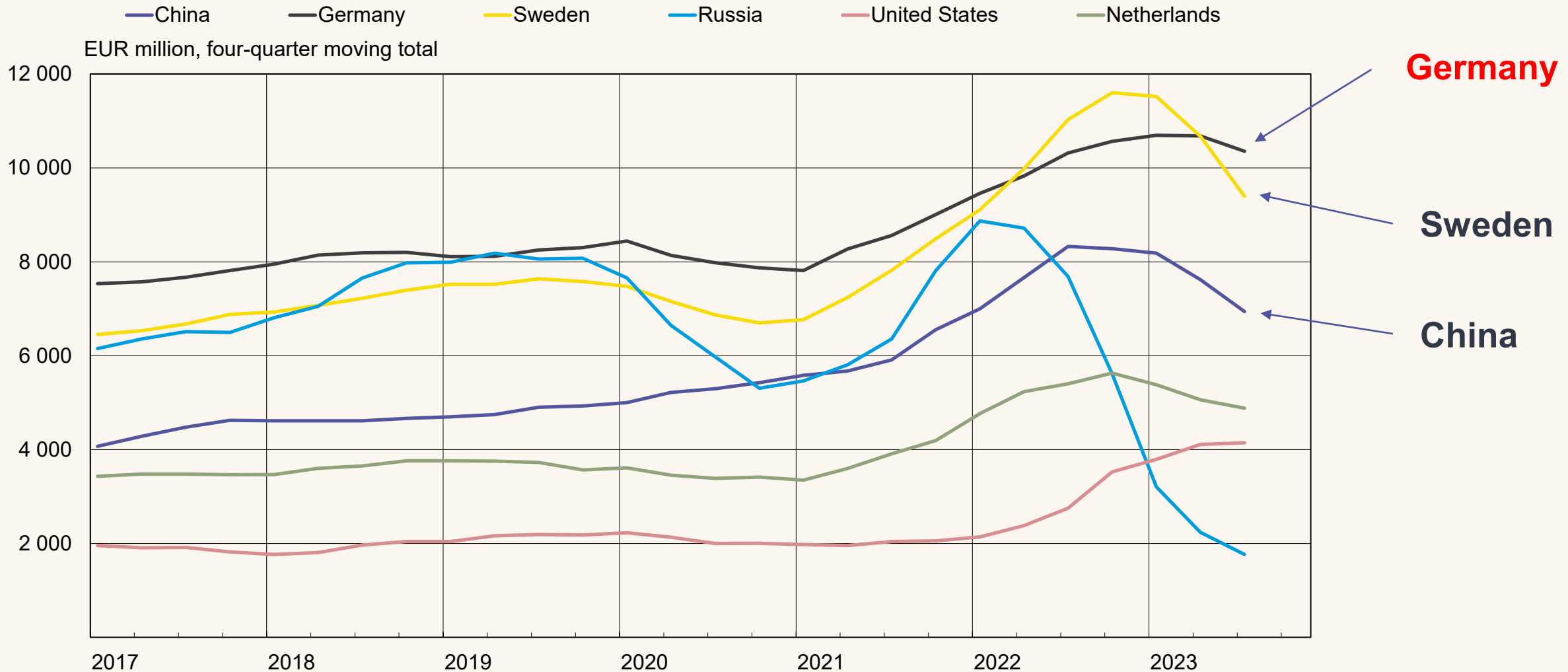
Data source:
Finnish Customs



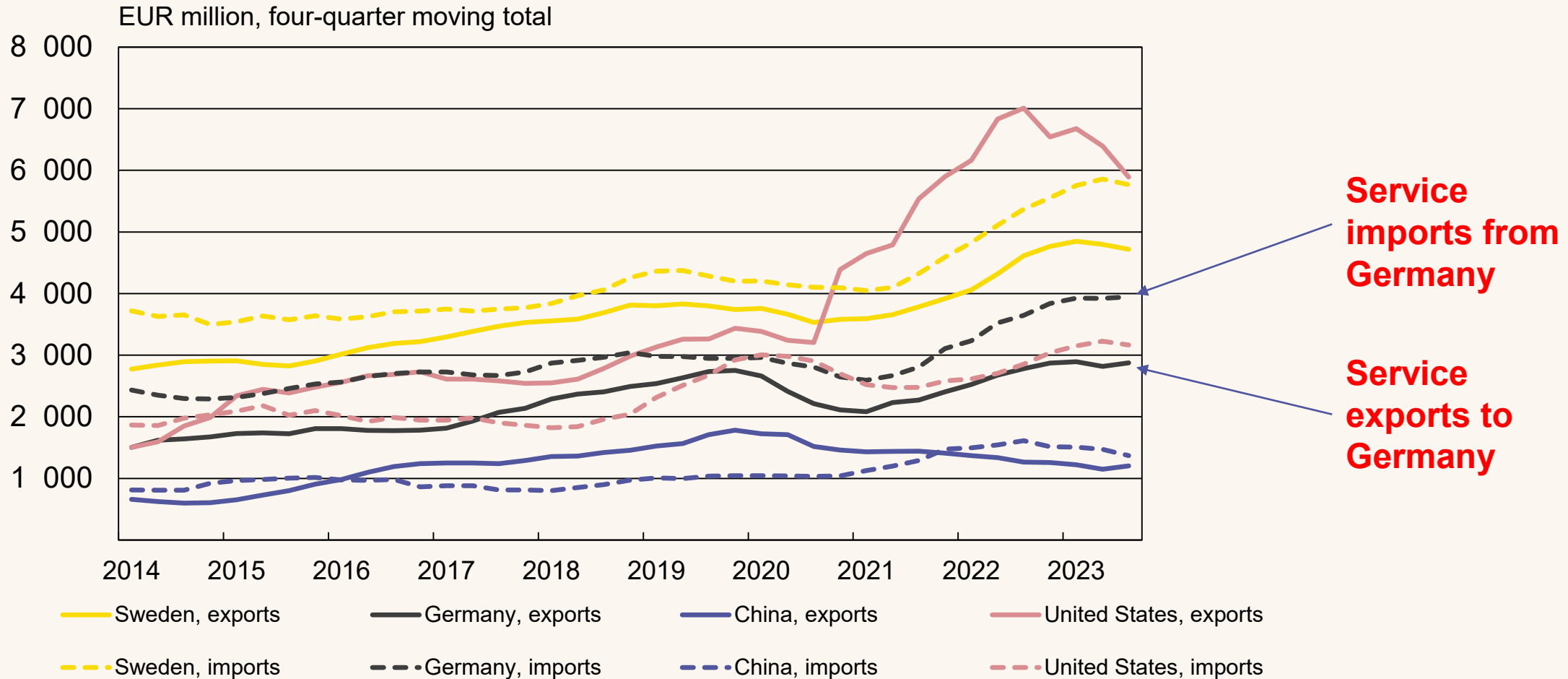
Source: Statistics Finland. Third quarter of 2023 according to flash estimate.
19.12.2023
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Data source:
Statistics Finland

Finland's goods imports from Germany have grown (faster growth than in goods exports to Germany)



Finland's service imports from Germany are on an upward trajectory



Source: Statistics Finland. Third quarter of 2023 according to flash estimate.

Opportunities for improving trade between Finland and Germany

1. Macro level: improving the EU single market
2. Trends: energy and the green transition
 - Finland has a lot of renewable energy, and Germany has an almost infinite need for it
 - One solution for challenges such as uneven production of green energy: **hydrogen**
 - Germany has a very ambitious hydrogen strategy
3. Micro level: batteries, whose production has already been increased in Germany
 - Besides these trends in the real economy, financing the green transition and securing a strong banking sector are also important

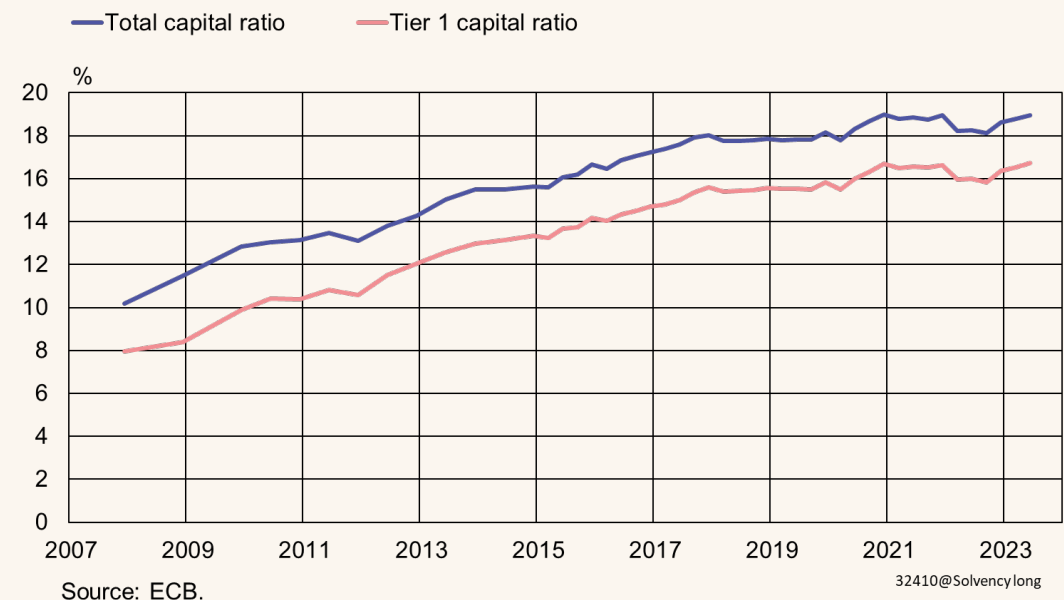
Financing for the green transition should come from private sources

- To a large extent, the green transition is an energy transition
 - Carbon-free energy is capital intensive and requires heavy investment
- Advancing the EU capital markets union and the EU taxonomy will encourage private investment in the green transition
- Integrated capital markets and regulation will increase financing and alleviate risks of greenwashing

Strong banking sector essential for supply of credit to European corporate sector

- The banking sector has remained resilient through the challenges of recent years
- Banking regulation has evolved substantially since the global financial crisis
- Finalizing the European banking union should be a priority

Total capital ratio and Tier 1 capital ratio of euro area banks, 2007-2023/II



Conclusions

- Finland and Germany are both open economies that are closely tied through trade as well as via economic and political institutions
- The German and Finnish banking sectors are governed by the same regulation, which provides opportunities for further integration
- There are prospects for enhancing trade between Finland and Germany
 - the green transition, in particular, provides a great opportunity for increasing trade between Finland and Germany
- Strong banks and completion of the EU's banking and capital markets union would help in reaping the benefits from new opportunities