Reference rate and penalty interest rates for 1 January – 30 June 2025

Press release 30 December 2024 1:19 PM

The reference rate used in defining the penalty rate is determined in accordance with section 12 of the Interest Rates Act. Accordingly, the reference rate is the interest rate that was applied by the European Central Bank to the last main refinancing operation prior to the first calendar day of the half-year in question and rounded up to the nearest one-half percentage point. Such reference rate is effective for the following six-month period.

Bank of Finland increases its foreign exchange reserves

Press release 19 December 2024 2:03 PM

The Bank of Finland's statutory tasks include the holding and management of Finland's foreign exchange reserves. Both the size and currency composition of the Bank's holdings of foreign exchange reserves are based on the needs of national preparedness and on the obligations inherent in central banking tasks. Foreign exchange reserves have a key role when it comes to ensuring economic and financial preparedness for dealing with future uncertainties and preparing for crises that could weaken Finland's external solvency.

The Bank of Finland Board regularly reviews the size and currency composition of the foreign exchange reserves. The Board has decided to increase the holdings of foreign exchange reserves by approximately EUR 2 billion to a total of about EUR 9 billion.* This will be achieved by purchasing mainly US dollars, but also pounds sterling and Japanese yen.

Exchange rate risk is the most significant of the Bank of Finland's financial asset risks. Increasing the size of its foreign exchange reserves elevates the Bank's exchange rate risk considerably, and so the Bank is strengthening its foreign exchange rate provision by selling about 10% of its gold reserves. Following the execution of these sales, the Bank of Finland's gold holdings now total approximately 44 tonnes, with a market value of about EUR 3.5 billion.

*) *The Bank of Finland's foreign exchange reserves comprise USD, GBP and JPY denominated fixed income investments and items denominated in IMF Special Drawing Rights (SDRs). The foreign exchange reserves are categorised as part of the Bank of Finland's financial assets.*

Finnish economy returning slowly to growth

Press release 17 December 2024 11:00 AM

The Bank of Finland has today published its forecast for the Finnish economy for the period 2024–2027. The country's economy will show a contraction of 0.5% for 2024. In 2025, the economy will grow by 0.8%, and in 2026 by a higher rate, 1.8%. In 2027, at the end of the forecast period, growth will soften to 1.3%, which is close to the long-term growth potential.

"Consumer spending will recover slowly to begin with, as consumers' confidence in the economy is weak, unemployment still rising and fiscal policy growing tighter. On the other hand, interest rates are expected to come down further, which will support consumption and investment," says the Bank of Finland's Head of Forecasting, Juuso Vanhala.

As the future outlook improves, businesses will start to invest in construction, machinery and equipment. Non-residential investment will already be up in 2025, but in residential construction a clear improvement will take longer to come about.

"As far as exports are concerned, the past two years have been weak. Exports will gradually pick up from 2025 onwards, when the economy in Finland's export markets gathers pace and the worldwide reduction in interest rates spurs demand for Finnish exports of investment goods. But subdued growth in the euro area economy will curb the improvement in Finland's exports," says Vanhala. The anticipated tightening of trade policy by the United States also threatens to dampen the growth in Finnish exports.

Inflation will be moderate

Inflation in Finland has fallen considerably during 2024. In 2025, increases in taxation will affect the inflation rate. In 2026–2027, the upturn in the economy will gather pace and household purchasing power will rise, which means a modest inflation rate will be sustained by domestic consumer demand. Inflation in Finland will remain below 2% for the entire forecast period.

Government debt will continue to rise

Finland's general government finances will remain deeply in deficit, despite the growth pick-up in the economy and the impact of the Government's substantial fiscal adjustment measures. Finland's fiscal deficit for 2024 will rise to 4% of gross domestic product. The deficit will not fall below 3% until 2027. The public debt ratio will rise to 87% in 2027. The sustainability gap is anticipated to be about 2%. This means that public debt accumulation is still on an unsustainable path.

- Presentation 17 December 2024, Head of Forecasting, Juuso Vanhala
- Bank of Finland Bulletin publication website

Euro area inflation is stabilising to the target – Interest rate cuts will support growth in the economy

Press release 17 December 2024 11:00 AM

“We took the decision to reduce the policy interest rate by 0.25 percentage points to 3%. The direction of our monetary policy is now clear. The speed and scale of the rate cuts will be determined in each meeting on the basis of incoming data and comprehensive analysis,” says Governor of the Bank of Finland Olli Rehn. The policy rate is now one percentage point lower than it was in June, six months ago, before we began the rate cuts.

According to the December projections of the European System of Central Banks (ESCB), the euro area economy is expected to grow by 1.1% in 2025 and by 1.4% in 2026. This pick-up in growth will be supported by improved household purchasing power and a gradual recovery in investment. At the same time, manufacturing activity remains weak. The uncertainty over trade policy is weighing on the near term outlook, and the risks are on the downside.

“Trade and security policies have rarely been so intertwined as they are in Europe currently. The last thing we need is a trade conflict between allies. Negotiation is preferable, and the EU’s negotiating position can be strengthened by demonstrating in advance that it is ready to take countermeasures if the United States threatens Europe with higher tariffs,” says Governor Rehn.

Europe is Finland’s most important trading partner, but the significance of the United States as an export market has grown. US tariffs on imported goods would hamper Finland’s goods exports and dampen growth in the economy.

Public debt must be brought onto a sustainable path

Finland’s public finances are still far from being in balance. Weak productivity and various shocks to the economy have eroded the tax base, and public expenditure has grown faster than revenues. In one and a half decades, the public debt ratio has grown to a high level. If the measures set out in the Government Programme and in the Government’s spending limits discussion last spring are implemented in full, the public debt ratio will stabilise at the end of the government term, but it will still be very high. The aim must be to turn the debt ratio sustainably onto a downward path.

Stronger economic growth is essential if public services are to remain as they are. The task of the public sector is to create favourable and predictable conditions in which innovation and enterprise can thrive. *“To support the creation and diffusion of innovations, we need to invest in human capital by both safeguarding higher education and enhancing work-based immigration. It is also important to strengthen access to finance for startups and other businesses at their growth stage,”* says Rehn.

- Presentation 17 December 2024, Governor Olli Rehn
- Bank of Finland Bulletin publication website

The IMF's concluding statement on the Finnish economy

Press release 8 November 2024 2:00 PM

According to the IMF, Finland's economy has started to recover from recession. Moderate growth of 1.6% is projected for the economy in 2025, and growth of slightly below 1½% in the medium term. Finland's economic outlook is nevertheless subject to downside external risks, including the impact of Russia's war in Ukraine.

The IMF recommends that Finland's policy actions should focus on supporting growth and strengthening the economy. The IMF's policy recommendations emphasise fiscal consolidation and reversal of the debt trajectory, and measures to raise labour force participation and lower barriers to growth for businesses.

The concluding statement discusses in more detail the economic outlook and risks, as well as government finances, productivity growth and financial markets, among other things.

Statement is part of IMF's country monitoring

The IMF monitors the economic health of its member countries on a regular basis. IMF staff visit each country annually, meeting extensively with different concerned parties. At the end of these Article IV consultations, a concluding statement is published describing the preliminary findings of the IMF staff. A final report on the member country's economy is published at a later date.

The IMF's concluding statement is based on discussions held by IMF representatives with Finnish authorities as well as representatives of social partners, private financial institutions, research institutes and other relevant parties. The assessments and views in the statement are those of the IMF staff. The Bank of Finland publishes unofficial translations into Finnish and Swedish of an IMF-prepared summary of the concluding statement.

The concluding statement can be accessed in full on both the Finland page of the IMF's website and the Bank of Finland's website (www.suomenpankki.fi/en).

Summary in English (PDF)

Concluding statement (PDF)

Background information on the Bank of Finland's international cooperation and the IMF

Application period now closed for position of Governor of the Bank of Finland

Press release 8 November 2024 12:30 PM

The applicants are:

Name and qualification	Current position	Current employer
Viktoria Ahola, BSc (Econ. & Bus. Adm.)	Nursing auxiliary	City of Helsinki
Simon Häggblom, MSocSc	Writer	-
Ville Kinnunen, MEd	Class teacher	City of Joensuu
Lauri Kosonen, high school graduate	Agriculture and forestry entrepreneur	-
Risto Nurkkala, BBA	Construction research interviewer	RPT Byggfakta Oy
Jukka Pärnänen, motor vehicle mechanic	-	-
Olli Rehn, DPhil	Governor	Bank of Finland
Mikko Tuomi, MSc (Econ. & Bus. Adm.)	Portfolio manager	Institute of Trading and Portfolio Management

The position will become vacant on 12 July 2025. The term of office is seven years.

The Parliamentary Supervisory Council will submit an appointment proposal on the position to the Government. The final decision on the appointment will be made by the President of the Republic upon a proposal from the Government.

Chinese economic growth expected to slow further in 2024–2026

Press release 4 November 2024 1:00 PM

“Structural and cyclical factors continued to drag down Chinese growth this year,” notes BOFIT senior economist Juuso Kaaresvirta. “Even though officials are introducing support measures to strengthen the economy and correct economic distortions, these actions by themselves do not seem to be enough to halt the slowdown in economic growth.”

China’s era of high growth fading

Chinese economic growth has slowed this year. According to government figures, on-year GDP growth was 5.3 percent in the first quarter, 4.7 percent in the second quarter and 4.6 percent in the third quarter. BOFIT’s alternative calculation of Chinese GDP further suggests real growth might have been even considerably lower. We expect GDP growth the be around 4 percent this year. With the effects from recently launched stimulus measures kicking in next year, GDP growth should still remain at around 3½ percent next year, and then slow to around 3 percent in 2026, which is a level of growth in line with China’s long-term potential growth rate.

The moderation of economic growth is due above all to structural factors such as the shrinking pool of working-age people, China’s slow transition away from an investment-driven growth model to a modern consumption-driven model, inefficient use of resources, an opaque policy environment and weak total output gains. Branch-specific differences are likely to persist during the forecast period, with certain branches experiencing high growth and others contracting. In any case, 3-percent economic growth is a respectable figure for the world’s largest upper-middle-income nation, and on par with global growth.

China’s economic outlook could brighten if the country moves ahead quickly with economic reforms. Although aggressive fiscal stimulus would boost short-term growth, it would also increase pressure to deal with general government imbalances over the medium term. Economic growth could be impeded if actual state of the financial sector is weaker than assumed in our forecast.

The forecast document is available at https://www.bofit.fi/en/forecasting/latest-forecast-for-china

BOFIT will hold a China briefing (in Finnish) on the forecast on November 4, 2024, starting at 13.00 EEST. A video upload of the event will be posted on the Bank of Finland’s YouTube channel.

Governor of the Bank of Finland to attend IMF Annual Meeting

Press release 23 October 2024 9:00 AM

The International Monetary and Financial Committee as well as the Development Committee, which is a joint forum of the IMF and the World Bank, will also convene in connection with the Annual Meetings.

The Bank of Finland will also be represented by Deputy Governor Marja Nykänen, Advisor to the Board Kimmo Virolainen, Head of Division Satu Kivinen, Senior Economist Anni Norring and Head of Communications Jenni Hellström.

Bank of Finland announces upcoming vacancy for position of Governor

Press release 18 October 2024 10:00 AM

The term of office for the Chair of the Board is seven years. The Chair serves as Governor of the Bank of Finland.

Applicants are required by law to have an appropriate higher university degree, a good knowledge of the monetary economy or financial operations, and proven management skills and management experience.

The call for applications can be viewed on the Bank of Finland's website. Applications, with a curriculum vitae attached, should be addressed to the Parliamentary Supervisory Council and submitted via the job opportunities section on the Bank of Finland's website no later than 12:00 noon on Friday 8 November 2024.

The Parliamentary Supervisory Council will submit an appointment proposal to the Government. The final decision on the appointment to the position of Chair of the Board will be made by the President of the Republic upon a proposal from the Government.

For further information please contact Antti Lindtman, Chair of the Parliamentary Supervisory Council, tel. +358 40 577 6255.

BOFIT Forecast for Russia 2024–2026: Labour shortages and capacity constraints increasingly binding

Press release 1 October 2024 2:00 PM

The latest forecast from BOFIT, the Bank of Finland's Institute for Emerging Economies, sees Russian economic growth this year exceeding its previous estimate made last April. The higher 2024 growth reflects a stronger-than-expected first-half performance due to robust increases in the capital stock and surging consumer demand. The new forecast raises the overall growth forecast for 2024 by 1.5 percentage points to 3½ percent. Russian economic growth is expected to slow in 2025 and 2026 to around 1 % p.a., a level close to the country's long-term potential growth rate.

Sinikka Parviainen, BOFIT senior economist notes: "The economic slowdown we are presently witnessing largely reflects labour shortages and capacity constraints. High growth is extremely unlikely going forward as it would require large productivity gains. This is unlikely as large part of investment in Russia today goes to military industries or sectors servicing the war effort."

Russia's own actions and Western sanctions have also limited the country's access to critical technologies and access to international supply chains.

First-half economic growth exceeded previous forecast

Consumer demand in Russia was fuelled by surprisingly strong growth in wages and the credit stock. As in previous years, part of this growth was a natural reflection of the government's tendency to release the bulk of budget spending in the first half of the year.

Given the changed circumstances, we have revised upwards our April forecast for 2024 to 3½ percent. The drivers of economic growth continue to be robust consumer demand and capital investment in military production. Even so, fixed investment growth should be slightly lower than in 2023, which saw strong inventory growth as well.

Labour shortages, capacity constraints and import restrictions are expected hobble economic growth in coming months and years. Russia's rate of capacity utilisation, which has risen rapidly since 2021, is now at historical highs. Sanctions have curtailed Russia's access to new machinery and equipment, as well as spare parts – a situation that has again deteriorated since late 2023.

High growth unlikely

The prospect of buoyant economic growth in 2025–2026 is now extremely remote. Russian economic should barely exceed 1 % p.a. growth during the next two years. This level of growth is close to the Russian economy's long-term potential growth rate.

Our forecast is again subject to a high uncertainty due to Russia's decisions to discontinue the release of critical data series and the resulting analytical impediments. Given Russia's myopic policy shifts, conditions in its wartime economy could change suddenly.

The latest forecast document is posted at https://www.bofit.fi/en/forecasting/latest-forecast-for-russia/.

Forecast will be presented at BOFIT's English-language webinar on October 1, 2024 at 16.00 hours (EEST).

For further information:

Iikka Korhonen, head of research, iikka.korhonen@bof.fi

Sinikka Parviainen, senior economist, sinikka.parviainen@bof.fi

Inflation rate expected to stabilise at the target – Europe must find ways to increase productivity

Press release 1 October 2024 11:00 AM

The inflation rate in the euro area is in the process of stabilising at the European Central Bank’s (ECB) 2% target. Together with the favourable trend in employment, this will support the purchasing power of households. By contrast, manufacturing in the euro area has been weak, and its problems seem in many respects to be structural. If significant reforms cannot be achieved, a more permanent weakening in manufacturing would threaten the euro area's competitiveness.

Inflation has continued to come down in the euro area. Having peaked at 10.6% in October 2022, inflation has since fallen and was at 2.2% in August 2024. Wage inflation and services inflation have nevertheless remained fairly high. The inflation rate is expected to stabilise at the ECB’s 2% target during the course of 2025.

In September, the ECB’s Governing Council reduced its policy interest rate to 3.5%. *“The direction of monetary policy is clear: interest rate cuts have begun and our monetary policy stance is becoming less restrictive. The pace and scale of the rate cuts will depend on the Governing Council’s overall assessment on a meeting-by-meeting basis,”* says Governor of the Bank of Finland **Olli Rehn**. The Governing Council will continue to base its monetary policy decisions on an assessment of the inflation outlook, the dynamics of underlying inflation, excluding energy and food prices, and the strength of monetary policy transmission.

Growth in the euro area economy has continued to be slow this year, and industrial output has been weak. An important factor in this has been the increase in energy costs, which has been greater than in other key economic regions. Labour productivity growth in the euro area has in any case long lagged behind that in the United States.

Despite strong headwinds, the euro area economy has avoided a recession and is now picking up, as earnings growth and the drop in inflation strengthen households’ purchasing power and consumption. The ECB’s September projections show that the economy will grow by 1.3% in 2025 and 1.5% in 2026. Employment growth is strong: the number of people employed in the euro area is about 7 million more than at the end of 2019.

“An important conclusion from the outlook for economic growth, employment and inflation in the euro area is that monetary policy has been relatively successful in bringing inflation down,” says Rehn. When monetary policy slows inflation down, it generally comes at a cost in the form of a slowdown in economic growth and a deterioration in employment. But this time the cost – at least for now – has been smaller than in previous cycles of interest rate rises.

At the same time, the weakness of the growth in the euro area economy has turned out to be, in part, structural. Productivity must be increased, because Europe’s population is ageing, green investments require funding, public debts and deficits are large, and defence spending needs to be raised. This calls for a strong, unified response from the EU. *“The Draghi report is a necessary wake-up call to all Europeans. It is a clear-sighted and brutally honest diagnosis of the reasons for low growth in Europe's economy and will provide a good basis for the next Commission work programme,”* emphasises Governor Rehn.

- Bank of Finland Bulletin publication website (in Finnish)
- Presentation 1 October 2024, Governor Olli Rehn (in Finnish)
- Presentation 1 October 2024, Head of Division Markku Lehmus (in Finnish)

Bank of Finland’s interim forecast: Sticky recovery in Finland’s economy

Press release 16 September 2024 11:01 AM

According to the Bank of Finland’s interim forecast, published today, the Finnish economy will contract by 0.5% for the full year 2024, and the recovery will be slow. The economy will then grow by 1.1% in 2025. Growth will gather pace somewhat in 2026, rising to 1.8%.

In the early part of this year, growth in the Finnish economy was subdued. Private consumption and private investment have been weak, and the fragile economic growth has relied on exports and public demand. The labour market has felt the effects of the sluggish economy, and inflation has slowed considerably.

The recovery of the Finnish economy in the immediate years ahead will be underpinned by various factors. Purchasing power will be supported by an improvement in employment, a moderate inflation rate and a rise in earnings. In addition, the export outlook will benefit from a strengthening of the euro area economy. Household and business confidence is expected to be restored gradually, and the financial markets are anticipating a step by step lowering of interest rates.

Inflation and unemployment

There has been a broad-based drop in inflation in Finland during the current year. The Bank of Finland’s inflation forecast for 2024 is 1.1%. The recovery in the economy will increase price pressures a little, and the tax and excise duty increases will raise prices. The inflation rate will rise in 2025 to 1.8% and then fall back to 1.6% in 2026.

The impact of the weak economic conditions has also been felt in the labour market, with a drop in the employment figures. The unemployment rate for the full year 2024 will rise to 8.3%, but will then decline as the economy improves.

Forecast risks

The risks surrounding the forecast are, in the short term, predominantly on the downside. Although there are already early signs of a turn for the better in manufacturing and exports, it is not certain that this will continue. Geopolitical tensions are adding to the uncertainties over the outlook for world trade. The biggest risks domestically concern how long consumers will continue to be cautious, and at what point the construction sector will eventually start to recover.

Positive surprises are also possible, especially towards the end of the forecast period. Consumer confidence and consumption could pick up more quickly than anticipated. A faster than expected rebound in construction could also further boost growth in the economy. The pace of economic recovery at turning points in the business cycle has often proved to be faster than initially expected.

Interim forecast, September 2024 (in Finnish)

Reference rate and penalty interest rates for 1 July – 31 December 2024

Press release 25 June 2024 3:30 PM

The reference rate under section 12 of the Interest Rates Act (633/1982) for the period 1 July – 31 December 2024 is 4,5 %. The penalty interest rate for the same period is 11,5 % pa (under section 4 of the Act, the reference rate plus seven percentage points). The penalty interest rate applicable to commercial contracts is 12,5 % pa (under section 4 a of the Act, the reference rate plus eight percentage points).

The reference rate used in defining the penalty rate is determined in accordance with section 12 of the Interest Rates Act. Accordingly, the reference rate is the interest rate that was applied by the European Central Bank to the last main refinancing operation prior to the first calendar day of the half-year in question and rounded up to the nearest one-half percentage point. Such reference rate is effective for the following six-month period.

Essi Eerola appointed Adviser to the Board of the Bank of Finland

Press release 19 June 2024 3:00 PM

The Board of the Bank of Finland has appointed Essi Eerola, DSocSc, as Adviser to the Board. The appointment is for a five-year term.

Essi Eerola has served since 2022 as head of the Bank of Finland’s Domestic Economic Policy Process in the Monetary Policy and Research Department and will continue in this role. She is also a member of the Bank of Finland’s research steering group. Eerola served from 2016 to 2022 as Research Director at the VATT Institute for Economic Research.

The other Advisers to the Board of the Bank of Finland are Meri Obstbaum and Kimmo Virolainen.

Finland’s economy gradually moving out of recession

Press release 11 June 2024 11:05 AM

The Bank of Finland has today published its economic forecast for the period 2024–2026. The country’s gross domestic product (GDP) for 2024 will still show a year-on-year contraction, at -0.5%. In 2025, the recession will be over and GDP will be up by 1.2%. The economy will grow further in 2026, by 1.7%. *"Finland’s economy is slowly moving out of recession. GDP growth in the coming years will nevertheless be subdued,”* says the Bank of Finland’s Acting Head of Forecasting, Juuso Vanhala.

Inflation has fallen on a broad basis across the Finnish economy in the first part of the year. *“The upward pressures on prices are moderate, though the increase in value added tax will raise consumer prices from the autumn onwards,”* says Vanhala. Inflation is projected to rise to 2% in 2025. It will then fall to 1.6% in 2026, when the inflationary impact of the VAT increases diminishes.

Consumer spending will gradually recover as the purchasing power of households rises. *“The outlook for the economy is improving and the level of economic uncertainty is slowly dissipating. At the same time the financial markets are expecting interest rates to fall. These factors will all support the recovery in private consumption,”* says Vanhala. The past few years have seen a sharp increase in economic uncertainty. Many households are cautious and consumer confidence in the economy is noticeably weak. The Government’s fiscal adjustment measures, including tax increases and social benefit reductions, will dampen the growth in purchasing power.

The amount of private investment across the year will again be down substantially in 2024. Housing construction will continue to decline strongly and corporate fixed investment will also fall due to the tight monetary policy and uncertain economic outlook. The conditions for investment growth will improve in the years ahead, because demand is strengthening, inflation is low and the markets are anticipating looser financing conditions. Both housing construction and corporate fixed investment will pick up.

Low growth in Finland’s main export markets will continue to weigh on the country’s export outlook for the time being. There are nevertheless signs of a cautious recovery in world trade, which will gradually boost the growth in demand for Finnish exports as well.

The weak cyclical conditions, which have continued for some time, are reflected in the labour market. Employment is weakening this year, and unemployment is increasing cyclically. When the recession recedes in 2025, employment will start to pick up again and unemployment will fall.

General government finances will remain significantly in deficit in the years of the forecast. The public debt-to-GDP ratio will grow further, despite the Government’s decisions on substantial fiscal adjustment measures. The continuing weakness in the economy in 2024 and the still rising interest payments on government debt are making it difficult to rebalance the public finances. The situation would be even more challenging without the fiscal adjustment measures.

- Presentation 11 June 2024, Acting Head of Forecasting, Juuso Vanhala
- Bank of Finland Bulletin publication website

European Central Bank’s monetary policy has dampened price pressures

Press release 11 June 2024 11:00 AM

According to the European Central Bank’s (ECB) macroeconomic projections published in June 2024, the euro area economy is expected to grow this year by 0.9% and by 1.4% in 2025. Growth in the real incomes of households will bolster private consumption, and demand for the euro area’s exports will pick up. Faster growth in the economy will be aided by the still robust labour market.

Inflation in the euro area was at 2.6% in May and is projected to return to the ECB’s target in 2025. The ECB’s monetary policy has dampened price pressures, with inflation falling by more than 2.5 percentage points since the last increase in policy rates in September 2023. Core inflation has declined and inflation expectations have fallen.

Against this backdrop, the ECB’s Governing Council cut its policy rates in June by 0.25 percentage points. The new deposit facility rate is 3.75%. *“It is important to see the forest for the trees. Considerable progress has been made in bringing inflation down to target, especially since September 2023,”* says Governor of the Bank of Finland Olli Rehn. Financing conditions have been held tight in order to curb demand and to keep inflation expectations anchored.

The Governing Council aims to ensure that inflation returns to the 2% target in the medium term. *“We set our rates at each Governing Council meeting based on three factors: the inflation outlook, the dynamics of underlying inflation and the strength of monetary transmission. And we are not pre-committing to any rate path,”* says Governor Rehn. Assuming there are no new geopolitical or energy price shocks or unanticipated wage growth, inflation is expected to return to target during the year ahead, despite inflation’s downward path slowing somewhat in recent months.

In Finland, the structural difficulties in the economy have continued for some time, and productivity performance has been weak since the global financial crisis. These factors are weighing on Finland’s growth outlook. The global crises of the past few years have transformed Finland’s operating environment, and at the same time Finland’s share of world trade has decreased. The cessation of trade with Russia has raised the prices of production inputs, and not all of the lost trade has been replaced.

Even before Russia’s illegal war in Ukraine, Finland’s export industry had already experienced market share losses in world goods exports. *“The composition of Finland’s export trade has not adapted to the structural changes occurring in world trade since 2000. In the longer run, competitiveness can only be improved on a sustainable basis by raising productivity,”* says Rehn. Growth in the Finnish economy will also be held back by the ageing of the population.

It is necessary to support productivity development through public sector measures as well. When directing public funding, it is important to take into account that most innovations used in Finland have been produced elsewhere. *“By investing in basic research and in related higher education, we strengthen our capacity to adopt innovations made elsewhere*,” emphasises Rehn.

- Presentation 11 June 2024, Governor Olli Rehn (in Finnish)
- Bank of Finland Bulletin publication website

Geopolitical tensions create new threats to financial stability

Press release 14 May 2024 11:00 AM

Russia's war in Ukraine, the conflict in Gaza and trade restrictions between different countries could create disruptions in the global economy and financial system. *"The resilience of Finland's financial system has remained robust. Geopolitical tensions have increased, and this could create new threats to financial stability,"* notes Bank of Finland Deputy Governor Marja Nykänen in the Bank's assessment of Finland's financial stability, published today.

The financial stability assessment notes that the standstill in the housing and real estate markets and the considerable sensitivity to interest rate movements are increasing the risks in Finland's financial system. Prices of existing homes have decreased substantially, housing sales have fallen and the construction of new dwellings has virtually halted. Bankruptcies among construction industry companies have increased, and banks' credit risks on loans to the construction sector have grown. At the same time, household indebtedness has decreased, which has eased the risks.

If interest rates are cut and the economy recovers as anticipated, this will bolster the stability of Finland's financial system. On the other hand, the risks faced by banks and by residential property and real estate investors could increase if housing and real estate sales do not pick up.

There will also be new and unforeseeable threats associated with digitalisation and climate change, and these could undermine financial stability in both the short and the long term. Digitalisation in the financial sector brings many opportunities but also increases risks regarding the transmission of disinformation and information influencing. The risks to financial stability arising from climate change and biodiversity loss are in part still difficult to assess.

Preparations should be made for dealing with new risks brought by a more challenging operating environment. *"Expanding or reducing financial market regulation cannot in itself be the objective. Regulation must be taken forward on the basis of careful planning. Financial regulation should anticipate changes in the operating environment so that we are not simply fighting old crises,"* says Deputy Governor Nykänen.

The ability of banks and borrowers to withstand economic shocks must be strengthened. A diversity of macroprudential policy measures will reinforce the resilience of banks and borrowers, enabling better preparedness for fluctuations in housing market activity and housing prices. Trust in the resilience and reliability of the financial system will be enhanced through further preparation for liquidity and cyber risks.

European companies need more diversified ways of financing their investments and creating a foundation for growth in their business. The European Union would benefit from a single and well-functioning capital market. *"European businesses are too dependent on bank financing. The EU needs a capital markets union so that Europe can continue to be competitive in the face of pressures from other major economic powers. A strong European economy is the best protection against disruptions to the financial system,"* says Nykänen.

- Presentation 14 May 2024, Deputy Governor Marja Nykänen
- Bank of Finland Bulletin publication website (in Finnish)

BOFIT Forecast for China 2024–2026: Productivity gains key to China maintaining growth

Press release 22 April 2024 1:04 PM

The latest forecast from BOFIT, the Bank of Finland's Institute for Emerging Economies, sees structural and cyclical factors bringing down economic growth over coming years. Growth is expected to slow to roughly 4 % this year and then to 3 % p.a. in 2025 and 2026. The lack of reliable Chinese statistical data makes detailed assessment of the situation challenging.

China's official figures show GDP rose by 5.2 % last year. Alternative calculations by BOFIT, however, suggest that GDP growth has underperformed official estimates in recent years. Economic growth in the first months of this year was fairly brisk (officially 5.3 % in the first quarter) thanks to strong industrial growth. No large changes to the outlook for economy overall have occurred since our October 2023 forecast. We continue to anticipate about 4 % growth this year. Growth is expected to slow to around 3 % in 2025 and 2026. The degraded quality of Chinese statistical reporting makes it increasingly difficult to evaluate economic conditions and adds uncertainty to our forecast.

China's economic growth is constrained by an ageing population, weak business environment and the Communist Party's ever-tightening grip on the economy. New real estate construction and apartment sales have declined substantially, and relations between China and its trading partners cloud the outlook for export industries. No significant progress in these areas is expected during the forecast period. China's high debt-to-GDP ratio and the weak public sector create a dilemma for government by limiting its room to manoeuvre in the fiscal policy sphere and the ability of the financial sector to cope with risk. Reforms that lift total factor productivity and increase domestic consumption would enhance growth.

"China is currently attempting to shift its economic policy emphasis to manufacturing, particularly fields involving advanced technologies. With the real estate crisis, the government is forced to look beyond construction investment for new engines of economic growth. Measures that increase productivity are a welcome development in efforts to support economic growth." notes **Riikka Nuutilainen**, a senior economist at BOFIT.

An increase in state-designated innovation projects comes, however, with a significant risk of wasteful investment and further increases in overcapacity that already plague many branches. Since domestic demand remains tepid, increases in capacity will likely support the already excellent price competitiveness of Chinese exporters.

"Increased production of cheap exports could exacerbate already heightened tensions between China and its trade partners," Nuutilainen observes.

The forecast document is available at https://www.bofit.fi/en/forecasting/latest-forecast-for-china/.

For further information:

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Meri Obstbaum appointed Adviser to the Board of the Bank of Finland, and Kimmo Virolainen’s position as Adviser to the Board was renewed

Press release 17 April 2024 3:00 PM

Meri Obstbaum has served since 2019 as Bank of Finland Head of Forecasting in the Monetary Policy and Research Department and as a member of the Bank’s Monetary Policy Analysis Group. Prior to that she served in various posts at the Bank of Finland and the Ministry of Finance.

Kimmo Virolainen continues as Adviser to the Board of the Bank of Finland. He has previously served as Acting Member of the Board of the Bank of Finland and as Head of the Financial Markets and Statistics Department. In 2016–2018, he served as an Alternate Executive Director of the International Monetary Fund (IMF) in Washington DC.

Bank of Finland Governor to attend IMF Spring Meeting

Press release 17 April 2024 11:00 AM

During the week of the Spring Meetings, the IMF's International Monetary and Financial Committee (IMFC) as well as the Development Committee, a joint forum of the IMF and the World Bank, will convene for meetings.

The Bank of Finland will also be represented by Deputy Governor **Marja Nykänen**, Advisor to the Board **Kimmo Virolainen**, Senior Economist **Anni Norring**, Economist **Taina Sinivuori** and Head of Communications **Jenni Hellström**.

For further information, please contact **Satu Kivinen**, Head of Division, tel. +358 9 183 2329.

Inflation is declining in line with the European Central Bank’s goal, paving the way for an easing of monetary policy

Press release 16 April 2024 11:01 AM

“As summer approaches we can start reducing the level of restriction in monetary policy, provided that inflation continues to fall as projected. The biggest risks stem from geopolitics, both the deteriorating situation in Ukraine and the possible escalation of the Middle East conflict, with all their ramifications,” says Governor of the Bank of Finland **Olli Rehn**.

Growth in the euro area economy has been at a standstill since the end of 2022. This has been attributable to the fall in real incomes stemming from the rise in energy and other prices, and to the decrease in investment and consumption resulting from the higher interest rates and elevated uncertainty. On the other hand, the worst crisis scenarios – especially regarding energy availability – have been avoided. Euro area unemployment is also at its lowest since the introduction of the euro.

Growth is forecast to return to the euro area economy towards the end of this year, largely driven by private consumption, but this could also be delayed. The tensions surrounding the Middle East conflict and Russia’s war in Ukraine could raise energy prices again or bring supply disruptions.

The tightening of monetary policy has contributed over the past year to inflation expectations returning to a level close to the inflation target of 2%. This has led to wage pressures beginning to moderate in the euro area.

At its April 2024 meeting, the Governing Council of the European Central Bank (ECB) took the decision to keep its principal key interest rate unchanged at 4%. The ECB's key interest rates are at a level that is helping considerably to push down inflation. The Governing Council’s future interest rate decisions will ensure that its policy rates stay sufficiently restrictive for as long as necessary. *“In June, we will have an updated assessment of the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission. If this were to further increase our confidence that inflation is converging to our target in a sustained manner, we could start to ease the stance of monetary policy and cut interest rates. This assumes there will be no further setbacks, for instance in the geopolitical situation and therefore in energy prices,”* says Governor Rehn. The rates on new mortgages have already started to fall slightly, however, as the markets are expecting the ECB to cut policy rates.

The euro area economy needs to improve its productivity performance. Over the medium term, productivity has an impact on both inflation and the level of real interest rates. An important way of boosting productivity is to invest in human capital. A skilled labour force is essential if businesses are to adopt innovations and new technologies. *“Improving productivity does not happen overnight. This requires long-term economic policy that supports investment and strengthens companies’ opportunities for growth,”* says Governor Rehn.

- Bank of Finland Bulletin publication website (in Finnish)

Parliamentary Supervisory Council visits Frankfurt

Press release 11 April 2024 10:05 AM

The Parliamentary Supervisory Council will visit Frankfurt on 11–12 April 2024. During the visit, the Parliamentary Supervisory Council will meet members of the Executive Board of the European Central Bank (ECB) and representatives of ECB Banking Supervision and the European Systemic Risk Board. Topics of discussion at the meetings will include, among other things, the euro area economic outlook and ECB monetary policy, the digital euro, the state of the banking sector in the euro area, and current regulatory issues in the European financial sector.

In addition to four representatives of the Parliamentary Supervisory Council, an adviser and secretaries, members of the Board of Bank of Finland will also be present on the visit.

For further information, please contact Kimmo Virolainen, Secretary to the Parliamentary Supervisory Council, kimmo.virolainen@bof.fi, tel. +358 9 183 2270.

BOFIT Forecast for Russia 2024–2026: Russian economic growth set to decelerate

Press release 25 March 2024 1:00 PM

Last year Russia's economy outperformed the expectations of most forecasters. In particular, growth in capital stock and private consumption accelerated faster than expected. The significant leap in the capital stock reflected higher investment in defence industries and companies stocking up for uncertain times ahead. Inventory growth has been driven by ever-intensifying component shortages.

Following the post-invasion drop in 2022, private consumption, lifted by hefty wage increases and a low basis reference, recovered rapidly last year. The potential for higher on-year growth this year is limited above all by capacity constraints.

"Russia's economy will not only grow more slowly in the years ahead but will also be increasingly driven by the state. Growth in the next few years is limited by Russia's low potential long-term growth potential, which has been further reduced since Russia's invasion of Ukraine," reports BOFIT senior economist **Sinikka Parviainen**.

Growth boosted by war spending

Russian economic growth will likely slow this year. Even if quarterly growth were to stall completely for all of 2024, the rapid growth in the second half of 2023 would still be sufficient to lift the pace of on-year growth this year to around 2 %. In the absence of major surprises, the Russian economy in 2025 and 2026 should grow at roughly 1 % a year, which in proximity to its long-term potential growth rate.

Soaring public spending should be the largest driver of growth throughout the forecast period. Some of Russia's robust military spending will be channelled to fixed investment.

"The issue with wartime fixed investment," notes Parviainen, *"is that it often does little to increase the stock of productive capital or raise productivity. In fact, a significant chunk of wartime investment goods are consumed or destroyed over a short time span."*

Russia's second engine of growth, private consumption, will be sustained by full employment. Many branches already face severe labour shortages, making further wage hikes almost inevitable. On the other hand, it is unlikely that Russia's export markets will expand much in the years ahead. Imports, too, are limited by a range of factors, including Western sanctions.

Our latest forecast is again subject to a high uncertainty. The unavailability of critical statistical data is only one of the many factors that make analysis of current conditions challenging. Moreover, a change in the course of the war or blowback from Russia's current short-sighted economic policies could have profound impacts on future trends in the Russian economy.

The forecast document is posted at https://www.bofit.fi/en/forecasting/latest-forecast-for-russia/.

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Bank of Finland’s 2023 operating profit weakened considerably by rise in interest rates

Press release 22 March 2024 11:01 AM

The Parliamentary Supervisory Council has today, upon proposal by the Bank of Finland Board, confirmed the Bank of Finland’s financial statements.

The Bank of Finland’s audited profit for the financial year 2023 totals EUR 0.00 after a reduction of EUR 1,112 million was made in the general provision in order to cover a negative operating profit. The Bank of Finland’s financial result and the structure of its balance sheet are a reflection of the monetary policy measures taken to maintain price stability in accordance with the Bank’s mandate.

“The rise in interest rates has considerably weakened the Bank of Finland’s operating profit. The Bank has been well prepared for interest rate increases and had strengthened its risk provisions when interest rates were low. The provisions are now being correspondingly reduced. The profit outlook for the next few years is also weak,” says Deputy Governor of the Bank of Finland Marja Nykänen.

The European Central Bank (ECB) started raising interest rates in 2022 to reduce the excessively high rate of inflation, and in 2023 it continued to raise rates. The ECB’s deposit facility rate reached a level of 4.0% in 2023, after having started the year at 2.0%.

The Bank of Finland holds bonds acquired in asset purchase programmes, and a considerable proportion of these have been issued by Finland’s public sector. These are long-term and fixed-rate. The purchasing of these bonds created liquidity, and this then led to an increase in deposits by commercial banks with the central bank. In 2023, the interest paid on these deposits was an average of 3.3%. The differences in the extent to which the Bank of Finland’s assets and liabilities are subject to fixed or variable interest rates, in particular, poses a structural interest rate risk for its balance sheet, and this risk has materialised as interest rates have risen.

As a consequence of the higher interest rates, the amount of interest paid on the deposits of commercial banks during the financial year 2023 was EUR 4,472 million, which exceeds the Bank’s income from assets. Net interest income in 2023 was EUR -1,044 million, which was EUR 1,503 million less than in 2022.

The figure for central banking profit was EUR -1,027 million in 2023 (2022: EUR 35 million), and includes both interest income on the Bank of Finland’s financial assets and the Bank’s share of net interest income from the Eurosystem’s monetary policy operations. The operating expenses and income of the Bank of Finland and the Financial Supervisory Authority (FIN-FSA), excluding banknote production services and the pension fund contribution, amounted to EUR -70 million (2022: EUR -66 million).

The Bank of Finland’s financial statements, which also include the income and expenses of the FIN-FSA, have been published in Finnish today, 22 March 2024, on the Bank of Finland website. The Swedish and English versions will be published in April.

For further information, please contact Marja Nykänen, Deputy Governor of the Bank of Finland, tel. +358 9 183 2007.

Bank of Finland, annual report 2023 (In Finnish)

In a blog post (in Finnish), Head of Risk Management Antti Nurminen writes about the impact of higher interest rates on the Bank of Finland’s profit.

Bank of Finland’s interim forecast: From significant recession towards growth

Press release 15 March 2024 8:01 AM

According to the Bank of Finland’s interim forecast published today, the Finnish economy is still in recession. The elevated levels of prices and interest rates are curbing private consumption and investment. Residential construction is particularly weak. Exports have also decreased. Employment has nevertheless remained robust in relation to the economic conditions, and inflation has also slowed substantially.

The interim forecast indicates a decrease of 0.5% in Finland’s gross domestic product (GDP) in 2024. The economy will begin to bounce back towards the end of the year, and the recovery will be even a little faster than projected in the Bank of Finland’s December 2023 forecast. Finland’s GDP is expected to grow by 1.7% in 2025, and by slightly less, 1.5%, in 2026.

“Although the economy’s performance has been weaker than forecast, the future outlook remains unchanged. The recession has already reached its lowest point, and we expect growth to be rekindled this year as household purchasing power strengthens and we start to see a return of general confidence in the economy,” says Bank of Finland Head of Forecasting **Meri Obstbaum**.

Inflation will slow significantly and the employment rate will dip

The employment situation has remained robust in relation to conditions in the economy, as businesses have commonly resorted to temporary layoffs instead of redundancies. A short time lag will occur before the effects of the recession are felt in the labour market, and this year we will see the employment rate among 20–64-year-olds falling to 77.2%. The number of people in employment will begin to grow in 2025, when cyclical conditions improve, but in both 2025 and 2026 the employment rate will not rise above its pre-recession level.

The fall in inflation has improved consumers’ purchasing power, with employees’ real earnings seeing a year-on-year increase in 2023. Inflation will decline further during 2024, to below 1%, but will increase slightly in 2025. Inflation will mainly be driven by a rise in services prices.

Forecast risks on the downside

The risks surrounding the forecast are predominantly on the downside. Geopolitical tensions have not subsided, and the impact of these might further weaken economic growth. Euro area inflation could prove to be more persistent than anticipated, and any delay in cutting interest rates would prolong the recession. The biggest domestic risks concern the outlook in the housing market. Protracted difficulties in residential construction could impact employment more than anticipated. A continuation of industrial action would elevate the uncertainty in the forecast, as the extent and effects of such action are hard to estimate.

Bank of Finland’s interim forecast, March 2024 (in Finnish)

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Mika Pösö appointed Head of Market Operations Department at the Bank of Finland

Press release 12 March 2024 3:45 PM

Mika Pösö, MSc (Econ.), MA (Econ.), has been appointed to head the Market Operations Department at the Bank of Finland. The appointment is for a five-year term.

He has previously served at the Bank of Finland as Adviser to the Board and as Head of General Secretariat, as well as in other expert and managerial positions in the Bank's departments, starting in 1995. In 2020–2023 Pösö served on the Executive Board of the International Monetary Fund (IMF) in Washington DC.

The task of Market Operations is to implement the monetary policy of the European Central Bank (ECB), manage the financial assets of the Bank of Finland and produce market analyses for decision-making purposes. The department is responsible for the settlement, collateral management and payment transactions related to these operations and also runs TARGET payment system services.

A total of 653 counterfeit euro banknotes found in Finland last year

Press release 29 January 2024 11:00 AM

During 2023, a total of 653 counterfeit euro banknotes were detected among banknotes in circulation in Finland. The number has increased slightly from the previous year, but is still very moderate. In 2022, a total of 469 counterfeit euro banknotes were detected in circulation.

Among the banknotes in circulation in Finland in 2023, the EUR 20 was the most frequently discovered counterfeit note (364 counterfeits), followed by the EUR 50 (149 counterfeits) and the EUR 10 (80 counterfeits).

"The number of counterfeits found in circulation in 2023 was slightly higher than in the previous year, but is still in the same order of magnitude as we are accustomed to seeing in Finland on an annual basis. It is also important to remember that, when handling banknotes, it is always worth paying attention to banknote security features," says Olli Vehmas, *Banknote Specialist at the Bank of Finland.*

Period	**2019**	**2020**	**2021**	**2022**	**2023**
Number of counterfeits	**979**	**1496**	**523**	**469**	**653**

Euro banknotes have several security features, which can be used to check the authenticity of banknotes. Banknote authenticity can be checked by using simple tests: by feeling the raised print, looking at the banknote against the light, and tilting it. When the authenticity of an individual banknote is in doubt, the suspect banknote should be compared directly with one that is known to be genuine. Instructions and guides for checking banknote authenticity can be found on the Bank of Finland website (www.bof.fi > Money and payments).

The Bank of Finland has published a browser-based online banknote course, which is open to everyone. With the aid of the course, one can familiarise oneself with the security features of euro banknotes and obtain information on how to act in different situations if one happens to come across a counterfeit. The course can be found at banknotecourse.suomenpankki.fi (in Finnish and Swedish).

In its press release published today (www.ecb.europa.eu/), the European Central Bank outlines the overall situation of euro banknote counterfeits.

For further information about Finland, please contact:

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Jussi Larvanto, Detective Sergeant, National Bureau of Investigation, tel. +358 295 486 954

The IMF's concluding statement on the Finnish economy

Press release 23 January 2024 10:00 AM

The International Monetary Fund’s (IMF) delegation currently visiting Finland has submitted its concluding statement on the Finnish economy and the stability of the financial sector to the authorities.

The statement is based on discussions held by IMF representatives with Finnish authorities as well as representatives of social partners, private financial institutions, research institutes and other relevant parties.

The concluding statement can be accessed in full on the IMF’s and Bank of Finland’s websites (www.imf.org) and (www.suomenpankki.fi), respectively.

Concluding Statement (PDF)

Summary (PDF)