



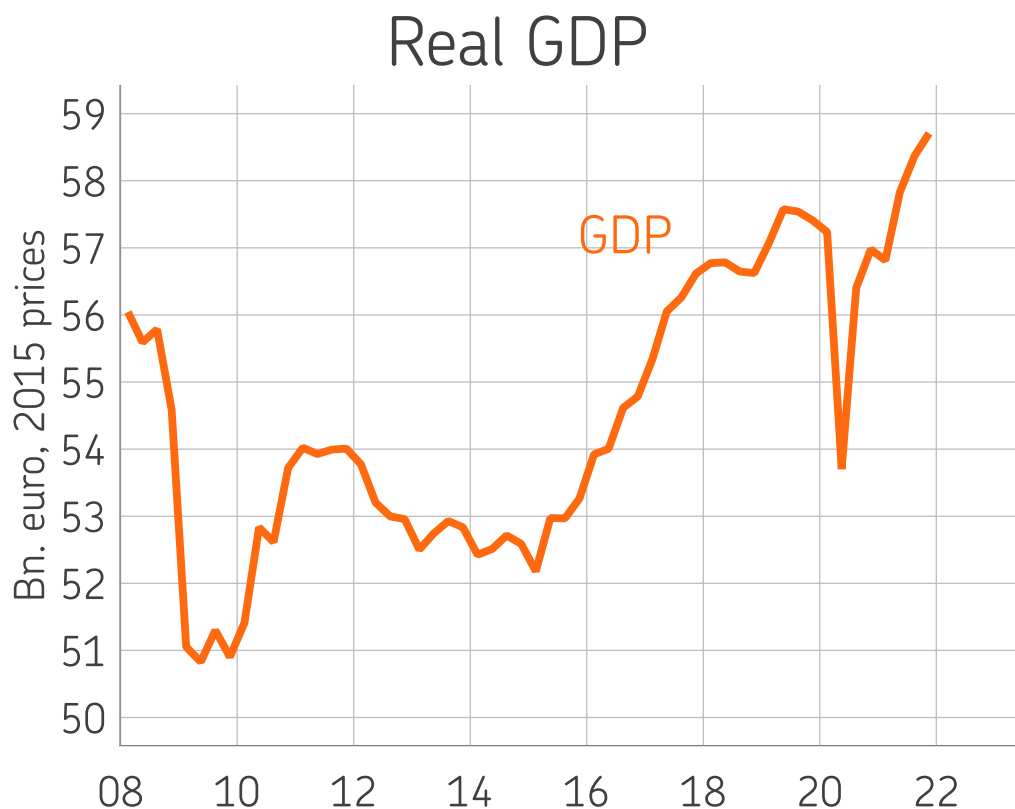
Economic outlook for Finland

Economic Research
OP Financial Group
March 2022

Finland's economic growth will slow down – inflation at high rate

- The consequences of Russia's war in Ukraine will significantly weaken the global economic outlook. However, the global economic development is still mainly driven by the recovery from the economic crisis caused by the corona pandemic. Despite the war, the global economy will grow at a moderately good pace. The uncertainty in the short-term economic outlook is significantly elevated.
- A reduction in foreign trade, a rise in energy prices, and greater uncertainty will be among the economic impacts of the war in Ukraine. In global terms, the war is likely to lead to higher energy prices and an economic crisis in Russia.
- The economic growth in the euro area suffers significantly from the war but the growth will still be relatively strong. Higher energy prices will slow the economy as will the decline in the trade with Russia. Inflation will remain above the ECB target. So far, the war has had only minor impact on interest rate expectations.
- Economic growth in Finland will slow more than that of the euro area in general — and will temporarily fall below potential. However, Finland's economy is not significantly more dependent on Russia than many large European economies.
- Finland's economy will grow 2% this year and 1% in 2023. In the forecast, we assume that the trade between Finland and Russia will be almost non-existent and that it will take time to find replacing markets for exports.
- Inflation in 2022 will be at its highest since 1990. OP's economists predict that prices will increase by 4.4 per cent this year and by 2.3 per cent next year. The inflation forecast is based on the assumption that oil will cost around 110 dollars per barrel on average.
- Despite the drop in the economic growth, due to the strong post-pandemic recovery the outlook for the Finnish economy remains moderate this and next year.

Russia's war in Ukraine will hit Finnish economy in the short term

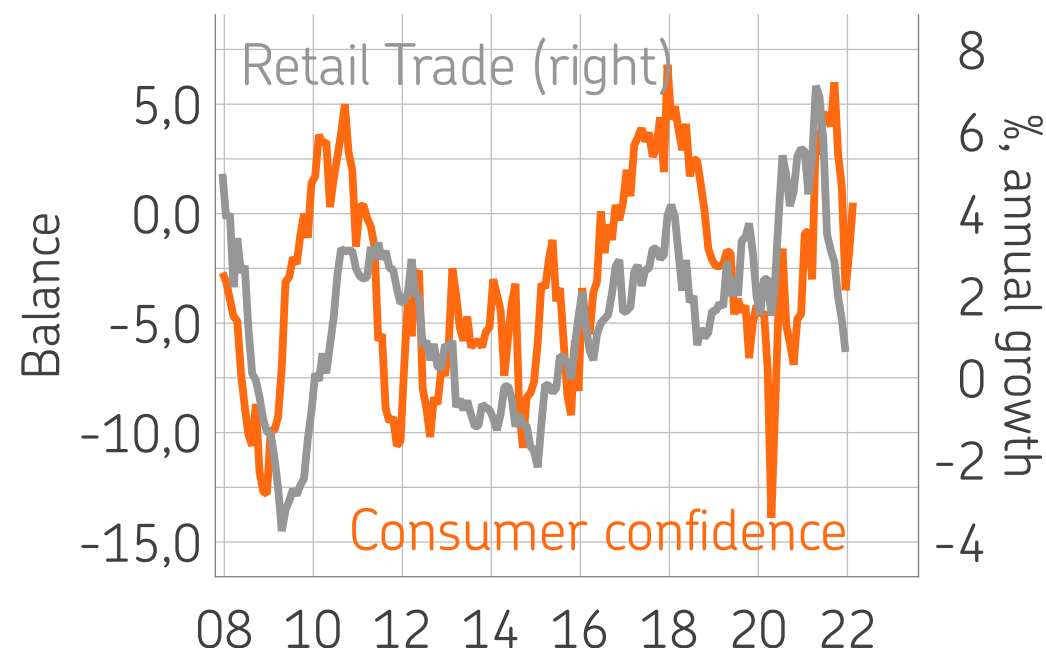


Source: Macrobond, StatFin, OP

- The recovery of the Finnish economy had a good pace before Russia's attack to Ukraine. The war, however, weakened the outlook of the Finnish economy significantly.
- We have lowered our GDP forecast for Finland to 2.0% in 2022 and 1.0% in 2023. In January, our forecast for Finnish GDP growth was 2.7% for this year and 1.7% for 2023.
- The most significant direct effect of the war is the decline in exports to Russia. The war will hit also Finnish export markets which weakens the export outlook for Finland.
- The rise in energy prices and the increase in overall uncertainty will undermine the outlook.

Consumer confidence declined in winter – the war will weaken the sentiment further

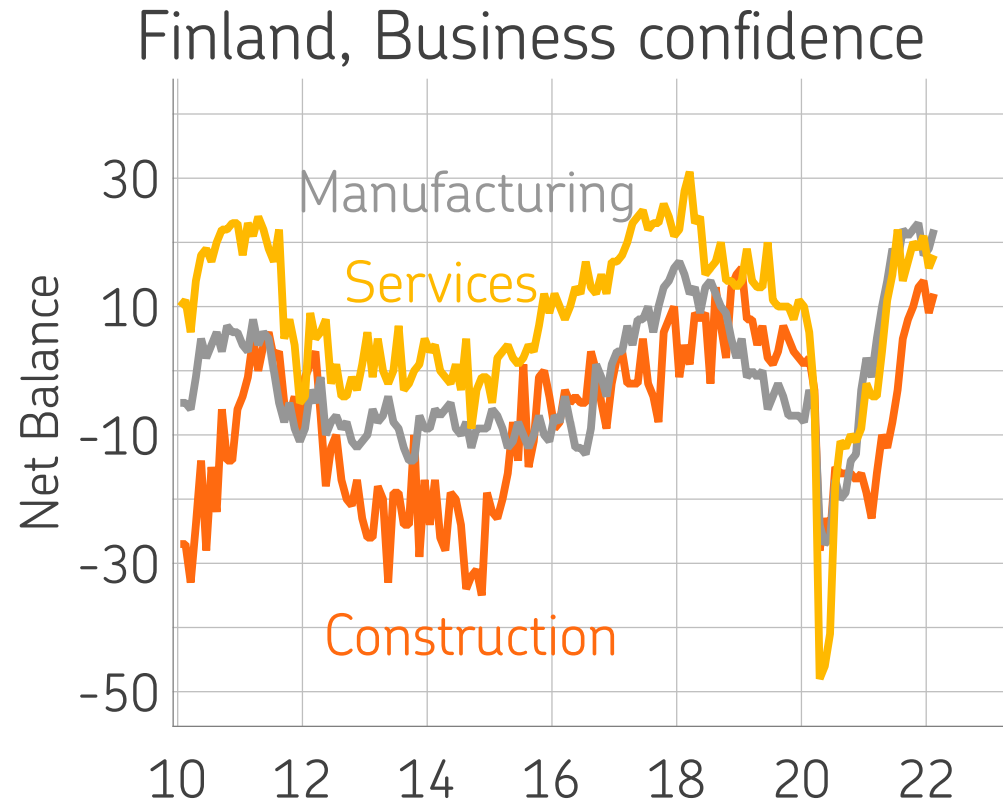
Consumer confidence and retail trade in Finland



Lähde: Macrobond, OP

- The consumer confidence strengthened slightly in February. The confidence indicator is above its long-term average. However, the confidence is expected to decline due to Russia's war in Ukraine.
- In February, consumers' expectations about their own economies were strong. The expectations of the short-term performance of the Finnish economy remained at relatively weak level.
- The outlook for consumer spending remain moderate. However, the war will impact the spending negatively. Real income will decline as inflation exceeds the income growth. Employment situation does not improve as fast as we expected in January.

Business confidence was strong in February

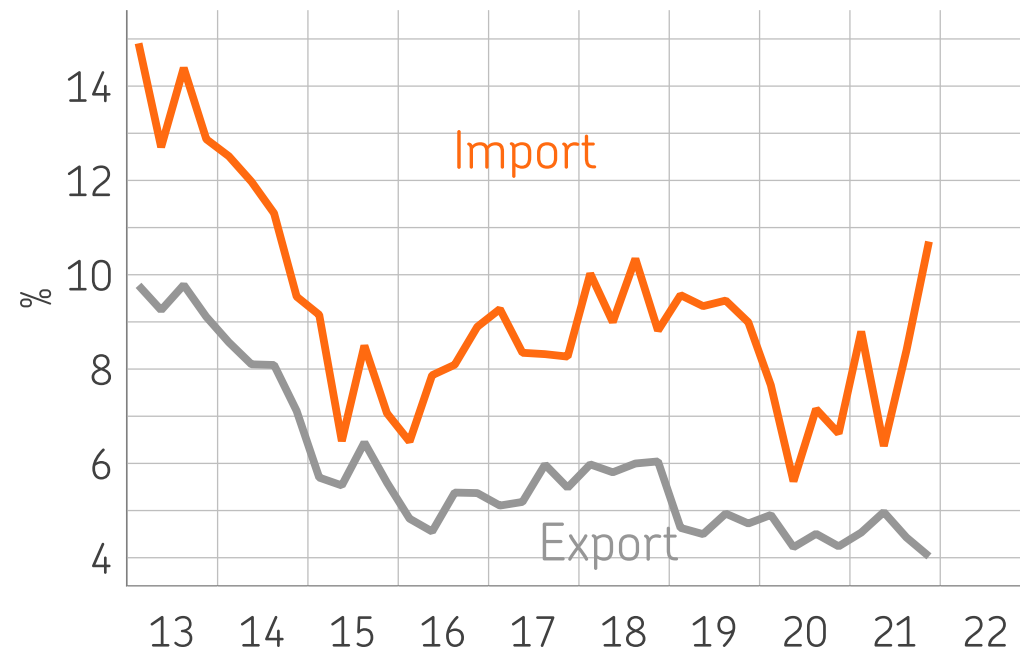


Source: Macrobond, OP

- Business confidence improved slightly in February. The confidence indicator exceeded its long-term averages in all main sectors.
- Russia's war in Ukraine will most likely have a negative effect on business confidence in the coming months.
- In the survey by Confederation of Finnish Industries (EK), 41.5% of the companies estimated that the crisis will have at least some effect on their business.

Russia's war in Ukraine will have direct impact on trade between Finland and Russia

Finland's trade in goods and services with Russia

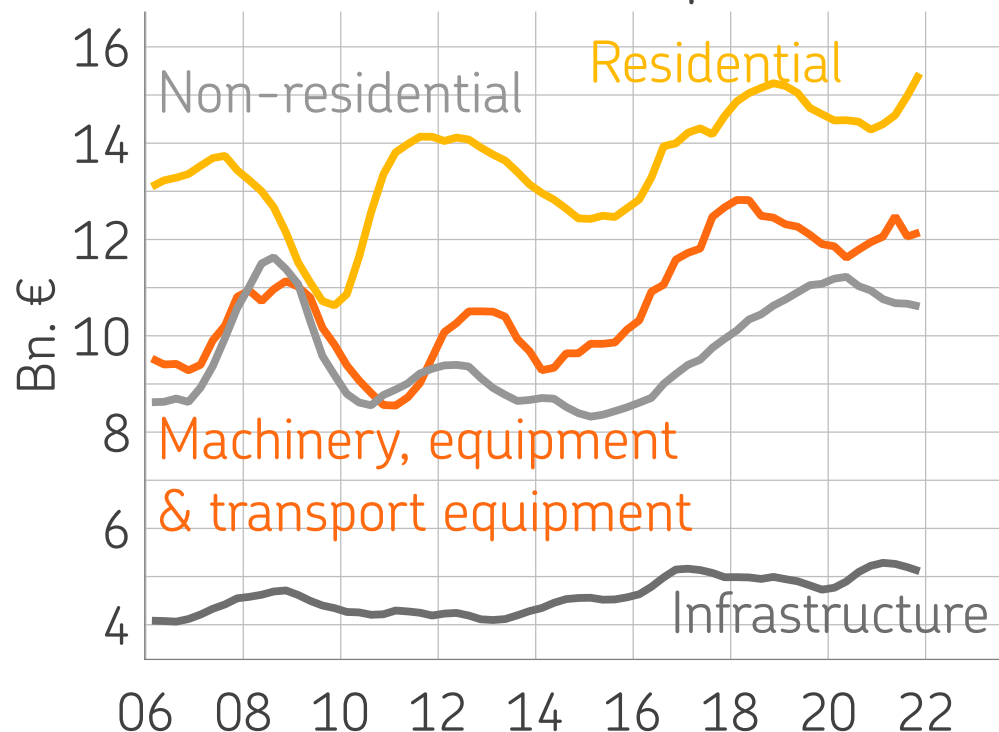


Lähde: Macrobond, StatFin, OP

- The exports of Finland will grow this year due to base effect although the war will impact the foreign trade instantly.
- The worst-case scenario for Finnish economy is that the trade with Russia stops almost entirely. In the last quarter of 2021, 4% of Finnish exports went to Russia.
- Also, the imports from Russia will decline significantly. If lost imports cannot be replaced with imports from elsewhere, the impact of the war for Finland's economy will increase. Russia's share of Finland's imports were about 10% in the last quarter of 2021.
- Due to the war, we lower our forecast of exports to 5% this year and 0% in 2023.

Growth in fixed investments driven by machinery investments

Finland, Investment, 4-qrt sum, EUR



Source: Macrobond, OP

- Fixed investments grew 2% last year. The growth was driven by residential construction.
- The impact of the war on investments is hard to evaluate. However, the increasing uncertainty will most likely affect negatively on investments. For the companies that had significant business in Russia, the war will have more significant impact.
- At this point, we keep the fixed investment forecast unchanged. However, the risks for worse development have increased.
- In total, we forecast fixed investments to grow by 4% this and 2% next year.

Housing market is clearly stabilizing – Russia's war in Ukraine increases uncertainty

Finland, Real estate prices, Old dwellings



Source: Macrobond, OP

- The elevated uncertainty will impact housing markets in the short term. In the medium term, the activity in the housing markets will slow down slightly as the economy slows down.
- Nominal prices of dwellings will still grow slightly this year, but real prices will already decline.
- The magnitude of the impact of the war on housing markets will depend significantly on the duration of the crisis.

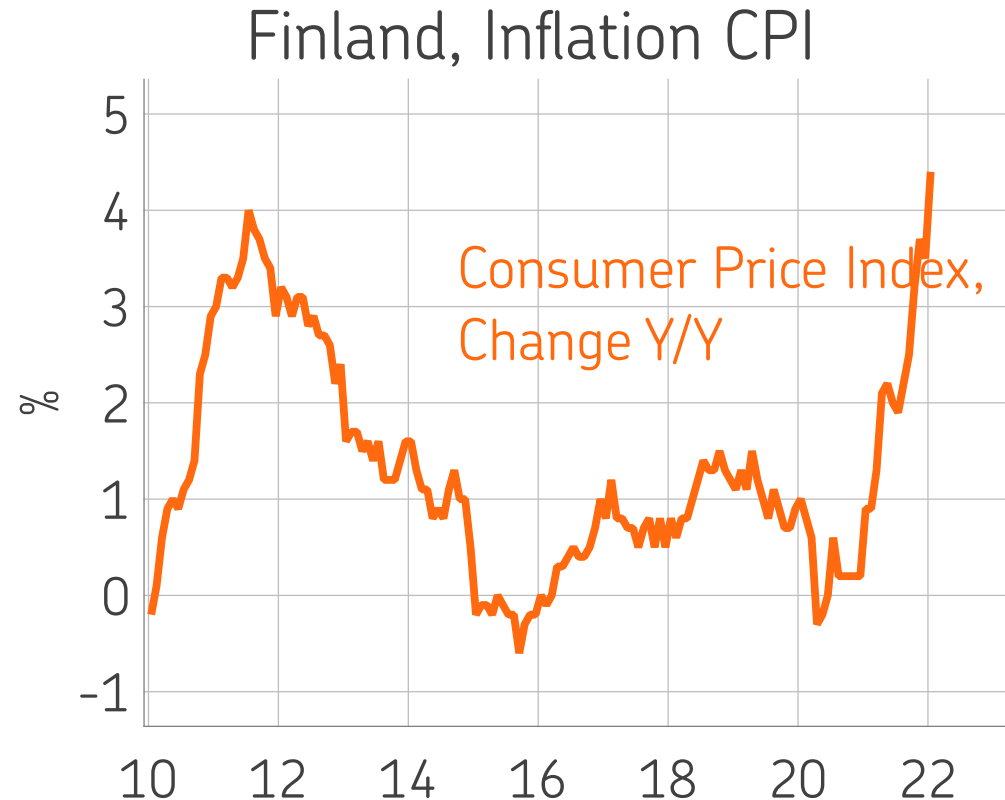
The improvement in labour market will end



Source: Macrobond, OP

- Labour market situation has improved rapidly. The improvement in employment was even stronger than anticipated in late 2021.
- The war will affect also the labour market. The decline in unemployment rate will stop and the improvement in employment will be worse than anticipated in January. However, the situation in the labour market is still relatively good.
- We expect that the unemployment rate of this and year will be 6.9%.

Inflation will accelerate due to war

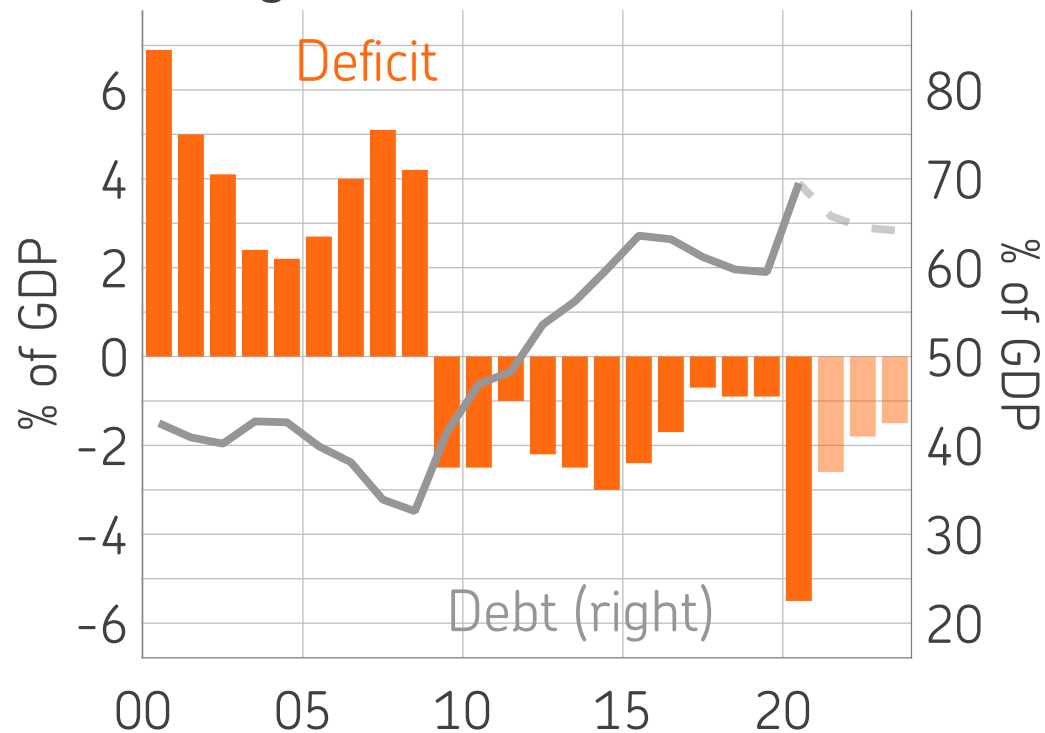


Source: Macrobond, OP

- Although the inflation is high compared to previous years, the acceleration of inflation has been slower in Finland than in euro area on average.
- Based on preliminary data, the inflation in Finland was 4.5% in February. Price of energy and food accelerates the inflation. However, the inflation is already relatively broad based.
- We expect the inflation to stay at high levels in spring before it starts to decelerate. Our forecast for the inflation is 4.4% this year. In 2023, consumer prices will grow 2.2%.

Public finance outlook somewhat unchanged

General government deficit and debt

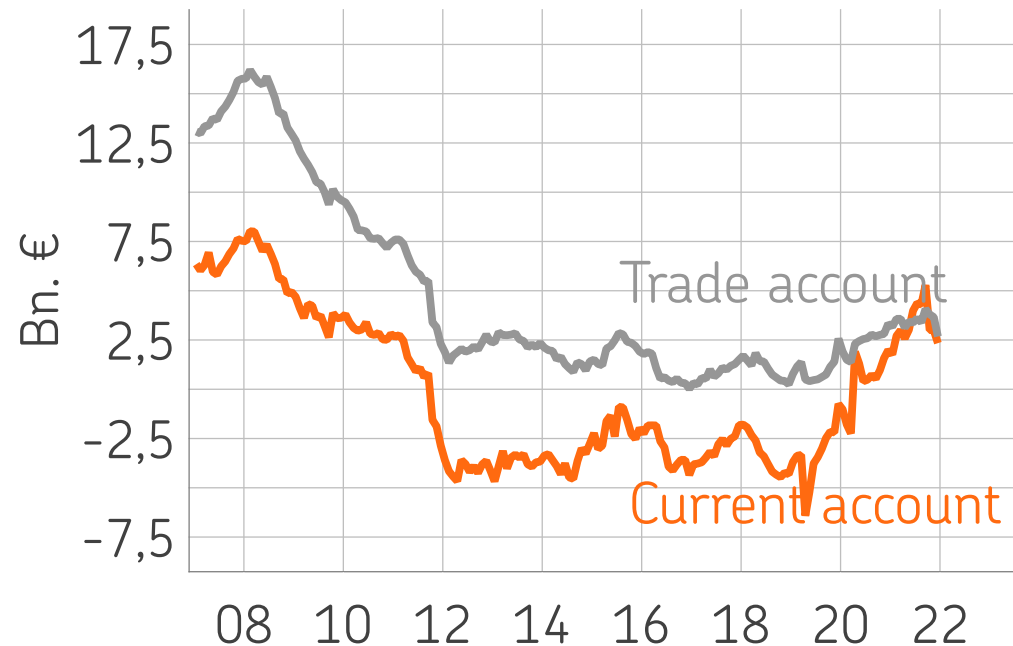


Source: Macrobond, OP

- The public finances outlook remain somewhat unchanged despite the weaker economy. Partly the negative effect from weaker economy will be offset by tax incomes which increase due to inflation.
- However, the weaker development in the economy may lead to easing in fiscal policy. There is also a risk for unexpected rise in public expenses.

Current account is in surplus

Finland, Current account, 12-month sum, EUR



Lähde: Macrobond, OP

- The 12-month rolling sum of the current account was 2.3 billion € in surplus in December.
- Russia's war in Ukraine will likely have only minor effect on Finland's current account and we expect the current account to stay slightly on surplus.

Forecasts for the Finnish economy

Published on March, 2022

Forecasts for the Finnish economy, March 2022

	EUR bn					
Volume, % change on previous year	2021	2020 [*]	2020 [*]	2021	2022e	2023e
GDP	252.9	238.0	-2.3	3.5	2.0	1.0
Imports	97.9	84.5	-6.6	5.3	4.0	1.0
Exports	98.5	85.1	-7.5	4.7	5.0	0.0
Consumption	188.8	179.3	-2.7	3.2	1.2	1.2
- Private	127.8	121.5	-4.1	3.1	1.5	1.5
- Public	60.9	57.8	0.4	3.2	0.5	0.5
Fixed investment	59.1	57.6	-0.3	1.2	4.0	2.0
Other key indicators			2020	2021	2022e	2023e
Consumer price index, % change y/y			0.3	2.2	4.4	2.2
Change in wage and salary earnings, %			1.9	2.3	3.0	3.0
Unemployment rate, %			7.7	7.7	6.9	6.9
Current account balance, % of GDP			0.8	0.9	0.8	0.4
General government net lending, % of GDP			-5.5	-2.6	-1.8	-1.5
General government debt, % of GDP			69.5	65.8	64.5	64.2

Sources: Statistics Finland and OP Financial Group



Thank you!