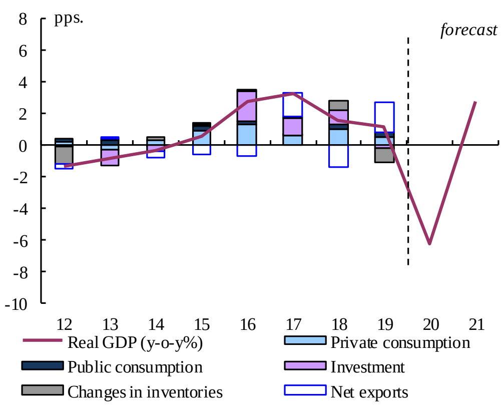
2.19. FINLAND

Economic activity in Finland continues to be severely affected by the COVID-19 crisis although some signs of stabilisation have been apparent since late spring. The effect of the crisis is expected to be most pronounced in the second quarter, after which a sizeable turnaround should occur. The outlook, however, remains extremely uncertain. The low level of economic sentiment and rising unemployment caused by the crisis are likely to weigh on growth in the medium term.

Real GDP this year is expected to fall by 6¼%. Although an unprecedented fiscal stimulus is expected to soften the impact of the crisis, growth in most GDP components is expected to be negative. As the effects of the pandemics start to fade in the third quarter, the recovery should gather pace, but this will also depend on the recovery in Finland’s main trading partners. In 2021, GDP growth is forecast to reach 2¾%, mainly due to the recovery in domestic demand and strong carry-over effects. This means that the level of GDP will remain lower than it was in 2019. This forecast scenario assumes that there will be no significant second wave of the pandemic.

Graph 2.19: **Finland - Real GDP growth and contributions**



HICP inflation has been subdued and even turned negative in April and May as a result of the collapse in demand and energy prices. With the recovery taking hold, stronger consumer demand and an expected increase in energy prices should drive inflation higher. However, inflation is forecast to remain below the euro area average over the forecast horizon.

Risks to the outlook are high, both on the upside and on the downside. Growth could turn out better than expected if some trading partners recover more quickly than expected, fuelled by huge fiscal stimuli and investment support. On the other hand, a second wave of infections or postponed investment projects could delay the expected recovery.