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## ECONOMIC AND POLITICAL OVERVIEW

### ECONOMIC OVERVIEW

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Despite being vulnerable to the international conjuncture, Finland is often cited as a model example for its economic performance, competitiveness and innovative success. However, according to IMF estimates, GDP contracted by 0.1% in 2023 (from +1.6% one year earlier) due to weak private consumption and a decline in manufacturing and construction activity. The Finnish GDP is expected to experience an upturn in 2024, propelled by a gradual recovery in private consumption and investment, with a specific focus on advancing the green transition. Additionally, the construction sector is projected to recommence its growth in the latter part of 2024 and achieve full recovery by 2025, driven by increased private investment and a more favourable financial environment. The overall growth is forecast at 1% this year and 1.3% in 2025 (IMF - 0.8% and 1.5%, respectively, according to the EU Commission).

Despite the government's budget proposals featuring reductions in environmental and social expenditures, these measures were insufficient to counterbalance the planned escalation in security and defence spending (Finland joined Nato in March 2023), along with tax breaks. Hence, the general government budget was estimated at 1.7% of GDP last year, with a further expansion expected in 2024 (to 1.9% - IMF) due to a decline in revenue stemming from changes in social security contributions. Moreover, the deficit is forecasted to be influenced by increased defence expenditures, costs associated with research and development measures, and investment funding throughout the projected period. Additionally, higher interest costs and expenditure growth attributed to inflation are anticipated to contribute to the widening deficit. Meanwhile, the ongoing implementation of a more restrictive monetary policy by the European Central Bank is impacting the lending environment for both households and businesses in Finland. The general government debt-to-GDP ratio stood at 73.6% in 2023, with a small increase attributed to the primary deficit within central government finances, as well as deficits in local governments. The projection indicates a continued upward trend in the general government debt-to-GDP ratio, reaching 76.5% in 2024 and further escalating to 79% in 2025 (IMF). The challenges to debt sustainability and strains on public finances resulting from an ageing population are alleviated by a robust public sector balance sheet, reinforced by substantial pension assets: as of Q1 2023, the total pension assets in Finland amounted to approximately 90% of GDP, with approximately 37% situated within the public sector system. Although debt-servicing costs are increasing, they are still relatively low. Following its peak in 2022, HICP inflation decreased to 4.5% in 2023, primarily due to declining energy prices. The combination of weakened economic activity and Finland's enhanced energy independence in gas has also contributed to this decline. Conversely, the persistent increase in service prices will continue to exert a downward pressure on inflation. Projections indicate that inflation will drop around 2% in 2024 and remain at the same level in 2025.

Finland's GDP per capita – estimated at USD 59,869 (PPP) in 2023 by the IMF - is among the highest in the world and higher than the EU-27 average, allowing the country to offer a high living standard. The distribution of wealth is relatively balanced, although social inequalities have risen in recent years. Finland is the European country most impacted by an ageing population and the fall of its labour force, a phenomenon that weighs heavily on its public finances. Other challenges that the country will be facing are the decreasing productivity in traditional industries and the need for a reduction of high labour costs. Following a good performance in 2022, the unemployment rate rose to 7.3% last year, accompanied by a decrease in the number of job vacancies, though still notably elevated compared to historical norms. Projections indicate that unemployment will reach 7.4% in 2024, before gradually decreasing, as wage growth is expected to decelerate, influenced by the slowdown in the inflation rate and an uptick in employment.

Main Indicators	2022	2023 (E)	2024 (E)	2025 (E)	2026 (E)
<b>GDP</b> (billions USD)	283.12	305.69	316.31	327.63	339.85
<b>GDP</b> (Constant Prices, Annual % Change)	1.6	-0.1	1.0	1.3	1.6
<b>GDP per Capita</b> (USD)	51,030	54,507	56,157	58,086	60,210
<b>General Government Balance</b> (in % of GDP)	-1.2	-1.7	-1.9	-2.3	-1.7
<b>General Government Gross Debt</b> (in % of GDP)	72.5	73.6	76.5	79.0	80.2
<b>Inflation Rate</b> (%)	n/a	4.5	1.9	2.0	2.0
<b>Unemployment Rate</b> (% of the Labour Force)	6.8	7.3	7.4	7.3	7.0
<b>Current Account</b> (billions USD)	-10.32	-5.25	-2.99	-2.48	-2.37
<b>Current Account</b> (in % of GDP)	-3.6	-1.7	-0.9	-0.8	-0.7

Source: IMF – World Economic Outlook Database, October 2021

## Country Risk

See the country [risk analysis](#) provided by [La Coface](#).

## MAIN SECTORS OF INDUSTRY

Agriculture represents 2.3% of the Finnish GDP and employs around 4% of the population (World Bank, latest data available). Due to the unfavourable climate, agricultural development is limited to the maintenance of a certain level of self-sufficiency in basic products. Moreover, Finland's accession to the EU has further accelerated the process of restructuring and downsizing of the agriculture sector. The country has around 42,000 farms with 8% of arable land (12% of the country's arable land is destined for organic cultivation), while almost three-quarters of the land area is covered with forests (FAO). Cereal production dominates, followed by milk production and animal husbandry. Dairy farming is the sub-sector that generates the largest turnover. According to figures from the Natural Resources Institute, there were a total of 42,427 agricultural and horticultural enterprises in Finland in 2023 of which 85% were family-run, 9% were farming syndicates, while farms owned by heirs and limited liability farms represented about 5%.

Industry accounts for 25.6% of GDP, employing roughly 21% of the active population. Forestry is a traditionally well-developed sector for Finland as the country exports a rich variety of goods, ranging from simple wooden products to high-tech tags, labels, paper, cardboard and packaging. Other key industrial sectors are metal production, mechanical engineering and electronic goods. Finland also specialises in exporting information and communication technologies and is among the countries that invest substantially in R&D (around 2.99% of its GDP, World Bank). Overall, manufacturing contributes 16% of GDP. According to Statistics Finland, the value of the sold output of the industry was around EUR 104.5 billion in 2022 (+21% y-o-y). The metal industry accounted for 40% of sold output, the chemical industry for 24%, and the forest industry for 19%.

The services sector employs almost three-quarters of the workforce and accounts for 59.1% of GDP. It is also responsible for generating the largest number of new businesses. The Finnish banking system is dominated by three major groups of deposit banks: OP Group, Nordea Bank Finland, and Danske Bank Plc Group. The information technology sector is growing at a fast pace, and so are the cleantech and biotechnology sectors. The latest data by Statistic Finland shows that in 2022 the volume of service industries grew by 14.7% compared to one year earlier.

Breakdown of Economic Activity By Sector	Agriculture	Industry	Services
<b>Employment By Sector</b> <i>(in % of Total Employment)</i>	4.1	21.4	74.5
<b>Value Added</b> <i>(in % of GDP)</i>	2.4	25.1	59.5
<b>Value Added</b> <i>(Annual % Change)</i>	-2.4	2.1	2.8

Source: World Bank - Latest available data.

Monetary Indicators	2016	2017	2018	2019	2020
<b>Euro (EUR) - Average Annual Exchange Rate For 1 USD</b>	0.94	0.89	0.85	0.89	0.88

Source: World Bank - Latest available data.

## FOREIGN TRADE

Finland is a highly industrialised country whose economy relies heavily on foreign trade, which represented 93% of its GDP in 2022 (World Bank – latest data available). In the same year, Finland mainly exported chemicals (21.4%), metal and metal products (19.8%), machinery and equipment (18.2%), and forestry products (16.9%); importing petroleum products (20.4%), electricity (13.4%), transport equipment (9.9%), and industrial machinery (9.2% - data Finnish Customs).

According to data by Comtrade, the main export partners were Germany (11.5%), Sweden (10.7%), the U.S. (9.4%) and the Netherlands (7.1%); while the country's imports came chiefly from Sweden (12.5%), Germany (12.3%), China (9.1%), Norway (6.9%), and Russia (6.6%).

Finland's trade balance had traditionally been positive in the past, but its performance deteriorated in the last decade, alternating slightly positive results with negative ones. In 2022, the total export of goods (at USD 86 billion, +4.8% y-o-y) was below the total value of imports (USD 97.2 billion, +13.1% y-o-y); whereas exports of services stood at USD 34 billion (+1.7%) against almost USD 40.4 billion of import (with an annual double-digit increase of 11.8% - data by WTO). Overall, the country's external balance was negative by 2.4% of GDP in 2022 (World Bank). According to the latest figures from Statistics Finland, in the first ten months of 2023 the total value of exports decreased by 7.1% and the value of imports by 17.9% year-on-year. In the same period, the aggregated deficit amounted to EUR 1.3 billion.

Foreign Trade Values	2018	2019	2020	2021	2022
<b>Imports of Goods</b> (million USD)	78,624	73,716	68,268	86,013	97,285
<b>Exports of Goods</b> (million USD)	75,869	73,468	66,220	81,996	86,008
<b>Imports of Services</b> (million USD)	35,521	36,558	32,890	36,123	40,410
<b>Exports of Services</b> (million USD)	31,750	34,405	29,954	33,398	33,996

Source: World Trade Organisation (WTO) ; Latest available data

Foreign Trade Indicators	2018	2019	2020	2021	2022
<b>Foreign Trade</b> (in % of GDP)	78.2	79.6	71.5	79.0	92.5
<b>Trade Balance</b> (million USD)	333	2,579	3,226	2,707	-385
<b>Trade Balance (Including Service)</b> (million USD)	-3,435	420	380	27	-6,799
<b>Imports of Goods and Services</b> (Annual % Change)	5.7	2.4	-6.2	6.0	7.5
<b>Exports of Goods and Services</b> (Annual % Change)	1.5	6.7	-7.8	6.0	1.7
<b>Imports of Goods and Services</b> (in % of GDP)	39.7	39.7	35.7	39.5	47.6
<b>Exports of Goods and Services</b> (in % of GDP)	38.5	39.9	35.8	39.6	44.9

Source: World Bank ; Latest available data

Foreign Trade Forecasts	2023	2024 (e)	2025 (e)	2026 (e)	2027 (e)
<b>Volume of exports of goods and services (Annual % change)</b>	-0.0	3.2	3.2	3.2	3.2
<b>Volume of imports of goods and services (Annual % change)</b>	-3.9	2.2	3.8	3.1	3.1

Source: IMF, World Economic Outlook ; Latest available data

Note: (e) Estimated Data

## International Economic Cooperation

Finland is a member of the following international economic organisations: ICC, European Economic Area, WTO, European Union, G9, IMF, OECD, among others. For the full list of economic and other international organisations in which participates Finland click [here](#). International organisation membership of Finland is also outlined [here](#).

## Free Trade Agreements

The up-to-date list of Free Trade Agreements signed by Finland can be consulted [here](#).

## Main Partner Countries

Main Customers <i>(% of Exports)</i>	2022
<b>Germany</b>	11.5%
<b>Sweden</b>	10.7%
<b>United States</b>	9.4%
<b>Netherlands</b>	7.1%
<b>China</b>	4.7%
<a href="#">See More Countries</a>	56.6%

Main Suppliers <i>(% of Imports)</i>	2022
<b>Sweden</b>	12.5%
<b>Germany</b>	12.3%
<b>China</b>	9.1%
<b>Norway</b>	6.9%
<b>Netherlands</b>	4.6%
<a href="#">See More Countries</a>	54.6%

Source: Comtrade, Latest Available Data

## POLITICAL OUTLINE

### Current Political Leaders

President: Sauli Niinistö (since 1 March 2012; re-elected for a second six-year term on 28th January 2018)

Prime Minister: Petteri Orpo (since 20 June 2023)

### Next Election Dates

Presidential: January 2024

Parliament: 30 April 2027

### Current Political Context

In April 2023, Finland held a general election where the incumbent Prime Minister, Sanna Marin of the Social Democrat (SDP) party, and her coalition, failed to secure a majority. The National Coalition Party won the election, securing 20.8% of the national popular vote and claiming 48 seats in parliament, marking the party's third-highest result in history. The party went on to form a coalition government with the Finns, the Swedish People's Party, and the Christian Democrats, with Petteri Orpo assuming the role of prime minister. In a historic decision, Finland officially joined the North Atlantic Treaty Organization (NATO) on 4 April 2023. The move came in response to the ongoing Russian invasion of Ukraine and a growing sense of security concerns among the Finnish population. Finland's 2024 budget put defence spending at about EUR 6.2 billion, a nearly 5% rise from 2023.

## Main Political Parties

Finland has a multi-party system to ensure a single party does not have a chance to gain power alone. Parties work with each other to form coalition governments. The largest parties represented in the parliament following the 2023 elections include:

- **National Coalition Party** (KOK): centre-right, liberal conservatism, strongly pro-European. In the 2023 election, the party won 48 seats
- **The Finns** (PS): left-wing, nationalist. The party advocates for a more restrictive immigration policy and obtained 46 seats in the latest election
- **Social Democratic Party** (SDP): centre-left, social-democratic party that advocates for social justice, equality, and a strong safety net. It currently holds 43 seats in the parliament
- **Centre Party** (KESK): centre, wields political influence in smaller agrarian communities
- **Left Alliance** (VAS): left-wing, social democratic
- **Green League** (VIHR): centre, green politics, liberal
- **Swedish People's Party** (RKP): centre, represents the minority of Swedish speaking people in Finland
- **Christian Democrats** (KD): centre/centre-right
- **Movement Now** (Liike Nyt): liberal
- For Åland (ÅS): a political alliance of the main Åland parties.

## Executive Power

The **President of Finland** is the Head of State, leader of foreign policy, and the commander-in-chief of the defence forces. He/she is directly elected by absolute majority for a six-year term, renewable once. The President appoints the **Prime Minister**. The main executive power lies in the **Cabinet** which is appointed and headed by the Prime Minister. Before the constitutional rewrite completed in 2000, the President enjoyed more power.

## Legislative Power

Legislative power is vested in the Parliament of Finland (**Eduskunta**), with the Government holding limited rights to amend or extend legislation. It is composed of 200 deputies elected for four years by proportional representation. The President has the power of veto over parliamentary decisions although it can be overruled by the parliament.

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## COVID-19 COUNTRY RESPONSE

### Travel restrictions

Regularly updated travel information for all countries with regards to Covid-19 related entry regulations, flight bans, test and vaccines requirements is available on [TravelDoc Infopage](#).

To find information about the current travel regulations, including health requirements, it is also advised to consult Travel Regulations Map provided and updated on a daily basis by [IATA](#).

### **Import & export restrictions**

A general overview of trade restrictions which were adopted by different countries during the COVID-19 pandemic is available on the [International Trade Centre's COVID-19 Temporary Trade Measures](#) webpage.

### **Economic recovery plan**

The summary of the EU's economic response to the COVID-19 pandemic is available on the website of the [European Council](#).

For the general overview of the key economic policy responses to the COVID-19 outbreak (fiscal, monetary and macroeconomic) in Finland, please consult the country's dedicated section in the [IMF's Policy Tracker platform](#).

### **Support plan for businesses**

For an evaluation of impact of the Covid pandemic on SMEs and an inventory of country responses to foster SME resilience, refer to the OECD's [SME Covid-19 Policy Responses](#) document.

You can also consult the World Bank's [Map of SME-Support Measures in Response to COVID-19](#).