BANK OF FINLAND
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BANK OF FINLAND ARTICLES ON THE ECONOMY

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War in Ukraine will slow Finland's GDP growth and increase inflation

Today – Analysis – Finnish economy

Russia's invasion of Ukraine has cast a new veil of gloom over the outlook for Finland's economy. There is considerable uncertainty over the economic impact of the Russia-Ukraine war, because the extent and duration of the war are not yet known, and neither do we know what economic policy measures will be taken to alleviate the economic effects. Amid this high uncertainty it is nevertheless possible to get an idea of the outlook for the economy by examining different scenarios. In the two scenarios presented here, the war in Ukraine will slow Finland's GDP growth and increase inflation. In the current year, growth will slow to between 0.5% and 2%. The economic impact will be prolonged if it takes time to find replacements for the lost Russian market.

The original article in Finnish was published on March 11, 2022.

Russia's invasion of Ukraine, which began on 24 February, has significantly altered the outlook for Finland's GDP growth in the near term.[1] Before the invasion, the recession in Finland that had been triggered by the most severe phase of the COVID-19 pandemic was largely over, and the progress with vaccinations and the lifting of restrictions had set the scene for the economy to

1. Due to the exceptional situation caused by the war, the Bank of Finland spring interim forecast is replaced by two calculations of the potential impact of the crisis on the Finnish economy. The calculations do not necessarily represent the views of the Eurosystem. More extensive forecasts for the Finnish economy will be published in June and December.

continue its recovery over the near term. The outbreak of the war in Ukraine has brought great uncertainty to the economy and the situation is constantly evolving.

The economic effects will depend on the war's extent and duration, which of course are not known at this stage. It is also hard to quantify the direct and indirect effects of the economic sanctions and counter-sanctions. What is clear, however, is that the Russian economy is heading towards a deep crisis.

The war will affect Finland's economy in many different ways, and the impact will probably be considerably greater than the contraction in trade with Russia and the country's share of Finland's foreign trade would suggest. Energy and commodity prices have risen markedly, driving up inflation, and confidence among economic agents (households and businesses) is waning as uncertainty grows. Consumption and investment will be hit by the rise in prices and the heightened uncertainty. Export growth will weaken as trade with Russia grinds to a halt due to sanctions and the decisions of many companies to withdraw from the Russian market. The war and the sanctions and counter-sanctions are affecting the availability of many raw materials and industrial supplies, and are exacerbating the global supply chain bottlenecks created during the COVID-19 pandemic. These bottlenecks will drive inflation up further.

This article first provides a brief description of the state of the Finnish economy as it was before the outbreak of the war in Ukraine. This is then followed by an assessment of the composition of Finland's trade with Russia and the importance of this trade to Finland's GDP and domestic value added. Two near-term scenarios for the Finnish economy are then presented.

These scenarios give an idea of the outlook for the economy amid the high uncertainty, and they illustrate the way in which various impacts are transmitted to the country's economy. The scenarios do not represent the most likely paths or their upper and lower limits but instead present two different paths illustrating the scale and duration of the impact of various shocks on Finland's economy.

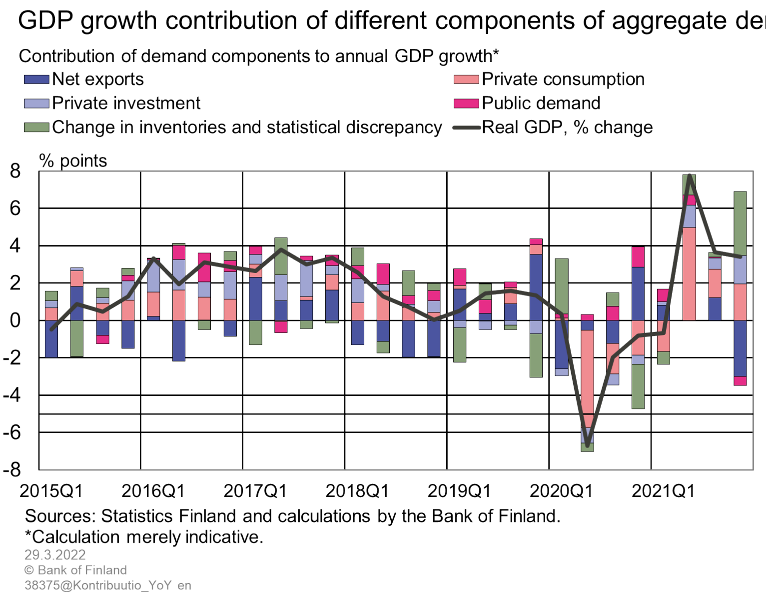
Finland's economy had recovered from the pandemic before Russia's invasion of Ukraine

Finland's GDP had already surpassed its pre-pandemic level during the first half of 2021, and the economy continued to grow strongly in the latter part of the year. Indicator data for the early months of the current year and the Bank of Finland's short-term models suggest that the Finnish economy continued to grow in the first months of 2022. After wavering at the turn of the year, confidence among households and businesses grew in February, returning to a level above the long-term average. The turnover of all key sectors has exceeded the pre-pandemic level and employment has continued to rise.

According to preliminary data from Statistics Finland, GDP in 2021 grew by slightly less than the Bank of Finland had anticipated in its December forecast: it grew by 3.3%, compared with the forecast of 3.5%. In the final three months of 2021, quarter-on-quarter GDP growth was 0.6%, and year-on-year GDP growth 2.9% (Chart 1). In the last quarter, growth in investments and in foreign trade (i.e. imports and exports) was robust. Under the shadow of the Omicron variant of COVID-19, private consumption hardly grew at all from the previous quarter, but year-on-year growth in private consumption was strong due to its weakness a year earlier.

Although retail and wholesale trade overall is growing, retail growth has levelled off. The service sectors have reached their pre-pandemic level, but there continues to be differences in recovery from one service sector to another. In manufacturing, order books and output expectations have remained high, while in construction the decrease in building permits in the latter part of the year indicates a slowing down in the sector.

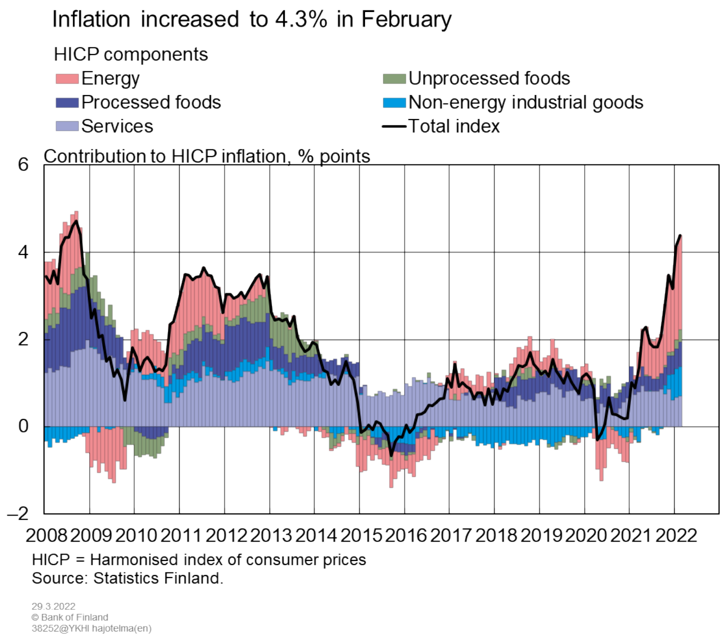
Chart 1.



As elsewhere, inflation has continued to climb in 2022 in Finland, but it is still lower than the average for the euro area. According to preliminary data for February, the year-on-year increase in the harmonised index of consumer prices (HICP inflation) was 4.3%. Energy prices have risen, pushed up by the prices of crude oil and electricity. About half of the inflation rate in Finland in recent months has been attributable to the rise in energy prices (Chart 2). Underlying inflation has climbed to 1.9%, with price rises for consumer goods (manufactured products excl. energy) becoming more widespread in recent months.

Russia’s war in Ukraine is not yet visible in the published inflation figures or indicators for the real economy, nor in short-term forecasting models, but a clear drop is expected in the performance figures for the economy.

Chart 2.



War's impact on Finnish businesses engaged in foreign trade

Russia's war in Ukraine will affect Finnish companies through a reduction or cessation of trade with Russia. Around 2,200 companies engage in exports to Russia from Finland, and the export restrictions imposed due to the war apply directly to the export products of about 500 of these companies. The sanctions imposed have been further broadened in stages. In addition, the weakening of the rouble and the obstacles imposed on banking activity restrict the amount of foreign trade conducted with Russian entities. Russia's invasion has led to the stigmatisation of corporate connections with Russia, and many Finnish companies have already announced they are to cease trading with or operating in Russia. Therefore, it is likely that the war's impact on Finland's foreign trade and on the business activities of Finnish companies will extend significantly beyond the direct effect of export restrictions.

Russia is Finland's fifth largest export destination

Russia accounted for approximately 5.5% of Finland's goods exports by value in 2021, or EUR 3.9 billion out of the total of EUR 70.5 billion. Its share of Finland's goods exports has been roughly unchanged since 2015. In 2021, Russia was Finland's fifth largest export destination. Finland's goods trade balance with Russia has been in deficit (2021: EUR -4.9 billion).

Industrial capital goods and investment goods make up a high proportion of Finland's exports to Russia (Annex Table 1). In 2021, machinery and equipment comprised one fifth of the exports to Russia. Almost one tenth of Finland's entire exports of machinery and equipment went to Russia. Finland exports base metals and metal products, especially copper, in large quantities, and Russia accounts for about one fifth of Finland's copper exports. Paper and paperboard and chemical industry products also constitute a large proportion of Finland's exports to Russia. The Finnish

Customs estimates that 6.9% of Finland’s goods exports to Russia fall within the scope of the new export sanctions (Finnish Customs 2022). About two thirds of the sanctions’ impact will be on exports of machinery and equipment.

By industry, the value of Finland’s exports to Russia in 2021 was the highest in absolute terms for the ‘manufacture of machinery and equipment not elsewhere classified’ (Table 1). Russia accounts for about 8% of this sector’s exports, which is greater than the country’s overall share of all Finland’s exports. Exports to Russia from Finland’s basic metals manufacturing, chemical industry and rubber and plastic products manufacturing sectors are also higher on average than the total exports for these industries.

Other industries that are comparatively more dependent on exports to Russia include the retail trade, the repair and installation of machinery and equipment, and warehousing and support activities for transportation, even though the absolute value of exports in these industries is relatively small. Taken together, the most important export industries in the Finnish manufacturing sector employ more than 250,000 people in Finland.

Table 1. Value of Finland's goods exports to Russia by industry, 2021

Industry	Exports to Russia, EUR million (2021)	% of industry's exports by value	Employed persons, x 1,000 (2020)
28 Manufacture of machinery and equipment n.e.c.	697	8%	49.3
24 Manufacture of basic metals	471	6%	13.7
17 Manufacture of paper and paper products	431	4%	18.3
46 Wholesale trade	278	3%	86.3
20 Manufacture of chemicals and chemical products	234	7%	13.0
22 Manufacture of rubber and plastic products	138	9%	13.2
27 Manufacture of electrical equipment	93	3%	16.4
10 Manufacture of food products	74	6%	35.8
25 Manufacture of fabricated metal products, excl. machinery and equipment	71	5%	44.1
47 Retail trade	58	11%	144.0
33 Repair and installation of machinery and equipment	36	10%	21.6
52 Warehousing and support activities for transportation	21	37%	30.2
Industry unknown	520	21%	

Source: Finnish Customs.

Imports from Russia mainly energy products and nickel

Since 2014, the proportion of Finland's total goods imports that come from Russia has fluctuated between 10% and 13%. The value of goods imported to Finland from Russia amounted to EUR 7.9 billion in 2021, placing Russia as the third largest source of imports. Foremost among these Russian imports are crude petroleum and refined petroleum products (Annex Table 2). Finland also has a trade deficit with Russia in ores and concentrates. In imports of energy products, Finland’s dependence on Russia is pronounced, but this, too, has clearly decreased over the past ten years (Annex Table 3). In 2021, Russia accounted for 70% of Finland’s natural gas imports, more than half its imports of crude petroleum and petroleum products, and about one third of its imported coal and electricity.

The significance of these imports to each industry can be examined by looking at the ratio of the industry’s consumption of imports to its consumption of intermediate products. The highest ratio, about 71%, is in the production of refined petroleum products. Finnish Customs does not publish data on this industry’s imports from Russia. Hence, Table 2 uses imports of the CN27 product classification (mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes) as the data for Russian imports, less imports of electricity and natural gas. On this basis, Russia accounts for an estimated 63% of the industry’s total imports. Despite the high dependence on imports, the industry’s share of domestic value added is small, at only 0.3%.

Other sectors in which Russia's imports have a large share are electricity, gas and steam supply (TOL35), manufacture of basic metals (TOL24) and forest industry (TOL16-17). These sectors account for almost 5% of value added in Finland. In the chemicals industry and in the manufacture of rubber and plastic products, too, imports of intermediate products play a significant role, and imports from Russia account for over one tenth of the sector's total imports.

Table 2. Russian imports by sector in 2019

Sector	Imports' share of intermediate consumption, %	Russia's share of sector's imports 2019, %	Imports from Russia 2019, EUR million	Sector's share of GDP, %
19 Manufacture of coke and refined petroleum products	70.7	63.2	4529*	0.3
16 Manufacture of wood and of products of wood and cork	12.2	36.4	108	0.6
35 Electricity, gas, steam and air conditioning supply	18.7	31.4	433	2.2
24 Manufacture of basic metals	51.6	27.3	989	0.6
17 Manufacture of paper and paper products	23.7	23.6	271	1.2
20 Manufacture of chemicals and chemicals products	52.6	15.4	288	1.4
22 Manufacture of rubber and plastic products	56.2	10.5	96	0.5
52 Warehousing and support activities for transportation	18.8	7.4	11	1.1
23 Manufacture of other non-metallic	28.3	7.2	30	0.5

The sector-specific imports data has been combined with data from the tables used in input-output calculations on the use of imported products in various sectors in 2019. Import consumption is relative to the sector's intermediate consumption. This data is combined with Customs data on imports from Russia by sector in 2019.

** Finnish Customs does not publish imports by the sector TOL 19 Manufacture of coke and refined petroleum products. The figures in the table have been calculated with the assumption that the sector's imports consist of CN27 products, excl. coal, electrical energy and natural gas.*

Sources: Statistics Finland: National Accounts, Finnish Customs' Uljas data base, 4 March 2022.

Sector	Imports' share of intermediate consumption, %	Russia's share of sector's imports 2019, %	Imports from Russia 2019, EUR million	Sector's share of GDP, %
products				
46 Wholesale trade, excl. motor vehicles and motorcycles	18.6	6.3	1 309	4.1
25 Manufacture of fabricated metal products, excl. machinery and equipment	30.3	5.7	63	1.4
27 Manufacture of electrical equipment	47.0	5.3	82	0.9

The sector-specific imports data has been combined with data from the tables used in input-output calculations on the use of imported products in various sectors in 2019. Import consumption is relative to the sector's intermediate consumption. This data is combined with Customs data on imports from Russia by sector in 2019.

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Sources: Statistics Finland: National Accounts, Finnish Customs' Uljas data base, 4 March 2022.

Services trade will also decrease as a result of the war

Russia's share of Finland's services exports has varied between 4% and 5% since 2015. In Finland's services exports, Russia ranked only 14th in 2021, at some EUR 500 million, but in 2019 it was 7th (EUR 1.2 billion). Finland's trade in services has been in surplus.

In services exports, the most important item is travel services. In 2013, the value of exports of travel services was EUR 1.3 billion, but it declined rapidly in 2014–2015 and stabilised before the pandemic at some EUR 600 million. In the first year of the pandemic, 2020, exports of travel services to Russia were only EUR 200 million. The value of Finns' expenditure on travel to Russia is just under EUR 100 million annually.

In services exports, the other larger items are computer services, the value of which has varied annually at over EUR 200 million, and other business services, the provision of which amounted to over EUR 100 million. These are mainly technical services or services related to trade, as well as consulting services.

Finland purchases from Russia mainly transport services. In recent years, Finland has purchased sea transport services in the amount of EUR 250–400 million and air transport services to some EUR 100 million. The latter likely relate to mainly overflight charges paid by Finnair. Services trade, too, will decrease as a result of the war. As a counter-measure, Russia has banned carriers from overflying its territory, and, as a result of the decline in cross-border trade, related services will also decline. Thus far, travel services are not subject to restrictions imposed as a result of the war. The depreciation of the rouble will probably decrease travel and border trade by Russians.

Impact of foreign trade with Russia on value added

The direct impact of the decline in exports on Finland's GDP depends on the content of Finnish value added in the goods and services exported to Russia. This can be assessed with the help of the OECD’s Trade in Value Added (TiVA) database. The latest data refers to the year 2018. If we assume that the content of value added in exports has remained unchanged since then, the Finnish value added of goods exports to Russia was in 2021 some EUR 2.7 billion.

The largest share of value added is generated by industrial activity (0.7% of GDP). In addition, exports to Russia via wholesale and retail trade generate value added to Finland in the amount of some 0.1% of GDP. The database shows that the content of value added in services exports to Russia is 0.2% of GDP. Exports to Russia account for a total of 1.2% of value added generated in Finland. Whether that share of Finland's GDP will be lost depends on whether new export markets are found for Finnish products to replace those lost.

As regards imports, the impact of the war on GDP depends on how well intermediate goods imported from Russia can be replaced by goods from other countries, and at what price. The prices of many raw materials in the production of which Russia plays a large role have already risen notably. Particularly exposed to the cut off in Russian imports are the companies in whose production processes the share of Russian intermediate goods is large.

The production of oil products is particularly dependent on imports from Russia. Neste Corporation has, however, already announced that it has mostly replaced Russian crude oil with crudes from other regions. Natural gas is still imported mainly from Russia, but already around a quarter of this gas flows through the pipeline between Finland and Estonia and is classified in Customs statistics as imports from Estonia. In the forest industry, it should be possible to replace the imports of wood and wood chips with domestic sources. In the manufacture of basic metals, Russian imports cover over a quarter of the sector's total imports, and, in particular, dependency on nickel imports from Russia is considerable.

Two scenarios of the impacts of the war in Ukraine on the Finnish economy

Russia is the world's largest producer of energy and raw materials and is still an important export market for Finland. The collapse of the Russian economy and exclusion from foreign trade in response to the war will thus have both a direct and an indirect impact on the Finnish economy.

The size of the economic impact will depend fundamentally on the extent and duration of the war, and on how quickly the lost volumes of Russian trade and business can be replaced with other markets. Economic developments will depend also on the economic policy measures to be taken to reduce the economic impacts of the war. The following scenarios do not include assumptions on such policy measures.

Russia's GDP, imports and exports will contract very significantly. The high level of uncertainty and restrictions on payment flows and transportation have already put a break on Russian exports. Oil and gas exports from Russia have continued, but the United States and the United Kingdom have already decided on an import ban, and the EU, too, is debating on whether energy imports from Russia should be subject to sanctions. In 2021, Russia's export receipts accounted for 35% of GDP, and oil and gas account for 45% of Russian exports.

The impact on the Finnish economy will be transmitted via several channels. The war in Ukraine will weaken growth in Finland's export markets. The economic recession in Russia and the export embargoes will directly reduce trade between Finland and Russia. In addition to the products that are subject to export embargo, the sanctions imposed on the payment and financial system will also decrease the export to Russia of products that are excluded from the sanctions. A similar effect is expected from the withdrawal from Russian trade of companies not subject to sanctions, for example due to reasons of reputation.

The war will also have an indirect impact on Finland’s foreign trade, via the weakening of euro area export demand, at least in the short term. In addition, sanctions and counter-sanctions will probably cause disruptions in global production chains and the availability of raw materials. In surveys published by the Finland Chamber of Commerce (4 March 2022) and the Confederation of Finnish Industries (EK; 3 March 2022), following the outbreak of the war, a large share of companies find that the sanctions imposed on Russia as a result of the war on Ukraine will have a significant impact on the outlook for exports, disruptions in payment flows and the availability of raw materials.

The prices of energy and raw materials have been on an upward trend already since autumn 2021, and, as a result of the war, they have continued to rise sharply. The scenarios assume that Finland will avoid crude oil imports from Russia, and the assumptions are therefore based on the price of Brent crude oil. Since the outbreak of the war, the price of Brent crude has risen from ca USD 95 to ca USD 125 per barrel.

Energy prices have fluctuated strongly in recent weeks, reflecting the high level of market uncertainty. Energy price developments depend now largely on how much the consumption of Russian oil and natural gas will actually decrease in western countries. This, in turn, will depend on the ability of Europe to replace energy imports from Russia with imports from other markets, and whether European countries will actually restrict Russian imports of oil and natural gas.

Even though the EU has not (as yet) imposed sanctions directly on the energy sector, several countries and companies have already made efforts to replace Russian oil with oil purchased elsewhere. Many companies have interrupted their business with Russian companies and banks, and insurance companies are reluctant to finance and insure oil and raw material trade with Russia.

The war is causing households and businesses a very high degree of uncertainty as to future economic developments. This uncertainty and the weaker confidence of economic agents will, of itself, have a negative impact on economic growth. Consumption and investment will suffer not only from the higher level of uncertainty but also from rising prices.

The weaker macroeconomic situation will also erode the public finances. The scenarios presented below do not, however, evaluate the impacts on the public finances and do not include assumptions on fiscal policy measures.

Scenario 1

The first scenario assumes that the prices of oil and raw materials will rise strongly this year but will then start to decline in line with market expectations. The price of oil is assumed to rise to over USD 11o per barrel this year, i.e. to a significantly higher level than assumed in the Bank of Finland's December 2021 forecast. This reflects not only the war but also the fact that the rise in oil prices witnessed already before the war was stronger than projected. The price of oil is also assumed to remain at a higher level in 2023 than previously expected. Output by other oil producers will, however, increase over time, partly replacing the decrease in Russian supplies.

The war and Russia’s economic crisis will hamper export growth in the current year. Exports will be weakened both by export bans and sanctions and by the voluntary exit of companies from the Russian market. Exports will recover in 2023, once lost markets are replaced with new ones, such as increased trade between countries in Europe. The problems with the availability of raw materials and intermediate goods, which resulted from the COVID-19 pandemic and now continue because of the war, will ease to some extent as the markets adapt.

Economic uncertainty is assumed to increase in the short term. The rise in oil and raw material prices will boost inflation, which will weaken household purchasing power. This, together with higher uncertainty, will cut private consumption and investment. After the chaotic first phases of the war, uncertainty is assumed to peter out in this scenario and household and corporate confidence will be gradually restored, allowing consumption and investment to pick up again.

Table 3. Assumptions embedded in the scenarios

		2021	2022	2023
Oil price (USD/barrel)	Scenario 1	70.5	112.6	98.7
	Scenario 2	70.5	151.1	132.3
	Forecast, December 2021	71.8	77.5	72.3
Raw material prices (growth rate)	Scenario 1	41.9	14.2	-4.8
	Scenario 2	41.9	56.6	0.5
3-month Euribor	Scenario 1	-0.5	-0.4	0.3
	Scenario 2	-0.5	-0.4	0.3

The scenarios have used financial market expectations of prices (8 March 2022) and of interest rates (1 March 2022). The exchange rate is assumed to be stable.

Source: Bank of Finland.

In the first scenario, the greatest shock to the economy from the war is felt in the current year, and the effects on growth and inflation will be mainly temporary. This could be possible despite the continuation of the war in Ukraine, should the isolation of Russia from foreign trade lead to a corresponding increase in trade with other countries. In this scenario, total output will grow by 2% in 2022 and by 1.5% in 2023. For 2022, the growth rate is well below the rate of 2.6% projected in the Bank of Finland's December 2021 forecast (Table 4 and Chart 3). Inflation will pick up to 4% in 2022 and will then moderate to 2% in 2023 (Chart 4). Inflation for 2022 is significantly higher in this scenario than in the December 2021 forecast, and it will also be slightly faster in 2023 than previously projected. The wider the war in Ukraine spreads and the more sanctions are imposed, the greater the risk of long-term economic effects.

Table 4. Key figures of the scenarios

		2021	2022	2023
GDP, annual growth (%)	Scenario 1	3.3	2[S]	1.5 [S]
	Scenario 2	3.3	0.5[S]	0.5[S]
	Forecast, December 2021	3.5[f]	2.6[f]	1.5[f]
Consumer price inflation (%)	Scenario 1	2.1	4[S]	2[S]
	Scenario 2	2.1	5[S]	3[S]
	Forecast, December 2021	2.1	2.0[f]	1.6[f]

Scenario 1: The impact on inflation and export demand remains moderate and the economy adjusts slightly after the initial shock.
Scenario 2: The impact on inflation and export demand is strong and the economy adjusts slowly.

f = forecast, S = scenario, numbers rounded to the nearest half percentage point.

Sources: Statistics Finland and Bank of Finland.

Scenario 2

The second scenario is built on the assumption that the war will drag on, the Russian economic crisis will deepen and the Finnish economy will adjust slowly. As a result, oil and raw material prices will increase considerably more than in the first scenario, and the prices are also assumed to remain high for a long time. Oil prices are assumed to be about 35% higher than in the first scenario. The prices of other raw materials are also assumed to rise notably more sharply than in scenario 1 and to stay high also in 2023 (Table 3). With the prolongation of the crisis, uncertainty about future economic developments will prevail, weakening economic growth this year and next year alike. Overall, this scenario entails more severe economic disruptions than scenario 1. Oil and raw material prices will rise and economic uncertainty will grow considerably more than in the first scenario, and the effects will be longer-term. Imports from Russia will fall drastically. This scenario also assumes that the war leads to a deterioration in the availability of raw materials and supplies important for European and Finnish production and to a worsening of bottlenecks in production chains.

In this scenario, GDP will grow by about 0.5% in both 2022 and 2023. Inflation will rise to 5% in 2022 and will then fall to 3% in 2023. The biggest shock to the economy will be experienced in the current year, but the economy will continue to suffer significantly from the consequences of the war in 2023 as the economic adjustment to the shock will remain modest. Trade in oil and raw materials between Russia and other countries will contract substantially, and there will be no increase in substitutable production in the next few years. Because of lower supply, prices will remain high. Economic uncertainty will also continue, which, together with persistent inflation, will further dampen economic growth in 2023.

In this scenario, the war will have a long-lasting impact on Finnish exports, as finding replacements for the loss of the Russian market will take time. In addition to the direct impacts of lower exports to Russia, Finland's exports will also be weakened by the indirect impacts of the contraction of economic growth and imports in the euro area on demand for Finnish export products. At the same time, disruptions in the availability of intermediate goods and in production chains will continue, and the markets will adapt only modestly.

Chart 3.

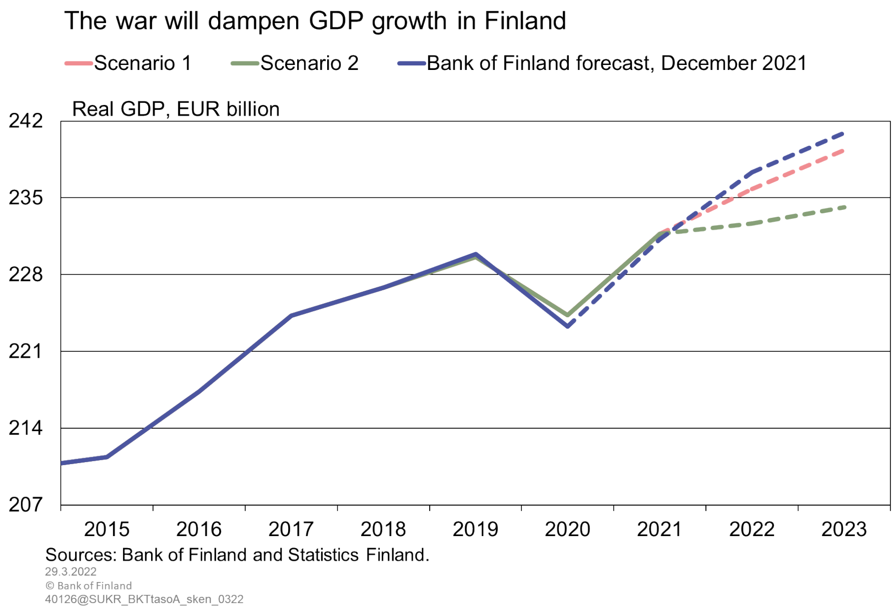
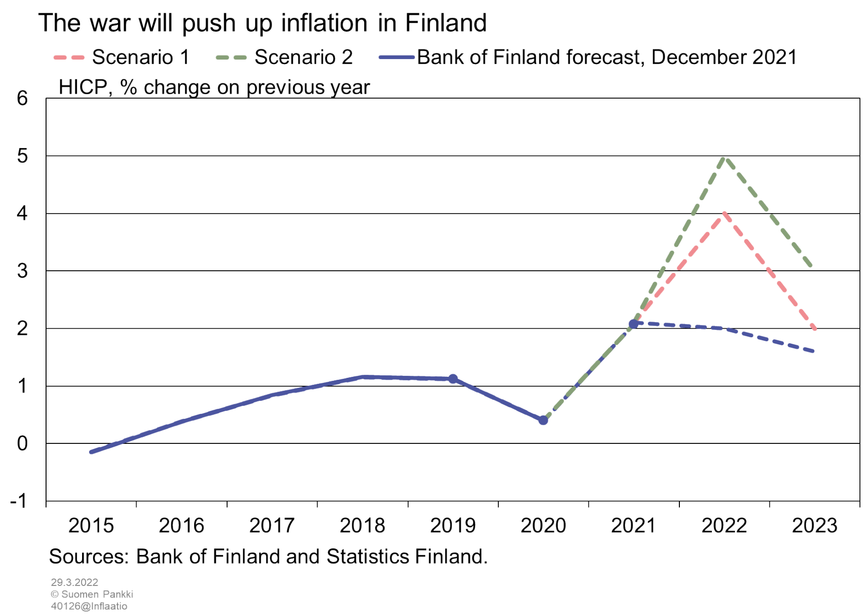


Chart 4.



Conclusion: Economic effects still uncertain

The most recent statistical data indicate that the Finnish economy has largely recovered from the recession caused by the COVID-19 pandemic. The underlying conditions for the Finnish economy were solid in early 2022, but it is clear that the war in Ukraine is significantly dampening the outlook. According to the two scenarios, the war will push down Finland's GDP growth to between 0.5% and 2.0% in 2022. The final magnitude of the effects will depend on the duration and progress of the war, and on how Finland will be able to reduce its dependence on foreign trade with Russia and find new markets for exports.

The war in Ukraine will likely depress trade between Finland and Russia more than based on the direct effects of the sanctions. The wider the range of goods experiencing trade losses, the longer it will take for trade to recover, if and when the war ends and sanctions are lifted. Finnish-Russian trade decreased already after the annexation of Crimea in 2014, and it is very likely that the realisation of Russia's country risk will leave a new permanent and this time even greater mark on trade. In Finland, the greatest impacts of the contraction in bilateral trade will be felt in industrial sectors, but wholesale, retail trade and tourism services will also be affected.

At this stage, calculations of the effects of the war on the Finnish economy are subject to significant uncertainty. Part of this uncertainty may fade, but on the other hand, some of the effects (e.g. production chain bottlenecks) may materialise only gradually. Energy and raw material markets have been highly volatile since the outbreak of the war, which has been reflected for example in large daily fluctuations in oil prices. At the time of drawing up these two scenarios, Russian oil and gas exports continued, but the United States had decided to stop imports from Russia and the EU was discussing imposition of sanctions on Russian energy. The EU aims to reduce its dependence on energy imports from Russia over the longer term, but the potential implementation measures and timetable are not yet known.

In addition to direct consequences, the war will inevitably have significant longer-term effects on Finland's foreign trade, investment and energy use, for example. As the economies of Finland and its trading partners are only just beginning to adjust to the changes caused by the war, it is still premature to assess these effects.

At the cut-off date of these scenarios, the war was not yet widely reflected in the statistics on the Finnish economy. The effects will begin to be genuinely reflected in the statistical data for March and April.

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Annex Tables

Annex Table 1. Exports of the most important product groups from Finland to Russia in 2021

Export products	Share of total exports within the product group, %	EUR million (2021)
Machinery and appliances (CN84)	9.6	845
Metals and metal products (CN72-CN83)	5.5	572
- of which copper	21.3	419
Paper and paperboard (CN48)	6.6	437
Fuels and oils (CN27)	5.9	285
Plastics and articles thereof (CN39)	9.7	261
Lubricants etc. (CN34)	55.7	58
Total	5.4	3 736

Source: Finnish Customs, Statistical Database Uljas, data extracted on 3 March 2022.

Annex Table 2. Imports of the most important product groups from Russia to Finland in 2021

Import products	Russia's share of imports, %	EUR million (2021)
Mineral fuels, mineral oils, electricity (CN27)	52.4	5 045
Metals and articles of metal (CN72-CN83)	18.7	1 582
- of which nickel (CN75)	94.4	1 179
- of which iron and steel (CN72)	7.3	211
Wood and articles of wood (CN44)	52.2	542
Chemical elements and compounds (CN28-29)	30.7	585
Fertilisers (CN31)	70.4	185
Total	11.9	8 620

Source: Finnish Customs, Statistical Database Uljas, data extracted on 3 March 2022.

Annex Table 3. Imports of energy products from Russia to Finland

Imports (SITC) 2021, EUR million	Total	Russia	Russia's share of imports, %, 2021	Russia's share of imports, %, 2010
32 Coke, coal, briquettes etc.	346	130	37.5	42.0
33 Mineral oils and mineral oil products	6 415	3 552	55.4	79.9
34 Gases	1 132	800	70.7	94.9
35 Electric current	1 730	563	32.5	74.6

Source: Finnish Customs.

Tags

energy, exports, Finnish economy, forecast, GDP, import, inflation, Russia, Ukraine