

Economic Outlook Summer 2025



Youssef Zad

Chief Economist
Finnish Startup
Community



Kasper Thuneberg

Economist Trainee
Finnish Startup
Community

Finnish Startup Community Economic Outlook Summer 2025

The Finnish economy has performed poorly in recent years, with growth remaining weak. Over the past year, the unemployment rate has increased and is now among the highest in the EU. This is partly due to a growing labor force, as more people have moved from inactivity to job-seeking or employment, raising both the participation rate and the measured unemployment rate.

Although higher participation is a positive structural trend, it is not unique to Finland. Other European countries have experienced similar developments, so the weak unemployment figures cannot be attributed solely to participation rates. Recent labor market data from [Statistics Finland](#) shows no signs of improvement, with both unemployment and employment rates worsening in June. Moreover, consumer sentiment remains weak. Confidence is low, and households are cutting debt and holding back on major decisions amid continued uncertainty.

Inflation pressures have eased significantly, prompting the [European Central Bank](#) to lower interest rates. This has helped support economic activity. Official forecasts now anticipate moderate growth, with GDP projected to rise by 1% in 2025 and 1.5% in 2026 ([VM, 2025](#)).

Finland urgently needs stronger economic growth to stabilize its public finances. Public debt has already surpassed 82% of GDP and is projected to increase in the future despite the expected recovery. This reflects a deeper problem: past and current governments have repeatedly failed to match spending with the economy's growth capacity. Without stricter fiscal discipline or higher productivity, Finland risks sliding into a cycle of rising debt and weaker fiscal resilience. The National Audit Office (VTV) highlights that the current government's fiscal plan lacks credible measures to stop the debt ratio from increasing, and the mid-term budget talks may worsen the outlook ([VTV, 2025](#)). Moreover, Fitch [downgraded](#) Finland's credit rating from AA+ to AA, which is a clear sign that, as a country, we are still on the wrong path when it comes to overall growth and public finances.

While the mid-term budget negotiations introduced promising measures for startups and growth companies, the overall outcome may weaken public finances in the short term. In the Finnish startup ecosystem, expectations about the economy have worsened for four consecutive quarters, which is a troubling sign. The data reflect growing caution amid ongoing macroeconomic uncertainty.

In this analysis, we discuss several topics that we see as interesting and important to the Finnish economy.

1. Labor markets

The Finnish labor market is in poor condition. In just a few years, the country has shifted from labor shortages to one of the highest unemployment rates in Europe. According to the latest Eurostat trend data, the unemployment rate in Finland is around 9.3 percent.

Figure 1 shows unemployment trends in Finland and selected comparison countries from 2005 to June 2025. While unemployment in the Euro Area has declined steadily, Finland has remained at a relatively high level. Since the 2008 financial crisis, Finland has also underperformed compared to Denmark and Sweden. Persistently high unemployment points to structural problems in the labor market, such as weak job creation, skills mismatches, and poor adaptability. It also raises public spending and weakens long-term productivity by limiting opportunities to gain work experience.

Fig 1: Trend of unemployment rate ¹ in selected countries (Eurostat, FSC, 2025)

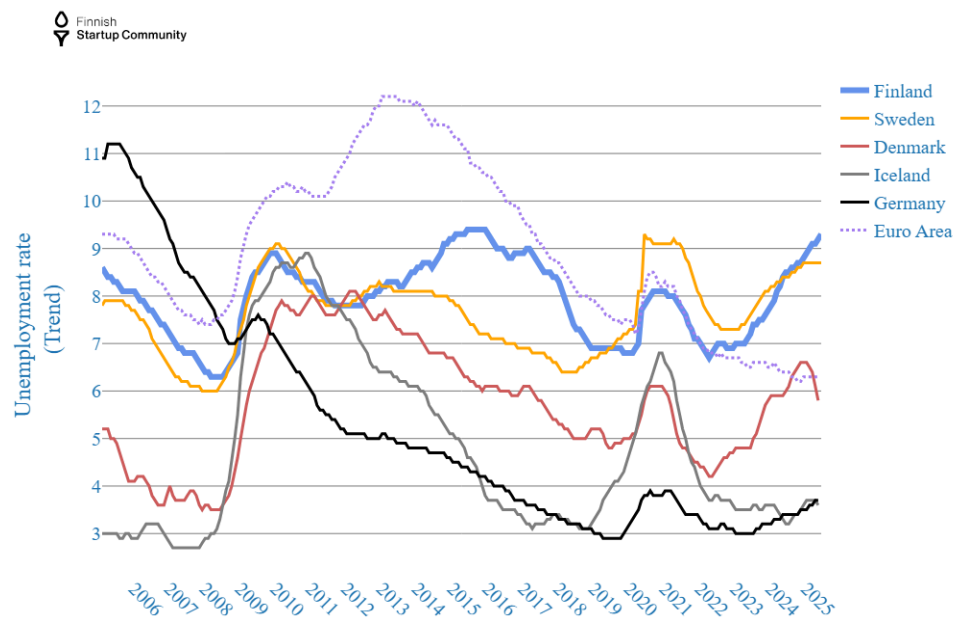
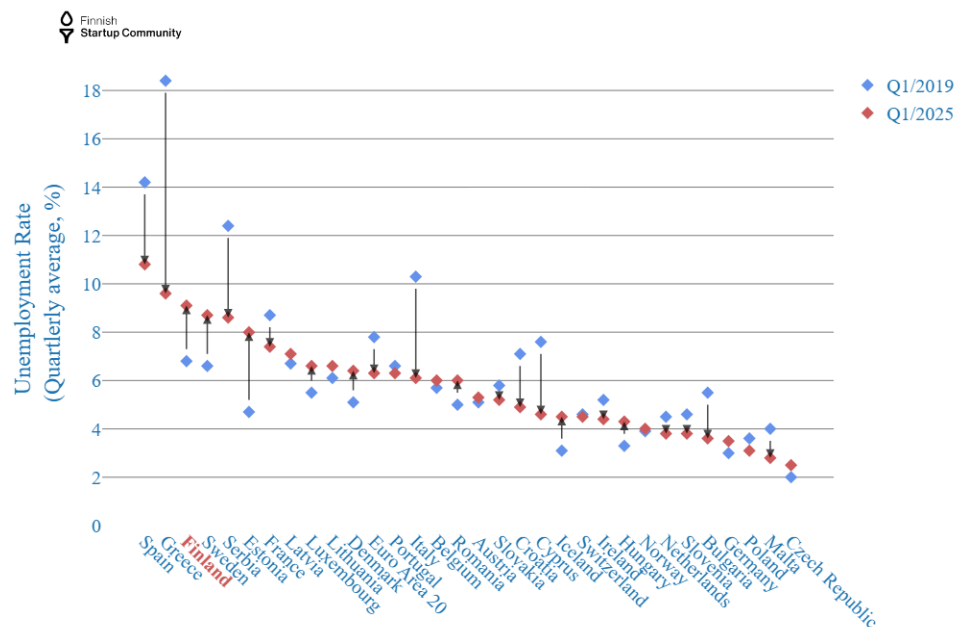


Figure 2 highlights the scale of Finland's labor market problems by comparing unemployment rates across Europe in Q1/2019 and Q1/2025. While countries like Spain, Greece, and Italy have made strong improvements since 2019, Finland has moved in the opposite direction. In Q1/2025, it had the third-highest unemployment rate in Europe, showing how poorly the labor market has recovered after COVID. On a slightly more positive note, Sweden and Denmark—Finland's key peers—are also facing elevated unemployment levels.

Fig 2: Quarterly trend of the unemployment rate in European countries in Q1/2019 and Q1/2025 (Eurostat, Macrobond, FSC, 2025)



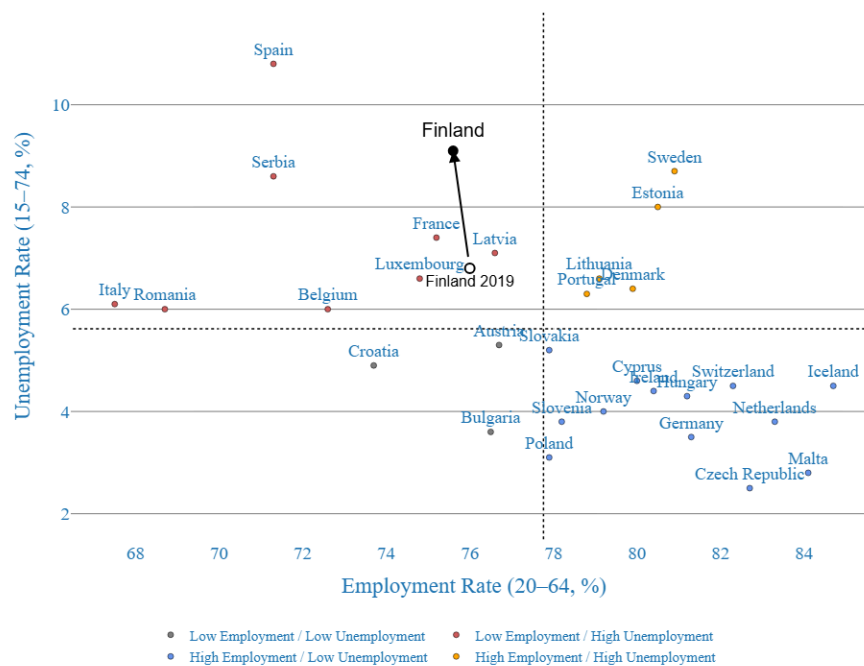
¹ We use trend cycle data of Eurostat's unemployment rate for 15-74 year olds. Unemployment rate is calculated by the percentage of unemployed people by the population in the labor force. The data is accessible from [this link](#).

1.1 The broader picture – employment and unemployment.

We use Eurostat’s Labor Force Survey to compare labor market performance across Europe. Countries are grouped into four categories based on whether their employment rate (ages 20–64) and unemployment rate (ages 15–74) are above or below the EU average in a given quarter. As shown in Figure 3, Finland’s position has weakened significantly since the pandemic. In Q1/2025, it had shifted into a peer group characterized by high unemployment and only average employment levels. This marks a clear deterioration from its pre-pandemic standing.

Appendix A illustrates that in Q1/2019, Finland belonged to a stronger-performing group, alongside Sweden and close to Denmark, highlighting how far the country’s labor market has slipped in relative terms.

Fig 3: Unemployment vs employment in Q1 2025 (Eurostat, Macrobond, FSC calculations, 2025)



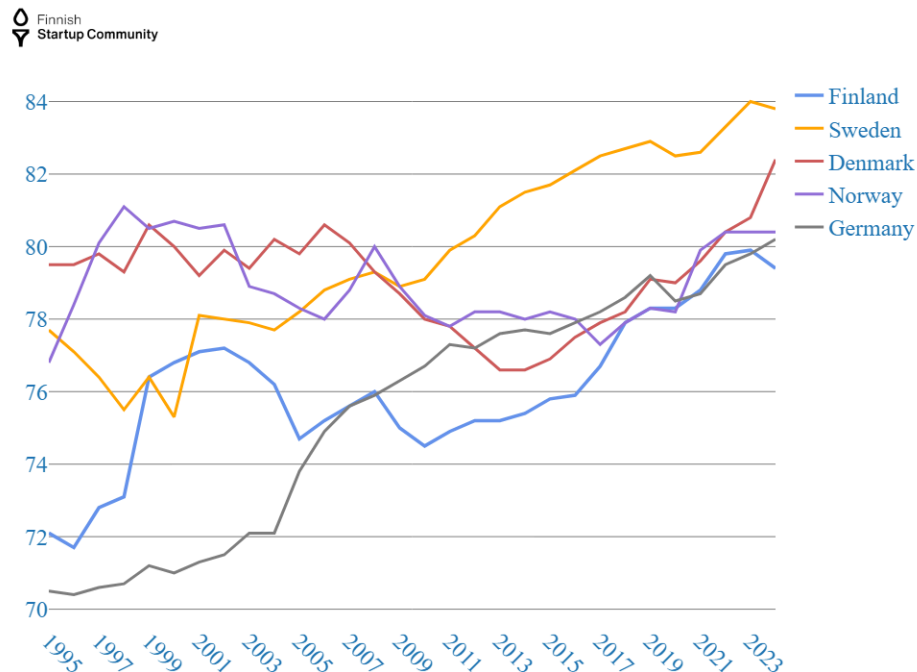
1.2 Reasons behind the performance of Finnish labor markets

In labor markets, Individuals transition between employment, unemployment, and inactivity. At any point, they are either active in the labor force as workers and job seekers or inactive, meaning they are not looking for work or are unavailable to start. The labor force participation rate reflects the share of the working-age population that is active. In Finland, participation has increased, especially among 55–64-year-olds.

Rising participation can temporarily raise the unemployment rate if many new entrants first appear as unemployed rather than employed. This mechanism is important for interpreting changes in unemployment over time. Since the early 2010s, Finland’s labor force has grown steadily. As shown in Figure 4, participation has increased markedly in recent years, narrowing the gap with Sweden and Denmark.

The increase in participation rate is most likely a decent indicator of the potential of the Finnish economy. When the next growth cycle picks up speed, the economy needs active individuals in the labor market to harness the full potential of economic growth.

Fig 4: Participation rates in Finland and several comparison countries in 1995-2024 (Macrobond, FSC, 2025)



The link between rising participation rates and rising unemployment is supported by recent analysis from the [Bank of Finland \(Juvonen & Peltonen, 2025\)](#), which finds that rising labor force participation has contributed to the growth of both employment and unemployment. In this light, a higher unemployment rate may indicate deeper labor market engagement rather than a weakening of labor market conditions.

2. Public finances and the quickly increasing debt levels in Finland

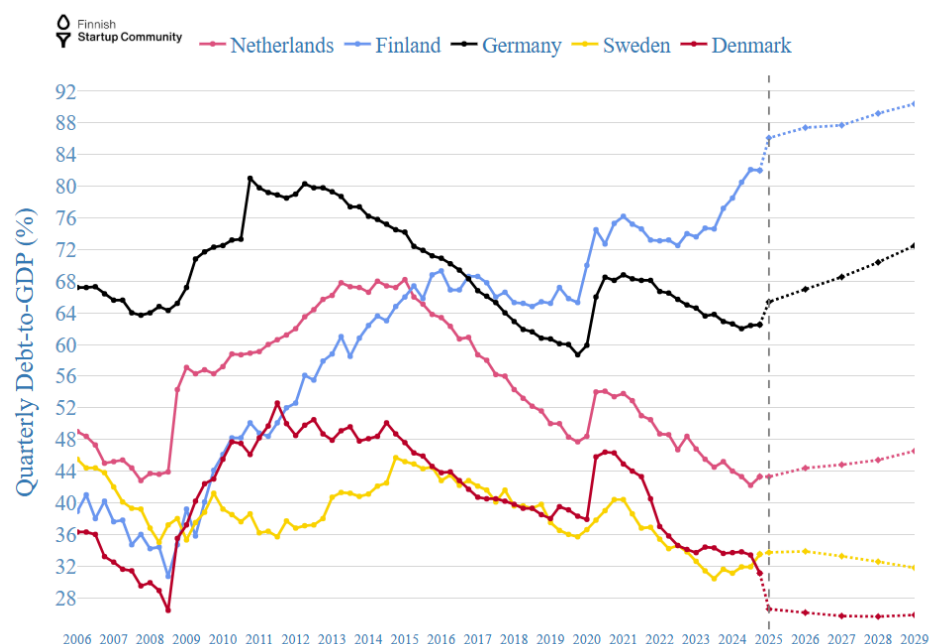
Since the global financial crisis of 2008, Finland's public debt has increased significantly, rising from around 30 percent of GDP in 2008 to approximately 83 percent in 2024. While productivity began to recover modestly around 2012, economic growth remained low. Between 2008 and 2019, Finland's average annual labor productivity growth was about 0.7 percent. In contrast, Sweden achieved 1.7 percent and Denmark 1.4 percent.

Despite structural similarities, Finland has significantly diverged from its Nordic peers in public finances. While Sweden and Denmark maintained debt-to-GDP ratios around 30 to 35 percent, Finland's ratio has nearly tripled in the past 16 years, indicating a deeper structural issue. This reflects a structural shift that began in the 2010s and has since deepened. According to the [International Monetary Fund](#), Finland's debt-to-GDP ratio will rise further, reaching 90 percent by 2029. The general government² budget deficit is forecast at 3.5 percent in 2025, slightly

² The general government sector includes the central government, local governments, and social security funds, and corresponds to the full public sector as defined by the EU and OECD.

below 3 percent in 2026, and about 2 percent in 2029. Figure 5 illustrates these debt trends and IMF projections for Finland and selected peer countries.

Fig 5: General government debt to GDP ratios and their forecasts for Finland and some comparison countries³. (Eurostat, IMF, Finnish Startup Community, 2025)



How is the current government planning to tackle government debt?

The current government has emphasized the need to curb Finland's growing public debt. Its fiscal program relies on a combination of spending cuts and selective tax reforms. On the expenditure side, planned measures include tightening social security benefits, reducing business subsidies, and cutting public sector spending.

At the same time, the government plans to implement tax cuts. These include lowering income taxes for low- and middle-income earners, reducing the corporate tax rate from 20 to 18 percent, and cutting the top marginal tax rate from 56 to 52 percent. Together, these tax reductions are expected to decrease government revenue by approximately 2 billion euros. Given the scale of the planned tax cuts and the modest pace of spending reductions, it appears unlikely that the government will achieve a balanced budget during its current term. Currently, there seems to be no credible plan to reach a budget balance.

³ We use Eurostat's quarterly debt-to-GDP ratios up to 2025, and annual forecasts from the International Monetary Fund (IMF) thereafter.

3. Interest rates and startup funding

Interest rates in the euro area have declined **almost** as quickly as they increased. The 12-month Euribor fell from 4.2% in late 2023 to around 2% during 2025, easing financial conditions and supporting growth. Markets [expected at least one more ECB rate cut](#) in 2025, but the ECB remained [cautious about inflation](#) risks and left policy rates unchanged in its July 2025 decision. Figure 6 shows ECB and Fed rates alongside market expectations, which suggest a possible further rate cut in Europe. Real interest rates—adjusted for inflation—offer a more relevant gauge for business and consumer behavior. During peak inflation, real rates turned negative, lowering borrowing costs. As inflation eased, Finland’s real rates briefly exceeded the euro area average but have since realigned close to zero real interest rates, likely improving financing conditions (Figure 7).

Fig 6: Interest rates and expectations (Macrobond, Finnish Startup Community, 2025)

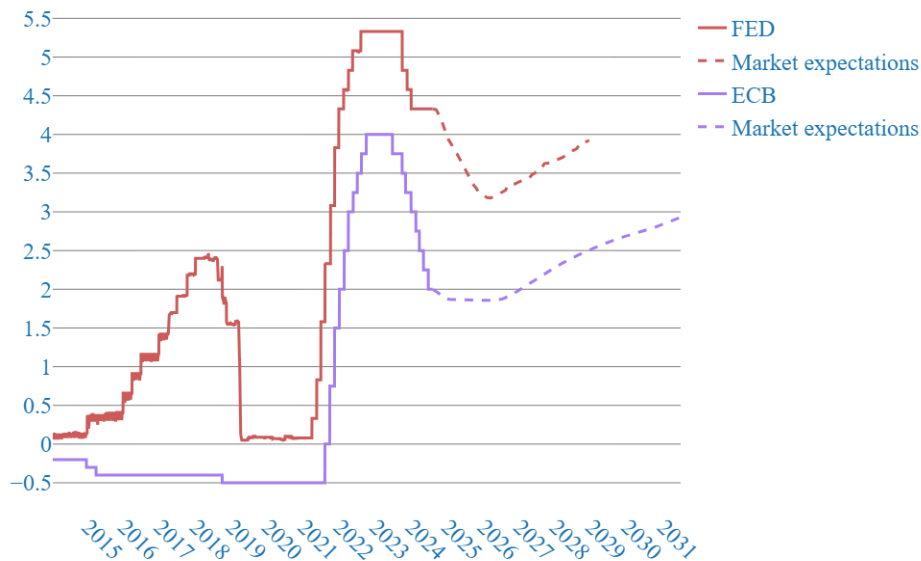
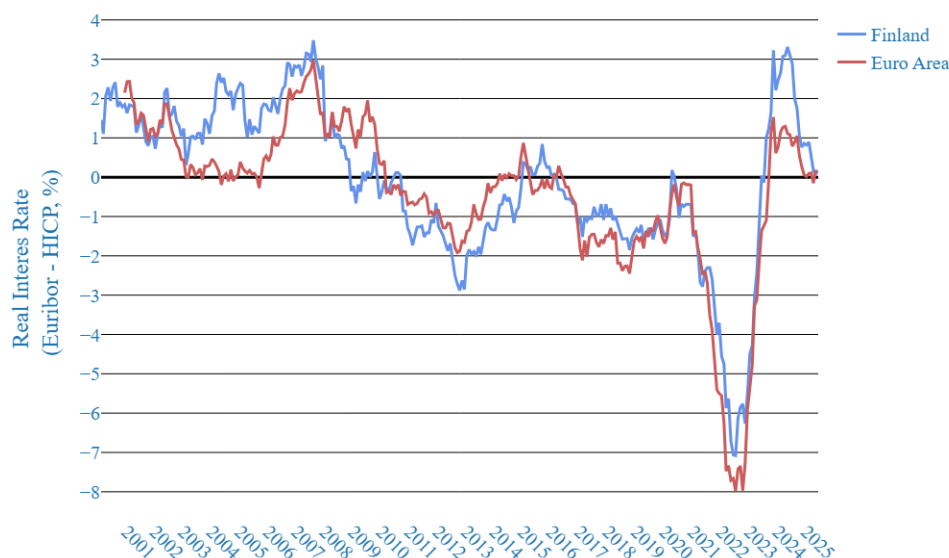


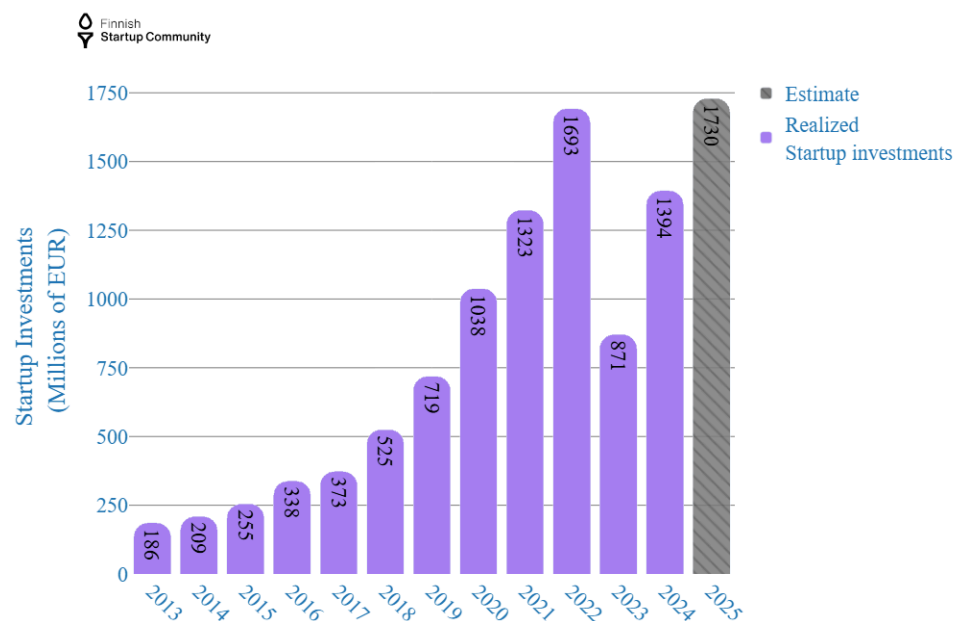
Fig 7: Real interest rates in the Euro area and Finland in 2000-2025 (Eurostat, EMMI, 2025)



3.1 Interest rate relevancy for startups and growth companies

We hypothesize that rising interest rates, combined with economic uncertainty, lead to lower startup funding globally. In Finland, startup investments grew steadily throughout the 2010s, peaking at €1.69 billion in 2022. In 2023, funding fell by nearly 50%, likely driven by rising interest rates, declining tech valuations, investor risk aversion, and weak exit markets. Higher rates increased the cost of capital and made safer assets more attractive, reducing investor appetite for risk. In 2024, startup investments in Finland began to recover, and barring new larger shocks, we project funding to reach a new record of €1.73 billion in 2025. As inflation eases and the ECB lowers policy rates, financial conditions are improving, making investments in startups more attractive once again. Figure 8 shows realized investments in Finnish startups from 2013 to 2024 and our projection for 2025.

Fig 8: Startup Funding in Finland in 2013 - 2024 and FSC forecast for 2025 (FVCA, Finnish Startup Community, 2025)



A study by [Bellavitis & Matanova \(2017\)](#) finds that a 1 percentage point increase in rates reduces VC-fundraising⁴ by 3.2%, while VC demand —the number of startups seeking funding—increases by 2.53% in the following year. Perhaps surprisingly, the researchers also find that VC investments may increase in high-interest environments, particularly when VC capital is plentiful. This is because venture capital becomes relatively more attractive compared to debt financing, which becomes more expensive. Similarly, [Romain & Pottelsberghe \(2004\)](#) report that interest rates can have a positive effect on VC intensity, primarily through increased demand from entrepreneurs when borrowing costs rise.

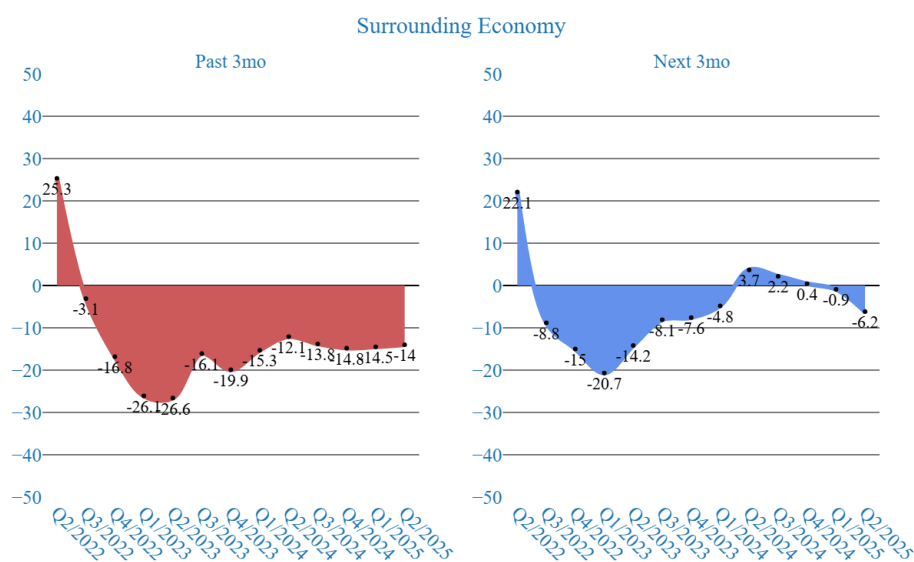
Despite the importance of VC in financing innovation, there is a surprising lack of modern, highly cited academic research on the causal effects of interest rate changes on VC-backed startup funding. However, media outlets like the [Wall Street Journal](#), [Forbes](#), as well as industry sources such as [Carta](#) however consistently report that rising interest rates reduce VC funding by making safer assets more attractive and limiting LP commitments to VC funds. Higher rates also compress valuations and weaken exit markets, making it harder for startups to raise capital.

⁴ The ability for VC funds to attract capital from investors

4. Startup Barometer and expectations about the economic situation

In the quarterly Startup Barometer, the Finnish Startup Community surveys its members on several key topics, including their outlook on the broader economic environment. The latest results indicate growing concerns as FSC member companies' expectations about the economic situation weakened in early 2025. Forward-looking indicator (Fig. 9, blue curve) peaked in Q2 2024 but has declined for four consecutive quarters, signaling a consistent deterioration in outlook. Several startups in the survey cited uncertainty over tariff policies and geopolitical instability as factors reducing their confidence and hindering business growth.

Fig 9: Startups and investors' quarterly sentiment towards the surrounding economic situation (FSC, 2025)



5. Conclusion

The Finnish economy is facing considerable challenges, especially in the labor market, where the unemployment rate is currently among the highest in Europe. GDP growth is projected only at around 1–2% annually for the next three years. Additionally, Finnish consumers remain cautious, holding back spending on housing and other long-term purchases. This caution is concerning, as consumer spending usually rebounds strongly after economic downturns. Economic uncertainty also discourages investors, making them less likely to pursue riskier investments, such as startups.

Another key factor is U.S. trade policy and its stance toward global trade. In 2023, the U.S. was Finland's largest non-European export market, accounting for around 13% of total exports. Currently, the EU and the U.S. have agreed on a [framework deal](#) that would impose 15% tariffs on certain EU-made products (European Commission, 2025). Interest rates have declined steadily since June 2024 and are projected to continue falling until 2027. Meanwhile, Finland's public debt has surged since the 2008 financial crisis, reaching approximately 83% of GDP, and is forecasted to rise further, though at a slower rate. Finland's debt level contrasts sharply with peers like Sweden and Denmark, whose debt-to-GDP ratios remain significantly lower, around 30–40%.

Taken together, the data suggest that while Finland faces structural challenges in labor markets and public finances, improving financial conditions and growing startup activity may offer a partial offset, if supported by credible policy and global stability.

Appendix A: Employment and unemployment comparison before the COVID crisis

Figure 11 illustrates the labor market situation in Q1 2019, before the onset of the COVID-19 pandemic. At that time, Finland was part of a stronger performing peer group, with a relatively high employment rate and a moderate but still above-average unemployment rate. This comparison highlights how much Finland's labor market position had weakened by 2025, reflecting a clear shift away from its earlier standing among the better-performing countries.

Fig 11: Unemployment vs employment in Q1 2019 (Eurostat, Macrobond, FSC calculations, 2025)

