CONCLUDING STATEMENT

Finland: Staff Concluding Statement of the 2027 Article IV Mission

FOR IMMEDIATE RELEASE

A Concluding Statement describes the preliminary findings of IMF staff at the end of an official staff visit (or 'mission'), in most cases to a member country. Missions are undertaken as part of regular (usually annual) consultations under Article IV of the IMF's Articles of Agreement, in the context of a request to use IMF resources (borrow from the IMF), as part of discussions of staff monitored programs, or as part of other staff monitoring of economic developments.

The authorities have consented to the publication of this statement. The views expressed in this statement are those of the IMF staff and do not necessarily represent the views of the IMF's Executive Board. Based on the preliminary findings of this mission, staff will prepare a report that, subject to management approval, will be presented to the IMF Executive Board for discussion and decision.

A team from the International Monetary Fund (IMF), led by Mr. Jochen M. Schmittmann, held discussions in Helsinki during November 3–13 for the 2027 Article IV Consultation. The team met with Minister of Finance Riikka Purra, Governor Olli Rehn, other senior officials, and representatives from the private sector, banks, labor unions, and other stakeholders.

Helsinki, Finland – November 13, 2026: Finland's economy is recovering after a prolonged period of weak growth, supported by stronger exports and investment, but unemployment remains high and the fiscal outlook has deteriorated. While the recovery is expected to continue in the near term, downside risks remain. Key policy priorities include:

- Starting steady, growth-friendly fiscal consolidation in 2027 to rebuild policy space and place public debt on a firm downward path, and securing lasting political commitment to it.
- Safeguarding financial stability by monitoring housing risks, restoring borrower-based measures as housing market conditions normalize, strengthening cross-border and operational resilience, and preserving the primacy of financial stability in the Finnish Financial Supervisory Authority's (FIN-FSA) mandate.
- Addressing high unemployment and low productivity growth by reversing the decline in education outcomes, strengthening skills and employment services, supporting firm scale-up and AI adoption while closely monitoring the labor market impact, and deepening European market and energy integration.

Growth is Strengthening, but Challenges Remain

Economic growth has strengthened despite higher energy prices. Real GDP grew by 0.8 percent in 2025, with momentum picking up toward year-end. Growth broadened in 2026, supported by stronger exports and private and public investment, alongside a recovery in private consumption. Looking ahead, the recovery is expected to continue, increasingly supported by domestic demand. Consumption is expected to strengthen with rising real

wages, while investment will be supported by defense spending, data center construction, and energy-transition projects. However, the recovery in housing construction is expected to remain slow, due to lingering oversupply and weak demand. Real GDP is projected to grow by 1.7 percent in 2026 and 1.6 percent in 2027, higher than potential and narrowing the output gap.

Higher energy prices have pushed up headline inflation, but underlying price pressures remain contained. Headline inflation increased in 2026 following the war in the Middle East, but remains below the euro area average, reflecting the relatively low share of fossil energy. Second-round effects have so far been limited, and inflation expectations remain well anchored. Headline inflation is projected to average 2.7 percent in 2026 but is expected to moderate toward 2 percent in 2027 as energy prices drop and with limited second round effects expected.

The fiscal position remains challenging. The overall fiscal deficit narrowed to 3¾ percent of GDP in 2025, reflecting earlier consolidation measures, but is projected to widen again in 2026 as higher defense spending and personal income tax cuts add to rising interest payments and age-related spending. As a result, public debt is projected to exceed 90 percent of GDP in 2026 and, absent further consolidation, continue to rise over the medium term.

Risks are tilted to the downside. External risks stem primarily from geopolitical tensions, protectionism and trade disruptions, and renewed energy-price pressures. A global increase in borrowing costs could raise Finland's borrowing costs, tighten financial conditions, and worsen public debt dynamics. Domestically, persistent labor and housing market weakness pose additional risks, while stronger-than-expected AI investment could boost growth.

Rebuilding Fiscal Space

Steady fiscal consolidation should begin in 2027 to rebuild fiscal space and put public debt on a downward path. Structural consolidation of ½ percent of GDP annually should aim to eliminate the overall deficit by 2035, while allowing automatic stabilizers to operate around the adjustment path. Starting consolidation in the current recovery, as the output gap narrows, will be more growth-friendly and avoids the need for larger adjustments later. The new fiscal rules and broad political agreement on fiscal targets provide a stronger basis for sustained adjustment.

The broad political commitment to consolidation is welcome, but it will need to be sustained throughout the long adjustment period. Support could wane as measures start to bite. To guard against consolidation fatigue, the next government should specify a credible, quantified multi-year package early in its term, communicate clearly the costs of delay, and rely on independent fiscal oversight to monitor delivery. Distributing the adjustment fairly, while protecting vulnerable households, would help sustain public support.

Consolidation should rely primarily on expenditure measures, complemented by growth-friendly revenue measures. Given Finland's high level of public spending and the size of the consolidation need, adjustment should be comprehensive and involve expenditure reprioritization, reductions in selected benefits, greater private financing of public services, and efficiency gains, while protecting vulnerable households and spending that supports long-term growth. Revenue options include raising reduced VAT rates and making greater use of property and environmental taxation.

Safeguarding Financial Stability

The financial system remains resilient, but vulnerabilities warrant continued vigilance. Banks remain well capitalized, liquid, and profitable, but sizable exposures to the still-weak real estate sector, reliance on wholesale funding, and elevated household indebtedness are vulnerabilities. Continued progress in strengthening Nordic-Baltic cooperation on systemic risk analysis and stress testing is welcome, given the regional financial linkages. Efforts to strengthen operational and cyber resilience should also continue, including through robust contingency planning and close coordination across institutions. As reforms to the EU macroprudential framework progress, there is scope to simplify the capital buffer framework while maintaining current buffer levels.

The FIN-FSA's primary objective should remain safeguarding financial stability. A clear focus on financial stability has served Finland well. Adding an objective to promote economic growth and competition could create conflicts with prudential goals, blur accountability, and expose supervisory decisions to pressure for regulatory easing. If an additional objective is introduced, it should be clearly defined as secondary and subordinated to financial stability considerations in all circumstances.

The housing downturn remains broadly orderly and does not warrant measures aimed at supporting house prices. Mortgage nonperforming loans remain low, while available evidence points to weak demand and lingering oversupply, rather than binding credit constraints, as holding back the housing recovery. The recent easing of borrower-based measures is therefore unlikely to provide meaningful support but could increase household leverage. The authorities should monitor the effects closely, avoid further easing, and restore the standard loan-to-collateral (LTC) cap as housing market conditions normalize.

Supporting Employment and Productivity

Policies should do more to raise employment, rather than rely on the cyclical recovery alone. Unemployment is among the highest in Europe, reflecting weak labor demand alongside a substantial expansion in labor supply. Prolonged high unemployment risks becoming entrenched through skill erosion and discouragement. High youth unemployment and the elevated share of young people not in employment, education, or training pose risks to skills development and long-term employment prospects. Against this backdrop, active labor market policies should facilitate job matching and labor market integration. Recent reforms that strengthened work incentives are welcome and should be implemented in full. Further measures to support the hiring of young and long-term unemployed workers should be considered.

Reversing the decline in education outcomes is essential for long-term growth. While still above advanced-economy averages, school-level outcomes have declined markedly over the past two decades, and tertiary attainment among young adults is below the OECD average. Priorities include strengthening basic skills, better aligning vocational education with labor market needs, and increasing tertiary attainment and timely degree completion. Education spending should be well targeted, supported by stronger data collection and policy evaluation to assess the effectiveness of education policies.

Raising productivity will require enabling productive firms to expand and realizing the potential of AI. Efforts to expand scale-up funding and reduce the administrative burden on businesses should continue, alongside a review of entry barriers in services and deeper European integration, notably by advancing the Savings and Investment Union and completing the single market for services. Education and training should adapt to equip workers with skills that complement AI and support transitions to new roles, while attracting skilled talent from abroad would strengthen Finland's AI ecosystem. Although there is little evidence so far of an aggregate impact of AI on employment and earnings in Finland, effects could emerge rapidly and unevenly across occupations as adoption deepens. In-depth analysis and close monitoring would help policymakers detect emerging displacement early and adjust education, training, and social protection policies in time.

Deeper European energy integration could support growth and resilience. Finland's investment in renewable energy has helped keep electricity prices low over recent years, supporting the development of data centers and other energy-intensive industries. Further grid integration with Europe could help stabilize prices by balancing supply and demand across countries, smoothing fluctuations in renewable generation, and improving supply stability as AI-related electricity demand increases. Growing electricity demand will also require timely investment in generation and grid capacity.

The IMF team thanks the authorities and counterparts for their constructive and open dialogue, and hospitality.