



Finland — 2026 Article IV Mission

Summary of the Concluding Statement

The recovery of the Finnish economy has been slow, but growth is expected to accelerate next year. Following a contraction in 2023, real GDP grew by 0.4 percent in 2024. This year, activity is expected to remain subdued, with annual growth projected at $\frac{1}{4}$ percent. Looking ahead, output is projected to increase by $1\frac{1}{2}$ percent in both 2026 and 2027, supported by a gradual recovery in domestic private demand. Inflation is expected to remain at 2 percent in the medium term.

The fiscal position has deteriorated significantly. The fiscal deficit widened by 1.5 percent of GDP, reaching 4.5 percent in 2024. Despite consolidation efforts, weak revenue growth, higher defense spending, and pressure from health and social services will likely keep the 2025 deficit broadly unchanged. Some welcome fiscal adjustment is expected next year, but deficits will remain high over the medium term, while the public debt will approach 95 percent of GDP by the end of the decade.

Further consolidation efforts are needed to place public debt on a downward trajectory. The authorities should seek to consolidate by $\frac{1}{2}$ percent of GDP (€1.5 billion) annually, until the fiscal balance is closed and debt begins to decline. The new national fiscal framework demonstrates a strong cross-party commitment to consolidation. If successful, the new rules will help to anchor fiscal policy, build policy space, and reduce risks to market confidence.

Recent labor market reforms have laid the ground for stronger growth, but further efforts are needed to increase the labor supply. Recent labor market reforms and increased immigration have supported a much-needed increase in labor supply, while streamlining the unemployment benefit system and easing labor market regulations will strengthen work incentives. Additionally, attention must be given to tertiary education attainment, which has stagnated at levels below peer countries.

Reducing barriers to firm growth will boost productivity. Finland has a strong foundation to create innovative start-up firms. However, these businesses often face barriers to scale-up, which constrains productivity growth of the economy. In addition, significant economic gains could be achieved by reducing barriers to trade within the EU. Finland should continue to advocate for further European integration, including through compromise on challenging issues such as energy, in the interests of wider and more ambitious progress.

While the banking system remains resilient and systemic risks are contained, vulnerabilities persist. Banks maintain strong capital positions and profitability, and stress tests indicate that they could withstand a severe economic slowdown. Nevertheless, vulnerabilities remain, including from weaker real estate and construction market activity, elevated household debt, and significant cross-country interconnectedness. Despite a prolonged rise in cyber threats, the impact on financial stability has so far remained contained.

The macroprudential toolkit should be further enhanced to strengthen the resilience of the banking sector. A gradual introduction of a *positive* neutral rate for the Counter-Cyclical Capital Buffer would allow the authorities to release capital in periods of extreme stress. Given elevated household debt, existing borrower-based measures should be maintained at current levels. Debt-to-income and debt-service to income limits should also be incorporated into the policy toolkit. Finally, maintaining a clear macroprudential framework with a well-defined objective is essential to safeguard financial stability.