CONCLUDING STATEMENT

# Summary Concluding Statement of the 2021 Article IV Mission to Finland

In 2020 Finland experienced one of the smallest contractions in economic activity among European countries, thanks to a successful containment strategy of the pandemic and a swift policy response.

The economic recovery has been strong this year fueled by higher domestic demand. The recovery is expected to continue next year although risks related to the development of the pandemic remain.

The fiscal policy response to the pandemic has been appropriate, and the fiscal stance in 2022 continues to appropriately support the economic recovery while it should remain flexible to accommodate adverse developments related to the pandemic.

Over the medium term, fiscal deficits are projected to remain 1 percent of GDP higher than before the pandemic, largely reflecting discretionary spending increases, putting public debt on an increasing trajectory. Demographics headwinds and aging-related spending pressures point to the need to put public debt instead on a downward path to build fiscal buffers.

The government measures aimed at boosting employment and growth, while supporting the strengthening of public finances, will not yield sufficient fiscal savings to reduce public debt over the medium term. Additional measures are needed in terms of progressively closing routes to early retirement and better targeting of benefits to boost employment. Furthermore, broadening the tax base and increasing efficiency of public spending through a spending review can provide fiscal savings and help Finland better achieve its ambitious climate goals. Returning to the spending limit in the context of medium-term fiscal adjustment would enhance fiscal policy credibility.

The financial sector entered the pandemic well capitalized and profitable, and the policy response has contributed to its resilience during the pandemic. However, its size and concentration combined with increasing household debt reinforces the need to rebuild banks' capital buffers and strengthen the macroprudential toolkit with additional borrower-based measures.

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