Finland—Summary of the Concluding Statement of the 2017 Article IV Mission

Finland's economy continues to recover. Strong growth is expected to continue this year and the next—2.8 percent in 2017 and 2.3 percent in 2018. But potential growth over the longer term is constrained by labor market rigidities and aging. Employment and productivity therefore need to increase to raise potential growth and support Finland's social model.

Notable progress has been achieved on structural reforms, but further reforms—particularly to labor markets—are needed. Recent product market reforms have expanded competition. But the prolonged downturn following the global financial crisis revealed weaknesses in the labor market that hold back employment and reduce the economy's ability to rebound from adverse shocks.

More flexibility in the collective bargaining process to allow more differentiation between firms is needed. Increasingly, individual firms are facing very different pressures, but recent real wage increases have not matched productivity growth in many cases. Ensuring competitiveness and flexibility requires that wage increases are aligned with productivity gains, not only at the national but also the firm level.

The current upswing should be used to restore fiscal buffers. Budget deficits have been lower than expected. But debt remains above its target, and adverse demographics and high exposure to trade and financial shocks—including from a large banking system—imply a need for robust fiscal resources in times of stress. Health and social services reform is vital to boost public sector productivity and contain age-related pressures on public finances. The savings would transform the public finances over time.

The financial sector is sound overall, but the macroprudential authority should have more tools to safeguard the financial health of both borrowers and lenders.

The relocation of Nordea's headquarters to Finland will challenge financial supervision. The move raises the importance of increasing the supervisor's resources, discretion to set additional capital requirements if needed, close cooperation among Nordic authorities, and further progress in completing banking union in the EU.