Finland 2019 Article IV consultation draft Concluding Statement summary

The new government has committed to spending more on education, employment, infrastructure, and climate policies. In the short run, the extra fiscal stimulus will support demand—but even so, we expect growth of only 1¼ percent this year and 1½ percent in 2020.

Healthy government finances are essential to ensure the social support model can be sustained. The government plans to make the budget balance by 2023, in large part by boosting employment. But our view of likely growth and employment indicates the government would still have to borrow about 1 percent of GDP in 2023.

There are many options to make the budget balance. The government could eliminate environmentally-harmful subsidies that are *each year* worth 3½ billion euros—about one quarter of current education spending. Otherwise, the government will have to find other savings. Cost control has to be part of the debate about health and social services reform.

To boost employment, the government could look at leave and homecare benefits, which generate incentives for women to stay at home, and tax and benefit schedules that mean that some face a financial penalty to work, rather than stay unemployed or out of the workforce. Still more could be done to increase participation and employment of older workers. But relying on job subsidies, which are expensive and have had mixed effects in other countries, seems likely to disappoint.

Healthy household finances are also important. Household debt has been increasing, especially from housing company loans and consumer lending. The recent recommendation to limit the ratio of household debt to income is both sensible and in line with steps taken in many other countries. But it is important to address the tax code, which creates a clear incentive for investors to favor housing company loans.