CONCLUDING STATEMENT

Summary Concluding Statement of the 2022 Article IV Mission to Finland

The government has successfully steered Finland through the pandemic and implemented structural reforms to boost employment and productivity, with an aim to strengthen the sustainability of the welfare state.

However, Russia's war in Ukraine has halted the recovery and is worsening the outlook. Elevated inflation, spurred by rapid increase in energy prices, is eroding households' purchasing power, reducing confidence and demand. External economic environment has also weakened, reducing trade and investments. Economic growth will stall next year, amid high war related risks.

The war has also added fiscal spending pressures to strengthen security and to partly shield households from higher costs of living. Next year, fiscal policy will be mildly expansionary, contributing to inflationary pressures. Over the medium term, the worsened fiscal outlook puts public debt on an increasing, riskier path.

Reversing the stimulative fiscal impulse next year would help address incipient inflation pressures. Over the medium term, a substantial fiscal consolidation is needed to put the debt ratio on a declining path and make room for aging-related spending. It should be gradual but based on a well-defined, and well-communicated medium-term plan based on measures identified in the comprehensive spending and tax reviews.

Further structural reforms to boost long-term growth remain a priority, including changes to the collective bargaining system that would facilitate adjustment to shocks.

While Finland has made considerable progress in shifting away from fossil fuels, further measures are needed to achieve the ambitious and commendable carbon emissions objectives.

The banking system is generally resilient due to high capitalization and profitability. But it is large and interconnected, highly reliant on short-term wholesale funding, and exposed to risks emanating from the rest of the Nordic region and from elevated household debt levels. This calls for further strengthening the liquidity buffers, expanding the macro-prudential toolkit, and—when circumstances allow—tightening capital requirements.