Summary Concluding Statement of the 2023 Article IV Mission to Finland

The Finnish economy recovered swiftly from the pandemic, but Russia's invasion of Ukraine worsened the outlook, with high inflation and rising interest rates weighing on consumption and investment. A recovery in household purchasing power, along with easing financial conditions, is expected to support a modest recovery in 2024, with growth projected to be ½ percent. And headline inflation is expected to remain below 2 percent throughout 2024. The labor market remains relatively strong, but unemployment is likely to increase modestly, as the construction sector continues to shed jobs. In the medium term, growth is expected to improve to around 1½ percent due to an anticipated increase in investment and employment resulting from the labor market reforms.

The deficit is expected to have increased to 2.5 percent of GDP in 2023. The government's ambition to reduce the fiscal deficit is welcome, but stronger policies are needed to achieve this. A fiscal consolidation of around ¼ percent of GDP should begin in 2024, growing to ½ percent per year over time, with a target of achieving overall fiscal balance by 2028. Such a stance would begin to reduce public debt, helping to place public financing on a more sustainable footing and build buffers to support the expected increase in age-related spending. The recent reforms to social benefits are welcome, but further expenditure reduction is required. And additional revenue measures should be considered.

Boosting employment and productivity remain key for growth. The mission welcomes the authorities' reform agenda to raise employment by reforming social benefits and reducing the labor tax wedge. Such reforms would facilitate adjustment to economic shocks and contribute to a more dynamic labor market. Policy should also focus on reducing skill mismatches, strengthening tertiary education, and attracting and better integrating talent from abroad.

The financial system is resilient, but there are sources of vulnerability that require vigilant monitoring. This includes some vulnerability to severe liquidity shocks and liquidity regulation should be tightened in response (the IMF Financial Sector Assessment Program). Staff welcomes the recent tightening of macroprudential policies, but more could be done, including introducing a positive neutral counter-cyclical capital buffer and introducing a complete set of borrower-based measures.