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**Statement by Mr. Bevilaqua, Mr. Velloso, and Mr. Barroso on Finland
(Preliminary)
Executive Board Meeting
January 26, 2022**

We thank staff for the report and Messrs. Poso and Kraavik for their informative statement.

Finland is recovering from the pandemic, but significant risks to the near-term outlook remain and structural challenges need to be addressed to foster robust medium-term growth. Fiscal policy measures and temporary schemes to support businesses and labor markets were critical for the near-term recovery. That said, labor markets would benefit from more flexibility to improve medium-term growth prospects, and macroprudential frameworks should be strengthened to mitigate risks. It will be important to design policies keeping in mind that demographic trends put significant constraints on future growth and the public debt. The recent wave of the pandemic is a reminder that risks can materialize quickly, including renewed bottlenecks, labor shortages, and price pressures. The authorities should therefore be ready to use the available policy space as needed while ensuring the sustainability of the public finances over the medium-term.

We take note of the risks to public debt sustainability. We take positive note of the authorities' intention to reduce fiscal deficits and improve labor market flexibility to foster the economy's medium-term growth potential while minimizing debt sustainability risks. That said, we agree with staff that further measures are needed to sustain the growth momentum. Fiscal policy itself will require recalibration, with a slightly less generous social insurance, a broader tax base, and spending rationalization—particularly given spending pressures in health and long-term care, which are expected to increase over time with an aging population. Furthermore, the expenditure ceiling should return to the pre-pandemic level to ensure a credible fiscal framework.

Improving potential growth requires labor market reform. We welcome the high priority both staff and the authorities have attached to labor market policies, despite some disagreement on the effectiveness of specific policies, such as attracting foreign labor or

improving tertiary education. We welcome staff's detailed analysis of the labor market bargaining framework in Finland and the broad agreement that more flexibility would be warranted. However, staff should explain better the trade-offs through robust theoretical arguments and empirical evidence.

The financial sector has shown resilience but macroprudential policies should be strengthened. During the pandemic, the release of capital buffers and measures to support borrowers' balance sheets were key to ensure financial stability. This is a clear illustration of the benefits of macroprudential buffers. We therefore strongly support staff's recommendation to strengthen borrower-side macroprudential tools, including debt to income measures, perhaps with safeguards to address the authorities' concern with affordability. Indeed, households and the financial sector continue to be highly exposed to the real estate market. This will require sector specific policy tools. We strongly support the introduction of a positive neutral countercyclical capital buffer to complement the systemic buffer. In this regard, we take positive note of the calibration exercise presented by staff.