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**Statement by Mr. Herrera and Ms. Bustillo on Finland
(Preliminary)
Executive Board Meeting
January 18, 2023**

We thank staff for the insightful assessments and Mr. Pösö and Mr. Kraavik for their informative Buff statement.

Finland's economy recovered swiftly from the pandemic yet is expected to stall in 2023 on the back of the fallout from the war in Ukraine and its ramifications, including through reduced trade and higher electricity and fuel prices. Taking note that risks to growth are tilted to the downside and of inflationary pressures, the authorities need to carefully calibrate the macro-policy mix while persevering with reforms to boost employment and productivity growth. We agree with the thrust of the staff appraisal and would like to emphasize the following points.

The policy mix should ensure the longer-term sustainability of public finances. A slightly tighter fiscal stance would help support monetary policy tightening and fight inflationary pressures but targeted assistance to vulnerable households is needed to cope with higher energy prices. We acknowledge the practical difficulties noted by authorities in designing better targeted energy related measures in a short time. Beyond the near term, staff and authorities concur on rebuilding buffers and putting public finances on a more sustainable path. To this end, and against the background of long-term fiscal pressures due to aging demographics, we welcome the proposal to strengthen Finland's fiscal framework, including expanding the coverage of expenditure ceilings and guiding fiscal policy over a longer horizon. We concur with staff on the potential for efficiency gains in the health and social services reform and underscore the importance of safeguarding quality health and social services for all and reducing inequalities in health and wellbeing.

Policies aimed at supporting employment and productivity are essential to growth and fiscal sustainability. We positively note that the employment rate substantially increased following measures on tightening unemployment benefits for those close to retirement. Going forward, we encourage the authorities to continue pursuing reforms to foster additional employment gains, including improving work-based immigration. In addition, the attraction of more skilled foreign labor would help alleviate skill shortages. We welcome the authorities' plans to improve education and increase R&D spending to 4 percent of GDP by the end of the decade. On this, we concur with staff on the importance of directing R&D tax incentives where the impact is strongest. With regards to wage bargaining, the authorities see scope for more wage flexibility and strengthening the coordination mechanism. We found the analysis of wage-inflation dynamics and competitiveness in Annex IV very interesting. While more flexibility could help enhance competitiveness and the economy's resilience to shocks, we would like to acknowledge the challenges of modifying wage bargaining frameworks which are deeply rooted in societal norms.

The financial sector remains solvent, however, measures to strengthen resilience should be considered. These include tightening liquidity regulations to address vulnerabilities arising from the banks' funding structure and reinstating systemic buffer requirements given risks from exposures to Nordic financial systems and from elevated household indebtedness. We positively note that the authorities are already highly attentive to these risks and recommendations but have underscored challenges associated with requirements of the legislative processes and political consensus. Moreover, we also take positive note of progress in the oversight of the financial system since the 2016 FSAP and encourage the authorities in their efforts to continue strengthening regulation and supervision. In particular, in a context of tightening financial conditions, the high reliance on market funding could exacerbate vulnerabilities. Thus, particular attention should be placed on enhancing liquidity buffers.

On climate policies, we commend the authorities for their ambitious climate goals, including by achieving carbon neutrality by 2035. As noted in the Buff statement, achieving this target has become more uncertain given that forestry and other land-use does not act as a carbon sink anymore. In this context, further measures should be considered to deliver on the country's climate goals.