INTERNATIONAL MONETARY FUND

IMF Country Report No. 26/6

FINLAND

2026 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

January 2026

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2026 Article IV consultation with Finland, the following documents have been released and are included in this package:

- A **Press Release.**
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on lapse-of-time basis, following discussions that ended on November 7, 2025, with the officials of Norway on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 10, 2025.
- An **Informational Annex** prepared by the IMF staff.

The documents listed below have been or will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
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PRESS RELEASE

PR 26/007

IMF Executive Board Concludes 2026 Article IV Consultation with Finland

FOR IMMEDIATE RELEASE

- Since the 2023 downturn, the economic recovery has been slow as consumption has remained weak and construction investment fell. The fiscal position deteriorated significantly due to weak growth and expenditure increases.
- The economy is set to regain momentum in 2026, supported by private demand. Real GDP is projected to grow by 1.5 percent in 2026 and 2027. But risks are tilted to the downside, primarily from trade tensions and geoeconomic uncertainty.
- Policy priorities are: further fiscal consolidation to put debt on a downward trajectory; enhance macroprudential buffers to maintain financial stability; and structural reforms to enhance growth potential.

Washington, DC – January 19, 2026: The Executive Board of the International Monetary Fund (IMF) completed the Article IV Consultation for Finland[1] The authorities have consented to the publication of the Staff Report prepared for this consultation.[2]

Since the 2023 downturn, the economic recovery has been slow as consumption has remained weak and construction investment fell. Unemployment continued to increase, largely driven by expanding labor supply, while inflation remained contained at around 2 percent. The banking sector remains sound, but bank credit is subdued despite easing financial conditions. The fiscal position deteriorated significantly due to weak growth and expenditure increases.

The economy is set to regain momentum in 2026, supported by private demand. Real disposable income is projected to strengthen further and underpin a gradual rebound in private consumption, supported by large household saving buffers. Private investment will strengthen as the construction sector slowly recovers and a pipeline of large-scale projects move forward. As a result, real GDP is projected to grow by 1.5 percent in 2026 and 2027. But risks are tilted to the downside, primarily from trade tensions and geoeconomic uncertainty. Inflation is expected to remain close to 2 percent.

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] Under the IMF's Articles of Agreement, publication of documents that pertain to member countries is voluntary and requires the member consent. The staff report will be shortly published on the www.imf.org/finland page.

Executive Board Assessment[3]

Growth has struggled to rebound since the downturn in 2023. Private consumption was unusually weak, as heightened uncertainty, falling house prices, and still-high interest rates more than offset a modest recovery in real wages. Private investment has also been weak, although recently showed tentative signs of improvement. But growth is expected to strengthen from 2026, as higher real disposable income underpins private consumption growth, private investment gains momentum, and construction sector slowly recovers. Finland's external position is assessed to be broadly in line with the level implied by medium-term fundamentals and desirable policies.

The overall fiscal deficit increased to 4½ percent in 2024 and remained at a comparable level in 2025. While the consolidation efforts since 2024 are projected to improve the structural primary balance somewhat in 2026, the overall deficit is expected to remain above 3 percent, and the debt-to-GDP ratio will reach 95 percent by the end of the decade.

Further consolidation is needed to put debt on a downward trajectory, anchored by the new fiscal framework. Consistent with past advice, the staff recommends consolidation by ½ percent of GDP per year, until the fiscal balance is closed and debt is on a declining path. The new fiscal framework, designed to secure political commitment to multi-year fiscal planning, is expected to anchor this consolidation effort. The size of the fiscal challenge suggests both revenue and expenditure measures should be explored, with a higher share from the latter. Public spending priorities should be revisited, especially for social protection, education, and health spending, and potentially the pension system, supported by regular expenditure reviews. Revenue mobilization should focus on indirect taxes.

Banks' capital and profitability positions remain strong. Stress tests conclude that systemic risks are contained, and Finnish banks could withstand a severe economic slowdown amid elevated uncertainty and heightened geopolitical tensions. However, banks' heavy reliance on short-term wholesale funding continue to pose financial stability risks. Sectoral risks remain, as banks continue to have large real estate exposures, housing activity remains weak and the commercial real estate sector continues to face elevated risks. Staff supports the ongoing preparatory work to perform a joint Nordic-Baltic banking sector stress test in 2026, given the high cross-border interconnectedness of the Finnish financial sector.

Macroprudential buffers should be enhanced and borrower-based measures should not be relaxed. The authorities should consider gradually phasing in a positive neutral counter-cyclical capital buffer to further strengthen resilience during periods of significant stress. Given the banking sector's heavy reliance on wholesale funding, bank liquidity buffers should be enhanced to cover wholesale funding outflows over a five-day horizon, and banks should hold a higher stock of high-quality liquid assets. Existing borrower-based measures should not be relaxed given the elevated household debt while additional measures should be added to the toolkit. The authorities should maintain a clear macroprudential mandate for the FIN-FSA with a well-defined financial stability objective.

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[3] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

Labor market reforms should be complemented by efforts to integrate foreign labor and strengthen tertiary education. The rationalization of unemployment benefits, curtailed access to early retirement, and streamlined work-based immigration procedures have contributed to the increase in labor supply. These initiatives should be complemented by measures to promote the integration of immigrants and facilitate their employment. Weaker tertiary education attainment highlights the need for targeted reforms. Limiting the scope for students to pursue more than one degree at the same level—except in fields with clear labor market needs—would free up capacity for first-time entrants.

Indicators on innovation, digitalization and AI preparedness suggest that Finland has a strong basis to create innovative startup firms and is well-prepared to reap the benefits of AI. However, Finnish firms face challenges in scaling up to compete internationally. Finland should review domestic regulations and continue to advocate for further European integration, as reducing internal barriers at the EU-level will be beneficial for the Finnish companies to access larger markets. AI has the potential to significantly enhance productivity across several sectors and occupations, but its rapid adoption might reshape the job landscape and lead to faster- and larger-than-expected job displacement. Therefore, upskilling and reskilling the labor force and adapting active policies to facilitate labor reallocation will be crucial.

Table 1. Finland: Selected Economic Indicators, 2023–31

	2023	2024	2025 [1]	2026	2027	2028	2029	2030	2031
			Proj.						
			(Percentage change, unless otherwise indicated)						
Output and Demand (Volumes)									
GDP	-0.9	0.4	0.2	1.5	1.5	1.3	1.2	1.2	1.2
Domestic demand	-4.2	-0.3	-0.3	1.5	1.7	1.6	1.4	1.4	1.4
Private consumption	0.0	-0.4	-0.4	1.5	1.3	1.2	1.2	1.2	1.2
Public consumption	2.6	1.7	-2.5	-0.8	0.9	0.9	1.0	1.0	1.0
Gross fixed capital formation	-7.4	-5.0	-0.3	4.4	4.1	2.8	2.6	2.6	2.6
Net exports (contribution to growth in percent of GDP)	2.9	1.1	1.2	-0.1	-0.2	-0.3	-0.2	-0.2	-0.2
Prices, Costs, and Income									
Consumer price inflation (harmonized, average)	4.3	1.0	1.8	1.7	2.0	2.0	2.0	2.0	2.0
Consumer price inflation (harmonized, end-year)	1.3	1.6	1.7	2.0	2.0	2.0	2.0	2.0	2.0
GDP deflator	3.5	0.7	1.4	1.9	2.2	1.9	2.1	2.4	2.3
Unit labor cost, manufacturing	6.7	-2.7	0.0	1.9	2.3	1.8	2.0	2.1	2.1
Labor Market									
Participation Rate (15-74 years)	68.6	69.0	69.4	69.7	70.2	70.8	71.2	71.7	72.2
Employment	0.3	-0.9	-0.4	0.4	0.5	0.6	0.6	0.6	0.6
Unemployment rate (in percent)	7.2	8.4	9.0	8.7	8.6	8.6	8.4	8.3	8.2
Potential Output									
Output gap (in percent of potential output)[2]	-0.9	-1.4	-1.7	-1.0	-0.7	-0.5	-0.3	-0.1	0.0
Growth in potential output	0.8	0.9	0.5	0.8	1.2	1.1	1.0	1.0	1.1
				(Percent of GDP)					
General Government Finances[3]									
Overall balance	-2.9	-4.5	-4.5	-3.6	-3.5	-3.2	-3.3	-3.2	-3.1
Primary balance[4]	-3.0	-4.4	-4.1	-2.8	-2.4	-1.9	-1.9	-1.8	-1.7
Structural balance (in percent of potential GDP)[5]	-2.4	-3.5	-3.4	-3.2	-3.5	-3.5	-3.6	-3.7	-3.7
Structural primary balance (in percent of potential GDP)[6]	-2.6	-3.4	-3.0	-2.4	-2.5	-2.3	-2.3	-2.3	-1.2
Gross debt	77.1	82.1	88.3	90.2	90.7	92.4	94.0	95.1	96.2
Balance of Payments									
Current account balance	-0.9	-0.7	0.4	0.3	0.1	0.0	-0.1	0.0	0.0
Goods and services balance	0.0	0.4	1.6	1.4	1.1	0.9	0.7	0.8	0.8
Net international investment position	12.9	24.7	24.8	24.3	23.6	22.9	22.1	21.3	20.7
Gross external debt	216.9	203.5	211.2	215.6	218.5	223.0	226.5	229.3	231.4

Sources: Bank of Finland; BIS; International Financial Statistics; IMF Institute; Ministry of Finance; Statistics Finland; and IMF staff calculations.

[1] Values for 2025 are estimates.

[2] A negative value indicates a level of actual GDP that is below potential output.

[3] Fiscal projections include measures as specified in the General Government Fiscal Plan.

[4] Adjusted for interest expenditures and receipts.

[5] Not adjusted for COVID-related one-off measures.

[6] Adjusted for interest expenditures and receipts. Not adjusted for COVID-related one-off measures.

INTERNATIONAL MONETARY FUND

FINLAND

STAFF REPORT FOR THE 2026 ARTICLE IV CONSULTATION

December 10, 2025

KEY ISSUES

Recent developments and outlook. Since the 2023 downturn, the economic recovery has been slow as consumption has remained weak and construction investment fell. Unemployment continued to increase, largely driven by expanding labor supply, while inflation remained contained at around 2 percent. The economy is set to regain momentum in 2026 as private demand recovers, but risks are tilted to the downside, primarily from trade tensions and geoeconomic uncertainty.

Fiscal policy. Weak growth and pressures from defense spending, health and social care overruns, and rising interest payments led to an overall fiscal deficit of 4½ percent of GDP and public debt approaching 90 percent of GDP in 2025. Despite some improvement in 2026, the deficit is projected to stay above 3 percent in the medium term. Staff recommends consolidation of ½ percent of GDP every year, until the fiscal balance is closed and debt is on a declining path. A new fiscal framework—designed to build political support for consolidation—will help anchor policy and support debt reduction.

Financial sector. Banks' capital and profitability remain strong, and systemic risks are contained. Sectoral risks remain, however, and banks' heavy reliance on short-term wholesale funding continue to pose tail risks. The introduction of a positive neutral counter-cyclical capital buffer and additional borrower-based measures would ensure resilience of the banking sector. Loan-to-value limits and loan maturities should not be relaxed given the elevated household debt, and the Finnish Financial Supervisory Authority (FIN-FSA) should retain a clear macroprudential mandate to meet its financial stability objective.

Structural reforms. Labor market reforms have contributed to an increase in labor supply. This should be complemented by efforts to further integrate recent migrants and targeted tertiary education reforms. AI has the potential to significantly enhance productivity across several sectors and occupations, but its impact on the labor market should be monitored. Upskilling and reskilling the labor force and adapting active labor market policies to facilitate employment reallocation will be crucial. Finland has a strong basis to create innovative startups but faces challenges in scaling up. Further European integration would benefit Finnish firms to access larger markets and draw-in risk capital.

Approved By
Oya Celasun (EUR) and Niamh Sheridan (SPR)

Mission took place virtually (October 22–23, 2025) and in Helsinki and Tampere, Finland (October 28–November 7, 2025). The team comprised Alex Pienkowski (head), Takuji Komatsuzaki, Theodore Renault, and Mauricio Vargas (all EUR). Valentina Semenova, Rohan Srinivas and Caitlin Aingé (all EUR) assisted from headquarters. Ms. Karhapää (OED) joined the discussions. The mission met with Ms. Purra, Minister of Finance, Mr. Rehn, Governor of the Bank of Finland; Mr. Majanen, Permanent Secretary of the Ministry of Finance; Mr. Kurenmaa, head of the FIN-FSA; other senior officials; the ECB; and representatives from the private sector, banks, labor unions, and other stakeholders.

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TABLES

ANNEXES

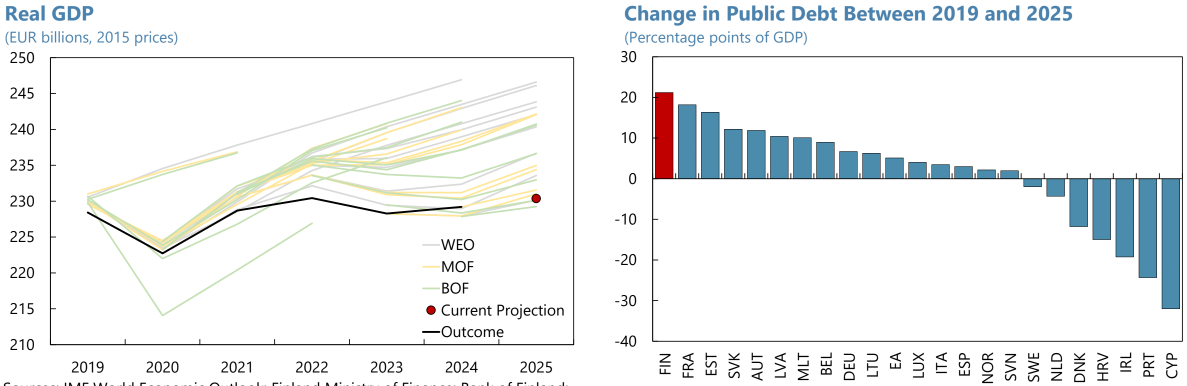
CONTEXT

1. **Finland has experienced several years of economic underperformance.** Growth has repeatedly undershot projections since the pandemic: in 2025, real GDP is nearly 6½ percent lower than projected in the October 2021 WEO. The invasion of Ukraine disrupted long-standing trade ties with Russia and raised economic uncertainty, monetary tightening sharply curtailed activity by weighing on housing, construction, and interest-sensitive consumption, and labor productivity has stagnated amid weak investment, declining firm dynamism, and skill shortages.

2. **Weak growth and high fiscal deficits led to a rising public debt burden.** Since 2019, Finland's public debt has increased by 20 percent of GDP, more than any country in the euro area. This was largely driven by a growing primary deficit, while weak growth and large interest payments offset any reduction through inflation. Public debt is expected to approach 90 percent of GDP in 2025, underscoring the need to restore fiscal space while promoting growth-enhancing policies.

Background

Growth outcomes have persistently undershot projections … *… while public debt increased by more than any other euro area country.*



Sources: IMF World Economic Outlook; Finland Ministry of Finance; Bank of Finland; and IMF staff calculations.

Sources: IMF World Economic Outlook; and IMF staff calculations.

RECENT ECONOMIC DEVELOPMENTS

3. **The recovery has stalled as private demand remains weak.** Following a contraction in 2023, real GDP grew by only 0.4 percent in 2024 and an estimated 0.2 percent in 2025 (Figure 1). Private consumption has been unusually weak as heightened uncertainty, falling house prices, and the increase in interest rates since 2022 more than offset the recovery in real wages. Private investment has also been weak, although a recent stabilization in construction activity suggests the sector may have reached a turning point. Despite higher tariffs, export volumes grew 3.2 percent YoY up to 2025Q3 (Box 1), while import volumes grew by about 0.7 percent, reflecting weak domestic demand.

Box 1. Exposure to Trade Disruptions and U.S. Tariffs

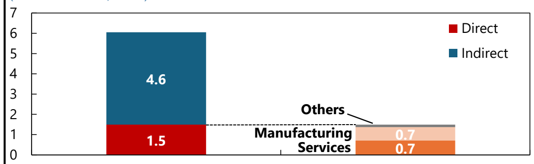
Finland’s export structure leaves it exposed to shifts in global trade policy. Goods and services exports account for over 40 percent of GDP, with a significant share concentrated in capital goods, intermediate products, and specialized services. While trade with the EU dominates, the U.S. remains a relevant destination, accounting for about 10 percent of Finland’s goods exports. These exports account for 6 percent of GDP, when indirect links are included.

The trade-weighted tariff on U.S. exports rose to 15 percent. After several months of negotiation, in July 2025 the U.S. and EU reached an agreement capping reciprocal tariffs at 15 percent and exempting strategic sectors, including pharmaceuticals, semiconductors, and selected chemicals. Considering its export composition to the U.S., Finland’s trade-weighted tariff rate stands at 15 percent, lower than that of most EU countries.

Realized trade flows through 2025Q3 show few signs of tariff-induced cooling. With little-evidence of ‘front loading’ in 2025Q1, high-frequency indicators show that nominal exports were broadly flat in 2025Q2/Q3, while real exports still grew by about 1.9 percent YoY, reflecting lower export prices. Overall, trade patterns have not been materially altered so far. However, risks to the outlook persist due to: (i) uncertainty about future U.S. trade policy, which continues to dampen business sentiment; (ii) indirect spillovers from the strong integration of Finnish exporters within European value chains, particularly through Germany and Sweden; and (iii) the potential for higher trade elasticities over the long term.

Finland: Exposure of Domestic Value-Added (DVA) Exports to a Potential Increase in U.S. Tariffs

(Percent of GDP, 2022)

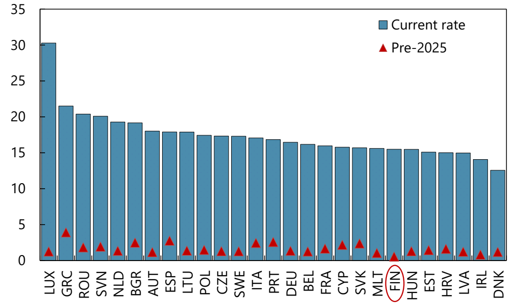


Sources: OECD TiVA 2025 Edition and IMF staff calculations.

Note: The direct exposure is computed as the product of (i) the share of DVA exports to the US in total DVA exports, and (ii) the share of total DVA exports in total value added. The indirect exposure is computed as the product of (i) the share of another country's gross exports to the US in total gross exports, (ii) the share of Finland's VA contribution to the country's total exports in total Finland's DVA exports, and (iii) the share of total DVA exports in total value added in Finland, and then the summation of these products is taken across all other countries.

Trade-Weighted U.S. Tariff Rate

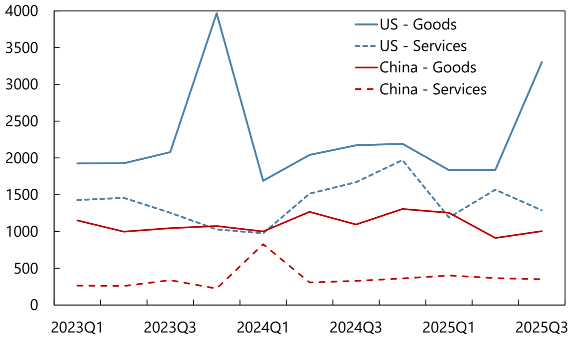
(Percent, weighted by export values as of 2023)



Sources: WTO – IMF Tariff Tracker; BACI; and IMF staff calculations.

Exports by Destination Country

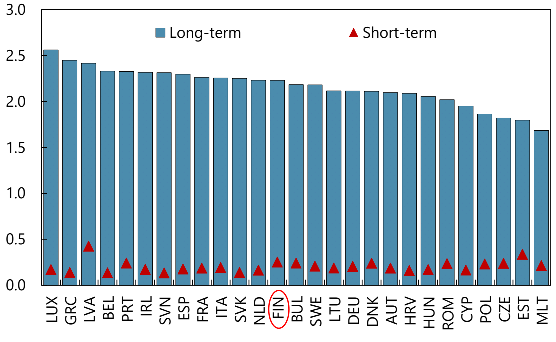
(EUR millions)



Source: Statistics Finland.

Trade Elasticity of U.S. Imports from European Countries

(Weighted average)



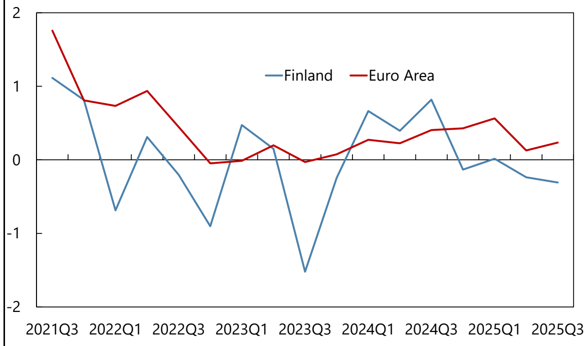
Sources: USTIC; Boehm et al. (2023); and IMF staff calculations.

GDP Growth and Private Domestic Demand

Growth has been consistently below the euro area average, with a significant fall in 2023 …

Quarterly Real GDP Growth

(Percent, QoQ)

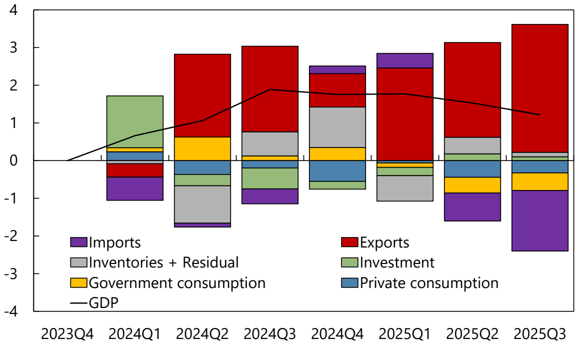


Sources: Haver Analytics; and IMF staff calculations.

… with the weak recovery since then driven by strong export growth.

Growth Recovery Since 2023Q4

(Cumulative percent change and contributions)

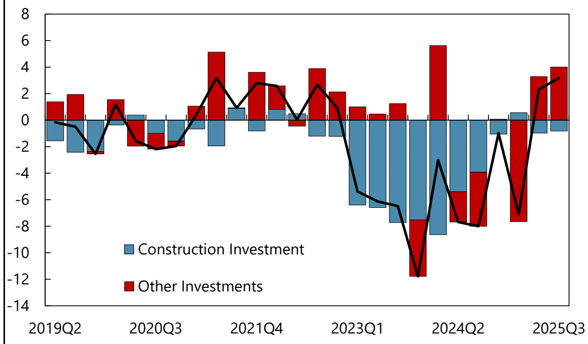


Sources: Statistics Finland; Haver Analytics; and IMF staff calculations.

After a steep fall, construction investment appears to have stabilized.

Investment

(Percent change, YoY)

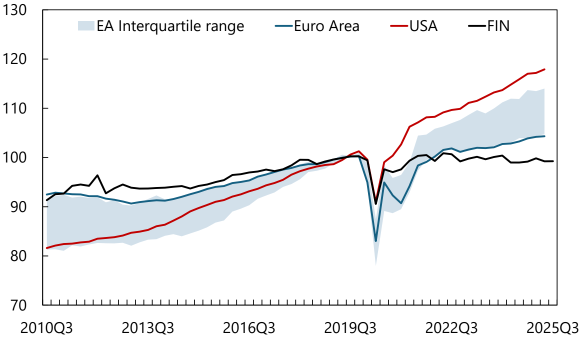


Sources: Eurostat; and IMF staff calculations.

Finland's household consumption has lagged the euro area recovery.

Total Real Household Consumption

(Index; 2019=100)



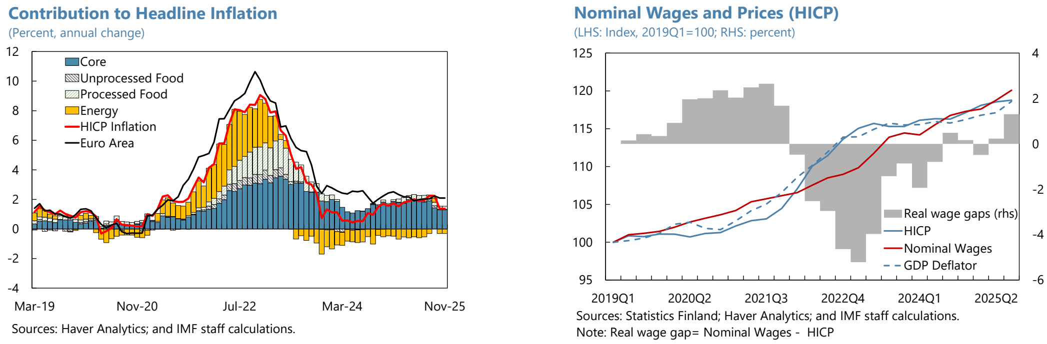
Sources: Bureau of Economic Analysis; Eurostat; and IMF staff calculations.

4. **Inflation has normalized, allowing for a recovery in real wages.** Headline inflation has fluctuated around 2 percent since early 2024, and more recently dipped to 1.5 percent YoY in November 2025 from VAT-related base effects. Energy prices made a negative contribution over the year, reflecting easing global oil prices and lower electricity costs. Core inflation has stabilized, despite soft domestic demand and a still-negative output gap. Meanwhile robust nominal wage growth allowed the post-pandemic real wage gap to finally close.

Inflation

Inflation has returned to the ECB's 2 percent target.

Nominal wage growth remained robust in 2024 and early 2025, allowing real wages to recover further.



Contribution to Headline Inflation
(Percent, annual change)

Sources: Haver Analytics; and IMF staff calculations.

Nominal Wages and Prices (HICP)
(LHS: Index, 2019Q1=100; RHS: percent)

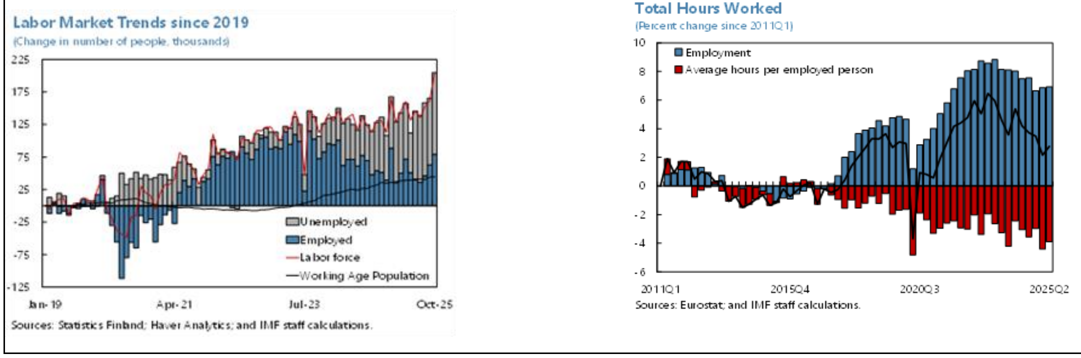
Sources: Statistics Finland; Haver Analytics; and IMF staff calculations.
Note: Real wage gap= Nominal Wages - HICP

5. **Unemployment has risen sharply, in large part driven by expanding labor supply.** The unemployment rate rose to 9.6 percent in October 2025 to be among the highest in Europe. However, employment remains above 2019 levels, despite a moderate decline over the last 2 years (Figure 2). Instead, labor supply has increased significantly in recent years, supported by immigration and reforms that strengthened job-search incentives. Nevertheless, total hours worked have remained flat relative to 2019 given the continued decline in average hours worked.[1]

Labor Markets

Despite higher unemployment, employment remains above 2019 levels …

… but total hours worked is broadly flat, given a trend decline in average hours.



Labor Market Trends since 2019
(Change in number of people, thousands)

Sources: Statistics Finland; Haver Analytics; and IMF staff calculations.

Total Hours Worked
(Percent change since 2011Q1)

Sources: Eurostat; and IMF staff calculations.

6. **The fiscal position has deteriorated significantly**. The overall fiscal deficit increased substantially in 2024 and remains largely unchanged in 2025 at 4½ percent of GDP. Weak growth led to sluggish revenues and increased unemployment benefit payments. And expenditure rose with increased defense and immigration-related spending, rising goods and services prices, higher pension payments from inflation indexation, mounting interest expenditure, and pressure from health and social services. Although the bulk of the fiscal consolidation measures announced in April 2024 were implemented in 2025, this was not enough to contain the deficit. As such, the structural primary balance shows only modest improvement in 2025. The European Commission announced in November 2025 that it will consider placing Finland on the Excessive Deficit Procedure. Public debt, which is already higher than Nordic peers, is expected to increase to 88 percent of GDP in 2025 (Annex I).

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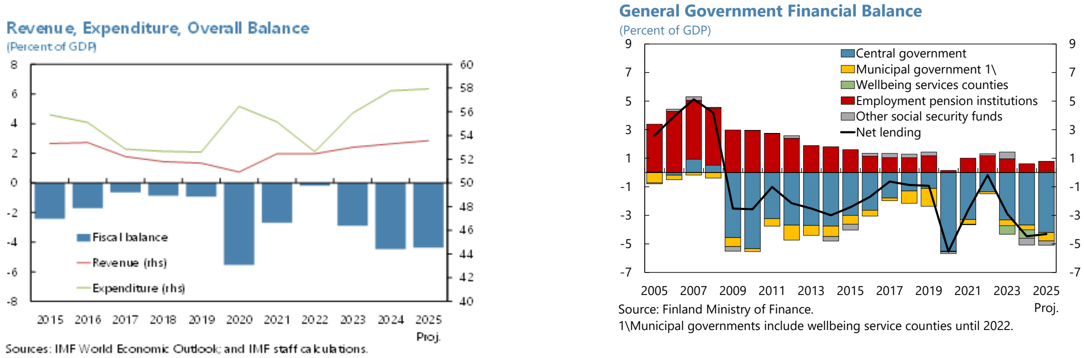
[1] See Annex I of the 2025 Article IV Consultation for Finland

Fiscal

Higher expenditure increased the fiscal deficit …

… particularly in the central government and from the Wellbeing Service Counties.



Sources: IMF World Economic Outlook; and IMF staff calculations.

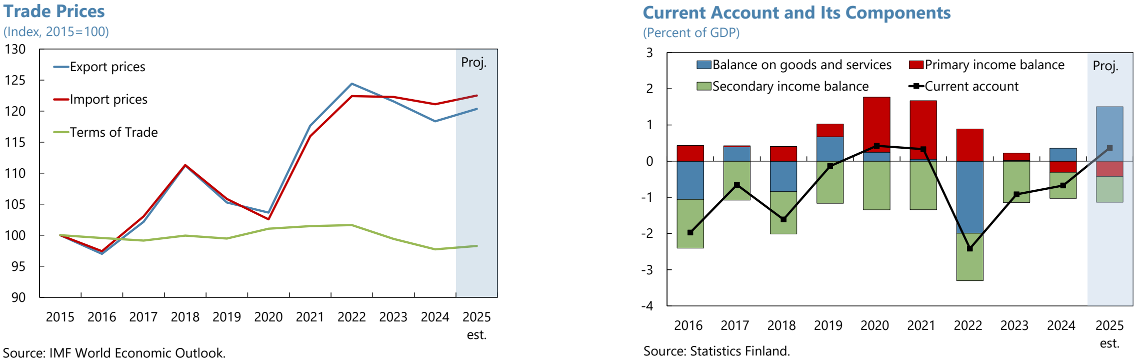
Source: Finland Ministry of Finance.
1\Municipal governments include wellbeing service counties until 2022.

7. The current account improved, driven by import compression. Since 2024, export volumes rose, helped by a recovery in telecommunications, computer and information services. But export values declined as falling prices led to a modest deterioration in the terms-of-trade. In contrast, import volumes and values contracted, reflecting subdued domestic demand and lower energy imports. The current account is estimated to move into surplus in 2025, supported by a strong net trade balance. Correspondingly, the external position for 2025 is assessed to be broadly in line with medium-term fundamentals and desirable policies (Annex II).

External Sector

In 2024, export prices declined more than import prices, contributing to a weakening in the terms-of-trade.

But strong exports and weak import volumes have supported the current account.



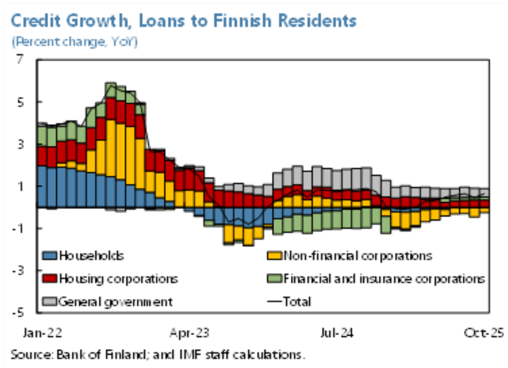
Source: IMF World Economic Outlook.

Source: Statistics Finland.

8. Bank credit remained subdued despite falling lending rates, while house prices have stabilized below their pre-pandemic levels. Households' debt and interest expenses have started to decline. However, despite easing financial conditions (Figure 3), weak private demand continues to hold back lending. Meanwhile, house prices have stabilized following the significant decline since interest rates jumped in 2022 (Figure 4). But despite lower mortgage rates, housing demand remains weak, with very few housing transactions. An oversupply of dwellings in major cities has contributed to the decline in building completions. Corporate credit growth has remained weak across most sectors.

Credit and Housing Developments

Credit growth, especially to NFCs, remains weak.

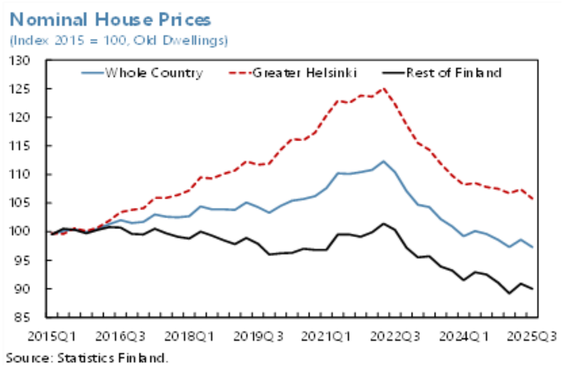


Credit Growth, Loans to Finnish Residents

(Percent change, YoY)

Source: Bank of Finland; and IMF staff calculations.

Housing prices have fallen by more than 10 percent since 2022 but appear to have stabilized.



Nominal House Prices

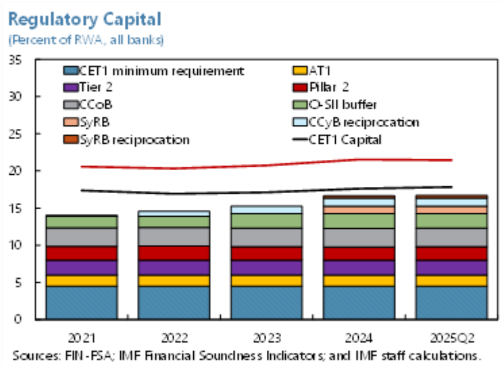
(Index 2015 = 100, Old Dwellings)

Source: Statistics Finland.

9. The banking sector remains sound despite a challenging operating environment. Banks are well capitalized, with the CET1 capital ratio at 18 percent in 2025Q2, above the euro area average (Figure 5). And the liquidity coverage ratio stands at 170 percent, well above regulatory requirements. While banks continue to be highly profitable, net interest margins are no longer improving due to lower lending rates. Bankruptcies in the construction sector are on the decline, but they are increasing in other industries. Nevertheless, banks' credit risks remain contained, with non-performing loans (NPLs) among the lowest in Europe, at less than 2 percent of total lending. Valuations of open-ended real estate funds have continued to decline, but liquidity management measures have limited widespread forced sales.

Financial Sector

Banks' core tier 1 capital is well above regulatory requirements

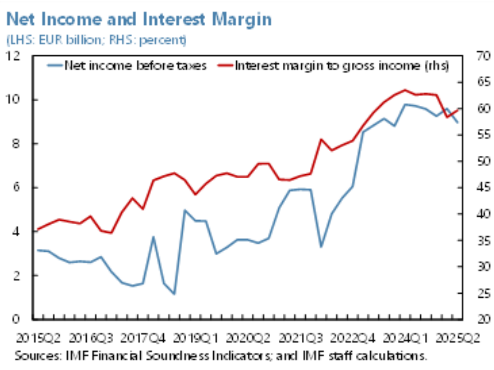


Regulatory Capital

(Percent of RWA, all banks)

Sources: FIN-FSA; IMF Financial Soundness Indicators; and IMF staff calculations.

Banks remain profitable but net interest income has start to decline.



Net Income and Interest Margin

(LHS: EUR billion; RHS: percent)

Sources: IMF Financial Soundness Indicators; and IMF staff calculations.

OUTLOOK AND RISKS

10. The economy is set to regain momentum, supported by private demand. Real disposable income is projected to strengthen further on the back of growing real wages and the upcoming Personal Income Tax (PIT) cuts. This, along with large household precautionary saving buffers, should underpin a gradual rebound in private consumption, which has been below the level implied by fundamental determinants, such as income and wealth. Private investment, including in housing, will strengthen, as the construction sector slowly recovers and a pipeline of large-scale technology, defense, and green transition projects move forward. As a result, real GDP is projected to grow by 1.5 percent in 2026 and 2027. Headline inflation is expected to remain close to 2 percent.

Key Macroeconomic Indicators

(Percent)

	2024	2025	2026	2027
GDP Growth	0.4	0.2	1.5	1.5
Output Gap (% of Potential GDP)	-1.4	-1.7	-1.0	-0.7
Unemployment Rate	8.4	9.0	8.7	8.6
Inflation (avg)	1.0	1.8	1.7	2.0
Current Account (% of GDP)	-0.7	0.4	0.1	-0.1

Sources: IMF World Economic Outlook; and IMF staff calculations.

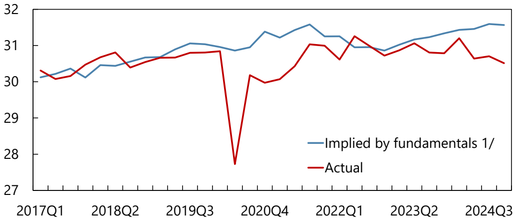
11. Risks are tilted to the downside (Annex III). On the external front, risks stem primarily from trade and geoeconomic uncertainty (Box 1). Escalating trade tensions could weigh on trade and investment and, if supply chain bottlenecks re-emerge, reignite inflationary pressures. NPLs could also increase, especially in manufacturing. A protracted period of global fragmentation could further weigh on demand and investor confidence, while cyber threats remain a vulnerability. Domestically, persistently high unemployment or deeper declines in housing prices and construction activity could weaken household and corporate balance sheets and heighten pressures on bank loan portfolios. Fiscal vulnerabilities and higher long-term interest rates also pose risks to debt sustainability. In addition, banks’ reliance on short-term wholesale funding creates a vulnerability to global financial-market volatility.

Growth Narrative

Private consumption is set to rebound after several years below the level implied by fundamentals ...

Real Private Consumption

(EUR Billions, 2020)



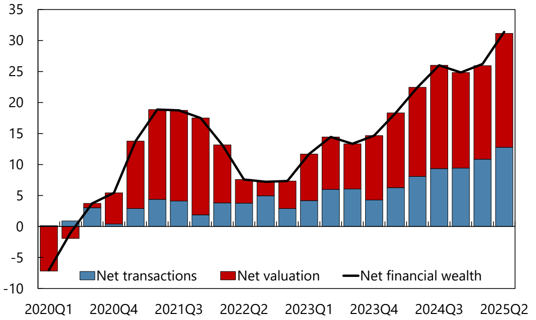
Sources: Haver Analytics; Finland Statistics Office; and IMF staff calculations.

1/ The level implied by fundamentals is derived from the long-run cointegration relationship between real private consumption, real disposable income, and real wealth, estimated over 2010Q1–2024Q4 (excluding the 2020–21 COVID shock period). See Annex I of the IMF's 2024 Euro Area Staff Report for further details on a similar exercise.

... which led to a large increase in household net financial wealth.

Cumulative Change in Net Financial Wealth

(Percent of 2019 GDP)

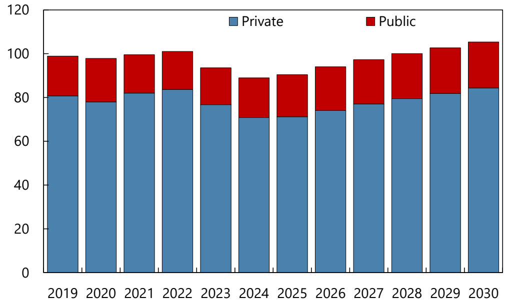


Sources: Eurostat; and IMF staff calculations.

The recovery in investment will likely be gradual, with a return to 2020 levels projected over the next 3 to 4 years.

Real Investment

(EUR billions, 2015 Prices)

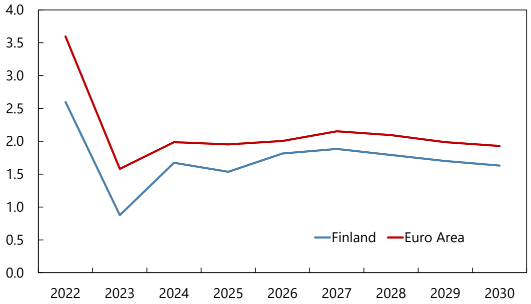


Sources: IMF World Economic Outlook; and IMF staff calculations.

External demand is expected to grow modestly but rising trade tensions pose significant downside risks.

External Demand Growth

(Percent)



Source: IMF Global Economic Environment Database.

Authorities' Views

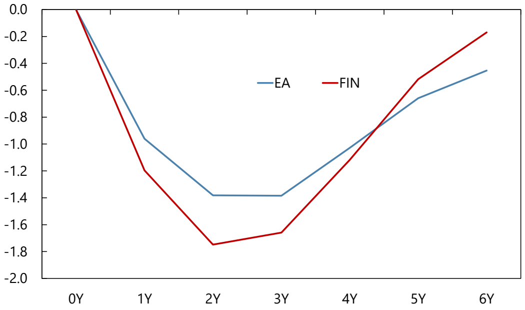
12. The authorities view the economy as gradually recovering, with growth expected slowly to strengthen as domestic demand rebounds. They expect real GDP growth to accelerate in 2026 as private consumption and investment recover, aided by improving real incomes, a stabilized construction sector, and ongoing green transition and defense projects. The authorities noted that inflation is likely to remain close to 2 percent, reflecting normalized price pressures. Regarding the labor market, the authorities considered that the increase in the unemployment rate reflects both softening demand and a rise in labor supply following recent reforms, which complicates the assessment of underlying labor-market resilience. They expected that the employment gains from the reforms will take time to materialize. The authorities concur with staff that the external position for 2025 is broadly in line with medium-term fundamentals and desirable policies. They also broadly agreed with staff's outlook and assessment of near-term risks—seeing the external environment as the main source of uncertainty.

Box 2. Finland: Macroeconomic Forecasts and Policy Advice to Manage an Adverse Scenario

An escalation of global trade tensions and tighter financial conditions would weigh significantly on Finland's recovery. This box builds on the October 2025 WEO risk assessment (Box 1.2, Scenario A), which assumes permanently higher U.S. tariffs without broad retaliation, tighter global financial conditions, and a reassessment of public-debt sustainability. Inflation expectations rise modestly, while sovereign yields and risk premia increase globally, tightening financial conditions and raising borrowing costs.

Adverse Scenario: Impact on Real GDP

(Percent deviation from baseline real GDP level)



Sources: Haver Analytics; IMF World Economic Outlook; and IMF staff calculations.

For Finland, a small and open economy integrated in global value chains, the growth impact would be sizeable. Under this scenario, real GDP in Finland would fall around 1.7 percent below staff's baseline in 2027, with output losses persisting over the long term. In the medium term, the GDP decline is larger than in the euro area average, reflecting Finland's relatively high trade openness and exposure to investment cycles. Inflation would decline modestly, as weaker demand and lower energy prices outweigh tariff-induced cost pressures.

Fiscal and external positions would deteriorate compared to the baseline. Lower growth would reduce revenues, while social protection expenditures would rise. The fiscal deficit would widen by around one percent of GDP in the medium-term relative to the baseline, slowing debt stabilization efforts. Higher global risk premia would raise sovereign borrowing costs, while banks' reliance on short-term wholesale funding would lift their funding costs, limiting fiscal space and tightening credit conditions, thereby transmitting global financial stress to the domestic economy. Externally, weaker global demand and higher trade barriers would reduce exports, while tighter financial conditions and valuation effects on Finland's large gross external balance sheet would worsen the income balance and weaken both the current account and the NIIP.

Adverse Scenario: Selected Economic Indicators

	2025	2026	2027	2028	2029	2030
	(percent year-on-year, unless otherwise indicated)					
Real GDP growth	0.2	0.2	0.9	1.4	1.8	1.8
HICP Inflation (period average)	1.8	1.6	1.8	1.7	1.6	1.7
Fiscal Balance (percent of GDP)	-4.5	-4.5	-4.7	-4.3	-4.2	-3.8
	(deviation from baseline)					
Real GDP (in percent of baseline)	0.0	-1.2	-1.7	-1.7	-1.1	-0.5
HICP Inflation (period average)	0.0	-0.1	-0.2	-0.3	-0.4	-0.3
Fiscal Balance (percent of GDP)	0.0	-0.8	-1.1	-1.1	-0.8	-0.5

Sources: Haver Analytics; IMF World Economic Outlook; and IMF staff calculations.

Policy should allow automatic stabilizers to operate around the structural tightening path proposed by staff. Given Finland's high public debt and structural spending pressures, discretionary fiscal stimulus is not recommended. Finland's generous social safety net, which enhances automatic stabilizers, would cushion the downturn, while an endogenous monetary policy response in the euro area—via weaker demand and lower inflation—would ease financial conditions.

Beyond the immediate response, policies should focus on mitigating risks. Maintaining fiscal credibility to rebuild buffers would reinforce confidence, while implementing remaining FSAP recommendations—especially those addressing wholesale-funding vulnerabilities—would strengthen financial resilience. Advancing structural reforms to raise potential growth and support investment remains key. Measures to deepen the EU single market, strengthen the green and digital transitions, and diversify export markets would help mitigate Finland's vulnerability to global trade fragmentation.

POLICY PRIORITIES

A. Restarting Fiscal Consolidation

13. Despite some planned tightening, deficits will remain high in the medium term. The authorities' April 2025 mid-term policy package included expansionary measures spread out over 2026-29. The package include a reduction in personal and corporate income tax and higher defense spending, set against modest expenditure cuts. Subsequently, the authorities announced modest consolidation measures in September 2025, amounting to 0.3 percent of GDP over 2026-28. This, combined with previous consolidation efforts in 2024 and 2025, means that the structural primary balance is projected to improve somewhat in 2026. But further out, with little further consolidation planned, the overall deficit will stay above 3 percent, and the debt-to-GDP ratio will reach 95 percent by the end of the decade (Annex I). Expenditure pressures will intensify in the long term due to defense spending and from the climate transition.

Fiscal Impact of Selected Discretionary Policies

(Percent of GDP)

	2025	2026	2027	2028	2029
Fiscal Consolidation Package (April 2024)	0.8	0.1	...	...	...
Mid-term Policy Package (April 2025), excluding the defense spending	...	-0.3	-0.2	...	...
2026 budget	...	0.1	0.1	0.1	...
Defense spending	-0.5	0.3	0.1	-0.3	-0.3
Total	0.3	0.1	0.0	-0.2	-0.3
Memo: Defense spending to GDP ratio	2.8	2.5	2.5	2.7	3.0

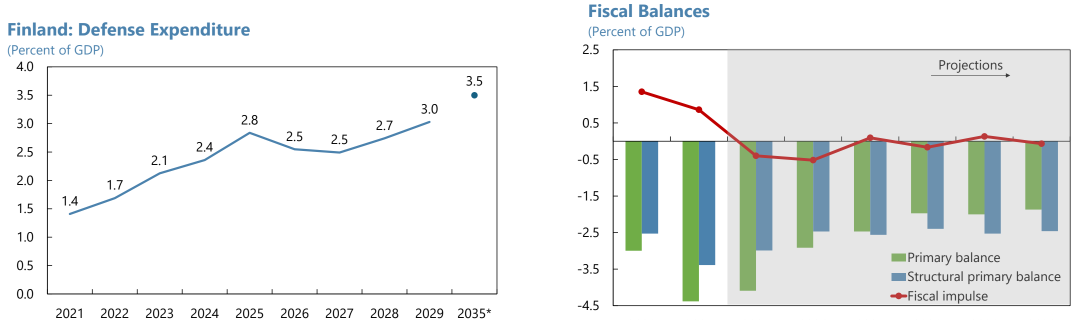
Sources: Finland Ministry of Finance; European Commission's 2025 Country Report for Finland; and IMF staff calculations.

Note: + means positive for fiscal balance, - means negative for fiscal balance. Defense spending is based on NATO definition.

Fiscal Pressures

Defense spending is set to continue rising over the medium and long-term …

… this plus other spending pressures will offset much of the fiscal consolidation efforts of recent years.

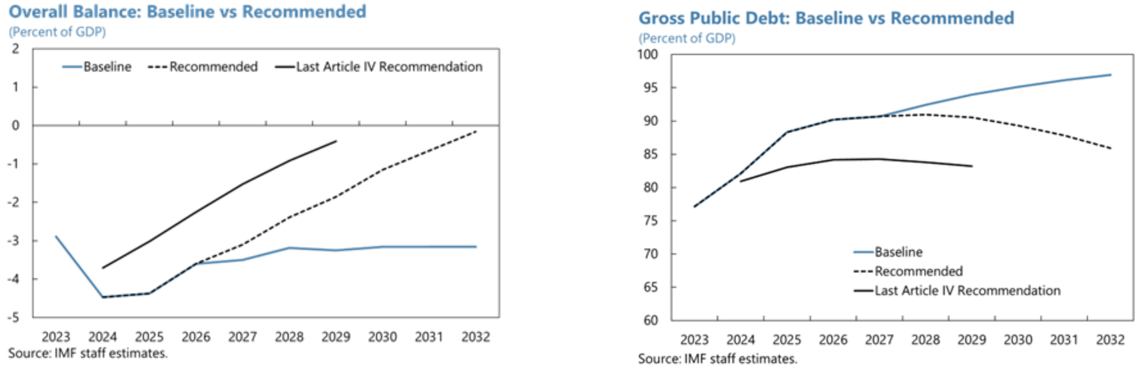


Sources: Finland Ministry of Finance.
Note: NATO-definition.
*NATO Commitment.

Sources: IMF World Economic Outlook; and IMF staff calculations.

14. Further consolidation effort is needed over the medium term. Sustained fiscal consolidation remains essential to create policy space, maintain market confidence, and mitigate fiscal risks. As such, staff support the authorities' proposed fiscal stance in 2026, which shows a tightening of around ½ percent of GDP in the structural primary balance. But more effort is needed from 2027. Consistent with past advice (see Annex IV, 2022 Article IV), the authorities should continue to consolidate by ½ percent of GDP per year, until the fiscal balance is closed and debt is on a declining path. Given signs of a strengthening activity and recent loosening of monetary policy, such a stance is not expected to undermine the economic recovery. If the downside risks to growth materialize, as envisaged in Box 2, structural adjustment should continue but automatic stabilizers should be allowed to operate.

Fiscal Projections: Baseline vs. Recommended



½ percent of GDP annual structural adjustment would close the fiscal balance by 2032 …

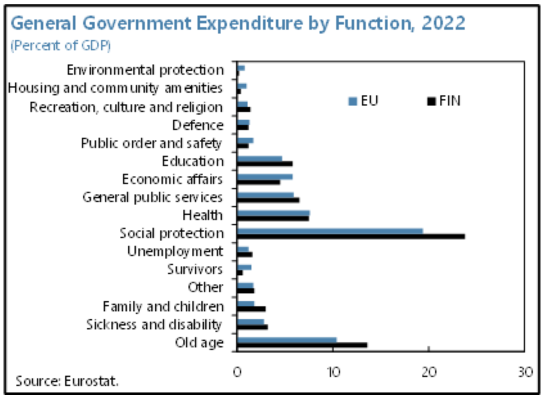
… leading to a clear turnaround in the debt dynamics.

Source: IMF staff estimates.

Source: IMF staff estimates.

15. The new national fiscal framework will help anchor medium-term fiscal planning with strong political commitment. The new rules (Box 3) are led by the Parliamentary Pact for Fiscal Policy that has received broad cross-party buy-in, strengthening the political consensus for the need to reduce debt across election cycles. If successful, the new rules will help to anchor fiscal policy, build policy space, and reduce risks to market confidence. While the fiscal targets under the new national fiscal rules are yet to be set, it is expected that they will be broadly consistent with staff's recommended fiscal path.

16. Consolidation efforts should be focused on rationalizing spending. Given the size of the fiscal challenge, both revenue and expenditure measures should be explored, but with an already high tax burden, the scope to reduce spending is greater. Efficiency and prioritization efforts should be focused on social protection (Annex V), education, and health spending. The authorities' decision to perform regular expenditure reviews is welcome and would support efforts to identify expenditure savings. Revenue mobilization measures should focus on: reducing VAT rate segmentation, fuel excise indexation, updating the cadaster to improve tax base measurements and then increasing property tax rates, and the expansion of carbon taxes. An illustrative menu of consolidation options is presented in the text table below.



Source: Eurostat.

17. **The pension system is well financed but further measures could support the wider consolidation effort.** Past reforms to retirement accruals, benefits, and pension age indexation, plus a large stock of financial assets in the pension fund, places Finland's pension system in a strong position. As such, any additional adjustments to strengthen the pension system would likely lead to lower pension contributions from current workers. This could potentially allow scope for other taxes to be raised, without increasing the overall revenue base.

Illustrative Menu of Consolidation Options

(Percent of GDP)

	Measures	Yields
Expenditure	Improve spending efficiency of Welfare Services Counties	0.2
	Reduce corporate subsidies	0.4
	Raise means-tested out-of-pocket payments of home-based long-term care	0.4
	Efficiency gains in non-pension social transfers (Annex VII)	0.6
	Pension reform	TBC
	Introduce fees for tertiary education	TBC
	Measures to be identified by expenditure reviews 1/	0.5-0.7
Revenue	Raise 14 percent reduced VAT rates to standard 25.5 percent	0.3
	Raise taxes on immovable property to OECD average	0.3
	Indexation of motor vehicle duties and excise tax	0.2
	Abolish tax expenditures on fossil fuels	0.5
	Expand carbon taxation	TBC

Source: Finnish authorities; OECD; European Commission; and IMF staff calculations.
1/ Potential saving identified in the last spending review that took place in 2023.
Note: TBC=to be costed.

Authorities' Views

18. **The authorities broadly agreed with the staff on the consolidation need and the positive assessment of the new fiscal framework.** They emphasized that the current government has already made substantial consolidation efforts while reaffirming commitment to further efforts. The scale of adjustments they consider as necessary broadly aligns with that of staff. They highlighted the achievement of the new fiscal framework, including the broad-based political commitment to debt reduction and expressed hope that the new framework would anchor the consolidation efforts with strong and sustained political agreements. The EU excessive deficit procedure implies that further consolidation measures might need to be discussed for 2027. However, identifying further consolidation measures is viewed as challenging, as "low hanging fruits" have already been found after the substantial efforts under the current government. Furthermore, spending on defense will need to increase over the next decade. They concurred with staff that broad options on the revenue and expenditure sides should be tabled for further review and implementation in the next government.

Box 3. The New National Fiscal Rules

Finland will enact new national fiscal rules in January 2026. They will ensure national rules' consistency with the EU fiscal framework, and add their own fiscal targets, a debt anchor, and an additional layer to the correction mechanism. Perhaps most importantly, the rules strengthen parliamentary involvement in fiscal planning and expand the role of the Finnish Economic Policy Council (FEPC), which is going to take the role of Finland's independent fiscal institution according to the new legislation.

Box 3. The New National Fiscal Rules (concluded)

Under the framework, there are two fiscal balance targets, both of which are set by a Parliamentary Working Group for Fiscal Policy (PWGFP), with technical support from the Ministry of Finance. The target for the government term (four years) is set ahead of national elections, and it is monitored by the FEPC. Political parties are then expected to debate on *how* to achieve consolidation, rather than *whether* to adjust. After elections, the government sets the target in the General Government Fiscal Plan and presents the measures to achieve the target. The new Parliament legislates any measures needed to achieve the target. At the mid-point of the government term, the PWGFP sets the inter-parliamentary target as an average fiscal balance target for the next eight years.

The fiscal targets need to satisfy the EU fiscal rules at minimum. Additionally, the target for the government term needs to be consistent with the inter-parliamentary target, which requires a 0.75 percentage point annual decrease in the debt-to-GDP ratio averaged over eight years while the debt-to-GDP ratio is above 40 percent, after a transition period.[1]

Compliance with the target for the government term is assessed by the FEPC. If it considers based on an overall assessment that the target will not be achieved and there are no acceptable justifications, or that the overall fiscal balance is weaker than -2.5 percent of GDP, it provides an assessment of the scale and timetable of corrective measures. The FEPC makes the overall assessment in a holistic manner, considering business cycle conditions and applicable escape clauses. The government needs to either take corrective actions or publicly explain the reasons if no actions are taken ("comply or explain"). This part of the correction mechanism adds a layer to the European fiscal rule-based national correction mechanism linked to the Excessive Deficit Procedure (EDP).

The deep involvement by the parliament in setting fiscal targets strengthens political commitment to debt reduction, while the FEPC's involvement in the correction mechanism strengthens enforceability. The targets are defined in a relatively simple manner: the overall balance-to-GDP ratio for the combined balance of the central and local governments. The rules seek to avoid pro-cyclical fiscal adjustment through clearly defined escape clauses and the FEPC's holistic assessment. The right balance between enforceability and flexibility is key to achieving the stated objective of a trend decrease in debt. The FEPC will play a key role, and its independence was strengthened in the legislation.[2]

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[1] Only EU fiscal rules are applied in setting the first target for the government term (2027-31) and the inter-parliamentary target (2027-33), as the initial years are considered the transition period.

[2] See Second-Generation Fiscal Rules: Balancing Simplicity, Flexibility, and Enforceability; by Luc Eyraud, Xavier Debrun, Andrew Hodge, Victor Lledó, and Catherine Pattillo; IMF Staff Discussion Notes No. 18/04, April 13, 2018 for important principles for designing fiscal rules.

B. Safeguarding Financial Stability

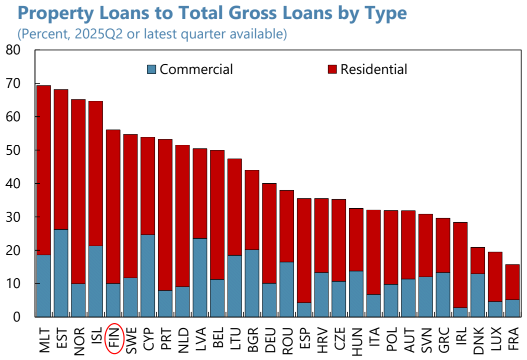
19. The banking system remains resilient to shocks. Banks' capital and profitability position remains strong. EBA/ECB and the national authorities' stress tests conclude that Finnish banks could withstand a severe economic slowdown amid elevated uncertainty and heightened geopolitical tensions. However, banks' heavy reliance on short-term wholesale funding continue to pose financial stability risks (IMF FSAP, 2022). But without severe liquidity shocks, the financial sector is well placed to support economic recovery.

20. While systemic risks are contained, sectoral risks remain.

- *Real estate market risks*. Banks continue to have large real estate exposures compared with European peers. Residential real estate prices stabilized in 2025 and do not appear to be overvalued (Figure 4), however, housing activity remains weak. The commercial real estate (CRE) sector continues to face elevated risks, with declining asset valuations, low transaction levels, and rising vacancies.

Real Estate Sector Risks

Banks' exposure to real estate is large.

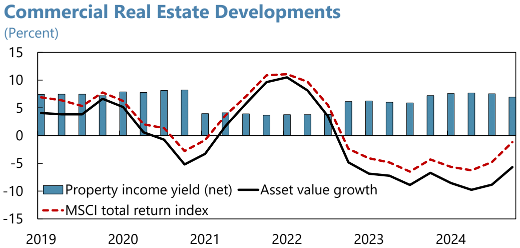


Property Loans to Total Gross Loans by Type

(Percent, 2025Q2 or latest quarter available)

Source: IMF Financial Soundness Indicators.

CRE's asset valuations have sharply declined.



Commercial Real Estate Developments

(Percent)

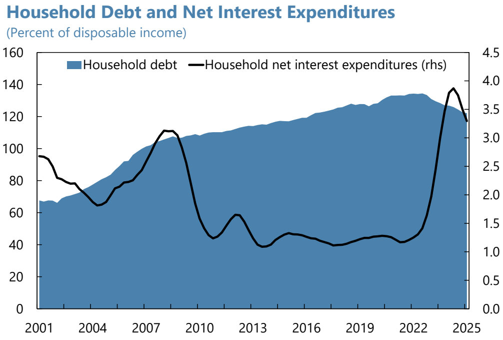
Sources: MSCI; and IMF staff calculations.

Note: The asset value growth is defined as a change in the real estate asset values held by investors. The property income return (net) is defined as the passing rent or net operating income divided by the gross property value including notional acquisition costs. The MSCI total return index measures market performance, including price performance and income from regular cash distributions (cash dividend payments).

- *Household sector risks*. NPLs are contained and households have started to deleverage. And while still high by European standards, this debt is concentrated among higher-income households and non-first-time home buyers (Figure 6). While falling interest rates have supported the recovery in disposable income, a steep rise in unemployment could deteriorate household credit quality.

- *Corporate sector risks*. The debt service burden on NFCs remains elevated. NPLs have increased in some sectors; however, these loans account for a small share of banks' portfolios.[2] Trade uncertainty and the impact of U.S. tariffs may heighten credit risks for Finnish exporting firms (Box 1). In addition, a prolonged downturn in housing activity could present downside risks for construction companies.

- *Cross-border risks.* The Finnish financial sector remains large and highly interconnected, with significant direct lending to other Nordic countries' CRE and construction sectors. In this context, Staff supports the preparatory work to perform a joint Nordic-Baltic banking sector stress test in 2026.

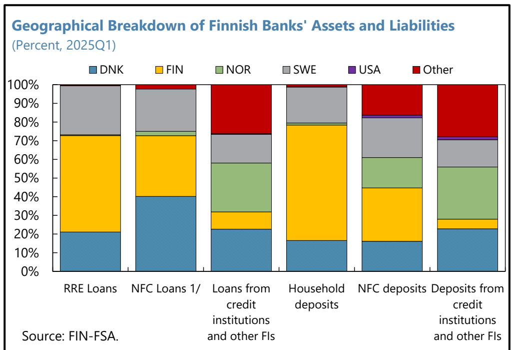


Household Debt and Net Interest Expenditures

(Percent of disposable income)

Sources: Statistics Finland; and IMF staff calculations.

- *Real estate funds.* Redemption pressures from open-ended real estate funds have continued. To mitigate the risk of widespread fire sales, real estate funds have used liquidity management tools, such as temporary suspensions on redemptions. While these measures have stabilized property prices, their valuations are still declining, albeit at a slower pace.



Geographical Breakdown of Finnish Banks' Assets and Liabilities

(Percent, 2025Q1)

Source: FIN-FSA.

1/ Loans collateralized by commercial immovable property.

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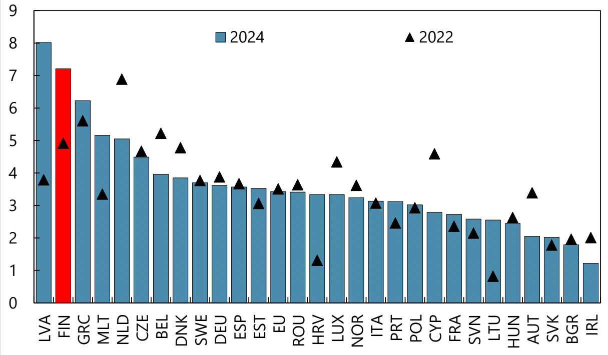
[2] The sectors with the highest share of NPLs (construction and accommodation and food service activities) represent about 5 percent of corporate bank lending.

- *Pension sector*. A new pension reform proposal agreed in January 2025 will allow private pension providers to increase their equity investments. Consistent with a 2023 FSAP recommendation, the solvency limit will also be lowered, which will reduce the procyclical investment behaviors of pension funds. While solvency ratios remain strong, these measures will help strengthen the financing of pension funds in the long-term.

- *Cyber-risks*. Customers and businesses have been increasingly affected by scams and phishing attempts. However, following a large Denial-of-service (DDoS) attack in 2024H2, the frequency of cyberattacks targeting banks declined this year, and their impact on financial stability has been mitigated.[3] Cyber risks could further increase due to the rapid development of artificial intelligence (AI) and continued geopolitical tensions.

ICT Security-Related Incidents Due to Outside Attacks

(Percent of non-financial corporates)

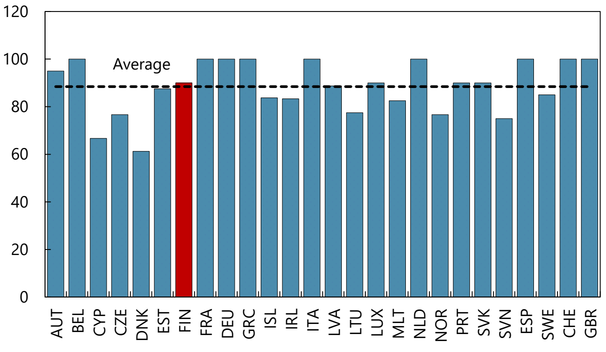


Source: Eurostat.

21. Macroprudential buffers should be enhanced to ensure the resilience of the banking sector. The systemic risk buffer (SyRB) on credit institutions should be maintained at 1 percent given structural vulnerabilities, including the large interconnectedness in the region. The authorities should consider gradually phasing in a *positive* neutral rate for the Counter-Cyclical Capital Buffer (PN-CCyB) to further strengthen resilience during periods of significant stress (Box 4). Given the banking sector's heavy reliance on wholesale funding, bank liquidity buffers should be enhanced to cover wholesale funding outflows over a five-day horizon, and banks should hold a higher stock of high-quality liquid assets. Furthermore, credit risks should be monitored diligently, particularly with regard to banks' real estate valuation practices.[4]

Advanced European Countries: LTV Limits

(Percent, 2023)



Source: IMF iMaPP database.

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[3] The FIN-FSA has started to implement the Digital Operational Resilience Act (DORA) in January 2025.

[4] The FIN-FSA has identified shortcomings for banks' valuation practices for real estate collateral and credit risk management for housing company loans.

Box 4. Finland: Positive Neutral Counter-Cyclical Capital Buffer

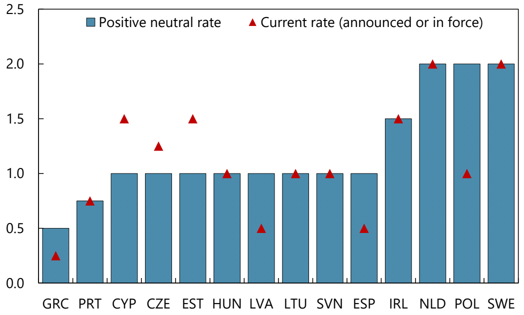
As demonstrated during the pandemic, rapid credit contraction can occur in any phase of the credit cycle. Traditionally, the CCyB is activated when the credit-to-GDP gap is positive, which has not been the case in Finland since 2016. However, setting a positive rate for the CCyB (PN-CCyB) would create releasable capital even when the credit-to-GDP is below its trend, helping to mitigate risks not related to excessive domestic credit growth.

Current estimates suggest a PN-CCyB of between 0.75 and 1 percent for Finland. Similar to the CCyB, various techniques can be used to calibrate a PN-CCyB, including stress tests or using risk indicators.[1] For Finland, the 2023 FSAP relied on a solvency stress test to calibrate the PN-CCyB as the residual between other macroprudential buffers and the estimated maximum capital reduction under adverse scenarios. The resulting PN-CCyB for a representative Finnish bank was estimated at 0.75 percent. Alternatively, the Losses-to-Buffer approach by De Nora et al. (2025) uses bank-level data for calibrating the PN-CCyB to cover profitability losses not explained by domestic cyclical systemic risks. Given the high profitability of Finnish banks, the results suggest that a 1 percent PN-CCyB would be suitable to cover most unexpected losses.

Staff recommends introducing a PN-CCyB on top of existing capital requirements. The FSAP solvency stress test results showed that current banks' capital buffers are insufficient to cover a large drop in the CET1 ratio. Hence, the authorities should consider introducing a PN-CCyB, while keeping existing macroprudential buffers in place. A gradual build-up of the buffer, together with favorable banking conditions in Finland (e.g. strong bank profitability), can help mitigating the potential adverse effects on bank lending (ECB, 2024; Lang and Menno, 2023). Following the pandemic, many macroprudential authorities across Europe have introduced a PN-CCyB, typically ranging between 0.5 percent and 2 percent, without reducing other existing capital requirements.

Positive Neutral CCyB in EU Countries

(Percent)



Sources: European Systemic Risk Board, as of August 2025.

[1] For more details and country examples, see Basel Committee on Banking Supervision (2024).

22. Borrower-based measures should not be relaxed given the elevated household debt. In April 2025, the Finnish government announced plans to ease housing regulations to support the housing market.[5] Such policies are unlikely to have significant impact, as weak housing demand—rather than financial constraints—appears to be the main constraint limiting housing transactions. However, from a financial stability perspective, given elevated household debt, the staff recommends that borrower-based measures, in particular loan-to-value (LTV) limits and loan maturities, be maintained at their current levels. Debt-to-income and debt-service to income limits should also be added to the set of borrower-based measures (Annex III). Finally, maintaining a clear macroprudential mandate for the FIN-FSA, together with a well-defined objective, is essential to ensure macroprudential policy effectiveness and safeguard financial stability (IMF, 2014).

23. The macroprudential policy framework for banks would benefit from greater harmonization at the EU level. The methodology for setting buffers on other systemically important institutions (O-SII)

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[5] The proposed measures include increasing the maximum allowed mortgage maturity to 35 years, enabling the FIN-FSA to increase mortgage loan-to-collateral limits to 95 percent for non-first-time buyers, and allowing the government to adjust lending regulations for housing companies by decree based on the economic situation. The European Central Bank has issued a legal opinion on these proposals.

should be harmonized at the EU level, while allowing some flexibility to reflect country specificities (IMF, 2025). In addition, while the reciprocation of macroprudential measures is important to effectively cover risks and maintain a level playing field, the harmonization of frameworks across jurisdictions is important for minimizing complexity and ensuring a predictable regulatory environment.

Authorities' Views

24. The authorities assessed the financial sector as resilient despite a weak macroeconomic environment and heightened geopolitical tensions. The authorities highlighted that banks' credit risks and loan losses have been contained, while profitability and capital ratios remain strong. They agreed with staff that a releasable capital buffers through a PN-CCyB would bolster resilience but do not see the need for higher overall capital requirements, based on the current assessment of risks and vulnerabilities, and policy settings. The authorities all concurred with staff that recent government proposals to ease housing regulations are unlikely to stimulate the housing market. However, the Bank of Finland and the FIN-FSA cautioned that these regulatory changes may gradually increase financial stability risks over time. They further expressed concern that granting the government authority to change regulations for housing companies would complicate macroprudential policy and undermine the independence of FIN-FSA. In contrast, the Ministry of Finance emphasized that these institutional changes are limited in scope, shall not impact the independence of FIN-FSA and are not intended to change the macroprudential framework more broadly.

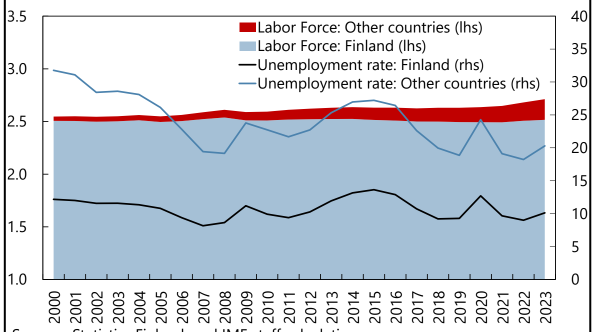
C. Incentivizing Labor Supply, Bolstering Skills, and Raising Productivity

25. Recent reforms have strengthened job-search incentives. Unemployment benefits have become less generous and more conditional, with lower payments, stricter eligibility requirements, and reduced duration. And access to early retirement via unemployment has been curtailed. Immigration rules were also revised to streamline work-based entry procedures while tightening the requirements for permanent residence.

26. Further efforts to activate labor supply and reduce labor market rigidities should be complemented by efforts to integrate foreign labor. A draft bill under consultation would simplify and accelerate the sanction process for jobseekers who repeatedly fail to meet job-search obligations. The proposals also aim to expand the scope for fixed-term contracts, shorten lay-off notice periods, and relieve smaller firms from formal employee consultation requirements during restructuring or layoffs. These steps would support job creation by lowering regulatory barriers for employers, particularly SMEs. To further strengthen labor supply and support more dynamic reallocation, these initiatives should be complemented by expanding Finnish-language training and streamlining the recognition of foreign qualifications to promote the integration of immigrants and facilitate their employment.

Labor Force and Unemployment Rate by Citizenship Status

(LHS: millions; RHS: percent)



Sources: Statistics Finland; and IMF staff calculations.

Note: Reference period is the last week of the year (25 to 31 December).

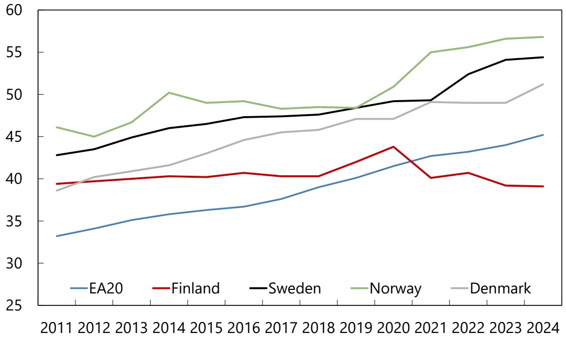
27. Tertiary education outcomes have weakened relative to peers, highlighting the need for targeted reforms. Finland's tertiary education attainment has stagnated and lags peers. Raising it is necessary to reduce skills mismatches and boost long-term growth. But capacity constraints—stemming from limited growth in publicly-funded study places—have emerged as a bottleneck to expanding access. Limiting the scope for students to pursue more than one degree at the same level—except in fields with clear labor market needs—would free up capacity for first-time entrants and improve efficiency. The government's 2025 program seeks to address these issues through expanded intakes in high-demand fields, incentives for timely completion, and enhanced pathways for international talent. However, in the absence of new public funding, capacity expansion will rely on increased private contributions, including from the business sector, underscoring the importance of safeguarding per-student funding levels to maintain quality (OECD, 2025). The introduction of student fees should also be considered.

Tertiary Education Attainment

Finland's tertiary attainment has stalled, leaving it well below Nordic peers and the euro area average.

Share of Young Population (25-34) with Tertiary Education

(Percent)

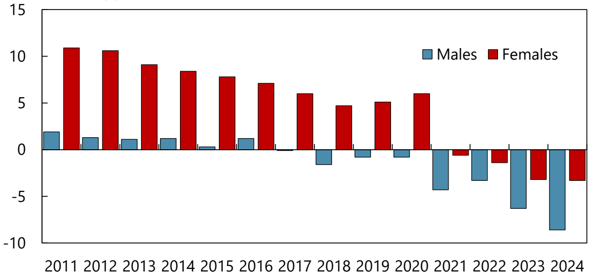


Sources: Eurostat; and IMF staff calculations.

A sharp male shortfall drives the widening gap relative to the euro area.

Share of Young Population (25-34) with Tertiary Education by Gender Compared to Euro Area

(Difference in pps.)



Sources: Eurostat; and IMF staff calculations.

Note: Bars show the gap (Finland *minus* EA20) in the shares, in percentage points. Positive values mean Finland is above EA20.

Note: Finland's Labour Force Survey was redesigned in 2021 (adding a web questionnaire and adopting a new estimation method that more extensively uses administrative registers). This creates a break in the attainment series. Comparisons with pre-2021 levels should therefore be made with caution.

28. Finland is well-prepared to reap the benefits of AI, but its impacts on the labor market should be monitored.[6] The IMF's AI Preparedness Index (AIPI) ranks Finland among the most prepared countries to harness the benefits and mitigate the risks of AI. However, while AI has the potential to significantly enhance productivity across several sectors and occupations, its rapid adoption might reshape the job landscape and lead to faster- and larger-than-expected job displacement. Therefore, a more agile tertiary education system that facilitates upskilling and reskilling of the labor force will be crucial to fully harness the benefits of AI.

29. Reducing the barriers to firm growth will enhance productivity. Strong indicators on innovation and digitalization suggest that Finland has a strong basis to create innovative startups, but they face barriers to growth (Annexes VII and IX, 2025 Article IV). This reduces dynamism at Finland's productivity frontier and slows the diffusion to other firms (Annex VII). The authorities' mid-term policy package includes measures to improve conditions for entrepreneurship and boost exports, including

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[6] *The Impact of Artificial Intelligence on Finland's Labor Market*, Selected Issues Paper.

enhancing growth funding and supporting investment. Additionally, domestic regulations should be reviewed, including in retail sectors.

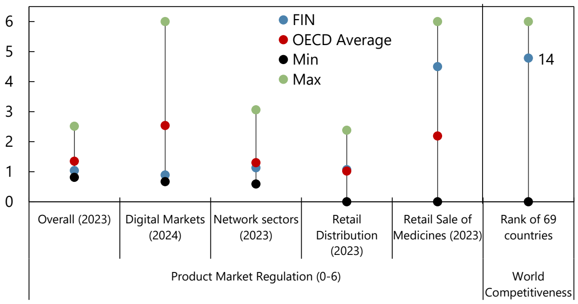
Business Environment and Dynamism

Finland scores well on general business and competitive environment …

… and has a highly digitalized economy.

Market Regulation & World Competitiveness Indicators

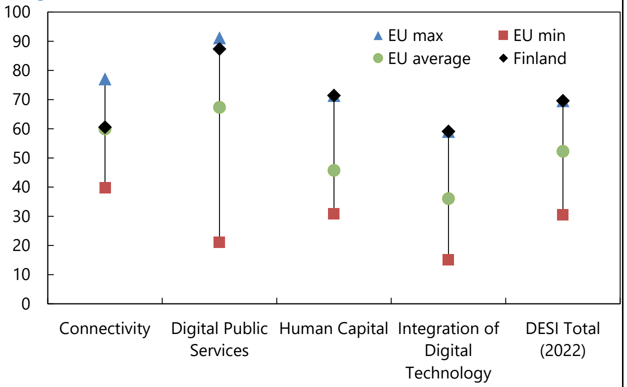
(Unit)



Source: OECD & International Institute for Management Development.
Note: Value on a scale from 0 (most competition-friendly regulatory set-up) to 6 (least competition-friendly regulatory set-up).

Digital Economy and Society Index by Main Dimensions

(Weighted score, 0 to 100)



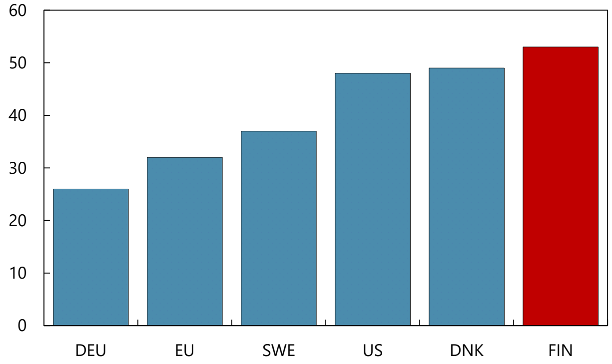
Sources: European Commission; and IMF staff calculations.

Finnish firms actively introduce innovation …

… but do not achieve fast growth to scale up.

Innovation Activities

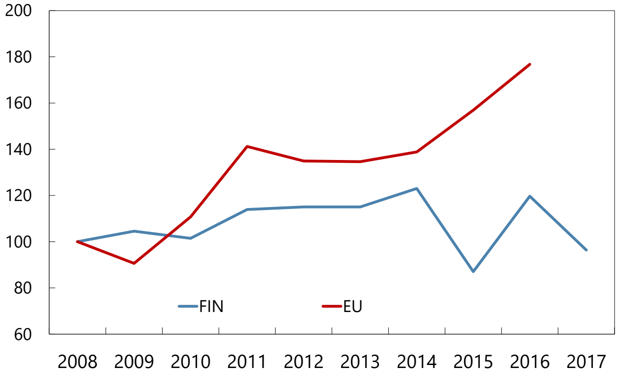
(Percent of firms)



Sources: EIB Investment Survey 2024- European Investment Bank.

Gazelles by Birth Cohort

(Index; 2008=100)



Sources: Adilbish et al.(2024); Orbis; and IMF staff calculations.

30. **Finland should continue to advocate for deeper EU single market integration**. Faced with weak productivity growth, elevated trade tensions, and increasing geoeconomic fragmentation, significant economic gains could be achieved by reducing barriers to trade within the EU. Finland should continue to advocate for further European integration, including through compromise on challenging issues such as energy, in the interests of wider and more ambitious progress.

Authorities' Views

31. The authorities emphasized labor reform achievements, acknowledged challenges in education, and concurred with the staff on the potential and risks on AI. They noted that the broad reform package implemented since 2023 has already substantially increased labor supply. They concurred with the staff that tertiary education has weakened, and the trend needs to be reversed. They are preparing Vision for Higher Education and Research 2040 to this end. They believed free higher education to be fundamental for the Finnish society but saw merit in exploring fees for individual's pursuing second and later undergraduate degrees. The authorities assess the Finnish workforce as well-educated with strong digital skills, positioning Finland well for the AI transition. However, they agreed with staff on job displacement risks, highlighting the need to make tertiary education more agile and better aligned with employer needs. The authorities support deeper European integration, including the Savings and Investment Union, but are pessimistic about deepening energy integration.

STAFF APPRAISAL

32. The economy is set to regain momentum in 2026, supported by recovering private demand. Growth has struggled to rebound since the downturn in 2023. Private consumption was unusually weak, as heightened uncertainty, falling house prices, and still-high interest rates more than offset a modest recovery in real wages. Private investment has also been weak, although recently showed tentative signs of improvement. But growth is expected to strengthen from 2026, as higher real disposable income underpins private consumption growth, private investment gains momentum, and construction sector slowly recovers. Finland's external position is assessed to be broadly in line with the level implied by medium-term fundamentals and desirable policies.

33. Despite some planned tightening, deficits and debts will remain high in the medium term. The overall fiscal deficit increased to 4½ percent in 2024 and remained at a comparable level in 2025. While the consolidation efforts since 2024 are projected to improve the structural primary balance somewhat in 2026, the overall deficit is expected to remain above 3 percent in coming year, and the debt-to-GDP ratio will reach 95 percent by the end of the decade.

34. Further consolidation is needed to put debt on a downward trajectory, anchored by the new fiscal framework. Consistent with past advice, the staff recommends consolidation by ½ percent of GDP per year, until the fiscal balance is closed and debt is on a declining path. The new fiscal framework, designed to secure political commitment to multi-year fiscal planning, is expected to anchor this consolidation effort. The size of the fiscal challenge suggests both revenue and expenditure measures should be explored, with a higher share from the latter. Public spending priorities should be revisited, especially for social protection, education, and health spending, and potentially the pension system, supported by regular expenditure reviews. Revenue mobilization should focus on indirect taxes. Incorporating reduced-rate VAT to standard rates, fuel excise tax indexation, increasing property tax rates after updating cadaster for tax base, and expansion of carbon taxes should be considered.

35. **The banking system remains resilient to shocks, but sectoral risks remain.** Banks' capital and profitability position remains strong. Stress tests conclude that systemic risks are contained, and Finnish banks could withstand a severe economic slowdown amid elevated uncertainty and heightened geopolitical tensions. However, banks' heavy reliance on short-term wholesale funding continue to pose financial stability risks. Sectoral risks remain, as banks continue to have large real estate exposures, housing activity remains weak and the CRE sector continues to face elevated risks. Staff supports the ongoing preparatory work to perform a joint Nordic-Baltic banking sector stress test in 2026, given the high cross-border interconnectedness of the Finnish financial sector.

36. **Macroprudential buffers should be enhanced and borrower-based measures should not be relaxed.** The SyRB on credit institutions should be maintained at 1 percent given structural vulnerabilities, including the significant interconnectedness in the region. The authorities should consider gradually phasing in a PN-CCyB to further strengthen resilience during periods of significant stress. Implementation of O-SII buffer and reciprocation of SyRB would benefit from greater harmonization at the EU level. Given the banking sector's heavy reliance on wholesale funding, bank liquidity buffers should be enhanced to cover wholesale funding outflows over a five-day horizon, and banks should hold a higher stock of high-quality liquid assets. Existing borrower-based measures should not be relaxed given elevated household debt while additional measures should be added to the toolkit. The authorities should maintain a clear macroprudential mandate for the FIN-FSA with a well-defined financial stability objective.

37. **Labor market reforms should be complemented by efforts to integrate foreign labor and targeted tertiary education reforms.** Less generous unemployment benefits, curtailed access to early retirement, and streamlined work-based immigration procedures have contributed to the increase in labor supply, with ongoing additional policy efforts. These initiatives should be complemented by measures to promote the integration of immigrants and facilitate their employment. Weakened tertiary education attainment highlights the need for targeted reforms. Limiting the scope for students to pursue more than one degree at the same level—except in fields with clear labor market needs—would free up capacity for first-time entrants. Given tight public funding, increased private contributions and the introduction of student fees should be considered to maintain the quality of education while expanding capacity.

38. **Capturing AI benefits and reducing barriers to scale up will enhance growth, but the impact on the labor market should be monitored.** Indicators on innovation, digitalization and AI preparedness suggest that Finland has a strong basis to create innovative startups and is well-prepared to reap the benefits of AI. However, Finland faces challenges in scaling up firms. Finland should review domestic regulations and continue to advocate for further European integration, as reducing internal barriers at the EU-level will be beneficial for the Finnish companies to access larger markets. AI has the potential to significantly enhance productivity across several sectors and occupations, but its rapid adoption might reshape the job landscape and lead to faster- and larger-than-expected job displacement. Therefore, upskilling and reskilling the labor force and adapting ALMP to facilitate labor reallocation will be crucial.

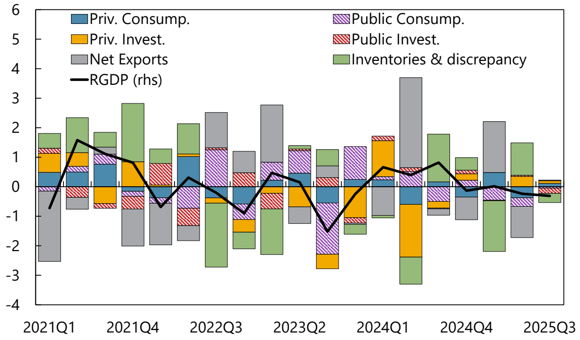
39. **It is proposed that the next Article IV consultation with Finland take place on the standard 12-month cycle.**

Figure 1. Finland: Real Sector

GDP edged up in 2024, supported by net exports and public spending. But consumption remains weak …

Quarterly Real GDP Growth Contributions

(Percent, QoQ)

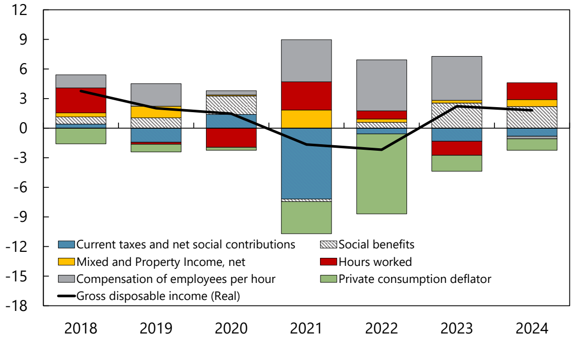


Sources: Haver Analytics; and IMF staff calculations.

… despite real disposable income growth.

Household Disposable Income: Contribution to Growth

(Percent, SWDA)

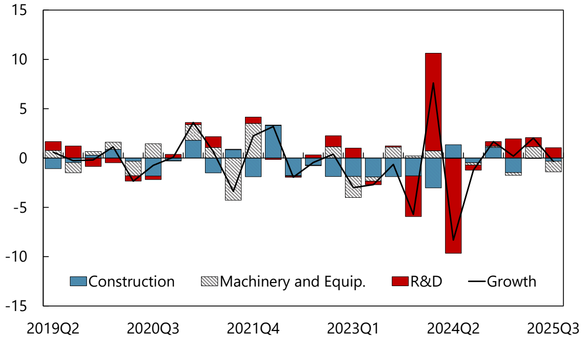


Sources: Statistics Finland; Haver Analytics; and IMF staff calculations.

Construction investment remained weak through 2024, with some early sign of recovery in 2025.

Investments - Contribution to Growth

(Percent, SWDA)

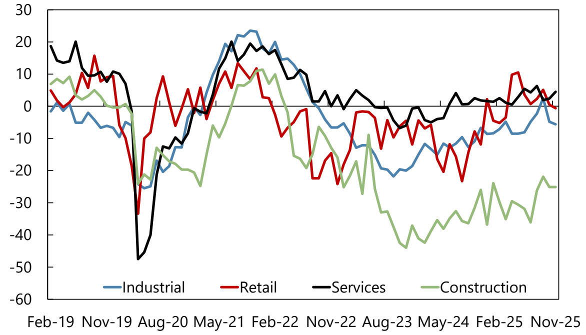


Sources: Statistics Finland; Haver Analytics; and IMF staff calculations.

Confidence indicators point to a recovery in services and retail, while construction and industry remain negative.

Confidence Indicators

(Percent balance, SA)

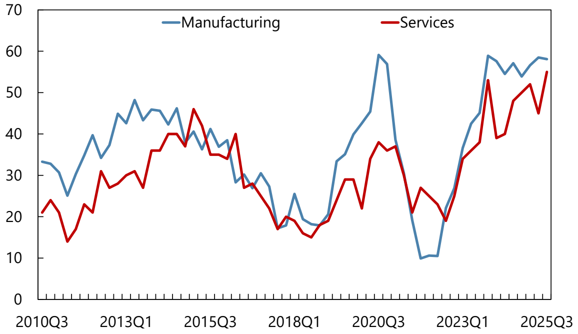


Sources: European Commission; and Haver Analytics.

Weak demand remains a key constraint on both manufacturing and services output …

Factors Limiting Production: Demand

(Percent, SA)

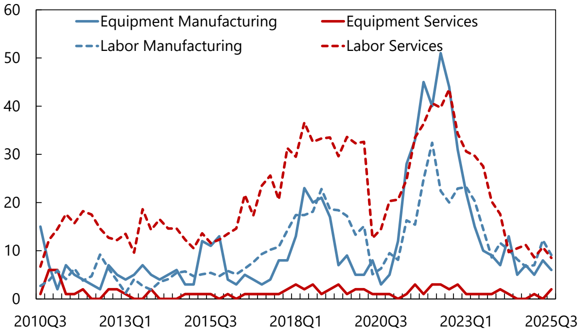


Sources: European Commission; and Haver Analytics.

… while supply constraints have eased significantly.

Factors Limiting Production: Manufacturing and Services

(Percent, SA)



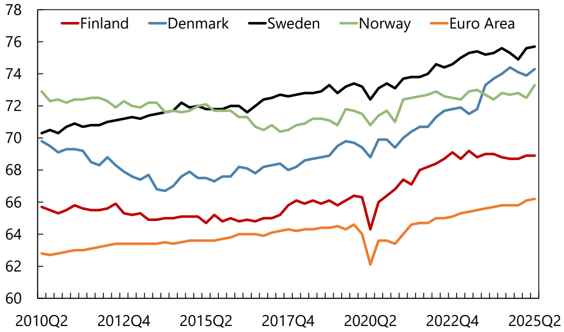
Sources: European Commission; and Haver Analytics.

Figure 2. Labor Market Developments

Participation in Finland remains below Nordic peers but above the euro area average.

Participation Rates in Nordic Countries

(Percent of the total working-age population, age 15-74)

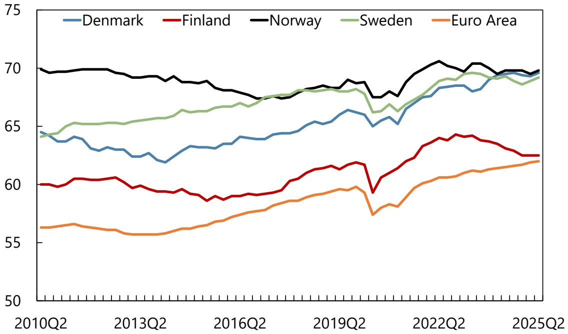


Source: Statistics Office of the European Communities; and Haver Analytics.

Employment rates in Finland have fallen recently but remain high by historical standards.

Employment Rate

(Percent of the total working-age population, age 15-74)

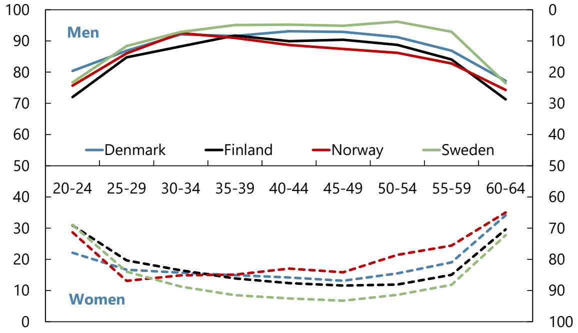


Source: Statistics Office of the European Communities; and Haver Analytics.

Finland's participation peaks at mid-ages but is lower among youth and older men.

Participation Rate by Age Cohort, 2024

(LHS: Percent, Men; RHS: Percent, Women)

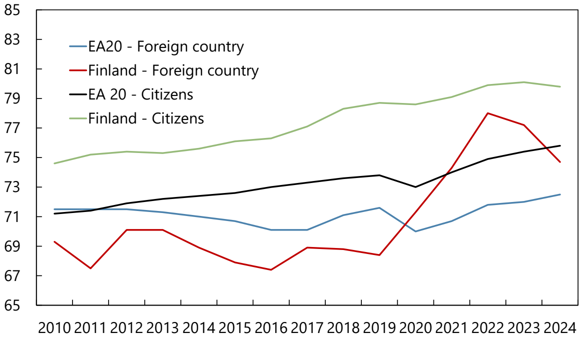


Source: OECD.

Foreign-born labor participation in Finland lags citizens averages.

Participation Rate by Citizenship

(Percent)

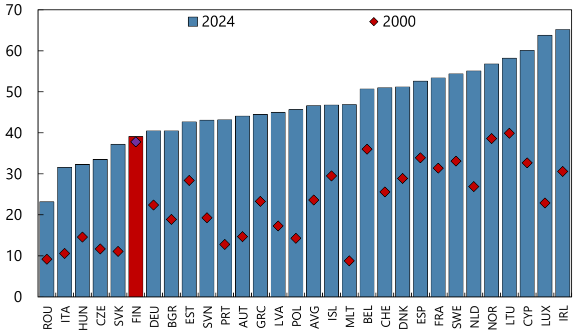


Source: Eurostat; and IMF staff calculations.

Finland's tertiary attainment among youth is below most OECD countries and has stagnated since 2020.

Share of Tertiary-Educated 25-34 Year-Olds

(Percent)

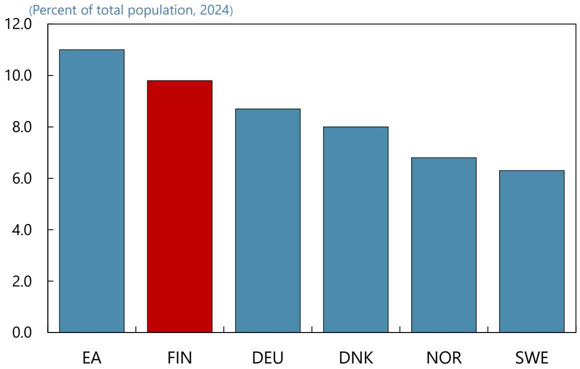


Source: OECD.

Finland's "not in employment, education or training" rate exceeds peers but remains below the euro area average.

Youth Not in Employment, Education or Training

(Percent of total population, 2024)

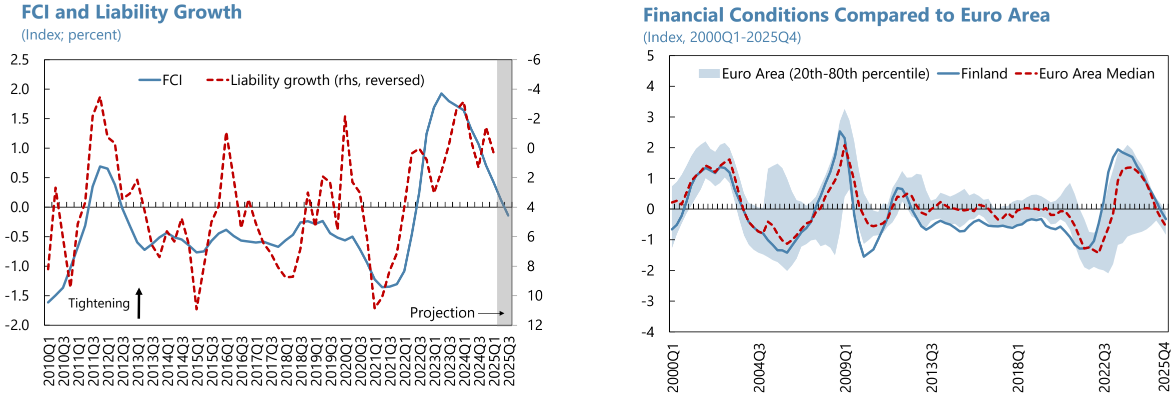


Source: Eurostat.

Figure 3. Financial Conditions Index (FCI)[1]

Financial conditions in Finland have returned to their neutral levels …

… and align with those of the rest of the euro area.



FCI and Liability Growth

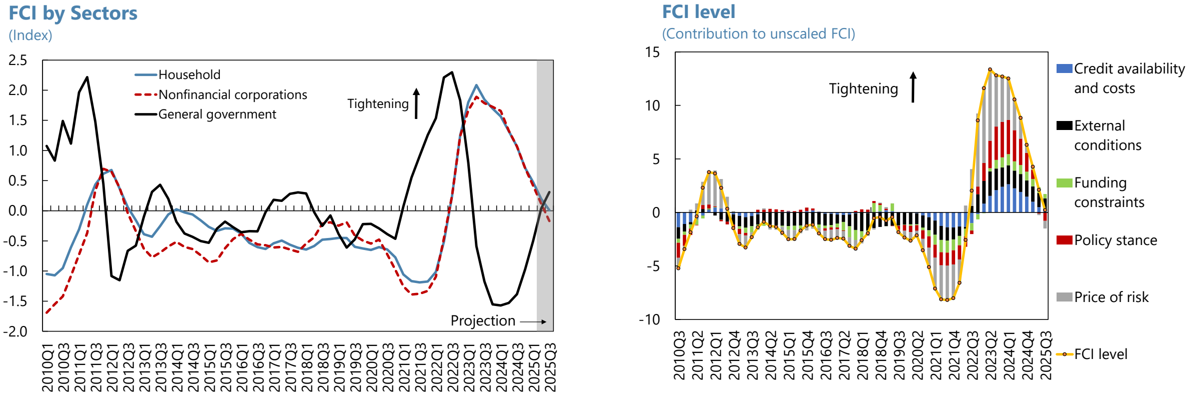
(Index; percent)

Financial Conditions Compared to Euro Area

(Index, 2000Q1-2025Q4)

Financial conditions have eased for the private sector, but have tightened for the general government.

Key drivers of this easing include the price of risk, policy stance, and external factors.



FCI by Sectors

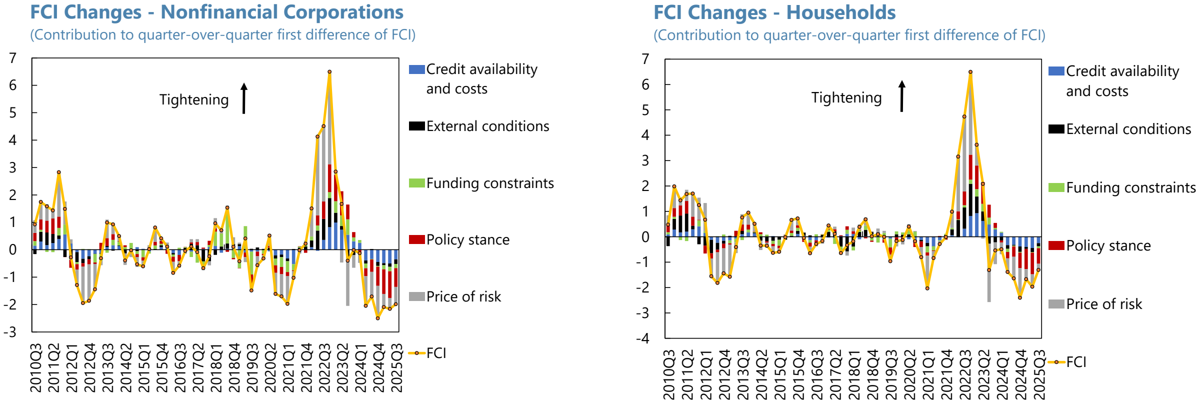
(Index)

FCI level

(Contribution to unscaled FCI)

The easing is widespread across factors for NFCs …

… as well as for households.



FCI Changes - Nonfinancial Corporations

(Contribution to quarter-over-quarter first difference of FCI)

FCI Changes - Households

(Contribution to quarter-over-quarter first difference of FCI)

1\ Source: Borraccia, G., Espinoza, R.A., Guzzo, V., Jiang, F., Lafarguette, R., Nguyen, H.V., Segoviano Basurto, M. and Wingender, P. 2023. “Financial Conditions in Europe: Dynamics, Drivers, and Macroeconomic Implications.” IMF Working paper 23/209, Washington DC.

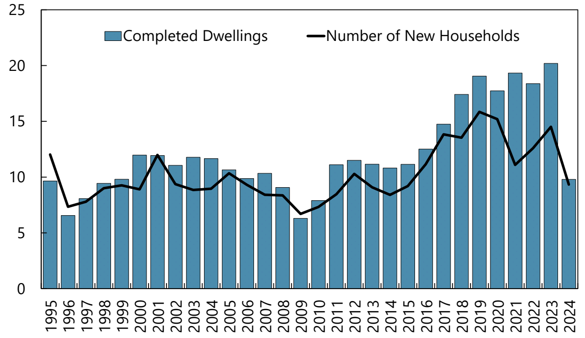
Note: For implementing Partial Least Square, we divide the sample into distinct time periods, each with its regression. The indices are then chained together. It’s essential to note that the absolute FCI levels may not be entirely comparable to the early 2000s, given variations in available financial indicators. The final index chain covers most of the 2015-2024 period. 2025Q2 and 2025Q3 are forecasts.

Figure 4. Finland: Real Estate Market Developments

After 2015, housing demand increased sharply in urban areas but was exceeded by a construction boom …

Housing Demand and Supply in Greater Helsinki

(Region Uusimaa, Thousands)

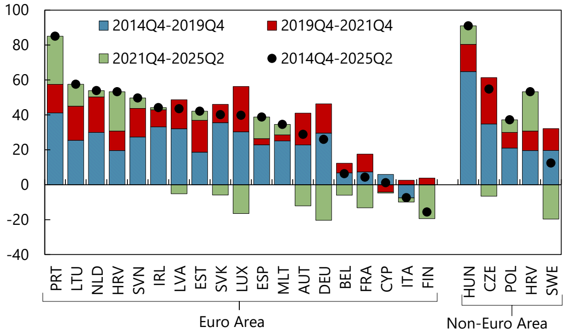


Sources: Statistics Finland; and IMF staff calculations.

… leading to only modest house price rises. With recent declines, real house prices are below their 2014 levels …

Change in Real House Price Index

(Percent)

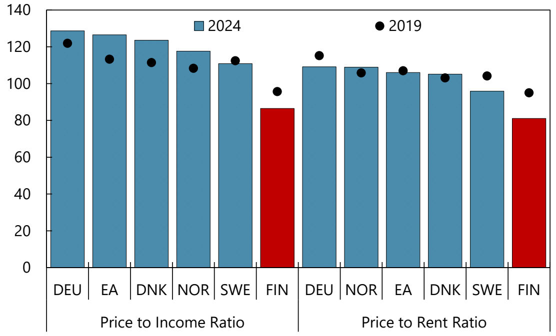


Sources: Eurostat; Haver Analytics; and IMF staff calculations.

… and have declined relative to income and rents, showing no signs of overvaluation relative to the region.

Price-to-Income Ratio and Price-to-Rent Ratio

(Index, 2015=100)

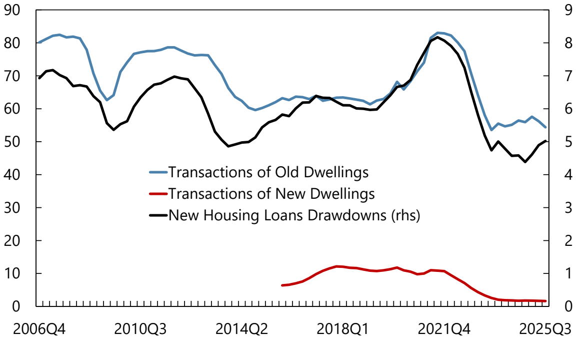


Source: OECD.

After sharply declining, housing activity has stabilized at low levels …

Housing Transactions and New Housing Loans

(Lhs: thousands, 4Q trailing sum; rhs: EUR billion, 4Q trailing sum)

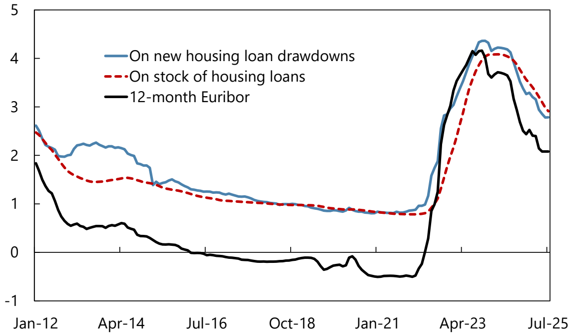


Sources: Statistics Finland; and IMF staff calculations.

… supported by lower interest rates on housing loans.

Average Interest Rate on Housing Loans

(Percent)

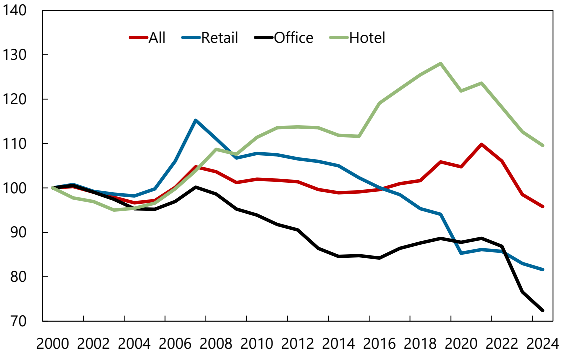


Source: Bank of Finland.

The CRE market has undergone a price correction, particularly in the retail and office segments.

Capital Growth Rates Across Segments in Finland

(Index, 2000=100)



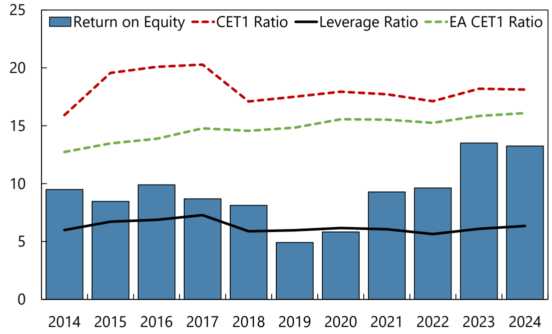
Sources: MSCI; and IMF staff calculations.

Figure 5. Finland: Financial Sector

The Finnish banking system is well capitalized.

Capitalization and Profitability

(Percent)

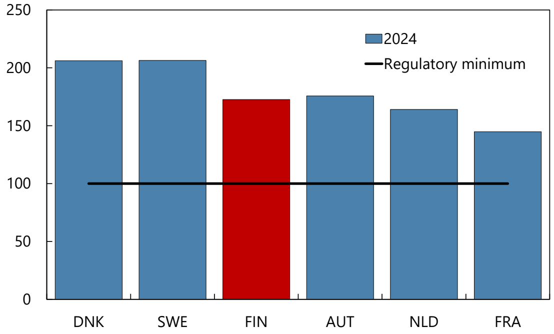


Source: European Central Bank.

Banks are highly liquid, as in peer countries.

Liquidity Coverage Ratio

(Percent)

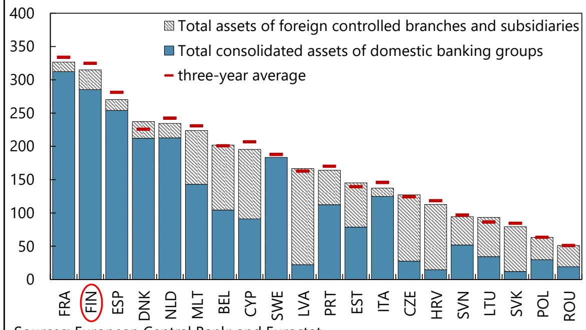


Source: European Central Bank.

But the banking system is large …

Banking Sector Size

(EU; share of nominal GDP; percentages; 2024)

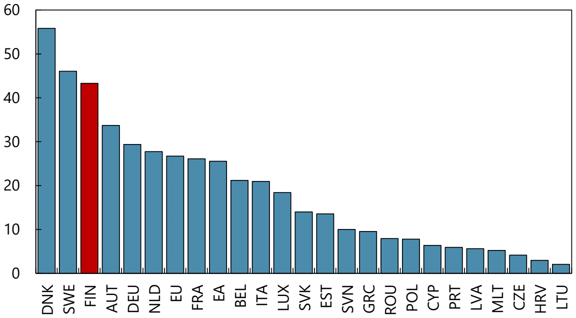


Sources: European Central Bank; and Eurostat.
Notes: Based on Consolidated Banking Data.

… with a heavy reliance on wholesale funding.

Market Funding Structure 1/

(Percent, 2024)

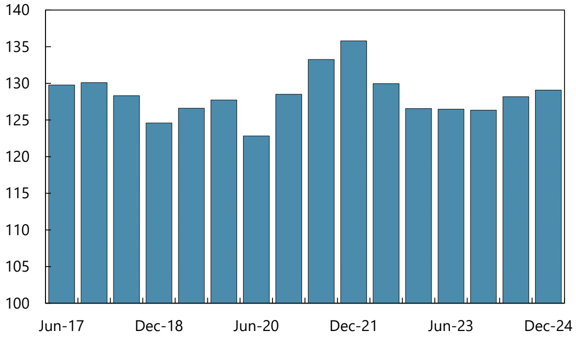


Source: European Central Bank.
1/ Ratio of credit institutions' deposits and debt securities to total liabilities.

Pension funds' solvency ratios are strong.

Employee Pension Institutions' Solvency Ratios

(Percent)

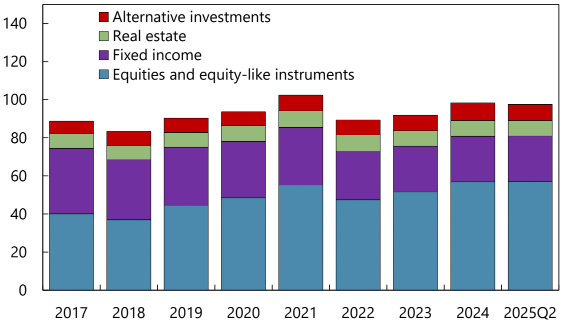


Source: FIN-FSA.

Pension funds' assets are large relative to the size of the economy.

Pension Funds' Investment Assets by Instrument

(Percent of GDP)



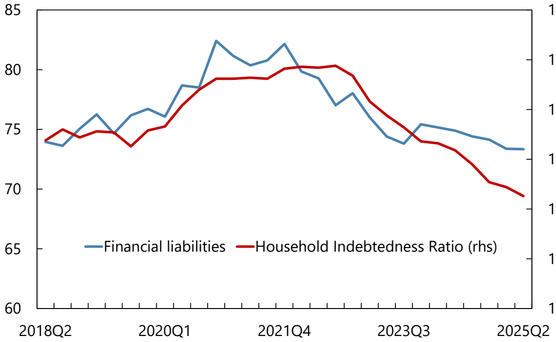
Sources: The Finnish Pension Alliance TELA; Haver Analytics; and IMF staff calculations.

Figure 6. Finland: Household Balance Sheets

Household indebtedness has declined in recent years ...

Financial Liabilities

(Lhs: Percent of GDP; rhs: Percent of Disposable Income)

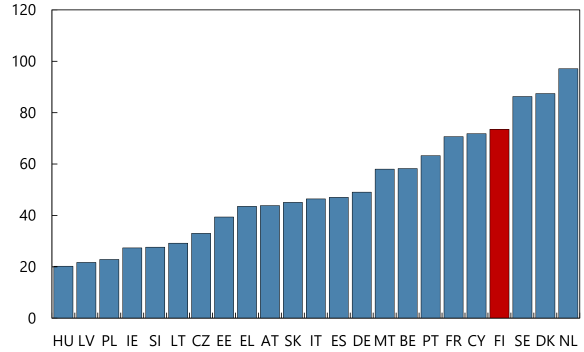


Sources: Eurostat; Statistics Finland; and IMF staff calculations.

... but remains high by European standards.

Financial Liabilities

(Percent of GDP, 2024)

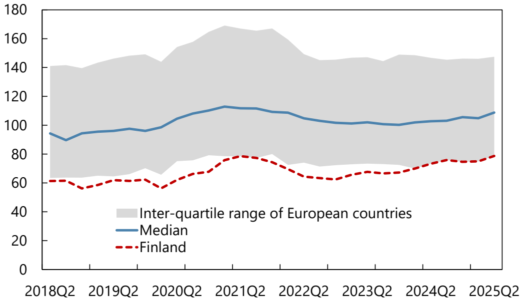


Sources: Eurostat; and IMF staff calculations.

Financial net worth is low relative to European peers ...

Financial Net Worth

(Percent of GDP)

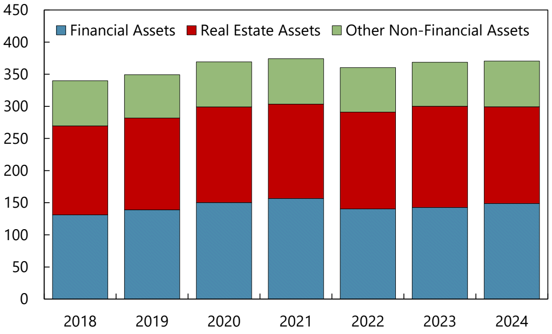


Sources: Eurostat; and IMF staff calculations.
Note: Net Worth = Financial assets - Financial liabilities.

... as most of wealth is non-financial, mainly housing.

Households Assets

(Percent of GDP)

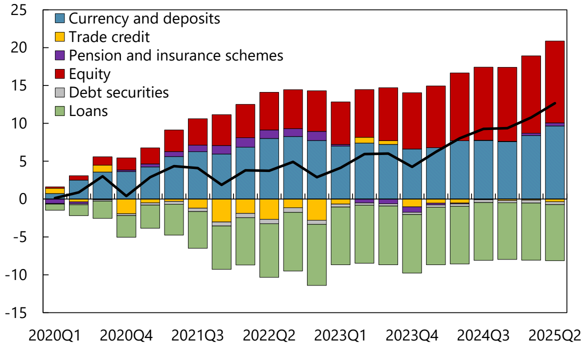


Sources: Statistics Finland; Haver Analytics; and IMF staff calculations.

Net financial wealth has increased recently, supported by an accumulation of cash and equity holdings ...

Cumulative Net Financial Transactions

(Percent of 2019 GDP)

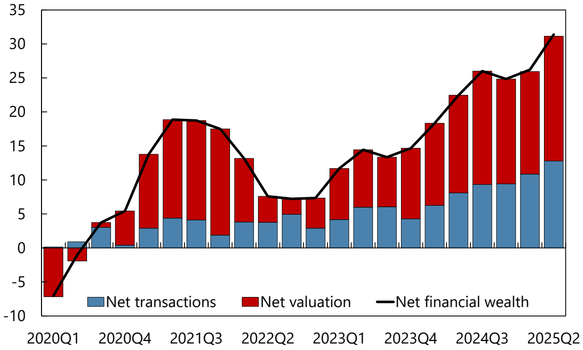


Sources: Eurostat; and IMF staff calculations.

... and strong valuation gains.

Cumulative Change in Net Financial Wealth

(Percent of 2019 GDP)



Sources: Eurostat; and IMF staff calculations.

Table 1. Finland: Selected Economic Indicators, 2022–31

	2022	2023	2024	2025 [1]	2026	2027	2028	2029	2030	2031
					Proj.					
	(Percentage change, unless otherwise indicated)									
Output and Demand (Volumes)										
GDP	0.8	-0.9	0.4	0.2	1.5	1.5	1.3	1.2	1.2	1.2
Domestic demand	2.7	-4.2	-0.3	-0.3	1.5	1.7	1.6	1.4	1.4	1.4
Private consumption	0.9	0.0	-0.4	-0.4	1.5	1.3	1.2	1.2	1.2	1.2
Public consumption	-0.6	2.6	1.7	-2.5	-0.8	0.9	0.9	1.0	1.0	1.0
Gross fixed capital formation	1.5	-7.4	-5.0	-0.3	4.4	4.1	2.8	2.6	2.6	2.6
Net exports (contribution to growth in percent of GDP)	-2.0	2.9	1.1	1.2	-0.1	-0.2	-0.3	-0.2	-0.2	-0.2
Prices, Costs, and Income										
Consumer price inflation (harmonized, average)	7.2	4.3	1.0	1.8	1.7	2.0	2.0	2.0	2.0	2.0
Consumer price inflation (harmonized, end-year)	8.8	1.3	1.6	1.7	2.0	2.0	2.0	2.0	2.0	2.0
GDP deflator	6.2	3.5	0.7	1.4	1.9	2.2	1.9	2.1	2.4	2.3
Unit labor cost, manufacturing	13.3	6.7	-2.7	0.0	1.9	2.3	1.8	2.0	2.1	2.1
Labor Market										
Participation Rate (15-74 years)	68.0	68.6	69.0	69.4	69.7	70.2	70.8	71.2	71.7	72.2
Employment	2.6	0.3	-0.9	-0.4	0.4	0.5	0.6	0.6	0.6	0.6
Unemployment rate (in percent)	6.8	7.2	8.4	9.0	8.7	8.6	8.6	8.4	8.3	8.2
Potential Output										
Output gap (in percent of potential output)[2]	0.9	-0.9	-1.4	-1.7	-1.0	-0.7	-0.5	-0.3	-0.1	0.0
Growth in potential output	0.8	0.8	0.9	0.5	0.8	1.2	1.1	1.0	1.0	1.1
					(Percent of GDP)					
General Government Finances[3]										
Overall balance	-0.2	-2.9	-4.5	-4.5	-3.6	-3.5	-3.2	-3.3	-3.2	-3.1
Primary balance[4]	-0.2	-3.0	-4.4	-4.1	-2.8	-2.4	-1.9	-1.9	-1.8	-1.7
Structural balance (in percent of potential GDP)[5]	-1.1	-2.4	-3.5	-3.4	-3.2	-3.5	-3.5	-3.6	-3.7	-3.7
Structural primary balance (in percent of potential GDP)[6]	-1.2	-2.6	-3.4	-3.0	-2.4	-2.5	-2.3	-2.3	-2.3	-1.2
Gross debt	74.0	77.1	82.1	88.3	90.2	90.7	92.4	94.0	95.1	96.2
Balance of Payments										
Current account balance	-2.4	-0.9	-0.7	0.4	0.3	0.1	0.0	-0.1	0.0	0.0
Goods and services balance	-2.0	0.0	0.4	1.6	1.4	1.1	0.9	0.7	0.8	0.8
Net international investment position	0.1	12.9	24.7	24.8	24.3	23.6	22.9	22.1	21.3	20.7
Gross external debt	215.8	216.9	203.5	211.2	215.6	218.5	223.0	226.5	229.3	231.4

Sources: Bank of Finland; BIS; International Financial Statistics; IMF Institute; Ministry of Finance; Statistics Finland; and IMF staff calculations.

[1] Values for 2025 are estimates.

[2] A negative value indicates a level of actual GDP that is below potential output.

[3] Fiscal projections include measures as specified in the General Government Fiscal Plan.

[4] Adjusted for interest expenditures and receipts.

[5] Not adjusted for COVID-related one-off measures.

[6] Adjusted for interest expenditures and receipts. Not adjusted for COVID-related one-off measures.

Table 2. Finland: Balance of Payments, 2022–31

	2022	2023	2024	2025 [1]	2026	2027	2028	2029	2030	2031
					Proj.					
					Billions of euros					
Current Account	-6.4	-2.5	-1.9	1.2	0.8	0.3	-0.1	-0.3	-0.1	0.1
Goods and services	-5.3	0.1	1.0	4.4	4.0	3.3	2.6	2.3	2.5	2.8
Exports of goods and services	123.2	116.8	115.7	116.1	114.6	117.6	121.4	125.7	131.0	136.5
Goods	88.9	82.6	76.8	80.6	79.0	80.9	82.8	85.2	88.3	91.5
Services	34.3	34.1	38.8	35.5	35.5	36.8	38.5	40.5	42.7	45.0
Imports of goods and services	128.5	116.7	114.7	111.7	110.6	114.3	118.7	123.4	128.5	133.7
Goods	89.1	74.5	70.8	70.5	69.6	71.8	74.5	77.4	80.6	83.9
Services	39.4	42.2	43.8	41.2	41.0	42.5	44.2	46.0	47.9	49.8
Income	-1.1	-2.6	-2.8	-3.2	-3.2	-3.0	-2.7	-2.7	-2.7	-2.7
Compensation of employees										
o/w Investment income	-1.1	-2.6	-2.8	-3.2	-3.2	-3.0	-2.7	-2.7	-2.7	-2.7
Capital and Financial Account	-3.7	-5.3	1.2	1.4	1.0	0.7	0.2	0.0	0.2	0.4
Capital account	0.0	0.0	0.3	0.1	0.1	0.2	0.1	0.2	0.2	0.1
Financial account	-3.7	-5.3	0.9	1.3	0.9	0.5	0.1	-0.2	0.0	0.3
Direct investment	8.6	-0.9	3.0	1.6	1.9	2.4	2.4	2.6	2.1	2.6
In Finland	12.7	-0.1	8.0	7.1	7.4	6.5	8.2	7.5	8.6	7.3
Abroad	21.3	-1.0	11.0	8.7	9.3	8.9	10.6	10.1	10.7	10.0
Portfolio investment	-9.1	1.5	0.0	4.0	4.2	3.3	4.5	4.8	5.0	4.7
Financial derivatives	-5.2	-2.4	5.8	-1.5	0.0	0.0	0.0	0.0	0.0	0.0
Other investment	1.6	-3.6	-8.6	-2.8	-5.2	-5.2	-6.8	-7.5	-7.1	-7.1
Assets	40.0	-2.4	-62.3	4.7	4.7	4.7	4.7	4.7	4.7	4.7
Liabilities	38.4	1.2	-53.7	7.6	9.9	9.9	11.6	12.3	11.8	11.8
Reserve assets	0.4	0.0	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net errors and omissions	2.8	-2.8	2.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
					Percent of GDP					
Current Account	-2.4	-0.9	-0.7	0.4	0.3	0.1	0.0	-0.1	0.0	0.0
Goods and services	-2.0	0.0	0.4	1.6	1.4	1.1	0.9	0.7	0.8	0.8
Exports of goods and services	46.3	42.8	41.9	41.4	39.6	39.2	39.2	39.2	39.5	39.7
Goods	33.4	30.3	27.8	28.8	27.3	26.9	26.7	26.6	26.6	26.7
Services	12.9	12.5	14.1	12.7	12.3	12.2	12.4	12.6	12.9	13.1
Imports of goods and services	48.3	42.8	41.5	39.9	38.2	38.1	38.3	38.5	38.7	38.9
Goods	33.5	27.3	25.7	25.2	24.1	23.9	24.0	24.2	24.3	24.4
Services	14.8	15.5	15.9	14.7	14.2	14.1	14.3	14.4	14.4	14.5
Income	-0.4	-0.9	-1.0	-1.1	-1.1	-1.0	-0.9	-0.8	-0.8	-0.8
Capital and Financial Account	-1.4	-2.0	0.4	0.5	0.4	0.2	0.1	0.0	0.1	0.1
Capital account	0.0	0.0	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Financial account	-1.4	-2.0	0.3	0.5	0.3	0.2	0.0	-0.1	0.0	0.1
Direct investment	3.2	-0.3	1.1	0.6	0.7	0.8	0.8	0.8	0.6	0.8
Portfolio investment	-3.4	0.6	0.0	1.4	1.4	1.1	1.5	1.5	1.5	1.4
Financial derivatives	-1.9	-0.9	2.1	-0.5	0.0	0.0	0.0	0.0	0.0	0.0
Other investment	0.6	-1.3	-3.1	-1.0	-1.8	-1.7	-2.2	-2.4	-2.1	-2.1
Reserve assets	0.1	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net errors and omissions	1.0	-1.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GDP at current prices (bln euros)	266.1	272.8	276.0	280.2	289.5	300.2	309.8	320.2	331.6	343.4

Sources: Bank of Finland, Statistics Finland; and IMF staff calculations.

[1] Values for 2025 are estimates.

Table 3. Finland: General Government Statement of Operations, 2022–31

(Percent of GDP, unless otherwise indicated)

	2022	2023	2024	2025 [1]	2026	2027	2028	2029	2030	2031
					Proj.					
Revenue	52.5	53.0	53.3	53.8	54.1	53.6	53.8	54.0	54.0	54.0
Tax Revenues	31.2	30.2	30.4	30.7	31.0	30.7	31.1	31.4	31.4	31.4
Taxes on production and imports	14.4	13.8	13.9	14.1	14.2	14.0	14.1	14.3	14.3	14.3
Current taxes on income, wealth, etc.	16.4	16.0	16.0	16.2	16.3	16.3	16.5	16.7	16.7	16.7
Capital taxes	0.3	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Social Contributions	12.1	12.5	11.8	12.1	12.1	12.1	12.1	12.1	12.1	12.1
Grants	0.3	0.4	0.6	0.5	0.6	0.4	0.3	0.3	0.3	0.3
Other Revenue	8.8	9.9	10.5	10.5	10.4	10.4	10.3	10.2	10.2	10.2
Expenditure	52.6	55.9	57.8	58.3	57.7	57.0	57.0	57.3	57.2	57.1
Expense	52.2	55.4	57.1	57.2	56.6	56.0	56.0	56.1	56.0	55.9
Compensation of employees	12.5	13.2	13.4	13.5	13.5	13.5	13.5	13.5	13.4	13.4
Use of goods and services	10.4	11.5	11.7	11.5	11.1	10.9	11.0	11.2	11.1	11.1
Consumption of fixed capital (CFC)	3.6	3.7	3.8	3.9	3.9	3.9	3.9	4.0	4.0	4.0
Interest	0.6	1.2	1.6	1.6	1.9	2.2	2.3	2.4	2.4	2.5
Subsidies	1.1	1.0	1.2	1.1	1.1	1.0	1.0	0.9	0.9	0.9
Grants	1.0	1.0	1.0	1.0	0.9	0.9	0.9	0.9	0.8	0.8
Social benefits	20.8	21.6	22.5	22.8	22.2	21.8	21.6	21.5	21.5	21.5
Other expense	2.0	2.2	1.9	1.8	1.9	1.8	1.8	1.8	1.8	1.8
Net Acquisition of Nonfinancial Assets	0.4	0.5	0.6	1.1	1.1	1.0	0.9	1.2	1.2	1.2
Net Operating Balance	0.2	-2.4	-3.8	-3.4	-2.5	-2.4	-2.2	-2.1	-2.0	-1.9
Net Lending/Borrowing	-0.2	-2.9	-4.5	-4.5	-3.6	-3.5	-3.2	-3.3	-3.2	-3.1
Net Acquisition of Financial Assets	6.6	2.0	...	...	...	...	...	...	...	...
Currency and deposits	0.0	0.6	...	...	...	...	...	...	...	...
Securities other than shares	0.1	0.3	...	...	...	...	...	...	...	...
Loans	3.3	-0.4	...	...	...	...	...	...	...	...
Shares and other equity	0.8	1.1	...	...	...	...	...	...	...	...
Financial derivatives	1.2	0.4	...	...	...	...	...	...	...	...
Other accounts receivable	1.2	0.0	...	...	...	...	...	...	...	...
Net Incurrence of Liabilities	7.6	4.6	...	...	...	...	...	...	...	...
Special Drawing Rights (SDRs)	0.0	0.0	...	...	...	...	...	...	...	...
Currency and deposits	0.0	0.0	...	...	...	...	...	...	...	...
Securities other than shares	4.0	4.3	...	...	...	...	...	...	...	...
Loans	1.0	0.6	...	...	...	...	...	...	...	...
Shares and other equity	0.0	-0.5	...	...	...	...	...	...	...	...
Financial derivatives	0.0	0.0	...	...	...	...	...	...	...	...
Other accounts payable	2.6	0.1	...	...	...	...	...	...	...	...
Memorandum Items:										
Primary Balance[2]	-0.2	-3.0	-4.4	-4.1	-2.8	-2.4	-1.9	-1.9	-1.8	-1.7
Structural Balance (in percent of potential GDP)[3]	-1.1	-2.4	-3.5	-3.4	-3.2	-3.5	-3.5	-3.6	-3.7	-3.7
Structural primary balance (in Percent of Potential GDP)[4]	-1.2	-2.6	-3.4	-3.0	-2.4	-2.5	-2.3	-2.3	-2.3	-2.3
Central Government Net Lending/Borrowing	-1.4	-3.3	-3.7	-4.3	-3.4	-3.3	-3.0	-3.1	-3.0	-2.9
General Government Gross Debt	74.0	77.1	82.1	88.3	90.2	90.7	92.4	94.0	95.1	96.2
General Government Net Debt[5]	-60.4	-56.0	-50.9	-45.7	-40.6	-35.7	-31.4	-27.1	-23.1	-19.2
Central Government Gross Debt	60.4	63.0	66.0	71.0	72.0	71.7	72.7	73.6	74.2	74.7
Output Gap (Percent of Potential GDP)	0.9	-0.9	-1.4	-1.7	-1.0	-0.7	-0.5	-0.3	-0.1	0.0
Nominal GDP (Billions of Euros)	266.1	272.8	276.0	280.2	289.5	300.2	309.8	320.2	331.6	343.4

Sources: Eurostat; Government Finance Statistics; International Financial Statistics; Ministry of Finance; and IMF staff calculations.

[1] Values for 2025 are estimates.

[2] Adjusted for interest expenditures and receipts.

[3] Not adjusted for COVID-related one-off measures.

[4] Adjusted for interest expenditures and receipts. Not adjusted for COVID-related one-off measures.

[5] Defined as the negative of net financial worth (i.e., debt minus assets; excludes all pension liabilities).

Table 4. Finland: Financial Soundness Indicators, 2017–2025Q2

(Ratios, unless otherwise indicated)

	2017	2018	2019	2020	2021	2022	2023	2024	2025Q2
Capital Adequacy									
Regulatory Capital to Risk-Weighted Assets	21.4	21.5	20.5	20.6	20.6	20.3	20.7	21.5	21.5
Regulatory Tier 1 Capital to Risk-Weighted Assets	19.6	19.6	18.3	18.6	18.6	18.3	18.5	19.2	19.3
Total Capital to Total Assets	6.0	4.7	6.2	6.4	6.6	6.7	6.8	7.2	7.1
Asset Quality and Exposure									
Non-performing Loans to Total Gross Loans	0.7	1.0	1.5	1.5	1.5	1.4	1.3	1.4	1.5
Non-performing Loans Net of Provisions to Capital	5.7	8.8	10.7	9.7	9.2	8.0	7.7	8.6	9.4
Earnings and Profitability									
Return on Assets	0.6	1.8	0.5	0.5	0.8	0.8	1.2	1.3	1.2
Return on Equity	7.6	26.2	6.5	6.2	9.3	9.5	14.5	14.6	13.5
Non-interest Expenses to Gross Income, percent	61.3	58.7	63.7	61.7	57.1	57.4	48.3	48.9	51.4
Personnel Expenses as Percent of Noninterest Expenses	38.2	45.8	43.9	44.4	45.4	44.4	45.1	46.7	47.7
Liquidity									
Liquid Assets to Total Assets (Liquid Asset Ratio)	14.2	8.9	17.7	17.3	18.2	20.9	21.0	20.6	21.1
Liquid Assets to Short Term Liabilities	20.9	19.1	22.1	21.7	22.2	23.8	23.8	23.2	23.7
Customer Deposits as Percent of Total (non-interbank) Loans	76.6	109.9	57.1	60.0	63.3	62.2	62.3	62.7	64.4
Memorandum Items									
Change in housing price index (in percent, year average)	1.1	0.9	0.4	1.8	4.6	1.0	-6.2	-3.1	-1.5
Total household debt (in percent of GDP)	64.0	64.8	65.3	69.0	68.1	65.9	64.0	63.1	62.3
Total household debt (in percent of disposable income)	137.6	144.4	147.2	155.8	157.9	155.5	147.5	141.6	...
Gross debt of Non-financial Corporations (in percent of GDP)[1]	138.6	137.7	135.3	141.1	140.9	142.6	136.9	133.1	132.6

Sources: Bank of Finland, ECB, FIN-FSA, Financial Soundness Indicators, and OECD.

Annex I. Debt Sustainability Analysis

Figure I.1. Finland: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	**Low**	Staff's assessment on the overall risk of sovereign stress is low, due to low risk of refinancing and diversified investor base.
Near term 1/			
Medium term	**Low**	**Low**	Staff assesses the medium-term risk of sovereign stress as low, with a diversified investor base and strong institutions.
Fanchart	**Low**	...	
GFN	**Moderate**	...	
Stress test	Bank. Crisis Cont. Liabty.	...	
Long term	...	**Moderate**	Long-term risks are moderate as aging-related expenditures on health and social security feed into debt dynamics.
Sustainability assessment 2/	Not required for surveillance countries		
Debt stabilization in the baseline			No

DSA Summary Assessment

Commentary: Finland is at a low overall risk of sovereign stress and debt is sustainable. However, debt is expected to rise steadily for several years. The liquidity risks are however low due to highly diversified investor base. Over the longer run, Finland is affected by population aging which require a wide-ranging set of fiscal and structural reforms.

Source: IMF staff calculations.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Figure I.2. Finland: Debt Coverage and Disclosures

Comments: Not applicable

1. Debt coverage in the DSA: 1/

CG	GG	NFPS	CPS	Other
CG	🟩 GG	NFPS	CPS	Other

1a. If central government, are non-central government entities insignificant? n.a.

2. Subsectors included in the chosen coverage in (1) above:

CPS	NFPS	GG: expected	CG		Subsectors captured in the baseline	Inclusion
CPS	NFPS	GG: expected	CG	1	Budgetary central government	🟩 Yes
				2	Extra budgetary funds (EBFs)	🟥 No
				3	Social security funds (SSFs)	🟩 Yes
				4	State governments	🟩 Yes
				5	Local governments	🟩 Yes
				6	Public nonfinancial corporations	🟩 Yes
				7	Central bank	🟩 Yes
				8	Other public financial corporations	🟩 Yes

3. Instrument coverage:

Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/
🟩	🟩	🟩	🟥	🟥

4. Accounting principles:

Basis of recording		Valuation of debt stock		
Non-cash basis 4/	🟩 Cash basis	🟩 Nominal value 5/	Face value 6/	Market value 7/

5. Debt consolidation across sectors:

Consolidated	Non-consolidated
Consolidated	🟩 Non-consolidated

Color code: 🟩 chosen coverage 🟥 Missing from recommended coverage ▨ Not applicable

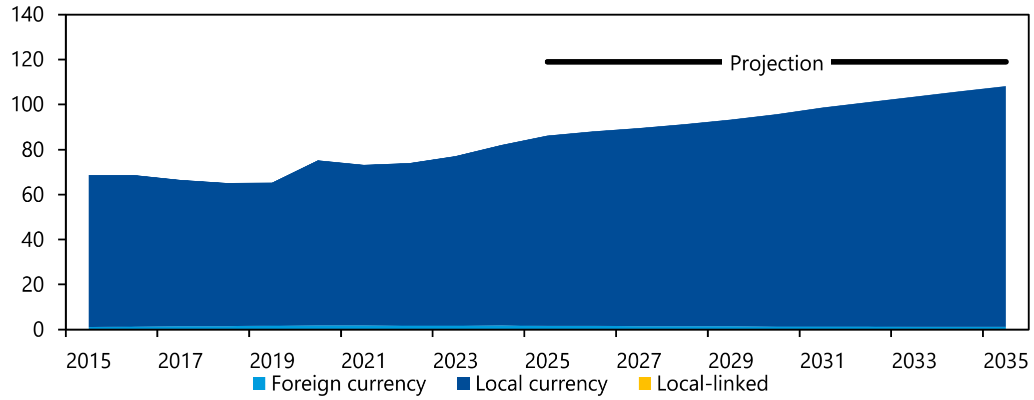
Reporting on Intra-Government Debt Holdings

CPS	NFPS	GG: expected	CG		Issuer \ Holder	Budget. central govt	Extra-budget. funds (EBFs)	Social security funds (SSFs)	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS	NFPS	GG: expected	CG	1	Budget. central govt	▨								0
				2	Extra-budget. funds		▨							0
				3	Social security funds			▨						0
				4	State govt.				▨					0
				5	Local govt.					▨				0
				6	Nonfin pub. corp.						▨			0
				7	Central bank							▨		0
				8	Oth. pub. fin. corp								▨	0
					Total	0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

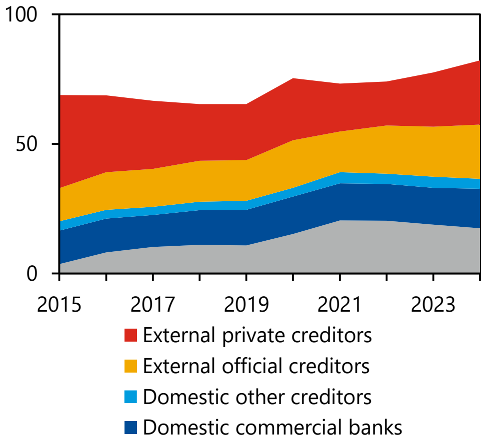
Figure I.3. Finland: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



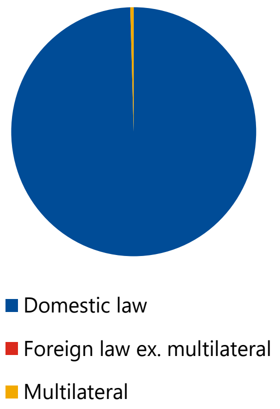
Note: The perimeter shown is general government.

Public Debt by Holder (Percent of GDP)



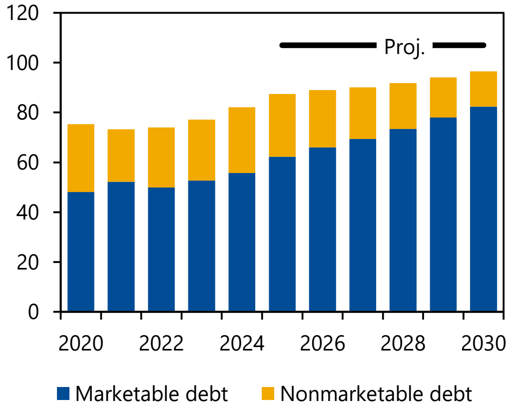
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2024 (percent)



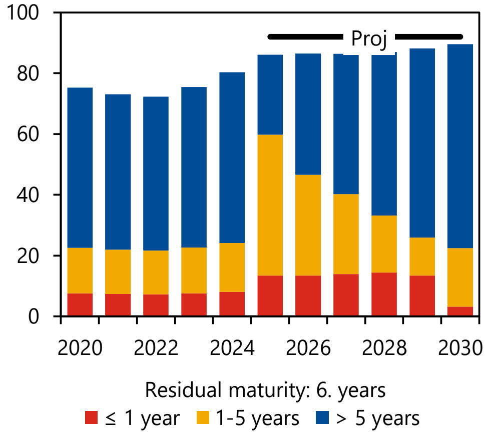
Note: The perimeter shown is general government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (Percent of GDP)



Note: The perimeter shown is general government.

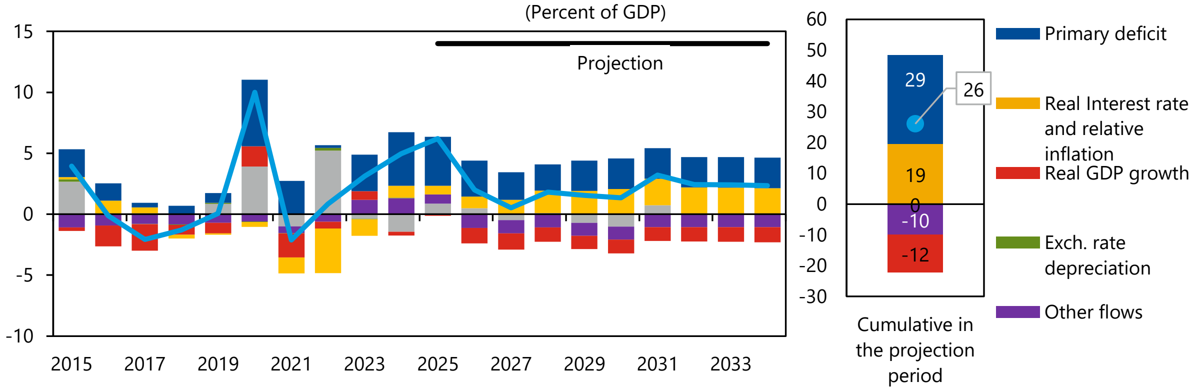
Figure I.4. Finland: Baseline Scenario

(Percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Public debt	82.1	88.3	90.3	90.8	92.6	94.2	95.5	98.7	101.2	103.6	105.9
Change in public debt	5.0	6.2	2.0	0.5	1.8	1.5	1.4	3.2	2.4	2.4	2.3
Contribution of identified flows	6.4	5.3	1.5	1.0	1.7	2.2	2.4	2.5	2.4	2.4	2.3
Primary deficit	4.4	4.0	2.9	2.3	2.2	2.5	2.5	2.5	2.5	2.5	2.5
Noninterest revenues	51.8	52.7	52.9	52.7	52.6	52.5	52.5	52.5	52.5	52.5	52.5
Noninterest expenditures	56.2	56.7	55.9	55.0	54.7	55.0	55.0	55.0	55.0	55.0	55.0
Automatic debt dynamics	0.7	0.6	-0.3	-0.2	0.7	0.8	0.9	1.0	1.0	1.0	0.9
Real interest rate and relative inflation	1.0	0.7	0.9	1.2	1.8	1.9	2.1	2.2	2.2	2.2	2.1
Real interest rate	1.0	0.7	1.0	1.2	1.8	1.9	2.1	2.2	2.2	2.2	2.1
Relative inflation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	-0.3	-0.1	-1.3	-1.3	-1.2	-1.1	-1.1	-1.1	-1.2	-1.2	-1.2
Real exchange rate	0.0	…	…	…	…	…	…	…	…	…	…
Other identified flows	1.3	0.8	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	-1.5	-1.2	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1
Other transactions	2.8	2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contribution of residual	-1.4	0.9	0.5	-0.5	0.1	-0.7	-1.0	0.7	0.0	0.0	0.0
Gross financing needs	9.4	9.4	17.8	18.0	20.5	23.3	23.8	16.5	19.0	19.0	19.4
of which: debt service	6.5	6.6	15.9	16.8	19.4	21.9	22.4	15.1	17.6	17.5	18.0
Local currency	6.5	6.6	15.9	16.8	19.4	21.9	22.4	15.1	17.6	17.5	18.0
Foreign currency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo:											
Real GDP growth (percent)	0.4	0.2	1.5	1.5	1.3	1.2	1.2	1.2	1.2	1.2	1.2
Inflation (GDP deflator; percent)	0.7	1.3	1.7	2.1	1.9	2.1	2.1	2.1	2.1	2.1	2.1
Nominal GDP growth (percent)	1.2	1.5	3.2	3.7	3.2	3.4	3.4	3.4	3.4	3.4	3.4
Effective interest rate (percent)	2.1	2.2	2.9	3.5	4.0	4.3	4.4	4.5	4.4	4.4	4.3

Contribution to Change in Public Debt

(Percent of GDP)



Commentary: Public debt is expected to continue growing in the medium and long term. This growth is mainly driven by recurrent primary deficits, which more than offsets the impact of stable positive growth.

Figure I.5. Finland: Realism of Baseline Assumptions

Forecast Track Record 1/	t+1	t+3	t+5
Public debt to GDP	🟧	🟧	🟧
Primary deficit	🟧	🟧	🟧
r - g	🟧	🟧	🟧
Exchange rate depreciaton	🟧	🟩	🟩
SFA	🟧	▩	🟧
	real-time	**t+3**	**t+5**
Historical Output Gap Revisions 2/	🟩	▩	▩

Comparator Group:

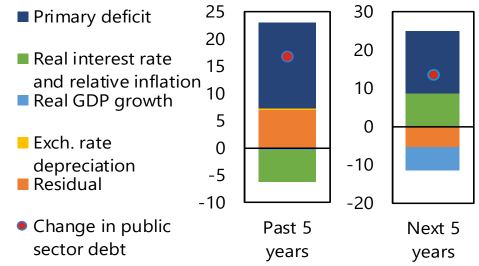
Advanced Economies, Non-Commodity Exporter, Surveillance

Color Code:

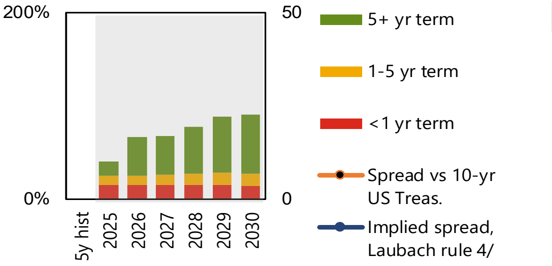
Optimistic	🟥	> 75th percentile
	🟧	50-75th percentile
Pessimistic	🟩	25-50th percentile
	▩	< 25th percentile

Public Debt Creating Flows

(Percent of GDP)

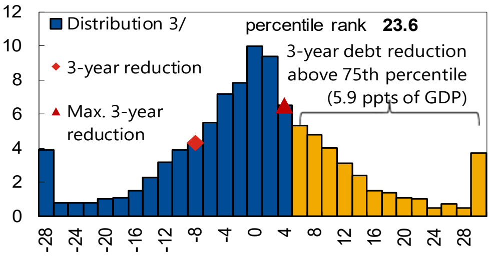


Bond Issuances (Bars, debt issuances (RHS, %GDP); lines, avg marginal interest rates (LHS, percent))

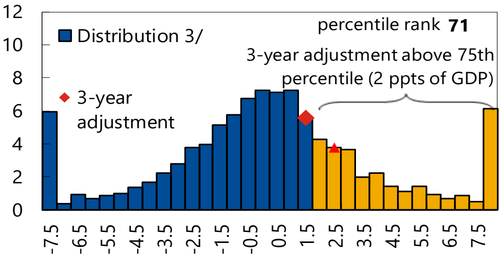


3-Year Debt Reduction

(Percent of GDP)

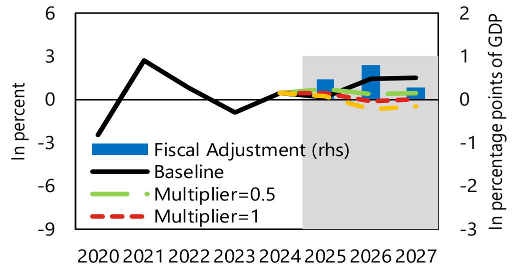


3-Year Adjustment in Cyclically-Adjusted Primary Balance (Percent of GDP)



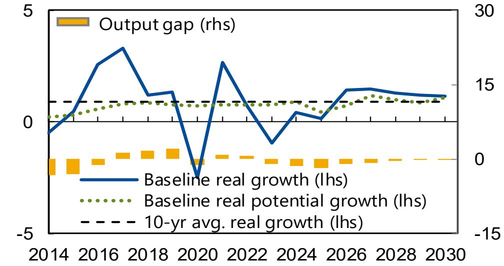
Fiscal Adjustment and Possible Growth Paths

(Lines, real growth using multiplier (LHS); bars, fiscal adj. (RHS))



Real GDP Growth

(In percent)



Commentary: Realism analysis does not point to major concerns as the projected fiscal adjustment and debt reduction are well within norms.

Source : IMF staff calculations.

1/ Projections made in the October and April WEO vintage.

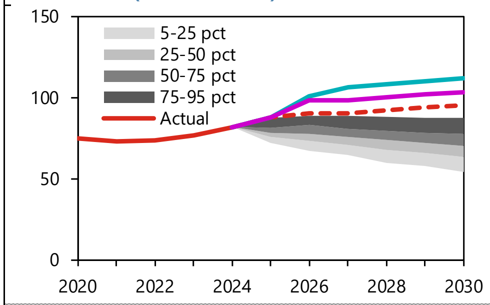
2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates

3/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Figure I.6. Finland: Medium-Term Risk Assessment

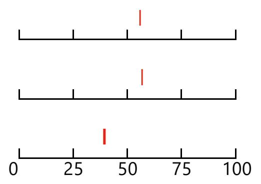
Final Fanchart (Percent of GDP)



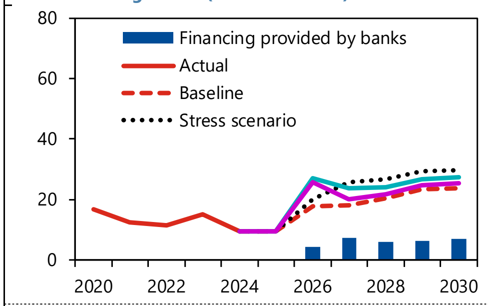
Debt fanchart module

	Value	Contrib 1/
Fanchart width *(percent of GDP)*	33.4	0.5
Probability of debt non-stabilizaiton *(percent)*	6.1	0.1
Terminal debt-to-GDP x institutions index	9.3	0.2
Debt fanchart index (DFI)		0.7
Risk signal: 3/		Low

Percentile in peer group 2/

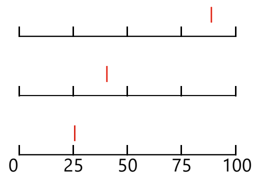


Gross Financing Needs (Percent of GDP)



Gross financing needs (GFN) module

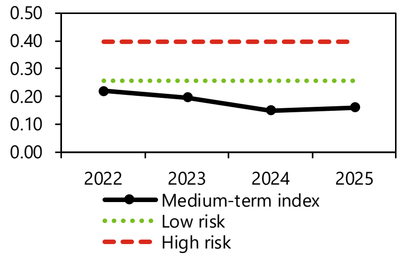
	Value	Contrib 1/
Average baseline GFN *(percent of GDP)*	18.8	6.4
Initial Banks' claims on the gen. govt *(pct bank assets)*	3.8	1.2
Chg. In banks' claims in stress *(pct banks' assets)*	1.5	0.5
GFN financeability index (GFI)		8.2
Risk signal: 4/		Moderate



Triggered stress tests (stress tests not activated in gray)

🟦 Banking crisis Commodity prices Exchange rate 🟪 Contingent liab. Natural disaster

Medium-Term Index (Index Number)



Medium-term risk analysis

	Value	(normalized)	Weight	Contribution
Debt fanchart index	0.7	0.2	0.5	0.1
GFN finaceability index	8.2	0.2	0.5	0.1
Medium-term index		0.2		
Risk signal: 5/		Low		
Final assessment:		Low		

Prob. of missed crisis, 2025-2030, if stress not predicted: 0.0 pct.
Prob. of false alarms, 2025-2030, if stress predicted: 64.8 pct.

Commentary: Medium-term analysis points to a low risk in both modules.

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.
2/ The comparison group is advanced economies, non-commodity exporter, surveillance.
3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.
4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.
5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

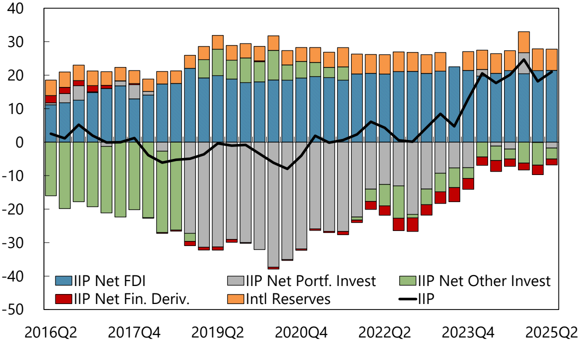
Annex II. External Sector Assessment

Overall Assessment: The external position of Finland in 2025 is estimated to be broadly in line with the level implied by fundamentals and desirable policies.

Fiscal consolidation remains the key tool for improving the external position. Finland's cost competitiveness weakened markedly after 2020 but has gradually improved since 2023. With Finland's persistent weak productivity challenge, it remains crucial that wage increases align closely with productivity developments, while recent labor market reforms to boost participation and reduce work disincentives are fully implemented. Structural reforms that strengthen productivity growth and contain unit labor cost pressures would also support narrowing external imbalances.

Foreign Assets and Liabilities: Position and Trajectory

Background. The external position improved notably in 2024. The Net International Investment Position (NIIP) rose to 25 percent of GDP, reflecting a strong increase in the valuation of portfolio investment assets. The NIIP is expected to remain strong at around 25 percent of GDP by year-end. Net portfolio investment has steadily recovered since bottoming out in 2020, underpinned by rising equity valuations and other investment assets. Gross external debt declined to 204 percent of GDP in 2024 from a 2019 peak of 225 percent although Finland's overall gross external balance sheet remains very large, exceeding 200 percent of GDP on both the asset and liability sides, reflecting deep financial integration and extensive cross-border positions held by pension funds, banks, and corporates. Gross external debt is projected to edge up again to 210 percent in 2025.



International Investment Position

(Percent of GDP)

Source: Haver Analytics; and IMF staff calculations.

Assessment. Over the near term, the NIIP is projected to reduce slightly due to a deterioration of the current account (CA) balance. Vulnerabilities for Finland stem from the large cross-border exposures of the financial sector, including liquidity risk related to foreign-financed wholesale funding.

2025 (est., percent GDP):	NIIP: 24.7	Gross Assets: 348	Debt Assets: 59	Gross Liab.: 323	Debt Liab.: 119

Current Account

Background. Finland's current account slightly improved in 2024, narrowing from a deficit of 0.9 percent of GDP in 2023 to 0.7 percent. Export volumes recovered, led by telecommunications, computer, and information services, though falling prices weighed on export values. At the same time, subdued domestic demand and lower energy imports drove a contraction in imports, bringing the goods and services balance into surplus. The secondary income balance also improved, offsetting a lower primary income balance. For 2025, the current account balance is projected to turn positive, with a goods surplus offsetting a services deficit. In the medium term, the current account is expected to deteriorate amid a less favorable external environment, but it could improve if stronger fiscal consolidation, firmer external demand, and continued efforts to safeguard cost competitiveness materialize.

Assessment. Preliminary results from the EBA estimate a cyclically-adjusted CA of 0.1 percent of GDP and a CA norm of 0.9 percent of GDP. Staff estimates the gap for 2025 to be -0.8 percent (with a range -0.2 and -1.4), of which -0.3 percentage points is attributed to a "policy gap" and -0.5 percentage points as an unidentified residual, reflecting structural factors not accounted for in the model. Within the policy gap, the domestic fiscal policy contribution is estimated at -1.2 percent of GDP, underscoring the key role of fiscal consolidation in reducing external imbalances. According to this result, the external position in 2025 is broadly in line with the level implied by medium-term fundamentals and desirable policies.

Finland: Model Estimates for 2025

(Percent of GDP)

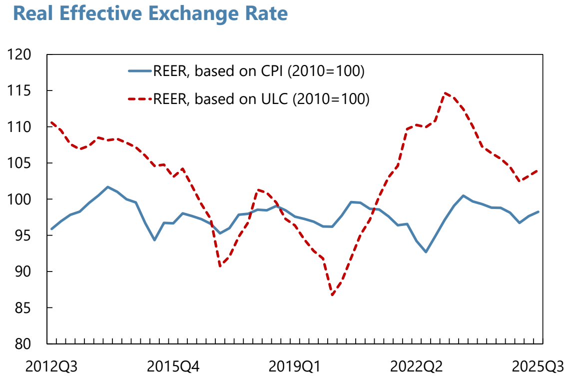
	CA model	REER Index model	REER Level model
CA-Estimate	**0.4**		
Cyclical contributions (from model) (-)	0.3		
Adjusted CA	**0.1**		
CA Norm (from model) 1/	**0.9**		
Adjustments to the norm (+)	0.0		
Adjusted CA Norm	**0.9**		
CA Gap	**-0.8**	**-1.9**	**-0.6**
o/w Relative policy gap	-0.3		
Elasticity	-0.34		
REER Gap (in percent)	**2.4**	**5.7**	**1.7**

1/ Cyclically adjusted, including multilateral consistency adjustments.

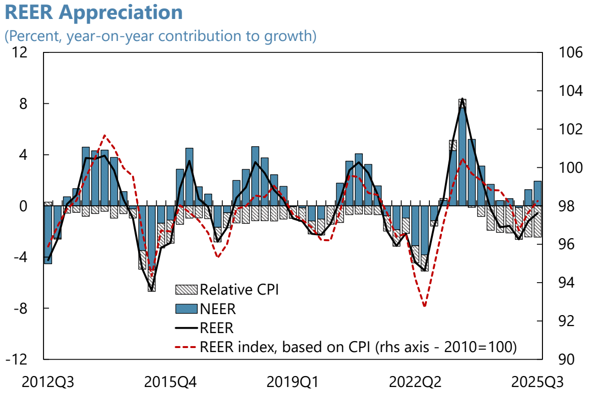
Real Exchange Rate

Background. At the onset of the pandemic, the ULC-based REER appreciated steadily until 2023, after which relative unit labor costs contributed to a real depreciation. By end-2025, the REER had stabilized at levels similar to those of a year ago, and it is expected to remain broadly stable provided wage pressures stay moderate. The CPI-based REER followed a similar pattern: after peaking in 2023, it depreciated steadily through 2025Q1, reflecting lower relative consumer prices. Despite the euro's strong appreciation against the U.S. dollar this year, both ULC- and CPI-based REER measures indicate a negligible real depreciation, as the weak dollar was only partly reflected in a modest nominal effective exchange rate appreciation, and relative prices more than offset the nominal effective exchange rate appreciation.

Assessment. The staff CA gap implies a REER gap of 5.1 percent (after applying an estimated elasticity of 0.34) and a range of 3.3–6.8. According to the estimated EBA REER-gap index and level models, the REER gap suggests an overvaluation of about 5.7 and 1.7 percent, respectively.



Sources: Information Notice System; IMF staff calculations.



Sources: Information Notice System; IMF staff calculations.

Capital and Financial Accounts: Flows and Policy Measures

Background. The financial account improved to 0.3 percent of GDP in 2024, as strong direct investment and financial derivatives more than offset weaker portfolio and other investment balances. Other investment flows were volatile, with unusually large gross movements in both 2022 and 2024. These shifts likely reflect short-term cross-border transactions in loans, deposits, and other instruments that typically dominate this category, although available data do not allow identification of the precise drivers. Such flows are generally sensitive to changes in global liquidity conditions and financial market volatility. The financial account balance positive trend continued in early 2025, registering a surplus on the back of stronger net direct and other investment inflows. Gross external debt remained high at about 204 percent of GDP in 2024, reflecting the financial sector's continued reliance on foreign wholesale funding.

Assessment. Finland has a fully open capital account. It remains exposed to financial market risks against the background of interconnected regional financial markets. Given the size and volatility of financial account flows, continued monitoring is warranted, as these movements can influence the transmission of external financial shocks.

FX Intervention and Reserves Level

Background. The euro has the status of global reserve currency.

Assessment. The currency is freely floating.

Annex III. Risk Assessment Matrix[1]

Source of Risks and Relative Likelihood (High, medium, or low)	**Impact if Risk is Realized** (High, medium, or low)	**Policy Response**
	Global	
High **Geopolitical tensions**. Intensification of conflicts, coupled with the weakening of multilateralism, may trigger commodity price volatility, increase migration pressures, reignite inflation, and weigh on growth by undermining confidence, investment, tourism, trade, and supply chains.	High Higher energy and food prices would erode real incomes and weaken demand. The intensification of the conflict provokes a further decline in economic activity, weakening investment and growth and worsening financial conditions. The fiscal stance deteriorates due to the working of automatic stabilizers.	Strengthen energy security and diversify supply chains to cushion price shocks. Provide target fiscal support to protect vulnerable groups. More generally allow automatic stabilizers to work but continue a gradual structural adjustment. Safeguard trade, investment, and financial stability.
High **Financial Market Volatility and Correction.** Stretched asset valuations and easy financial conditions could be upended by a sudden shift in investor sentiment or policy stance, triggering corrections, exchange rate turbulence, spikes in bond yields, and capital flow volatility.	Medium Abrupt market corrections could raise financing costs, weaken bank and corporate balance sheets, and depress investment and consumption. Banks' reliance on short-term wholesale funding could amplify these shocks, while heightened volatility and liquidity strains could propagate through NBFIs and crypto markets	Maintain strong macroprudential oversight of banks and NBFIs, including stress tests and close monitoring of leverage and liquidity risks. Advance regulation of crypto markets in line with EU frameworks, and ensure contingency plans are ready to safeguard stability.
High **Commodity price volatility**. Shifts in supply and demand—driven by geopolitical tensions and conflicts, OPEC+ actions, or the green transition—may fuel commodity price swings, intensifying external and fiscal pressures, social unrest, and macroeconomic instability.	Medium Rising energy prices and a resurgence in inflation place pressure on the economy. Households see their disposable income erode under the weight of increased costs. Finland's strong energy production base provides an important mitigant.	Allow automatic stabilizers to work but continue a gradual structural adjustment.
High **Fiscal Vulnerabilities and Higher Long-Term Interest Rates.** Rising public debt and deficits could push up long-term rates, heightening risks of sovereign bond market disruptions and capital flow volatility. Market imbalances and a strong sovereign-financial nexus could exacerbate debt sustainability concerns and trigger broader spillovers.	High Higher borrowing costs would weaken public finances, raise debt-servicing burdens, and crowd out priority spending. Sovereign stress could spill over to banks and corporates through higher funding costs, depress investment and growth, and heighten capital outflow pressures.	Maintain a credible medium-term fiscal framework and advance measures to stabilize debt dynamics, including growth-friendly consolidation. Strengthen sovereign debt management and mitigate refinancing risks.

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[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenario highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Source of Risks and Relative Likelihood (High, medium, or low)	**Impact if Risk is Realized** (High, medium, or low)	**Policy Response**
High **Escalating Trade Measures and Prolonged Uncertainty.** Rising trade barriers and prolonged policy uncertainty could reduce trade, investment, and growth. Inflationary pressures may re-emerge. These effects can be amplified by strategic complementarities or bottlenecks in global value chains or inventory overhang.	**High** Escalating trade barriers and uncertainty would depress exports and investment, weigh on productivity, and erode growth. Supply chain bottlenecks could amplify inflationary pressures, worsening real incomes, financial conditions and undermining competitiveness.	Diversify export markets and strengthen collaboration with international partners. Support firms in adjusting supply chains, while maintaining credible fiscal and monetary policies to anchor expectations and contain inflationary pressures.
High **Cyberthreats**. Cyberattacks on physical or digital infrastructure, technical failures, or misuse of AI technologies could trigger financial and economic instability.	**Medium** A widespread cyber incident (e.g., payments outage, major data breach at a critical service) could temporarily suppress private consumption, disrupt trade and impair banks' leading to weaker confidence and financial system volatility.	Continue to raise public awareness through targeted preparedness campaigns. Strengthen investments in cyber defense to ensure capacity to rapidly restore critical infrastructure. Strengthen resilience by conducting cyber stress tests.
Regional and Domestic		
Medium **Prolonged Housing Market Weakness.** A sustained downturn or delayed recovery in Finland's housing and commercial real estate sectors, compounded by similar weaknesses in key trading partners, could weigh on growth and financial stability.	**High** A protracted housing slump would weigh on construction, depress household wealth and consumption, and weaken bank asset quality. Spillovers from trading partners' property markets could amplify financial strains and delay Finland's growth recovery.	Strengthen bank capital and liquidity buffers and closely monitor housing-related credit risks. Implement regular Nordic-wide financial stress tests. Introduce a positive neutral CCyB and maintain existing borrower-based measures.
Medium **Persistently High Unemployment.** Labor market slack could remain elevated, reflecting structural mismatches, weak labor demand, or delayed reform impacts, undermining household incomes and slowing the return of robust growth.	**High** Persistently high unemployment would weigh on household incomes and consumption. Lower employment could reduce growth and erode fiscal sustainability through higher social spending and reduced revenues, while also increasing credit risks for banks through weaker household balance sheets.	Advance labor-market reforms to improve incentives and reduce mismatches, while strengthening active labor-market policies and training programs. Preserve financial stability by monitoring household credit risks and ensuring adequate bank buffers.
Medium **Social discontent**. High living costs, weak growth, and inequality may fuel social unrest, hinder necessary reforms, and weaken capacity to address domestic and external shocks.	**Medium** Social tensions could erode consumer and investor confidence, reduce labor market participation, and increase precautionary savings, weighing on private demand. Political polarization may stall structural reforms and delay fiscal consolidation.	Provide targeted support to vulnerable groups to mitigate pressures from high living costs, while maintaining a credible medium-term fiscal path.

Annex IV. Past Fund Staff Recommendations and Implementation

Past Staff Recommendations	Policy Actions
Fiscal Policy	
Close the overall deficit by 2029 by a structural adjustment of around ½ percent of GDP per year from 2025 to 2029.	**Not implemented**. Despite consolidation efforts, the overall deficit is projected to stay above 3 percent of GDP as a result of weaker-than-expected growth, higher defense spending and cost overruns in health and social care.
Consolidation efforts should be complemented with growth-supporting measures.	**Implemented**. The April 2025 mid-term policy package and the 2026 budget include growth-promoting measures and continued public investment.
Consolidation should target both revenue and expenditure measures.	**Not implemented**. Net effect of the April 2025 mid-term policy package and the 2026 budget is revenue reduction.
Labor Market and Structural Policies	
Labor market reforms should continue, with focus on increasing labor participation rates, reducing skill mismatches and strengthening tertiary education.	**In progress.** Reforms are underway to strengthen job-search obligations and relax restrictions on layoffs.
Revisit the tax treatment of venture capital funding and rebates associated with investment spending by firms. Moreover, deepening the European Single Market could further ease growth constraints. In the service sector, focus should be given to potential barriers to entry and excessive regulation.	**Partially implemented**. The April 2025 mid-term package includes several tax measures to promote venture capital investments and expanded intakes in higher education in high-demand fields, incentives for timely completion, and enhanced pathways for international talent.
Financial Sector and Macroprudential Policies	
Introduce a complete set of borrower-based measures into the policy toolkit.	**Not implemented**. No caps on DTI or DSTI ratios have been legislated by the government.
Bank liquidity buffers should be enhanced to cover wholesale funding outflows over a five-day horizon, and they should hold a higher stock of high-quality liquid assets.	**Not implemented**. There are no plans to implement this measure.
Legislate a positive neutral rate for the CCyB to increase resilience in the banking system.	**Not implemented**. No changes are expected before European Commission's legislative proposal on macroprudential policy.
Lead an effort to conduct a Nordic-wide stress test coordinated exercise, considering interlinkages and spillovers, as well as liquidity-solvency interactions.	**In progress**. A crisis simulation exercise was conducted in 2024 to test collaboration and coordination across Nordic-Baltic authorities in the region during a financial crisis. Finland is leading preparatory work with its neighbors to perform a joint Nordic-Baltic-wide banking stress test in 2026.
Enhance systemic risk monitoring by strengthening the disaggregated data analysis.	**In progress.** A positive credit register was launched in 2024. While further development is still needed, the register has been used for monitoring and analyzing household debt in 2025.

Annex V. The Redistributive Efficiency of Non-Pension Social Protection Transfers[1]

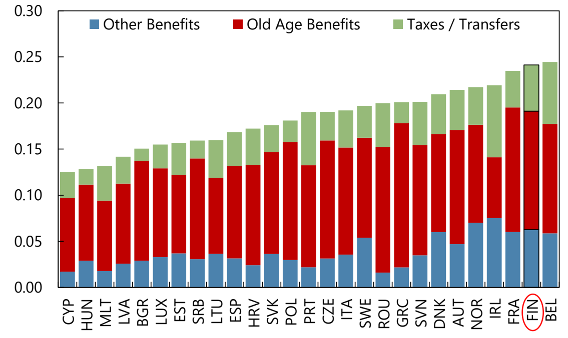
Using a tractable but simple metric of efficiency—the reduction of inequality from non-pension social transfers—Finland appears to have a very effective system. High means testing and other targeting systems place Finland close to the frontier of peers. However, the system is generous and the marginal effectiveness of payments at the top of this distribution is low. This means that potentially large fiscal savings can be generated through only a modest increase in inequality.

1. **Finland's government expenditure-to-GDP ratio has increased substantially over the past two decades, driven largely by higher social transfers** (Figure A1). From 48 percent in 2000, total expenditure stood at 57 percent of GDP in 2023, the second highest ratio in the EU after France. Over the same period, old age spending roughly doubled to 15 percent of GDP, while other social benefits declined marginally to 11 percent of GDP.

2. **High social protection spending and progressive taxes have a large impact on inequality.** Finland's 2023 market income Gini coefficient of 0.51 falls to 0.27 after taxes and transfers, with over 75 percent of the reduction attributable to social protection spending. After Belgium, this represents the second most redistributive economy in Europe. The impact of 'non-pension transfers'—which account for a fifth of this improvement—is also amongst the largest in Europe, after Ireland and Norway.

Change in Gini due to Benefits and Taxes

(Percent)



Sources: EU-SILC User Database; and IMF staff calculations.

3. **Compared to EU countries, non-pension transfers are efficient at reducing inequality.** Spending efficiency—measured as the reduction in the Gini coefficient relative to per capita benefit disbursement—is close to the efficiency frontier, implying relatively low potential savings from moving to the frontier. Consistent with this and in line with other relatively efficient countries, Finland has a high fraction of means-tested benefits.

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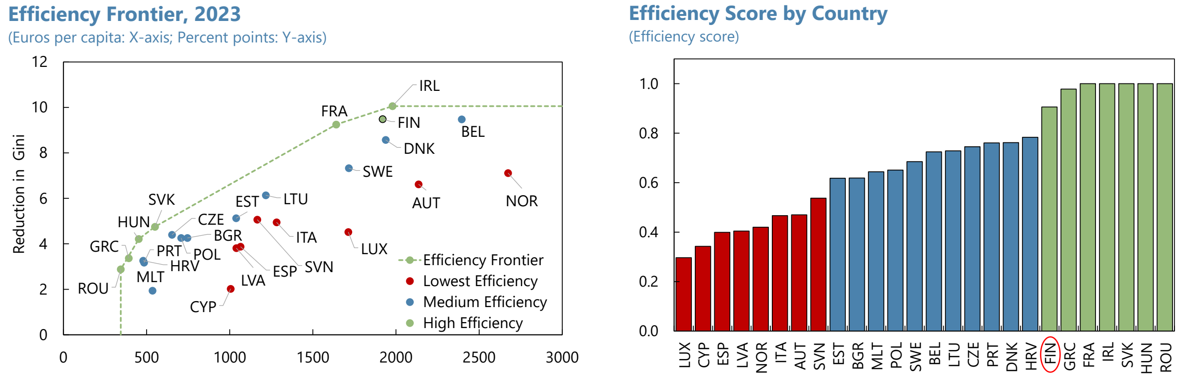
[1] Prepared by Yuntian Lu, Valentina Semenova, and Ian Stuart.

Figure V.1. Finland: Position Relative to the Efficiency Frontier

Finland distributes a large per capita amount on non-pension benefits, but also achieves a large Gini reduction …

… placing Finland among the most efficient EU countries.



Efficiency Frontier, 2023

(Euros per capita: X-axis; Percent points: Y-axis)

Sources: EU-SILC User Database; and IMF staff calculations.

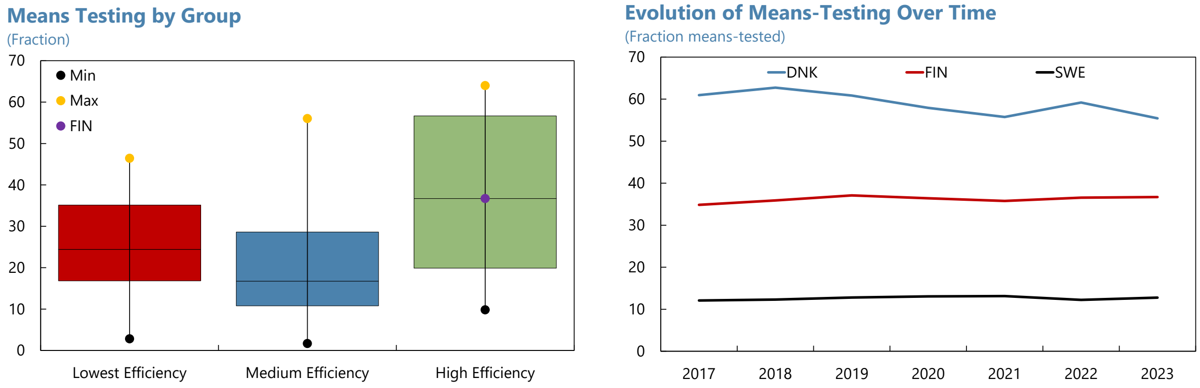
Efficiency Score by Country

(Efficiency score)

Sources: EU-SILC User Database; and IMF staff calculations.

A high efficiency score likely reflects Finland's high ratio of means-tested benefits …

… which has stayed relatively stable over time.



Means Testing by Group

(Fraction)

Sources: EU-SILC User Database; and IMF staff calculations.

Evolution of Means-Testing Over Time

(Fraction means-tested)

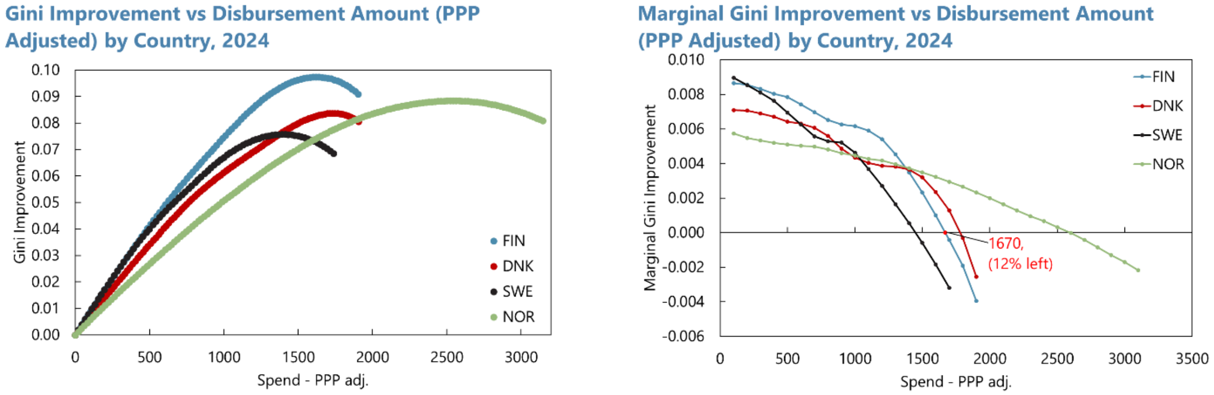
Sources: EU-SILC User Database; and IMF staff calculations.

4. **The marginal efficiency of non-pension transfers is similar to Nordic peers.** With additional incremental transfer payment made to each recipient (where distributions are made to lowest-income households first), inequality declines in a broadly linear fashion, before leveling off towards the upper end of disbursements. Finland achieves the greatest reduction in inequality across Nordic countries and has the highest marginal impact of social spending for the first €1,500 of disbursements (PPP-adjusted). This suggests that Finland's benefit payments are generally well targeted. However, as the per capita distribution amount increases beyond approximately €2,000 (€1,670 PPP-adjusted), the marginal impact of social spending becomes negative.

Figure V.2. Finland: The Marginal Impact of Social Spending

Among Nordic peers, Finland targets its spending relatively efficiently …

… however, the marginal impact drops substantially and becomes negative for the final 10 percent of spend.[1]



Gini Improvement vs Disbursement Amount (PPP Adjusted) by Country, 2024

Sources: EU-SILC User Database; and IMF staff calculations.

Marginal Gini Improvement vs Disbursement Amount (PPP Adjusted) by Country, 2024

Sources: EU-SILC User Database; and IMF staff calculations.

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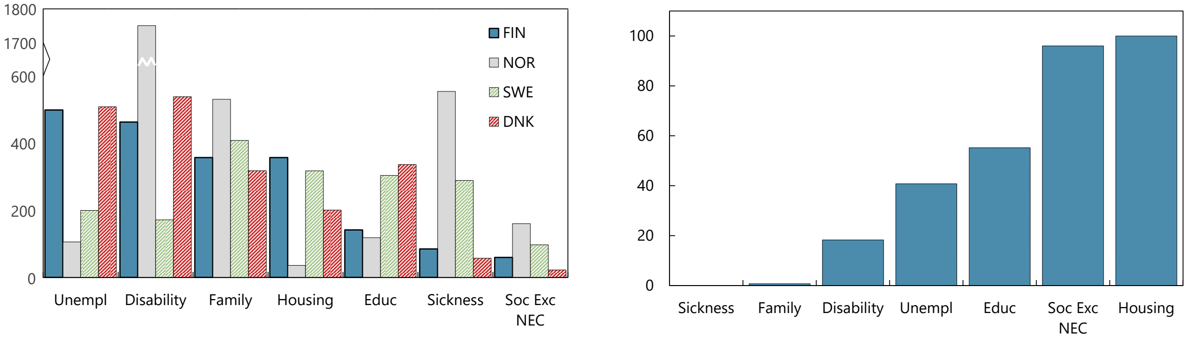
[1] The graphs are incremented in PPP-adjusted €100 increments, spanning €0 to €2,350 (€1,900 PPP-adjusted) in per capita distribution. The final point indicates that the marginal impact of the final €100 in spend would increase the Gini coefficient (increasing inequality) by 0.004.

5. **Different types of benefits have distinct societal objectives, resulting in differing implications for inequality**. Housing cash benefits are 100 percent means-tested. Unemployment and disability insurance are approximately 40 and 20 percent means-tested, respectively, while means-testing for family benefits is negligible. Benefits with low levels of means-testing serve additional objectives within society beyond redistribution (such as insurance purposes). Unemployment, disability and family benefits have a gradually declining marginal impact on inequality which becomes negative as disbursement amounts increase. Housing benefits, on the other hand, plateau in their marginal impact. Therefore, reduction in spending on non-redistributive benefits, if properly targeted, could have minor implications for inequality.

Figure V.3 Finland: The Impacts and Costs of Different Benefits

Unemployment, disability, family, and housing benefits in Finland are among the largest in the region…

… with housing cash benefits receiving the highest levels of means testing.



Benefits Values by Country, 2024

(Per capita distribution, PPP adjusted)

Sources: EU-SILC User Database; and IMF staff calculations.

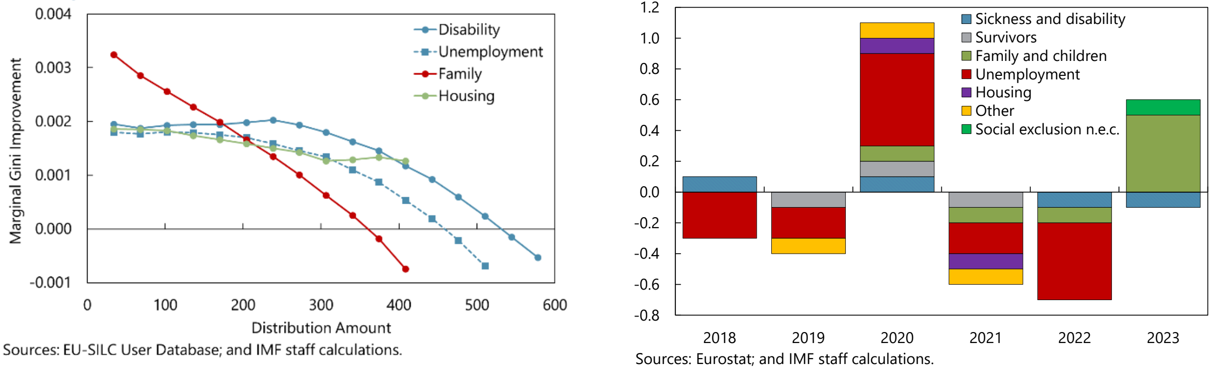
Finland: Fraction Means-Tested, 2024

(Percent)

Sources: EU-SILC User Database; and IMF staff calculations.

The largest social spending distributions have distinct marginal impact profiles…[1]

… and expenditure on different social protection benefits has changed in recent years, as a percent of GDP.[2]



Marginal Gini Improvement vs Disbursement Amount by Benefit, 2024

Sources: EU-SILC User Database; and IMF staff calculations.

Change in Expenditure by Social Spending Category

(Percent of GDP)

Sources: Eurostat; and IMF staff calculations.

[1] For the marginal impact calculations, the benefit under consideration is the final income an individual receives.

[2] Unemployment expenditure is expected to decrease further with recent reforms.

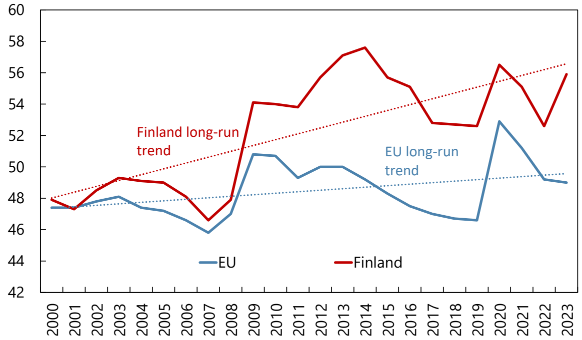
8. **Significant fiscal saving could be made with a relatively modest impact on inequality.** In a relatively well-targeted system such as Finland, savings through efficiency gains may be limited. But reducing non-redistributive benefits (e.g., family benefits) and introducing higher rates of means-testing may allow for a reduction in fiscal spending without significantly increasing inequality. For example, if non-pension social benefits were reduced by 12 percent or €290 per capita (the level at which the marginal Gini improvement from non-pension social transfers becomes negative), this could generate 0.6 percent of GDP in fiscal saving. If well designed, in principle this would only marginally worsen the Gini coefficient.

Figure V.4: Finland: The Magnitude and Trajectory of Social Spending

Total government expenditure has been increased at a faster pace than the EU average …

EU and Finland General Government Expenditure

(Percent of GDP)

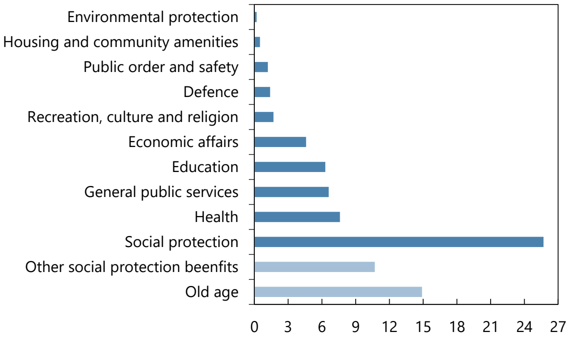


Source: Eurostat.

… with social protection and health accounting for more than half of total spending.

Finland General Government Expenditure by Function, 2023

(Percent of GDP)

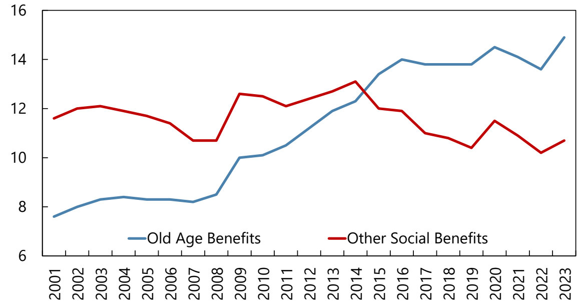


Sources: Eurostat; and IMF staff calculations.

Rapid increases in old age benefits have been partially offset by lower spending on other social benefits …

Finland Spending on Old Age and Other Social Benefits

(Percent of GDP)



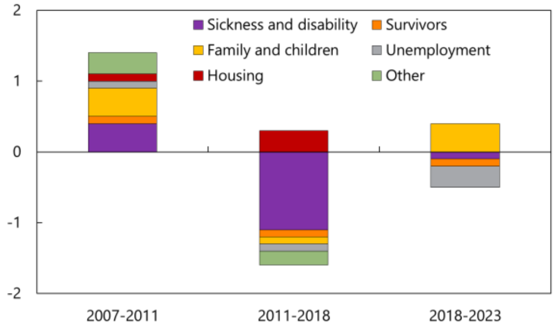
Sources: Eurostat; and IMF staff calculations.

Note: Other social benefits include sickness and disability, survivors, family and children, unemployment, housing, social exclusion n.e.c, and social protection n.e.c.

… mainly as result of lower sickness and disability benefits from 2012 onwards…

Finland Change of Spending on Social Benefits

(Percent of GDP)



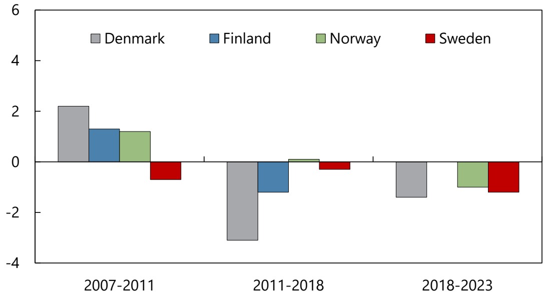
Sources: Eurostat; and IMF staff calculations.

Note: Other includes social exclusion n.e.c. and social protection n.e.c.

… with similar declines in other social benefits evident in all Nordic countries …

Finland Change of Spending on Social Benefits vs. Other Nordic Countries

(Percent of GDP)



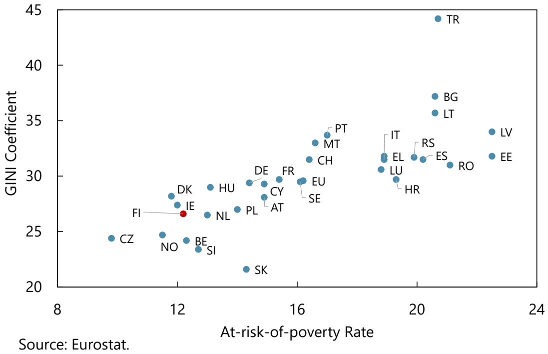
Sources: Eurostat; and IMF staff calculations.

Note: Social benefits exclude old age and survivors benefits.

High social spending helps to maintain low levels of inequality and poverty, relative to other EU countries.

Gini Coefficient vs. At-risk-of-Poverty Rate

(Percent: X-axis; Unit: Y-axis)



Source: Eurostat.

Annex VI. FSAP 2023 Key Recommendations

	Recommendation	Authorities' Actions	Timing*
Oversight—Cross Cutting			
1	Strengthen the legal and operational framework for legal protection of officials, staff, and agents of all financial oversight agencies.	***Not Implemented*** The Ministry of Finance does not foresee or deem any legislative changes necessary pertaining to this measure.	NT
2	Secure FIN-FSA's independence by ensuring that: (i) future Board members have diverse background and experience in FIN-FSA's purview; (ii) they are not officials of Ministries; and (iii) a statement of the reasons for the dismissal of Director General and eligibility criteria for Director General is clearly in the law and publicly disclosed if a dismissal should ever take place.	***Not Implemented, but Initiated*** A review of the national provisions regarding the FIN FSA's independence is ongoing as part of the CRD VI implementation. Possible legislative changes are expected by June 2026.	NT
3	Increase the resources available to the FIN-FSA, FFSA and other financial oversight agencies so that they are commensurate with their responsibilities and allow them to cover both traditional and emerging risks like ICT, cyber, and climate.	***Implemented*** In contrast to the consolidation measures envisaged for the ministries, the budget and administrative fees of Financial Stability Authority (FFSA) have grown. The amended Supervision Fees Act came into force in January 2024, increasing supervision fees for the FIN-FSA.	NT
Macroprudential Policy			
4	Consider providing the FIN-FSA Board with hard powers to issue regulations on macroprudential policy, including the adoption of new instruments; and/or semi-hard powers to issue recommendations on a comply or explain basis.	***Not Implemented*** The Ministry of Finance does not foresee or deem any legislative changes necessary pertaining to this measure.	MT
5	Add DTI and DSTI limits to the macroprudential policy toolkit; and introduce a positive rate of CCyB in the neutral stance.	***Not Implemented*** No changes are expected before European Commission's legislative proposal on macroprudential policy. The authorities are exploring alternative approaches to enable an earlier activation of the CCyB within the existing regulatory framework.	MT
6	Enhance systemic risk monitoring by strengthening disaggregated data analysis, corporate sector vulnerability analysis and addressing existing data gaps.	***Partially Implemented*** The first stage of the positive credit registry is functional, and data quality checks are being performed by the authorities. Micro-level data analyses are being produced more regularly for corporates and households. Further data will be collected (e.g. on consumer credit, housing companies) to address remaining data gaps.	MT

	Recommendation	Authorities' Actions	Timing*
Systemic Risk Assessment			
7	Enhance liquidity buffers to cover a predetermined threshold of wholesale funding outflows over a five-day horizon.	***Not Implemented*** The authorities agreed with staff's evaluation of risks stemming from the banking sector's high reliance on short-term wholesale funding.	NT
8	Lead an effort to conduct a Nordic-wide stress test coordinated exercise, considering interlinkages and spillovers, as well as liquidity-solvency interactions, and expanding the coverage to both banks and non-banking financial institutions.	***Partially Implemented*** The first stage has been initiated. The Nordic-Baltic authorities have conducted analysis on cross-border bank linkages and shared stress tests methodologies. The second stage, i.e. actual stress testing, will be conducted in 2026.	NT
Banking Regulation and Supervision			
9	Conduct further analysis on banks' IFRS-9 implementation, more specifically regarding staging of exposures and functioning of ECL models.	***Implemented*** Thematic analysis on IFRS9 staging and expected credit loss (ECL) was carried out and published in October 2024.	NT
10	Include rules on the appointment of a sufficient number of independent directors (supervisory board members) and independency criteria in the legislation.	***Partially Implemented*** A discussion paper on the assessment and improvement of the existing legislation was published by MoF in Spring 2024. Possible legislative changes are expected to enter into force in 2027.	NT
Nonbank Financial Institutions			
11	Amend PIC solvency regulations to remove remaining procyclical impacts and the short-term focus despite 2017 reforms and ensure that long-run performance to the benefit of all social partners drives the detailed regulations.	***Not Implemented, but Initiated*** The government approved early 2025 a new pension reform, which will strengthen private pension financing by increasing the allowed equity weight in investment portfolios. The reform will also reduce the solvency limit, which will reduce procyclicality. Legislative changes are expected in 2026, and the reform could take effect in 2027.	NT
12	Enhance the public disclosure of analysis and assessment of macroprudential risks in the NBFI sector.	***Implemented*** The authorities promote risk analysis related to NBFIs and include an assessment of the sector in their annual financial stability report.	NT
Crisis Management			
13	Publish a policy on bail-in and transfer mechanics that addresses policy choices on valuation, issuance of new instruments and change in control requirements.	***Partially Implemented*** FFSA has published a high-level document of the bail-in mechanic end-December 2023.	NT

	Recommendation	Authorities' Actions	Timing*
14	Ensure that emergency liquidity assistance processes, procedures and operational capabilities are sufficient to support a rapid provision of temporary collateralized liquidity for FIs in resolution, tested internally and with external counterparties annually.	***Not Implemented*** The authorities promote the implementation of this recommendation at the EU level, which has not progressed so far. The first stage of the Nordic-Baltic stress test provided insights for enhancing processes.	NT, C
15	Centralize cross-authority crisis coordination in the new Crisis Management Coordination Group and ensure its responsibilities include both preparation for, as well as management of, future crises.	***Implemented*** To the extent permitted by law, common crisis management tasks, responsibilities and planning were centralized in 2023.	I, C
Financial Integrity			
16	Enhance AML/CFT supervision by improving the risk-based approach and tools for AML/CFT sectoral and institutional risk assessments, with a focus on risks from cross-border and non-resident transactions.	***Partially Implemented*** Authorities have made progress in strengthening the AML/CFT framework to mitigate risks posed by cross-border and non-resident activity, but more needs to be done in light of the recent regional Nordic-Baltic technical assistance project.	I
* Timing: C = Continuous; I = Immediate (within one year); NT = Near Term (within 1–3 years); MT = Medium Term (within 3–5 years).			

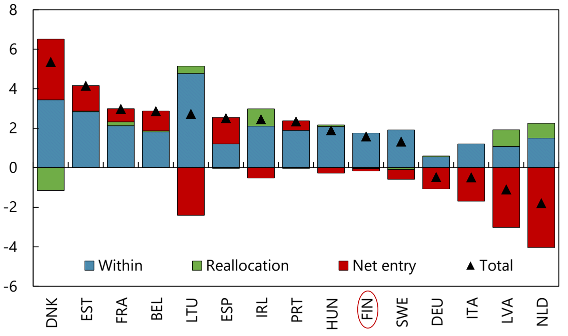
Annex VII. Frontier Firms and Labor Productivity Growth[1]

Frontier firms can enhance productivity through innovation and technology diffusion. In Finland, modest productivity growth at the frontier has been largely driven by the incumbents, reflecting slowing business dynamism and limited impact from new entrants.

1. **Productivity growth in Finland has decelerated over the past decade.** This slowdown has affected both manufacturing and services sectors (Finnish Productivity Board 2020, 2025 Article IV). The performance of the most productive, or "frontier", firms is critical to overall productivity through their roles both in innovating on new technologies and management practices, and through the diffusion of these productivity improvements to firms behind the frontier.[2]

Frontiers' Productivity Growth Decomposition

(Percentage points, average 2010-2022)



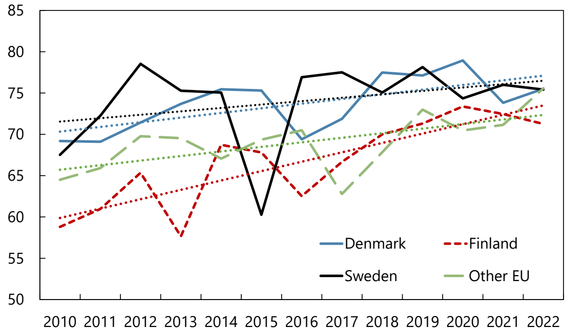
Sources: Orbis; and IMF staff calculations.

2. **In Finland, productivity growth at the frontier is driven by the incumbents while contribution by new entrants is limited.** Productivity growth of Finnish frontier firms has been relatively modest. To better understand their drivers, it is useful to decompose the contributions from incumbent firms' productivity growth, employment reallocation among incumbents, and the net effects of firms entering and exiting the frontier.[3] In Finland, frontier productivity is primarily driven by incumbent firms, while the impacts of labor reallocation and net entry are negligible. The latter indicates that the contribution by the new entrants has been limited.

3. **Lower entrance rates also signal a slowdown in business dynamism at the frontier.** Frontier firms tend to remain as incumbents in this group, and this pattern has intensified over time in Finland as well as in other European countries. Reduced dynamism at the frontier lowers the threat of new competitors entering the market, diminishing incumbent firms' incentives to adopt best practices or to innovate. Furthermore, a lack of firm dynamism can also constrain worker mobility and income growth, limiting labor reallocation across frontier firms.

Persistence at the Frontier

(Share of frontier firms present at the frontier the year before)



Sources: Orbis; and IMF staff estimates.

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[1] Prepared by Takuji Komatsuzaki and Theodore Renault

[2] Frontier firms are defined as those with top 10 percent labor productivity within each two-digit sector in each year. This definition implies that the specific frontier firms can change each year.

[3] See Melitz and Polanec (2015) for details.

4. These results are consistent with the documented challenges of scaling up innovative firms in Finland. Finland's business environment has many favorable characteristics, including the degree of digitalization and relatively high levels of R&D and innovation activities (2025 Article IV, European Commission 2025). However, these favorable conditions have not translated into generating startups that achieve sustained growth ("gazelles") (2025 Article IV, Annex VIII). The low momentum of the entrants to the frontier segment and the overall slowdown in the entrance rates to the frontier can be interpreted as the symptom of the scale-up challenge.

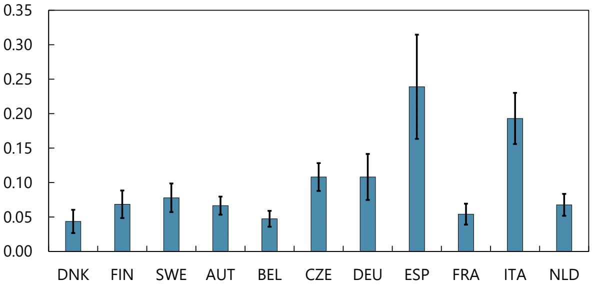
5. Frontier firms can also contribute to aggregate productivity growth by enabling the diffusion of productivity-enhancing technologies to other firms. For firms below the frontier, access to frontier technologies and management practices are crucial for catching up with top performers. Their productivity growth tends to be linked to that of frontier firms and the size of the productivity gap with the frontier (Andrews et al. 2016, and Berlingieri et al. 2025). Although frontier productivity growth has been modest in Finland, their diffusion role remains on par with other European countries.

Productivity Diffusion

Non-frontier firms' productivity growth is associated with that of frontier firms in the same period ...

Impact of Frontier Productivity Growth

(Percentage points)



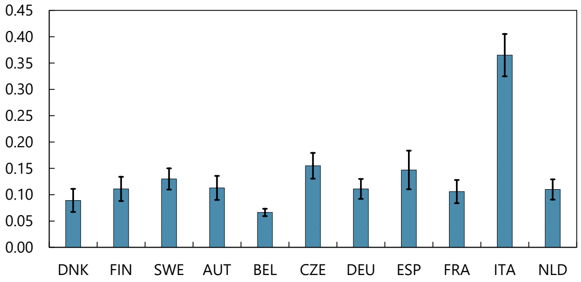
Sources: Orbis; and IMF staff calculations.

Note: This figure represents non-frontier firms' labor productivity growth in response to one percentage point increase in frontier firms' labor productivity in the same period. Error bars represent 95 percent confidence interval.

... as well as the size of the productivity gap with the frontier firms in the previous period.

Impact of Gap from the Frontier

(Percentage points)



Sources: Orbis; and IMF staff calculations.

Note: This figure represents non-frontier firms' labor productivity labor productivity growth in response to one percent increase in the gap in labor productivity from the frontier in the previous period. Error bars represent 95 percent confidence interval.

6. Policies can support productivity growth both at the frontier and among lagging firms. A key starting point is setting product market regulations at appropriate levels to foster competition and incentivize innovation and technology adoption (OECD, 2020; European Commission, 2025). In addition, strengthening R&D, improving access to finance—particularly risk capital—and addressing skilled labor shortages have been identified as critical areas for boosting productivity in Finland.[4] In response, the April 2025 mid-term policy package outlined measures to attract growth-oriented firms through tax policy adjustments and expanded venture capital.

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[4] See OECD (2022), OECD (2025), European Commission (2025), and Finnish Productivity Commission (2023), for example.

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Annex VIII. Data Issues

Table VIII.1 Finland: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/

A

Questionnaire Results 2/

Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	A	A	A	A	A	A	A

Detailed Questionnaire Results

Data Quality Characteristics						
Coverage	A	A	A	A	A	
Granularity 3/	A		A	A	A	
			A		A	
Consistency			A	B		A
Frequency and Timeliness	A	A	A	A	A	

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.

1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.

2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance* , January 2024, Appendix I).

3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund are adequate for surveillance.
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. Data provided by Statistics Finland, Bank of Finland and the Ministry of Finance, and other national sources are adequate for surveillance. Relatively large sizes of stock-flow adjustments in Finland mainly reflect surpluses in its pension fund, and do not imply statistical shortcomings. The consistency of External Sector statistics is currently assessed as "B," taking into account the significant errors and omissions in BOP estimates, which average around 2 percent of GDP over the previous decade.

Changes since the last Article IV consultation. No new data weaknesses have been identified since the last Article IV consultation.

Corrective actions and capacity development priorities. Statistics Finland is making an effort to reduce the errors and omissions in the context of an ongoing project to improve the internal consistency of macroeconomic statistics. Statistics Finland currently has an ongoing project to design and build a new IT system for the compilation of national accounts and the balance of payments. The new compilation system is scheduled to be operational in 2029. As a part of this initiative, a dedicated sub-project, scheduled from February 1, 2025, to January 31, 2027, has been launched to improve the internal consistency of macroeconomic statistics in Finland.

This sub-project sets both technical and organizational requirements for the main project, where these requirements will be implemented. It addresses existing challenges in the current system and outlines how the new IT system should be designed to reduce vertical discrepancies and net errors and omissions in the balance of payments. It also brings forward proposals for organizational change. The sub-project closely follows the joint ECB and Eurostat recommendations for reducing vertical discrepancies, including net errors and omissions.

As part of the sub-project, certain tasks related to reducing vertical discrepancies, including net errors and omissions, will also be carried out within the current system. In 2025, particular attention has been paid to ensuring internal consistency between national financial accounts and the balance of payments and international investment position. Potential discrepancies and net errors and omissions are continuously monitored as part of the compilation process. Working and compilation methods have been adjusted to better align with the joint ECB and Eurostat recommendations on reducing vertical discrepancies.

Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. Staff does not use any data and/or estimates in the staff report in lieu of official statistics.

Other data gaps. Not applicable.

Table VIII.2 Finland: Data Standards Initiatives

Finland adheres to the Special Data Dissemination Standard (SDDS) Plus since June 2018 and publishes the data on its National Summary Data Page. The latest SDDS Plus Annual Observance Report is available on the Dissemination Standards Bulletin Board (https://dsbb.imf.org/).

Table VII.3. Finland: Table of Common Indicators Required for Surveillance

As of December 4, 2025

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	Finland[8]	Expected Timeliness[6,7]	Finland[8]
Exchange Rates	Dec-25	4-Dec-25	D	D	D	...	...	...
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Oct-25	14-Nov-25	M	M	M	30	1W	30
Reserve/Base Money	Oct-25	28-Nov-25	M	M	M	30	2W	2
Broad Money	Oct-25	28-Nov-25	M	M	M	30	1M	30
Central Bank Balance Sheet	Nov-25	2-Dec-25	M	M	M	30	2W	2
Consolidated Balance Sheet of the Banking System	Nov-25	2-Dec-25	M	M	M	30	1M	30
Interest Rates[2]	Dec-25	4-Dec-25	D	D	D	...	...	...
Consumer Price Index	Nov-25	2-Dec-25	M	M	M	30	1M	14
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	2025:Q2	18-Sep-25	Q	Q	A/Q	90	2Q/12M	90
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	Oct-25	22-Nov-25	M	M	M	30	1M	20
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2025:Q3	5-Nov-25	Q	Q	Q	30	1Q	12
External Current Account Balance	2025:Q3	12-Nov-25	Q	Q	Q	30	1Q	42
Exports and Imports of Goods and Services	2025:Q3	12-Nov-25	M	M	M	30	8W	38
GDP/GNP	2025:Q3	30-Oct-25	Q	Q	Q	90	1Q	65
Gross External Debt	2025:Q2	18-Sep-25	Q	Q	Q	90	1Q	60
International Investment Position	2025:Q2	18-Sep-25	Q	Q	Q	90	1Q	60

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

INTERNATIONAL MONETARY FUND

FINLAND

STAFF REPORT FOR THE 2026 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

December 10, 2025

Prepared By	European Department (In Consultation with Other Departments)

CONTENTS

FUND RELATIONS

As of December 1, 2025

Membership Status: Joined: January 14, 1948; Article VIII.

General Resources Account:	**SDR Million**	**Percent Quota**
Quota	2,410.60	100.00
Fund holdings of currency (Exchange Rate)	1,802.73	74.78
Reserve Tranche Position	607.87	25.22
Lending to the Fund		

SDR Department:	**SDR Million**	**Percent Allocation**
Net cumulative allocation	3,499.96	100.00
Holdings	3,598.66	102.82

Outstanding Purchases and Loans: None.

Latest Financial Arrangements: None.

Projected Payments to Fund[1]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2025	2026	2027	2028	2029
Principal	…	…	…	…	…
Charges/Interest		0.03	0.03	0.03	0.03
Total		0.03	0.03	0.03	0.03

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[1] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Exchange Rate Arrangements: The currency of Finland is the euro. The exchange rate arrangement of the euro area is free floating. Finland participates in a currency union (EMU) with 19 other members of the EU and has no separate legal tender. The euro, the common currency floats freely and independently against other currencies.

Finland has accepted the obligations under Article VIII, Sections 2(a), 3, and 4 of the IMF's Articles of Agreement, and maintains an exchange system free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions, other than restrictions maintained solely for security reasons, which have been notified to the Fund pursuant to the Executive Board Decision No. 144-(52/51).

Article IV Consultation: The last Article IV consultation was concluded by the Executive Board on January 21, 2025. The staff report (IMF Country Report No. 25/10) was published with Press Release No. 25/005 (January 21, 2025).

Outreach: The team met with representatives of the private sector, academics, labor, and financial institutions.

Press conference: The mission held a press conference on November 10, 2025.

Publication: The staff report will be published.

Technical Assistance: None.

Resident Representative: None.