

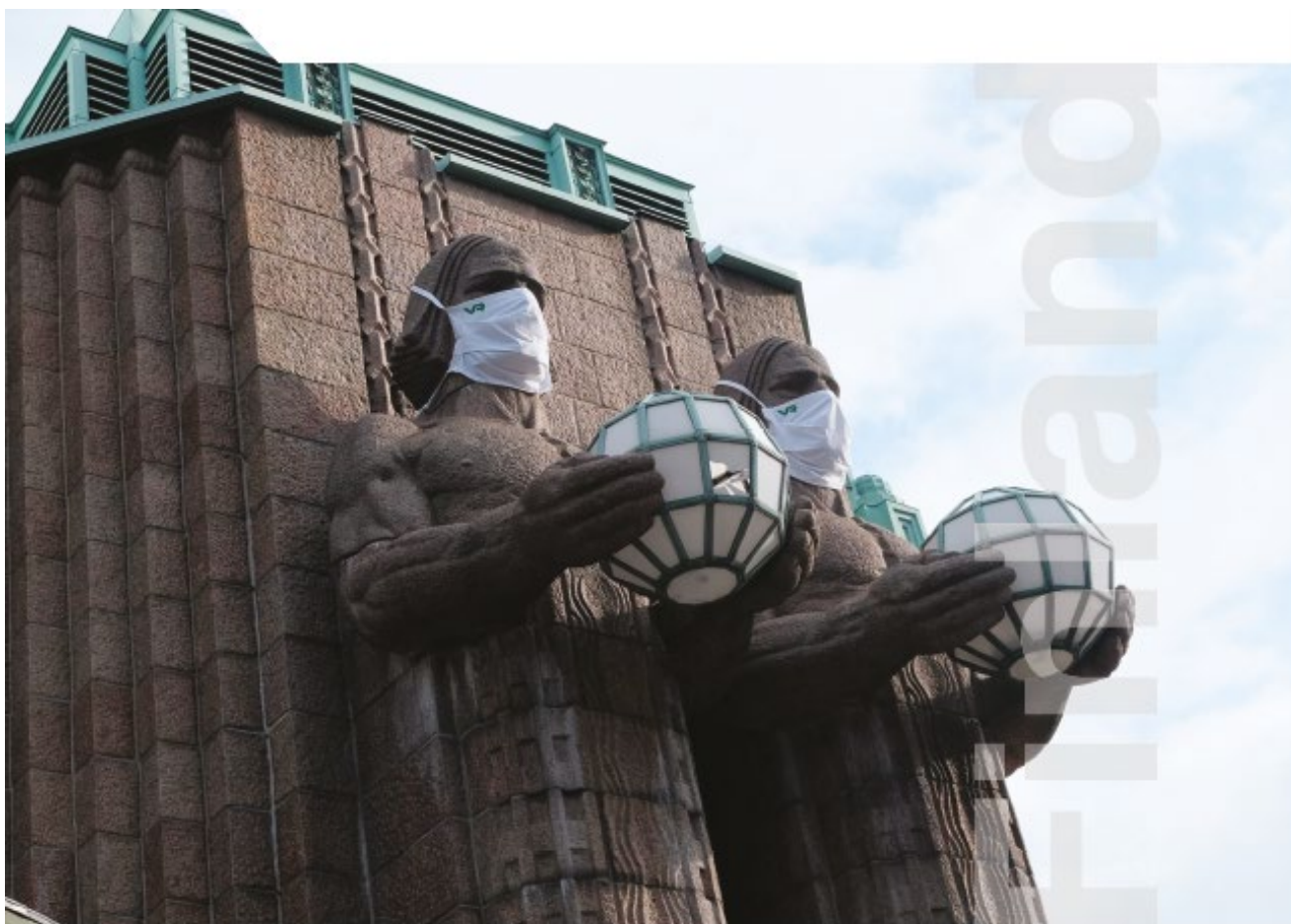


OECD Economic Surveys

Finland

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OVERVIEW



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This *Survey* is published on the responsibility of the Economic and Development Review Committee of the OECD, which is charged with the examination of the economic situation of member countries.

The economic situation and policies of Finland were reviewed by the Committee on 19 October 2020. The draft report was then revised in the light of the discussions and given final approval as the agreed report of the whole Committee on 25 November 2020.

The Secretariat's draft report was prepared for the Committee by David Carey and Naomitsu Yashiro, with contributions from Hyunjeong Hwang, under the supervision of Vincent Koen. Statistical research assistance was provided by Hyunjeong Hwang and Natia Mosiashvili and editorial assistance by Michelle Ortiz and Sisse Nielsen.

The previous Survey of Finland was issued in February 2018.

Information about the latest as well as previous Surveys and more information about how Surveys are prepared is available at <http://www.oecd.org/eco/surveys>.

BASIC STATISTICS OF FINLAND, 2019

(Numbers in parentheses refer to the OECD average)

LAND, PEOPLE AND ELECTORAL CYCLE					
Population (million)	5.5		Population density per km² (2018)	18.1	(38.0)
Under 15 (%)	16.0	(17.9)	Life expectancy at birth (years, 2018)	81.7	(80.1)
Over 65 (%)	22.1	(17.1)	Men (2018)	79.1	(77.5)
Foreign born (%)	7.0		Women (2018)	84.5	(82.8)
Latest 5-year average growth (%)	0.2	(0.6)	Latest general election	April - 2019	
ECONOMY					
Gross domestic product (GDP)			Value added shares (%)		
In current prices (billion USD)	269.3		Agriculture, forestry and fishing	2.6	(2.6)
In current prices (billion EUR)	240.6		Industry including construction	27.7	(26.8)
Latest 5-year average real growth (%)	1.9	(2.2)	Services	69.7	(70.5)
Per capita (1000 USD PPP)	51.4	(48.4)			
GENERAL GOVERNMENT					
Per cent of GDP					
Expenditure	53.3	(41.6)	Gross financial debt (OECD: 2018)	72.7	(95.8)
Revenue	52.3	(38.5)	Net financial debt (OECD: 2017)	-63.2	(68.7)
EXTERNAL ACCOUNTS					
Exchange rate (EUR per USD)	0.89		Main exports (% of total merchandise exports)		
PPP exchange rate (USA = 1)	0.85		Machinery and transport equipment	33.2	
In per cent of GDP			Manufactured goods	25.9	
Exports of goods and services	40.2	(54.2)	Crude materials, inedible, except fuels	9.3	
Imports of goods and services	39.9	(50.6)	Main imports (% of total merchandise imports)		
Current account balance	-0.2	(0.3)	Machinery and transport equipment	33.1	
Net international investment position	1.5		Mineral fuels, lubricants and related materials	13.9	
			Manufactured goods	11.0	
LABOUR MARKET, SKILLS AND INNOVATION					
Employment rate (aged 15 and over, %)	55.5	(57.6)	Unemployment rate, Labour Force Survey (aged 15 and over, %)	6.7	(5.4)
Men	58.7	(65.6)	Youth (aged 15-24, %)	16.9	(11.7)
Women	52.3	(50.0)	Long-term unemployed (1 year and over, %)	1.2	(1.4)
Participation rate (aged 15 and over, %)	67.1	(61.1)	Tertiary educational attainment (aged 25-64, %)	45.9	(38.0)
Average hours worked per year	1,540	(1,726)	Gross domestic expenditure on R&D (% of GDP, 2018)	2.8	(2.6)
ENVIRONMENT					
Total primary energy supply per capita (toe, 2018)	6.2	(4.0)	CO₂ emissions from fuel combustion per capita (tonnes, 2018)	7.9	(8.6)
Renewables (% , 2018)	33.8	(10.5)	Municipal waste per capita (tonnes, 2018)	0.6	(0.5)
Exposure to air pollution (mean population exposure to PM 2.5, 2017)	5.9	(12.5)			
SOCIETY					
Income inequality (Gini coefficient, 2017)	0.27	(0.32)	Education outcomes (PISA score, 2018)		
Relative poverty rate (2017)	6.3	(11.6)	Reading	520	(487)
Public and private spending (% of GDP)			Mathematics	507	(489)
Health care (2018)	9.1	(8.8)	Science	522	(489)
Education (% of GNI, 2018)	6.3	(4.5)	Share of women in parliament (%)	47.0	(30.7)
Pensions (2015)	13.0	(8.5)	Net official development assistance (% of GNI, 2017)	0.4	(0.4)

1. The year is indicated in parenthesis if it deviates from the year in the main title of this table.

2. Where the OECD aggregate is not provided in the source database, a simple OECD average of latest available data is calculated where data exist for at least 80% of member countries.

Source: Calculations based on data extracted from databases of the following organisations: OECD, International Energy Agency, International Labour Organisation, International Monetary Fund, World Bank.

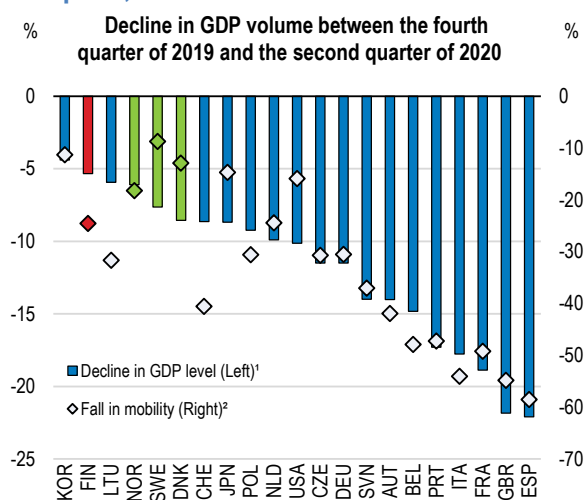
Executive Summary

The COVID-19 pandemic caused an economic slump

The COVID-19 pandemic plunged Finland into a deep recession. The government provided substantial financial support to protect jobs and help households and businesses get through the crisis. However, 25% of temporarily laid-off workers were not eligible for earnings-related unemployment benefits.

Finland's GDP contracted by 5% in the first half of 2020. While large by historical comparison, this economic contraction was among the smallest in the OECD, partly thanks to more targeted confinement measures and a relatively small loss of mobility (Figure 1). Finland managed to bring the first wave of the coronavirus under control quickly through a combination of voluntary mobility reductions and timely containment measures and is on track to do the same for the second wave.

Figure 1. Economic activity and mobility collapsed, but less than elsewhere



1. % difference between 2019Q4 and 2020Q2 GDP levels.

2. Fall in mobility from the baseline between 1 March and 27 June.

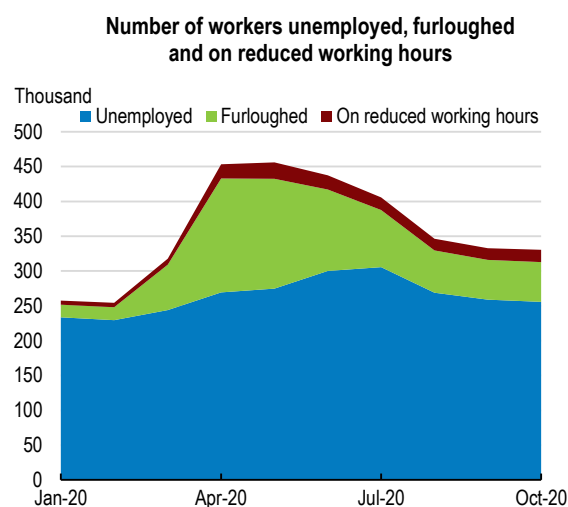
Source: OECD, National Accounts database; Google Mobility data.

StatLink <https://stat.link/9h3x1s>

The temporary layoff scheme played a key role in protecting jobs and incomes. Temporary layoffs increased far more than permanent layoffs during the first period when containment measures were implemented, limiting the increase in unemployment (Figure 2). Employers have few incentives to limit temporary layoffs to jobs they believe can be restarted after the crisis.

A weakness highlighted by the crisis is that only those people temporarily or permanently laid-off who are members of unemployment insurance funds are entitled to earnings-related unemployment benefits despite the funds only paying 6% of benefit costs. Non-fund members are entitled to flat-rate basic unemployment benefit (EUR 32.40 per working day) that can be supplemented by housing allowance and/or social benefits.

Figure 2. Temporary layoffs spiked



Source: Statistics Finland's Px Web databases.

StatLink <https://stat.link/pkjqv3>

The government also mobilised financial support for SMEs and microenterprises and provided support for hard-hit industries. It also reduced firms' tax burdens and social security contributions temporarily, easing cash flow, and temporarily limited creditors' right to petition for bankruptcy on the basis of a debtor's temporary insolvency. These measures helped avoid mass bankruptcies.

Macroeconomic policies are supporting economic recovery

The general government budget deficit is projected to increase by 6.5% of GDP in 2020 and the European Central Bank (ECB) has supplied vast amounts of liquidity and supported increased bank lending. However, some of these measures risk reducing banks' risk-bearing capacity. Activity will gradually return to its pre-COVID-19 level by 2022.

Three quarters of the 3.5% of GDP in discretionary measures that increase the 2020 budget deficit were in response to COVID-19. As the measures unwind and the economy recovers, the budget deficit is projected to fall to 3.5% of GDP by 2022, with 40% of the decline reflecting automatic stabilisers. General government debt will increase sharply in 2020 and slowly thereafter.

To complement expansionary monetary policy measures, the ECB has lowered bank capital requirements, introduced flexibility in the treatment of non-performing loans, and reduced solvency and collateral requirements, enabling banks to accept lower quality collateral. While these measures have increased domestic lending capacity, they risk reducing banks' risk-bearing capacity.

Measures are being taken to slow the growth in household debt, 70% of which is housing loans (including rapidly growing housing company loans, which are ultimately a household liability). However, the recent reduction in loan-to-value ratios for housing loans was reversed this year to support recovery from the COVID-19 crisis.

Real GDP is projected to drop by around 3% in 2020 and to recover slowly, especially in light of the second coronavirus wave (Table 1). The recovery will be led by private consumption and exports. Unemployment and bankruptcies are likely to rise in the short run, as relief measures run out towards the end of 2020. Inflation pressure will be weak, reflecting the sizable output gap and labour market slack.

Table 1. Economic recovery will be gradual

	2019	2020	2021	2022
Real GDP	1.1	-3.3	2.1	1.8
Private consumption	0.8	-4.4	3.0	2.1
Exports	7.7	-10.8	3.7	4.7
Non-residential investments	-1.2	-4.5	1.0	6.2
Unemployment rate (% of labour force)	6.7	7.9	8.3	7.7
Core inflation	0.7	0.5	0.9	1.4

Source: OECD Economic Outlook 108 updated for the National Accounts release on 27 November 2020.

The recovery would be delayed if the recent resurgence of coronavirus infections were not soon reined in or there were to be further serious outbreaks, external demand remained weak owing to a prolonged global pandemic or banking losses

were greater than expected, leading to tighter credit conditions.

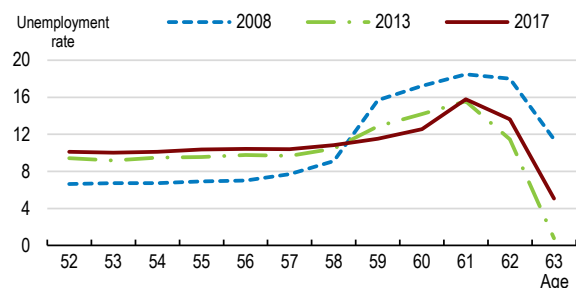
Fiscal consolidation is needed once the economic recovery is underway to stabilise debt

The government aims to stabilise the general government debt-to-GDP ratio by the end of the decade. A significant part of consolidation is to come from increasing employment. The rest will have to come from increasing productivity and consolidation measures, especially expenditure restraint as taxation is high.


Debt stabilisation will entail reducing the structural budget deficit by around 2% of GDP. Increasing employment by 80 000 by the end of the decade as foreseen by the government would contribute around 40% of this reduction. Extending working lives is critical to achieving this target.

The employment rate for older workers in Finland is much lower than in the Scandinavian Nordics, where access to early retirement schemes is considerably more limited. The extension of the unemployment benefit from age 61 until 65, combined with a longer entitlement to the unemployment benefit for persons aged 58 or more, results in a spike in layoffs from the late-50s (Figure 3). The other main early retirement route is disability benefit, for which the inflow probability soars when individuals turn 60 and more lenient eligibility criteria apply. To increase the employment rate of older workers, it is vital that routes to early retirement be progressively closed.

Figure 3. Extended unemployment benefit causes a spike in senior unemployment rates



Source: Ministry of Finance, Ministry of Economic Affairs and Employment and Ministry of Social Affairs and Health (2019), Selvitys eläkeuudistuksessa sovittujen lisäpäiväoikeuteen ja ikääntyneiden aktivointiin tehtyjen muutosten vaikutuksista.

StatLink  <https://stat.link/iuty08>

While reducing the home-care allowance for taking care of children aged less than three years at home would not contribute to fiscal consolidation – childcare and unemployment benefit costs would offset savings – it would contribute to reducing Finland's large gender wage-rate gap by shortening absences from the workforce that negatively affect career prospects and earnings mobility.

The health and social services reform before Parliament has considerable potential to contribute to fiscal consolidation by increasing efficiency in provision by centralising care chains at the regional level and reducing their fragmentation. There is also scope to increase the efficiency of public administration, including through greater digitalisation, and the cost-effectiveness of public expenditure.

Reducing subsidies and tax expenditures and increasing taxes that do not impose large economic distortions would also help. The standard-rate VAT tax base is narrower than in many countries and recurrent real estate taxation is lower. Peat (12% of greenhouse gas (GHG) emissions) is taxed at a lower rate than other fossil fuels used for heat production.

Stronger productivity growth will bolster the economic recovery

Productivity growth remains low. Skills shortages, high regulatory barriers to competition in some sectors and the exclusion of many firms from flexibility clauses in collective agreements are holding back efficient resource allocation.

Labour productivity growth fell to only 0.6% per year in the past decade, lower than in most other European economies. A factor that undermines productivity growth in Finland is skills shortages, largely resulting from relatively low tertiary education attainment. This makes it difficult for more productive firms to hire the qualified workers needed to innovate and expand market shares. Furthermore, relatively high regulatory barriers to competition in upstream service sectors, such as

transport, energy and retail hold back incumbents' efforts to reallocate resources more efficiently.

To boost the supply of tertiary educated workers, the government plans to streamline the resident permit process to attract more high-skilled immigrants. While study places in the highly selective tertiary education admission system are being increased, many secondary graduates are rejected, slowing the transition from secondary to tertiary education.

Further measures are needed to meet greenhouse gas abatement objectives

Finland is on track to meet its 2020 EU-burden-sharing objective for reducing GHG emissions but will need to implement further cost-effective measures, including making full use of available flexibility mechanisms, to realise its future objectives.

The government plans to meet half of its 2030 EU-burden sharing objective from emissions reductions in the transport sector. To achieve this, additional measures need to be taken to reduce transport emissions by 30%. The main planned measure is to increase the bio-fuel content of road transport fuels. However, the share of electric vehicles will also need to rise markedly, noting that 78% of electricity production in Finland is from non-fossil fuel sources. There would also need to be an expansion in wind power generation, which is the most economical renewable energy source in Finland, both to meet increased demand for charging EVs and to enable the substitution of electricity for fossil fuels in residential and commercial heating and in industry. A factor holding back the expansion of the EV fleet is the shortage of recharging facilities.

Agriculture in Finland, which accounts for 20% of GHG emissions, receives amongst the highest support payments in Europe. Progressively replacing these subsidies by payments for environmental benefits, such as carbon sequestration, would reduce emissions and yield budget savings.

MAIN FINDINGS	KEY RECOMMENDATIONS
Ensuring fiscal sustainability and financial stability in the wake of the COVID-19 crisis	
The government has provided substantial fiscal support in 2020 to businesses and households in response to the COVID-19 pandemic.	Stand ready to provide further fiscal stimulus in case the economic recovery is delayed.
The government aims to stabilise the debt-to-GDP ratio by the end of the decade, which will entail reducing the structural deficit by around 2% of GDP. Increasing employment by 80 000 would contribute around 40% of this adjustment. Finland's tax burden is high. Social benefits would automatically compensate for an increase in VAT through indexation.	Once the economic recovery is underway, implement consolidation measures, mainly by reducing expenditure, including on subsidies and tax expenditures, and also by increasing taxes that do not impose large economic distortions, such as VAT (broadening the standard-rate base) and recurrent real estate taxes.
Care chains are currently highly decentralised and fragmented, resulting in inefficiencies and regional inequalities in care. The government plans to transfer responsibility for organising health and social services from municipalities to 18 autonomous counties and to focus more on prevention and basic services. There are no numerical targets for fiscal savings.	Enact the social and health-care reform before Parliament. Set numerical targets for fiscal savings to be achieved from these reforms to help the government plan reforms that maximise cost efficiency while ensuring equal access to quality services.
Housing loan maturities are long but interest rates are revised annually. Highly indebted households may have difficulty servicing debts when interest rates return from the current very low levels to more normal levels. Preferential tax treatment for investors buying rental property through a housing company and lower stamp duty on transfers of housing company shares than on direct property transactions boost housing company loans.	Introduce a maximum debt-to-income ratio for household loans and a maturity limit for housing loans. Remove the preferential tax treatment on capital repayments of housing company loans for investors and align the stamp duty rate on direct property transactions with that on transfers of shares in housing companies.
The measures adopted by the ECB and the Bank of Finland to boost banks' lending may reduce their risk-bearing capacity.	The prudential supervisors should monitor the effects of looser capital adequacy, regulations and criteria for NPLs and collateral eligibility and tighten them as the economy recovers.
Getting people back into viable jobs and increasing employment	
Employers have few incentives to limit temporary layoffs to jobs they believe can be restarted as those using the scheme pay no more in social security contributions than other employers.	Require employers to contribute to the unemployment benefit costs of hours not worked (in addition to employers' unemployment benefit contributions).
Only laid-off people who are members of unemployment insurance funds are entitled to earnings-related unemployment insurance benefits, despite the funds only paying 6% of such benefits.	Create a government unemployment insurance fund into which either all workers or those who are not members of another fund are automatically enrolled.
Individuals receiving unemployment benefit at age 61 can have the benefit extended up to the statutory retirement age of 65. This encourages older workers to retire early, by first receiving the unemployment benefit for up to 500 workdays and then the extension (unemployment tunnel).	Phase out extended unemployment benefit by progressively increasing the eligibility age to 65 by 2029, the maximum age for receiving the benefit, and then abolish it.
The probability of inflow into disability benefits increases when individuals turn 60, the age at which more lenient eligibility criteria for disability benefits, including non-medical factors, apply.	Align the conditions for awarding disability benefit to persons aged 60 or over with those for other applicants, notably by no longer taking into consideration non-medical factors.
The generous homecare allowance discourages work by mothers with young children. Long absences from the labour force negatively affect their career prospects and earnings mobility, contributing to a large gender wage gap.	Reduce the homecare allowance to increase incentives for mothers of young children to work.
Early childhood education and care (ECEC) services are not sufficient to meet some parents' needs in some municipalities, mainly due to a lack of convenient places available.	Improve access to ECEC services by ensuring that those municipalities that do not provide sufficient places in convenient locations with suitable opening hours do so.
Boosting productivity	
Skill shortages are growing, and the recent trend in graduation rates will further exacerbate them.	Ease the transition from secondary to tertiary education by reforming the highly selective tertiary education admission system and increasing the number of available study places.
Some rail-passenger reforms to promote competition were suspended. The retail sale of pharmaceutical products is subject to numerous constraints.	Reduce barriers to competition in transport, energy, and retail.
Sector collective agreements normally include flexibility clauses but the law prohibits employers from using them if they are not members of the employers' association that negotiated the agreement, reducing productivity.	Repeal the legal restriction that prevents some employers from using the enterprise-bargaining flexibility clauses in their sector collective agreement, as planned.
Achieving the government's greenhouse gas abatement objectives	
Finland aims to reduce GHG emissions in EU burden-sharing sectors by 39% from the 2005 level by 2030. The burden-sharing sectors with the greatest emissions are transport, agriculture and energy sectors not covered by the EU Emissions Trading Scheme, including heating. Taxes on the use of peat (12% of GHG emissions) are lower than for other fossil fuels for heat production.	Reduce GHG emissions in the burden-sharing sectors using the most cost effective abatement measures, including making full use of available flexibility mechanisms. Subject heat production using peat to the same tax regime as for other fossil fuels used for heating.
Support payments subsidies for agriculture (accounting for 20% of GHG emissions) are among the highest in Europe.	Progressively replace national agricultural subsidies by subsidies for environmental benefits.

1 Key policy insights

The COVID-19 pandemic has plunged Finland into its deepest recession since the early 1990s. Distancing (whether voluntary or obligatory), to limit the spread of the virus, drastically reduced supply, primarily in service sectors, many of which have frequent social interactions. Exports also fell sharply as Finland's trading partners cut demand for its exports. The economic and social impact of this contraction has been substantial as services account for a high proportion of value added and tend to be labour intensive (Box 1.1). The number of people temporarily or permanently laid off amounted to 15% of the population aged 15-74 by mid-August and job opportunities for people entering the labour market, notably the young, and for the unemployed dried up. The ensuing labour market crisis has hit low-income households harder than high-income households, most of which switched to teleworking, had more secure employment contracts and were entitled to unemployment insurance benefits in the event of a layoff. Women also fared less well on average than men did (Helsinki Graduate School of Economics, 2020^[1]).

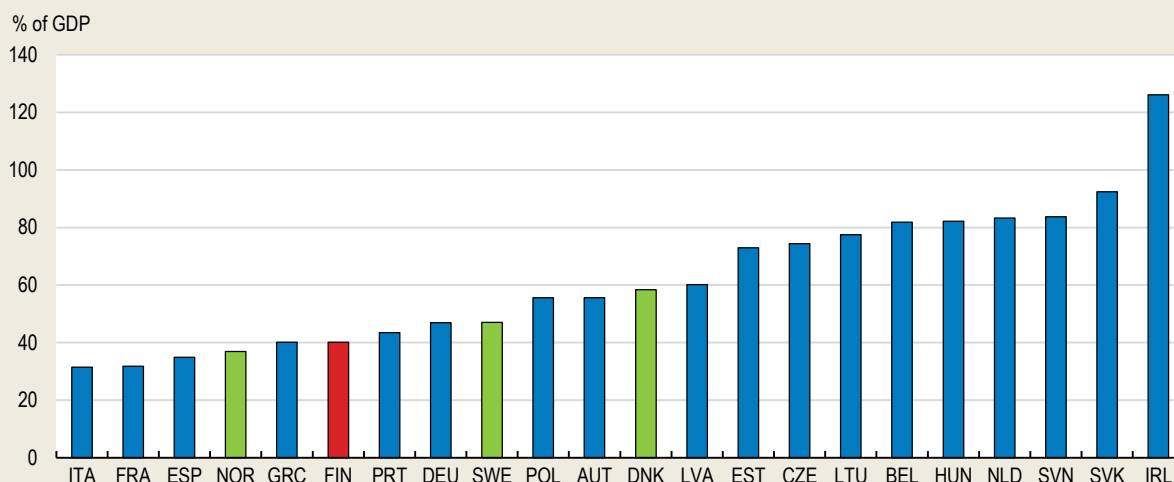
The crisis hit against a background of an economy that was already slowing and of rising financial stability risks. Economic growth had slowed markedly since the last *Survey*, when Finland was in the midst of a cyclical upswing after years of weak growth following the global financial crisis and drastic shrinking of Nokia and related industries as well as of a more gradual but equally-sized slump in the wood and paper industries (OECD, 2014^[2]). The slowdown reflected diminishing economic slack and global trade tensions, which had cut growth in Finland's main export markets. The housing market was strong in and around Helsinki, underpinning a residential construction boom. However, business investment remained weak. Household indebtedness had continued to rise, reaching historical record levels, albeit remaining lower than in other Nordic countries. Macro-prudential supervision had been progressively tightened. Nordea, which has assets equivalent to one-and-a-half times GDP, completed its move to Finland in October 2018. This brought bank assets to 450% of GDP, the highest ratio in the euro area.

Box 1.1. Key features of the Finnish economy

Finland has a small population (5.5 million) but a relatively large land mass (338 thousand square kilometres, which is almost as big as Germany). As in most other OECD countries, services account for over 70% of value added and primary production is marginal. The largest service activities are real estate, human health and social work, and wholesale and retail trade. In industry, the largest sectors are wood and paper products, and manufacture of computer, electronic and optical products. Finland's largest categories of exports are forestry, chemicals and metal products. It is highly dependent on European export markets - almost two thirds of exports are to EU countries, with the largest country destinations being Sweden, Germany and the Netherlands. Finland's export ratio (38%) is considerably lower than the average for Scandinavian countries (Denmark, Norway and Sweden, which are also Nordics), which are the most comparable countries to Finland, and similar-sized European countries (Figure 1.1), which could be partly explained by trade sanctions on Russia and relatively low inward foreign direct investment (OECD, 2017^[3]). Finland is relatively well integrated in global value chains (GVCs) in terms of the use of imported inputs in its exports (Figure 1.2, Panel A) but not so much as a provider of inputs to other countries' production to meet final demand (Panel B). A recent study based on firm-level data found that the dependence of Finland on imported inputs to produce its exports could be even higher than these estimates (OECD and Statistics Finland, 2020^[4]), highlighting Finland's exposure to foreign supply shocks propagated through GVCs.

Figure 1.1. Finland's export intensity is low for a small EU country

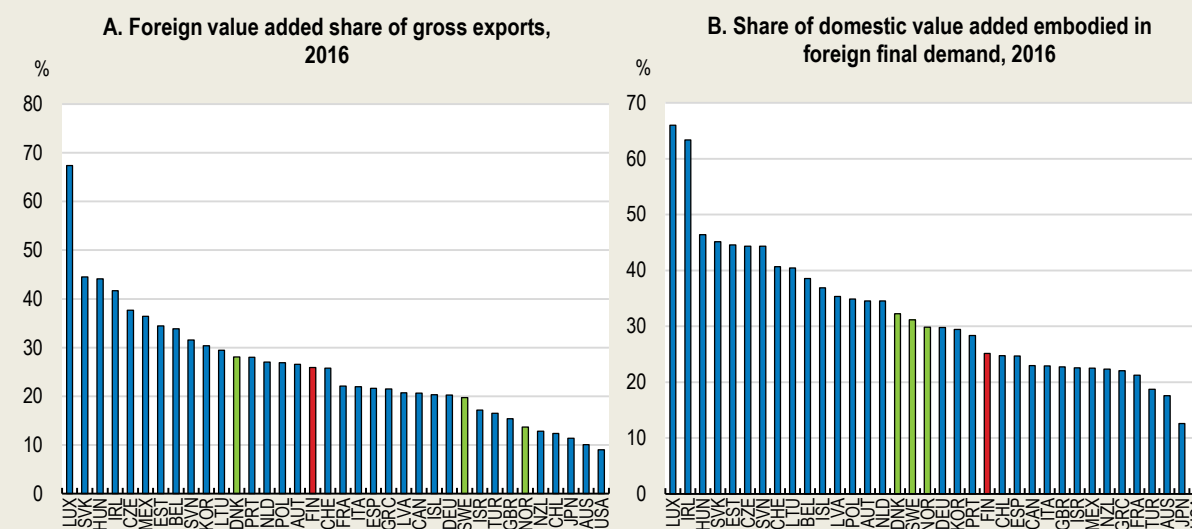
Exports of goods and services, 2019




Source: OECD National Accounts at Glance database.

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Figure 1.2. Finland is not highly integrated in global value chains



Source: OECD, Trade in Value Added database.

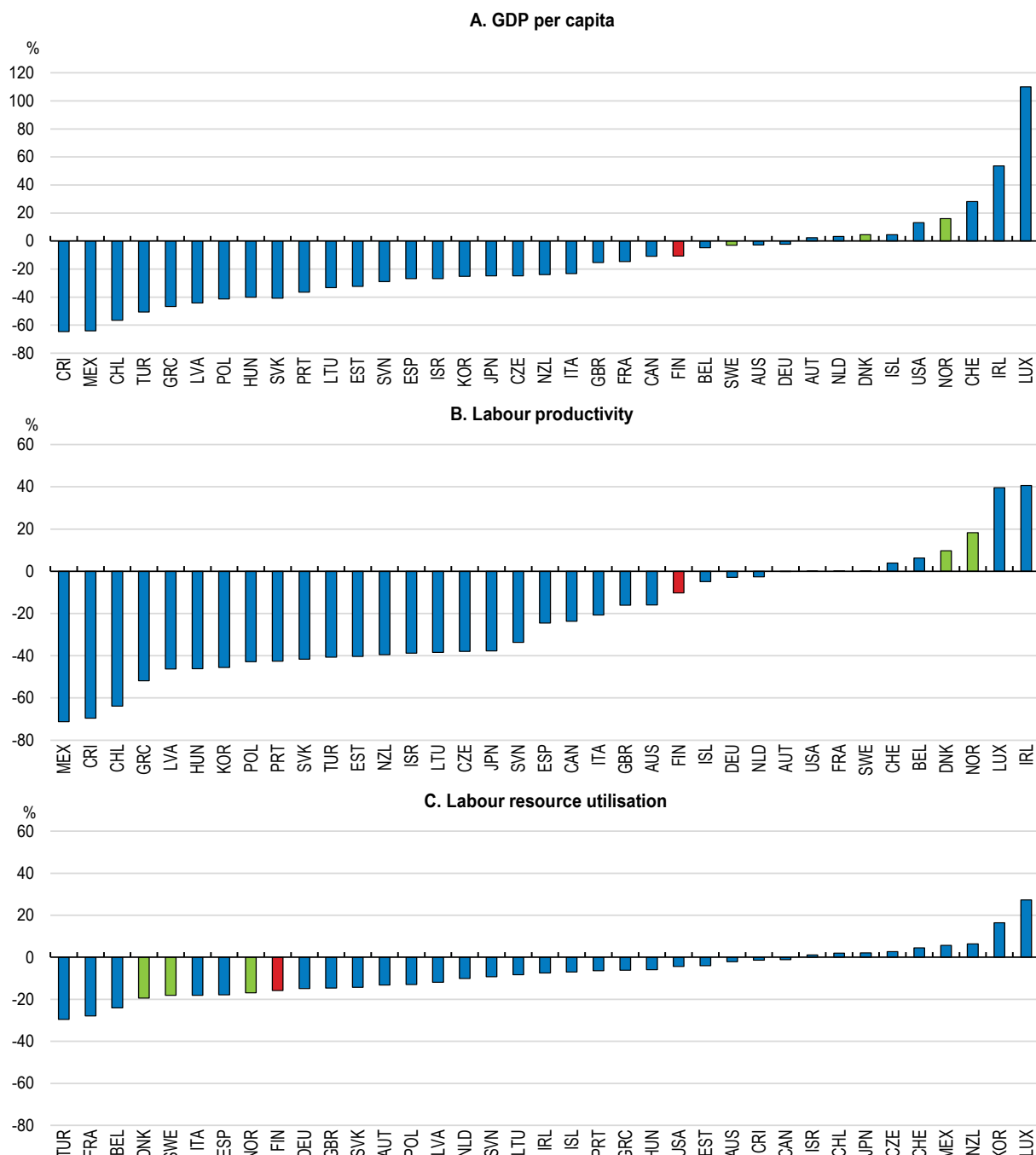
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GDP per capita (at PPP exchange rates) in 2018 was somewhat below the median of the upper half of OECD countries and levels in Scandinavian countries (Figure 1.3, Panel A). These shortfalls reflected lower labour productivity and, for the shortfall vis-à-vis the upper half of OECD countries, both lower labour productivity and labour resource utilisation (Panels B and C). High skills shortages, low investment and resource misallocation have been holding back labour productivity. When combined with Finland's high tax burden (Figure 1.4), the moderate per capita income level translated into below OECD average levels of average earnings, household income and net wealth (Figure 1.5). Nevertheless, Finns scored highly on most other well-being indicators (OECD, 2017^[5]). Overall outcomes were particularly good for education and skills, social support, environmental quality, feelings of safety and the (relatively low) incidence of

labour market insecurity, job strain and very long regular working hours. In addition, subjective life satisfaction was higher than in any other OECD country.

Figure 1.3. GDP per capita is lower in Finland than the median of the upper half of OECD countries owing to lower productivity and resource utilisation

Percentage difference vis-à-vis the median for the upper half of OECD countries, 2019



Note: GDP per capita is at current PPPs. Labour productivity is GDP per hour worked. Labour resource utilisation is the total number of hours worked per capita.

Source: OECD Productivity database.

Figure 1.4. Finland's tax burden is high

2018 or latest

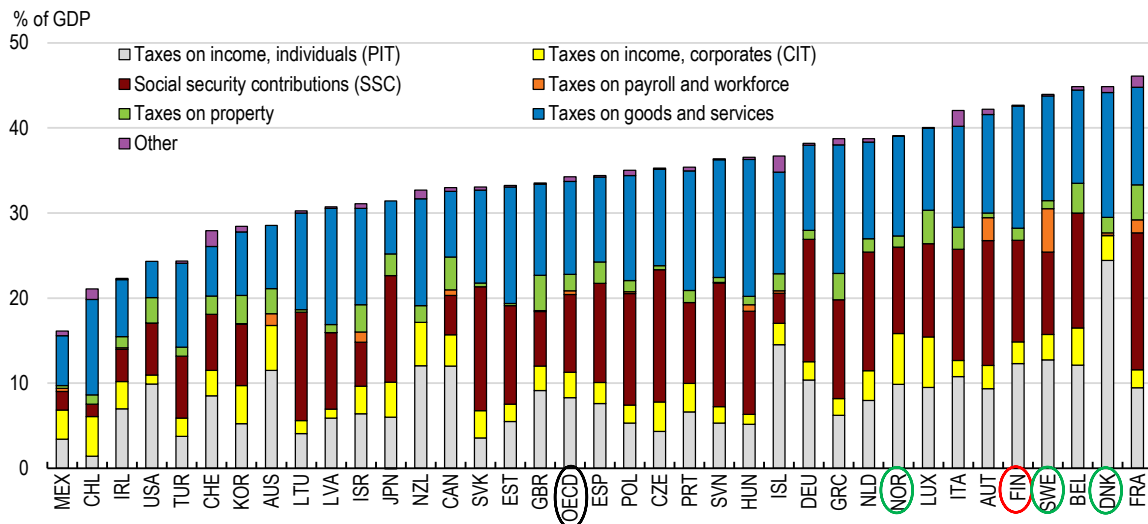
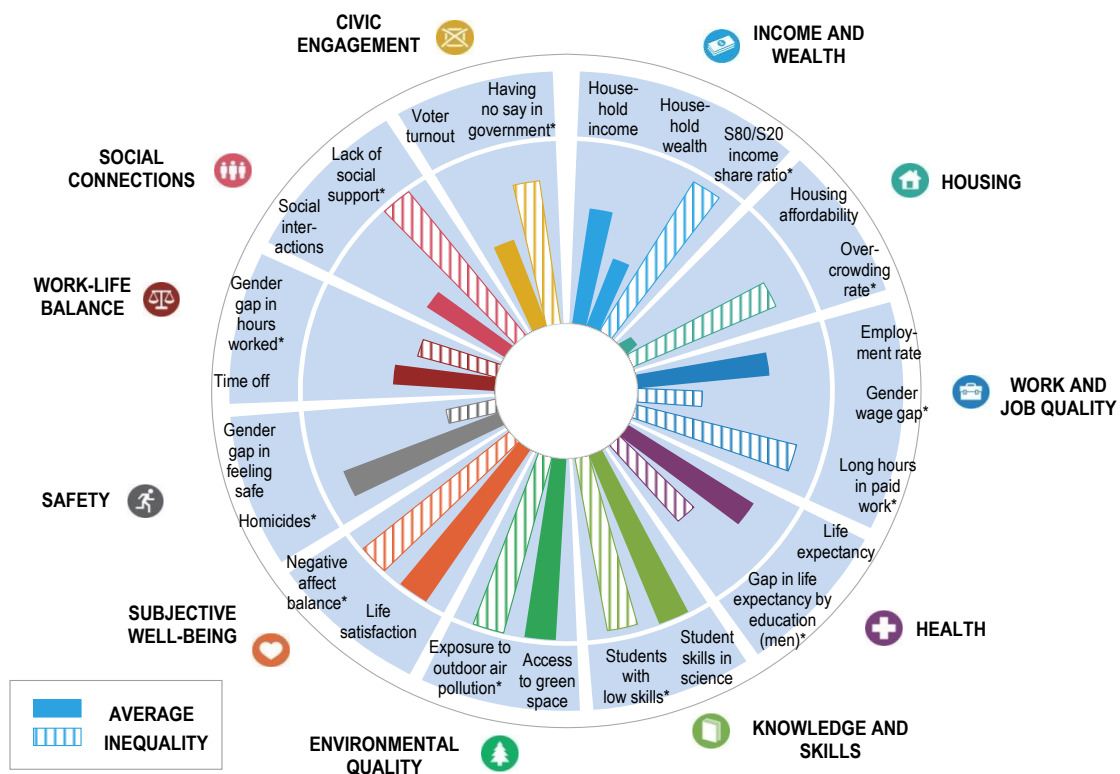
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Figure 1.5. On average, Finland performs well on many OECD How's Life Indicators



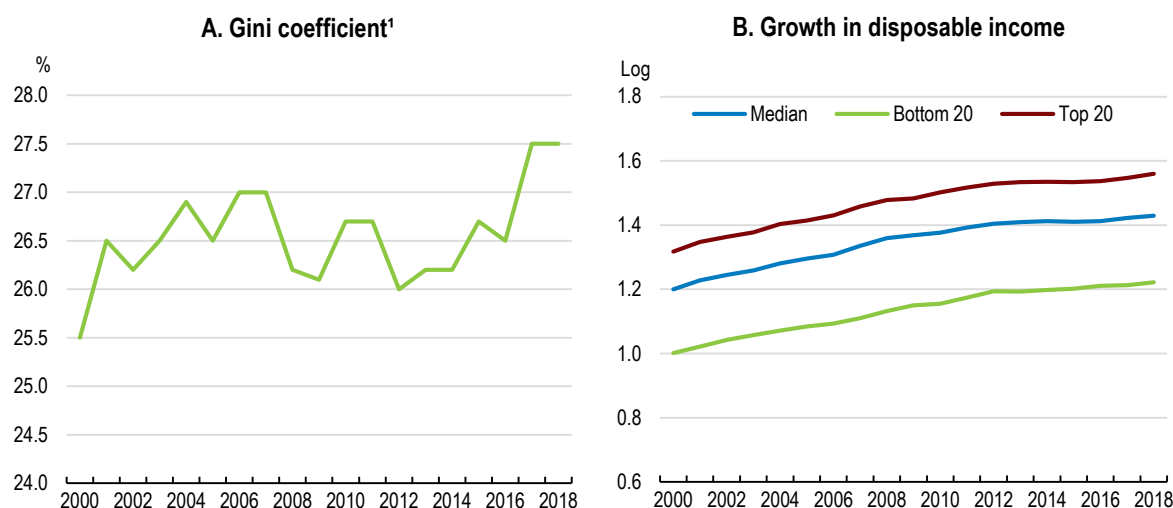
Note: This chart shows Finland's relative strengths and weaknesses in well-being when compared with other OECD countries. For both positive and negative indicators (such as homicides, marked with an *), longer bars always indicate better outcomes (i.e. higher well-being), whereas shorter bars always indicate worse outcomes (lower well-being). Indicator referring to inequalities (gaps between top and bottom outcomes, differences between groups, people falling under a deprivation threshold) are shaded with stripes. If data are missing for any given indicator, the relevant segment of the circle is shaded in white.

Source: OECD calculations based on OECD How's Life? 2020.

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Income inequality has edged up since the turn of the century (Figure 1.6). As in other Nordic countries, disposable income inequality remains low by international comparison thanks to high redistribution through taxes and transfers (Figure 1.7, Panel A). The relative poverty rate (the share of households with disposable incomes less than 50% of the median) is one of the lowest OECD-wide (Panel B).

Figure 1.6. Income inequality has edged up since the beginning of the century



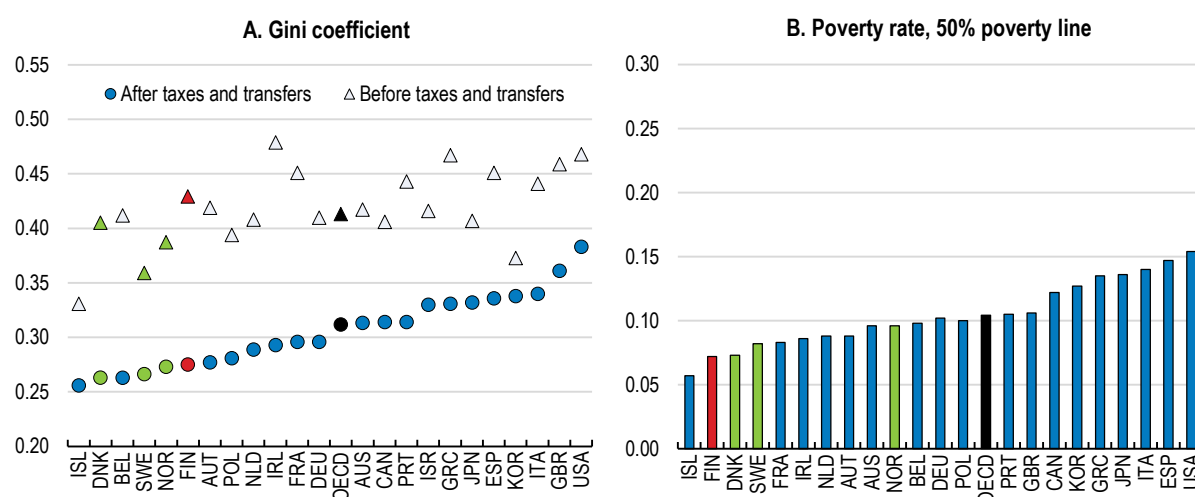
1. Gini coefficient after taxes and transfers relative to those aged 18-64 years old.

Source: OECD, Income Distribution and Poverty database.


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Figure 1.7. Income inequality and relative poverty rates are below the OECD average

Population aged 18-65, 2018 or latest available year



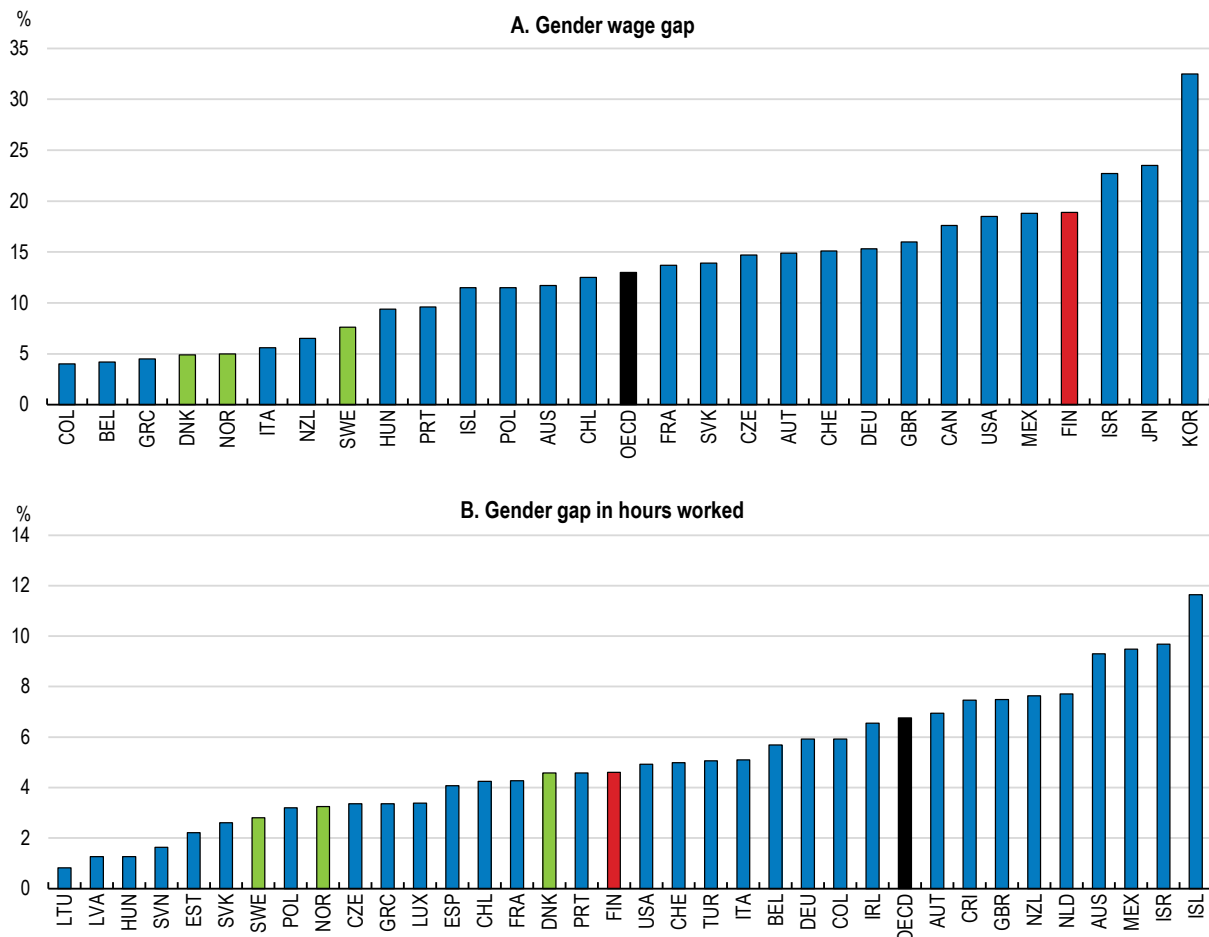
Source: OECD, Income Distribution database.

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One of the rare domains in which inequality is greater in Finland than in most other OECD countries is earnings by gender. Median wages for full-time female employees are 18% lower than for their male counterparts, compared with an OECD average of 14% and considerably smaller gaps in Scandinavian countries (Figure 1.8, Panel A). While part of the OECD gap is explained by shorter working hours for women than for men, this difference is smaller in Finland (4 percentage points) than the OECD average (7 percentage points), suggesting that the hourly earnings gender gap is even bigger than the wage gap (Panel B). Korkeamäki and Kyryä (2006^[6]) find that task segregation is the most important factor explaining the gender wage-rate gap. Task segregation starts at the beginning of careers, with women being placed in less complex jobs partly because they are less likely than men to have obtained educational qualifications in technical fields, and intensifies over time because women get fewer promotions than men (Kauhanen and Napari, 2011^[7]). Women's slower career progression is likely attributable to mothers opting for lower-skilled jobs close to home, as in Denmark (Lundborg, Plug and Rasmussen, 2017^[8]).

Figure 1.8. The gender full-time wage gap is large in Finland

2019 or latest



Note: Panel A. Data for Australia, Austria, Costa Rica, Denmark, Finland, Germany, Greece, Israel, Poland, Portugal and Switzerland refer to 2018, Data for Belgium refer to 2017, and data for Hungary, Iceland and Italy refer to 2016. Panel B. Data for Australia refer to 2018.

Source: OECD Social Protection and Well-being Database.

The government took measures that add to the existing arsenal (notably the temporary layoff scheme and unemployment benefits) to provide a bridge for households and firms to traverse the COVID-19 crisis. Such measures focus on protecting jobs, sustaining household incomes and supporting businesses (especially SMEs) to reduce bankruptcy risks. These measures and automatic stabilisers substantially increased the budget deficit. Together with highly accommodative monetary policy, expansionary fiscal policy will speed recovery by ensuring that demand is available as production expands from the current depressed level. A speedy recovery will reduce lasting economic damage, including by limiting labour market hysteresis effects. Nevertheless, GDP per capita will remain below the former trajectory for many years.

The widening of the budget deficit dwarfs the short-term increases in the government's coalition agreement destined to finance an expansion in social programmes. Accordingly, the objective of eliminating the structural budget deficit by 2023 has been abandoned. Instead, the government is aiming to stabilise the debt-to-GDP ratio by the end of the decade. Increasing the employment rate towards rates in other Nordic countries, which was the main means by which fiscal consolidation was to be achieved according to the government programme and is the topic of the thematic chapter in this *Survey*, is now more important than ever. But given the greater reduction in the deficit needed to stabilise the debt ratio, more ambition for increasing employment is now warranted and other consolidation measures will need to play a role. Increasing the employment rate would also help restore GDP per capita to its former trajectory. Prior to the COVID-19 crisis the government had announced numerous labour and product market reforms, not all of which will increase per capita incomes (Box 1.2).

Box 1.2. Recently announced labour and product market reforms

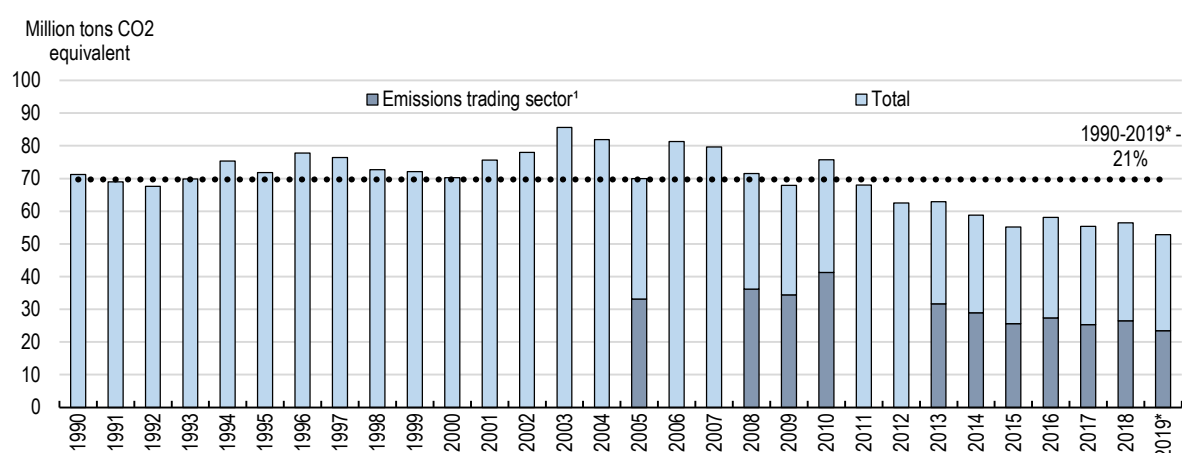
The government proposed a policy package in 2019 to increase the employment rate, involving an increase in resources for the Public Employment Service, more intense job counselling, reform and increased use of wage subsidies, a plan to increase the activity rate and ultimately employment among the disabled and an increase in work-related immigration. Only EUR 300 million was budgeted for the package, which is unlikely to be sufficient to implement it fully. At the same time, the main elements of the activation model implemented by the last government were cancelled, despite evidence that it had encouraged job search among the unemployed (Kyyrä et al., 2019^[9]). A problem with the model was that some people had their benefits docked (by around 5%) because they could not participate in training classes that were full. It also will be important to reduce displacement effects of the wage subsidy scheme – beneficiaries get jobs at the expense of non-subsidised applicants – if it is to be effective increasing the employment rate. In 2019, the government legislated an increase in the minimum age to qualify for extended unemployment benefit (for the unemployed who have exhausted their earnings-related entitlements) from 61 to 62 years for persons born in 1961 or later; hence, the maximum duration of extended unemployment benefit is to fall from four to three years. However, the legislation also set the maximum age for extended unemployment benefit equal to the retirement age for people born after 1965 – hence, the maximum duration of extended unemployment benefit will begin to rise again after 2030, when the retirement age will be linked to life expectancy.

Product market regulations are more restrictive in Finland than in Scandinavian countries and the OECD average, notably in energy, retail distribution and transport. Reforms aimed at improving the regulatory environment were implemented in 2017, including the liberalisation of shop opening hours and easing of land-use planning restrictions. The Act on Transport Services was implemented in 2018 to facilitate interactions between different transport modes. The gas market was also opened up to competition on 1 January 2020. However, the government suspended some rail passenger transport reforms opening up the heavily-regulated transport market to greater competition, partly because preparations to establish rolling stock and real estate companies to take over trains and depots from the government-owned railway company had not been completed.

The government plans to implement reforms to ease skills shortages. The residence permit process for specialists will be streamlined to attract more foreign skilled workers. Moreover, the government is to take steps to raise the tertiary attainment rate for the 25-34 age group from 41%, which is below the OECD average, to 50% by 2030. An important reform in this regard is to enhance school leavers' access to tertiary education places from 2020. The government announced in the fourth supplementary budget package (June 2020) to deal with the COVID-19 crisis that such access would be further expanded. The government also plans further measures to train adults with low basic skills and to raise the minimum school leaving age to 18.

Recovery from the COVID-19 recession provides an opportunity to make economic growth more environmentally sustainable. Finland has substantially reduced its greenhouse gas (GHG) emissions since the early 1990s (Figure 1.9) and is on track to meet its 2020 EU burden-sharing abatement target (Honkatukia, 2019^[10]). However, it will need further measures to reach the 2030 target cut (39% of 2005 emissions, compared with a 22% reduction without further measures – a gap of 6Mt CO₂ eq.). The government has also brought forward the target date for Finland to reach net zero GHG emissions – meaning that emissions are offset by net land use, land use change and forestry (LULUCF) sinks and/or purchases of foreign emission permits - to 2035. This target would be very difficult to meet from domestic sources alone as gross annual emissions are projected to be 49 Mt CO₂ eq. in the baseline and LULUCF sinks to be 20 Mt CO₂ (Ministry of Economic Affairs and Employment of Finland, 2017^[11]).

Figure 1.9. Measures have been effective in reducing GHG emissions



Note: 1. Emission levels in sectors covered by the EU Emissions Trading System (ETS). Shown only when data is available. 2. Preliminary data for 2019.

Source: Statistics Finland; and Energiavirasto (Finnish Energy Authority).

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Against this background, the key messages of the *Survey* are that:

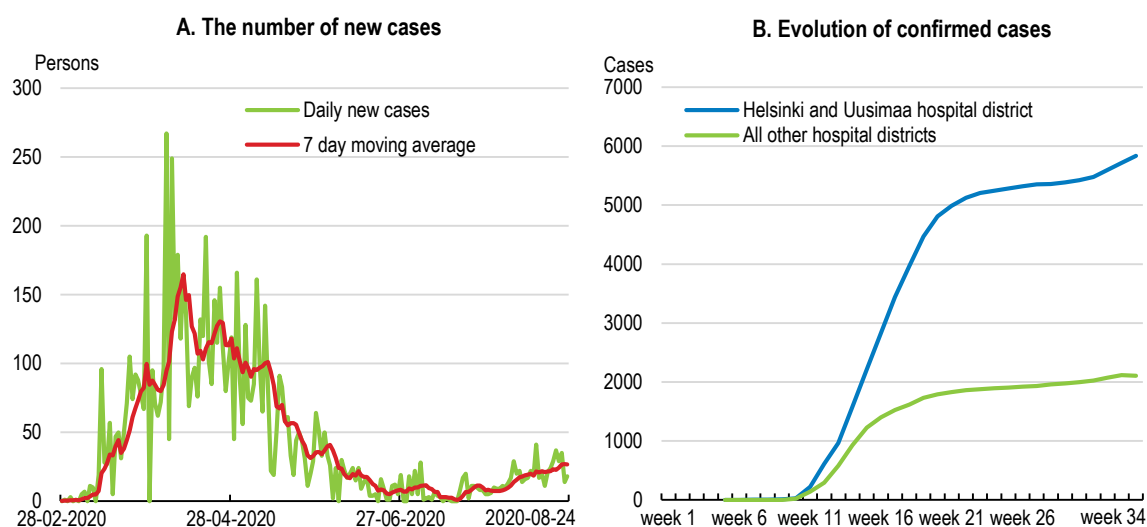
- Restoring economic activity and reducing unemployment to pre-crisis levels quickly is vital for minimising lasting economic and social damage;
- Increasing the employment rate, especially for seniors, and productivity, notably by enhancing the supply of skilled workers and easing regulations that hamper business dynamism, would help reverse the relative long-term erosion in living standards and increase in government debt caused by the crisis;

- Recovery from the crisis provides an opportunity to move to a more environmentally sustainable growth trajectory that is compatible with meeting Finland's demanding GHG emissions abatement targets.

The pandemic caused an economic slump in the first half of 2020

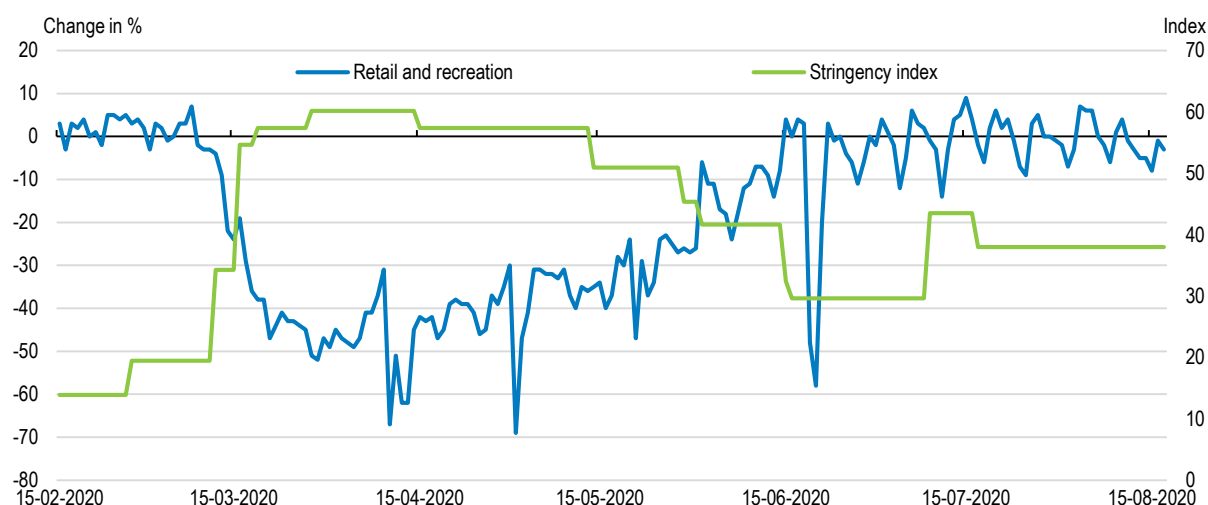
Finland confirmed its first COVID-19 case on 29 January 2020 and experienced rapid growth in the number of new cases through March (Figure 1.10, Panel A). The Uusimaa region, which includes Helsinki and contains nearly one-third of Finland's population, experienced the fastest growth in cases, which reached about two-thirds of the national total (Panel B). Finland was successful in quickly containing the first wave of the epidemic. Finns started avoiding places where they would be in close proximity to others, such as public transport, shops and restaurants, about 10 days before the state of emergency was declared on 16 March, sharply reducing the movement of people and economic activities (Figure 1.11). The government's policy response was swift but less stringent than in most other OECD countries (see the Annex).

Figure 1.10. COVID-19 cases surged in March mainly in the greater Helsinki area



Source: Finnish Institute for Health and Welfare.

Figure 1.11. Mobility dropped ahead of the state of emergency measures



Note: The Oxford Government Response Stringency Index captures the strictness of 'lockdown style' policies that primarily restrict people's behaviour. It is a composite measure based on nine response indicators including school closures, workplace closures, and travel bans, rescaled to a value from 0 to 100 (100 = strictest response). For more information, see: <https://www.bsg.ox.ac.uk/research/research-projects/coronavirus-government-response-tracker#data>. Mobility change is a comparison relative to a baseline day before the pandemic outbreak. Baseline days represent a normal value for that day of the week, given as median value over the five-week period from January 3rd to February 6th 2020.

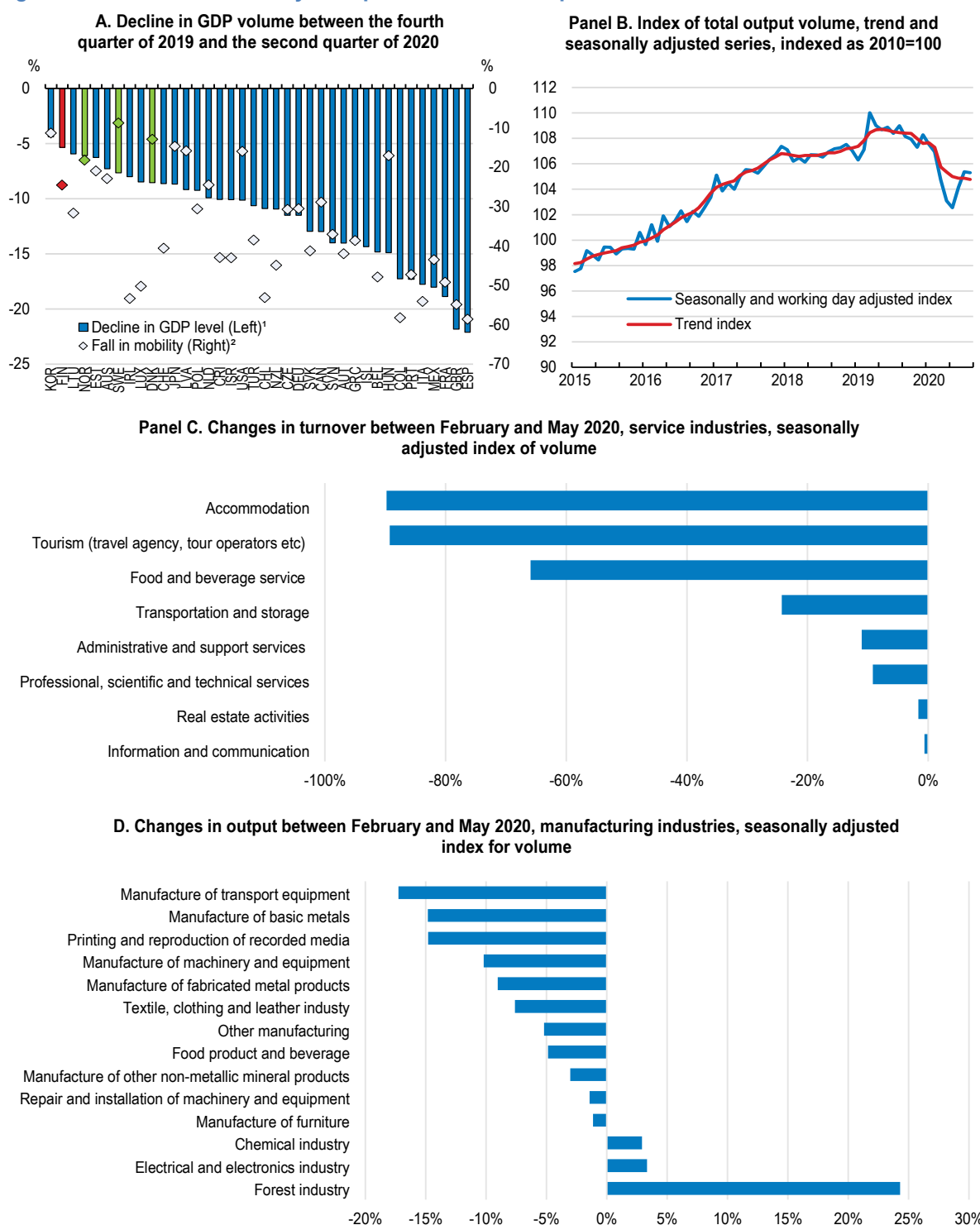
Source: Google LLC, Google COVID-19 Community Mobility Reports, <https://www.google.com/covid19/mobility/>; Hale, T., Webster, S., Petherick, A., Phillips, T. and Kira, B. (2020). Oxford COVID-19 Government Response Tracker, Blavatnik School of Government.

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Finland's GDP contracted by 3.9% in the second quarter of 2020, with its level falling by 5% compared with the level in 2019 fourth quarter. However, this economic contraction was among the smallest in the OECD (Figure 1.12, Panel A), partly thanks to more targeted confinement measures and a relatively small loss of mobility.

The economic contraction resulted from supply shocks with the shutdown of production in industries requiring person-to-person interactions or where teleworking is not feasible, and demand shocks with reduced mobility and substantial weakening of consumer and business spending. Output fell sharply in March (Figure 1.12, Panel B) when non-essential businesses shut down, indicating a large contraction in production capacity. Service industries were particularly hard hit by both supply and demand shocks, with sales volume contracting by close to 90% in hospitality and tourism between February and May 2020 and by 66% in restaurants and cafés (Panel C). These are the activities for which electronic card spending dropped the most (Koivu, Nummelin and Suomi, 2020^[12]). Most manufacturing industries also suffered significant contraction, especially shipbuilding, with the exception of forestry, which recovered from a strike earlier in the year (Panel D). Finland's goods exports collapsed on the back of worldwide weakening in business investment, owing to the high share of capital goods (Bank of Finland, 2020^[13]).

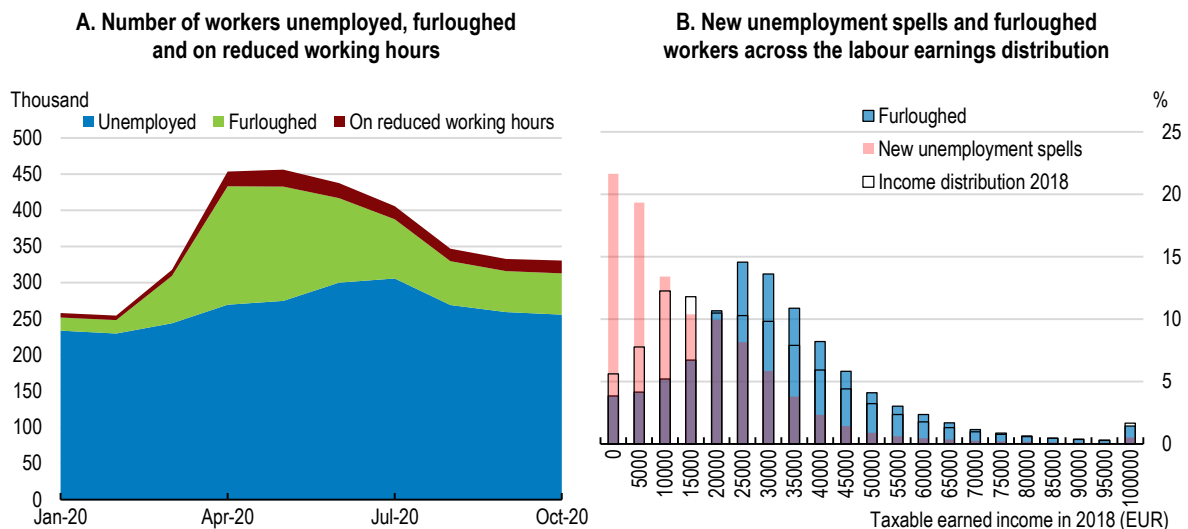
Figure 1.12. Economic activity collapsed as a result of pandemic



1. Values refer to the percentage difference between 2019Q4 and 2020Q2 GDP levels. 2. Mobility change is a comparison relative to a baseline day before the pandemic outbreak. Baseline days represent a normal value for that day of the week, given as a median value over the five-week period from January 3rd to February 6th 2020. Data refers to the fall in mobility from the baseline between 1st of March and 27th of June. Panel A: OECD, National Accounts database; Google LLC, Google COVID-19 Community Mobility Reports, <https://www.google.com/covid19/mobility/>; Panel B: Statistics Finland, Trend Indicator of Output; Panel C: Statistics Finland, Turnover of service industries; Panel D: Statistics Finland, Volume index of industrial output.

To date, the labour market impact of the crisis has been attenuated by the temporary layoff scheme (Box 1.3). The number of furloughed workers (classified as being employed in labour market statistics) shot up in the spring of 2020, limiting the increase in unemployment, but has gradually declined since then as outflows from furlough exceeded inflows (Figure 1.13, Panel A). The increase in the number of employees laid off on a full-time basis by spring was almost twice as much as during the previous peak in 1991 (Ministry of Finance, 2020^[14]). Low-income workers have been overrepresented among those becoming unemployed while middle-income workers have been overrepresented among those furloughed (Panel B). Unemployment and furloughs increased most in manufacturing, retail trade, and hotel and restaurants (Helsinki Graduate School of Economics, 2020^[11]). The number of employed persons with positive earnings decreased mostly among the young, particularly young women (Figure 1.14, Panel A), and workers in hospitality and retail trade (Panel B). The trend employment rate, which had been increasing since 2017, has declined but has not yet reversed all of the gains in recent years (Figure 1.15); the employment rate (15-64 years) in September 2020 was 72.0%, 0.7 percentage point lower than a year earlier. The unemployment rate increased to 7.6% by September 2020, 1.7 percentage points higher than a year earlier.

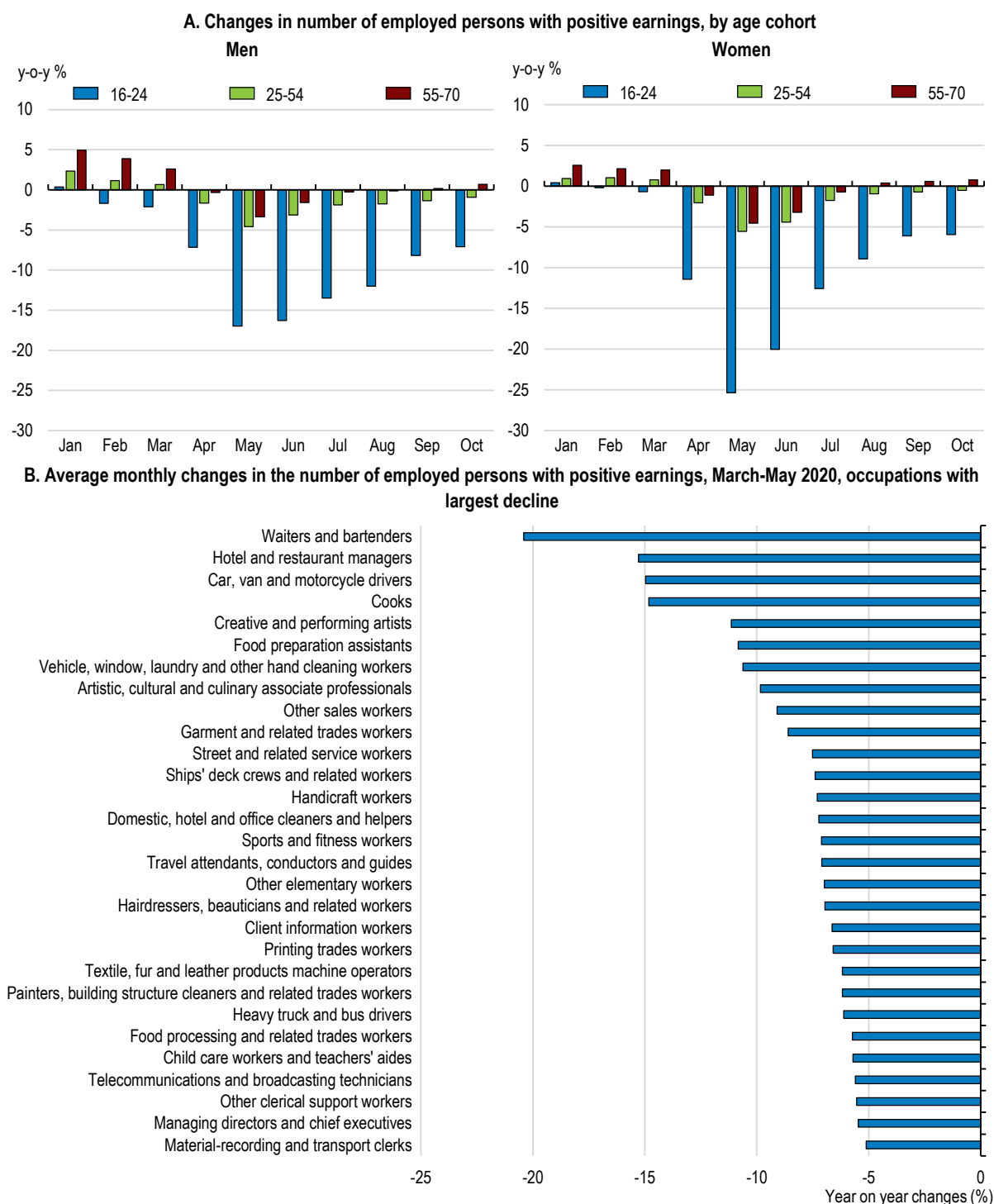
Figure 1.13. Temporary layoffs increased sharply, mostly among middle-income workers



Note: Panel B: The data on layoffs and unemployed by income groups refer to the period between 15 March and early August 2020. Income distribution 2018 refer to the share of wage earners in the indicated interval in the year 2018.

Source: Statistics Finland's Px Web databases; Helsinki Graduate School of Economics Situation Room (www.helsinkiqse.fi).

Figure 1.14. Young women and workers in hospitality and retail trade were hardest hit



Note: Panel B: Only occupations where the number of employees with positive earnings declined more than the 75 percentile of all decline across occupations are displayed.

Source: Helsinki Graduate School of Economics Situation Room (www.helsinki.fi).

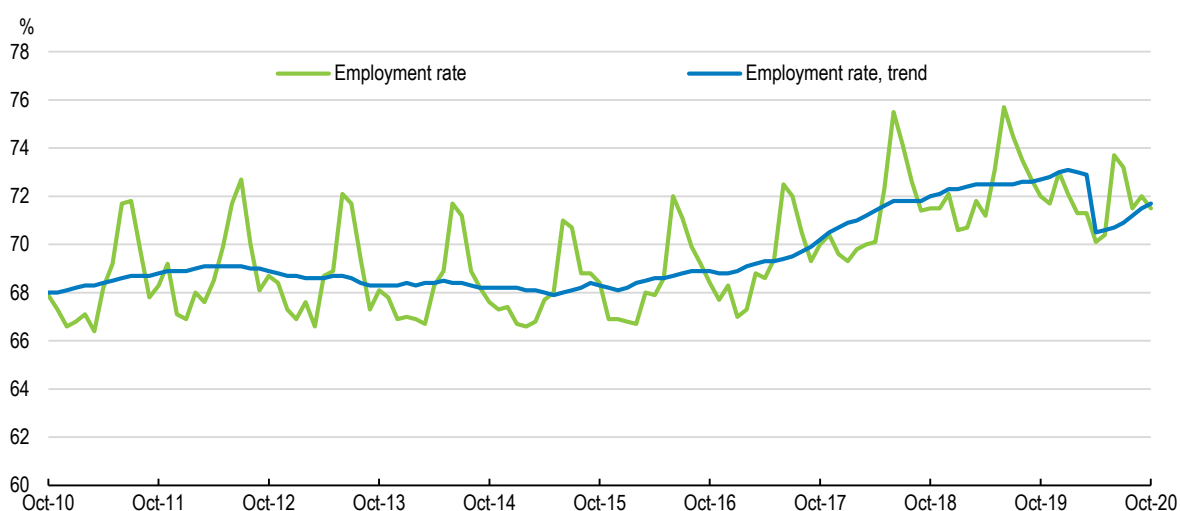
Box 1.3. The temporary layoff scheme

The temporary layoff scheme, created in 2006, allows employers facing a large drop in activity to lay off employees temporarily for whom other suitable work or training cannot reasonably be provided. Employees temporarily laid off are effectively obliged to take unpaid leave. With the exception of reduced working time and pay, both of which fall to zero with a full-time layoff, all other aspects of the employment contract remain in force. Temporary layoffs may last for up to 90 days, but can be renewed if laid-off employees return to work between layoff spells. During the layoff period, the employee may work for another employer and/or is entitled to receive unemployment benefits under the same conditions as an unemployed person. Temporarily laid-off employees are entitled to the same public employment services as those who have been made redundant, such as assistance with job search, vocational labour market training and skills development.

Before the COVID-19 crisis, only employees on indefinite-term contracts or their replacements on fixed-term contracts could be temporarily laid off, employers had to give at least 14 days' notice and, if they had more than 20 employees, had to enter into cooperation negotiations with employee representatives for a period of up to six weeks. To help employers adapt to the crisis, coverage was extended to employees on fixed-term contracts and the minimum notice- and negotiation periods were reduced to five days. These changes will remain in place until the end of 2020.

Figure 1.15. The trend employment rate has turned down but the gains since 2017 have not yet been fully reversed

Employment rate and trend employment rate 2010/10-2020/10, persons aged 15-64



Source: Statistics Finland, Labour force survey.

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Finland adopted teleworking vigorously as a response to the pandemic, which helped to save jobs and contain economic costs. According to a survey (Eurofound, 2020^[15]), some 60% of Finnish workers switched to teleworking after the pandemic, the highest share in the European Union. Finnish workers undertake tasks that can be performed online more than workers in other OECD countries (Brussevich, Dabla-Norris and Khalid, 2020^[16]), giving more room for teleworking. Increases in teleworking are likely to have mostly preserved the jobs of high-skilled workers, as low-skilled workers tend to engage in tasks for

which teleworking is less feasible (Brussevich, Dabla-Norris and Khalid, 2020^[16]). Nevertheless, a large increase in layoffs among high-income workers (Figure 1.13 Panel B) indicates that teleworking has not shielded high-skilled jobs from the shock.

The government provided a bridge to businesses and households to traverse the crisis

Measures to support employment and income

Soon after declaring a state of emergency, the government strengthened the temporary layoff scheme to preserve more jobs. It extended access to workers on fixed-term contracts, reduced the periods for notice and negotiation of terms and prolonged re-employment obligations (from six months to nine). Firms were also required to report layoffs to the local public employment service (PES). To protect incomes of workers temporarily or permanently laid off, the waiting period for unemployment benefits and the labour market subsidy were eliminated. For the first time, eligibility for unemployment benefits was extended to entrepreneurs and the self-employed. All of these measures will remain in force until end 2020.

While the temporary layoff scheme has played a vital role in protecting jobs that will be viable after the crisis, employers have few incentives to limit its use to such jobs as those using the scheme pay no more in social security contributions than other employers. To encourage employers to limit temporary layoffs to jobs that they believe can be restarted after the crisis, employers should be required to contribute to the unemployment benefit costs of hours not worked by their employees (in addition to the unemployment benefit contributions paid by all employers) (OECD, 2020^[17]). To facilitate early PES interventions to help workers out of jobs that are unlikely to be viable even in the longer term, registration with the PES for temporarily laid-off workers, which is currently voluntary, should be made compulsory. Moreover, participation in training for temporarily laid-off workers should be encouraged to increase their productivity and opportunities to move to better paying jobs.

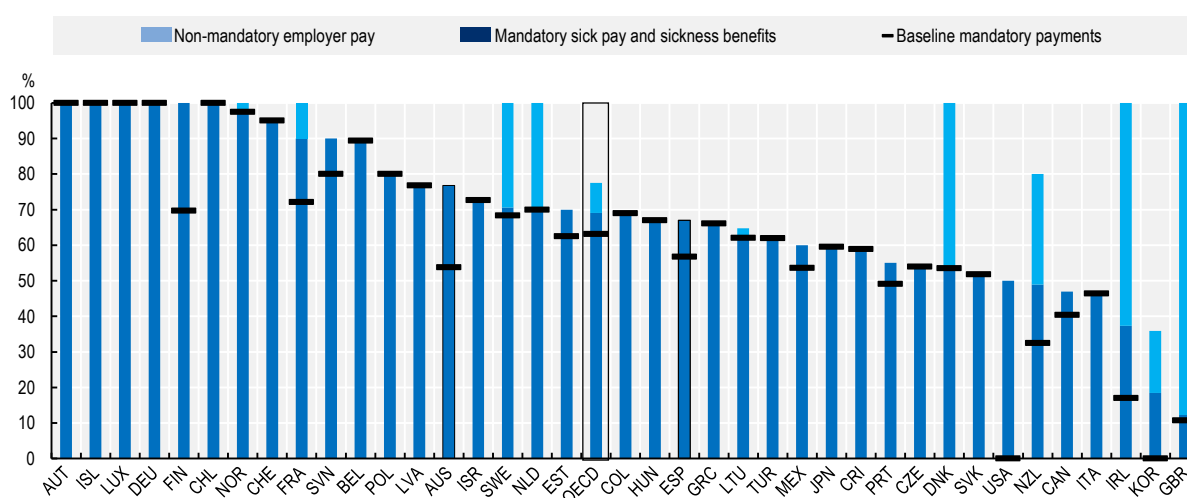
A weakness in the unemployment benefit system highlighted by the crisis is that only those people temporarily or permanently laid-off who are members of unemployment insurance funds are entitled to (earnings-related) unemployment insurance benefits; non-fund members are only entitled to the basic unemployment allowance (EUR 32.40 per working day). An estimated 15% of employees are not members of an unemployment fund, with younger and/or part-time workers most likely not to be fund members. Many more people than usual were affected by this lacuna owing to the scale of temporary layoffs - 30 000 of the 120 000 people temporarily laid off in May 2020 were not members of unemployment insurance funds. This situation left many people without adequate replacement income and was unfair given that unemployment insurance funds only pay 6% of the cost of earnings-related unemployment benefits; 56% is met from statutory unemployment social security contributions, which do not depend on fund membership, and the remainder from general taxation. To provide laid-off workers with adequate replacement income and make unemployment benefits fairer, the government should create an unemployment insurance fund into which either all workers or those who are not members of another fund are automatically enrolled.

Adequate sickness benefits play an important role in containing COVID-19 by encouraging workers to comply with government instructions to self-isolate and preventing workers from reporting back to work while still sick. Finland is among the few countries that fully compensate labour income lost due to COVID-19 (Figure 1.16), with a special sickness benefit for infectious diseases available for the entire duration of the absence from work, self-isolation or quarantine. The benefit also applies to workers who need to be absent from work to care for their quarantined child. However, the requirement to obtain a sick leave certificate or quarantine order from a doctor employed by a municipality or hospital district resulted in long delays in receiving the benefit, as these doctors were already overburdened. Furthermore, the order was only issued to a handful of people reasonably suspected of suffering from COVID-19 and not to those self-isolating with a risk of infection. The government also provided a temporary flat-rate income support of EUR 723 monthly to all parents on leave without pay to care for children under 10 during the school

shutdown. This income support was extended to persons arriving from abroad placed under quarantine-like conditions without pay. While this income support was welcome, it could have been better targeted to households for whom the consequences of losing labour income are most serious, such as single parent households (OECD, 2020^[18]), so that a larger benefit could have been paid with the same fiscal cost.

Figure 1.16. Finland is one of the few countries where paid sick leave fully replaces lost earnings for COVID-19 sickness

Cumulated gross sick-leave payments in the first four weeks of sick leave as a percentage of previous earnings for a person who fell sick with COVID-19, rules valid in mid-May 2020



Note: The results refer to a person who is married with no children, age 40, earning an average wage and working with the same employer for one year. "Mandatory sick pay and sickness benefits" refer to mandatory payments directly paid to individuals by the government and payments made to individuals by employers, which are often partly subsidised by the government. "Non-mandatory employer sick pay" includes employer sick pay commonly agreed via collective agreements or other arrangements; these payments are included for those countries where the majority of employees would receive such payments. Baseline leave entitlements refer to regulations in place in 2019, except for Australia, Israel, Japan, Korea, New Zealand and Turkey (all 2018). Countries emphasised with a black border (Australia and Spain) are those where individuals are entitled to a benefit other than a dedicated sickness benefit.

Source: 'Paid sick leave to protect income, health and jobs through the COVID-19 crisis', OECD Policy Responses to Coronavirus (COVID-19), Paris.

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Measures to support businesses

The government mobilised substantial financial support for SMEs and microenterprises, especially in the service sector, to help them survive the slump in economic activity caused by the pandemic. The state's financing and export credit company, Finnvera, increased loan guarantees by EUR 10 billion. Business Finland and the Centre for Economic Development, Transport and the Environment offered business subsidies (more than EUR 1 billion) for new business development. Finnish Industry Investment set up a new investment fund providing private equity-type financing to SMEs with high growth potential but experiencing temporary liquidity difficulties. However, these support measures were not suited for assisting firms in financial distress as the government financial institutions disbursing the funds were prevented by law from financing such firms. The government introduced a more general support measure covering business costs of up to EUR 500 thousand for two months for firms that lost over 30% of turnover in April-May 2020. The government also supported specific industries particularly hard hit by the pandemic,

through a state credit guarantee to air and sea transportation firms, as well as compensation for up to 15% of the loss of turnover for restaurants and cafés and a subsidy of EUR 1 000 for each laid-off worker they re-hired.

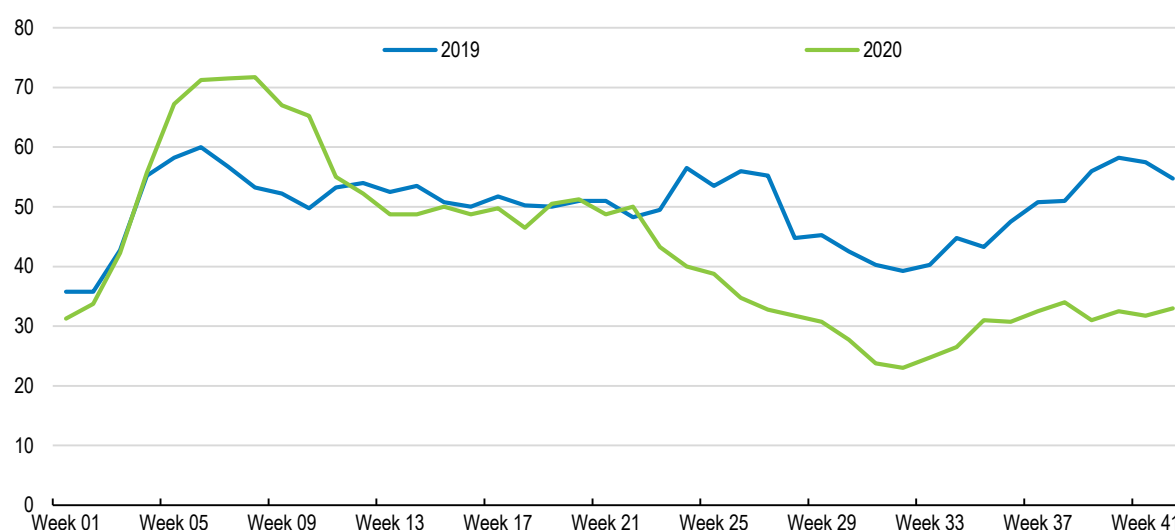
The government reduced tax burdens and social security contributions temporarily, easing firms' cash flow. Firms in financial difficulties could request an extension for payments of corporate income tax by up to 24 months and those with justifiable reasons, such as COVID-19 sickness, could request an extension for the delay in filing corporate income and value added tax returns. The interest rate for late payment for corporate income and real estate taxes was reduced from 7% to 4%, while penalties for late filing of value added tax (VAT) returns could be waived with a justifiable reason. The government also reduced employers' pension contributions between May and December 2020 by 2.6 percentage points and allowed employers and self-employed persons to defer their pension contributions in early 2020 by three months without late payment penalties.

The government also amended the Finnish Bankruptcy Act, limiting creditors' right to petition for bankruptcy until 31 October 2020. It specifically removed the risk that a debtor be considered bankrupt if it cannot repay a clear and due claim within a week from receiving a notice by the creditor to file for bankruptcy. The relief did not apply to proceedings initiated before 1 May 2020 or those initiated later on debts that had fallen due before 1 March 2020. It also did not prevent creditors petitioning for a debtor's bankruptcy where they can prove that it is unable to pay its debts.

These measures were successful in avoiding mass bankruptcies (Figure 1.17). Considering that loan guarantees and subsidies were targeted to firms with development potential and clear end dates were set for more general measures, such as the insolvency relief, these measures are unlikely to prevent the exit of firms that were non-viable even before the pandemic. However, care should be taken in prolonging these measures beyond the original timeline not to hold back the exit of non-viable firms and reallocation of labour and capital to more productive uses.

Figure 1.17. The number of bankruptcies remains low for the time being

Number of enterprises where bankruptcy was instigated, four-week moving average



Source: Statistics Finland (2020) instant preliminary statistics on bankruptcies.

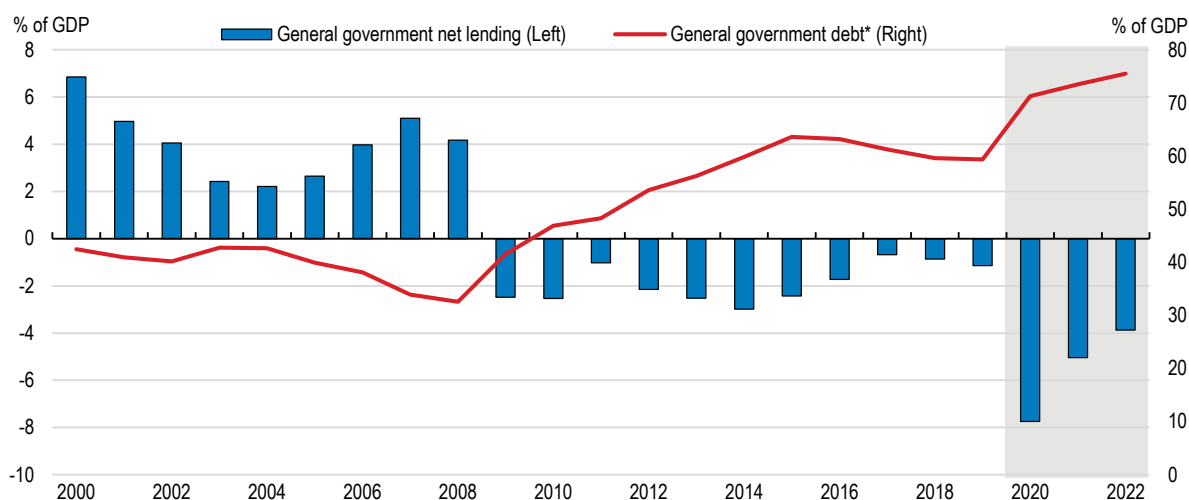
In the absence of robust recovery in the near term, bankruptcies are likely to surge after these temporary measures expire. Finland's insolvency regime is relatively efficient, with generous treatment of failed entrepreneurs. Debtors can also apply for restructuring in cases where there is a threat of insolvency, which would enable an early rehabilitation of firms in financial distress (Adalet McGowan, Andrews and Millot, 2017^[19]). However, in practice, debtors often apply for restructuring too late. The government is currently developing early warning tools.

Government policies are supporting a strong rebound from the slump

Fiscal policy is expansionary in 2020

Assuming that the economy shrinks by 4.5% in 2020, the Ministry of Finance (2020^[20]) estimates that the general government deficit will jump from 1.1% of GDP in 2019 to 7.7% in 2020 (Figure 1.18). Most of this increase is attributable to rising expenditure. Three quarters of the 3.4% of GDP in discretionary measures taken by the government that increase the 2020 budget deficit arise from the COVID-19 pandemic with the remainder reflecting decisions taken in 2019. Among the COVID-19-related measures amounting to EUR 6 billion (2.6% of GDP), the most costly measures were business subsidies and cost support for enterprises (0.8% of GDP), the temporary reduction in employer private-sector pension contributions (0.4% of GDP) and extending the coverage of unemployment benefits and making cash transfers to parents of small children on unpaid leave (0.4% of GDP). As COVID-19 measures unwind and the economy begins to recover, the budget deficit is projected to fall by 2.7% of GDP in 2021 and more gradually thereafter. The Ministry of Finance projects a leap in general government debt in 2020 with smaller subsequent increases.

Figure 1.18. The general government budget deficit and gross debt increase substantially in 2020



Note: General government debt refers to Maastricht definition.

Source: Statistics Finland; Ministry of Finance.

StatLink  <https://stat.link/yedua9>

In addition to the COVID-19-related expenditure, temporary easing of corporate income and value added tax payment arrangements provided short-run relief of EUR 845 million (0.3% of GDP), although these measures do not affect the budget deficit but rather only the timing of government cash receipts or payments. Increases in government loan authorisations and guarantees by EUR 10 billion also support economic activity. They also expose the government to the risk of additional fiscal costs in case of defaults.

These risks may not be small because contingent liabilities from government guarantees already stood at 34% of GDP in 2019 (Eurostat, 2020^[21]), by far the largest in the European Union, and are concentrated in a small number of sectors and companies.

While Finland's fiscal stimulus was relatively small compared with many other OECD countries (IMF, 2020^[22]), so was the economic hit from the pandemic (Figure 1.12). Fiscal support is set to unwind in 2021-22 as many of the one-off stimulus and COVID-19-related expenditure measures expire. In the event that economic recovery is delayed, the government should increase fiscal support to put the recovery firmly back on track. In this regard, it is considering issuing vouchers for purchasing domestic services in late 2020 and 2021. Further fiscal support will come from spending the EUR 3.1 billion of grants that Finland expects to receive from the newly established EU recovery instrument between 2021 and 2023; however the counterpart is that Finland will contribute a much larger amount (around EUR 6.6 billion) for the repayment of the associated European Commission debt from 2028 (Ministry of Finance, 2020^[20]).

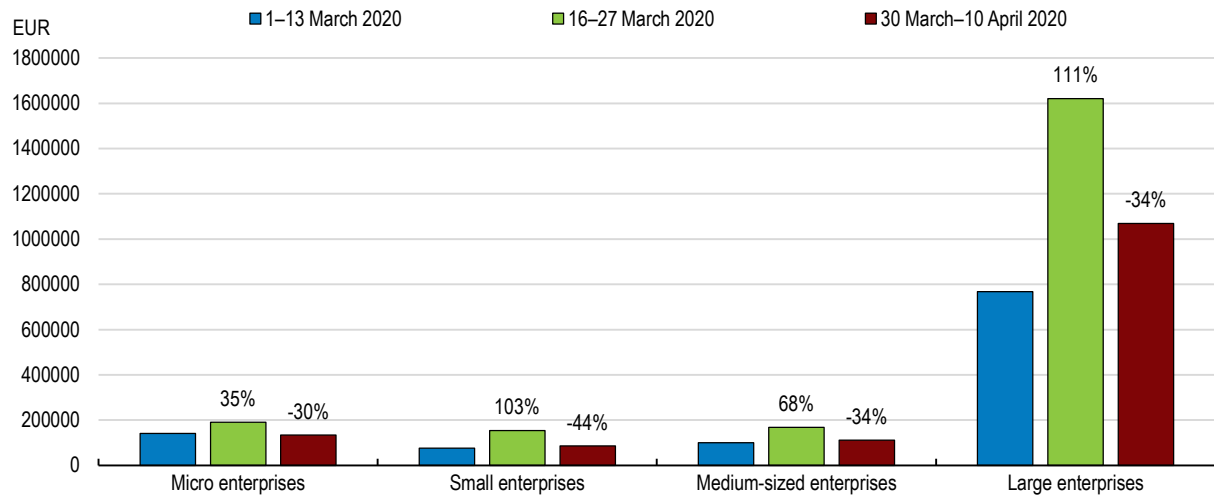
Monetary policy is boosting credit supply and keeping interest rates low

To boost credit supply and banks' lending capacity, the European Central Bank (ECB) introduced new non-targeted longer-term refinancing operations (PELTRO), cut the interest rate applied in targeted longer-term refinancing operations (TLTRO III) to below zero and expanded its asset purchase programme by EUR 1 470 billion (12.3% of the euro area 2019 GDP). The Bank of Finland granted banks TLTRO III refinancing amounting to EUR 17 billion and initiated a EUR 1 billion domestic commercial paper purchase programme. The ECB also lowered bank capital requirements and introduced flexibility regarding the treatment of non-performing loans for the largest Finnish financial institutions directly under its supervision. Finland's Financial Supervision Authority decreased all main solvency requirements by approximately 1.0% in March. These measures were estimated to increase the domestic lending capacity of Finnish credit institutions by EUR 30 billion (12% of GDP) (Bank of Finland, 2020^[23]). Furthermore, the ECB and the Bank of Finland eased collateral requirements, so that banks can accept collateral of lower credit quality.

New corporate loans by banks in the second half of March jumped by more than 90% compared to the first half of the month, with over three-quarters going to large firms (Figure 1.19). Microenterprises, particularly in the service sector, demonstrated caution in taking on new loans owing to uncertainty about future revenues and/or a lack of collateral (Bank of Finland, 2020^[23]). New lending decreased in early April partly because firms started drawing various business subsidies launched in mid-March. Long-term government bond rates and the spread against German bonds increased at the onset of the COVID-19 crisis but have since fallen back to low levels (Figure 1.20).

Figure 1.19. New loan expanded drastically in the latter half of March 2020

New loan per firm size with % change from the previous period

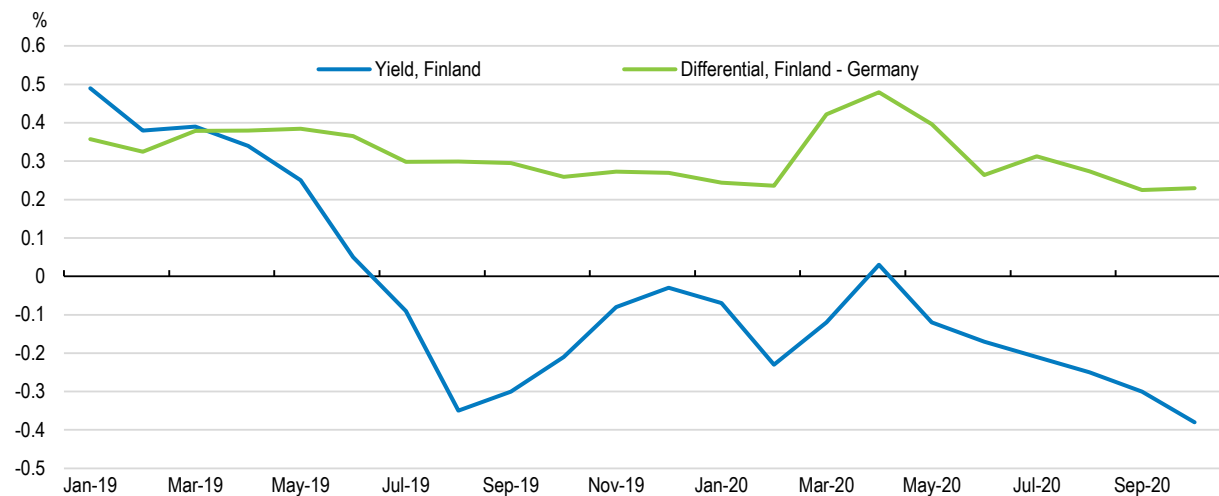


Source: FIN-FSA, Bank of Finland and Ministry of Finance (2020) Survey of Finnish credit institutions.

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Figure 1.20. Long-run interest rates are low

Yield on 10-year Finnish government bonds and differential with Germany



Source: OECD, Main Economic Indicators database.

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Macro prudential policies should be tightened as the economy recovers to contain financial stability risks

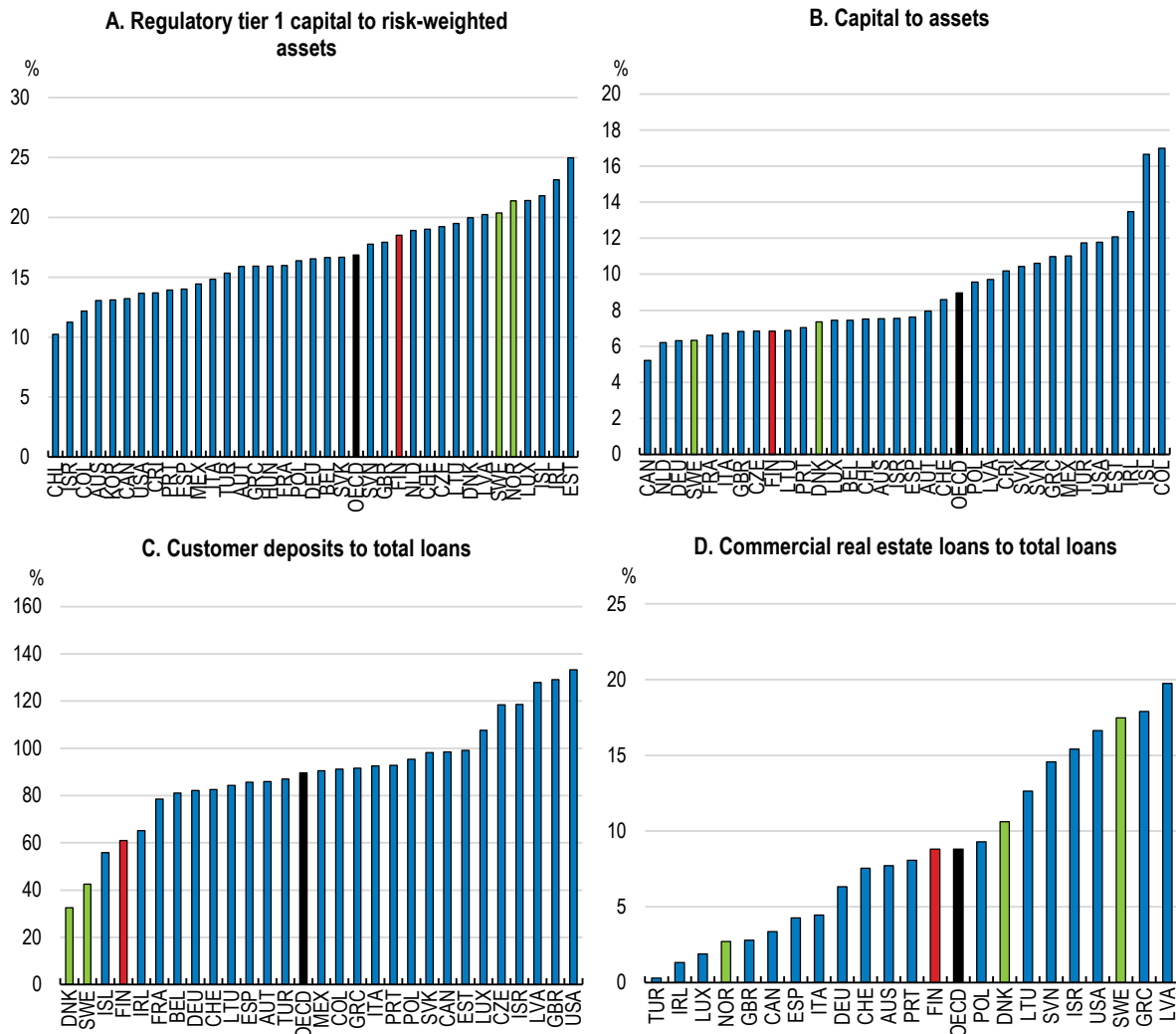
Finnish banks entered this crisis in sound shape. Common Equity Tier 1 capital was above the OECD average in 2019 (Figure 1.21, Panel A). They were also highly profitable thanks to the low share of non-performing loans (NPLs), extensive use of digital technologies to enhance cost-efficiency and high concentration. However, the ratio of total capital to assets was relatively low (or equivalently, the leverage ratio was relatively high) (Panel B). Finnish banks also relied less on retail deposits (Panel C) and thus more on wholesale markets for financing their loans than banks in most other countries. This exposes them more to changes in risk sentiment in global financial markets than banks in most other OECD countries. Exposure to commercial real estate loans, which has become much more risky in all countries following the COVID-19 crisis, is around the OECD average (Panel D). The share prices of large banks dropped steeply at the outbreak of the crisis, like elsewhere, and the yields on covered bonds, an important funding source for Nordic banks, rose. However, the banks' share prices have recovered since and covered bond yields remain very low and negative on the back of expansionary monetary policy, keeping bank funding costs low (Bank of Finland, 2020^[24])

Finland's banking sector has grown very large owing to the re-domiciliation to Helsinki of Nordea bank (with assets equal to 150% of Finland's annual GDP) in October 2018. The European Central Bank and the European Resolution Framework, which bails in creditors, directly supervise Nordea. However, for bail in to work in the resolution framework the Minimum Requirement for Own Funds and Eligible Liabilities (MREL) framework need to be implemented consistently and efficiently and banks need to fulfil their MREL requirements. The government has introduced legislation (the "Banking Package") to enhance this framework.

Profitability and capital adequacy of Finnish banks has increasingly come to rely on developments in residential- and commercial real estate markets in Nordic countries (Bank of Finland, 2019^[25]). A large fall in house prices in Norway and Sweden, where prices are high relative to fundamentals, would reduce Finnish banks' capacity to supply credit (Bank of Finland, 2019^[25]) as would a large increase in commercial real estate loan defaults, which has become more likely in the wake of the sanitary crisis. Banks have also been increasingly investing in riskier and more illiquid assets in search of yield in the persistent low-interest rate environment (IMF, 2019^[26]), increasing liquidity and solvency risks in the event of a banking crisis.

Figure 1.21. The banking sector is well capitalised but with structural vulnerabilities

2019 or latest



Note: OECD averages exclude countries not shown in the figure.

Source: IMF, Financial Soundness Indicators database.

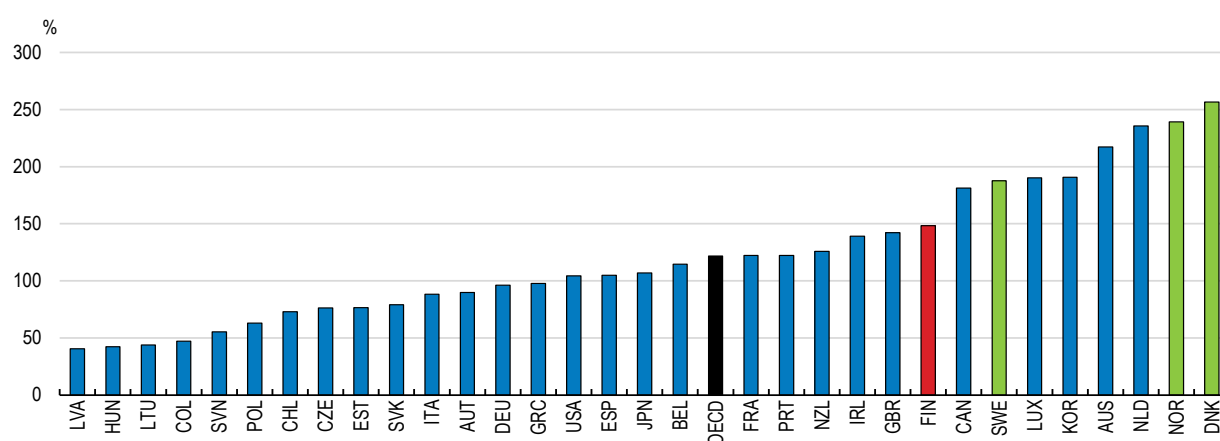
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High household debt has been a primary structural vulnerability of Finland's economy. Debt has reached 148% of net household disposable income, a record high for Finland but still lower than in other Nordic countries (Figure 1.22). Most (75%) household debt consists of housing loans. These include housing company loans, which grew very rapidly (78%) over the past four years. Housing companies take out these loans for renovation and new construction using their real estate as collateral and then charge shareholders, who have occupancy rights to individual residential units in the company property, a monthly fee that amortises each owner's share of loan repayments. Shareholders can finance up to 70% of the price of their residential units via housing company loans and the rest with their own housing loans, which can be taken out using their share in their housing company as collateral. Because housing company loans are mutually guaranteed by all shareholders (those who occupy the units themselves and investors, who typically let them), fee payment defaults by some shareholders have to be paid by others, a fact that many shareholders are unaware of. Housing company loans are thus associated with mispriced risks resulting from the cross-subsidisation of high-risk shareholders by others. Investors who purchase property for rent are encouraged to do so through a housing company because principal repayments can be deducted from

rental income for tax purposes on housing company loans but not on other loans. Ownership through housing companies is also encouraged by the lower stamp duty rates on transfers of shares in a housing company (2%) than on direct property transactions (4%). The government should remove these tax preferences for housing companies relative to direct ownership. To stem risks from the rapid growth in housing company loans, the prudential regulator requires banks to incorporate a household's share in housing company loans when calculating the loan-to-collateral ratio for new housing loans, which is capped at 90% (95% for first-time buyers). The Finnish Financial Supervisory Authority (FSA) lowered this ratio to 85% in 2018 but recently restored it to 90% to mitigate the impacts of COVID-19 on the housing market. The FSA should reduce this ratio in a timely manner once the housing market starts recovering.

Figure 1.22. Household debt as a share of net household disposable income is above the OECD average

Household debt, % of net disposable income, 2019 or latest



Source: OECD, National Accounts at Glance database.

StatLink  <https://stat.link/usi0ck>

As the economy recovers, the prudential supervisors should phase in more effective measures to curb household debt. A working group report previously recommended introducing debt-to-income ratios of 4.5 times the annual gross income for all household loans, including those via housing corporations (Working group on macroprudential supervision tools limiting household indebtedness, 2019^[27]), which is consistent with past OECD recommendations (Table 1.1). As interest rates on housing loans are floating (they are tied to the 12-month Euribor rate), a debt-to-income ceiling in the current context of very low interest rates is a more useful macro-prudential tool than a debt-servicing ceiling, which would fail to limit repayment difficulties arising from an increase in interest rates. Consumer credit, including from foreign digital banks and payday loans, is growing rapidly, contributing to a record-high number of payment defaults by households. The government introduced an interest rate cap of 20% on consumer credit in September 2019, and recently lowered it to 10% until the end-2020. Finland does not have a comprehensive credit registry that provides credit institutions with a clear overview of households' debts (The European Commission, 2020^[28]). To reduce banking sector risks, the government is working to put in place legislation by 2023 establishing a credit registry managed by a public entity.

Table 1.1. Past recommendations on financial stability and actions taken

Main recent OECD recommendations	Actions taken since 2018
Contain growth in household debt through macro-prudential tools, such as a loan-to-income cap, a debt-service-to-income ratio or higher risk weights on mortgages.	The working group of the Ministry of Finance proposed introducing a debt-to-income ratio of 4.5 times gross annual income for all household loans.

The measures adopted by the ECB and the Bank of Finland to boost banks' lending capacity described above risk reducing the quality of banks' capital and their ability to bear lending risks. The prudential supervisors should carefully monitor the effects of looser capital adequacy, regulations and criteria for NPLs and collateral eligibility and tighten them as the economy recovers.

The recovery will be gradual and subject to risks

Economic recovery will be gradual, especially in light of the second coronavirus wave now spreading across Europe and North America, and subject to many risks (Table 1.2). As economic activity rises from the trough, employment will increase, supporting private consumption. Deferred household spending during the first coronavirus wave will also boost consumption in the latter half of 2020. Exports will rise as well, provided that Finland's main trade partners successfully contain COVID-19 and recover economically. Investment will be slow to pick up owing to weakened balance sheets, low capacity utilisation and high uncertainty. Output is only likely to recover the pre-COVID 19 level by 2022. Unemployment and bankruptcies are likely to increase in the short run, as relief measures run out toward the end of 2020. Inflation pressure will be moderate, reflecting the large output gap, slack in the labour market that constrains wage growth and subdued commodity prices. The recovery would be stymied if the recent resurgence of coronavirus infections is not soon reined in or if there were to be further serious outbreaks, external demand remains weak owing to a prolonged global pandemic or banking losses were greater than expected, leading to tighter credit conditions.

Table 1.2. Macroeconomic indicators and projections

	2017	2018	2019	2020	2021	2022
	Current prices EUR billion	Percentage changes, volume (2010 prices)				
GDP at market prices	225.9	1.5	1.1	-3.3	2.1	1.8
Private consumption	120.3	1.8	0.8	-4.4	3.0	2.1
Government consumption	51.6	1.6	1.1	-0.4	-1.0	-1.5
Gross fixed capital formation	52.9	3.9	-1.0	-2.8	-0.5	3.3
Final domestic demand	224.7	2.3	0.5	-3.1	1.2	1.5
Stockbuilding ^{1,2}	1.1	0.5	-0.9	0.5	-0.4	0.0
Total domestic demand	225.8	2.9	-0.4	-2.5	0.7	1.5
Exports of goods and services	85.0	1.7	7.7	-10.8	3.7	4.7
Imports of goods and services	84.9	5.4	3.3	-7.5	3.8	3.7
Net exports ¹	0.1	-1.4	1.7	-1.4	-0.1	0.3
Memorandum items						
Output gap (% of potential GDP)	–	-0.1	-0.1	-4.2	-3.0	-2.0
GDP deflator	–	1.9	1.8	1.6	0.7	1.5
Harmonised index of consumer prices	–	1.2	1.1	0.5	1.0	1.4
Harmonised index of core inflation ³	–	0.3	0.7	0.5	0.9	1.4
Unemployment rate (% of labour force)	–	7.4	6.7	7.9	8.3	7.7
Household saving ratio, net (% of disposable income)	–	-0.8	0.4	6.1	1.0	1.1
General government financial balance (% of GDP)	–	-0.9	-1.0	-7.0	-4.4	-3.0
General government underlying primary balance (% of potential GDP)	–	-0.7	-0.8	-4.3	-2.6	-1.9
General government gross debt (% of GDP)	–	72.7	72.7	78.6	84.5	89.2
General government debt, Maastricht definition (% of GDP)	–	59.6	59.3	63.8	68.7	72.5
Current account balance (% of GDP)	–	-1.7	-0.2	-0.4	-0.6	-0.3

1. Contributions to changes in real GDP, actual amount in the first column.

2. Including statistical discrepancy.

3. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.

Source: OECD Economic Outlook 108 updated for the 2020 National Accounts release on 27 November 2020.

Table 1.3. Possible severe shocks affecting the Finnish economy

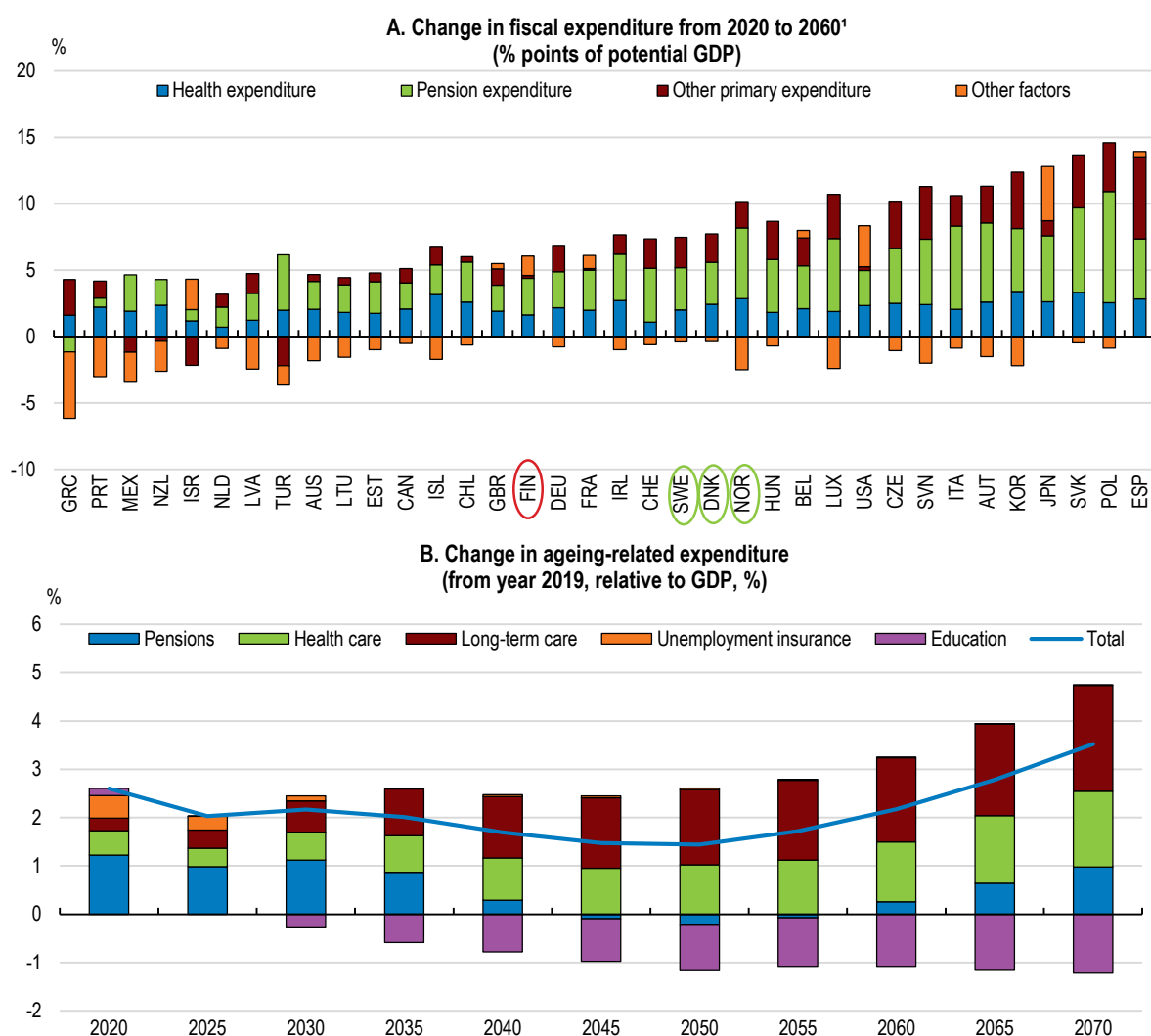
Shock	Possible impact
Much worse pandemic outcome and/or slower development of vaccine than assumed	Another virus outbreak comparable to the one in Spring 2020 would require a wide range of social and economic activities to shut down, resulting in large GDP and job losses. A long delay in the development of an effective vaccine would hamper recovery of some sectors, notably hospitality and transportation, for several years.
Intensification of trade tensions	Prolonged weakness in external demand and disruptions in supply chains would curb exports and investment.
Global financial crisis	An increase in non-performing loans and a sharp drop in real estate prices at home or in neighboring Nordic countries would damage banks' balance sheets and reduce credit supply.

Restoring public finance sustainability

Public finances have substantially deteriorated owing to the COVID-19 crisis. Under current policies, the Ministry of Finance projects an increase in the structural budget deficit in 2023 from 1.5% of GDP before the crisis to 2.6% now and in general government debt (Maastricht definition) from 59% of GDP in 2019 to 75.3% in 2023 (Ministry of Finance, 2019^[29]; Ministry of Finance, 2020^[20]). While the government has set an objective of stabilising the general government debt-to-GDP ratio by the end of the decade, it has not yet set out a clear pathway for getting there. To reach this objective smoothly and build room to respond to crises beyond 2023, the government should establish a clear plan for fiscal consolidation until the end of the decade with numerical targets that should come into effect once the economic recovery is firmly underway.

Finland faces rising fiscal pressures mostly driven by ageing-related costs, namely pension and health expenditures, that are almost entirely publicly financed (Figure 1.23, Panel A). The Ministry of Finance (Ministry of Finance, 2019^[30]) projects smaller increases in pension costs (Panel B) than the OECD, mainly because pension levels are to be lowered with longer life expectancy (see below), a feature not taken into account in the OECD projection. On the other hand, the Ministry projects a more sizable increase in health expenditure than the OECD, namely in long-term care costs, which are projected to rise by 2.2% of GDP by 2070 (Panel B). Long-term care in Finland is publicly provided either in kind by municipalities and private firms (but publicly financed) or through allowances and financial support to family members caring for their relatives. The government held (mainly pension-related) financial assets amounting to 136% of GDP in 2019, largely exceeding gross general government debt (73% of GDP, System of National Accounts (SNA) definition). On current policies, the OECD projects that ageing-related costs will push up gross- and net general government debt to 180% and 45% of GDP, respectively, by 2060 and continue rising thereafter (Figure 1.24).

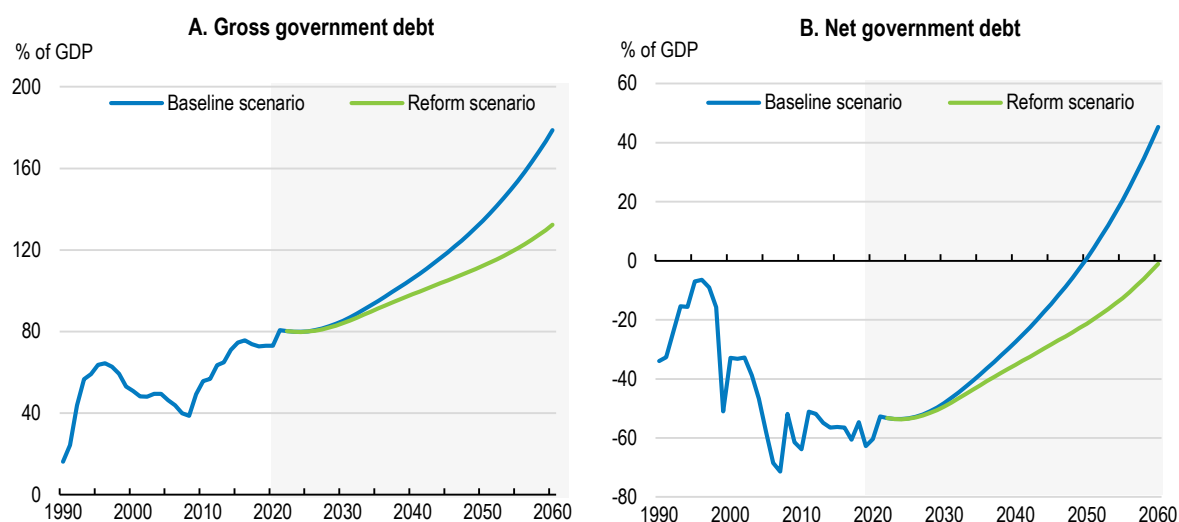
Figure 1.23. Future expenditure increases will be driven by population ageing



Note: 1. The chart shows how the ratio of structural primary revenue to GDP must evolve over time in order to keep the gross debt-to-GDP ratio stable near its current value.

Source: Panel A: Simulations using the OECD Economics Department Long-term Model; Panel B: Ministry of Finance (2019) Economic Survey, Autumn 2019.

Figure 1.24. Government debt would increase substantially under unchanged policies



Note: The baseline scenario incorporates the 2017 pension reform that gradually raises the minimum retirement age to 65 by 2025 and links it to life expectancy from 2030. It however does not take into account the adjustment of pension level through the life expectancy coefficient. The reform scenario corresponds to the case where the effective retirement age (64.3 for men and 63.4 for women in 2018) converges to the minimum retirement age over the projected period.

Source: Simulations based on the OECD Economics Department Long-term Model.

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The government estimates that a structural budget surplus of 1% of GDP in 2024 would be needed to prevent population-ageing spending pressures from causing an unsustainable rise in public debt (Aalto et al., 2020^[31]). Combined with the structural budget deficit now projected for 2024, the amount of fiscal consolidation needed to ensure sustainable public finances in the long run (the fiscal sustainability gap) is about 4% of GDP. The government's objective of stabilising the debt-to-GDP ratio by the end of the decade will entail increasing the structural budget balance by around EUR 5 billion (2% of GDP). While this will not close the fiscal sustainability gap – ageing-related expenditures are projected to continue increasing beyond the 2020s – it will help prepare the country to meet the budgetary challenges of population ageing, rebuild room for manoeuvre to attenuate the effects of future crises and maintain investor confidence in Finnish government debt.

Increasing the employment rate of older workers to the Scandinavian average would make a significant contribution towards stabilising the debt-to-GDP ratio. It would increase the employment rate (15-64 years) by about 1.3 percentage points, reducing the structural budget deficit by about 0.8 percentage points, with about half coming from additional tax revenue and the other half from savings on unemployment benefits (Box 1.4).

Box 1.4. The impacts of key structural reforms

This box summarises potential long-term impacts of selected structural reforms included in the key recommendations on GDP (summarised in Table 1.4) and fiscal balance (Table 1.5). The quantified impacts are merely indicative and do not incorporate dynamic responses to the reforms. They are also expected to materialise gradually over the long term. The GDP and fiscal impacts of some key recommendations are not quantified because they are very small. This is the case notably for reducing homecare allowance (by EUR 100 per month) to increase incentives for mothers of young children to work and aligning the conditions for awarding disability benefit to persons aged 60 or over with those for other applicants, which concerns a small group of people. In the case of reducing the homecare allowance, fiscal savings from reduced expenditure on the allowance and additional labour income tax revenue would be offset by increased costs for childcare services and unemployment benefits for low-skilled mothers returning to the labour force.

The selected key reforms that are quantifiable are expected to boost the level of GDP by 2.4% (Table 1.4). They will improve the structural budget balance as a share of GDP by 0.8 percentage point (Table 1.5). The structural balance can be further improved by 1.3 percentage points if the recommendation to raise more revenue through non-distortive taxes is also implemented. It is difficult to quantify the impacts of these tax increases on GDP, but reforms that shift the weight of taxation from direct to indirect taxes are considered to be conducive to growth (Arnold et al., 2011^[32]).

Table 1.4. The long-term impact of selected reforms on employment, productivity and GDP levels

	Impact on employment	Impact on multi-factor productivity %	Impact on GDP
Phasing out extended unemployment benefit ¹	2.0		1.1
Easing the transition from secondary to tertiary education ²		0.8	0.8
Reducing barriers to competition in transport, energy, and retail ³		0.5	0.5
Total impact	2.0	1.3	2.4

1. This scenario is modelled as an increase of the eligibility age for extended unemployment benefit by four years starting from 2023, instead of one year as decided in January 2020, aligning the eligibility age with the retirement age of 65. The scenario exploits the experience from the 2005 reforms that increased the eligibility age by two years, which extended working lives by seven months over a period of 10 years (Kyyrä and Pesola, 2020^[33]). 2. This scenario assumes that the share of persons aged 25-64 with tertiary educational attainment increases from the current 46% to 50% as the long-run consequence of the government successfully raising the tertiary educational attainment among those aged 25-34 from 42% to 50% by 2030. The GDP impact is computed as the gain in income from higher education attainment. 3. This scenario assumes a reduction in barriers to competition with reforms in upstream service sectors of an average intensity observed across OECD countries (Égert and Gal, 2017^[34]). Employment growth is translated into GDP growth by applying the 2017 labour income share (54.8%) taken from: (OECD, 2019^[35]).

Source: OECD Secretariat calculations based on OECD National Accounts database.

Table 1.5. The impact of selected recommendations on the fiscal balance

	Impact on the structural budget balance Percentage of GDP
Phasing out extended unemployment benefit ¹	+0.8
Easing the transition from secondary to tertiary education ²	-0.2
Reducing barriers to competition in transport, energy, and retail ³	+0.2
Reductions in subsidies and tax expenditures and increases in taxes that do not impose large economic distortions ⁴	+1.3
Total impact	+2.1

1. The fiscal impact reflects larger tax revenue due to the GDP level gain and saving on the unemployment benefit payment. 2. The fiscal impact reflects larger tax revenue due to the GDP level gain and additional fiscal expenditure to increase the provision of study places so that the rejection rate of the tertiary education institutions is lowered from the current 67% (see section 1.6.2) to 30% (the average of 13 OECD countries with the data available: (OECD, 2019^[36])). 3. The fiscal impact reflects larger tax revenue due to the GDP level gain. 4. The fiscal impact reflects additional tax revenue from scrapping reduced VAT rates, which reduced tax revenue by EUR 2 billion (1% of GDP) in 2014 (OECD, 2018^[37]), and increasing the weight of recurrent taxes on immovable property in GDP (currently 0.8%) to the average level in OECD countries (1.1%).

Source: OECD Secretariat calculations based on OECD National Accounts database.

Fiscal consolidation should also be achieved through reducing subsidies and tax expenditures and increasing taxes that do not impose large economic distortions (Table 1.6). In this regard, VAT receipts could be increased by eliminating preferential rates, which reduce receipts by 7.4% of the VAT base (Institute for Advanced Studies, 2019^[38]). While the size of the VAT gap (OECD, 2018^[37]) is smaller than in many other European countries, it far exceeds Sweden's (1.5%). Preferential rates typically apply to necessities to limit the tax burden on low-income households. This objective could be achieved at less cost by eliminating preferential rates and directly compensating low-income households for the increase in living costs; this occurs automatically for households receiving social benefits because they are indexed to the CPI. Recurrent real estate taxation, which is also lower as a share of GDP than in Sweden and does not impose large economic costs, could also be increased, possibly in the context of updating cadastral values. Increasing taxes on the use of peat for heating to the same rates as for other fossil fuels would also increase tax revenue (and reduce greenhouse gas emissions).

Table 1.6. Past recommendations on fiscal policy and tax reform and actions taken

Main recent OECD recommendations	Actions taken since 2018
Timely strengthening of budget buffers is needed.	No action taken.
Further reduce the tax burden on labour.	The earned income taxation of those on low and middle incomes was eased by approximately EUR 200 million in 2020.
Increase minimum- and maximum rates on recurrent taxes on immovable property, and better align the tax base with market valuations.	No action taken.
Continue to phase out mortgage interest deductibility.	Deductibility will be phased out from 25% of interest in 2019 to 15% in 2020 and to 0% in 2023.
Broaden the consumption tax base and phase out reduced VAT rates.	No action taken.
Increase environmentally-related taxes.	Energy taxes were increased on fuels used for heating and off-road purposes in 2019 and on transport fuels in August 2020. The government decided to increase taxes on heating fuels in 2021 (including a reduction in tax expenditure on CHP) and phase out refunds for energy intensive businesses.
Phase out environmentally harmful subsidies and better align the tax rate on emissions across sectors.	The energy tax rebate mechanism for energy-intensive industries will be phased out by 2025 and tax subsidies for paraffinic diesel will be phased out by 2023.
Rationalise the organisation of health services to achieve a better balance between primary and specialised care.	No action taken.
Lower the normal interest rate used in the calculation of the unincorporated business taxation equity allowance.	No action taken.

In light of mounting fiscal sustainability concerns, a sound and transparent plan to contain ageing-related expenditure, with numerical targets and a clear time frame, should be established. In particular, the foreseen rise in long-term care costs highlights the need to restructure the provision of health and social services. Care chains are currently highly decentralised and fragmented, resulting in inefficiencies and regional inequalities in access to high-quality care (OECD/European Observatory on Health Systems and Policies, 2019^[39]). The government will present a Bill to Parliament in December that transfers responsibility for organising health and social services from municipalities to 18 autonomous counties and increases the focus on basic-level services and prevention. This reform is in line with that proposed by the previous government except that the public sector is now to remain the primary service provider, with the private sector only serving as a supplementary service provider. Given the limited room for competition between public- and private healthcare providers, the cost savings from such reforms are highly uncertain, and the government has not quantified them. Setting numerical targets on fiscal savings to be achieved from such reforms may help the government plan reforms that maximise cost efficiency while ensuring equal access to quality services.

Pension expenditure is to be kept in check by adjusting the retirement age and the pension level. The 2017 reform raised the minimum retirement age gradually from 63 in 2017 to 65 in 2027 (Table 1.7) and linked it to life expectancy from 2030. This reform built on an earlier one that reduced pensions as a function of life expectancy through the life expectancy coefficient set for each age cohort. For instance, the coefficient

is to decline from 0.963 in 2017 to 0.925 in 2025 and to 0.849 in 2085. The target retirement age, at which individuals can just offset the pension reduction from the life expectancy coefficient by retiring later, will rise to near 70, which is the age limit for pension contributions. Those born after 1985 cannot avoid lower pension levels because their target retirement age exceeds 70. To enable them to offset the pension reduction by working longer, the age limit for pension contributions should be raised to the extent necessary above 70. Despite the scheduled increases in the minimum- and target retirement ages, increases in contribution rates will be required from the 2040s to ensure that the pension system remains sustainable.

Table 1.7. Age limits of the earnings-related pension system

The 2019 long-term projection

Year of birth	Minimum retirement age	Target retirement age	Age at which insurance obligation ends (the upper limit of pension contribution)
1955	63 years 3 months	64 years 1 month	68 years
1960	64 years 6 months	65 years 10 months	69 years
1962	65 years	66 years 7 months	69 years
1965	65 years 2 months	67 years	70 years
1970	65 years 8 months	67 years 9 months	70 years
1975	66 years 2 months	68 years 6 months	70 years
1980	66 years 8 months	69 years 2 months	70 years
1985	67 years 1 month	69 years 10 months	70 years
1990	67 years 5 months		70 years
1995	67 years 10 months		70 years
2000	68 years 2 months		70 years

Note: The target retirement ages for those born in 1990 and after cannot be computed, as they exceed 70 years.

Source: Finnish Centre for Pensions website.

Boosting productivity growth

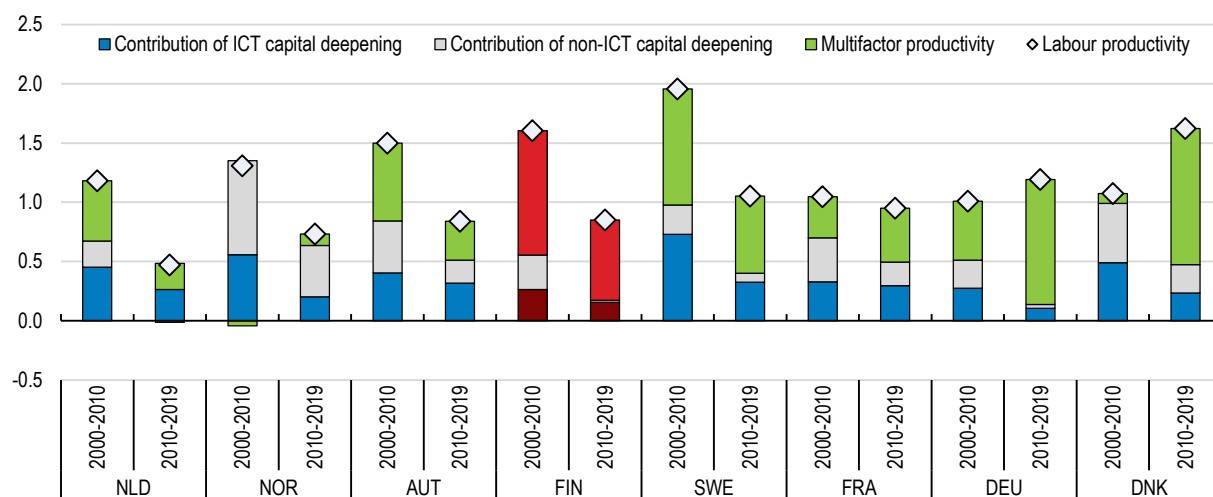
Vigorous productivity growth is essential for strong economic recovery because it enhances Finland's competitiveness, stimulates investment and supports high paying jobs. Labour productivity growth in Finland averaged 1.3% in the 2000s, higher than in many comparable European advanced economies, but fell to only 0.6% over 2010-19, lower than in these economies (Figure 1.25). The slowdown reflected both a lower contribution from capital deepening and lower multifactor productivity (MFP) growth. Both lower productivity growth within sectors, especially manufacturing, and a shift in resources from sectors with higher productivity levels, notably manufacturing, to sectors with lower levels, namely services, contributed to the slowdown (Figure 1.26). The strong multifactor productivity (MFP) growth in the 2000s reflects the prominent role of Information and Communications Technology (ICT) industries spearheaded by Nokia in driving rapid technological development (OECD, 2016^[40]). These sectors contributed to a large increase (2.5% of GDP) in R&D expenditure during 1998-2007, boosting innovation. The decline in Nokia and related ICT firms after the financial crisis resulted in weaker MFP growth and lower R&D, holding back labour productivity growth. Reforms are needed to reinvigorate innovation, particularly among SMEs, which produce a large share of services.

The decline in the contribution of capital deepening to productivity growth mainly reflected non-ICT capital, the capital-deepening contribution of which fell to zero (Figure 1.25) primarily owing to negative growth in the non-ICT capital stock in the business services sector (Finnish Productivity Board, 2020^[41]). The weakness of non-ICT investment partly reflects the larger role of intangible capital, the stock of which has grown faster than that of physical capital in Finland, as in other countries (Demmou, Stefanescu and Arquie, 2019^[42]). Nevertheless, low non-ICT capital investment can hold back MFP growth and competitiveness of Finnish firms because new technologies are often embodied in new capital goods (Greenwood, Hercowitz and Krusell, 1997^[43]). While inward foreign direct investment (FDI) during 2010-

19 averaged around 2.2% of GDP yearly, which was higher than in the Scandinavian Nordics, the inward FDI stock (31% of GDP) is among the smallest in the OECD (Figure 1.27).

Figure 1.25. Labour productivity growth has been weak

Percentage point contribution to the annual labour productivity growth rate



Source: OECD Productivity database.


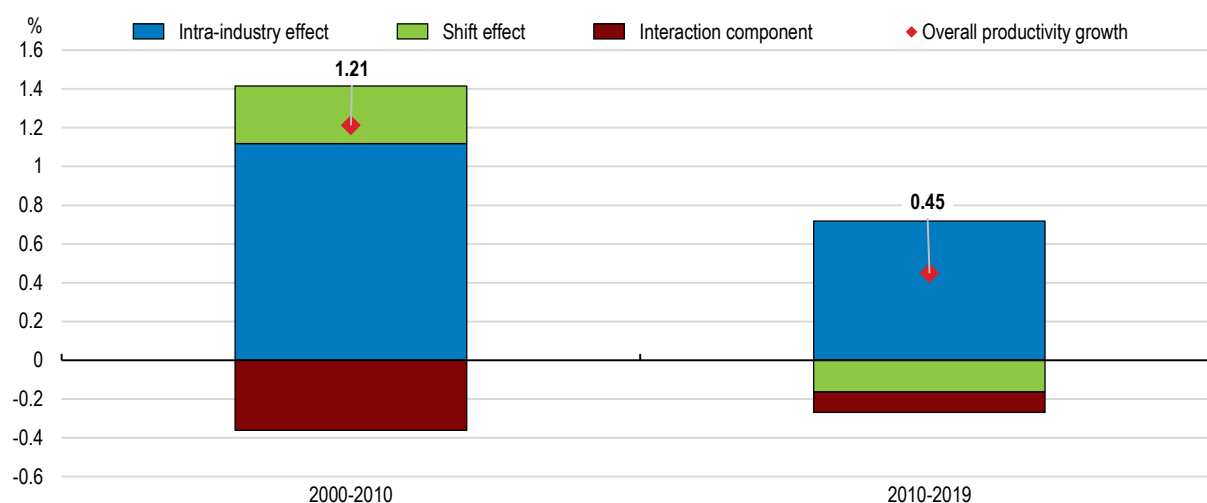
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Figure 1.26. Productivity growth slowed within sectors while resource shifted to low productivity sectors

Decomposition of annual labour productivity growth rate



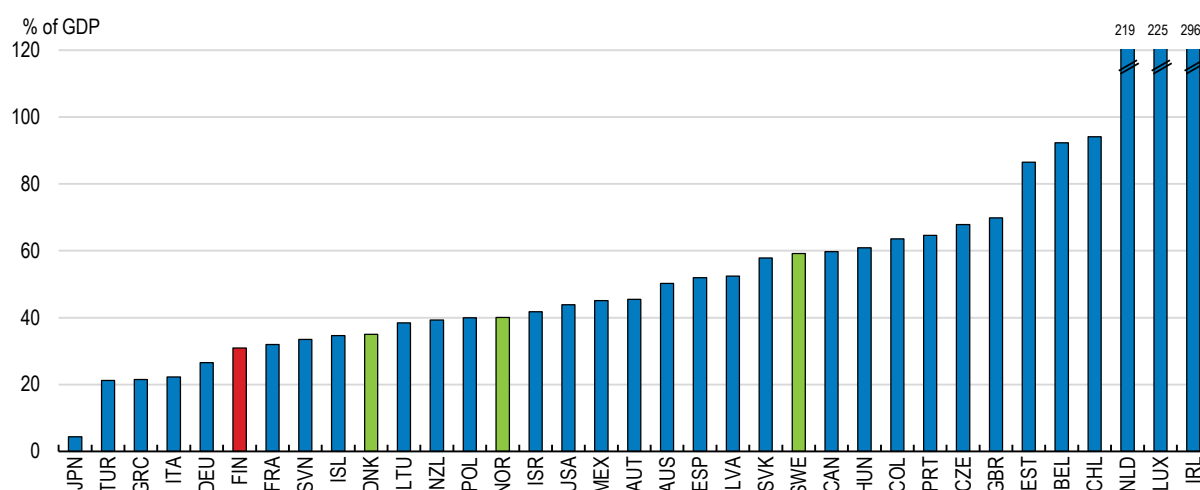
Note: The intra-industry effect is counterfactual productivity growth that would have prevailed in absence of any shift in labour across industry. The shift effect is the effect on aggregate productivity growth that arises solely from the reallocation of labour across industries, in absence of any within-industry productivity growth. Its positive (negative) contribution implies that labour has moved to industries with higher (lower) initial productivity levels. The interaction component captures the changes in both labour share and productivity in each industry. The negative contribution indicates that productivity has been growing in contracting industries while declining in expanding industries.

Source: OECD staff calculations based on OECD National Accounts database.

Swift reallocation of resources to firms that are more productive increases MFP and, by enabling innovative firms to grow larger, facilitates investment in innovation and technology diffusion (Andrews, Criscuolo and Menon, 2014^[44]). In Finland, allocative efficiency - the extent to which firms that are more productive attract more labour – in the manufacturing sector was low compared with the Scandinavian Nordics in 2011 (Figure 1.28), but has been improving since the early 2000s (Finnish Productivity Board, 2020^[41]). Nevertheless, there is room to boost growth of young firms, which often leverage new technologies, but currently contribute less to job creation and employment growth in Finland than in other OECD countries (OECD, 2017^[45]). Finland has a relatively large venture capital market, which provides good access to capital to entrepreneurs. However, tertiary education attainment is lower than in most other OECD countries (Figure 1.29), resulting in skills shortages that often holds back the adoption of new technologies by making it difficult for more productive firms to hire the qualified workers needed to innovate (Brunello and Wruuck, 2019^[46]).

Figure 1.27. The stock of foreign direct investment is smaller than in many other countries

Inward foreign direct investment stock as % of GDP, 2019

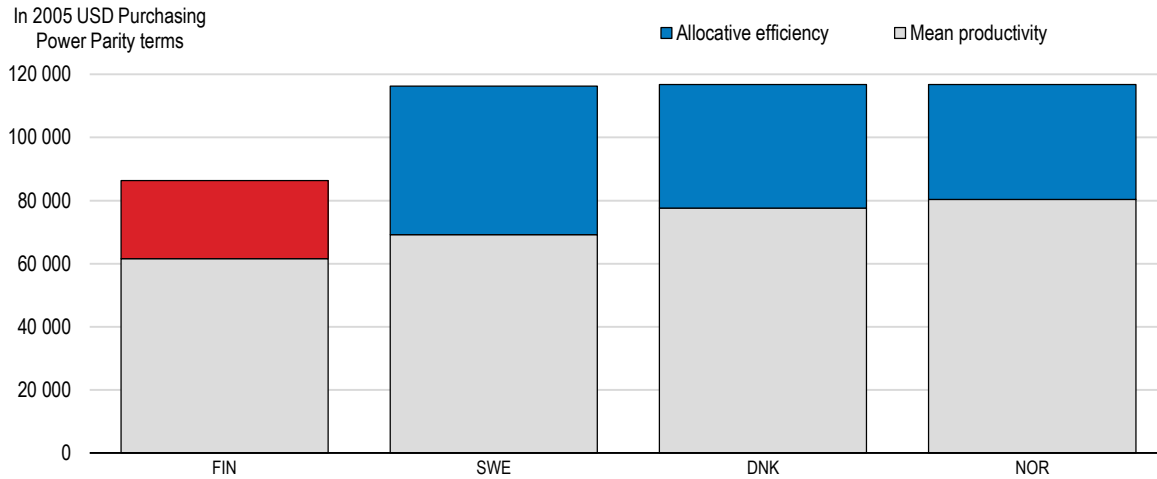


Note: The inward FDI stock is the value of foreign investors' equity in and net loans to enterprises resident in the reporting economy.

Source: OECD International Direct Investment Statistics.

Figure 1.28. Efficiency of resource allocation is lower in Finland than in the Scandinavian Nordics

Decomposition of labour productivity into mean productivity and allocative efficiency, manufacturing sector, 2011



Note: The Olley-Pakes method decomposes aggregate productivity into the contribution of two terms, an unweighted productivity term representing average firm level productivity, and a covariance term that links productivity to firm size (defined by employment shares). The latter term (known as the OP gap) is a measure of allocative efficiency, since it increases if more productive firms capture a larger share of resources in the sector.

Source: Berlingieri et al. (2017), "The Multiprod project: A comprehensive overview", OECD Science, Technology and Industry Working Papers, No. 2017/04, OECD Publishing, Paris.


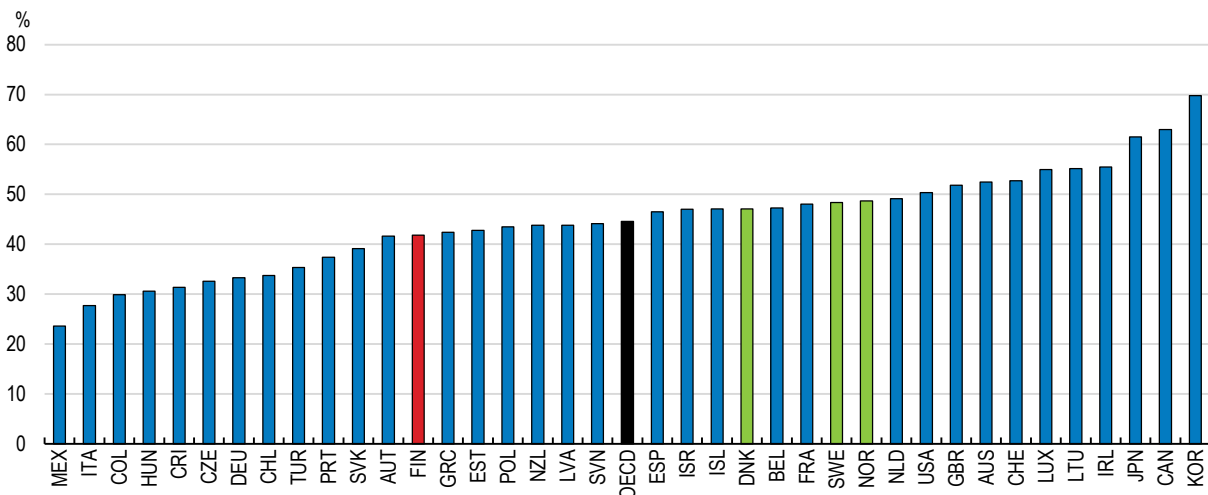
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Figure 1.29. The tertiary education attainment rate is low

% of 25-34 year-olds completing tertiary education, 2019 or latest available



Source: OECD (2020), Education at a Glance 2020.

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Fostering the supply of skilled workers

The government aims to lift the tertiary attainment rate for the 25-34 age group to 50% by 2030. The main factors holding back tertiary attainment are the lack of available study places and an overly selective entrance system (OECD, 2019^[36])— some 67% of applicants are rejected each year, more than twice the OECD average. Only a quarter of young people in the country are consequently able to start their tertiary studies immediately after completing upper-secondary education. The matriculation backlog delays the transition to tertiary education: the age at which students enter is amongst the highest in the OECD and the median age of entrants to doctoral programmes is 31 years, versus 29 on average in the OECD (OECD, 2019^[36]). In turn, young people enter the labour market later than in other OECD countries, even though nearly 60% of students in tertiary education start working before graduation. Reform to university admission procedures in 2020 bases more than one half of placements on secondary education qualifications, which allows secondary school graduates to enter tertiary studies without having to pass an entrance exam. Another factor limiting the number of available university places is that people seeking continuing education courses often apply for full degree programmes that are free of fees instead of shorter continuing education programmes (see chapter 2). A 2018 reform may help to alleviate this problem by obliging universities to offer continuing education modules. So would shortening degree programmes, which are long by international comparison. Even so, more study places will need to be financed to reduce the overall rejection rate. Such funding will need to come from government sources because the Finnish population is strongly opposed to tertiary education fees. The fourth supplementary budget in 2020 included EUR 124 million for a one-off increase in student intake in higher education institutions, with the aim of increasing available study places by 4 800. The government has also decided recently to increase study places by nearly 6 000 during 2021-2022. While welcome, this spending should be made permanent. The government has also decided to increase the age of compulsory education from 16 to 18 years.

The government plans to attract more foreign skilled workers. In spring 2018, the residence permit process for specialists was streamlined so that the first residence permit can now be granted for two years at a time instead of one year. At the same time, a residence permit for start-ups directed to growth entrepreneurs was introduced. It has been of particular interest to technology-sector specialists. According to the annual statistics of the Finnish Immigration Service, however, a total of 10 805 applied for work-based residence permits in 2018, and only around 1 500 among them concerned specialist tasks (14% of applicants), which is too low to fill the vacancies.

Easing regulatory barriers to competition

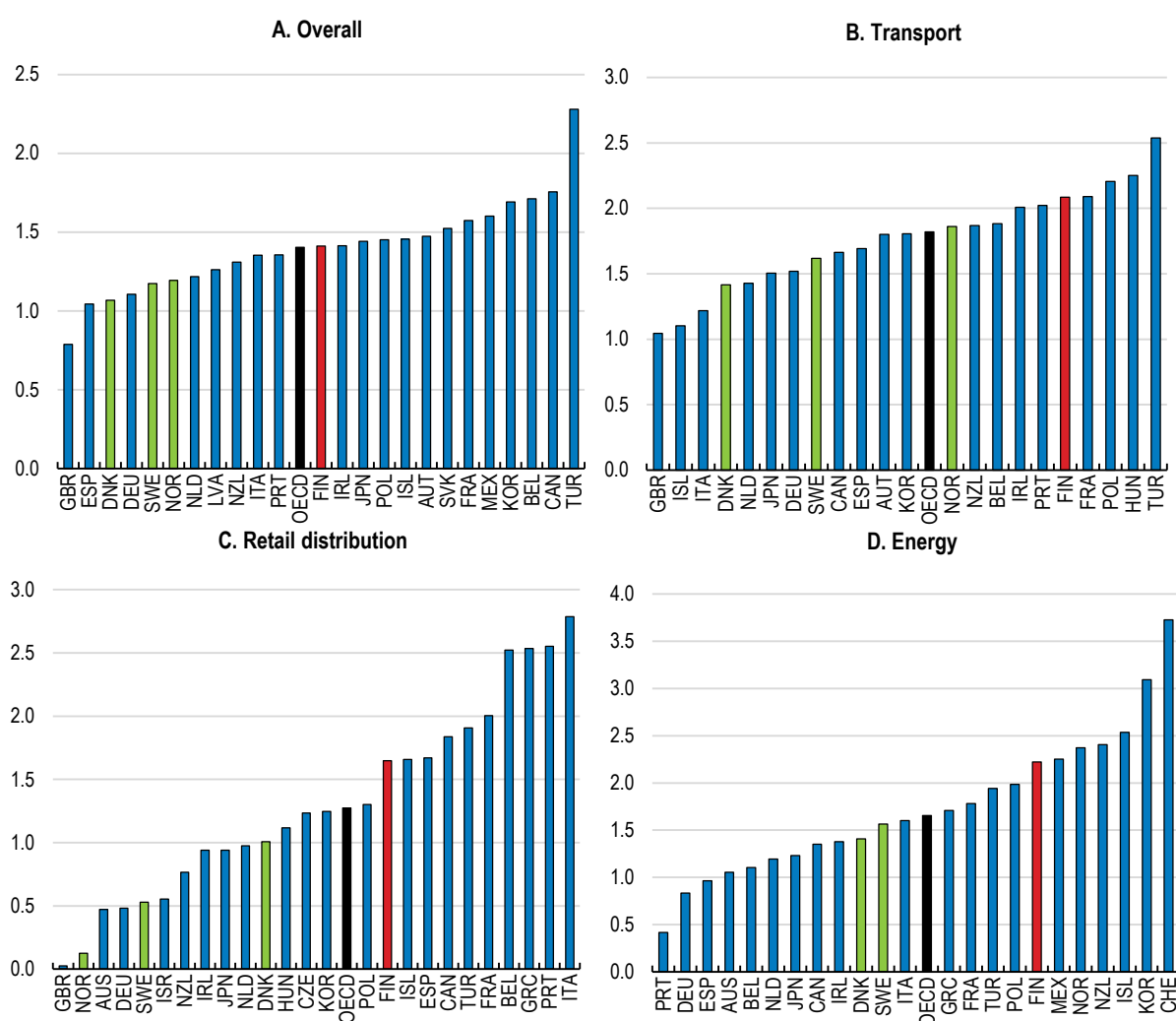
Overall, business regulations in Finland are conducive to competition, with administrative burdens to start-ups and barriers to trade and FDI being lower than the OECD average (2018 OECD Product Market Regulation indicator). However, regulatory barriers to competition in upstream service sectors, such as energy and transport and retail are relatively high (Figure 1.30). They hold back investment in these important sectors and impede resource reallocation as incumbents face less pressure to allocate resources more efficiently within their organisations. The government has implemented regulatory reforms to enhance competition, as recommended by the OECD (Box 1.2 and Table 1.8). However, there is still considerable scope to reduce regulatory barriers to competition. Rail passenger transport reforms that were to liberalise this heavily-regulated market were suspended (Box 1.2). In the retail sector, the online sales of some goods and services are allowed only if the retailer has a brick and mortar shop and require special licences or authorisations, hindering the creation of e-retail outlets. The sale of pharmaceutical products is subject to numerous constraints, such as on the number and ownership of pharmacies and on where non-prescription medicines can be sold. Reforming these regulations would stimulate investment and, by improving resource allocation, increase MFP growth.

Labour market institutions can also hold back productivity growth depending on their design. In particular, collective wage bargaining that leaves little room for adjustment to firm-level conditions is often detrimental to firms' productivity performance (OECD, 2017^[47]). In Finland, trade union density is higher than in most

OECD countries (Figure 1.31, Panel A) and, with legal extension, some 90% of employees are covered by collective bargaining (Panel B). Although sector collective agreements allow firm-level bargaining over certain aspects, such rights are reserved for employers who are members of the employer association that made the sectoral agreement. However, over three quarters of firms are not members of employer organisations, and are usually small or medium-sized (Yrittäjät, 2019^[48]). These SMEs by law cannot opt out of collective agreements by using the enterprise-bargaining flexibility clauses in the agreement, which weighs on their productivity. Such arrangements also run the risk of being anti-competitive – large firms may agree to arrangements that they can opt out of and that are harmful to other, smaller employers. The government plans to repeal this legal restriction, which would be welcome.

Figure 1.30. Regulatory barriers to competition are high in some upstream sectors

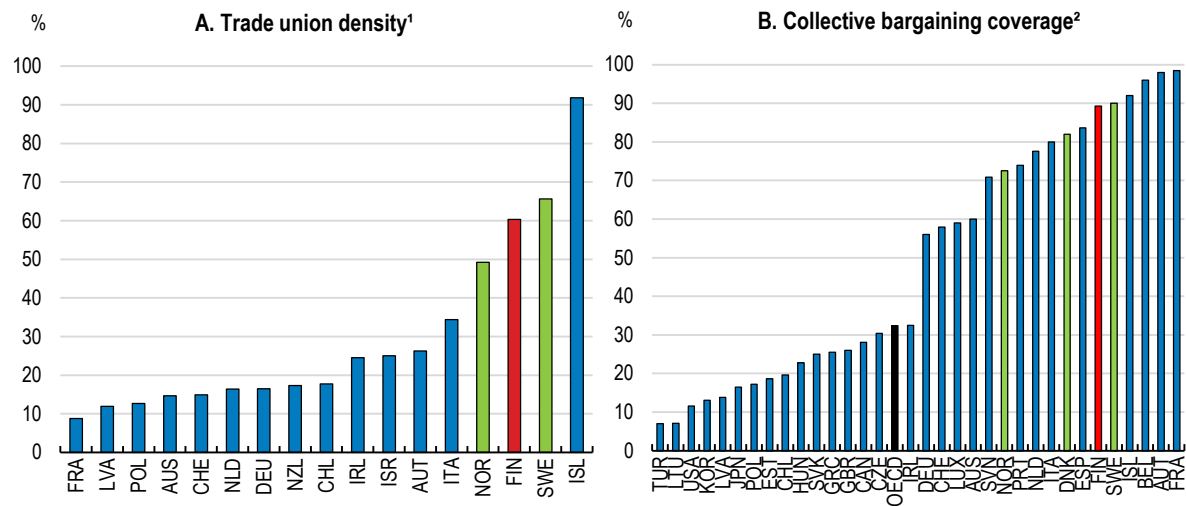
Index from 0 to 6 (0 least strict, 6 most strict), 2018



Source: OECD 2018 Product Market Regulation database.

Figure 1.31. Union density is high, as is collective bargaining coverage

2018 or latest



Note: 1. Number of trade union members who are employees as a share of the total number of employees in a given industry or country. Based on administrative data. 2. Number of employees covered by the collective agreement, divided by the total number of wage and salary earners. Source: OECD Labour database.


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Table 1.8. Past recommendations on productivity and actions taken

Main recent OECD recommendations	Actions taken since 2018
Streamline regulations in retail trade, transport and construction.	The Act on Transport Services was implemented in 2018 to facilitate interactions between transport modes.
Use funding criteria for higher-education institutions or R&D vouchers to reinforce co-operation between companies, particularly start-ups, and universities.	In 2018, Business Finland facilitated the creation of network projects responding to business needs and contributed to financing them.

Further measures are needed to achieve Finland’s GHG emissions abatement objectives

Finland’s energy intensity is above the OECD average (Figure 1.32, Panel B), owing to the cold climate, low population density and specialisation in energy-intensive industries (notably pulp and paper). However, CO₂ emissions intensity has steadily declined and is below the OECD average (Panel A), notably thanks to a relatively high share of renewables in primary energy supply (Panel C). Net land use, land-use change and forestry (LULUCF) sinks have also grown and, at around 25 million tonnes of CO₂ equivalent (Mt CO₂ eq.), now represent about 40% of total emissions excluding LULUCF (Table 1.9).

Finland is on track to meet its 2020 EU burden-sharing abatement target (covering non-EU Emissions-Trading-Scheme (ETS) sectors and excluding LULUCF) of 16% of 2005 emissions by means of domestic emission reduction measures and banking and borrowing emission allowances (emissions were 0.4% above the annual allocation in 2018 but 0.5% below the cumulative allocation for 2013-18 (Honkatukia, 2019_[10]). The Medium-term Climate Change Plan identifies measures to reach the 2030 target cut (39% of 2005 emissions, compared with a 22% reduction without these measures, implying a gap of 6Mt CO₂ eq.). With existing, already implemented measures in the Plan, the gap in 2020 should be reduced to 2.5Mt CO₂ eq. Finland should adopt the most cost-effective measures to reach this target, including making full

use of available flexibility mechanisms (including the purchase of EU emissions permits from other countries). In the context of the EU objective of raising the share of renewables in final energy consumption, Finland aims to increase its renewables share to 38% in 2020 and 50% in 2030. This share is estimated to be 42% already, but without further measures it is projected to fall short in 2030, at 47% (Ministry of Economic Affairs and Employment of Finland, 2017^[11]). Participation in the EU ETS, which will reduce emission permits by 21% by 2020 and 43% by 2030 (and 90% by 2050) from the 2005 level, will also drive down Finland's emissions. The government has also brought forward the target date for Finland to reach net zero GHG emissions (emissions being offset by net LULUCF sinks and/or purchases of foreign emission permits) to 2035. This target would be very difficult to meet from domestic sources alone as gross annual emissions are projected to be 39 Mt CO₂ eq. with currently implemented measures (36 Mt CO₂ eq. including Plan measures not yet implemented) and LULUCF sinks to be 21 Mt CO₂ (Cederlöf and Siljander, 2020^[49]).

Table 1.9. GHG emissions (+) and removals (-) by sector

	2013	2014	2015	2016	2017	2018 ¹⁾
	million tonnes of CO ₂ equivalent					
Emissions without LULUCF sector ²⁾	63.0	58.8	55.2	58.1	55.4	56.5
CO ₂ -emissions from civil aviation	0.2	0.2	0.2	0.2	0.2	0.2
Emissions trading sector emissions ³⁾	31.5	28.8	25.5	27.2	25.1	26.2
Energy sector	27.6	25.1	21.6	23.0	21.1	22.0
Industrial processes	4.0	3.7	3.9	4.2	4.0	4.2
Difference between the emissions trading registry and the inventory ⁴⁾	-0.1	0.0	-0.1	0.1	0.0	
Non-emissions trading sector emissions ⁵⁾	31.3	29.8	29.5	30.7	30.1	30.0
Energy sector	20.4	19.1	18.8	20.2	19.7	20.2
Transport ⁶⁾	11.8	10.7	10.7	11.9	11.3	11.5
Off-road vehicles and other machinery	2.6	2.5	2.4	2.3	2.4	2.5
Other energy sector emissions ⁶⁾	6.0	5.9	5.7	6.0	6.0	6.2
Industrial processes and products use	1.9	1.9	2.0	1.9	1.9	1.7
Industrial processes (excluding F-gases ⁷⁾)	0.5	0.5	0.5	0.5	0.6	0.4
Consumption of F-gases ⁷⁾	1.5	1.5	1.4	1.4	1.3	1.3
Agriculture	6.5	6.6	6.5	6.6	6.5	6.3
Waste management	2.3	2.2	2.1	2.0	1.9	1.8
Indirect CO ₂ emissions	0.1	0.1	0.1	0.1	0.1	0.1
Difference between the emissions trading registry and the inventory ⁴⁾	0.1	0.0	0.1	-0.1	0.0	
LULUCF sector ²⁾	-19.0	-21.8	-20.1	-18.5	-20.4	-14.2

1. Proxy estimate.

2. LULUCF refers to the land use, land-use change and forestry sector, which does not come under the scope of the Emissions Trading System or the reduction targets under the Effort Sharing Decision.

3. Source: Energy Authority.

4. Divergence caused by methodological and definitional differences in total emissions in the emissions trading sector between the data of the Energy Authority and the Greenhouse Gas Inventory.

5. Excluding CO₂ emissions from domestic civil aviation according to the inventory.

6. Includes emissions from e.g. residential and commercial heating, waste incineration and fuel use in manufacturing.

7. F-gases refer to fluorinated greenhouse gases (HFC, PFC compounds, SF₆ and NF₃).

Source: Ministry of the Environment and Statistics Finland (2017), *Finland's Seventh National Communication under the United Nations Framework Convention on Climate Change*.

The greatest potential for reducing emissions is in transport, which accounts for 40% of effort-sharing-sector emissions (Table 1.9); agriculture and other energy-sector emissions, which include emissions from residential and commercial heating, each contribute 20%. Transport's planned contribution to the 2030 burden-sharing target is 20 percentage points (transport emissions are to halve from their 2005 level), representing half of the overall reduction. To achieve this abatement objective, additional measures will be needed to reduce transport emissions by 30% (around 3 Mt CO₂ eq.) by 2030 relative to the projected level

without additional measures. In the government's abatement plan, approximately one half of this reduction is to be achieved by replacing fossil fuels with renewables and low-emissions fuels and power sources. To this end, the physical share of biofuel energy content in all fuels sold for road transport is to be increased to 30% by 2029. While Finland has considerable potential to increase the production of forestry-based bio-fuels, the energy demands of the transport sector are such that increased energy efficiency will also have to play a significant role (1 Mt CO₂ per year in the plan (Ministry of Economic Affairs and Employment of Finland, 2017^[11]; Ministry of the Environment, 2017^[50])).

To realise these efficiency gains, the share of electric vehicles (EVs, including hydrogen powered and rechargeable hybrids) would need to increase 50-fold from the current level of 15 000 out of 2.7 million cars. Electricity for charging EVs could partly be supplied from existing production capacity, 78% of which is renewable or nuclear, as they are mainly re-charged during off-peak times (i.e., night time). But there would also need to be an expansion in wind power generation, which is the most economical renewable energy source in Finland, both to meet increased demand for charging EVs and to enable the substitution of electricity for fossil fuels in residential and commercial heating and in industry (Granskog et al., 2018^[51]). Granskog et al. estimate that EVs will be cost-competitive on a life-cycle basis in the course of the current decade, with small EVs becoming cost competitive before larger EVs. However, for substantial diffusion of EVs to occur, policies that internalise the social costs of driving fossil-fuel cars need to be complemented by greater support for the rollout of EV charging stations than required by the relevant EU directive and a requirement for new buildings to have in-house charging facilities. The car registration tax, which depends on the vehicle's CO₂ emissions per kilometre, supports the purchase of EVs: the tax ranges from 2.7% of the tax inclusive price for a zero-emission EV to 48.9% for a vehicle emitting 360 grams of CO₂ per kilometre.

With the additional measures planned in the agriculture- and building-specific heating sectors, emissions could be reduced by a further 0.8 Mt CO₂ eq. by 2030 (Ministry of the Environment, 2017^[50]). Fiscal stimulus to support the recovery provides an opportunity to go further in encouraging the retrofitting of residential buildings with improved insulation.

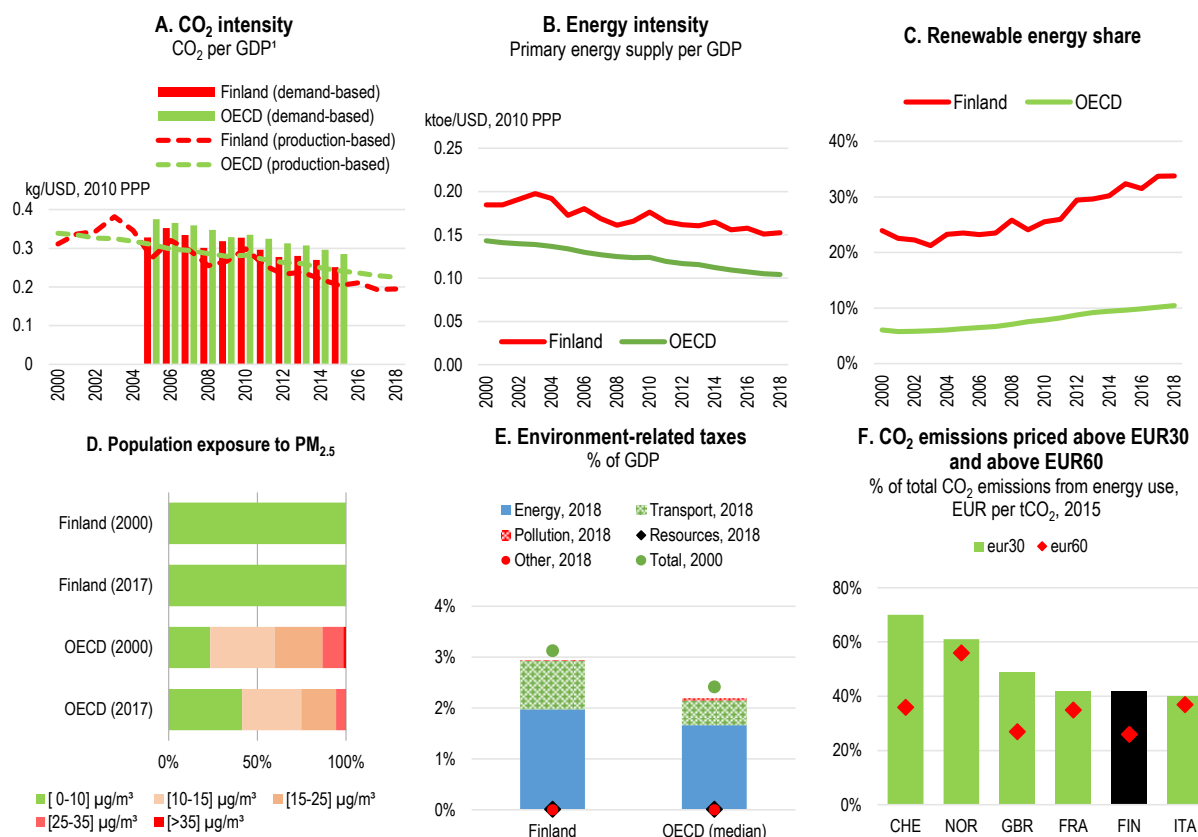
There is also potential to go further in reducing emissions in the agricultural sector. Finland has among the highest levels of producer support for agriculture in Europe, albeit considerably lower than in Norway and Switzerland. When Finland joined the European Union, it negotiated the right to provide additional subsidies to agriculture to those available through the Common Agricultural Policy (CAP). If Finland were to reduce these agricultural support payments and instead shift support towards environmental benefits, such as carbon sequestration, GHG emissions (and water pollution, notably in the Baltic Sea) would be reduced. Such a measure would also increase productivity as agricultural production, which has very low value added net of subsidies, would decline. There could also be budget savings once the inevitable costs of supporting those adversely affected to transition to an alternative career or retirement had passed.

The very low tax rate on peat combustion, which accounts for 12% of Finland's GHG emissions (excluding the land-use sector), is being increased (Table 1.10) but would need to rise further to come into line with the rates paid by other fossil fuels used for heating. Coal, which is used for industrial heat processes and a small amount of electricity generation, is not taxed for industrial heat processes (OECD, 2019^[52]) but will be phased out by 2029 as will all other energy uses of coal.

Table 1.10. Past recommendations on green growth and actions taken

Main recent OECD recommendations	Actions taken since the previous Survey
To reduce greenhouse gas emissions further, phase out environmentally harmful subsidies and better align the tax rate on emissions across sectors.	The government is phasing out tax refund for energy intensive businesses, increasing rates for mining and peat and combined heat and power production.
Increase taxes on peat.	The tax rate on peat was increased from EUR 1.9/MWh to EUR 3.0/MWh in 2019 and will rise to EUR 5.7/MWh at the beginning of 2021.

Figure 1.32. Green growth indicators



Note: Included are CO₂ emissions from combustion of coal, oil, natural gas and other fuels. Gross Domestic Product (GDP) is expressed at constant 2010 USD using PPP.

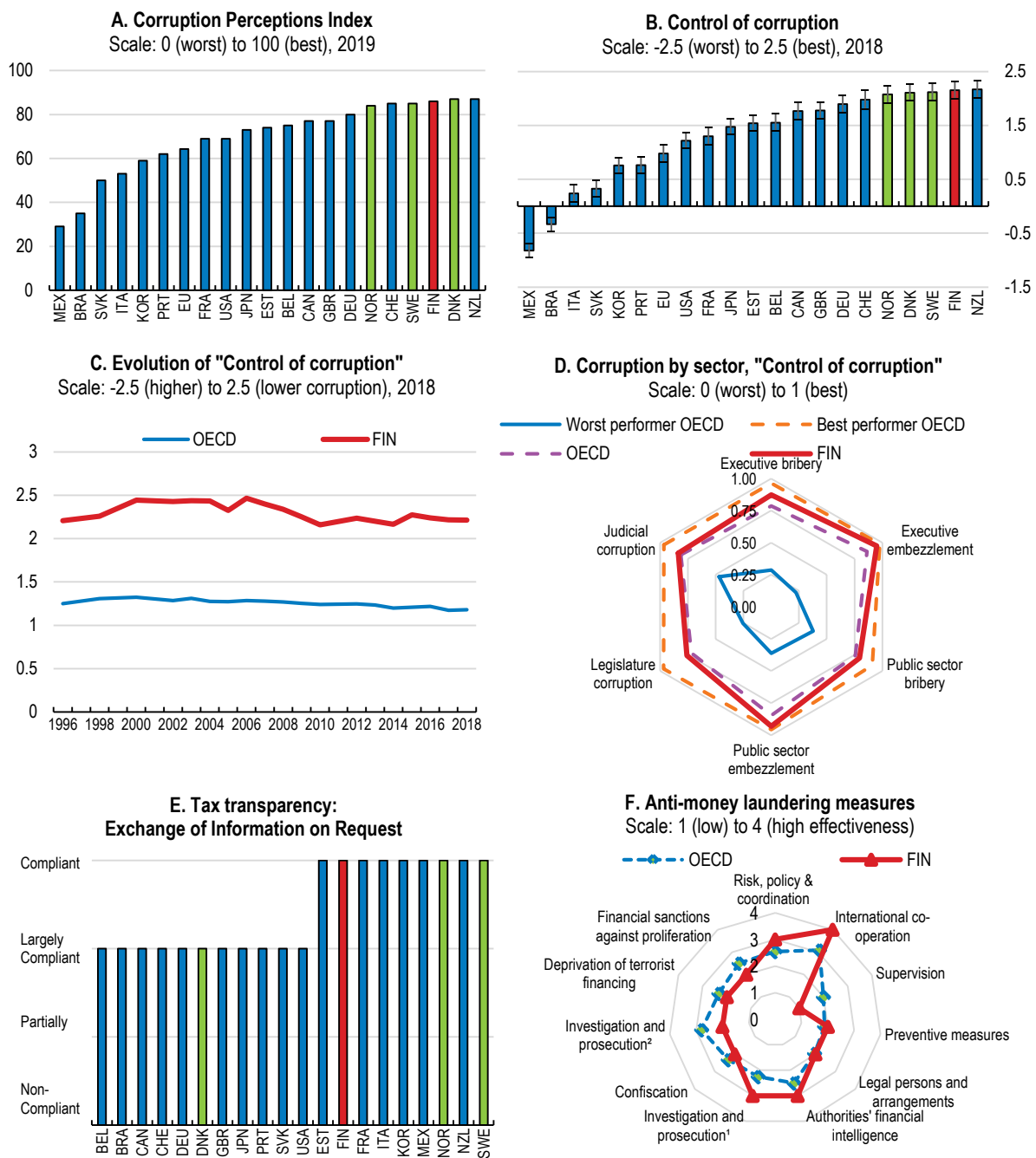
Source: OECD (2019), Green Growth Indicators (database).

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Perceived corruption is low, tax transparency is high but some aspects of anti-money laundering measures need strengthening

Perceptions of corruption (Figure 1.33, Panel A) and of the use of public power for private gain, captured by the 'Control of Corruption' indicator (Panel B) are low, albeit higher in the latter case than before the global financial crisis (Panel C). Finland scores higher on the 'Control of Corruption' indicator in each sector-based subcomponent than the OECD average except for judicial corruption, for which the score is the same (Panel D). At the same time, Finland has a mixed record on implementing the OECD Working Group on Bribery's Finland Phase 4 recommendations (OECD, 2017^[53]): the Working Group concluded that Finland had only fully implemented two of its recommendations, had partially implemented a further seven and not implemented the remaining six (OECD, 2019^[54]). The Working Group expressed major concerns in its Phase 4 report about the courts' application of the Finnish foreign bribery offense and the applicable evidentiary threshold: 'The courts have consistently applied an extremely high evidentiary threshold to the foreign bribery offence, appearing to require direct evidence of the defendants' knowledge of all aspects of the crime, including elements outside the scope of the offence' (OECD, 2017, p. 10^[53]). A related concern was that foreign bribery cases were not heard by judges with specialised skills and experience. These factors contributed to the 100% acquittal rate for the five foreign bribery cases that have gone to court. Finland has not yet made progress in addressing these concerns.

Figure 1.33. Perceived corruption is low, tax transparency is high but some anti-money laundering measures need to be strengthened



Note: Panel B shows the point estimate and the margin of error. Panel D shows sector-based subcomponents of the "Control of corruption" indicator by the Varieties of Democracy Project. Panel E summarises the overall assessment on the exchange of information in practice from peer reviews by the Global Forum on Transparency and Exchange of Information for Tax Purposes. Peer reviews assess member jurisdictions' ability to ensure the transparency of their legal entities and arrangements and to co-operate with other tax administrations in accordance with the internationally agreed standard. The figure shows first round results; a second round is ongoing. Panel F shows ratings from the FATF peer reviews of each member to assess levels of implementation of the FATF Recommendations. The ratings reflect the extent to which a country's measures are effective against 11 immediate outcomes. "Investigation and prosecution¹" refers to money laundering. "Investigation and prosecution²" refers to terrorist financing.

Source: Panel A: Transparency International; Panels B & C: World Bank, Worldwide Governance Indicators; Panel D: Varieties of Democracy Institute; University of Gothenburg; and University of Notre Dame; Panel E and F: OECD Secretariat's own calculation based on the materials from the Global Forum on Transparency and Exchange of Information for Tax Purposes; and OECD, Financial Action Task Force (FATF).

The Global Forum on Transparency and Exchange of Information for Tax Purposes peer review of Finland finds that it is fully compliant with its exchange of information obligations (Panel E). Similarly, the Financial Action Task Force (FATF) peer review of Finland finds that international co-operation on anti-money laundering (AML) and terrorist financing (TF) is highly effective (Panel F). The authorities' financial intelligence, investigation and prosecution of money laundering and risk, policy and coordination are also more effective than the OECD average. However, the FATF review finds that supervisors need to finalise the development of their methodology on a risk-sensitive basis and implement it (FATF, 2019^[55]). In addition, supervisors need more resources, the beneficial ownership registry needs to be verified and gaps in the common understanding of money laundering and terrorist financing risks need to be filled.

MAIN FINDINGS	RECOMMENDATIONS (Key recommendations in bold)
Ensuring fiscal sustainability and financial stability in the wake of the COVID-19 crisis	
The government has provided substantial fiscal support in 2020 to businesses and households in response to the COVID-19 pandemic.	Stand ready to provide further fiscal stimulus in case the economic recovery is delayed.
The government aims to stabilise the debt-to-GDP ratio by the end of the decade, which will entail reducing the structural deficit by around 2% of GDP. Increasing employment by 80 000 would contribute around 40% of this adjustment. Finland's tax burden is high. Social benefits would automatically compensate for an increase in VAT through indexation.	Once the economic recovery is underway, implement consolidation measures, mainly by reducing expenditure, including on subsidies and tax expenditures, and also by increasing taxes that do not impose large economic distortions, such as VAT (broadening the standard-rate base) and recurrent real estate taxes.
Care chains are currently highly decentralised and fragmented, resulting in inefficiencies and regional inequalities in care. The government plans to transfer responsibility for organising health and social services from municipalities to 18 autonomous counties and to focus more on prevention and basic services. There are no numerical targets for fiscal savings.	Enact the social and health-care reforms before Parliament. Set numerical targets for fiscal savings to be achieved from these reforms to help the government plan reforms that maximise cost efficiency while ensuring equal access to quality services.
Housing loan maturities are long but interest rates are revised annually. Highly indebted households may have difficulty servicing debts when interest rates return from the current very low levels to more normal levels. Preferential tax treatment for investors buying rental property through a housing company and lower stamp duty on transfers of housing company shares than on direct property transactions boost housing company loans.	Introduce a maximum debt-to-income ratio for household loans and a maturity limit for housing loans. Remove the preferential tax treatment on capital repayments of housing company loans for investors and align the stamp duty rate on direct property transactions with that on transfers of shares in housing companies.
The measures adopted by the ECB and the Bank of Finland to boost banks' lending may reduce their risk bearing capacity.	The prudential supervisors should monitor the effects of looser capital adequacy, regulations and criteria for NPLs and collateral eligibility and tighten them as the economy recovers.
Containing COVID-19	
COVID-19 testing is confined to symptomatic cases and to people in health professions, limiting the effectiveness of testing in containing the propagation of the virus.	The government should extend testing first to a wider range of occupations that involve contact with the public and then to asymptomatic cases.
Getting people back into viable jobs and increasing employment	
Employers have few incentives to limit temporary layoffs to jobs they believe can be restarted as those using the scheme pay no more in social security contributions than other employers.	Require employers to contribute to the unemployment benefit costs of hours not worked (in addition to employers' unemployment benefit contributions).
Temporarily laid-off workers are not required to register with the public employment service (PES), delaying interventions to help workers out of jobs that are unlikely to be viable even in the longer term.	Make registration with the PES compulsory for temporarily laid-off workers.
The government is increasing PES resources from a low level but these increases are unlikely to be sufficient to cope with the effects of the crisis.	Increase the PES budget and enhance efficiency in service delivery to meet the rise in demand for services.
Only people temporarily or permanently laid-off who are members of unemployment insurance funds are entitled to earnings-related unemployment insurance benefits, despite the funds only paying 6% of such benefits.	Create a government unemployment insurance fund into which either all workers or those who are not members of another fund are automatically enrolled.
Boosting productivity	
Skill shortages are growing, and the recent trend in graduation rates will further exacerbate them.	Ease the transition from secondary to tertiary education by reforming the highly selective tertiary education admission system and increasing the number of available study places.
Some rail-passenger reforms to promote competition were suspended. The retail sale of pharmaceutical products is subject to numerous constraints.	Reduce barriers to competition in transport, energy, and retail.
Sector collective agreements normally include flexibility clauses but the law prohibits employers from using them if they are not members of the employers' association that negotiated the agreement, reducing productivity.	Repeal the legal restriction that prevents some employers from using the enterprise-bargaining flexibility clauses in their sector collective agreement, as planned.
Achieving the government's greenhouse gas abatement objectives	
Finland aims to reduce GHG emissions in EU burden-sharing sectors by 39% from the 2005 level by 2030. The burden-sharing sectors with the greatest emissions are transport, agriculture and energy sectors not covered by the EU Emissions Trading Scheme, including heating. Taxes on the use of peat (15% of GHG emissions) are lower than for other fossil fuels for heat production.	Reduce GHG emissions in the burden-sharing sectors using the most cost effective abatement measures, including making full use of available flexibility mechanisms. Subject heat production using peat to the same tax regime as for other fossil fuels used for heating.
Support payments subsidies for agriculture (accounting for 20% of GHG emissions) are among the highest in Europe.	Progressively replace national agricultural subsidies by subsidies for environmental benefits.

Annex A. Finland's early policy response against the COVID-19

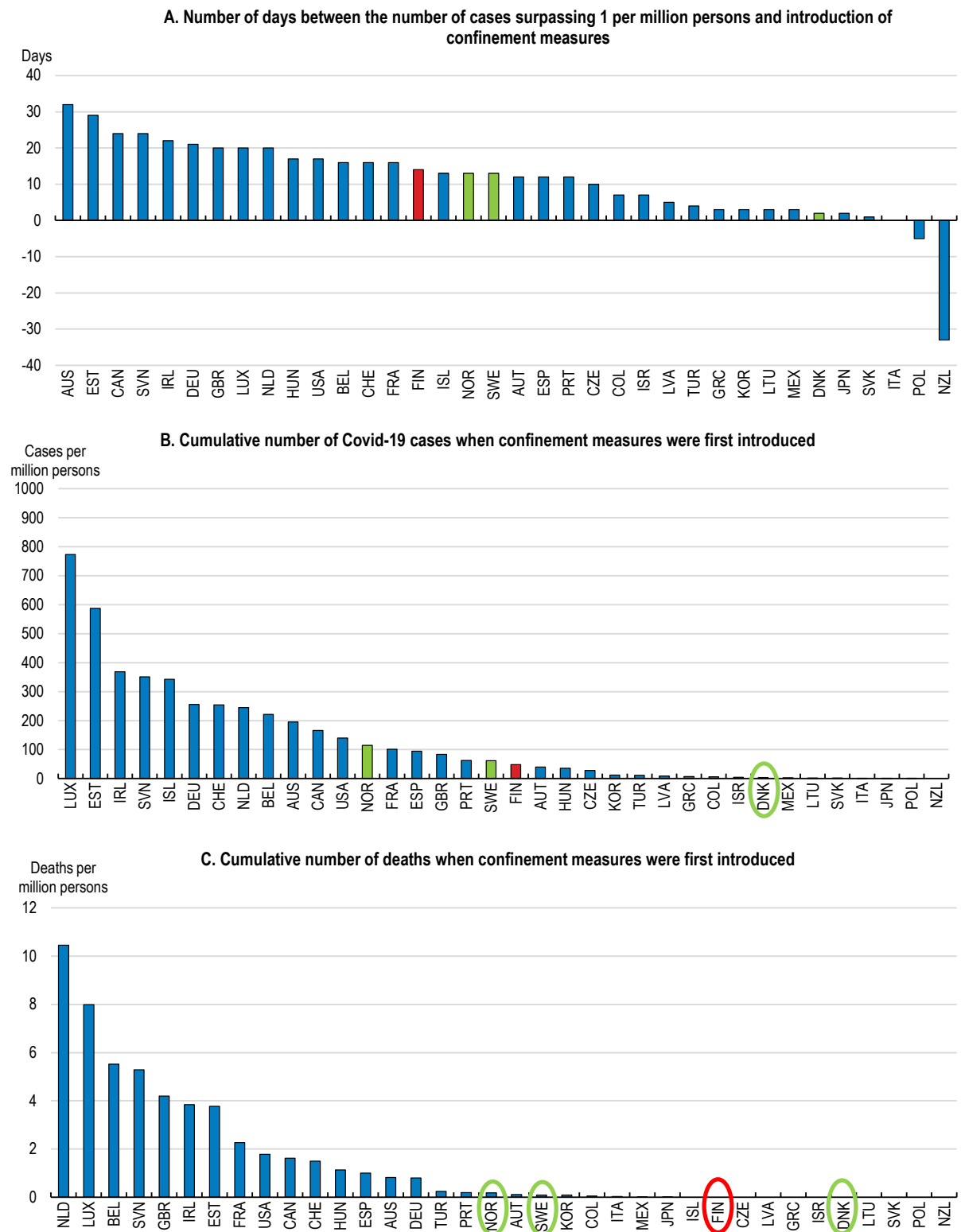
The government declared a state of emergency on 16 March 2020 and introduced several containment measures (Table A.1). Finland was in the middle of the range of OECD countries in terms of the swiftness in introducing confinement measures after the number of cases surpassed one per million persons (Figure A.1 Panel A). However, at that time, the cumulative number of cases was only 267 (48 per million of population) and there had been no COVID-19 related deaths. Many other OECD countries introduced significant confinement measures only when larger numbers of cases and deaths per million of population were confirmed (Panel B and C), requiring more restrictive or longer lasting measures to get the epidemic under control (i.e., to reduce the reproduction number (R_0) to below one).

Table A.1. Principal containment measures to combat the first wave of COVID-19

Date	Measures
16 March	Public gatherings of more than 10 people were banned
	Visits to nursing homes were banned.
	The government recommended that people aged over 70 avoid contact with other people as much as possible.
	The government recommended that workers telework if possible. Non-essential businesses were advised to close.
	The government recommended that people only go out of their homes for essential purposes.
18 March	Schools and universities were closed and, while nurseries and day-care centres remained open, parents were advised to keep their children at home.
19 March	Activities gathering large numbers of people in close proximity, such as theatres, gyms, nightclubs and museums, were shut down.
	The border was closed, and while Finnish citizens were allowed to return home, they were subject to a mandatory two-week quarantine at home.
27 March	The Uusimaa region was quarantined from the rest of the country for three weeks, with exceptions for work-related travel.
4 April	Restaurants and cafés were shut down except for takeaway services until 31 May 2020.

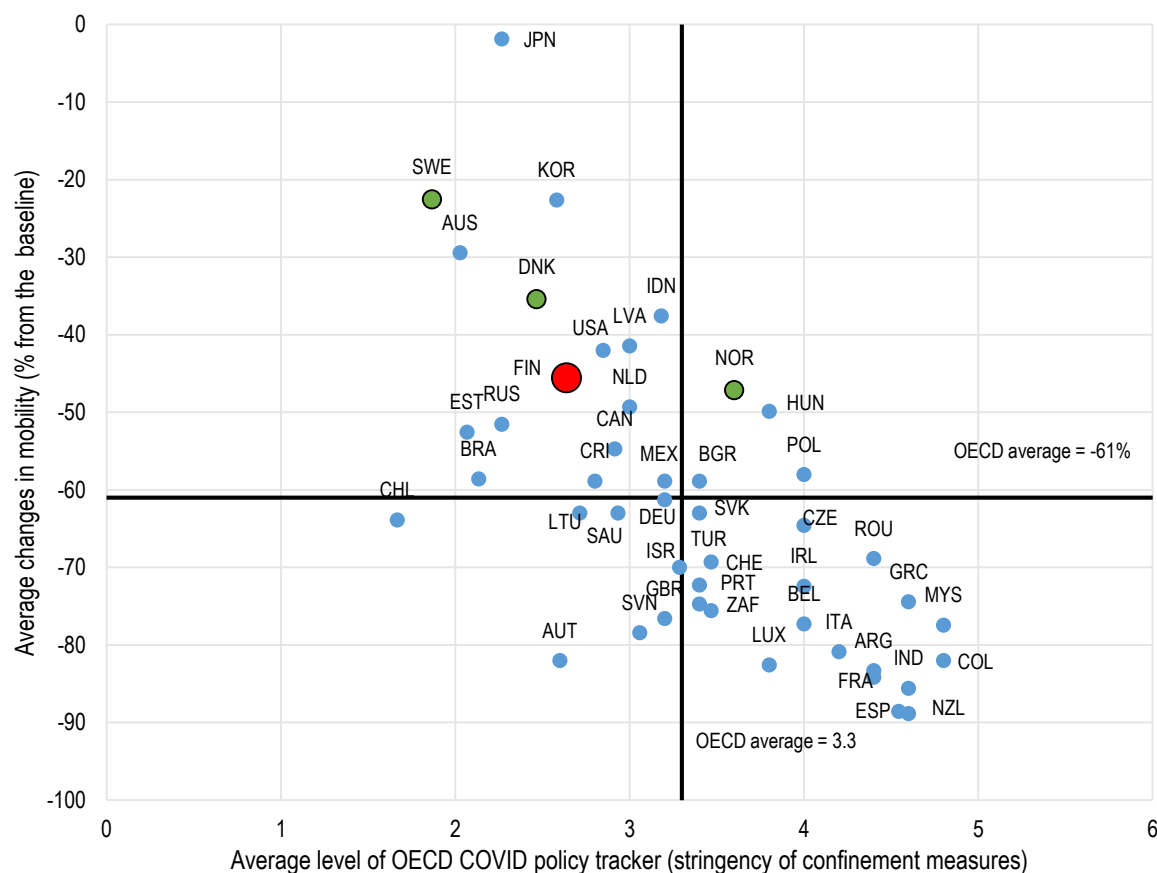
Source: OECD COVID-19 Policy Tracker.

Figure A.1. Finland initiated confinement measures earlier than many other OECD countries



Note: The timing of an introduction of confinement measures is captured by the date when the OECD COVID-19 Policy Tracker recorded significant confinement measures for the first time since the onset of the pandemic.
Source: OECD COVID-19 Policy Tracker; OurWorldInData.org.

Figure A.2. Stringency of confinement and mobility loss were relatively moderate in Finland



Note: Mobility trends for places like restaurants, cafés, shopping centres, theme parks, museums, libraries and movie theatres. Mobility change is a deviation of the average value from day 21 to day 27 after confirmed cases surpassed one per million of population from the baseline, which is a median value between January 3rd and February 6th 2020. See the source for more information.

Source: Pareliussen, J. and D. Glocker (2020), [Lockdown policies and people in the age of COVID-19: Lessons from the OECD Policy Tracker](https://www.oecd.org/lockdown-policies-and-people-in-the-age-of-covid-19-lessons-from-the-oecd-policy-tracker/), OECD ECOSCOPE, Paris.

StatLink  <https://stat.link/jsucma>

In early May, the government shifted the focus of containment policies from confinement to more extensive testing and tracing, as well as targeted restrictions on large-scale gatherings, restaurants and cafés accommodating many customers in a confined space, elderly people and people entering the country. Finland quickly ramped up its testing capacity and by early November 2020 was conducting about 12 thousand tests per day. The government intends to boost the daily testing capacity to 30 thousand in 2021. Tests are conducted for individuals with symptoms and for some individuals without symptoms, such as those working or housed in social and healthcare units, asylum seeker reception centres and prisons. Contact tracing capacity, especially in large cities, was boosted by the introduction of a mobile phone application that identifies persons that the user spent more than 15 minutes with and alerts her if any of them has tested positive. The government also amended the Communicable Diseases Act and other legislation, which now allows the government to control medical resources, close down restaurants and other commercial facilities and schools, impose detailed regulations on public gatherings and isolate individuals at home or in facilities, without having to issue a state of emergency.

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