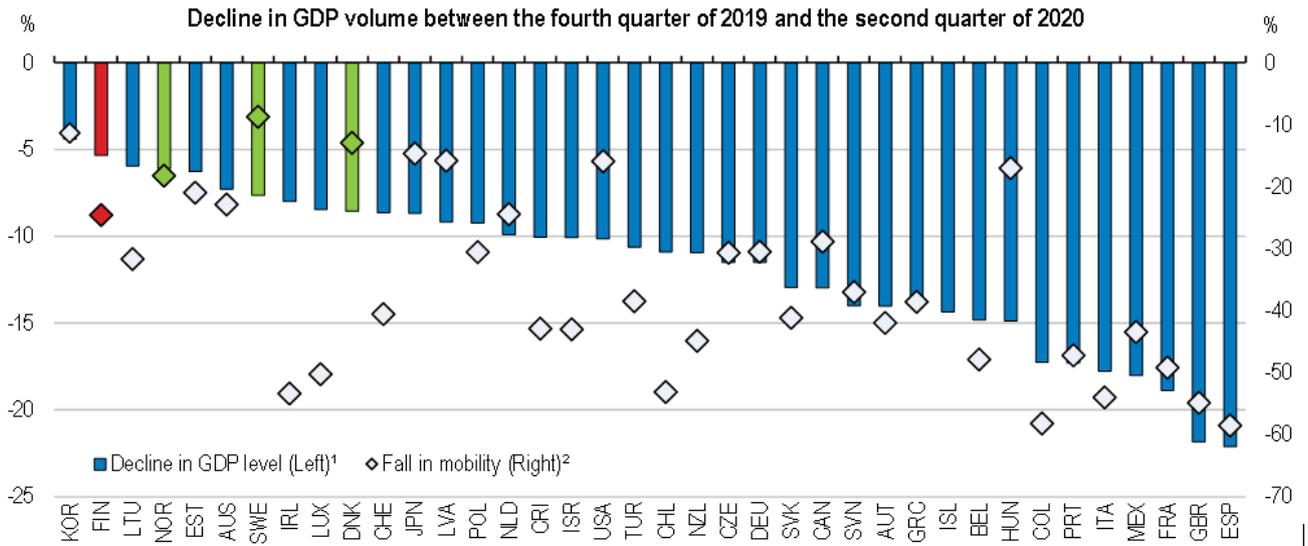


Finland: Recovering from the COVID-19 crisis

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The COVID-19 pandemic has plunged Finland into a deep recession, albeit milder than in most other countries partly thanks to more targeted confinement measures and a relatively small loss of mobility (Figure 1). The economy is projected to shrink by 3.3% in 2020 and recover gradually with growth of 2.1% in 2021 and 1.8% in 2022, led by private consumption and exports. The government provided substantial financial support to protect jobs and help households and businesses get through the crisis. Public finances deteriorated as a result (Figure 2). Once the recovery is underway, fiscal consolidation will be needed to achieve the government's aim to stabilise the debt-to-GDP ratio by the end of the decade. To this end, the government has set an objective of increasing employment by 80 000 at that horizon. Increasing the employment rate toward the average level of the Scandinavian Nordic countries could make a substantial contribution to the necessary fiscal consolidation and, together with stronger productivity growth, help to reverse the long-term erosion in relative living standards. The 2020 OECD Economic Survey of Finland provides an in-depth analysis of these challenges and offers policy recommendations for meeting them.

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



Note: 1. % difference between 2019Q4 and 2020Q2 GDP levels.
 2. Fall in mobility from the baseline between 1st of March and 27th of June.

Source: OECD, National Accounts database; Google LLC, Google COVID-19 Community Mobility Reports, <https://www.google.com/covid19/mobility/>.

The greatest potential for increasing employment lies in extending working lives. The employment rate for older workers (aged 55-64 years) is 13 percentage points lower than the average for other Nordic countries, where access to early retirement arrangements is much 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. To increase the employment rate of older workers, extended unemployment benefit should be phased out and non-medical criteria for awarding disability benefits to applicants aged 60 or more no longer taken into account.

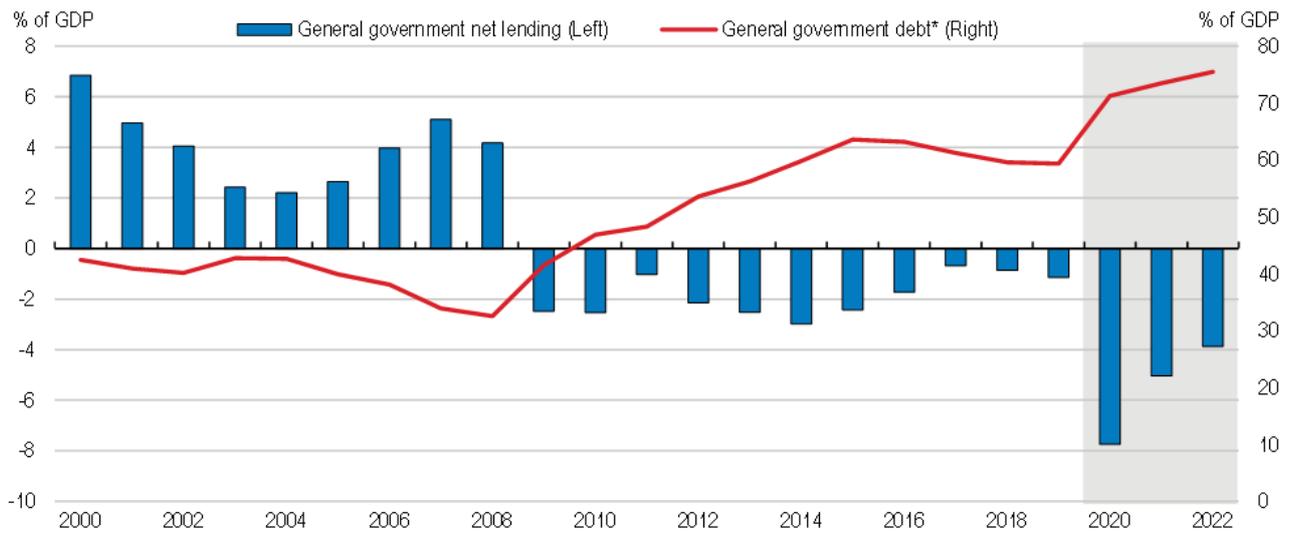
Labour productivity growth weakened substantially in the past

decade. 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. To boost the supply of tertiary educated workers, the government plans to streamline the resident permit process to attract more high-skilled immigrants. It also aims to increase the tertiary attainment of 25-34 year olds from 42% to 50%. To this end, the number of study places in the highly selective tertiary education admission system is being raised but further increases will be needed.

Reducing relatively high regulatory barriers to competition in upstream service sectors, such as transport, energy and retail, which hold back incumbents' efforts to reallocate resources more efficiently, would also boost productivity growth. Similarly, repealing the legal restriction that prevents some employers from using the enterprise-bargaining flexibility clauses in their sector collective agreement, as planned, would give these employers greater scope to reorganise their businesses to make them more productive.

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 2030 and 2035 objectives. To reduce transport emissions, which is vital for achieving abatement targets, the government should support the rollout of electric vehicle (EV) charging facilities to lift EV diffusion substantially. There will also need to be an expansion in wind power generation 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.

Figure 2. 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.

Further reading:

OECD (2020), *OECD Economic Surveys: Finland 2020*, OECD Publishing, Paris, <https://doi.org/10.1787/673aeb7f-en>.