

Press release

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Economic Policy Council

Uncertain times require responsive and credible fiscal policy

Government support expedited the economic recovery in 2021. The chosen supportive fiscal stance for 2022 is appropriate given worsened economic outlook. To preserve sustainability a plan about consolidating public finances should be devised without delays.

Increases in expenditure undermine future fiscal space

The current crisis demonstrated that the government's ability to support the economy is crucial. It is imperative that there is enough fiscal space to fight the negative effects of crises in the future.

Running expansionary fiscal policy with a deficit in 2022 is warranted. However, the chosen fiscal policy stance of gradually decreasing expenditure may not be realised. For example, new Covid-related support measures without offsetting cuts in other expenditure could jeopardize this target.

The Council is worried about the fact that the structural deficit that has existed over a decade is expected to remain large even after current crisis. Therefore, the design of fiscal consolidation measures should be commenced soonest.

Fiscal risks exist both in the medium- and long-run

In the medium term, the debt-to-GDP ratio will continue to increase, without corrective action. An annual consolidation in the order of 0.2-0.4 per cent of GDP would be needed to stabilize the debt in the medium term.

In the long run, pressures towards spending on green transition and age-related expenditure will require the reconsideration of current composition of public expenditure between investments and consumption. The government's sustainability road map should be made more concrete by detailing appropriate policy measures to mitigate adverse fiscal expectations.

Increased long-term unemployment emphasizes the need for new labour market measures

The higher employment targets play a crucial role in the government policies to bring the public finances to a sustainable path. Therefore, there is a corresponding need to evaluate all the employment reforms comprehensively from the fiscal perspective as well.

The government has made considerable effort to increase employment, but high unemployment continues to strain public finances. New policy measures are still needed to bring down increased long-term unemployment.

Relevant ministries should further clarify their communication related to the assessment of the employment impacts of government policies. One should also acknowledge that the employment effects of some reforms cannot be reliably estimated.

Government needs to strengthen its growth policies

The Finnish private sector is characterized by a high level of industry concentration and a relatively low productivity dispersion in several sectors. It has also been suggested that allocative inefficiency of resources may contribute to weak productivity growth.

The cuts in education and R&D subsidies in Finland during the 2010s have probably impeded research and development activities. Given a severe productivity slowdown in the economy, there is a need to support R&D more forcefully. To limit the fiscal costs, the new support measures should be balanced by spending cuts or tax increases elsewhere.

The Finnish R&D support system is an outlier among our peers because of a very limited use of R&D tax credits. In this respect, the goal, set by a Parliamentary Working Group, that Finland should also introduce a more sizeable R&D tax credit is justified.

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