

Fiscal policy monitoring report 2020

Fiscal policy monitoring report (Independent fiscal institution)

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[FULL REPORT \(FI\)](#)



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What we assessed and why

We oversee and assess fiscal policy in our role as an independent national fiscal policy monitoring body (as referred to in the EU's Fiscal Compact and in EU law). Monitoring involves assessing the way in which the rules and the binding objectives that steer fiscal policy are set and implemented. It extends to covering the monitoring of compliance with the Medium-Term Objective (MTO) set for general government finances and the related correction mechanism, monitoring of the preparation and implementation of the General Government Fiscal Plan, and monitoring of compliance with the EU Stability and Growth Pact.

For the fiscal policy monitoring report 2020, we assessed the Government's fiscal policy during the COVID-19 crisis and the Government's measures and objectives to boost employment. The report also examines the economic situation (business cycle) in Finland, the prospects for national debt sustainability, and how realistic the Ministry of Finance's (MoF) economic forecast is.

What we found

The COVID-19 crisis was responsible for a sharp decline in the Finnish economy and in general government finances at the beginning of 2020. Therefore, the Government's decision to end compliance with the spending limits for 2020 was justified given the exceptional circumstances. The draft budget for 2021 presented changes to spending levels, in line with the degree of flexibility that the spending-limits rule provides for, and exceptions to the spending-limits rule.

The General Government Fiscal Plan for 2021-2024 presented in spring 2020 did not include multi-annual objectives for general government finances. However, it acknowledged the requirements of fiscal policy legislation under the exceptional circumstances.

Because of COVID-19, the government debt-to-GDP ratio grew considerably in Finland, though at a typical rate (the increase was approximately 10 percentage points in relation to GDP) compared to other European countries. However, large loans taken out by the State of Finland in 2020 have effectively been at zero interest. In general, low interest rates help the Government to manage the growing debt.

The sustainability roadmap that the Government introduced in 2020 provides a starting point for stabilising general government finances and improving sustainability in the long term.



In the autumn of 2020, the Government set an employment target that was more ambitious than the original one but had a more flexible timetable. The Government's sustainability roadmap states the degree to which the new employment target aims to improve public finances.

We consider the MoF's economic forecast on which the budget for 2021 was based to be realistic, considering the timing of its production. Nevertheless, the COVID-19 crisis has made it difficult to forecast economic trends, as the spread of the epidemic has been unpredictable and continues to have a major economic impact.

What we concluded

The timing and scope of the measures taken by the Government to manage the COVID-19 crisis have been along the right lines. The impact of the crisis should continue to be mitigated through an active fiscal policy. At the same time, it is important to adhere as far as possible to the established fiscal policy procedures, such as the spending limits for central government finances. For the spending-limits rule to remain a credible multi-annual planning instrument of central government finances, it needs to be reinstated from 2021 onwards.

In the future, fiscal policy legislation should be made more specific, to include more clearly defined provisions on exceptional situations similar to the pandemic. The Government should return to normal multi-annual planning of general government finances – including the objectives set for general government finances – as soon as the crisis allows.

The sustainability roadmap is a good starting point, but would need to be developed further. It would benefit from greater focus and should facilitate preparations for the uncertainty associated with different debt scenarios.

In addition, the government debt-to-GDP ratio should be stabilised in line with the Government's target, as there is a risk attached to the costs of refinancing debts falling due in the future.

It is good that the Government did not abandon the quest for higher employment levels because of the COVID-19 crisis. However, we are of the opinion that the decisions taken so far during the parliamentary term to boost employment levels have only had a modest effect on strengthening general government finances.