

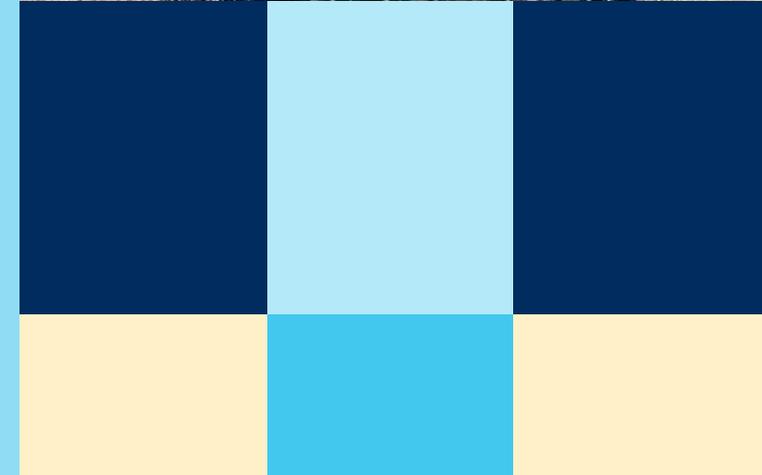


# Remarks on the growth of the Finnish government debt

Eelarvenõukogu seminar, 12.3.2026

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National Audit Office (NAOF) had the function of Independent Fiscal Institution (IFI) until the end of 2025. This presentation draws from NAOF's IFI reports. However, the views expressed do not necessarily reflect the views of NAOF.

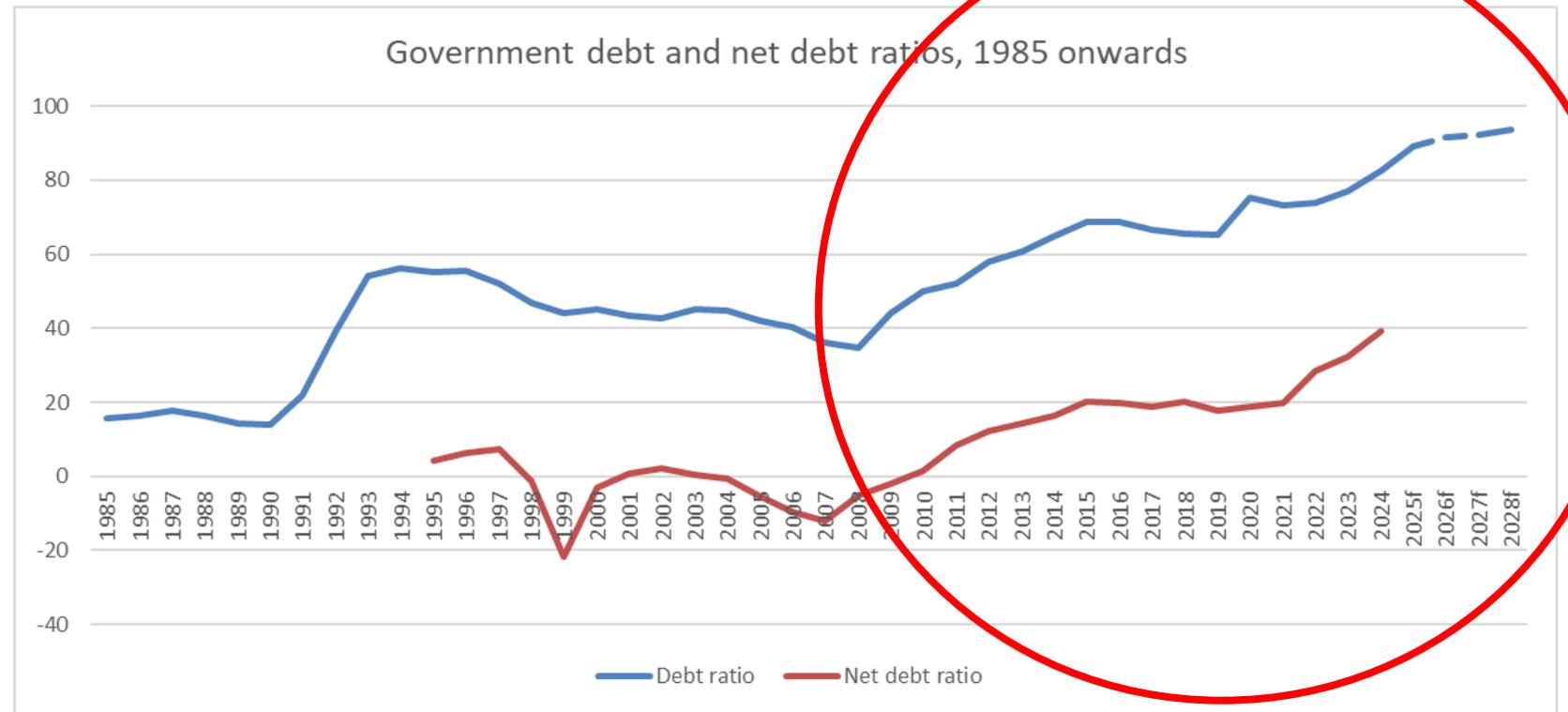


# Outline: the questions to be partly answered

- How the Finnish government debt growth began,
- why it has continued,
- what has been done about it,
- what next?

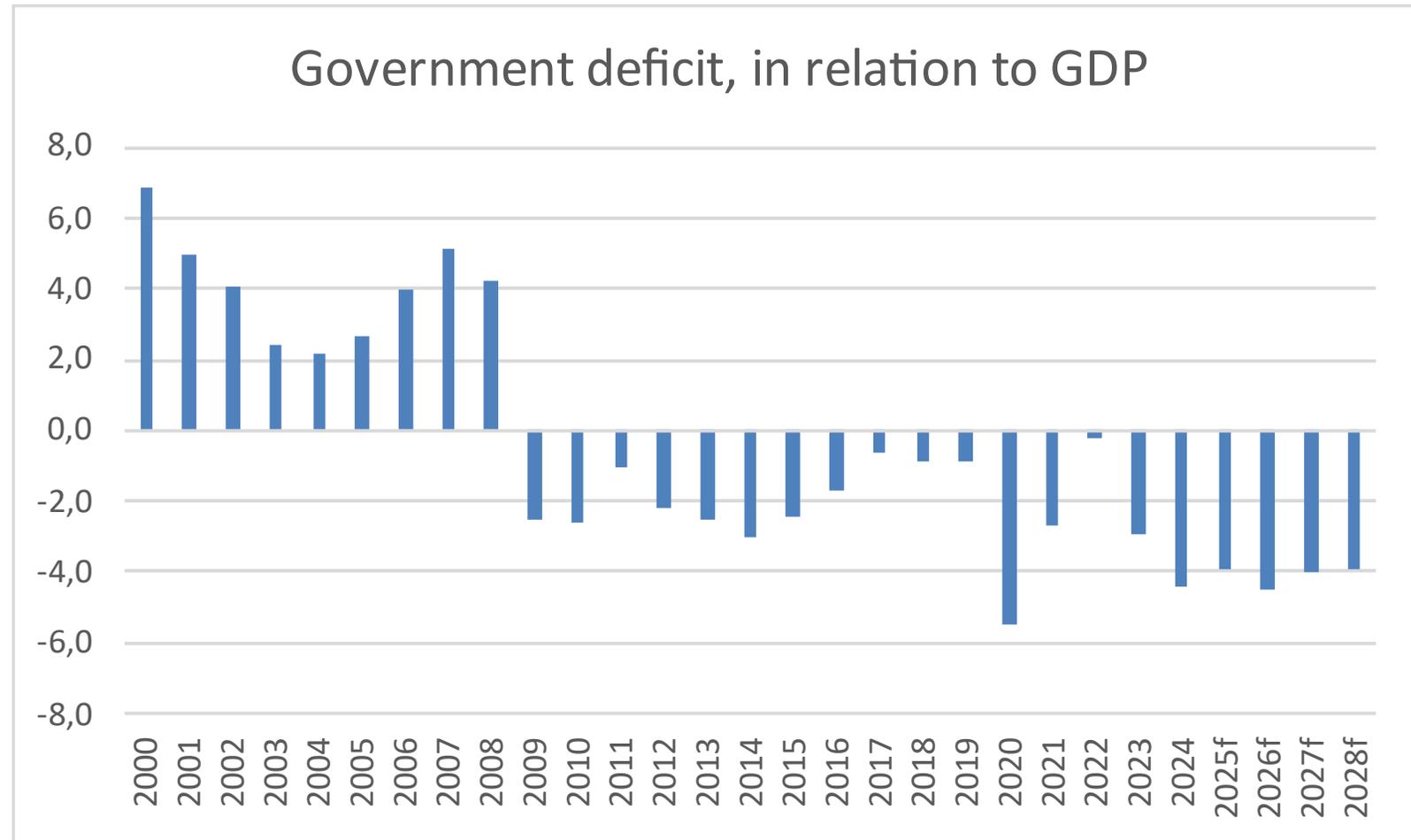
# How did we arrive here?

- Some key turning points impacting the big picture:
  - The deep recession of 1990s
  - The rise of Nokia
  - The fall of Nokia
  - The global financial crisis
  - The pandemic and the war



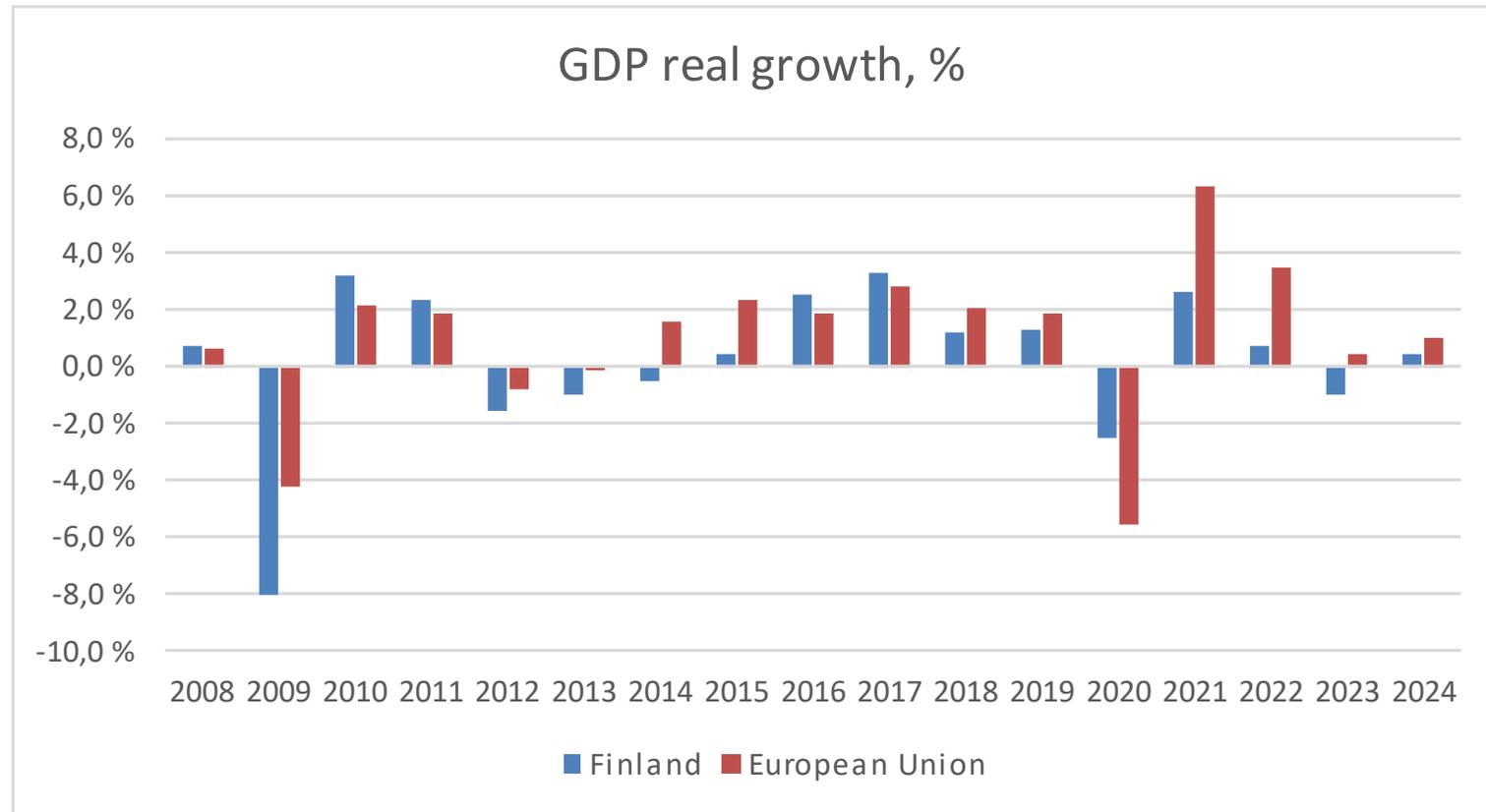
Sources: *Statistics Finland, Ministry of Finance, NAOF calculations*. Note: net debt is calculated as the gross government debt minus the financial assets of the central and the local government; for more information, see NAOF's [Audit Report 13/2024](#)

# The deficit has been persistent since the financial crisis



Sources: *Statistics Finland, Ministry of Finance*

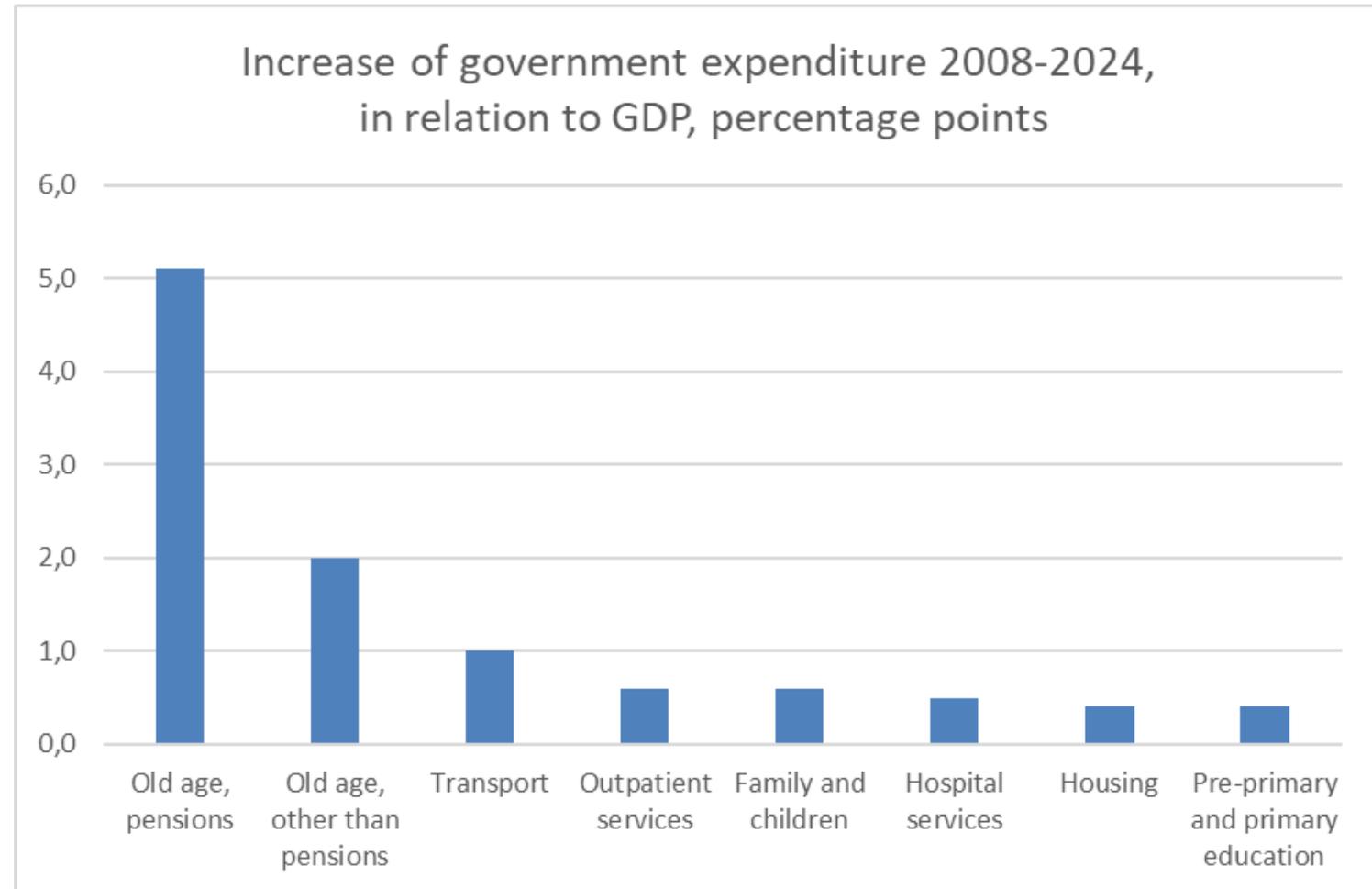
# GDP growth since the financial crisis has been among the weakest in EU



Source: *Statistics Finland, Eurostat, Ameco database*

# The ageing of population has been the primary driver of increasing expenditure

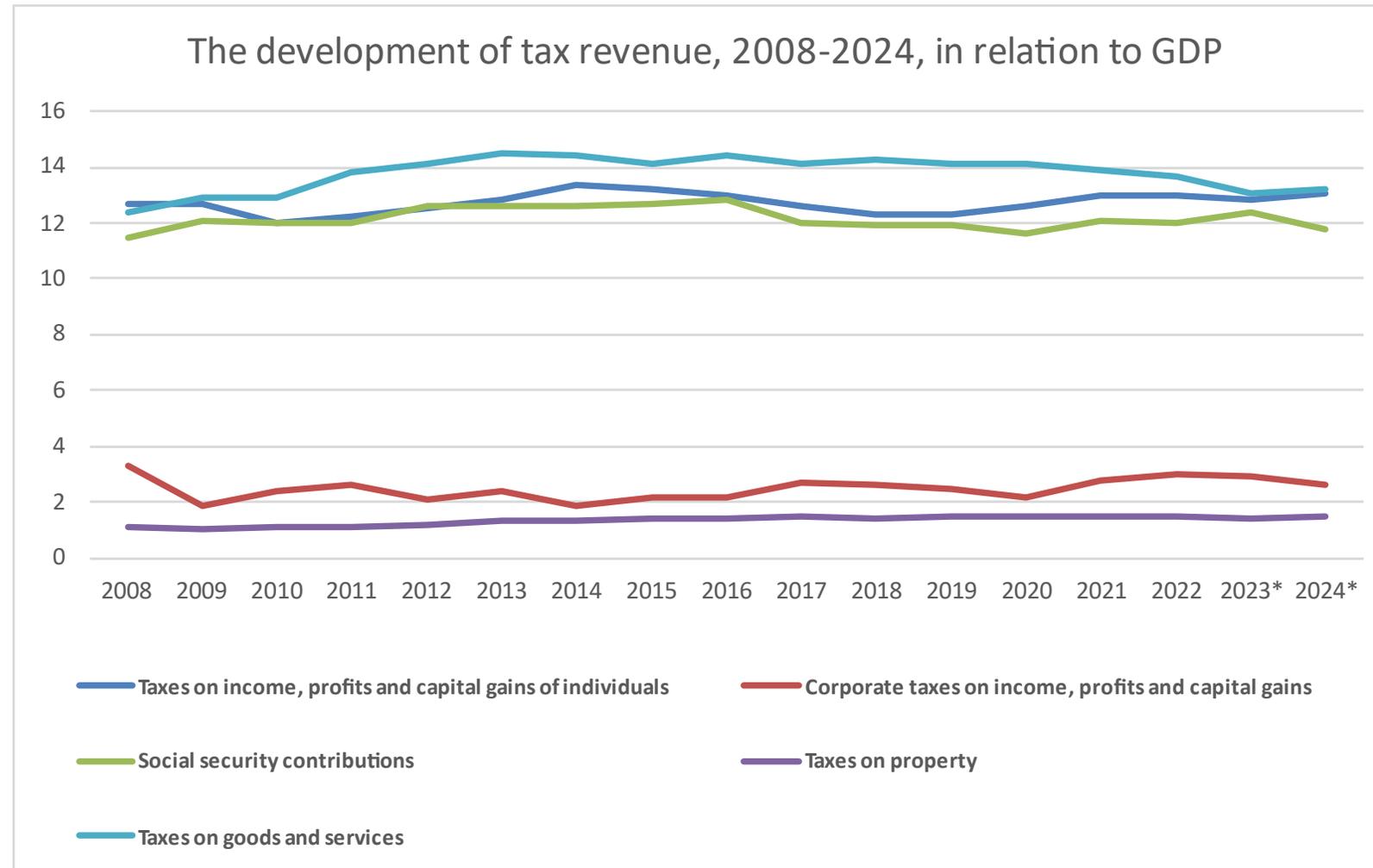
- The top-eight expenditure functions that have increased include many that are directly impacted by the ageing population
- However, there are increases in other categories as well



Source: *Statistics Finland, NAOF calculations*. Note: Spending increases in the category "Old age, pensions" do not directly affect government debt.

# The declining revenue has contributed to the deficit lately

- Tax ratio has decreased from peak year 2016
  - But the ratio is now higher than in 2008
- No clear evidence of (economically-desirable) shift from direct to non-direct taxation
- Dynamic interplay between GDP, revenue and expenditure complicates conclusions



Source: *Statistics Finland*



# What about fiscal policy?

# All the governments since 2011 have aimed at tackling the rising debt...

- **2011 – 2015:** *“The central government debt-to-GDP ratio will be brought into a downturn by the end of the parliamentary term.”*
- **2015 – 2019:** *“..the GDP-to-debt ratio will level off by the end of the government term and living on debt will be brought to an end in 2021.”*
- **2019 – 2023:** *“Decisions on expenditure and tax will be planned on the basis that, given normal global economic circumstances, Finland’s general government finances will be in balance in 2023 and the public debt-to-GDP ratio will decrease”*
- **2023 – 2027:** *“the general government debt ratio will be stabilized..”*

# ...but how to do it? There have been different approaches

- **2011 – 2015:** Government programme: direct consolidation EUR 2,5 billion – *revenue 50%/ expenditure 50%* - and structural measures
- **2015 – 2019:** Government programme: direct consolidation EUR 4 billion on *expenditure*, and structural measures. Conditional additional consolidation measures.
- **2019 – 2023:** Government programme: Structural measures.
- **2023 – 2027:** Government programme: EUR 4 billion of direct consolidation on *expenditure*, and structural measures. Further consolidation packages during the government term – emphasis on expenditure, but revenue measures included.

# Fiscal policy should be planned properly

- NAOF has emphasised that all measures to strengthen public finances should be on the table when policy is formulated - both revenue and expenditure items as well as structural measures
- Decisions should be based on best possible information so that the choice of measures can be done successfully from the standpoint of the ultimate goals
  - The role of spending and revenue reviews is essential
- Timing is also important – direct consolidation in bad times may have prolonged economic gloom

# Actual fiscal policy has differed from the plans

- During **current and latest Government terms** (2015-2019, 2019-2023, 2023-2027) the overall impact of each Government's discretionary fiscal policy in the end of its term has been worse than the plans
  - There are various “excuses” for this, some of which are well-justified
    - Notably the war
  - Fiscal measures which are outside the measure packages (defined by the Governments in their programmes) seem to be mostly deficit-increasing
    - Other considerations tend to override fiscal objectives during the Government term?
- Plans tend to be optimistic, not much room left for negative surprises

# The role of fiscal rules is not clear

- Somewhat surprisingly, Finland has complied with **EU fiscal rules** from 2011 until these days – sometimes with very narrow margins
  - In 2010-2011, Finland was subject to a short-lived Excessive Deficit Procedure (EDP)
  - After that, Finland was placed into EDP only in 1/2026
- The governments have also complied with the **national fiscal law**
  - None of the Governments have met the targets they have set for the government finances – but this does not mean non-compliance with the Fiscal Act
- Overall, statutory fiscal rules have not played a central role
  - Still we cannot rule out their possible impact entirely
  - The application of EU fiscal rules has been very flexible by the Commission
  - National rules were flexible by design



More challenges ahead -  
but not all news are bad

# More challenges ahead...

- How to finance increasing defence expenditure?
  - Increases consolidation requirement for other expenditure, and revenue
  - At the moment, no specific plan → part of regular fiscal planning
  - Uncertainty about the interpretation of NATO commitments
- Preparation for climate-related negative fiscal surprises?
- Decrease of human capital: The level of education is lagging behind in OECD comparison + unfavourable demographics

# ...but not all news are bad

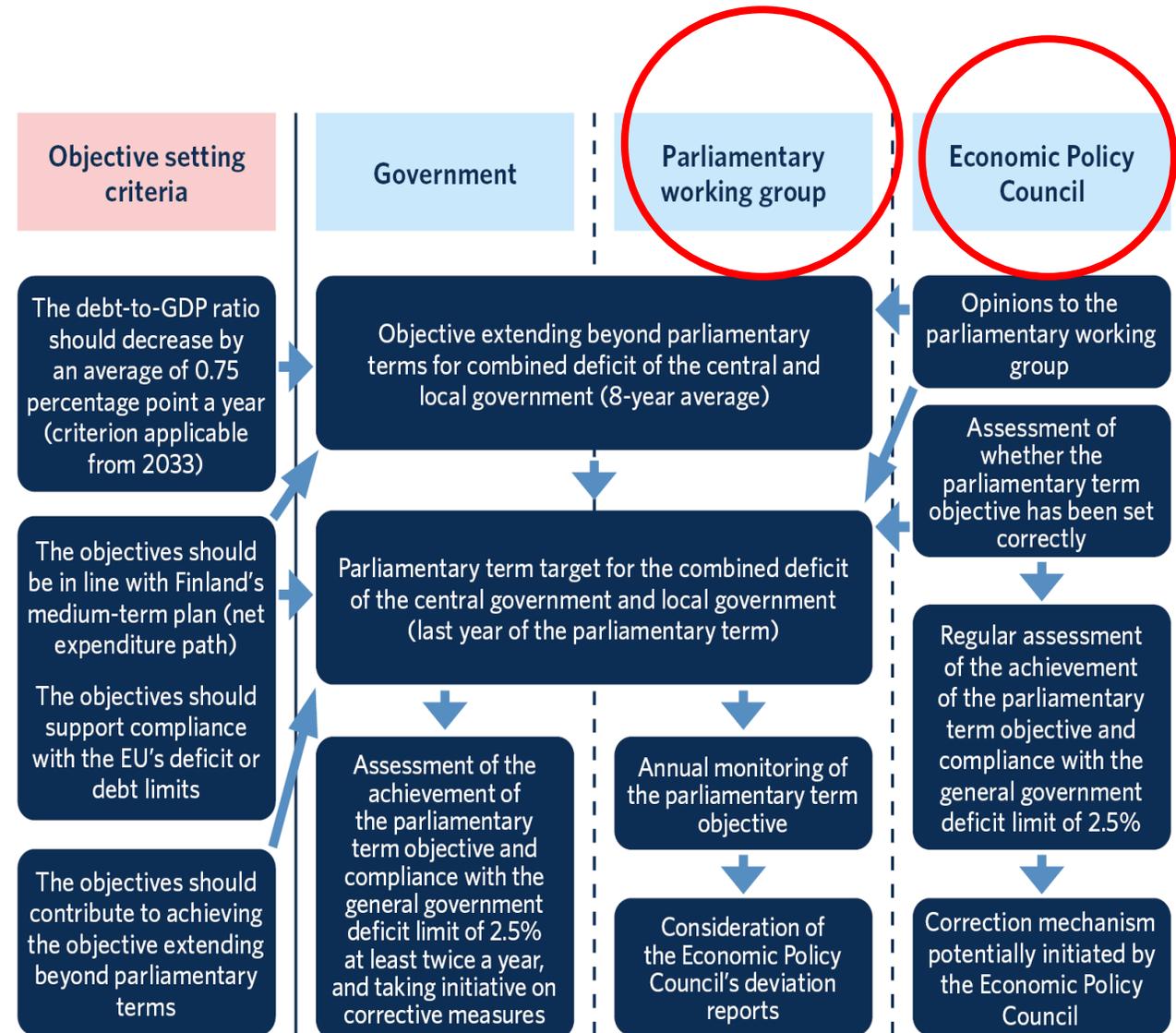
- The 2023 *social and healthcare reform* seems to start bearing fruit
  - Too early to judge, but there are some positive signs
- The *pension system* appears solid
  - Of course, there is a room for improvement, but the system is broadly sustainable
- The introduction of *new national fiscal rules* provides opportunities
  - However, the positive impacts are not automatic

# New national fiscal rules

- The background of the reform was twofold
  - The new EU requirements
  - Aspirations to strengthen statutory national fiscal rules
- The reform prompted some interesting public debate about the fiscal rules, debt and sustainability
  - There seems to be a quite broad consensus that the current level of debt is too high – or, at least the outlook is considered unsustainable
  - However, the long-term target chosen by the government (40%/GDP) is considered arbitrary and/or unrealistic
- New fiscal act entered into force in 1.1.2026
  - A parliamentary working group was involved in the preparation; the process was however too hurried

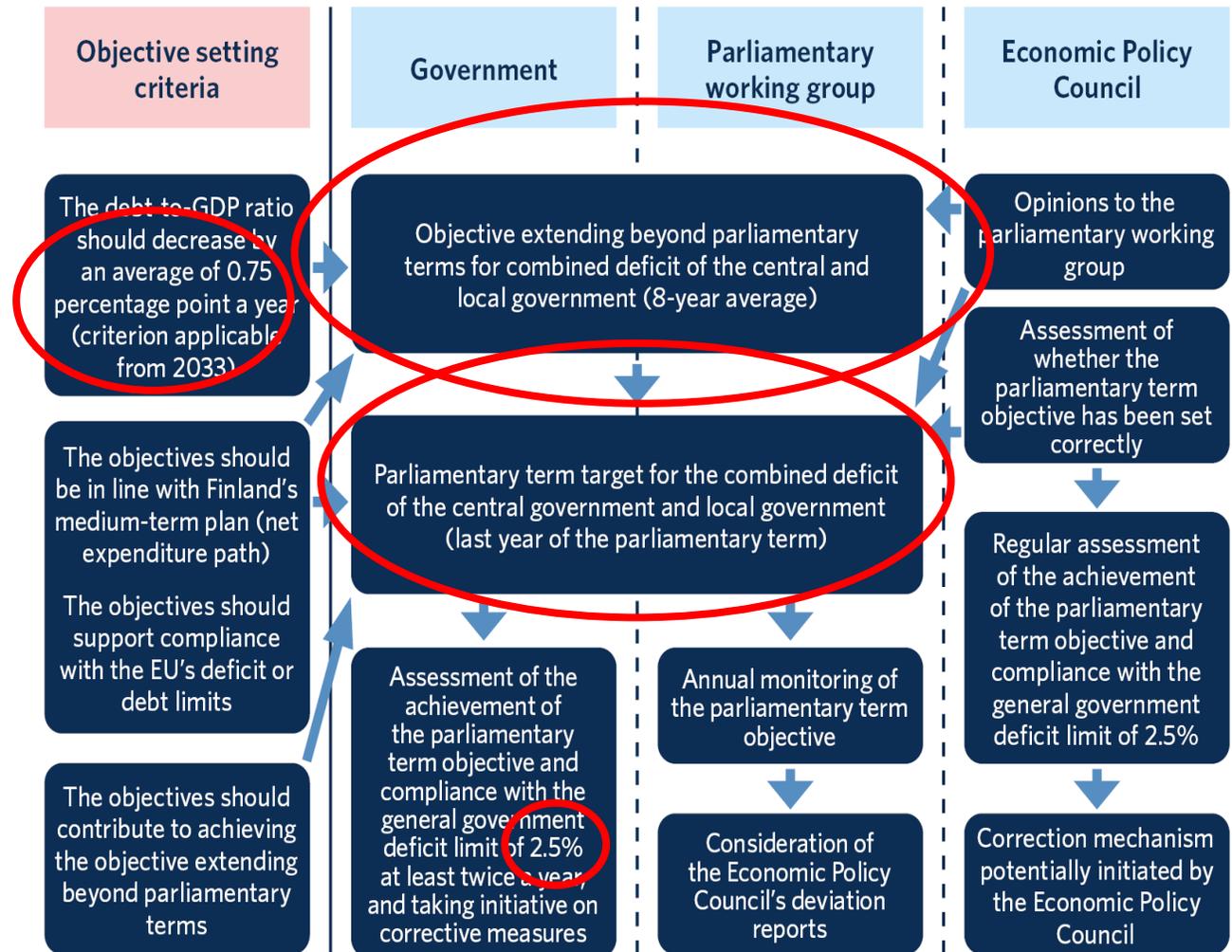
# New national fiscal framework provides opportunities...

- The new parliamentary dimension may bring benefits
  - Reinforces long-term approach to fiscal policy
  - Shared fiscal objectives
- The strengthened role and new tasks for IFI (Economic Policy Council) are appropriate
  - Can initiate a correction mechanism
  - Supports the parliamentary working group
  - Endorses MoF forecasts



# ...but is (too?) complex

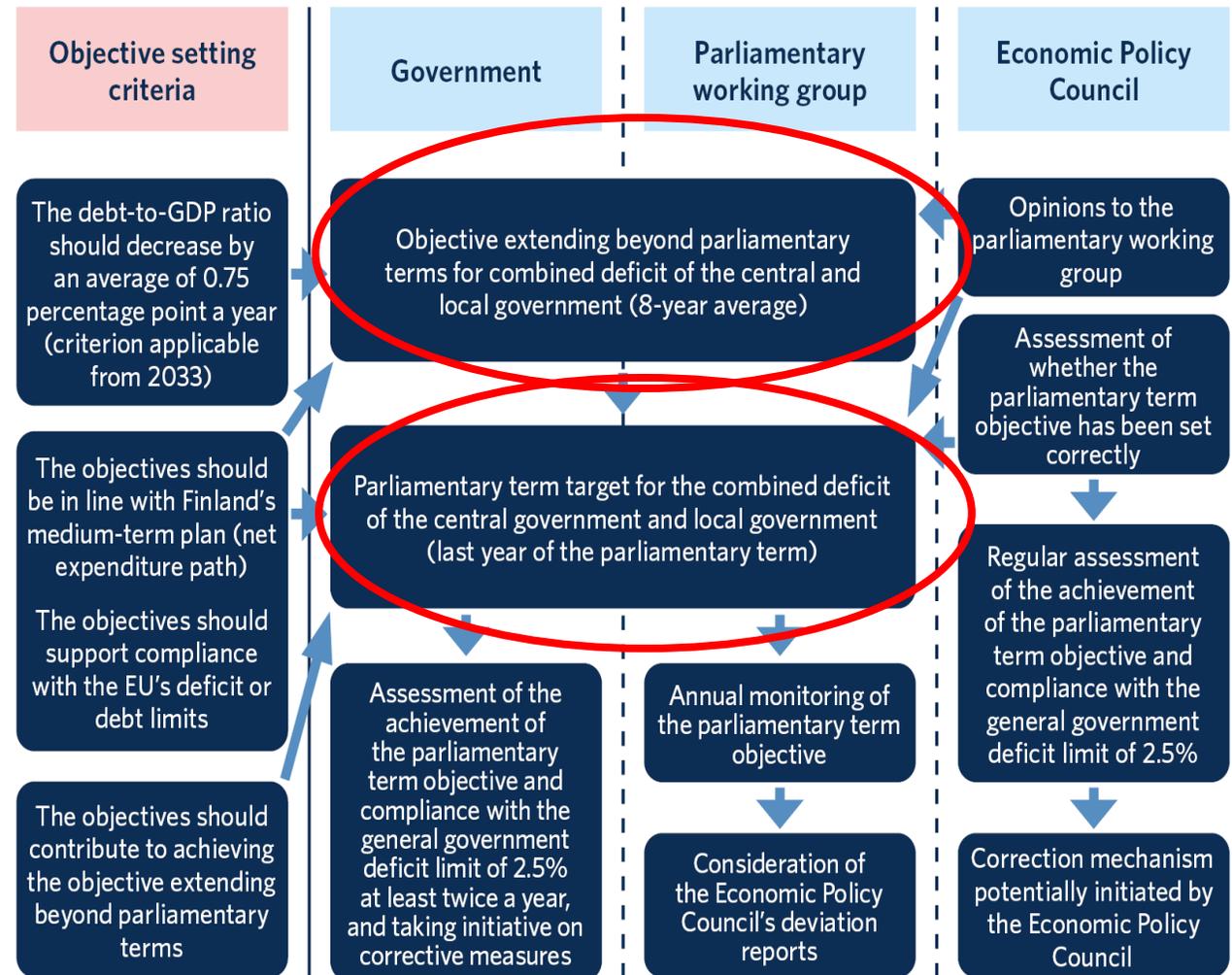
- Many objectives and partly overlapping elements with EU rules
  - Does the value-added from these exceed the drawbacks from complexity?
- Complexity means the details of the framework may be difficult to understand for stakeholders – and even for actors in the framework
  - A risk of information monopoly of MoF → underlines the importance of Economic Policy Council



Source: NAOF Fiscal Policy Monitoring report, 2025.

# New rules at work

- On 25.2., the Parliamentary working group presented the first targets
  - The target extending over Government terms is -3 % / GDP
  - The target for the next Government term (to be formally set by the next Government in 2027) is -2 - -2,5 % / GDP
  - This translates into estimated consolidation requirement of 8-11 billion euros for 2027-2031
  - The figures will be updated in December 2026





# Thank You!



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