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2025 Country Report - Finland

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on the economic, social, employment, structural and budgetary policies of Finland

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European Commission

Finland

2025 Country Report

ECONOMIC DEVELOPMENTS AND KEY POLICY CHALLENGES

On the road to a muted recovery

Falling interest rates are paving the way to economic recovery. The Finnish economy remained in a shallow recession in 2024, even though the economy expanded in quarterly terms throughout the year. Market interest rates began to fall in 2024, helping improve overall economic sentiment and translating into expanding output, a positive trend likely to have continued in early 2025 ([1]). Declining debt servicing costs are set to reduce pressure on household budgets, though high unemployment is expected to keep weighing on private consumption. In the last quarter of 2024, gross fixed capital formation stabilised, with non-residential investment increasing since the second quarter of 2024. Exports of services, especially to the US, increased significantly in 2024. Provided the positive economic momentum withstands the impact of exacerbating trade tensions, the Finnish economy is expected to grow by close to 1.0% in 2025 and slightly more in 2026.

The labour market is set to respond to revived economic activity with a lag. In 2024, the unemployment rate increased to 8.4% and neared 9% at the beginning of 2025. This situation is in stark contrast to falling joblessness observed in most other euro area countries and can be attributed mostly to the persistent impact of the overall weak economic environment. The deterioration of the labour market situation is also reflected in a declining number of vacancies and the decline in the employment rate that dropped to 77% in 2024 ([2]). However, the economic recovery is projected to slowly bring some relief to the labour market, with the unemployment rate expected to fall to about 8.3% by the end of 2026.

Ageing and persistent demand shocks limit productivity growth

The share of the population aged 65 years and over rose at one of the fastest rates in the EU. The old-age dependency ratio increased from 28.9% in 2013 to 37.8% in 2024, among the highest in the EU. The total fertility rate has been in decline almost without interruption since 2010. Consequently, the working-age population (ages 15-64) has been shrinking ([3]). However, net migration increased from 23 000 persons in 2021 to 48 500 persons in 2024, largely due to an influx of Ukrainian refugees. Recent estimates suggest that a net inflow of 27 000 persons annually would be needed for an average real GDP growth of 1.8% by the 2030s ([4]).

Finland's economic growth has been relatively modest since the 2010s. This reflects the impact of persistent demand shocks related to the great financial crisis of 2008/2009 and the collapse of the electronics sector, notably the Nokia crisis ([5]). Over time,

([1]) Statistics Finland, Tend indicator of output.

([2]) People with low education levels and in the Eastern border regions are particularly affected.

([3]) The capital region's (Helsinki-Uusimaa) demographic dynamics differ markedly from those in the rest of the country with northern and eastern regions experiencing lower levels of growth or depopulation in some cases.

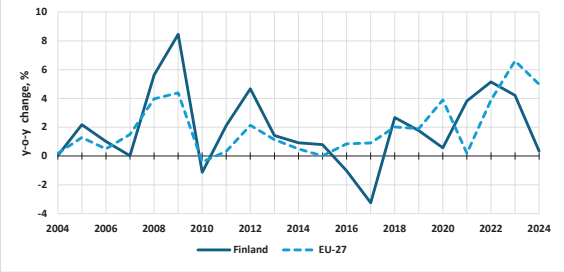
([4]) Kokkinen, A. (2025), Finnish economy's long-term growth outlook squeezed by a shrinking working-age population and weak productivity, *Bank of Finland Bulletin*, 26 February 2025.

([5]) OECD (2023), The slowdown in Finnish productivity growth. Causes and consequences, OECD Science,

the economy's centre of activity has shifted towards services, where productivity is generally lower. The remaining traditional manufacturing sectors primarily produce intermediate products, for which demand is either stagnant or declining. Additionally, the complexity of these goods is medium to low ([6]), suggesting limited economic potential. On the positive side, the ICT sector has provided a significant boost to the growth of service exports since 2019.

Cost-competitiveness depends on wage restraint amid low productivity growth. The competitiveness pact agreed in 2016 and effective until 2019 helped contain wage growth and added unpaid work hours. This resulted in negligible unit labour cost growth and an improvement in Finland's cost-competitiveness during that period. The current wage bargaining system consists of two tiers - sectoral agreements and company-level bargaining - and continues to help moderate wage growth.

Graph 1.1: **Unit labour costs**



Source: European Commission

However, a spike in inflation due to the energy crisis led to significantly faster wage growth in 2022 and 2023 exceeding labour productivity. From 2021 to 2023, annual wage growth was three to four times higher than the average growth recorded between 2016 and 2020, reflected in rising unit labour costs (Graph 1.1). In 2024, unit labour cost stagnated.

Sustaining competitiveness lies with fostering productivity and innovation. Labour productivity has been declining for some time, which can also be attributed to the less efficient allocation of the labour force (i.e. a shift to the service sector). Total hours worked have been stagnating, although employment grew before 2023. This reflects the fact that more people tend to take up part-time jobs. Furthermore, in some specialisations like engineering, the number of higher education graduates has been too low to provide a sufficient supply of skilled labour (see Annex 12). The lack of skilled labour is cited by businesses as a significant barrier to investment (see also Box 1 and Section 4). Finland also faces difficulties in turning its innovation potential into viable business ideas, even though there are efforts to boost R&D spending (see Section 2).

Geopolitical headwinds add to long-standing domestic challenges

The collapse of trade with Russia has had a tangible effect on the Finnish economy. Geographical location and intensive trade ties exposed the Finnish economy to the repercussions of Russia's war of aggression against Ukraine. Some Finnish exporters that previously traded with Russia have successfully found new markets and suppliers of raw materials ([7]). However, service exports have been negatively affected by the loss of tourist inflows from the East. Moreover, because of Russia´s war of aggression against Ukraine, the economic development for some sectors in the southeastern border regions has been weaker than in the rest of the country (see also Annex 17).

The Finnish economy's exposure to US import tariffs has been compounded by further rise in trade policy uncertainty. Amid a trend of falling export market shares ([8]), the US has become the most

Technology and Industry Policy Papers No 139, February 2023.

([6]) The Growth Lab at Harvard University (2025), Export complexity in 2022, Finland.

([7]) Simola, H. (2024), The collapse of trade with Russia has had a limited effect on Finnish manufacturing, *Bank of Finland Bulletin*, 5 July 2024.

([8]) European Commission (2024), Alert Mechanism Report 2025 and Mäki-Fränti, P. (2024), Finland struggling to

important trading partner for Finland outside the EU with a share of 23% of extra-EU goods exports in 2024 (9.7% of total exports of goods). Tariffs would, therefore, dampen Finland's goods exports, according to the Bank of Finland. The impact of US import tariffs would be even more detrimental if unilateral tariffs turn into mutually escalating trade restrictions. The combined effect of retaliatory tariffs, a general expansion of barriers to international trade and a general increase in trade policy uncertainty would then significantly shrink exports and corporate investment and, therefore, growth ([9]).

Worsening fiscal situation requires substantial fiscal consolidation

The general government deficit rose to 4.4% in 2024. A weak economic situation reduced revenues, while spending on social benefits increased. The reductions in social security contribution rates, higher public wages and debt servicing costs put further pressure on expenditure. Finland has also allocated funds to strengthen border security, in addition to previously decided investments in military equipment. The general government deficit is, therefore, unlikely to fall below 3% of GDP before 2027. Consequently, the general debt-to-GDP rate is set to climb above 87% by 2026, compared to 77.1% in 2023.

Net expenditure complies with the Council recommendation. In 2024, net expenditure([10]) in Finland grew by 3.1% (see Annex 1). This increase is mainly driven by sustained growth in social benefits payments (due to pension and unemployment payments) and public investment (e.g. in R&D and defence). In 2025, net expenditure is forecast by the Commission to grow by 1.3%, which is below the maximum growth rate recommended by the Council ([11]). The cumulative growth rate of net expenditure in 2024 and 2025 taken together is projected at 4.4%, which is below the maximum rate recommended by the Council. Taking into account the information provided by Finland in its Annual Progress Report, the reforms and investments underpinning an extension of the fiscal adjustment to 7 years ([12]) that were due by 30 April have been implemented.

The Finnish government adopted two consolidation packages since 2023. The announced total consolidation effort of EUR 9 billion (or approximately 3% of GDP) comprises both expenditure and revenue measures. It includes cuts in unemployment benefits and an increase in the standard VAT rate from 24% to 25.5%, already implemented in September 2024 (see Annex 2). At the same time, out of EUR 9 billion, EUR 2 billion in additional tax revenues are expected from higher employment due to improved work incentives. However, in April 2025, the government announced cuts in personal income tax to be implemented from 2026 and a reduction in corporate income tax from 2027, both of which are set to reduce tax receipts.

More selective tax increases could strengthen revenues in a growth-friendly manner. For example, the excise duty rate (i.e.

defend its market share in goods exports, *Bank of Finland Bulletin*, 5 July 2024.

([9]) Juvonen P. at al. (2025), Import tariffs and trade policy uncertainty will dampen economic growth, *Bank of Finland Bulletin*, 4 February 2025.

([10]) Net expenditure is defined in Article 2(2) of Regulation (EU) 2024/1263 as government expenditure net of (i) interest expenditure, (ii) discretionary revenue measures, (iii) expenditure on programmes of the Union fully matched by revenue from Union funds, (iv) national expenditure on co-financing of programmes funded by the Union, (v) cyclical elements of unemployment benefit expenditure, and (vi) one-off and other temporary measures.

([11]) Council Recommendation of 21 January 2025 endorsing the national medium-term fiscal-structural plan of Finland (OJ C, C/2025/656, 10.2.2025, ELI: http://data.europa.eu/eli/C/2025/656/oj).

([12]) According to the Regulation, the required fiscal adjustment (in particular, to put or keep the government debt ratio on a plausible downward path by the end of the adjustment period or keep it at prudent levels below 60% of GDP and to bring or maintain the deficit below 3% of GDP over the medium term) should be completed in four years but may be extended over a period to up seven years if the Member State commits to a relevant set of reforms and investments.

energy content tax) on motor fuel has not been revised recently, leading to lower effective taxation when fuel prices increase, and especially in the context of increasing income level. Recurrent property taxation also seems to be lower than the aggregate level of the EU. In addition, the taxation of dividends of unlisted companies is lower than those of listed ones. Finally, spending reviews could be integrated into the fiscal framework permanently to enhance spending efficiency.

Reforms of social security and health care are set to alleviate fiscal pressure

The wellbeing services counties are set to improve cost efficiency to rein in deficits. In 2023, the wellbeing services counties' deficit was 0.7% of GDP compared to the planned 0.2%. Since this new level of local government was set up in 2023, its functioning has generated larger-than-anticipated deficits, partly due to expensive outsourcing of healthcare services. The wellbeing services counties are expected to set up plans to improve their use of premises and service networks, expand their use of centralised procurements, and improve competition in public procurement ([13]). Though the current legal basis requires the wellbeing services counties to cover their deficits by 2026, some entities may not be able to achieve this target and might jeopardise attempts to put the general government deficit on a steeper declining path.

Finland is planning to overhaul its social security system. In 2025, the government is set to prepare legislation to streamline social protection by moving towards a general social security benefit. This reform will be carried out in stages, and it is planned to cover their living and housing costs, as well as other expenses. The general social security benefit is set to decline gradually as the recipient's labour income increases. Simultaneously, the government aims to reform the provision of basic social assistance by making the conditions more transparent and encouraging participation in the labour market. These efforts are expected to increase labour supply and support the sustainability of public finances.

The reform to the earnings-related pension system is set to enhance sustainability. The government tasked social partners to put forward a proposal to strengthen the sustainability and adequacy of the pension system. The proposal that will underpin the legislative process aims to increase investment returns of pension assets by changing the investment regulations that apply to private earnings-related pension providers; keeping the contribution rate of 24.4% for private sector earnings-related pensions (statutory employment pension insurance, also known as 'TyEL') unchanged until 2030 and including an inflation stabiliser that curbs pension indexation if consumer prices rise faster than wages over a two-year period. Conversely, the proposed reform does not intend to change the retirement age or pension accrual rates. The proposed reform is set to increase investment risk in a sustainable manner.

([13]) These commitments also underpin the prolongation of the fiscal adjustment period, see Council Recommendation of 21 January 2025 endorsing the national medium-term fiscal-structural plan of Finland.

Box 1:

Barriers to private and public investment

Finland's total investment as a share of GDP has declined slightly since 2018 (24.6% in 2018 vs 23.2% in 2023) but remained above the EU and euro area aggregates. The business investment ratio to GDP stood at 13.3% in 2023, approximately 1 percentage point lower than the peak in 2008 and just above the EU and euro area aggregates.

Despite a tense fiscal situation, Finland's public investment remains above the EU and euro area levels. Public investment peaked in 2020, when the ratio reached 4.9% of GDP as part of the government's efforts to support the economic situation during the COVID-19 pandemic. In 2023 it stabilised at 4.1%.

Finnish businesses highlighted the following main barriers to private investments:

- **Uncertainty about the future.** This have been indicated as a barrier to investment by 81% of Finnish business which participated in the European Investment Bank's 2024 investment survey. This is higher than the EU average of 79%. The weak economic situation in recent years and overall geopolitical tensions make Finnish business rethink their investment plans and focus more on replacement investments rather than on expanding their capacities.
- **Lack of demand for products or services.** Domestic demand declined in 2022 and 2024, while economies of major trade partners have been struggling recently. This discourages companies from investing to expand their operational capacities.
- **Labour and skills shortages.** The needs and expectations of the employers and the skills of the workers do not consistently align, which contributes to high structural unemployment.

The implementation of Finland's RRP is well underway. At present, Finland has fulfilled 33% of the milestones and targets in its RRP.

It remains important to accelerate the implementation of **cohesion policy programmes**. The mid-term review offers opportunities to speed up progress and better address EU strategic priorities related to competitiveness, defence, housing, water resilience and the energy transition.

Finland has not yet taken advantage of the opportunities provided by the **Strategic Technologies for Europe Platform** under Cohesion Policy to reallocate resources towards this priority. However, it can still support the development or manufacturing of critical technologies in the areas of digital and deep tech, clean and resource efficient technologies, and biotechnologies.

Box 2:

UN Sustainable Development Goals (SDGs)

While Finland performs above the EU average on SDGs related to productivity (SDG 4, 8 and 9), is moving away from targets in quality education (SDG 4) and decent work and economic growth (SDG 8). These trends are underlined by an increase in the unemployment rate and lower GDP per capita, as well as worsening education outcomes. Finland is overall improving in SDGs related to environmental sustainability and performing well in SDGs related to fairness, with high scores and progress in clean water and sanitation (SDG 6) and climate action (SDG 13).

Out of the 17 indicators, only 5 SDGs remain below the EU average. These relate to good health and wellbeing (SDG 3), environmental sustainability (SDGs 7, 12 and 14) and macroeconomic stability (SDG 17).

INNOVATION, BUSINESS ENVIRONMENT AND PRODUCTIVITY

Finland has a sizeable potential for innovation-driven growth

Finland ranks among the EU's leading innovation performers. According to the European innovation scoreboard, Finland's innovation performance was 128% of the EU average in 2024 ([14]). Notably, Finland is the EU country with the highest proportion of companies introducing new products or services onto the national or international market. This innovation capacity is supported by a high degree of digitalisation, with Finland being above the EU average in most of the Digital Decade key performance indicators ([15]), notably in digital skills of individuals and SMEs. Moreover, Finland has a robust research base in science, electrical engineering and forestry (see Annex 3).

Finland is well placed to seize the opportunities emerging from artificial intelligence ([16]). Finland's reliable infrastructure and high-quality research makes it a natural destination for national and EU-wide research hubs. The second European Laboratory For Learning And Intelligent Systems (ELLIS Institute) was established in Finland in 2025 to promote top AI research, large-scale R&D collaboration, and ethical AI development across Finnish universities. Finland was selected to host an AI Factory and will use the European high-performance computing joint undertaking supercomputer LUMI in Kajaani to launch its operations. LUMI's successor, a new LUMI+ AI-optimised supercomputer, will provide computing capacity required for training and fine-tuning AI models.

The share of private investment in the AI sector is still relatively low. This is due to the dominant role of public funding in the early project stages and to unfavourable market conditions. AI-startups have the same access to public funding as other startups and have been successfully in raising early-stage funding. However, they have been less successful in larger growth-funding rounds, which has inhibited some innovative businesses from scaling up. While it is estimated that some 20% of the working population in Finland have professions whose content can be substituted by AI up to 50%, generative AI has thus far had a positive impact on employment in Finland, increasing labour demand and salaries in AI-affected sectors ([17]).

Finland has a relatively high level of R&D spending, and the ambition to increase it further. In 2023, Finland's R&D spending amounted to 3.1% of GDP, compared to 2.2% of the EU average. The Finnish government has set the target of increasing R&D spending to 4% of GDP by 2030, with central government R&D funding accounting for 1.2% of GDP. To support this target, a series of measures have been introduced to incentivise private R&D, such as tax incentives (see Annex 3) and funding promoting cooperation between the private and public sector ([18]). However, public support for R&D could be more targeted to companies with the highest

([14]) European Commission, 2024, *European Innovation Scoreboard 2024*.

([15]) European Commission, 2024, *Report on the State of the Digital Decade 2024*.

([16]) For example, Tortoise media, 2024, *The Global AI Index*, tortoisemedia.com.

([17]) Etla, 2024, *Generatiivinen tekoäly lisännyt työn kysyntää Suomessa, palkat nousseet eniten tekoälylle altistuneissa ammateissa*, etla.fi.

([18]) OECD, 2025, *STIP Compass: Innovation in firms and innovative entrepreneurship in Finland*, stip.oecd.org.

innovative potential, possibly promoting cooperation between businesses and higher education. Further measures to de-risk private investment could also be introduced.

Finland is aiming to significantly expand its cybersecurity capabilities. In recent years, Finnish businesses have experienced an increasing amount of cyberattacks (see Annex 4). The importance of cybersecurity is recognised by Finland's Digital Compass ([19]). Measures already taken include strengthening higher education in cybersecurity and setting up a dedicated agency to enhance SMEs' cybersecurity capabilities ([20]). In 2024, the government published Finland's cybersecurity strategy, focused on (i) developing competencies, (ii) increasing preparedness, (iii) boosting cooperation between public, private and international actors, and (iv) putting in place appropriate countermeasures ([21]).

The business environment is overall conducive to innovation

Finland's competitiveness benefits from a stable institutional framework and advanced digitalisation. Finland has stable and transparent public institutions and reliable infrastructure. Moreover, Finland is one of the world leaders in public electronic services: the availability of digital public services to citizens scores well above the EU average, while the availability to businesses has reached the Digital Decade 2030 target (Annex 6).

Businesses benefit from easy access to both equity and debt financing. Finland is characterised by a stable banking system, high financial literacy, and an efficient capital market. Internal financing, listed equities, and bank loans are the main sources of funding for the non-financial sector, with only 6% of firms reporting obstacles when seeking bank loans. The country features a predominant equity culture, with capital market instruments accounting for 68% of corporate financing.

Access to venture and growth capital is more limited. This is particularly an issue in the later stages of financing, due to conservative participation by institutional investors like pension funds. Therefore, small productive firms may struggle to find the funding to scale up beyond the startup phase. The taxation system could be adapted to make it more supportive of venture capital financing and investing ([22]).

Regulation does not hinder investment, but room for improvement remains. Some 46% of Finnish companies consider business regulations and some 49% consider labour regulations an obstacle to investment, lower rates than their EU peers. However, the licensing system could be further improved and the regulatory burden could be further reduced ([23]) (Annex 4). For example, regulators are not currently required to identify any substantial compliance costs or administrative burden that new regulations would entail (Annex 6).

Innovation does not translate into higher productivity

Despite the strong innovation activity, labour productivity stagnated over the last decade. Labour productivity per hours worked declined by 0.4% in 2024, and by 0.6% in annualised term in 2020-2024. Similarly, total factor productivity (i.e. the efficiency with which inputs, such as labour and capital, are used together during the production process) in Finland has generally hardly grown or even stagnated in recent years. While the level of labour productivity

([19]) Finnish Government, 2022, *Government report: Finland's Digital Compass*, valtioneuvosto.fi.

([20]) European Commission, 2024, *Report on the State of the Digital Decade 2024*.

([21]) Prime Minister's Office, 2024, *Finland's Cyber Security Strategy 2024-2035*, valtioneuvosto.fi.

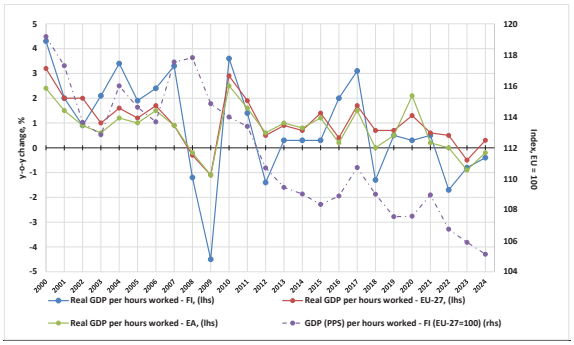
([22]) IMF, 2025, *Finland: Staff Report for the 2025 Article IV Consultation*.

([23]) OECD, 2024, Product market regulation indicators.

remains above the EU aggregate, the gap has narrowed significantly (see Graph 2.1). Starting at nearly 120% of the EU in terms of GDP per hours worked in the early 2000s, it decreased to 105% by 2023.

Structural factors explain the long-term trends in labour productivity. The collapse of the electronics sector had long-lasting consequences on the Finnish economy. For most of the 2000s, the electronic sector accounted on average for more than 6% of gross value added, but by 2012 it reached the low of 1.5% of gross value added and hovered at around 2% of GDP afterward. With no other sector filling the void left by electronics, total gross value added recovered its pre-2008 levels only around 2018 and has only grown modestly since. The decline in gross value added due to the collapse of the electronic sector consequently reduced labour productivity, given that employment did not decline as much. The collapse also meant that the less-productive service sector increased its share in total employment, slowing down productivity growth. A low level of capital per worker has also reduced labour productivity growth in the manufacturing sector. Furthermore, evidence shows that the most productive companies in Finland account for a relatively small share of employment, and therefore cannot significantly boost the aggregate level of productivity ([24]). Indeed, In Finland, the dynamic of productivity has been driven by laggard firms ([25]), with sluggish productivity performance ([26]).

Graph 2.1: **Labour Productivity**



Source: European Commission

Finnish firms do not reap the full benefits of the single market

High-growth enterprises ([27]) **represent a relatively high share of employment.** In 2022, Finnish high-growth enterprises accounted for 15.8% of employees in active firms with more than 10 employees, more than the EU average (1.2%), comparable to the figure in Denmark (15.7%) and lower than that in Sweden (23.6%). Moreover, young high-growth enterprises ('gazelles') accounted for 2% of employees in active firms with more than 10 employees, a share higher than in the EU, Denmark or Sweden. While these gazelles have higher productivity than larger incumbent firms, a recent analysis using a definition of gazelles based on turnover growth showed that (i) the birth rate of gazelles is lower in Finland than in the EU overall, and (ii) Finnish gazelles are under-leveraged compared to the EU average ([28]).

Finland's SMEs have a relatively low level of goods trade integration within the EU single market. Trade statistics show that the size of Finnish firms involved in intra-EU goods exports is comparable to the EU average. However, the value of intra-EU goods exports

([24]) IMF, 2025, *Finland: Staff Report for the 2025 Article IV Consultation.*

([25]) Defined as the bottom 90% least productive firms, whereas frontier firms are defined as the top 10% productive firms.

([26]) IMF, 2025, *Finland: Staff Report for the 2025 Article IV Consultation.*

([27]) Eurostat defines high-growth enterprises as having at least 10 employees in the beginning of their growth, and the number of their employees growing by more than 10% per year, over a three-year period.

([28]) IMF, 2025, Finland: 2025 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Finland.

shows that SMEs (i.e. firms with fewer than 250 employees) accounted for a smaller share of intra-EU goods trade (36%) compared to the EU average (41%), Denmark (52%) and Sweden (42%) in 2022 ([29]). In contrast, SMEs accounted for 57% of intra-EU goods imports, more than the EU average (51%) in the same year. These figures suggest that there may be scope for Finnish SMEs to further benefit from the EU single market by expanding their goods exports to other EU countries (see Annex 4). Reducing regulatory barriers between Member States could help Finnish exporters integrate into the single market, as they flag more often than their EU peers that they need to comply with differing standards and consumer protection rules across EU countries (70% vs EU 60%, see Annex 4).

Finnish SMEs show a relatively high level of services trade integration within the EU single market. In Finland, SMEs accounted for 37% of intra-EU services exports in 2022, more than the EU average (28%) and Denmark (26%), and similar to Sweden (40%) ([30]), while they accounted for 25% of intra-EU services imports, similar to the EU average.

Shortages of skilled labour risk slowing down Finland's long-term growth

The availability of specific skills is vital to reach Finland's innovation goals. Finnish companies cite the lack of a workforce with specific skills as one of their main obstacles to investment ([31]). Boosting competitiveness through increased R&D investment means a growing need for highly educated and specialised knowledge workers, as investments cannot be effectively exploited without an adequate pool of skilled labour. Commercialising innovations also requires entrepreneurial and business skills and effective cooperation between academia and businesses. As Finland has ambitious green transition goals, skills shortages are expected in certain clean transition fields, such as energy efficiency, energy supply, construction and transport ([32]). The skills shortages not only slow down competitiveness and growth in the sector but may also limit progress towards Finland's climate target of carbon neutrality by 2035. In addition, lack of adequate labour supply with specific skills can hinder R&D and growth driven by digital technologies. A digitalisation and technological transformation boost depends on the increasing supply of specialised profiles (e.g. ICT), including in fast-developing areas where Finland has experience, such as cybersecurity ([33]) (Annex 4).

Modernising the educational system is key to addressing skills shortages. Finland has been a leader in education but has slipped in PISA rankings measuring basic education outcomes (Annex 12). The challenges of the education system in Finland include the overall strain on public finances, teacher shortages, and the growing share of underachieving students. Finland plans to significantly increase its higher education levels, as the higher education attainment has fallen below the EU average (Section 4). More study places should be made available for first-time university students, and more PhD students should be trained, possibly in cooperation with companies and SMEs ([34]). As new fast-growing economic sectors develop, flexible allocation of study places reflecting demand is needed. In addition, enhancing cooperation, building knowledge clusters, and attracting foreign talent and promoting work-based immigration ([35]) could help develop people's skills.

([29]) Eurostat, ext_tec01.

([30]) Eurostat, ext_stec01.

([31]) EIB, 2025, *EIB Investment Survey 2024: Finland overview*, eib.org.

([32]) Prime Minister's Office, 2023, *Vihreän siirtymän osaamis- ja koulutustarpeet*, vnk.fi.

([33]) Eurostat, 2023, *ICT security in enterprises*.

([34]) OECD, 2025, Economic Survey of Finland 2025.

([35]) Etla, 2023, *Tools to promote productivity in Finland*, etla.fi.

DECARBONISATION, ENERGY AFFORDABILITY AND SUSTAINABILITY

Finland's ambition towards carbon neutrality faces increasing challenges

Finland's target for carbon-neutrality by 2035 is the most ambitious climate target in the EU. The revised Climate Act includes this carbon neutrality target as well as the medium and long-term targets for emissions reductions by 2030, 2040 and 2050. Efforts are ongoing in each of the main sectors contributing to overall emissions, including energy, industry, transport and buildings. These efforts all seek to reduce the country's emissions in order to meet its climate targets. An uncertain economic outlook (see Section 1), supply-chain bottlenecks, increased raw materials prices and higher market interest rates have contributed to delays in the delivery of investment projects in the energy and industry sectors, posing challenges to the progress towards carbon neutrality. Finland remains one of the most energy-intensive economies in the EU, partly due to its cold climate and the long distances between population centres.

Finland's climate is warming faster than the global average ([36]). The country has a long-standing comprehensive climate adaptation strategy, but climate change is accelerating. In 2024, Finland faced record high temperatures. The annual average temperature was 4.0 degrees Celsius, 1.1 degrees above the 1991-2020 average. Northern Lapland saw the most pronounced warming, with temperatures rising 1.7 degrees above the average. This creates country-specific risks, including degradation of soil quality, increased emissions from peatlands, threats to biodiversity, increasing wildfire risks as well as effects on natural ecosystems, tourism and agriculture.

The reduction of the carbon sink puts climate progress at risk

Finland's forests are a key element of its climate strategy. Increased logging rates have turned the carbon sink into a net source of emissions since 2021. The significant decrease of the carbon sink negatively affects the country's ability to meet its carbon neutrality goals. In 2023, forests contributed 1.12 Mtonnes of CO_2 equivalent emissions ([37]). Soils have also become a source of emissions since 2021. Excluding the land use, land-use change and forestry sector, Finland reduced its carbon emissions by 43% between 1990 and 2023. While this is above the EU average, net emissions are exceeding its 2035 target by between 16 and 33 Mtonnes of CO_2-equivalent, depending on the scenario. The sector's net emissions therefore jeopardise much of the progress made since 1990. In 2022, imports of timber from Russia were reduced to zero. Moreover, the energy-use of wood is not taxed, which may further incentivise unsustainable harvesting. Forest growth rates have stagnated since 2013 after decades of increasing growth rates due to reasons including droughts and age structure of the forests.

([36]) Finnish Meteorological Institute (2025): 2024 warmer than usual in Finland.

([37]) LUKE (2025): Preliminary greenhouse gas inventory results for 2023. Forest land has turned into an emission source because the carbon sink of trees no longer cover emissions from forest soil. .

Finland's agriculture is still a major source of greenhouse gas emissions, in particular from peatlands. While only 11% of agricultural land is on peat soil, farming on peat soil accounts for over half of agricultural emissions. Finland is taking steps to phase out the use of peat for energy purposes. Reducing the use of peat has an impact on local economies and employment because peat extraction is geographically concentrated in small communities in economically disadvantaged areas. Targeted investment, such as through the Just Transition Fund, contributes to ensuring a smooth transition.

Progress is uneven among the main emitting sectors

The energy sector is decarbonising at a steady pace. Some 95% of all electricity in Finland is generated either by renewable energy sources or nuclear energy. Finland has legislated a ban on the use of coal for energy as of May 2029 and no coal-fired power plants are in operation any longer. The share of district heat produced from renewable energy was 48% in 2024. An additional 16% is produced from heat recovery and 4% from electric boilers. Finland's energy mix has the EU's second highest share of renewables at 42% of total energy consumption in 2023, followed by nuclear (24%), oil (24%), solid fossil fuels (5%) and natural gas (4%). In December 2024, Finland approved an Act on Offshore Wind Power in the Exclusive Economic Zone, which is expected to lead to increased investment in offshore wind power generation in the medium term. The ambitious overhaul of the environmental permitting system will enter into force on 1 January 2026 and is expected to further facilitate and accelerate investment in renewables.

As more renewable energy is added to the energy mix, the electricity grid will need increased capacity and modernisation. As a relatively large share of electricity is generated in the west and north of Finland while consumption is concentrated in the south, there is a need to increase transmission capacity. Moreover, advancing electrification is expected to significantly increase electricity consumption in the future. Finland is nearly self-sufficient as a producer and consumer of electricity. Its energy security is strong, with domestic production covering 98% of electricity demand in 2023. Moreover, Finland's interconnections with Estonia, Sweden and Norway make it well-connected to neighbouring countries. Its level of electricity interconnectivity was 15.5% in 2024, already exceeding the 2030 target of at least 15%. Finland continues to closely monitor the security of critical infrastructure, especially by enhancing surveillance and repair capacity, in light of recent incidents related to critical infrastructure in the Baltic Sea.

A diligent implementation of the national roadmap for fossil-free transport is key. Transport accounts for approximately 20% of total emissions in Finland. Timely implementation of the measures linked to the roadmap is necessary to achieve the country's objective of reducing emissions from transport by 50% by 2030 compared to 2005. Finland is preparing its social climate plan to ensure that the transition is fair to vulnerable groups, including by providing supporting measures for households experiencing energy or transport poverty. In 2024, nearly 50% of new passenger cars registered were battery-electric or plug-in hybrid electric vehicles ([38]). However, these vehicles still represent only 10.3% of the car fleet. Long distances between population centres and sparsely populated areas in some regions may prove limiting factors to the electrification of passenger transport. Other areas of the transport sector, including long-haul transport and improved public transport connections within and between urban areas, could contribute to speeding up the decarbonisation of transport.

([38]) European Commission (2025), Finland: 10% of Finland's car stock now being rechargeable since 2024, European Alternative Fuels Observatory.

Investing in net-zero technologies is important for Finland's business model

Investing in the green economy, including in skills, is crucial for competitiveness. Significant investment volumes are allocated to frontier technologies in green tech, including wind power and green research, development and innovation. An improved circular materials use rate could reduce the dependence on imports of key materials and other inputs into the industrial process. Decarbonisation and electrification are potential sources for efficiency in traditional industries. Technologies that have reduced carbon intensity in these industries create potential for scaling up similar processes in other types of production. Finland will need to address shortages of skilled workers as well if it wants these sectors to grow. Sector-specific shortages of skilled labour exist notably in construction, energy renovations and battery production (see Section 4).

There is progress on decarbonising industry, but efforts could be stepped up. Electricity prices for non-household consumers in Finland are the lowest in the EU ([39])([40]). The abundant supply of affordable renewable energy thus presents a unique opportunity for the electrification of industrial processes. While some major investments are at risk of postponement or cancellation ([41]), including those along the hydrogen value chain, several major investments are still in the pipeline including those financed by the Recovery and Resilience Facility. Finland is implementing two State aid programmes based on the EU's temporary crisis and transition framework, both focusing on decarbonising industry. The new emissions trading system for buildings, road transport and additional sectors is estimated to cover about 50% of the total emissions from the effort-sharing sector. Finland is unilaterally expanding the scope of this system to cover emissions from fuel combustion from agriculture and forestry as well as non-commercial navigation.

Finland is taking steps to replace the Waste Act by a new Circular Economy Act. The Waste Act was originally adopted in 2011 and has been amended several times since then. The new Circular Economy Act aims to consolidate and clarify the rules applicable to the waste sector. Moreover, it will take a life-cycle approach to products rather than focusing exclusively on waste. More action to promote the circular economy is necessary to address Finland's low municipal waste recycling and high waste incineration rates. Both the circular material use rate and resource productivity are among the lowest in the EU. The low rate of re-use of materials could impact the competitiveness of industry as the availability and affordability of critical raw materials becomes more and more uncertain. Beyond leveraging domestic resources through local extraction and processing of critical raw materials, increased action on re-use of key materials could contribute to the autonomy and productivity of Finland's industry.

([39]) Eurostat (2024), Electricity Price Statistics, October 2024.

([40]) However, the share of vulnerable households with arrears on utility bills reached 7.4% in 2023 (compared to 6.9% in the EU, see Annex 11), which represents an increase of 1.7 percentage points since 2022.

([41]) The SSAB steel plant, which is the largest individual emitter of carbon emissions (7% of the country's total emissions), is investing first in its factory in Sweden and has postponed investing in Finland.

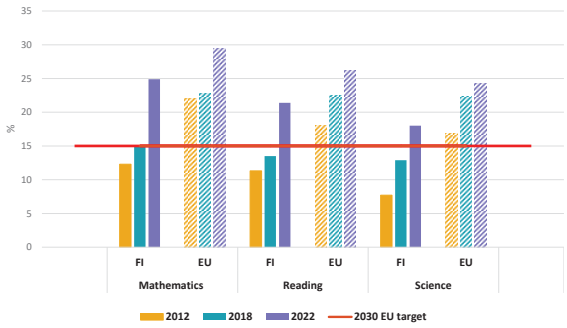
Improving educational attainment and retaining foreign talent are key to address skills shortages

The worsening labour market situation is particularly affecting vulnerable groups. The employment rate fell to 77.0% in 2024, jeopardising Finland's national target of 80% by 2030. The downturn is hitting hardest people without formal qualifications beyond primary education. Jobs are also scarce in the sparsely populated areas, including the eastern border regions where trade and tourism with Russia has collapsed due to Russia's war of aggression against Ukraine.

Labour and skills shortages persist and are set to exacerbate with the recovery. Sectors particularly affected by skill shortages are IT, construction, energy renovation, battery production, education and healthcare. Finland has made some progress in responding to the growing demand for ICT professionals and green skills through educational reforms, training programmes and the promotion of skilled immigration (see Annex 12). Teachers are in short supply, especially in early childhood education and care. The number of children participating in early childhood education has increased, while the number of graduates in the relevant fields dropped.

Education outcomes have declined over the past decade. While Finland still performs better than the EU average, the share of 15-year-old students underachieving in basic skills (see Graph 4.1) has been increasing more than the EU average ([42]). Underachievement is more pronounced among low-income groups and students with a migrant background. Moreover, the gap between the highest- and lowest-scoring students has widened. Overall, this negative trend jeopardises Finland's long-term potential for growth and innovation.

Graph 4.1: **Underachievement rates by field, PISA 2012, 2018, 2022 (%)**



Source: OECD 2012, 2018, and 2022

The share of tertiary graduates has fallen below the EU average, 39.1% vs. 44.2% in 2024, and Finland is lagging behind the national goal of a 50% tertiary education attainment rate by 2030. University admissions for first-time students are frequently delayed, as senior students and graduates tend to enrol for additional degrees. A revised funding model for higher education, in force from the beginning of 2025, encourages prioritising admission of first-time students and provides incentives to complete studies on time. Better coordination between education providers, public administration and industry would also help ensure that skills and qualifications meet current and future labour market demand.

While Finland compares well in adult learning, progress towards the national target of 60% in 2030 remains limited. Adult learning significantly contributes to mitigating skills shortages (see Annex 12), highlighting the need for reskilling and upskilling in response to the changing needs of

([42]) OECD, 2022, *PISA 2022 Results (Volume V): Learning Strategies and Attitudes for Life*, oecd.org.

the job market. The recovery and resilience plan supports several projects coordinated by the Service Centre for Continuous Learning and Employment. These include a 2025-2026 pilot project on studying alongside work in sectors suffering from labour shortages. However, the adult education allowance was abolished in 2024, which is expected to dampen the demand for adult learning.

An ageing society depends on foreign talent to meet demand for skilled labour. The talent boost programme supported by the Recovery and Resilience Facility encourages people to move to Finland to work or study by streamlining of work and study permit procedures, attracting foreign talent and supporting their integration. While net migration in 2024 remained high at 48 500 persons, there was a decrease in requests for work permits. Study-based immigration is rising, but Finland could further promote the employment of foreign graduates by reducing bureaucratic hurdles and language barriers.

Reform of social safety net to strike balance between incentives to work and social protection

The share of population at risk of poverty or social exclusion remains low but is increasing. Reaching the 2030 target of reducing this number by 100 000 compared to 2019 is challenging as it increased by 117 000 in 2024 (see Annex 11). Homelessness rose for the first time in a decade, to 3 806 persons in 2024. This was driven mainly by a lack of affordable and small apartments, by a high cost of living and cuts in social benefits ([43]), which reduced the rental ceilings for housing supported through benefits.

Reforms to the social security system aim to reduce complexity and improve incentives to work. In 2024, the indexation for several social benefits was frozen until 2027 and the monthly earned-income exemption (EUR 300) was removed from unemployment benefits. The child supplement to unemployment benefits was also discontinued and the earnings-related unemployment benefit was revised to taper over time. In parallel, a comprehensive overhaul of the social security system is planned with the introduction of a general social security benefit to simplify access to social protection. In addition, last-resort social assistance is set to be reformed by clarifying the obligations for social assistance recipients, which could involve requirements such as active search for a full-time job or participation in rehabilitative services. The new system would still need to allow flexibility for those with partial work ability to better combine different benefits and services, thus supporting their integration into working life. Employment and distributional impacts will need to be monitored, especially for low-income and low-work-intensity households.

A mix of incentives and support aim to help the jobless and inactive to find work. Services such as the *Ohjaamo* one-stop guidance centres (part-funded by the Recovery and Resilience Facility) for those under 30 years old, the introduction of the Nordic model of employment services with new job search obligations, and personal support from employment services aim to engage the inactive working-age population. In January 2025, public employment services were transferred to the municipalities to provide better services to jobseekers (including the long-term unemployed, persons with partial work ability or low education levels, migrant women, and older persons). The effectiveness of these initiatives relies on good coordination among public services, close participation of the business community and targeted programmes for marginalised groups.

The social and healthcare services reform proves challenging

Needs for healthcare services are increasingly not met. The share of people

([43]) Centre for State-Subsidised Housing Construction, 2025, *Asunnottomuus kasvoi ensi kertaa yli kymmeneen vuoteen*, varke.fi.

self-reporting unmet needs for medical care has increased from 7.9% in 2023 to 8.5% in 2024, compared to the EU average of 2.5%. The main reason is long waiting times (see Annex 14). Demand for healthcare services is set to increase further, driven by the rising share of older people.

The social and healthcare services reform faces implementation challenges. The Finnish social and healthcare system was fundamentally restructured in 2023, when 21 wellbeing services counties were established to provide social, healthcare and rescue services at regional level ([44]). This restructuring, supported by the Recovery and Resilience Facility, aimed to ensure more equal access to services and to enhance efficiency. Two years on, the wellbeing services counties are in different stages of reform, with regional disparities in access to social, healthcare and long-term care services ([45]). Inflation, remaining inefficiencies, rising demand and labour shortages requiring recourse to private-sector providers led to sizeable budget overruns of the wellbeing services counties.

Improvements in efficiency are taking more time to emerge. The reform of social and healthcare services has tightened the monitoring and financial steering of the wellbeing services counties. It has also started to improve the data available on clients, services and unit costs. Together with the rapid increase in the availability of digital services and tools, this raises expectations for productivity and efficiency gains, which will be fundamental for ensuring the sustainability of the social and healthcare services in the long run. The increase and efficient use of data from the wellbeing services counties could help steer the reform on a sustainable path, while improving access to care in the long run.

([44]) The organisation of social, health and rescue services was transferred from municipalities to 21 'wellbeing services counties', the City of Helsinki, Åland and the Helsinki-Uusimaa joint healthcare authority (HUS group).

([45]) National Institute for Health and Welfare, (THL), (3/2025), *Tilannekuvia hyvinvointialueilta: muutokset palvelujärjestelmässä sote-uudistuksen alkuvuosina*, julkari.fi.

The reduction of statutory requirements dampens labour demand in the social and healthcare sector in the short term. Clearing the high deficits accumulated by the wellbeing services counties by 2026 requires reducing the service network, employing more digital solutions, increasing customer fees, and tightening care criteria, among other things. Most notably, the legal requirements for the maximum waiting time allowed for access to non-urgent care was relaxed from 14 days to three months for people older than 23. These changes effectively eased labour demand in the social and healthcare sector but may challenge the goal of shorter waiting times.

Population ageing puts pressure on long-term care

Population ageing increases the demand and costs for long-term care. Between 2014 and 2024, Finland's population share of those aged 65 and over increased by 4.0 percentage points, and the old-age dependency ratio increased from 33.2% to 41.6%, remaining well above the EU average. The costs of ageing-related healthcare, social protection and in particular the projected higher spending on long-term care will have implications for fiscal sustainability (see Section 1 and Annex 11).

Rising demand and costs require changes to the structure of old-age care. In January 2025, the staff-to-patient ratio of 24-hour long-term care services (those that are suitable for care recipients with the highest levels of need) was reduced from 0.65 to 0.6. Similarly, the wellbeing services counties are aiming to reduce the 24-hour care provision by substituting it with communal living, suitable for those in need of care with lower disability needs. However, resetting the services for older people will need to carefully consider the types of care needed, to effectively address the different levels of disability.

KEY FINDINGS

To boost competitiveness, sustainability and social fairness, Finland would benefit from:

- **implementing the RRP,** including the REPowerEU chapter; swiftly implementing **cohesion policy**, taking advantage of the opportunities under the mid-term review and making optimal use of EU instruments, including **InvestEU** and **STEP**, to improve competitiveness;

- **improving the efficiency of public spending by factoring in the results of the spending reviews**, thus gaining fiscal space for public investment;

- **widening the sources of financing for start-ups and firms to scale up**, including by making the taxation system more supportive of venture capital financing;

- **supporting commercialisation of innovation**, through applied research and joint industry-academic projects and by strengthening researchers' entrepreneurial skills;

- **crowding in private R&D investments and backing up their critical and risky elements** through measures such as tax incentives and promoting cooperation between the private and public sector to develop innovations with the highest knowledge spillover;

- **reducing emissions from the land use, land-use change and forestry sector** to strengthen the carbon sink by taking action to increase forest growth and limit soil emissions;

- **making further progress to decarbonise industry and transport,** including by promoting investment in electrification and decarbonisation as well as in green technologies to meet the 2035 target for carbon neutrality;

- **speeding up the circular economy transition** by ensuring sufficient ambition for the Circular Economy Act and taking action to reduce waste and promote recycling and reuse;

- **ensuring that the reform of healthcare and social services enhances cost efficiency, while guaranteeing access and quality,** including in long-term care, by improving collection and use of data and more efficient budgetary and administrative management of the wellbeing service counties;

- **ensuring that the ongoing reform of social protection reduces complexity and improves incentives to work** with particular attention to vulnerable groups and interactions with public employment services including active labour market policies;

- **tackling structural unemployment, supporting the labour market transformation and addressing skills shortages,** notably in R&D, the green transition, ICT, and the health and education sectors, by increasing higher education participation and attainment, encouraging reskilling and upskilling, and better attracting and retaining talent;

- **addressing persistent negative trends in basic education,** notably the increase in the underachievement rate, taking into account the performance of students from less advantaged backgrounds.

ANNEXES

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ANNEX 1: FISCAL SURVEILLANCE AND DEBT SUSTAINABILITY

This Annex contains a series of tables relevant for the assessment of the fiscal situation in Finland, including how Finland is responding to Council recommendations issued under the reformed Economic Governance Framework.

The reformed framework, which entered into force on 30 April 2024([46]), aims to strengthen debt sustainability and promote sustainable and inclusive growth through growth-enhancing reforms and priority investments. The medium-term fiscal-structural plans (hereinafter, MTPs or plans) constitute the cornerstone of the framework, setting the budgetary commitment of Member States over the medium term. The latter is defined in terms of net expenditure growth, which is the single operational indicator for fiscal surveillance.

Finland submitted its plan on 10 October 2024. The plan covers the period until 2028, and presents an extended fiscal adjustment over seven years, which is underpinned by a set of reforms and investments to which Finland committed with the aim of improving potential growth and fiscal sustainability. On 21 January 2025, the Council adopted the Recommendation endorsing Finland's plan.([47])

The assessment of the implementation of the Council Recommendation endorsing the Finland's plan is carried out on the basis of outturn data from Eurostat and the Commission Spring 2025 Forecast and taking into account the Annual Progress Report (APR), that Finland submitted on 30 April 2025. Furthermore, given Finland's request to activate the National Escape Clause([48]) following the Commission Communication of 19 March 2025([49]), the assessment also considers, as appropriate, the projected increase in defence expenditure based on the Commission Spring 2025 Forecast.

The Annex is organised as follows. First, developments in **government deficit and debt** are presented based on the figures reported in Table A1.1. Then, the assessment of the **implementation of the Council Recommendation endorsing the plan** follows, based on the relevant figures presented in Tables A1.2 to A1.8, including data on defence expenditure. Further on, the progress made in the **implementation of the set of reforms and investments** underpinning the extension of the fiscal adjustment period([50]) is assessed, taking into account the information presented in Table A1.9.

The Annex also provides information on the **cost of ageing** and the **national fiscal framework**. Fiscal sustainability risks are discussed in the Debt Sustainability Monitor 2024.([51])

([46]) Regulation (EU) 2024/1263 of the European Parliament and of the Council (EU) on the effective coordination of economic policies and on multilateral budgetary surveillance, together with the amended Regulation (EC) No 1467/97 on the implementation of the excessive deficit procedure, and the amended Council Directive 2011/85/EU on the budgetary frameworks of Member States are the core elements of the reformed EU economic governance framework.

([47]) OJ C, C/2025/656, 10.02.2025, ELI: http://data.europa.eu/eli/C/2025/656/oj

([48]) On 30 April 2025, Finland requested to the Commission and to the Council the activation of the National Escape Clause. On this basis, the Commission adopted a Recommendation for a Council Recommendation allowing Finland to deviate from, and exceed, the net expenditure path set by the Council COM(2025)606.

([49]) Communication from the Commission accommodating increased defence expenditure within the Stability and Growth Pact of 19 March 2025, C(2025) 2000 final.

([50]) According to the Regulation., the required fiscal adjustment (in particular to put or keep the government debt ratio on a plausible downward path by the end of the adjustment period or keep it at prudent levels below 60% of GDP; and to bring or maintain the deficit below 3% of GDP over the medium term) should be completed in four years but may be extended over a period to up seven years if the Member State commits to a relevant set of reforms and investments. The adjustment period of Finland has been extended to seven years based on the set of reforms and investments laid out in detail in Annex II of the Council recommendation endorsing the plan of Finland.

([51]) European Commission (2025) 'Debt Sustainability Monitor 2024,' *European Economy-Institutional Papers* 306.

Developments in government deficit and debt

Finland's government deficit amounted to 4.4% of GDP in 2024. Based on the Commission Spring 2025 Forecast, it is projected to decrease to 3.7% of GDP in 2025. The government debt-to-GDP ratio amounted to 82.1% at the end of 2024 and, according to the Commission, it is projected to increase to 85.6% end-2025.

Table A1.1: **General government balance and debt**

	Variables		2024	2025		2026	
			Outturn	APR	COM	APR	COM
1	General government balance	% GDP	-4.4	-3.8	-3.7	n.a.	-3.4
2	General government gross debt	% GDP	82.1	85.3	85.6	n.a.	87.5

Source: Commission Spring 2025 Forecast (COM), Annual Progress Report (APR)

Developments in net expenditure

The net expenditure([52]) growth of Finland in 2025 is forecast by the Commission([53]) to be below the recommended maximum. Considering 2024 and 2025 together, the cumulative growth rate of net expenditure is also projected below the recommended maximum cumulative growth rate.

Table A1.2: **Net expenditure growth**

	Annual			Cumulative*		
	REC	APR	COM	REC	APR	COM
	Growth rates					
2024	n.a.	3.2%	3.1%	n.a.	n.a.	n.a.
2025	1.6%	1.6%	1.3%	5.3%	4.9%	4.4%
2026	1.9%	n.a.	1.5%	7.4%	n.a.	6.0%

* The cumulative growth rates are calculated by reference to the base year of 2023.

Source: Council Recommendation endorsing the national medium-term fiscal-structural plan of Finland (Rec.), Annual Progress Report (APR) and Commission's calculations based on Commission Spring 2025 Forecast (COM).

General government defence expenditure in Finland amounted to 1.2% of GDP in 2021, 1.2% of GDP in 2022 and 1.4% of GDP in 2023([54]). According to the Commission 2025 Spring Forecast, expenditure on defence is projected at 1.5% of GDP in 2024 and 2.1% of GDP in 2025.

([52]) Net expenditure is defined in Article 2(2) of Regulation (EU) 2024/1263 as government expenditure net of (i) interest expenditure, (ii) discretionary revenue measures, (iii) expenditure on programmes of the Union fully matched by revenue from Union funds, (iv) national expenditure on co-financing of programmes funded by the Union, (v) cyclical elements of unemployment benefit expenditure, and (vi) one-off and other temporary measures.

([53]) European Commission Spring 2025 Forecast, European Economy-Institutional paper 318, May 2025.

([54]) Eurostat, government expenditure by classification of functions of government (COFOG).

Table A1.3: **Net expenditure (outturn and forecast), annual and cumulated deviations vis-à-vis the recommendation**

	Variables		2023	2024	2025	2026
			Outturn	Outturn	COM	COM
1	Total expenditure	bn NAC	152.6	159.2	163.3	167.1
2	Interest expenditure	bn NAC	3.2	4.3	4.3	5.0
3	Cyclical unemployment expenditure	bn NAC	0.2	0.8	0.9	0.7
4	Expenditure funded by transfers from the EU	bn NAC	1.0	1.5	1.7	1.7
5	National co-financing of EU programmes	bn NAC	0.6	0.6	0.7	0.7
6	One-off expenditure (levels, excl. EU funded)	bn NAC	0.0	0.0	0.0	0.0
7=1-2-3-4-5-6	**Net nationally financed primary expenditure (before discretionary revenue measures, DRM)**	**bn NAC**	**147.5**	**151.9**	**155.8**	**159.0**
8	Change in net nationally financed primary expenditure (before DRM)	bn NAC		4.4	3.9	3.2
9	DRM (excl. one-off revenue, incremental impact)	bn NAC		-0.2	2.0	0.8
10=8-9	**Change in net nationally financed primary expenditure (after DRM)**	**bn NAC**		**4.6**	**1.9**	**2.4**
11	Outturn / forecast net expenditure growth	% change		3.1%	1.3%	1.5%
12	Recommended net expenditure growth*	% change		3.7%	1.6%	1.9%
13=(11-12) x 7	Annual deviation	bn NAC		-0.9	-0.5	-0.6
14 (cumulated from 13)	Cumulated deviation	bn NAC		-0.9	-1.4	-2.0
15=13/17	**Annual balance**	**% GDP**		**-0.3**	**-0.2**	**-0.2**
16=14/17	**Cumulated balance**	**% GDP**		**-0.3**	**-0.5**	**-0.7**
17	p.m. Nominal GDP	bn NAC	272.8	276.2	283.9	292.4

* The growth rate for 2024 is not a recommendation but serves to anchor the base, as the latest year with outturn data when setting the net expenditure path is year 2023.

Source: Commission Spring 2025 Forecast and Commission's calculation

Table A1.4: **Defence expenditure and the national escape clause**

			2021	2022	2023	2024	2025	2026
1	Rec. net expenditure growth after removing safeguards	% change					2.6%	2.7%
2	Flexibility from removing the safeguards	bn NAC					1.5	1.2
3	Flexibility from removing the safeguards	% GDP					0.5	0.4
4	Total defence expenditure	% GDP	1.2	1.2	1.4	1.5	2.1	2.0
5	*of which: gross fixed capital formation*	% GDP	0.1	0.2	0.1	0.1	0.7	0.6
6	Flexibility from increases in defence expenditure	% GDP					0.9	0.8
7	**Cumulated balance after flexibility**	**% GDP**					**-1.9**	**-1.9**

Source: Eurostat (COFOG), Commission Spring 2025 Forecast and Commission's calculation

Table A1.5: **Macroeconomic developments and forecasts**

	Variables		2024	2025		2026	
			Outturn	APR	COM	APR	COM
1=7+8+9	**Real GDP**	**% change**	**-0.1**	**1.3**	**1.0**	**n.a.**	**1.3**
2	Private consumption	% change	-0.1	1.2	0.5	n.a.	1.6
3	Government consumption expenditure	% change	0.7	-0.3	-0.2	n.a.	-0.1
4	Gross fixed capital formation	% change	-7.1	6.5	3.5	n.a.	3.0
5	Exports of goods and services	% change	0.1	2.9	2.5	n.a.	2.4
6	Imports of goods and services	% change	-2.4	3.9	2.6	n.a.	2.9
	Contributions to real GDP growth						
7	- Final domestic demand	pps	-1.5	1.9	1.0	n.a.	1.5
8	- Change in inventories	pps	0.6	-0.1	0.0	n.a.	0.0
9	- Net exports	pps	1.1	-0.4	0.0	n.a.	-0.2
10	Output gap	% pot GDP	-2.9	-2.2	-2.5	n.a.	-1.7
11	Employment	% change	-0.6	0.2	0.2	n.a.	0.5
12	Unemployment rate	%	8.4	8.8	8.6	n.a.	8.3
13	Labour productivity	% change	0.4	1.2	0.8	n.a.	0.7
14	HICP	% change	1.0	1.9	1.7	n.a.	1.5
15	GDP deflator	% change	1.4	2.2	1.8	n.a.	1.7
16	Compensation of employees per head	% change	0.5	3.9	2.3	n.a.	2.3
17	Net lending/borrowing vis-à-vis the rest of the world	% GDP	-0.9	n.a.	-0.8	n.a.	-0.8

Source: Commission Spring 2025 Forecast (COM), Annual Progress Report (APR)

Table A1.6: **General government budgetary position**

	Variables (% GDP)	2024	2025		2026	
		Outturn	APR	COM	APR	COM
1=2+3+4+5	**Revenue**	**53.2**	**53.3**	**53.8**	**n.a.**	**53.7**
	of which:					
2	- Taxes on production and imports	13.9	14.2	14.2	n.a.	14.5
3	- Current taxes on income, wealth, etc.	16.0	15.8	16.2	n.a.	16.1
4	- Social contributions	11.8	12.1	12.0	n.a.	11.8
5	- Other (residual)	11.4	11.2	11.5	n.a.	11.3
8=9+16	**Expenditure**	**57.6**	**57.1**	**57.5**	**n.a.**	**57.2**
	of which:					
9	- Primary expenditure	56.1	55.6	56.0	n.a.	55.4
	of which:					
10	- Compensation of employees	13.4	13.4	13.5	n.a.	13.5
11	- Intermediate consumption	11.6	11.4	11.3	n.a.	11.0
12	- Social payments	22.4	22.1	22.2	n.a.	22.0
13	- Subsidies	1.2	1.2	1.2	n.a.	1.2
14	- Gross fixed capital formation	4.4	4.8	4.9	n.a.	4.8
15	- Other	3.0	2.7	2.9	n.a.	2.9
16	- Interest expenditure	1.6	1.5	1.5	n.a.	1.7
18=1-8	**General government balance**	**-4.4**	**-3.8**	**-3.7**	**n.a.**	**-3.4**
19=1-9	**Primary balance**	**-2.8**	**-2.3**	**-2.2**	**n.a.**	**-1.7**
20	Cyclically adjusted balance	-2.7	n.a.	-2.3	n.a.	-2.5
21	One-offs	0.0	0.0	0.0	n.a.	0.0
22=20-21	**Structural balance**	**-2.7**	**-2.5**	**-2.3**	**n.a.**	**-2.5**
23=22+16	Structural primary balance	-1.1	-1.0	-0.8	n.a.	-0.7

Source: Commission Spring 2025 Forecast (COM), Annual Progress Report (APR)

Table A1.7: **Debt developments**

	Variables	2024	2025		2026	
		Outturn	APR	COM	APR	COM
1	**Gross debt ratio* (% of GDP)**	**82.1**	**85.3**	**85.6**	**n.a.**	**87.5**
2=3+4+8	Change in the ratio (pps. of GDP)	4.5	3.3	3.5	n.a.	1.9
	Contributions**					
3	**Primary balance**	**2.8**	**2.3**	**2.2**	**n.a.**	**1.7**
4=5+6+7	**'Snow-ball' effect**	**0.6**	**-1.3**	**-0.7**	**n.a.**	**-0.8**
	of which:					
5	- Interest expenditure	1.6	1.5	1.5	n.a.	1.7
6	- Real growth effect	0.1	-1.1	-0.8	n.a.	-1.1
7	- Inflation effect	-1.1	-1.8	-1.5	n.a.	-1.4
8	**'Stock-flow' adjustment**	**1.1**	**2.3**	**2.0**	**n.a.**	**1.0**

* End of period.
** The 'snow-ball' effect captures the impact of interest expenditure on accumulated general government debt, as well as the impact of real GDP growth and inflation on the general government debt-to-GDP ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting (including leads and lags in Recovery and Resilience Facility grant disbursements), accumulation of financial assets, and valuation and other residual effects.
Source: Commission Spring 2025 Forecast and Commission's calculation (COM), Annual Progress Report (APR)

Table A1.8: **RRF – Grants**

	Revenue from RRF grants (% of GDP)							
		2020	2021	2022	2023	2024	2025	2026
1	RRF grants as included in the revenue projections	n.a.	0.0	0.0	0.1	0.1	0.2	0.2
2	Cash disbursements of RRF grants from EU	n.a.	0.0	0.1	0.0	0.1	0.2	0.3

	Expenditure financed by RRF grants (% of GDP)							
		2020	2021	2022	2023	2024	2025	2026
3	Total current expenditure	0.0	0.0	0.0	0.1	0.1	0.2	0.2
4	Gross fixed capital formation	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5	Capital transfers	0.0	0.0	0.0	0.0	0.0	0.1	0.1
6=4+5	Total capital expenditure	0.0	0.0	0.0	0.0	0.0	0.1	0.1

	Other costs financed by RRF grants (% of GDP)							
		2020	2021	2022	2023	2024	2025	2026
7	Reduction in tax revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0
8	Other costs with impact on revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0
9	Financial transactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Annual Progress Report

Implementation of the set of reforms and investments underpinning the extension of the adjustment period

Table A1.9 includes information on progress towards implementation of the set of reforms and investments underpinning the extension of the adjustment period that Finland committed to deliver in its medium-term fiscal-structural plan as endorsed by the Council.

Taking into account the information provided by Finland in its Annual Progress Report, the Commission finds that the set of reforms and investments underpinning the extension that were due by 30 April 2025 has been implemented. (for details, see Table A1.9).

The R&I underpinning an extension of the adjustment period include the reform introducing the general social security benefit and the reform of social assistance, the adjustments to the functions and procedures of the established Wellbeing Services Counties, as well as several measures from the Finnish RRP related to labour markets, healthcare, innovation and the green transition. The reform introducing the general social security benefit aims to clarify and simplify the system of social security benefits and better identify persons qualifying for support. The reform of social assistance aims to improve incentives to work among social assistance recipients by linking the conditionality of social assistance more clearly with the conditions attached to unemployment security. The adjustments to the functions and procedures of the established Wellbeing Services Counties are a set of measures aimed at ensuring the appropriate provision of services while safeguarding sound financial management.

The reform introducing the general social security benefit and the reform of social assistance are on track to reach their objectives according to the APR, namely to produce impact assessments by Q3 2025, to hold stakeholder consultations by Q3 2025, and to vote the relevant legislation by Q4 2025.

The adjustments to the functions and procedures of the established Wellbeing Services Counties has achieved two of its objectives, namely holding stakeholder consultations by Q2 2024, and the entry into force of relevant legislative amendments concerning minimum staffing requirements and client fees by Q4 2025. According to the APR, counties are also on track to prepare plans to reduce costs and improve efficiencies by Q4 2025. Regarding the objective to correct the deficit incurred by the Wellbeing Services Counties and streamline their range of services in specialised medical care by Q4 2026, the APR highlights that the government monitors the situation and is prepared to increase its steering of the counties if they appear unable to correct their deficits.

Table A1.9: **Implementation of reforms and investments underpinning an extension**

Measure	**Key steps**	**Recommended implementation date**	**Status** (COM's assessment)
Introduction of the Nordic model of employment services	Entry into force of the Act on Public Employment and Business Services	Q2 2022	Completed *
	Increase in the annual number of job search interviews	Q4 2023	Completed **
	Digital functionalities integrated	Q4 2023	Completed **
Removal of additional days of unemployment allowance	Entry into force	Q2 2023	Completed **
Preparation of the social welfare and health care reform in support of implementing the care guarantee	Entry into force of the initial legal framework	Q3 2021	Completed *
	Entry into force of the additional legal framework	Q1 2023	Completed **
	Operationalisation of regional welfare areas	Q2 2023	Completed **
Introducing digital innovation in social and healthcare	Increase of the share of population using social welfare and health care e-services	Q4 2025	
Investments in new energy technologies	Publication of the first call for applications	Q4 2021	Completed *
	Award of all grants	Q4 2023	Completed **
	Completion of at least 4 supported projects	Q2 2026	
Low-carbon hydrogen and carbon capture and utilisation	First national call for applications	Q4 2021	Completed *
	Implementing Agreement	Q4 2025	
	Ministry has completed the investment	Q2 2026	
	Legal agreements signed	Q2 2026	Completed **
	Transfer of 127 MEUR to Business Finlandas	Q2 2026	
Re-use and recycling of key materials and industrial side stream	First call for applications	Q4 2021	Completed *
	Award of all grants	Q4 2023	Completed **
	Completion of 10 supported projects	Q2 2026	
RDI funding package promoting the green transition – Leading companies	Publication of a call for applications	Q2 2022	Completed *
	Award of 5 grants	Q4 2023	Completed **
	90% of projects completed	Q4 2025	
Energy infrastructure investments	Publication of the first call for applications	Q4 2021	Completed *
	Award of all grants	Q4 2024	Completed **
	Completion of at least 4 projects	Q2 2026	
Adjustments to the functions and procedures of the established wellbeing services counties	Stakeholder consultations	Q2 2024	Completed
	Setting up of plans	Q4 2025	
	Entry into force of relevant legislative amendments	Q4 2025	Completed
	Correction of the deficits	Q4 2026	
Comprehensive reform of social assistance	Impact assessment	Q3 2025	
	Stakeholders consultation	Q3 2025	
	Legislation voted	Q4 2025	
Comprehensive reform of social security and the general benefit model	Impact assessment	Q3 2025	
	Stakeholders consultation	Q3 2025	
	Legislation voted	Q4 2025	

The progress of each backward-looking key step (i.e., those scheduled for completion by 30 April 2025) is classified as either 'completed' or 'not completed'. The status of forward-looking key steps not yet completed remains blank, as these will be assessed by the Commission in future APRs.
* These key steps correspond to milestones/targets 3, 6, 16, 22, 77, 100 and 133 of Finland's RRP, which has been assessed as fulfilled as part of a payment request under the RRF.
** These key steps correspond to milestones/targets 4, 7, 18, 23, 101, 78, 79, 80 and 134 of Finland's RRP, whose assessment is still pending in the context of a payment request under the RRF and the table does not prejudge its assessment.
Source: Finland's Annual Progress Report and Commission's assessment

Cost of ageing

Total age-related spending in Finland is projected to rise from about 27% of GDP in 2024 to 29% in 2070 (see Table A1.100**).** The overall increase by 2070 is due to rising spending on long-term care and, to a lesser extent, higher pension and healthcare expenditure. Compared to 2024, the pension expenditure-to-GDP ratio would fall by 0.6 pps of GDP in 2040. Thereafter, an increase is expected, with spending 0.8 pps of GDP higher by 2070 compared with 2024. At about 14% of GDP in 2070, Finland would be among the Member States with the highest pension outlays.

Public healthcare ([55]) expenditure is projected at 6.2% of GDP in 2024 (below the EU average of 6.6%) and is expected to increase by 0.3 pps by 2040 and by a further 0.3 pps by 2070.

Public expenditure on long-term care is projected at 2.1% of GDP in 2024 (above the EU average of 1.7%) and is expected to increase by 0.9 pps of GDP by 2040 and by a further 0.9 pps of GDP by 2070 ([56]). This increase in long-term care expenditure contributes to fiscal sustainability risks. The policy measures implemented to improve efficiency by the Finnish Authorities and the further scope for improvements are described in detail in the 'Skills, Quality Jobs And Social Fairness' section.

Table A1.10:**Projected change in age-related expenditure in 2024-2040 and 2024-2070**

	age-related expenditure 2024 (% GDP)	change in 2024-2040 (pps GDP) due to: pensions	healthcare	long-term care	education	total	age-related expenditure 2040 (%GDP)	
FI	26.8	-0.6	0.3	0.9	-0.7	**-0.1**	26.7	FI
EU	24.3	0.5	0.3	0.4	-0.3	**0.9**	25.2	EU

	age-related expenditure 2024 (% GDP)	change in 2024-2070 (pps GDP) due to: pensions	healthcare	long-term care	education	total	age-related expenditure 2070 (%GDP)	
FI	26.8	0.8	0.6	1.8	-1.0	**2.3**	29.0	FI
EU	24.3	0.2	0.6	0.8	-0.4	**1.3**	25.6	EU

Source: 2024 Ageing Report (EC/EPC).

National fiscal framework

The Finnish Independent Fiscal Institution (IFI) has a relatively narrow mandate focusing on monitoring compliance with fiscal rules. Despite being a euro area Member State, the NAOF only *assesses* the government forecasts and does not produce forecasts of its own. It is embedded into the Audit Office, which provides horizontal services. The staffing and resources seem to be sufficient for its current tasks and no serious information access issues have been reported, but the internal allocation of funds from the NAOF budget to the IFI function is not planned to change in nominal terms over the 2025-2028 period, despite new tasks being assigned to IFIs in the EU legislation. The NAOF is keeping a fairly low media profile and government reactions to IFI recommendations are not well publicised.

([55]) Key performance characteristics, recent reforms and investments are discussed in Annex 11 'Health and health systems'

([56]) The quality and the accessibility of the long-term care system are covered in Annex 9 'Social policies'.

Table A1.11:**Fiscal Governance Database Indicators**

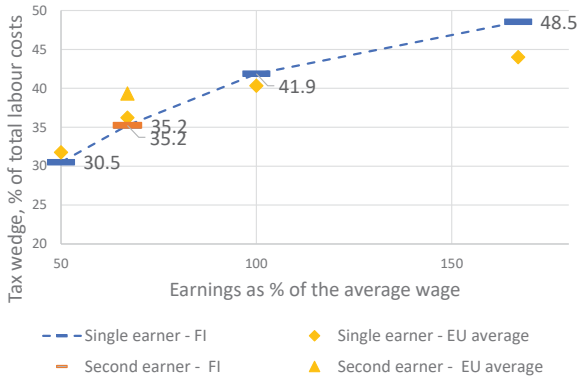
2023	Finland	EU Average
Country Fiscal Rule Strength Index (C-FRSI)	13.80	14.52
Medium-Term Budgetary Framework Index (MTBFI)	0.83	0.73

The Country Fiscal Rule Strength Index (C-FRSI) shows the strength of national fiscal rules aggregated at the country level based on i) the legal base, ii) how binding the rule is, iii) monitoring bodies, iv) correction mechanisms, and v) resilience to shocks. The Medium-Term Budgetary Framework Index (MTBFI) shows the strength of the national MTBF based on i) coverage of the targets/ceilings included in the national medium-term fiscal plans; ii) connectedness between these targets/ceilings and the annual budgets; iii) involvement of the national parliament in the preparation of the plans; iv) involvement of independent fiscal institutions in their preparation; and v) their level of detail. A higher score is associated with higher rule and MTBF strength.
Source: Fiscal Governance Database

This annex provides an indicator-based overview of Finland's tax system. It includes information on: (i) the tax mix; (ii) competitiveness and fairness aspects of the tax system; and (iii) tax collection and compliance.

Finland's tax revenues as a share of GDP in 2023 are among the highest in the EU, although on a declining trend. Finland's tax revenues as share of GDP are higher than those of the EU-27 for most revenue sources. As shown in Table A2.1, the overall tax burden in Finland was 42.6% in 2023 (-0.8 pp), compared with 39% in the EU-27. The overall tax burden has been declining for the third consecutive year, although it is still higher than in 2010.

Graph A2.1: **Tax wedge for single and second earners, % of total labour costs, 2024**

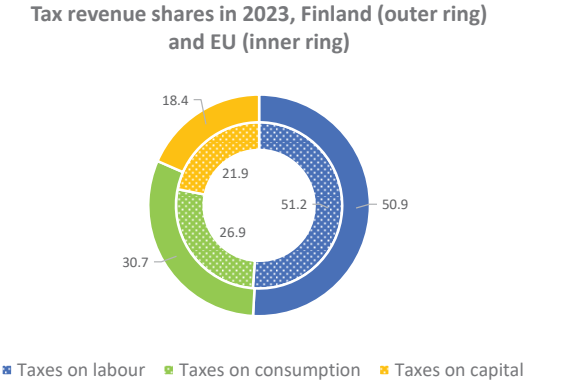


The tax wedge for second earners assumes a first earner at 100% of the average wage and no children. For the full methodology, see OECD, 2016, Taxing Wages 2014-2015.
Source: European Commission

Finland's labour-tax burden is close to the EU average for low-wage earners but above the EU average for median and high-income earners. Graph A2.1 shows the labour tax wedge for Finland in 2024. The labour tax wedge for Finland in 2024 was around the EU average for single people earning 50% of the average wage (30.5% vs 31.8% for the EU-27) but above the EU average for single people earning 100% of the average wage (41.9% vs 40.3% for the EU-27) and those earning 167% of the average wage (48.5% vs 44% for the EU-27). Aggregate tax expenditures make up a significant share of personal income tax revenue in Finland. A recent study shows that simulated tax expenditures in areas such as employment, housing, education, health and family could reduce government revenues from personal income taxation by up to 19% or 2.4% of GDP ([57]).

Labour taxation in Finland is on average more progressive than in the EU. This is due to its higher tax wedge ratio between high and low-income earners (a measure of the progressivity of labour taxation) ([58]). Overall, the tax-benefit system contributes significantly to the low level of income inequality in Finland. In 2023, it reduced the Gini coefficient (a measure of income inequality) by 11.3 pps, compared to an EU average reduction of 7.7 pps (see Table A2.1).

Graph A2.2: **Tax revenue shares in 2023**



Source: Taxation Trends Data, DG TAXUD

Recent tax reforms have further shifted the tax burden from labour to consumption. Several recent minor reforms of the personal income tax, which entered into force in January 2024, have reduced the tax burden on labour. Specifically, the basic allowance and the earned income tax credit have been increased. In addition, the earned income tax-scale has been adjusted for inflation. In September 2024, the standard VAT rate was increased by 1.5 pp to 25.5%, one of the highest standard rates in the EU. From 2025, most goods and services currently subject to a reduced VAT rate of 10% will in the future be subject to a reduced VAT rate of 14%. Revenues from VAT are

([57]) Turrini, A., Guigue, J., Kiss, A., Leodolter, A., Van Herck, K., Neher, F., Leventi, C., Papini, A., Picos, F., Ricci, M. and F. Lanterna (2024). Tax Expenditures in the EU: Recent Trends & New Policy Challenges. Discussion Paper 212, European Commission

([58]) The tax wedge is defined as the sum of personal income taxes and employee and employer social-security contributions net of family allowances, expressed as a percentage of total labour costs (the sum of the gross wage and social-security contributions paid by the employer).

Table A2.1: **Taxation indicators**

		Finland					EU-27				
		2010	2021	2022	2023	2024	2010	2021	2022	2023	2024
Tax structure	Total taxes (including compulsory actual social contributions) (% of GDP)	40.6	43.5	43.4	42.6		37.8	40.2	39.7	39.0	
By tax base	Taxes on labour (% of GDP)	21.1	21.1	21.5	21.7		19.8	20.5	20.1	20.0	
	of which, social security contributions (SSC, % of GDP)	12.0	12.1	12.0	12.4		12.9	13.0	12.7	12.7	
	Taxes on consumption (% of GDP)	12.9	13.9	13.7	13.1		10.9	11.2	10.9	10.5	
	of which, value added taxes (VAT, % of GDP)	8.3	9.5	9.4	9.2		6.8	7.3	7.4	7.1	
	Taxes on capital (% of GDP)	6.5	8.5	8.2	7.9		7.1	8.5	8.7	8.5	
Some tax types	Personal income taxes (PIT, % of GDP)	12.0	13.0	13.0	12.7		8.6	9.6	9.4	9.3	
	Corporate income taxes (CIT, % of GDP)	2.4	2.8	3.0	2.8		2.2	2.9	3.2	3.2	
	Total property taxes (% of GDP)	1.1	1.7	1.6	1.5		1.9	2.2	2.1	1.9	
	Recurrent taxes on immovable property (% of GDP)	0.6	0.8	0.8	0.8		1.1	1.1	1.0	0.9	
	Environmental taxes (% of GDP)	2.7	2.5	2.5	2.3		2.5	2.4	2.1	2.0	
	Effective carbon rate in EUR per tonne of CO_2 equivalents	NA	93.5	NA	94.4		NA	86.0	NA	84.8	
Progressivity & fairness	Tax wedge at 50% of average wage (single person) (*)	33.5	32.5	32.5	32.4	30.5	33.9	31.8	31.5	31.5	31.8
	Tax wedge at 100% of average wage (single person) (*)	42.3	43.1	43.1	43.4	41.9	40.9	39.9	39.9	40.2	40.3
	Corporate income tax - effective average tax rates (1) (*)	24.8	19.4	19.4	19.4		21.3	19.3	19.1	18.9	
	Difference in Gini coefficient before and after taxes and cash social transfers (pensions excluded from social transfers) (2) (*)	11.7	12.2	13.2	11.3		8.6	8.2	7.9	7.7	
Tax administration & compliance	Outstanding tax arrears: total year-end tax debt (including debt considered not collectable) / total revenue (in %) (*)		4.5	4.3				35.5	32.6		
	VAT gap (% of VAT total tax liability, VTTL) (**)		3.0	5.2	6.0			6.6	7.0		

(1) Forward-looking effective tax rate (KPMG).
(2) A higher value indicates a stronger redistributive impact of taxation.
(*) EU-27 simple average.
(**) Forecast value for 2023. For more details on the VAT gap, see European Commission, Directorate-General for Taxation and Customs Union, VAT gap in the EU - 2024 report, https://data.europa.eu/doi/10.2778/2476549
For more data on tax revenues as well as the methodology applied, see the Data on Taxation webpage, https://ec.europa.eu/taxation_customs/taxation-1/economic-analysis-taxation/data-taxation_en.
Source: European Commission, OECD

thus expected to increase. Consumption is the largest tax base in Finland accounting for 30.7% of all tax revenues in 2023. As shown in Graph A2.2, this is considerably more than the EU average of 26.9% for consumption tax revenues.

While revenues from environmental taxes are declining, Finland is robustly pricing carbon emissions. Tax revenues from environmental taxes further declined in 2023 to 2.3% of GDP. However, revenues remain higher than in the EU (2.0% of GDP), where a similar declining trend can be observed. Excise duty rates on energy are set at specific nominal values without being indexed to the general price level. As a result, the tax burden and revenues in real terms decrease over time. Finland still prices carbon effectively, with one of the highest effective carbon rates in the EU at EUR 94.37 per tonne of CO_2-equivalent compared with the EU average of EUR 75.87.

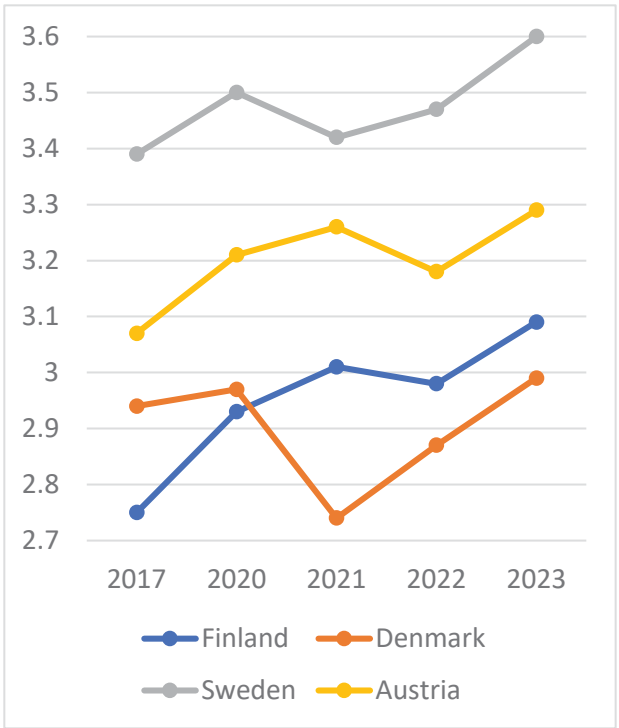
Finland's taxation system supports a competitive and innovative business environment. The statutory corporate income tax rate was 20% in 2023 (EU average 21.2%). The effective tax rate was 19.4% in 2023. The small difference between the statutory and effective rates indicates a transparent tax environment with limited exemptions, resulting in a tax system with limited distortions and administrative complexity. It is thus no surprise that Finland has one of the least complex tax systems in the EU (fourth place in the tax complexity index). Finland ranked 11th in the IMD 2023 World Competitiveness Ranking and, according to the EIB investment survey, only 9.5% of businesses see regulation and taxation as a major investment obstacle. This is one of lowest values in the EU, where the average is 25.1%. In 2023, Finland ranked among the top 5 EU Member States in total R&D expenditure with 3.09% of GDP, compared with an EU average of 2.25%. Direct public financing made up most of the support for business R&D expenditure in Finland. Support in the form of tax incentives was negligible at 0.0004% of GDP. In 2025 Finland has introduced a tax credit for investments that support green transition, in line with Finland's commitment to carbon neutrality by 2035.

The Finnish tax administration is characterised by high efficiency, extensive use of digital services and effective strategies to ensure compliance and reduce the shadow economy. These efforts contribute to a robust and transparent tax system with high levels of compliance. Finland's tax compliance costs as a percentage of turnover are relatively

low, ranking 8th in the EU. On tax compliance costs as a percentage of tax revenue collected, Finland performs even better, ranking 3rd in the EU. The VAT compliance gap increased by 0.8 pps to 6% in 2023, well below the EU-wide gap of 7.0% (2022 latest data). According to the 2024 VAT gap report, the VAT compliance gap in Finland has remained one of the lowest and most stable in the EU.

Finland is an innovation leader in the EU but needs to increase R&D investments and foster the competitiveness of its economy amidst growing global competition. According to the 2024 edition of the European Innovation Scoreboard ([59]), Finland's innovation performance stood at 127.8%, well above the EU average but behind Denmark and Sweden. A good uptake of advanced technologies by enterprises paves the way for business innovation. Finland's R&D intensity stood at 3.09% of GDP in 2023, up from 2.98% in 2022, but still well below the country's ambitious target of spending 4% of GDP on R&D. In addition to strengthened public R&D investments, meeting this target will require stimulating greater business R&D efforts, supported by strengthened academia-business cooperation.

Graph A3.1: **Gross domestic R&D expenditure as a percentage of GDP**



Source: Eurostat

Science and innovative ecosystems

Finland can count on a robust science base, supported by well-established programmes fostering scientific excellence. In 2021, Finnish-authored scientific publications within the top 10% most-cited worldwide stood at 11.7%, above the EU average but behind other EU innovation leaders such as the Netherlands, Denmark and Sweden. The main fields of publication have traditionally been ICT and electrical engineering, in addition to forestry. Scientific excellence is supported mainly by programmes managed by the Research Council of Finland, a governmental funding agency under the Ministry of Education and Culture. In 2023, it managed EUR 511 million of competitive funding, largely for basic research.

To nurture its science base and meet its own 4% of GDP target for R&D investment, Finland has committed to increasing public R&D funding in a steady and predictable manner until 2030. The Act on R&D funding, which entered into force in January 2023, provides for increasing public R&D expenditure every year until 2030, with a view to reaching a target of 1.2% of GDP. According to current estimates, the national R&D budget is expected to reach EUR 4.3 billion by 2030, i.e. an increase of EUR 1.9 billion over seven years. With a strong legal basis and specific financial commitments by the Government, Finland has key elements in place to make tangible progress towards its ambitious R&D expenditure target and the broader objective of putting R&I at the service of competitiveness.

Business innovation

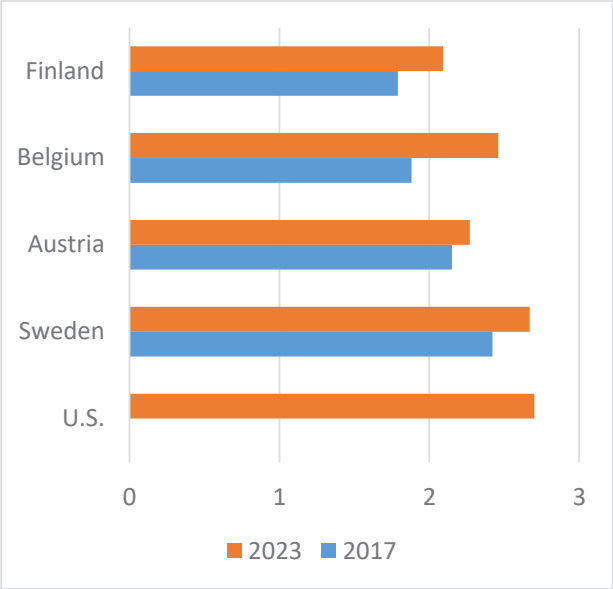
Finland has the highest proportion in the EU of innovative firms launching new products or services on the national or global market. The proportion of companies reporting such innovations was 26% in Finland, followed by Denmark at 23%, as compared to the EU average

([59]) 2024 European Innovation Scoreboard, country profile: Finland in 2024 European Innovation Scoreboard. The scoreboard provides a comparative analysis of innovation performance in EU countries, including the relative strengths and weaknesses of their national innovation systems (also compared to the EU average).

of 9% ([60]). Another indicator of the innovative attitude of Finnish enterprises is that they see opportunities in the transition to a net zero emission economy. Only 15% mainly saw risks (the lowest score in the EU, with an average of 34%).

Business R&D intensity needs to be increased. In 2023, business R&D intensity stood at 2.09%. This was well above the EU average of 1.49%, but below the investment levels of other top R&I performers in the EU and international competitors such as the US (see graph A3.2).

Graph A3.2: **Business R&D intensity**



Source: Eurostat

The ICT sector has traditionally been by far the largest contributor; this includes the banking sector, which invests in digital and mobile banking. To reach the national target of 4% of GDP for R&D investment, business R&D expenditure needs to increase by over 5% a year on average until 2030. This is an ambitious task which requires continuous and cross-cutting efforts, including in particular incentivising stronger business R&D efforts through a well-designed policy mix.

The uptake of digital technologies by enterprises offers good conditions for innovation. Finland has a significantly higher level of basic digital intensity for SMEs than the EU average (92.5% vs 72.9%). The same is true for the share of enterprises with advanced digital technologies (i.e. artificial intelligence, cloud computing and data analytics). Uptake of cloud computing (73%) and artificial intelligence (24.4%) is almost double the EU average. The size of the ICT sector in terms of gross value added is slightly above the EU average (5.8% vs 5.2% in 2020).

Finland is strengthening public support to business innovation, including through enhanced tax incentive schemes, but further efforts are needed. The level of public support for business R&D remains modest, amounting to 0.081% of GDP in 2022, well below the EU average (0.204%). For many years Finland did not provide any R&D tax incentives for companies, but in recent years it has been introducing and progressively strengthening this type of support to business R&D. In 2021, a temporary 50% tax deduction was introduced for businesses' R&D expenses on projects carried out in collaboration with universities or research institutions. The deduction was increased to 150 % in 2022. In 2023, a further tax incentive for R&D activities was introduced, consisting of a general deduction based on the amount of R&D expenses and, from 2024, a 45% additional deduction on any increase in R&D activities compared to the previous year. Going forward, assessing the efficiency of these instruments will be key.

The innovation support programme should be further strengthened. Business Finland has in recent years provided business innovation support for large-scale collaboration projects under the 'Veturi' ('Locomotive') programme. The programme supports innovation investments by various thematic ecosystems, each led by a large company, including EUR 100 million in grants from the Finnish recovery and resilience plan funded by the EU. The annual (e.g. grant and loan) funding volume of Business Finland was EUR 726 million in 2023, EUR 599million of which was directed to companies (56% of which were SMEs). The Veturi instrument helps stimulate and de-risk private R&D investments, while creating ecosystems around clear strategic goals. However, a recent evaluation of the scheme highlights some weaknesses, in part linked to the dominant role of the 'leading companies' (which creates transparency issues) ([61]).

([60]) EIB Investment Survey 2024 pages 15, 22.

([61]) Business Finland: Evaluation of Ecosystem Funding Instruments

Reinvigorating science-business cooperation will be key to foster innovation and boost competitiveness. Although most current R&I funding instruments either encourage or require public-private collaboration, the number of companies cooperating with higher education establishments or research institutes decreased in 2018-2020 compared to 2016-2018 ([62]). Reviving and stimulating academia-business collaboration has thus been identified as key priority by the Finnish authorities. An ongoing Horizon Europe policy support facility project, launched in 2024 at the request of Finland, will help identify any barriers to public-private collaboration in Finland's R&I ecosystem and provide a set of concrete and actionable recommendations to address this key challenge ([63]).

Financing innovation

Better access to local venture capital could provide further opportunities for growth. Finland has long been present on the international start-up stage, producing many globally successful firms. Nevertheless, while there are funds available for start-ups, the international expansion of firms is hampered by the modest size of local venture- capital funds. Moreover, cross-border barriers still deter foreign investment inflows, and taxation holds back the development of venture capital financing. Broadening retail investors' and pension funds' access to private equity could invigorate the market, democratise investment and expand the capital base for scale-ups. Strategic reforms addressing these challenges could significantly enhance Finland's innovation ecosystem, propelling economic growth and technological advancement.

Innovative talent

The shortage of skilled workers in the ICT sector negatively affects Finnish innovation and research capacity. There is a particularly high demand for ICT workers, but the number of new graduates in science and engineering has stagnated. In 2022, there were 17.7 graduates per thousand population aged 25-34, as compared to the EU average of 17.5.

Entrepreneurship education is implemented at all levels of the Finish education system, however there is still room for improvement in its systematic monitoring. Entrepreneurship education has been embedded in the National Core Curricula as a transversal and cross-curricular competence and it has been developed at the higher education level as well. Additionally, there are also successful nationwide programmes aiming at developing entrepreneurship skills from an early age. While in 2019 almost 30% of young people reported that they would like to try entrepreneurship at some stage in their career, the impacts of entrepreneurship education on students' motivations and actions are unknown, as assessment for the development of these skills is missing.

([62]) Kimmo Halme 'Support to Finland on improving R&D collaboration between research organisations and the private sector: Background report', European Commission 2024.

([63]) https://projects.research-and-innovation.ec.europa.eu/en/statistics/policy-support-facility/psf-country/support-finland-reforming-cooperation-framework-universities-and-research-institutions-business.

Table A3.1: **Key innovation indicators**

Finland	2012	2017	2020	2021	2022	2023	2024	EU average	USA
Headline indicator									
R&D intensity (gross domestic expenditure on R&D as % of GDP)	3,41	2,75	2,93	3,01	2,98	3,09	:	2,24	3,45
Science and innovative ecosystems									
Public expenditure on R&D as % of GDP	1,05	0,93	0,94	0,92	0,93	0,98	:	0,72	0,64
Scientific publications of the country within the top 10% most cited publications worldwide as % of total publications of the country	11,4	11,5	11,8	11,7	:	:	:	9,6	12,3
Researchers (FTEs) employed by public sector (Gov+HEI) per 1000 active population	6,4	6,2	6,3	6,0	6,4	6,7	:	4,2	:
International co-publications as % of total number of publications	51,0	60,1	64,1	65,5	64,8	64,3	:	55,9	39,3
R&D investment & researchers employed in businesses									
Business enterprise expenditure on R&D (BERD) as % of GDP	2,34	1,79	1,96	2,07	2,03	2,09	:	1,49	2,7
Business enterprise expenditure on R&D (BERD) performed by SMEs as % of GDP	0,51	0,62	0,72	0,73	0,64	:	:	0,40	0,30
Researchers employed by business per thousand active population	8,8	7,9	9,4	10,1	10,0	10,2	:	5,7	:
Innovation outputs									
Patent applications filed under the Patent Cooperation Treaty per billion GDP (in PPS €)	10,4	8,0	7,5	7,6	6,1	:	:	2,8	:
Employment share of high-growth enterprises measured in employment (%)	:	19,23	15,63	:	:	:	:	12,51	:
Digitalisation of businesses									
SMEs with at least a basic level of digital intensity % SMEs (EU Digital Decade target by 2030: 90%)	:	:	:	:	89,49	:	92,51	72,91	:
Data analytics adoption % enterprises (EU target by 2030: 75%)	:	:	:	:	:	40,55	:	33,17	:
Cloud adoption % enterprises (EU target by 2030: 75%)	:	:	:	66,28	:	72,99	:	38,86	:
Artificial intelligence adoption % enterprises (EU target by 2030: 75%)	:	:	:	15,79	:	15,10	24,37	13,48	:
Academia-business collaboration									
Public-private scientific co-publications as % of total number of publications	12,4	12,4	12,1	12,5	12,1	11,8	:	7,7	8,9
Public expenditure on R&D financed by business enterprise (national) as % of GDP	0,068	0,039	0,036	0,036	0,035	:	:	0,050	0,020
Public support for business innovation									
Total public sector support for BERD as % of GDP	0,082	0,075	0,093	0,089	0,081	:	:	0,204	0,251
R&D tax incentives: foregone revenues as % of GDP	0,000	0,000	0,000	0,000	0,001	0,013	:	0,102	0,141
BERD financed by the public sector (national and abroad) as % of GDP	0,082	0,075	0,093	0,088	0,080	:	:	0,100	0,110
Financing innovation									
Venture capital as a % of GDP (calculated as a 3-year moving average)	0,046	0,059	0,130	0,148	0,153	0,112	:	0,074	:
Seed stage funding share (% of total venture capital)	5,4	10,1	6,6	7,9	10,2	15,5	:	7,3	:
Start-up stage funding share (% of total venture capital)	65,4	57,3	36,5	35,3	38,6	45,6	:	44,0	:
Later stage funding share (% of total venture capital)	29,2	32,6	56,9	56,8	51,2	38,9	:	48,7	:
Innovative talent									
New graduates in science and engineering per thousand population aged 25-34	21,4	16,7	18,4	17,5	17,7	:	:	17,5	:
Graduates in the field of computing per thousand population aged 25-34	2,32	5,02	6,74	6,41	6,68	:	:	3,62	:

(1) EU average for the last available year or the year with the largest number of country data

Source: Eurostat, DG JRC, OECD, Science-Metrix (Scopus database), Invest Europe, European Innovation Scoreboard

Finland faces a challenging economic environment but has a solid base to build on, excelling in infrastructure, regulatory framework and basic skills. Finland is generally considered to be a competitive place to do business. However, a low level of EU trade integration limits the opportunities of Finnish companies while investment uncertainty, the availability of skilled labour and demand challenges affect competitiveness and private investment as a proportion of GDP continues to decrease.

Economic framework conditions

The weak economic situation in Finland is putting a strain on businesses. Real GDP contracted in 2024, and Finland has one of the lowest private and public investment rates (NFCF) ([64]) of any EU Member State. Private investment and exports remained weak in 2024. SMEs in particular estimate they will need to reduce investment ([65]) despite an overall increase in the proportion of firms that have invested in the past year and that expect to invest in future ([66]). Uncertainty about the future was reported as the biggest obstacle to investment in the EIB Investment Survey 2024, with demand for products and services also seen as an obstacle ([67]). In fact, 65% of Finnish companies saw demand as an obstacle to investment and 26% considered it to be a major obstacle, both above EU average ([68]). Inward foreign direct investment in relation to GDP has been quite static at around 30% (29.9% in 2023) for the past three years, which is significantly lower than the EU average (84.1% in 2023) ([69]).

Fewer companies than before are actively constrained by labour shortages in Finland. Only 9.2% of Finnish companies reported being constrained by labour shortages in 2024 compared to 16.7% in 2023 ([70]). Finland also outperforms most EU countries, having the sixth lowest labour shortage percentage within the EU. However, the vacancy rate has decreased to 1.9% from last year's 2.3% ([71]) with the unemployment rate forecasted to increase to 8.4% in 2024, revealing the challenging business environment in Finland [see the Labour Market Annex].

Despite a fall in labour shortage constraints, the availability of skilled labour is still reported as a key obstacle to investment in Finland. In 2024, 72% of companies reported it as an investment obstacle, lower than both the previous year and the EU average ([72]), with 23% of companies calling it a major obstacle, again lower than the EU average ([73]). Nevertheless, the availability of skilled labour is the second highest investment barrier in Finland ([74]) and return to economic growth is likely to worsen the situation. The availability of skilled labour and experienced managers has been highlighted as the biggest challenge also for Finnish SMEs. Beyond the availability of skilled labour, production and labour cost were identified as prominent issues for SMEs ([75]).

The shortage of skilled labour can also impact innovation in Finland. Companies face increasing international competition to attract highly skilled employees capable of developing new technologies. The shortages could affect the effectiveness of Finland's target to increase R&D expenditure to 4% of GDP ([76])**.** While public R&D spending has been at a good level, Finland has been underperforming in public support to business research and innovation. Despite this, Finnish business R&D spending is quite high compared to other EU countries (136.7 of EU average) ([77]) and tax incentive schemes for

([64]) AMECO.

([65]) Suomen Yrittäjät PK-yritysbarometri Syksy 2024

([66]) EIB Investment Survey 2024 Country Overview: Finland

([67]) EIB Investment Survey 2024: European Union overview

([68]) EIB Investment Survey 2024 Country Overview: Finland

([69]) Eurostat

([70]) ECFIN BCS.

([71]) Eurostat

([72]) EIB Investment Survey 2024: European Union overview

([73]) EIB Investment Survey 2024 Country Overview: Finland

([74]) EIB Investment Survey 2024 Country Overview: Finland

([75]) SME Performance Review 2023/2024

([76]) Finnish Productivity Board - Productivity growth in a new environment : How will the green transition and geopolitics affect productivity?

([77]) European Innovation Scoreboard 2024 Country profile Finland

research and innovation activity should further boost investment, which did see a drop in 2024 ([78]) [see the Innovation to Business Annex]. Finland is behind its regional peer Sweden, in investment in intangible assets ([79]). Finnish firms reported that an average of 33% of their investment went to intangible assets in 2023, lower than the EU average of 38%. Finnish firms also expect to prioritise replacement investments over capacity expansion and new products and services, even more so than the EU average. Investment in Finland is largely financed internally ([80]) [see Capital Markets, Financial Stability and Access to Finance Annex].

Finland has a high degree of basic skills that are key to economic development and productivity, but continued focus on higher education is needed. The country was the highest ranked in a recent OECD survey on adult skills in all three categories: literacy, numeracy and adaptive problem solving. Finland is among the few countries to have improved literacy during the past decade in this survey ([81]). Financial literacy is also amongst the highest in the EU ([82]). A continued focus on education and skills development is vital for competitiveness, particularly considering the worsening PISA results. Finland also has a lower share of population (between 25-34 year olds) with tertiary education compared to the OECD average ([83]) [see Education and Skills Annex].

The prevalence of entrepreneurship skills in Finland is lower than the EU average. According to the OECD report: 'The missing entrepreneurs 2023', the self-employment rate is also lower than the EU average, while the share of people starting new businesses in Finland is similar to the EU average. However, the share of youth entrepreneurs is lower than the EU average ([84]) [see Education and Skills Annex].

Finland is very active in rolling out connectivity infrastructure. 5G coverage is already very close to 100% (98.4%), but fixed network coverage is slightly below the EU average (VHCN at 77.7% against the EU average of 78.8%), strongly influenced by the country's size and geography. The recovery and resilience plan supports the deployment of a broadband aid scheme to improve this result. Cybersecurity awareness in enterprises is increasing the resilience of digital infrastructures. The number of businesses that experienced ICT security incidents leading to unavailability of ICT services due to attack from outside increased in Finland, from 4.9% in 2022 to 7.2% in 2024 and remains above the EU average of 3.4%. Almost all (98.7%) businesses deployed some ICT security measures (above the EU average of 92.8%) but fewer businesses (74.8%) made their employees aware of their obligations in ICT security related issues, although this was still well above the EU average (60%).

Transport infrastructure is effective, and Finland outperformed regional peers in 2023. The Logistics Performance Index indicates a high performance, with Finland scoring highly in the infrastructure component ([85]). In the EIB Investment Survey only 23% of companies reported infrastructure to be an obstacle to investment (compared to EU average of 45%) ([86]) and Finland continues to excel in the world competitiveness rankings for infrastructure ([87]).

The late payments situation in Finland is worsening. The payment gap in B2B payments was 17.8 days in 2024, higher than the previous year and higher than the EU average (15.6 days) ([88]). For SMEs, the proportion of businesses that had experienced late B2B payments in the

([78]) Tutkimus- ja kehittämistoimintaan uusi verokannustin - Valtiovarainministeriö

([79]) Suomen talouden haaste numeroiden valossa - Sitra

([80]) EIB Investment Survey 2024 Country Overview: Finland

([81]) Do Adults Have the Skills They Need to Thrive in a Changing World? | OECD

([82]) Monitoring the level of financial literacy in the EU - July 2023 - Eurobarometer survey

([83]) Population with tertiary education | OECD

([84]) OECD report The Missing Entrepreneurs 2023

([85]) Logistics Performance Index (LPI)

([86]) EIB Investment Survey 2024 Country Overview: Finland

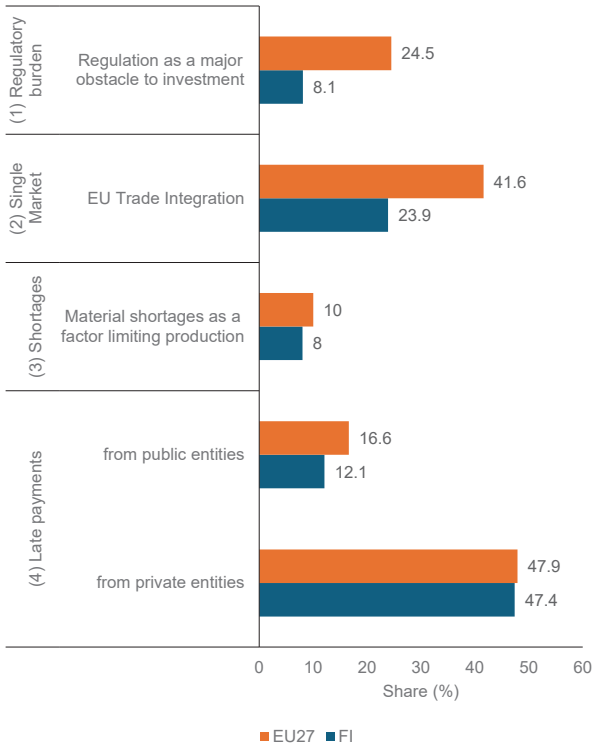
([87]) Finland - IMD business school for management and leadership courses

([88]) Intrum Payment Report

previous and current quarter was 47.4% in 2024, around the EU average ([89]).

In its new industrial policy strategy, published in December 2024, Finland outlines seven essential objectives to promote the growth of Finnish businesses. The objectives focus largely on (i) increasing private funding; (ii) promoting investment, particularly in intangible assets; (iii) supporting research and innovation policy; (iv) tapping into the opportunities of the clean transition and (v) ensuring the availability of skilled labour. Finland is also targeting investment in further developing infrastructure and logistics ([90]). Turning this strategy into concrete action is essential to securing Finland's place among the strongest performers on competitiveness on both the European and the global scale.

Graph A4.1: **Making Business Easier: selected indicators.**



Share of (1) enterprises, (2) average intra-EU exports and imports in GDP, (3) firms, (4) SMEs.
Sources: (1) EIB IS, (2) Eurostat, (3) ECFIN BCS, (4) SAFE survey.

([89]) SAFE Survey

([90]) Teollisuuspoliittinen strategia : Ohjausryhmän raportti - Työ- ja elinkeinoministeriö

Regulatory and administrative barriers

Reducing the administrative burden in Finland would improve the business environment. Less than half of companies consider business regulations (46%) and labour regulations (49%) as an obstacle to investment in Finland, lower than regional peers and the EU average ([91]). In 2024, 8.1% of Finnish companies reported regulation as a major obstacle, an increase to 2023 but still significantly less than the EU average of 24.5% ([92]). Further work is needed to reduce the administrative burden on businesses with Finland performing below the OECD average. There are also some barriers of entry and competition, especially in the service sectors. This is primarily due to regulatory constraints in the retail sale of medicines ([93]).

Other noteworthy barriers to business in Finland are permits and relatively high taxation. The streamlining of environmental permit procedures has been the focus of a measure in the Finnish RRP. On taxation, Finland has one of the highest estimated average costs for total tax compliance for SMEs, with the highest estimated average compliance cost for corporate income tax in the EU ([94]). Furthermore, Finland recently increased its VAT rate from 24 to 25.5% ([95]) [see Taxation Annex].

Single market

Finland has a declining and particularly low level of EU trade integration. The country has only a 24% EU trade integration level (measured as the average intra-EU imports and exports against GDP), which is particularly low for a small economy and around the sixth lowest within the EU ([96]). An above the EU average share of

([91]) EIB Investment Survey 2024: European Union overview

([92]) EIB Investment Survey 2024 Country Overview: Finland

([93]) OECD PMR country note Finland

([94]) Tax compliance costs for SMEs 2022

([95]) Vero - New VAT rate from 1 September 2024

([96]) Eurostat

exporters in Finland (70% vs EU 60%) also reported that they had to comply with differing standards and consumer protection rules across EU countries. This figure is 82% for exporters in manufacturing, signalling this fragmentation is particularly harmful for Finnish manufacturing companies ([97]).

Small companies participate less in international trade and trade in services faces some restrictions. Some 67% of Finnish companies participate in international trade, in line with the EU average. However, only 42% of Finnish micro and small companies take part in international trade, while the same figure is 79% for medium and large companies ([98]). Trade statistics demonstrate that Finnish SMEs account for a smaller share of intra-EU goods trade compared to EU average (36% vs EU 41%) and could hence be better integrated to the Single Market**.** Supporting Finnish businesses, in particular SMEs, in entering foreign markets is an important part of enabling companies to scale up their business. The Services Trade Restrictiveness Index in Finland is above the OECD average, particularly in the most restricted distribution sector ([99]). However, these restrictions are less present in intra-EEA trade as Finland has a quite low level of intra-EEA trade restrictions, for example in the computer services sector, while a higher relative degree of intra-EEA trade restrictions can be seen in air and road freight transport ([100]).

Sound compliance with EU single market legislation means that both the transposition and conformity deficit in Finland are better than the EU average. The percentage of incorrectly transposed directives (conformity deficit) continued to decrease, reaching 0.6% in 2024 (EU average 0.9%) with Finland having also one of the lowest transposition deficits in EU at 0.4% in 2024 (EU average 0.8%). Finland has the lowest number of single market infringement cases of any Member State, and their duration is slightly shorter than the EU average. In 2024, Finland solved 91.7% of the SOLVIT EU rights resolution cases it handled as lead centre (EU average, 84.9%) ([101]).

Finland has a fairly competition-friendly regulatory framework for professional services, despite the reported figure of around 90 generic and 230 specific regulated professions. Most of the professions in Finland are more competition-friendly than the OECD median, and Finland placed first for accountants and architects. However, some professions such as transport by rail and natural gas providers face quite stringent regulations ([102]).

Public procurement

Finland performs well on public procurement competition and transparency. Finland continues to be among top EU performers in the share of single bid awards, which has been fluctuating around 15% for the past five years. The percentage of direct awards was 5% in 2024, around EU average ([103]). However, there are cases of wrongful application of public procurement rules. One example mentioned by Finnish authorities is a too broad or even misinterpreted interpretation of application exemptions (in-house exemptions and the exception on research and development) ([104]).

Finland is one of the frontrunners in Europe and the world in applying strategic dimensions of public procurement and in setting up innovation goals for public procurement. Finland is actively promoting green, socially responsible and innovative public procurement and performing well in all three. For example, 48.3% of Finland's procurement volume was green in 2023 ([105]). This shows a very advanced understanding of strategic procurement, and a systemic approach.

([97]) EIB Investment Survey 2024 Country Overview: Finland

([98]) EIB Investment Survey 2024 Country Overview: Finland

([99]) OECD Services Trade Restrictiveness Index 2024 Finland

([100]) OECD Services Trade Restrictiveness Index 2024 Simulator

([101]) Country data: Finland | Single Market and Competitiveness Scoreboard

([102]) OECD PMR country note Finland

([103]) Commission internal

([104]) Country reports and information on EU countries - Finland- European Commission

([105]) Ministry of Finance data.

Key outstanding challenges on the uptake of strategic public procurement reported by Finland are linked to lack of capacity and skills among staff as well as insufficient policy guidance. Other significant barriers to further development are a lack of coordination and measurable targets at both the contracting authority and the category levels. In addition, effective monitoring of social criteria and enforcement mechanisms to address non-compliance cases remain a challenge.

KEINO Competence center established to support and help public contracting authorities with the development of sustainable and innovative procurement ended most of its activities during 2024. This might lead to a slowdown on the further uptake of the strategic public procurement. In 2024, the Finnish government launched a new initiative to update the Finnish National Public Procurement Data Repository. The project aims to set out a national framework for data collection and use in public procurement and is focused on producing a comprehensive, structured database for public procurement information in Finland.([104])

Table A4.1: **Making Business Easier: indicators.**

Finland							
POLICY AREA	**INDICATOR NAME**	**2020**	**2021**	**2022**	**2023**	**2024**	**EU-27 average**
Investment climate							
Shortages	Material shortage, firms facing constraints, %[1]	5.3	29.5	41.5	14.0	8.0	10.0
	Labour shortage, firms facing constraints, %[1]	9.0	16.1	24.4	16.7	9.2	20.2
	Vacancy rate, vacant posts as a % of all available ones (vacant + occupied)[2]	2.0	2.9	3.1	2.4	1.9	2.3
Infrastructure	Transport infrastructure as an obstacle to investment, % of firms reporting it as a major obstacle[3]	6.9	4.1	2.9	2.7	1.5	13.4
	VHCN coverage, %[4]	-	68.0	70.8	77.7	-	78.8
	FTTP coverage, %[4]	-	40.0	50.3	61.1	-	64.0
	5G coverage, %[4]	-	71.6	94.7	98.3	-	89.3
Reduction of regulatory and administrative barriers							
Regulatory environment	Impact of regulation on long-term investment, % firms reporting business regulation as a major obstacle[3]	7.5	9.9	9.5	5.4	8.1	24.5
Late payments	Payment gap - corporates B2B, difference in days between offered and actual payment[5]	16.9	12.8	9.9	14.4	17.8	15.6
	Payment gap - public sector, difference in days between offered and actual payment[5]	16.1	8.2	11.5	16.0	13.2	15.1
	Share of SMEs experiencing late payments, %*[6] — from public or private entities in the last 6 months	45.2	43.5	42.1	45.6	-	-
	Share of SMEs experiencing late payments, %*[6] — from private entities in the previous or current quarter	-	-	-	-	47.4	47.9
	Share of SMEs experiencing late payments, %*[6] — from public entities in the previous or current quarter	-	-	-	-	12.1	16.6
Single Market							
Integration	EU trade integration, % (Average intra-EU imports + average intra EU exports)/GDP[2]	20.2	22.5	26.5	24.6	23.9	41.6
	EEA Services Trade Restrictiveness Index[7]	0.040	0.040	0.040	0.040	0.050	0.050
Compliance	Transposition deficit, % of all directives not transposed[8]	0.6	0.8	0.9	0.4	0.4	0.8
	Conformity deficit, % of all directives transposed incorrectly[8]	1.2	1.1	1.3	1.0	0.6	0.9
	SOLVIT, % resolution rate per country[8]	81.8	90.9	83.3	80.0	91.7	84.9
	Number of pending infringement proceedings[8]	15.0	11.0	13.0	11.0	8.0	24.4
Public procurement							
Competition and transparency in public procurement	Single bids, % of total contractors**[8]	14	14	14	15	15	-
	Direct awards, %**[8]	3	3	3	3	5	7.0

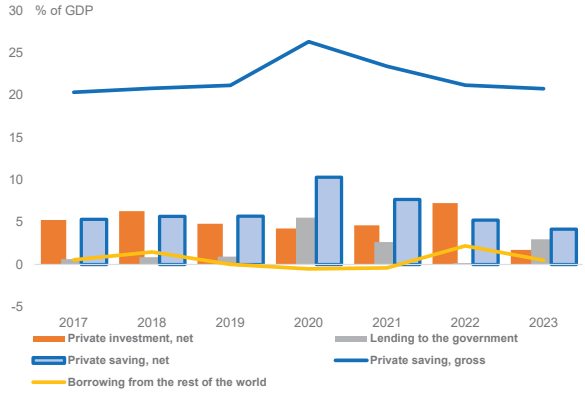
*Change in methodology in 2024: reporting late payments from public and private entities separately.
**The 2024 data on single bids is provisional and subject to revision. Please note that approximately 34% of the total data is currently missing, which may impact the accuracy and completeness of the information. Due to missing data, the EU average of direct awards data is calculated without Romania.
Sources: (1) ECFIN BCS, (2) Eurostat, (3) EIB IS, (4) Digital Decade Country reports, (5) Intrum Payment Report, (6) SAFE survey, (7) OECD, (8) up to 2023: Single Market and Competitiveness Scoreboard, 2024: Public procurement data space (PPDS).

Finland's economy enjoys a stable banking system, a pool of robust domestic savings and a relatively deep capital market. This environment supports corporate financing with local companies having an easy access to both equity and debt financing. Internal financing listed equities and bank loans remain the predominant sources of funding for the non-financial sector. Scarcity of funding is generally not considered as being an issue in Finland as only 6% of firms report obstacles when seeking to obtain a bank loan. The generally rather high financial literacy (though unevenly spread across the population) and widespread digital adoption fuel retail investor participation in the financial market and the growth of institutional investors. Both venture capital and private equity markets are well-regarded internationally. The diversity of local venture capital funds contributes to the success of various new ventures in Finland.

Availability and use of domestic savings

Finland's economy channels its net savings predominantly into domestic investments. Over the past decade, the private savings ratio, net of fixed capital consumption, has hovered around its ten-year average of 5.6% of GDP, peaking at 10.3% in 2020 amid pandemic-driven precautionary savings (graph A3.1). In contrast, the net private investment ratio, reflecting the private sector's role in capital accumulation, has been more volatile, averaging 4.3% of GDP and reaching a high of 7.3% in 2022 as businesses ramped up spending in the post-Covid recovery. Lending to the government has fluctuated, averaging 2.1% of GDP but dipping to near zero back in 2023, reflecting tighter fiscal conditions. These dynamics, coupled with a structural current account deficit, has led to consistent, albeit very limited, net borrowing from abroad, averaging some 0.8% of GDP over the period 2014-2023. Finland's net savings are therefore largely absorbed by domestic projects while foreign funds play a minor role in bridging the financing gap.

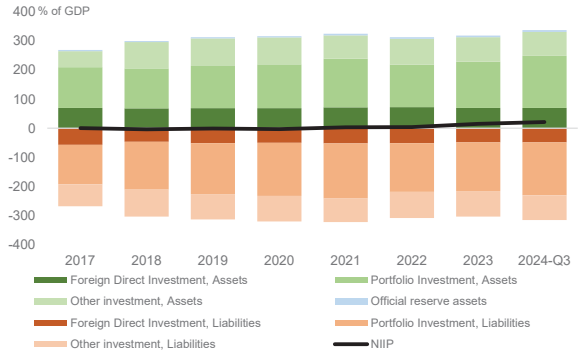
Graph A5.1: **Net savings-investment balance**



Source: AMECO

Finland's economy maintains a cautiously balanced stance in its international financial engagements. Finland's net international investment position has remained marginally positive in recent years. As of Q3 2024, total assets held by foreigners stood at 338.2% of GDP, while liabilities to foreigners were slightly lower at 316.4% of GDP, resulting in a net international investment position (NIIP) of 21.4% of GDP (graph A3.2). Finnish foreign direct investment, at 69.8% of GDP, outweighed foreign direct investments into Finland at 48.5% of GDP. Portfolio investments showed a very balanced position highlighting Finland's attractiveness for portfolio investors while indicating, in parallel, that local investors show a strong preference for portfolio allocation abroad. Lastly, other investments, both assets and liabilities, remained relatively balanced over the past years in the brackets between 80-90% of the GDP. This structure highlights the economy's deep integration into the global capital markets. Its net creditor status, albeit narrow, signals a preference of Finnish investors to invest abroad rather than locally, in particular when it comes to direct investments.

Graph A5.2: **International investment position**



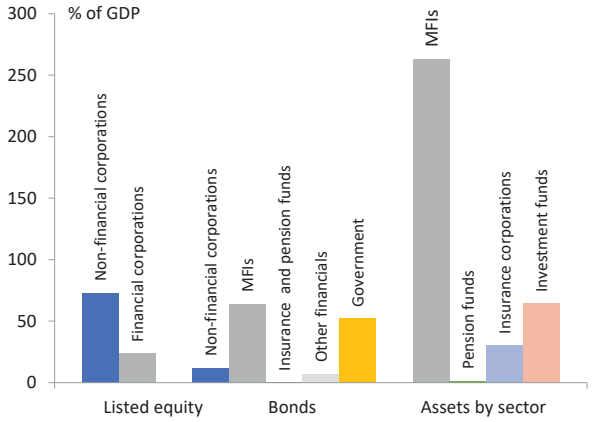
Source: ECB

Structure of the capital markets and size of the financial sector

The Finnish economy is underpinned by a well-developed domestic capital market. Listed equity market capitalisation reached 93.4% of GDP in Q3 2024, reflecting a strong equity culture driven by investor confidence in local firms (graph A3.3). Non-financial corporations account for roughly 73% of this capitalisation, highlighting the market's focus on financing technology, various industries and other non-financial services, which remain central to the country's economic identity. The outstanding volume of debt securities (excluding government securities) stood at 83.6% of GDP in 2023, with monetary financial institutions (MFIs) contributing around 64.2% of the total. This highlights the banking sector's pivotal role in funding the local economy but also reflects the specificity of Nordic financial markets where covered bonds remain an important source of funding for local credit institutions. General government bonds issuance accounts for approximately 52% of the GDP and has increased by a few percentage points over the past decade, in line with the growing indebtedness of Finland.

Finland's financial sector is dominated by banks. By 2023, the banking sector's assets stood at 256.8% of GDP, a few percentage points above the EU average of 247.2%. Total assets of local lenders increased significantly following the 2018 redomiciliation of Nordea Bank from Sweden to Finland. Finland's banking sector is concentrated with the top five lenders owning ca. 82% of total banking sector assets. Foreign presence remains rather limited, below 10% of total assets, but all lenders do have strong ties to other Nordic markets. Non-bank financial intermediaries, particularly investment funds and insurance corporations, are notable, with assets at 64% and 30% of GDP respectively in 2023, driven by a strong cultural emphasis on long-term savings amid an aging population. Local pension funds, which managed by end-2024 assets worth EUR 277 bn are not fully accounted for in the international statistics as they are embedded in the pillar 1 of the Finnish national pension system.

Graph A5.3: **Capital markets and financial intermediaries**



Source: ECB, EIOPA, AMECO

Resilience of the banking sector

Finland's banking sector showcases robustness and soundness. Despite the historically high levels of households' indebtedness and the predominance of loans with variable interest rates, the non-performing loans ratio (1.2%) of the system is lower than the European average, though coverage ratios indicate some room for improvement. Local banks have remained resilient and profitable over the past years and exhibit a high level of CET1 capital of 19.1% (Q3 2024), some 240 basis points higher than EU's average (see Table A3.1). Major local banks have consistently met EU-wide stress test requirements demonstrating resilience even under severe stress scenarios. The aggregate Minimum Requirement for Own Funds and Eligible Liabilities (MREL) rate stood at 28% of TREA (total risk exposure amount) by end-2023, exceeding regulatory thresholds and the EU's average. While the system maintains exceptional liquidity metrics supported by a stable funding structure, local

banks continue to rely to a certain extent on short term market financing, a feature that is pointed out by supervisors and analysts as a vulnerability. However, the sector's exposure to commercial real estate risks is lower than elsewhere (in the 4-6% bracket in relation to total assets), thanks to stringent lending standards introduced post-2008.

Resilience of the non-bank financial intermediaries

Finland's insurance sector, a vital pillar of non-bank financial intermediation. The Finnish insurance market, much like the banking sector, remains highly concentrated. In 2023, over 84% of all premiums were written by the four largest life and property and casualty insurance groups. These major players collectively managed assets totalling approximately EUR 180 bn. Gross written insurance premiums (both life and non-life) are expected to grow at a healthy compound annual growth rate of about 4.36% between 2024-2029. Finnish insurers are active participants in both local and international capital markets, with their investment portfolios heavily weighted towards shares (two thirds of AUM) and bonds (about 20% of the allocation). The sector's solvency ratios remained healthy, in line with the European average. Local insurers have until now successfully embraced the emergence of new technologies shaping consumer preferences and experience.

No significant vulnerabilities identified. EIOPA's 2024 protection gap assessment highlights Finland's high exposure to windstorms and a medium risk of flooding. The insurance penetration, at 10% of GDP in 2023, exceeds the EU average of 7.8%, mitigating the protection gap. The local supervisor, FIN-FSA, conducted stress tests in 2023 on major insurers, confirming their resilience to market shocks and climate scenarios. A local specificity is the sector's integration with cooperative banking, which enhances the distribution networks of insurers, particularly in rural areas, and supports high penetration of household insurance products.

The Finnish investment fund market experienced robust growth. Similarly to the banking and insurance sectors, the domestic investment funds sector is heavily concentrated. the two top tier players manage about three quarters of all funds under management, and the Nordea group alone manages over 40% of the total pool of assets. Total assets under management (worth EUR 184 billion in end-2024) increased by close to 20% to the figure reported at the end of 2023. This increase reflects both strong net inflows as well as favourable market appreciation in 2024, notably in the equity funds segment. Foreign fund holdings (EUR 8.6 billion) increased by 32% in 2024, reflecting a growing appetite for international diversification, while real estate funds saw continued outflows over 2024. The investment funds sector is dynamic and resilient though there are some concentration risks, and the local market alternative investments is lagging.

Sources of business funding and the role of banks

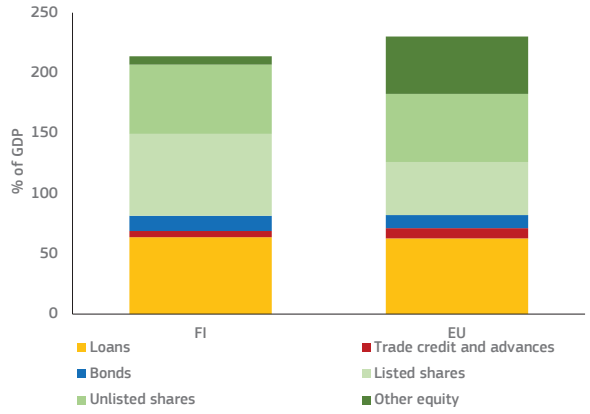
Bank and equity financing are on a par. Finnish corporates rely on a sound mix of internal financing (covering up to 69% of all investment needs ([106]) against an EU average of 66%), bank loans and capital market instruments for business funding needs. An average Finnish firm relies on bank loans and overdrafts to a slightly higher extent (30% of total funding) than its average EU peer (about 27%). In total corporate funding in Finland is equivalent to 214% of GDP, about 16 percentage points lower than the EU average of 230% of GDP. Capital market instruments, including shares and bonds, contribute around 68% to the total financing of Finnish firms, on a par with the EU average of 69%. More specifically, listed and unlisted shares are equivalent to 125.5% of GDP in Finland, while the EU average stands at 100.5% of GDP. This reliance on equity-based instruments and, in particular, listed equities highlights the level of development of Finland's capital markets and the fact that Finnish investors are more likely to invest in equity-based instruments than their EU peers.

Financing is not perceived as a major obstacle to investment decisions. Just 6% of domestic firms reported having issues when seeking a bank loan and 23% claimed that that financing was an issue when pursuing investment

([106])EIB Investment Survey 2024.

plans, compared to an EU average of 45%. More generally, four out of five firms in Finland believe that their investment actions over the past three years were adequate for market requirements, in line with the EU average ([107]). This suggests that there is no material financing gap relative to investment demand and perceived investment needs. However, the proportion of finance-constrained firms in Finland (around 12%) is somewhat higher than the EU average (6.8%).

Graph A5.4: **Composition of NFC funding as % of GDP**



The sum of NFC liabilities only reflects the total for the NFC liabilities considered. Reference period 2023.
Source: Eurostat

The banking sector plays a crucial role in financing the economy. Finland's banking sector remained liquid and robust throughout the recent turbulent times. This allowed the sector to successfully pass various stress tests and ensures that domestic lenders can provide the necessary financial resources to support investment and consumption in Finland. In 2023 and 2024, lending to households and lending to corporate clients followed somewhat divergent trajectories, reflecting broader economic conditions and policy adjustments. Credit to households contracted by 1.2% year-on-year in 2023 and continued on a downward path in 2024 (down by 0.6% year-on-year in the first half of 2024). Economic uncertainty and high interest rates discouraged already highly indebted domestic consumers from taking on more debt. This led to a decline in mortgage applications and a slowdown in consumer credit growth. For Finnish firms, credit conditions also became tighter. The rise of inflation in 2023 and higher interest rates have weakened Finland's housing and real estate markets, a major contributor to GDP. As a result, construction and real-estate related firms have found it more difficult to repay debt and finance new ventures. Nevertheless, in general, corporate credit remained positive over 2023 and in the first half of 2024, with year-on-year growth of 1.3% and 1.4% respectively.

([107])EIB Investment Survey 2024.

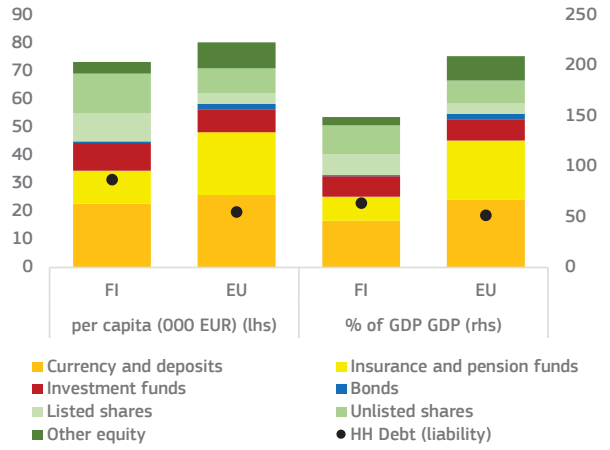
Capital markets and the participation of retail investors

The capital markets are a vital component of the country's financial system. Despite not being very large, Finland's capital markets are considered to be among the most efficient and well-developed in the EU. The stock market remains dominated by the Nasdaq Helsinki exchange, with a market capitalisation equivalent to 93.4% of GDP in the first half of 2024, about 25 percentage points higher than the EU average. The local exchange lists some 188 stocks (end-2024) and has ambitious plans going forward, with several dozen new public debuts to be expected in the coming years. Finnish large and medium firms also make use of fixed-income financing, although the outstanding volume of Finnish corporate bonds is worth about 12.2% of GDP (vs an EU average of 10.8%), substantially lower than the equity financing part of corporate funding.

Retail participation in the capital markets is significant as households actively look to diversify their financial holdings. As of September 2024, Finnish households' financial assets surpassed the EUR 400 bn mark (equivalent to 145% of GDP), with deposits representing 28% of the total (vs an EU average of 32.3%). Investments in domestic investment funds reached a record high of EUR 37.9 bn and were predominantly allocated to equity funds (43%), bond funds (28%) and mixed funds (19%). In parallel, households' direct investments in publicly listed equities amounted to EUR 51 bn, marking a 17% year-on-year jump. This surge underscores a growing appetite for direct stock investments, driven by, among other factors, the popularity of the stock savings accounts. Furthermore, Finnish households have shown considerable interest in foreign investment funds, with holdings exceeding EUR 8 billion in Q3 2024. The diverse allocation of

financial assets across deposits, investment funds and equities highlights the dynamic and engaged nature of retail investors in Finland, and a gradually rising level of financial confidence across the population.

Graph A5.5: **Composition of household financial assets per capita and as % of GDP**



The sum of household assets only reflects the total for the HH assets considered. Reference period 2023.
Source: Eurostat

The role of domestic institutional investors

The Finnish fund industry: an impressive growth trend. As of 2024, there were over 1 700 investment management firms operating in Finland, mostly located in the Helsinki area. At the end of 2024, total assets under management (AUM) by local funds had surged to approximately EUR 184 bn, up from EUR 149 bn just a year earlier. This growth has been driven both by positive market performance and by substantial new capital inflows, with over EUR 9.3 bn of new capital invested in the course of 2024. The industry is quite diverse, with equity funds, bond funds and mixed funds being the primary investment vehicles. More recently, funds have tried to adapt to investors' evolving requirements by launching new thematic and sector-specific funds. Overall, the local fund industry is poised for continued growth, supported by robust demand and an appropriate regulatory framework. However, investments into the riskier asset classes such as venture capital are just a fraction (under 1%) of total AUM.

Finnish pension funds invest in a well-diversified range of asset classes ensuring stable returns. Pension funds (or pension insurance companies) in Finland represent a stable and integral part of the country's social security system fully complementing the national pension scheme. At the same time, to a certain extent, Finnish pensions support the further development of Finland's capital markets. Total AUM (all pillars combined) AUM reached over EUR 277 bn at end-2024. Assets from the first pillar (earnings-related) represent most of the pension funds' AUM. Pension funds invest in equities, fixed income and real estate, but alternative investments such as private equity and hedge funds have been increasingly widespread. In fact, hedge fund allocation has been gradually gaining weight with some 10% of AUM invested in this asset class. This reflects a broader trend among Finnish institutional investors towards diversified and high-yield investment strategies. Pension insurance companies represent the bulk (about 87%) of the local insurance sector, however, life (8.5%) and non-life (4.5%) insurers do manage an additional EUR 30-40 bn in assets.

The depth of available venture and growth capital

Venture capital and private equity have been gaining importance. The country has long been present on the global start-up stage. Finland is one of the EU leaders in terms of investments into venture capital and private equity relative to GDP (0.14% and 0.83% of GDP respectively at end-2023) with both domestic and international investors (65% of the invested volume) finding local start-ups worth financing and supporting further. Despite this relative success, the participation of domestic institutional investors, particularly pension funds, remains rather on the conservative side, limiting the availability of local venture and growth capital for start-ups, especially in the later stages of financing.

Finland has implemented a series of strategic policy measures to make the domestic start-up scene more dynamic. Finnish innovation strategy is heavily focused on supporting start-ups. The strategy is encapsulated in the innovation and skills in Finland 2021-2027 programme, which aims to boost sustainable

Table A5.1: **Financial indicators**

		2017	2018	2019	2020	2021	2022	2023	2024-Q3	EU
Banking sector	Total assets of MFIs (% of GDP)	201.1	271.0	273.5	295.6	287.9	291.6	263.4	256.8	247.2
	Common Equity Tier 1 ratio	21.0	17.2	17.6	18.1	17.8	17.2	18.3	19.1	16.7
	Total capital adequacy ratio	23.4	20.9	21.3	21.2	21.4	20.6	22.1	23.1	20.1
	Overall NPL ratio (% of all loans)	1.2	1.5	1.4	1.5	1.2	1.0	1.1	1.2	1.9
	NPL (% loans to NFC-Non financial corporations)	2.1	2.8	2.5	2.5	2.1	1.3	1.5	1.6	3.5
	NPL (% loans to HH-Households)	1.9	1.3	1.3	1.6	1.4	1.4	1.6	1.7	2.1
	NPL-Non performing loans coverage ratio	27.8	26.5	30.2	28.1	31.2	29.4	26.6	26.2	42.6
	Return on Equity[1]	8.8	8.1	4.9	5.8	9.2	9.6	13.5	15.1	10.1
	Loans to NFCs (% of GDP)	35.4	36.8	38.1	41.0	39.9	39.4	38.7	39.1	30.1
	Loans to HHs (% of GDP)	57.0	56.3	56.3	58.5	57.7	54.6	52.4	51.8	44.4
	NFC credit annual % growth	4.6	7.9	6.9	6.8	3.2	5.7	1.2	1.3	0.5
	HH credit annual % growth	2.6	2.1	2.9	3.3	4.0	1.5	-1.2	-0.6	0.3
Non-banks sector	Stock market capitalisation (% of GDP)	97.0	101.5	109.9	131.6	139.5	107.6	97.2	93.4	67.6
	Initial public offerings (% of GDP)	0.36	0.27	0.12	0.28	1.37	0.14	0.00	-	0.05
	Market funding ratio	64.4	63.8	62.7	62.4	61.8	61.1	61.4	-	49.6
	Private equity (% of GDP)	0.32	0.70	0.50	0.87	0.54	0.73	0.84	-	0.41
	Venture capital (% of GDP)	0.07	0.09	0.11	0.18	0.15	0.13	0.06	-	0.05
	Financial literacy (composite)	-	-	-	-	-	-	38.0	-	45.5
	Bonds (as % of HH financial assets)	1.2	1.1	0.9	0.7	0.5	0.5	0.8	-	2.7
	Listed shares (as % of HH financial assets)	14.7	13.1	14.5	15.3	16.3	14.4	13.7	-	4.8
	Investment funds (as % of HH financial assets)	10.3	9.9	11.1	11.6	13.3	12.2	13.5	-	10.0
	Insurance/pension funds (as % of HH financial assets)	18.0	17.2	16.9	16.1	17.1	15.8	16.0	-	27.8
	Total assets of all insurers (% of GDP)	33.4	31.1	32.8	34.3	36.0	29.8	30.6	31.6	53.4
	Pension funds assets (% of GDP)	-	-	1.8	1.8	1.7	1.4	1.4	1.4	22.8

1-3 | 4-10 | 11-17 | 18-24 | 25-27 Colours indicate performance ranking among 27 EU Member States.

(1) Annualised data

Credit growth and pension funds EU data refers to the EA average.

Source: ECB, ESTAT, EIOPA, DG FISMA CMU Dashboard, AMECO

growth, regional development and societal well-being. This rather comprehensive programme has a budget of over EUR 3.1 bn (two thirds financed from the EU budget), across seven priority areas, including digitalisation, green transition and health technologies. The programme helps start-ups with funding, enables public-private collaboration and assists start-ups to scale up internationally. Recent legislative measures have mostly focused on creating more flexible investment vehicles and introducing some tax incentives to encourage equity investments by institutional investors.

Financing the green transition

Finland has continued to lead the way in sustainable development and sustainable goals. With nearly 40% of its energy mix derived from renewables, the country is setting a global example in transitioning to a low-carbon future. This commitment is mirrored in the financial sector, where each of the systemically important credit institutions are integrating sustainability across their operations.

The Finnish government has been proactive in promoting green investments. It launched the sustainable growth programme, which became the overarching programme for the country's Recovery and Resilience Facility (RRF) goals. In December 2021, a decree was issued to support energy investments, allocating over EUR 0.5 bn to projects aimed at reducing greenhouse gas emissions and achieving carbon neutrality by 2035. Finland has also embraced green bonds as a tool to finance the green transition. Municipal Finance Plc has been a key player in that arena, issuing green bonds to support projects that contribute to environmental sustainability. By the end of 2023, MuniFin had issued over EUR 2 bn in green bonds, financing projects ranging from renewable energy to sustainable housing.

Financial literacy

Financial literacy is quite advanced in Finland, but there is still room for improvement. The country has ambitious goals for financial literacy, which is crucial to promote retail-investor participation in capital markets but also to familiarise small and medium-sized enterprises (SMEs) with alternatives to bank financing. Despite various initiatives, Finland's current financial literacy levels hover around the OECD average, with a score of 65 out of 100 in the latest international survey. This places Finland slightly above the global average but highlights significant disparities within the population, with women, young adults and older people having comparatively lower financial literacy levels. As

regards EU comparisons, the 2023 Eurobarometer survey ([108]) indicates that only 20% of Finns have a high level of financial literacy, while 65% have a medium level, and 15% fall into the low literacy category. This places Finland slightly above the EU average but highlights the need for continued work to provide financial education. Finland has implemented a national strategy for financial literacy, coordinated by the Bank of Finland and other key stakeholders. This strategy includes integrating financial education into school curricula and providing targeted support for different demographic groups. The Finnish financial sector also offers free financial literacy education and advisory services to all age groups. As digital financial tools become more prevalent, improving digital financial literacy is also a priority, helping the population to navigate and protect themselves against various cybersecurity risks in an increasingly digital world.

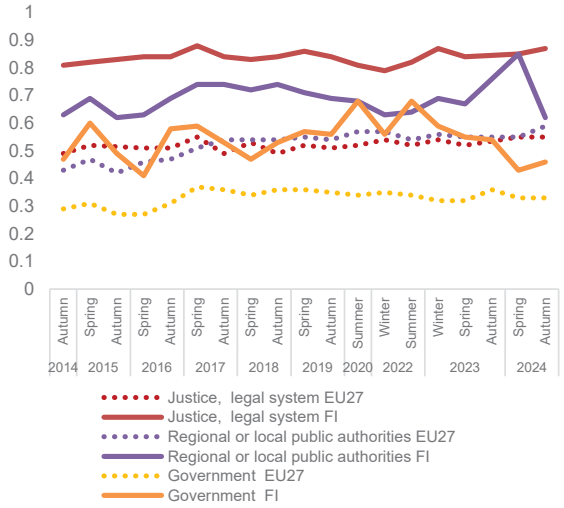
([108])Source: Monitoring the level of financial literacy in the EU - July 2023 - Eurobarometer survey.

Finland's institutional framework influences its competitiveness. Finland's public institutions have maintained their performance. Finland would gain from upholding its strong tradition of accountability and digitalisation. Additionally, strengthening its regulatory framework and reducing administrative burdens would be beneficial for the country.

Public perceptions

Finland continues to enjoy high trust in its institutions. 46% of citizens trust the national government, 62% trust the regional and local authorities, and 87% trust the judiciary system (Graph A6.1). When asked about improvements that can increase trust in Finland's public administration, 52% of citizens pointed to less bureaucracy (the same percentage as in the EU), 49% to more transparency around decision-making and the use of public money (EU: 44%) and 34% to easier interaction with the administration (EU: 28%) ([109]). The perceived quality of government has improved and remains visibly above the EU average ([110]).

Graph A6.1: **Trust in justice, regional / local authorities and in government**

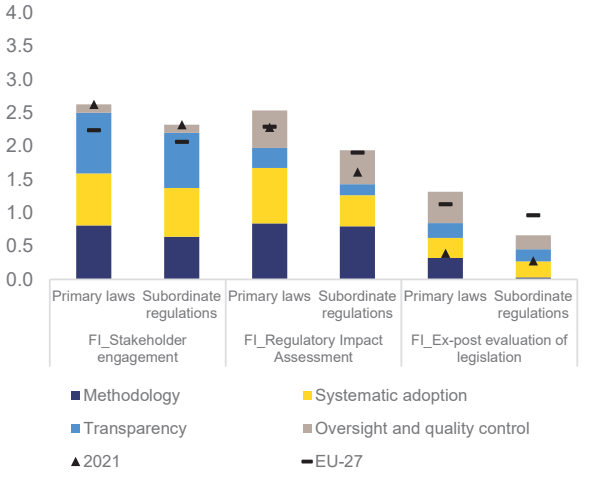


(1) EU-27 from 2019; EU-28 before
Source: Standard Eurobarometer surveys

Quality of legislation and regulatory simplification

Performance in developing and evaluating legislation is above the EU average. Performance is generally stronger for stakeholder engagement and ex-ante impact assessments than for ex post evaluation of legislation. However, there is room for improving the requirements governing the oversight and quality controls for public consultations of both primary and secondary legislation, the transparency requirements applied to the regulatory impact assessments and ex post evaluation of legislation, as well as the methodological aspects of ex post evaluation of legislation (Graph A6.2). Challenges remain, including enhancing the accessibility and understandability of laws and ensuring that regulatory impact assessments are both comprehensive and effective.

Graph A6.2: **Indicators of Regulatory Policy and Governance (iREG)**



Source: OECD (2025), Regulatory Policy Outlook 2025 and Better Regulation across the European Union 2025 (forthcoming).

There is scope to further strengthen the mechanisms for simplifying regulation and identifying administrative burdens. For example, periodic ex post evaluation of primary legislation is not mandatory. In addition, requirements to assess duplications, administrative burdens and substantive compliance costs in ex post evaluations of primary legislation apply to some (not all) primary laws (see table A6.1).

([109]) Understanding Europeans' views on reform needs - April 2023 - - Eurobarometer survey, Country Fact Sheet.

([110]) Inforegio – European Quality of Government Index

Table A6.1: **Finland. Selected indicators on administrative burden reduction and simplification**

	Ex ante impact assessment of legislation		Ex post evaluation of legislation	
When developing new legislation, regulators are required to …	Identify and assess the impacts of the baseline or 'do nothing' option.	◑	Is required to consider the consistency of regulations and address areas of duplication.	○
	Identify and assess the impacts of alternative non-regulatory options.	●	Is required to contain an assessment of administrative burdens.	●
	Quantify administrative burdens of new regulations.	●	Is required to contain an assessment of substantive compliance costs.	○
	Quantify substantial costs of compliance of new regulations.	●	Compares the impact of the existing regulation to alternative options.	◑
	Assess macroeconomic costs of new regulations.	◑	Periodic ex post evaluation of existing regulations is mandatory.	●
	Assess the level of compliance.	●	Government uses stock-flow linkage rules when introducing new regulations (e.g., one-in one-out).	○
	Identify and assess potential enforcement mechanisms.	○	A standing body has published an in-depth review of specific regulatory areas in the last 3 years.	○
			In the last 5 years, public stocktakes have invited businesses and citizens to assess the effectiveness, efficiency, and burdens of legislation.	○

● Yes / For all primary laws ◕ For major primary laws ◑ For some primary laws ○ No / Never

(1) This table presents a subset of iREG indicators focusing on regulatory costs. The indicators refer to primary legislation.
Source: OECD (2025), Regulatory Policy Outlook 2025 [https://doi.org/10.1787/56b60e39-en] and Better Regulation across the European Union 2025 (forthcoming).

The OECD product market regulation indicator shows that that Finland´s licensing system is slightly more burdensome than the EU average, with room to further align it with best practices. While the government keeps an up-to-date inventory of all the permits and licences required/issued to businesses by public bodies, there is no requirement for the government to regularly review it and assess whether such licences and permits are still required or should be withdrawn. Moreover, there is no requirement for public bodies at the central/federal level to observe to the once-only principle (see also Annex 4).

Social dialogue

Tripartite social dialogue remains strong, although collective bargaining has decentralised in recent years with a move towards local-level bargaining. Collective bargaining coverage at 89% is one of the highest in the EU ([111]). Legislation related to labour markets and social policies is prepared in tripartite working groups, and social partners are regularly consulted in the Parliament's EU subcommittee. Social partners are a recognised important partner. They also benefit from the Innovation and Skills Finland 2021-2027 multifund investment programme, where they were involved in the programming process, and they are also represented in the programme monitoring committee. The ESF+ also supports social partners in capacity building and training activities. Most recently, in January 2025 the social partners concluded an agreement on the reform of occupational pensions upon the request of the government, aiming to preserve the long-term fiscal sustainability of occupational pensions while keeping contributions at an affordable level ([112]).

In collective bargaining, there has been a continuous trend towards decentralisation and local-level collective agreements, which was underlined by the legislative reforms entering into force on 1 January 2025. Firms who are not part of a registered employers' union are now

([111])OECD/AIAS ICTWSS database, data from 2017 OECD Data Explorer • Collective bargaining coverage

([112])For an analysis of the involvement of Finland's social partners at national level in the European Semester and the Recovery and Resilience Facility, see Eurofound (2025), National-level social governance of the European Semester and the Recovery and Resilience Facility.

Table A6.2: **Digital Decade targets monitored through the Digital Economy and Society Index**

		Finland			EU-27	Digital Decade target by 2030
		2022	2023	2024	2024	EU-27
Digitalisation of public services						
1	**Digital public services for citizens**	**90**	**92**	**91**	**79**	**100**
	Score (0 to 100)	2021	2022	2023	2023	2030
2	**Digital public services for businesses**	**93**	**100**	**100**	**85**	**100**
	Score (0 to 100)	2021	2022	2023	2023	2030
3	**Access to e-health records**	**na**	**90**	**83**	**79**	**100**
	Score (0 to 100)	2021	2022	2023	2023	2030

Source: Digital Economy and Society Index

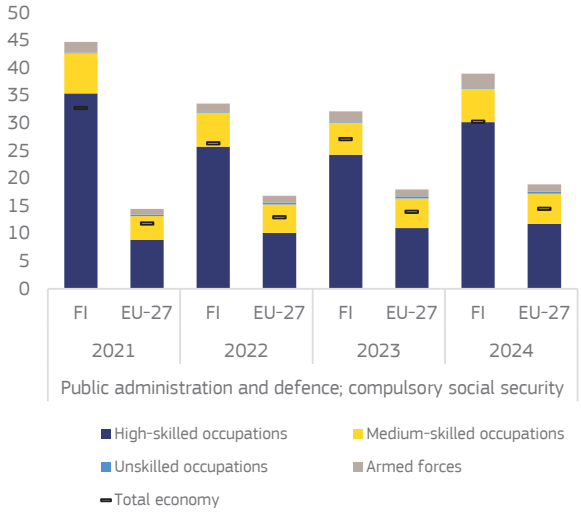
permitted to negotiate local derogations from sector-level collective agreements in consultation with workers' representatives. While this reform is not expected to significantly impact collective bargaining coverage, it will require continuous monitoring (see Annex 10).

Digital public services

Finland is a frontrunner in digital public services, with widespread citizen engagement and user-centric service design (Table A6.2)**.** The availability of digital public services for citizens and businesses scores well above the EU average. The share of e-Government and eID users are also significantly above the EU average (respectively 97.6% vs EU 75%, and 94.4% vs EU 41.1%). However, access to e-health records exceeds the EU average only slightly. 92.5% of citizens engage online with authorities, and 96.5% of services are designed to be user-centric. Ongoing digitalisation is being fuelled by key initiatives like 'Digital Finland' and the strategy on information and communications technology. However, challenges remain in terms of improving accessibility and usability, and ensuring that all citizens have the digital skills required to effectively use these services.

Progress is being made towards seamless, automated exchange of authentic documents and data across the EU. It has already successfully tested its first transactions through the Once-Only Technical System, part of the EU Single Digital Gateway. Finland is in the process of connecting up the first authorities ([113]). However, it has not yet set up and notified eID schemes for legal persons under the eIDAS Regulation ([114]). This means that Finnish businesses cannot authenticate themselves to access public services provided by other Member States, including those enabled by the Once-Only Technical System ([115]).

Graph A6.3: **Participation rate of 25-64 year olds in adult learning (%) by occupation**



Source: European Commission, based on the Labour Force Survey.

([113])European Commission, Once-Only Technical System Acceleratormeter

([114])European Commission, eIDAS Dashboard.

([115])European Commission, The Once Only Principle System: A breakthrough for the EU's Digital Single Market

Civil service

The capacity of the Finish civil service remains high. In 2024, 39% of public administration employees participated in education and training, giving Finland one of the highest rates in the EU (Graph A6.3). Moreover, 72% of the staff has higher education ([116]). The strategy for human resources management in the central government puts emphasis on increasing attractiveness and enabling further professional development via career path models ([117]). Staff surveys monitor annually job satisfaction, leadership, working culture and content of work. Women hold 54.2% of senior roles ([118]).

To sustain public administration productivity, Finland is adopting innovative approaches such as artificial intelligence (AI) data analytics and agile methodologies. Finland has recently launched the innovative AI-powered Osaamistarvekompassi (Skills Needs Compass) which tackles skills mismatches by predicting job transitions and future skill demands. It uses AI-driven data mining to provide user-friendly insights for individuals and policymakers. A proposal on principles of public management and their implementation, aims to enhance the foundations of public administration management and promote a common understanding of it.

Integrity

A lower percentage of businesses than the EU average consider corruption to be a problem. In Finland, only 18% of companies consider that corruption is widespread (EU average 64%) and only 14% consider that corruption is a problem when doing business (EU average 36%) ([119]). Moreover, 63% of companies believe that people and businesses caught bribing a senior official are appropriately punished (EU average 31%) ([120]). Cooperation between the police and prosecution continues smoothly, with a strengthening of resources for police and prosecution allowing them to efficiently perform their tasks ([121]). A new study was launched by the Ministry of Justice on the opportunity to revise the provisions on foreign bribery, but there are still no legislative measures ([122]). Furthermore, only 14% of companies (EU average 27%) think that corruption has prevented them from winning a public tender or a public procurement contract in practice in the last three years ([123]). Risk sectors include urban and land use planning, and specialised procurement (such as ICT, medicines and medical supplies) ([124]).

Finland has upgraded in 2024 its lobbying framework. In 2024, Finland established an electronic transparency register, managed by the National Audit Office. Under the Transparency Registry Act, legal persons and private traders are now required to report to the Transparency Register their lobbying activities targeted at Parliament and ministries ([125]). These provisions can help ensure a level playing field for businesses in access to policymakers.

Justice

The justice system performs efficiently overall. The disposition time in civil and commercial cases at first instance saw an increase from 327 in 2022 to 349 days in 2023. For administrative cases at first instance, the disposition time was lower and decreased from 281 in 2022 to 263 in 2023. The quality of the justice system is good overall. The Government Report on the Administration of Justice has contributed to discussions on the most pressing issues in the justice system. The case management and digitalisation system for general

([116])Eurostat. Labour Force Survey.

([117])Ministry of Finance (2024). 'Appendix: Implementation of the Central Government Human Resources Strategy', link.

([118])European Institute for Gender Equality (EIGE).

([119])Flash Eurobarometer 543 on businesses' attitudes towards corruption in the EU (2024).

([120])Ibid.

([121])See the 2024 country-specific chapter for Finland of the Rule of Law Report, p. 13.

([122])Ibid., p. 12.

([123])Flash Eurobarometer 543 on businesses' attitudes towards corruption in the EU (2024).

([124])See the 2024 country-specific chapter for Finland of the Rule of Law Report, p. 17.

([125])Ibid., pp. 14-15.

courts was implemented in 2024. As regards judicial independence, no systemic deficiencies have been reported ([126]).

([126])For more detailed analysis of the performance of the justice system in Finland, see the upcoming 2025 EU Justice Scoreboard and 2024 Rule of Law Report.

Finland faces several challenges regarding its clean industry transition and climate mitigation. It has development potential in the battery sector but manufacturing capacity for other net zero technologies remains modest, and skilled labour shortages may hinder progress. Despite being mineral-rich, Finland's dependency on critical raw material imports, particularly from Russia, poses geopolitical risks. While efforts are being made in industry decarbonisation and sustainable practices, the emissions intensity in certain sectors remains high, and there is a significant gap to bridge in reducing waste and enhancing recycling and resource productivity rates. This annex reviews the areas in need of urgent attention in Finland's clean industry transition and climate mitigation, looking at different dimensions.

Strategic autonomy and technology for the green transition

Net zero industry

Finland's manufacturing capacity across all net zero technologies remains modest but with significant development potential in the battery sector. ([127]) Finland's manufacturing capacity for solar PV amounts to between 100 and 200 MW/y (1% of total EU capacity). Finland also has at least two facilities producing wind turbine generators; one lithium-ion battery factory; and at least four facilities that manufacture heat pumps. Finnish companies are also participating in two hydrogen IPCEIs: Hy2Tech and Hy2Use ([128]).

Finland is progressing on the establishment of a targeted policy framework for net zero technology manufacturing. The new industrial strategy published in December 2024 puts an emphasis on the clean transition, highlighting *'leveraging opportunities of the clean transition, bio economy and circular economy'* as one of the strategy's seven key objectives ([129]). The national implementation of the Net Zero Industry Act is also ongoing: Finland has set up a governmental working group and is setting up the required government processes, e.g. the selection process for net zero strategic projects ([130]). Finland is supporting net zero industry through its recovery and resilience plan (RRP) and state aid schemes, including a recently adopted clean transition aid scheme worth EUR 400 million in 2025 ([131]). Beyond investment, the Finnish RRP also has measures on speeding up environmental permitting, but lack of skilled labour and particularly capacity in public authorities might hinder this progress.

More specifically, policy support in Finland focuses on its National Battery Strategy. It targets the manufacturing capacity of Finnish firms and aims to improve the competitiveness and positioning of Finnish companies in the battery value chain. Alongside access to raw materials, Finland has a developed recycling system and strong R&D throughout this value chain. The industry's growth is further underscored by the large investment planned, with a total amount of EUR 6 billion estimated by Finnish industry by 2028. However, there is a growing demand for skilled workers throughout the battery value chain in Finland, with an estimated employment need of around 4 000 in 2025-2026 ([132]). There are plans in Finland to establish one of the first net zero industry academies within the EU.

Building on its strong base of industrial knowhow and favourable environment for clean tech, Finland is home to many climate innovations. In fact, Finland ranks first both in the eco-innovation index and in the clean innovation category, part of the MIT Green Future

([127]) European Commission: Directorate-General for Energy, The net-zero manufacturing industry landscape across the Member 2025, https://data.europa.eu/doi/10.2833/2181110

([128]) European Commission

([129]) Ministry of Economic Affairs and Employment, 2024, Teollisuuspoliittinen strategia : Ohjausryhmän raportti

([130]) Ministry of Economic Affairs and Employment, EU:n nettonollateknologioita koskevan asetuksen (NZIA) kansallinen toimeenpano

([131]) Ministry of Economic Affairs and Employment, 2025

([132]) Innovation Norway, Business Finland, Business Sweden, and the Swedish Energy Agency, conducted by Business Sweden, 2023, The Nordic Battery Value Chain - Market drivers, the Nordic value proposition, and decisive market necessities

Index ([133]). In terms of planned investment in clean technologies, offshore and onshore wind, hydrogen and battery technologies are among the clean technologies gathering most planned investment in Finland, while hydrogen is leading in terms of potential to create jobs ([134]). Additional investment, improved investment certainty and availability of skilled labour could yet boost the clean technology sector in Finland.

Transforming the car industry

Despite a very small domestic automotive industry, Finland has a high motorisation rate, with 664 cars per 1000 inhabitants. The car fleet is among the oldest in the EU, with 32.3% of cars in Finland over 20 years old ([135]). Nonetheless, the transformation to electric vehicles is in progress, with over 50% of the newly registered cars in Finland being either battery or plug-in hybrid EVs. This is second highest among EU countries, only surpassed by Sweden ([136]).

Critical raw materials

Finland is a mineral-rich country with a long history in mining, for example in gold and palladium extraction ([137]). At EU level, Finland leads in the production of several CRMs: cobalt, phosphate rock platinum, palladium and nickel ([138]). In addition, copper, platinum and feldspar are produced in Finnish mines ([139]). Importantly for the clean transition, also lithium and rare earth elements are present in Finnish bedrock, and extraction projects for these are planned (e.g.([140]).

Beyond extraction, Finland has a strong metal processing industry which produces more of many metals than are extracted in Finland, thereby also relying on imports of ore concentrates to reach the processing volumes ([141]). Finland recently published a new National Mineral Strategy, outlining efficient implementation of the Critical Raw Materials Act, and strong raw materials supply for industry, as two of the six key objectives ([142]). Providing efficient support for increasing domestic capacity in extraction and processing of critical raw materials is an action point within the strategy.

Beyond domestic production, Finland also imports critical raw materials such as nickel, copper and coking coal ([143]). Finland's dependency, measured through import concentration, increased in 2023 to 0.24 (over the EU average of 0.22 and just below the level of 'high concentration' <0.25) ([144]). Russia provides 43% of the critical raw materials imported to Finland ([145]), signalling a particularly high degree of geopolitical risk. During the past five years, Finland has had the third highest critical raw material import concentration among EU Member States ([146]).

Aside from domestic primary production, recycling and increased use of secondary raw materials can help reduce dependency on imports. The recycling rate for e-waste, a key source of critical raw materials, is above the EU average, with 88% in 2022 compared to 81%. The reuse and recycling rate for end-of-life vehicles is slightly below the EU average (85% vs. 89% in 2022). This points to the need to avoid the leakage of critical raw materials, notably as the car industry shifts to battery-electric vehicles. The National Waste Plan, which was published in 2022 and covers the period up to 2027, also includes

([133]) MIT Technology Review, 2023, The Green Future Index

([134]) Finnish Confederation of Industries, December 2024, Green transition investments in Finland, December 2024

([135]) Eurostat

([136]) European Environment Agency

([137]) Kaivosteollisuus

([138]) JRC RMIS - Country Profile Finland

([139]) Geologian tutkimuskeskus, Kriittiset ja strategiset raaka-aineet

([140]) Finnish Minerals Group

([141]) Ministry of Economic Affairs and Employment, 2023, Kaivosalan toimialaraportti: Kriittiset raaka-aineet entistä tärkeämpiä EU:lle

([142]) Finnish Government, 2024, Kansallinen mineraalistrategia

([143]) JRC RMIS - Country Profile Finland

([144]) COMEXT

([145]) JRC RMIS - Country Profile Finland

([146]) COMEXT

policy recommendations for improving circularity of minerals ([147]).

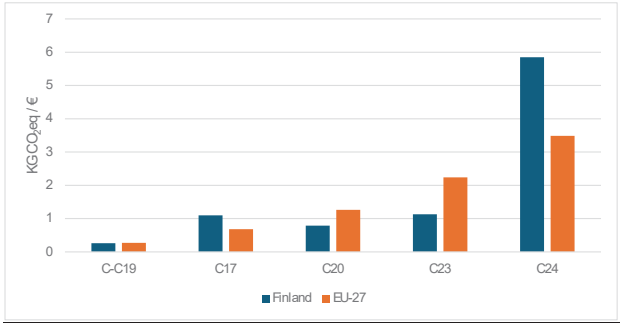
Climate mitigation

Industry decarbonisation

In terms of its share of all greenhouse gas emissions and the emissions intensity of production, Finland's manufacturing industry is comparable to the EU average. As in the EU overall, about one fifth of Finland's total greenhouse gas emissions come from manufacturing ([148]). With 260 g CO2eq per euro of gross value added (GVA), the greenhouse emissions intensity of Finland's manufacturing industry is also close to the EU value (270 g/€). Between 2017 and 2022, the emissions intensity of Finland's manufacturing production has improved by 18%, slightly less than the EU overall (20%). 46% of its manufacturing emissions come from industry processes and product use, sightly more than in the EU overall (43%). The remainder is related to energy use.

In recent years, Finland has only made minor improvements in its greenhouse emissions intensities in both energy use and industry process and product use in manufacturing. In both areas, the emissions intensity of manufacturing decreased by 4% between 2017 and 2022 ([149]) In the meantime, the share of electricity and renewables in manufacturing's final energy consumption remained broadly stable, at 69% – the fourth highest share in the EU. In parallel, the energy intensity of manufacturing decreased by about the same degree as in the EU as a whole, by 14% (from 3.9 GWh per euro of GVA to 3.4 GWh/€) – while still remaining more than three times above the EU average of 1.1 GWh/€ in 2022.

Graph A7.1: **GHG emission intensity of manufacturing and energy-intensive sectors, 2022**



Source: Eurostat.

In Finland, greenhouse gas emissions intensities are comparatively high in the paper products and metals sectors. Energy-intensive industries ([150]) account for 16% of Finland's total manufacturing gross value added (2022). Among these sectors, the manufacture of metals has a relatively high emissions intensity, with 5.9 kg CO2eq/€ of GVA, well above the EU total, 3.5 kg. Likewise, at 1.1 kg/€, the emissions intensity of the manufacture of paper and paper products is much higher than the EU average of 0.68 kg/€. Like other EU countries, Finland has recently seen an increase in energy prices for industry, in particular concerning gas ([151]). In recent years, Finland has experienced a double-digit decline in output by the paper and paper products industry and in the non-metallic minerals sector. In

([147]) Ministry of the Environment, 2022, Kierrätyksestä kiertotalouteen: Valtakunnallinen jätesuunnitelma vuoteen 2027 (in Finnish only).

([148]) In 2023. Manufacturing includes all divisions of the "C" section of the NACE Rev. 2 statistical classification of economic activities. In the remainder of this section, unless indicated otherwise, data on manufacturing refer to the divisions of the NACE section C excluding division C19 (manufacture of coke and refined petroleum products), and the year 2022. The source of all data in this section is Eurostat; data following the UNFCCC Common Reporting Framework (CRF) are from the European Environment Agency (EEA), republished by Eurostat.

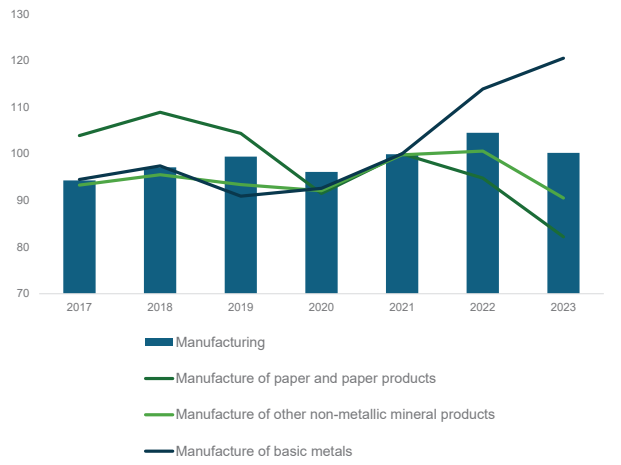
([149]) For the GHG emissions intensity of GVA related to energy use and industrial processes and product use respectively, GHG emissions are from inventory data in line with the UNFCCC Common Reporting Format (CRF), notably referring to the source sectors CRF1.A.2 – fuel combustion in manufacturing industries and construction and CRF2 – industrial processes and product use. The CRF1.A.2 data broadly correspond to the NACE C and E sectors, excluding C-19. GVA data (in the denominator for both intensities) are aligned with this sectoral coverage. Therefore, they are not fully consistent with the data referred to in other part of this section.

([150]) Notably, the manufacture of paper and paper products (NACE division C17), of chemicals and chemical products (C20), "other" non-metallic mineral products (C23; this division includes manufacturing activities related to a single substance of mineral origin, such as glass, ceramic products, tiles, and cement and plaster), and basic metals (C24). To date, these industries are energy-intensive – i.e. consuming much energy both on site and/or in the form of purchased electricity – and greenhouse gas emissions intensive, in various combinations.

([151]) For a detailed analysis of energy prices, see Annex 8 on the affordable energy transition.

contrast, the manufacture of basic metals has expanded by about one fifth.

Graph A7.2: **Manufacturing industry production: total and selected sectors, index (2021 = 100), 2017-2023**



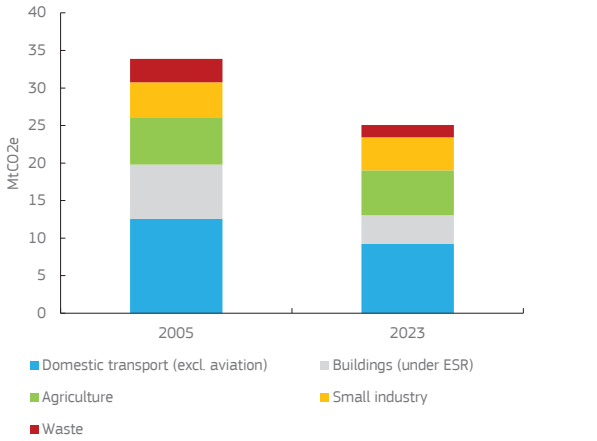
Source: Eurostat.

Though some challenges remain, Finland is making progress in decarbonising its industry. Its aim is to achieve carbon neutrality by 2035, as laid out in the 2022 Climate Change Act. This goal is supported by integrated, sector-specific low carbon roadmaps developed by the public and private sectors. Key industries such as metals, chemicals and manufacturing are at the forefront of these efforts. Finland supports industrial decarbonisation through various funding initiatives, for instance the Clean Energy Transition Partnership (CETP), which focuses on industrial energy systems and carbon capture, utilisation and storage (CCUS), and the Sustainable Manufacturing Finland programme, which focuses on innovative business models and productivity improvements, while addressing climate change challenges.

Reduction of emissions in the effort sharing sectors

With planned climate mitigation measures that are yet to be adopted, Finland still has a gap to close to reach its 2030 effort sharing target ([152]). In 2023, greenhouse gas emissions from Finland's effort sharing sectors are expected to have been 27% below those of 2005. By 2030, current policies are projected to reduce them by 45.2% relative to 2005 levels. This would result in a shortfall of 4.8 percentage points regarding Finland's effort sharing target, a 50% reduction, once those measures had been adopted and implemented ([153]). While Finland could reach its target by using domestic flexibilities available under the effort sharing regulation, swift and steady adoption and implementation of further climate mitigation measures will be critical.

Graph A7.3: **Greenhouse gas emissions in the effort sharing sectors, 2005 and 2023**



Source: European Environment Agency

Sustainable industry

Circular economy transition

There is room for boosting Finland's circularity transition. The circular material use rate in Finland dropped to 2.4% in 2023, against the EU average of 11.8%. This makes Finland the country with the third lowest use of circular materials in the EU. Resource productivity measures the total amount of materials directly used by an economy in relation to GDP. In 2023,

([152]) The national greenhouse gas emission reduction target is set out in Regulation (EU) 2023/857 (the Effort Sharing Regulation). It applies jointly to buildings (heating and cooling); road transport, agriculture; waste; and small industry (known as the effort sharing sectors).

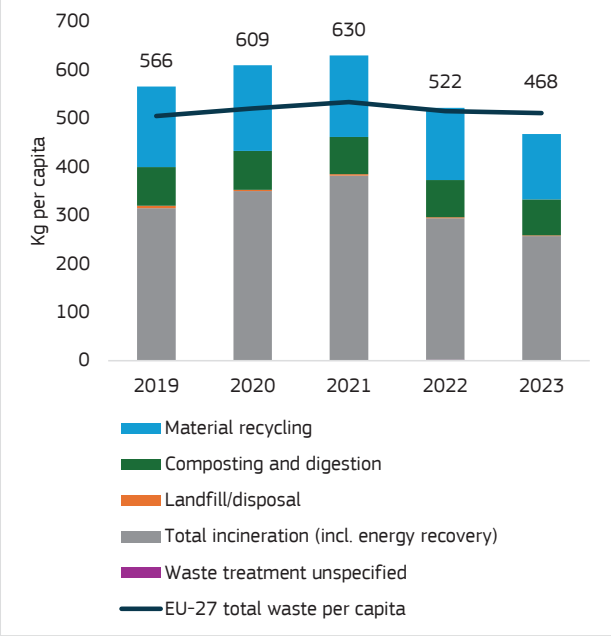
([153]) The emissions from effort sharing sectors for 2023 are based on approximated inventory data. The final data will be established in 2027 after a comprehensive review. Projections on the impact of current policies ("with existing measures", WEM) and additional policies ("with additional measures", WAM), as per Finland's final updated NECP.

Finland generated EUR 1.17 per kg of material, against the EU average of EUR 2.74. Finland's material footprint, an indicator for raw material consumption, is the highest in the EU at 46.6 tonnes per capita in 2023 (EU average: 14 tonnes per capita).

In 2021, Finland adopted its Strategic Programme to promote a circular economy, with a vision to have the country's economic success founded on a carbon-neutral circular economy society by 2035 ([154]). The vision is guided by the following objectives: the consumption of non-renewable natural resources will decrease, and the sustainable use of renewable natural resources may increase, to the extent that the total consumption of primary raw materials in Finland in 2035 will not exceed that of 2015. The productivity of resources is planned to double by 2035 from what it was in 2015, while the circular material use rate should double by 2035. Finland's Circular Economy Green Deal ([155]) is in its starting phase. It builds on parallel research work done on circular economy scenarios for the country and involves organisations voluntarily committing to reduce their natural resource use, setting goals and taking action to promote a low-carbon circular economy.

Finland's municipal and packaging waste recycling rates show room for improvement to meet future targets, requiring significant additional investment in waste management and circular economy initiatives. In 2023, Finland generated 468 kg per capita of municipal waste, which is below the EU average of 511 kg per capita. In Finland, incineration with energy recovery is the main waste treatment type. The share of incineration significantly increased since 2010 and stands at 55% in 2023. Landfilling accounts for less than 1% of waste treatment. The recycling rate increased from 33% in 2010 to 43.7 in 2022, which is below the estimated EU average of 49%. Finland has reported data to show compliance with the target for preparing municipal waste for reuse and recycling of 55% for 2025. Finland's overall packaging waste recycling rate as well as the recycling rates for all materials steadily increased until 2019. In 2022, the reported recycling rate for total packaging waste was 60%. It is mainly driven by paper, cardboard and plastics packaging, as these are the largest packaging waste fractions. The recycling rate for plastics packaging is still rather low, although it has increased over time, by almost 15% from 2016 to 2020 – but the reported rate was only 31% in 2022. The yearly investment needs in the fields of circular economy and waste management are EUR 1 475 m. The current yearly gap that needs to be bridged with additional investment is EUR 454 m ([156]).

Graph A7.4: **Municipal waste treatment**



Source: Eurostat

Zero pollution industry

Air quality in Finland is generally good. The main contributors to emissions to air are the energy sector (including refineries, gasification etc.) and the metal sector. The external costs of air pollution, stemming in part from industrial emissions, are quantified at EUR 5.9 billion in 2021 using the value of statistical life methodology, ranking as the 12th highest in the EU ([157]). Emissions of several air pollutants have decreased significantly in Finland since 2005, while GDP growth has continued. According to the

([154])Ministry of the Environment, 2021, *Government resolution on the strategic programme for circular economy*, Link.

([155])Ministry of the Environment, 2024, *Circular Economy Green Deal*, Link.

([156])European Commission, DG Environment, *Environmental investment needs & gaps assessment programme*, 2025 update. Expressed in 2022 prices.

([157])EEA, 2024, *The costs to health and the environment from industrial air pollution in Europe – 2024 update*, Link.

latest projections, Finland would meet its emissions reduction commitments by 2030 for NO_x, NMVOC, SO_2, NH_3 and $PM_{2.5}$ ([158]). The latest available annual estimates (for 2022) by the European Environment Agency for Finland attribute 70 deaths a year (or 640 years of life lost (YLL)) to fine particulate matter ($PM_{2.5}$); 50 deaths a year (or 510 YLL) to nitrogen dioxide (NO_2), and 440 deaths a year (or 4 100 YLL) to ozone ([159]). Finland has achieved the highest percentage reduction in the EU in the number of premature deaths attributable to fine particulate matter compared to 2005 (97%) ([160]).

Finland's industry releases significant water pollutants. Finland has the 4th highest amount of emissions of heavy metals to water and has the highest emissions intensity in the EU. The main contributors to emissions to water in Finland are the pulp, paper and wood sector in general and metal sector for heavy metals. Yearly investment needs for pollution prevention and control are EUR 1 737 m. The current yearly gap that needs to be bridged with additional investment is EUR 871 m ([161]).

([158])As submitted under Article 10(2) of the NEC Directive.

([159])EEA, 2024, *Harm to human health from air pollution in Europe: burden of disease status*, 2024, Link.

([160])EEA, 2024, *Premature deaths due to exposure to fine particulate matter in Europe*, Link.

([161])European Commission, DG Environment, *Environmental investment needs & gaps assessment programme*, 2025 update. Expressed in 2022 prices.

Table A7.1: **Key clean industry and climate mitigation indicators: Finland**

Strategic autonomy and technology for the green transition				Finland						EU-27	
Net zero industry											
Operational manufacturing capacity 2023											
- Solar PV (c: cell, w: wafer, m: module), MW	100-200 (m)				- Electrolyzer, MW	-					
- Wind (b: blade, t: turbine, n: nacelle), MW	-				- battery, MWh	-					
Automotive industry transformation	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**			**2018**	**2021**
Motorisation rate (passenger cars per 1000 inhabitants), %	617	629	642	652	656	660	664	↗		539	561
New zero-emission vehicles, electricity motor, %	0.42	0.64	1.66	4.40	10.31	17.79	33.75	↗		1.03	8.96
Critical raw materials	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**			**2018**	**2021**
Material import dependency, %		19.8	19.5	18.8	18.0	17.6	16.1	↘		24.2	22.6
Climate mitigation				Finland				Trend		EU-27	
Industry decarbonisation	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**			**2017**	**2022**
GHG emissions intensity of manufacturing production, kg/€	0.32	0.32	0.3	0.25	0.27	0.26	0.24	↘		0.34	0.27
Share of energy-related emissions in industrial GHG emissions	46.2	46.0	45.5	44.8	44.5	45.5	45.9	↘		44.8	42.5
Energy-related GHG emissions intensity of manufacturing and construction, kg/€	129.1	135.0	129.3	126.3	129.6	124.3	-	↘		158.4	132.9
Share of electricity and renewables in final energy consumption in manufacturing, %	69.6	70.4	70.9	71.0	70.7	69.3	71.4	↘		43.3	44.2
Energy intensity of manufacturing, GWh/€	3.92	4.09	4.09	3.33	3.50	3.36	3.19	↘		1.29	1.09
Share of energy-intensive industries in manufacturing production						16.3					7.3
GHG emissions intensity of production in sector [...], kg/€											
- paper and paper products (NACE C-17)	0.89	1.05	1.01	0.93	0.82	1.10	0.80	-		0.73	0.68
- chemicals and chemical products (NACE C20)	0.67	0.65	0.48	0.50	0.65	0.79	0.57	-		1.25	1.26
- other non-metallic mineral products (NACE C23)	1.35	1.17	1.15	1.17	1.19	1.13	1.05	-		2.53	2.24
- basic metals (NACE C24)	2.45	2.79	2.42	2.33	6.68	5.85	5.38	-		2.79	3.49
Reduction of effort sharing emissions		**2018**	**2019**	**2020**	**2021**	**2022**	**2023**			**2018**	**2023**
GHG emission reductions relative to base year, %					-21.0	-22.9	-27.0				
- domestic road transport		-9.0	-12.2	-17.7	-21.3	-23.3	-26.3	↘		1.4	5.2
- buildings		-34.1	-33.3	-37.9	-40.4	-41.6	-47.6	↘		21.4	32.9
	2005				**2021**	**2022**	**2023**	**Target**		**WEM**	**WAM**
Effort sharing: GHG emissions, Mt; target, gap, %	34.4				27.2	26.5	25.1	-50.0		-4.8	0
Sustainable industry				Finland				Trend		EU-27	
Circular economy transition		**2018**	**2019**	**2020**	**2021**	**2022**	**2023**			**2018**	**2021**
Material footprint, tonnes per person		49.4	47.9	48.8	48.9	51.8	46.6	↘		14.7	15.0
Circular material use rate, %		4.4	4.5	4.4	5.1	5.4	2.4	↗		11.6	11.1
Resource productivity, €/kg		0.9	1.0	1.0	1.0	1.0	1.2	↗		2.1	2.3
Zero pollution industry											
Years of life lost due to PM2.5, per 100,000 inhabitants		86	33	12	30	17	-	↘		702	571
Air pollution damage cost intensity, per thousand € of GVA					10.8						27.5
Water pollution intensity, kg weighted by human factors per bn € GVA						4.9					0.9

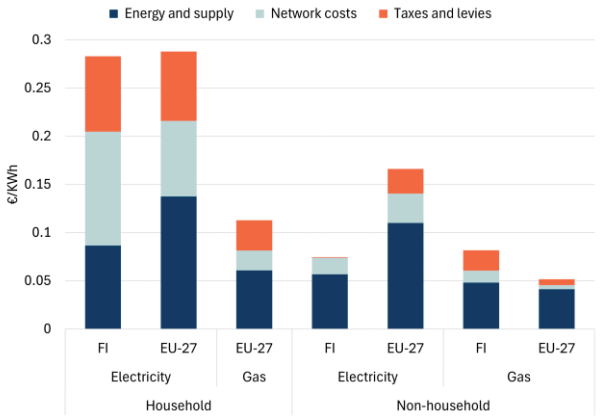
Source: **Net zero industry:** European Commission: The net-zero manufacturing industry landscape across Member States: final report, 2025. **Automotive industry transformation:** Eurostat. **Critical raw materials:** Eurostat. **Climate mitigation:** See footnotes in the "climate mitigation" section; reduction of effort sharing emissions: EEA greenhouse gases data viewer; European Commission, Climate Action Progress Report, 2024. **Sustainable industry:** Years of life lost due to PM2.5: Eurostat and EEA, Harm to human health from air pollution in Europe: burden of disease status, 2024. Air pollution damage: EEA, EU large industry air pollution damage costs intensity, 2024. Emissions covered: As, benzene, Cd, Cr, Hg, NH3, Ni, NMVOC, NOX, Pb, dioxins, PM10, PAH, SOX. Water pollution intensity: EEA, EU large industry water pollution intensity, 2024. Releases into water covered from cadmium, lead, mercury, nickel. Other indicators: Eurostat.

This annex outlines the progress made and the ongoing challenges faced in enhancing energy competitiveness and affordability, while advancing the transition to net zero. It examines the measures and targets proposed in the final updates to the National Energy and Climate Plan (NECPs) for 2030.

Finland has made significant progress in its clean energy transition pathway, having completed the phase out of coal in April 2025([162]), and no Russian gas imports since 2024. Finnish companies are looking for non-fossil fuel sources, and the use of peat has decreased. Wind and solar power production are competitive on the energy market without government support. Finland has made some progress in reforming the permitting process introducing measures to facilitate the uptake of renewable energy projects, including faster and shorter procedures, digitalisation of processes, and improvements in grid connection and integrated planning. Some areas, such as deployment of innovative projects remain to improve.

Energy prices and costs

Graph A8.1: **Retail energy price components for household and non-household consumers, 2024**



(i) For household consumers, consumption band is DC for electricity and D2 for gas. Taxes and levies are shown including VAT.
(ii) For non-household consumers, consumption band is ID for electricity and I4 for gas. Taxes and levies are shown excluding VAT and recoverable charges, as these are typically recovered by businesses.
Source: Eurostat

Retail energy prices in Finland followed different trends in 2024, with electricity retail prices for household consumers increasing by 14% compared to 2023, and both electricity and gas retail prices for non-household consumers decreasing by 16%. The energy and supply component of electricity for households is below the EU average, as it represents 30% of the price, compared to an EU average of 47.8%. Finnish non-household consumers retail electricity prices are the lowest in the EU and are supported by low taxes and levies, representing only 0.9% of the total price, compared to the EU average of 15.4%. Gas prices are subject to a higher taxation representing 25.8% of the price, while the EU average is of 11.6%.

Thanks to a large share of renewables (55.3%)([163]) and nuclear power (39.1%) in its electricity mix, Finland had the EU's second-lowest wholesale electricity prices, averaging 45.6 EUR/MWh in 2024([164]) (EU average of 84.7 EUR/MWh). Along with the broader Nordic region, Finland experienced price spikes in the winter

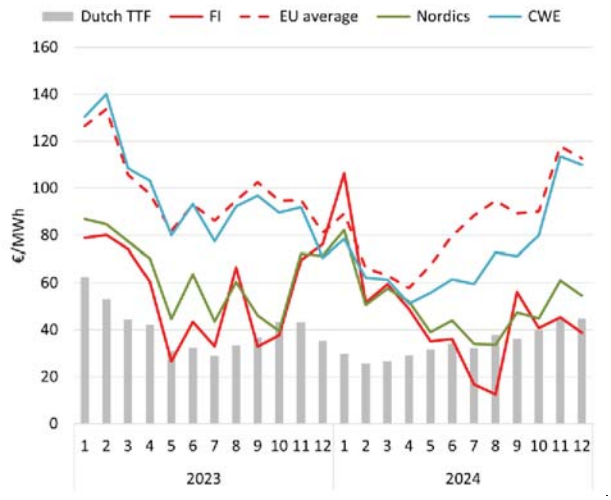
([162])Finland's last coal-fired power and heat plant in active production shut down permanently on 02/04/25.

([163])Wind energy and hydropower accounted for 24.4% and 17.0% of Finland's electricity mix in 2024.

([164])Fraunhofer (ENTSO-E data)

months of early 2024 which occurred amid significant demand increases due to a cold winter (+21.9% and +15.8% in Jan. and Feb. vs the same period in 2023, respectively). Prices picked up again in the second half of the year amid rising natural gas costs and still limited non-fossil flexibility. In November, prices spiked further across the broader Central Western European (CWE) region due to the Dunkelflaute which negatively impacted day-ahead prices in neighbouring markets.

Graph A8.2: **Monthly average day-ahead wholesale electricity prices and European benchmark natural gas prices (Dutch TTF)**



(i) the Title Transfer Facility (TTF) is a virtual trading point for natural gas in the Netherlands. It serves as the primary benchmark for European natural gas prices.
(ii) Nordics and CWE respectively provide average prices in the Nordic (Denmark, Finland, and Sweden) and central-western European (Belgium, France, Germany, Luxembourg, the Netherlands, and Austria) markets.
Source: S&P Platts and ENTSO-E

Flexibility and electricity grids

Finland is part of the Nordic([165]) and Baltic([166]) capacity calculation regions (CCRs). Cross-border trade capacities in these regions are consistently high. Member States should ensure that a minimum of 70% of technical cross-border capacity is available for trading. The borders in the Nordic region are highly interdependent and, to support system operation, flow-based market coupling was successfully implemented in October 2024, thereby increasing the volume of capacities available for trade. To make it more effective, it is important to operationalise the regional coordination centre to ensure smooth coordination within the region and with neighbouring countries. A new interconnector (Aurora Line) between northern Finland and northern Sweden, which is currently under construction, further enhance electricity interconnectivity. Finland has a good level of electricity interconnection (15.23%) in line with the EU target of at least 15% by 2030.

A number of projects are planned or under construction to ensure the efficient functioning of the energy market through strengthened interconnections. These include the Projects of Common Interest in electricity transmission: the two electricity interconnections between Finland and Sweden (Aurora Line, under construction, and Aurora Line 2) and the subsea cable with Estonia (Estlink 3). Finland is also planning a series of cross-border hydrogen transport infrastructure projects that draw from its renewable energy potential. Also, the Finnish Recovery and Resilience Plan includes major investments in the infrastructure required for the production and distribution of renewable energy. The objective of these investments is to enhance the framework conditions for attracting investment in clean energy, with a focus on energy system integration, energy storage and transport. The four projects planned will be completed by Q2 2026, as evidenced by project reports submitted by project beneficiaries. These will correspond to an increase in new renewable energy capacity and/or grid connection capacity of at least 137 MW.

There is an increasing trend in Finland towards negative prices in the country's bidding zone. Finland was the European country with the highest number of negative price hours in 2023 (467 instances), and with 93 GWh of RES (renewable energy sources) curtailment.

Finland is taking steps to further develop non-fossil flexibility. Finland's current operational electricity storage capacity is around 250 MW (mostly batteries). The final updated NECP notes that there are several electricity storage projects under development (batteries and pumped hydro), but there are no specific targets for electricity storage capacity. Demand response

([165]) Norway, Sweden, Finland and Denmark are part of the Nordic CCR. A CCR is a group of countries which calculate cross-border electricity trade flows together.
([166]) Finland, Sweden, Estonia, Latvia, Lithuania and Poland belong to the Baltic CCR.

is well developed in Finland, with around 1 GW participating in the day-ahead market. This capacity is expected to increase and to expand in other markets (intraday and balancing markets). Finland's regulatory framework allows the participation of demand response and of electricity storage in the electricity markets (day-ahead, intraday and balancing). However, independent aggregators cannot participate in these markets.

Consumer empowerment in the electricity market is significant, but the enabling framework for energy communities would needs to be still further developed. 45% of household consumers have a fixed-price electricity contract in Finland, while 31% have a dynamic price contract and 24% have an open-ended contract. Switching rates in electricity increased marginally to just over 15%. The legal maximum switching period is 10 days. 99.9% of final household consumers had smart meters in 2022 (the EU average was 80%).

Finland demonstrated some progress in the enabling framework for energy communities. Since two government decrees on local energy communities were published in 2020 and 2021, as of January 2023, Finland has made it possible for electricity to be shared among the members of an energy community from production and storage facilities in a virtual net-metering scheme within the boundaries of a property or group of properties.

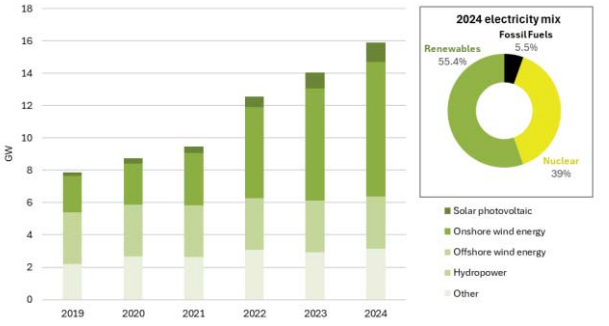
In 2023, electricity accounted for 28.4% of Finland's final energy consumption, above the EU average of 22.9%, and this share has seen a slight increase in the last decade([167])**.** When it comes to households, electricity accounts for 34.3% of final energy consumption, while in industry it represents 30.6% (see also Annex 7). For the transport sector, this share remains negligible at 3.0%. Further progress in electrification across sectors is required for cost effectively decarbonising the economy and bringing the benefits of affordable renewable generation to consumers.

([167]) CAGR (compound annual growth rate) of -0.3% between 2013 and 2023 and minimum/maximum share of 28.2% and 29.3%, respectively.

Renewables and long-term contracts

In 2024, renewable energy sources accounted for 55% of the electricity mix (vs EU overall RES share of 47%), increasing from 51% in 2023. The total expected additional installed wind capacity in 2025 is 1 500 MW (onshore) and in 2026 1 530 MW (mostly onshore), according to the document Wind Pledges – European Wind Power Action (19 December 2023). Renewable installed capacity rose by 13,3% in 2024 (compared to 2023), thanks to the significant increase in onshore wind and solar energy. Finland's total renewable energy capacity was 15 903 MW in 2024.

Graph A8.3: **Finland's installed renewable capacity (left) and electricity generation mix (right)**



"Other" includes renewable municipal waste, solid biofuels, liquid biofuels, and biogas.
Source: IRENA, Ember

Finland has made significant progress in implementing reforms to accelerate the deployment of renewables. Finland has introduced legislation which has created a single unified application process to facilitate the administrative permit application and granting process. Further measures to streamline administrative procedures include limiting the duration of the licensing process for priority investments to a maximum of 12 months and allocating more resources to licensing authorities.

Finland has made some progress in reforming the permitting process. It has introduced many measures to improve the permitting process for renewable energy projects, including faster and shorter procedures, digitalisation of processes, and improvements in grid connection and integrated planning. However, there are some areas – such as deploying innovative projects, streamlining human resources

and enhancing public engagement – that require further attention. Moreover, an infringement procedure has been launched against Finland for failing to transpose the permitting provisions of the revised Renewable Energy Directive (deadline: July 2024). In 2023, Finland contracted 0.48 GW via power purchase agreements (PPAs), comprising 11 deals, thus dropping one position in the ranking of EU Member States since last year([168]).

Energy efficiency

Despite energy efficiency gains in final energy consumption (FEC), structural changes in the energy sector have resulted in higher primary energy consumption (PEC). In 2023, PEC grew by 3.8% to 31.33 Mtoe. FEC decreased by 2.9% to 22.23 Mtoe. Nevertheless, both figures are below pre-pandemic energy consumption levels. Compared to 2022, a fall in FEC was observed in all the main sectors except transport. In industry it was 3.3%, in services 2.9% and in the residential sector 2.3%. In the transport sector, consumption scarcely changed because of consumption growth of 17.4% in the aviation sector. Under the recast Energy Efficiency Directive (Directive (EU) 2023/1791), Finland should try to reach a PEC of 29.8 Mtoe and an FEC of 20.6 Mtoe by 2030. As the largest producer of district heating in the Nordics, Finland has notified the Commission of its comprehensive heating and cooling assessment identifying potential for the application of high-efficiency cogeneration and efficient district heating and cooling in line with Article 25(1) of the Energy Efficiency Directive. While final energy consumption for space heating in residential buildings remained stable from 2018 to 2022, Finland has consistently reduced its greenhouse gas emissions in the household and service sectors (-28% from 2018 to 2023), with a 6% decrease between 2022 and 2023.

Financing of energy efficiency measures and energy renovations can be improved through guarantee schemes and loans for energy efficiency projects. Finland deploys a national financing framework mobilising energy efficiency investments, where most of the measures can be categorised as grants. These measures have been operational for several years. In terms of outreach, tax credits have been temporarily increased for households replacing oil heating (for the period 2022-2027) and have attracted thousands of beneficiaries. But they may need to be continued in order to phase out oil-based heating. Further efforts are needed in order to ensure continuous investment in energy efficiency, and in particular to engage more private financing. Finland's national financing framework has measures to improve energy efficiency in the residential sector, business and public sectors. Further changes in the national financing framework will ensure its responsiveness when it comes to achieving long-term policy goals regarding energy efficiency.

More than 100 000 single-family homes still use oil as their primary source of heating. As part of its recovery and resilience plan, Finland has adopted an action plan for phasing out fossil oil heating that includes multiple measures. Subsidies are made available for households seeking to install a heat pump or other environmentally friendly options. The residential electricity-to-oil price ratio has risen by 110% over the past five years, reducing the financial appeal of heat pumps, although it remains below a ratio of 3. Approximately 109 000 heat pumps were sold in 2023, representing a decrease of 44% compared to the previous year.

Security of supply and diversification

Finland's overall energy mix in 2023 was highly reliant on renewables and biofuels (40.3%) and nuclear (24.3%). Fossil fuels were limited (oil accounting for 23.6%, solid fossil fuels for 5.2% and natural gas only 3.8%).

Nuclear energy plays a role in Finland's energy sector and is a central part of the government's plan to achieve carbon neutrality by 2035. In 2023, Finland fell slightly short of achieving self-sufficiency, as the 1 600-megawatt Olkiluoto 3 nuclear power plant began producing electricity for the grid only in the late winter. Finland is fully dependent on supply of Russian nuclear fuel for its Loviisa NPP (VVER 440 reactor units) of several hundred fresh fuel assemblies. Despite a new supplier is currently under negotiation, it is important for Finland to develop a national plan to fully phase out its

([168])European PPA Market Outlook 2024, Pexapark.

dependency on Russian nuclear fuel, as foreseen by the REPowerEU Roadmap adopted on 6 May 2025.

Fossil fuel subsidies

In 2023, environmentally harmful ([169]) fossil fuel subsidies without a planned phase-out before 2030 represented 0.33% ([170]) of Finland's GDP ([171]), below the EU weighted average of 0.49%. Tax measures accounted for 99% of this volume, while income/price support and direct grants represented 0.9% and 0.1%, respectively. Additionally, Finland's 2023 Effective Carbon Rate ([172]) averaged EUR 94.37 per tonne of CO_2, above the EU weighted mean of EUR 84.80([173]).

([169]) Direct fossil fuel subsidies that incentivise maintaining or increasing in the availability of fossil fuels and/or use of fossil fuels.

([170]) Numerator is based on volumes cross-checked with the Finnish authorities. For all Member States, it includes public R&D expenditures for fossil fuels as reported by the IEA (Energy Technology RD&D Budgets) and excludes, for methodological consistency, excise tax exemption on kerosene consumed in intra-EU27 air traffic.

([171]) 2023 Gross Domestic Product at market prices, Eurostat.

([172]) The Effective Carbon Rate is the sum of carbon taxes, ETS permit prices and fuel excise taxes, representing the aggregate effective carbon rate paid on emissions.

([173])OECD (2024), Pricing Greenhouse Gas Emissions 2024.

Table A8.1: **Key Energy Indicators**

	Finland				EU			
	2021	**2022**	**2023**	**2024**	**2021**	**2022**	**2023**	**2024**
Household consumer - Electricity retail price (EUR/KWh)	**0,1804**	**0,2189**	**0,2482**	**0,2830**	**0,2314**	**0,2649**	**0,2877**	**0,2879**
Energy & supply [%]	30,9%	42,1%	42,6%	30,6%	36,6%	54,3%	55,6%	47,8%
Network costs	37,3%	30,3%	32,1%	41,8%	26,7%	25,3%	24,8%	27,2%
Taxes and levies including VAT	31,8%	27,6%	25,3%	27,6%	36,7%	20,3%	19,6%	25,0%
VAT	19,3%	18,8%	17,5%	19,7%	14,5%	13,4%	13,8%	14,6%
Household consumer - Gas retail price	***n/a***	***n/a***	***n/a***	***n/a***	**0,0684**	**0,0948**	**0,1121**	**0,1128**
Energy & supply	*n/a*	*n/a*	*n/a*	*n/a*	43,7%	61,0%	64,5%	53,9%
Network costs	*n/a*	*n/a*	*n/a*	*n/a*	22,5%	17,3%	17,1%	18,3%
Taxes and levies including VAT	*n/a*	*n/a*	*n/a*	*n/a*	33,8%	21,7%	18,4%	27,8%
VAT	*n/a*	*n/a*	*n/a*	*n/a*	15,5%	11,6%	10,2%	13,6%
Non-household consumer - Electricity retail price	**0,0710**	**0,1071**	**0,0898**	**0,0747**	**0,1242**	**0,1895**	**0,1971**	**0,1661**
Energy & supply	55,9%	65,3%	61,4%	61,1%	43,0%	66,5%	63,0%	55,8%
Network costs	24,0%	15,7%	18,7%	18,5%	15,8%	10,7%	11,9%	15,5%
Taxes and levies excluding VAT	1,0%	0,7%	0,7%	0,9%	30,4%	9,9%	11,2%	15,4%
Non-household consumer - Gas retail price	**0,0671**	**0,1313**	**0,0981**	**0,0818**	**0,0328**	**0,0722**	**0,0672**	**0,0517**
Energy & supply	48,8%	66,2%	54,6%	47,5%	66,2%	77,3%	77,3%	68,7%
Network costs	10,1%	3,7%	8,7%	12,2%	7,7%	3,8%	5,3%	7,1%
Taxes and levies excluding VAT	31,4%	16,1%	21,5%	25,8%	12,5%	6,1%	7,3%	11,6%
Wholesale electrity price (EUR/MWh)	72,2	153,5	56,6	45,2	111,0	233,2	99,1	84,7
Dutch TTF (EUR/MWh)	*n/a*	*n/a*	*n/a*	*n/a*	46,9	123,1	40,5	34,4

	2017	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
Gross Electricity Production (GWh)	**67.523**	**70.263**	**68.650**	**69.267**	**72.122**	**72.186**	**81.540**	-
Combustible Fuels	25.030	27.959	25.923	21.391	23.672	20.693	16.032	-
Nuclear	22.477	22.793	23.870	23.291	23.598	25.336	34.308	-
Hydro	14.772	13.301	12.421	15.883	15.792	13.491	15.200	-
Wind	4.795	5.839	6.025	8.256	8.507	12.022	15.043	-
Solar	48	90	147	219	298	392	716	-
Geothermal	-	-	-	-	-	-	-	-
Other Sources	401	281	264	227	255	252	241	
Gross Electricity Production [%]								
Combustible Fuels	37,1%	39,8%	37,8%	30,9%	32,8%	28,7%	19,7%	-
Nuclear	33,3%	32,4%	34,8%	33,6%	32,7%	35,1%	42,1%	-
Hydro	21,9%	18,9%	18,1%	22,9%	21,9%	18,7%	18,6%	-
Wind	7,1%	8,3%	8,8%	11,9%	11,8%	16,7%	18,4%	-
Solar	0,1%	0,1%	0,2%	0,3%	0,4%	0,5%	0,9%	-
Geothermal	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	-
Other Sources	0,6%	0,4%	0,4%	0,3%	0,4%	0,3%	0,3%	-
Net Imports of Electricity (GWh)	**20.425**	**19.936**	**20.042**	**15.104**	**17.768**	**12.517**	**1.724**	-
As a % of electricity available for final consumption	24,8%	23,7%	24,3%	19,3%	21,3%	16,0%	2,3%	-
Electricity Interconnection [%]	**28,8%**	**28,2%**	**29,1%**	**29,0%**	**24,2%**	**24,0%**	**20,1%**	**15,5%**
Share of renewable energy consumption - by sector [%]								
Electricity	35,0%	36,5%	38,0%	39,6%	39,6%	48,0%	52,4%	-
Heating and cooling	54,6%	54,9%	56,9%	57,6%	52,1%	58,3%	61,3%	-
Transport	18,7%	14,8%	14,8%	14,3%	20,3%	18,8%	20,6%	-
Overall	40,9%	41,2%	42,8%	43,9%	42,8%	47,7%	50,8%	-

	2020	**2021**	**2022**	**2023**	**2020**	**2021**	**2022**	**2023**
Import Dependency [%]	**43,0%**	**37,9%**	**40,9%**	**29,6%**	**57,5%**	**55,5%**	**62,5%**	**58,3%**
of Solid fossil fuels	92,2%	72,4%	126,3%	70,4%	35,8%	37,2%	45,9%	40,8%
of Oil and petroleum products	102,4%	95,5%	101,7%	86,9%	96,8%	91,7%	97,8%	94,5%
of Natural Gas	100,3%	99,6%	103,1%	103,6%	83,6%	83,6%	97,6%	90,0%
Dependency from Russian Fossil Fuels [%]								
of Natural Gas	67,4%	75,1%	49,1%	10,2%	41,0%	40,9%	20,7%	9,3%
of Crude Oil	84,0%	83,0%	17,6%	0,0%	25,7%	25,2%	18,4%	3,0%
of Hard Coal	54,8%	47,2%	15,1%	0,0%	49,1%	47,4%	21,5%	1,0%

	2017	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Gas Consumption (in bcm)	**2,4**	**2,6**	**2,6**	**2,6**	**2,6**	**1,3**	**1,5**
Gas Consumption year-on-year change [%]	-4,7%	10,5%	-1,3%	-0,4%	0,5%	-48,2%	15,0%
Gas Imports - by type (in bcm)	**2,3**	**2,6**	**2,6**	**2,6**	**2,6**	**1,4**	**1,8**
Gas imports - pipeline	2,3	2,6	2,4	2,4	2,3	1,1	-
Gas imports - LNG	0,0	0,1	0,2	0,2	0,2	0,3	1,8
Gas Imports - by main source supplier [%]							
United States	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	54,2%
Norway	0,0%	1,4%	2,2%	0,3%	0,0%	0,0%	21,3%
Russia	100,0%	97,6%	97,0%	67,4%	75,1%	49,1%	10,2%

Source: Eurostat, ENTSO-E, S&P Platts

Finland is a frontrunner in terms of institutional coordination and climate risk assessment work and has an ambitious climate adaptation framework in place at national and regional levels. However, additional action is needed to increase the country's preparedness for climate risks and its water resilience, and to reduce its economy's impact on nature. Finland is taking action to build resilience, but some sectoral policies, particularly agriculture are lagging behind. Sustainable water management also remains a major environmental issue, notably in terms of water governance, water body rehabilitation and water efficiency. The state of nature and ecosystems continues to degrade, creating significant risks to the economy and competitiveness. Finland has begun its transition towards more sustainable agriculture practices, but its agri-food system still has significant climate and environmental impacts. More action is therefore needed to encourage the uptake of sustainable agriculture practices.

Climate adaptation and preparedness

Finland's main challenge is the rate of temperature rise. It is around twice the global average, having increased by around +2 °C compared with the mid-1800s. Over recent decades, Finland has seen an increase in the number and intensity of heatwaves, which can also lead to local droughts. Recent years have seen significant effects on ecosystems, for instance in 2021 when around 12% of Finland's area experienced drought (compared to around 3% in the entire EU). While temperature-related changes have more noticeable effects, alterations in precipitation and drought are less apparent. Finland has observed 20 different climate hazards and is affected by uncertainties as to their evolution in the future. Flooding, coastal flooding and drought are identified as the most significant climate-related hazards ([174]).

Climate risks directly affect Finland's society and economy. Finland recorded 24 heat-related fatalities per 100 000 inhabitants over the period 2013-2022. Extreme weather- and climate-related events caused a total of EUR 2.4 billion in economic losses over the period 1980-2023. These developments are likely to have a particular impact on vulnerable groups and on regions in Finland with populations of lower socioeconomic status, where unemployment is high, due to their lesser capacity to adapt, while climate change aggravates pre-existing vulnerabilities. Overall, climate-related losses in Finland are low. They account for 0.3% of all economic losses caused by extreme weather events in the EU. Just 3% of economic losses were insured over the period 1980-2023. This is the fifth lowest level of economic losses per capita in the EU ([175]).

Finland has strengthened its climate adaptation measures at both national and regional levels. In 2022, it adopted a climate act and a national adaptation plan to 2030 (NAP 2030). Finland's new assessment of risks and vulnerabilities provides a solid basis for climate adaptation by covering all major climate risk factors, including floods, drought, heatwaves and forest fires. Further measures are planned to improve both risk assessments and monitoring frameworks. Adaptation is mainstreamed across policies and there are additional resources to support regional adaptation measures. There are also a wide range of local and regional adaptation policies and actions, and Finnish municipalities and regions are active in the EU Mission on Adaptation to Climate Change. Some Finnish regions and local authorities are active in developing local climate action plans. In 2023, 45% of the population was covered through their municipalities which were signatories to the EU Covenant of Mayors for Climate and Energy.

The NAP 2030 is Finland's main tool for institutional coordination. It emphasises well-being, prosperity, safety and security in a changing climate**.** This covers actions under 10 main themes, such as the use and management of renewable natural resources, nature-based solutions and drought risk management. Moreover, it includes specific actions, responsible actors, timelines and monitoring measures, preventing the need for a separate programme of actions. The measures set out in the plan are binding for central government authorities, and the Ministry of

([174])European Commission, 2023, *Assessment of progress on climate adaptation in the individual Member States according to the European Climate Law*, p. 95.

([175])EEA, 2024, *Economic losses from weather- and climate-related extremes in Europe*, Link.

Agriculture and Forestry leads its overall implementation. Each ministry is responsible for implementing and monitoring the plan within its own administrative area of responsibility.

Several national policy measures related to adaptation and preparedness have been implemented over recent years. One out of three regions in Finland are identified climate-risk hotspots most affected by climate change, i.e. low-lying coastal regions. Finland is taking a multi-tiered approach to climate adaptation, involving a broad range of policymakers and stakeholders, and harnessing scientific and technological advances.

Finland makes use of several EU funds to improve its preparedness. These include the European Regional Development Fund; the Social Climate Fund; the Just Transition Fund, limited to relevant regions; and the Recovery and Resilience Facility. Finland's Recovery and Resilience plan includes adaptation measures such as gypsum treatment of fields and nutrient recycling, as well as developing new methods, technologies and knowledge to improve the selection of appropriate tree species for various locations and to augment the mix of trees (precision forestry).

Water resilience

Water quality is good in Finland overall, though some issues remain as regards surface and groundwater bodies. Finland's third river basin management plan (2022-2027) under the Water Framework Directive shows that 74.6% of surface water bodies have good or higher ecological status/potential, but 100% of surface water bodies are failing to achieve good chemical status. Diffused pollution from agriculture and forestry have remained at high levels and are the main pressure in terms of the quality of water bodies. Failure to achieve good status is largely due to mercury (50% of water bodies, mainly through atmospheric deposition from long range transport) and to PBDEs (polybrominated diphenyl ethers). All groundwater bodies, except two, have a good quantitative status. Water quantity is not a problem for recharging groundwater bodies. 93.4% of groundwater bodies are in good chemical status.

Finland's wastewater treatment is mostly compliant, with some exceptions. Overall, the compliance rate was 97% in Finland in 2020. Seven agglomerations did not meet the requirements of the EU's Urban Wastewater Treatment Directive. Finland needs to take additional measures and implement the necessary projects to fully comply with the EU water legislation. As shown in Graph A9.2, the investment needs for water protection and water management are substantial, with a financing gap of EUR 198 million per year by 2027.

As regards quantitative management of the resource, the water exploitation index plus (WEI+) remained stable at 0.6 in 2022, showing no indication of over-exploitation of water resources. Yet, Finland's water productivity is considerably higher than that of other Member States, standing at EUR 100 per m3 of abstracted water in 2022 and showing an increasing trend over a five-year period (155). The main consumer of water is the manufacturing sector (77% of the total in 2022).

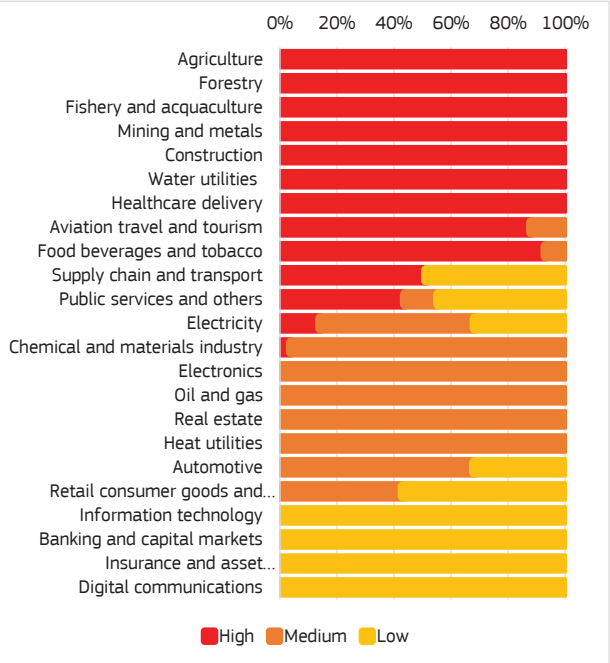
Although the resource is currently not over-exploited, water resilience considerations must also take into account climate change impacts (e.g., droughts, floods) as well as other risks, such as cybersecurity. On cybersecurity, although some progress is being made, the water supply sector fails to reach a level of maturity as good as most other sectors, despite its crucial role in societal functionality. On climate change, a National Climate Change Adaptation Plan is in place; besides, Finland produced industry specific guides for aquaculture, agriculture and fur production, forestry, water supply, peat production, and water infrastructure, to help sectors maintain their operations under climate change conditions and help planning the management of water resources. In practice, based on a survey of water utilities and a desk study from 2019, water utilities are making efforts to adapt but further work needs to be done. Water supply in Finland is strictly regulated and water supply utilities are required to have comprehensive risk management and prepare for exceptional situations.

Biodiversity and ecosystems

The state of nature and ecosystems has slightly degraded in Finland. Forest management is the most frequently reported pressure. This trend could reduce the country's climate resilience. According to the latest available data, only 31.9% of the country's habitats have a good status, though this is higher than the EU average of 14.7%. In terms of the conservation status of species, 45.3% are reported as having a good status, which is again higher than the EU average of 27%. Data show a slightly deteriorating trend compared to the previous reporting period. On the other hand, only 11.8% of the forest habitats of community interest in Finland show a favourable conservation status. The loss of biodiversity impairs ecosystems' ability to provide services that help mitigate the effects of climate change, such as regulating water cycles, maintaining soil health and sequestering carbon. To preserve Finland's climate resilience, it is crucial that the status of habitats and species be maintained and that forestry practices take that need fully into account.

Nature degradation creates significant risks to Finland's economy and competitiveness, as it is one of the Member States with a particularly high dependency on ecosystem services. The economy's direct dependency on ecosystem services is classified as high for 50% of gross value added and is therefore much higher than the EU-27 average of 44% (see detailed information at EU level in Graph A9.1). Finland's supply chain dependency on ecosystem services is 25% of gross value added, which is above the EU-27 average of 22%. This means that failure to maintain the capacity of ecosystems to deliver services could entail significant costs or even stop production in these sectors. Protecting and restoring key ecosystems would ensure that the long-term competitiveness of these economic sectors is preserved.

Graph A9.1: **Direct dependency(1) on ecosystem services(2) of the gross value added generated by economic sector in 2022 in the European Union**

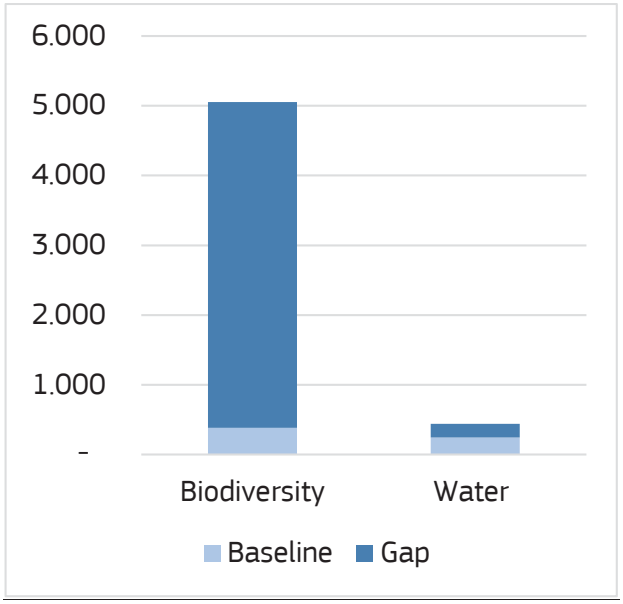


(1) Dependency based on the sector's own operations, excluding value chain operations within countries and across international value chains. A high dependency indicates a high potential exposure to nature-related shocks or deteriorating trends, which means that the disruption of an ecosystem service could cause production failure and severe financial loss.
(2) Ecosystem services are the contributions of ecosystems to the benefits that are used in economic and other human activity, including provisioning services (e.g. biomass provisioning or water supply), regulating and maintenance services (e.g. soil quality regulation or pollination), and cultural services (e.g. recreational activities).
Source: Hirschbuehl et al., 2025, *The EU economy's dependency on nature*, Link.

Targeted action and much higher investments in nature protection and restoration are needed to meet Finland's nature restoration targets. In 2022, 13% of Finland's territory was covered by protected land area (below the EU average of 26%) and this percentage has remained stable over the last few years. Finland is therefore far from achieving its political commitment of 30% protection of land and sea by 2030 and the country should foster nature protection and restoration through the implementation of its forthcoming National Biodiversity Strategy and an action plan to 2030. Finland needs to ensure that species and habitats of community interest are maintained at, or restored to, favourable conservation status across their natural range. Finland has nature protection and restoration programmes, such as the METSO programme for financing forest biodiversity

measures ([176]) and the HELMI programme focusing mainly on mires, wetlands, coastal habitats and semi-natural grasslands ([177]). Furthermore, the SOTKA project is designed to improve the status of waterfowl ([178]). Given the increasing numbers of negative trends in the conservation status of habitats and species, it is important that Finland pursue similarly ambitious actions over the coming years, as Finland is estimated to need to restore up to 86 953 km^2 of habitats listed in Annex I to the Habitats Directive, corresponding to up to 25.7% of its territory ([179]). Finland requires EUR 5 billion of investment per year to effectively conserve and restore its natural capital, mitigate the impacts of climate change, and preserve the country's rich biodiversity (see Graph A9.2). However, the current level of financing for biodiversity and ecosystem conservation in Finland is only EUR 384 million per year. This shortfall puts at risk the country's commitment to global biodiversity agreements and undermines its long-term economic and social development.

Graph A9.2: **Investment needs and gaps in EUR million, in 2022 constant prices**



Source: European Commission, DG Environment, Environmental investment needs & gaps assessment programme, 2025 update.

Sustainable agriculture and land use

Finland's carbon removals fall short of the level of ambition needed to meet its 2030 target for land use, land use change and forestry (LULUCF). Finland's net removals have decreased since 2015, resulting in worryingly large net emissions in 2021 and 2022. To meet its 2030 LULUCF target, additional carbon removals of -2.9 million tonnes of CO_2 equivalent (CO_2eq) are needed ([180]). The latest available projections show a gap to target of 1.2 million tonnes of CO_2eq for 2030 ([181]). Additional measures are therefore needed to achieve the 2030 target.

Finland's agriculture is still a major source of greenhouse gas emissions, in particular from peatlands in agricultural areas. In 2022, agriculture was responsible for a total of 6.1 million tonnes of CO_2eq, accounting for around 15% of Finland's total emissions. Emissions from cultivated peatland account for more than half of the agricultural sector's total emissions. Peatlands

([176])METSO – The Forest Biodiversity Programme for Southern Finland, Link.

([177])Ministry of the Environment, 2021, *Helmi-ohjelma vahvistaa luonnon moni-muotoisuutta*, Link.

([178])Finnish Wildlife Agency's Sotka Wetlands, 2023, Link.

([179])European Commission, 2022, *Impact assessment accompanying the proposal for a Regulation on nature restoration.*

([180])National LULUCF targets of the Member States in line with Regulation (EU) 2023/839.

([181])EU Climate Action Progress Report 2024 (COM/2024/498).

therefore offer the greatest potential for reducing greenhouse gas emissions. To mitigate the environmental impact of agriculture, Finland has implemented measures under the common agriculture policy (CAP) strategic plan. Under its CAP plan, Finland aims to promote the protection of peatlands in agricultural areas – a ban on digging new ditches, a ban on extraction and burning of peat, a ban on ploughing in newly cleared agricultural land and on permanent grasslands, and an obligation to have newly cleared areas under grass. Finland's CAP plan plays a crucial role in supporting the national goal of carbon neutrality by 2035 and reducing greenhouse gas emissions from agriculture by 29% of the 2019 level by 2035.

Finland is transitioning to a sustainable food system. Finland has agricultural land with landscape features such as forests, non-productive grasslands and wetlands, offering numerous environmental and biodiversity benefits, including carbon sequestration and habitat creation for wildlife. Finland's proportion of agricultural land with those characteristics was 7.6% in 2022, above the EU average of 5.6%. The area under organic farming in Finland has increased, from 9% of utilised agricultural area (UAA) in 2014 to 15% in 2022. This is above the EU average of 9% in 2020. Finland aims to achieve 20% of UAA under organic farming by the end of the funding period. The CAP plan promotes an increase in organic production and livestock production, and the widespread cultivation of organically produced vegetables in the open field. The measure under the CAP plan promotes organic farming in line with the National Organic Programme, which aims for a 25% organically farmed area by 2030.

Table A9.1: **Key indicators tracking progress on climate adaptation, resilience and environment**

Climate adaptation and preparedness:	Finland						EU-27	
	2018	2019	2020	2021	2022	2023	2018	2021
Drought impact on ecosystems *[area impacted by drought as % of total]*	8.51	6.73	2.87	11.95	1.34	2.09	6.77	2.76
Forest-fire burnt area (1) *[ha, annual average 2006-2023]*	191	191	191	191	191	191		
Economic losses from extreme events *[EUR million at constant 2022 prices]*	-	-	97	49	-	-	24 142	62 981
Insurance protection gap (2) *[composite score between 0 and 4]*	-	-	-	-	1.00	1.00		
Heat-related mortality (3) *[number of deaths per 100 000 inhabitants in 2013-2022]*	24	24	24	24	24			
Sub-national climate adaptation action *[% of population covered by the EU Covenant of Mayors for Climate & Energy]*	42	44	46	46	45	45	41	44

Water resilience:	Finland						EU-27	
	2018	2019	2020	2021	2022	2023	2018	2021
Water Exploitation Index Plus, WEI+ (4) *[total water consumption as % of renewable freshwater resources]*	0.8	0.8	0.6	0.6	0.6	-	4.5	4.6
Water consumption *[million m^3]*	860	887	849	802	718	-		
Ecological/quantitative status of water bodies (5) *[% of water bodies failing to achieve good status]*								
Surface water bodies	-	-	-	25%	-	-	-	59%
Groundwater bodies	-	-	-	0%	-	-	-	93%

Biodiversity and ecosystems:	Finland						EU-27	
	2018	2019	2020	2021	2022	2023	2018	2021
Conservation status of habitats (6) *[% of habitats having a good conservation status]*	31.9	-	-	-	-	-	14.7	-
Common farmland bird index *2000=100*	76.8	76.7	84.4	88.7	79.8	-	72.2	74.4
Protected areas *[% of protected land areas]*	-	-	-	13	13	-	-	26

Sustainable agriculture and land use:	Finland						EU-27	
	2018	2019	2020	2021	2022	2023	2018	2021
Bioeconomy's added value (7) *[EUR million]*	14 748	14 269	13 733	15 506			634 378	716 124
Landscape features *[% of agricultural land covered with landscape features]*	-	-	-	-	8	-		
Food waste *[kg per capita]*	-	-	116	125	109	-		
Area under organic farming *[% of total UAA]*	13.1	13.5	13.9	14.5	15.0		7.99	-
Nitrogen balance *[kg of nitrogen per ha of UAA]*	58.0	43.7	-35.2	-8.7	-	-		
Nitrates in groundwater (8) *[mgNO_3/l]*	0.4	0.2	0.2	0.2	-	-		
Net greenhouse gas removals from LULUCF (9) *[Kt CO_2-eq]*	2 324 -	3 233 -	5 354	3 474	4 443	-	- 256 077 -	240 984

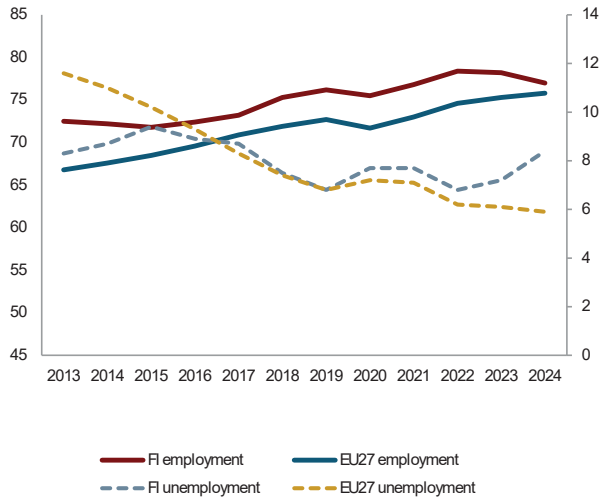
(1) The data show the average for the timespan 2006-2023 based on EFFIS - European Forest Fire Information System.
(2) Scale: 0 (no protection gap) – 4 (very high gap). EIOPA, 2024, Dashboard on insurance protection gap for natural catastrophes.
(3) van Daalen, K. R. et al., 2024, The 2024 Europe report of the Lancet Countdown on health and climate change: unprecedented warming demands unprecedented action. The Lancet Public Health.
(4) This indicator measures total water consumption as a percentage of the renewable freshwater resources available for a given territory and period. Values above 20% are generally considered to be a sign of water scarcity, while values equal or greater than 40% indicate situations of severe water scarcity.
(5) European Commission, 2024, seventh Implementation Report from the Commission to the Council and the European Parliament on the implementation of the Water Framework Directive (2000/60/EC) and the Floods Directive (2007/60/EC) (Third River Basin Management Plans and Second Flood Risk Management Plans).
(6) For this indicator, the EU average includes the figure for the UK under the previous configuration, EU-28.
(7) European Commission, 2023, EU Bioeconomy Monitoring System dashboards.
(8) Nitrates can persist in groundwater for a long time and accumulate at a high level through inputs from anthropogenic sources (mainly agriculture). The EU drinking water standard sets a limit of 50 mg NO_3/L to avoid threats to human health.
(9) Net removals are expressed in negative figures, net emissions in positive figures. Reported data are from the 2024 greenhouse gas inventory submission. 2030 value of net greenhouse gas removals as in Regulation (EU) 2023/839 – Annex IIa.
Source: Eurostat, EEA.

ANNEX 10: LABOUR MARKET

Finland's labour market continued to weaken in 2024, although the employment rate remains high overall. Unemployment is rising and the country faces structural challenges such as labour and skills shortages in specific sectors, regional inequalities and demographic challenges, limiting its economic growth potential and competitiveness. As Finland continues to work towards its 2030 employment target, it would benefit from better harnessing the potential of underrepresented groups in the labour market such as the long-term unemployed, people with partial work ability, migrant women and older people. Measures to tackle labour and skills shortages could include improving the quality of working life and ensuring decent wages and collective bargaining. Ongoing efforts to simplify the social security system, including unemployment benefits, should eliminate incentive traps while maintaining adequate social protection. There are positive signs that efforts to encourage international recruitment and attract foreign talent are bearing fruit, in terms of mitigating labour shortages, particularly in the social and healthcare sectors.

In 2024, the employment rate in Finland declined and unemployment increased, as the effects of the prolonged economic slowdown took hold in the labour market. The Finnish economy fell into a recession in 2023 and contracted slightly in 2024([182]). The weak performance of the economy has been driven by the struggling export and construction sectors and stagnating private consumption. Rising unemployment combined with cuts to social benefits have put further pressure on low-income households, compounding the socioeconomic challenge. Finland's employment rate fell 1.2 percentage points (pps) to 77.0% in 2024, away from the national 2030 target of 80%, while the EU average increased by 0.5 percentage points (pps) to 75.8% (see Social Scoreboard in Annex 13). The unemployment rate increased by 1.2 pps to 8.4% in 2024, while the EU average unemployment rate reached a historic low of 5.9% (graph A10.1).

Graph A10.1: **Employment and unemployment, FI and EU**



Employment (left axis): % of population 20-64
Unemployment (right axis): % of labour force 15-74
Source: Eurostat: tesem120; tesem010

Regional labour market disparities are significant, with the sparsely populated and rural border regions in the most challenging situation. The unemployment rate is highest in North Karelia (15.1%), south-east Finland (13.8%) and central Finland (13.7%), and lowest in Åland (5.1%) and western Finland ([183]). Between October 2023 and 2024, the number of unemployed people increased in all Finnish regions except Lapland, while the number of vacancies declined in all regions. To address these challenges, funding from the Technical Support Instrument (TSI) supports the preparation of a transition strategy for the border regions and areas in eastern and south-eastern Finland ([184]).

As the working-age population in Finland continues to decline, achieving a high level of employment becomes ever more important to support the welfare state. Demographic changes make it essential to harness the skills and potential of both younger and older people, inactive persons with disabilities, focusing on i)

([182])Economic forecast for Finland - European Commission (15 November 2024

([183])Ministry of Economic Affairs and Employment: Employment Bulletin – March 2025

([184])Ministry of Economic Affairs and Employment: Joint project seeks new solutions for strengthening vitality of eastern Finland

setting specific targets, ii) education, iii) reskilling and iv) flexible employment options to boost economic resilience and foster intergenerational solidarity ([185]). Several measures in the Finnish government programme, the recovery and resilience plan (RRP) and the medium-term fiscal-structural plan therefore focus on strengthening work incentives and combating labour and skills shortages. Structural reforms such as the Nordic model of employment services ([186]), unemployment benefit reforms and social protection reforms to eliminate incentive traps contribute to the government's aim of increasing employment by 100 000 people by 2027.

The employment and social protection reforms already implemented could account for an additional 89 250 persons entering work, according to internal calculations ([187]). While the reforms have strengthened incentives to take up full-time employment by reducing the disposable income in cases where part-time employment is supplemented by unemployment benefits, this has also increased the vulnerability of low-income households who are unable to increase their labour-market participation ([188]). For people requiring complex or dynamic forms of income support, considerable incentive traps remain in the way of labour market participation, since accepting part-time or casual employment during a transition to full-time employment is not rewarded with higher disposable incomes ([189]). Additional measures are required to eliminate incentive traps discouraging part-time employment, while maintaining an adequate level of minimum income protection at all stages of life.

([185])EPSCO Council 2-3 December 2024: Comprehensive solutions to demographic challenges: Supporting parents and unlocking the untapped potential of young and older generations

([186])The Nordic model of employment services, an RRP reform implemented in 2022, added incentives for finding employment through job search obligations and personal interviews with public employment services.

([187])Ministry of Finance 2024: Hallitusohjelman rakennepoliittisten toimien työllisyystavoitteiden seuranta

([188])Ministry of Social Affairs and Health 2024: Vuosien 2024 ja 2025 sosiaaliturvamuutosten yhteisvaikutukset kotitalouksien taloudelliseen asemaan

([189])Prime Minister's Office 2024: The effectiveness of social security in the diverse and changing life situations of adolescents

Finland has implemented tax relief measures to encourage labour market participation, with a specific focus on low- and middle-income households ([190]). Besides the indexation of tax brackets for personal income tax, the income credits for earned and employment incomes have been increased in both 2024 and 2025. From the beginning of 2025, the earned income tax credit may be increased by EUR 50 for each child in the household under 18 (amount doubled for single parents). The earned-income allowance (for both state and municipal taxes) was abolished in the beginning of 2025, and the earned income tax credit was amended to account for this change. The pension income deduction was tightened for middle-income pensioners. Further measures to reduce the tax burden were announced in the government's mid-term policy review session of April 2025.

The Ministry of Economic Affairs and Employment also focuses on encouraging late-life careers and combating age discrimination in the labour market ([191]). Specific recommendations to better harness the untapped potential of older workers (those over 55) include i) more flexible working time arrangements, ii) better utilisation of data in public employment services, iii) strengthening the role of experienced workers as mentors in the workplace, and iv) simplifying the regulatory burden to facilitate information-sharing between government institutions.

Real wages are set to recover slightly in 2025, following a significant decline between 2022 and 2024. Nominal wage growth is expected to reach 2.7% in 2025, after 0.5% in 2024 and 3.4% in 2023 ([192]). This is relatively low compared to other Member States. Real wages fell sharply during the period 2022-2024 ([193]), remaining 5.9% below their levels in 2019 ([194]). In 2025, real wages are set to increase only slightly,

([190])Finnish Government 2025: Decisions in mid-term policy review session

([191])Ministry of Economic Affairs and Employment 2024: Ehdotuksia +55-vuotiaiden työllistämisen edistämiseksi

([192])Based on the European Commission Autumn 2024 economic forecast.

([193])4.4% in 2022, -0.8% in 2023 and -0.8% in 2024.

([194])OECD 2024: OECD Employment Outlook

by 0.7%, below the EU average of 1.1% ([195]). The increase in unit labour costs (ULCs) has been significantly less than in most member states. ULC growth is forecast to reach 1.8% in 2025, following a 0.1% fall in 2024. Since 2023, the cumulative growth in ULCs ([196]) has been substantially below the EU average. Wage growth over the last decade has been below what could be expected based on developments in macroeconomic drivers, including productivity ([197]). This suggests that there is scope for further wage increases without jeopardising competitiveness.

Disputes over legislative changes to wage-setting and collective bargaining have led to strikes and other industrial action. On 1 January 2025, a reform promoting local-level bargaining, to improve the flexibility of labour markets, took effect. This allows firms that are not part of a registered employers' union to negotiate local derogations from sector-level collective agreements in consultation with workers' representatives. The reform is not expected to significantly impact collective-bargaining coverage, which at 89% is among the highest in the EU ([198]). Still, the effects of decentralised bargaining require ongoing evaluation to prevent gaps in coverage, especially in sectors with low levels of unionisation such as services and platform work.

Ongoing reforms to the wage-setting model, which could restrict the autonomy of social partners, may make it more difficult to close the gender pay gap. Amendments to the National Conciliator Act that took effect on 1 January 2025 are aimed at preserving the competitive advantage of the export-driven economy through a harmonisation of wage increases with those in the public sector. However, since export-sector occupations have higher average wages and a high proportion of men, while many public sector occupations have lower average wages and a high proportion of women, the structural gender pay gap remains considerable. The effects of this reform on equal pay between women and men, and on work of equal value, is to be closely monitored.

The labour market is strongly segregated by gender, posing challenges for equal pay. At 16.8%, the gender pay gap in Finland remains worse than the EU average of 12%. Wage inequalities between occupations tend to exacerbate wage inequalities between men and women, due to the strong gender segregation of qualifications and occupations ([199]). In 2022 only 8.9% of employees worked in an occupation without notable gender imbalances ([200]). The relatively high gender pay gap presents a challenge for inclusion, especially for women from migrant backgrounds. Women from non-EU countries have a particularly high over-qualification rate, at 33.0% compared to 17.8% for nationals of other EU countries and 17.4% for Finnish nationals. Easing the recognition requirements for foreign qualifications should encourage integration through work, while also addressing the gender pay gap. Schools could encourage both young girls and boys to pursue career paths based on interests and skills, rather than gender ([201]).

It has been noted that the social protection reforms taking effect in 2024 and 2025 tend to affect vulnerable groups such as single-parent households ([202]). Accordingly, the risk of inequalities in labour market participation should be assessed and mitigated. Effective national transposition of the pay transparency directive ([203]) in conjunction with the social partners, could be beneficial for exposing gender pay gaps within organisations and for promoting collective bargaining to reduce the structural pay gaps in female-dominated sectors.

([195])DG EMPL, own calculations based on the 2024 Autumn economic forecast. HICP deflator is used for real gross wages.

([196])5.3% in both 2022 and 2023.

([197])Wage benchmarks are predicted by developments in inflation, productivity, the trade balance and the unemployment rate.

([198])OECD Data Explorer - Collective bargaining coverage

([199])In 2020, 52.7% of Finnish men employed in the private sector had a degree in technology and ICT, in contrast to only 11.7% of women. Private-sector services, health and social care account for a total of 30.5% of women's qualifications but only 9.7% of men's.

([200])Ministry of Social Affairs and Health 2024: Changes in working life, the position of the genders in the labour market and equal pay

([201])European Commission 2020: A Union of Equality: Gender Equality Strategy 2020-2025

([202])Ministry of Social Affairs and Health 2024: Vuosien 2024 ja 2025 sosiaaliturvamuutosten yhteisvaikutukset kotitalouksien taloudelliseen asemaan

([203])Directive (EU) 2023/970 of the European Parliament and of the Council of 10 May 2023.

Finland faces persistent labour shortages for health, social and childcare workers and special education teachers. There is high demand for ICT workers, personal service workers, metal and machinery workers and special-education teachers ([204]). Shortages of qualified nurses and care workers have led the wellbeing services counties ([205]) to purchase care provision as outsourced services, with spending doubling from EUR 281 million in 2021 to EUR 604 million in 2023 (4.6% of total staff expenses). This steep increase in outsourcing presents a concern for both financial sustainability and the continuity and stability of care services ([206]). Measures to improve the attractiveness of the healthcare sector are beneficial, including the reduction of administrative duties and the use of digital and technological innovations to reduce the workload and improve safety at work ([207]).

The Finnish RRP includes measures to improve access to health and social services while enhancing cost-effectiveness through service-oriented digital innovations such as client advisory services, booking, e-transactions and remote services. In addition, the Ministry of Social Affairs and Health coordinates a number of programmes to improve the quality of working life and wellbeing at work to tackle shortages across the labour market ([208]). These include a mental health at work programme and a work ability programme, which supports people with partial work ability, ageing workers, people outside of employment and other worker groups at risk of claiming disability pensions ([209]). Additional measures could be taken to ensure effective and adequate activation support to get key target groups such as the long-term unemployed into work.

The responsibility for organising public employment services was recently transferred to the municipalities ([210]). Since 1 January 2025, public employment services have been provided by municipalities or municipal co-management areas rather than the state's employment and economic development offices. In total, 45 employment areas have been established, including 41 areas based on the principle of municipal co-management and four municipalities (Lahti, Kouvola, Helsinki and Vantaa) organising the employment services by themselves. The initial outcomes since the transfer are positive, as the vast majority of customers have been allocated a case handler and payments of unemployment benefits have not been affected. More than 4 400 administrative staff members have been transferred as part of the reform, with a follow-up monitoring exercise planned by the end of the government term in 2027. The transfer of public employment services to municipalities will also affect the delivery of active labour market services, where key lessons were learned from the pilot studies conducted in the period 2021-2024. Further efforts could be considered to strengthen active support to employment, particularly for jobseekers most in need of personalised support.

The ESF+ in Finland promotes employment and supports the development of skills that meet the needs of the labour market. An investment of EUR 182 million has been made to boost employment by developing employment support services, increasing the employability of jobseekers through reskilling and upskilling, and promoting regional and inter-occupational labour mobility. Additional ESF+ investments (EUR 156 million) are targeted at the long-term unemployed and the most vulnerable to help them enter work. The ICT sector remains underdeveloped, with ICT specialists accounting for 7.6% of total employment in 2023, albeit above the 4.8% on average in the EU. Women are underrepresented, at 22.2% of ICT specialists (EU: 19.4%).

Finland could further harness the employment opportunities of the green transition. The green transition is expected to

([204])Ministry of Economic Affairs and Employment 2024: Työvoimabarometri

([205])Wellbeing services counties - Ministry of Social Affairs and Health. See also Annex 11

([206])Ministry of Social Affairs and Health 2024: Vuokratyövoiman käyttöä on hillittävä hyvinvointialueiden toiminnan ja talouden turvaamiseksi

([207])Ministry of Social Affairs and Health 2024: Hyvän työn ohjelma 2024-2027

([208])Ministry of Finance: memorandum 27 June 2024 on programmes to improve working life

([209])Ministry of Social Affairs and Health 2024: Työelämäohjelmat 2024-2027

([210])Employment areas - Ministry of Economic Affairs and Employment

transform labour markets in the long term ([211]). Finland is preparing its education system in anticipation of upcoming labour needs for green skills, such as energy efficiency, energy supply, construction and transport (see annex 12). During the ongoing transition, the Just Transition Fund supports people who have lost their jobs or are at risk of losing their jobs in the peat sector. Investments have been made in measures to improve access to employment, support self-employment and business start-ups and to support the adaptation of workers, enterprises and entrepreneurs to the green transition. The target is to create 3 700 new jobs by 2029 in areas most significantly impacted by the transition to a climate-neutral economy.

([211])Prime Minister's Office 2023: Skills and education needs in the green transition

While social conditions in Finland are generally good, the number of people at risk of poverty or social exclusion has increased in recent years. Weakening demographics continue to put strain on the sustainability of pensions, healthcare and social protection systems. Regional inequalities in access to social and healthcare services present an additional challenge. Ongoing reforms to social protection benefits, including budget cuts and the abolition of supplements, will require close monitoring to avoid negative effects of reforms on people in the most vulnerable situations. Further efforts to strengthen active support to employment for underrepresented and vulnerable groups, and to ensure adequate levels of social protection, will be essential for further progress towards the 2030 poverty reduction target and contribute to inclusive growth and competitiveness.

The rapidly ageing population is placing a burden on public spending for pensions, social protection, healthcare and long-term care. The population share aged 65 years and over increased by 4.0 pps between 2014 and 2024 (EU: 2.9 pps), standing at 23.4%. The old-age dependency ratio is 41.6, far above the EU average of 37.0 ([212]), while the fertility rate of 1.26 is below the EU average of 1.38. In 2022, public spending on pensions in Finland was 13.0% of GDP, one of the highest shares in the EU. Ensuring adequate public and private funding for the welfare state, notably social and healthcare services and minimum income protection presents a considerable challenge given the ongoing demographic changes ([213]). Reforms to social policies, including pensions, require coordination between administrations at the national and regional levels, as well as the involvement of social partners and the occupational pension funds. In January 2025, the social partners and government agreed on the framework for a reform of the occupational pensions system aiming to strengthen public finances by EUR 1 billion. Robust formal and effective access to social protection, including for non-standard workers and the self-employed, accounts for the generally positive living situations of people who are integrated in the labour market ([214]). However, people dependent on minimum income protection have not seen improvements in their living standards. Reforms with regressive distributional effects should be avoided where possible, with adequate social protection guaranteed in all living situations and particularly for groups at risk of income losses. Expenditure on long-term care is the third highest in the EU ([215]) and the ageing of the population is projected to lead to long-term fiscal sustainability challenges (see Annex 12). While the reform of social and healthcare services lays the ground for potential improvements in governance and the management of the performance of the LTC system, it is not clear to what extent such mechanisms have been implemented yet. While wellbeing services counties (WSCs) are being required to make savings, in the area of LTC, this seems to have been achieved largely through reductions in services rather than efficiency improvements.

The social and healthcare sector suffers from labour and skills shortages and budgetary challenges leading to high unmet needs. Self-reported unmet need for medical care increased significantly from 4.4% in 2021 to 8.5% of the adult population in 2024 (EU: 2.5%) (see Annex 14). This increase reflects a challenging situation combining labour and skills shortages, long waiting times and backlogs in non-urgent care following the COVID-19 pandemic, as well as budgetary pressures on publicly funded services. As a key reform under the recovery and resilience plan (RRP), the Finnish social and healthcare system was fundamentally reformed in 2023, when 21 WSCs were established to provide social, healthcare and rescue services at the regional level. In their first years of operation, the WSCs have accumulated a deficit of EUR 2.7 billion, factors such as high inflation putting upward pressures on prices and collectively bargained wages, rising demand for services, and labour shortages leading to the use of outsourced services from private-sector providers. By law, WSCs are required to achieve budget neutrality by the end of 2026. They have committed to fiscal consolidation and efficiency improvements worth EUR 3.5 billion to achieve this goal, possibly

([212])Eurostat: demo_pjanind, old-age dependency ratio defined as population 65 years or over to population 20-64 years.

([213])DG EMPL, SPC 2024: The 2024 pension adequacy report.

([214])ESPAN 2023: Making access to social protection for workers and the self-employed more transparent through information and simplification.

([215])2024 ageing report - Publications Office of the EU

putting the quality and adequacy of care at risk ([216]). From 1 January 2025, the 'care guarantee' in basic, non-urgent care was prolonged from two weeks to three months for people over 23 ([217]). This entails a risk of rising average waiting times, further exacerbating the situation of unmet needs. While the ratio of vacancies to unemployed healthcare professionals has significantly improved, with shortages for nurses and care workers dropping by half between 2023 and 2024 ([218]), most WSCs still experience challenges with labour and skills shortages (see Annexes 10 and 12). Measures to encourage effective cooperation between public and private healthcare providers could be considered to ensure most efficient use of public funds and resources while improving patient outcomes.

Finland's long-term care system is generous by EU standards, with high levels of public spending and coverage. However, WSCs face a deterioration in their ability to ensure adequate access to long-term care services, given demographic trends and budgetary pressures. Access to long-term care (LTC) for older people and persons with disabilities is increasingly limited by labour shortages and the limited availability of places for 24-hour services, particularly as the demand for LTC is expected to increase with the ageing population. The LTC staff-to-patient ratio was reduced from 0.65 to 0.6 from the beginning of 2025 to achieve annual public savings of EUR 45 million ([219]). However, expert evaluations highlight the risk that LTC services may become under-resourced if the expenditure savings become excessive ([220]). In addition to publicly funded services, LTC relies heavily on local care providers ([221]). The role of home-based and family care is also central, particularly in light of limited places in care homes or assisted living facilities ([222]). Despite high levels of collective bargaining coverage, more efforts are required to improve wellbeing at work and reduce the burden of work in the sector, both in the eyes of existing workers and prospective job applicants ([223]).

While the share of the population at risk of poverty or social exclusion remains relatively low, it has increased in recent years. The at-risk-of-poverty or social exclusion (AROPE) rate in Finland stood at 16.8% in 2024 (EU: 21.0%). Looking at the components of AROPE, the at-risk-of-poverty (AROP) rate is prevalent (12.6% vs EU: 16.2%); severe material and social deprivation is very low (3.7% vs EU: 6.4%) while the rate of people in very low work intensity households is relatively high and above EU average (9.3% vs EU: 7.9%). Reaching the national target of reducing the number of people at risk of poverty by 100 000 in 2030, of which one third children, will be challenging as the number of people at risk of poverty or social inclusion in 2024 is 117 000 higher than the reference year (2019).

The AROPE rate for the unemployed increased by 11.6 pps since 2015, reaching 72.0% in 2024. At the same time, the EU average slightly decreased by 0.6 pps to 66.6%. AROPE increased strongly for people born outside of the EU, rising by 3.8 pps to 34.4%. This still remains below the EU average of 38.2%. 24.4% of persons with some or severe disabilities are at risk of poverty and social exclusion in Finland. The general in-work poverty rate in 2024 remains very low at 2.8%compared to an EU average of 8.2%. In-work poverty rates are considerably higher for vulnerable households, such as single parents (6.6%), part-time workers (12.0%) or persons not born in Finland (5.5%). The European Social Fund Plus (ESF+) contributes to poverty reduction in Finland through EUR 156 million in investments aimed at increasing social inclusion and active participation, especially for disadvantaged groups. The aim is to prevent intergenerational exclusion

([216])Ministry of Finance 2024: Hyvinvointialuetalouden näkymät 2024-2028.

([217])Ministry of Social Affairs and Health 2024: Perusterveydenhuollon kiireettömään hoitoon pääsyn enimmäisajat pitenevät vuoden 2025 alusta lukien.

([218])Ministry of Economic Affairs and Employment 2024, Labour supply and matching. KEVA 2024: Local Councillors' Barometer.

([219])Ministry of Social Affairs and Health 2025: Hallitus esittää iäkkäiden ympärivuorokautisen hoidon henkilöstömitoituksen tasoksi 0,6.

([220])Finnish Institute of Health and Wellbeing 2024: Hyvinvointialueet ovat käynnistäneet sote-palvelujen uudistamisen, mutta tarvitsevat taloutensa tasapainottamiseen enemmän aikaa.

([221])ESPAN 2022: Long-term care social protection models in the EU.

([222])ESPAN 2018: Thematic report on challenges in long-term care: Finland.

([223])Ministry of Social Affairs and Health: Hyvän työn ohjelma 2024-2027.

and poverty by supporting families and promoting parents' participation in education and employment.

Social protection reforms including direct cuts in social spending pose challenges for vulnerable groups. Several reforms have taken effect from 2023 to 2025, following the commitments in the government programme to improve work incentives and strengthen public finances through direct savings in public spending (see Annex10). For example, the child supplement and earned-income deduction for unemployment benefits were abolished. For the general housing allowance, the earned-income deduction was abolished, and means-testing of wealth and assets reintroduced. Criteria for acceptable costs related to basic social assistance were tightened ([224]). Further reforms to emphasise the last-resort nature of social assistance and clarifying the link between benefits and job search requirements are planned for the second half of 2025 ([225]). An index freeze for unemployment benefits, childcare allowances and study grants is in place for 2024 to 2027, resulting in minor disposable income losses particularly for the bottom two income deciles and the unemployed ([226]). Further action could close the poverty gap, as minimum income benefits in 2019 reached 70.3% of the poverty threshold and 56.7% of the income of a low-wage earner in a single-person household ([227]).

Child poverty remains low, but a concerning increase in 2024 means further progress is required to meet the poverty reduction target for 2030. The AROPE rate for children increased by 3.5pp between 2023 and 2024 to 17.3%, compared to 24.2% in the EU. By 2030, Finland aims to reduce the number of children experiencing poverty or social exclusion by at least 30 000. In 2024, 178 000 children were at risk of poverty or social exclusion in Finland, 31 000 more than the 2019 level. Parental unemployment is the main risk factor for child poverty. Children at risk of poverty or social exclusion are much less likely to participate in childcare than other children (20% vs 44% for all children), with a decrease of 9 pps between 2022 and 2023. To mitigate the impact of poverty on children, Finland is implementing the European Child Guarantee (ECG) under its national action plan. Main aspects of the ECG recommendation are implemented through universal schemes such as free of charge leisure activities, school meals and healthy nutrition ([228]). The implementation of the ECG is supported by around EUR 46 million in ESF+ funding targeting child poverty reduction and increased inclusion, alongside support for the structural reform of child protection services.

Finland is one of the EU countries with the highest rates of housing difficulties among those at risk of poverty or social exclusion. The share of people in AROPE facing housing difficulties was 17.5% (EU: 8.5%) in 2023. According to the most recent national available data, homelessness affected a total of 3 806 people in 2024 ([229]), representing a rise of more than 10% from 2023 levels. Among them, the number of rough sleepers and people staying in night (emergency) shelters increased by more than 30%. This was the first rise in the number of homeless people since 2012 signalling the end of a downward trend lasting more than a decade. Finland is implementing a programme to end long-term homelessness by 2027, implementing the Housing First approach ([230]).

While the housing allowance system effectively reduces poverty, reforms to enhance targeting and spending efficiency may negatively impact low-income households. While housing allowances reduced the AROP rate by 1.4 pps on average in the EU, the poverty-reducing effect in Finland in 2022 was far higher, reaching 4.3 pps ([231]). Nevertheless, this strong performance comes at a cost, as government spending on housing benefits per

([224])Ministry of Social Affairs and Health 2024: Vuoden 2024 sosiaaliturvamuutosten yhteisvaikutusten arviointi.

([225])Ministry of Social Affairs and Health 2025: Toimeentulotukilain kokonaisuudistusta valmistelevan työryhmän loppumuistio.

([226])Counterfactual effects compared to a scenario where all benefit types had remained subject to indexation in 2024. Source: European Commission, Joint Research Centre (JRC) calculations based on the EUROMOD model, J.051.

([227])SPC benchmarking framework of minimum income.

([228])2024: Biennial report on implementation of the ECG in Finland.

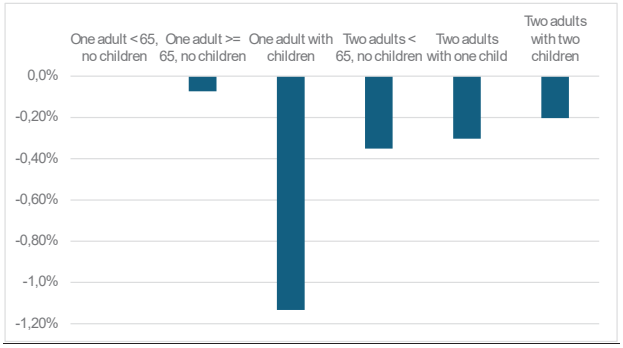
([229])https://www.varke.fi/fi/ajankohtaista/asunnottomuus-kasvoi-ensi-kertaa-yli-kymmeneen-vuoteen.

([230])Ohjelma pitkäaikaisasunnottomuuden poistamiseksi vuoteen 2027 mennessä - Valtioneuvosto

([231])ESDE review 2024, Chapter 3.4

inhabitant is one of the highest in the EU ([232]). On 1 April 2024, the housing allowance was reformed to achieve budgetary savings of EUR 330 million, including revisions of housing cost reimbursements by municipality, and adjustments to the conditions of qualifying households ([233]). Over 32 000 households whose housing costs exceeded their revised upper limits were sent relocation notices after the reform took effect ([234]). Expert assessments indicate that the cuts in the housing allowance have had negative effects on the disposable incomes of low-income households, especially among vulnerable groups such as single parents, students and people living alone (see Graph A11.1) ([235]). A distributional impact assessment of this reform shows that the reduction in disposable incomes was strongest for households in the second income decile (-2.21%) ([236]). While the number of households receiving the general housing allowance fell by 22 700 in 2024, data from the Finnish Social Insurance Institution suggests that many of these former beneficiaries may have shifted to basic social assistance. Applications for basic social assistance increased by 14% and the average payments per household have increased, although the overall number of beneficiary households has remained constant at approximately 250 000.([237]) These households include an increasing share of Ukrainians whose status has changed from refugee to permanent resident with the right to apply for social assistance in Finland([238]).

Graph A11.1: **Change in equivalised disposable incomes due to General Housing Allowance reform, by household type**



% change with respect to baseline (counterfactual situation without housing allowance reforms)
Source: European Commission Joint Research Centre, based on the EUROMOD model, J.051.

House prices have stagnated over the past decade and have fallen in the recent years. House prices have increased by only 6% since 2015 in nominal terms, one of the lowest growth rates among EU countries. House prices are estimated not to be overvalued. They decreased by 5.7% in 2023 and decreased further in 2024 (-4.8% year-on-year in Q2-2024 and -2.8% in Q3-2024). The increase of interest rates from 0.7% in 2021 to 3.9% in 2023 is also being reflected in lower house transactions, -16.6% and -24.5%, and building permits, -18.0% and -43.4% in 2022 and 2023, respectively.

Overall housing affordability improved over the past decade. House prices have increased by less than household incomes and the standardised house price-to-income ratio has been on a gradual downward trend since 2015 (-17% from 2015 to 2023), standing below its long-term average. The affordability of housing does not appear to be a concern from a macroeconomic perspective and house price levels compared to income levels are lower than in most EU countries. Taking into account the cost of mortgages, the borrowing capacity of households remained broadly stable over the past decade and is one of the highest in the EU. While the rental market is rather small, the

([232])Over 300 PPS / inhabitant. Source: ESDE review 2024, DG EMPL calculations.

([233])Approximately 67-70% of general housing allowance beneficiaries are single-person households, out of which half are students. One fifth are households with children: from this share, two thirds are single-parent households. Source: Prime Minister's Office 2024: Social security and living arrangements of low-income families. Final report on LAPSOSET project.

([234])While the relocation notices sent by Kela to affected households do not compel anyone to move, the portion of housing costs that exceeds the revised upper limits will no longer be covered by the housing allowance.

([235])Prime Minister's Office 2024: The effectiveness of social security in the diverse and changing life situations of adolescents.

([236])European Commission, Joint Research Centre (JRC) calculations based on the EUROMOD tax-benefit microsimulation model, J.051.

([237])Social Insurance Institution (Kela) 2025: Sosiaaliturvaleikkausten vaikutuksista toimeentulotukeen saa paremman kuvan, jos ukrainalaiset lasketaan pois tilastoista

([238])Social Insurance Institution (Kela) 2025: Perustoimeentulotuen kustannukset kasvoivat lähes sata miljoonaa euroa

ratio of new rents to incomes also fell over the last decade.

While energy and transport poverty are low, they have slightly increased particularly for low-income groups. The share of the population unable to keep their homes adequately warm is significantly lower than the EU average (2.7% vs 9.2%), though it has increased by 1.4pp, a doubling, compared to 2021. Energy poverty is also reflected by the share of individuals with arrears on utility bills. The share was 8.3% in 2024, an increase of 2.5pp since 2021 and above the EU average of 6.9%. In relation to transport poverty, car affordability presents a significant challenge, particularly for low-income groups. 11.2% of the population could not afford a car in 2024, compared to the EU average of 5.6%. For people at risk of poverty, this share is 33.9%. Since car ownership among low-income groups is comparatively rare, few people at risk of poverty have very high expenditures on private transport fuels ([239]) (13% vs EU: 18.2% in 2024). The social security system mainly addresses energy and transport poverty through housing allowances, renovation subsidies, and other benefits for vulnerable populations. Finland also has voluntary energy efficiency agreements in place and aims to halve residential energy consumption by 2050. However, there are limited initiatives to address root causes of energy and transport poverty. Over the 2026-2032 period, the Social Climate Fund will provide EU Member States with specific funding to support vulnerable groups, such as households in energy and/or transport poverty, during the implementation of the Emissions Trading System. EU Member States may, for example, use the Fund to support structural measures and investments in energy efficiency and renovation of buildings, clean heating and cooling solutions, as well as in zero- and low-emission transport solutions.

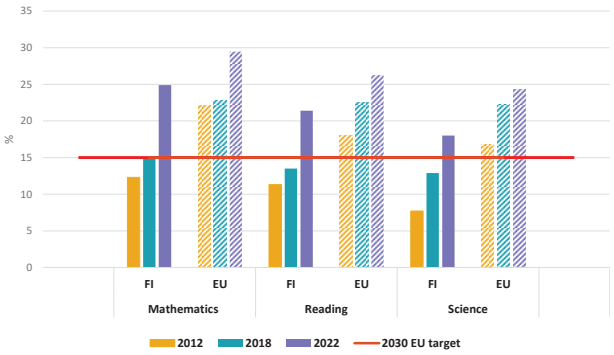
([239])Defined as transport fuel expenditures twice above the national median.

Skills shortages, weaknesses in skills development and an increasing share of early school leavers put Finland's competitiveness at risk. Weaknesses in skills development start at an early age with low participation of children in quality early childhood education and care (ECEC). At the same time, traditionally strong education outcomes are declining, and the share of early school leavers is increasing, notably for disadvantaged pupils. This may negatively affect their upskilling opportunities and employment prospects later in life. While the share of adults engaged in learning is high in Finland, there are still shortages of skilled workers in sectors such as education, construction, hospitality and healthcare. This demonstrates the need for dialogue between education authorities, public administration and industry stakeholders to ensure that the skills profile of graduates meets labour market needs. Planned cuts in funding of adult learning pose risks in this respect. Efficient public spending and investments in upskilling and reskilling and widening the higher education offer are crucial to retain Finland's potential for research and innovation, productivity growth and competitiveness.

Low participation of children in ECEC impacts foundational learning and increases inequalities. ECEC participation in Finland reached 89% for children aged 3 up to compulsory schooling age in 2022, well below the EU average (93.3%) and the EU-level target of 96%. Children from low-income households are less likely to participate in ECEC. To help counteract this, the government has lowered the fees for ECEC. The shortage of ECEC teachers is, however, a barrier for expanding participation. The creation of new study places for ECEC staff might not be sufficient to remedy the shortage, which has been estimated at approximately 6 000 ECEC teachers nationwide, notably in the Helsinki metropolitan area (over 4 000 teachers).

The decline in basic skills represents a risk for human capital development and long-term competitiveness. There has been a decline in the basic skills of Finnish students in the past decade, as confirmed by the latest OECD Programme for International Student Assessment (PISA) 2022. The proportion of 15-year-old students underachieving in basic skills has steadily increased since 2012. While in 2018, the shares of Finnish students with low basic skills were still below the EU target of 15% in all three areas tested, in 2022 this was no longer the case. Underachievement has been growing across the entire socio-economic distribution in recent years but is more pronounced in the bottom socio-economic quartile. Underachievement among foreign-born students is one the highest in the EU, with 57.2% of students born outside Finland underachieving.

Graph A12.1: **Underachievement rates by field**



Source: OECD (2023), Programme for International Student Assessment PISA

Teacher shortages may impact further on the quality of education. Teacher shortages pose an increasing challenge. In 2024 and 2025, EUR 6.3 million has been allocated to universities for 360 new starting places, with the support of the Recovery and Resilience Facility (RRF). In 2021, the proportion of students enrolled in tertiary studies in the field of education (almost 16 700 students, of which 2 600 were new entrants) was around 5.4% of the total, below the EU average of 7.4% ([240]). Approximately 40% of applicants for general teacher training (classroom teacher training and educational science) are admitted annually, but the proportion differs among teacher training programmes. University access to teacher training is sometimes as competitive as it is for law or medicine (about 10% of applicants).

The share of early leavers from education and training (ELET) is increasing. The ELET rate has been rising since 2012, and at 9.6% in 2024 it stands above the EU average (9.3%) for the second year in a row. There are considerable regional variations, as the share of early leavers in rural areas is 12.2%, while in urban areas the rate increased by 1.9 percentage points (pps) to 8.1% in 2024. ELET rates are lower for native-born

([240])Eurostat: educ_uoe_enrt03.

young people (9.2%) than they are for young people born abroad (13.0%). Nearly 25 000 students graduated from general upper secondary schools in spring 2024, slightly fewer than the previous year. This is the first age group to graduate under the new general upper secondary education curriculum introduced in autumn 2021. Graduates have access to follow-up guidance for a year after completing their studies. The worsening of ELET rates should be monitored closely to avoid further deterioration.

Finland has a substantive vocational education and training (VET) sector. In 2023, 70.2% of students in medium-level education were enrolled in programmes with a vocational orientation ([241]). The employment rate of recent VET graduates in 2024 was 77.0% (EU average 80%), below the 80.2% employment rate of recent graduates with a general upper secondary or post-secondary non-tertiary education. Exposure of VET graduates to work-based learning is far above the EU average of 65.3%, growing by 2.6pps to 79.3% in 2024. Under the updated national implementation plan for education, Finland is implementing measures to enhance the accessibility of VET and improve its responsiveness to the labour market, address changes in working lives, and counteract shortages of skilled labour.

Finland focuses on transferable skills, utilising opportunities from digitalisation, and increasing flexibility of vocational qualifications. VET programmes can directly address the needs of industry through optional vocational units, known as micro-credentials, which will strengthen the competencies needed for the digital and green transitions ([242]). However, secondary-level VET schools and universities of applied sciences will face a budget cut of EUR 87 million in 2025 as part of the government's decisions to strengthen the public economy. While students in compulsory education or those completing their first professional qualification should not be affected, it remains important that vulnerable and under-represented groups retain access to quality VET. In 2026, the financing model for VET will be reformed to better incentivise quick graduation and transitions to employment.

Finland is taking measures to increase the number of higher education graduates and widen the education offer. In 2024, the tertiary educational attainment (TEA) rate was 39.1% (1.5 pps less than in 2022), below both the EU average of 44.2% and the EU-level target of 45%. The TEA rate has been stable over the last 10 years at around 40%, remaining far from the Finnish ambition of reaching 50% by 2030. Regional differences in TEA rates are significant, varying from 34.6% in South Finland to 44.7% in the Helsinki-Uusimaa region. The gap in TEA by country of birth is also significant, at 29.9% for foreign-born people in Finland vs 40.9% for native-born people).

The demand for tertiary education graduates is increasing, particularly in the engineering and service sectors. In engineering, the number of completed degrees should increase by 22-41% from present levels to meet the labour market demands of 16 500-19 000 new graduates annually. It is estimated that by 2040 47% of Finland's future workforce should have vocational education, 30% should have completed studies at universities of applied science, and 22% should have a traditional university education ([243]). The restricted number of study places results in backlogs for university admission, particularly in regional universities and high-demand courses. Students often take a long time to graduate, with only 34% of university students graduating with their master's degree within the target time of 5.5 years, and 57% of students in universities of applied sciences graduating within the target time of 4.5 years. In the field of technology, 38% of students graduate within the target time. The accumulation of higher education degrees, as one quarter of admitted students already hold a degree, limits the offer of entry places for first-time degree students. An Action Plan to prevent unnecessary accumulation of degrees is being implemented to address this challenge. The tertiary education funding model was revised from the start of 2025 and expect to encourage first-time admissions; however, it is too early to assess its effectiveness.

([241])Medium-level education refers to the combination of upper-secondary and post-secondary non-tertiary education.

([242])Finland: more flexibility and skills for the green and digital transitions | CEDEFOP

([243])Työvoima- ja koulutustarpeet 2017-2035

Skills shortages severely limit competitiveness and economic growth particularly in education, construction, hospitality and healthcare. Finland has shortages in green skills related to energy efficiency and construction, as well as in skills for customer services, medical care and first aid ([244]). Upskilling and reskilling are crucial to accelerate the growth in real labour productivity per hour worked, which has declined by 3pps since 2021 while the EU average has increased by 0.3pps. While SMEs report fewer difficulties with skills shortages than the EU average (48% vs 54%), these remain an important limit on productivity and competitiveness ([245]). Low pay and poor working conditions contribute to labour and skills shortages, notably in the restaurant and construction industries ([246]). Several national plans are also in place to improve the working conditions and attractiveness of the social and healthcare sector ([247]).

In 2025 and 2026, the Service Centre for Continuous Learning and Employment will carry out a pilot project on studying alongside work ([248]). It was designed to strengthen the role of employers in continuous learning of employees and activities of education providers. The objective of the pilot project is to enable continuous learning, whereby employed persons continue working while developing their competencies, with a particular focus on sectors with acute skills shortages such as social and healthcare services. Further upskilling and reskilling measures, supported by the Recovery and Resilience Plan, include an AI-driven tool for anticipating and forecasting future skills demands ([249]). It is important to assess which measures are most effective in addressing skills shortages and labour market demands.

While adult participation in learning is high, Finland is not moving fast enough towards its adult learning target of 60% by 2030. Adult participation in learning increased slightly (0.4 pp) to 51.8% between 2016 and 2022 ([250]). However, unemployed people participate in training significantly less (24.8%) than the employed (55.5%). Similarly, those with low levels of education participate less than those with high levels of education (38.1% vs 65.7%). The gender gap is also noteworthy: 57.7% of women and 46.3% of men participated in learning in 2022, resembling the general gap in higher education degrees.

The abolition of the adult education allowance poses risks. Finland abolished the adult education allowance for enrolments in 2024. In 2022, 30 124 people received the adult education allowance (1.1% of the labour force aged 20-64) ([251]). Although most of these beneficiaries probably would have been able to participate in adult education without the allowance, its abolition may still make it more difficult for jobseekers to engage in life-long learning.

The EUR 22.5 million budget cut for liberal adult education ([252]) in 2024 also had a negative financial impact on education providers and on vulnerable groups. For education providers in rural or sparsely populated areas in particular, this may result in a reduced offer of courses or an increased reliance on self-funding through course fees. Efficient use of public spending and innovative measures are needed to support adult participation in learning and facilitate progress towards the 2030 national target.

Finland still has shortages in some areas of green skills, relevant for the transition to a low carbon economy. Finland's economy is highly energy intensive but has already a high share of renewables in its energy mix**.** In 2024, shortages were reported in Finland for a number of occupations requiring specific skills related to the green transition, including mixed crop and livestock farm labourers, and civil engineering

([244]) Työvoimabarometri - Etusivu
([245]) November 2023 Eurobarometer.
([246]) Employment and Social Developments in Europe (ESDE) review 2023: p123.
([247]) Ministry of Social Affairs and Health 2025: Hyvän työn ohjelma 2024-2027
([248]) Finnish Government, 24 September 2024: Hallitus käynnistää hankkeen työn ohessa opiskelun vahvistamiseksi.
([249]) Skills Needs Compass | The Service Centre for Continuous Learning and Employment

([250]) Eurostat: trng_eas_100, Eurostat calculations for formal and non-formal education and training (excluding guided on-the-job training).
([251]) HE 8/2024 vp, p52; DG EMPL calculations based on EU-LFS.
([252]) Liberal adult education institutions provide non-formal education. These include adult education centres, folk high schools, learning centres, sports training centres and summer universities. 1.1 million citizens annually take part in offered courses.

labourers ([253]). In the short to medium term, workers with appropriate green skills will be required in renewable energy production, electrical grids, industry-scale wood construction and the hydrogen economy ([254]). Finland has also one of the highest shares in the EU of employees participating in education and training in energy-intensive industries (22% vs 11.7% in the EU on average in 2024).

Almost two thirds (64%) of Finnish people believe that they have the necessary skills to contribute to the green transition. This figure is significantly above the EU average of 54% ([255]). 38% of Finnish respondents find education, training and life-long learning important to build skills for green and digital jobs, above the EU average of 32% ([256]). All levels of the education system have a role to play in developing green skills and competencies, as both life-long learning and the formal education offer should contribute to meet the short- and medium-term needs of industry. Structured dialogue between education providers and industry should be considered to ensure that the skills profile of graduates meets the needs of local labour markets.

Finland has one of the highest levels of basic and advanced digital skills among adults at EU level. In 2023, 82% of the population aged 16-74 had at least basic digital skills, and 94% of those aged 16-24; both well above the EU average of 55.6% and 70%. Some 88.9% of the working population (aged 25-64) have at least basic digital skills. Finland has one of the highest proportions in the EU of graduates in STEM subjects (science, technology, engineering and mathematics) per 1 000 of population aged 20-29 (26.5% in 2022 vs 23% EU average).

The share of women ICT graduates and ICT specialists is below that for men. The share of female STEM graduates in Finland is below the EU average (32.2% of all STEM graduates vs 35.4% in 2022). ICT graduates represent 8.1% of total tertiary graduates (EU average: 4.5%), but only 2.1% of total are female tertiary graduates (above the EU average of 1.0%). The enrolment in STEM for medium-level VET was 31.3% in Finland in 2022, compared to 36.2% EU wide. In 2023, ICT specialists accounted for 7.6% of the total population employed (EU average 4.8%). Only 22% of these were women, although this rate was also above the EU average (19.4%). Companies in Finland report slightly fewer difficulties than the EU average in finding staff with the right skills on cybersecurity ([257]).

European funds help promote life-long learning and upskilling and reskilling of the labour force. ESF+ investments worth EUR 183 million are supporting future challenges, such as digital skills. The supported activities create comprehensive life-long training services and make education and training more accessible. Measures include increasing the provision of tailored, time- and place-independent continuous learning, including upskilling and reskilling, specialisation and development of basic skills, and promoting and developing the recognition and identification of skills and qualifications obtained abroad. Approximately EUR 20 million is being invested through the Just Transition Fund in skills development for smart specialisation, industrial transition and entrepreneurship in regions that are hit hardest by the adverse effects of the low-carbon transition. The objective is that 320 people gain a qualification by participating in a JTF-funded activity. The RRF is also supporting reforms such as the creation of the Service Centre for Continuous Learning to provide further opportunities for upskilling and reskilling courses.

([253])Source: European Labour Authority 2025 EURES Report on labour shortages and surpluses 2024, based on data from EURES National Coordination Offices. Skills and knowledge requirements align with the ESCO taxonomy on skills for the green transition, with examples analysed using the ESCO green intensity index.

([254])Prime Minister's Office 2023: Vihreän siirtymän osaamis- ja koulutustarpeet VISIOS.

([255])Special Eurobarometer 527.

([256])Social Europe - April 2024 - Eurobarometer survey

([257])Cyberskills - May 2024 - Eurobarometer survey

Table A13.1:**Social Scoreboard for Finland**

Social Scoreboard for Finland		
Equal opportunities and access to the labour market	Adult participation in learning (during the last 12 months, excl. guided on the job training, % of the population aged 25-64, 2022)	51,8
	Early leavers from education and training (% of the population aged 18-24, 2024)	9,6
	Share of individuals who have basic or above basic overall digital skills (% of the population aged 16-74, 2023)	82,0
	Young people not in employment, education or training (% of the population aged 15-29, 2024)	9,8
	Gender employment gap (percentage points, population aged 20-64, 2024)	0,7
	Income quintile ratio (S80/S20, 2024)	3,73
Dynamic labour markets and fair working conditions	Employment rate (% of the population aged 20-64, 2024)	77,0
	Unemployment rate (% of the active population aged 15-74, 2024)	8,4
	Long term unemployment (% of the active population aged 15-74, 2024)	1,8
	Gross disposable household income (GDHI) per capita growth (index, 2008=100, 2023)	107,8
Social protection and inclusion	At risk of poverty or social exclusion (AROPE) rate (% of the total population, 2024)	16,8
	At risk of poverty or social exclusion (AROPE) rate for children (% of the population aged 0-17, 2024)	17,3
	Impact of social transfers (other than pensions) on poverty reduction (% reduction of AROP, 2024)	46,4
	Disability employment gap (percentage points, population aged 20-64, 2024)	20,4
	Housing cost overburden (% of the total population, 2024)	5,4
	Children aged less than 3 years in formal childcare (% of the under 3-years-old population, 2024)	48,2
	Self-reported unmet need for medical care (% of the population aged 16+, 2024)	8,5

Critical situation	To watch	Weak but improving	Good but to monitor	On average	Better than average	Best performers

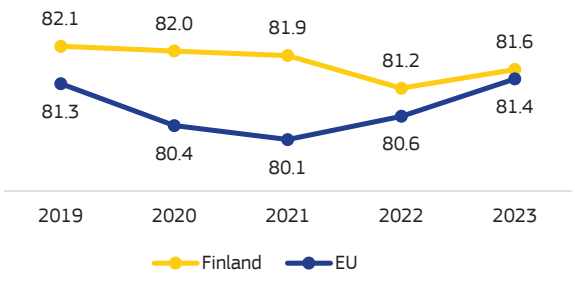
(1) Update of 5 May 2025. Members States are categorised based on the Social Scoreboard according to a methodology agreed with the EMCO and SPC Committees. Please consult the Annex of the Joint Employment Report 2025 for details on the methodology (https://employment-social-affairs.ec.europa.eu/joint-employment-report-2025-0).

Source: Eurostat

Finland's health system performs comparatively well. However, it faces challenges that need to be addressed if the country is to improve the health of its population and social fairness, while boosting the competitiveness of its economy. Limited access to healthcare poses a significant challenge, mainly related to: (i) shortages of healthcare workers; (ii) an uneven geographical distribution of healthcare resources; (iii) fragmentation in care delivery; and (iv) increasing demand for services due to population ageing. The issue is further exacerbated by the 'wellbeing services counties' being asked to implement radical budget savings, often leading them to reduce care provision rather than improve efficiency.

Life expectancy at birth in Finland, which has yet to fully rebound to its pre-COVID-19 level, was higher than the EU average in 2023. There is a striking gender gap, with women expected to live 5.3 years longer than men. That said, women are expected to spend around 2.9 fewer years in good health than men. Treatable mortality in Finland is relatively low, pointing to the overall effectiveness of the health system. Diseases of the circulatory system ('cardiovascular diseases') and cancer are the leading causes of death, but with mortality rates lower than the EU average. Finland participates in several EU4Health-funded joint actions aimed at reducing the burden of cardiovascular diseases, cancer, diabetes and respiratory diseases, and improving mental health.

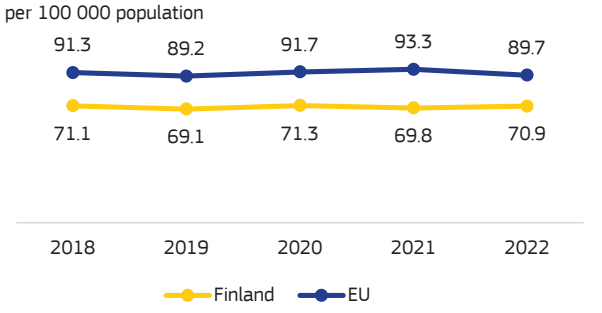
Graph A14.1: **Life expectancy at birth, years**



Source: Eurostat (demo_mlexpec)

Health expenditure in Finland is slightly below the EU average, as is the share of health costs supported by public funds. In 2022, health spending per inhabitant in Finland (adjusted for differences in purchasing power) was close to the EU average, and about 80% of it was publicly funded. The largest share of health expenditure was directed at outpatient care, with a share above the EU average. This, together with a relatively low number of hospital beds (231 per 100 000 population in 2022, lower than the EU average of 444), illustrates Finland's organisational focus on primary care. This matches the health system reform trend observed in other countries. Out-of-pocket payments account for a greater proportion of spending on health in Finland than the EU average (16.1% in 2022 vs 14.3%) ([258]). The largest shares of out-of-pocket payments go towards outpatient medical goods, long-term care and outpatient care (general and dental care), in that order. In 2021, Finland reformed the Act on user charges in health and social services to lower co-payments for public care. However, customer fees increased again at the beginning of 2025 due to budget cuts. These cuts also led to the maximum waiting time for primary care being extended, the closure of several specialist care units (particularly nighttime emergency services), and restrictions on service coverage. Funding under Finland's recovery and resilience plan (RRP) is being used to: (i) clear the backlog in social and health services due to COVID-19; (ii) support equal access to healthcare; (iii) strengthen primary healthcare; (iv) overhaul service delivery models; and (v) increase the digitalisation of the health system. In 2022, investments in health capital formation as a share of total health expenditure, were lower than the EU average ([259]).

Graph A14.2: **Treatable mortality**



Age-standardised death rate **(mortality that could be avoided through optimal quality healthcare)**
Source: Eurostat (hlth_cd_apr)

([258])OECD/European Commission (2024), Health at a Glance: Europe 2024 - State of Health in the EU Cycle, pp.186-187.
([259])see Health at a Glance Europe 2018, 2020, 2022 and 2024.

As regards public health, Finland places a comparatively high focus on disease prevention. In 2022, spending on prevention in Finland accounted for 6.4% of total public spending on health, higher than the EU average of 5.5%. While the rate of preventable mortality in Finland is among the lowest in the EU, nearly one third of deaths are linked to behavioural risk factors. Although progress has been made on reducing tobacco and alcohol consumption, rates of obesity and overweight are a growing public health concern. Finland is introducing measures to improve disease prevention, also with support from its RRP. The new measures aim to strengthen prevention and identify health problems early by rolling out regional integrated multi-sector service management models (bundling healthcare with other services) in the 22 wellbeing services counties set up as part of the social welfare and healthcare reform.

Finland faces challenges with access to healthcare, with high unmet needs for medical care. In 2024, 8.5% of the Finnish population reported having unmet needs for medical care, much higher than the EU average of 2.5%. Long waiting times are the main reason, with lower income groups affected the most. The difference in unmet needs between income groups in Finland is among the highest in the EU. The gender gap is also among the highest in the EU, with 2.8 percentage points more forgone care reported by women than by men. Furthermore, and specifically among people who declare having needs for medical care, the gap in unmet needs between people below and above the poverty threshold (defined as 60% of the median equivalised income) is much higher in Finland than the EU average. Regarding access to healthcare facilities in rural areas, Finland generally performs better than the EU average (see Annex 17). Employment-based healthcare coverage is the norm in Finland. However, it creates a parallel system, with employed people having quicker and free-of-charge access to services, and municipal healthcare users facing co-payments and long waiting times. In June 2021, Parliament adopted a long-awaited administrative reform to: (i) improve access to healthcare; (ii) reduce inequalities; (iii) improve the quality of health services; and (iv) address geographical imbalances. Consequently, 22 wellbeing services counties were set up to organise health and social services as from 2023. In relation to this, Finland received a country-specific recommendation in 2024 to 'ensure that the reform of social and healthcare services improves access to and delivery of services and tackles inefficiencies' (see Annex 16). In January 2023, a new law was enacted to tighten the care guarantee for non-urgent primary care by reducing waiting times to 7 days. However, it was withdrawn in April 2024 and replaced with a proposal setting the maximum wait time at three months for individuals aged 23 and over, while maintaining a 14-day limit for those under 23. Finland's RRP supports healthcare and social services reforms, as well as the care guarantee. The government increased the social insurance reimbursement (Kela reimbursement) rate for private health services in 2024 in order to reduce the demand for public primary healthcare and, in turn, waiting times. The KELA reimbursement model will be updated in the course of 2025. Saving policies of the newly-created wellbeing services counties risk to affect access in a negative way.

Finland faces shortages of health sector workers, and an uneven distribution across the country. Employment in healthcare fell between the first quarter of 2020 and the third quarter of 2024 (while it increased in the EU on average by more than 11%). The average number of doctors per inhabitant in Finland is below the EU average (4.0 vs 4.2 per 1 000 population in 2022). However, as Eurostat only provides data on the number of doctors licensed to practice, the actual number is probably lower. Although the number of nurses per 1 000 population is well above the EU average (12.9 vs 7.6 in 2022), rising demand for nursing has led to an increasing shortage in recent years (see Annex 10). According to the Ministry of Social Affairs and Health, all shortages (measured as a number of open job vacancies) have decreased since 2023- especially among nurses. They remain however significant. A significant proportion of doctors and nurses are aged 55 and over, raising concerns about the long-term accessibility of health services. Working conditions for health professionals are a significant issue, with low pay acting as a deterrent to working in healthcare, particularly for nurses. Importantly, in October 2022, a long-term agreement was reached on substantial raises in nurses' pay. The uneven geographical distribution of healthcare resources increases disparities in access to care in Finland. The density of doctors is greater in the capital region of Helsinki and in other major cities than in remote and sparsely populated regions. In general, Finland has been

working to address workforce shortages for many years. Measures include: (i) expanding enrolment for training in medical schools; (ii) making a stronger commitment to recruit foreign workers; (iii) introducing novel skill-mix solutions to increase employment in nursing; and (iv) improving the use of technology to boost workforce productivity and overcome geographical barriers. The role of nurses has expanded to include: (i) patient consultations for acute and chronic health conditions; (ii) prescribing and care coordination in primary care; (iii) outpatient consultations; and (iv) advanced roles in operating theatres. In addition, in 2023 the Finnish government launched the 'good work' programme, which focuses on ensuring the sufficiency and availability of personnel in healthcare, social welfare and rescue services. Key objectives include: (i) improving working conditions to retain and attract professionals; (ii) enhancing training and education pathways for healthcare and social welfare roles; (iii) implementing recruitment and retention strategies, especially in underserved regions; and (iv) supporting mental wellbeing and occupational health for existing staff.

The potential of the Finnish health system to drive innovation and foster industrial development in the EU medical sector is not being fully exploited. Finland is among the Member States that report considerable public spending on health research and development. This is reflected in the high number of European patents granted: 87 in 2023 in the combined areas of pharmaceuticals, biotechnologies and medical technologies, well above the EU-level median of 29 ([260]). Clinical trial activity in Finland is limited ([261]).

Finland aims to scale up the digitalisation of its health system, **with support from EU programmes.** The shares of people accessing their personal health records online and using online health services (excluding phone) instead of in-person consultations, are both among the highest in the EU (although the latter dropped slightly between 2022 and 2024). Investments to boost the digital transformation of the health sector in Finland are planned under the RRP. Measures focus on increasing the public's use of healthcare and social welfare e-services and developing digital methods to support a 'care guarantee' in social care and healthcare. Further measures aim to help care staff improve their digital skills and increase their use of digital solutions. Investments under the RRP will be complemented by 2021-2027 cohesion policy funds, with Finland planning to invest in the development of telehealth services and applications, of which 58% will be co-financed by the EU. In addition, Finland participates in joint actions and benefits from direct grants under EU4Health to improve the semantic interoperability of health data and facilitate the implementation of the European Health Data Space.

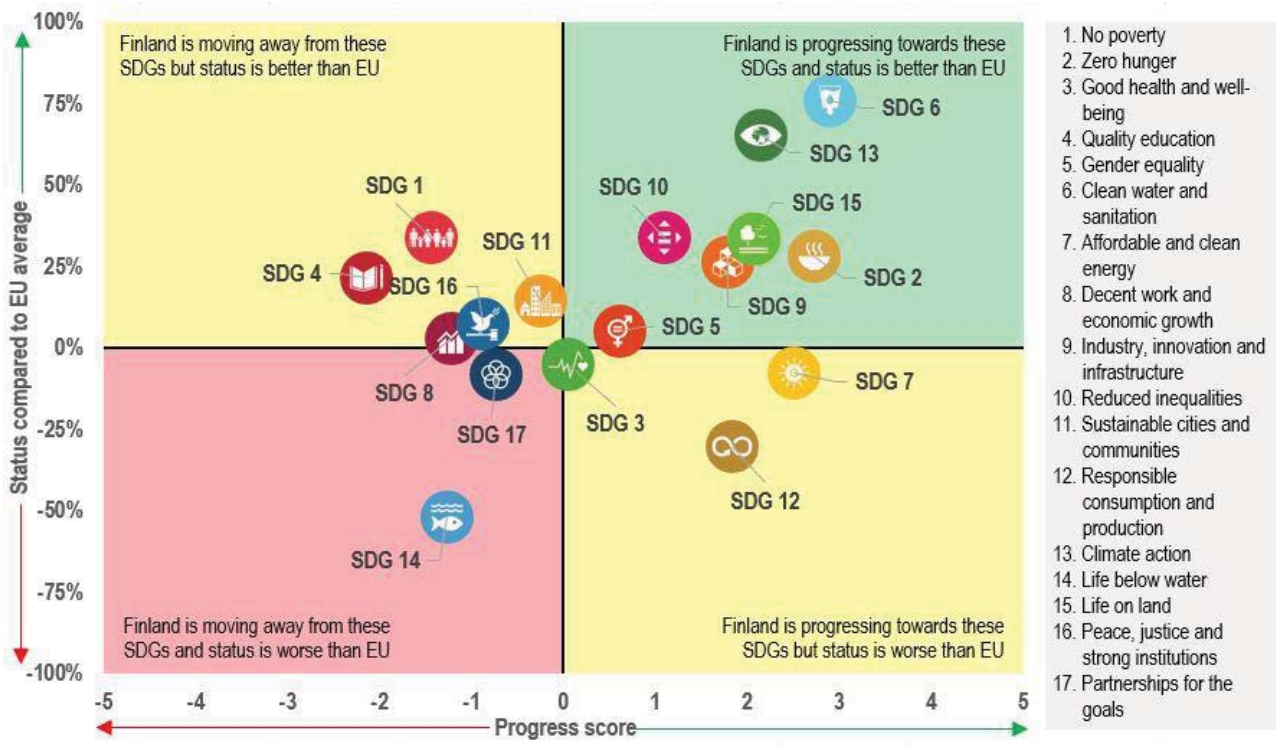
([260])European Patent Office, Data to download | epo.org.

([261])EMA (2024), Monitoring the European clinical trials environment, p. 9.

This Annex assesses Finland's progress on the Sustainable Development Goals (SDGs) along the dimensions of competitiveness, sustainability, social fairness and macroeconomic stability. The 17 SDGs and their related indicators provide a policy framework under the UN's 2030 Agenda for Sustainable Development. The aim is to end all forms of poverty, fight inequalities and tackle climate change and the environmental crisis, while ensuring that no one is left behind. The EU and its Member States are committed to this historic global framework agreement and to playing an active role in maximising progress on the SDGs. Graph A1.1 is based on the EU SDG indicator set developed to monitor progress on the SDGs in the EU.

Finland is making progress and performs well on one SDG related to *competitiveness*, SGD 9 (industry innovation and infrastructure), but is moving away from SDG 4 (Quality education) and SDG 8 (Decent work and economic growth). While Finland's employment rate (SDG 8) rose from 76.2% in 2019 to 77% in 2024, this positive trend has weakened in recent years. In turn, the long-term unemployment rate has increased, now standing slightly just below EU average as well as an increase in young people neither in employment nor in education and training (NEET). While one of the best performers in the % of adults with at least basic digital skills, in terms of basic skills (SDG 4), low achieving 15-year-olds in mathematics have increased by almost 10p.p. between 2018 and 2022, while still below the EU average. Finland has increased spending on R&D from 2.78% of GDP in 2018 to 3.09% in 2023 and has set a national target of 4% (SDG 9). The recovery and resilience plan (RRP) includes measures to further improve Finland's productivity by boosting spending on R&D through funding packages to promote the green and digital transitions, notably in components P3C3 (Research infrastructure) and P3C4 (Strengthening competitiveness) of the plan.

Graph A15.1: **Progress towards the SDGs in Finland**



For detailed datasets on the various SDGs, see the annual Eurostat report '[Sustainable development in the European Union]'; for details on extensive country-specific data on the short-term progress of Member States: [Key findings – Sustainable development indicators - Eurostat (europa.eu)]. A high status does not mean that a country is close to reaching a specific SDG, but signals that it is doing better than the EU on average. The progress score is an absolute measure based on the indicator trends over the past five years. The calculation does not take into account any target values, as most EU policy targets are only valid for the aggregate EU level. Depending on data availability for each goal, not all 17 SDGs are shown for each country.

Source: Eurostat, latest update of 28 April 2025. Data refer mainly to the period 2018-2023 or 2019-2024. Data on SDGs may vary across the report and its annexes due to different cut-off dates.

Finland is improving on some SDGs related to *sustainability* (2, 6, 7, 9, 12, 13, 15), but is moving away from SDG 11 (Sustainable cities and communities), and SDG 14 (Life below water). While Finland performs above the EU average on most SDGs in this area, there are some negative trends that deserve attention. For instance, recycling rates remain below the EU average (SDG 11). The need for improvement is most pronounced for SDG 14 (Life below water), which is both below the EU average and deteriorating. At the same time, the share of renewable energy in gross final energy consumption (SDG 7) has continued to increase, from 40.9% in 2017 to 50.8% in 2023, more than double the EU average. In addition, energy import dependency has drastically decreased, from 43.9% in 2017 to 29.6% in 2023, in a country with a relatively high energy consumption per capita, almost double the EU average. The first strand of the RRP includes investments in clean energy (SDG 7), decarbonisation of industry (SDG 9) and biodiversity (SDGs 14 and 15). On the reform side, the new Climate Act entered into force in 2022 (SDG 13) and the updated Nature Conservation Act in June 2023.

Finland performs well on most SDGs related to *social fairness* (SDGs 1, 4, 5, 8, 10), but needs to catch up with the EU average on SDGS 3 and 7. The country is above the EU average for several fairness-related indicators, such as people at risk of poverty or social exclusion (SDG 1; 15.8% of population in 2023, vs 21.3% in the EU) or the share of population unable to keep their home adequately warm (SDG 7: 2.6% in 2023; EU: 10.6%). On gender equality, the gender employment gap has narrowed to 0.7% in 2024, vs 3.8% in 2018 and an EU average of 10% in 2024) and gender representation in leadership positions has improved. In addition, Finland has made progress on several indicators related to good health and well-being (SDG 3), such as reducing smoking prevalence from 20% in 2017 to 15% in 2023. However, there is still room for improvement in other indicators, such as healthy life years at birth (57.9 years in 2022), which is below the EU average (63.6 years). The RRP includes measures to support the ongoing reform of health and long-term care, aiming to improve the health and well-being status, in component P4C1 (Social welfare and healthcare services).

While Finland performs well on SDGs related to *macroeconomic stability* (SDGs 8 and 16), it needs to slightly catch up for SDG 17. In addition, Finland is moving aways from the goals on these three SGDs (8, 16 and 17). Finland's real GDP per capita remains well above the EU average but slightly decreased between 2019 and 2024, from EUR 43 910 to EUR 43 070 (SDG 80). Finland performs very well on the perceived independence of the justice system and the Corruption Perceptions Index (SDG 16). The share of environmental taxes in total tax revenues has decreased from 6.9% in 2018 to 5.3% in 2023, just 0.1pp above the EU average.

As the SDGs form an overarching framework, any links to relevant SDGs are either explained or depicted with icons in the other annexes.

Finland faces structural challenges in a wide range of policy areas, as identified in the country-specific recommendations (CSRs) addressed to the country as part of the European Semester. They refer, among other things, to decarbonisation of industry and transport, supporting research and innovation, efficiency of and access to social and healthcare services, social security reform, tertiary education offer and active labour market policies.

The Commission has assessed the 2019-2024 CSRs considering the policy action taken by Finland to date and the commitments in its recovery and resilience plan (RRP). At this stage, Finland has made at least 'some progress' on 86% of the CSRs ([262]), and 'limited progress' on 12% (Table A16.2).

EU funding instruments provide considerable resources to Finland by supporting investments and structural reforms to increase competitiveness, environmental sustainability and social fairness, while helping to address challenges identified in the CSRs. In addition to the EUR 1.95 billion funding from the Recovery and Resilience Facility (RRF) in 2021-2026, EU cohesion policy funds ([263]) are providing EUR 1.9 billion to Finland (amounting to EUR 3.2 billion with national co-financing) for 2021-2027 ([264]) to boost regional competitiveness and growth. Support from these instruments combined represents around 1,4% of 2024 GDP ([265]). The contribution of these instruments to different policy objectives is outlined in Graphs A16.1 and A16.2. This substantial support comes on top of financing provided to Finland under the 2014-2020 multiannual financial framework, which financed projects until 2023 and has had significant benefits for the economy and Finnish society. Project selection under the 2021-2027 cohesion policy programmes has accelerated and implementation of selected projects has gained momentum.

The Finnish RRP contains 40 investments and 19 reforms to stimulate sustainable growth. The reforms address bottlenecks for lasting and sustainable growth, while the investments aim to accelerate the digital transformation, research and investment in the green transition, to promote employment and improvement of skills, and to improve access to healthcare and social services. A year before the end of the RRF timespan, implementation is progressing with EUR 877 million funds disbursed. At present, Finland has fulfilled 33% of the milestones and targets in its RRP ([266]). Increased efforts are needed to ensure completion of all RRP measures by 31 August 2026.

Finland also receives funding from several other EU instruments, including those listed in Table A16.1. The common agricultural policy (CAP) provides Finland with an EU contribution of EUR 4.4 billion under the CAP strategic plan 2023-2027 ([267]). Operations amounting to EUR 972 million ([268]) have been signed under the InvestEU instrument backed by the EU guarantee, improving access to financing for riskier operations in Finland.

([262])14% of the 2019-2024 CSRs have been fully implemented, 30% substantially implemented, and some progress has been made on 42%.

([263])In 2021-2027, cohesion policy funds include the European Regional Development Fund, the European Social Fund Plus and the Just Transition Fund. The information on cohesion policy included in this annex is based on adopted programmes with the cut-off date of 5 May 2025.

([264])European territorial cooperation (ETC) programmes are excluded from the figure.

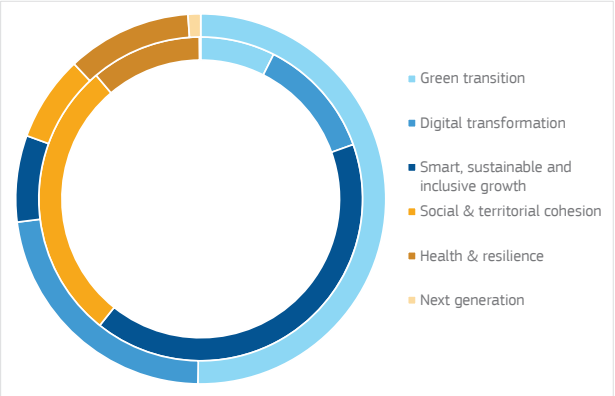
([265])RRF funding includes both grants and loans, where applicable.. GDP figures are based on Eurostat data for 2024.

([266])As of mid-May 2025, Finland has submitted two payment requests.

([267])An overview of Finland's formally approved strategy to implement the EU's common agricultural policy nationally can be found at: https://agriculture.ec.europa.eu/cap-my-country/cap-strategic-plans/finland_en.

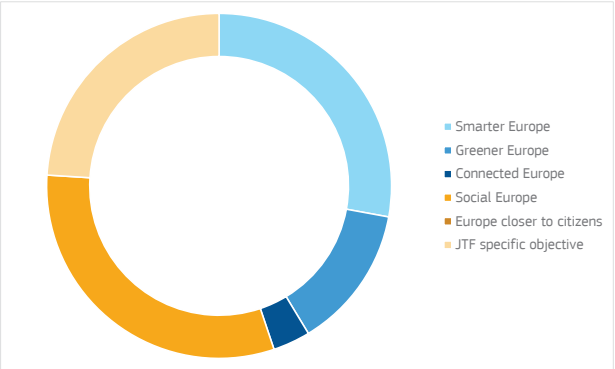
([268])Data reflect the situation on 31.12.2024.

Graph A16.1: **Distribution of RRF funding in Finland by policy field**



(1) Each RRP measure helps achieve the aims of two of the six policy pillars of the RRF. The primary contribution is shown in the outer circle, while the secondary contribution is shown in the inner circle. Each circle represents 100% of the RRF funds. Therefore, the total contribution to all pillars displayed on this chart amounts to 200% of the RRF funds allocated.
Source: European Commission

Graph A16.2: **Distribution of cohesion policy funding across policy objectives in Finland**



Source: European Commission

Cohesion policy funds aim to increase the productivity and competitiveness of Finnish firms and improve the business environment. The European Regional Development Fund (ERDF) is enhancing the capacity of Finnish businesses across different regions of the country. In the clean economy, the ERDF is helping over 1 800 businesses to innovate, while in the digital economy it is supporting over 8 800 businesses. The support also extends to over 100 local public institutions, which will introduce new digital services for the public and businesses. The European Social Fund Plus (ESF+) is investing EUR 182 million in increasing the size of the active labour force in Finland. This is to be achieved by promoting regional and inter-occupational labour mobility, developing tailor-made job opportunities (especially for people with partial work ability and migrant backgrounds) and providing training to the unemployed to make them more employable. Another EUR 182 million of ESF+ funds will go towards supporting lifelong learning and the upskilling and reskilling of the labour force. The aim is to respond to skills needs arising from changes in the world of work, raise skills levels, and help actors in the education system to be better able to respond to the need for continuous learning. Part of the funds will be used to promote the recruitment of international talent in Finland and to ensure that high-skilled immigrants already in the country are better integrated into the labour market.

Other funds are contributing to competitiveness in Finland, for instance through open calls. The Connecting Europe Facility has financed strategic investments for instance to support rail infrastructure, aligning with Finland's commitment to the EU's decarbonisation objectives, maritime transport and the transition to greener road transport by funding the development of alternative fuel infrastructure. Support is also provided for energy market integration, decarbonisation of the energy system and security of energy supply. In particular, it has supported the diversification of natural gas sources and routes in Finland. Furthermore, projects were supported to increase the capacity, resilience and security of backbone infrastructure in Northern Finland and the Baltic Sea and to advance the deployment of 5G in smart communities. Horizon Europe has supported research and innovation, from scientific breakthroughs to scaling up innovations, with Digital, Industry and Space, and Climate, Energy and Mobility as top priorities in Finland. In 2024, the Technical Support Instrument (TSI) supported for instance the creation of a transition strategy for Eastern and Southeast Finland's border regions and areas; conducting an auditing sludge for public sector transformation; upholding equality and non-discrimination in the use of Artificial Intelligence by equality bodies and regulators in public administrations; assessing of Environmentally Harmful Subsidies (EHS) and the preparation of national biodiversity finance plans, and creating a digital finance literacy strategy for Finland. The TSI is also supporting Finland to develop its Social Climate Plan and enhance its overall capacity to implement specific reforms and investments included in its RRP, including by helping to implement a revised emission trading system.

Finland's RRP also contains ambitious measures to improve the business environment and competitiveness. As part of the measures covered by payment requests submitted over the past year, Finland included calls for applications to support companies' internationalisation capabilities, partnerships and ecosystems, the development of innovation infrastructures, the renewal and development of local and national research infrastructures, as well as RDI activities for innovative growth companies.

EU funds are playing a significant role in promoting environmental sustainability and the green transition in Finland during the current seven-year EU budget (multiannual financial framework). The ERDF focuses its support particularly on innovation: this involves helping SMEs introduce new products to increase the share of renewable energy and improve energy and resource efficiency. Finland's CAP strategic plan 2023-2027 allocates over EUR 1 billion to environmental and climate objectives under rural development (EAFRD), and EUR 430 million to eco-schemes under direct payments (EAFG). The actions in Finland's CAP strategic plan contribute both to EU environmental and climate goals and to supporting the Finnish national goal of carbon neutrality by 2035. For example, the plan's different strands include protecting peatlands in agricultural areas, reducing nutrient load in water bodies, and supporting the adoption of new technologies and farming methods to adapt to climate change.

Finland's RRP, including the REPowerEU chapter, has a comprehensive set of reforms and investments to support the green transition. Measures covered by the payment request submitted over the last year include entry into force of the revised Climate Act setting Finland's ambitious 2035 carbon-neutrality target into law, reinforcing the country's commitment to addressing climate change and aligning with the European Green Deal. It also contained measures to train for green skills, support research as well as to increase competences of companies in green transition.

Promoting fairness, social cohesion and improving access to basic services are among the key priorities of EU funding in Finland. ESF+ is investing EUR 156 million in Finland to increase social inclusion and active participation, especially of disadvantaged groups. The aim is to prevent intergenerational exclusion and poverty by supporting families and promoting parents' participation in education and employment. The goal is for the ESF+ measures to reach approximately 12 000 currently inactive people. ESF+ is investing especially in reducing child poverty (total funding: EUR 46 million) and is supporting a structural reform of child protection services with an additional investment of 29 million. Investments are also targeted at the most vulnerable: these take the form of payment cards worth EUR 40 that can be used to buy food and basic materials. It is envisaged that 600 000 people will benefit from the assistance.

Finland's RRP contains several reforms and investments related to fairness and social policies. Measures covered by the payment request submitted over the last year include the creation of new study places in higher education institutions in Finland and a reform of employment services.

Table A16.1:**Selected EU funds with adopted allocations - summary data (million EUR)**

Instrument/policy	Allocation 2021-2026		Disbursed since 2021 (1)
RRF grants (including the RepowerEU allocation)	1 949,1		876,9
RRF loans	0		0
Instrument/policy	**Allocation 2014-2020 (2)**	**Allocation 2021-2027**	**Disbursed since 2021 (3)** (covering total payments to the Member State on commitments originating from both 2014-2020 and 2021-2027 programming periods)
Cohesion policy (total)	1 481,4	1 940,5	1 024,5
European Regional Development Fund (ERDF)	911,5	870,1	530,4
European Social Fund (ESF, ESF+)	569,9	604,7	291,2
Just Transition Fund (JTF)		465,7	202,9
Fisheries			
European Maritime, Fisheries and Aquaculture Fund (EMFAF) and the European Maritime and Fisheries Fund (EMFF)	74,4	71,8	35,9
Migration and home affairs			
Migration, border management and internal security - AMIF, BMVI and ISF (4)	176,7	283,9	146,1
The common agricultural policy under the CAP strategic plan (5)	**Allocation 2023-2027**		**Disbursements under the CAP Strategic Plan (6)**
Total under the CAP strategic plan	4 409,8		1 377,4
European Agricultural Guarantee Fund (EAGF)	2 637,1		913,0
European Fund for Agricultural Development (EAFRD)	1 772,8		464,4

(1) The cut-off date for data on disbursements under the RRF is 31 May 2025.
(2) Cohesion policy 2014-2020 allocations include REACT-EU appropriations committed in 2021-2022.
(3) These amounts relate only to disbursements made from 2021 onwards and do not include payments made to the Member State before 2021. Hence the figures do not comprise the totality of payments corresponding to the 2014-2020 allocation. The cut-off date for data on disbursements under EMFAF and EMFF is 29 April 2025. The cut-off date for data on disbursements under cohesion policy funds, AMIF, BMVI and ISF is 5 May 2025.
(4) AMIF - Asylum, Migration and Integration Fund; BMVI - Border Management and Visa Instrument; ISF - Internal Security Fund.
(5) Expenditure outside the CAP strategic plan is not included.
(6) The cut-off date for data on EARDF disbursements is 5 May 2025. The information on EAGF disbursements is based on the Member State declarations until March 2025. Disbursements for the Direct Payments (EAGF) started in 2024.
Source: European Commission

Table A16.2:**Summary table on 2019-2024 CSRs**

Finland	Assessment in May 2025	Relevant SDGs
2019 CSR 1	**Some progress**	
Ensure that the nominal growth rate of net primary government expenditure does not exceed 1.9 % in 2020, corresponding to an annual structural adjustment of 0.5 % of GDP.	Not relevant anymore	SDG 8, 16
Improve the cost-effectiveness of and equal access to social and healthcare services.	Some progress	SDG 3, 8, 16
2019 CSR 2	**Some progress**	
Improve incentives to work	Some progress	SDG 8
and enhance skills	Some progress	SDG 4
and enhance active inclusion, notably through well-integrated services for the unemployed and the inactive.	Some progress	SDG 8
2019 CSR 3	**Some progress**	
Focus investment-related economic policy on research and innovation, taking into account regional disparities,	Substantial progress	SDG 9, 10, 11
focus investment-related economic policy on low carbon and energy transition, taking into account regional disparities,	Substantial progress	SDG 7, 9, 10, 11, 13
and focus investment-related economic policy on sustainable transport, taking into account regional disparities	Some progress	SDG 10, 11
2019 CSR 4	**Substantial progress**	
Strengthen the monitoring of household debt	Substantial progress	SDG 8
and establish the credit registry system	Substantial progress	SDG 8
2020 CSR 1	**Some progress**	
Take all necessary measures, in line with the general escape clause of the Stability and Growth Pact, to effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.	Not relevant anymore	SDG 8, 16
Address shortages of health workers to strengthen the resilience of the health system	Some progress	SDG 3
and improve access to social and health services.	Some progress	SDG 3
2020 CSR 2	**Some progress**	
Strengthen measures to support employment and	Some progress	SDG 8
bolster active labour market policies.	Some progress	SDG 4
2020 CSR 3	**Some progress**	
Take measures to provide liquidity to the real economy, in particular to small and medium-sized enterprises.	Full Implementation	SDG 8, 9
Front-load mature public investment projects and	Full implementation	SDG 8, 16
promote private investment to foster the economic recovery.	Full implementation	SDG 8, 9
Focus investment on the green and digital transition, in particular on clean and efficient production and use of energy,	Substantial progress	SDG 7, 9, 13
sustainable and efficient infrastructure	Some progress	SDG 7, 9, 11, 13
as well as research and innovation.	Substantial progress	SDG 9
2020 CSR 4	**Substantial progress**	
Ensure effective supervision and enforcement of the anti-money laundering framework.	Substantial progress	SDG 8, 16
2021 CSR 1	**Not relevant anymore**	
In 2022, maintain a supportive fiscal stance, including the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment.	Not relevant anymore	SDG 8, 16
When economic conditions allow, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term.	Not relevant anymore	SDG 8, 16
At the same time, enhance investment to boost growth potential. Pay particular attention to the composition of public finances, on both the revenue and expenditure sides of the budget, and to the quality of budgetary measures in order to ensure a sustainable and inclusive recovery. Prioritise sustainable and growth-enhancing investment, in particular investment supporting the green and digital transition.	Not relevant anymore	SDG 8, 16

(Continued on the next page)

Table (continued)

Give priority to fiscal structural reforms that will help provide financing for public policy priorities and contribute to the long-term sustainability of public finances, including, where relevant, by strengthening the coverage, adequacy and sustainability of health and social protection systems for all.	Not relevant anymore	SDG 8, 16
2022 CSR 1	**Limited progress**	
In 2023, ensure that the growth of nationally financed primary current expenditure is in line with an overall neutral policy stance, taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Stand ready to adjust current spending to the evolving situation.	Not relevant anymore	SDG 8, 16
Expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Recovery and Resilience Facility and other Union funds.	Not relevant anymore	SDG 8, 16
For the period beyond 2023, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions.	Not relevant anymore	SDG 8, 16
Present policy proposals for the social security reform, aiming to increase the efficiency of the system of social benefits, improving incentives to work, and also supporting long-term sustainability of public finances.	Limited Progress	SDG 1, 2, 10
2022 CSR 2		
Proceed with the implementation of its recovery and resilience plan, in line with the milestones and targets included in the Council Implementing Decision of 29 October 2021.	RRP implementation is monitored by assessing RRP payment requests and analysing reports published twice a year on the achievement of the milestones and targets. These are to be reflected in the country reports.	
Proceed with the implementation of the agreed 2021-2027 cohesion policy programme for Finland, and swiftly finalise the negotiations with the Commission of the 2021-2027 cohesion policy programming documents for the Åland Islands and the Just Transition Fund with a view to starting their implementation.	Progress on the cohesion policy programming documents is monitored under the EU cohesion policy.	
2022 CSR 3	**Substantial progress**	
Reduce overall reliance on fossil fuels and diversify imports of fossil fuels.	Substantial progress	SDG 7, 9, 13
Accelerate the deployment of renewables, including by further streamlining permitting procedures,	Substantial progress	SDG 7, 8, 9, 13
and boost investment in the decarbonisation of industry	Some progress	SDG 7, 9, 13
and transport, including electrification of the transport sector.	Some progress	SDG 11
Develop energy infrastructure to increase security of supply.	Some progress	SDG 7, 9, 13
2023 CSR 1	**Some progress**	
Wind down the emergency energy support measures in force, using the related savings to reduce the government deficit, as soon as possible in 2023 and 2024. Should renewed energy price increases necessitate new or continued support measures, ensure that these are targeted at protecting vulnerable households and firms, fiscally affordable, and preserve incentives for energy savings.	Substantial progress	SDG 8, 16
Ensure prudent fiscal policy, in particular by limiting the nominal increase in nationally financed net primary expenditure in 2024 to not more than 2.2%.	No progress	SDG 8, 16
Preserve nationally financed public investment and ensure the effective absorption of RRF grants and other EU funds, in particular to foster the green and digital transitions.	Full implementation	SDG 8, 16

(Continued on the next page)

Table (continued)

For the period beyond 2024, continue to pursue a medium-term fiscal strategy of gradual and sustainable consolidation, combined with investments and reforms conducive to higher sustainable growth, to achieve a prudent medium-term fiscal position.	Substantial progress	SDG 8, 16
Pursue the reform of the social security system to increase the efficiency of the social benefits system, which would improve incentives to work and also support the long-term sustainability of public finances.	Limited progress	SDG 1, 2, 10
2023 CSR 2		
Proceed with the steady implementation of its revised recovery and resilience plan and swiftly finalise the REPowerEU chapter with a view to rapidly starting its implementation. Proceed with the swift implementation of cohesion policy programmes, in close complementarity and synergy with the recovery and resilience plan.	RRP implementation is monitored through the assessment of RRP payment requests and analysis of the bi-annual reporting on the achievement of the milestones and targets, to be reflected in the country reports. Progress with the cohesion policy is monitored in the context of the Cohesion Policy of the European Union.	
2023 CSR 3	**Some progress**	
Address labour and skills shortages by reskilling and upskilling the workforce and widening the higher education offer, in particular for the study fields most in demand in the labour market.	Some progress	SDG 4
2023 CSR 4	**Some progress**	
Reduce overall reliance on fossil fuels by	Substantial progress	SDG 7, 9, 13
accelerating the deployment of renewables, including by further speeding up permitting procedures, and	Substantial progress	SDG 7, 8, 9, 13
and boost investment in the decarbonisation of industry	Some progress	SDG 7, 9, 13
transport, including through electrification.	Some progress	SDG 11
Develop energy infrastructure to increase security of supply by strengthening the transmission of electricity.	Some progress	SDG 7, 9, 13
Step up policy efforts aimed at the provision and acquisition of skills and competences needed for the green transition.	Limited progress	SDG 4, 13
2024 CSR 1	**Some Progress**	
Submit the medium-term fiscal-structural plan in a timely manner.	Full Implementation	SDG 8, 16
In line with the requirements of the reformed Stability and Growth Pact, limit the growth in net expenditure in 2025 to a rate consistent with, inter alia , putting the general government debt on a plausibly downward trajectory over the medium term and reducing the general government deficit below the 3% of GDP Treaty reference value.	Full Implementation	SDG 8, 16
Pursue the reform of the social security system in order to increase the efficiency of the social benefits system, which would improve incentives to work and support the long-term sustainability of public finances.	Limited Progress	SDG 1, 2, 10
2024 CSR 2		
Address relevant challenges to allow for continued, swift and effective implementation of the recovery and resilience plan, including the REPowerEU chapter, ensuring completion of reforms and investments by August 2026. Accelerate the implementation of cohesion policy programmes. In the context of the mid-term review continue focusing on the agreed priorities, while considering the opportunities provided by the Strategic Technologies for Europe Platform initiative to improve competitiveness.	RRP implementation is monitored through the assessment of RRP payment requests and analysis of the bi-annual reporting on the achievement of the milestones and targets. Progress with the cohesion policy is monitored in the context of the Cohesion Policy of the European Union.	
2024 CSR 3	**Some Progress**	
Address labour and skills shortages by reskilling and upskilling the workforce and widening the higher education offer, in particular for the study fields most in demand in the labour market.	Limited Progress	SDG 4, 8
Ensure that the reform of social and healthcare services improves access to and delivery of services and tackles inefficiencies.	Some Progress	SDG 3, 16

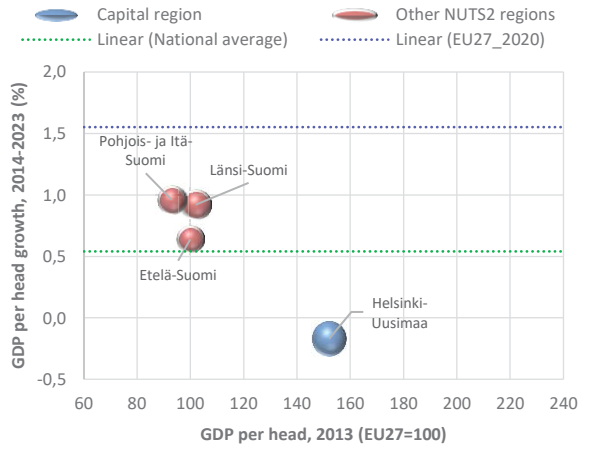
Source: European Commission

Despite the concentration of high-tech sectors in the capital region, and modest growth in most regions, all regions perform well on innovation and the quality of government, which provides a solid basis for further development. However, this would require nurturing skills and addressing demographic risks in some regions. Russia´s war of aggression against Ukraine potentially poses socio-economic challenges for the eastern border regions. At present the southeastern regions seem to be most affected.

Finland's real GDP per capita grew slightly in 2023 (0.5%), underperforming the EU-27 average which is 1.6%. Finland has also diverged from the rest of the EU-27 in the longer term, considering the country´s average GDP per capita growth was lower than the EU average between 2014 and 2023. In terms of GDP per capita in purchasing power standard (PPS), Finland has declined from 114% in 2013 to 105% of the EU average in 2023.

Internal disparities between the capital region and the rest of the country remain but have decreased. In 2023, Helsinki-Uusimaa's GDP per capita in PPS was 131% of the EU-27 average, and 14-42 percentage points (pps) higher than in the other regions. Pohjois- ja Itä-Suomi had the lowest value, at 89% of the EU average.

Graph A17.1: **Average annual real GDP per head growth versus GDP per head in 2013**

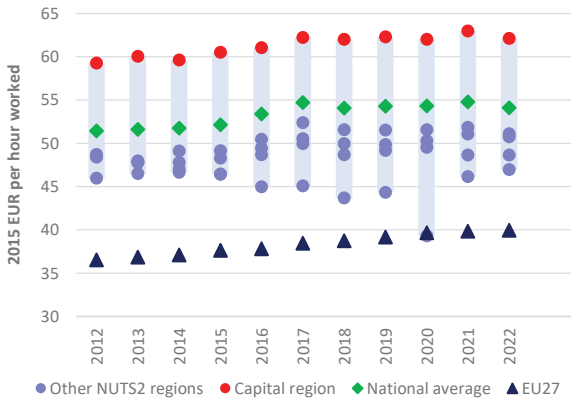


Source: ARDECO (JRC)

GDP per capita (in PPS) compared to the EU average has declined in all regions over the past decade, but in Pohjois- ja Itä-Suomi the relative loss was smaller than in the other regions (Graph A17.1). The decrease was particularly pronounced in Åland, where average annual growth in real GDP per capita was -1.1% below the EU average between 2014 and 2023, and Helsinki-Uusimaa (-0.2%) while Länsi-Suomi and Etelä-Suomi all grew by around 0.5%.

The gap in GDP per capita between the capital region and the rest of the country is linked to disparities in labour productivity. In 2023, national labour productivity, as measured by real gross value added (GVA) per hour worked was around 30 pps higher than the EU average, slightly lower than the pre-pandemic level. The productivity gap between the capital and the other regions has narrowed moderately between 2010 and 2022 (Graph A.17.2), mainly due to a progressive, though somewhat limited, catch-up by Pohjois- and Itä-Suomi and Etelä-Suomi.

Graph A17.2: **Labour productivity per hour in Finland**



Source: ARDECO (JRC)

Human capital ([269]) is important factor in the observed gap across the country. At national level, the percentage of the population aged 30-34 with a tertiary education in 2024 (43.2%) was below the EU average (44.3%) and has declined by more than six pps compared to 2020. Regional differences exist, but they are the smallest in the EU. While the capital region surpasses the EU-27 average by 3.4 points, this is a decrease in its advantage compared to the previous years. Etelä-Suomi lags most behind, at 39.0%.

([269])Human capital encompasses knowledge, skills and competences, highlighting the importance of education, training and experience in building a workforce that drives economic growth, innovation and productivity.

Table A17.1:**Selection of indicators at regional level in Finland**

	GDP per head (PPS)	Real GDP growth	Real GDP per head growth	Productivity - GDP per person employed (PPS)	Real productivity growth (per person employed)	Productivity - GDP per hour worked (PPS)	Real productivity growth (per hour worked)	Population aged 30-34 with high educational attainment	Innovation performance	Population growth	Employment rate 20-64	At-risk-of-poverty or social exclusion	Greenhouse gas emissions	Air quality
	Index EU-27 = 100	Average annual % change	Average annual % change	Index EU-27 = 100	Average annual % change	Index EU-27 = 100	Average annual % change	% of population aged 30-34	RIS regional performance group	Average annual change per 1000 residents	% of population aged 20-64	% of total population	tCO2eq. per person	Concentration of PM 2.5
	2023	2014-2023	2014-2023	2023	2014-2023	2022	2013-2022	2024	2023	2014-2023	2024	2024	2023	2021
European Union (27 MS)	100	1,7	1,6	100	0,6	100	0,9	44,8		1,7	75,8	21,0	7,1	10,1
Finland	105	0,8	0,5	102	-0,1	109	0,5	43,2	Innovation leader	2,5	77,0	16,8	7,7	4,2
Länsi-Suomi	97	1,0	0,9	100	0,4	101	0,6	41,3	Strong innovator+	1,3	77,3		8,3	3,9
Helsinki-Uusimaa	131	0,9	-0,2	110	-0,8	123	0,5	48,2	Innovation leader+	10,4	78,2	15,0	5,6	4,8
Etelä-Suomi	93	0,5	0,6	99	0,2	102	0,5	39,0	Strong innovator+	-1,1	76,0	16,7	9,3	4,6
Pohjois- ja Itä-Suomi	89	0,7	1,0	96	0,2	100	0,6	40,5	Strong innovator+	-2,2	75,4	16,5	8,5	3,7
Åland	117	-0,5	-1,1	95	-0,6	95	-0,4		Moderate innovator-	6,3	86,4		2,2	3,7

Source: Eurostat and JRC

Sectoral specialisation in high-tech sectors shows a more polarised pattern. In 2024, employment in knowledge-intensive services exceeded the EU average (41.5%) in all regions, ranging from 53.8% in Helsinki-Uusimaa to 43.0% in Länsi-Suomi. Employment in high-tech sectors in Helsinki-Uusimaa (10.7%) was double than the EU average (5.2%) and more than double that in the rest of the country.

The capital region stands out also for business sector R&D expenditure, which in 2022 was above the EU average in all regions except Etelä-Suomi and Åland. All these factors consistently point to a dichotomy: on the one hand, the capital region is well equipped to keep pace with the rest of the EU and even outperform it; on the other hand, the non-capital regions show less ability to harness growth trends in dynamic and advanced sectors.

Finland´s regions all perform well in innovation. The capital region is classed as an innovation leader+ (2023 Regional Innovation Scoreboard). The other three mainland regions are categorised as strong innovator+. Finland's NATO membership could open new opportunities for the defence industry and its subcontracting networks. Defence industry companies are spread across the country, with the capital area, Tampere and Oulu in the lead.

The capital region's demographic dynamics differ markedly from those in the rest of the country. Average annual population growth at national level between 2014 and 2023 (2.8 people per 1 000 inhabitants) was well above the EU-27 average (1.7). However, population growth was concentrated in Helsinki-Uusimaa (+10.4 people per 1 000 inhabitants on average) while Länsi-Suomi grew at a rate of only 1.3 and Etelä-Suomi and Pohjois- ja Itä-Suomi experienced depopulation (-1.1 and -2.2 respectively). The small island region of Åland experienced significant growth. Net migration followed a similar pattern across the country. In the short term, depopulation could lead to a shortage of resources in certain sectors in relatively less developed regions. In the medium to long term, it could also affect their ability to take advantage of growth opportunities and to address wider socio-economic challenges.

Labour market conditions are homogeneous across the country, with no major regional disparities at NUTS 2 level. Labour market conditions worsened in 2023 and 2024 compared with 2022, because of the economic downturn. In 2024, Finland had an unemployment rate of 8.4%, 2.5 pps above the EU average and 1.6 pps higher than in 2022. Unemployment has grown in all regions in 2024, except in the NUTS 3 region of Lappi. At the same time there are mismatches in the labour market. In Lappi, investments in the tourism sector are on the rise and the region faces challenges to meet demand for labour. The employment rate in 2024, down for the second year – to 77.0%, was still higher than the EU average in all regions except Pohjois- ja Itä-Suomi. In western Finland, there are high expectations for green transition investment, but more significant effects on employment are not expected to materialise until the 2030s. The unemployment rate for 15-24-year-olds was 18.8% in 2024, 3.9 pps higher than the EU average. The largest increase in youth unemployment was recorded in the capital region, and Pohjois- ja Itä-Suomi (by

6.2 and 5.1 pps, respectively, between 2022 and 2024) to reach 20.

The at-risk-of-poverty gap nearly closed by 2024 between the Helsinki region and the non-capital regions. Finland's at-risk-of-poverty rate (16.8%) was notably below the EU average (21.0%) in 2024. At 15.0%, the rate in the capital region was 1.5-1.7 pps lower than in the other regions (3.6-3.9 pps in 2022).

The quality of government ([270]) is significantly above the EU-27 average in all Finnish regions in 2024, with the best performance in Åland and Pohjois- ja Itä-Suomi.

On access to healthcare facilities in rural areas, Finnish regions generally perform much better than the EU average, and even the average of the more developed EU regions. The proportion of the population living within a 10-minute drive of the nearest health centre in 2023 is 48.6% at national level, compared with the EU average of 28.8% and the average for EU more developed regions of 35.9%. The best-performing region is Etelä-Suomi, at 53.5%, and the worst is Åland, at 26.2%, where island status is of course a factor.

As regards access to primary schools in rural areas, Finnish regions generally perform evenly, but worse than the EU average, and even the average of the EU's less developed regions. The vastness of the territory and the low population density play a role, together with the characteristics of the natural environment. The percentage of children under 15 with a primary school within a 15-minute walk in 2023 was 15.8% at national level, compared to 30.8% in the EU and 28.2% in the EU's less developed regions. There is very little regional variation in these results and all regions, including the capital city region, perform similarly.

Helsinki-Uusimaa stands out in terms of housing cost overburden. Housing cost overburden is measured as the percentage of the population living in households where total housing costs (net of housing allowances) exceed 40% of disposable income (net of housing allowances). The capital region stood at 7.1% in 2024, pushing up the national average to 5.4%, compared to 4.3% in 2021. Etelä-Suomi and Pohjois- ja Itä-Suomi were both below 5%.

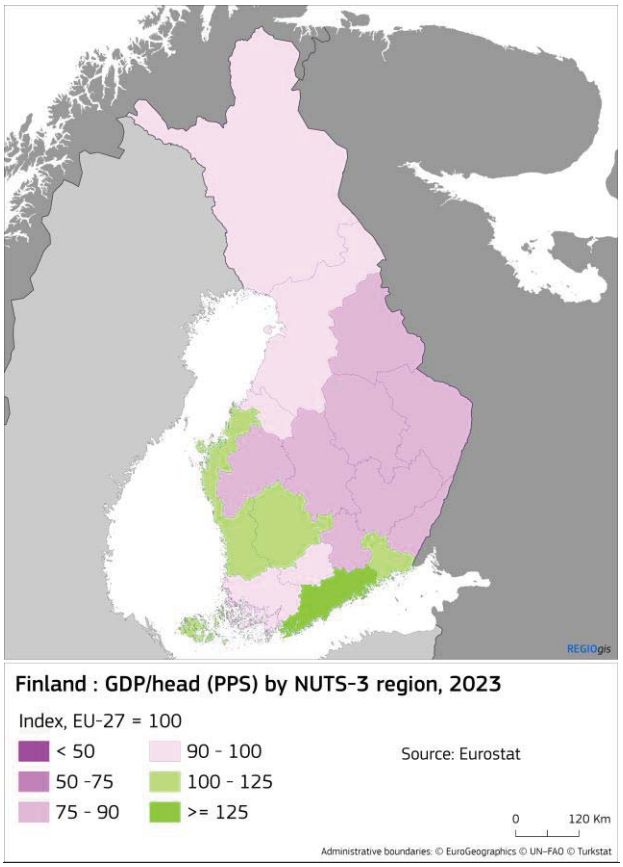
The economic situation in Finland has weakened since the 2022 Russian full-scale invasion of Ukraine. The invasion has changed the security environment and potentially poses serious socio-economic challenges, notably for the eight NUTS 3 regions or parts of them at or close to the border with Russia: Etelä-Karjala, Kymenlaakso, Pohjois-Karjala, Etelä-Savo, Pohjois-Savo, Kainuu, Pohjois-Pohjanmaa and Lappi (Map A17.1). The Commission, in cooperation with the OECD and national and regional authorities, is preparing a transition strategy for the territory in question and strategies for the individual regions, to be ready by mid-2025. This project is closely linked to preparation of national Northern and Eastern Finland programmes, to be implemented during the current government term up to 2027.

In Northern and Eastern Finland, where the level of economic development has for long been frailer, the recent development does not seem to differ significantly from the rest of the country (excluding the capital region), except for some industries and regions. The hospitality and retail sectors in the NUTS3 regions of Etelä-Karjala and Kymenlaakso, which had significant border traffic in the past, have fared especially poorly, diverging from the rest of the country and preceding local trends ([271]). Due to data constraints, the report lacks 2023 data on key regional indicators, such as companies´ turnover and export. It remains to be seen if new data will affect the overall picture of recent development.

([270])As measured by the Regional Quality of Government Index.

([271])VATT Institute for Economic Research: Regional economic development. Data Room Report 4/2024 (17.12.2024).

Map A17.1: **GDP per head (in purchasing power standard PPS), 2023**



Source: Eurostat

Finland's average greenhouse gas emissions per capita were slightly above the EU-27 average. Finland generated 7.7 tonnes of CO_2 equivalent, compared to 7.1 tonnes in the EU in 2023. However, the trend has significantly decreased over the last decade, halving since 2014. Åland and the capital region were below the EU average. The highest value was recorded in Etelä-Suomi. Pohjois- ja Itä-Suomi and Länsi-Suomi exceed the EU average. In the latter three greater regions, 14 of the 17 NUTS 3 regions are covered by territorial just transition plans, addressing the impact of reducing the use of peat for energy.

Finnish people breathe the cleanest air in the EU, even in the most urban regions. The country is well below the EU average for annual average concentrations of particulate matter (PM 2.5), at 4.2 compared with 10.1. The highest concentration is in Helsinki-Uusimaa, due to the metropolitan concentration of anthropogenic activities, but is still only 4.8.