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<p>Abstract</p> <p>The coronavirus pandemic has resulted in a serious disruption to the global economy. The Government has stated that Finland is in a state of emergency. The exceptional circumstances referred to in the EU's Stability and Growth Pact also apply. Economic forecasts are now subject to exceptionally high uncertainty, which is also reflected in the assessment of the outlook for general government finances. It has been agreed between the Commission and the Member States that the Stability Programme required by law to be submitted by the end of April will be more concise in content than normal. The Stability Programme does not set out the Government's targets or measures planned to achieve the targets. Due to the technical nature of the Stability Programme, it is published as a Ministry of Finance civil service document that has not been considered by the Government.</p> <p>Finland is seeking to apply the general escape clause of the Stability and Growth Pact with regard to fiscal policy measures aimed at addressing the coronavirus outbreak. These measures have been implemented in the first and second supplementary budgets, adopted in March-April. The Government will be preparing next support measures in May. Even after this, the need for further measures cannot be excluded.</p>			
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Tiivistelmä	<p>Koronaviruspandemia on aiheuttanut vakavan häiriön maailmantalouteen. Valtioneuvosto on todennut, että Suomessa vallitsevat poikkeusolot. Myös EU:n vakaus- ja kasvusopimuksessa tarkoitetut poikkeukselliset olosuhteet vallitsevat. Talouden ennusteisiin liittykin nyt poikkeuksellisen suurta epävarmuutta, joka heijastuu myös julkisen talouden näkymien arvioimiseen. Komission ja jäsenmaiden kesken on sovittu, että lainsäädännön määräämän huhtikuun lopun määräajan puitteissa toimitettava vakausohjelma on sisällöltään normaalia suppeampi. Vakausohjelmassa ei esitetä hallituksen tavoitteita tai suunniteltuja toimenpiteitä tavoitteiden saavuttamiseksi. Vakausohjelman teknisestä luonteesta johtuen se julkaistaan valtiovarainministeriön virkamiesasiakirjana, eikä sitä ole käsitelty valtioneuvostossa.</p> <p>Suomi hakee vakaus- ja kasvusopimuksen yleisen poikkeuslausekkeen soveltamista koronavirustilanteen hoitoon suunnattujen finanssipoliittisten toimien osalta. Näitä toimia on toteutettu maaliskuun-huhtikuun aikana annetuissa ensimmäisessä ja toisessa lisätalousarviossa. Hallitus valmistelee uusia toimenpiteitä toukokuun aikana. Tämän jälkeenkään lisätoimien tarvetta ei voida poissulkea.</p>	
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Referat	<p>Coronaviruspandemin har lett till allvarliga störningar i världsekonomin. Statsrådet har konstaterat att undantagsförhållanden råder i Finland. Det råder även sådana exceptionella omständigheter som avses i EU:s stabilitets- och tillväxtpakt. Därför är de ekonomiska prognoserna nu förknippade med exceptionellt stor osäkerhet, vilket också återspeglas i bedömningen av utsikterna för de offentliga finanserna. Kommissionen och medlemsländerna har kommit överens om att det stabilitetsprogram som ska lämnas in inom den tidsfrist som anges i lagstiftningen, dvs. i slutet av april, ska ha ett snävare innehåll än normalt. I stabilitetsprogrammet presenteras inte regeringens mål eller planerade åtgärder för att nå målen. Eftersom stabilitetsprogrammet är av teknisk karaktär publiceras det som finansministeriets tjänstemannadokument. Dokumentet har inte behandlats i statsrådet.</p> <p>Finland är ute efter att tillämpa den allmänna undantagsklausulen i stabilitets- och tillväxtpakten när det gäller finanspolitiska åtgärder för hantering av coronavirusläget. Sådana åtgärder har genomförts i den första och andra tilläggsbudgeten, som överlämnades till riksdagen i mars och april. Regeringen förbereder stödåtgärder under maj månad. Inte heller efter det kan man utesluta behovet av ytterligare åtgärder.</p>		
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1 Introduction

The coronavirus pandemic has resulted in a serious disruption to the global economy. At this stage, there is insufficient information as to the duration of the crisis and its impact on the economy. Economic forecasts are now subject to exceptionally high uncertainty, which is also reflected in the assessment of the outlook for general government finances. Following the spread of the pandemic to Europe, the EU Member States, including Finland, have launched significant fiscal support measures, the final scale of which remains uncertain.

On 16 March 2020, the Government has announced, in cooperation with the President of the Republic, that state of emergency exists in the country, as referred to in section 3 paragraphs 3 and 5 of the Emergency Powers Act. The exceptional circumstances referred to in the EU's Stability and Growth Pact also apply. Due to this exceptional situation, it is not appropriate to prepare the Stability Programme in its standard form, containing the Government's multiannual targets for the general government finances and assessment of the progress towards of the Medium-Term Objective (MTO), until the economic situation becomes normalised. Domestic legislation (Fiscal Policy Act 869/2012 and the Decree on the General Government Fiscal Plan 120/2014) take into account the possibility of exceptional circumstances and allow, in connection with them, the possibility of deviating from the setting of multiannual targets. The standard-form Stability Programme will be prepared later and it will meet the requirement of both national and EU legislation for a medium-term fiscal plan.

It has been agreed between the Commission and the Member States that the Stability Programme required by regulation to be submitted by the end of April will be more concise in content than normal. The time horizon of the Stability Programme to be submitted now will be significantly shorter than normal and will not set general government budgetary targets. Instead, this Stability Programme focuses on describing the fiscal policy measures taken due to the coronavirus situation and their impact on

general government finances, based on the independent forecast¹ of the Ministry of Finance. Due to the uncertainty of the forecasts, this Stability Programme also presents an alternative scenario.

The central government spending limits include a mechanism that, if necessary, allows an increase in one-off expenditure of up to EUR 1 billion (a maximum of EUR 500 million per year) in the event of an exceptional economic situation. This exceptional situation mechanism may be used if predefined criteria are fulfilled. The Ministerial Committee on Economic Policy will decide on the fulfilment of the definition and a recommendation to the Government on the use of the exceptional situation mechanism, based on preparations by the Economics Department of the Ministry of Finance as well as a situation assessment by the Bank of Finland and economic research institutes. On 8 April 2020, the Government initiated the activation of the exceptional situation mechanism. In the current year, there is no need to use the mechanism as, given that Finland is in a state of emergency and the Emergency Powers Act is in force, the central government spending limits do not restrict targeted and temporary measures in 2020.

Due to the technical nature of the Stability Programme, it is published as a Ministry of Finance civil service document that has not been adopted by the Government. It takes into account measures decided on by 24 April 2020. The Stability Programme will be published on the Ministry of Finance website and submitted to the EU on 30 April 2020.

¹ The first supplementary budget was adopted by Parliament on 26 March 2020 and the second on 24 April 2020. Both supplementary budgets have been taken into account in the Ministry of Finance independent forecast published on 16 April 2020.

2 Fiscal measures to contain the effects of the coronavirus outbreak

2.1 Application in Finland of the general escape clause of the Stability and Growth Pact

On 20 March 2020, the European Commission published a communication² in which the general escape clause³ of the Stability and Growth Pact was activated based on the severe economic downturn caused by the coronavirus outbreak throughout the EU and the need for a sufficiently large fiscal response. In their joint statement⁴ on 23 March 2020, the Member States supported the activation of the clause. Based on the general escape clause, Member States may be permitted to depart from the adjustment path towards the medium-term budgetary objective due to an unusual event beyond the Member State's control and which has a major impact on the general government budgetary position or in a severe economic downturn for the euro area or the EU as a whole, provided that this does not endanger fiscal sustainability in the medium term.

Finland is seeking to apply the general escape clause of the Stability and Growth Pact with regard to fiscal policy measures aimed at addressing the coronavirus situation. These measures have been implemented in the first and second supplementary budgets adopted in March-April (Table 1). The Government will be preparing next support measures in May. Even after this, the need for further measures cannot be excluded.

In the first two supplementary budgets, measures were agreed on that will increase general government expenditure by a total of EUR 3,061 million in 2020–2022. Most of the

2 https://ec.europa.eu/info/files/communication-commission-council-activation-general-escape-clause-stability-and-growth-pact_en

3 Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) 1466/97, and Articles 3(5) and 5(2) of Regulation (EC) 1467/97.

4 <https://www.consilium.europa.eu/en/press/press-releases/2020/03/23/statement-of-eu-ministers-of-finance-on-the-stability-and-growth-pact-in-light-of-the-covid-19-crisis/>

measures are directed at 2020 when, taking into account revenue-reducing measures, the general government deficit will grow by EUR 3,811 million. To date, the largest costs arise from measures to support businesses and strengthen social and health care resources.

2.2 Measures directly impacting general government revenue and expenditure

To immediately address the crisis, an additional investment of EUR 691 million will be allocated in 2020 to social and health care resources. Appropriations totalling EUR 380 million are earmarked for strengthening administrative resources requirement for crisis management and for miscellaneous and unanticipated expenditure. More than EUR 60 million will be allocated to actors involved in culture, sport and youth work that have been badly affected by the crisis.

Operating conditions for businesses will be supported by increasing by EUR 1,252 million grants made to enterprises via Business Finland, Centres for Economic Development, Transport and the Environment (ELY Centres) and the municipalities. A total of EUR 956 million will be allocated in 2020 to grants made via Business Finland and ELY Centres to enterprises that have experienced disruption. In addition, the need for assistance in the following years is estimated to be EUR 200 million in 2021 and EUR 45 million in 2022. EUR 250 million will be allocated via the municipalities to support the liquidity of the self-employed. Rural business activity will be supported with EUR 40 million. In addition, Finnvera's domestic financing authorisations will be increased to EUR 12 billion, the impact of which on the deficit according to the national accounts is expected to be EUR 155 million in 2021 and EUR 161 million in 2022 via the state budget guarantee loss provision. Tax payment arrangements will be eased and an opportunity granted with regard to earnings-related pension contributions for an extended payment period of 3 months.

In accordance with a proposal of the labour market organisations, unemployment security will be strengthened temporarily by abolishing the waiting period before a person is eligible for unemployment security, expanding the right to unemployment allowance to all entrepreneurs, shortening the notice period for the cooperation procedure and lay-offs, and extending to fixed-term employment relationships the right to make lay-offs. These measures are expected to weaken the general government budgetary balance by EUR 284 million in 2020. Social security will be expanded by EUR 94 million. This new support would be available in situations where parents who need to stay at home and absent from work without pay while caring for a child aged under 10 years entitled to early childhood education or a basic education during the state of emergency. The benefit would also be available to people arriving in Finland from abroad who have been placed in quarantine-like conditions and are therefore away from work without pay.

Private sector employers' earnings-related pension contribution will be reduced by 2.6 percentage points temporarily between 1 May 2020 and 31 December 2020 utilising the earnings-related pension system's EMU buffer. The measure will weaken the social security funds' balance by approximately EUR 1,050 million in 2020. Contributions will be increased and the EMU buffer gradually augmented again during the period 2022–2025.

On 8 April 2020, the Government announced in connection with the submission of the technical General Government Fiscal Plan that it is preparing further measures in May to support the rapid recovery of the economy. In the same context, it is intended to decide on measures to support local government finances in the manner outlined in the connection with the General Government Fiscal Plan for 2021–2024.

Table 1. Discretionary measures adopted/announced in response to coronavirus outbreak

List of measures	Description	ESA code	Adoption status	Budgetary impact (change from previous year) % of GDP	
				2020	2021
Support for enterprises	Grants to enterprises provided by Business Finland and ELY Centres during disruptions, supporting the liquidity of self-employed people.	D3K	Adopted	0.5	-0.4
Extensions of unemployment security and social security	Removal of waiting period, speeding up of lay-off procedure and making entrepreneurs eligible for unemployment security, support for parents of small children and people arriving from other countries.	D62	Adopted	0.2	-0.2
Healthcare and social welfare resources and equipment purchases	Purchase of protective and other equipment and medicines through the National Emergency Supply Agency, vaccine research.	P2	Adopted	0.3	-0.3
Other expenditure increases arising from the coronavirus situation	Operating expenditure of various agencies, contingency for unanticipated expenditure, grants to various organisations.	P2, D1, P9	Adopted	0.2	-0.2
Lower of earnings-related pension contribution	Lowering of private-sector pension contributions for the period 1 May - 31 December 2020. The funding will come from the earnings-related pension system's EMU buffer. The buffer will be augmented again by increasing the earnings-related pension contribution for 2022–2025.	D61	Adopted	-0.5	0.4
			Total	1.7	-1.5

2.3 Other measures

To mitigate the effects of the coronavirus outbreak, the Government has granted business loan guarantees via Finnvera and has expanded Business Finland's loan authorisations. Finnvera's domestic financing authorisations had previously totalled EUR 4.2 billion, of which approximately EUR 2 billion had already been used before the crisis. Increasing the maximum amount to EUR 12 billion has therefore made available to Finnvera financing authorisations of approximately EUR 10 billion to alleviate the effects of the crisis. In addition, the Government will separately grant a guarantee of EUR 600 million for Finnair's reborrowing of private sector employee pension fund (TyEL) contributions. To maintain freight traffic critical for security of supply, the Government will grant a total of up to EUR 600 million in guarantees for loans to shipping companies.

Business Finland's loan authorisations for 2020 will be increased by EUR 150 million. Total loan authorisations for the following years will also be raised by a corresponding sum. The capital of Finnish Industry Investment Ltd will be increased by EUR 150 million in 2020 for use in easing the liquidity problems faced by businesses due to the coronavirus situation.

The above measures will not affect general government net lending.

Table 2. Guarantees adopted/announced in response to coronavirus outbreak

List of measures	Description	Adoption status	Maximum amount of contingent liability % of GDP
Finnvera	Increasing domestic financing guarantee authorisations from EUR 4 billion to EUR 12 billion, i.e. an increase of EUR 8 billion ¹ .	Adopted	4.4
Finnair	Maximum EUR 600 million government guarantee for TyEL pension premium loan	Adopted	0.3
Guarantee for freight traffic security of National Emergency Supply Agency	Government guarantee programme, with proposed maximum of EUR 600 million	Adopted	0.3
Employment Fund application	Application to guarantee a EUR 800 million credit line for financing cyclical buffer deficit	Announced	0.3
		Total	5.2

¹ Within the current authorisation, it is possible to increase business funding by EUR 2 billion, so the authorisation increase to EUR 12 billion will allow a total of EUR 10 billion of additional funding to businesses

3 Economic outlook

3.1 Global economy and forecast assumptions

From an economic perspective, the coronavirus pandemic is a global disruption that is adversely impacting economic activity all over the world. This is primarily a negative supply shock that originated in China and is spreading through global production chains, but it is also a large negative demand shock. Decisions restricting free movement of people and business operations are reducing economic activity significantly around the world.

The negative effects on the economy will be greater the more intensely and widely the virus spreads, the more people fall ill and, in particular, the more extensive and prolonged are the containment measures taken to prevent the virus from spreading. The forecast assumes that the measures restricting economic activity will last for three months. The estimates concerning the duration of the measures taken to contain the coronavirus are being constantly updated, making forecasts of future development highly uncertain. Other underlying assumptions of the forecast are described in Table 3 of the appendix.

A substantial contraction of the Chinese economy in the first quarter of this year marked the start of the global economic slowdown. Even if the economy recovers during the second half of the year, the Chinese economy will nevertheless contract by 2% in 2020. Economic activity in Europe has fallen sharply. This year, the euro area GDP will decline by 5% from the previous year. Economic growth in the United States will also turn negative, as the centre of the pandemic shifts there. Overall, total global production will decline by approximately 2% this year. The restrictions on activities will also affect global goods trade during the first half of the year. In 2020 as a whole, world trade will decline by 5% from the previous year.

3.2 Finland's economic outlook for 2020–2022

Finland's gross domestic product will contract by 5.5% in 2020. It is assumed that the impact of the coronavirus outbreak will recede and the economy will recover fairly rapidly in the latter part of the year. GDP is expected to grow by 1.3% in 2021 and 2022.

The contraction of world trade during the early part of 2020 will hit Finnish exports and imports. Finnish export companies are closely integrated into international production chains and many companies are dependent on components imported from elsewhere in the world. Finland's foreign trade will recover in the wake of a global recovery during the second half of 2020.

The restrictions introduced to contain the coronavirus pandemic will substantially weaken private consumption this year. Private consumption will contract by 4%. There will be a particularly steep fall in the demand for services from March onwards. Temporary lay-offs and unemployment will cut purchasing power, which in turn will also reduce demand for goods. The decline in consumption will be slowest in the category of daily consumer goods.

The investment climate in Finland is now highly uncertain as a result of the coronavirus pandemic. The uncertain outlook may result in investments being postponed or even cancelled altogether. Private investment will decline by 10% this year. Uncertainties in the world economy will reduce investment, particularly in machinery and equipment, and will lead to the postponement of investment projects already planned.

The number of employed people will fall as the pandemic closes operations and borders between countries. The number of employed is expected to decline by 2% this year and the employment rate to just over 71%. The number of unemployed people will increase significantly and the unemployment rate will rise to 8% in 2020. If the restrictions introduced to contain the epidemic prove to be short-lived, people laid off may return to work soon and the rise in unemployment may remain modest.

In 2021–2022, world trade will return to its pre-crisis growth path and, driven by demand in the export markets, Finland's exports will recover. A short-term crisis is not expected to weaken the export sector permanently. Growth in private consumption will also be normalised and will follow the 1½% growth in real incomes. Private investment will recover more slowly because major forest industry projects are being postponed and residential construction investments are continuing to decline. GDP growth in 2022 will be supported most by the ending of the decline in housing construction investments. Faster economic growth and a slow rise in nominal wages will gradually boost demand for labour in 2021 and 2022. At the same time, the working population will continue to age and the employment rate will rise to 72% in 2022.

4 Outlook for general government finances

4.1 General government financial balance and debt

The assessment presented in this chapter is based on the Ministry of Finance independent forecast and the spring 2020 General Government Fiscal Plan for 2021–2024. The General Government Fiscal Plan was of a technical nature. Amidst the crisis, the assessment of the economic situation is exceptionally uncertain.

In 2019, the general government deficit deteriorated to 1.1% in ratio to GDP. The four-year reduction of the central government deficit came to an end and the deterioration of local government finances continued as investment expenditure continued to rise. General government debt in ratio to GDP has declined modestly in recent years. The gradual reduction of the government debt ratio continued to 59.4%.

According to the Ministry of Finance independent forecast, general government finances will deteriorate sharply in 2020. A sudden and strong turnaround in economic conditions will reduce tax revenue and increase unemployment expenditure. In addition, the deficit will be increased by substantial measures to mitigate the effects of the coronavirus outbreak. The general government deficit will increase to EUR 16.6 billion, i.e. 7.2% in ratio to GDP.

All sub-sectors of general government will be in deficit in 2020. Central government finances will deteriorate the most due to the recession and the stimulus measures. Central government finances will bear the greatest share of the costs of the support measures decided due to the coronavirus outbreak. Cyclical fluctuations will be reflected most clearly in central government finances, due to the high cyclical sensitivity of central government tax revenue. In addition, the funding with property income of the expenditure increases planned in the Government Programme will be postponed. In the current market situation, the sale of shares is not appropriate, and the second supplementary budget of 2020 recognised that no revenue is expected from the sale of shares.

Local government finances will tighten further this year from the already difficult situation last year. The current year, too, will be very difficult for local government finances, due to the economic downturn and the increase in expenditure caused by the coronavirus outbreak. The budgetary position of local government finances will also be burdened by an increase in the demand for health and social services due to population ageing, and consequent expenditure growth.

For the first time in the history of the statistics, the social security funds will sink into deficit, as increasing unemployment and temporary lay-offs raise benefit expenditure, and the earnings-related pension contribution is lowered. In 2020, the surplus of employment pension funds will temporarily melt completely, as the earnings-related pension contribution is temporarily lowered and the deteriorating employment situation cuts contribution income. In addition, pension expenditure will continue to grow rapidly and low interest rates will slow down growth of employment pension funds' property income. The other social security funds will turn to deficit, as significant lay-offs, rising unemployment and the temporary extension of unemployment security increase benefit expenditure.

In the current year, the general government debt in ratio to GDP will start to increase sharply and will rise by almost 10 percentage points to close to 69.1%. The sharp increase in the debt ratio will be due to a contraction in GDP and a substantial increase, in particular, of the central government, but also the local government, deficit.

Next year, the general government deficit will fall as economic growth recovers and the measures implemented to alleviate the effects of the coronavirus outbreak come to an end, but the deficit will remain substantial at 4.0% in ratio to GDP. At the same time, the debt ratio will increase further to 71.5%.

At this stage of the crisis, it is not meaningful to examine the structural balance. The level of Finland's potential output, as estimated using the EU's common methodology, is changing strongly due to the deep downturn caused by the crisis.

The risks to public finances are closely linked to general economic development. There is high uncertainty about the duration of the coronavirus pandemic and the subsequent economic recovery. The more rapidly and strongly the economy recovers, the smaller the damage to general government finances will be. If, on the other hand, the coronavirus epidemic and the resulting containment measures prove to be more prolonged than expected, the contraction in tax revenue will be greater and unemployment expenditure will increase faster than projected. In addition, general government contingent liabilities and a significant increase in guarantees, in particular, pose a risk to general government finances. Guarantee authorisations will also be increased this year as part of support measures for businesses. A major triggering of liabilities would increase public spending and further exacerbate the increase in the debt ratio.

4.2 Medium-term budgetary outlook

Economic growth in Finland is expected to slow to less than 1% in 2023–2024. The slowdown will be due to structural factors in the economy. The growth potential of the economy will be weakened by the continuing decline of the working-age population and by structural unemployment. In addition, the investment rate will fall, which will weaken the capital stock and the growth potential of the economy. Growth in the total productivity of the economy will also be subdued.

Without new policy measures, the general government deficit will remain high in 2022–2024. The slow economic growth will be insufficient to improve general government finances significantly, leaving the general government deficit close to 4% in 2024 without new policy measures. On a no-policy change basis, general government debt is projected to increase from just under 60% last year to 78.7% in ratio to GDP by 2024.

4.3 Decisions on further measures

In the two supplementary budgets of March–April, the Government has decided on comprehensive measures to safeguard jobs and subsistence and to ease the financial pressure on businesses facing difficulties caused by the coronavirus pandemic. On 8 April 2020, the Government announced in connection with the submission of the technical General Government Fiscal Plan that in May it is preparing further measures to support the rapid recovery of the economy.

On 8 April, the Government established a working group to prepare within a short timeframe a plan for Finland's exit from the crisis caused by the epidemic as well as post-crisis management measures. The preparation group will report by 1 May on measures to limit the detrimental economic, health and social consequences of the immediate crisis stage and to exit the restrictive measures currently decided in a timely manner. With regard to the second part of its mandate, the preparation group will report by 31 May on post-crisis management measures and their preparation for the various sectors of society.

The central government spending limits include a mechanism in the event of an exceptional economic situation, and the activation process for this has been initiated. If it is decided to activate the mechanism, this will allow an increase in one-off expenditure of up to EUR 1 billion in 2021–2022 (a maximum of EUR 500 million per year).

In the General Government Fiscal Plan, the Government emphasised that, alongside the stimulus measures, it will also be necessary to decide on structural measures to return Finland after the crisis to a path of sustainable growth, high employment and sustainable public finances. Alongside an active fiscal policy, economic growth will be supported by so-called automatic stabilisers, namely an automatic increase in general government expenditure and a reduction in tax revenues in an economic downturn. In accordance with the General Government Fiscal Plan, the Government will also monitor the economic situation and the achievement of economic policy goals, and will react as required by the situation. In the same context, the Government has announced that it is committed to reviewing the measures in the Government Programme should their implementation jeopardise the achievement of the targets set for general government finances.

In addition, on 8 April 2020, the Government announced that it is preparing a roadmap that will determine the potential of various measures to reduce the sustainability gap. The Government will outline an economic policy package in the budget session in August 2020.

5 Alternative scenario

The independent forecast of the Ministry of Finance assumes that the restrictive measures imposed due to the coronavirus pandemic will last for 3 months, after which the economy will recover rapidly. In that case, the adverse effects on the economy will be short-lived and economic growth will resume relatively quickly. If restrictions are extended, the effects on the economy may prove more severe. According to the scenario presented here, were restrictions to last for 6 months, they would not only deepen the economic contraction this year, but would also slow down the recovery.

Table 3. Key economic indicators – comparison with Ministry of Finance's spring forecast

	Scenario				MoF's forecast			
	2019	2020**	2021**	2022**	2019	2020**	2021**	2022**
	change in volume, %							
GDP	1.0	-12.0	-0.2	1.5	1.0	-5.5	1.3	1.3
Imports	2.2	-12.7	1.7	2.2	2.2	-3.7	3.0	2.2
Exports	7.2	-18.2	1.2	2.1	7.2	-6.2	3.2	2.1
Private consumption	1.0	-10.5	1.1	1.6	1.0	-4.0	2.7	1.6
Private investment	-1.0	-19.0	-3.7	2.7	-1.0	-10.0	-1.5	2.7
Employment	1.0	-7.0	-2.1	0.5	1.0	-2.0	-0.1	0.5
Productivity	0.0	-5.3	2.0	1.0	0.0	-3.6	1.5	0.8
Unemployment rate, %	6.7	11.3	12.6	12.5	6.7	8.0	8.1	7.9
General government net lending, relative to GDP, %	-1.1	-10.5	-8.1	-8.1	-1.1	-7.2	-4.0	-4.1
General government gross debt, relative to GDP, %	59.4	76.2	82.8	87.8	59.4	69.1	71.5	73.8

According to the scenario, the economy could contract by as much as 12% in 2020. The contraction would be strongest in the second and third quarters of the year. Thereafter, growth would recover quickly at the end of the year, but because of the depth of the contraction, pre-crisis levels would not be achieved during 2021. A long crisis would also result in losses of production capacity and increased unemployment.

In the situation described in the scenario, public-sector measures supporting businesses, employment and purchasing power would not prevent a dramatic fall in output in the second and third quarters of 2020 and would not be sufficient to prevent the destruction of production potential. When the movement restrictions are lifted, the level of economic activity would rise rapidly but would remain well below pre-crisis levels. Unemployment in particular would reach extremely high levels, which would weaken purchasing power. In some sectors, companies might be able to recover lost production but, in the sectors worst hit by the crisis, growth would not resume immediately. The recovery in 2021 would therefore be slower than in the baseline scenario.

The sharper contraction of the economy would increase the general government deficit to over 10% in ratio to GDP. Indebtedness would accelerate and the debt-to-GDP ratio might increase to nearly 88% by 2022. If the crisis deepened and lasted longer, further measures would probably be required to mitigate the effects of the epidemic, which would result in the central government shouldering additional costs. These pressures have not been taken into account in the scenario.

The scenario assumes that the economy would no longer face additional disruptions. As the support measures are unwound in Finland, it is assumed that this will also happen elsewhere in the world. As a result, there would be sufficient demand for Finnish exports and the recovery would be broad-based. Much uncertainty is associated with this assumption.

Appendices

Table 1a. Macroeconomic prospects

	2019	2019	2020	2021
	EUR bn	% change		
1. Real GDP	205.2	1.0	-5.5	1.3
2. Nominal GDP	240.1	2.8	-4.5	3.2
Components of real GDP				
3. Private consumption expenditure	110.5	1.0	-4.0	2.7
4. Public consumption expenditure	47.4	0.9	4.9	-1.6
5. Gross fixed capital formation	47.6	-0.8	-7.1	-1.2
6. Changes in inventories and net acquisition of valuables (% of GDP)	1.0	0.5	-1.6	-0.7
7. Exports of goods and services	90.0	7.2	-6.2	3.2
8. Imports of goods and services	89.9	2.2	-3.7	3.0
Contributions to real GDP growth		%-points		
9. Final domestic demand	205.5	0.5	-2.7	0.8
10. Changes in inventories and net acquisition of valuables	1.0	-1.4	-1.8	0.5
11. External balance of goods and services	0.1	1.9	-1.0	0.1

Table 1b. Price developments

	2019	2020	2021	2022
	% change			
1. GDP deflator	1.8	1.2	1.8	1.9
2. Private consumption deflator	1.1	0.6	1.5	1.5
3. HICP	1.1	0.6	1.4	1.6
4. Public consumption deflator	2.9	1.8	2.4	2.5
5. Investment deflator	2.6	1.5	1.7	1.8
6. Export price deflator (goods and services)	-0.7	-1.5	0.9	1.3
7. Import price deflator (goods and services)	0.3	-1.1	0.8	1.3

Table 2a. General government budgetary prospects

	2019	2019	2020	2021	2022
	EUR million	% of GDP			
Net lending (+) / net borrowing (-) (B.9) by sub-sector					
1. General government	-2 734	-1.1	-7.2	-4.0	-4.1
1a. Central government	-2 761	-1.2	-5.5	-2.7	-3.0
1b. State government					
1c. Local government	-2 911	-1.2	-1.5	-1.7	-1.6
1d. Social security funds	2 937	1.2	-0.3	0.3	0.4
General government (S13)					
2. Total revenue	125 240	52.2	52.5	53.8	53.1
3. Total expenditure	127 974	53.3	59.8	57.9	57.2
4. Net lending/borrowing	-2 734	-1.1	-7.2	-4.0	-4.1
5. Interest expenditure	2 063	0.9	0.8	0.7	0.7
6. Primary balance	-671	-0.3	-6.5	-3.4	-3.5
7. One-off and other temporary measures	0	0.1	0.0	0.0	0.0
Selected components of revenue					
8. Taxes on production and imports	33 597	14.0	14.1	14.4	14.2
9. Current taxes on income, wealth, etc.	38 348	16.0	15.9	16.6	16.1
10. Capital taxes	748	0.3	0.3	0.3	0.3
11. Social contributions	28 280	11.8	11.7	12.2	12.2
12. Property income	7 448	3.1	3.1	3.0	3.1
13. Other	16 819	7.0	7.3	7.3	7.2
14.=2. Total revenue	125 240	52.2	52.5	53.8	53.1
p.m. Tax burden (D2+D.5+D.61+D.91-D.995)	101 270	42.2	42.2	43.7	43.0
Selected components of expenditure					
15. Compensation of employees + intermediate consumption	55 941	23.3	25.8	25.2	25.1
15a. Compensation of employees					
15b. Intermediate consumption					
16. Social payments	50 580	21.1	23.8	23.2	23.0
of which unemployment benefits	4 230	1.8	2.5	2.1	2.1
16a. Social transfers in kind - purchased market production					
16b. Social benefits other than social transfers in kind					
17.=5. Interest expenditure	2 063	0.9	0.8	0.7	0.7
18. Subsidies	2 971	1.2	1.8	1.4	1.2
19. Gross fixed capital formation	10 056	4.2	4.8	4.7	4.5
20. Capital transfers	515	0.2	0.2	0.3	0.2
21. Other	5 848	2.4	2.6	2.5	2.5
22.=3. Total expenditure	127 974	53.3	59.8	57.9	57.2
p.m. Government final consumption expenditure (nominal)	55 455	23.1	25.8	25.2	25.2
23. General government gross debt	142 507	59.4	69.1	71.5	73.8

Table 3. Basic assumptions

	2019	2020	2021
Short term interest rate (3 month EURIBOR)	-0.4	-0.4	-0.3
Long term interest rate (10 years)	0.1	0.1	0.3
USD/EUR exchange rate	1.1	1.1	1.1
World excluding EU, GDP growth	3.1	-1.9	4.4
Growth of relevant foreign markets	-0.8	-5.5	4.2
World trade growth	-0.4	-5.0	4.0
Oil prices (USD/barrel)	64.1	40.1	39.5



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