

23/10/2025

Summary of the 2026 budget proposal

Economic outlook

The recovery of the Finnish economy has been slow, but economic development is showing some positive signs. Gross domestic product (GDP) is projected to grow by 1.0 per cent in 2025 and by 1.4 per cent in 2026. Lower interest rates and growing real earnings will increase consumption. Inflation has slowed substantially, and price rises will also remain moderate. Employment is projected to return to growth and unemployment to gradually decrease as the economic cycle improves in 2026.

General government finances

The general government deficit will drop to 3.6 per cent of GDP in 2026. The growth of general government expenditure will be subdued due to adjustment measures and lower index increases to social benefits, and tax revenues will grow as the economy recovers. The growth in the debt ratio will slow, and general government debt is projected to be about 88.5 per cent of GDP in 2026.

Economic and fiscal policy

Prime Minister Orpo's Government aims to improve the standard of living in Finland, turn the Finnish economy on to a sustainable growth path and reverse the trend of indebtedness, which puts wellbeing at risk. The Government will improve the opportunities for Finns to build their future through education, work and entrepreneurship. Stable economic growth creates security and supports family formation. The Government's objective is to increase household purchasing power and take the impact on everyday costs into account in its decisions. The Government's objective is a Finland where the funding of the most important services of the welfare society is secured for future generations.

The Government has pledged to take measures to stabilise the general government debt ratio by the end of the government term. Prime Minister Orpo's Government has in its Government Programme and in the spring of 2024 decided on a package of measures to strengthen general government finances by about EUR 9 billion at the 2027 level, and the Government is committed to implementing these measures. According to the Ministry of Finance's June 2025 forecast, this EUR 9 billion package was not enough to achieve the Government's objective of stemming the growth of the general government debt ratio by 2027. Because of this, the Government decided on new adjustment measures totalling about EUR 1 billion in 2027 during the preparation of this budget proposal.

Accelerating economic and employment growth is the most important means of stabilising general government finances. In its mid-term policy review session in the spring of 2025, the Government decided on measures to speed up economic growth and remove obstacles to growth. The measures will improve incentives to work and boost purchasing power by, for example, lowering taxation on earned income from the year 2026 onwards. In addition to tax measures, the Government announced a number of other measures aimed at enhancing competitiveness, boosting skill levels and creating a more favourable operating environment for investments.

Appropriations

The appropriations in the budget proposal amount to EUR 90.3 billion, which is EUR 1.1 billion more than in the approved 2025 Budget. The growth in appropriations compared to 2025 is explained, e.g. by statutory and agreement-based index adjustments in 2026 (EUR 1.5 billion) and higher EU membership fees (about EUR 0.5 billion). At the same time, the reforms and expenditure savings decided at various times by the Government will reduce the level of expenditure by around EUR 1 billion.

Revenue estimates

Central government's on-budget revenue, excluding net borrowing, is estimated at EUR 81.6 billion. Taxes and tax-like revenue account for EUR 68.2 billion (84 per cent). Central government tax revenue is expected to increase by 1.5 per cent, or EUR 1 billion, compared to the approved 2025 Budget. On-budget revenue, excluding net borrowing, is estimated to increase by 6.4 per cent, or EUR 4.9 billion.

Balance and debt in central government finances

The budget proposal for 2026 shows a deficit of EUR 8.7 billion. The deficit is being reduced by around EUR 2.3 billion on a non-recurring basis by entering the remaining cash receipts of the National Housing Fund as revenue in the Budget in connection with the dissolution of the Fund. This will not reduce central government or general government indebtedness. Without this amount being entered as revenue, the deficit would be EUR 11.0 billion, which will be covered by taking out more debt. The balance of on-budget activities (including the entry of the remaining cash assets of the National Housing Fund as revenue) will improve by EUR 3.8 billion compared to the approved 2025 Budget and by EUR 4.6 billion compared to the revenue and expenditure budgeted for 2025 (including the second supplementary budget). In terms of the national accounts, the central government deficit is projected to be 4.0 per cent of GDP.

At the end of 2026, central government debt (including the debt of off-budget entities) is expected to amount to EUR 194 billion, which is 65.6 per cent of GDP. Interest expenses on central government debt are estimated to be EUR 3.2 billion, which is on the same level as the approved 2025 Budget and EUR 0.3 billion more than the sum budgeted for 2025 (including the second supplementary budget).

Table. On-budget revenue estimates, appropriations and balance, EUR million

| | 2024 | 2025 | 2026 | Change, % |
|--|---------------|---------------|---------------|-----------|
| | Financial | Approved | Proposal | 2025–2026 |
| | statements | Budget | | |
| Taxes on earned income and capital income | 25,678 | 26,746 | 26,480 | -1 |
| Corporation tax | 5,429 | 5,708 | 5,783 | 1 |
| Value added tax | 21,558 | 23,591 | 23,736 | 0 |
| Other taxes | 11,778 | 11,184 | 12,251 | 10 |
| Other revenue | 10,130 | 9,484 | 13,397 | 41 |
| Total | 74,573 | 76,713 | 81,647 | 6 |
| Net borrowing and debt management ¹ | 12,133 | 12,500 | 8,659 | -31 |
| Total revenue estimates | 86,706 | 89,213 | 90,306 | 1 |
| Consumption expenditure | 21,249 | 21,467 | 21,074 | -2 |
| Current transfers | 60,957 | 63,423 | 65,008 | 2 |
| Capital expenditure | 1,181 | 1,044 | 0,902 | -14 |
| Other expenditure | 3,323 | 3,278 | 3,321 | 1 |
| Total appropriations | 86,710 | 89,213 | 90,306 | 1 |
| Financial statement deficit (incl. previous years) | -5,925 | | | |

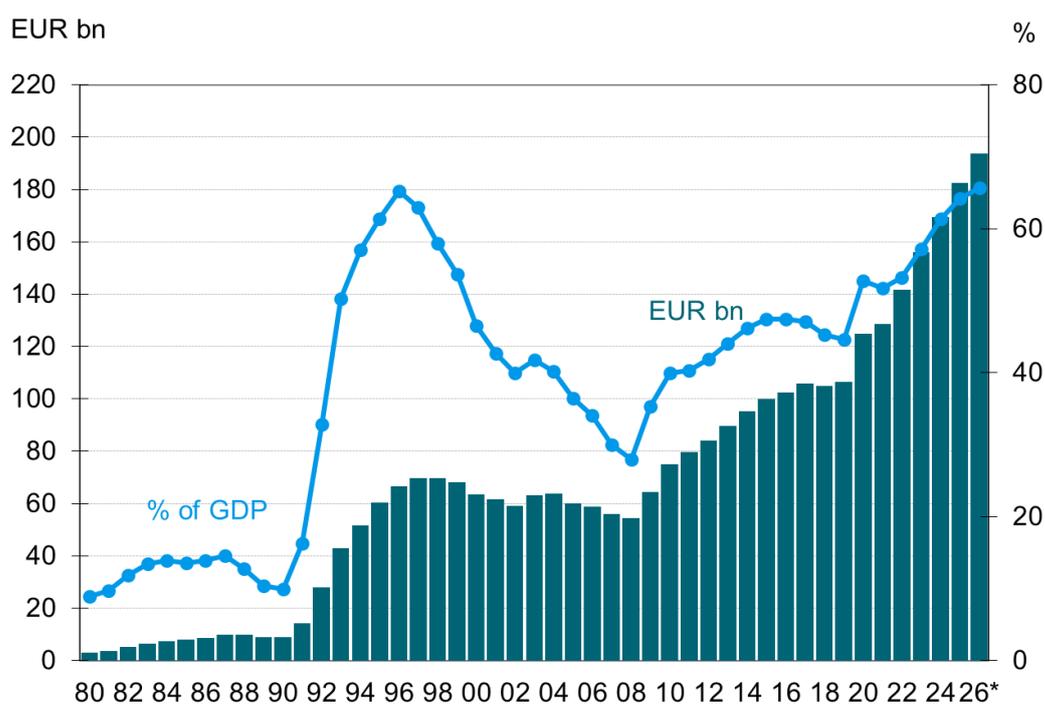
¹ Includes EUR -446 million in debt management expenditure netted in 2024.

Spending limits for the parliamentary term and unallocated reserve

In its Government Programme, Prime Minister Orpo's Government expressed its commitment to the spending limits procedure concerning central government expenditure. The central government spending limits system is a key instrument for guiding Government fiscal policy and is the foundation of a credible economic policy. The entries and other measures of the Government Programme will be implemented within the restrictions of the spending limits for the parliamentary term.

The 2026 expenditure ceiling will be EUR 78,390 million. In the budget proposal, the spending limits appropriations amount to EUR 78,001 million. The unallocated reserve for 2026 is therefore EUR 89 million, in addition to which EUR 300 million has been reserved within the 2026 spending limits for supplementary budgets.

Figure. Development of central government debt, EUR billion and % of GDP



Impact of the Government's measures on the Budget

The Government has decided on significant adjustments to general government finances in the Government Programme, the spring 2024 General Government Fiscal Plan and the 2026 budget proposal. These packages of measures include expenditure savings as well additional expenditure and measures to increase revenues.

Taking into account the Government's prior adjustment package that will reach EUR 9 billion at the 2027 level and the additional adjustment measures now decided, the budget proposal includes net savings that reduce the budget

appropriations by about EUR 3.5 billion, which is about EUR 1.0 billion more than in 2025². In addition, the tax adjustments will increase tax revenue by a total of about EUR 1.3 billion at the 2026 level.

In addition to these adjustments, the Government decided on measures to boost economic growth and ways to fund those measures in its mid-term policy review session in spring 2025. The adjustment measures decided on to help fund the growth package will reduce budgeted appropriations by about EUR 0.2 billion and increase on-budget revenue by about EUR 0.6 billion. The package of growth measures will weaken the on-budget balance by about 0.5 billion in 2026 when also taking into account the tax reductions decided on to speed up economic growth.

Defence materiel procurement

The budget proposal includes new procurement authorities totalling EUR 6 billion for defence materiel procurement. The related expenditure is mainly scheduled to take place in the 2030s. The new and previous procurement authorities granted to the Finnish Defence Forces will give rise to nearly EUR 3.0 billion in expenditure in 2026 and to a total of about EUR 13.7 billion in the years following the budget proposal year (2027–2036). These sums include the F-35 and Squadron 2020 projects.

Tax criteria changes

The key tax criteria changes in earned and capital income taxation in 2026 are the reduction of taxes on labour for low- and middle-income earners, the increase of the child increment for earned income deductions and the reduction of the highest marginal tax rate to around 52 per cent. The index adjustment to earned income taxation will apply in full with the exception of the income brackets subject to the reduction of the highest marginal tax rates.

Other significant tax criteria changes that will reduce tax revenues include reducing the tax rate for commodities subject to the 14 per cent VAT rate to 13.5 per cent, changes to inheritance and gift tax and a tax reduction on transport fuels. Several changes will be made to excise duties, including the duties on energy, tobacco, alcohol and soft drinks.

Finances of the wellbeing services counties

Approximately EUR 27.1 billion is proposed for the universal funding of wellbeing services counties.

The universal funding of wellbeing services counties will increase by approximately EUR 0.9 billion compared to the approved 2025 Budget. The transition to the 2026 cost level is the main reason for the growth in funding. A 3.25 per cent index increase will increase the funding of wellbeing services counties by around EUR 853 million. The estimated growth in the need for healthcare and social welfare services is taken into account in the funding of wellbeing services counties, which will increase the funding by approximately EUR 248 million in 2026. Transitional equalisations will reduce funding by approximately EUR 25 million. The reduction in 2025 was EUR 67 million.

Municipal finances

The Government is proposing EUR 5.9 billion in government transfers and grants to municipalities, which is an increase of about 3 per cent compared to 2025. The level of imputed central government transfers to municipalities will drop due to a EUR 75 million reduction to central government transfers for basic public services. However, the imputed level of transfers will be increased by the adjustment for shared costs between the central government and municipalities, by index increases and by changes to municipal functions. Imputed central government transfers will be around EUR 4.9 billion, compensation to municipalities for tax revenue losses around EUR 0.5 billion and other central government grants around EUR 0.5 billion.

The budget proposal includes a number of measures that will affect municipal finances. The net impact of these measures on municipal finances will vary. The combined impact of the measures decided by the Government will

² This only includes the measures that directly affect central government expenditure and revenue and does not take into account, e.g. the positive effects that the structural employment measures included in the packages will have on general government finances or measures that are also dependent on adjustment decisions made by wellbeing services counties.

weaken municipal finances by approximately EUR 170 million in 2026 compared to 2025. When examining the effects of the Government's discretionary measures throughout the entire parliamentary term, they have a EUR 200 million net positive effect on municipal finances. This figure does not account for the fact that the channelling of savings in the social security funds implemented in 2024–2025 increased municipal tax revenues and reduced the annual burden on municipal employers by about EUR 100 million.