

1.4.2020

Corona crisis

The economic impact in Finland

The coronavirus will have dramatic effects on business activities, initially on service companies in sectors such as tourism and catering, but over time the effects will spread to all sectors, also Technology industries. The effects will be immediate on many sole entrepreneurs and SMEs. Companies engaged in international trade have been feeling the effects – disruptions in international value chains and logistics – for some time. Even if the most acute crisis subsides quickly, economic uncertainty is projected to continue for a longer period.

According to estimates from economic research entities (Bank of Finland, ETLA, PTT), **Finnish GDP** will contract by 1.0–5.0% in the current year due to the coronavirus pandemic and weakening cyclical conditions. The wide range clearly shows the underlying uncertainty of the situation.

Actions requested by the social partners (18.3.2020) and approved / to be implemented by the Government of Finland

Temporary reduction of employers' pension contributions by EUR 910 million

1. Private sector employers' pension contribution

Temporarily reduce the employers' contribution by 2.6 percentage points. This represents a temporary departure from the 50/50 rule for contribution changes. The temporary discount will be implemented as soon as possible but not later than 1 June 2020 and will be valid until 31 December 2020.

For private sector employers, this means a reduction of EUR 910 million if entry into force is on 1 June 2020. The emu buffer of the earnings-related pension scheme, currently around EUR 7 billion, would be used to reduce the contribution. The buffer will be replenished by temporarily increasing the employer contribution between 2022 and 2025 so that the effect of the temporary reduction will be fully offset.

Postponement of payment of earnings-related insurance contributions

2. Deferral of TyEL (The Employee's Pension Act) insurance payments for three months

Encourage private sector employers and pension insurance companies (as well as company and industry pension funds) to agree to postpone payment of pension contributions by three months.

3. Facilitation of TyEL (The Employee's Pension Act) relending

Facilitate the payment of pension insurance contributions through TyEL relending by having Finnvera provide companies with the collateral they require for refinancing.

4. Withholding employment pension company customer bonuses

Pension companies should refrain from paying customer bonuses for the period during which their solvency rules are eased, and employers' pension contributions are reduced.

Temporarily increase labour law flexibility for the private sector until 30 June 2020

The social partners say that layoffs and redundancies are only a last resort. The first priority is to look for other work or training. However, this is not always possible due to the financial problems caused by the coronavirus, and therefore we propose the following temporary changes to labour law.

5. Reduction of the minimum negotiation times in the Act on Co-operation within Undertakings

Reduce the minimum negotiation times laid down in the Act on Co-operation within Undertakings in the event of lay-offs from the current 14 days and 6 weeks to 5 days in both cases.

6. Extending the right to lay off to fixed-term employment contracts

Extend the right to lay-off to cover fixed-term employment contracts to the same extent as for contracts of indefinite duration.

Laid-off employees must have the right to unemployment benefits and the right to terminate their fixed-term employment contracts.

7. Shorten the lay-off notice period

Reduce the 14-day notice period laid down in the Employment Contracts Act is to 5 days.

8. Clarify the option to lay off employees before the conclusion of co-determination negotiations

Social partners agree that the sudden and severe drop in demand for a company's products or services caused by coronavirus, leading to the need to lay off a significant proportion of its employees, constitutes an exceptional situation under section 60 of the Act on Co-operation within Undertakings. Assessment will be made on a case-by-case basis. When there are no longer any grounds for deviating from the co-operation obligations, the employer must immediately start the co-determination negotiations.

9. Expand the right to cancel a trial period

Allow the cancellation of an employment contract during a trial period for financial and production-related reasons.

At the same time, stipulate that there will be no unemployment benefit waiting period or deductible days when a trial period is cancelled.

10. Extension of re-employment obligation



Extend the obligation to re-employ to 9 months if the employee has been dismissed during the fixed-term changes to labour law contained in this agreement.

Improve the income security of those who are laid off or unemployed until 30 June 2020

10. Improve unemployment security

Cancel the unemployment security deductible period. Layoff periods are not counted towards the maximum period of unemployment security.

Changes in unemployment security take effect retroactively as of 16 March 2020.

Clarify unemployment security legislation to entitle employees to daily unemployment allowance even in the case of agreed lay-off.

11. Shorten the employment condition

Unless otherwise met, the employment condition is 13 weeks for employment that has commenced after 1 January 2020 and ends on 31 December 2020 at the latest.

12. Employers' obligation to declare employees who have been laid off

In the case of lay-offs of 10 or more persons, the employer must send a lay-off notice to TE Services and to the benefit payer.

The notice shall include the workers to be laid off and the dates on which lay-offs begin and end. The employees mentioned in the notice would be considered registered as unemployed jobseekers. The unemployed persons claim unemployment benefit from the payer of the benefit and the benefit is paid if the claim is in accordance with the lay-off days declared by the employer. Laid-off persons may, if they so wish, register separately as unemployed with TE Services and be entitled to its services.

13. The operational capacity of unemployment funds and the prompt payment of benefits are guaranteed in all situations.

The state prepares to support the operation of unemployment funds with EUR 20 million in 2020 according to separately agreed principles.

Response by the Government to the crisis

The Government of Finland has to this point allocated a total of 1 billion euros for **direct business subsidies** in the form of grants. Of this amount, 700 million euros is intended for grants provided by the Public Agency, "Business Finland" and 300 million euros for grants provided by regional centres for economic development, transport and the environment ("ELY"). ELYs will use grants to support small enterprises employing 1-5 people that have suffered from market and production disturbances. For the midcap companies and bigger companies, the government of Finland will enable additional financing of 10 billion euros, mainly through the State-owned



specialised financing company, Finnvera's loan guarantees. Finnvera's guarantee can cover up to 80 % of a bank loan. The Government of Finland has also agreed to temporarily reduce **employer's pension contribution** by 2.6 %-points.

The instructions for companies are to first contact one's own bank and other financing providers. Due to the exceptional situation, banks are prepared to discuss arrangements, such as loan repayment holidays and repayment rescheduling. Actions taken by the central government make banks better equipped to provide financing to companies. Also, several insurance companies and municipalities have taken extra measures e.g. in postponing, reducing or pardoning rental payments to companies.

According to estimates, banks continue to be well equipped to provide financing to companies. At least for the time being, the situation is different from the financial crisis that was triggered by the financial system itself. According to the Financial Supervisory Authority's (FIN-FSA) assessment, the Finnish banking sector is solvent and able to carry the risks posed by the coronavirus epidemic. FIN-FSA has decided to lower Finnish **credit institutions' capital requirements**, which will significantly improve Finnish banks' ability to supply credit to households and businesses and will increase the lending capacity of the Finnish banks by around 52 billion euros. The Bank of Finland Board has decided to recommence purchases of Finnish commercial paper, first with a programme size of 500 million euros, which was subsequently increased to 1.0 billion euros. The programme increases significantly the supply of funding to Finnish businesses.

Finnvera

The Government of Finland is preparing a proposal to increase Finnvera's domestic financing authorisations to EUR 12 billion. The maximum authorisation under current law is EUR 4.2 billion, and financing in the total amount of EUR 2 billion has been granted, which means the total additional financing to companies amounts to EUR 10 billion. In addition, the state will increase its coverage of Finnvera's credit and guarantee losses from 50% to 80%, enabling Finnvera to take bigger risks in the current conditions of economic uncertainty.

Finnvera will also extend the use of SME guarantee and start guarantee for purposes such as financing required to address the financial challenges caused by the coronavirus. Guarantee decisions on loans of less than one million euros granted by banks can be made quickly. This affects a very large number of loan decisions and thereby helps to make loan decisions quickly available to a significant number of companies. Guarantee decisions for loans larger than one million euros require an assessment process at Finnvera, which is why the decision-making takes longer.

Business Finland

Business Finland financing is available by application as normally. Financing will be also be granted and paid out as normally. Business Finland is very flexible about any changes in project schedules and loan repayment schedule, and generally seeks flexibility in all its activities. If necessary, Business Finland will extend the duration of the projects financed, extend loan periods, and expedite payments. Business Finland's grant authorisations will be increased by EUR 150 million to permit immediate business support measures.

On 19 March 2020, Business Finland launched two new financial services to mitigate the economic impact of the coronavirus epidemic. These services are intended for SMEs and midcaps operating in Finland whose business is suffering from the coronavirus situation. Financial services are intended for tourism and auxiliary tourism services, creative and performing industries and all sectors where subcontracting chains are affected.



The funding is intended for companies to explore and tap into new business opportunities in emergency conditions. The first funding decisions will be made on 20 March 2020.

Finnish Industry Investment

Finnish Industry Investment (FII), together with other investors, is prepared to provide additional financing to private equity funds and its investee companies to cater to any needs arising from the coronavirus. FII is also prepared to introduce a stability programme for companies that helps to strengthen the financial position of companies, together with private investors. However, private equity investment activities only involve a limited number of Finnish businesses, compared with SMEs that are Finnvera's customers. The services of Finnish Industry Investment supplement the state's specialised financing provision.

ELY-centres

Business services provided by the ELY-centres, i.e. business development aid, business environment development aid, regional transport subsidies and business development services, can be applied for as normally. Similarly, the granting and payment of aid and subsidies will continue as usual. ELY-centres will be flexible about changes to the content and implementation schedules of companies' business development projects. If necessary, companies can apply for expedited payment of business development aid in several instalments.

The Government will raise ELY-centres' grant authorisations for business development projects by EUR 50 million. The additional authorisation will be used to support SMEs particularly in the service sector but also in other sectors as necessary to mitigate the market and production disturbances caused by the coronavirus. Business development services are provided, subject to a fee, by the ELY-centres to support the development of companies providing expert services and SMEs. These services are intended for companies that are equipped to pursue continuous profitable activities and have the will to build their business.

Business development aid is a financing product of ELY-centres, which can cater to the varying needs of SMEs, including support for investment. Business development aid may be used for an SME's business development or renewal purposes in the event of changes in economic or market conditions, or for production reorganization.

Freelancers and sole entrepreneurs'

The Government of Finland will facilitate freelancers and sole entrepreneurs' access to unemployment security, regardless of the form of company. The temporary weakening of the conditions for entrepreneurial activity due to the coronavirus provides enough grounds for deeming the entrepreneurial activity as a secondary activity. Persons engaged in a secondary business activity are entitled to unemployment benefit. Full-time employed entrepreneurs are not required to wind down their business activities in order to be eligible for unemployment benefit. The type of entrepreneurial activity is irrelevant, which guarantees equal treatment of entrepreneurs in emergency situations. Only the entrepreneur's notification is required, which reduces the need for processing and decision-making based on discretion in Employment and Economic Development Offices (TE offices).

A temporary amendment to the Unemployment Security Act permitting this arrangement is being prepared by the Ministry of Economic Affairs and Employment.



Enterprise Finland's Talousapu financial assistance service offers advice to companies facing payment difficulties. The telephone number of the service is +358 2950 24880 (weekdays 9.00–16.00). Financial resources of EUR 500,000 will be allocated to the Talousapu financial assistance service for entrepreneurs. In addition, a national model to help entrepreneurs facing financial and payment difficulties will be implemented.