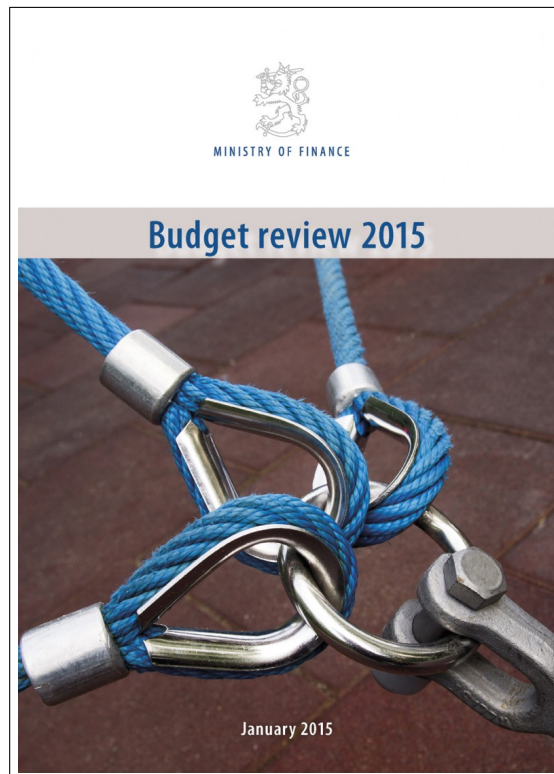


# Budget review 2015

Spring



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# Economic outlook

## Finland's economic growth continues modest

In recent times, international economy has been developing in separate directions: while the United States and the United Kingdom have been leading contributors to the acceleration of global economic growth, the development in the Euro region is expected to continue at its present modest level. For Russia, avoiding a recession will be difficult during 2014 and 2015, even though the low state debt level enables the government to initiate stimulating measures. Geopolitical tensions, e.g. in Russia and the Middle East, are clouding the growth outlook for the industrialised countries.

The Finnish economy is expected to grow slightly in 2014. The economic growth forecast for 2015 is 0.9 per cent with an increasingly wide-based growth. A small increase in private consumption is expected despite no actual growth in the real income of private households. Exports continue to grow slower than the world market, resulting in a continuing decrease of market share. A slight invigoration of private investments is expected, mainly comprising equipment and R&D. The labour market situation will weaken in 2015 and the unemployment rate is predicted to rise to 8.8 per cent. Inflation will remain under one per cent due to sinking world market prices for crude oil, among other factors. Furthermore, the continuing record low of the interest rate levels keeps the price pressure down.

Trends in the national economy						
december 2014 forecast						
	2011	2012*	2013*	2014**	2015**	2016**
GDP at market prices (EUR bn)	197	199	201	204	208	214
GDP, change in volume (%)	2.6	-1.5	-1.2	0.1	0.9	1.3
Unemployment rate (%)	7.8	7.7	8.2	8.6	8.8	8.6
Employment rate (%)	68.6	69.0	68.5	68.4	68.6	68.9
Consumer price index (%)	3.4	2.8	1.5	1.1	0.8	1.7
Long-term interest rate (10 year bonds) (%)	3.0	1.9	1.9	1.5	0.8	1.2

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## Recession a strain on general government finances

General government finances in Finland cover the central government, local government, employee pension funds and other social funds.

General government finances will remain in deficit due to the sustained recession, even though adjustment measures decided on during this parliamentary term have helped to curb deficit growth. The recession will have the strongest impact on central government finances, which will remain clearly in deficit, but local government finances will also show a deficit due to weak tax revenue development and growing expenditure caused by the ageing population. In 2015, the public debt-to-GDP ratio is expected to exceed the 60 per cent limit set in the EU Stability and Growth Pact. Exceeding the debt criterion will not, however, lead to the launch of an excessive deficit process as it will take place against the backdrop of solidarity operations relating to the support of Eurozone countries and the impact of unfavourable economic conditions. There is also a risk of a deviation from the objective set for the structural balance of

<sup>1</sup>[http://verkkojulkaisut.vm.fi/wp-content/uploads/2013/09/Kansantalouden-kehitys\\_eng1.pdf](http://verkkojulkaisut.vm.fi/wp-content/uploads/2013/09/Kansantalouden-kehitys_eng1.pdf)

general government finances.

The Finnish economy is experiencing problems with both structural growth and the sustainability of general government finances. As a result of changes in the population's age structure, the amount of labour available is decreasing while the age-related public pension, health and social care expenditure is increasing. The increase in age-related expenditure will weaken the fiscal position to such an extent that with the current tax rate, general government revenue will not be enough to offset spending under a normal development. Without corrective action, there is a risk of an uncontrollable spiralling of government debt-to-GDP. According to the Ministry of Finance's September 2014 estimate, this *sustainability gap* is approximately 4 per cent of GDP. This

means that the fiscal position would have to improve by approximately EUR 9 billion from the base projections by 2018 to secure the general government's ability to fulfil its obligations without allowing public debt to spin out of control. The ongoing recession poses a further strain on general government finances.

General government finances						
Key figures measured in terms of national accounting in ratio to GDP, percent						
	2011	2012*	2013*	2014**	2015**	2016**
Taxes and social security contributions	42.1	42.9	44.0	44.5	44.7	44.7
General government expenditure	54.4	56.3	57.8	58.5	58.5	58.1
Net lending	-1.0	-2.1	-2.4	-2.7	-2.6	-2.1
— central government	-3.2	-3.7	-3.5	-3.2	-2.5	-2.3
— local government	-0.5	-1.1	-0.8	-0.9	-1.0	-1.1
— employment pension schemes	2.7	2.4	1.9	1.7	1.2	1.3
— other social security funds	0.0	0.2	0.0	-0.2	-0.3	0.0
General government debt	48.5	53.0	56.0	58.9	61.1	62.3
Central government debt	40.5	42.2	44.6	46.6	48.0	48.7

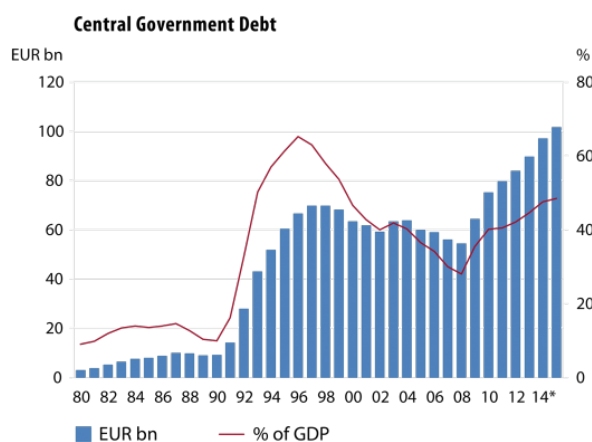
Download table as a scalable pdf-file.<sup>2</sup>

<sup>2</sup><http://verkkojulkaisut.vm.fi/wp-content/uploads/2013/09/General-government-finances.pdf>

# Government economic policy approach

Prime Minister Stubb's Government will continue on the previous government's economic policy line, and it takes as basis for its own programme the government programme of Prime Minister Katainen, the structural policy programme and the outlines for public finance adjustment. Priority will continue to be given to the reduction of poverty, inequality and social exclusion, consolidation of public finances, and the strengthening of sustainable economic growth, employment and competitiveness. Prime Minister Stubb's Government Programme will also entail new investment in growth and employment and support for purchasing power.

The Government will ensure the implementation of the structural policy programme in order to close the sustainability gap in public finances. Other measures include strengthening the conditions for growth and employment and adjusting central government finances in line with the decisions laid down in the General Government Fiscal Plan of spring 2014 and decisions made earlier during the parliamentary term.



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The Government's structural policy programme contains the key elements required for a structural economic reform in a way that supports economic growth and public finance sustainability:

- Balancing local government finances through the introduction of a financial framework, and other joint measures of central and local government;
- Achieving productivity improvement in service production through the reform of the service and financing structure in the social and health care sector;
- Action to prolong careers with the help of the pension reform and other measures focusing on entry to working life and working career breaks;
- Measures to lower the structural unemployment rate; and
- Raising the economic production potential.

<sup>3</sup>[http://verkkojulkaisut.vm.fi/wp-content/uploads/2013/09/Valtionvelka\\_eng1.pdf](http://verkkojulkaisut.vm.fi/wp-content/uploads/2013/09/Valtionvelka_eng1.pdf)

On 28 August 2014, the Government made a decision to strengthen the implementation of the structural policy programme. The Government decided, among other things, on rapid preparation of a budgetary framework system that will help to achieve cost control in public social and health care services.

The Government adheres to the rules for spending limits and to the spending limits for the parliamentary term which were outlined in Prime Minister Katainen's Government Programme. Expenditure rules are set to ensure a responsible long-term spending policy that promotes financial stability. The spending limits cover approximately 80 per cent of the budgetary expenditure; not covered is expenditure that varies

according to the business cycle and financing instrument, such as unemployment security expenses, wage guarantee, housing benefit, and the government share of income support expenditure.

Target setting in Finland's general government finances is guided by EU regulations, particularly the Growth and Stability Pact, which requires Member States to maintain a balance in general government and avoid excessive deficit and government debt. Another factor affecting government policies is the 0.5 per cent medium-term deficit-to-GDP ratio target set for the structural balance of general government finances (MTO).

# Supporting growth and employment

The budget for 2015 is based on decisions announced in Prime Minister Stubb's Government Programme and in the General Government Fiscal Plan in spring 2014. The budget contains actions to support growth, purchasing power and employment, as well as measures to adjust central government finances.

## Growth action proposed by Prime Minister Stubb's Government

Both Prime Minister Stubb's Government Programme and the budget proposal for 2015 contained decisions regarding growth-stimulating actions. In the Government negotiations in June 2014, decisions were made on measures to support SME growth, with special emphasis on action to secure the availability of financing for SMEs. Finnvera's opportunities to finance the growth and internationalisation of medium-sized companies will be extended. From now on the financing of companies larger than the EU's SME definition will be allowed outside national assisted areas.

The Government will initiate a programme of measures on housing and infrastructure construction. As part thereof a maximum of EUR 2 million in temporary assistance for modification will be allocated to the Helsinki Metropolitan Area to promote conversion of office and industrial buildings to rental housing. Additional investments (approximately EUR 80 million in 2015) will be allocated to transport infrastructure, which will reduce to some extent the savings

on budget appropriations decided on earlier. The Government and municipalities in the Metropolitan Helsinki Area have reached a preliminary agreement by which the city planning target for the municipalities will be raised by 25 per cent from the current statement of intent regarding land use, housing and transport. According to the preliminary agreement, the Government will, in turn, support the major infrastructure projects in the Metropolitan Helsinki Area, such as the City Rail Loop and extension of the West Metro to Kivenlahti. The central government will also pay some of the design engineering costs associated with the Tampere tram system.

To speed up structural changes within the ICT sector additional funding of EUR 2.45 million will be allocated to supplementary and specialist training targeted at academics and degree programmes for career changers in universities and vocational schools.

## Income from the disposal of Government assets also invested in growth

According to the decisions made in the General Government Fiscal Plan of spring 2014, Government assets will be put into more productive use. This will involve disposing of some State property and shareholdings, and increasing the revenue recognition from certain funds to the Government. The additional revenue generated by these measures amounts to approximately EUR 1.9 billion in 2014—2015.

The majority of this revenue will be used to repay Government debt, but part of it will be reserved for significant growth investments. Approximately EUR 250 million of the appropriations for growth measures will be allocated in 2015. The major investments will relate to competence and innovation that create new growth and future opportunities, and in transport and building projects that offer immediate employment.

Growth investments will involve equity investment in growth companies through Industry Investment and the Finnish Funding Agency for Innovation Tekes, and grant aid to Team Finland and Finpro. Tekes' loan-granting authorisations will be extended and focused on projects in the cleantech and bioeconomy sectors and on business based on digital value creation. Provisions will be made to capitalise the universities by triple the amount they acquire in the form of private donations, and to strengthen the adult competence base. A maximum total of EUR 104.5 million will be granted for renovation of the Helsinki Olympic Stadium. An EUR 80 million portion of the financing will be covered by revenue from asset sales, half of it (EUR 40 million) being granted in 2014. In 2015, an authority concerning EUR 51.8 million was awarded, EUR 40 million of which (revenue from asset sales) will be granted in 2015. The remaining sum, a maximum of EUR 11.8 million in total, will be paid in 2016—2019 from sports betting revenues.

A total of EUR 40 million will be granted for repairs through the Housing Finance and Development Centre of Finland in 2015.

## Central government finance adjustment continues

During the spending limit period 2012—2015, measures to strengthen central government finances have been taken on several occasions. Decisions have been made on action (tax increases and spending cuts) that will strengthen central government finances by approximately EUR 5.2 billion net, or 2.5 per cent relative to GDP at the 2015 level when compared to the last spending limit decision made in the previous parliamentary term.

Measures to adjust central government finances will lower central government spending in 2015 by around EUR 2 billion on a net basis compared with 2014 savings. The spending cuts will have a wide-ranging effect on various administrative branches. More savings will be sought in 2015 in the following areas: Government transfers to municipalities for basic services, development cooperation expenditure, child benefits, defence forces' operating expenditure and materiel procurement, government operating expenditure and expenditure arising from the Sickness Insurance Act.

## Enhancing purchasing power

To promote domestic demand, adjustments for inflation will be made in accordance with the Stubb Government Programme in earned income taxation in the three lowest income categories. A deduction for families with children will also be introduced to support low and middle income families with children. The 50 per cent deductibility for company entertainment and representation expenses will be restored from the beginning of 2015.



To boost the purchasing power of pensioners, the pension income deduction in municipal taxation will be raised.

excise duties and other indirect taxes.

## Changes in taxation to promote social justice

The government aims to promote social justice in taxation. The earned income deduction for low-income wage earners will be raised to reduce taxation. In the progressive income tax table, the threshold in the temporary highest income category will be lowered. Steeper progression will also apply to capital income tax.

Central government income tax scale in 2015		
Taxable earned income, EUR	Tax at lower limit, EUR	Rate within brackets, %
16 500 - 24 700	8	6.5
24 700 - 40 300	541	17.5
40 300 - 71 400	3 271	21.5
71 400 - 90 000	9 957.5	29.75
90 000 -	15 491	31.75

[Download table as a scalable pdf-file.](#)<sup>4</sup>

## Increased excise duties

Taxation-related measures will be taken in 2015 to strengthen central government finances. These will focus on shifting the emphasis from taxes affecting employment and entrepreneurship, which have an adverse effect on economic growth, to environment and health-based taxation. Tax increases in 2015 will consist primarily of increases in

Excise duty rates in 2014 and 2015, EUR			
	2014	2015	Tax increase, %
Average priced cigarettes (20)	3.39	3.70	9.1
Average priced rolling tobacco (30g bag)	3.11	3.40	9.3
Petrol* (100 l)	67.29	68.13	1.2
Diesel oil* (100 l)	49.66	50.61	1.9
Electricity of an electricity heated detached house (20 000 kWh/y)	378.00	448.00	18.5
The basic tax of the vehicle tax for an average car (y)	170.00	230.00	35.3

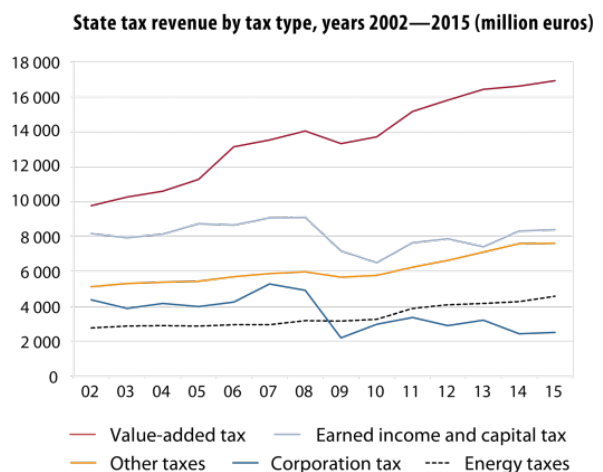
\*Fossil. The tax increase for substitutive biofuels is smaller.

[Download table as a scalable pdf-file.](#)<sup>5</sup>

In 2015, three Value Added Tax rates will be applied.

Value-added tax rates in 2015	
General tax rate	24 %
Reduced tax rate ▶ foodstuffs, animal feed and restaurants' food services	14 %
Reduced tax rate ▶ e.g. medicine, passenger transport, accommodation services, sports and recreation services, cultural services, books, newspaper and magazine subscriptions	10 %

[Download table as a scalable pdf-file.](#)<sup>6</sup>



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<sup>4</sup>[http://verkkojulkaisut.vm.fi/wp-content/uploads/2013/09/Tuloveroasteikko\\_enkku.pdf](http://verkkojulkaisut.vm.fi/wp-content/uploads/2013/09/Tuloveroasteikko_enkku.pdf)

<sup>5</sup>[http://verkkojulkaisut.vm.fi/wp-content/uploads/2013/09/Valmisteveroasteikko\\_eng.pdf](http://verkkojulkaisut.vm.fi/wp-content/uploads/2013/09/Valmisteveroasteikko_eng.pdf)

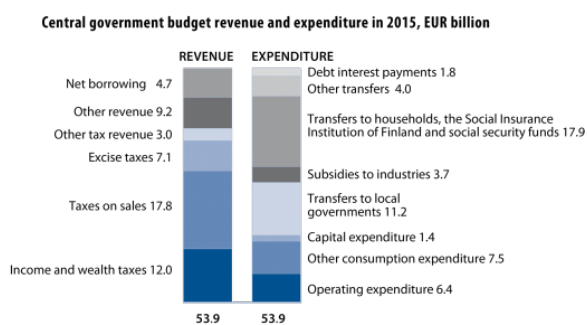
<sup>6</sup>[http://verkkojulkaisut.vm.fi/wp-content/uploads/2013/09/alv\\_eng.pdf](http://verkkojulkaisut.vm.fi/wp-content/uploads/2013/09/alv_eng.pdf)

<sup>7</sup>[http://verkkojulkaisut.vm.fi/wp-content/uploads/2013/09/Valtion-verotulot-lajeittain\\_eng.pdf](http://verkkojulkaisut.vm.fi/wp-content/uploads/2013/09/Valtion-verotulot-lajeittain_eng.pdf)

# Adjustment measures to curb borrowing

## Appropriations decrease due to central government adjustment measures

The appropriations included in the budget amount to EUR 53.9 billion, which is EUR 0.2 billion less than in the ordinary budget for 2014 and approximately EUR 1 billion less than budgeted for 2014, including supplementary budgets. Taking into account the price level increase and structural changes in the budget, appropriations for the different branches of government will decrease by around 2½ per cent in real terms relative to what is budgeted for 2014.



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Decisions on adjusting central government finances will curb the increase in expenditure. These savings decisions will have a significantly greater impact in 2015 than in 2014. On the other hand, the appropriation level rises following investment in industrial growth companies, equity investment in bioeconomy companies (Industry Investment), Tekes loans, support for renewable energy production, housing

support reform and services for the elderly. Expenditure will also be increased by some automatic factors, such as law or agreement-based price- and cost-level adjustments, as well as an increase in age-related central government pension expenditure.

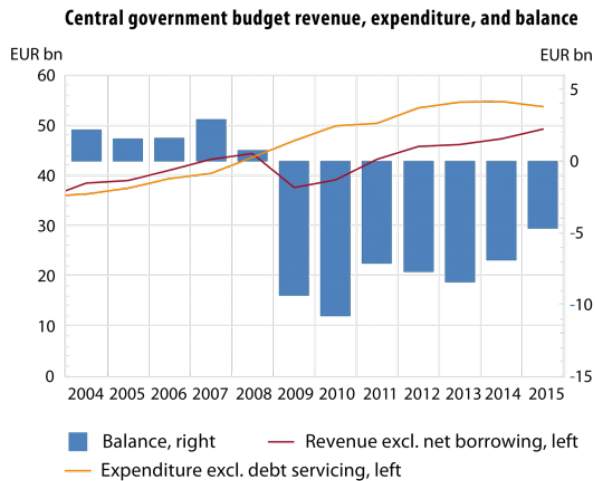
It is estimated that interest payments on government debt will be around EUR 1.8 billion, which corresponds to the previous year's level. An exceptionally low interest level will keep interest payments low.

Budget expenditure in the spending limits for 2015 totals EUR 41,967 million. The parliamentary term spending limit for 2015 is EUR 42,167 million. Consequently, the unallocated reserve set aside for supplementary budgets after the 2015 budget is EUR 200 million.

## Weak economic growth holds back increase in tax revenue

On-budget revenue for 2015, excluding net borrowing, is estimated at around EUR 49.1 billion. Tax receipts account for around 80 per cent of all on-budget revenue. Finland's economy has hardly grown since 2012. An upward turn is expected in 2015, with the projected growth rate being 0,9 per cent. However, growth of tax bases in 2015 is expected to remain slow.

<sup>8</sup>[http://verkkojulkaisut.vm.fi/wp-content/uploads/2013/09/Budjettitalouden-tulot-ja-menot\\_eng.pdf](http://verkkojulkaisut.vm.fi/wp-content/uploads/2013/09/Budjettitalouden-tulot-ja-menot_eng.pdf)



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The revenue estimates take into account the tax policy measures decided by the new Government, those in the General Government Fiscal Plan of spring 2014, as well as those decided earlier and to be put into effect in 2015. The changes in tax basis to be implemented in 2015 are estimated to increase government tax revenue annually by EUR 0.2 billion net. It is estimated that central government tax revenue will increase by approx. 1 per cent in 2015, in other words approx. EUR 0.4 billion compared to that budgeted for 2014 (budget including supplementary budgets).

## Central government debt to reach EUR 100 billion

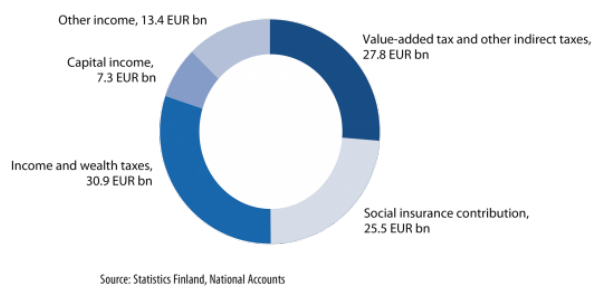
The budget for 2015 shows a deficit of EUR 4.7 billion, which will be covered by additional

borrowing. The deficit for 2014 is EUR 7.0 billion (incl. supplementary budgets), which means the budgetary deficit will decrease by approximately a third from 2014. Calculated in terms of national accounts, the central government deficit-to-GDP ratio in 2015 is expected to be around 2.5 per cent.

At the end of 2015, the estimated central government debt is EUR 100 billion, or 48 per cent of GDP.

### Where do tax euros derive from?

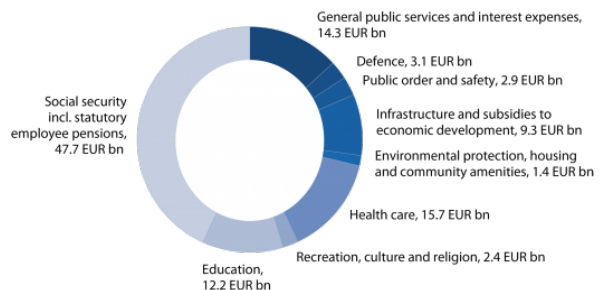
General government revenue in 2012: EUR 104.8 bn / 54.5 % of GDP (2011: EUR 102.1 md. euro / 54.1 %)



Download image as a scalable pdf-file.<sup>10</sup>

### What are tax euros spent on?

General government expenditure in 2012: EUR 109.1 bn / 56.7 % of GDP (2011: EUR 104.1 bn / 55.2 %)



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<sup>9</sup>[http://verkkojulkaisut.vm.fi/wp-content/uploads/2013/09/budjettitalouden-tulot-ja-menot-tasapaino\\_eng1.pdf](http://verkkojulkaisut.vm.fi/wp-content/uploads/2013/09/budjettitalouden-tulot-ja-menot-tasapaino_eng1.pdf)

<sup>10</sup>[http://verkkojulkaisut.vm.fi/wp-content/uploads/2013/09/mista-veroeurot-tulevat\\_eng.pdf](http://verkkojulkaisut.vm.fi/wp-content/uploads/2013/09/mista-veroeurot-tulevat_eng.pdf)

<sup>11</sup>[http://verkkojulkaisut.vm.fi/wp-content/uploads/2013/09/mihin-veroeurot-kaytetaan\\_eng.pdf](http://verkkojulkaisut.vm.fi/wp-content/uploads/2013/09/mihin-veroeurot-kaytetaan_eng.pdf)

# Central government EU revenue and expenditure in 2013–2015

Central government EU revenue and expenditure

At central government level, Finland is expected to contribute an estimated EUR 1,990 million to the EU budget and the European Development Fund in 2015. Finland's contributions will be EUR 74 million lower than budgeted for 2014. Finland's share of the UK's EUR 5.4 billion budgetary rebate is EUR 136 million in 2015.

Finland is expected to receive an estimated EUR 1,265 million from the EU budget, which is EUR 353 million more than in 2014. Rural development support is expected to grow significantly, while structural policy support is expected to decrease from 2014. These changes can be attributed to the timing of payments following change of the EU programme period. Finland is expected to levy EUR 184 million in of excise duties for

the EU. Approximately a quarter of this, EUR 46 million, is included in the national budget.

Flow of contributions between Finland and the EU in 2013–2015 (EUR million)			
CENTRAL GOVERNMENT EXPENDITURE	Final Accounts 2013	Budget 2014	Budget 2015
<b>On-budget finances</b>			
VAT payment	285	292	284
GNI payment	1 625	1 587	1 545
Finland's share of the UK budgetary rebate	118	136	136
<b>EU PAYMENTS TOTAL</b>	<b>2 028</b>	<b>2 015</b>	<b>1 965</b>
European Development Fund	47	49	25
<b>TOTAL</b>	<b>2 075</b>	<b>2 064</b>	<b>1 990</b>
CENTRAL GOVERNMENT REVENUE	Final Accounts 2013	Budget 2014	Budget 2015
<b>On-budget finances</b>			
Agricultural support	533	536	534
Rural development support	312	45	556
Subsidies from the structural funds and cohesion funds	291	247	70
Custom duties and other levies	43	52	46
Other revenue*	62	29	40
<b>Off-budget finances</b>			
Intervention Fund of Agriculture	4	1	3
Development Fund of Agriculture and Forestry	25	2	16
<b>TOTAL</b>	<b>1 270</b>	<b>912</b>	<b>1 265</b>
Customs duties, agricultural payments and sugar payments collected on behalf of EU	172	208	184

\* Includes EUR 14.5 million in income from internal affairs funds in 2015.

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<sup>12</sup>[http://verkkojulkaisut.vm.fi/wp-content/uploads/2013/09/eu-maksuvirrat\\_eng.pdf](http://verkkojulkaisut.vm.fi/wp-content/uploads/2013/09/eu-maksuvirrat_eng.pdf)

# Local government finances 2015

Municipalities provide their inhabitants with basic public services, principally education, health care and social services. These services are mainly funded from local government tax revenue, consisting of municipal taxes (86 per cent of tax revenue), property taxes (7 per cent of tax revenue) and a share of corporate tax (7 per cent of tax revenue).

Total local government tax revenue is estimated to total EUR 21.7 billion in 2015, which is approximately 3 per cent more than a year earlier. Changes to be implemented will both decrease and increase taxation of earned income; these are estimated to decrease local government tax revenue by EUR 156 million. The central government transfer for basic public services will be correspondingly increased. The lower and upper tax rate limits of the general real-estate tax and the real-estate tax for permanent residential buildings will be raised. This is expected to increase municipal tax revenue by EUR 48 million, but the central government transfer for basic public services will be correspondingly reduced.

The transfer of financial responsibility for the labour market subsidy to municipalities will be compensated for by EUR 75 million through raising the allotment ratio for corporation tax. More detailed information on changes in tax criteria in 2015 is given in the tax criteria changes section of the budget review.

In 2015, government assistance for the provision of basic public services in municipalities (imputed central government transfers and other grants) will total around EUR 9.9 billion. The sum granted for imputed central government transfers is EUR 9.0

billion and for other grants EUR 0.9 billion. Government assistance will decrease by EUR 0.5 billion from 2014.

Assistance will be lowered by the cut in the central government transfer for basic public services, which in 2015 will be EUR 188 million. In addition, savings will affect general upper secondary education and vocational upper secondary training and education, apprenticeship training and discretionary government grants. Similarly, the transfers associated with the funding system reform in universities of applied sciences will reduce government assistance. At the same time, however, increases allocated to the reforms of the Social Welfare Act and the Child Welfare Act, and to continue with the implementation of the Act on Care Services for the Elderly, will increase government transfers. Furthermore, an increase in government transfers of EUR 43 is attributable to the index increase, and EUR 60 million to the change in age structure and population base.

The central government transfer percentage included in the central government transfers system illustrates the cost division between central and local government. In 2015, the central government transfer percentage for basic public services in local government is 25.44. This means that local government accounts for 74.56 per cent of the financing for basic service provision. The central government transfer percentage for post-secondary education granted by the Ministry of Education and Culture is 41.89. Transfers and grants are mainly determined by imputation and are universal, meaning that municipalities can allocate the funds at

their discretion.

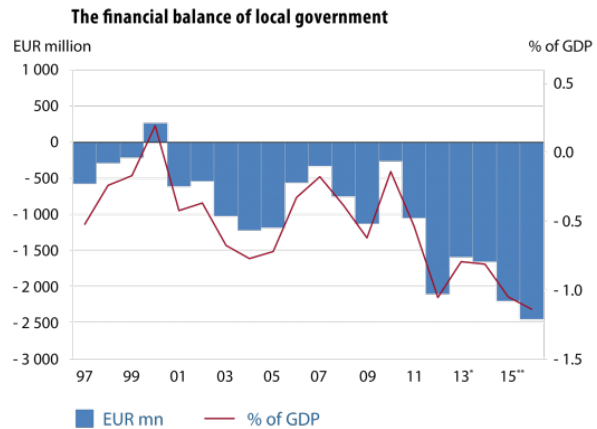
Government actions included in the budget are expected to weaken the financial position of municipalities by EUR 218 million net compared to 2014.

An imbalance between expenditure and revenue has arisen in local government finances in recent years. The combined annual contribution margin of municipalities and joint municipal authorities in 2013 was only just sufficient to cover depreciation and amortisation, but not net investments. Local government debt-to-GDP rose to almost 8 per cent.

Local government finances will not improve in the next few years; instead, expenditure threatens to outgrow revenue. Economic recovery will be slow, and in consequence, the municipal tax base growth is expected to be modest. Similarly, government assistance will decrease in 2014—2015 following cuts in central government transfers for basic public services, among others. Meanwhile local government operating expenditure will grow at a steady rate, in line with the increasing service needs of the growing and ageing population. A third of all municipalities will raise their local tax rates in 2015, which will increase municipal tax revenue by approximately EUR 100 million. The pressure to impose further tax rises will be considerable

in the next few years.

Calculated in terms of national accounting, the local government deficit-to-GDP ratio in 2013 was 0.8 per cent. The financial balance of local government finances is expected to fall to -1 per cent of GDP in 2015.



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<sup>13</sup>[http://verkkojulkaisut.vm.fi/wp-content/uploads/2013/09/Paikallishallinto-eng\\_viivoilla.pdf](http://verkkojulkaisut.vm.fi/wp-content/uploads/2013/09/Paikallishallinto-eng_viivoilla.pdf)

# Social benefits in 2015 and cost of public services

Selected monthly <sup>1)</sup> benefits in 2015, part 1		
	EUR/ month 2015	EUR/ month 2014
<b>Full national pension</b>		
<i>From 1 Jan. 2015</i>		
- living alone	636.63	633.91
- married	564.69	562.27
<b>Guaranteed pension</b>	746.57	743.38
<b>Child benefits</b>		
- 1 <sup>st</sup> child	95.75	104.19
- 2 <sup>nd</sup> child	105.80	115.13
- 3 <sup>rd</sup> child	135.01	146.91
- 4 <sup>th</sup> child	154.64	168.27
- 5 <sup>th</sup> child and each child thereafter	174.27	189.63
- single parent supplement per child	48.55	48.55
<b>Sickness insurance daily allowances</b>		
- minimum level for sickness, maternity, paternity and parental allowances	600.5	598

<sup>1)</sup> Benefits granted on a daily basis are estimated on a monthly level.

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Selected monthly <sup>1)</sup> benefits in 2015, part 2		
	EUR/ month 2015	EUR/ month 2014
<b>Child home care allowance</b>		
- allowance for one child under three years of age	342.53	341.06
<b>Private childcare allowance</b>		
- allowance per child	174.38	173.64
<b>Partial child care allowance/parent</b>	98.09	97.67
<b>Basic unemployment security</b>		
- basic unemployment allowance	705.20	702.19
- labour market subsidy	705.20	702.19
<b>Student financial aid, maximum amounts<sup>2)</sup></b>		
<i>Student grant</i>		
<i>Higher education students</i>		
- not living at home, 17 year olds	147.52	146.89
- not living at home, 18 + years	303.19	301.89
<i>University students enrolling for the first time after 1 Aug 2014</i>		
- not living at home, 17 year olds	163.80	163.10
- not living at home, 18 + years	336.76	335.32
<i>Other students</i>		
- not living at home, 17 year olds	101.74	101.31
- not living at home, 18 + years	250.28	249.21
<i>Student housing supplement</i>		
- 80% of established housing costs <sup>3)</sup>	201.60	201.60
<i>State guarantee for study loans</i>		
- Higher education students	400.00	400.00

<sup>1)</sup> Benefits granted on a daily basis are estimated on a monthly level.

<sup>2)</sup> The grants will rise as of 1.8.2015 due to the rise in the national pension index.

<sup>3)</sup> The allowance is not granted for the part of the monthly housing cost that exceeds EUR 252.

<sup>14</sup>[http://verkkojulkaisut.vm.fi/wp-content/uploads/2013/09/Eraat\\_etuudet\\_enkku\\_osa1.pdf](http://verkkojulkaisut.vm.fi/wp-content/uploads/2013/09/Eraat_etuudet_enkku_osa1.pdf)

<sup>15</sup>[http://verkkojulkaisut.vm.fi/wp-content/uploads/2013/09/Eraat\\_etuudet\\_enkku\\_osa2.pdf](http://verkkojulkaisut.vm.fi/wp-content/uploads/2013/09/Eraat_etuudet_enkku_osa2.pdf)

<sup>16</sup>[http://verkkojulkaisut.vm.fi/wp-content/uploads/2013/09/julkisten-palveluiden-kustannukset\\_eng.pdf](http://verkkojulkaisut.vm.fi/wp-content/uploads/2013/09/julkisten-palveluiden-kustannukset_eng.pdf)

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Average expenses of selected public services in 2012		
EDUCATION AND CULTURE	EUR	
basic education	8 404	/pupil
upper secondary education	7 392	/student
vocational upper secondary education and training	11 663	/student
polytechnic education	8 132	/student
budget funding for university education	9 577	/student
public libraries	3.29	/loan
<b>SOCIAL SERVICES</b>	<b>EUR</b>	
children's day care <sup>1)</sup>	57.6	/day
old people's homes	127	/day
<b>HEALTH CARE SERVICES</b>	<b>EUR</b>	
Basic health care		
- visit to health centre	73.4	/visit
- ward treatment	193.4	/day
- dental care	72.8	/visit
Special medical treatment		
- somatic special medical treatment <sup>2)</sup>	1024.6	/day

<sup>1)</sup> Includes both day care center and family day care costs and care days. Part- and fulltime day care costs have not been commensurated.

<sup>2)</sup> Includes ward treatment and day surgery.

Sources: National Board of Education, Ministry of Education and Culture, National Institute for Health and Welfare and Statistics Finland.

Number of library loans: Suomen yleisten kirjastojen tilastot <http://tilastot.kirjastot.fi/>.

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# Selections from the budget

## Taxation

### **Tax on earned income and capital income**

- Full adjustments for inflation will be made in earned income taxation in the three lowest income categories.
- The maximum earned income deduction of low and middle income wage earners will be raised from EUR 1,010 to EUR 1,025 to reduce taxation. In addition, the accumulation and elimination rates for deduction will be raised.
- The maximum basic deduction in local taxation will be raised by EUR 40.
- The limit of the temporary highest income class of the progressive income tax scale (so-called solidarity tax) will be lowered from EUR 100,000 to EUR 90,000 and the class will remain in effect until 2018.
- The right to deduct the interest on home loans will be reduced so that in 2015, only 65 per cent of the interest on home loans will be deductible.
- The co-payment portion for commuting expenses will be raised by EUR 150.
- Tax progression on capital income will increase. The higher rate will be increased by one percentage point, from 32 to 33 per cent.
- A deduction for families with children will be introduced for use until the end of 2017 to support low- and middle-income families with children.

- Pension income deduction in local taxation will be increased for low- and middle-income pensioners.
- Taxation of dividends distributed by cooperative societies will be changed.

### **Corporation tax**

- Production support for film producers will be made taxable income in business taxation.
- The 50 per cent deductibility for company entertainment and representation expenses will be restored from the beginning of 2015.
- To compensate for the transfer of financial responsibility for the labour market subsidy to municipalities, the municipal allotment ratio for corporation tax will be increased (by EUR 75 million), while the government share will be correspondingly decreased.
- Increased depreciation of investments in production will continue in 2015 and 2016.

### **Excise duties**

- The tobacco tax will be increased.
- Tax increases will be made to class I of the electricity tax and to transport, heating and working machine fuels and power plant fuel tax. The tax level for fuel peat will be lowered. The effect of lower peat taxes on the subsidy for renewable energy production from wood chips has been taken into account in the appropriations.

## Other taxes

- Tax subsidies for taxis and removal vehicles will be abolished at the beginning of 2015.
- Motor vehicle tax will be increased and the tax table will be revised to enhance emissions control.
- Waste tax will be increased.
- The tax rate for inheritance and gift tax will be raised by one percentage point.
- Real-estate tax will be increased by raising the lower and upper limits of tax rates of the general real-estate tax by 0.2 percentage points and the real-estate tax for permanent residential buildings by 0.05 percentage points.
- The bank levy will be replaced by a stability fee for credit institutions in 2015.

## Appropriations



### Anniversary of Finland's independence

- EUR 2 million will be allocated for the planning and implementation of and other arrangements for the centennial of Finnish independence, supplemented

by a mandate to grant a maximum of EUR 5 million to commitments in connection with anniversary-related projects in 2015–2017.

## Development cooperation

- A total appropriation of EUR 1.0 billion is granted for international development cooperation. The development cooperation appropriations are expected to total approx. 0.48 per cent of gross national income. The appropriation for the Ministry for Foreign Affairs' actual development cooperation item is EUR 798 million.

## Police services and the Emergency Response Centre Administration

- EUR 734 million is allocated for police expenditure, which is roughly the same as in the ordinary budget for 2014. Every effort will be made to ensure citizens can rely on the ability of the police to prevent, reveal and solve crime.
- In accordance with the police administration restructuring process (Pora III), the service network reform will continue and certain information technology development efforts, such as licence services and automatic traffic control, will be pursued.
- EUR 2.4 million will be allocated to expenditures for the implementation of the new Emergency Response Centre data system.

## Border control, national defence and crisis management

- Funding of EUR 4.7 million will be allocated to the Finnish Border Guard for the modification of three

SuperPuma helicopters and for the G servicing project.

- EUR 3 million will be allocated for fitting out the offshore patrol vessel Turva.
- A EUR 2,659 million appropriation will be allocated to the administrative branch of the Ministry of Defence, which is EUR 91 million less than the ordinary budget for 2014. The decrease in appropriations is caused mainly by the savings directed at the Finnish Defence Forces' operating expenditure and defence material procurement agreed in the Government Programme, as well as by a deferral of payments for material purchases.
- An appropriation of EUR 4 million will be allocated to upgrading the Air Force's seven Hawk Mk 51 airplanes with glass cockpits, supplemented by an authority of EUR 15.2 million.
- The continuation of Finland's leading role in the UNIFIL operation in Libanon is taken into account in the expenditures for military crisis management.

### **Immigration**

- The expenditure for the immigration administration, asylum seeker reception and returning migrant coaching is approximately EUR 61.6 million, which is EUR 6.6 million less than in the ordinary budget for 2014. Approximately 3,000 asylum seekers are expected to arrive in Finland during the year. The key objective is to improve the efficiency of immigration administration and the related permit processes. The total costs of asylum seeker reception will be adjusted to

reflect the decrease in the number of asylum seekers and shorter processing times.

- EUR 97 million will be allocated for integration policy.

### **Internal security**

- In the EU home affairs branch, two new funds were set up for the funding programme period: Internal Security Fund and the Asylum, Migration and Integration Fund, which will become operational in 2015. The total funding for national programmes to be implemented from the home affairs funds in 2014—2020 is estimated to be approximately EUR 113 million.

### **Administration**

- The government's joint administration and service tasks will be assigned to the Prime Minister's Office as a new entity from 1 March 2015. A sum of EUR 82 million will be redirected to the Office for these purposes, mainly from various ministries.
- In addition to the general operating expenditure cuts affecting all administrative branches, the General Government Fiscal Plan of spring 2014 outlined an annual operating expenditure cut (excl. the Defence Forces) corresponding to a 0.5 per cent productivity increase, and an operating expenditure cut restricting wage drift. The total cuts in central government operating expenditure amount to approximately EUR 80 million compared to savings in 2014.
- Election costs will grow to EUR 17.9 million as both the parliamentary elections and Finnish Sámi Parliament

elections will be held in 2015.

- The central government's damage compensation activities be centralised in the State Treasury.
- An additional appropriation of EUR 1.5 million will be allocated for information system expenditure for the implementation of the public sector's joint customer service pilot project (Asiakaspalvelu2014).
- EUR 3 million will be allocated to the operating expenditure of the Government ICT Centre (Valtori) and EUR 10 million to investments.
- A new financial stability authority and new financial stability fund managed by this authority are to be established in 2015. A sum of EUR 171 million will be transferred to this fund. The national fund would transfer the funds as EU stability payments into EU's joint crisis resolution fund.

### **Taxation and customs**

- An appropriation of EUR 2.5 million will be allocated to the Tax Administration to secure basic operations during the launch of a software overhaul associated with an overall tax system revamp.
- Additional funding of EUR 2.5 million will be allocated to the Customs' operating expenditure to maintain the level of vehicle and excise duty and to combat crime. A supplementary appropriation of EUR 0.9 million will be allocated to combatting the illegal import of alcohol and tobacco by travellers.

### **General, vocational and early childhood education**

- EUR 3 million will be allocated to language immersion as a way of improving language skills.
- A proposal has been submitted to Parliament on amending the Day Care Act and changing its name to Early Childhood Education Act. The Act would contain provisions for the size of day care groups and for the participation and impact of children and parents. The National Board of Education would be appointed expert authority for early childhood education and evaluation of said education would be added to the tasks of the Finnish Education Evaluation Centre. To prepare for this, the National Board of Education will be granted additional resources of EUR 0.2 million and financing of the Ministry of Education and Culture will be increased by EUR 0.3 million.
- As part of the drive to develop general education, efforts will be made to strengthen the learning and well-being of basic education students receiving enhanced and special support as part of overall education. Measures to prevent dropping out will also be made more effective. A government grant of EUR 21.3 million will be given for these purposes. Taking all changes in criteria into account, government grants for general education will decrease by EUR 12 million in 2015.
- Implementation of the youth guarantee will continue. In addition, all young people completing basic education will be required to apply for upper secondary education or other type of further education. Unsuccessful applicants will be

entitled to additional basic education, upper secondary school education, preparatory education for vocational training, a workshop placement or other similar training programme.

- Structural development of the upper secondary education and training provider network will continue, and funding systems will be revised.

## Universities and science



- In connection with the reform of universities of applied science, municipal self-financing requirement for the operating costs will be removed, and the responsibility for the basic funding of universities of applied sciences will be transferred completely to central government from the beginning of 2015.
- To achieve the goal of extended working careers, the university application backlog will be cleared by temporarily increasing student intake

by approximately 3,000 in 2014—2015 in fields most relevant for future employment needs.

- In 2015, the central government is prepared to capitalise universities of applied sciences by EUR 50 million, and is committed to capitalising universities by triple the amount they acquire in the form of private donations up to a maximum of EUR 150 million. Fund-raising in connection with eligibility for government counterpart funding will be implemented in 2014–2017 as specified in detail later. All counterpart funding decisions will be made in 2017.
- In connection with the comprehensive reform of central government research institutes and research funding, the National Consumer Research Centre and the National Research Institute of Legal Policy will be merged into the University of Helsinki from the beginning of 2015.
- Decisions will be made from the beginning of 2015 on new funding for strategic research projects up to an amount of EUR 55.6 million. The objective of strategic research is to identify solutions to significant social challenges and problems.

## Art and culture

- From 2014 on, additional EUR 4 million have been allocated to covering the increase to the library use compensation paid to authors.
- The renewal of the compensation system in accordance with the Government programme is implemented by financing compensation for private copying from the budget. A total of

EUR 11 million is allocated to this purpose. The compensation reimburses authors for copies of their works made for private use within the limits set out by the Copyright Act. The new system replaces the earlier practice of including the compensation in the consumer prices for devices capable of copying.

- The mandate for granting funds to the founding of public libraries will be increased in order to facilitate the renewal of approximately nine library cars and the renovation and construction of 12 libraries.
- The estimated revenue from betting and lottery is EUR 541 million. In accordance with the act on the use of lotteries and gambling revenues, a minimum of 25 per cent of the revenue will be spent on promoting sport and physical education, 9 per cent on promoting youth work, 17.5 per cent on promoting science and 38.5 per cent on promoting art.

### **Agriculture and forestry**

- The objective is to enhance the vitality of rural areas, to promote various forms of entrepreneurship, and to promote the structural and productivity development of rural areas. The key tool used to support these measures is the Rural Development Programme for Mainland Finland 2014–2020. The appropriations for this programme will increase by EUR 41.1 million, primarily as a result of the introduction of new programme actions.
- The retirement subsidy system will be in effect until the end of 2018.
- At the beginning of 2015, the duties

and resources of the following institutes will be transferred to the a new entity, the Natural Resources Institute Finland, to increase the effectiveness and efficiency of research: MTT Agrifood Research Finland, the Finnish Game and Fisheries Research Institute, the Finnish Forest Research Institute, and the Information Centre of the Ministry of Agriculture and Forestry.

- Legislation and government subsidies for the financing of sustainable forestry will be revised for compliance with the EU regulations on government subsidies for forestry and agriculture, effective from 1 July 2015.

### **Communications**

- An appropriation of EUR 507.9 million will be allocated to cover Finnish Broadcasting Company YLE's public service expenses.
- Funding of EUR 16 million is granted for the implementation of the national broadband project.

### **Road network, traffic routes and vehicles**

- EUR 460 million will be reserved for traffic route investments. EUR 933 million is reserved for daily maintenance and repair of the traffic routes.
- New projects to be launched in 2015 include the construction of the Riihimäki triangle rail, capacity improvement in the Helsinki—Riihimäki rail section, main road 3 Tampere—Vaasa (stage 1 in Laihia), main road 22 Oulu—Kajaani—Vartius improvement, electrification of the Pännäinen—Pietarsaari—Alholma rail

track, and moving the Saimaa deep-water channel in the vicinity of Savonlinna. In addition, the following projects decided upon in the second supplementary budget of 2014 will continue: Deepening of the Rauma fairway, road 148 improvement near the Kerava road, the Arolammi interchange to be constructed on main road 3, and major improvements on the Viitasaari—Keitele section of regional road 77.

- The government is committed to continuing the western metro extension to Kivenlahti.
- A mandate has been awarded to grant EUR 7.4 million to the construction of a road connection to the premises of Fennovoima Oy's nuclear plant.
- A temporary scrappage premium scheme will be introduced and EUR 3 million will be allocated to its financing.

### **Energy policy**

- The subsidy granted to renewable energy production is EUR 214 million; an increase of EUR 90 million from 2014. This growth is due to an increase in wind power capacity as well as to the raised subsidy for energy generation from wood chips corresponding to the decrease in peat tax. Factors affecting the amount of the appropriation include investments in progress, the electricity market price trend, and, in the case of the feed-in tariff for forest chip power plants, the emission right price trend.
- A mandate to grant EUR 35 million for energy subsidy was imposed, of which EUR 3 million has been reserved for the traffic biofuel development programme.

- The construction of liquefied natural gas (LNG) terminals will secure the supply and distribution of natural gas. The appropriation allocated for LNG terminal investment support is EUR 31 million, to be used for payment of the 2013—2014 authorisations.

### **Employment**

- The implementation of the youth guarantee will be enhanced to improve the employment opportunities of young people and recent graduates.
- To support entrepreneurship among young people the Entrepreneurship Workshop for Young People model will be introduced nationwide.
- The job alternation leave criteria were tightened to promote employment. The employment history requirement, for example, was raised from 10 to 16 years. The change came into force on 1 September 2014.

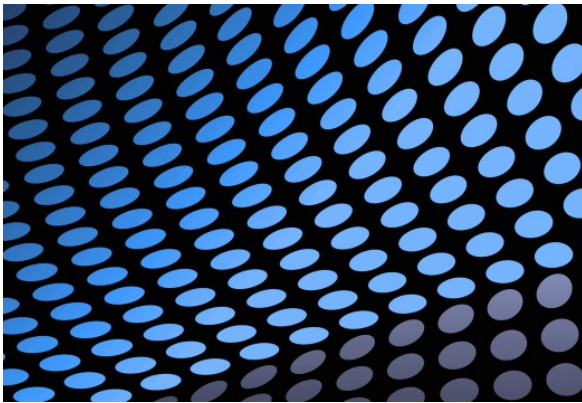
### **Companies**

- EUR 20 million will be directed for the venture capital investment activity of the Finnish Funding Agency for Innovation (Tekes).
- Tekes has been awarded a mandate to grant loans in the amount of EUR 167 million; an increase of EUR 60 million from the 2014 budget. Additional spending focuses on digital and bioeconomy and on the cleantech industry. Furthermore, the ceiling for loans to be covered by Tekes loan repayment exemption is abolished.
- A long-term growth funding programme was launched in 2014 to strengthen the capital investment markets and to support growth in the

SME sector.

- EUR 80 million has been earmarked for the capitalisation of Finnish Industry Investment Ltd., EUR 30 million of which is to be spent on Fund II of the Growth Funds and EUR 50 million especially on the innovation, diversification and growth of industrial enterprises, and on venture capital investment activity designed to promote growth in the bioeconomy and health care sectors.

### Social and health care services



- An additional EUR 27.5 million will be allocated to the implementation of the Act on Care Services for the Elderly through central government transfers, bringing the full annual appropriation to EUR 82 million.
  - A reform of the Social Welfare Act and a revision of the Child Welfare Act will be implemented in early 2015. In conjunction with these, government grants will be increased by EUR 16 million a year.
  - Responsibility for the provision of women's refuge services will be transferred to the state, and EUR 8 million will be allocated for this purpose (half as a transfer from government transfers to municipalities).
- Social benefits and compensation paid by the Social Insurance Institution Kela**
- The new act on general housing allowance, which will come into force in 2015, will clarify and simplify the housing benefits system. In the future, only the location of the home and the size of the household will affect the maximum amount of acceptable housing costs.
  - A monthly earnings exemption of EUR 300 will be introduced on 1 September 2015. This means a monthly exemption of EUR 300 on the applicant's earnings will be made before calculating the housing allowance.
  - Child benefits will be cut by approximately 8 per cent.
  - Benefits tied to the national pension index and the employment pension index will, as a rule, be raised by only 0.4 per cent.
  - Compensation payable from health insurance will be cut by raising the travel expense deductibles and by lowering the reimbursement of dental care expenses.
  - Legislation on disability benefits will be amended on 1 June 2015 to improve consideration for the applicant's needs when granting a benefit. The reform is estimated to decrease the need for appropriations by approximately EUR 6.5 million in 2015.
  - EUR 8.4 million has been earmarked



for the approval of new medicines in the list of medicines entitling to special compensation.

- The hepatitis B vaccine offered to health care students will be included in the national vaccination programme.

### **Pensions paid by the central government**

- Approximately EUR 4.7 billion has been reserved for payment of pensions and compensations by central government in the main title of expenditure of the Ministry of Finance. Approximately EUR 4.5 billion is allocated to pensions in the main title of expenditure of the Ministry of Social Affairs and Health. Central government will allocate EUR 2.4 billion to national pensions and EUR 153 million to guaranteed pensions. In addition, EUR 624 million will be spent on farmers' pensions, EUR 100 million on self-employed person's pensions, EUR 62 million on seamen's pensions and EUR 15 million on farmers' occupational accident pensions.

### **Veterans**

- Approximately EUR 253 million will be used for supporting war veterans. In the future, a compensation for the costs of open social and health services arranged by municipalities and joint municipal authorities may be paid to any person whose degree of incapacity for work according to the Disabled Veterans Act is 15 per cent or more, as opposed to the former minimum of 20 per cent. The amendment increases the number of beneficiaries and helps aged war veterans to live in their own homes. It will enter into effect on 1 July 2015 and is estimated to

increase the need for appropriations by approximately EUR 3 million in 2015.

### **Housing**

- All housing production benefits, excluding grants for the preservation of the built heritage, are funded from the housing fund not included in the Government budget.
- EUR 40 million in total will be allocated to home repair and energy subsidies, particularly to repairs that allow the elderly and the disabled to live in their own homes, and to the construction of new lifts. Another EUR 216.5 million of the Housing Finance and Development Centre of Finland's funds will be used to pay allowances, judicial settlements and interest subsidies.
- The authorisation for interest subsidy on government-backed social housing production is EUR 1,170 million, for loan guarantees EUR 285 million, and state guarantees for housing companies' renovation loans EUR 100 million.
- To increase government-backed rental housing production, municipalities in the Helsinki Metropolitan Area can be granted temporary start-up assistance of up to EUR 10 million. A temporary start-up assistance for the construction of rental housing under a loan guarantee model in the Metropolitan Helsinki Area will be granted, the maximum being EUR 3.0 million in 2015.
- The temporary reduction of the payer's contribution of the interest in standard rental housing as well as youth and student housing from 3.4 to 1 per cent will be in effect until the end of 2015.

- In addition, investment grants of EUR 120 million will be awarded to support the construction and repair of special needs housing. Grants will be allocated primarily to promoting housing construction for the most vulnerable.
- EUR 8 million will be allocated to housing area development, with special emphasis on residential areas in major cities.
- In accordance with the Government programme, a maximum of EUR 2 million in assistance for modification will be allocated to projects in the Metropolitan Helsinki Area to promote conversion of office and industrial buildings to rental housing.
- Instead of giving housing companies renovation loans, the renovation work will be supported with collateral security provided by the state. The maximum authorisation for state guarantee is EUR 100 million.

supplementary marshland protection programme.

- The allocation granted for the public administrative duties associated with Metsähallitus' nature services is EUR 41 million, with a one-time supplementary sum of EUR 5 million being allocated to infrastructure improvements in national parks and to investments in natural and cultural attractions.



### **Nature and the environment**

- The implementation of the Forest Biodiversity Programme for Southern Finland (METSO) as well as the implementation of the Natura 2000 network and nature protection programmes decided earlier will continue. Efforts will be made to launch the implementation of the



# Inquiries

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<sup>17</sup>[http://www.vm.fi/vm/en/01\\_main/index.jsp](http://www.vm.fi/vm/en/01_main/index.jsp)

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