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GENERAL GOVERNMENT FISCAL PLAN 2020–2023

The General Government Fiscal Plan also includes Finland's Stability Programme, and it meets the EU's requirement for a medium-term fiscal plan. In accordance with Article 4 of Regulation 473/13, the General Government Fiscal Plan is based on independent macroeconomic and fiscal forecasts produced by the Economics Department of the Ministry of Finance. Specific information relating to the Stability Programme is presented in Appendix 5.

The General Government Fiscal Plan 2020–2023 does not contain new policy lines; it is based on current legislation and it takes into account the impacts of decisions made by Prime Minister Sipilä's Government on expenditure and revenue levels in the coming years.

The Government has today, following preparatory consideration of the matter in the Ministerial Finance Committee and pursuant to section 2 of the Decree on the General Government Fiscal Plan (120/2014), section 1 of the Budget Decree (1243/1992) and the Government's decision issued on 24 April 2003 on the principles of formulating central government spending limits proposals, budget proposals and operating and financial plans, issued the following General Government Fiscal Plan and the central government spending limits decision included within it as well as a limit for local government expenditure set by central government measures:

1. Economic challenges and the economic policy line

Finland's economy and public finances have strengthened significantly in recent years. The general government deficit has declined and the debt ratio is decreasing. Employment has increased and unemployment has fallen rapidly.

While the state of public finances has improved, there is no reason to stop work aimed at strengthening public finances. A persistent structural deficit in general government finances and a debt ratio that is higher than in the past together with large guarantee liabilities have made public finances more sensitive to macroeconomic shocks that typically spread to Finland from the global economy. According to forecasts, economic growth will gradually slow down in the coming years. The possibility of a recession in the upcoming parliamentary term cannot be ruled out either.

For a number of years now, general government finances have been weakened by population ageing. Owing to an increase in age-related expenditure, general government finances have not moved into surplus, even though general government finances have been strengthened by consolidation measures and economic development has been favourable.

Age-related expenditure will also continue to grow rapidly in the next decade. General government deficit will again begin to increase as measures aimed at strengthening general government finances come to an end. In the 2020s, general government finances will be weakened not only by growth in age-related expenditure but also by, among other things, fighter aircraft procurement, the repair debt and other large investment needs.

Due to population ageing, there is a sustainability problem in general government finances that has not yet been resolved. The sustainability gap in general government finances means that, in the long term, general government revenue will not be sufficient to cover expenditure. Growth in the number of elderly people will increase healthcare and long-term care expenditure in particular, which the current overall tax rate will not be sufficient to finance in the future. In addition, the decline in the working-age population will weaken the growth potential of the economy and therefore the financing of public welfare services and benefits.

Fiscal policy line

Strengthening the sustainability of general government finances as well as fiscal buffers requires both fast-acting measures and structural reforms that will boost general government finances in the longer term. The sustainability of general government finances, social stability and economic growth can be improved by enhancing public service provision, increasing employment and creating a favourable environment for growth in investment, skills and productivity.

Curbing the growth of healthcare and social welfare costs and safeguarding equality of services require an improvement in the productivity of public service provision and reform of the healthcare and social welfare structure. It is important that the responsibility for providing the services can be transferred to bodies that are stronger than municipalities.

Employment can be increased by reducing unemployment, encouraging people outside the labour force to enter work and promoting work-based immigration. Possible means include improving work incentives by reforming the social security, taxation and service system as well as measures to increase regional and occupational mobility and extend working careers. For the sustainability of general government finances, it is also important to pay attention to the cost-effectiveness of the measures.

The next Government will lay down concrete measures based on the fiscal policy line agreed in its Government Programme in the first General Government Fiscal Plan of the parliamentary term in autumn 2019.

2. Objectives and rules steering the management of general government finances

The purpose of the General Government Fiscal Plan is to support decision-making relating to general government finances as well as compliance with the Medium-Term Objective set for the general government structural budgetary position. The General Government Fiscal Plan contains sections relating to central government finances, local government finances, statutory earnings-related pension funds and other social security funds. The Government prepares the General Government Fiscal Plan for the parliamentary term and revises it annually for the following four years by the end of April.

The General Government Fiscal Plan 2020–2023 does not contain new policy lines; it is based on current legislation and it takes into account the impacts of decisions made by Prime Minister Sipilä's Government on expenditure and revenue levels in the coming years. This General Government Fiscal Plan forms the basis for discretionary measures of the next parliamentary term, which are intended to be decided in the new government's first General Government Fiscal Plan in autumn 2019. The upcoming Government will accordingly set new budgetary targets.

Medium-Term Objective

The 2016 Stability Programme set a Medium-Term Objective (MTO) of -0.5% in ratio to GDP for the structural budgetary position of the general government.

The MTO is reviewed every three years. This means that the next review will be in 2019. Finland's current MTO meets the minimum requirements set for it, including that Finland has committed to a minimum MTO level of -0.5% in ratio to GDP in the Fiscal Compact. After the election, the new government will set the MTO in its first General Government Fiscal Plan.

In line with the country-specific recommendations adopted in summer 2018, Finland must reach its MTO in 2019, taking into account the allowances granted to Finland. In spring 2017, Finland was granted allowances totalling 0.6% of GDP under the structural reform and investment clauses, which permit a deviation from the path leading to the MTO in 2017–2019.

Other fiscal policy targets

In the General Government Fiscal Plan 2018–2021 of spring 2017, Prime Minister Sipilä's Government set multiannual nominal targets for general government budgetary position, expenditure and debt consistent with an annual change in the structural balance leading to the MTO. These targets were based on achieving the 72% employment rate set as a goal by the Government, and a target scenario concerning them was included in the Stability Programme.

Nominal budgetary targets for 2019 were set at the beginning of the parliamentary term such that:

- central government deficit of at most ½% in ratio to GDP.
- local government deficit of at most ½% in ratio to GDP.
- surplus of earnings-related pension funds approximately 1% in ratio to GDP.
- balance of other social security funds approximately 0% in ratio to GDP.

If the adopted targets are achieved, they will result in the achievement of the MTO, set in spring 2016, or an even stronger structural balance.

The measures to achieve the targets are described by subsector in Chapters 5–7. Chapter 8 examines the overall impact of the measures on public finances. Chapter 3.2 presents an estimate of how the fiscal policy targets set by Prime Minister Sipilä's Government will be realised in the light of the independent forecast of the Economics Department of the Ministry of Finance. Stability Programme (Appendix 5) assesses in detail the fulfilment of the MTO and the EU criteria.

Central Government Spending Limits

To ensure a responsible, long-term spending policy that promotes economic stability, the central government spending limits system in its present form has been in place since 2003. In the last

parliamentary term, also this Government committed to adhering to the spending limits. The spending limits decision for 2020–2023 does not, however, include a parliamentary term expenditure ceiling. The parliamentary term spending level for 2020–2023 will be decided by the Government to be appointed after the April parliamentary elections. This General Government Fiscal Plan and its Chapter 5 therefore only examine more generally the development of central government expenditure included in the spending limits decision.

Limit on local government expenditure set by central government measures

The Government Decree on the General Government Fiscal Plan requires that the General Government Fiscal Plan set a maximum monetary limit consistent with the local government budgetary target for the change in expenditure in local government finances resulting from central government measures. The system has been in use since 2015. The limit on local government expenditure for 2020–2023 will be decided by the new Government to be appointed after the election. The limit on local government expenditure set by central government measures and the impact of central government measures on local government finances are discussed in Chapter 6.

3. Economic fundamentals

In accordance with Article 4 of Regulation 473/13, the General Government Fiscal Plan is based on independent macroeconomic and fiscal forecasts produced by the Economics Department of the Ministry of Finance. This Chapter discusses the macroeconomic and public finance outlook based on the independent forecast. For a more detailed forecast, see the Ministry of Finance's Economic Survey.

3.1. Economic outlook

Economic outlook for 2019–2021

In 2019, Finland's economic growth will slow down markedly after the upswing. Economic growth will continue to slow down to below 1½% in 2020–2021.

Finland's GDP is expected to grow by 1.7% in 2019. Growth will be maintained by domestic demand. Private consumption will continue to grow strongly. The growth in disposable income will be sustained by the good employment trend and accelerating earnings growth. Growth in private investment will remain subdued. In particular, construction of new homes will decline sharply. In the outlook period, growth in Finnish exports will be constrained by slowing growth of world trade.

In 2020, economic growth will slow to 1.4%. Rising earnings will support growth in private consumption. In the forecast period, the value of imports and exports will increase as a result of both volume growth and rising prices. In 2021, GDP growth will slow to 1.2%.

The slowdown in economic growth and the rise in nominal wages will gradually begin to weaken growth in demand for labour in 2020–2021. The fall in the unemployment rate to the levels recorded during the economic upswing that preceded the financial crisis will tighten the labour market, which in turn will intensify wage pressures and create labour shortages in the economy.

Overall, inflationary pressures are expected to grow only slowly in the next few years. The rise in earnings is expected to be reflected gradually and more widely in prices, and consumer demand will grow steadily. The increase in raw material prices will be moderate, however.

Medium-term outlook

Economic growth is expected to slow to approximately 1% in 2022 and to less than 1% in 2023. The economic restructuring and demographic changes that have been under way for years will also affect the longer-term growth outlook of the economy. The contraction of the working age population will reduce labour input in the next few years, but labour force participation rates are expected to rise slightly, particularly in the older age cohorts. Another factor constraining labour input is high structural unemployment.

Total factor productivity growth has been a key source of economic growth in recent decades. In the last few years, total factor productivity has developed very modestly. Cyclical but also structural factors have contributed to this weak trend. The output of high-productivity sectors has declined significantly, and services have become more predominant in the overall structure of the economy. The total factor productivity growth trend has been around zero in recent years and growth is also expected to be significantly slower in the next few years than that experienced in the early 2000s.

In addition to labour input and total factor productivity, production conditions for the economy will be influenced by the capital stock. The low investment rate that continued for several years has partly slowed growth of the capital stock and therefore weakened the future growth potential of the economy. Should the growth of investments seen in the last few years continue, however, it will correct the situation to some extent.

Table 1. Trends in the national economy

	2017	2018	2019	2020	2021	2022	2023
GDP value, EUR billion	223.9	233.6	241.7	249.8	257.6	265.1	272.1
GDP, change in volume, %	2.7	2.3	1.7	1.4	1.2	1.0	0.7
Unemployment rate, %	8.6	7.4	6.3	6.1	6.0	6.1	6.3
Employment rate, %	69.6	71.7	72.7	73.2	73.6	73.5	73.3
Consumer Price Index, change %	0.7	1.1	1.2	1.5	1.7	1.8	1.8
Long-term interest rate, 10 years, %	0.5	0.7	0.8	1.4	2.0	2.5	2.9

3.2. Outlook for general government finances

The steady growth of the Finnish economy for the past three years has improved the general government finances. There was a further narrowing in the general government deficit last year. The Finnish economy will still perform reasonably well in the next few years and the general government budgetary position will achieve balance. Economic growth will slow down further as we enter the 2020s and there will be a gradual weakening in the general government budgetary position.

General government debt-to-GDP ratio fell below 60% in 2018. However, in euroterms, the debt ratio is still rising. Despite the economic upturn, the debt ratio has improved only slowly. The fiscal buffers built for the next downturn are extremely thin. The general government debt-to-GDP ratio will start growing again at the start of the 2020s.

There are still serious structural problems in Finland's public finances even though a brief period of balance is in sight. The population is ageing, which will mean pressures in the pension, health care and long-term care expenditure. As we are entering the 2020s, Finland should have a substantial surplus in its public finances so that it would be able to face the pressures arising from an ageing population on a sustainable basis.

Last year, central government was the general government¹ sector with the highest deficit. The deficit will narrow slightly in the next few years as a result of the economic upturn but in the medium term, it will start growing again. Fiscal adjustment measures will come to an end this year and a more rapid rise in expenditure is expected in the coming years. Slow growth in tax revenue combined with higher consumption expenditure weakened the local government budgetary position last year. The deficit in local government finances will start growing towards the end of the outlook period. As the population is ageing, the need for services is increasing, which will also burden local government finances in the decade after that. The combined central and local government deficit will amount to EUR 3.5 billion at the start of the 2020s.

The earnings-related pension funds, which are part of the social security funds, have a substantial surplus. The surplus of these funds will remain at slightly more than one per cent in the outlook period. Even though pension expenditure is rising rapidly, steady economic growth is generating more pension contribution payments, while higher interest rates are boosting property income. Other social security funds have a slight surplus. Unemployment expenditure is expected to fall further and the estimate is that the unemployment insurance contribution will be lowered in the outlook period. Lowering the contribution will reduce the surplus of the social security funds close to balance.

There was a further decline in the expenditure rate (expenditure to GDP ratio) in 2018. The rate has fallen by five percentage points from its peak in 2014. The reduction has been due to measures slowing down expenditure growth and lower unemployment expenditure. The expenditure rate will stay at slightly above 52% in the outlook period. The tax rate (taxes and tax-like payments relative to GDP) has decreased as a result of tax cuts and the Competitiveness Pact. The tax rate will remain more or less unchanged in the outlook period.

Table 2. Key figures for general government finances according to National Accounts, % GDP

	2017	2018	2019	2020	2021	2022	2023
Taxes and social security contributions	43.3	42.5	42.3	42.3	42.1	42.0	41.9
General government expenditure	54.2	53.1	52.6	52.2	52.0	52.2	52.5
General government net lending	-0.8	-0.6	-0.3	0.0	-0.1	-0.3	-0.6
— Central government	-1.8	-1.2	-0.7	-0.7	-0.7	-0.8	-1.0
— Local government	-0.2	-0.8	-0.7	-0.6	-0.6	-0.7	-0.7
— Earnings-related pension funds	0.9	1.1	1.1	1.1	1.1	1.1	1.1
— Other social security funds	0.3	0.3	0.2	0.2	0.1	0.0	0.0
Primary balance	-0.6	-0.5	-0.2	0.0	-0.1	-0.3	-0.5
Structural balance	-0.6	-0.7	-0.7	-0.3	-0.4	-0.6	-0.8
General government gross debt	61.3	58.9	58.1	57.4	57.4	57.7	58.3
Central government debt	47.2	44.9	44.2	43.4	43.3	43.3	43.7

Compliance with fiscal policy rules and objectives

In the light of the independent forecast of the Ministry of Finance, it appears that many of the fiscal policy targets of Prime Minister Sipilä's Government will be achieved. The general government debt-to-GDP ratio started decreasing in 2016 and the debt ratio will continue to fall in 2019 and 2020. The

¹ Finland's general government finances consists central government, local government and the social security funds, which are further divided into earnings-related pension funds handling statutory pension insurance schemes, and other social security funds.

objective of balancing general government revenue and expenditure by 2021 is also about to be achieved. According to the forecast, the general government budgetary position will be in balance at the turn of the decade.

In the light of the latest forecast, the general government structural balance has been close to the MTO (-0.5% in ratio to GDP) in recent years. In 2019, the structural balance is expected to be -0.7 % in ratio to GDP.

It also appears that the nominal budgetary targets set for 2019 for the subsectors of general government finances, namely central government, local government and social security funds, will be more or less achieved. The budgetary positions of central government and local government will be close to the target set for them (0.5% deficit in ratio to GDP) and the social security funds will slightly exceed their target (1% surplus in ratio to GDP).

Prime Minister Sipilä's Government also set targets for employment in addition to and in support of fiscal targets. The Government's goal was to raise the employment rate to 72% and to increase the number of the employed by 110,000. The employment trend has improved significantly since 2017, supported both by good economic conditions and structural reforms, and the Government's employment targets seem likely to be achieved.

Table 3. General government structural balance, net lending, gross debt and expenditure. Target scenario set in spring 2017 General Government Fiscal Plan and Ministry of Finance's spring 2019 forecast, in ratio to GDP.

	2018	2019	2020	2021	2022
Structural balance					
— target	-1.1	-0.5	0.0	-0.3	-
— forecast	-0.7	-0.7	-0.3	-0.4	-0.6
General government net lending					
— target	-1.6	-0.8	-0.2	-0.3	-
— forecast	-0.6	-0.3	0.0	-0.1	-0.3
General government gross debt					
— target	64.5	63.8	62.7	61.9	-
— forecast	58.9	58.1	57.4	57.4	57.7
General government expenditure					
— target	53.9	52.5	52.1	52.1	-
— forecast	53.1	52.6	52.2	52.0	52.2

General government budgetary position and debt, broken down into the budgetary position and debt of core sector units and units outside the core sectors

The general government budgetary position will still be slightly in deficit in 2019. In the national accounting terms, the central government core sector will remain in deficit, even though on-budget debt was reduced in the previous year. The central government will also remain in deficit in 2019–2023. The local government core sector, the municipalities and joint municipal authorities, will also be in deficit. The social security funds will be in surplus. The combined deficit of units outside the core sectors will be approximately 0.2% in ratio to GDP.

The general government consolidated EDP debt in ratio to GDP will decrease in 2019. The debt ratio of core sectors will decrease further in the next few years, but will start to increase from 2022. Most of the debt is central government on-budget debt. The municipalities and joint municipal authorities also have

a significant amount of debt. Of the units outside the core sectors, indebtedness mainly affects real-estate companies and a few other units. The debt carried by units outside the core sectors will grow slowly by an amount corresponding to the deficit produced by these units annually. For a list of units in general government subsectors, see Statistics Finland's website³.

Table 4. General government budgetary position and debt in ratio to GDP, broken down into core sectors and units outside the core sectors

	2017	2018	2019	2020	2021	2022	2023
General government, total							
Budgetary position in ratio to GDP	-0.8	-0.6	-0.3	0.0	-0.1	-0.3	-0.6
Debt in ratio to GDP	61.3	58.9	58.1	57.4	57.4	57.7	58.3
Core sectors, total							
Budgetary position in ratio to GDP	-0.5	-0.4	-0.1	0.1	0.1	-0.2	-0.4
Debt in ratio to GDP	59.1	56.6	55.6	54.8	54.7	55.0	55.5
Units outside cores sectors, total							
Budgetary position in ratio to GDP	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Debt in ratio to GDP	2.2	2.3	2.4	2.5	2.6	2.7	2.8

3.3. Economic restructuring, population ageing and fiscal sustainability

Over the past decade, Finland's economy has been affected by industrial restructuring, which has weakened potential for economic growth. The growth outlook for the coming years will also be undermined by the declining number of the working-age population. In addition to the long recession, the rapid growth in the number of pensioners has contributed to the weak state of general government finances. The increase in pension expenditure, among other things, explains why, despite the economic upswing, general government finances have been unable to climb into surplus.

The retirement of the baby boomers is just a beginning to the demographic challenges facing Finland in the coming decades. Since 2010, the dependency ratio has deteriorated from approximately 50 dependants (under 15 and over 65 years of age) to approximately 60 dependants per 100 people of working age. According to population forecasts, the deterioration of the dependency ratio will continue for at least the next 50 years.

In general government finances, there is still a substantial sustainability gap, i.e. general government revenue will not, in the long term, be sufficient to cover expenditure. Growth in the number of elderly people will increase healthcare and long-term care expenditure in particular, which the current overall tax rate will not be sufficient to finance in the future. In addition, the working-age population, which finances welfare services and social security with taxes, is shrinking. A permanent imbalance between revenue and expenditure therefore threatens to result in an unmanageable increase in debt in the long term.

The Ministry of Finance estimates the sustainability gap to be approximately 4% in ratio to GDP. There is significant uncertainty associated within the sustainability gap estimate, and it is sensitive to the

³ http://www.stat.fi/meta/luokitukset/_linkki/julkisyhteisot.html

assumptions used about future development. Regardless of the uncertainty, the calculation offers a coherent way of examining the challenges facing public finances and means to overcome them.

4. Government liabilities and risks

Government financial liabilities and associated risks may emanate from decentralised sources within central government on-budget accounting, central government funds and unincorporated state-owned enterprises. In addition, the central government may be subject to liabilities from within the municipalities, the private sector, state-owned companies or the financial markets (e.g. the banking sector). The central government may also be subject to de facto liabilities for securing the continuity of certain functions of society, even though there is no law or agreement directly conferring such liability. The table shows a summary of central government assets and nominal values of certain specifiable liabilities. Assessing the risks related to liabilities unambiguously is difficult, and therefore the nominal values of liabilities have been used in this examination in the interests of clarity. Data on central government real and financial assets are based on financial accounting. Regarding financial assets, the table also shows certain key publicly quoted shareholdings. In addition to these, the central government owns either in full or in part several other companies, which are valued on the basis of book value.

Economic cycles have had a major impact on the value of central government financial assets. In 2008, central government financial assets decreased, primarily due to falling share prices, by more than EUR 13 billion, i.e. by over 8 percentage points in ratio to GDP. Financial assets also decreased significantly in 2011. Since 2011, financial assets have grown due to rising share prices. In 2007–2018, the central government has received dividend income of between EUR 1.1 and 1.9 billion from its shareholdings annually. In 2018, the central government’s dividend income was approximately EUR 1.4 billion.

Table 5. Summary of government liabilities and risks, EUR billion

	2012	2013	2014	2015	2016	2017	2018
Assets							
Central government real assets	51.1	52.4	53.2	52.7	53.1	53.4	
<i>% GDP</i>	25.6	25.8	25.9	25.1	24.6	23.9	
Central government financial assets	58.5	59.5	60.4	61.1	61.4	64.0	66.1
<i>% GDP</i>	29.3	29.2	29.4	29.1	28.4	28.6	28.3 ¹⁾
— of which							
Central government liquid assets	7.4	4.6	3.1	4.4	3.1	3.0	2.1
Solidium	7.2	8.2	7.6	6.8	7.8	8.6	6.8
Other shareholdings in listed companies	7.8	9.5	10.9	10.2	11.5	15.2	17.3
National Housing Fund receivables	7.5	6.9	6.4	5.9	5.2	4.6	4.2
Liabilities							
Central government debt	83.9	89.7	95.1	99.8	102.3	105.8	105.0
<i>% GDP</i>	42.0	44.1	46.6	48.2	47.3	47.3	45.0 ¹⁾
Municipal debt	13.0	14.9	16.8	18.0	19.0	19.2	20.1
<i>% GDP</i>	6.5	7.3	8.2	8.6	8.8	8.6	8.6 ¹⁾

	2012	2013	2014	2015	2016	2017	2018
Central government guarantees ²⁾	33.7	35.0	39.2	44.2	46.1	52.3	56.6
% GDP	16.8	17.3	19.1	21.1	21.3	23.3	24.2 ¹⁾
— Finnvera	14.8	14.6	17.5	22.6	22.6	27.7	30.3
— Student loans	1.5	1.6	1.8	2.0	2.3	2.7	3.4
— EFSF	5.1	6.2	6.6	6.2	6.3	7.0	7.0
— Bank of Finland	0.8	0.7	0.6	0.5	0.6	0.4	0.5
— Government funds	10.2	11.2	11.8	12.3	13.2	13.8	14.6
— Other	1.2	0.8	0.9	0.6	1.1	0.6	0.8
Capital liabilities	17.0	17.1	17.2	17.8	18.0	17.9	17.9
% GDP	8.5	8.4	8.4	8.5	8.3	8.0	7.7 ¹⁾
Other liabilities	119.0	117.8	132.9	130.8	129.5	128.3	127.6
% GDP	59.6	57.8	64.8	63.2	59.9	57.3	54.6 ¹⁾
— Budget accounting	117.0	115.4	130.4	128.3	126.9	125.5	124.7
— Off-budget entities	0.5	0.6	0.7	0.9	1.2	1.6	1.7
— State enterprises	1.5	1.8	1.8	1.6	1.4	1.2	1.2

¹⁾ Preliminary data

²⁾ For more detailed information on government guarantees, see Appendix 12 to the central government final annual accounts.

Central government liabilities, in addition to debt and pension liabilities, largely comprise guarantees, the nominal value of which has increased significantly in recent years. Guarantees issued by Finnvera and central government funds have seen particularly high increases. The National Housing Fund accounts for the majority of guarantees issued by funds, EUR 14.5 billion at the end of 2018. The growth in Finnvera guarantees has focused on export credit guarantees and Finnvera's acquisition of funds. In the growth of the National Housing Fund's guarantees, funding for government-guaranteed rental and right-of-occupancy housing is prominent.

The nominal value of central government guarantees has increased in the 2010s from EUR 23.2 billion to EUR 56.6 billion, which is approximately 24% in ratio to GDP. In addition, the amount of capital liabilities payable upon request to international financial institutions is approximately EUR 17.9 billion, of which most is a capital liability of EUR 11.1 billion relating to the European Stability Mechanism (ESM), which was founded in 2012. Finland's total liabilities incurred from the management of the euro crisis that began in 2010 were approximately EUR 10.3 billion at the end of 2018, of which European Financial Stability Facility (EFSF) guarantees account for EUR 7.0 billion and the capital contribution paid to the ESM accounts for EUR 1.4 billion.

On an international scale, Finland's public sector guarantees are at a high level. Different reporting practices, among other reasons, make it difficult to compare the nominal values of guarantees between countries. Nevertheless, according to data collected by Eurostat, Finland's general government guarantees-to-GDP ratio was the highest among the EU Member States in 2017. Finland also has the highest level of state guarantees in the EU countries, and the fastest growth of state guarantees in the EU area in 2013–2017 was recorded in Finland.

Risks related to public sector activities are generally linked in many ways to general economic development. In an exceptionally difficult economic situation, the fiscal position may weaken due to a number of different factors simultaneously. Risks relating to macroeconomic development, public debt, public sector holdings, granted export credit guarantees and other public sector risks are correlated. In normal business cycle conditions, however, typically only some of the risks are realised.

Costs arising from the triggering of central government liabilities may impose a significant burden on the economy. This highlights the importance of careful assessment and management of the risks associated with central government binding financial decisions and the management and monitoring of liabilities.

Central government financial liabilities and associated risks are discussed in more detail in the Overview of Central Government Risks and Liabilities, published by the Ministry of Finance.

5. Central government finances

5.1. Central government spending limits

The central government spending limits system is based on a real, binding overall expenditure ceiling set for the duration of the parliamentary term, to which only the required price- and cost-level adjustments and structural corrections are made. The spending limits system is based on ex ante examination, i.e. it restricts the level of expenditure budgeted in the State budget. The spending limits decision for 2020–2023 does not include a parliamentary term expenditure ceiling. The parliamentary term spending level for 2020–2023 will be decided by the Government to be appointed after the April 2019 parliamentary elections. This General Government Fiscal Plan therefore only examines more generally the development of expenditure included in the spending limits decision.

5.2. Development of on-budget expenditure and the spending limits

Development of on-budget expenditure in 2020–2023

On-budget expenditure is expected to be approximately EUR 56.0 billion in 2020, which is approximately EUR 0.4 billion more than that budgeted for 2019. The change is explained by, among other things, the full implementation of statutory index adjustments in 2020.

By 2023, on-budget expenditure will rise to approximately EUR 58.8 billion. The increase is explained by, among other things, the budgeting of the expenditure deriving from the procurement of fighter aircraft for 2021–2023, an increase in the level of basic transport infrastructure maintenance in 2022–2023 and certain changes in expenditure outside the spending limits (see below). On-budget expenditure is expected to grow in the spending limits period 2020–2023 nominally by an average of approximately 3% per year. In real terms, annual average expenditure growth is expected to be approximately 1%.

Compared with the spring 2018 spending limits decision, on-budget expenditure will decline on average by approximately EUR 11.0 billion per year. The change is mainly due to the cancellation of the regional government, health and social services reform. Excluding the direct impact of the cancellation of the regional government, health and social services reform, on-budget expenditure will rise by an average of EUR 2 billion per year compared with spring 2018 spending limits decision. The increase is explained by a number of factors, among which are:

- an increase in compensation for municipalities' tax revenue losses due to the cancellation of the regional government, health and social services reform (adjustments corresponding to the rise in earnings or inflation are made to earned income taxation annually, and the municipalities are compensated for their impact)
- statutory index adjustments
- revision to timing of fighter aircraft procurement costs

— certain other adjustments to appropriation levels such as, for example, setting the appropriation level of transport investments to correspond to the average level of the last 12 years.

Expenditure outside the spending limits

Part of on-budget expenditure falls outside the spending limits. The spending limits rule applied in the current parliamentary term sets a maximum level for most, around four-fifths, of on-budget expenditure. The following expenditure, among others, falls outside the spending limits: cyclical expenditure, interest expenditure on central government debt, and expenditure where the central government acts as a technical intermediary for an external funding contribution. In addition, the transfer to the State Television and Radio Fund (Yle transfer) has been treated as expenditure outside the spending limits from 2018.

Expenditure outside the spending limits, categorised using the current parliamentary term's spending limits rule, is expected to be approximately EUR 11.1 billion in 2020, which is just under EUR 0.3 billion less than that budgeted for 2019. Among other things, cyclical expenditure and debt interest expenditure will decline from 2019 but, on the other hand, compensation to the municipalities for tax criteria changes will increase.

In the spending limits period, expenditure outside the spending limits will increase by approximately EUR 1.0 billion to around EUR 12.1 billion at the 2023 level. Central government debt interest expenditure will grow, particularly due to the projected rise in interest rates. In addition, the level of value-added tax expenditure will rise significantly in 2021 due to the VAT expenditure associated with the Defence Forces' fighter aircraft procurement. Compensation for municipalities' tax revenue losses will also increase throughout the spending limits period, as it is assumed that annual adjustments for rising earnings and inflation will be made to earned income taxation. On the other hand, cyclical expenditure will decline due to, among other things, the projected good trend in employment.

Compared with the previous spending limits decision, expenditure outside the spending limits will fall by approximately EUR 0.5–0.8 billion per year. The level of cyclical expenditure will fall compared with the previous spending limits due to the good employment outlook. The level of financial investment expenditure will also fall (after the removal of the export refinancing loans item from the budget), as will interest expenditure on central government debt. Expenditure corresponding to proceeds from profits of gambling activities will decrease following a lower revenue recognition estimate compared with the previous spending limits decision. The cancellation of the regional government reform will also have an impact, because it would, if implemented, have impacted expenditure outside the spending limits with respect to, for example, technical pass-through items (compensation for counties' VAT costs). On the other hand, compensation to municipalities for tax criteria changes will increase when the ripple effects of the cancellation of the regional government, health and social services reform as well as the impact of decisions made in the 2019 Budget are taken into account for the whole spending limits period.

	2020	2021	2022	2023
Cyclical expenditure	4.3	4.0	3.9	3.9
Compensation to municipalities for tax criteria changes	1.2	1.4	1.6	1.8
Expenditure corresponding to EU revenue	1.1	1.1	1.1	1.1
Expenditure corresponding to proceeds from profits on gambling activities	1.0	1.0	1.0	1.0
Interest expenditure	1.1	1.2	1.3	1.5
Financial investment expenditure	0.3	0.3	0.3	0.3

	2020	2021	2022	2023
Technical pass-through items	0.3	0.3	0.3	0.4
VAT appropriations	1.2	1.5	1.6	1.6
Transfer to State Television and Radio Fund	0.5	0.5	0.5	0.5
Total	11.1	11.4	11.7	12.1

Price and cost-level adjustments and structural changes

Price- and cost-level adjustments will raise the overall level of expenditure within the 2020–2023 spending limits by approximately EUR 460 million compared with the spring 2018 General Government Fiscal Plan, taking into account the conversion into the 2020 price and cost level.

The 2020 price- and cost-level adjustment takes into account only statutory and agreement-based price adjustments. The price- and cost-level adjustments made to the spending limits expenditure level will be revised according to new economic forecasts in connection with the new General Government Fiscal Plan to be made after the parliamentary elections and the preparation of the 2020 budget proposal. For a more detailed description of price- and cost-level adjustments, see Appendix 2. No structural corrections according to timing changes, pass-through items etc. are made to the spending limits, because for the period 2020–2023 there is no government set spending limits level.

Table 6. Central government spending limits by administrative branch and estimate of expenditure outside the spending limits in 2020–2023, EUR million at 2020 prices and costs

	2020	2021	2022	2023
23. Prime Minister's Office	181	179	179	179
Estimate of expenditure outside spending limits	25	25	25	25
Total	206	204	204	203
24. Ministry for Foreign Affairs	1 000	1 029	1 060	1 087
Estimate of expenditure outside spending limits	153	154	154	154
Total	1 153	1 183	1 213	1 241
25. Ministry of Justice	873	886	886	899
Estimate of expenditure outside spending limits	46	46	46	46
Total	919	932	931	945
26. Ministry of the Interior	1 356	1 336	1 324	1 311
Estimate of expenditure outside spending limits	127	110	135	134
Total	1 484	1 446	1 459	1 445
27. Ministry of Defence	2 774	4 270	4 270	4 262
Estimate of expenditure outside spending limits	359	719	721	721
Total	3 133	4 990	4 991	4 982
28. Ministry of Finance	16 998	16 985	17 012	17 126
Estimate of expenditure outside spending limits	1 635	1 843	2 056	2 267
Total	18 633	18 828	19 067	19 393
29. Ministry of Education and Culture	5 945	5 923	5 905	5 886
Estimate of expenditure outside spending limits	579	571	570	570
Total	6 524	6 494	6 475	6 457
30. Ministry of Agriculture and Forestry	1 546	1 577	1 555	1 540
Estimate of expenditure outside spending limits	911	960	947	942
Total	2 457	2 536	2 503	2 482
31. Ministry of Transport and Communications	2 087	2 015	2 238	2 212
Estimate of expenditure outside spending limits	901	901	964	964
Total	2 987	2 917	3 202	3 176

	2020	2021	2022	2023
32. Ministry of Economic Affairs and Employment				
Estimate of expenditure outside spending limits	2 205	2 284	2 199	2 199
Total	2 690	2 743	2 628	2 628
33. Ministry of Social Affairs and Health				
Estimate of expenditure outside spending limits	9 575	9 627	9 665	9 721
Total	14 341	14 039	13 981	14 068
35. Ministry of the Environment				
Estimate of expenditure outside spending limits	181	172	155	155
Total	187	179	162	161
36. Interest on central government debt				
Estimate of expenditure outside spending limits	-	-	-	-
Total	1 114	1 163	1 281	1 473
Administrative branch spending limits, total¹⁾	44 853	46 417	46 582	46 716
Estimate of expenditure outside spending limits, total	11 117	11 377	11 661	12 090
Main titles, total	55 970	57 793	58 243	58 806

¹⁾Main titles 21 and 22 are included in the total.

5.3. Definitions of policy in budget finances 2020–2023

The expenditure level for 2020–2023 is based on current legislation and the effects of decisions made by Prime Minister Sipilä's Government on the expenditure level of future years. The spending limits decision has been prepared in such a way as to provide a reliable basis for the assessment of the next parliamentary term's expenditure in, for example, Government Programme negotiations. As a result, the spending limits decision includes some expenditure increases considered to be inevitable, which are aimed at ensuring appropriate conditions for budget finances for the next four years. There are increases of this kind in, for example, expenditure allocated to transport projects and certain operational expenditure.

Regional government, health and social services reform

Prime Minister Sipilä's Government prepared government proposals on regional government, health and social services reform by which responsibility for organising health and social services would have transferred on 1 January 2021 from municipalities and joint municipal authorities to 18 counties to be established mainly on the basis of the present regional division. The intention was also for the counties to take over other duties, such as rescue services and environmental health, regional development and Structural Funds activity as well as business development. Consideration of the government proposals on the regional government, health and social services reform was, however, halted in Parliament on 8 March 2019.

The previous General Government Fiscal Plan for 2019–2022 was prepared in accordance with the preparation timetable at the time in question, when the reform was expected to enter into force on 1 January 2020, and it took into account the financial transfers corresponding to the transfer of duties from the municipalities and joint municipal authorities as well as from various central government administrative branches to the counties' central government financing from 2020. This General Government Fiscal Plan for 2020–2023 is based on valid and adopted legislation and it does not include appropriation changes caused by the planned regional government, health and social services reform or financing for the preparation of the reform. As a result of the change, the level of central government expenditure and revenue will decrease by approximately EUR 13 billion compared with the previous

General Government Fiscal Plan, and the impact is close to neutral from the perspective of the balance of central government finances.

Consolidation of central government expenditure

Prime Minister Sipilä's Government implemented immediate consolidation measures to improve the state of general government finances. These measures were outlined in Annex 6 of the Government Programme. The consolidation measures also remain in the expenditure level for parliamentary term 2020–2023. The impact of the consolidation measures in terms of on-budget expenditure will not change significantly from 2019. The fixed-term index freezes will end in 2019.

In addition, Prime Minister Sipilä's Government decided on the so-called 'Public sector billion', which was linked to a productivity target of 0.5% set for digitalisation and increased productivity in central government activities and was included in the administrative branches' appropriations from 2020. A target of 0.3% applies to the administrative branches of the Ministry of Justice, the Ministry of the Interior and the Ministry of Defence and to the operating expenditure of the Customs. For more information about this and other savings affecting central government operating expenditure, see section 5.3.2.

Consolidation measures at the level of local government finances are discussed in section 6.2 and at the level of general government finances as a whole in section 8.1.

Fighter aircraft

An annual appropriation of EUR 1,500 million has been allocated in the spending limits decision for fighter aircraft procurement in 2021–2023. The total provision for the spending limits period is therefore EUR 4,500 million, the timing of which may change as the procurement details are finalised. Timing changes can be made on a neutral basis in terms of the spending limits. If fewer appropriations need to be allocated for fighter procurement in the spending limits period, the overall spending limits would be reduced by an amount corresponding to the difference. The substantial provision for fighter procurement would therefore not be available to increase other expenditure. It would be justifiable to incorporate this principle into the new spending limits decision.

Government Premises Plan 2025

The objective of premises solutions in line with the Government Premises Plan is to support the centralisation of government and ministry activities in the Government Palace and its direct vicinity. The intention is to carry out renovation and modernisation projects on government premises in the Government Palace block and neighbouring blocks during 2021–2026. Decisions on the implementation of projects in the next stage will be made during the next parliamentary term for the 2020 budget proposal and the General Government Fiscal Plan 2021–2024.

Veikkaus Oy's proceeds from gambling activities

Veikkaus Oy's proceeds from gambling activities, which are recognised as revenue in the State budget, are expected to be approximately EUR 1,070 million per year in the spending limits period, which is approximately EUR 15 million less than was estimated in the previous General Government Fiscal Plan. Revenue recognised in the budget from gambling activities is granted for general interest purposes in the administrative branches of the Ministry of Education and Culture, the Ministry of Agriculture and Forestry and the Ministry of Social Affairs and Health. A shift in the focus of gambling to digital channels and legislative changes related to gambling (mandatory identification) have contributed to the decline in the projected revenue.

5.3.1. Policy outlines for the administrative branches

Prime Minister's Office

The appropriations of the main title of the Prime Minister's Office will total EUR 206 million in 2020 and will decrease to approximately EUR 203 million by 2023.

The operating expenditure appropriations of the Prime Minister's Office will be EUR 122–123 million in the spending limits period. Operating expenditure includes a permanent annual additional appropriation of EUR 0.7 million for information security development and maintenance expenditure, EUR 2.23 million for other ICT expenditure and EUR 0.6 million for security equipment rentals in Senate Properties. Operating expenditure also includes an annual EUR 1.5 million addition for premises expenditure. In addition, additional funding in the spending limits period will be allocated to direct furnishing procurement for premises. The annual breakdown of the additional appropriation requirement will be assessed in more detail at a later date.

An additional appropriation of EUR 810,000 is allocated to the remuneration of ministers, their state secretaries and special advisers. The need for an increase has been estimated on the basis that the number of ministers, state secretaries and special advisers would continue to be in line with the level decided in the current government's mid-term policy review session (16 ministers, 4 state secretaries and 42 special advisers) in the upcoming parliamentary term.

The Prime Minister's Office will lead preparations for Finland's EU Presidency in 2019 and attend to the coordination matters related to its planning and implementation. A total of EUR 70 million has been reserved for the overall expenditure on the EU Presidency in 2017—2020, of which EUR 3 million is for 2020 needs.

An annual EUR 350,000 will be allocated to the Government's analysis, assessment and research activities in the spending limits period to promote piloting activity. Piloting will support knowledge-based decision-making and operational development both in administrative branch and cross-sectoral policy processes.

Finland's contribution to the European Centre of Excellence for Countering Hybrid Threats will be EUR 1.5 million euros from 2022.

Renovation projects for the Merikasarmi building and the Government banquet hall Smolna will be implemented in 2019–2021.

Ministry for Foreign Affairs

Appropriations in the main title of the Ministry for Foreign Affairs will average approximately EUR 1.2 billion per year in the spending limits period.

The objectives of Finland's foreign and security policy are strengthening Finland's international position, safeguarding Finland's independence and territorial integrity, improving the security and wellbeing of Finns and maintaining an effectively functioning society. Operational priorities, namely the Arctic region, safety and security in the Baltic Sea, reinforcing cooperation between Finland and Sweden, transatlantic cooperation and peace mediation are systematically taken into account in the Ministry's activities. The activities of the Foreign Service rely on a comprehensive network of diplomatic missions. As in the other administrative branches, Foreign Service operating expenditure is subject to an annual productivity saving of 0.5% related to the so-called 'Public sector billion' in the

spending limits period. This will also affect the activities of the diplomatic mission network. The role of the missions in export promotion will be strengthened in close cooperation with the Business Finland organisation. The services for citizens offered by the Foreign Service will be developed through the Consular Services Act, which is due to be reformed.

As a structural change, EUR 8 million per year, derived from balance sheet value, will be allocated to construction and repair projects for Foreign Service operating premises as well as renovation repairs of rental premises. The property mass is to be taken care of within this limit.

The longer-term goal of development cooperation is to increase development funding to 0.7% of GNI in line with UN objectives. The level of appropriations for actual development cooperation work will be approximately EUR 605 million in 2020 and EUR 695 million in 2023. In the spending limits period, the average level of development cooperation appropriations is expected to be approximately 0.41% of the GNI. A total of EUR 130 million in 2020–2023 is allocated to financial investment expenditure on development cooperation.

The appropriations for crisis management take into account the policy outlines of the Security and Defence Policy Report (2016), the National Strategy for Civilian Crisis Management (2014) and the Peace Mediation Action Programme (2011). Military crisis management appropriations will average approximately EUR 114 million per year in the spending limits period (total for the administrative branches of the Ministry for Foreign Affairs and the Ministry of Defence). The operations in which Finland is participating are taken into account in the appropriations. The civilian crisis management appropriations of EUR 15.5 million have been scaled to an annual level of at least 120 experts.

Peace mediation is an increasing priority of Finnish foreign policy. The aim is to develop and strengthen peace mediation as a key tool for advancing Finland's foreign and security policy interests. A sum of EUR 0.5 million is proposed for peace mediation in 2020–2023.

Baltic Sea, Barents and Arctic Region cooperation promotes Finland national objectives in the Baltic Sea, Barents and Arctic Region and strengthens Finland position as an Arctic player. In this activity, the areas of particular focus are multilateral cooperation in northern regional councils, Northern Dimension policy, and the implementation of the Government's Russia policy. The objective is also to promote the channelling of international funding to Finland for important projects. An annual appropriation of EUR 1.6 million is allocated for this purpose.

Ministry of Justice

The appropriations in the main title of the Ministry of Justice will grow during the spending limits period from EUR 919 million to EUR 945 million, mainly due to expenditure for the 2023 parliamentary elections, rental expenditure for Oulu's new court building and new prisons as well as an expected increase in the spending limits period of expenditure from the conversion into imprisonment of unpaid fines of those repeatedly found guilty of offences subject to a fine.

Due to the interior air problems of the Oulu court and police building, the current premises must be replaced with new premises. Premises for the area's courts of law, enforcement office and public prosecutor's office are planned for Oulu's new court building. An additional EUR 1.5 million will be allocated for rental expenditure on the new premises from 2022.

In the spending limits period, legal expenditure relating to asylum seekers is expected to be, on average, EUR 2 million higher in the administrative courts than previously estimated. The increase is mainly due

to the need to arrange more oral hearings in asylum cases and the potential in appeals for a number of different grounds of appeal to be presented.

Appropriations intended for the activities of national peace-making organisations and the Finnish League for Human Rights will be transferred from the administrative branch of the Ministry of Education and Culture to the administrative branch of the Ministry of Justice, to whose field of activity the work of the said organisations is more closely related.

Additional funding will be allocated in 2020–2021 for the renewal of the audio-visual equipment of the Sámi Cultural Centre Sajos. An appropriation of EUR 370,000 per year, fully covering expenditure, will be allocated to secure the activities of Sámi Giellagáldu (the Nordic Resource Centre for the Sámi languages) and the development of the Sámi language. This represents an increase on the previous spending limits of EUR 190,000 per year from 2020.

Annual additional funding of EUR 0.19 million and EUR 0.32 million from 2021 will be allocated to the Office of the Data Protection Ombudsman for new duties.

An appropriation of EUR 0.2 million in 2023 will be allocated to the Finnish National Election Study related to the parliamentary elections to be held in 2023.

Ministry of the Interior

The appropriation level of the main title of the Ministry of the Interior will be, on average, EUR 1.46 billion in the spending limits period. In 2020 the spending limits level will be EUR 1.48 billion and in 2023 EUR 1.44 billion.

The level of internal security is maintained at a good level in Finland. Finland's internal security is linked to the security situations of other EU Member States and neighbouring countries. In addition, international obligations set requirements for activities. The key themes in the spending limits period will be immigration, border security, cyber security, crime prevention and combating terrorism.

The appropriation for the Police will ensure that the number of police is maintained at the 2019 level. Additional funding will be allocated to rental expenditure on Police premises (EUR 1.5 million in 2020; EUR 3.0 million in 2021; EUR 4.5 million in 2022 and EUR 6.0 million in 2023). Due to the interior air problems of the Oulu court and police building, the current premises must be replaced with new premises. A sum of EUR 0.8 million per year will be allocated to the implementation of the Money Laundering Directive. In addition, in accordance with the 2019 Budget, an annual increase of EUR 2 million is allocated to safeguard the services of the Public Sector Security Network (TUVE).

The problem of sexual abuse of children and young people on the internet is widespread and growing as well as networked. Police personnel and equipment resources will be strengthened by EUR 1.9 million to combat sexual crime on the internet and to improve preventive work (so-called net police).

The field of activity of the Finnish Security Intelligence Service has changed and is changing rapidly. Through the new civilian intelligence legislation, the Finnish Security Intelligence Service is changing into a combined national security service and foreign intelligence service. An appropriation will be allocated in 2020–2021 for the introduction of technical infrastructure related to the civilian intelligence legislation. This appropriation will be used to provide IT and operational capacity to ensure that, in intelligence gathering in accordance with the new civilian intelligence legislation, proactive and relevant information can be acquired also in the digital environment. An annual EUR 0.8 million will be added in the spending limits period to essential premises and related expenditure of the Finnish Security

Intelligence Service. In addition, an annual EUR 2.02–2.43 million of additional funding will be allocated in the spending limits period for operating expenses and expenditure arising from a backup data centre.

Additional funding of EUR 3.35–3.85 million per year is allocated to ensuring the efficiency of EU external border traffic and growth of Helsinki-Vantaa and Rovaniemi air traffic. An annual additional appropriation of EUR 2.0 million for the recruitment of border guards is allocated for the implementation of EU statute amendments relating to border security. Additional funding of EUR 1–2 million per year is allocated to Border Guard premises expenditure.

An annual EUR 0.6 million per year is allocated to central government expenditure for rescue services for the development of training leading to a rescue services qualification, and EUR 0.5 million per year to increase training of emergency response centre duty personnel.

To the Emergency Response Centre Administration will be allocated an additional appropriation of EUR 5.2–5.4 million per year, of which EUR 3.5–3.7 million to maintenance expenditure for the emergency response centre system ERICA (at the spending limits stage centralised in one item) and the remaining EUR 1.75 million per year to increasing the number of emergency response centre duty personnel.

According to a forecast based on the prevailing development of the refugee situation and actions taken by different countries, the number of new asylum seekers arriving in Finland is expected to average approximately 4,000 per year in the spending limits period. In addition to applicants submitting their first application, reception expenditure takes into account reapplications, applications from those returned to Finland by virtue of the Dublin Convention and applications returned for handling from different courts of appeal, namely a total of approximately 7,000–8,000 annual applications, excluding potential EU internal transfers. Significant uncertainty factors are associated, however, with the estimation of asylum seeker numbers and the funding requirements, for example as EU level decisions are still in the drafting stage.

In the new EU fund period 2021–2027, internal security and migration funds may be subject to both structural and appropriation level changes. At this stage, as a cautious estimate, EUR 33.8 million is allocated to fund appropriations in 2022 and 2023.

Ministry of Defence

The appropriation level of the administrative branch of the Ministry of Defence will be EUR 3.1 billion in 2020 and it will rise to EUR 5.0 billion during the spending limits period. The increase is due to the planned funding of the Defence Forces' strategic performance capability projects.

Finland's defence is based on general conscription and the defence of the entire territory of the nation. In accordance with the Government Programme and the Government's Foreign and Security Policy Report (2016) and Defence Report (2017) based on it, Finland will pursue an active foreign policy, strengthen the national defence capability and deepen international security and defence policy cooperation. Finland will ensure a credible defence in all circumstances and develop it to meet the increased demands of the operating environment. Finland's security environment is still undergoing change and the change is expected to be of long duration.

Funding for operating expenditure has been increased by EUR 5–6 million per year to handle the new statutory duties required by the Military Intelligence Act and by approximately EUR 6 million to increase personnel numbers by approximately 100. Parliament has approved the Act on Voluntary

Defence, for whose appropriations additional funding has not been included in this General Government Fiscal Plan. Appropriation decisions on the restructuring of voluntary defence will be left to the next Government. The next Government should assess the need for additional funding.

In the spending limits period, sea and air defence strategic performance capability projects for the 2020s, launched in 2015, will be implemented. In these projects, the performance capability of the Navy's ageing combat vessel fleet and the Air Force's Hornet fleet will be replaced. The spending limits include expenditure for the Squadron 2020 project, at an annual level of EUR 192–194 million. The appropriations for 2021–2023 include the estimated spending limits provision of EUR 1.5 billion per year for the first three years of the HX fighter project. The total provision for the spending limits period is therefore EUR 4.5 billion, the timing of which may change as the procurement details are finalised. Timing changes can be made on a neutral basis in terms of the spending limits. If fewer appropriations need to be allocated for fighter procurement in the spending limits period, the overall spending limits would be reduced by an amount corresponding to the difference. The substantial provision for fighter procurement would therefore not be available to increase other expenditure. It would be justifiable to incorporate this principle into a new spending limits decision.

According to established practice, cost-level adjustments will be made annually to defence materiel procurement appropriations, defence force operating expenditure (excluding personnel expenditure) and military crisis management appropriations (excluding personnel expenditure).

Ministry of Finance

The total appropriations of the main title of the Ministry of Finance will rise from EUR 18.6 billion to EUR 19.4 billion in the spending limits period.

Ministry of Finance operating expenditure includes a general increase of EUR 0.4 million in the spending limits period to secure operations. Tax Administration operating expenditure includes an annual increase of EUR 1.5 million in the spending limits period for ICT and digitalisation projects essential for the ongoing development of basic operations. The operating expenditure of the Income Register includes a EUR 1.5 million increase for 2020 to connect the register to the National Data Exchange Layer. The operating expenditure of the Customs includes an annual increase of EUR 3.3 million in the spending limits period for the effects of the UK's departure from the EU (Brexit) on customs control as well as an annual increase of EUR 3 million from 2021 for the impact of a change in the VAT Directive on the Customs' activities.

The duties of the Population Register Centre, Local Register Offices and the Development and Steering Unit of the Local Register Offices, which operates under the Regional State Administrative Agency for Eastern Finland, will be merged into a new Digital and Population Data Services Agency (Finnish Digital Agency) from the beginning of 2020. The new agency's appropriation is EUR 50.2 million in 2020, falling to EUR 45.5 million at the end of the spending limits period. The agency's appropriation takes into account the deductions during the spending limits period of the additional appropriation (EUR 1.885 million) granted for the establishment costs of the new agency and agreed in connection with the 2019 Budget. In addition, the agency's appropriations will be reduced by the inclusion in the spending limits of the productivity gains agreed under productivity project in progress during the spending limits period. In the spending limits period, additional funding of EUR 0.3 million will be allocated to the agency for coordination of national digital support and EUR 0.2 million per year for information and guidance on digital security.

The appropriation of the Regional State Administrative Agencies will increase during the spending limits period from EUR 56.5 million to EUR 57.1 million. The appropriation includes a EUR 0.25

million annual increase for Accessibility Directive monitoring supervision duties. In accordance with the 2019 Budget, the appropriation will be increased by a total of EUR 0.86 million per year for steering and supervision of child welfare substitute care and for anti-money laundering supervision duties. Resources for monitoring services for the elderly and the disabled will be boosted by EUR 0.64 million per year and for monitoring early childhood education by EUR 0.25 million.

Additional appropriations required by the Income Register, among other things, will be allocated to the operating expenditure of the State Treasury. In addition, a general increase of EUR 1.3 million per year will be allocated to the State Treasury for the financing of duties previously transferred to the agency as well as EUR 1.5 million in 2020, increasing during the spending limits period to EUR 2.5 million in 2023, for the development of key systems relating to financial duties. A total of EUR 5.5 million in 2020–2022 will be allocated to the digitalisation of the State Treasury's compensation activities. The State Treasury's appropriation in 2020 will be EUR 28.1 million.

The appropriation level for pensions in the Ministry of Finance main title will be EUR 5.2 billion in 2020, increasing to EUR 5.3 billion during the spending limits period.

Contributions to the European Union will rise from EUR 2.2 billion to EUR 2.5 billion during the spending limits period. The 2020 appropriations include an increase of EUR 46 million due to technical adjustments to forecasts of the bases for VAT- and GNI-based own resources and traditional own resources, and also to a change in the timing of payments. The setting of the 2020 appropriation is also based on the assumption that the Brexit-related departure agreement negotiated between the EU27 and the UK will enter into force. The setting of the appropriations for 2021–2023 has also taken into account the Commission's proposal of 2 May 2018 for a multiannual financial framework for 2021–2027, including proposals regarding the own resources system. As a result, the appropriation for 2021 has been increased by EUR 97 million, the appropriation for 2022 by EUR 66 million and the appropriation for 2023 by EUR 133 million.

The spending limits decision takes into account the impact of the Government proposal (HE 320/2018) on the amendment of the Act on the Autonomy of Åland.

A supplementary appropriation of EUR 45 million for 2020 has been allocated to Åland in the spending limits decision for the creation of a fixed link in the municipality of Föglö between the islands of Degerö and Gripö and for the refurbishment and renewal of 11 existing bridges.

A political resolution on increasing the core capital of the International Bank for Reconstruction and Development and the International Finance Corporation has been made in the World Bank Development Committee, which requires, with respect to Finland's contribution, an annual appropriation increase of EUR 10 million in the spending limits period.

Expenditure up to a maximum of EUR 265 million per year in 2020–2023 may arise for Senate Properties investments

Support for municipalities

Prime Minister Sipilä's Government prepared government proposals on regional government, health and social services reform by which responsibility for organising health and social services would have transferred on 1 January 2021 from municipalities and joint municipal authorities to 18 counties to be established mainly on the basis of the present regional division. The intention was also for the counties to take over other duties, such as rescue services and environmental health, regional development and Structural Funds activity as well as business development. Consideration of the government proposals

on the regional government, health and social services reform was, however, halted in Parliament on 8 March 2019.

Approximately EUR 9.5 billion is allocated in 2020 to the central government transfer to local government for basic public services. The central government transfer will be increased by such factors as the adjustment of the division of costs between central government and the municipalities (EUR 101 million), the ending of the reduction in the central government transfer related to the cutting of holiday bonuses (EUR 267 million), compensation for the reduction in the central government transfer associated with the Competitiveness Pact (EUR 237 million), an index adjustment (EUR 187 million) and an increase in compensation for tax revenue losses (EUR 215 million). Compared to 2019, savings obtained from more efficient regional organisation of specialised medical care and development of informal and family care will reduce the central government transfers to local government by a total of EUR 32 million and the municipalities' costs by EUR 130 million in 2020. The reform of student healthcare for university students will enter into force in 2021. In the future, the Social Insurance Institution of Finland (Kela) will organise services and the arrange services and the Finnish Student Health Service will act as the provider. In connection with the reform, the services currently intended for students at science and arts universities will also be available to students at universities of applied sciences. The reform will reduce the municipalities' healthcare costs. For this reason, the central government transfer to local government for basic public services will be reduced by a total of EUR 32 million from 2021.

An amendment approved by Parliament to the Child Welfare Act raising the upper age limit for after-care from 21 to 25 years of age will increase central government transfers to local government for basic public services by EUR 12 million in 2020, EUR 24 million in 2021, EUR 36 million in 2022 and EUR 48 million in 2023. Studying of the first foreign language, i.e. A1 language, will be brought forward to begin in the spring of the first year of basic education. The earlier start to language learning will apply to all first grade pupils from 1 January 2020. The reform will increase central government transfers to local government for basic public services by EUR 7.5 million in 2020 and by EUR 12 million from 2021. Under the Act on Central Government Transfers to Local Government, the central government transfer rate for expanding duties subject to the transfer system is 100%.

EUR 10 million was already transferred from the item central government transfer to local government for basic public services to discretionary assistance for mergers of municipalities in crisis under previous General Government Fiscal Plans. A legal amendment relating to the matter has been made to the Act on Central Government Transfers to Local Government (1704/2009).

EUR 40 million per year in 2020–2023 will be allocated to the incentive scheme for digitalisation in municipalities. The incentive scheme is funded by a transfer from the central government transfer to local government for basic public services. The incentive scheme will be built up in stages from 2019. In the first stage, the intention is to target assistance particularly at digitalisation of the municipalities' HR and financial administration and the use of robotic process automation for this purpose. No feasible solution has been found for incentive schemes aimed at curbing growth in municipalities' operating expenditure and enhancing efficiency of premises, and the transfers made for them in the previous General Government Fiscal Plan will be returned to the central government transfer to local government for basic public services.

Ministry of Education and Culture

The appropriation level of the main title of the Ministry of Education and Culture will average EUR 6.5 billion during the spending limits period.

Conditions for organising Sámi language early childhood education will be improved by EUR 0.12 million in additional funding in 2020–2023. EUR 0.49 million per year will be allocated to the National Board of Education for maintenance and development costs of the data warehouse for early childhood education (Varda). Studying of the first foreign language, i.e. A1 language, will be brought forward to begin in the spring of the first year of basic education from 2020.

The implementation of the reform of general upper secondary education will be continued. The goal of the reform is to enhance the attractiveness of general upper secondary education as a general form of education providing eligibility for further studies in higher education as well as to improve education quality and learning outcomes. Support and guidance provided for general upper secondary school students will be improved, cooperation with higher education institutions and working life will be increased, and internationalisation will be promoted. In accordance with the previous spending limits decision, EUR 0.75 million will be allocated in 2020 for expenditure arising from the increase in the number of times students may repeat matriculation examination tests, and EUR 4 million will be allocated for the implementation of the reform of general upper secondary school education in 2021 and EUR 8.53 million from 2022 onwards, including additional costs arising from the number of times students may repeat matriculation examination tests.

The implementation of the reform of vocational education and training, which entered into force at the beginning of 2018, will be continued in accordance with earlier decisions.

It has been decided previously to make a general increase of EUR 25 million to the Academy of Finland's grant authorisation, the payment impacts of which will be EUR 8 million in 2020, EUR 14 million in 2021, EUR 20 million in 2022 and EUR 24.25 million in 2023. EUR 5 million per year will be allocated to R&D&I activities of universities of applied sciences.

Finland has made preparations to host one supercomputer of European High-Performance Computing Joint Undertaking (EuroHPC). With a total cost of approximately EUR 240 million, Finland's financial contribution to the project would be at most a total of EUR 50 million in 2019–2026. When the hosting application was decided on, it was decided that half of it would be funded in the administrative branch of the Ministry of Education and Culture as a transfer from Academy of Finland authorisations and half from the administrative branch of the Ministry of Economic Affairs and Employment.

The extensive utilisation and openness of research materials, research results and expertise will be promoted. A programme to develop data-driven research will be implemented. EUR 1.5 million per year will be allocated in 2020–2023 to the digitisation of documents in order to avoid new paper archive facilities.

Financial aid for students will be used to enable equal conditions for studying, and systematic and full-time studies as well as shortening of the duration of studying will be promoted.

In accordance with previous decisions, a new funding system for museums will be implemented. In addition, a new funding system for the performing arts will be prepared and its implementation initiated.

Proceeds from gambling activities allocated to the promotion of sport and physical education are expected to decline in the spending limits period compared with the previous spending limits and to amount to approximately EUR 10.8 million in 2020 and EUR 16.2 million per year in 2021–2023.

Funding will be provided for the basic and continuing education of teachers necessitated by the asylum seeker situation and for the development of services for identifying and recognising competence.

Cultural, physical activity and youth work measures will also be used to support immigrants' mental wellbeing, functional capacity, togetherness and integration.

Ministry of Agriculture and Forestry

Annual appropriations of the main title of the Ministry of Agriculture and Forestry will total approximately EUR 2.5 billion in the spending limits period. The level of appropriations in the spending limits period will decrease on average by approximately EUR 128 million from the level of the 2019 Budget.

Funding under the Rural Development Programme for Mainland Finland 2014–2020 is included in the spending limits as required by the progress of the programme. No decisions have yet been made on the level of EU funding or national funding for the new EU financial and programming period that begins in 2021, as a result of which, in the programme items, the appropriation levels for 2021–2023 have been estimated as being similar to the first three years of the current programming period. Appropriation levels for subsidies fully funded by the EU and for national aid to agriculture and horticulture have been maintained at the 2020 level for the whole spending limits period.

Agricultural investments are funded both from the Development Fund for Agriculture and Forestry (Makera) and budget appropriations. The funds available to Makera will decrease during the spending limits period. The spending limits decision includes a transfer to Makera of EUR 60 million in 2020, which will ensure that the level of structural aid grants payable from Makera is maintained in 2020 and 2021. For 2022 and 2023, the financial package for agricultural investments will depend on the policy lines taken for 2021–2027 in connection with the financial preparation of the CAP plan for the next aid programme period of the EU's Common Agricultural Policy.

In the policy sector of land survey and information resources, development projects relating to the Spatial Data Service Platform and the Housing Share Register will continue in the spending limits period.

Ministry of Transport and Communications

Appropriations in the main title of the Ministry of Transport and Communications will increase during the spending limits period from EUR 3.0 billion to EUR 3.2 billion, due mainly to an increase in appropriations allocated to basic transport infrastructure maintenance and development projects. The spending limits have been prepared in accordance with a new structure, for example by arranging items into new entities and by combining grant items.

The administrative branch of the Ministry of Transport and Communications serves society by facilitating an operating environment for new digital services. New services and earnings logic, transport automation and changing customer needs require new kinds of flexible online services.

In infrastructure maintenance, priority will be given to measures ensuring the daily functioning of the transport network as well as halting the growth of the repair debt. Maintenance and development of the transport network will be enhanced by, among other things, better utilisation of information, using new methods of surveying the condition of the network, and the full introduction of information modelling. Planning practices will be developed to take into account the impacts of digitalisation and automation on the transport system and traffic volumes of the future.

The appropriation for basic transport infrastructure maintenance in the spending limits period will be EUR 1.0 billion in 2020–2021 and EUR 1.3 billion in 2022–2023. The funding takes into account the

halting of growth in the repair debt and reducing the repair debt on the main transport infrastructure network.

The level of the appropriations (items 31.10.77, 31.10.78 and 31.10.79) to be used for transport network investments during the spending limits period has been set overall at EUR 480 million per year, which corresponds to the average level of appropriations granted in 2008–2019. The spending limits allow room for manoeuvre to set up as yet untitled projects with EUR 118 million in 2020, EUR 238 million in 2021, EUR 354 million in 2022 and EUR 360 million in 2023.

It is expected that the first 12-year transport system plan will be decided on in the next parliamentary term. At the beginning of each parliamentary term, the transport system plan will be revised and reconciled with the General Government Fiscal Plan and, if necessary, updated when the General Government Fiscal Plan changes.

In accordance with previous decisions, to support the implementation of the objectives of the Energy and Climate Strategy, EUR 6 million will be allocated in 2020–2021 to support purchases of electric cars as well as purchases and conversions of gas and ethanol vehicles. In addition, procurement of contract traffic and/or traffic subject to the public service obligation in rail transport will be supported with EUR 2 million, and EUR 3.5 million will be allocated to developing the digitalisation of public transport in large urban areas in 2020–2021.

In accordance with the 2018 and 2019 Budgets, EUR 3.5 million per year will be allocated in the spending limits period to promote cycling and walking. The appropriation will be used for discretionary government transfers to municipalities that implement transport network construction projects that realise the walking and cycling promotion programme.

Approximately EUR 1 million per year will be allocated to funding the weather radar network of the Finnish Meteorological Institute.

The index-adjusted transfer to the State Television and Radio Fund will be EUR 533 million per year.

Ministry of Economic Affairs and Employment

The overall level of appropriations in the main title of the Ministry of Economic Affairs and Employment will increase by just over EUR 700 million compared with the previous spending limits decision to just under EUR 2.7 billion in 2020. The increase is due, in particular, to the transfer of appropriations back to the Ministry's main title due to the halting of the regional government, health and social services reform. The appropriations of the main title at the end of the spending limits period will be just over EUR 2.6 billion, EUR 62 million less than at the beginning of the spending limits period.

A general increase of EUR 21 million has been made to the valued-added tax of the administrative branch, which arises mainly from growth in value-added tax expenditure due to Business Finland's new operating model.

Business and innovation policy appropriations will decrease during the spending limits period from EUR 781 million to EUR 755 million. A general increase of EUR 69 million, previously decided, will be made to Business Finland's grant authorisation, which will enhance Business Finland's opportunities to support, in particular, applied research undertaken as a collaborative effort of companies' and other parties' research organisations. The annual grant authorisation is EUR 300 million. Additional

expenditure arising from the increase in the authorisation will be EUR 41.8 million in 2020, EUR 61.1 million in 2021, EUR 67.1 million in 2022 and EUR 69.1 million in 2023.

A general increase of EUR 8 million, previously decided, will be made to Business Finland's operating expenditure to promote internationalisation, exports and investment, and a general increase of EUR 7 million to VTT Technical Research Centre of Finland Ltd's discretionary government transfer to strengthen strategic research.

In accordance with the R&D&I activities of the administrative branch of the Ministry of Economic Affairs and Employment and as far as is possible, a maximum of EUR 25 million of EU Structural Fund financing has been reserved to the acquisition of a super computer of the European High-Performance Computing Joint Undertaking (EuroHPC), as outlined in connection with the hosting application.

The interest and other subsidies for export and ship credits receiving public support will decrease by EUR 22.1 million in 2020, EUR 38.7 million in 2021, EUR 35 million in 2022 and EUR 29.3 million in 2023 compared to the previous spending limits decision. The decrease is due to lower estimates of the take-up of fixed-rate credits.

Expenditure associated with the refinancing credits granted earlier by Suomen Vientiluotto Oy will be removed from the State budget due to a premature repayment executed in autumn 2018. The reduction compared with the previous spending limits decision is EUR 55.3 million in 2020, EUR 46 million in 2021 and EUR 27 million in 2022–2023. In connection with the arrangement, a new item 'total return swap and hedging expenditure' has been added to the main title. For this item, EUR 2.2 million is allocated in 2020, EUR 0.9 million in 2021, EUR 0.2 million in 2022 and EUR 0.02 million in 2023.

A total of EUR 143 million has been transferred in 2017–2020 from public employment and business services to the main title of the Ministry of Social Affairs and Health. During this period, central government appropriations allocated to unemployment benefits can also be used to fund the wage subsidy and the start-up grant for unemployed job seekers. After the expiry of the legislation, enacted for a fixed period, the appropriations will be restored to the public employment and business services item in 2021. The next Government should assess the need to extend the validity of the legislation in the context of government negotiations.

EUR 0.4 million in 2020, EUR 2 million in 2021 and EUR 5 million in 2022–2023 is allocated to a new item for the production charge of the social impact bond project (SIB) related to employment of immigrants established in 2016. In addition, EUR 0.5 million in 2020, EUR 2.5 million in 2021, EUR 5.7 million in 2022 and EUR 9 million in 2023 has been allocated to the item for the payment of an social impact bond for improving employment to be launched in 2019. A total of EUR 10 million of the expenses will be financed with a transfer from public employment and business services.

The Finnish Competition and Consumer Authority's operating expenditure will be increased by EUR 900,000 to enhance competition enforcement. Most of the increase will be a transfer from within the administrative branch.

In 2020, the EU Structural Funds authorisation is not available, because the authorisation was brought forward in the 2019 Budget for use in 2019 to accelerate the closure of the Structural Fund period and streamline the proposed transfer of duties in the regional government reform. As negotiations on the EU multiannual financial framework are still in progress, EUR 352 million from 2021 has been assumed in this spending limits decision for the EU Structural Funds annual funding authorisation, which is close to the average funding level of the current EU financial framework period.

Energy policy appropriations will decrease in the spending limits period from EUR 441 million to EUR 389 million, mainly due to the fact that compensation for the indirect costs of emissions trading will end in 2021. The energy subsidy authorisation will be EUR 80 million in 2020, EUR 100 million in 2021, EUR 95 million in 2022 and EUR 35 million in 2023, of which EUR 40 million in 2020 and EUR 60 million in 2021 and 2022 has been allocated to support demo projects for transport biofuels.

EUR 201 million in 2020, EUR 189 million in 2021, EUR 184 million in 2022 and EUR 180 million in 2023 will be allocated to central government compensation for integration. The appropriation level is based on an estimate of the number of asylum seekers receiving resident permits as well as costs for the long-term care of minors unaccompanied by a parent or guardian.

Ministry of Social Affairs and Health

The appropriation level of the administrative branch of the Ministry of Social Affairs and Health will fall during the spending limits period from EUR 14.3 billion to EUR 14.1 billion. In addition to amendments to legislation, the appropriation level is affected by cyclical factors, such as changes in the unemployment rate and demographic structure.

The implementation of the Healthcare Growth Strategy will be supported by securing the development in the spending limits period of national centres of excellence (National Genome Centre, National Comprehensive Cancer Centre, Neuro Centre, National Pharmaceutical Development Centre and biobank activities). A total funding of EUR 11 million has been allocated to the centres of excellence in 2020–2022.

A total of EUR 6.9 million will be allocated in the spending limits period to resources for the start-up stage of the activities of the new licensing authority, which will administer the use of healthcare and social welfare data. This represents an increase of EUR 5.7 million compared with the previous spending limits decision. In addition, the establishment of the authority will be supported with a total of EUR 4 million in one-off investments in 2020 and 2021.

To safeguard the basic funding of social welfare sector centres of expertise, their appropriation will be increased by EUR 0.25 million from 2020. An additional appropriation of EUR 0.4 million is allocated to the Social Security Appeal Board (SAMU) to ensure that processing times for appeal remain reasonable.

A general increase of EUR 1.6 million will be made in the operational expenditure of prisoner health care due to growth in costs.

Monitoring resources in services for the elderly and disabled people will be strengthened. In connection with this, an annual additional appropriation totalling EUR 0.32 million will be allocated to the Ministry of Social Affairs and Health and the National Supervisory Authority for Welfare and Health (Valvira). In addition, an increase of EUR 0.16 million has been made to Valvira's appropriation level for additional costs arising from new duties.

EUR 0.1 million will be allocated to central government reimbursement of the costs of mediation in criminal cases to safeguard the permanent increase in mediation fees implemented in the 2019 Budget.

The activities of the Finnish Student Health Service will be expanded to cover students of the universities of applied sciences from 2021. A central government funding contribution of EUR 65.8 million will be allocated to funding these activities, of which EUR 9.5 million is an additional cost. At the same time,

as the municipalities' healthcare costs will fall, central government transfers to local government for basic public services will be reduced by a total of EUR 32 million.

Approximately EUR 29 million per year will be allocated in 2020 and 2021 to funding of the Helicopter Medical Emergency Service. The appropriation will be increased by EUR 8.8 million from 2022, when flight activities expand as the number of bases rises from six to eight.

EUR 435 million will be allocated to the operating costs of the Social Insurance Institution of Finland (Kela) for 2020. In addition, a general increase of EUR 4 million has been allocated to the item for 2020 and 2021. The purpose of the addition is to ensure sufficient funding and flexibility. Operating costs have grown sharply, due to, among other things, new duties transferred to Kela and amendments to benefits legislation.

The impact of legislative reforms decided on in connection with the 2019 budget have been taken into account for the spending limits period. These include a rehabilitation allowance payable to young people for the entire period of the rehabilitation decision, the removal of the 55-day qualifying period for the sickness allowance, and the extension of the pension subsidy for the long-term unemployed, namely Lex Lindström II.

The level of the front-line veterans' rehabilitation appropriation has been set such that the level of the annual appropriation available for rehabilitation secures for veterans the provision of services to the elderly. Due to a reduction in the number of veterans, the appropriation requirement will fall from EUR 215.5 million at the beginning of the spending limits period to EUR 130.4 million at the end of the spending limits period. The appropriations take into account a reform that enters into force of 1 November 2019 whereby all war veterans will receive the same services provided at home as disabled war veterans.

A general increase of EUR 6 million will be made in 2020 to central government reimbursement of the funding of university-level health research paid to health care units, which will increase the appropriation level to EUR 21 million per year.

To investigate and prevent sexual crimes against children, support for the introduction of the Children's Advocacy Centre operating model will be continued with grants, first for those university hospitals where it has not yet been adopted, and thereafter for other hospital districts. EUR 1.6 million will be allocated in 2020, and EUR 2.8 million from 2021, to grants for the introduction of the Children's Advocacy Centre operating model.

A general increase of EUR 2 million will be made to the appropriation for developing the national immunisation programme.

Funding for shelters for victims of domestic violence will be increased by EUR 2 million from 2020 to improve the geographical coverage of the shelter network, which will increase the item appropriation to EUR 21.6 million.

For more information on basic public services organised by the municipalities and their funding as a whole, see Chapter 6 Local government finances.

Ministry of the Environment

The overall level of the appropriations of the main title of the Ministry of the Environment will decrease during the spending limits period from EUR 187.0 million to EUR 161.3 million. The reduction of the

appropriations during the spending limits period is due to the implementation of a fixed-term waterways protection enhancement programme scheduled for the early years of the spending limits period as well as the ending of appropriations related to the Climate and Energy Strategy in 2021. The administrative branch of the Ministry of the Environment also includes the National Housing Fund and the Oil Protection Fund, which are funds outside the State budget and the spending limits.

During the spending limits period, the emphasis will be on the bioeconomy and the circular economy as well as measures to achieve climate targets, wide-ranging cooperation to improve the state of the Baltic Sea, and safeguarding the level of nature conservation.

An effort will be made to increase housing construction, with the objective of meeting demand for housing. Public utility grants (EUR 15 million per year) related to land use, housing and transport (MAL) agreements and start-up grants for affordable housing construction (EUR 20 million per year) are scheduled to expire at the end of 2019. Investment grants for special groups amounting to EUR 130 million per year in 2020–2023 will be provided by the National Housing Fund to support the improvement of housing supply for the most vulnerable groups. Older people's ability to live at home and the retrofitting of lifts will be supported in the spending limits period with repair grants, to which EUR 20.5 million per year will be allocated. A three-year project to mitigate residents' financial problems in rental housing will be funded by EUR 1 million in 2020.

Appropriations will be directed to measures promoting the bioeconomy and the circular economy and to the development and implementation of the climate and energy policy. A total of EUR 2.6 million will be allocated in 2020–2021 to enhancing climate policy, which includes municipalities' climate work and the Climate Panel. In the protection of the Baltic Sea and inland waters, the implementation of the waterways and marine management action programmes as well as the nutrient recycling programme will be continued and resources again directed at reducing loading of nutrients and harmful substances and protecting groundwaters. The waterways protection enhancement programme, launched in 2019, will be continued and a total of EUR 30 million will be allocated to its implementation in 2020–2021. EUR 21.6 million is earmarked for nature reserve acquisition and compensation expenditure. Of this, an estimated EUR 15 million per year will be allocated to the implementation of the Forest Biodiversity Programme for Southern Finland (METSU). The recreational use of nature and nature tourism, which has a positive impact on employment and local economies, will be promoted through good management of national parks and other nature reserves that attract high numbers of visitors. An annual appropriation of EUR 0.5 million will be allocated to the real estate formation and boundary marking of nature reserves. Moreover, additional funding of EUR 0.5 million per year throughout the spending limits period will be directed to improving the state of nature reserves, restoration and area management. An additional appropriation of EUR 1 million per year will be allocated to maintenance of routes and service provision for recreational and tourism use. The funding level for Metsähallitus' public administrative duties will vary between EUR 31 million and EUR 32 million during the spending limits period. In keeping with the Government's Strategy for the Conservation and Sustainable Use of Biodiversity in Finland, the management of endangered habitats, including heritage biotopes, is promoted, and additional funding of EUR 0.2 million a year was earmarked in the previous spending limits to produce inventories of heritage biotopes in 2020–2021. In addition, EUR 2 million per year in 2020–2021 will be allocated to promoting wood construction. Approximately EUR 0.2 million has been earmarked for maintenance costs of the waste and side-stream data platform (an electronic marketplace) in 2020–2022, after which it is expected that operating costs will be covered by fees.

For organisations that own residential buildings, EUR 1.5 million is earmarked yearly in 2020–2021 for constructing infrastructure for charging electric cars. The clean-up of contaminated soils will be promoted in accordance with the National Risk Management Strategy for Contaminated Land and the

related remediation programme. Water management will be developed in accordance with National Waste Plan and the reformed waste legislation will be implemented more efficiently.

5.3.2. Central government joint information system projects and administration

Key information system projects

In the spending limits, approximately EUR 35 million has been allocated annually in 2020–2023 for key information system and information management projects as well as other productivity projects in the administrative branches.

The key information system projects under way include the Ministry of Agriculture and Forestry's digital forest management recommendations, the renewal of the Natural Resources Institute's forest calculation software, the updating of the National Institution for Health and Welfare's prisoners healthcare patient system, the modernisation of the Finnish Medicines Agency's health technology and gene technology registers, the renewal of Valvira's alcohol trade register, the Ministry for Foreign Affairs national visa information system, central government's digital desktop and common case management system, the Finnish Immigration Service's smart digital agency, the Police's multi-biometric identification system, the complete modernisation of customs clearance systems, the Legal Register Centre's information system for the authorities, the ERP and document management system of administrative and special courts of law, the Prosecution Service and general courts of law as well as the upgrading of the Population Register Centre's population information system.

The proposed funding will only be incorporated into annual budgets provided that the project plans are sufficiently detailed with respect to project feasibility as well as costs arising and costs saved and that, in significant information system projects, the Ministry of Finance expresses an opinion supporting the advance of the project as required under the Act on Information Management Governance in Public Administration (634/2011) and the Government Decree (1249/2014). The Ministry of Finance will conclude a cooperation agreement with respect to projects receiving funding with each relevant ministry.

The Government's aim is to strengthen the use of electronic services as the primary service channel. The Population Register Centre's role as an agency promoting digitalisation will be strengthened, and tasks related to providing support services to organisations for developing digitalisation and information management will be centralised to this agency.

The Government also aims to strengthen use of electronic services in transactions and communications between citizens and the public sector. To support the achievement of this goal, an annual appropriation of EUR 5 million up to 2023 has been earmarked under a new variable annual appropriation item for centrally paid identification service fees.

Financial and HR administration

The productivity of central government financial and HR administration will be improved by continuing the voluntary centralisation of tasks in the Government Shared Services Centre for Finance and HR (Palkeet Centre) and by developing operating practices and central government's shared financial and HR administration information system. Ministries, agencies and institutions will continue the implementation of changes supporting the productivity development of financial and HR services as well as increasing the use of the services provided by Palkeet Centre.

Financial and HR administration operating practices will be enhanced by taking into use new services and by automating existing Palkeet Centre services. Development and automation of production processes will be continued by, among other things, expanding the use of robotic process automation.

The benefits of the Handi solution, which has been introduced in all central government agencies and institutions, will be realised by enhancing the ordering and invoicing process. The Ministry of Finance and Palkeet Centre will cooperate in developing the central government HR administration in an HR functions development project. The aim of the project is to boost the efficiency of HR functions by 304 person-years by 2029 (GGFP aim). Palkeet Centre will further develop the accessibility and functionality of the Kieku information system, which will be updated in accordance with the system architecture development plan prepared in 2019.

Developing central government procurement

Led by the Ministry of Finance in cooperation with the key procurement organisations and Hansel Ltd, development of central government procurement will continue. Innovations and their roll-out will be supported with public procurement. Procurement units' capabilities for taking the innovation perspective into account will be improved, and innovations will be supported in procurement activity development and joint purchases.

Central government premises investments

In central government premises, the objective is zero tolerance of indoor air problems. This goal requires the standard of renovations in state-owned properties to be raised. Provision is made for this in Senate Properties' investment framework in this General Government Fiscal Plan period. The maximum level of the investment framework is EUR 265 million per year in 2020–2023. In the context of the Public sector billion, the current programme aimed at improving the efficiency of central government premises use will be continued from 2023 to the end of 2029, with the aim of achieving additional savings of EUR 50 million.

Impacts of the Public sector billion on central government operating expenditure

In connection with the General Government Fiscal Plan 2018–2021, Prime Minister Sipilä's Government decided that the cutting of local government costs by EUR 1 billion decided on in the Government Programme would be extended to apply to the entire public sector. Through digitalisation of central government activities and improved productivity, all operating costs of the central government will be reduced by 0.5% annually from 2020. This figure will be based on each administrative branch's operating expenditure, from which expenditure on premises would be deducted. A target of 0.3% applies to the administrative branches of the Ministry of Justice, the Ministry of the Interior and the Ministry of Defence and the operating expenditure of the Customs. The reduction in central government operating expenditure will increase from EUR 18 million in 2020 to EUR 73 million in 2023. For each EUR 6 million of savings, EUR 1 million will be added to the productivity promotion item.

In order to support and ensure the digitalisation of central government activities and genuine improvements in productivity, an analysis of productivity and digitalisation potential covering all administrative branches, their duties and their organisations will be conducted by 2021.

Change in the structure of central government pension contributions

The central government pension system's contribution system was reformed from the beginning of 2019, with the pension contribution being made up of a pension contribution common to all employers and an employer-specific disability pension contribution percentage. The level of the pension contribution corresponds to the average contribution level of the TyEL (Employee Pension Act) system. Based on the new contribution structure, in the 2019 budget the operational expenditure appropriations of the Border Guard and the Defence Forces were reduced by a total of EUR 39 million, as pension contributions for military personnel will fall significantly as a result of the reform. The appropriations

of other agencies were increased by a total of approximately EUR 8 million. In this spending limits decision, the corresponding changes are made to the appropriations of the spending limits years.

Certain technical adjustments relating to the Competitiveness Pact

Savings resulting from the Competitiveness Pact and subsequent adjustments made to them based on changes in wage and labour costs were included in the spending limits decision for 2019–2022. In the preparation of the 2019 Budget, these amounts were adjusted in terms of a reduction of the employer’s pension contribution and health insurance contribution. Corresponding spending limits adjustments, which increase agencies’ operating expenditure items by a total of approximately EUR 0.1 million, will be made for 2020–2023. The impact on appropriations of the central government collective agreement for 2018–2020 has already been taken into account in the previous spending limits decision.

5.4. On-budget revenue

Actual on-budget revenue is expected to grow in the spending limits period by an average 2.1% per year. Tax revenue is expected to grow by an average of around 2.6% per year. Tax revenue accounts for approximately 87% of actual on-budget revenue. In 2023, on-budget revenue is expected to be EUR 58.4 billion.

Central government on-budget revenue estimates are based on an estimate, updated in March 2019, of the medium-term development of the economy. Positive economic development is expected to continue in the spending limits period, albeit slowing down towards the end of the period. The revenue estimates of the spending limits period have taken into account the tax criteria changes decided in the Government Programme and during the parliamentary term.

Tax criteria changes

Most of the tax policy measures in Prime Minister Sipilä’s Government Programme have already been implemented in 2016–2018, but the impact of some measures will continue to be realised in the early part of the spending limits period. In the spending limits period, the basic tax component of motor vehicle tax will be reduced from the beginning of 2020. Value-added tax on electronic magazines and books will be reduced from the 24% standard rate to the lower 10% rate during 2019. In addition, an index adjustment of earned income taxation is included in forecasts for the spending limits period as a technical assumption.

The table below presents an estimate of the impact of tax criteria changes on central government tax revenue. In accordance with the Government Programme, the municipalities will be compensated for the tax revenue impact of changes made by the Government to tax criteria in the current parliamentary term.

Table 7. Annual impact on central government tax revenue of the main tax criteria changes, EUR million

	2020	2021	2022	2023
Index adjustment of earned income taxation	-297	-279	-270	-270
Expiry of solidarity tax	-100			
Reduction of the motor vehicle tax	-50			
Removal of distinction between sources of corporate income	-11			
Change to regulation on reduction of mortgage interest deductibility	4			

	2020	2021	2022	2023
Electronic magazines and books and single copy sales of magazines to reduced 10% VAT rate	-28			

Development of tax revenue in 2019–2023

The **earned and capital income** tax base is expected to grow in the spending limits by an average of approximately 3.1% per year. Tax base growth is expected to slow slightly towards the end of the spending limits period. Earned income is expected to grow by an average of around 3.2% and capital income by 2.8%. Pension income will grow more quickly than wage income as the number of those of pensionable age grows and the pension system matures. Tax revenue forecasts include, as a technical assumption, the index adjustment of earned income taxation, so that taxation of labour does not increase in the spending limits period due to a general rise in earnings or inflation.

Corporate tax revenue as a whole is expected to increase in the spending limits period by an average of around 3.7% per year, corresponding to the growth of the operating surplus according to national accounts. Corporate tax revenue remitted to central government is expected to increase on average by 3.4% per year. The change concerning the removal of the distinction between different sources of corporate income, which enters into force in 2020, is expected to reduce corporate tax revenue on an annual basis by approximately EUR 11 million. The change in the regulation concerning reduction of mortgage interest deductibility, which entered into force in 2019, is still expected to increase corporate tax receipts by approximately EUR 4 million in 2020. The impact of the amendment based on the Directive on the taxation of cross-border hybrid schemes, which will come into force in 2020, is estimated at this stage to be limited.

The **value-added tax** base is projected to grow in the spending limits period on average by around 3.2% per year. This forecast is mainly based on estimates of growth in household consumption expenditure. Value-added tax revenue is projected to grow in the spending limits period in line with the tax base. Tax revenue will be reduced slightly by a reduction in the tax rate for electronic books and magazines and for single-copy sales from the standard rate to a 10% rate from July 2019 and the opportunity for artists to apply to become liable to VAT liable from April 2019.

Revenue from **excise duties** is projected to decrease by an average of around 0.7% per year in the spending limits period. In the spending limits period, revenue from excise duties will be reduced, in particular, by lower energy tax revenue, as a result of a fall in duty-paid fuel consumption and growing use of more lightly taxed biofuels through the biofuels distribution obligation.

Car tax revenue is projected to fall by an average of around 2.9% per year. This due to an expected reduction in vehicles' carbon dioxide emissions during the spending limits period. The amount of car tax to be paid depends on the general retail sales value of a car in the Finnish market as well as on the car's carbon dioxide emissions, so reducing emissions lowers the tax percentage of new cars. The number of new passenger cars sold is projected to grow during the spending limits period by approximately 5,000 cars to 123,000 cars, which is slightly higher than the long-term average level.

Motor vehicle tax revenue is expected to fall by an average of 0.3% per year. The decline in revenue is due to a tax reduction that will be applied for tax days beyond the start of 2020. The tax reduction will cut motor vehicle tax revenue by approximately EUR 50 million.

Other on-budget revenue

Miscellaneous revenue is projected to grow in the spending limits period by an average of 0.9% per year. This increase is explained by the development of transfers made from the State Pension Fund

related to pension expenditure in the budget. According to long-term practice, EUR 400 million has been entered each year for proceeds from the sale of shares. In recent years, the actual figure has, on average, been of this magnitude. The dividend income estimate for each year is EUR 1.1 billion, which is, on average, approximately EUR 200 million less than the actual figure for current parliamentary term.

Table 8. Ministry of Finance estimate of ordinary on-budget revenue in 2019–2023, EUR billion

	2019	2020	2021	2022	2023	2019–2023 average annual change, %
	Budget					
Total tax revenue	45.8	46.8	48.4	49.6	50.7	2.6
— taxes on earned and capital income	9.9	10.4	10.8	11.2	11.5	3.8
— corporate tax	4.4	4.5	4.7	4.8	5.0	3.3
— value-added tax	18.8	19.2	20.1	20.7	21.2	3.1
— excise duties	7.5	7.6	7.5	7.4	7.3	-0.7
— other tax revenue	5.2	5.1	5.3	5.5	5.7	2.4
Miscellaneous revenue	5.7	5.7	5.6	5.6	5.7	0.9
Interest earned, income from share sales and profit recognised as income	2.2	1.8	1.8	1.8	1.8	-4.5
— Dividend income and proceeds from sales of shares	1.9	1.5	1.5	1.5	1.5	-5.3
Total revenue¹⁾	53.8	54.4	56.0	57.2	58.4	2.1

¹⁾ Including repayment of loans granted by central government.

5.5. Central government on-budget balance and debt

Taking into account the appropriations in line with the spending limits as well as revenue estimates, the central government on-budget deficit is projected to be approximately EUR 1.5 billion in 2020, whereas the deficit estimated for 2019 in the first supplementary budget is EUR 1.9 billion. The deficit will increase significantly in 2021, particularly due to a provision for the Defence Forces' HX fighter project. Compared with the spring 2018 General Government Fiscal Plan, the level of on-budget expenditure and revenue will be impacted significantly by the cancellation of the effects of the regional government, health and social services reform.

The estimate of the deficit during the spending limits has increased compared with the previous spending limits decision. The weaker projected economic outlook has had a slightly downward impact on revenue estimates, in addition to which the premature repayment of export credits decided in 2018 also reduces estimated revenue. Compared with the previous spending limits decision, the expenditure level has been increased by a growth in expenditure earmarked for the HX fighter project as well as higher tax reimbursements to municipalities as a result of among other things tax reductions decided on in the 2019 Budget. On the other hand, the improvement in the employment situation has reduced the estimated requirement for cyclical expenditure, and interest expenditure on government debt has declined compared with the previous year.

Central government debt is assumed to grow by approximately EUR 12 billion during the spending limits and to rise to EUR 119 billion in 2023. The central government debt-to-GDP ratio is projected to be approximately 43½% during the spending limits period.

The central government's balance and debt outlook from the perspective of the national accounts is examined in Chapter 3.2.

Table 9. Ministry of Finance estimate of on-budget balance in 2019–2023, EUR billion, at current prices

	2019	2020	2021	2022	2023
On-budget revenue estimate, total ¹⁾	53.7	54.4	56.0	57.2	58.4
On-budget expenditure estimate, total, at current prices ²⁾	55.6	56.0	59.0	60.7	62.5
On-budget balance estimate	-1.9	-1.5	-3.0	-3.4	-4.1
Central government debt-to-GDP ratio, %	44	43½	43½	43½	44

¹⁾ Including repayment of loans granted by central government.

²⁾ Expenditure converted into current prices using the Ministry of Finance central government expenditure price index projection, which provides a rough estimate of price trends over the spending limits period.

5.6. Off-budget central government finances

Central government in the national accounts

In the national accounts, the central government sector includes, alongside central government on-budget finances, the central government funds that are external to budget finances (excluding the State Pension Fund, which is placed under the earnings-related pension fund sector in the national accounts) as well as the universities, the Finnish Broadcasting Company Yle, Solidium Oy, Senate Properties, university real estate companies, HAUS Finnish Institute of Public Management Ltd, Leijona Catering Oy, Finnish Industry Investment Ltd, Terrafame Group Oy, Tekes Venture Capital, Gasonia Oy, Governia Oy, Business Finland Oy, State Business Development Company Vake Oy, Vimana Oy, Sotedigi Oy, the Counties' Service Centre for Facilities and Real Estate Management Maakuntien tilakeskus Oy and VTT Technical Research Centre of Finland Ltd.

The central government funds are the Housing Fund of Finland, the Development Fund of Agriculture and Forestry, the National Nuclear Waste Management Fund, the National Emergency Supply Fund, the State Guarantee Fund, the Financial Stability Fund, the State Television and Radio Fund, the Agricultural Intervention Fund, the Fire Protection Fund and the Oil Protection Fund.

Central government transfers to VTT will amount to just over EUR 87 million in the spending limits period 2020–2023.

Overall funding of universities comprises appropriations allocated to universities in the budget and supplementary funding, which includes income from paid services, donations and sponsoring.

Since 2013, central government funding of the Finnish Broadcasting Company Yle has been based on a transfer of appropriations covered by the public broadcasting tax to the State Television and Radio Fund, which passes them on to YLE. In the previous spending limits period, no index adjustment to reflect changes in cost levels was made to the transferred appropriation. In a report completed in 2016, a parliamentary working group proposed that no index adjustment be made in 2017–2019. An index adjustment was carried out in 2019, however, and thereafter the index adjustment provision will be adhered to as set out in the Act on the State Television and Radio Fund.

The investment company Solidium Oy is a limited company wholly owned by the central government whose task is to strengthen and stabilise Finnish ownership in companies of national importance. The company's equity portfolio consists of 12 listed companies in which Solidium has a minority interest.

Solidium's Board of Directors makes investment decisions independently on the basis of analyses and proposals prepared by management. In 2017, revenue recognised by Solidium totalling EUR 585 million was remitted to central government revenue in two instalments, and the corresponding figure for 2018 was EUR 351 million. In the second half of last year, Solidium Oy's revenue stream began to fall, and revenue for the full year was down by 13.1%. At the end of 2018, Solidium Oy held shares valued at EUR 6.8 billion. Sales of shares with a net value of EUR 327 million were made in 2018.

Founded in 2016, the State Business Development Company Vake Oy is a central government special assignment company whose task is to ensure that capital invested by the central government in companies is actively circulated and also to create value in the companies it owns. Vimana Oy, a service centre for the counties, was established in 2017 to produce and offer digitalisation and ICT services to the counties. Sotedigi Oy is a central government special assignment company founded in 2017 which develops national client and patient information system solutions as well as other new digital solutions for healthcare and social welfare.

In other respects, state ownership policy is the responsibility of the Government Ownership Steering Department of the Prime Minister's Office, in which the ownership steering of companies operating on a commercial basis is centralised. The department's responsibilities also include preparing general policy on state holdings and ownership steering practices and coordinating ministerial cooperation on ownership steering.

Off-budget funds

The taxes and tax-like revenue of funds will be increased by Nordea's decision to transfer the bank's domicile to Finland, and this will be reflected in the contributions received by the Financial Stability Fund. Growth in pension contributions received by the State Pension Fund will be constrained by a reduction in the number of personnel employed by central government. At the same time, transfers from the State Pension Fund to the budget will be increased to cover the central government's growing pensions expenditure. Most of the loans granted by funds and income received from their repayment relates to the activities of the National Nuclear Waste Management Fund. Those with a duty to dispose waste have the right to receive loans against securing collateral for a fixed period. The National Housing Fund has no longer granted new loans since 2007, as a result of which the decrease in repayments of loans granted by the Fund has continued. Without financial transactions, the budgetary position of off-budget funds will remain nearly unchanged in the medium term.

Table 10. Central government off-budget funds, EUR million

	2018	2019	2020	2021	2022	2023
Taxes and tax-like revenue, total	169	399	418	414	415	415
Miscellaneous revenue	150	158	106	114	117	116
Pension contributions	1 373	1 414	1 445	1 402	1 425	1 451
Interest earned and profit recognised as income	609	590	583	578	575	572
Transfers from budget	560	522	596	536	536	536
Revenue excluding financial transactions	2 861	3 083	3 147	3 044	3 066	3 089
Repayments of loans granted	1 905	2 375	2 416	2 282	2 260	2 268
Total revenue	4 766	5 459	5 564	5 326	5 326	5 357
Consumption expenditure	103	116	125	131	132	129
Current transfers	834	1 010	1 062	935	909	913
Interest expenditure	2	2	1	1	1	1
Transfers to budget	1 872	1 982	1 949	1 960	1 974	1 988

	2018	2019	2020	2021	2022	2023
Other expenditure	22	21	20	20	20	20
Expenditure excluding financial transactions	2 834	3 130	3 157	3 047	3 036	3 052
Loans granted and other financial investments	1 970	2 016	1 894	1 900	1 943	1 989
Total expenditure	4 804	5 146	5 051	4 947	4 979	5 041
Net financial surplus or deficit	-38	313	513	379	347	317

State-owned enterprises

Metsähallitus is a state-owned enterprise whose task is to use, manage and protect the unbuilt land and water assets directly owned by the state. Metsähallitus engages in business operations and attends to statutory public administrative duties funded out of the State budget. Metsähallitus engages in forestry and other market-based business operations through the subsidiaries it owns. The forestry operations of Metsähallitus have been incorporated into a wholly state-owned company Metsähallitus Forestry Ltd. Metsähallitus remits amounts recognised as revenue to the central government from rights of use compensation and dividends. It manages approximately 12.5 million hectares of state-owned land and water areas, with a balance sheet value of approximately EUR 3.7 billion. Of this, the core capital subject to the yield requirement is approximately EUR 2.5 billion. In 2018, the turnover of the Metsähallitus Group was EUR 366.4 million and the annual surplus was EUR 124.8 million. According to the 2019 Budget, Metsähallitus will remit to the central government EUR 100.7 million. By the end of the spending limits period, the recognised revenue received from Metsähallitus is projected to rise to EUR 120 million annually.

Senate Properties is a state-owned enterprise whose task is to provide work environment solutions in keeping with the goals of the Government Premises Strategy for its customers and to improve central government organisations' performance. Senate Properties' business is based on developing work environments and real estate assets, letting premises and providing premises services for its customers. Senate Properties may also provide services to organisations whose activities are funded mainly with appropriations included in the State budget. Senate Properties operates according to commercial principles. Its assets are owned by the Finnish State and subject to the state-owned enterprise's ownership steering. Senate Properties does not perform public administration tasks or duties as an authority.

While the company's total assets were nearly EUR 4.5 billion in 2018, this amount will gradually decrease by approximately EUR 100 million during the spending limits period. In other words, the balance sheet value of property sales and depreciations will exceed the investment level. Property sales will amount in total to EUR 580 million in 2018–2023. The revenue recognition targets is based on an equity ratio of 60% and the net borrowing level set for the company. In 2018, Senate Properties recognised EUR 135 million as revenue, and its target for 2019 is EUR 35 million. The company's equity ratio will decrease to 62% at the end of the planning period.

5.7. Sustainable development

The global 2030 Agenda for Sustainable Development sets common goals for sustainable development for all UN member states. The Government report on the global 2030 Agenda for Sustainable Development, which was submitted to Parliament on 2 February 2017, outlined the key focus areas and actions for enhancing sustainable development in Finland economically, socially and environmentally. The Government's national implementation of the 2030 Agenda is based on two focus areas: A carbon-neutral and resource-wise Finland and A non-discriminating, equal and competent Finland.

A carbon-neutral and resource-wise Finland in the General Government Fiscal Plan 2020–2023

The General Government Fiscal Plan includes appropriations that can be considered to promote the goals of the Government report's focus area A carbon-neutral and resource-wise Finland. The appropriations will promote, among other things, the wellbeing of the environment and nature as well as biodiversity by acquiring nature reserves and through development cooperation appropriations. The aim is to reduce emissions by, for example, supporting renewable energy and promoting public transport. Research, development and innovation projects will promote bioeconomy solutions and develop Finland towards a low-carbon society. EU greening support, environmental compensation and promotion of organic production have a significant role in developing agriculture in an environmentally sustainable direction. The appropriations are allocated, in particular, to the administrative branches of the Ministry of Economic Affairs and Employment, the Ministry of Agriculture and Forestry, the Ministry of Transport and Communications, the Ministry of the Environment and the Ministry for Foreign Affairs.

The breakdown of actions according to the Government report has been used in classifying the appropriations in the General Government Fiscal Plan that promote the carbon-neutral and resource-wise Finland focus area.

Table 11. A carbon-neutral and resource-wise Finland, key measures in 2020–2023 (EUR million)

	2020	2021	2022	2023
1.1 Launch the implementation of the energy and climate strategy,				
1.2 Prepare and implement a plan for medium-term climate policy	654	598	537	519
1.3 Create sustainable bioeconomy and cleantech solutions	592	691	659	634
1.6 Support sustainable development innovations	208	207	204	204
1.9 Promote carbon-neutrality and wise use of resources globally	248	257	265	272
Total	1 702	1 752	1 665	1 628

In the General Government Fiscal Plan, the goals relating to carbon-neutrality and wise use of resources will be promoted with approximately EUR 1.7 billion in 2020, declining to approximately EUR 1.6 billion in 2023. The appropriations will decrease during the spending limits period particularly due to the scheduling of grants for the Western Metro and certain other fixed-term rail project in the early part of the spending limits period as well as the timing of rural development funding payments relating to the changing of the EU financial framework. The Government that takes office after the 2019 parliamentary elections will decide on possible changes in the appropriation levels. The appropriation levels shown in the table are based on the levels according to current decisions and do not include assumptions about the policy decisions of the next Government. The largest package of measures is associated with the implementation of the energy and climate strategy (report actions 1.1 and 1.2) and the creation of bioeconomy and cleantech solutions (report action 1.3). Of these, a total of EUR 654 million will be allocated in 2020 for implementing the energy and climate strategy. Most of this consists of the production subsidy for renewable energy, to which a sum of EUR 278 million will be allocated in 2020. Total level of appropriations for sustainable bioeconomy and cleantech solutions be EUR 592 million in 2020. Of this, a total of EUR 311 million would be allocated to greening of agriculture and the environmental compensation scheme.

Taxes

There are a number of taxes that may be considered as promoting the goals of the carbon-neutral and resource-wise Finland focus area. These include, in particular, energy taxes, motor vehicle tax, car tax,

excise duty on certain beverage packagings and waste tax. Although these may be considered to be taxes in accordance with sustainable development objectives, they may also include individual tax structures that are both in accordance with and contrary to the objectives.

The levels of these taxes, excluding car tax, are amount-based, so their steering effect will gradually be reduced by inflation during the spending limits period. At the same time, the proceeds from the taxes will account for a declining share of central government revenue. Tax revenue will also be reduced by the projected reduction in fuel consumption as a result of improved energy efficiency and also the shift to more lightly taxed lower emission vehicles and biofuels.

Energy taxes are collected on transport fuels, off-road work machine and heating fuels, and electricity. In addition to the tax revenue they raise, energy taxes boost incentives for energy-efficiency, energy saving and lower-emission energy production.

In addition to taxation of transport fuels, motor vehicle tax and car tax are determined partly on an emissions basis, so they increase the costs of owning and acquiring larger-emission vehicles and therefore encourage a shift towards lower-emission transport. The General Government Fiscal Plan includes a reduction in the basic tax component of motor vehicle tax in 2020. The impact of the tax reduction will probably be to increase emissions slightly, but modestly.

The excise duty on certain beverage packagings encourages recycling of such packagings. The waste tax is a steering environmental tax, primarily aimed at reducing landfill processing of waste and increasing recycling.

Environmentally harmful subsidies

Environmentally harmful subsidies refer to subsidies that result in an increase in the utilisation of natural resources and the environmental burden in the subsidised enterprise or the subsidised sector. Environmentally harmful subsidies may have positive effects in terms of other policy objectives (e.g. food production, security of supply, promoting use of renewable energy sources, regional economy, employment and growth).

In connection with the 2019 budget proposal, based on earlier reports the total amount of environmentally harmful subsidies was estimated to be approximately EUR 3.5 billion. The overall level of harmful subsidies is estimated to remain at approximately the same level. Environmentally harmful subsidies are mainly directed at three sectors: energy, transport and agriculture. The level of harmful subsidies in the transport sector is the largest of these, approximately EUR 1.4 billion. The subsidy levels of the sectors are quite close to each other, however. In both the energy and agriculture sectors, the subsidies amount to slightly over EUR 1 billion.

The tax system, in particular, includes environmentally harmful subsidies. They are also present, however, among the appropriations. The tax system includes subsidies, i.e. exemptions from the normal tax structure, which are considered in the above-mentioned studies to be environmentally harmful. The largest environmentally harmful subsidies are in the field of energy taxation, namely the lower than normal tax rate for diesel, which is adjusted by the motor vehicle motive force tax, the lower than normal tax rate for off-road work machines, the lower tax rate for peat, the lower electricity tax rate for industry and greenhouses, the tax refund for energy-intensive companies, and the energy tax refund for agriculture. In the appropriations, compensation for indirect costs of emissions trading and certain agricultural subsidies, for example, can be classified as environmentally harmful subsidies.

6. Local government finances

The part of the General Government Fiscal Plan relating to local government finances includes a limit for local government expenditure set by central government measures as well as other policy lines of Prime Minister Sipilä's Government relating to local government finances and duties. It also includes an examination of the impact of central government measures on local government finances and the medium-term development prospects for local government finances in local government accounting terms. The examination of local government finances presented here is supplemented by the Local Government Finance Programme, which is prepared separately in connection with the General Government Fiscal Plan.

6.1. Local government finance policies

Limit for local government expenditure set by central government measures

Under national rules relating to the General Government Fiscal Plan, the Government is required to set a limit for local government expenditure set by central government measures. The expenditure limit is a monetary limit for the change in local government operating expenditure arising from central government measures. The expenditure limit is to be consistent with the budgetary target set by the Government for local government finances. The limit for local government expenditure does not, however, guarantee that the cost effects will be realised at that level in local government finances. Municipalities can themselves decide, among other things, the extent to which they carry out the reduction of duties and obligations. Some of the expenditure limit measures, for example more efficient regional organisation of specialised medical care and development of informal and family care, require a longer than anticipated period to realise savings. Some of the measures included in the expenditure limit are also sensitive to changes in economic conditions. Limiting the subjective right to early childhood education has, due to improved employment and declining birth rates, affect a lower number of children than expected. The improvement in employment has also reduced the use of municipal health and social services and thus limited the higher level of amount of income received from an increase in customer fees. A change in operating expenditure and revenue has been included in the expenditure limit in accordance with regulations on changes of duties and Government proposals.

In its General Government Fiscal Plan of 28 September 2015, the Government decided that its measures will have the net effect of reducing local government operating expenditure by at least EUR 540 million in 2019 compared with the technical General Government Fiscal Plan adopted on 2 April 2015, which was the basis for the Government Programme.

Compliance with the limit for local government expenditure set by central government measures is monitored through the annual revisions of the General Government Fiscal Plan. The limit cannot be relaxed from the level set in the General Government Fiscal Plan adopted on 28 September 2015. It will be tightened annually as progress is made in the preparation of as yet unspecified measures agreed in the Government Programme.

In this General Government Fiscal Plan, the foundering of the regional government, health and social services reform and thereby the transfer of some measures from county finances to municipal finances from 2020 has been taken into account in the limit for local government expenditure. In addition, the earlier decision to bring forward the A1 language to begin in first grade and the Parliament-approved amendment to the Children Welfare Act increasing the upper age limit of after-care from 21 to 25 from 2020 have also been taken into account. In accordance with current legislation, a 100% central government transfer to local government is allocated to these. The upcoming reform of student health care concerning university students, which enters in forces in 2021, has also been taken into account in

the limit for local government expenditure. In connection with the reform, the services provided by the Finnish Student Health Service currently intended for students at science and arts universities will also be available to students at universities of applied sciences. The reform will reduce the costs of municipal health care services, which will be taken into account as a reduction in the central government transfers to local government for basic public services.

The limit for local government expenditure set by central government measures will be EUR -920 million in 2020.

Table 12. Limit for local government expenditure set by central government measures 2020–2023, EUR million

2020	2021	2022	2023
-920	-940	-930	-910

Municipalities' own measures

Municipalities have wide-ranging autonomy, and the balancing of local government finances cannot be ensured by central government measures alone. Therefore, the municipalities also have great responsibility for balancing local government finances, for example by implementing structural reforms and improving productivity. Demographic trends will undermine the ability of municipalities with ageing and declining populations to organise statutory duties with current funding. The old building stock and demographic trends will increase the need for new and renovation construction in municipalities during the next parliamentary term.

6.2. Central government measures impacting local government finances

Central government transfers and local government duties in the spending limits period

Prime Minister Sipilä's Government prepared government proposals on regional government, health and social services reform by which responsibility for organising health and social services would have transferred on 1 January 2021 from municipalities and joint municipal authorities to 18 counties to be established mainly on the basis of the present regional division. The intention was also for the counties to take over other duties, such as rescue services and environmental health, regional development and Structural Funds activity as well as business development. Consideration of the government proposals on the regional government, health and social services reform was, however, halted in Parliament on 8 March 2019.

The previous General Government Fiscal Plan for 2019–2022 was prepared in accordance with the preparation timetable at the time in question, when the reform was expected to enter into force on 1 January 2020, and it took into account the financial transfers corresponding to the transfer of duties from the municipalities and joint municipal authorities as well as from various central government administrative branches to the counties' central government financing from 2020. This General Government Fiscal Plan is based on valid and adopted legislation and it does not include appropriation changes caused by the planned regional government, health and social services reform or financing for the preparation of the reform.

Central government transfers to local government will be approximately EUR 11.5 billion in 2020. Of this, the central government transfer to local government for basic public services amounts to EUR 9.5 billion, which represents an increase compared with 2019 of approximately EUR 1.0 billion. The increase is mainly due to the ending of the reduction in the central government transfer related to the

cutting of holiday bonuses, compensation decided in the spring 2018 General Government Fiscal Plan associated with the Competitiveness Pact, a revision of the division of costs between central and local government, an index adjustment and an increase in compensation for tax revenue losses.

In 2016–2019, no index adjustment was made to the central government transfer to local government for basic public services. In 2020 the index adjustment will be approximately EUR 187 million. The revision of the division of costs between central and local government was made on the basis of actual costs for 2017. It increases the central government transfer to local government for basic public services by EUR 100.8 million and central government transfers of the administrative branch of the Ministry of Education and Culture by EUR 11.6 million.

Due to the cutting of holiday bonuses associated with the Competitiveness Pact, the municipalities' costs have been reduced since 2016, as three quarters of the 2017 holiday bonus cuts were already recorded as cost savings in municipalities for 2016. In connection with this, the municipalities' costs decreased by EUR 236 million in 2016 and, according to the central government transfer percentage, the reduction in central government transfers for this is EUR 59 million. As municipal services associated with the Competitiveness Pact have already been deducted separately, municipalities will be compensated for this additional EUR 59 million cut in 2020. In the same context, municipalities will also be compensated for the additional cut in holiday bonuses in 2017–2019, which will be done in connection with the revision of the division of costs in 2020–2022. Total compensation will amount to EUR 237 million.

EUR 10 million of the appropriation for central government transfers to municipalities for basic public services may be allocated to a discretionary increase of the central government transfers. In addition, EUR 10 million of the appropriation intended for supporting municipal mergers financially may be used as discretionary merger support for municipalities that are facing, or about to face, a crisis. This appropriation is a transfer from the central government transfer to local government for basic public services.

EUR 30 million was allocated in the 2019 Budget for the incentive scheme for digitalisation in municipalities, as a transfer from the central government transfer to local government for basic public services. From 2020 the appropriation will be EUR 40 million. It is intended to build up the incentive scheme in stages, of which the first is to target assistance at digitalisation of the municipalities' HR and financial administration and the use of robotic process automation for this.

The amendment of the Health Care Act and the decrees issued by virtue of it on division of labour in specialised medical care, centralisation of certain tasks, criteria for urgent care and criteria for emergency care in specialist fields contain provisions on specialised medical care duties that will be centralised to hospitals with extensive emergency care services, units providing primary and specialised 24-hour services, and five or less university hospitals. In addition, the specific volume of procedures required in order for certain surgical operations to be centralised will also be set in a decree. The transition period set in the Act and the decrees was up to the beginning of 2018 and, for a number of surgical procedures, up to the end of June 2018. These changes are estimated to reduce municipalities' expenditure by EUR 90 million in 2020 compared with 2019, and the corresponding reduction in central government transfers will be EUR 22.8 million. Overall, the changes are estimated to reduce health care costs by EUR 350 million in 2020.

Savings in the municipalities' expenditure brought about by developing informal and family care are expected to grow by EUR 40 million in 2020 compared with 2019, and the corresponding reduction in central government transfers will be EUR 10.1 million in 2020. Overall, the savings are estimated to total EUR 220 million in 2020.

The reform of student healthcare for university students will enter into force in 2021. In the future, student health care for university students will be organised by the Social Insurance Institution of Finland and services will be provided by the Finnish Student Health Service. In connection with the reform, the services provided by the Finnish Student Health Service currently intended for students of science and arts universities will also be available to students at universities of applied sciences. Reform will reduce the municipalities' healthcare services costs. For this reason, central government transfers to local government for basic public services will be reduced by EUR 32 million.

An amendment approved by Parliament to the Child Welfare Act raising the upper age limit for after-care from 21 to 25 years of age from 2020 will increase central government transfers to municipalities for basic public services by EUR 12 million in 2020, EUR 24 million in 2021, EUR 36 million in 2022 and EUR 48 million in 2023.

In 2020, studying of the first foreign language, i.e. A1 language, will be brought forward to begin in the spring of the first year of basic education. The earlier start to language learning will apply to all first grade pupils from 1 January 2020. The reform will increase central government transfers to municipalities for basic public services by EUR 7.5 million in 2020 and by EUR 12 million from 2021.

Under the Act on Central Government Transfers to Local Government, the central government transfer rate for expanding duties subject to the transfer system is 100%.

The new Act on General Upper Secondary Education, which forms the basis for the reform of general upper secondary education, enters into force 1 August 2019. The objective of the Act is to promote the organisation of more extensive study units and cross-curricular studies as well as the development of students' broad-based knowledge during their general upper secondary education. The new Act on the matriculation examination was approved by Parliament in spring 2019. The national core curriculum of general upper secondary education will be reformed in 2019–2020, and the curriculum prepared in accordance with it will be introduced into general upper secondary education starting in autumn 2021. The amendments related to the matriculation examination will enter into force from the autumn 2019 matriculation examinations.

The amendments to the Act on General Upper Secondary Education will give rise to additional costs of EUR 0.38 million in 2019 and EUR 0.75 million in 2020. The amendments relating to study guidance, learning support and university cooperation will enter into force when the new curriculum is introduced in autumn 2021. The proposal will result in additional costs of EUR 4 million in 2021 and EUR 8.53 million in 2022.

The funding system for museums, theatres and orchestras will be updated by implementing a reform of the central government transfers for museums and improving the operating conditions of so-called free groups in performing arts. A total of EUR 7 million will be earmarked for the costs incurred from implementing this reform from 2020. Of the appropriation, EUR 2 million will be sourced from gambling proceeds.

Compensation paid by central government to municipalities will be reduced by approximately EUR 20 million for 2020 compared with 2019. In the following years, 2021–2023, the amount of compensation paid will decrease further, as the number of those within the scope of compensation has fallen compared with the estimate in the spring 2018 General Government Fiscal Plan. The number of family group homes and other residential units established to provide care for unaccompanied children will decline in the coming years, but will still be higher than the level in 2015.

The central government transfers and grants will be EUR 11.4 billion in 2021, EUR 11.6 billion in 2022 and EUR 11.9 billion in 2023.

Table 13. Central government transfers to municipalities and joint municipal authorities, EUR million, spending limits period at 2020 prices

	2018	2019	2020	2021	2022	2023
Imputed central government transfers	9 634	9 547	10 571	10 531	10 751	10 987
Ministry of Finance, central government transfer for basic public services	8 577	8 492	9 481	9 442	9 657	9 897
Ministry of Education and Culture ¹⁾	1 057	1 056	1 090	1 089	1 093	1 090
— of which joint municipal authorities	993	995	1 010	1 008	1 008	1 008
Other central government transfers by administrative branch, total	1 106	997	956	905	885	883
Ministry of Justice	30	20	3	7	7	11
Ministry of the Interior	5	5	5	5	5	5
Ministry of Finance	149	43	50	50	50	50
Ministry of Education and Culture	230	225	204	196	196	196
Ministry of Agriculture and Forestry	6	6	7	6	6	6
Ministry of Transport and Communications	40	40	40	40	40	40
Ministry of Economic Affairs and Employment	222	222	202	259	255	250
Ministry of Social Affairs and Health	398	405	431	330	316	316
Ministry of the Environment	26	30	15	12	9	9
Central government transfers, total	10 740	10 544	11 527	11 436	11 635	11 870

¹⁾ The municipalities' imputed share is estimated from the total funding of the administrative branch of the Ministry of Education and Culture (including private).

Tax criteria changes

The tax criteria changes decided in the Government Programme and during the parliamentary term have been taken into account in the revenue estimates of the spending limits period. In accordance with the Government Programme, the municipalities will be compensated for the tax revenue impact of changes made by the Government to tax criteria. An index adjustment corresponding to rising earnings or inflation will reduce the municipalities' tax revenue by an estimated EUR 215 million in 2020. Index adjustments are also included as a technical assumption in the tax revenue estimates for 2021–2023.

The foundering of the regional government, health and social services reform in March 2019 has been taken into account in the revenue estimates of the spending limits period.

The table below presents an estimate of the impact of tax criteria changes on local government tax revenue.

	2020	2021	2022	2023
Index adjustment of earned income taxation	-215	-202	-195	-195

6.3. Estimate of local government finances: expenditure, revenue and balance

The economic projection of local government finances for 2020–2023 is a pressure projection that, in addition to general economic and population trends, only takes into account measures impacting local government finances that are already included in the General Government Fiscal Plan. The projection does not include municipalities' and joint municipal authorities' own consolidation measures or municipal income tax increases in 2020–2023. The projection takes into account the foundering of the Government's proposal on the regional government, health and social services reform.

In 2018, local government finances deteriorated significantly, as operating costs grew sharply and tax revenue declined. The growth pressure on local government operating expenditure is due to increased need for healthcare and social welfare services caused by population ageing. As a result of the foundering of the regional government, health and social services reform, there will also be growth pressure on health and social services expenditure in local government finances from 2021 onwards. In the level of local government finances as a whole, the growth pressure on municipalities' expenditure will be eased by a reduction in the need for education services as a result of a decline in birth rates. The realisation of the savings facilitated by a reduction in the need for education services will require in those municipalities where the need for services decreases that the number of day-care centres and schools as well as early childhood education and teaching personnel is scaled in proportion to the declining child age cohorts. The need to reduce education services has been alleviated slightly in the development estimates, because redimensioning the number of day-care centres and schools is expected to take place more slowly than the imputed estimate.

Local government expenditure will grow rather quickly throughout the spending limits period. In 2019, operating costs will be increased by pay increases agreed in the municipal sector and the ending of the holiday bonus customers made under the Competitiveness Pact. In spending limits period, growth in operating costs will continue, because earnings development is expected to accelerate due to labour market pressures to increase pay. The increasing need for healthcare and social welfare services caused by population ageing will fuel growth in operating costs.

From a historical perspective, local government net investment is at a high level. Growth in investment expenditure will accelerate in the current year, because construction of hospitals and schools as well as infrastructure investments will continue to be brisk. Thereafter, investment is expected to remain at a high level during the spending limits period, because the construction projects under way cover many years and investment pressures will continue to be significant.

The number of municipal employees in 2018 was just under 420,000. In the projection, the number of employees is expected to decline slightly up to 2020, and thereafter remain at the 2020 level throughout the spending limits period. The projected decline in the number of employees in 2019 and 2020 is due to, among other things, municipal mergers as well as Government discretionary measures included in the projection whose impact is expected to be delayed and transferred to the years in question. These include measures to enhance the efficiency of specialised medical care and the development of informal and family care.

More than half of local government revenue consists of tax revenue. Local government tax revenue will grow in 2019 quite sharply compared with 2018, due to, among other things, an increase in the wage bill, exceptionally large advance tax refunds of the previous year and a one-off increase in tax revenue of approximately EUR 150 million resulting from the shift to taxpayer-specific completion of taxations. In addition, the average municipal tax rate rose from the beginning of 2019 by 0.04 percentage points to 18.88%. Changes in the municipal tax rates will increase local government tax revenue by approximately EUR 40 million. From 2020, the tax revenue received by municipalities will grow during

he spending limits period by just over 3%, on average, per year. Tax revenue growth will be maintained by, among other things, earnings growth.

Central government transfers received by municipalities will decline in 2019. An adjustment of the division of costs between central and local government based on actual costs for 2016 will reduce the central government transfer to municipalities for basic public services by just over EUR 200 million. In accordance with Prime Minister Sipilä's Government Programme, no index adjustments will be made to central government transfers to local government in 2019. On the other hand, central government transfers to local government will increase significantly in 2020. Underlying the increase are, among other things, an approximately EUR 100 million upward adjustment of the division of costs based on actual costs for 2017, compensation amounting to EUR 237 million for the additional holiday bonus cuts under the Competitiveness Pact, and the ending of the freezing of holiday bonus cuts and the index of central government transfers to local government for basic public services. From 2020, central government transfers to local government will again be adjusted by changes to the index of central government transfers to local government. Central government transfers to local government will also be increased during the spending limits period by compensation to municipalities for tax revenue losses.

According to the pressure projection, the cash flow from local government activities and investments will be EUR 1.2–1.7 billion in the negative throughout the spending limits period. The municipalities' loan portfolio will also continue to grow rapidly.

Table 14. Development of local government finances up to 2023 according to local government accounts, EUR billion, at current prices

	2018	2019	2020	2021	2022	2023
Profit/loss itemisation						
1. Operating margin	-28.5	-29.4	-30.6	-31.7	-32.9	-34.1
2. Tax revenue	22.4	23.8	24.6	25.5	26.3	27.0
3. Central government transfers, operational finances	8.5	8.3	9.3	9.4	9.8	10.2
4. Financial income and expenses, net	0.3	0.3	0.2	0.1	0.0	-0.1
5. Annual margin	2.7	2.9	3.4	3.3	3.2	3.1
6. Depreciation and amortisation	-2.7	-2.8	-2.9	-3.0	-3.1	-3.2
7. Extraordinary items, net	0.1	0.1	0.1	0.1	0.1	0.1
8. Profit/loss for the financial period	0.0	0.1	0.5	0.3	0.1	-0.1
Funding						
9. Annual margin	2.7	2.9	3.4	3.3	3.2	3.1
10. Extraordinary items	0.1	0.1	0.1	0.1	0.1	0.1
11. Current income adjustments	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
12. Internal financing, net	2.4	2.6	3.1	2.9	2.8	2.7
13. Investment in fixed assets	-4.8	-5.0	-5.2	-5.2	-5.2	-5.2
14. Funding contributions and sales gains	0.9	1.0	0.9	0.9	0.8	0.8
15. Investments, net	-3.8	-4.1	-4.3	-4.3	-4.5	-4.4
16. Financial balance (internal financing - investment)	-1.5	-1.5	-1.2	-1.5	-1.6	-1.7
17. Outstanding loans	19.4	21.0	22.2	23.8	25.5	27.2
18. Cash	6.0	6.0	6.0	6.0	6.0	6.0
19. Net debt (loan portfolio - cash assets)	13.4	15.0	16.2	17.7	19.4	21.2

7. Earnings-related pension schemes and other social security funds

Earnings-related pension system

Finland's earnings-related pension system consists of a number of different pension acts, under which pensions are generally determined by the same criteria, however. The funding of pension expenditure varies by pension act, as a result of which the financing criteria of the earnings-related pension sector cannot be described by a single rule. The financing criteria can be examined, however, by looking at the most significant pension acts separately.

Finland's earnings-related pension system is partly funded, as some of the financing of pensions comes from prefunded pension assets and the income from them. Pensions are financed, however, mainly by annual pension contributions from employees and employers. In addition, the pensions of central government employees and part of the pensions of entrepreneurs, agricultural entrepreneurs and seafarers is financed from the central government budget. Employees' pension contributions are the same under all pension acts. Pensions accrue under all pension acts in more or less the same way from earnings during entire working careers. Starting old-age pensions are reduced by a life expectancy coefficient that takes the increase in life expectancy into account. Pensions paid out are increased annually by the Earnings-related Pension Index, in which inflation has an 80% weight and change of earnings level a 20% weight.

The pension reform that entered into force from the beginning of 2017 will increase the lowest old-age pension age in stages by 2027. The old-age pension age will be linked to life expectancy from 2030 so that the time spent working in relation to the time spent in retirement will remain at the 2025 level. To maintain the time spent working in relation to the time spent in retirement, the development of working careers as well as the economic and social sustainability of the entire earnings-related pension system will be regularly analysed. In the reform, alongside the disability pension was introduced a new form of pension, the years-of-service pension, and the part-time pension was replaced by a partial early old-age pension. In addition, changes were made to pension accrual rules, and it was decided to calculate the life expectancy coefficient in a more lenient manner from 2027.

The private sector **Employees' Pensions Act (TyEL)** covers around two-thirds of the labour force. Of TyEL earnings-related pension contributions, part are prefunded individually and the remainder go to finance current pensions in a pay-as-you-go system. Pension contributions must be at a level that guarantees the payment of pensions and the funding required by law. The TyEL system's funding rate, i.e. the ratio of pension assets to pension liability, was approximately 27% at the end of 2015 (based on a 2.5% real discount rate).

The labour market organisations have agreed on the TyEL system's EMU buffer. As the target for the EMU buffer has been agreed an amount corresponding to 2.5% of the annual private sector wage bill. The idea of the buffer is to, under certain conditions, enable a temporary reduction in earnings-related pension contributions during weak economic conditions. When applying the buffer, a later increase in earnings-related pension contributions must be correspondingly agreed, allowing the buffer to return to its former level.

The pension expenditure of **entrepreneurs** (approximately 9% of those insured), agricultural entrepreneurs and seafarers is financed from contributions and the portion exceeding this from the central government budget.

Just over 20% of those insured are covered under the **local government pensions system**. In the local government pension system, the aim is to set pension contributions at a level ensuring that the pension

system is on a sustainable foundation and the level of pension contributions will remain stable in the future.

Employees insured under the **state employee's pension system** (approximately 6% of those insured) and central government employers pay their pension contributions into the State Pension Fund. Funds are transferred annually from the State Pension Fund to the central government budget to cover state employees' pension expenditure. The transferred amount is currently 40% of the expenditure arising from central government pensions, because the remainder of the pension expenditure is covered directly from the central government budget.

Due to the prefunding of pensions, the earnings-related pension schemes have shown a significant surplus historically. Demographic change is increasing pension expenditure, which has been reflected in a reduction in the surplus. Due to prefunding, however, the property income of the earnings-related pension schemes is substantial, so they will nominally not have to sell off assets even if pension expenditure exceeds contributions. Overall, the surplus of the earnings-related pension schemes has declined from an average of just over 3% in ratio to GDP in the first decade of the 2000s to 1.1% in ratio to GDP in 2018. In the next few years, the surplus is projected to remain at approximately last year's level. In the national accounts, private sector earnings-related pension funds are also included in general government finances and their assets in general government finance assets. The earnings-related pension schemes surplus is not used to reduce general government gross debt; it must be reinvested to ensure that the real value of earnings-related pension fund does not contract.

Other social security funds

Other social security funds include other public sector entities with social security duties, such as the Social Insurance Institution of Finland (Kela) and units handling the earnings-related unemployment insurance system. Kela's activities are financed statutorily by the health insurance contributions of the insured and employers as well as by public sector contributions. The central government's share of Kela's funding in 2018 was approximately 77%, while insurance contributions accounted for approximately 18% and municipalities for approximately 5%. In 2018 the costs of Kela's benefit funds totalled approximately EUR 15.4 billion. Kela's benefit funds are the National Pension Insurance Fund, the National Health Insurance Fund and the General Fund for Social Security.

The earnings-related unemployment insurance system is managed by the Unemployment Insurance Fund and unemployment benefit societies. Earnings-related unemployment expenditure is financed from unemployment insurance contributions collected from employees and employers (55%), central government contributions (40%) and the membership fees of unemployment benefit societies (5%). In 2018, the benefits paid by unemployment benefit societies totalled approximately EUR 1.9 billion. The Unemployment Insurance Fund has a cyclical buffer whose net debt or net assets must be at most an amount corresponding to annual expenditure arising from an unemployment rate of 7% (in 2018 just over EUR 2 billion i.e. approximately 1% in ratio to GDP).

The financing of other social security funds is in balance in the medium term, but the financial balance may vary slightly on an annual basis, with the buffer funds providing flexibility. In the 2000s, the other social security funds have deviated from balance by at most 0.4% in ratio to GDP annually.

8. Summary of measures at the level of general government finances

8.1. Extent and timing of measures

The table below gives an overview of the cumulative impact on general government finances in 2016–2023 of the decisions of Prime Minister Sipilä’s Government affecting revenue and expenditure. The table excludes some of the appropriation increases decided on within the scope of the spending limits, which for the most part are for a fixed term. Measures weakening the general government balance are presented with a minus sign and strengthening measures with a plus sign. The impacts have been presented in relation to the final General Government Fiscal Plan of the previous parliamentary term, i.e. the so-called technical General Government Fiscal Plan prepared in spring 2015.

In the technical General Government Fiscal Plan for 2020–2023, certain assumptions have been made, for example about the appropriations required in the spending limits period for fighter aircraft procurement. These are, however, issues on which the next Government will take a position in its first General Government Fiscal Plan and therefore they have not been included in the table below.

Government Programme consolidation measures and investments in key projects

Measures aimed at reducing expenditure or increasing fee income that strengthen general government finances by approximately EUR 4 billion net at the 2019 level were agreed in the Government Programme (Annex 6). The effects of tax criteria changes are not included in this package.

Since the original list of consolidation measures was prepared for the Government Programme, changes have been made to this list. The more specific impacts of the consolidation measures have been worked out during the implementation process (for example changed impact assessments, actual index development significantly lower than originally estimated). Discretionary changes have also been made to the list of consolidation measures. The first replacement of additional savings were decided on in autumn 2015 and spring 2016. Among other things, as a result of the reduction of the savings impacts of index freezes, additional expenditure savings were decided on, but these also, taking into account the current estimate of the impact of index freezes, will fall short of the level originally assumed. The Government also decided to halve the index increase for the counties, but the savings measure will not be realised, however, due to the foundering of the regional government reform.

On the other hand, Prime Minister Sipilä’s Government has decided on permanent appropriations increase for certain of the list items, which will reduce the adjustment impact overall by approximately EUR 0.2 billion at the 2019 level. In line with the positions of the parliamentary groups, the level of funding for basic transport infrastructure maintenance was increased by approximately EUR 0.3 billion from 2022.

Overall, the updated estimate of the adjustment impact on general government finances of Prime Minister Sipilä’s Government Programme (Annex 6) is just under EUR 3 billion at the 2019 level. This adjustment has also been taken into account in the technical spending limits for 2020–2023.

Uncertainty is associated particularly with the estimating the adjustment impact of measures dependent on decisions of the municipalities. There was an intended saving in general government finances of EUR 0.9 billion through measures associated with municipalities’ central government transfer duties and customer fees. Of this, only an approximately EUR 0.3 billion adjustment can be considered to have

been realised by 2019⁴. High uncertainty is associated with this estimate, however, because there is no precise information about the measures implemented in the municipalities. On the other hand, based on a personnel savings survey of municipal employers, some of the municipalities have adjusted their finances by other means (survey covered 68% of municipal sector personnel).

Prime Minister Sipilä's Government decided to allocate EUR 1.6 billion on a one-off basis to key Government projects and to reduce the repair debt in 2016–2018. It was decided to finance the key projects mainly with dividend income and sales of government shareholdings, in addition to which EUR 330 million was covered by the cancellation of City Rail Loop funding, which had been in the spending limits. The Government's policy line increased the revenue recognition target relating to dividend income and share sales. In 2016–2017, the proceeds of the above-mentioned revenue items were smaller than the target set at the beginning of the parliamentary term, as sales of shares fell short of the anticipated level. The resulting funding gap was covered by one-off revenue obtained from the premature repayment of export credits implemented in spring 2018. Key project funding will end as planned and only final payments of a few million euros will take place in the next parliamentary term.

Social security contributions

The improvement in the economic activity has partly already made it possible to reduce social security contributions in 2018–2019. The decline in unemployment expenditure has enabled a lowering of the unemployment insurance contribution in 2018–2019 by a total of one percentage point. Should the favourable economic situation continue, there will still be additional downward pressure on unemployment insurance contributions in the next few years, if it is decided not to increase the Employment Fund's cyclical buffer from its current level. The private sector's earnings-related pension insurance contribution is expected to remain at its current level of 24.4% in the next few years. The reductions in health insurance contributions, agreed partly on a temporary basis in the Competitiveness Pact, will expire at the end of the current year.

Tax criteria changes

The tax policy of Prime Minister Sipilä's Government aimed to boost growth, entrepreneurship and employment. The Government Programme contained measures that both tighten and ease taxation. Prime Minister Sipilä's Government has reduced taxation on work by a total of EUR 1.4 billion. In addition, revenue from tax paid on earned income has been reduced by index adjustments made to tax brackets by approximately EUR 950 million in 2016–2019. The largest reductions took place in the early part of the parliamentary term, when taxation was lowered as part of the 2017 Competitiveness Pact. In line with the Government Programme, taxation on earned income was not tightened during the parliamentary term.

Taxes on consumption were tightened by increasing tobacco tax and alcohol tax. The taxation of fuels has been tightened, and taxation of combined electricity and heat production steered in a lower-emission direction. In accordance with the Government Programme's transport tax reform, car tax was reduced in stages and the motor vehicle tax was increased. In addition to the measures outlined in the Government Programme, the Government also implemented a number of other tax measures. During the current parliamentary term, taxation has been reduced by a net amount of EUR 1.4 billion.

⁴ Some of the structural reforms, for example more efficient regional organisation of specialised medical care and development of informal and family care, require a longer than anticipated period to realise savings and their impact is therefore not evident yet at the 2019 level.

During the parliamentary term, the total tax rate is expected to decrease by 1.6 percentage points to 42.3% in 2019. The total tax rate is also projected to decrease during the spending limits period, due to growth rates slower than GDP of excise duties and car and motor vehicle tax revenues.

Most of the tax policy measures in Prime Minister Sipilä's Government Programme were implemented in 2016–2019, but the impact of some measures will continue to be realised in the early part of the spending limits period. For example, a reduction in the motor vehicle tax by EUR 50 million will not be visible in full until 2020. In accordance with earlier practice, annual index adjustments corresponding to rising earnings or inflation will be made in earned income taxation during the spending limits period.

In accordance with Prime Minister Sipilä's Government Programme, the municipalities have been compensated for the tax revenue impact of changes made by the Government to tax criteria. Real estate tax was raised in two years during the parliamentary term. Taxation changes are discussed in more detail in terms of central government finances in section 5.4 and in terms of local government finances in section 6.2.

Cutting the costs of municipalities, counties and the whole public sector, the 'Public sector billion'

In its General Government Fiscal Plan for 2018—2021, the Prime Minister Sipilä's Government decided to expand the EUR 1 billion reduction in municipalities' costs contained in the Government Programme to apply to the entire public sector.

At the time of preparation of the General Government Fiscal Plan for 2020–2023, the following means are being prepared and/or implemented to achieve the 'Public sector billion' target in 2020–2029:

Developing digitalisation and productivity in central government activities, in respect of which all central government operating expenditure will be reduced from 2020 by 0.5% per year (excluding the administrative branches of the Ministry of Justice, Ministry of the Interior, and Ministry of Defence as well as the operating expenditure of the Customs, to which a 0.3% target will be applied). The potential saving is approximately EUR 250 million, of which the saving impacts for 2020–2023 have been taken into account in the technical spending limits.

In the action programme to reduce municipalities' duties and obligations, there is a potential of approximately EUR 0.3 billion in savings or a reduction of cost growth in the entire public sector by 2029. There is still much uncertainty associated with a estimate with respect to a number of measures. Some of the measures have also been linked to the advance of the regional government, health and social services reform, and legislation for all of the measures is not yet ready. The actual impact will not be visible until later, and it also depends partly on the municipalities' own measures.

In addition, a digitalisation incentive scheme for municipalities, where the potential savings are estimated to be approximately EUR 0.1 billion, has been in preparation. The relevant decisions on the Government decree will be made by the next Government, so the discretionary government transfer application process has not yet begun.

Currently, a central government premises efficiency improvement programme is under way, with the aim of achieving EUR 100 million in savings by 2023. The intention is for the efficiency improvement program to continue on from 2023 until the end of 2029 such that an additional saving of EUR 50 million is achieved.

It is estimated approximately one third of the ‘Public sector billion’ will be realised through the statutes and implementation decisions made to date.

Competitiveness Pact

The Competitiveness Pact signed in 2016 includes elements that both strengthen and weaken public finances. If the Pact increases employment as expected and if central and local government are able to take full advantage of the savings potential created by the extension of working hours, the impact of the Pact on public finances will be almost neutral in the long term. In other words, a significant part of the room for manoeuvre brought to public finances by the Pact will be used to lower Finland’s comparatively high total tax rate, which in turn will create opportunities to boost economic activity. It should also be noted that the assessment does not include the positive effects on public finances of promoting local agreement and introducing the so-called Finnish model (export-led wage-setting model), which are difficult to estimate. The figures in the table are based on the autumn 2016 estimate of the impact of the Competitiveness Pact.

Table 15. Total impact on general government finances of decisions on revenue and expenditure, cumulative, EUR billion

	2016	2017	2018	2019	2020	2021	2022	2023
Decisions lowering central government appropriations	0.9	1.4	1.8	2.0	2.1	2.1	2.2	2.2
Decisions increasing central government appropriations	-0.2	-0.5	-0.7	-0.7	-0.7	-0.8	-1.1	-1.1
Estimated impact of index freezes and replacement savings	0.0	0.2	0.4	0.7	0.7	0.7	0.7	0.7
One-off additional investments in key projects, net	-0.3	-0.4	-0.5	0.0	0.0	0.0	0.0	0.0
Competitiveness Pact, incl. tax compensation for tax criteria changes	0.0	-0.9	-0.8	-0.8	-0.7	-0.7	-0.7	-0.7
Compensation to municipalities in central government transfers for tax revenue changes	-0.3	-0.4	-0.5	-0.7	-0.9	-1.1	-1.3	-1.3
Decisions increasing central government tax revenue	0.2	0.6	0.8	1.2	1.2	1.3	1.3	1.3
Decisions lowering central government tax revenue (excl. Index of Wage and Salary Earnings/Consumer Price Index adjustments)	-0.3	-0.5	-1.0	-1.3	-1.4	-1.4	-1.4	-1.4
Other decisions increasing central government revenue	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
One-off revenue-related measures (funding of key projects)	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0
Impact on central government budgetary position, net	0.1	-0.6	-0.3	0.5	0.2	0.1	-0.4	-0.4
Government measures increasing local government revenue	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Net impact of central government measures on local government tax revenue	-0.2	-0.1	-0.2	-0.1	-0.3	-0.3	-0.3	-0.3

	2016	2017	2018	2019	2020	2021	2022	2023
Competitiveness Pact, incl. tax compensation for tax criteria changes	0.0	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0
Compensation to municipalities through central government transfers for tax revenue changes	0.3	0.4	0.5	0.7	0.9	1.1	1.3	1.3
Impact of other central government measures on local government finances	0.0	0.2	0.3	0.3	0.3	0.3	0.3	0.3
Increases of municipalities' tax percentages	0.0	0.1	0.0	0.1	0.1	0.1	0.1	0.1
Impact on local government budgetary position, net	0.2	0.5	0.6	1.0	1.1	1.3	1.5	1.5
Increases of social security contributions, expenditure savings and index savings	0.7	0.7	0.3	0.3	-0.1	-0.5	-0.4	-0.4
Competitiveness Pact	0.0	-0.3	-0.4	-0.3	-0.2	-0.2	-0.2	-0.2
Impact in social security funds' balance, net	0.7	0.4	0.0	-0.6	-0.3	-0.7	-0.7	-0.7
Impact on general government balance, net	1.0	0.3	0.3	0.8	1.1	0.7	0.5	0.5
In ratio to GDP	0.4%	0.2%	0.1%	0.3%	0.4%	0.3%	0.2%	0.2%

8.2. Measures directed at general government expenditure

The table below presents the annual net change in general government expenditure in 2016–2023 from measures decided by Prime Minister Sipilä's Government⁵. In addition, the table includes the joint impacts of previous governments' measures.

The largest savings of Prime Minister Sipilä's Government concern expenditure on transfers to households. The strongest impacts of the savings took place in the early part of the period and in 2019, due to the ending of the 2016–2018 one-off key project investments. The increase in consumption expenditure from 2022 is due to an increase in the level of appropriations for basic transport infrastructure maintenance.

Table 16. Measures affecting general government expenditure, annual change, net, EUR billion

	2016	2017	2018	2019	2020	2021	2022	2023
Consumption expenditure	-0.1	0.1	0.1	0.2	0.0	0.0	-0.3	0.0
Expenditure on transfers to business and industry	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Expenditure on transfers to households	0.3	0.5	0.3	0.2	0.0	0.0	0.0	0.0
Other transfers	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real investment	0.0	0.1	0.0	0.1	0.0	0.0	0.0	0.0

⁵ Measures weakening the general government balance are presented with a minus sign and strengthening measures with a plus sign in the table.

	2016	2017	2018	2019	2020	2021	2022	2023
Other expenditure	-0.1	0.0	-0.1	0.1	0.0	0.0	0.0	0.0
Total	0.4	0.8	0.4	0.7	0.0	0.0	-0.3	0.0
Discretionary measures of the previous parliamentary term	-0.1	0.2	-0.3	-0.2	0.0	0.0	0.0	0.0

8.3. Measures directed at general government revenue

Measures directed at general government revenue

The table below presents the annual net change to measures affecting general government revenue in 2016–2023 on which decisions have been made by the Government. Net change refers to the combined impact of measures that increase and decrease revenue. The table also takes into account changes in taxation criteria decided in the previous parliamentary term, index adjustments made to earned income tax criteria, and one-off factors affecting changes in the timing of taxation. Changes related to taxation decided by Prime Minister Sipilä's Government were for the most part scheduled to take place in the early years of the parliamentary term. The figures presented in the General Government Fiscal Plan reflect the measures on which decisions have been made and their estimated financial effects. Planned measures are not included.

Table 17. Measures affecting general government revenue, annual change, net, EUR billion

	2016	2017	2018	2019	2020	2021	2022	2023
Taxes on earned income	-0.4	-0.8	-0.5	-0.2	-0.5	-0.5	-0.5	-0.5
Taxes on capital income	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Corporate taxes	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Other direct taxes	0.0	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0
VAT	0.0	-0.2	-0.2	0.0	0.0	0.0	0.0	0.0
Other indirect taxes	0.2	0.2	0.2	0.1	0.0	0.0	0.0	0.0
Social security contributions from employers	0.2	-1.5	-0.7	-0.7	0.2	-0.2	0.0	0.0
Social security contributions from the insured	0.4	0.4	0.3	0.1	0.4	-0.3	0.0	0.0
Total	0.5	-1.7	-0.9	-0.8	0.1	-1.0	-0.5	-0.5

9. Estimate of general government revenue and expenditure

Table 18. Central government according to the national accounts, EUR billion

	2018*	2019**	2020**	2021**	2022**	2023**
Direct taxes	14.9	15.7	16.1	16.8	17.5	18.0
Taxes on production and imports	33.1	33.5	34.1	34.7	35.3	35.9
Social security contributions	0.0	0.0	0.0	0.0	0.0	0.0
Taxes and social security contributions, total 2)	48.7	49.8	50.9	52.2	53.5	54.7
Other revenue 3)	9.0	9.0	9.0	8.9	9.0	9.1
of which interest income	0.2	0.2	0.2	0.2	0.3	0.3
Total revenue	57.7	58.8	59.9	61.2	62.6	63.8

	2018*	2019**	2020**	2021**	2022**	2023**
Consumption expenditure	13.6	13.8	14.3	14.7	15.2	15.7
Subsidies and other transfers to general government	40.2	40.2	41.0	41.9	42.7	43.8
Interest expenditure	28.4	28.4	28.9	29.4	30.0	30.9
Capital expenditure 4)	1.9	1.9	1.9	2.0	2.1	2.3
Total expenditure	4.7	4.6	4.5	4.3	4.6	4.7
Net lending (+) / net borrowing (-)	60.4	60.6	61.7	62.9	64.6	66.5
	-2.7	-1.8	-1.8	-1.7	-2.0	-2.6

Table 19. Local government according to the national accounts, EUR billion

	2018*	2019**	2020**	2021**	2022**	2023**
Taxes and social security contributions	22.5	23.9	24.6	25.6	26.4	27.1
of which municipal income tax	18.8	20.1	20.7	21.5	22.2	22.9
corporate tax	1.9	2.0	2.0	2.1	2.2	2.3
real estate tax	1.8	1.9	1.9	1.9	2.0	2.0
Other revenue 2)	19.3	19.5	20.8	21.2	21.8	22.6
of which interest income	0.3	0.3	0.3	0.3	0.3	0.3
of which transfers from central government	14.3	14.2	15.3	15.5	16.1	16.6
Total revenue	41.8	43.4	45.4	46.8	48.2	49.7
Consumption expenditure	35.7	36.8	38.3	39.7	41.2	42.7
of which compensation of employees	21.5	21.9	22.6	23.2	23.9	24.5
Income transfers	2.7	2.7	2.7	2.8	2.9	3.0
of which social security benefits and allowances	0.8	0.8	0.8	0.8	0.8	0.8
subsidies and other transfers	1.8	1.8	1.8	1.8	1.8	1.9
interest expenditure	0.1	0.1	0.2	0.2	0.3	0.3
Capital expenditure 3)	5.2	5.7	5.9	5.9	6.0	5.9
Total expenditure	43.6	45.2	46.9	48.4	50.1	51.6
Net lending (+) / net borrowing (-)	-1.8	-1.8	-1.5	-1.7	-1.9	-1.9

Table 20. Earnings-related pension funds

	2018*	2019**	2020**	2021**	2022**	2023**
Investment income	4.3	4.5	4.8	5.2	5.6	6.1
Social security contributions	22.2	23.1	24.0	24.8	25.5	26.1
of which paid by employers	15.4	15.7	15.9	16.4	16.9	17.3
of which paid by the insured	6.8	7.4	8.1	8.3	8.6	8.8
Income and capital transfers from general government	2.3	2.3	2.3	2.4	2.5	2.6
Other revenue	0.4	0.4	0.4	0.4	0.4	0.4
Total revenue	29.1	30.2	31.5	32.7	33.9	35.2
Consumption expenditure	0.8	0.8	0.8	0.8	0.8	0.8
Social security benefits and allowances	23.7	24.7	25.6	26.6	27.7	28.9
Other expenditure	2.2	2.2	2.3	2.3	2.4	2.5
Total expenditure	26.6	27.7	28.7	29.8	30.9	32.2

	2018*	2019**	2020**	2021**	2022**	2023**
Net lending (+) / net borrowing (-)	2.5	2.5	2.8	2.9	3.0	3.0

Table 21. Other social security funds

	2018*	2019**	2020**	2021**	2022**	2023**
Investment income	0.03	0.03	0.04	0.04	0.05	0.05
Social security contributions	5.78	5.30	6.14	5.89	6.06	6.17
of which paid by employers	2.45	2.10	2.72	2.64	2.71	2.77
of which paid by the insured	3.33	3.20	3.42	3.25	3.35	3.40
Income and capital transfers from general government	13.23	13.21	12.59	12.78	12.79	12.98
Other revenue	0.03	0.03	0.03	0.03	0.03	0.03
Total revenue	19.07	18.58	18.79	18.74	18.93	19.22
Consumption expenditure	2.98	3.09	3.19	3.18	3.26	3.22
Social security benefits and allowances	14.23	14.04	14.12	14.23	14.48	14.84
Other expenditure	1.14	1.08	1.09	1.10	1.12	1.17
Total expenditure	18.35	18.21	18.40	18.50	18.87	19.22
Net lending (+) / net borrowing (-)	0.72	0.36	0.40	0.23	0.05	0.00

General government fiscal forecast under unchanged policies

Table 22. Revenue and expenditure under unchanged policies

	2018*	2018*	2019**	2020**	2021**	2022**	2023**
	level,						
	EUR billion			% GDP			
Total revenue with unchanged policies	122.7	52.5	52.3	52.2	52.0	51.9	51.9
Total expenditure with unchanged policies	124.0	53.1	52.6	52.2	52.0	52.2	52.5

Minister of Finance

Petteri Orpo

Director General of the Budget Department Hannu Mäkinen

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APPENDIX 1 Forecasts and assumptions used in the calculations

The expenditure and revenue estimates of the General Government Fiscal Plan as well as the price- and cost-level adjustments are based on the independent forecast of the Ministry of Finance's Economics Department given below. The forecast was updated on 22 March.⁶

	2017	2018	2019	2020	2021	2022	2023
GDP, change in volume, %	2.7	2.3	1.7	1.4	1.2	1.0	0.7
GDP, change in price	0.9	1.9	1.7	2.0	2.0	1.9	1.9
GDP, value, EUR million	223 892	233 555	241 680	249 768	257 609	265 127	272 075
GNI, value, EUR million	224 565	232 880	241 424	249 512	257 353	264 871	271 819
Consumer Price Index, change %	0.7	1.1	1.2	1.5	1.7	1.8	1.8
Index of Wage and Salary Earnings, change %	0.2	1.8	2.8	3.3	3.1	3.0	3.0
Building Cost Index, change %	0.3	2.3	2.1	2.3	2.4	2.2	2.0
Basic Price Index for Domestic Supply, change %	4.9	4.7	2.3	2.4	2.3	2.1	2.0
Unemployment rate, %	8.6	7.4	6.3	6.1	6.0	6.1	6.3
Wage bill, change %	2.2	4.7	4.0	3.7	3.4	2.8	2.6
Short-term interest rate, 3 months, %	-0.3	-0.3	-0.2	0.1	0.4	0.6	0.8
Long-term interest rate, 10 years, %	0.5	0.7	0.8	1.4	2.0	2.5	2.9
TyEL Index	2534	2548	2585	2622	2673	2726	2782
National Pension Index (KEL)	1617	1617	1617	1635	1661	1689	1720
Price index of basic public services, forecast	-0.5	1.4	1.6	2.7	2.7	2.6	2.5
Change in cost level used in Budget Proposal (Index of Central Government Transfers to Local Government)	-0.5	0.0	0.0	2.7	2.7	2.6	2.5
— index adjustment	0.0	0.0	0.0				
Index of Central Government Transfers to Local Government without freezing in 2016—2019	-0.7	0.6	1.3	2.7	2.7	2.6	2.5
University index (forecast used in budgeting)	1.0	2.1	2.4	2.8	2.7	2.6	2.6
Vocational education and training index	1.4	2.4	2.4	2.8	2.7	2.6	2.6
YLE Index	0.4	1.6	2.3	2.7	2.6	2.6	2.6
Unemployment insurance contributions							

⁶ A draft forecast prepared by the Economics Department on 8 March was used in the revenue and expenditure estimates of the spending limits decision. The figures of the table are based on the forecast made on 22 March. The changes relate to the table rows GDP change in volume and change in price, GDP value and GNI value.

	2017	2018	2019	2020	2021	2022	2023
— employer, average	2.41	1.91	1.50	1.50	1.31	1.31	1.31
— employee	1.60	1.90	1.50	1.50	1.30	1.30	1.30
TyEL contribution	24.4	24.4	24.4	24.4	24.4	24.4	24.4
— employer	18.0	17.8	17.4	17.0	17.0	17.0	17.0
— employee aged 53 yrs and under	6.15	6.35	6.75	7.15	7.15	7.15	7.15
— employee over 53 yrs	7.65	7.85	8.25	8.65	8.65	8.65	8.65
— wage coefficient	1.389	1.391	1.417	1.452	1.495	1.537	1.579
Health insurance contributions of the insured							
— employees' daily allowance contribution	1.58	1.53	1.54	1.16	1.17	1.17	1.16
— wage earners' and entrepreneurs' medical care contribution	0.00	0.00	0.00	0.66	0.53	0.54	0.49
— pensioners' medical care contribution	1.45	1.53	1.61	1.63	1.50	1.51	1.46
Central government employer contributions							
— health insurance contribution	1.08	0.86	0.77	1.35	1.36	1.36	1.35
— pension contribution (under Central Government Employees' Pensions Act [VaEL])	16.95	16.95	17.13	16.73	16.74	16.74	16.74
Local government employer contributions							
— health insurance contribution	1.08	0.86	0.77	1.35	1.36	1.36	1.35
— other social insurance contributions	0.7	0.7	0.7	0.7	0.7	0.7	0.7
— unemployment insurance contribution	3.16	2.49	1.96	1.96	1.72	1.72	1.72
— pension contribution (under Local Government Employees' Pensions Act [KuEL])	22.0	21.6	21.2	20.8	20.8	20.8	20.8

APPENDIX 2 Price- and cost-level adjustments under the central government spending limits

Price- and cost-level adjustments

The central government spending limits for 2020–2023 are expressed in cost and price levels for 2020. Some of the expenditure, such as development aid expenditure and national financing contributions corresponding to EU Structural Fund contributions, are estimated at current prices, in which case they include an estimate of the impact on the appropriation of the rise in prices in the spending limits period. In other respects, the expenditure level will be revised annually according to the estimated rise in costs and prices.

Price- and cost-level adjustments compared with the previous spending limits decision total EUR 460 million for 2020, taking into account the impact of transferring to the 2020 price and cost level. The adjustment again takes into account all statutory index increases normally after the frozen years.

Adjustment of spending limits to 2020 price and cost levels, EUR million

Spending limits expenditure according to classification of economic nature	Index used in calculation	Adjustment of appropriation and spending limits level		Adjustment to spending limits level
		Statutory index adjustment	Contractual adjustment	Other cost adjustments to spending limits expenditure
15-17 Pensions	Employee Pension Index (TyEL)	74.7		
18-19 Defence materiel acquisitions	Predictive increase 1.5%		22.1 ¹	
01-14 Wages and social security contributions	Increases under agreements			
Transport infrastructure expenditure	Building Cost Index (RKI)			
01-14, 20-28 Other operating expenses and consumption	Consumer Price Index (KHI)			
30-39 Imputed central government aid to municipalities and joint municipal authorities etc.	Index of Central Government Transfers to Local Government (VOS)	210.4		
30-39 Other central government aid to municipalities and joint municipal authorities	Index of Central Government Transfers to Local Government (VOS)			
30 Central government funding for vocational education and training	Vocational education and training index	21.8		
40-49 Central government aid to trade and industry	Consumer Price Index (KHI)			
50-59 Central government aid to households and non-profit-making organisations indexed on a statutory basis	National Pension Index (KEL), Employee Pension Index (TyEL), Consumer Price Index (KHI)	20.8		

Spending limits expenditure according to classification of economic nature	Index used in calculation	Adjustment of appropriation and spending limits level		Adjustment to spending limits level
		Statutory index adjustment	Contractual adjustment	Other cost adjustments to spending limits expenditure
51-52 Central government funding to Evangelical Lutheran Church and grant to Orthodox Church	Consumer Price Index (KHI)	1.7		
50-59 Non-indexed central government aid to households	National Pension Index (KEL)			
50 Central government funding for universities and universities of applied sciences	University Index	66.8		
50-59 Other central government aid to households and non-profit-making organisations	Consumer Price Index (KHI)			
60 Transfers to off-budget central government funds	Consumer Price Index (KHI)			
60 Transfers to Social Insurance Institution of Finland	National Pension Index (KEL)	39.6		
60 Central government transfer for expenditure arising from the Health Insurance Act	National Pension Index (KEL)	2.0		
61-65 Central government funding contributions corresponding to EU Structural Fund contributions and other domestic transfers	Included in programme spending limits			
66-68 Transfers abroad	At current prices			
69 Transfers to the EU	EU GDP Price Index			
70-79 Real investments	Building Cost Index (RKI)			
90-99 Other expenditure	Consumer Price Index (KHI)			
Supplementary budget provision and unallocated reserve	Consumer Price Index (KHI)			
Total in 2020		437.7	22.1	

¹⁾ A predictive 1.5% price- and cost-level adjustment will be made to appropriation levels (excl. payroll expenditure) for the Defence Forces' operating expenditure, defence materiel procurement and military crisis management equipment and administration expenditure. This adjustment will be revised later to correspond with the rise in prices (annual average index change) indicated by the Consumer Price Index in terms of the Defence Forces' operating expenditure and military crisis management equipment and administrative expenditure as well as the rise (months total/annual change) of the C28 sub-index (Manufacturing of other machinery and equipment) of the Industrial Producer Price Index for defence materiel procurement. The actual index expenditure of the Squadron 2020 project will be adjusted later in accordance with actual expenditure.

APPENDIX 3 Changes in the forecasts for general government finances compared with the previous General Government Fiscal Plan

Factors affecting general government budgetary position, according to national accounts, % GDP¹⁾

	2019	2020	2021	2022
General government balance, spring 2017	-0.2	0.1	0.3	0.3
Central government:				
Impact of revised statistical basis on revenue and expenditure estimates	0.2	0.2	0.2	0.2
Impact of revised macroeconomic forecast on revenue and expenditure estimates	0.0	0.0	0.0	0.0
Impact of discretionary measures on revenue and expenditure estimates	-0.1	-0.1	-0.3	-0.3
Impact of other factors	0.0	-0.4	-0.3	-0.5
Local government:				
Impact of revised statistical basis on revenue and expenditure estimates	-0.6	-0.6	-0.6	-0.6
Impact of revised macroeconomic forecast on revenue and expenditure estimates	0.0	0.0	0.0	0.0
Impact of discretionary measures on revenue and expenditure estimates	0.0	0.0	0.0	0.0
Impact of other factors	0.2	0.5	0.5	0.5
Earnings-related pension funds:				
Impact of revised statistical basis on revenue and expenditure estimates	0.1	0.1	0.1	0.1
Impact of revised macroeconomic forecast on revenue and expenditure estimates	0.0	0.1	0.1	0.1
Impact of discretionary measures on revenue and expenditure estimates	0.0	0.1	0.1	0.1
Impact of other factors	0.0	0.0	0.0	0.0
Other social security funds:				
Impact of revised statistical basis on revenue and expenditure estimates	0.1	0.1	0.1	0.1
Impact of revised macroeconomic forecast on revenue and expenditure estimates	0.1	0.1	0.1	0.0
Impact of discretionary measures on revenue and expenditure estimates	-0.2	-0.1	-0.3	-0.3
Impact of other factors	0.0	-0.1	0.0	0.0
General government balance, spring 2018	-0.3	0.0	-0.1	-0.3

¹⁾ Due to rounding, the figures do not necessarily add up to totals.

APPENDIX 4 Economic development risks and their impact on public finances

The baseline scenario of the General Government Fiscal Plan is based, with respect to 2019–2021, on the independent economic outlook forecast of the Economics Department of the Ministry of Finance from 2019. The years 2022 and 2023 have been taken into account in the scenario based on, among other things, the growth estimate for potential output. In addition to the economic forecast, the general government budgetary position in the baseline scenario is based on the Government Programme of Prime Minister Sipilä's Government, the General Government Fiscal Plan for 2017–2020 adopted by the Government in April 2016, the 2017 State budget, the 2018 State budget, the 2019 State budget and the General Government Fiscal Plan adopted by the Government in April 2019.

According to the baseline scenario, Finland's economy will grow on average by 1.4% in 2018–2020. The *international* risks of the forecast are down-side and high. A key risk is a no-deal Brexit, which would impact economic development, particularly in Europe. There also remains a significant risk associated with Italy's economic policy. An easing of trade conflicts is the most significant positive risk.

Domestic risks are associated with, among other things, private consumption, which will continue to be brisk during the outlook period and support GDP growth. Realisation of external risks may result in a sudden decline in consumer confidence and thereby private consumption and GDP. A higher level of household indebtedness will make it more difficult for households to keep their consumption levels unchanged during a downturn. There are also risks in the development of investments, including a faster contraction of housing investments.

The figures in the table below show the impact on unemployment and on the general government budgetary position and debt of economic growth that is either slower or faster than the baseline. The calculations are based on the assumption that annual output growth will deviate by one percentage point in either direction from the baseline scenario in the period under examination.

In the slower growth scenario, GDP growth would be more sluggish in 2019–2023. The unemployment rate would even so drop to 7.2%. The general government deficit would be over 3% in 2023, and the debt-to-GDP ratio would begin to rise again, reaching approximately 67%. This would significantly increase the need to consolidate general government finances, and general government finances would be more vulnerable to various negative shocks.

Faster growth than the baseline scenario of one percentage point would be sufficient to set the general government debt ratio onto a steeply downward path in the programme period. The general government budgetary position would improve to produce a clear surplus. The unemployment rate would fall fairly rapidly. A precondition for more favourable economic growth than in the baseline scenario is the continuation of the upturn in the international economy as well as higher than anticipated economic growth in the industrialised countries.

The overall impact of the *low level of interest rates* on Finland's general government budgetary position has been to increase the deficit. The exceptionally low level of interest rates means that general government interest expenditure has remained fairly low, i.e. only just over 1% in ratio to GDP. On the other hand, the interest income received by earnings-related pension funds included in general government finances has declined significantly, and the impact of the decline in interest income on the general government budgetary position has been greater than the impact of falling interest expenditure. The property income of the earnings-related pension funds also depends on the allocation of their holdings.

As a rough estimate, a rise in the level of interest rates by one percentage point would increase general government interest expenditure by approximately EUR 0.5 billion in 2019, and by 2022 interest expenditure would increase by slightly less than EUR 1 billion. A rise in the level of interest rates would correspondingly increase the interest income of the earnings-related pension funds. The public debt-to-GDP ratio would increase, however, as the surplus produced by the earnings-related pension providers cannot be used to cover deficits in other sectors.

Sensitivity analysis

Baseline	2018	2019	2020	2021	2022	2023
GDP, change, %	2.3	1.7	1.4	1.2	1.0	0.7
Unemployment rate, %	7.4	6.3	6.1	6.0	6.1	6.3
Budgetary position, % GDP	-0.6	-0.3	0.0	-0.1	-0.3	-0.6
Public debt, % GDP	58.9	58.1	57.4	57.4	57.7	58.3
Slow growth						
GDP, change, %	2.3	0.7	0.4	0.2	0.0	-0.3
Unemployment rate, %	7.4	7.2	7.2	7.1	7.1	7.2
Budgetary position, % GDP	-0.6	-0.9	-1.2	-1.8	-2.7	-3.5
Public debt, % GDP	58.9	59.1	59.7	61.5	64.0	67.2
Growth in 2019–2023 1 pp slower than in the baseline scenario						-3.0
Fast growth						
GDP, change, %	2.3	2.7	2.4	2.2	2.0	1.7
Unemployment rate, %	7.4	6.3	5.9	5.4	5.1	4.7
Budgetary position, % GDP	-0.6	0.3	1.1	1.7	2.0	2.4
Public debt, % GDP	58.9	57.1	55.0	53.3	51.5	49.7
Growth in 2019–2023 1 pp faster than in the baseline scenario						
Change in interest expenditure, if level of interest rates rises 1 pp, % GDP		0.19	0.23	0.27	0.29	0.31

APPENDIX 5 Stability Programme

Finland's Stability Programme is part of the General Government Fiscal Plan, which meets the EU's requirement for a national medium-term fiscal plan (Regulation (EU) No. 473/2013 of the European Parliament and of the Council).⁷

Finland's Stability Programme for 2020–2022 is a so-called no policy change programme, which has been approved by Prime Minister Sipilä's caretaker Government. The new Government to be formed after the parliamentary elections to be held on 14 April 2019 will approve, a new Stability Programme as part of the first General Government Fiscal Plan of the parliamentary term in autumn 2019.

The data in the Stability Programme tables are actual data⁸ with respect to 2018, while the data for 2019–2022 are based on the independent forecast of the Economics Department of the Ministry of Finance. A no policy change scenario, which only contains measures decided by the present Government, is presented for 2020–2022⁹.

Fiscal policy targets

The 2016 Stability Programme set the Medium-Term Objective (MTO) at -0.5% of GDP balance.

The MTOs are reviewed every three years. The next review will take place in spring 2019. Finland's current MTO meets the minimum requirements set for it, including that Finland has committed to a minimum level of the MTO of -0.5% of GDP in the Fiscal Compact. The new Government to be formed after the parliamentary elections will define the MTO in its first General Government Fiscal Plan.

Government measures to achieve the fiscal policy targets

The Stability Programme is based on a no policy change scenario and does not contain new measures to achieve the targets.

In assessing the achievement of previously set targets, it can be maintained that the Competitiveness Pact and the employment-promotion measures aimed at delivering the 72% employment rate target set in Prime Minister Sipilä's Government Programme have played a key role in achieving the targets.

Many of the fiscal policy objectives set by Prime Minister Sipilä's Government are expected to be achieved. In particular, it appears likely that the Government's goals of increasing the employment rate to 72% and the number of the employed by 110,000 during the parliamentary term will be reached in 2019 at the latest.

Prime Minister's Sipilä's Government sought to strengthen preconditions for employment and economic growth through both structural reforms and taxation. The Competitiveness Pact enhanced the price

⁷ Under Article 4 of Regulation 473/13, "national medium-term fiscal plans and draft budgets shall be based on independent macroeconomic forecasts, and shall indicate whether the budgetary forecasts have been produced or endorsed by an independent body", whereas under Article 3 of Regulation 1466/97, "the stability programme shall be based on the most likely macrofiscal scenario or on a more prudent scenario".

⁸ Data are based on the national accounts published by Statistics Finland on 15 March 2019.

⁹ The Defence Forces' fighter procurement will not yet impact the general government budgetary position in 2021–2022. Fighter purchases will be reported in the national accounts on an accrual basis, i.e. only at the time of delivery of the fighters. The front-loaded financing of the purchases will be reflected, however, in central government on-budget debt and thereby in general government debt.

competitiveness of Finnish companies and the preconditions for export growth. Actions taken to increase the supply of labour, on the other hand, have included eliminating incentive traps, improving labour mobility, reforming the unemployment security system and employment services and ensuring that taxation on earned income will not be increased.

Compliance with the preventive arm of the Stability and Growth Pact

Finland is in the preventive arm of the Stability and Growth Pact and is subject to the requirements of the preventive arm that relate to progress towards the MTO. The achievement of the MTO or progress towards it are assessed with the aid of two pillars, the change in the structural balance and the expenditure benchmark.

The ex-post assessment of 2018 will be done based on the country-specific recommendations adopted in summer 2017. At that time, the recommendation given to Finland was: “to achieve its medium term budgetary objective in 2018, taking into account the allowances linked to unusual events, the implementation of the structural reforms and investments for which a temporary deviation is granted.”¹⁰

The structural balance deteriorated in 2018 and according to the independent forecast was -0.7% of GDP. The Ministry of Finance concludes that Finland therefore achieved its Medium-Term Objective in 2018, as the structural balance was sufficiently close to the MTO.¹¹ Taking the uncertainties associated with calculating the structural balance into account, however, it cannot be considered certain that the Commission will come to same conclusion in its own assessment. In any case, the assessment of the Ministry of Finance is that Finland achieved the MTO in the manner set out in the country-specific recommendations. In the assessment of the Ministry of Finance, there was a small but not significant deviation in the expenditure benchmark in 2018, and the expenditure benchmark was cumulatively met in 2017–2018. The Ministry of Finance concludes that Finland met the requirements of the preventive arm of the Stability and Growth Pact in 2018 and cumulatively in 2017–2018.

According to the country-specific recommendations adopted by the Council in June 2018, Finland should take action to “achieve the medium-term budgetary objective in 2019, taking into account the allowances linked to the implementation of the structural reforms for which a temporary deviation is granted”.¹²

In 2019, the structural balance according to the independent forecast will be -0.7% of GDP and therefore, in the assessment of the Ministry of Finance, sufficiently close to the MTO for the MTO to be considered achieved. Once again, however, taking the uncertainties associated with calculating the structural balance into account, this cannot be considered certain. In any case, the assessment of the Ministry of Finance is that the MTO is achieved in 2019 in accordance with the country-specific recommendations.

¹⁰ In spring 2017, Finland was granted the allowance under the structural reform and investment clauses contained in the Stability and Growth Pact, totalling 0.6% in ratio to GDP due to reforms supporting the sustainability of general government finances and the implementation of EU co-funded investment projects. Allowances have been granted for 2017–2019 Last spring’s Stability Programme – and the Commission’s spring 2018 assessment – did not take into account the allowance granted to Finland on the basis of the investment clause as at that time, according preliminary data, public investment shrank in 2017. Based on updated statistical data obtained after spring 2018, public investment grew, however, in 2017, so Finland should also have been entitled to an allowance of 0.1 percentage points in accordance with the investment clause. Investment also grew in 2018 and according to the independent forecast, it will also grow in 2019. Thus, the permitted deviation of the structural balance from the MTO would be 0.6 percentage points in 2018 and 2019.

¹¹ The MTO is considered to have been achieved when the distance of the structural balance from the MTO is at most 0.25% of GDP, i.e. in Finland’s case at most -0.75% of GDP.

¹² The country-specific recommendation for 2020 will be adopted by the Council in the summer of 2019, but as the utilisation period of the allowances granted to Finland in 2017 will end, it can be assumed that it will be recommended that Finland returns to its MTO. As stated at the beginning, the Government formed after the parliamentary elections will set the MTO in its first General Government Fiscal Plan in autumn 2019.

In the assessment of the Ministry of Finance, there will be a small but not significant deviation in the expenditure benchmark in 2019, and cumulatively in 2018–2019. The Ministry of Finance concludes that Finland will meet the requirements of the preventive arm of the Stability and Growth Pact in 2019 and cumulatively in 2018–2019.

The allowances granted to Finland will expire in 2019, so Finland must return to the adjustment path towards the MTO in 2020. The country-specific recommendations relating to this however will not be adopted until summer 2019.

According to the independent forecast, the structural balance will strengthen to -0.4% of GDP in 2020 and, according to the Ministry of Finance, will meet the requirements set for the MTO. The expenditure benchmark will be met in 2020 and cumulatively in 2019–2020. The Ministry of Finance concludes that Finland will meet the requirements of the preventive arm in 2020 and cumulatively in 2019–2020.

Government’s assessment of progress towards the Medium-Term Objective

The Government endorses the above assessment of progress towards the MTO. In the Government’s assessment, Finland has remained at the MTO in 2018, in accordance with the country-specific recommendation adopted in summer 2017. In 2019, the structural balance will be sufficiently close to the MTO for the MTO to be considered achieved. In this, however, the uncertainties associated with calculating the structural balance should be taken into account. In any case, Finland will remain within its MTO in accordance with the country-specific recommendations adopted in 2019. The general government structural balance will strengthen further in 2020 and meet the requirements set for the MTO.

Pursuant of section 3, subsection 1 of the Fiscal Policy Act (869/2012), the Government will initiate the measures it deems necessary to correct budgetary stability and sustainability if the structural balance of the general government, in the Government’s assessment, deviates significantly in a manner that jeopardises the achievement of the Medium-Term Objective. The Government will assess this in connection with the monitoring and overall assessment of the state of public finances or as the European Union draws attention to this matter in its statement on Finland’s Stability Programme.

Compliance with deficit and debt criteria

The general government deficit decreased to -0.6% of GDP in 2018. According to the independent forecast of the Ministry of Finance’s Economics Department, the fiscal balance will improve to -0.3% of GDP in 2019. It will strengthen further to balance in 2019 and remain roughly in balance also in 2021. Therefore exceeding the deficit reference value of 3% cannot be considered a risk.

Public debt decreased to below the 60% reference value to 58.9% of GDP in 2018. According to the independent forecast of the Ministry of Finance, public debt will decrease further to 58.1% in 2019 to 57.4% in 2018. The forecast figures indicate that Finland will meet the backward-looking debt rule in 2018 and 2019 and therefore the debt rule can also be considered to be met in 2018 and 2019.

Assessment of progress on country-specific recommendations of 2018

According to the country-specific recommendations adopted by the Council in July 2018, Finland should take action to “achieve the medium-term budgetary objective in 2019, taking into account the allowances linked to the implementation of the structural reforms for which a temporary deviation is granted”.

Progress towards the MTO has been assessed above. In line with the country-specific recommendations adopted in summer 2017, Finland has achieved its MTO in 2018, taking into account the allowances granted to Finland.

Progress made in the other country-specific recommendations given to Finland is discussed in the National Reform Programme (EU2020 programme).¹³

Comparison with other forecasts, and sensitivity analysis

For a comparison between the targets set by the Government and the Commission's latest public finance forecast, see the table below and the sensitivity analysis in Appendix 4 to the General Government Fiscal Plan. The Commission's most recent GDP and inflation figures date back to February 2019 and the public finance figures to November 2018. Unlike the Commission's winter forecast, the Ministry of Finance had access to fresh preliminary data from 2018.

Tables 1–3

Comparison with Commission's previous forecast

	Commission's forecast ¹				Ministry of Finance, April 2019			
	2017	2018	2019	2020	2017	2018	2019	2020
GDP, change, %	2.8	2.5	1.9	1.7	2.7	2.3	1.7	1.4
unemployment rate, %	8.6	7.8	7.2	6.9	8.6	7.4	6.3	6.1
General government budgetary position, % GDP	-0.7	-0.8	-0.2	-0.1	-0.8	-0.6	-0.3	0.0
Structural balance, % GDP	-0.2	-0.8	-0.6	-0.7	-0.6	-0.7	-0.7	-0.3
General government debt, % GDP	61.3	59.8	58.5	57.5	61.3	58.9	58.1	57.4

¹⁾ The Commission's GDP forecast from February 2019 and other forecasts from November 2018.

Table 1a. Macroeconomic prospects

	2018 EUR billion	2018	2019	2020	2021	2022
1. Real GDP	202.4	2.3	1.7	1.4	1.2	1.0
2. GDP at current prices	233.6	4.3	3.5	3.3	3.1	2.9
Components of real GDP						
3. Private consumption expenditure	124.8	1.4	1.8	1.6	1.6	1.1
4. Government final consumption	53.0	1.4	0.2	0.5	0.3	0.7
5. Gross fixed final consumption	52.6	3.2	0.5	0.8	0.6	1.1
6. Changes in inventories and net acquisition of valuables (% of GDP)	2.6	0.9	1.0	1.0	0.9	0.8
7. Exports of goods and services	91.0	1.5	3.2	2.9	2.0	1.5
8. Imports of goods and services	92.3	4.2	2.7	2.5	1.9	1.5
Imputed impact in GDP growth, % points						

¹³ <http://vm.fi/eurooppa-2020-strategia>

	2018	2018	2019	2020	2021	2022
	EUR					
	billion					
9. Final domestic demand	230.5	1.8	1.1	1.2	1.1	1.0
10. Change in inventories and net acquisition of valuables	2586.0	1.6	0.4	0.0	0.0	0.0
11. External balance of goods and services	-1.3	-1.0	0.2	0.2	0.0	0.0

Table 1b. Development of price indices

	2018	2019	2020	2021	2022
1. GDP deflator	1.9	1.7	2.0	2.0	1.9
2. Private consumption deflator	1.3	1.4	1.6	1.8	1.8
3. Harmonised Index of Consumer Prices	1.2	1.3	1.5	1.7	1.8
4. Public consumption deflator	1.6	2.6	3.2	2.9	2.8
5. Investment deflator	2.7	1.9	1.7	1.7	1.6
6. Export price deflator	4.0	2.3	2.1	1.9	1.9
7. Import price deflator	3.5	2.5	2.3	1.8	1.8

Table 1c. Labour market development

	2018	2018	2019	2020	2021	2022
	level					
1. Employment, 1,000 persons	2 540	2.7	1.2	0.4	0.3	-0.2
2. Employment, 1,000 working hours	4 259 100	2.6	1.1	0.3	0.2	-0.2
3. Unemployment rate (%)	202	7.4	6.3	6.1	6.0	6.1
4. Labour productivity, persons	79.7	-0.4	0.5	0.9	0.9	1.2
5. Labour productivity, hours worked	47.5	-0.3	0.6	1.1	1.0	1.2
6. Compensation of employees	109.2	4.1	3.3	3.9	3.2	2.8
7. Compensation of employees per employee	43.0	1.4	2.0	3.4	3.0	3.0

Table 1d. Sectoral balances, % GDP

	2018	2019	2020	2021	2022
1. Finland's net lending/borrowing vis-à-vis the rest of the world	-1.8	-1.4	-1.3	-1.2	-1.2
of which:					
— Balance of goods and services	-0.6	-0.4	-0.4	-0.3	-0.2
— Factor income and transfer balance	-1.3	-1.0	-1.0	-1.0	-1.0
— Capital transfers, net	0.0	0.0	0.0	0.0	0.0
2. Private sector net lending	-0.5	-0.5	-0.6	-0.5	-0.2
3. Public sector net lending	-0.6	-0.3	0.0	-0.1	-0.3
4. Statistical discrepancy	0.7	0.7	0.7	0.7	0.7

Table 2a. General government prospects, % GDP

	2018	2018	2019	2020	2021	2022
	EUR million					
Net lending by subsector (EDP B.9)						
1. General government, total	-1 347	-0.6	-0.3	0.0	-0.1	-0.3
2. Central government	-2 733	-1.2	-0.7	-0.7	-0.7	-0.8
3. County government				0.0	0.0	0.0
4. Local government	-1 819	-0.8	-0.7	-0.6	-0.6	-0.7
5. Social security funds	3 205	1.4	1.2	1.3	1.2	1.2
General government (S13)						
6. Total revenue	122 676	52.5	52.3	52.2	52.0	51.9
7. Total expenditure	124 023	53.1	52.6	52.2	52.0	52.2
8. Net lending	-1 347	-0.6	-0.3	0.0	-0.1	-0.3
9. Interest expenditure	2 047	0.9	0.9	0.9	0.9	0.9
10. Primary balance	700	0.3	0.6	0.8	0.8	0.6
11. One-off measures	0	-0.1	0.1	0.0	0.0	0.0
Revenue categories						
12. Tax revenue (12=12a+12b+12c)	71 136	30.5	30.5	30.2	30.2	30.1
12a. Taxes on production and imports	33 084	14.2	13.8	13.6	13.5	13.3
12b. Current taxes on income	37 360	16.0	16.4	16.3	16.5	16.5
12c. Taxes on capital income	692	0.3	0.3	0.3	0.3	0.3
13. Social security contributions	28 009	12.0	11.8	12.1	11.9	11.9
14. Property income	7 252	3.1	3.1	3.1	3.1	3.2
15. Other revenue (15=16-12-13-14)	16 279	7.0	6.9	6.8	6.7	6.6
16. = 6. Total revenue	122 676	52.5	52.3	52.2	52.0	51.9
of which: Tax burden (D2+D.5+D.61+D.91-D.995)	99 442	42.5	42.4	42.4	42.2	42.1
Expenditure categories						
17. Compensation of employees + intermediate consumption	53 674	23.0	22.8	22.8	22.8	22.9
17a. Compensation of employees (i.e. wages + employer's social security contributions)						
17b. Intermediate consumption						
18. Social transfers (18=18a+18b)	49 729	21.3	21.1	21.0	20.9	21.0
of which unemployment benefits	4 500	1.9	1.7	1.6	1.6	1.6
18a. Social transfers in kind						
18b. Monetary social benefits						
19. = 9. Interest expenditure	2 047	0.9	0.9	0.9	0.9	0.9
20. Subsidies	2 749	1.2	1.2	1.1	1.1	1.1
21. Gross fixed capital formation	9 723	4.2	4.1	4.0	3.8	3.9
22. Capital transfers	388	0.2	0.1	0.1	0.1	0.1
23. Other expenditure (23 = 24 -17-18-19-20-21)	5 713	2.4	2.4	2.4	2.4	2.4
24. = 7. Total expenditure	124 023	53.1	52.6	52.2	52.0	52.2
of which: Public consumption	53 044	22.7	22.6	22.6	22.7	22.8

Table 2b. Revenue and expenditure under unchanged policies, % GDP

	2018	2018	2019	2020	2021	2022
	EUR million					
1. Total revenue under unchanged policies	122 676	52.5	52.3	52.2	52.0	51.9
2. Total expenditure under unchanged policies	124 023	53.1	52.6	52.2	52.0	52.2

Table 2c. Amounts to be excluded from the expenditure benchmark, % GDP

	2018 EUR million	2018	2019	2020	2021	2022
1. Expenditure on EU programmes fully matched by EU funds revenue	473	0.2	0.2	0.2	0.2	0.2
1a. of which investment fully matched by EU funds revenue	84	0.0	0.0	0.0	0.0	0.0
2. Cyclical unemployment benefit expenditure	466	0.2	0.0	0.0	0.0	0.0
3. Effect of discretionary revenue measures	-711	-0.3	-0.2	0.2	-0.2	0.0
4. Revenue increases mandated by law	82	0.0	0.0	0.0	0.0	0.0

Table 3. General government expenditure broken down by main components, % GDP

	COFOG code	2017	2022
1. General public services	1	7.9	6.8
2. Defence	2	1.3	1.2
3. Public order and safety	3	1.1	1.2
4. Promotion of business and industry	4	4.3	4.1
5. Environmental protection	5	0.2	0.2
6. Housing and community amenities	6	0.3	0.3
7. Healthcare	7	7.1	6.9
8. Recreation, culture and religion	8	1.5	1.2
9. Education	9	5.7	5.4
10. Social security	10	24.9	24.8
11. Total expenditure (=item 7=23 in Table 2)	Total	54.2	52.2

Tables 4–8**Table 4. Development of general government debt, % GDP**

	2018	2019	2020	2021	2022
1. Gross debt, % GDP	58.9	58.1	57.4	57.4	57.7
2. Change in the gross debt ratio, pp	-2.4	-0.8	-0.7	0.0	0.3
Contributions to changes in gross debt, pp					
3. Primary balance	-0.3	-0.6	-0.8	-0.8	-0.6
4. Interest expenditure	0.9	0.9	0.9	0.9	0.9
5. Stock-flow adjustment items	-3.0	-1.1	-0.8	-0.1	0.0
of which:					
— Differences between cash-based and accrual-based statistics	0.1	0.2	0.1	0.7	0.6
— Net acquisition of financial assets	0.6	0.8	1.0	1.0	1.0
— of which: privatisation proceeds	-0.4	-0.2	-0.2	-0.2	-0.2
— Other (incl. impacts of GDP growth)	-3.7	-2.1	-1.8	-1.7	-1.6
Implicit interest rate on debt	1.5	1.5	1.5	1.6	1.6
Other relevant variables					
6. Liquid financial assets (AF1, AF2, AF3, AF5)					

	2018	2019	2020	2021	2022
7. Net financial liability (7=1-6)					
8. Central government write-offs (existing bonds)	9.1				
9. Shares of foreign currency denominated loans					
10. Average maturity of government debts	6.5				

Table 5. Cyclical impact on the general government balance, % GDP

	2018	2019	2020	2021	2022
1. Real GDP, % change	2.3	1.7	1.4	1.2	1.0
2. General government financial balance	-0.6	-0.3	0.0	-0.1	-0.3
3. Interest expenditure	0.9	0.9	0.9	0.9	0.9
4. One-off measures	-0.1	0.1	0.0	0.0	0.0
one-off measures affecting general government revenue	-0.1	0.1			
one-off measures affecting general government expenditure					
5. Potential GDP, change %	1.6	1.6	1.3	1.1	1.0
contributions:					
— labour input					
— invested capital					
— total factor productivity					
6. Production gap	0.4	0.5	0.5	0.6	0.6
7. Financial balance cyclical component	0.2	0.3	0.3	0.3	0.3
8. Cyclically-adjusted balance (2-7)	-0.8	-0.6	-0.3	-0.4	-0.6
9. Cyclically-adjusted primary balance (8+3)	0.1	0.3	0.5	0.5	0.3
10. Structural balance (8-4)	-0.7	-0.7	-0.3	-0.4	-0.6

Table 6. Divergence from previous Stability Programme

	2018	2019	2020	2021	2022
GDP growth (%)					
SP-2017 April	2.6	2.2	1.8	1.3	
SP-2019 April	2.3	1.7	1.4	1.2	1.0
Difference, pp	-0.3	-0.5	-0.5	-0.2	
General government balance, % GDP					
SP-2018 April	-0.6	-0.2	0.1	0.3	
SP-2019 April	-0.6	-0.3	0.0	-0.1	-0.3
Difference, pp	0.0	-0.1	-0.2	-0.4	
General government gross debt, % GDP					
SP-2018 April	60.4	58.9	57.4	56.7	
SP-2019 April	58.9	58.1	57.4	57.4	57.7
Difference, pp	-1.5	-0.8	-0.8	0.7	

Table 7. Long-term sustainability of general government finances, % GDP

	2007	2010	2020	2030	2040	2050	2060	2070
Total expenditure	46.8	54.8	52.2	55.2	57.1	58.3	61.2	65.5
of which: age-related expenditure	23.2	27.1	29.2	31.5	31.9	31.8	32.9	35.0
Total revenue	51.9	52.1	52.2	52.5	52.9	53.4	54.2	54.7

Table 7a. Contingent liabilities, % of GDP

	2017	2018
Central government guarantees	22.8	24.7
of which: linked to financial sector	3.1	3.8
Local government guarantees	12.1	-

Table 8. Underlying assumptions¹

	2018	2019	2020	2021
3-month EURIBOR	-0.3	-0.2	0.1	0.4
Long-term interest rate (10 years)	0.7	0.8	1.4	2.0
USD/EUR exchange rate	1.2	1.1	1.1	1.1
Nominal effective exchange rate	3.6	0.4	0.0	
World GDP growth (excluding the EU)	3.9	3.6	3.8	
EU-28 GDP growth	1.9	1.5	1.7	
Growth of relevant foreign markets	2.8	2.6	2.8	2.6
World trade growth	3.5	3.3	3.3	3.2
Oil prices (USD/barrel)	72.0	64.1	68.1	72.1

¹) No specific underlying assumptions were defined for the medium-term computations. Instead, they are based on general assessments of developments in the operating environment.