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GENERAL GOVERNMENT FISCAL PLAN 2016–2019

The Government has today, following preparatory consideration of the matter in the Cabinet 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 maximum limit for local government expenditure:

1. Economic challenges and the economic policy line

Finland's economic situation is grave. Gross domestic product has been declining for several years, unemployment is rising and periods of unemployment are getting longer. In addition, population ageing is adversely affecting conditions for economic growth and is increasing public spending. General government finances are deeply in deficit. General government debt has grown rapidly and it will exceed 60% in ratio to GDP in the current year.

The budgetary deficit exceeded the EU Treaty's 3% reference value in 2014, and the reference value will also be exceeded this year. According to the Ministry of Finance's September forecast (see Chapter 3), the consolidation measures decided by the Government for 2016, when fully implemented, will be sufficient to reduce the general government deficit to below 3% in 2016. The European Commission's assessment in June was that the launch of an excessive deficit procedure is not justified on the basis of deficit and debt criteria. The Ministry of Finance's forecast supports this assessment.

The development of general government finances is discussed in more detail in Chapter 3. Domestic and EU fiscal rules and objectives are described on the Ministry of Finance's website: www.vm.fi.

The Government's fiscal policy line

According to Prime Minister Juha Sipilä's Government Programme, balancing of public finances will begin immediately. The debt-to-GDP ratio will level off by the end of the parliamentary term, and additional debt will no longer be taken after 2021. The total tax burden will not rise.

The Government is committed to taking during the parliamentary term the decisions relating to the savings and structural reforms necessary to cover the entire EUR 10 billion sustainability gap in general government finances.

A consolidation programme to immediately strengthen general government finances has been agreed in the Government Programme. In addition to measures to reduce public spending and increase fee income, reallocations of appropriations will be implemented. The objective of the Government Programme is to strengthen general government finances by these measures by approximately EUR 4 billion in net terms at the 2019 level.

Conditions for employment and economic growth will be strengthened by means of taxation. The changes in tax criteria will alter the structure of taxation by shifting the focus in taxation from labour and entrepreneurship towards environmentally and health motivated taxation. The objective in the Government Programme is that the tax criteria changes will have a neutral effect on public finances at 2019 level.

The Government will launch a reform programme to achieve the strategic objectives of the parliamentary term. The strategic objectives are health and wellbeing, employment, competitiveness and growth, training and skills, the bioeconomy and clean technologies as well as changing operating practices, for example by promoting digitalisation and removing unnecessary regulation and bureaucracy. A sum of EUR 1.6 billion, spread over three years ending in 2018, will be invested on a one-off basis in key Government projects and to reduce the repair debt.

The Government pursued a comprehensive social contract, which was not achieved despite the efforts made. The Government, however, will continue to strive to improve Finland competitiveness even after the termination of the social contract negotiations, and it announced on 8 September 2015 exceptional measures to reduce unit labour costs by 5% as well as measures to strengthen employees' change security. By the end of September 2015, Prime Minister Sipilä will submit to Parliament as a Government statement the measures proposed by the Government to improve competitiveness. The objective is to complete the necessary legislative changes no later than June 2016. If the measures to improve competitiveness do not achieve the desired results, the Government is prepared to implement around EUR 1.5 billion in expenditure savings and tax increases in addition to consolidation measures of around EUR 4 billion. The Government's proposal to improve competitiveness or the conditional measures have not been taken into account in the General Government Fiscal Plan nor in the macroeconomic forecast of the Ministry of Finance.

The time span of some of the Government's programmes and their savings impact will extend beyond the parliamentary term. The aim is to reduce municipalities' costs by EUR 1 billion by cutting statutory duties as well as obligations directing their implementation. Savings of EUR 3 billion will be sought by reforming social and health care services. These measures, too, have not been taken into account in the General Government Fiscal Plan nor in the macroeconomic forecast of the Ministry of Finance.

Stability Programme

The medium-term objective (MTO) for the structural budget balance, -0.5% in ratio to GDP, which was set in the spring 2013 Stability Programme, is maintained. The structural adjustment towards the MTO required from Finland is 0.1% in ratio to GDP in 2015 and 0.5% in 2016. For subsequent years, the adjustment requirements have not yet been determined.

The General Government Fiscal Plan is also Finland's Stability Programme, and it meets the EU's requirement for a medium-term budgetary plan. This time the General Government Fiscal Plan also contains information required by the 2016 Draft Budgetary Plan. With respect to the Stability Programme and Draft Budgetary Plan, see Appendix 4.

The Government's assessment of the achievement of the medium-term objective

Pursuant of Section 3(1) of the FIPO Act (869/2012), the Government will initiate the measures it deems necessary to correct budgetary stability and sustainability if there is, in the Government's assessment, a significant deviation in the structural balance of the general government jeopardising the achievement of the medium-term objective.

In 2014 Finland was broadly compliant with the requirements of the preventive arm of the Stability and Growth Pact. The Government agrees with the Ministry of Finance's assessment, presented in Chapter 3, that Finland will also be broadly compliant with the requirements of the preventive arm in 2015. Moreover, in respect of 2016, the deviation from the requirements of the preventive arm should not be significant. Risks and uncertainties are associated with the assessment, however, so the possibility of a significant deviation cannot be ruled out. If necessary, the Government will react to the situation in connection with the preparation of the spring 2016 General Government Fiscal Plan.

Fully implementing the structural adjustment required from Finland would lead to the achievement of the MTO in 2018 at the latest. According to the Ministry of Finance forecast, however, this is slipping out of reach. Achieving the objective requires that the consolidation measures reach the level of the measures presented in the Government Programme.

2. National objectives and rules steering the management of general government finances

The General Government Fiscal Plan brings together decision-making relating to public finances. In its plan, the Government examines public finances comprehensively and makes policy outlines and choices that form a solid foundation for the later preparation of legislation and the budget. The General Government Fiscal Plan contains sections relating to central government finances, local government finances, statutory earnings-related pension providers 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 plan also supports adherence to the medium-term objective set for the structural balance of general government finances.

Budgetary targets

The Government has decided on the following binding nominal budgetary targets for the parliamentary term:

- central government deficit at most ½% in ratio to GDP.
- local government deficit 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.

Government expects that the targets decided on above will result in the achievement of the medium-term objective or an even stronger structural balance. The measures decided by the Government to

achieve the targets are described by subsector in Chapters 5–7. Chapter 8 examines the overall impact of Government measures on public finances.

Central Government Spending Limits

The Government is committed to the central government spending limits system. The expenditure rule ensures a responsible, long-term central government spending policy that promotes economic stability. The system is based on 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 annually. The spending limits system restricts the level of expenditure budgeted in the central government budget. The purpose of the spending limits system is to limit the total amount of expenditure incurred by the taxpayer.

The spending limits system sets a ceiling for approximately 80% of on-budget expenditure. Expenditure that changes according to cyclical conditions and automatic stabilisers, central government debt interest expenditure, and financial investments remain outside the central government spending limits. In the annual spending limits decisions, spending limits are allocated to the administrative branches, but only the overall expenditure ceiling for the parliamentary term is binding. Reallocations may be made between administrative branches. Alongside the supplementary budget provision, there remains between the parliamentary term expenditure ceiling and administrative branch-specific spending limits an unallocated provision to be allocated later.

The central government spending limits are discussed in Chapter 5.

Maximum limit for local government expenditure

The Government Decree on the General Government Fiscal Plan requires that the Government set in the General Government Fiscal Plan a maximum monetary limit consistent with the local government budgetary target for the change in expenditure arising to local government finances from central government measures. The maximum limit for local government expenditure and the impact of central government measures on local government finances are discussed in Chapter 6.

3. Economic fundamentals

This chapter and Appendix 1 provide a summary of the Ministry of Finance's macroeconomic forecast, on which the General Government Fiscal Plan is based. The Ministry of Finance's macroeconomic forecast is prepared independently in the Ministry's Economics Department (869/2012, Section 2 a). The economic outlook is comprehensively described in the Ministry of Finance's Economic Survey.

3.1. Economic outlook

Economic outlook for 2015–2017

Recently, there has again been troubling news about the development of the international economy. The growth outlook for the Chinese economy has deteriorated further and the growth rate has declined to 6.5%. The Russian economy continues to contract, and it will not grow over the next couple of years. On the other hand, the economies of trading partners important to Finland have developed favourably. The US economy is forecast to grow by nearly 3% over the next couple of years, and in the UK growth is broad-based. In the euro area, too, the economy has begun to grow moderately. The monetary policy practised by central banks continues to support growth. The fall in the price of energy, especially oil, boosts the growth outlook of energy-intensive economies such as Finland's.

The Finnish economy contracted in the three previous years. This year, too, the economy will hardly grow. Growth is projected to be 1.3% in 2016, to a large extent due to favourable development of investments. Forecasting investments is difficult, however, for several reasons, and there are risks factors associated with their timing. Partly for this reason, there is a downside risk associated with growth in 2016. Growth of private consumption in 2016 will slow slightly from the current year owing to modest development of real household income. In 2017 economic growth is projected to be 1.4%, driven by domestic demand.

The number of people in employment is expected to be 0.7% lower in 2015 compared with the previous year and the annual average unemployment rate is forecast to be 9.6%. The increase in the number of the long-term and structural unemployed is of particular concern. Consumer prices will fall by 0.1% in 2015. In the labour market in 2016, the number of people in employment will grow slightly due to a modest improvement in economic conditions. In 2017 the unemployment rate will decline further but will still remain high. The rise in consumer prices will accelerate from the beginning of next year, but the increase will remain moderate.

Finland's economic growth, therefore, will be slower than its competitors in the next few years, and the unemployment rate will be rather high. The forecast is that cumulative growth in 2015–2017 will remain sluggish, and GDP will remain more than 3% lower than in 2008. Finland is therefore in a weak economic situation and major challenges lie ahead.

With regard to the international economy, the forecast continues to anticipate negative risks. In China, rapid growth of private sector debt has continued. High and increasing debt levels coupled with slowing growth may give rise to shocks, which may have wide-ranging influence due to global value networks and the size of the Chinese market. In the euro area, the recovery of economies from the debt and financial crisis might be more difficult than forecast. Growth prospects remain overshadowed by geopolitical tensions in Russia, the Middle East and elsewhere. In the financial markets, nervousness has increased. In the environment of a growth-supportive light monetary policy, low interest rates have increased willingness to take risks, and investment flows have been steered into the housing and stock markets. In many markets, prices have risen rapidly and the risk of major corrections has therefore increased. Domestic risks are associated with the development of the real economy and the labour market. Competitiveness is still weaker than in competitor countries.

Medium-term outlook

Economic growth is also expected to remain slow in the medium term, as growth in 2018 and 2019 will be little more than 1%. In recent decades, growth in total factor productivity has been a key source of economic growth, but in recent years total factor productivity has grown very modestly. In addition to cyclical factors, the output of high-productivity sectors has declined significantly, and the overall structure of the economy has moved towards services. The total factor productivity growth trend is also expected to be significantly slower in the medium term than that which was experienced in the early 2000s.

Economic growth potential will also be undermined by the stagnation of labour input growth. This is due to a decline in the working age population and a continuing high level of structural unemployment, even though the labour force participation rate is expected rise slightly in older age groups. In addition, the investment rate has remained low for several years, slowing down the growth of the capital stock required in production and thus undermining the future growth potential of the economy.

Development of the national economy

	2013	2014	2015	2016	2017	2018	2019
GDP value, EUR billion	203	205	206	212	218	224	231
GDP, change in volume, %	-1.1	-0.4	0.2	1.3	1.4	1.3	1.2
Unemployment rate, %	8.2	8.7	9.6	9.4	9.1	8.7	8.3
Employment rate, %	68.5	68.3	67.9	68.2	68.4	68.9	69.3
Consumer Price Index, change %	1.5	1.0	-0.1	1.1	1.5	1.8	2.0
Long-term interest rate, 10 years, %	1.9	1.4	0.7	1.0	1.5	2.2	2.9

3.2. Outlook for general government finances

In the current decade, Finland's general government finances have moved more permanently into deficit due to prolonged weak economic conditions and longer-term structural problems. General government finances will remain in deficit until the end of the decade, even though significant consolidation measures will reduce the deficit. The general government balance will continue to be strained by expenditure growth caused by population ageing. The general government debt-to-GDP ratio will grow throughout the parliamentary term, although growth of the debt ratio will slow.

The central government balance will be significantly in deficit. Cyclical fluctuations will be reflected most clearly in central government finances, particularly due to the high cyclical sensitivity of tax revenue. Central government finances will remain in deficit despite strict spending discipline, because anticipated slow economic growth will not generate sufficient tax revenue. The local government balance will remain largely unchanged up to 2019. The assessment of the trends in local government finances does not take into account municipalities' own consolidation measures in the period 2016–2019. The surplus of the earnings-related pension funds will stabilise at around 1% in ratio to GDP. Unemployment expenditure will also weaken the budgetary position of other social security funds in the current year, but the budgetary position will move back to balance towards the end of the parliamentary term.

The expenditure ratio has risen sharply in recent years, largely explained by expenditure caused by unemployment and population ageing. Slow growth in GDP has also had a significant impact on the expenditure ratio. During the parliamentary term, the expenditure ratio is expected to fall gradually due to consolidation measures and an improving unemployment situation. In recent years, tax increases have led to growth in the tax burden, i.e. the ratio of taxes and tax-like payments to GDP. The tax burden will remain relatively stable at around 44% in ratio to GDP.

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

	2013	2014	2015	2016	2017	2018	2019
Taxes and social security contributions	43.8	43.9	44.5	44.2	43.9	43.7	43.7
General government expenditure	57.6	58.3	58.8	58.2	57.6	57.1	56.9
General government net lending	-2.5	-3.3	-3.4	-2.8	-2.4	-1.9	-1.4
— Central government	-3.6	-3.9	-3.1	-2.8	-2.6	-2.2	-1.7
— Local Government	-0.7	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8

	2013	2014	2015	2016	2017	2018	2019
— Earnings-related pension funds	1.8	1.7	1.0	1.1	1.1	1.1	1.0
— Other social security funds	0.0	-0.3	-0.5	-0.3	-0.2	0.0	0.2
Primary balance	-2.5	-3.1	-3.1	-2.6	-2.4	-1.9	-1.4
Structural balance	-1.0	-1.7	-1.8	-1.8	-1.9	-1.7	-1.4
General government gross debt	55.6	59.3	62.6	64.3	65.8	66.4	66.6
Central government debt	44.3	46.4	48.7	49.9	51.2	51.9	52.1

Compliance with fiscal policy rules and objectives

The budgetary deficit exceeded the EU Treaty's 3% reference value in 2014, and the reference value will also be exceeded this year. According to the Ministry of Finance's September forecast, the consolidation measures decided by the Government for 2016, when fully implemented, will be sufficient to reduce the general government deficit to below 3% in 2016. Finland will therefore fulfil the deficit criterion in line with the European Commission's assessment in June. Even though debt will exceed 60% this year and the debt criterion will be breached from 2016 onwards, when exceeding the reference value would no longer be explainable by solidarity operations or the cyclical situation, the breaching of the debt criterion alone will not yet lead to the launch of an excessive deficit procedure. Moreover, the European Commission's assessment in June was that the launch of an excessive deficit procedure is not justified on the basis of the deficit or the debt criterion.

Finland is under the requirements of the preventive arm of the Stability and Growth Pact. In 2014 Finland was broadly compliant with the requirements of the preventive arm. The required structural adjustment (change in the structural balance) towards the MTO is 0.1% in ratio to GDP in 2015 and 0.5% in 2016. The achievement of this will be assessed on the basis of two pillars, the structural balance and the expenditure benchmark.

According to the Ministry of Finance forecast, the change in the structural balance will deviate from the required adjustment in 2015, but the deviation, around 0.2% in ratio to GDP, will not be significant. The expenditure benchmark will be met. Therefore, based on the forecast, Finland will be broadly compliant with the requirements of the preventive arm in 2015. In 2016 the deviation in the change of the structural balance, a little under 0.5% in ratio to GDP, might be significant, if realised. The expenditure benchmark will still be met. The expenditure benchmark would seem to be, in this economic situation, a more reliable indicator of fiscal policy stance, so the deviation from the required adjustment towards the MTO is not, according to an overall assessment, significant. The possibility of a significant deviation cannot yet be completely ruled out, however. The assessment did not take into account the fact that Finland is seeking to make use of the structural reform and investment clauses in 2016. Compliance with the requirements of the preventive arm is assessed in more detail in Appendix 4.

With regard to the subsector-specific budgetary targets set by the Government for general government finances in 2019 (see Chapter 2), based on the Ministry of Finance's forecast, neither local government nor central government finances will achieve their targets. Achieving the targets requires that the measures contained in the Government Programme are decided upon and implemented in full. Furthermore, municipalities must continue their own measures to strengthen local government finances.

3.3. Economic restructuring, population ageing and fiscal sustainability

In recent years, Finland's economy has suffered from industrial restructuring, which has weakened opportunities for economic growth. The growth outlook of the coming years will also be undermined by the declining number of the working-age population. The increase in pension, health-care and long-term care expenditure caused by population ageing will pose a permanent additional challenge to efforts made to balance general government finances.

The long-term balance of general government finances is measured by the sustainability gap, which refers to the current value of future deficits of general government finances. The sustainability gap indicates how much general government finances must be strengthened in the medium term in order to keep indebtedness in check without additional measures in the long term and under the conditions of increasing age-related expenditure.

The assessment by the Economics Department of the Ministry of Finance of the long-term sustainability of general government finances has been prepared in accordance with the methods and calculation principles agreed with the EU. The assessment of age-related expenditure has been carried out using the SOME model, developed by the Ministry of Social Affairs and Health for analysing social expenditure. The background assumptions of the calculation (employment, productivity, interest rate, inflation) are based on the underlying assumptions of the 2015 Ageing Report published by the Working Group on Ageing Populations and Sustainability (AWG) of the EU's Economic Policy Committee¹.

According to the assumptions, the average productivity growth in Finland will amount to 1.4% between 2019 and 2060. The assumptions of the calculation differ from the assumptions of the Ageing Report in two areas: in the assessment of population development, which uses the 2012 population projection by Statistics Finland, and in assessment of 2015–2019 economic development, which is based on the forecast of the Economics Department of the Ministry of Finance presented in this publication.

The sustainability gap is estimated to be approximately 3½% in ratio to GDP at the level of 2019. Taking the consolidation measures outlined in the Government Programme into account has improved the estimate of the structural balance of general government finances at the level of 2019 by approximately 1½ percentage points in ratio to GDP. The weaker forecast of macroeconomic development compared with last spring's estimate has, however, reduced the same estimate by approximately half a percentage point in ratio to GDP. Therefore, the improved estimate compared with the spring of the 2019 general government structural balance has reduced the sustainability gap by approximately one percentage point.

Both the spring estimate and the present sustainability gap estimate take into account the reducing effect, approximately one percentage point, on the sustainability gap of the pension reform, which is set to enter into force at the beginning of 2017. The reform is expected to raise the employment rate and reduce pension expenditure. The calculation does not take into account the long-term measures outlined in the Government Programme to improve general government finances.

The sustainability calculation is in nature a pressure projection, in which development according to current rules is projected to the future with the aid of population forecasts, age group-specific expenditure shares and long-term assessments of economic development. The further forward in time

¹ The 2015 Ageing Report: Underlying Assumptions and Projection Methodologies, European Economy 8/2014.

one goes, the greater the uncertainty connected with the calculation, making it sensitive to the assumptions used. Nevertheless, sustainability gap calculations are useful as they offer a systematic way of analysing future challenges faced by general government finances as well as solutions to overcome them.

4. Government liabilities and risks

Government fiscal liabilities – and thereby risks – may emanate from decentralised sources within the central government (e.g. budget accounting), other public finances (e.g. government funds, public utilities, municipalities), the private sector (e.g. government-controlled enterprises), or the financial markets (e.g. the banking sector). It is not possible to identify all fiscal risks, however.

The table shows a summary of central government assets and nominal values of certain specifiable liabilities. Data on central government real and financial assets are based on financial accounting. Concerning 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. The most significant of these include VR Group, Finnish Industry Investment Ltd and Patria Oy. In 2008, central government financial assets were reduced by more than EUR 13 billion, accounting for over 8 percentage points in ratio to GDP. This was largely explained by falling share prices. Financial assets also decreased significantly in 2011. Since 2011, financial assets have grown due to rising share prices. In recent years, the central government has received from its shareholdings dividend income of approximately EUR 1.2 billion, which is approximately 2.5% of all central government accounted revenue. In the peak year of 2007, the corresponding figure was nearly 4%. The sale of holdings naturally reduces the stream of dividend income permanently.

Summary of government liabilities and risks, EUR billion

	2009	2010	2011	2012	2013	2014
Assets						
Central government real assets		47.7	49.5	51.1	52.4	51.8
% GDP		25.5	25.2	25.6	25.8	25.3
Central government financial assets	58.5	63.7	55.5	58.5	59.5	60.1
% GDP	32.3	34.1	28.2	29.3	29.4	29.3
— of which						
Central government liquid assets	9.6	11.2	10.3	7.4	4.6	3.1
Solidium	7.6	9.3	6.9	7.2	8.2	7.6
Other shareholdings in listed companies	10.4	12.1	8.6	7.8	9.5	10.9
National Housing Fund receivables	8.6	8.2	7.7	7.2	6.5	6.0
Liabilities						
Central government debt	64.3	75.2	79.7	83.9	89.7	95.1
% GDP	35.5	40.2	40.5	42.0	44.3	46.4
Municipal debt	10.0	10.6	11.4	12.9	14.9	16.4
% GDP	5.5	5.7	5.8	6.4	7.3	8.0
Government guarantees	26.2	27.6	31.6	37.2	42.8	48.7
% GDP	14.5	14.2	16.1	18.6	21.2	23.9

	2009	2010	2011	2012	2013	2014
— Finnvera	13.6	13.2	14.4	15.4	15.7	20.3
— Student loans	1.3	1.4	1.4	1.5	1.6	1.7
— EFSF	0	0	2.1	5.1	6.2	6.6
— Bank of Finland	3.8	3.9	3.9	4.1	7.7	7.9
— Government funds	6.3	7.9	9.1	10.2	11.2	11.8
— Other	1.2	0.3	0.6	0.8	0.5	0.3
Capital liabilities ¹	4.7	5.1	5.8	17.0	17.1	17.2
% GDP	2.6	2.7	3.0	8.5	8.4	8.5
Other liabilities ²	99.5	105.1	112.3	119.0	117.6	132.6
% GDP	55.0	56.2	57.0	59.6	58.2	65.0
— Budget accounting	99.5	103.3	110.4	117.0	115.4	130.1
— Off-budget entities	-	0.3	0.4	0.5	0.6	0.7
— State enterprises	-	1.4	1.5	1.5	1.6	1.8

¹⁾ Capital payable to international financial institutions in the event that capital is required to cover losses or avoid insolvency (callable capital).

²⁾ E.g. government pension liabilities and appropriations required due to authorisations

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 – in practice, government-backed mortgages – have seen particularly high increases. In 2014, the nominal value of the guarantees covered by this calculation had doubled in a few years and is now approximately 24% in ratio to GDP. In addition, the amount of capital liabilities payable upon request to international financial institutions has multiplied, mainly due to the measures for managing the financial crisis in the EU. Currently, they account for approximately 8.5% in ratio to GDP.

Liabilities from domestic guarantees (Finnvera, central government funds, student loans etc.) and foreign guarantees (EU-related crisis management etc.) have therefore increased significantly over the past ten years. Currently, the nominal values of guarantees and liabilities arising from domestic and foreign activities are nearly equal. With such comparisons, however, it must be remembered that the risks related to the various types of liabilities may also vary. A higher liability does not automatically mean a higher risk. An unambiguous assessment of risks related to liabilities is difficult, however, and therefore in this calculation the nominal values of liabilities have been used in the interests of clarity.

On an international scale, Finland's 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 available Eurostat data, Finland's guarantees-to-GDP ratio is the third highest among the EU Member States.

5. Central government finances

The central government spending limits decision creates binding four-year expenditure ceiling for the term of Prime Minister Juha Sipilä's Government. The spending limits decision is based on the spending limits decided by the previous Government on 2 April 2015, which will be revised for 2016–2019 taking into account changes arising from the Government Programme, price and structural corrections, and the current macroeconomic forecast.

5.1. Central government spending limits

The Government will continue the spending limits procedure for central government finances. A spending rule guiding the development of central government on-budget expenditure during the parliamentary term is appended to the Government Programme. In this spending limits decision, the Government sets the real parliamentary term expenditure ceiling for the period 2016–2019.

The parliamentary term expenditure ceiling is based on the spending level according to the technical decision on spending limits decided by the previous Government on 2 April 2015. The Government Programme states that central government expenditure within the spending limits in 2019 will be EUR 1.2 billion smaller than in the spending limits decided on 2 April 2015. The parliamentary term expenditure ceiling for the period 2016–2019 is set such that it will achieve the expenditure reduction agreed in the Government Programme. Following more detailed preparation, the general government savings decided in the Government Programme have been revised in such a way that the level of spending limits expenditure in 2019 will be approximately EUR 1.3 billion lower compared with the April 2015 spending limits decision. The Government will reserve from the spending limits EUR 300 million per year for supplementary budgets.

The table below presents the annual allocation of the Government Programme's expenditure policies in the parliamentary term 2016–2019, which constitutes the parliamentary term expenditure ceiling.

Parliamentary term expenditure ceiling for 2016–2019 (at 2016 prices), EUR million

	2016	2017	2018	2019
Spending limits decision 2 April 2015	43 090	42 743	42 972	43 040
Spending limits expenditure according to the Government Programme, total:				
— permanent expenditure savings	-1 019	-1 785	-2 056	-2 363
— permanent increases in spending limits expenditure	198	428	515	511
— one-off increases in spending limits expenditure, incl. key Government projects	313	638	533	260
— supplementary budget provision	300	300	300	300
Provision for unforeseen expenditure pressures		150	150	
Bringing YLE transfer to within the spending limits	515	515	515	515
Bringing municipalities' tax change compensation of previous parliamentary term to within the spending limits	1 419	1 458	1 469	1 488
Total	44 815	44 446	44 397	43 750
Price corrections and structural changes in the spending limits	-205	-194	-198	-199
Parliamentary term expenditure ceiling (incl. supplementary budget provision)	44 611	44 252	44 199	43 551

At the turn of the parliamentary term, the transfer to the State Television and Radio Fund as well as possible transfers to the Financial Stability Fund will be brought from outside the spending limits to within the spending limits. Compensation allocated to municipalities via the system of central government transfers for tax criteria changes of previous parliamentary terms will be brought within the spending limits, and only compensation of the current parliamentary term will be outside the spending limits. As a consequence of these, technical corrections will be made to the parliamentary term expenditure ceiling.

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

Development of on-budget expenditure 2015–2019

Compared with the spring 2015 technical spending limits decision, total on-budget expenditure has decreased by approximately EUR 0.3 billion in 2016, increased by approximately EUR 0.1–0.3 billion in 2017 and 2018 and decreased by approximately EUR 0.4 billion in 2019. Administrative branch expenditure (on-budget expenditure excl. interest expenditure) will decrease in real terms during the spending limits period 2016–2019 by an average of approximately 0.1% per year when structural changes have been taken into account. Nominally, administrative branch expenditure will grow by an average of 0.6% per year. The Government's savings decisions will reduce the level of expenditure in the spending limits period. On the other hand, key Government projects will increase expenditure in the period 2016–2018. Moreover, expenditure estimates for immigration have increased since the spring 2015 spending limits decision.

The level of spending limits expenditure will be EUR 44.1 billion in 2016. During the spending limits period, the level of spending limits expenditure will fall due to savings decisions, reaching approximately EUR 43.2 billion in 2019.

Expenditure outside the spending limits

The spending rule sets a maximum level for most, around four-fifths, of on-budget expenditure. The following expenditure falls outside of the spending limits:

- unemployment security expenditure, social assistance expenditure, wage subsidy and housing allowance. However, expenditure effects generated by changes to the criteria for these items and by discretionary decisions affecting their level are included in the spending limits.
- interest expenditure on central government debt
- possible compensation payable to other tax recipients for tax changes decided by central government (including social insurance contributions)
- expenditure corresponding to technically transmitted payments and external funding contributions
- expenditure corresponding to the revenue from sports betting and lotteries, totalisator betting revenue, and revenue recognised from the Slot Machine Association RAY
- financial investment expenditure
- appropriations for VAT expenditure.

If the level of expenditure falls below that specified in the spending limits after supplementary budgets, the difference, to a maximum of EUR 200 million, may be used for one-off expenditure in the following year without reference to the spending limits. If economic growth proves to be faster than expected, the increased revenue and lower expenditure due to growth will be used in proportions decided by the Government to reduce indebtedness, ease taxation on labour and business, and for one-off measures to boost growth.

Expenditure outside the spending limits is expected to be approximately EUR 10.0 billion in 2016, which is approximately EUR 1.9 billion less than expenditure outside the spending limits budgeted for 2015. The decrease is mainly due to technical changes between expenditure within the spending limits and expenditure outside the spending limits.

In 2017–2019 expenditure outside the spending limits is expected to be approximately EUR 10.9 billion. Cyclical expenditure will increase, mainly due to the transfer of the calculation and payment of

social assistance to KELA, the Social Insurance Institution of Finland, from 2017 and the transfer of the pension recipients' housing allowance to within the sphere of the general housing allowance. Central government debt interest expenditure will grow during the spending limits period to approximately EUR 1.9 billion as interest rates and central government debt rise.

	2016	2017	2018	2019
Cyclical expenditure	4.3	5.0	5.0	4.9
Compensation to municipalities for tax criteria changes	0.3	0.3	0.4	0.3
Expenditure corresponding to EU revenue	1.1	1.1	1.1	1.1
Expenditure corresponding to revenue from sports betting and lotteries, totalisator betting revenue, and revenue recognised from the Slot Machine Association RAY	0.9	0.9	0.9	0.9
Interest expenditure	1.6	1.6	1.7	1.9
Financial investments	0.5	0.6	0.5	0.4
Technical pass-through items	0.2	0.2	0.3	0.3
VAT appropriations	1.1	1.2	1.2	1.1
Total	10.0	10.9	10.9	10.9

Price and cost-level adjustments, and structural changes

The Government Programme states that annual adjustments required by the change in price level will be made to the expenditure ceiling of the parliamentary term.

In the April 2015 spending limits decision, the 2016–2019 spending limits were prepared at 2016 prices and costs in respect of statutorily and contractually indexed expenditure. It was decided as a savings measure to discontinue the index-linking of child allowance and financial aid for students, freeze index increases for central government transfers for providing basic services and for universities and universities of applied sciences during the spending limits period and freeze index increases based on the National Pensions Index and the Consumer Price/Cost-of-living Index in 2016–2019, as a result of which these statutory price adjustments will be reduced from the April 2015 level of spending limits expenditure. Furthermore, the index increase for the Finnish Broadcasting Company's funding will not be made. Price- and cost-level adjustments are discussed in more detail in Appendix 2.

Central government spending limits by administrative branch and estimate of expenditure outside the spending limits in 2016–2019, EUR million at 2016 price and cost level

	2016 budget proposal	2017	2018	2019
23. Prime Minister's Office	183	182	176	174
Estimate of expenditure outside spending limits	25	21	21	21
Total	208	204	197	195
24. Ministry for Foreign Affairs	893	898	922	962
Estimate of expenditure outside spending limits	156	156	156	156
Total	1 048	1 054	1 078	1 118
25. Ministry of Justice	850	855	857	848
Estimate of expenditure outside spending limits	56	57	57	58
Total	906	911	914	906
26. Ministry of the Interior	1 255	1 236	1 220	1 209
Estimate of expenditure outside spending limits	76	74	74	74
Total	1 331	1 309	1 294	1 283
27. Ministry of Defence	2 519	2 485	2 460	2 725

	2016 budget proposal	2017	2018	2019
Estimate of expenditure outside spending limits	367	364	356	359
Total	2 886	2 849	2 816	3 084
28. Ministry of Finance	16 925	16 917	17 045	16 888
Estimate of expenditure outside spending limits	602	703	732	745
Total	17 527	17 620	17 778	17 633
29. Ministry of Education and Culture	6 204	6 120	6 155	6 027
Estimate of expenditure outside spending limits	566	719	641	576
Total	6 770	6 839	6 796	6 603
30. Ministry of Agriculture and Forestry	1 616	1 624	1 622	1 552
Estimate of expenditure outside spending limits	951	892	897	901
Total	2 567	2 516	2 519	2 453
31. Ministry of Transport and Communications	2 555	2 845	2 746	2 406
Estimate of expenditure outside spending limits	377	396	427	398
Total	2 932	3 241	3 173	2 804
32. Ministry of Employment and the Economy	2 356	2 422	2 333	2 185
Estimate of expenditure outside spending limits	518	531	528	493
Total	2 874	2 953	2 861	2 677
33. Ministry of Social Affairs and Health	8 395	7 970	7 952	7 922
Estimate of expenditure outside spending limits	4 688	5 413	5 372	5 236
Total	13 083	13 383	13 324	13 158
35. Ministry of the Environment	187	175	168	160
Estimate of expenditure outside spending limits	11	11	11	11
Total	199	186	179	171
36. Interest on central government debt	-	-	-	-
Estimate of expenditure outside spending limits	1 573	1 558	1 651	1 853
Total	1 573	1 558	1 651	1 853
Administrative branch spending limits, total¹	44 105	43 906	43 793	43 194
Estimate of expenditure outside spending limits, total	9 985	10 914	10 935	10 893
Main titles, total	54 090	54 820	54 728	54 087
Parliamentary term expenditure ceiling	44 611	44 252	44 199	43 551
— Administrative branch spending limits, total ¹	44 105	43 906	43 793	43 194
— Supplementary budget provision	300	300	300	300
— Unallocated reserve	206	47	106	57

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

5.3. Definitions of policy in budget finances 2016–2019

Investments in key Government projects 2016–2018

In 2016–2018 a total of EUR 1.6 billion will be allocated to key Government projects and to reducing the repair debt. Of the funding for key Government projects, EUR 170 million will be allocated to employment and competitiveness, EUR 300 million to knowledge and education, EUR 130 million to health and wellbeing, EUR 300 million to the bioeconomy and clean solutions, and EUR 100 million to digitalisation and changing operating practices. In addition, EUR 0.6 billion is proposed to reduce the repair debt. These investments will increase on-budget expenditure by EUR 323 million in 2016, EUR 638 million in 2017 and EUR 638 million in 2018.

Consolidation of central government finances in the parliamentary term 2016–2019

Annex 6 of the Government Programme presents the general government consolidation measures to be implemented in the parliamentary term. With respect to central government finances, the annex to the Government Programme contains significant savings measures as well as some expenditure increases, both of which are permanent in nature. The scale of expenditure-side consolidation measures will rise in on-budget finances during the spending limits period from EUR 0.7 billion in 2016 to EUR 2.6 billion in 2019. The largest expenditure savings at the 2019 level are directed at

- index increases (- EUR 1.1 billion),
- development cooperation (- EUR 200 million),
- health insurance compensation (- EUR 110 million),
- education, including early childhood education and basic, secondary and tertiary education (- EUR 230 million),
- business aid (- EUR 220 million),
- administration and ICT expenses (- EUR 180 million).

The spending limits decision includes the following expenditure increases in line with the Government Programme, at the 2019 level:

- development of informal, family and home care (+ EUR 130 million),
- internal security (+ EUR 50 million),
- defence forces (+ EUR 130 million).

The consolidation measures are examined at the level of general government finances as a whole in Chapter 8.1.

Operating expenditure savings

A number of operating expenditure savings were agreed in the Government Programme. The general saving in administration expenditure will grow during the parliamentary term from EUR 60 million in 2017 to EUR 120 million in 2019. A saving growing from EUR 5 million in 2017 to EUR 12 million in 2019 will be sought by enhancing procurement processes. Centralising accounting and final accounts in the Government Shared Services Centre for Finance and HR is expected to achieve a saving of EUR 1 million in 2017 and EUR 4 million in 2019. These operating expenditure savings are described in more detail in Chapter 5.3.2. In addition, as a legacy from the previous parliamentary term, operating expenditure savings, which will grow by EUR 97 million from 2016 to 2019, will be directed at the administrative branches. These include a productivity saving, which will grow by 0.5% per year, and a wage drift saving.

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 decrease to EUR 195 million by the end of the spending limits period. They are reduced by savings directed at the main title in accordance with the Government Programme and by the ending of the Finland 100 project from 2018.

With regard to premises under the control of the Prime Minister's Office, a one-off increase of EUR 1.4 million will be allocated for 2018 to the refurbishment of the Government Banquet Hall. A total of EUR 2.1 million will be allocated in the spending limits period to maintenance and rental costs arising from the refurbishment. The 5% reduction in ministers' salaries will continue in 2016–2019.

Ministry for Foreign Affairs

The appropriations of the main title of the Ministry for Foreign Affairs will average approximately EUR 1.1 billion per year in the spending limits period.

It is important for Finland to have its own network of diplomatic missions. Resources will be focused on those countries whose political and economic significance for Finland is growing. The reform of the structure and operating practices of Finland's representation abroad will continue, making use of Nordic cooperation, development of the European External Action Service, and the Team Finland operating model. As part of the key Government project package, the Team Finland network will be strengthened by hiring on a one-off basis for 2016–2018 special experts focusing on trade and economic issues for selected Finnish diplomatic missions with the aim of increasing Finland's export opportunities. Citizens' services offered by the Foreign Service will be developed, taking into account the reformed Consular Services Act and utilising new digital solutions. Finland will be Chair of the Arctic Council in 2017–2019.

The longer-term goal of development cooperation is to increase development funding to 0.7% of GNI in line with UN targets, even though savings will be made in the funding during the parliamentary term. The level of appropriations for development cooperation will be approximately EUR 517 million in 2017, growing to approximately EUR 586 million in 2019. A total of EUR 40 million in 2017 and EUR 10 million in 2018–2019 is proposed for development cooperation financial investments. A total of EUR 100 million in 2017 and EUR 130 million in 2018–2019 will be allocated to development cooperation loans. The average GNI level of development cooperation appropriations in the spending limits period will be approximately 0.38% per year.

The appropriations for crisis management take into account the policy outlines of the Security and Defence Policy Report (2012), the National Strategy for Civilian Crisis Management (2008) and the Peace Mediation Action Programme (2011). In the future, participation in military peace-keeping operations will be reduced, and the focus in military crisis management operations will be on operations that are more significant and effective for Finland. As a result, funding allocated to expenditure for military crisis management maintenance, equipment and administration (in total for the administrative branches of the Ministry for Foreign Affairs and the Ministry of Defence) will gradually decrease from 2016. Civilian crisis management appropriations have been scaled to an annual level of 115–120 experts.

In Baltic Sea, Barents and Arctic Region cooperation, the areas of particular focus will be Northern Dimension policy, multilateral cooperation in northern region councils, and the implementation of the Government's Russia policy.

Ministry of Justice

The appropriations of the main title of the Ministry of Justice will total EUR 906 million in 2016 and will be on the same level in 2019. In 2019 election expenditure will be EUR 32 million higher than in 2016.

In accordance with the Government Programme and related Government policy outlines, an annual additional appropriation of EUR 17.5 million will be allocated to courts of law, legal aid offices, the enforcement system, prosecuting authority, the Criminal Sanctions Agency and the Legal Register Centre. In 2016–2019 this will almost correspond on average to the cumulative cuts decided on in the 2014 General Government Fiscal Plan.

In accordance with the Government Programme, the scope of summary penal proceedings will be expanded to achieve savings in general government finances. The reform of leave for continued consideration will limit the number of cases referred to the Court of Appeal. In the spending limits period, the regulation of legal proceedings in administrative cases will be reformed. The number of cases will be reduced in the Supreme Administrative Court and in the administrative courts. Together with other ministries, the development of the appeal procedure for administrative cases will be continued by expanding the field of application of the claim for correction procedure in order to simplify appeal procedures and by expanding the field of application of the leave to appeal procedure. The expansion of the field of application of conversion of unpaid fines into imprisonment will be cancelled.

The monetary amounts of fixed penalties and day-fines will be increased in accordance with the Government Programme and the Government's policy outlines.

The measures of the Administration of Justice Reform Programme will be continued. The projects of the programme are aimed at safeguarding the right to due process, even though expenditure pressures and savings will be directed at the administration of justice.

Court fees will be increased and the area of application of charging fees will be expanded in accordance with the Government Programme while ensuring that the changes do not adversely affect the right to due process of people on low incomes.

The restructuring of the enforcement system will be continued on the basis of an action plan to increase productivity and financial efficiency without jeopardising the right to due process of litigants. Public legal aid activities will be made more efficient by developing legal advice, electronic services and alternative means of settling disputes in accordance with the comprehensive plan for legal aid prepared in 2015.

The status of the victims of crime will be improved. Support services for the victims of crime will be arranged in compliance with the provisions of the Victims Directive in cooperation with the social and health care administration and service providers. To finance the provision of services, a victim surcharge will be introduced and the associated government aid system developed. An additional appropriation of EUR 2.7 million will be allocated to the provision of support services in 2016, increasing to EUR 4.8 million from 2017. Central government revenue will increase correspondingly.

The structure of Criminal Sanctions Agency premises will be reformed in manner required by the spending limits and a decline in the number of prisoners in such a way that it facilitates safe operations, supports social effectiveness objectives set for the enforcement of sanctions and promotes the continuation of activities impacting recidivism. The objective is to maintain the prison network's regional coverage and to ensure that social, health, educational and other rehabilitative services arranged for prisoners can be based more than at present on the normal services of society and to ensure the continuation of rehabilitation after release. The structural reforms will lead to the removal of the last cells without toilet facilities.

Ministry of the Interior

The appropriation level of the main title of the Ministry of the Interior will be approximately EUR 1.3 billion in the spending limits period. In accordance with the Government Programme, internal security and administration of justice will be particular areas of focus. For this purpose, a total of EUR 28.5 million per year will be allocated for various needs within the administrative branch of the Ministry of the Interior.

The administrative branch will see to the implementation of strategically important operational information system projects efficiently and in accordance with advance plans.

The aim is to maintain the current high standard of police services and operational quality in emergency callouts and the solving of crimes as well as in licence administration and transport safety work. Due to the expansion, in accordance with the Government Programme, of the field of application of summary penal proceedings, a saving of EUR 1 million in 2018 and EUR 2 million in 2019 is earmarked for the appropriations of the Police.

The European security situation and Finland's border security have changed fundamentally and a quick turn for the better is not expected in the foreseeable future. The Border Guard has adjusted its operations to the available appropriations by streamlining the organisation, making processes and use of labour more efficient, and making greater use of technology. At Finland's eastern border-crossing points, traffic has fallen.

The Emergency Response Centre Administration is preparing for the deployment of the emergency response information system Erica, which will also be used by other government authorities, by the end of March 2017.

The growing number of asylum seekers will affect the activities of the Immigration Administration significantly. The number of asylum seekers in the spending limits period is difficult to forecast. The budget proposal appropriations are scaled for 15,000 asylum seekers. The processing of asylum applications will be further accelerated. People who have received a favourable asylum decision will be placed as quickly as possible in municipalities. Fast and efficient processing of asylum applications will in the long-term curb the total cost of the reception of asylum seekers, when the waiting time of asylum seekers in reception centres is not prolonged. Joint EU decisions on the relocation of asylum seekers as a result of the difficult refugee situation in the Mediterranean region will also affect Finland. The goal is to maintain the annual number of quota refugees at 750–1,050 people.

Ministry of Defence

The appropriations of the main title of the Ministry of Defence will total EUR 2.9 billion in 2016. During the spending limits period, the appropriations will increase by EUR 199 million (in 2019 approximately EUR 3.1 billion). The increase is mainly due to the postponement from 2014–2015 to 2016 and 2017 of payments for materiel expenditure committed to in previous years. To correct shortcomings in materiel performance capability, a general increase in the defence budget in accordance with the Government Programme has been added to the spending limits for 2016–2019.

Finland's defence is based on general conscription and the defence of the entire territory of the nation. Finland will ensure a credible defence in all circumstances. The Government will ensure that a sufficient number of military refresher courses are organised and will also secure the preconditions for voluntary exercises and reservists' independent training.

Without an adequate level of materiel investment, the above-mentioned fundamental choices of defence will have to be reassessed during the parliamentary term. In a rapidly-changing security environment, the implementation of defence duties also requires a higher state of operational readiness and combat endurance than at present. It is not possible, however, to improve the readiness of forces significantly with the present funding of the defence forces.

During the spending limits period, the Government will decide on replacing the capability of the Finnish Navy's ageing combat vessel fleet and launch a project to replace the capability of the Finnish Air Force's Hornet aircraft. A procurement authorisation amounting to EUR 1 billion for the Finnish Navy's Squadron 2020 vessel project has been added to the spending limits. The expenditure is scheduled for 2019–2024. The proportion of 2019 expenditure is EUR 260 million.

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 annual appropriation level of the main title of the Ministry of Finance will be approximately EUR 17.5–17.8 billion in 2016–2019. The appropriation level is increased by the revised cost division between central and local government in 2016.

As part of the key Government projects, a total of approximately EUR 76 million will be allocated in 2016–2018 to support digitalisation of administration. A sum of approximately EUR 24 million is earmarked for the implementation of the National Income Register.

An annual increase of EUR 4 million for internal security and administration of justice expenditure in the spending limits period has been taken into account in the operating expenditure of Customs. Additions of EUR 10 million in 2017 as well as EUR 25 million in 2018 and 2019 have been taken into account in the amount of energy tax subsidy. Expenditure of EUR 11 million per year will arise from subscription of capital for the establishment of the Asian Infrastructure Investment Bank.

Appropriations earmarked for the transfer of certain Bank of Finland investment revenue items to the State of Greece, which were in the spring 2015 technical spending limits, have been removed from the spending limits: EUR 16 million in 2017, EUR 13 million in 2018 and EUR 10 million in 2019.

Expenditure arising from the investments of Senate Properties can be no more than EUR 260 million in 2017, no more than EUR 250 million in 2018 and no more than EUR 240 million in 2019.

Central government transfers to local government

The Government Programme includes a number of measures aimed at curbing growth of local government expenditure and thereby strengthening local government finances. Approximately EUR 9.0 billion is allocated to central government transfers for municipalities' basic public services in 2016. Central government transfers for basic public services will decrease steadily every year and will be approximately EUR 8.7 billion in 2019. The level of central government transfers is also affected by cuts in central government transfers for 2016–2017 decided earlier as well as by the revised division of costs between central and local government in 2016.

The central government transfers for basic public services take into account the following increases in accordance with the Government Programme: the development of informal and family care from

2017, an increase for home help provision in child welfare and for families with children from 2016, and an increase for home care for older people from 2017. With regard to these, the central government contribution is 100%. Central government transfers will be reduced by an adjustment to the staff-client ratio in services to older people from 2017, a change in the subjective right to day care from 1 August 2016 and a change in the staff-child ratio in early childhood education for children over 3 years of age from 1 August 2016 as well as a saving in municipalities' expenditure resulting from the development of informal and family care, and the development of regional specialised medical care.

Of the central government transfers for municipalities' basic public services, EUR 10 million will be transferred to discretionary government transfers payable to crisis municipalities in 2017.

In the spending limits period, no index increases will be made to central government transfers for basic public services.

A sum of EUR 400,000 is allocated in 2016–2017 for the preparation of the establishment of autonomous areas.

Issues relating to basic public services arranged by municipalities, and to the central government transfers paid for them, are discussed as a whole in Chapter 6 Local government finances.

Ministry of Education and Culture

The appropriation level of the administrative branch of the Ministry of Education and Culture will decrease during the spending limits period from EUR 6.8 billion in 2016 to EUR 6.6 billion in 2019.

To the administrative branch is allocated a total of EUR 237 million in 2016–2018 for key Government projects in knowledge and education, namely developing new learning environments and increasing digital materials in comprehensive schools, reforming vocational upper secondary education, reforming the youth guarantee towards a community guarantee, strengthening cooperation between higher education institutions and business to promote commercialisation of innovations, accelerating the transition to working life, and improving access to art and culture.

It has been decided to make cuts of approximately EUR 0.4 billion in administrative branch appropriations by 2019. The impact of the withdrawal of transfers granted to reduce group sizes in basic education as well as other grants is a total of EUR 45 million. Funding of vocational education will be reduced by a total of EUR 118 million. The total impact of improving the operational efficiency of higher education institutions and abolishing pharmacy levy compensation is EUR 105 million. The research funding authority of the Academy of Finland will be reduced by EUR 10 million. The savings target for the reform of the system of financial aid for students is EUR 70 million by 2019 and EUR 150 million in the long term. The reform will come into force in autumn 2016 in accordance with the Government Programme. Index increases on the basis of a change in cost level will be frozen for 2016–2019 with regard to the formula funding system and higher education institutions. The indexation of the study grant will be abolished.

Provision of education, funding and steering related to the reform of vocational upper secondary education will be merged into a coherent package under the Ministry of Education and Culture. As a result, EUR 90 million of the funding earmarked for the procurement of vocation labour market training will be transferred from the administrative branch of the Ministry of Employment and the Economy to the administrative branch of the Ministry of Education and Culture as of 2018. A

reformed funding system for liberal adult education will be introduced in 2016 and the maintainer structure of educational institutions developed.

Issues relating to basic public services arranged by municipalities, and to the central government transfers paid for them, are discussed as a whole in Chapter 6 Local government finances.

Ministry of Agriculture and Forestry

The 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 appropriation level will fall by approximately EUR 115 million in the spending limits period.

A total of EUR 136 million in additional funding for key Government projects in the Government Programme's strategic priority area Bioeconomy and Clean Solutions has been taken into account in the administrative branch of the Ministry of Agriculture and Forestry in 2016–2018. Of this, EUR 95 million is allocated to the agriculture and food economy and EUR 41 million to natural resources.

Of the expenditure savings, most relate to the agriculture and food economy and rural development. The reduction in the resources available to agriculture administration will pose a major challenge to the full-scale launch and implementation of aid programmes in compliance with the requirements. The Ministry of Agriculture and Forestry takes an active approach and the initiative in reforming the structures and operating methods of agricultural administration.

The annual requirement of the interest-subsidy loan authorisation for rural business activity is expected to remain at the 2016 level in the spending limits period. Co-financed agricultural start-up and investment grants will be funded as part of the Rural Development Programme for Mainland Finland from the appropriation allocated in the budget. Wholly national grants will be funded from the Development Fund of Agriculture and Forestry (Makera). A total of EUR 90 million will be transferred to the fund in 2016–2018 as part of key Government projects. Support in accordance with the EU's Common Agriculture Policy for the development of agriculture and forestry in the 2014–2020 funding period will be introduced in 2015, and the required funding is included in the spending limits.

The spending limits include funding for the action programme for the 2014–2020 programming period of the European Maritime and Fisheries Fund. The available EU financial contribution for the programming period accounts for approximately EUR 74 million, including the EU contribution transferred to the Åland Islands, approximately EUR 4.3 million. The national financial contribution for the programming period of Mainland Finland is approximately EUR 63 million, of which around half is allocated during the spending limits period.

The spending limits take account of the impacts of the new Fishing Act, which enters into force in 2016. Under the new act, the funding mechanism continues to be based on fees payable by fishermen.

The implementation of the National Forest Strategy 2025, adopted in 2015, will be initiated in the spending limits period. The strategic goals include the improving of Finland's competitiveness through forest-based businesses, renewal and diversification of the forest industry, and active, diverse and economically, ecologically and socially sustainable use of forests.

At the beginning of 2015, major changes were implemented in the structure of the administrative branch's agencies in order to improve productivity and operational effectiveness. Legislation relating to Metsähallitus will be reformed to conform with EU requirements.

During the spending limits period, the intention is to focus on measures required due to reduced resources, especially with regard to the realisation of productivity benefits arising from digitalisation and the changes in the agency structure. Development of electronic methods of handling information services and production processes will continue in order to improve customer service and improve operational efficiency.

The opening up of administrative branch information resources and the development of their joint use will continue based on the objectives of the Government Programme.

Ministry of Transport and Communications

The annual appropriations of the main title of the Ministry of Transport and Communications will average approximately EUR 2.9 billion in the spending limits period.

In infrastructure maintenance, priority will be given to measures ensuring the daily functioning of transport as well as halting the growth of the repair debt and its controlled reduction. Repair debt measures will be allocated on the basis of customer needs, for example to improving the surfacings and structures of high-traffic suburban and connecting roads, to the condition of road and railway bridges, to marshalling yards and track safety equipment, to securing conditions for the bioeconomy and to the development of raw wood terminals. The condition of low-traffic roads will be maintained, particularly from the perspective of the bioeconomy and agriculture.

Maintenance and development of the transport network will be enhanced, for example by better utilisation of information, by using new methods of surveying the condition of the network, through local and central government procurement cooperation, and by the full introduction of information modelling. Planning practice will be developed to take into account the effects of digitalisation and automation on the transport system and traffic volumes of the future.

Funding for basic transport infrastructure maintenance has been revised in 2017–2019 so that EUR 90–140 million on an annual basis has been transferred from appropriations earmarked for development projects to curbing growth of the repair debt. In addition, an increase of EUR 10 million will be reallocated to private road grants in 2017–2019. Of key Government project funding, EUR 100 million in 2016, EUR 300 million in 2017 and EUR 200 million in 2018 is allocated to basic transport infrastructure maintenance to reduce the repair debt. In the spending limits, the implementation of projects already decided will continue. In addition, growth-producing projects that support business investment will be implemented.

The level of appropriations (31.10.77, 31.10.78 and 31.10.79) for the transport network investments to be implemented in the spending limits period will fall to EUR 324 million at the end of the spending limits. The spending limits allow room for manoeuvre to set up new projects with EUR 0 million in 2016, EUR 33 million, EUR 140 million in 2018 and EUR 139 million in 2019.

Transport policy is based on the transport-as-a-service operating model, aimed at promoting growth and new business as well as improving operational efficiency. Regulations inhibiting utilisation of digitalisation will be reformed and a framework created for experimentation in services and automation.

In the spending limits period, EUR 83 million per year has been allocated to public transport support, which is approximately EUR 15 million less than in previous years. The Government Programme included a EUR 15 million cut, directed mainly at support granted to rail transport.

The Finnish Communications Regulatory Authority's resources for detection and warning service tasks relating to information security breaches will be boosted by EUR 0.1 million per year. The transfer to the State Television and Radio Fund for funding the public service of the Finnish Broadcasting Company YLE has been set at EUR 508 million.

Ministry of Employment and the Economy

The appropriations of the main title of the Ministry of Employment and the Economy will decrease during the spending limits period from EUR 2.9 billion to EUR 2.7 billion. The fall in the level of appropriations is mainly due to the transfer to the administrative branch of the Ministry of Education and Culture of EUR 90 million for the procurement of vocational labour market training, which is in preparation, as well as to savings measures in accordance with the Government Programme, which will reduce main title appropriations by EUR 168 million during the spending limits period. In addition, the additional investments included in key Government projects will no longer give rise to expenditure in 2019.

The expenditure of the administrative branch of the Ministry of Employment and the Economy includes fixed-term additional investments for key Government projects amounting to EUR 99 million in 2016, EUR 123 million in 2017 and EUR 147 million in 2018.

Business and innovation policy appropriations will decrease in the spending limits period from EUR 929 million to EUR 735 million. From 2016 the grant authorisations of Tekes – the Finnish Funding Agency for Innovation will, in accordance with the Government Programme, be cut by EUR 130 million, as a result of which funding for the Strategic Centres for Science, Technology and Innovation (SHOKs) will be phased out and appropriations for the payment of grants will decrease in the spending limits period from EUR 275 million to EUR 205 million. In accordance with the Government Programme, central government funding for the Innovative Cities Programme (INKA) will stop. New grants for internationalisation will not be awarded as of 2016, and payment of grants awarded before 2016 will cease in 2018. Costs related to refinancing credits granted previously by Finnish Export Credit Ltd will decrease in the spending limits period from EUR 106 million to EUR 83 million. Finnvera plc will introduce a new EUR 300 million junior loan programme as part of key Government projects, and EUR 3 million in 2017 and EUR 4 million in 2018 is allocated for possible loss compensation. As part of key Government project investments, EUR 35 million is allocated in 2018 to the capitalisation of Finnish Industry Investment Ltd for the establishment of the FoF Growth III Fund.

Additional funding in accordance with key Government projects is allocated to Team Finland activities, namely EUR 8.5 million in 2016–2017 and EUR 8 million in 2018 to government grants for internationalisation of companies and promotion of entrepreneurship as well as EUR 2 million in 2016–2017 and EUR 1 million in 2018 to the government grant for Finpro. Of funding for key Government projects, EUR 30 million in 2016, EUR 43 million in 2017 and EUR 49 million in 2018 is earmarked to support cleantech and bioeconomy solutions as well as commercialisation of innovations.

Employment and enterprise policy appropriations will be EUR 758 million in 2016 and will fall to EUR 555 million in 2019. The authorisation for business development projects will be abolished in 2016 as part of the Government's saving decisions. Savings directed at the appropriation for public employment and business services will grow by EUR 60 million during the spending limits period, as a result of which the level of the item will fall to EUR 403 million. The level of the item takes into account the EUR 90 million transfer to the administrative branch of the Ministry of Education and Culture for the procurement of vocational labour market training, which is in preparation. Public

employment and business services include an additional investment of EUR 5 million in 2016 and 2017 to increase private employment services as part of the key Government projects. The operating expenditure of Employment and Economic Development (TE) Centres includes an additional appropriation of EUR 10 million in 2016 and 2017 for accelerating the digitalisation of services, which is one of the key Government projects. The regional transport subsidy will end in 2017.

The operating expenditure of the Finnish Patents and Registration Office (PRH) will be increased by EUR 2.3 million, which will fund the auditing supervision function, due to start in PRH on 1 January 2016. Revenue from auditing supervision activity will be at a corresponding level.

Appropriations for EU Structural Fund payments will increase from EUR 242 million to EUR 343 million. The authorisation level of the item will be EUR 327 million in 2016, EUR 333 million in 2017, EUR 336 million in 2018 and EUR 406 million in 2019. The policy segment includes EUR 10 million of additional funding in 2016–2018 for key Government projects, which will be used for launching regional innovations and trials.

Energy policy appropriations will decrease in the spending limits period from EUR 387 million in 2016 to EUR 367 million. The limitation of the windpower quota in accordance with the Government Programme has been taken into account in the renewable energy production subsidy. Investment support for renewable energy and new energy technology includes a total of EUR 100 million of additional funding in 2017–2018 in accordance with key Government projects.

Integration compensation paid to municipalities will grow in the spending limits period 2016–2019 from EUR 141 million to EUR 318 million, assuming that the number of asylum seekers in 2015 and annually during the spending limits period is 15,000.

Ministry of Social Affairs and Health

The appropriation level of the administrative branch of the Ministry of Social Affairs and Health will be affected not only by the implementation of the Government Programme but by cyclical factors such as the change in the unemployment rate and factors relating to demographic structure. In the spending limits decision, the appropriation level is EUR 13.1 billion at the beginning of the spending limits period and EUR 13.2 billion in 2019.

The pension recipients' housing allowance will be abolished as of 1 January 2016, and thereafter pension recipients will receive the general housing allowance. The impact on recipients of the allowance from the merger will be alleviated by a total of EUR 37.5 million on an annual basis. Of this, EUR 7.5 million consists of a saving that will be obtained when an asset criterion is introduced in the general housing allowance when the allowance is granted. Taking the alleviations into account, the merger of the allowance systems will yield savings of EUR 65 million on an annual basis. In addition, the criteria for the general housing allowance will be revised in 2016 such that the appropriation requirement for the planning period decreases in the spending limits period by EUR 33 million on an annual basis. The guaranteed pension will be increased by around EUR 23 per month from the beginning of 2016. The cost impact of the increase will be around EUR 30 million in 2016. Expenditure arising from basic social assistance is projected to increase due to the reforms by a total of around EUR 15 million.

Index adjustment of benefits linked to the National Pensions Index and the Consumer Price Index will be frozen in the period 2017–2019. The indexation of the child allowance will be discontinued.

Savings will be directed at health insurance reimbursements by reducing travel allowances, dentists and doctor fee reimbursements, and expenditure for discretionary rehabilitation. These measures will achieve a saving of approximately EUR 124 million in general government finances, of which the central government's share will be approximately EUR 55 million. To medicine reimbursements will be applied an additional saving of EUR 50 million from 2016 and EUR 150 million from 2017, of which the central government's share will be approximately EUR 22.5 million in 2016 and approximately EUR 67 million in 2017. The central government transfer to local government for the adult education subsidy will be replaced by a loan guarantee by the government as of 1 January 2017, as a result of which the item will be reduced by EUR 70.0 million on an annual basis.

The diet allowance will be abolished in 2016 with a savings impact of EUR 10 million.

Earnings-related unemployment benefit will be reformed from the beginning of 2017 such that the saving in general government finances is EUR 200 million when the changes are fully in force. Correspondingly, job alternation leave system will be reformed such that the saving in general government finances is EUR 50 million. Central government costs are projected to decline by approximately EUR 21 million.

In accordance with an earlier spending limits decision, the calculation and payment of basic social assistance will be transferred from the municipalities to the Social Insurance Institution of Finland KELA from the beginning of 2017. Following the change, expenditure arising from basic social assistance will be fully included in the central government budget. The municipalities' financial contribution (50%) will be accounted for by deducting the share of basic social assistance from central government transfers to municipalities.

Owing to an estimated reduction in the under-utilisation of social assistance, overall expenditure is expected to rise by just under EUR 90 million in connection with the transfer. The appropriation level will also be affected by growth of social assistance expenditure arising from the merger of the housing allowance systems. Expenditure is projected to be approximately EUR 810 million in 2017 and to fall to EUR 804 million at the end of the spending limits period.

To safeguard elderly care services for veterans, the level of the front-line veterans' rehabilitation appropriation has been adjusted such that the level of the annual appropriation available for rehabilitation per veteran entitled to rehabilitation will rise by around EUR 50 per year during the spending limits period. In addition, the reduction in the degree of disability of disabled war veterans from 15% to 10% from 1 March 2017 has been taken into account in the General Government Fiscal Plan. The cost impact of the change is EUR 5.2 million at the beginning of the spending limits period and EUR 4.2 million at the end of the spending limits period.

An annual sum of EUR 15 million, which takes into account a reduction in level of EUR 5 million, has been earmarked for central government compensation to health care units for research activity in accordance with the Act on Specialised Medical Care. Central government payments to health care units to cover costs incurred in medical and dental training will be approximately EUR 100 million in 2017 and EUR 101.7 million as of 2018. The appropriation allocated for forensic psychiatry studies is EUR 15.2 million per year.

Central government funding earmarked for shelter activities will increase in the spending limits period from approximately EUR 13.5 million to EUR 17.5 million in accordance with earlier spending limits decisions. The appropriation will be increased in order to bring the number of shelter places closer to the level recommended by the Council of Europe.

A total saving of EUR 20 million has been taken into account in the provision of relief services for agricultural entrepreneurs, of which EUR 17 million is directed at relief services and EUR 3 million at administrative expenditure.

The impact of savings in sectoral research directed at the administrative branch of the Ministry of Social Affairs and Health will be EUR 30 million from 2017. The savings will apply to research and development institutes, projects and special central government contributions for research and training.

A sum of EUR 600,000 is allocated in 2016–2017 for further preparation of the social and health care reform.

A total of EUR 130 million is earmarked for the implementation of key Government projects in relation to the Government Programme's strategic objective wellbeing and health, of which EUR 23.5 million is allocated for 2016, EUR 56.0 million for 2017 and EUR 50.5 million for 2018. The key Government projects include service voucher and basic income pilot studies as well as an assessment of the allocation of residence-based social security. In addition, EUR 4 million is allocated for 2016–2018 to reform the operating processes of social and health care services for young people in accordance with the youth guarantee.

Issues relating to basic public services arranged by municipalities, and to the central government transfers paid for them, are discussed as a whole in Chapter 6 Local government finances.

Ministry of the Environment

The appropriations of the administrative branch of the Ministry of the Environment will be approximately EUR 199 million in 2016 and EUR 171 million in 2019. 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.

In the built environment, action will be taken to expand housing construction with the aim of meeting demand for homes. Steering of construction and land use will be developed. The focal point of government-backed housing policy will be the largest growth centres, particularly the Helsinki Metropolitan Area. Housing subsidies will be targeted to support an increase in the supply of reasonably-priced housing and to improve the housing supply for special groups. Support will be given to enable older people to live at home, and the supply of sheltered housing will be increased. Savings and restrictions on use in accordance with the Government Programme will be introduced in investment grants for special groups financed from the National Housing Fund. Sums of EUR 142.2 million in 2017 and EUR 122.2 million in 2018 and 2019 are allocated to investment grants.

Appropriations will be directed to measures promoting the bioeconomy and the circular economy and to the development of climate and energy policy. With regard to the protection of the Baltic Sea, the implementation of the marine management programme will go ahead and resources will be directed to improving waste water treatment, restoring waterways and protecting groundwater. Monitoring of waterways will be developed taking the requirements of EU legislation into account. The renovation of the research vessel Aranda will support this objective.

In nature conservation, old conservation programmes will be implemented, and the implementation of the Forest Biodiversity Programme for Southern Finland (METSU) will be continued within the framework of available resources while realising a EUR 20 million saving in accordance with the

Government Programme. The recreational use of nature, nature tourism and local economies will be promoted through good management of national parks and other frequently visited nature conservation areas. As part of the key Government projects, additional funding is allocated to increasing recovery of nutrients and preparation of related regulations as well as to protecting the Baltic Sea and waterways. In addition, as part of the key Government projects, the intention is to establish a new national park in 2017, the 100th anniversary of Finland's independence. A national restoration and pilot programme for contaminated land areas will also be implemented as a key Government project.

Oil spill response will be improved by equipping a new offshore patrol vessel and an icebreaker with oil recovery equipment.

Water management will be improved in accordance with national and regional waste plans and through enhanced measures to implement reforms in legislation relating to the waste sector.

5.3.2. Central government joint information system projects and financial administration

Key information system projects

In the spending limits, approximately EUR 30 million in 2016 and EUR 60 million annually in 2017–2019 has been allocated for key information system and information management projects as well as other productivity projects in the administrative branches.

The key information system projects pending include the ERP and document management system of the Prosecution Service and the general courts of law, the customer information system of the Criminal Sanctions Agency, the joint public authorities' field information system, the Tax Administration's OTS software project and information system upgrade, and the Finnish Environment Institute Envibase project for the opening up and use of environmental and natural resources data.

New areas for funding, for which appropriations have been allocated within the spending limits, include a complete revamp of the customs clearance systems and the National Board of Education's register of verified competence. In addition, funding has been made available for smaller productivity projects of the administrative branches.

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 the Ministry of Finance Public Sector ICT expresses a favourable opinion on significant information system projects 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 enter into a cooperation agreement on projects to receive financing with each relevant ministry.

Financial and HR administration

The introduction of the financial and HR administration service centre model and the development of practices and information systems represent an attempt at an approximate 40% improvement in productivity in central government administration, half of which was achieved in the period 2005–2011, according to a report by the State Treasury. The introduction of the KIEKU information system project, the further harmonisation of practices and information systems, and the increased use, automation and self-service of the Government Shared Services Centre for Finance and HR are all intended to achieve the remaining 20% of the productivity benefit.

Central government agencies and institutions (around 65,000 civil servants, excluding the Defence Forces) will gradually transfer to using the KIEKU information system by the end of 2016. The KIEKU information system will replace agency-specific financial and HR information systems, which are at the end of their life cycle. Ministries will supervise the progress of the introduction process in their administrative branches within the specified timetable, avoiding customised solutions.

Ministries and agencies will continue the implementation of changes supporting the productivity development of financial and HR services as well as increasing the use of the Government Shared Services Centre for Finance and HR. From the beginning of 2017, the necessary arrangements will be made to centralise the tasks associated with financial and HR administrative process control, its development and its service information systems and to bring the KIEKU project to an end in the State Treasury and the Government Shared Services Centre for Finance and HR. It will be necessary to continue improving the productivity of the central government's financial and HR administration after the project phase ends. This will mean a need to control and monitor the achievement of the productivity objectives in agencies and institutions and to continue with the harmonisation of financial and HR administrative processes and the optimisation of resources committed to them by central government.

In accordance with the Government Programme, accounting and final accounts tasks will continue to be transferred from accounting units to the Government Shared Services Centre for Finance and HR (savings effect EUR 4 million at the 2019 level). In addition, procurement processes will be centralised, simplified and handled electronically (savings effect EUR 12 million at the 2019 level). Corresponding savings have been earmarked for the administrative branches. The changes require the amendment of budget legislation and possibly also other legislative changes. In their respective administrative branches, the ministries will steer the transfer of financial and HR administration tasks to the shared services centre for handling.

Developing central government procurement

Central government procurement will be developed, led by the Ministry of Finance in cooperation with the key procurement organisations and Hansel Ltd. In the spending limits period, the intention is to increase utilisation of joint procurement agreements and centralisation of procurement such that the volume of purchases made on the basis of them will exceed EUR 700 million per year. This may require extending joint procurement into new areas of goods and services. Development work on integrated practices, control models and information systems will continue. The central government will utilise more extensively electronic order and expenditure processing systems, promoting the digitalisation of procurement.

Reducing government premises expenditure

Central government premises expenditure will be reduced in accordance with a objective stated in the Government Programme by limiting the investment authorisation of Senate Properties by EUR 30 million. In addition to limiting investment, the intention is to achieve the savings objective through more efficient use of premises and by implementing premises projects generating rental savings in the administrative branches. The benefit accruing to agencies in lower rents will be cut from the appropriations in 2019 ahead of schedule as a lump sum reduction.

Premises efficiency will be improved in accordance with the central government's new premises strategy to meet set premises efficiency targets, changed working practices and the public's increased use of electronic services. The overall interests of the central government will be emphasised in in the central government's real-estate and premises management. The development of central government land and land policy will be implemented in accordance with the central government's real-estate

strategy. The intention is to implement by the end of 2017 the remaining part of the additional revenue target based on the sale of real-estate holdings, which was set for Senate Properties as part of the growth package in the General Government Fiscal Plan 2015–2018.

Saving of administrative expenditure

In accordance with the Government Programme, EUR 120 million at the 2019 level will be saved from administrative expenditure by, among other things, reducing duties and obligations, utilising retirement attrition in administrative expenditure, increasing digitalisation and reforming structures. Saving obligations apply to all administrative branches.

The 2016 saving of operating expenditure has been allocated in the Budget directly to operating expenditure items on the basis of proposals made by the ministries. The saving for 2017–2019 will be allocated during the preparation of the General Government Fiscal Plan 2017–2020 in spring 2016 on the basis of a savings potential assessment.

In order to allocate savings, the savings potential and operating costs of agencies and institutions will be identified and assessed under the leadership of the Ministry of Finance, and the operational reforms made by agencies and institutions in cooperation with the administrative branches will be taken into account. Alongside this, comparability information and calculation methods as well as expenditure savings allocation methods will be developed.

5.4. On-budget revenue

Actual on-budget revenue is expected to grow in the spending limits period by an average of around 1½% per year. Tax revenue is expected to grow by an average of around 2½% per year. Tax revenue accounts for around 84% of actual on-budget revenue. In 2019 on-budget revenue is expected to be EUR 51.7 billion.

Central government on-budget revenue estimates are based on an estimate of the medium-term development of the economy. Economic growth is forecast to be modest in the spending limits period, owing to which the tax base will also grow slowly. The revenue estimates of the spending limits period have taken into account the tax criteria changes decided in the Government Programme.

Tax criteria changes

The Government's tax policy aims to boost growth, entrepreneurship and employment. The Government Programme contains both tax-tightening and tax-easing measures. In the parliamentary term, room for manoeuvre in tax policy is limited by the central government deficit and the need to consolidate general government finances. To support sustainability of general government finances, the Government Programme's tax cuts will be implemented gradually during the parliamentary term.

In accordance with the Government Programme, annual adjustments corresponding to rising earnings or inflation will be made in earned income taxation. Taxation of low and medium incomes will be eased in 2016 by increasing the earned income deduction. Donations between EUR 850 and EUR 500,000 made by private individuals to higher education institutions will be made tax deductible. A capital loss will be made tax deductible from all capital income, whereas according to current legislation it is tax deductible only from capital gains. The validity of the Act on Withholding Tax for Taxation of Foreign Wage Earners with Special Expertise (so-called Key Individuals Act) will be extended. For a fixed term, the opportunity for active repentance in taxation will be introduced in 2016. The parameters of the Finnish Broadcasting Company (YLE) tax will be adjusted as a result of the index freezing of the appropriation to be transferred to YLE, such that the smallest amount of the

tax to be paid is increased from EUR 51 to EUR 70, in which case the lowest income limit at which the tax is levied will rise from approximately EUR 7,500 to approximately EUR 10,300 per year.

In 2017 the domestic work credit will be increased by raising the compensation percentage and including care services for older people within the scope of the credit. A 5% entrepreneur deduction will be introduced for business operators and self-employed persons, entrepreneurs engaged in agriculture, forestry and reindeer husbandry, and business partnerships and tax consortiums.

The reduction of the deductibility of mortgage interest expenditure will be accelerated. Under current legislation, the deductible portion of mortgage interest expenditure will be reduced by 5 percentage points per year from the present 65% to 50% by 2018. In accordance with Prime Minister Sipilä's Government Programme, the deductible portion would be reduced by 10 percentage points per year in 2016–2019, so that 25% of mortgage interest expenditure would be deductible in 2019. In accordance with current legislation, the temporary child deduction will expire at the end of 2017. The highest income bracket in the central government income tax scale (the so-called solidarity tax), which was introduced as a temporary measure in 2012, will remain in effect until the end of 2019. The lower limit of the solidarity tax will be lowered from EUR 90,000 to EUR 72,300 for 2016 and 2017. The tax rate for capital income exceeding EUR 30,000 will be raised from 33% to 34% in 2016.

The deductibility of limited companies' losses will be expanded. Succession through generation changes will be facilitated by easing inheritance tax. Succession in forest holdings will also be promoted.

The tobacco tax, the waste tax and the tax on fuels used in heating, power plants and working machines will be increased. Combined production of electricity and heat will be steered towards lower emission levels by the phased removal of the tax subsidy on such production. Mining will be transferred back to the lower electricity tax class II and within the scope of the energy tax refund mechanism of energy-intensive industry. The tobacco tax increase will be implemented gradually to control behavioural impacts.

Taxation on cars will be eased during the parliamentary term by a total of around EUR 200 million. The reductions will best regards implemented in stages between 2016 and 2019. The aim of the gradual implementation is to control behavioural impacts, to avoid market disturbances and a sudden decrease of inventory values as well as unfair effects on consumers that a major one-off change in taxation could cause. Vehicle tax will be increased by EUR 100 million from 2017. A new annual tax will be introduced for registered boats and motor vehicles. The temporary removal of the rail goods transport tax and the halving of fairway dues will be continue until 2018.

Tax revenue in the spending limits period will also be affected by certain decisions made in the previous parliamentary term that will come into force in the spending limits period 2016–2019. Municipalities' share of corporate income tax was increased temporarily by 5 percentage points and parishes' share by 0.4 percentage points in the tax years 2012–2015. The ending of the increase in municipalities' share of corporate income tax at the end of 2015 and the transfer of the parishes' share of corporate income tax to the central government from the beginning of 2016 will increase the central government's share of corporate income 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.

The table below presents an estimate of the impact of tax criteria changes on central government tax revenue compared to the previous year.

The annual impact on central government tax revenue of the main tax criteria changes of Prime Minister Sipilä's Government, EUR million

	2016	2017	2018	2019
Index of Wage and Salary Earnings/Consumer Price				
Index adjustment of earned income taxation	-115	-135	-162	-189
Increase of earned income credit	-210			
Increase of domestic work credit		-18		
Introduction of entrepreneur deduction		-70		
Deductibility of donations made by private individuals to higher education institutions	-3			
Deductibility of capital losses from all capital income	-20			
Restriction of deductibility of mortgage interest expenditure (not including changes approved by previous Parliament)	11	11	11	28
Extension of validity of so-called solidarity tax				55
Lowering of lower limit at which so-called solidarity tax is paid (in force 2016 and 2017)	34			
Raising of higher tax rate for capital income	34			
Active repentance	10			
Adjustment of Finnish Broadcasting Company (YLE) tax due to index freezing of YLE appropriation	-20			
Expansion of deductibility of limited companies' losses		-10		
Succession promoted by easing inheritance tax		-40		
Facilitating succession in forest holdings		-20		
Increase of tobacco tax	68	68	68	68
Increase of waste tax	5			
Increase of tax on fuels used in heating, power plant and working machines	85			
Removal of tax subsidy of combined electricity and heat production		45		45
Return of mining to electricity tax class II		-21		
Reduction of car tax	-31	-36	-50	-65
Increase of vehicle tax		100		
Introduction of tax on registered boats and motor vehicles		50		
Removal of rail goods transport tax and extension of halving of fairway dues by a year			-55	

Development of tax revenue 2016–2019

Central government revenue from earned income and capital income tax is expected to increase in the spending limits period by an average of around 2½% per year. Earned income is expected to grow by an average of around 2.1% and capital income by an average of around 2.7%. Tax criteria changes are expected to reduce revenue from earned income and capital income tax by a total of approximately EUR 0.8 billion in the spending limits period, of which approximately EUR 0.6 billion will consist of adjustments corresponding to rising earnings or inflation made in earned income taxation.

Corporate tax as a whole is expected to increase in the spending limits period by an average of around 4% per year, which is roughly in line with the surplus according to national accounts. Corporate tax revenue remitted to central government is expected to increase more quickly than aggregate corporate tax, by an average of around 6% per year, because in 2016 the fixed-term increase of the municipalities' share of corporate tax will end and parishes will no longer receive corporate tax. These

changes are expected to increase corporate tax revenue remitted to central government by approximately EUR 0.3 billion.

Value-added tax revenue is projected to grow in the spending limits period by an average of around 2% per year. This forecast is mainly based on estimates for the growth in household consumption expenditure. Value-added tax revenue will be reduced in 2017 and 2018 by one-off transfers of tax remittances beyond the turn of the year. These relate to the opportunity for small companies to transfer to payment-based settlement of value-added tax in 2017 as well as to the transfer of value-added taxation of imports from Customs to the Tax Administration in 2018.

Total revenue from excise duties is projected to grow in the spending limits period by an average of around 1% per year. Tax criteria changes are expected to increase revenue from excise duties in the spending limits period by a total of approximately EUR 0.4 billion compared with the situation in which the increases would not be made. The excise tax bases are mainly expected to narrow, owing to the steering impact of taxation.

Car tax revenue is projected to fall by an average of around 7% per year. This is due to the easing of car tax in accordance with the Government Programme and to the fact that downward trend in the carbon dioxide emissions of new cars is expected to continue. The amount of car tax depends on the general retail sales value of a car on the Finnish market as well as on carbon dioxide emissions, so reducing emissions lowers the tax percentage of new cars.

Vehicle tax revenue is projected to increase by an average of around 6%. Growth in tax revenue will be weighted towards the early years of the spending limits period due to increases of the vehicle tax. Vehicle tax will be increased by EUR 100 million at the beginning of 2017. As vehicle tax is levied in advance for a running 12-month tax period, the increase will have an impact on the 2016 revenue from vehicle tax. In addition, vehicle tax revenue will be impacted by the decision of the previous Government to increase vehicle tax by EUR 180 million from the beginning of 2016.

Other on-budget revenue

Miscellaneous revenue is projected to fall in the spending limits period by an average of 2½% per year, due to the exceptionally large amounts of revenue in 2015.

As regards other on-budget revenue, dividend income and income from share sales or repayments of capital are expected to amount to approximately EUR 1.8 billion per year.

Recognition of revenue from state-owned enterprises is expected to average just over EUR 200 million per year (see Chapter 5.6 for more details).

Ministry of Finance estimate of ordinary on-budget revenue in 2015–2019, EUR billion

	2015	2016	2017	2018	2019	2015–2019 average annual change, %
	Budget					
Total tax revenue	39.9	40.8	41.5	42.4	43.9	2.4
— taxes on earned and capital income	8.9	9.2	9.4	9.7	10.1	2.4
— corporate tax	2.5	2.9	3.1	3.2	3.4	5.9
— VAT	16.9	16.9	17.1	17.5	18.2	2.2
— excise duties	7.1	7.1	7.1	7.2	7.2	1.0
— other tax revenue	4.5	4.8	4.9	4.9	5.0	2.9

	2015	2016	2017	2018	2019	2015–2019 average annual change, %
	Budget					
Miscellaneous revenue	6.1	5.3	5.3	5.4	5.5	-2.4
Interest earned, income from share sales and profit recognised as income	2.8	2.5	2.1	2.6	2.0	-8.1
— Dividend income and income from sales of shares	2.1	2.0	1.6	2.1	1.5	-8.9
Total revenue¹	49.1	49.1	49.4	50.8	51.7	1.3

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 expected to be approximately EUR 5.0 billion in 2016. The deficit is expected to fall to EUR 4.0 billion in 2019.

Compared with the spring 2015 technical General Government Fiscal Plan, the on-budget balance will improve by an average of approximately EUR 0.8 billion per year. This will mean central government net borrowing by the end of 2019 of approximately EUR 3.4 billion less than estimated in spring 2015. The reduction in the deficits is explained primarily by the Government-decided consolidation measures, which affect appropriations. A weakening of the economic development forecast will have an opposite impact mainly through reduced tax revenue estimates, but also through growth of cyclical expenditure. Interest paid on central government debt is also expected to be slightly greater than was estimated in the spring, owing to higher interest rate assumptions extending to 2019.

In 2017 the on-budget balance will deteriorate temporarily. This is mainly the result of the timing of key Government projects but also to other factors, such as estimated expenditure arising from asylum seekers as well as the timing of changes in taxation.

It is assumed that central government debt will grow to approximately EUR 106 billion in 2016. The central government debt-to-GDP ratio will rise throughout the parliamentary term. Central government debt is expected to be approximately EUR 120 billion in 2019, which is around 52% in ratio to GDP.

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

Ministry of Finance estimate of on-budget balance in 2015–2019, EUR billion, at current prices

	2015	2016	2017	2018	2019
On-budget revenue estimate, total ¹	49,1	49,1	49,4	50,8	51,7
On-budget expenditure estimate, total, at current prices ²	54,4	54,1	55,2	55,7	55,7
On-budget balance estimate	-5,3	-5,0	-5,9	-4,9	-4,0
Central government debt-to-GDP ratio, %	49	50	51	52	52

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 outside budget finances (excluding the State Pension Fund, which is classified in the national accounts under the pension provider sector) as well as the universities, Solidium Oy, Senate Properties, university real estate companies, HAUS Finnish Institute of Public Management Ltd, Leijona Catering Oy and VTT Technical Research Centre of Finland Ltd.

Central government assistance to VTT will amount to approximately EUR 90 million in the spending limits period 2016–2019.

Overall funding of universities comprises appropriations allocated to universities in the budget and supplementary funding (e.g. paid services, donations, and sponsoring). In 2014 funding of universities totalled approximately EUR 2.8 billion, of which the central government's direct and competitive funding accounted for approximately 75%.

There are three university real estate companies: Suomen Yliopistokiinteistöt Oy, Helsingin Yliopistokiinteistöt Oy and Aalto-yliopistokiinteistöt Oy. These are companies that focus on the ownership and development of university real estate. The central government owns one-third of Suomen Yliopistokiinteistöt and the universities two-thirds. The other companies are wholly owned by the universities that use the real estate concerned.

Central government funding for the Finnish Broadcasting Company YLE consists of the special YLE tax introduced at the beginning of 2013, a sum equivalent to which goes to the State Television and Radio Fund, which passes it on to YLE. The funds transferred are revised annually to reflect changes in cost levels, but as an exception during 2016–2019 the index increase for YLE funding will not take place. The tasks and financing of the Finnish Broadcasting Company YLE will be discussed in a parliamentary working group that will be appointed.

The investment company Solidium Oy is a limited company wholly owned by the state whose task is to strengthen and stabilise Finnish ownership in nationally important companies. The company's equity portfolio features 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 the central government budget, EUR 1,800 million in revenue was recognised from Solidium Oy in 2013 and EUR 1,087 million in 2014.

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. In December 2014, the department was responsible for 23 commercially active companies and, in addition, four companies with special tasks, which it oversees. It is also the department's responsibility to prepare general policy on state holdings and ownership steering practices and to coordinate ministerial cooperation on ownership steering.

Off-budget funds

The central government has 11 off-budget funds. The Government Guarantee Fund was abolished on 1 January 2015 and the funds were recognised in budget finances in the 2015 Budget. On the other hand, a new off-budget fund, the Financial Stability Fund, was established. The fund is managed by the Financial Stability Authority and consists of a Crisis Resolution Fund, made up of stability

contributions, and a Deposit Guarantee Fund, made up of deposit guarantee contributions. The stability contributions from credit institutions are transferred from the Financial Stability Fund to the EU Single Resolution Mechanism.

Other off-budget central government funds are the Housing Fund of Finland, the State Pension Fund, the Development Fund of Agriculture and Forestry, the National Nuclear Waste Management Fund, the National Emergency Supply Fund, the State Guarantee Fund, the State Television and Radio Fund, the Agricultural Intervention Fund, the Fire Protection Fund and the Oil Protection Fund.

Over the spending limits period, it is estimated that the combined annual revenue of off-budget funds will average just under EUR 5.2 billion and expenditure EUR 4.9 billion. The annual net surplus of the off-budget funds will therefore be on average approximately EUR 0.3 billion. The annual net surplus for the funds, omitting the Pensions Fund, is a slightly lower.

Central government off-budget funds, EUR million

	2015	2016	2017	2018	2019
Taxes and tax-like revenue, total	87	216	237	247	257
Miscellaneous revenue	314	152	167	137	135
Pension contributions	1 641	1 628	1 619	1 613	1 625
Interest earned and profit recognised as income	359	373	405	397	388
Transfers from budget	511	525	549	549	511
Revenue excluding financial transactions	2 912	2 895	2 977	2 943	2 916
Repayments of loans granted	2 219	2 223	2 230	2 244	2 263
Total revenue	5 132	5 118	5 208	5 188	5 179
Consumption expenditure	247	159	166	167	168
Current transfers	836	949	869	965	1 050
Interest expenditure	1	1	1	1	1
Transfers to budget	2 342	1 830	1 895	1 928	1 956
Expenditure excluding financial transactions	3 426	2 938	2 931	3 060	3 175
Loans granted and other financial investments	1 823	1 825	1 852	1 855	1 858
Total expenditure	5 249	4 763	4 783	4 915	5 033
Net financial surplus	-117	354	425	273	146

State-owned enterprises

Senate Properties is a state-owned enterprise under the aegis of the Ministry of Finance and is the central government's expert on the working environment and working premises. It produces and delivers services mainly for the central government. In 2014 it had a total of 6.4 million m² of leasable floor space, its turnover was EUR 625 million and the balance sheet total was EUR 4.7 billion. Approximately EUR 234 million was spent on investment in major improvements and new construction. The profit from leasing operations was EUR 105 million. Income from sales of real estate was EUR 72 million and profit from sales stood at approximately EUR 24 million. The recognition of revenue from Senate Properties in 2015 was approximately EUR 210 million in the central government budget.

The central government's rental system will be reformed from the beginning of 2016. Senate Properties will in future be the central government's only property acquisition unit. The use of the central government's existing premises will be a legislative priority. The flexibility of lease

agreements will be increased by making it easier for agencies and institutes to withdraw from unnecessary state-owned premises. Senate Properties could also sell more effectively the space the central government does not need. At the beginning of 2016, the central government will switch to rents based on the absorption principle, which will lower the income that Senate Properties receives in rents by approximately EUR 81 million per year. Reductions corresponding to the lower rents have been included in the appropriations of the administrative branches. The revenue recognised from Senate Properties to the central government is estimated at EUR 100 million in 2016, EUR 85 million in 2017 and EUR 75 million in 2018 and EUR 85 million in 2019. The estimate for revenue recognition takes into account a rise in rent for the Defence Forces (+ EUR 36 million) and the introduction of rents based on the absorption principle (- EUR 81 million). Furthermore, the balance sheet package decided upon in spring 2014 will result in additional revenue recognitions for Senate Properties of EUR 40 million in 2016 and EUR 20 million in 2017. In addition, the estimates of Senate Properties' revenue have been increased by EUR 5 million in 2016, EUR 10 million in 2017, EUR 20 million in 2018 and EUR 30 million in 2019 as a result of Government savings decisions, in accordance with which Senate Properties' investment authorisation will be limited, causing a permanent EUR 30 million reduction in rents. The measure will reduce Senate Properties' expenditure. In the early stage, the benefit received by the state-owned enterprise will be recognised as revenue to the central government.

Metsähallitus is a state-owned enterprise whose functions are divided into business operations and public administrative duties funded out of the budget and fee income. It manages around 12.5 million hectares of state-owned land and water areas, with a balance sheet value of approximately EUR 2.7 billion. Of this, the basic capital subject to the yield requirement is approximately EUR 2.5 billion. The annual turnover of Metsähallitus is approximately EUR 250 million. The legislation on the organisation is being reformed. Its on-budget recognised revenue is estimated to be EUR 120 million per year.

6. Local government finances

The part of the General Government Fiscal Plan relating to local government finances includes a maximum limit for local government expenditure as well as the Government's other policies relating to local government finances and the municipalities, and also 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.

6.1. Local government finance policies

The deficit on local government finances can be no more than ½% in ratio to GDP in 2019.

Maximum limit for local government expenditure

National rules relating to the General Government Fiscal Plan require that the Government sets a maximum limit for local government expenditure. The intention is that the maximum limit for expenditure is consistent with the budgetary target set by the Government for local government finances. The maximum limit for expenditure is a monetary limit for the change in expenditure arising to local government finances from central government measures.

The Government has decided that its measures will have the net effect in 2019 of reducing local government operating expenditure by at least EUR 540 million compared with the technical General

Government Fiscal Plan adopted on 2 April 2015, which was the basis for the Government Programme. The level of the maximum limit for expenditure takes into account new measures with respect to the technical General Government Fiscal Plan that are included in the General Government Fiscal Plan 2016–2019 and the 2016 Budget Proposal. The measures impacting local government finances outlined in Annex 6 of the Government Programme have, for the most part, been included in the General Government Fiscal Plan and the 2016 Budget Proposal, excluding the specialised medical care incentive scheme, the reform of vocational upper secondary education and the reduction of planning duties of social and health care services.

Maximum limit for local government expenditure in 2016–2019, EUR million

2016	2017	2018	2019
-160	-340	-460	-540

Compliance with the maximum limit for expenditure is monitored in the annual revisions of the General Government Fiscal Plan. The maximum limit cannot be relaxed from the level set in this General Government Fiscal Plan. It will be tightened annually as preparation progresses on measures agreed in the Government Programme that are as yet not fully specified.

As the EUR 1 billion reform programme to reduce municipalities’ duties and obligations proceeds and new measures reducing municipalities’ duties and obligations are clarified during preparation such that they can be included in the State Budget Proposal and the General Government Fiscal Plan, these new measures will be taken into account in tightening the maximum limit for expenditure. A similar procedure will be followed with respect to the social and health care reform’s (objective EUR 3 billion) possible impacts on reducing municipalities’ costs in the future.

In addition to that which has been decided in the Government Programme about municipalities’ duties and obligations, the municipalities will not be given new statutory duties and obligations, or extensions thereof, that permanently weaken local government finances. If, however, in exceptional circumstances, duties or obligations that permanently increase the operating expenditure of municipalities and joint municipal authorities are enacted to the overall benefit of general government finances, then weakening of the balance of local government finances will be prevented by increasing central government transfers, cutting in the same context other municipal duties and obligations or by allowing increases in fee income. In accordance with current legislation, a central government transfer covering 100% of the costs will be allocated to new or extended duties and obligations.

Other central government measures impacting the balance of local government finances

In addition to setting a maximum limit for expenditure, the Government will strengthen local government finances by giving municipalities the opportunity to increase fee income. Day-care fees as well as customer fees for school pupils’ morning and evening activities and for social and health care services will be increased by a total of EUR 230 million. Real-estate tax will be raised gradually during the parliamentary term by a total of EUR 100 million.

In accordance with the Government Programme, municipalities will be compensated for changes made to tax criteria.

Overall impact of central government measures, and local government finances' adjustment requirement

The overall impact of the Government's measures is to strengthen local government finances by a total of EUR 0.5 billion at the 2019 level.

Strengthening impact on local government finances of central government measures in 2019, EUR million

Maximum limit for expenditure	540
Change of central government transfers relating maximum limit measures	-70
Index freezing of central government transfers	-310
Changes in fee criteria	230
Increase of real-estate tax	100
Total	490

According to the spring 2015 forecast that was the basis of the Government Programme, the local government deficit was 0.9% in ratio to GDP at the 2019 level in national accounting terms. The Ministry of Finance's updated forecast takes into account the Government Programme measures impacting local government finances that have already been specified. These will strengthen the balance of local government finances by a net sum of just under EUR 500 million at the 2019 level. The economic outlook relative to the spring forecast has weakened, however. According to the updated forecast, the local government deficit will be EUR 1.9 billion, i.e. 0.8% in ratio to GDP, in 2019. Achieving the budgetary objective would therefore require a local government adjustment by a further EUR 0.7 billion at the 2019 level. This will be covered by Government Programme measures that as yet have not been fully specified or by new central government measures to be decided later and municipality's own measures.

To safeguard the stability of local government finances, it is essential that adjustment measures in accordance with the Government Programme are purposefully prepared and implemented, so that the desired savings can be achieved. In addition, front-loaded progress must be made in reducing municipalities' duties and obligations.

Municipalities' own measures

Municipalities have wide-ranging autonomy, and the central government cannot by its own measures alone ensure the balancing of local government finances. Therefore, the municipalities also have great responsibility for balancing local government finances, for example by implementing structural reforms and improving productivity. The central government cannot control local government investments nor thereby curb local government indebtedness. Prioritising investments, scheduling them correctly and implementing them in a high quality way are very important in the adjustment of local government finances. The Government Programme's objectives relating to easing taxation on labour and to the overall level of taxation should also be taken into account when selecting means of adjustment.

6.2. Central government measures impacting local government finances

Central government transfers in the spending limits period

Central government transfers to local government will be approximately EUR 11 billion in 2016, and they will decline to approximately EUR 10.4 billion in 2019. In addition to Government decisions, the

level of central government transfers will be affected by cuts in central government transfers for 2016–2017 decided by the previous Government, the transfer of basic social assistance from the municipalities to KELA, and the revised division of costs between central and local government in 2016. In the central government-municipality relationship, neutral tax loss compensation also increases central government transfers.

The Government Programme includes a number of measures aimed at curbing growth of local government expenditure and thereby strengthening local government finances.

Additional investment, with full central government funding, will be directed at developing informal and family care, with the aim of slowing growth of costs in services for older people. The legislative changes are intended to come into force during 2016, and the aim is to handle possible appropriation requirements relating to 2016 in connection with the 2016 supplementary budget proposal. The increase in central government transfers will total EUR 90 million in 2017 and EUR 95 million from 2018. The objective is achieve a saving in local government expenditure rising to EUR 180 million at the 2019 level. A decrease corresponding to the cost saving will be made in the central government transfer for basic public services.

A EUR 10 million increase in 2016–2018 and EUR 25 million in 2019 in the central government transfer for municipalities' basic public services will be directed, with full central government funding, at child welfare and home help provision for families with children. The increase will also facilitate the implementation of the reformed Social Welfare Act. Sums of EUR 4.8 million in 2017–2018 and EUR 5.8 million in 2019 will be allocated to home care for older people. This increase will also be fully funded by central government.

The staff-client ratio in services for older people will be adjusted, which is projected to generate savings from 2017. Local government expenditure is expected to decrease by EUR 70 million at the 2019 level, for which the corresponding reduction in central government transfers is EUR 19 million.

The arrangement of regional specialised medical care will be enhanced from 2016 with the aim of slowing expenditure growth. These measures are expected to reduce local government expenditure from 2016. At the 2019 level, the expenditure saving is expected to be EUR 110 million, and the central government transfer for municipalities' basic public services will be correspondingly reduced by EUR 28 million.

The subjective right to day care will be changed from 1 August 2016 in such a way that every child has the right to receive early childhood education for 20 hours per week up to the beginning of preschool education. Full-time early childhood education would be a right if the child's parents' or other guardians' work, studies, entrepreneurship or self-employment would so require this. The changes are expected to reduce municipalities' annual expenditure by EUR 62 million, and the central government transfer for basic public services is correspondingly reduced by EUR 15.9 million. Furthermore, in early childhood education the ratio of trained adult staff to children over 3 years of age will change from 1/7 to 1/8 from 1 August 2016, which will reduce municipalities' expenditure gradually from 2016.

Of the central government transfers for municipalities' basic public services, EUR 10 million will be transferred to discretionary government transfers payable to crisis municipalities in 2017.

In the spending limits period, no index increases to central government transfers to local government will be made.

A sum of EUR 1 million is allocated in 2016–2017 for the social and health care services reform and the preparation of the establishment of autonomous areas.

Discretionary government transfers granted to reduce group sizes in basic education will be withdrawn. In addition, other transfers granted for the improvement of the quality of general education will be partly withdrawn.

Additional funding, some of which will be directed to municipalities, will be allocated in 2016–2018 to key Government projects in knowledge and education as well as wellbeing and health. The impact of key Government projects on local government finances will become clearer as preparation progresses.

Central government transfers to municipalities and joint municipal authorities, EUR million, spending limits period at 2016 prices

	2014	2015	2016	2017	2018	2019
Imputed central government transfers	9 483	9 426	9 933	9 677	9 677	9 555
Ministry of Finance, central government transfer for basic public services	8 613	8 500	9 028	8 820	8 812	8 687
Ministry of Education and Culture ¹	871	926	905	878	865	868
— of which joint municipal authorities	1 227	1 082	1 041	1 026	1 022	1 021
Other central government transfers by administrative branch, total	1 243	1 114	1 078	831	891	873
Ministry of Justice	8	9	0	0	20	20
Ministry of the Interior	5	6	5	5	5	5
Ministry of Finance	36	37	27	43	22	18
Ministry of Education and Culture	312	208	159	165	165	154
Ministry of Agriculture and Forestry	5	5	4	4	4	4
Ministry of Transport and Communications	45	39	36	36	36	36
Ministry of Employment and the Economy	155	166	203	274	341	372
Ministry of Social Affairs and Health ²	649	609	609	270	264	230
Ministry of the Environment	29	35	35	33	33	33
Central government transfers, total	10 727	10 540	11 011	10 529	10 568	10 428

¹⁾ The municipalities' imputed share is estimated from the total funding of the administrative branch of the Ministry of Education and Culture (including private). Responsibility for funding the universities of applied sciences has been transferred to central government since the beginning of 2015 and they no longer fall within the analysis. The transfers associated with the funding system reform and the removal from the analysis of the universities of applied sciences will have the result that central government transfers for 2014 and 2015 are not be fully comparable with one another.

²⁾ Payment of basic social assistance will be transferred from the municipalities to the Social Insurance Institution of Finland KELA in 2017. As a result, the central government will no longer pay to the municipalities a transfer for basic social assistance costs, which will be reflected as a reduction of the central government transfers of the Ministry of Social Affairs and Health. Furthermore, municipalities' share of basic social assistance expenditure costs will be acknowledged as a reduction in the central government transfer for basic public services.

Tax criteria changes

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 earned income taxation, an adjustment corresponding to the rise in earnings will be made in 2016, and from 2017 adjustments corresponding to the change in earnings or consumer prices. Taxation of low and medium incomes will be eased in 2016 by increasing the earned income credit. Donations between EUR 850 and EUR 500,000 made by private individuals to higher education institutions will

be made tax deductible. The validity of the Act on Withholding Tax for Taxation of Foreign Wage Earners with Special Expertise (so-called Key Individuals Act) will be extended in 2016–2019.

The domestic work credit will be increased by raising the compensation percentage and including care services for older people within the scope of the credit. A 5% entrepreneur deduction will be introduced for business operators and self-employed persons, entrepreneurs engaged in agriculture, forestry and reindeer husbandry, and business partnerships and tax consortiums.

The restriction of the deductibility of mortgage interest expenditure will be accelerated. Under current legislation, the deductible portion of mortgage interest expenditure will be reduced by 5 percentage points per year from the present 65% to 50% by 2018. In accordance with the Government Programme, the deductible portion would be reduced by 10 percentage points per year in 2016–2019, so that 25% of mortgage interest expenditure would be deductible in 2019.

The deductibility of limited companies' losses will be expanded. It is assumed that the impact on municipalities' share of corporate tax will be compensated via the corporate share, in which case the change will have no impact on the municipalities' corporate tax revenue. In accordance with an earlier decision, the fixed-term five percentage point increase in the municipalities' share of corporate tax will expire at the end of 2015, which will reduce the municipalities' corporate tax revenue by EUR 258 million on an annual basis.

Real-estate tax will be increased during the parliamentary term by EUR 100 million. It is proposed that the increase will be implemented gradually. In 2016 and 2017, real-estate tax will be raised by a total of approximately EUR 50 million by moderately raising the lower and upper limits of the real estate tax. Decisions on increases for 2018 and 2019 will be made later, due to pending work on the reform of the valuation criteria of real estate taxation.

Changes in fee criteria

Social and health services' client fees will be increased in 2016, thereby boosting municipalities' fee income by EUR 150 million. The intention is to increase day-care fees as well as fees for school pupils' morning and afternoon activities from 1 August 2016. The impact of these increases on an annual basis will be EUR 80 million.

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

Development of local government finances up to 2019 according to local government accounts, EUR billion, at current prices¹

	2014	2015	2016	2017	2018	2019
Result itemisation						
1. Operating margin	-26.7	-28.1	-28.5	-28.6	-29.5	-30.3
2. Tax revenue	21.2	21.8	21.7	22.1	22.9	23.7
3. Central government transfers, operational finances	8.2	8.2	8.8	8.6	8.7	8.5
4. Financial income and expenses, net	0.2	0.2	0.2	0.2	0.1	0.1
5. Annual contribution margin	2.9	2.2	2.2	2.3	2.3	2.1
6. Depreciation	-2.6	-2.6	-2.7	-2.8	-2.9	-3.0
7. Extraordinary items, net	1.9	0.3	0.3	0.3	0.3	0.3
8. Result for the financial year	2.2	-0.2	-0.3	-0.3	-0.4	-0.7

	2014	2015	2016	2017	2018	2019
Financing						
9. Annual contribution margin	2.9	2.2	2.2	2.3	2.3	2.1
10. Extraordinary items	1.9	0.3	0.3	0.3	0.3	0.3
11. Income financing, adjustment items	-2.6	-0.5	-0.5	-0.5	-0.5	-0.5
12. Internal financing, net	2.2	2.0	2.0	2.1	2.1	1.9
13. Investment in fixed assets	-7.6	-4.6	-4.7	-4.7	-4.7	-4.7
14. Funding contributions and income from sales	5.3	1.0	1.0	1.0	1.0	1.0
15. Investments, net	-2.3	-3.6	-3.6	-3.6	-3.6	-3.6
16. Financial balance (income financing - investment)	-0.1	-1.6	-1.6	-1.5	-1.5	-1.7
17. Loan portfolio	16.5	18.2	19.9	21.5	23.2	25.0
18. Cash assets	5.3	5.3	5.3	5.3	5.3	5.3
19. Net debt	11.2	12.9	14.6	16.2	17.8	19.7

¹⁾ In 2014 and 2015 the items in the profit and loss account are affected by the spin-off of municipal enterprises and universities of applied sciences. The spin-off of municipal enterprises strengthened the result for the financial year on a one-off basis by approximately EUR 1.7 billion in 2014.

Local government finances will remain tight in the next few years. The combined result of municipalities and joint municipal authorities is expected to be slightly in deficit, and the deficit will deepen towards the end of the outlook period. Investment will continue to be maintained at a high level, for example in respect of the repair debt, hospital investments and major investments in growth centres. Cash flow from operations and investments will remain clearly in deficit. The consolidation measures to strengthen local government finances acknowledged in the economic projection will slow growth in the loan portfolio but will be insufficient to cover growth in age-related expenditure arising from population ageing. The local government loan portfolio will grow to EUR 25 billion by 2019.

The economic projection of local government finances for 2016–2019 is a scenario calculation that only takes into account measures impacting local government finances that are already included in the budget proposal and the General Government Fiscal Plan. The projection does not include municipalities' and joint municipal authorities' own consolidation measures after 2015. Municipal income tax percentages have been kept at the 2015 level.

The Government Programme consolidation measures acknowledged in the economic projection will strengthen local government finances by just under EUR 500 million at the 2019 level. The calculation also takes into account the increase in real estate tax according to the Government Programme, the revenue impact of which will be EUR 100 million at the 2019 level. On the other hand, a reform programme in preparation, aimed at reducing municipalities' duties and obligations by EUR 1 billion, has not yet been taken into account in this economic projection. Similarly, the effects of the social and health care services reform on local government finances have not been anticipated in the calculation.

According to the scenario calculation, the municipalities' and joint municipal authorities' combined result for the financial year as well as cash flow from operations and investments will almost remain at the previous year's level in 2016. The cost level will continue to rise very modestly. Consolidation measures in accordance with the Government Programme will also slow growth of operating expenditure. A revised division of costs between central and local government will increase central government transfers to local government. Local government tax revenue will be reduced by the removal of the fixed-term elevated share of corporate tax and an increase in the unemployment insurance contribution.

The combined loan portfolio of municipalities and joint municipal authorities will continue to grow quickly. For the stability of local government finances, it is important that the measures aimed at strengthening local government finances outlined in Government Programme are fully specified and implemented. In particular, the implementation of structural reforms, for example in social and health care, is essential to enable future spending pressures to be curbed. The municipalities should also continue their own consolidation measures and structural reforms.

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

Earnings-related pension system

Finland's earnings-related pension system consists of a number of different pension acts, in which pensions are generally determined, however, by the same criteria. The funding of pension expenditure varies by pension act, as a result of which the financing criteria of earnings-related pension sector cannot be described by a single rule. The financing criteria can be examined, however, by looking separately at the largest pension funds (TyEL, YEL, VaEL and KuEL).

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

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. The private earnings-related pension sector's EMU buffer is located in the pay-as-you-go system's buffer fund, which is termed the equalisation fund (equalisation liability). The target for the EMU buffer is an agreed amount corresponding to 2.5% of the annual wage bill of the private sector. The TyEL funding rate, i.e. the ratio of pension assets to pension liability, was around 25–30% at the end of 2012, depending on the method of calculation. The pension expenditure of entrepreneurs (around 8% of those insured), agricultural entrepreneurs and seafarers is financed from contributions and the portion exceeding this from the state budget.

Criteria relating to level of the TyEL contribution are prepared in working groups established by the Finnish Pension Alliance TELA based on statistics and calculations produced by the earnings-related pension insurance companies and the Finnish Centre for Pensions. In addition, the contribution level is discussed in the pension negotiation group of the social partners. Pension contributions must be at a level that guarantees the payment of pensions and the funding required by law.

Approximately 20% of those insured are covered under the **Local Government Pensions Act (KuEL)**. In the KuEL system, the aim is to set pension contributions in such a way that the pension system is on a sustainable foundation and the level of pension contributions remains stable in future. KuEL contributions are determined on the basis of wages paid in the municipal sector and also on pension expenditure.

Employees insured under the **State Pension Act (VaEL)** (around 6.5% of those insured) and central government employers pay their pension contributions into the State Pension Fund (VER). Funds are transferred from the State Pension Fund annually into the central government budget to cover VaEL pension expenditure. The transferred amount is currently 40% of the expenditure arising from central government pensions, because the rest of pension expenditure is covered directly from the central government budget. The State Pension Fund aims to increase prefunded assets until their level exceeds one quarter of the central government's pension liabilities. At the end of 2013, the funding rate was 17%, i.e. two-thirds of the funding target had already been achieved.

Due to the prefunding of pensions, the earnings-related pension sector has shown a significant surplus historically. Demographic change will increase pension expenditure, which will be reflected in a reduction in surpluses. However, due to prefunding, property income is substantial so pension funds will nominally not have to sell off assets, even if pension expenditure exceeds contributions.

Overall, the surplus of the earnings-related pension funds has declined from 4% in ratio to GDP at the beginning of the millennium to 1.7% in 2014. The surplus is projected to drop to around 1% in ratio to GDP in the medium term as pension expenditure grows faster than income. In the national accounts, private sector earnings-related pension funds are also included in general government finances and as general government finance assets. The earnings-related pension system surplus is not seen in general government gross debt.

2017 pension reform

In September 2014, the social partners reached agreement on the main principles underlying the pension reform to take effect from the start of 2017. The objective of the reform is to extend working careers and reduce the sustainability gap in general government finances. The earliest eligibility age for the old-age pension will be raised by 3 months per birth-year cohort until it is 65 years. The new eligibility ages will apply to individuals born in 1955 or later. The upper age limit for the old-age pension will be five years higher than the earliest eligibility age.

The earliest eligibility age for old-age retirement will be linked to life expectancy as of 2027 so that the time spent working in relation to the time spent in retirement will remain at the 2025 level. To retain the ratio of time spent working to the time spent in retirement, the factors affecting the time spent working and the financial and social sustainability of the earnings-related pension system will be reviewed at 5-year intervals.

Alongside the disability pension there will be a years-of-service pension, which can be applied for already at the age of 63. The preconditions for receiving this pension are that the applicant has a working career spanning 38 years and that the work has been either physically or mentally wearing. The current part-time pension will be abolished and replaced by partial early old-age retirement for those who have reached the age of 61. The life expectancy coefficient will be retained, but it will be calculated in a more lenient manner than currently as of 2027, at which time the retirement age for all age cohorts will be 65 years.

The accrual rates of the earnings-related pension will change so that the annual pension accrual rate of individuals of all ages will be 1.5% of salary. If an employee does not draw the old-age pension when reaching the earliest eligibility age for old-age pension, the accrued pension will be adjusted with a 0.4% increment per month for deferred retirement. In 2017–2019, the combined earnings-related pension contribution for wage-earners and employers was agreed to be 24.4%. According to long-term estimates from the Finnish Centre for Pensions, this level of contribution will be enough to fund pensions even after 2019.

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 entities handling the earnings-related unemployment insurance system. KELA's activities are financed statutorily by the sickness insurance contributions of the insured and employers as well as by public sector contributions. The central government's share of KELA's funding in 2014 was around 70%, while insurance contributions accounted for around 25% and municipalities for around 5%. In 2014 the costs of KELA's benefit funds totalled approximately EUR 14.5 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 (TVR) and unemployment benefit societies. Earnings-related unemployment expenditure is financed from unemployment insurance contributions collected from employees and employers, central government contributions and the membership fees of unemployment benefit societies. In 2014 the benefits paid by unemployment benefit societies totalled approximately EUR 2.8 billion. Of this expenditure, the central government funded around 37%, the Unemployment Insurance Fund around 58% and the unemployment benefit societies around 5%.

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 fund providing flexibility. In the 2000s, the other social security funds have deviated from balance annually by at most 0.3% in ratio to GDP.

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

This chapter examines the effect on general government finances of key discretionary measures taken by the Government. The analysis was carried out in national accounting terms.

8.1. Extent and timing of measures

Expenditure-reducing or fee revenue-raising measures aimed at strengthening general government finances by approximately a net EUR 4 billion at the 2019 level were agreed in the Government Programme. The effects of tax criteria changes are not included in this package. The consolidation measures agreed in the Government Programme have, as a rule, been included in the 2016 Budget Proposal and in the General Government Fiscal Plan for 2016–2019 (excluding a few items whose preparation is still at too early a stage to assess their impact). In addition, the effects of certain measures have been more precisely defined during preparation. For example, the estimate of the saving to be achieved by freezing index increases has been lowered from the impact estimates at the time of the Government Programme due to lower inflation forecasts. In addition, the deferral to 2017 of the EUR 200 million saving in earnings-related unemployment benefit, for example, has been replaced by bringing forward other consolidation measures or increasing the scale of them. The net impact on general government finances of the expenditure measures and fee revenue increases included in the General Government Fiscal Plan is estimated to be approximately EUR 3.5 billion at the 2019 level. To achieve the consolidation objectives according to the Government Programme, the Government has made certain additional savings decisions, the largest of which is extending the freezing of index increases to benefits (excluding social assistance) linked to the National Pensions Index and the Cost-of-Living Index into 2017–2019.

On the other hand, EUR 1.6 billion is allocated on a one-off basis to key Government projects and to reduce the repair debt in 2016–2018. The key projects will be financed mainly with dividend income and sales of government shareholdings. In the national accounts, only part of this is considered to be

general government revenue. Of the funding, EUR 330 million will be covered by the cancellation of funding for the City Rail Loop, which was in the spending limits.

The revenue estimates of the spending limits period have taken into account the tax criteria changes decided in the Prime Minister Sipilä's Government Programme. The Government Programme's tax policy aims to boost growth, entrepreneurship and employment. The Government Programme contains both tax-tightening and tax-easing measures. In accordance with the Government Programme, annual adjustments corresponding to rising earnings or inflation will be made in earned income taxation. Taxation of low and medium incomes will be eased by increasing the earned income deduction. A number of excise duties will be increased in order to balance general government finances. Taxation on cars will be eased gradually during 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. In accordance with an earlier decision, the fixed-term five percentage point increase in the municipalities' share of corporate tax will expire at the end of 2015, which will reduce the municipalities' corporate tax revenue and correspondingly increase the central government's corporate tax revenue in 2016. Real estate tax will be raised gradually during the parliamentary term. Taxation changes are discussed in more detail in terms of the central government finances in Chapter 5.4 and in terms of local government finances in Chapter 6.2.

Due to growing pension and unemployment expenditure, there has been upward pressure on social security contributions. As part of a series of successive increases, the private employers' and employees' earnings-related pension contributions rose by a total of 0.4 percentage points at the beginning of this year. In connection with the 2017 pension reform agreement, the social partners also agreed the level of the earnings-related pension contribution. It was decided to transfer to 2017 the 0.4 percentage point increase agreed earlier for 2016, and it was further decided to freeze the earnings-related pension contribution at this level, namely 24.4%, for the period 2017–2019. In connection with the agreement of pay increases in the third year of the Stability and Growth Pact, the social partners proposed that a one percentage point increase, divided equally between employers and employees, be made to the unemployment insurance contribution in 2016. It is assumed that the increase will remain in effect indefinitely.

Overall, the above-mentioned measures will have an approximately EUR 4.3 billion impact on the general government balance at the 2019 level, which corresponds to just under 2% in ratio to GDP. The impact will grow significantly from 2018 to 2019, mainly due to the tightening effect of central government consolidation measures and the ending of the fixed-term key Government projects.

The total impact of decisions on revenue and expenditure, cumulative, EUR billion

	2016	2017	2018	2019
Decisions lowering central government appropriations	-0.9	-1.4	-1.7	-2.0
Decisions increasing central government appropriations	0.2	0.4	0.5	0.5
Estimated savings impact of index freezes	-0.1	-0.3	-0.7	-1.1
One-off additional investments for key projects, net (fixed-term expenditure increases and total EUR 330 million cancellation of City Rail Loop)	0.3	0.5	0.4	0.0
Compensation to municipalities in central government transfers for tax revenue changes	0.2	0.3	0.3	0.3
Decisions increasing central government tax revenue	-0.2	-0.5	-0.7	-1.1
Decisions lowering central government tax revenues (excl. Index of Wage and Salary Earnings/Consumer Price Index adjustments)	0.3	0.6	1.0	1.1

	2016	2017	2018	2019
Other decisions increasing central government revenue	-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
Impact on central government balance, net	-0.3	-0.5	-1.2	-2.5
Government measures increasing local government revenue	-0.2	-0.2	-0.2	-0.2
Net impact of central government measures on local government tax revenue	0.2	0.2	0.2	0.2
Compensation to municipalities in central government transfers for tax revenue changes	-0.2	-0.3	-0.3	-0.3
Impact of other central government measures on local government finances	-0.1	-0.2	-0.2	-0.2
Increases of municipalities' tax percentages	-	-	-	-
Impact on local government balance, net	-0.3	-0.5	-0.5	-0.5
Increases of social security contributions and other measures	-0.8	-1.2	-1.2	-1.3
Impact on general government balance, net	-1.4	-2.2	-2.9	-4.3
In relation to GDP	-0.7%	-1.0%	-1.3%	-1.9%

In addition to the above-mentioned measures, the Government aims through its reform programme to reduce municipalities' duties and obligations by EUR 1 billion in terms of savings effects in a time span extending beyond the parliamentary term. These effects have not yet been included in the figures of the General Government Fiscal Plan.

At the same time, the Government will continue to strive to improve competitiveness, even after the termination of the social contract negotiations. Prime Minister Sipilä will submit the Government's plan to improve competitiveness to Parliament as a Government statement by the end of September 2015. These measures, such as the conditional consolidation measures totalling EUR 1.5 billion listed in the Government Programme, have not yet been included in the figures of the General Government Fiscal Plan.

8.2. Measures directed at general government expenditure

The table below presents the annual (net) change in general government expenditure in 2016–2019 from measures decided by Prime Minister Sipilä's Government. In addition, the table includes the joint effect of measures taken by the Katainen and Stubb Governments. The measures presented in the table are, in practice, central government finance measures, as there is considerable uncertainty in evaluating local government consolidation measures, and information on the latest measures is not yet available.

The Sipilä Government's largest savings are directed at transfers of expenditure to households. The savings are scheduled most intensely in 2016 and 2019. When the measures of previous Governments are included, the intensity of savings is greatest at the beginning of the period, in 2016 and 2017.

Measures affecting general government expenditure, annual change, net, EUR billion

	2016	2017	2018	2019
Consumption expenditure	-0.3	-0.1	-0.1	-0.2

	2016	2017	2018	2019
Transfers of expenditure to business and industry	-0.1	-0.1	-0.1	-0.1
Transfers of expenditure to households	-0.2	-0.4	-0.4	-0.4
Other transfers of expenditure	-0.4	0.0	-0.1	-0.1
Real investment	0.0	-0.1	0.0	-0.1
Other expenditure	0.0	0.0	0.0	0.0
Total	-1.0	-0.7	-0.5	-0.8
Discretionary measures of the previous parliamentary term	0.1	-0.2	0.3	0.2

8.3. Measures directed at general government revenue

The table below presents the annual (net) change in general government revenue in 2016–2019 from measures decided by the Government. The table also takes into account changes in taxation decided in the previous parliamentary term.

The Sipilä Government's changes relating to taxation are scheduled for the most part in the early years of the parliamentary term. In 2016 the most significant impact is due to increasing the earned income deduction, by which taxation on labour will be eased particularly with respect to low and middle incomes. The measure is expected to reduce general government revenue by EUR 450 million in 2016.

Measures affecting general government revenue, annual change, net, EUR billion

	2014	2015	2016	2017	2018	2019
Current taxes on income	0.3	-0.1	-0.5	-0.3	-0.1	-0.2
Taxes on capital income	0.1	0.1	0.1	0.0	0.0	0.0
Corporate taxes	-0.9	-0.1	0.1	0.1	0.0	0.0
Other direct taxes	0.2	-0.1	0.0	0.0	-0.1	0.0
VAT	0.2	0.0	0.0	-0.1	-0.2	0.0
Other indirect taxes	0.4	0.4	0.2	0.1	0.1	0.1
Social security contributions from employers	0.3	0.2	0.3	0.0	0.0	0.0
Social security contributions from the insured	0.4	0.2	0.4	0.2	0.0	0.0
Total	0.8	0.6	0.6	0.0	-0.4	-0.1

9. Estimate of general government revenue and expenditure

This chapter presents estimates of revenue and expenditure in general government subsectors in national accounting terms.

Central government according to the national accounts, EUR billion

	2014*	2015**	2016**	2017**	2018**	2019**
Direct taxes	12.6	13.0	13.2	13.6	14.1	14.7
Taxes on production and imports	29.5	29.6	30.2	30.6	31.1	32.0
Social security contributions	0.0	0.0	0.0	0.0	0.0	0.0
Taxes and social security contributions, total	42.6	43.3	44.1	45.0	46.0	47.4
Other revenue	8.6	9.1	8.9	9.0	9.4	9.4
of which interest income	0.4	0.3	0.3	0.4	0.4	0.4
Total revenue	51.2	52.4	53.0	54.0	55.3	56.8

	2014*	2015**	2016**	2017**	2018**	2019**
Consumption expenditure	13.8	13.8	14.0	14.3	14.5	14.5
Subsidies and other transfers to general government	38.1	37.9	37.9	38.1	38.4	38.4
Interest expenditure	2.5	2.4	2.3	2.3	2.4	2.6
Capital expenditure	4.8	4.7	4.8	5.1	5.2	5.2
Total expenditure	59.1	58.7	59.1	59.8	60.5	60.8
Net lending (+) / net borrowing (-)	-7.9	-6.3	-6.1	-5.8	-5.1	-4.0

Local government according to the national accounts, EUR billion

	2014*	2015**	2016**	2017**	2018**	2019**
Taxes and social security contributions	21.2	21.8	21.7	22.2	22.9	23.8
Other revenue	18.4	18.4	18.4	19.2	18.9	19.2
of which interest income	0.2	0.2	0.2	0.2	0.2	0.3
of which transfers from central government	13.9	13.8	13.8	14.5	14.1	14.2
Total revenue	39.1	39.6	40.2	40.9	41.1	42.2
Consumption expenditure	33.1	33.6	34.1	34.6	35.4	36.4
of which compensation of employees	21.7	21.7	21.7	22.0	22.2	22.6
Income transfers	3.1	3.1	3.3	3.4	2.7	2.7
of which social security benefits and allowances	1.3	1.3	1.4	1.4	0.7	0.7
subsidies and other transfers	1.6	1.6	1.8	1.9	1.9	1.9
interest expenditure	0.2	0.1	0.1	0.1	0.2	0.2
Capital expenditure	4.5	4.6	4.5	4.6	4.7	4.7
Net lending (+) / net borrowing (-)	-1.5	-1.7	-1.7	-1.8	-1.7	-1.7

Social security funds according to the national accounts, EUR billion

	2014*	2015**	2016**	2017**	2018**	2019**
Investment income	3.5	3.3	3.5	4.0	4.7	5.4
Social security contributions	26.3	26.8	27.8	28.4	29.1	29.8
of which paid by employers	17.9	18.1	18.6	19.0	19.4	19.8
of which paid by the insured	8.4	8.6	9.1	9.5	9.7	10.0
Income and capital transfers from general government	13.5	13.7	13.5	14.3	14.5	14.5
Other revenue	0.5	0.6	0.6	0.6	0.6	0.6
Total revenue	43.8	44.4	45.5	47.4	48.8	50.4
Consumption expenditure	3.5	3.6	3.6	3.5	3.5	3.6
Social security benefits and allowances	32.8	34.5	35.9	36.8	38.4	39.2
Other expenditure	2.9	3.0	3.8	3.4	3.5	3.6
Total expenditure	39.2	41.1	43.3	43.7	45.4	46.4
Net lending (+) / net borrowing (-)	3.7	2.8	1.1	1.8	2.0	2.4
Pension providers	3.7	3.4	2.1	2.3	2.3	2.4

	2014*	2015**	2016**	2017**	2018**	2019**
Other social security funds	0.0	-0.7	-1.1	-0.5	-0.3	0.0

General government fiscal forecast with unchanged policies

Revenue and expenditure with unchanged policies

	2014 level, EUR billion	2014	2015	2016 % GDP	2017	2018	2019
Total revenue with unchanged policies	112.7	54.9	55.1	54.7	54.5	54.7	55.0
Total expenditure with unchanged policies	119.5	58.3	59.5	59.2	59.1	58.7	58.7

Minister of Finance Alexander Stubb

Director General of the Budget Department Hannu Mäkinen

APPENDIX 1 Forecasts and assumptions used in the calculation
 APPENDIX 2 Price- and cost-level adjustments under the central government spending limits
 APPENDIX 3 Changes in the forecasts for general government finances compared with the previous spring's General Government Fiscal Plan
 APPENDIX 4 Stability Programme and Draft Budgetary Plan

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APPENDIX 1. Forecasts and assumptions used in the calculation

The expenditure and revenue estimates of the General Government Fiscal Plan as well as the price and cost adjustments are mainly based on the forecast of the Ministry of Finance's Economics Department, given below.

	2014	2015	2016	2017	2018	2019
GDP, change in volume	-0.4	0.2	1.3	1.4	1.3	1.2
GDP, change in price	1.6	0.4	1.2	1.5	1.8	1.9
GNI, value, EUR million	204 952	206 300	211 480	217 570	224 170	231 190
Consumer Price Index, change %	1.0	-0.1	1.1	1.5	1.8	2.0
Index of Wage and Salary Earnings, change %	1.4	1.1	1.2	1.2	1.7	2.1
Building Cost Index, change %	1.0	0.5	1.3	2.0	2.0	2.0
Basic Price Index for Domestic Supply, change %	-1.3	-2.5	1.4	2.2	2.0	2.0
Unemployment rate, %	8.7	9.6	9.4	9.1	8.7	8.3
Wage bill, change %	0.3	0.5	1.5	1.7	2.2	2.5
Short-term interest rate, 3 months, %	0.2	0.0	0.1	0.2	0.4	0.7
Long-term interest rate, 10 years, %	1.4	0.7	1.0	1.5	2.2	2.9
TyEL Index	2509	2519	2516	2548	2584	2630
KEL Index excluding decided freezes	1630	1648	1641	1663	1688	1718
Price index of basic public services, forecast	0.5	0.6	1.2	1.1	1.7	2.1
— change in index, excluding decided freezes	1.5	0.6	0.5	1.1	1.7	2.1
— index adjustment	0.3	-0.6	-0.7			
University Index, excluding decided freezes	0.9	0.3	1.2	1.4	1.8	2.1
YLE Index, excluding decided freezes		0.7	1.2	1.3	1.7	2.1
Unemployment insurance contributions						
— employer, average	2.20	2.33	2.84	2.84	2.84	2.84
— employee	0.50	0.65	1.15	1.15	1.15	1.15
TyEL contribution	23.6	24.0	24.0	24.4	24.4	24.4
— employer	17.75	18.00	18.00	18.15	18.15	18.15
— employee aged 53 yrs and under	5.55	5.70	5.70	5.95	5.95	5.95
— employee over 53 yrs	7.05	7.20	7.20	7.45	7.45	7.45
— wage coefficient	1.350	1.363	1.372	1.389	1.405	1.429
Health insurance contributions of the insured						
— employees' daily allowance contribution	0.84	0.78	0.82	0.81	0.80	0.80
— wage earners' and entrepreneurs' medical care contribution	1.32	1.32	1.28	1.25	1.25	1.25
— pensioners' medical care contribution	1.49	1.49	1.45	1.42	1.42	1.42
Central government employer contributions	22.5	22.2	21.1	20.9	20.9	21.0

	2014	2015	2016	2017	2018	2019
— health insurance contribution	2.14	2.08	2.12	2.11	2.10	2.10
— pension contribution (under Central Government Employees' Pensions Act)	20.40	20.11	18.97	18.75	18.78	18.88
Local government employer contributions	29.5	29.4	29.8	29.5	29.5	29.5
— health insurance contribution	2.14	2.08	2.12	2.11	2.10	2.10
— other social insurance contributions	0.7	0.7	0.7	0.7	0.7	0.7
— unemployment insurance contributions	2.82	3.02	3.74	3.74	3.74	3.74
— pension contribution (under Local Government Employees' Pensions Act)	23.8	23.7	23.2	23.0	23.0	23.0

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

Structural changes

Structural changes included in this spending limits decision lower the 2016 spending limits level by approximately EUR 32 million compared with the spring 2015 spending limits decision. Many spending limits level adjustments are due to a change in timing of project or procurement payments or to taking into account a transfer to gross budgeting in the spending limits level.

The table below presents a more detailed description of these structural changes and their impact on the spending limits level of the parliamentary term.

Item	Subject	2016	2017	2018	2019
25.01.05	Gross budgeting of fee income of Legal Register Centre, corresponding revenue in item 12.25.99	2.6	2.6	2.6	2.6
29.40.55	Adjustment of universities of applied sciences' VAT compensation, based on 2014 final accounts data	-32.0	-32.0	-32.0	-32.0
29.01.29, 29.80.41	Technical transfer from VAT item to transfer expense item as expenditure belonging to the spending limits	0.8	0.8	0.8	0.8
32.40.03	Gross financing of auditing supervision in Finnish Patent and Registration Office, corresponding revenue similar to tax in item 11.19.09	2.3	2.3	2.3	2.3
32.60.41	Support for construction of LNG terminals, changes in timing of payments	-5.5	5.5		
Total		-31.8	-20.8	-26.3	-26.3

Price- and cost-level adjustments

The estimate for central government appropriations for 2016–2019 are expressed in cost and price levels for 2016. 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 costs and prices.

In the April 2015 technical spending limits decision, the 2016–2019 spending limits were prepared at the 2016 price and cost level in respect of statutorily and contractually indexed expenditure. Price and cost estimates have been revised after this. In addition it was decided as a savings measure to discontinue the index-linking of child allowance and financial aid for students, to freeze index increases for central government transfers for providing basic services and for universities and universities of applied sciences during the spending limits period and to freeze index increases based on the National Pensions Index and the Consumer Price/Cost-of-living Index in 2016–2019. Furthermore, the index increase for the Finnish Broadcasting Company's funding will not be made. As the joint impact of these changes, the price adjustment of statutorily and contractually indexed expenditure will be reduced by a net EUR 173 million compared with the April 2015 spending limits decision.

Adjustments to 2016 price and cost levels compared with the 2 April 2015 spending limits decision, EUR million

Spending limits expenditure according to classification of economic nature	Index used in calculation	Adjustment to appropriation and spending limits level		Adjustment to spending limits level
		Statutory index adjustment	Contractual adjustment	Other cost adjustments
15-17 Pensions	Employee Pension Index (TyEL)	-21.3		
18-19 Defence materiel acquisitions	Predictive increase 1.5%			- ¹
01-14 Wages and social security contributions	Agreement increases			-
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	Index of Central Government Transfers to Local Government (VOS)	-73.7		
30-39 Other central government aid to municipalities and joint municipal authorities	Index of Central Government Transfers to Local Government (VOS)			-
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)	-19.0		
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	-35.8		
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)/YLE Index	-6.6		
60 Transfers to Social Insurance Institution of Finland	National Pension Index (KEL)	-8.2		
60 Central government transfer for expenditure arising from the Sickness Insurance Act	National Pension Index (KEL) / Consumer Price Index (KHI)	-0.2		

Spending limits expenditure according to classification of economic nature		Adjustment to appropriation and spending limits level		Adjustment to spending limits level
		Statutory index adjustment	Contractual adjustment	Other cost adjustments
Index used in calculation				
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's GDP Price Index	-8.0		
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 2016		-172.8		

¹⁾ A predictive 1.5% price- and cost-level adjustment will be made to appropriation levels (excl. personnel expenses) for defence forces operating expenditure and defence materiel procurement. This adjustment will be revised later to correspond with the rise in prices indicated by the cost-of-living index in terms of defence forces operating expenditure and military crisis management equipment and administrative expenditure as well as the rise of the DK subindex of the industrial producer price index fleet for defence materiel procurement.

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

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

	2015	2016	2017	2018	2019
General government balance, spring 2015	-3.4	-3.2	-3.1	-2.7	-2.5
Central government:					
Impact of revised statistical basis on revenue and expenditure estimates	-0.1	-0.1	-0.1	-0.1	-0.1
Impact of revised macroeconomic forecast on revenue and expenditure estimates	-0.1	-0.1	-0.1	-0.2	-0.2
Impact of discretionary measures on revenue and expenditure estimates	0.0	0.1	0.2	0.5	1.1
Impact of other factors	0.3	0.2	0.1	0.1	-0.1
Local government:					
Impact of revised statistical basis on revenue and expenditure estimates	0.0	0.0	0.0	0.0	0.0
Impact of revised macroeconomic forecast on revenue and expenditure estimates	0.0	-0.1	-0.1	-0.1	-0.1
Impact of discretionary measures on revenue and expenditure estimates	0.0	0.2	0.2	0.2	0.2
Impact of other factors	0.1	0.0	0.0	0.0	0.0
Earnings-related pension funds:					
Impact of revised statistical basis on revenue and expenditure estimates	0.0	0.0	0.0	0.0	0.0
Impact of revised macroeconomic forecast on revenue and expenditure estimates	0.0	0.1	0.3	0.4	0.6
Impact of discretionary measures on revenue and expenditure estimates	-0.1	-0.1	-0.1	-0.1	-0.1
Impact of other factors	-0.1	-0.2	-0.2	-0.2	-0.2
Other social security funds:					
Impact of revised statistical basis on revenue and expenditure estimates	0.0	0.0	0.0	0.0	0.0
Impact of revised macroeconomic forecast on revenue and expenditure estimates	-0.2	-0.2	-0.2	-0.2	-0.2
Impact of discretionary measures on revenue and expenditure estimates	0.0	0.4	0.5	0.6	0.8
Impact of other factors	0.1	0.1	0.0	-0.2	-0.4
General government balance, autumn 2015	-3.4	-2.8	-2.4	-1.9	-1.4

APPENDIX 4 Stability Programme and Draft Budgetary Plan

Stability Programme

The General Government Fiscal Plan is also Finland's Stability Programme, and it meets the EU's requirement for a medium-term budgetary plan (Regulation (EU) No. 473/2013 of the European Parliament and of the Council).

Assessment of compliance with the requirements of the preventive arm of the Stability and Growth Pact

Finland is subject to requirements according to the preventive arm of the Stability and Growth Pact. The medium-term objective remains a structural balance of -0.5% of GDP set in the 2013 Stability Programme. The achievement of the medium-term objective or progress towards it are assessed with the aid of two pillars, the structural balance and the expenditure benchmark.

With regard to 2014, the Commission stated that Finland – like all the other countries – complied with the requirements of the preventive arm. This year, Finland is required, in accordance with the country-specific recommendations approved by the Council in July 2015, to make a structural adjustment towards the medium-term objective of 0.1% of GDP, and in 2016 an adjustment of 0.5% of GDP. From 2017 onwards the adjustment requirement will most likely rise to 0.6% of GDP per year. If the adjustment requirements were to be fully implemented, the medium-term objective would be achieved in 2018 at the latest.

According to the Ministry of Finance's forecast, the change in the structural balance in 2015 will be 0.1% of GDP, which means that there will be a deviation, but not a significant deviation, of 0.2% of GDP in the pillar relating to the structural balance. Due to negative growth in 2014 and subsequent exceptional conditions, the cumulative deviation in 2014–2015 will not be significant. The expenditure benchmark will be met both in 2015 and cumulatively in 2014–2015. Therefore, based on the forecast, Finland will broadly comply with the requirements of the preventive arm in 2015.

In 2016 the structural balance will remain at the 2015 level and therefore the deviation from the required adjustment required will be just under 0.5% of GDP. The deviation, either individually or cumulatively in 2015–2016, might if realised become significant. The expenditure benchmark will be met both in 2016 and cumulatively in 2015–2016. The structural balance and expenditure benchmark, therefore, will possibly give a different picture of compliance with the requirements of the preventive arm. This means that an overall assessment will be made of the requirements of the preventive arm. The expenditure benchmark would appear to act in a more stable way than the change in the structural balance in conditions of slow growth, low inflation and low interest rates, and would therefore in this economic situation be more reliable than the change in structural balance as an indicator of fiscal policy stance. The deviation from the adjustment towards the medium-term objective is therefore not becoming significant according to the current overall assessment. The assessment will be revised, however, as more data is received, so the realisation of a significant deviation cannot yet be fully ruled out. The assessment did not take into account the fact that Finland is seeking to make use of the structural reform and investment clauses in 2016.

Utilisation of the structural reform and investment clauses in 2016

Member States are urged to state in their Stability Programme if they wish to make use of the structural reform and investment clauses presented by the Commission in January 2015. Finland will seek to utilise these clauses in 2016.

The use of the flexibility (0.5% in ratio to GDP) permitted by the structural reform clause is justified on the basis of the pension reform agreed in autumn 2014, because the reform will have a verifiable impact of the long-term sustainability of general government finances (see structural reform programme below). Finland also fulfils the requirements for utilising the investment clause. In the programme period 2007–2013, the financial contribution of Finland's public sector in co-funded investment projects has been on average around 0.1% of GDP per year. As the 2016 domestic financial contribution is not known at this stage, this average can be used as an indicative estimate for the deviation to be permitted on the basis of the investment clause at that time.

The expenditure benchmark of the preventive arm of the Stability and Growth Pact will be updated as of 2017. Member States have been requested to state in their Stability Programme, which reference value of the expenditure benchmark they wish to use in the transition year 2016. Finland considers it best to use the old benchmark figure.

Tables

Table 1a. Macroeconomic prospects

	2014	2014	2015	2016	2017	2018	2019
	EUR						
	billion						
1. Real GDP	186.3	-0.4	0.2	1.3	1.4	1.3	1.2
2. GDP at current prices	205.2	1.2	0.6	2.5	2.9	3.0	3.1
Components of real GDP							
3. Private final expenditure	113.6	0.5	1.0	0.8	0.8	0.9	0.9
4. Government final consumption	50.9	-0.2	0.2	-0.2	0.3	0.6	0.7
5. Gross fixed final consumption	41.6	-3.3	-1.3	5.4	4.2	2.5	2.3
6. Changes in inventories and net acquisition of valuables (% of GDP)	1.5	0.7	0.0	-0.1	0.0	0.0	0.0
7. Exports of goods and services	77.8	-0.7	0.9	3.0	3.3	3.4	3.4
8. Imports of goods and services	79.4	0.0	-0.2	3.4	3.5	3.3	3.3
Imputed impact in GDP growth, % points							
9. Final domestic demand	206.1	-0.5	0.3	1.5	1.4	1.2	1.1
10. Change in inventories and net acquisition of valuables	1.5	0.4	-0.5	0.0	0.0	0.0	0.0
11. External balance of goods and services	-1.6	-0.3	0.4	-0.2	-0.1	0.0	0.0

Table 1b. Development of price indices

	2014	2015	2016	2017	2018	2019
1. GDP deflator	1.6	0.4	1.2	1.5	1.8	1.9
2. Private consumption deflator	1.6	0.0	1.1	1.3	1.6	1.8
3. Harmonised Consumer Price Index	1.2	0.3	1.3	1.4	1.8	1.8

	2014	2015	2016	2017	2018	2019
4. Public consumption deflator	1.3	1.0	1.0	1.3	1.8	2.0
5. Investment deflator	0.6	0.7	1.5	2.1	2.0	2.1
6. Export price deflator	-0.7	-0.3	1.0	1.7	1.5	1.5
7. Import price deflator	-1.6	-0.9	1.0	1.6	1.4	1.4

Table 1c. Labour market developments

	2014 level	2014	2015	2016	2017	2018	2019
1. Employment, 1,000 persons	2447	-0.4	-0.7	0.3	0.5	0.4	0.4
2. Employment, 1,000,000 hours worked	4104	-0.7	-0.6	0.4	0.4	0.4	0.4
3. Unemployment rate (%)	232	8.7	9.6	9.4	9.1	8.7	8.3
4. Labour productivity, persons	76.1	0.0	0.9	1.0	0.9	0.8	0.8
5. Labour productivity, hours worked	45.4	0.3	0.8	0.9	1.0	0.8	0.8
6. Compensation of employees	82.2	0.3	0.5	1.5	1.7	2.2	2.5
7. Compensation per employee	33.6	0.7	1.2	1.2	1.2	1.7	2.1

Table 1d. Sectoral balances, % GDP

	2014	2015	2016	2017	2018	2019
1. Finland's net lending/borrowing vis-à-vis the rest of the world	-2.1	-1.4	-1.5	-1.5	-1.4	-1.3
of which:						
— Balance of goods and services	-0.8	-0.1	-0.3	-0.3	-0.3	-0.2
— Balance of primary incomes and transfers	-1.1	-1.1	-1.0	-1.0	-0.9	-0.9
— Capital account	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
2. Net lending/borrowing of the private sector	0.3	1.0	0.3	0.0	-0.5	-0.9
3. Net lending/borrowing of general government	-3.3	-3.4	-2.8	-2.4	-1.9	-1.4
4. Statistical discrepancy	0.9	0.9	0.9	0.9	0.9	0.9

Table 2a. General government prospects, % GDP

	2014 EUR million	2014	2015	2016	2017	2018	2019
Net lending (+) / net borrowing (-) by subsector (EDP B.9)							
1. General government	-6 832	-3.3	-3.4	-2.8	-2.4	-1.9	-1.4
2. Central government	-7 915	-3.9	-3.1	-2.8	-2.6	-2.2	-1.7
3. -							
4. Local government	-1 675	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8
5. Social security funds	2 758	1.3	0.5	0.8	0.9	1.1	1.2
General government (S13)							
6. Total revenue	112 685	54.9	55.5	55.4	55.2	55.2	55.5
7. Total expenditure target	119 517	58.3	58.8	58.2	57.6	57.1	56.9
8. Net lending	-6 832	-3.3	-3.4	-2.8	-2.4	-1.9	-1.4
9. Interest expenditure	2 536	1.2	1.2	1.1	1.1	1.1	1.2
10. Primary balance	-4 296	-2.1	-2.2	-1.7	-1.3	-0.8	-0.1
11. One-off and other temporary measures	0	0.0	0.0	0.0	0.0	0.0	0.0

	2014	2014	2015	2016	2017	2018	2019
	EUR						
	million						
Revenue categories							
12. Tax revenue (12=12a+12b+12c)	63 794	31.1	31.5	31.1	30.8	30.7	30.8
12a. Taxes on production and imports	29 524	14.4	14.4	14.3	14.1	13.9	13.8
12b. Current taxes on income	33 771	16.5	16.8	16.5	16.4	16.5	16.6
12c. Taxes on capital income	499	0.2	0.3	0.3	0.3	0.3	0.3
13. Social security contributions	26 288	12.8	13.0	13.1	13.1	13.0	12.9
14. Property income	6 395	3.1	3.0	3.0	3.2	3.5	3.6
15. Other (15=16-12-13-14)	16 208	7.9	8.0	8.1	8.1	8.1	8.2
16. = 6. Total revenue	112 685	54.9	55.5	55.4	55.2	55.2	55.5
of which: Tax burden (D2+D.5+D.61+D.91-D.995)	90 253	44.0	44.6	44.3	44.0	43.8	43.8
Expenditure categories							
17. Compensation of employees + intermediate consumption	53 048	25.9	26.0	25.8	25.6	25.5	25.3
17a. Compensation of employees (i.e. wages + employer's social security contributions)	29 180	14.2	14.1	13.9	13.6	13.4	13.2
17b. Intermediate consumption	23 868	11.6	11.8	11.9	12.0	12.0	12.1
18. Social transfers (18=18a+18b)	45 970	22.4	23.1	23.0	22.9	22.7	22.7
of which unemployment benefits	5 169	2.5	2.6	2.6	2.5	2.3	2.1
18a. Social transfers in kind	5 680	2.8	2.8	2.7	2.7	2.8	2.9
18b. Monetary social benefits	40 290	19.6	20.3	20.2	20.1	19.9	19.8
19. = 9. Interest expenditure	2 536	1.2	1.2	1.1	1.1	1.1	1.2
20. Subsidies	2 785	1.4	1.3	1.2	1.2	1.1	1.1
21. Gross fixed capital formation	8 383	4.1	4.1	4.1	4.2	4.1	4.0
22. Capital transfers	671	0.3	0.3	0.3	0.3	0.3	0.3
23. Other expenditure (23 = 24 -17-18-19-20-21)	6 124	3.0	2.9	2.6	2.4	2.3	2.3
24. = 7. Total expenditure target	119 517	58.3	58.8	58.2	57.6	57.1	56.9
of which: Public consumption	50 902	24.8	24.9	24.6	24.3	24.2	24.1

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

	2014	2014	2015	2016	2017	2018	2019
	EUR						
	million						
1. Total revenue with unchanged policies	112 685	54.9	55.1	54.7	54.5	54.7	55.0
2. Total expenditure with unchanged policies	119 517	58.3	59.5	59.2	59.1	58.7	58.7

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

	2014	2014	2015	2016	2017	2018	2019
	EUR						
	million						
1. Expenditure on EU programmes fully matched by EU funds revenue	874	0.4	0.6	0.5	0.5	0.5	0.5
2. Cyclical unemployment benefit expenditure	507	0.2	0.5	0.4	0.3	0.1	0.0
3. Effect of discretionary revenue measures	757	0.4	0.3	0.3	0.0	-0.2	-0.1
4. Revenue increases mandated by law	106	0.1	0.0	0.0	0.0	0.0	0.0

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

	COFOG class	2013	2019
1. General public services	1	8.3	8.0
2. Defence	2	1.5	1.6
3. Public order and safety	3	1.4	1.4
4. Economic affairs	4	4.7	4.3
5. Environmental protection	5	0.3	0.2
6. Housing and community amenities	6	0.4	0.3
7. Health	7	8.3	8.3
8. Recreation, culture and religion	8	1.5	1.4
9. Education	9	6.4	6.3
10. Social protection	10	24.8	25.1
11. Total expenditure (=item 7=23 in Table 2)	Tot.	57.6	56.9

Table 4. Development of general government debt, % GDP

	2014	2015	2016	2017	2018	2019
1. Gross debt, % GDP	59.3	62.6	64.3	65.8	66.4	66.6
2. Change in the gross debt, % points	3.7	3.3	1.7	1.5	0.6	0.2
Contributions to changes in gross debt, % points.						
3. Primary balance	-2.1	-2.2	-1.7	-1.3	-0.8	-0.1
4. Interest expenditure	1.2	1.2	1.1	1.1	1.1	1.2
5. Stock-flow adjustment	0.4	-0.1	-1.2	-0.9	-1.3	-1.2
of which:						
— Differences between cash and accruals	0.2	0.0	0.0	0.0	0.0	1.0
— Net accumulation of financial assets	1.7	1.0	1.1	1.1	1.1	1.0
— of which: Privatisation proceeds	-0.1	-0.6	-0.4	-0.3	-0.5	-0.2
— Other (incl. impact of GDP growth)	-1.4	-1.2	-2.3	-2.0	-2.3	-3.2
Implicit interest rate on debt (= embedded interest payments per the previous year's level of debt * 100)	2.3	2.0	1.9	1.8	1.8	1.9
Other relevant variables						
6. Liquid financial assets (AF1, AF2, AF3, AF5)	86.4	-	-	-	-	-
7. Net financial debt (7=1-6)	-27.1	-	-	-	-	-
8. Central government debt amortisation (existing bonds) since the end of the previous year	7.1	-	-	-	-	-
9. Percentage of debt denominated in foreign currency	0	-	-	-	-	-
10. Average maturity of central government debt	6.0	-	-	-	-	-

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

	2014	2015	2016	2017	2018	2019
1. Real GDP, % change	-0.4	0.2	1.3	1.4	1.3	1.2
2. General government net lending	-3.3	-3.4	-2.8	-2.4	-1.9	-1.4
3. Interest expenditure	1.2	1.2	1.1	1.1	1.1	1.2
4. One-off and other temporary measures	0.0	0.0	0.0	0.0	0.0	0.0
5. Potential GDP, % change	-0.1	0.0	0.3	0.5	0.8	0.8
contributions:						
— labour	-0.2	-0.1	-0.1	-0.1	0.0	0.0
— capital	0.1	0.1	0.2	0.3	0.4	0.4
— total factor productivity	0.0	0.0	0.1	0.2	0.3	0.4
6. Output gap	-2.9	-2.7	-1.8	-0.9	-0.4	0.0
7. Cyclical component of financial balance	-1.7	-1.6	-1.0	-0.5	-0.2	0.0
8. Cyclically-adjusted balance (2-7)	-1.7	-1.8	-1.8	-1.9	-1.7	-1.4
9. Cyclically-adjusted primary balance (8+3)	-0.4	-0.7	-0.7	-0.8	-0.5	-0.1
10. Structural balance (8-4)	-1.7	-1.8	-1.8	-1.9	-1.7	-1.4

Table 6. Divergence from previous Stability Programme

	2014	2015	2016	2017	2018	2019
GDP growth (%)						
SP April 2015	-0.1	0.5	1.4	1.5	1.3	1.2
SP September 2015	-0.4	0.2	1.3	1.4	1.3	1.2
Difference, % points	-0.3	-0.3	-0.1	-0.1	0.0	0.0
General government balance, % GDP						
SP April 2015	-3.2	-3.4	-3.2	-3.1	-2.7	-2.5
SP September 2015	-3.3	-3.4	-2.8	-2.4	-1.9	-1.4
Difference, % points	-0.2	0.0	0.4	0.6	0.8	1.1
General government gross debt, % GDP						
SP April 2015	59.3	62.5	64.4	66.0	67.0	67.8
SP September 2015	59.3	62.6	64.3	65.8	66.4	66.6
Difference, % points	0.0	0.1	-0.2	-0.2	-0.6	-1.2

Table 7a. Sustainability estimate in spring 2015 and in autumn 2015, % GDP

	Spring 2015	Autumn 2015
Debt servicing costs	0.9	0.9
Primary balance	1.3	0.2
Property income	0.9	1.2
Age-related expenditure	1.4	1.0
Sustainability gap (S2)	4.6	3.3

Table 7b. General government finances 2014–2060, % GDP

	2014	2019	2030	2040	2050	2060	2060–2014 change
Total expenditure	58.3	56.9	61.4	62.3	63.8	66.9	8.7
of Age-related and unemployment expenditure	29.5	30.4	31.9	31.5	31.0	31.5	2.0
Pensions	13.4	14.2	14.6	13.2	12.3	12.5	-0.9
Earnings-related pensions	12.1	13.0	13.6	12.1	11.2	11.4	-0.7
National pensions	1.3	1.2	1.1	1.1	1.1	1.1	-0.2
Health care	6.0	6.1	6.6	7.0	7.1	7.3	1.3
Long-term care	2.2	2.3	2.9	3.7	4.0	4.1	1.9
Education	5.9	6.0	6.1	6.1	6.0	6.0	0.1
Unemployment	2.0	1.8	1.6	1.6	1.6	1.6	-0.3
Interest expenditure	1.2	1.2	4.3	5.5	7.5	10.1	8.9
Total revenue	54.9	55.5	56.7	55.6	55.2	55.1	0.1
of which Property income	2.7	3.6	4.8	3.7	3.3	3.1	0.4
Net lending*	-2.8	-1.4	-4.7	-6.7	-8.6	-11.8	-9.1
of transfer to pension funds	1.7	1.0	0.3	0.7	1.4	1.3	-0.4
General government debt	59.3	66.6	87.4	114.1	155.0	208.5	149.2
Central government assets	125.4	126.2	109.5	89.0	82.4	79.8	-45.6
of which pension fund assets	83.8	84.5	75.0	60.6	58.4	59.1	-24.7

*) From 2019, cyclically-adjusted balance

Source: Ministry of Social Affairs and Health,
Ministry of Finance

	Assump- tions		%		
	2019	2030	2040	2050	2060
Growth of labour productivity	0.9	1.4	1.5	1.5	1.5
GDP growth	1.2	1.5	1.9	1.7	1.7
Labour shares					
Men (15-64 years old)	77.2	77.5	77.3	77.5	77.7
Women (15-64 years old)	74.5	74.9	75.3	75.9	76.2
All (15-64 years old)	75.8	76.2	76.3	76.6	77.0
Unemployment rate	8.3	6.9	6.8	7.0	7.3
Old age dependency ratio %	36.3	43.8	44.8	54.8	49.8
Inflation	2.0	2.0	2.0	2.0	2.0
Real interest rate	0.9	3.0	3.0	3.0	3.0
Real return on TyEL funds	0.8	3.5	3.5	3.5	3.5
Net immigration	17 000	17 000	17 000	17 000	17 000
Birth rate	1.82	1.82	1.82	1.82	1.82

Source: Ministry of Social Affairs and Health, Ministry of Finance

Table 7c. Contingent liabilities, % of GDP

	2014	2015
Central government guarantees	17.4	-
of which: linked to financial sector	0.9	-

Table 8. Basic assumptions ¹

	2014	2015	2016	2017
3-month Euribor	0.2	0.0	0.1	0.2
Long-term interest rate (10-year bonds)	1.4	0.7	1.0	1.5
USD/EUR exchange rate	1.3	1.1	1.1	1.0
Nominal effective exchange rate	1.6	-4.2	-0.4	0.0
World GDP growth (excluding the EU)	3.4	3.5	3.9	4.0
EU-28 GDP growth	1.4	1.8	2.1	1.7
Growth of relevant foreign markets	2.6	2.2	3.7	3.6
World trade growth	3.3	2.7	3.6	4.5
Oil prices (Brent, USD/barrel)	98.9	55.0	57.0	62.0

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

Structural reform programme

The use of the structural reform clause with respect to Finland is justified on the basis of the pension reform, which is a significant structural reform that will have a verifiable impact on the long-term sustainability of general government finances. In autumn 2014, labour market organisations negotiated a solution for a new earnings-related pension reform. The Government submitted a proposal on 8 September 2015. The pension reform will come into force at the beginning of 2017. The reform prepares for an increase in life expectancy. After the reform, the expected retirement age is projected to rise to 62.4 years by 2025. In addition, through a reduction of pension expenditure and an improvement of employment, the sustainability gap in general government finances is expected to narrow by around one percentage point. Due to the reform, an earnings-related pension contribution level of 24.4% will be established from 2017.

Independent assessments also support this assessment of the impact on general government finances. For example, the Economic Policy Council arrives at a similar impact assessment:

http://www.talouspolitiikanarviointineuvosto.fi/images/docs/Economic_Policy_Council_Report_2014.pdf

As does the Finnish Centre for Pensions:

http://www.etk.fi/fi/gateway/PTARGS_0_2712_459_440_3034_43/http%3B/content.etk.fi%3B7087/publishedcontent/publish/etkfi/fi/julkaisut/tutkimusjulkaisut/raportit/laskelmia_vuoden_2017_tyolakeu_udistuksen_vaikutuksista_7.pdf

Further information about the pension reform can be found in the Spring 2015 National Reform Programme: ec.europa.eu/europe2020/pdf/csr2015/nrp2015_finland_en.pdf

On the basis of the described independent evaluations, Finland applies for the flexibility allowed by the structural reform clause (0.5% in ratio to GDP) in 2016.

Draft Budgetary Plan

Pursuant of Regulation (EU) No. 473/2013 of the European Parliament and of the Council, Member States deliver to the Commission their draft budgetary plans (DPB) for the coming year by 15 October. This time, the 2016 Draft Budgetary Plan is part of the General Government Fiscal Plan.

Finland's Draft Budgetary Plan is based on the information available on 7 September 2015 and, in addition, the Government's 2016 Budget Proposal, which will be submitted to Parliament on

28 September 2015. Parliament will discuss the budget proposal during the autumn and will approve it in December 2015.

The Draft Budgetary Plan forecast, which was also the basis for the preparation of the Budget Proposal, has been prepared independently by the Economics Department of the Ministry of Finance.

Tables

1 Macroeconomic Forecasts

Table 0.i) Basic assumptions*

	2014	2015	2016
3-month Euribor	0.2	0.0	0.1
Long-term interest rate (10-year government bonds)	1.4	0.7	1.0
USD/EUR exchange rate	1.3	1.1	1.1
Nominal effective exchange rate	1.6	-4.2	-0.4
World GDP growth (excl. the EU)	3.4	3.5	3.9
EU-28 GDP growth	1.4	1.8	2.1
Growth of relevant foreign markets	2.6	2.2	3.7
World trade growth	3.3	2.7	3.6
Oil prices, (Brent, USD/barrel)	99	55	57

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

Table 1a. Macroeconomic prospects

	2014	2014	2015	2016
	EUR			
	billion		change, %	
1. Real GDP	186.3	-0.4	0.2	1.3
of which				
1.1. Attributable to the estimated impact of aggregated budgetary measures on economic growth				
2. Potential GDP	191.9	-0.1	0.0	0.3
contributions:				
— labour				
— capital				
— total factor productivity				
3. Nominal GDP	205.2	1.2	0.6	2.5
4. Private final consumption expenditure	113.6	0.5	1.0	0.8
5. Government final consumption	50.9	-0.2	0.2	-0.2
6. Gross fixed final consumption	41.6	-3.3	-1.3	5.4
7. Changes in inventories and net acquisition of valuables (% of GDP)	1.5	0.7	0.0	-0.1
8. Exports of goods and services	77.8	-0.7	0.9	3.0
9. Imports of goods and services	79.4	0.0	-0.2	3.4
Contributions to real GDP growth, % points	0.0	0.0	0.0	0.0

	2014 EUR billion	2014	2015	2016 change, %
10. Final domestic demand	206.1	-0.5	0.3	1.5
11. Change in inventories and net acquisition of valuables	1.5	0.4	-0.5	0.0
12. External balance of goods and services	-1.6	-0.3	0.4	-0.2

Table 1b. Price developments

	2014 change, %	2015 change, %	2016
1. GDP deflator	1.6	0.4	1.2
2. Private consumption deflator	1.6	0.0	1.1
3. HICP	1.2	0.3	1.3
4. Public consumption deflator	1.3	1.0	1.0
5. Investment deflator	0.6	0.7	1.5
6. Export price deflator	-0.7	-0.3	1.0
7. Import price deflator	-1.6	-0.9	1.0

Table 1c. Labour market developments

	2014 level	2014 change, %	2015 change, %	2016
1. Employment, 1,000 persons	2 447	-0.4	-0.7	0.3
2. Employment, 1,000,000 hours worked	4 104	-0.7	-0.6	0.4
3. Unemployment rate (%)	232	8.7	9.6	9.4
4. Labour productivity, persons	76.1	0.0	0.9	1.0
5. Labour productivity, hours worked	45.4	0.3	0.8	0.9
6. Compensation of employees	82.2	0.3	0.5	1.5
7. Compensation per employee	33.6	0.7	1.2	1.2

Table 1d. Sectoral balances, % GDP

	2014	2015	2016
1. Finland's net lending/borrowing vis-à-vis the rest of the world	-2.1	-1.4	-1.5
of which	0.0	0.0	0.0
- Balance of goods and services	-0.8	-0.1	-0.3
- Balance of primary incomes and transfers	-1.1	-1.1	-1.0
- Capital account	-0.2	-0.2	-0.2
2. Net lending/borrowing of the private sector	0.3	1.0	0.3
3. Net lending/borrowing of general government	-3.3	-3.4	-2.8
4. Statistical discrepancy	0.9	0.9	0.9

2. General government budgetary targets

Table 2a. General government budgetary targets broken down by subsector, % GDP

Net lending (+) / net borrowing (-) by subsector	2015	2016
1. General government	-3.4	-2.8
2. Central government	-3.1	-2.8
3. -	-	-
4. Local government	-0.8	-0.8
5. Social security funds	0.5	0.8
6. Interest expenditure	1.2	1.1
7. Primary balance	-2.2	-1.7
8. One-off and other temporary measures	0.0	0.0
9. Real GDP growth, % change	0.2	1.3
10. Potential GDP, % change	0.0	0.3
contributions:		
— labour		
— capital		
— total factor productivity		
11. Output gap (% of potential GDP)	-2.7	-1.8
12. Cyclical budgetary component (% of potential GDP)	-1.6	-1.0
13. Cyclically-adjusted balance (1-12) (% of potential GDP)	-1.8	-1.8
14. Cyclically-adjusted primary balance (% of potential GDP)	-0.7	-0.7
15. Structural balance (13-8) (% of potential GDP)	-1.8	-1.8

Table 2b. General government debt developments

	2015	2016
1. Gross debt	62.6	64.3
2. Change in the gross debt ratio	3.3	1.7
Contributions to changes in gross debt, % points.		
3. Primary balance (=item 10 in Table 2.a.i)	-2.2	-1.7
4. Interest expenditure	1.2	1.1
5. Stock-flow adjustment	-0.1	-1.2
of which		
— Differences between cash and accruals		
— Net accumulation of financial assets		
— of which		
— Privatisation proceeds		
— Valuation effects and other		
Implicit interest rate on debt	2.0	1.9
Other relevant variables		
6. Liquid financial assets		
7. Net financial debt (7=1-6)		
8. Debt amortisation (existing bonds) since the end of the previous year		
9. Percentage of debt denominated in foreign currency		
10. Average maturity		

Table 2c. Contingent liabilities

	2014	2015
Central government guarantees	17.4	-
of which: linked to financial sector	0.9	-

3. Expenditure and revenue projections under the no-change scenario

Table 3. General government expenditure and revenue projections at unchanged policies broken down by main components, % GDP

General government (S13)	2015	2016
1. Total revenue at unchanged policies	55.1	54.7
of which:		
1.1. Taxes on production and imports	14.1	14.0
1.2. Current taxes on income	16.9	16.7
1.3. Taxes on capital income	0.3	0.3
1.4. Social security contributions	12.8	12.6
1.5. Property income	3.0	3.0
1.5. Other	8.0	8.1
of which: Tax burden	44.2	44.0
2. Total expenditure at unchanged policies	59.5	59.2
of which:		
2.1. Compensation of employees (i.e. wages + employer's social security contributions)	14.3	14.1
2.2. Intermediate consumption	11.9	12.1
2.3. Social payments	23.4	23.5
of which Unemployment benefits	2.6	2.6
2.4. Interest expenditure	1.2	1.1
2.5. Subsidies	1.3	1.2
2.6. Gross fixed capital formation	4.1	4.1
2.7. Capital transfers	0.3	0.3
2.8. Other	3.0	2.8

4. General government expenditure and revenue targets, broken down by main components

Table 4a. General government revenue and expenditure targets, broken down by key components

General government (S13)	2015	2016
1. Total revenue target	55.5	55.4
of which:		
1.1. Taxes on production and imports	14.4	14.3
1.2. Current taxes on income	16.8	16.5
1.3. Taxes on capital income	0.3	0.3
1.4. Social security contributions	13.0	13.1
1.5. Property income	3.0	3.0

General government (S13)	2015	2016
1.5. Other	8.0	8.1
of which: Tax burden	44.6	44.3
2. Total expenditure target	58.8	58.2
of which:		
2.1. Compensation of employees	14.1	13.9
2.2. Intermediate consumption	11.8	11.9
2.3. Social payments	23.1	23.0
of which Unemployment benefits	2.6	2.6
2.4. Interest expenditure	1.2	1.1
2.5. Subsidies	1.3	1.2
2.6. Gross fixed capital formation	4.1	4.1
2.7. Capital transfers	0.3	0.3
2.8. Other	2.9	2.6

Table 4b. Amounts to be excluded from the expenditure benchmark

	2014 EUR million	2014	2015 % GDP	2016
1. Expenditure on EU programmes fully matched by EU funds revenue	874	0.4	0.6	0.5
2. Cyclical unemployment benefit expenditure	507	0.2	0.5	0.4
3. Effect of discretionary revenue measures	757	0.4	0.3	0.3
4. Revenue increases mandated by law	106	0.1	0.0	0.0

5. Description of discretionary measures included in the draft budget

Table 5a. Discretionary measures taken by the general government

List of measures*	Detailed description	Target	Accounting principle	Adoption in status	2014	Budgetary impact		
						2015 % GDP	2016	2017
Personal income tax	Personal income tax		accrual	partly**	0.3	-0.1	-0.2	-0.1
Corporate income tax	Corporate income tax		accrual	partly**	-0.5	0.0	0.1	0.0
Indirect taxes	Indirect taxes		accrual	partly**	0.3	0.2	0.1	0.0
Social security contributions	Social security contributions		accrual	proposal***	0.3	0.2	0.3	0.1
Expenditure measures, total	Expenditure measures, total		accrual/ cash-based	partly**	-0.2	-0.6	-0.4	-0.4

***Many of the discretionary measures do not pass a size criterion (at least 0.05% of the GDP). Therefore the measures are combined and merely the aggregate effect of measures is reported. Some of the measures are temporary but most of them are permanent.**

****Parliament will confirm during autumn 2015**

*****Ministry of Social Affairs and Health will confirm during autumn 2015**

Table 5b. Discretionary measures taken by central government

List of measures*	Detailed description	Target	Accounting principle	Adoption in status	Budgetary impact			2017
					2014	2015	2016	
					% GDP			
Personal income tax	Personal income tax		accrual	partly**	0.3	-0.1	-0.2	-0.1
Corporate income tax	Corporate income tax		accrual	partly**	-0.5	0.0	0.1	0.0
Indirect taxes	Indirect taxes		accrual	partly**	0.3	0.2	0.1	0.0
Expenditure measures, total	Expenditure measures, total		accrual/ cash-based	partly**	-0.2	-0.6	-0.4	-0.4

***Many of the discretionary measures do not pass a size criterion (at least 0.05% of the GDP). Therefore the measures are combined and merely the aggregate effect of measures is reported. Some of the measures are temporary but most of them are permanent.**

****Parliament will confirm during autumn 2015**

6. Indications on how measures of the Draft Budgetary Plan address Country-Specific Recommendations (CSR) and the targets set by the Union's Strategy for Growth and Jobs

Table 6a. Country-Specific Recommendations

CSR number	List of measures	Description of direct relevance
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CSR number	List of measures	Description of direct relevance
CSR1: adjust general government finances towards the medium-term budgetary objective by at least 0.1% of GDP in 2015 and 0.5% of GDP in 2016; continue efforts to reduce the fiscal sustainability gap and strengthen conditions for growth	<p>Expenditure-reducing or fee revenue-raising measures aimed at strengthening general government finances by a net EUR 4 billion at the 2019 level were agreed in the Government Programme. The effects of tax criteria changes are not included in this package. The consolidation measures agreed in the Government Programme have, as a rule, been included in the 2016 Budget Proposal and in the General Government Fiscal Plan for 2016–2019. In addition, the effects of certain measures have been more precisely defined during preparation. For example, the estimate of the saving to be achieved by freezing index increases has been lowered from the impact estimates at the time of the Government Programme due to lower inflation forecasts. The net impact on general government finances of the decided expenditure measures and fee revenue increases is estimated to be around EUR 3.5 billion at the 2019 level. To achieve the consolidation objectives according to the Government Programme, the Government has made certain additional savings decisions, the largest of which is the freezing of index increases to benefits linked to the National Pensions Index and the Cost-of-Living Index. The Government has decided on EUR 1.6 billion of one-off investments in key projects and to reduce the repair debt in 2016–2018. Around EUR 220 million of the key project funding will be used in 2016. In addition, EUR 100 million is proposed to reduce the repair debt. The key projects will be financed mainly with dividend income and sales of government shareholdings. Of the funding, EUR 330 million will be covered by the cancellation of the funding for the City Rail Loop, which was in the spending limits.</p>	The Government’s measures respond to the recommendation directly.

CSR number	List of measures	Description of direct relevance
<p>CSR2: adopt the agreed pension reform and gradually eliminate early exit pathways; ensure effective design and implementation of the administrative reforms concerning municipal structure and social and healthcare services, with a view to increasing productivity and cost-effectiveness in the provision of public services, while ensuring their quality.</p>	<p>In early autumn 2015, the Government will submit to Parliament its proposal on the basis of the agreement reached in tripartite preparatory work for earnings-related pension legislation. The legislative amendments will come into force on 1 January 2017. The Government will prepare a solution for the arrangement of social welfare and health care (SOTE) services based on autonomous areas larger than a municipality. According to the Government Programme, there will be a maximum of 19 areas. The areas will be responsible for arranging social welfare and health care services in their area. In August 2015, an external rapporteur group submitted its proposal on how the social and health care reform, the establishment of autonomous areas and the regional administration reform can be implemented and reconciled as smoothly as possible. The report states that the autonomous areas larger than a municipality should be established so that the population, social and health care infrastructure and economic capacity of the areas are sufficient to arrange comprehensive social and health services now and in the future. It is proposed that there be 9–12 areas. According to the proposal, the services would be financed primarily by the central government. The Government has appointed a project leader to be responsible for the restructuring of social and health care and the establishment of the autonomous areas as well as the preparation of the regional administration reform.</p>	<p>The Government's measures respond to the recommendation directly.</p>

CSR number	List of measures	Description of direct relevance
CSR3: pursue efforts to improve the employability of young people, older workers and the long-term unemployed, focusing particularly on developing job-relevant skills; ensure, in consultation with the social partners and in accordance with national practices, that wages evolve in line with productivity.	In accordance with the Government Programme, by 15 October 2015, the Government will prepare, in dialogue with social partners, a reform of unemployment security, including a tightening of the obligation to accept work as well as an obligation to participate in activation measures. In accordance with the Government Programme, the youth guarantee will be developed into a model in which responsibility for a young person in need of support is allocated to a single party (key Government project) and all comprehensive school graduates will be guaranteed a place in education, work or rehabilitation. At the same time, outreach youth work and job-seeker coaching activities as well as mental health services for young people will be strengthened. Wage subsidies for young people and the Sanssi card will be developed in order to make work more attractive. Government published in September 2015 its proposal for measures to improve cost-competitiveness: Epiphany and Ascension Day will be changed into unpaid public holidays without reducing annual working time; the benefit level for sick days will be reduced so that the first day will in future be unpaid and 80 per cent of pay will be paid for days 2–9; overtime pay will be halved and Sunday pay will be reduced to 75 per cent; long holidays, particularly in the public sector, will be shortened from 38 to 30 working days; the private employer’s social security contribution will be reduced by 1.72 percentage points from the beginning of 2017.	The Government’s measures respond to the recommendation directly.
CSR4: take measures to open the retail sector to effective competition.	The Government has submitted a proposal to Parliament for the repeal of the Act on Opening Hours of the Retail Trade and Barbers and Hairdressers. The proposal is now being circulated for comment.	The Government’s measures respond to the recommendation directly.

Table 6b. Targets set by the Union's Strategy for Growth and Jobs

No significant changes since spring 2015, see:

http://ec.europa.eu/europe2020/pdf/csr2015/nrp2015_finland_en.pdf

7. Divergence from the latest Stability Programme

Table 7. Divergence from the latest Stability Programme

	2014	2015	2016
	% GDP		
General government net lending			
Stability Programme Spring 2015	-3.2	-3.4	-3.2
Draft Budgetary Plan	-3.3	-3.4	-2.8
Difference, % points	-0.2	0.0	0.4
General government net lending at unchanged policies			
Stability Programme Spring 2015	-3.2	-4.7	-4.7
Draft Budgetary Plan	-3.3	-4.3	-4.5
Difference, % points	-0.2	0.3	0.2

Information on methods

The macroeconomic forecast is based on the views of experts, the Ministry of Finance's DSGE model (see. e.g. Economic Survey, Autumn 2014, p.31, and Economic Survey, Spring 2015, p.17), a short-term factor model and partial models.

The forecast for general government finances is based on, among other things, a short-term macroeconomic forecast and medium-term calculations as well as budget proposals, spending limits decisions, tax base forecasts and detailed tax revenue estimates derived from them, the local government basic public services budget and decisions on social security contributions and benefits.