MINISTRY OF FINANCE VM/2103/02.02.00.00/2014

2 April 2015

Distribution as listed

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 Decision on Central Government Spending Limits included within it:

1. Economic challenges and the economic policy line

The objective of the fiscal and economic policy of Prime Minister Jyrki Katainen's and Prime Minister Alexander Stubb's Governments was to strengthen the preconditions for economic growth and the financial basis of the welfare society to ensure the stabilisation of public finances. The most significant objectives were the closing of the sustainability gap and turning the central government debt ratio on a declining path by the end of the parliamentary term. The key means to achieving these objectives included accelerating economic growth, improving employment, prolonging working careers, spending cuts, increasing tax revenue, and decreasing the number of duties and obligations of municipalities.

The Government sought to advance these objectives through a range of methods, including the Structural Policy Programme adopted on 29 August 2013. In addition, the Government's earlier structural policy decisions, such as lowering the corporate income tax rate and reforming the dividend taxation system, together with the long-term moderate pay rises as part of the collective agreement, adopted in late 2013, support the targets for increasing potential output growth.

The Government has also adopted a range of measures with immediate impact to reduce general government expenditure and increase revenue, which will have a net impact at the 2016 level of around EUR 6.5 billion, i.e. around 3 per cent of GDP. Despite the agreed adjustment measures and structural reforms, the efforts to bridge the sustainability gap during this term were unsuccessful, and the general government debt-to-GDP ratio has not reverted.

In the long term, the general government revenue grows in line with the whole economy. However, the medium-term outlook for growth is weak: as the population ages, the number of working-age population decreases, which has a negative effect on labour input and, consequently, on economic growth. Even if the percentage of older workers in the labour force were to increase and the forecast immigration of working-age people was realised, the increased labour input is not about to generate economic growth in the foreseeable future. Total factor productivity growth has been modest in recent years and, compared to the pace experienced in the early 2000s and over the last century, growth is predicted to remain considerably slower, also in the medium term. Moreover, the investment rate has remained low for several years, slowing down capital stock growth and degrading the growth potential. The Ministry of Finance estimates that the potential growth will increase to slightly below 1 per cent by 2019 and stabilise at approximately 1.5 per cent in the long term.

Meanwhile, as a result of changes in the population's age structure, the age-related public expenditure will grow rapidly for another two decades. This growth in age-related expenditure will weaken the fiscal balance and create strong pressure on debt, particularly for municipalities.

A sizable sustainability gap exists in public finances. Even under the conditions of normal economic and employment development, general government revenue will be insufficient to finance general government expenditure — in the next few years and in the longer term. This imbalance of revenue and expenditure is structural. The expected economic growth and the return of production to its potential will be insufficient to close the sustainability gap in public finances. Should the efforts to fix this structural imbalance fail, there is a risk of an uncontrollable spiralling of general government debt-to-GDP ratio over the next decades.

The latest forecasts and the preliminary statistics for 2014 indicate that the state of Finland's general government is more serious than was thought before. The fiscal and economic policy adopted by the next Government should be guided by the intention to secure sustainable financing of general government. The next Government will decide on the first General Government Fiscal Plan of its term in the autumn of 2015. In the General Government Fiscal Plan, the Government should lay down objectives for central and local government finances, and the whole of general government, that will direct public finances towards a more sustainable basis. The Government should also propose measures to achieve these targets, including the overall scale and timing of such measures.

The sustainability-improving measures should consists of immediate action to increase revenue and reduce expenditure with regard to central and local government and, in the longer term, efforts to curb pressures on expenditure and support the opportunities for economic growth. The scale of the required corrective measures depends on the timing of their implementation: smaller adjustment measures will be sufficient if implemented without delay. A structural reform of the funding of social and health care services will be necessary and should be implemented in a manner that will bring about the benefits derived from the reduction in the duties and obligations of municipalities and the targets set for the increased productivity of the service system. Reforms that enhance competitiveness, the prerequisites of businesses and the functioning of the labour market, and reforms that promote competition in the commodity market are key to increasing the use and efficiency of resources in the economy. Efforts to raise the employment rate and accelerate productivity growth both across the economy and particularly in the public service provision are essential.

Adopted adjustment measures and structural reforms will boost confidence in Finland's ability to stabilize public finances and meet its obligations. Immediate action must be taken to prevent the risk of spiralling debt. Structural reforms will bear fruit in the longer term. In the medium term, indebtedness can be limited by frontloading the measures to reduce central government deficits. The more credible efforts are made to strengthen the prerequisites of economic activity, the less there will be need to implement immediate adjustment measures that would hamper economic growth in the short term.

The Government’s assessment of the significant deviation jeopardising the achievement of the medium-term objective

The medium-term objective (MTO) for Finland, measured in terms of the structural balance, was set at -0.5 per cent in the 2013 Stability Programme. On 2 October 2014, the Government issued a Government’s Decision in Principle, according to which the Government estimates there to be a significant deviation in the structural balance jeopardising the achievement of the MTO.

According to the Government’s assessment, and considering the projection made by the Ministry of Finance and presented in Chapter 3, the significant deviation will prevail, jeopardising the achievement of the MTO.

This General Government Fiscal Plan is not outlining new policy measures. Instead it is based on existing legislation and takes into account the impact of the decisions made by the current Government on the expenditure and revenue levels in the coming years. The General Government Fiscal Plan provides the basis for the next parliamentary term’s discretionary measures, which are to be decided in the General Government Fiscal Plan issued after the elections.

2. General Government Fiscal Plan

EU legislation lays down three fiscal policy rules for the public finances. The general government deficit must not exceed 3 per cent of GDP and general government debt must not exceed 60 per cent of GDP. In addition, a medium-term objective (MTO) is set for the structural balance of general government , the lowest limit of which is determined by country-specific conditions. The medium-term objective, set in the spring 2013 Stability Programme is -0.5 percent of GDP, which also remains the lowest possible objective for Finland. More information regarding fiscal policy rules is available in the Economic Survey.

The forecast, presented in Chapter 3, indicates that the general government deficit exceeded the limit of 3 per cent in 2014, rising to 3.2 per cent of GDP. While the excess over the reference value was small and exceptional, according to the forecast presented in Chapter 3, it is not temporary, as the deficit will amount to 3.4 per cent in 2015 and not fall below 3 per cent until 2018.

According to the projections given in Chapter 3, general government debt-to-GDP ratio will exceed 60 per cent in 2015. The criterion for general government debt continues to be met, taking into account the solidarity operations and the cyclical situation. As of 2016 these factors will be insufficient to bring down the debt-to-GDP ratio to below 60 per cent.

The general government structural balance was -1.4 per cent of GDP in 2014. In 2014, Finland deviated from the MTO set in 2013 and will therefore be subject to an adjustment requirement with regard to the MTO as of 2015. According to the rules in place in the spring of 2014, the required adjustment in 2015 will be 0.1 per cent of GDP. The required adjustment in 2016 cannot be specified until the Commission has published its spring forecast in May 2015, but based on the figures of the forecast presented in Chapter 3, it should account for 0.5 per cent of GDP.

If Finland breaches the deficit and/or debt rules, the EU Excessive Deficit Procedure could be launched in 2015. The Excessive Deficit Procedure can be launched also on the basis of a forecast, whereas a significant deviation from the MTO or the adjustment path towards it can only result in the Excessive Deficit Procedure based on the outcome figures. Should the Excessive Deficit Procedure be launched, significant deviations from the MTO or the adjustment path towards it will not be considered.

The primary purpose of the **General Government Fiscal Plan** is to offer a coordinated forum for decision-making relating to general government finances. The plan allows the Government to make comprehensive assessment, policy definitions and choices on a realistic economic basis, creating a strong foundation for the later drafting of legislation and budget. The plan also supports compliance with the medium-term objective set for the general government structural balance. The General Government Fiscal Plan is also Finland's Stability Programme.

The General Government Fiscal Plan covers the whole of general government finances, including the parts relating to central government finances, local government finances, earnings-related pension funds and other social security funds. The Government prepares the General Government Fiscal Plan for the parliamentary term and revises it annually for the following four years by the end of April. In its first General Government Fiscal Plan, the Government sets the budgetary objectives for the general government and its subsectors, and proposes the necessary measures to achieve the budgetary objectives.

The General Government Fiscal Plan includes the **central government spending limits system**. The spending limits system is based on the real, binding overall framework set for the duration of the parliamentary term, to which only the required price- and cost-level adjustments and structural corrections are made. The spending limits system is based on ex ante examination, i.e. it restricts the level of expenditure budgeted in the central government budget. The spending limits procedure sets a ceiling for around 80 per cent of on-budget expenditure. Expenditure that changes according to cyclical conditions and automatic stabilisers, interest expenditure on central government, and financial investments remain outside the central government spending limits.

In the annual spending limits decisions, spending frameworks are allocated to the administrative branches, but only the overall expenditure ceiling for the parliamentary term is binding. Reallocations can be made between administrative branches. Alongside the supplementary budget provision, there remains between the parliamentary term expenditure ceiling and administrative branch-specific frameworks an unallocated provision to be allocated later.

A binding expenditure ceiling remains to be determined for 2016—2019. The Government to be formed after the spring 2015 elections will set the 2016—2019 parliamentary term expenditure ceiling in its first General Government Fiscal Plan.

The General Government Fiscal Plan determines **a maximum limit for local government expenditure**, limiting the changes of expenditure arising to local government finances from central government measures. This maximum limit will be consistent with the local government budgetary objective.

After the parliamentary elections that will take place in spring 2015, the new Government will set the 2016—2019 local government budgetary objective and the maximum limit for local government expenditure in its first General Government Fiscal Plan.

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

The Finnish economy is facing severe difficulties. Current downturn has persisted for the past three years and there are no signs of a significant turnaround. In 2014, GDP fell by 0.1 per cent.

The picture of the global economy has recently been mixed. The growth outlook for countries such as Russia have remained weak for some time and the Ukrainian crisis has increased the pace of downward economic development. On the other hand, economies of many of Finland's major trading partners have followed positive economic trends. The United States and the United Kingdom especially have seen broad-based growth and their economic situation is estimated to remain strong throughout the forecast period. The euro area has experienced moderate economic growth, even though considerable differences in the pace of growth remain.

In 2015, Finland's GDP is projected to grow by only 0.5 per cent. Foreign trade growth will have positive effect on GDP, whereas domestic demand will be slower to pick up. In 2016, growth will be more broadly-based as investments will increase in addition to foreign and consumption demand. Particularly investment in production will start growing again. According to the forecast, the 2015—2017 cumulative growth will remain at no more than 3.4 per cent and GDP will be 3 per cent smaller than at the end of 2007.

The situation in the labour market will continue to be challenging, with the unemployment rate rising to 8.8 per cent this year. On the other hand, an increase in the supply of labour brought about by aged population will somewhat improve the employment rate. In the labour market, the number of employed people will see a moderate rise in 2016 as the economic conditions improve slightly. However, the number of long-term unemployed will remain high.

Inflation will remain at 0.3 per cent in 2015, mainly due to the tax increases driving up prices. In the coming years, the rate of inflation will accelerate but price pressures will remain low, and inflation will fall short of the European Central Bank price stability objective.

With regard to international economy, the forecast continues to anticipate negative risks. In China, indebtedness and wealth, such as housing and share prices, have increased rapidly. Under the conditions of slower growth, this may lead to market disturbances. Economic development in Russia will remain weak in the next few years. The end to the unusual monetary policy, rising interest levels and strengthening of the US dollar may cause strong reactions on the financial markets. Domestic risks continue to be related to the development of the real economy. In the short term, weak cost competitiveness and structural changes in the economy may lead to lower than anticipated economic growth.

Medium-term outlook

Despite a positive turnaround, economic growth is anticipated to remain slow in 2018 and 2019. The structural changes that have been taking place in industry and the general economy for several years have also affected long-term growth prospects.

While the decline of the working-age population will continue to reduce the labour input over the next few years, activity rates will slightly improve, particularly in the older age groups. Another factor slowing down the growth in labour input is the high rate of structural unemployment.

In recent decades, growth in total factor productivity has been the key to economic growth. Total factor productivity has seen very modest growth in recent years. This weak development has not only stemmed from cyclical but also structural factors. While production in the high-productivity sectors has fallen sharply, the overall structure of the economy has moved towards services. In recent years, the total factor productivity growth trend has remained at around zero, and much slower growth than what was experienced in the early 2000s is forecasted to persist in the medium term.

Potential output is also affected by the capital stock. The investment rate has remained low for several years, slowing down the capital stock growth and undermining the economic growth potential. As a whole, the economy is projected to grow no more than 1¼ per cent in 2018 and 2019.

Development of national economy

	2013	2014	2015	2016	2017	2018	2019
GDP value, EUR billion	202.0	204.0	206.6	212.5	219.1	226.2	233.4
GDP, change in volume, %	-1.3	-0.1	0.5	1.4	1.5	1.3	1.2
Unemployment rate, %	8.2	8.7	8.8	8.6	8.3	7.9	7.6
Employment rate, %	68.5	68.3	68.8	69.1	69.6	70.0	70.3
Consumer Price Index, change %	1.5	1.0	0.3	1.4	1.7	1.8	1.8
Long-term interest, 10 years, %	1.9	1.4	0.6	0.7	0.9	1.4	1.9

3.2. Outlook for general government finances

Finland’s general government finances have remained in deficit due to a prolonged recession, although the adjustment measures for increasing revenue and cutting expenditure have contributed towards curbing the deficit increase. In the next few years, the economy will see sluggish growth, which will not be enough to correct the imbalance in public finances. Even when the downturn subsides, the general government budgetary position will continue to be strained by population ageing, which will increase public expenditure annually without adjustment decisions, affecting local government finances and the pension system in particular.

In 2014, the general government balance was -3.2 per cent of GDP. The balance will improve very slowly over the outlook period, and the general government debt-to-GDP ratio will rise to its highest level in decades. Central government and local government are firmly in deficit, and other social security funds also show a slight deficit. Only the earnings-related pension sector is in surplus. The total central government and municipal deficit amounted close to EUR 10 billion in 2014. Cyclical fluctuations have the strongest impact on the central government balance, primarily due to the sensitivity of tax revenue to economic cycles. The central government deficit will improve slowly during the forecast period, whereas the municipal finances deficit will remain essentially unchanged. The new adjustment measures to be implemented by the municipalities in 2016—2019 are not considered in the assessment of the trends in local government finances. The surplus of the earnings-related pension funds will be reduced by declining property incomes and pension expenditure. Unemployment expenditure will also weaken the balance of other social security funds.

Despite adjustment measures, expenditure has increased and will continue on an unbroken upward trend. The expenditure ratio, i.e. expenditure-to-total output ratio, has increased to a very high level, largely explained by the slow growth in GDP, but also other factors, such as expenditure caused by unemployment and population ageing. Tax increases have increased the tax ratio, i.e. tax-to-total output ratio. No decisions on significant changes in tax basis have been made for the end of the spending limits period, and the tax ratio will remain relatively stable. Following the pension reform adopted in the autumn of 2014, earnings-related pension contributions will not be increased after 2017.

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

	2013	2014	2015	2016	2017	2018	2019
Taxes and social security contributions	43.9	44.2	44.4	44.3	44.0	43.9	43.8
General government expenditure	57.8	58.6	59.1	58.7	58.3	58.0	57.9
General government net lending	-2.5	-3.2	-3.4	-3.2	-3.1	-2.7	-2.5
— Central government	-3.7	-3.7	-3.2	-3.1	-2.8	-2.6	-2.3
— Local Government	-0.7	-0.9	-1.0	-0.9	-0.9	-0.9	-0.9
— Earnings-related pension funds	1.8	1.7	1.2	1.3	1.1	0.9	0.8
— Other social security funds	0.0	-0.3	-0.4	-0.5	-0.4	-0.1	0.0
Primary balance	-2.4	-2.9	-3.0	-2.9	-2.8	-2.7	-2.5
Structural balance	-0.8	-1.4	-1.8	-2.3	-2.6	-2.6	-2.5
General government debt	55.8	59.3	62.5	64.4	66.0	67.0	67.8
Central government debt	44.4	46.6	48.7	50.2	51.6	52.5	53.1

3.3. Economic restructuring, population ageing and fiscal sustainability

In recent years, Finland’s economy has suffered from the structural changes taking place in industry, which have weakened the economic growth potential. The growth outlook of the coming years will also be undermined by the declining number of working-age population. The increase in pensions, health care and long-term care expenditure caused by population ageing will pose a permanent additional challenge to the efforts to balance general government finances.

The long-term balance of general government finances is measured by the sustainability gap, referring 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 Ministry of Finance’s Economics Department of the general government long-term sustainability was carried out in accordance with the methods and calculation principles agreed with the EU. The assessment of age-related expenditure was 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 Committee[1].

According to the assumptions, the average productivity growth in Finland will amount to 1.4 per cent between 2019 and 2060. The assumptions in the assessment of population development and in the assessment of the 2015—2019 economic development differ from those used in the Ageing Report. In these areas, the Economics Department applied the 2012 population projection by Statistics Finland and the Ministry of Finance’s economic forecast.

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

In the assessment, the pension reform, set to enter into force at the beginning of 2017, reduced the general government sustainability gap by approximately a percentage point. The reform is estimated to increase the employment rate and reduce pension expenditure. However, the assessment of the general government structural balance in the medium term has deteriorated considerably from that made last autumn, increasing the estimated sustainability gap by approximately two percentage points. The sustainability gap is estimated to be approximately 5 per cent of GDP at the level of 2019.

The sustainability calculation is in nature a scenario calculation, in which development according to current rules is projected to the future with the help of population forecasts, age group-specific expenditure shares and long-term assessments of economic development. The further forward in time one goes, the greater the uncertainty connected with the calculation, making it sensitive to the assumptions used. Nevertheless, sustainability calculations are useful as they offer a systematic method of analysing future challenges and opportunities faced by general government finances.

4. Government liabilities and risks

Fiscal responsibilities, and thereby risks, may emanate from decentralised sources within the government (e.g. state budget economy), other public finance (e.g. government funds, public utilities, municipalities), private sector (e.g. government-controlled enterprises), or the financial markets (e.g. the banking sector).[2] However, it will not be possible to identify all fiscal risks.

The table shows a summary of central government assets and nominal values of certain specifiable liabilities. Data on central government real and financial assets is based on financial accounting. Concerning financial assets, the table also shows certain key 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 Oy and Patria Oy. In 2008, central government financial assets were reduced by more than EUR 13 billion, accounting for over 8 percentage points of GDP. This was largely explained by the 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 a dividend yield of approximately EUR 1.2 billion from its shareholdings, accounting for approximately 2.5 per cent of all central government accounted revenue. During the peak year of 2007, the share of dividend income was nearly 4 per cent. The sale of holdings will naturally reduce the dividend yield permanently.

Summary of government risks and liabilities, EUR billion

	2009	2010	2011	2012	2013	2014
Assets						
Central government real assets		47.7	49.5	51.1	51.9	
% GDP		*25.5*	*25.2*	*25.6*	*25.7*	
Central government financial assets	58.5	64.4	56.8	59.6	61.2	
% GDP	*32.3*	*34.4*	*28.8*	*29.8*	*30.3*	
— 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

[2] This chapter is based on the 2015 overview of the government risks and liabilities, appended to the General Government Fiscal Plan.

	2009	2010	2011	2012	2013	2014
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*	*44.4*	*46.6*
Municipal debt	10.0	10.6	11.4	12.9	14.9	16.8
% GDP	*5.5*	*5.7*	*5.8*	*6.4*	*7.4*	*8.2*
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*
— 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*
— State budget economy	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) Payment the government is required to make to international financial institutions in the event capital is required to cover losses or to 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 per cent of GDP. In addition, the amount of capital liabilities payable upon request to international financial institutions has multiplied following the measures for managing the financial crisis in the EU. Currently, they account for approximately 8.5 per cent of 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. However, with such comparisons it must be remembered that the risks related to the various types of liabilities may also vary. A higher liability does not automatically equal higher risk. However, as unambiguous assessment of risks related to liabilities is difficult, the nominal values of liabilities have been used for the purpose 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 the available Eurostat data, Finland's guarantees-to-GDP ratio is the third highest among the EU member states.[3]

Risks related to general government finances are usually, and under any circumstances, linked to the general economic trends. Weaker than predicted economic development tends to result in a higher than expected increase in government borrowing. Especially in times of deep recession and depression, public debt has clearly outgrown projections.

The sensitivity of Finnish government finances to economic cycles has been assessed by organisations such as the OECD. Finland is, due to the size of the government finances and the structure of national economy, more sensitive to macroeconomic developments than many other EU countries. In Finland's case, total output remaining at one percentage point lower than anticipated would translate into an almost 0.6 % decline in general government finances in relation to total output. The impact on government finances is strongest with tax revenues sensitive to economic cycles, such as corporation taxes, and with unemployment-related expenditure.

However, using average elasticity as a sensitivity indicator may provide an unrealistic picture of the risks associated with macroeconomic development. Under exceptionally hard economic circumstances, general government finances may be eroded for several reasons. As total production falls, tax revenue will decline and unemployment-related expenditure increase. At the same time, the interest rates demanded by investors for the issued loans may rise materially and the availability of credit may reduce. Were a geopolitical conflict come to a head, the general government budgetary position could be impacted through a number of channels.

Risks related to macroeconomic development, general government debt, government holdings, the export guarantees issued, and other risks related to other government liabilities are correlated with each other. Typically, under the conditions of normal cyclical fluctuations, only some of these risks will be realised. Observation of the risks as separate entities may therefore give an overly positive picture of the stability and risk-bearing capacity of the general government budgetary position.

In order to for the decision makers to be provided with a comprehensive picture of the economic risks involved, supplementary observations are required in addition to economic forecasts. For instance, stress tests are necessary in the banking sector to evaluate the vulnerability of banks. Stress tests are typically carried out to assess how individual banks were to manage financially should macroeconomic development fail to meet expectations. Operation of the banking system must be safeguarded under any circumstances in order to avoid disruption of society. In crisis, governments have often found it necessary to support banks using public funds in order to guarantee banking operations.

For instance, it has been estimated that the cost of the Finnish banking crisis during the recession of the early 1990s amounted to 11 per cent of GDP. However, the Finnish banking sector suffered only minor damage from the sharp fall in total factory production that followed the 2009 financial crisis. By contrast, when the Irish property price bubble burst around the same time, the consequent banking crisis contributed to a dramatic rise in general government debt, which increased to over 100 % over a period of few years from 44 per cent in 2008. This shows that the cost of banking crisis may increase government debt significantly more than what could be forecast in the light of macroeconomic development.

[3] The Eurostat data includes also local government guarantees.

5. Central government finances

The central government spending limit decision is based on the spending limits for the parliamentary term, decided by the Government on 3 April 2014 and to be revised for the years 2016—2019 taking into account the decisions made during the year, price and structural corrections, and the current macroeconomic forecast. As a rule, the spending limits do not include new policy definitions and have been set so as to provide a reliable basis for the discretionary measures to be taken during the following parliamentary term.

5.1. Central government spending limits rule

To ensure a prudent, long-term spending policy that promotes economic stability, the Government is committed to a spending limits procedure for central government finances. However, the 2016—2019 spending limits decision does not set the expenditure ceiling for the 2016—2019 parliamentary term, as this will be decided by the Government appointed after the April parliamentary elections. This General Government Fiscal Plan therefore provides more general observations on the development of the expenditure covered by the spending limits decision.

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

Development of on-budget expenditure 2015—2019

Compared to the spending limits decision made in the spring of 2014, on-budget expenditure has increased by approximately EUR 1.2—1.8 billion per year. Administrative branch expenditure (on-budget expenditure excluding interest on central government debt) has increased by approximately EUR 2.1—2.7 billion since last spring. Administrative branch expenditure will increase in real terms during the spending limits period 2016—2019 by an average of approximately 0.5 per cent per year when structural changes have been taken into account. Nominally, administrative branch expenditure will grow on average by just over 1.5 per cent per year.

The level of spending limits expenditure in 2016 amounts to around EUR 43.1 billion, which is EUR 0.8 billion more than budgeted for 2015. Expenditure within spending limits will during the spending limits period remain largely unchanged and be EUR 43.0 billion in 2019. Compared to the 2014 spending limits decision, spending limits expenditure will increase by approximately EUR 1.4—1.6 billion. Of this, around EUR 0.2 billion is explained by changes in the price and cost levels. The revised cost division between central and local government will increase spending limit expenditure by EUR 0.4—0.5 billion, while the new transport projects, added after the General Government Fiscal Plan of spring 2014, will increase spending limit expenditure by EUR 0.1—0.5 billion.

Expenditure outside the spending limits

Expenditure outside the spending limits is expected to be around EUR 11.3 billion in 2016, which is just under EUR 0.7 billion less than expenditure outside the spending limits budgeted for 2015. Items such as financial investment expenditure, expenditure corresponding to EU revenue, and interest expenditure on central government debt will decrease compared to 2015. Financial investment expenditure will fall by up to EUR 560 million, partly explained by lower export refinancing loans and the end of the fixed-term financial investment expenditure arising from the growth package agreed in the spring of 2014.

During the spending limits period, central government cyclical expenditure will increase from around EUR 4.3 billion in 2016 to some EUR 4.7 billion in 2017. The greatest single factor explaining this increase is the transfer of the calculation and payment of basic social assistance to Kela, the Social

Insurance Institution of Finland, from 2017, which will reduce central government transfers to local government but increase basic social assistance expenditure outside the spending limits by nearly EUR 0.5 billion per year. During the last few years of the period, the employment situation is expected to improve and cyclical expenditure to fall.

	2015	2016	2017	2018	2019
Cyclical expenditure	3.9	4.3	4.7	4.4	4.2
Compensation to municipalities for tax criteria changes	1.4	1.4	1.5	1.5	1.5
Expenditure corresponding to EU revenue	1.2	1.0	1.1	1.1	1.1
Expenditure corresponding to lottery, sports betting and Toto revenue and RAY revenue recognition	0.9	0.9	0.9	0.9	0.9
Interest expenditure	1.8	1.6	1.5	1.5	1.6
Financial investments	0.8	0.3	0.4	0.2	0.2
Technical pass-through items	0.2	0.2	0.2	0.3	0.3
VAT appropriations	1.1	1.1	1.1	1.1	1.1
Transfer to the State Television and Radio Fund	0.5	0.5	0.5	0.5	0.5
Transfer to the financial stability fund	0.2				
Total	12.0	11.3	12.0	11.5	11.4

Compared to the General Government Fiscal Plan of 2014, unemployment benefit, housing allowance other similar cyclical expenditure have increased by approximately EUR 0.5—1.0 billion due to a deterioration of the cyclical economic forecast and a structural change by which the payment of basic social assistance is transferred to Kela. On the other hand, the estimated interest on central government debt is approximately EUR 0.5—1.3 billion lower due to an exceptionally low estimated interest rate level.

Price and cost-level adjustments, and structural changes

Price and cost-level adjustments will increase the total expenditure for 2015—2019 by EUR 207 million from the General Government Fiscal Plan of 2014. Of this, EUR 197 million is explained by the impact of moving to the 2016 price and cost level and the remaining amount by the 2014—2015 price and cost-level adjustments.

The 2016 price and cost-level adjustments take into account only statutory and contractual price adjustments. Price and cost-level adjustments to the spending limit level become more accurate on the basis of new forecasts when preparing the new General Government Fiscal Plan, published after the parliamentary elections, and the 2016 budget proposal. The price- and cost-level adjustments for 2016 are examined in more detail in Appendix 2.

No structural adjustments, timing changes, pass-through items, etc. are made in the expenditure ceiling since binding ceiling for the 2016—2019 parliamentary term have not yet been prepared. However, it should be noted that since the previous General Government Fiscal Plan, several projects and purchases have been delayed, making it necessary to raise the 2016—2019 appropriation level by more than EUR 250 million (the corresponding saving was made in 2014—2015).

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	2017	2018	2019
23. Prime Minister's Office	192	192	184	182
Estimate of expenditure outside spending limits	21	21	21	21
Total	**213**	**213**	**205**	**203**
24. Ministry for Foreign Affairs	1,199	1,229	1,258	1,292
Estimate of expenditure outside spending limits	26	26	26	26
Total	**1,226**	**1,255**	**1,284**	**1,318**
25. Ministry of Justice	812	814	831	831
Estimate of expenditure outside spending limits	56	57	57	58
Total	**868**	**871**	**888**	**889**
26. Ministry of the Interior	1,145	1,130	1,111	1,104
Estimate of expenditure outside spending limits	76	74	74	74
Total	**1,222**	**1,204**	**1,185**	**1,179**
27. Ministry of Defence	2,500	2,424	2,376	2,371
Estimate of expenditure outside spending limits	356	339	329	328
Total	**2,856**	**2,764**	**2,705**	**2,699**
28. Ministry of Finance	15,857	15,413	15,538	15,592
Estimate of expenditure outside spending limits	1,749	1,806	1,838	1,879
Total	**17,606**	**17,219**	**17,376**	**17,471**
29. Ministry of Education and Culture	6,391	6,376	6,358	6,321
Estimate of expenditure outside spending limits	567	720	572	577
Total	**6,957**	**7,096**	**6,930**	**6,898**
30. Ministry of Agriculture and Forestry	1,598	1,621	1,635	1,627
Estimate of expenditure outside spending limits	872	892	897	901
Total	**2,470**	**2,513**	**2,531**	**2,528**
31. Ministry of Transport and Communications	2,024	2,154	2,285	2,265
Estimate of expenditure outside spending limits	906	896	884	889
Total	**2,930**	**3,050**	**3,169**	**3,154**
32. Ministry of Employment and the Economy	2,293	2,331	2,352	2,380
Estimate of expenditure outside spending limits	465	495	458	458
Total	**2,759**	**2,826**	**2,810**	**2,838**
33. Ministry of Social Affairs and Health	8,713	8,692	8,723	8,757
Estimate of expenditure outside spending limits	4,640	5,104	4,807	4,601
Total	**13,353**	**13,796**	**13,530**	**13,357**
35. Ministry of the Environment	195	191	187	184
Estimate of expenditure outside spending limits	11	11	11	11
Total	**206**	**201**	**198**	**195**
36. Interest on central government debt	-	-	-	-
Estimate of expenditure outside spending limits	1,574	1,511	1,511	1,573
Total	**1,574**	**1,511**	**1,511**	**1,573**
Administrative branch spending limits, total[1]	**43,090**	**42,743**	**42,972**	**43,040**
Estimate of expenditure outside spending limits, total	11,338	11,973	11,497	11,408
Main titles, total	**54,429**	**54,716**	**54,469**	**54,448**

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

5.3. Definitions of policy in the budget economy in 2016—2019

The 2016—2019 expenditure level is based on current legislation and the impact of the decisions made by the current Government on the expenditure levels in the coming years. The spending limit decision has been made so as to provide a reliable basis for the expenditure assessment for the following parliamentary term, for example during the negotiations for the Government Programme. The spending limits decision therefore includes some increases that have been deemed unavoidable, the purpose of which is to ensure the appropriate prerequisites for the on-budget economy for the next four years. Such increases are included in traffic project development towards the end of the spending limits period, military crisis management and certain operating costs.

Central government adjustment 2012—2019

Decisions made during the 2011—2015 parliamentary term have saved approximately EUR 4.6 billion (gross) in the central government expenditure at the level of 2015 compared to the last spending limit decision made during the previous parliamentary term. As the savings decisions have been permanent in nature, they will affect the setting of the 2016—2019 expenditure level. Estimated at the 2015 level, the largest savings will affect government transfers to municipalities (around EUR 1.8 billion), transfers to households and non-profit-making organisations (around EUR 1.1 billion, including Kela benefits) and central government consumption expenditure (around EUR 1.0 billion).

On the other hand, several increases in expenditure have been decided during the parliamentary term, the largest of which will be directed at households (approximately EUR 0.6 billion) and municipal economy (around EUR 0.4 billion). In recent months, the Government has issued decisions such as new transport projects (e.g. the inclusion of the western metro extension and the Pisara railway track in the spending limits), which will increase expenditure as of 2016, lowering the overall scale of the adjustment measures.

The impact of the central government budget expenditure adjustment measures will amount to approximately EUR 3 billion at the 2015 level in comparison to the last spending limit decision of the previous parliamentary term.

Magnitude of central government adjustment measures, EUR billion

	2012	2013	2014	2015	2016	2017	2018	2019
Measures increasing central government tax revenue	-0.8	-2.4	-3.3	-4.3	-4.5	-4.5	-4.4	-4.4
Measures decreasing central government tax revenue	0.9	1.1	2.1	2.7	2.3	2.2	2.2	2.2
Compensation to municipalities for tax criteria changes	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Central government appropriation savings	-1.1	-2.0	-2.9	-4.6	-4.7	-4.8	-4.9	-4.9
Central government expenditure increases	0.9	1.6	2.0	1.7	1.8	2.2	2.2	2.2
Revenue assumed from combating the shadow economy	0.0	-0.1	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3
Central government adjustment, total	0.1	-1.8	-2.3	-4.9	-5.4	-5.2	-5.2	-5.2

The net impact of the revenue adjustment measures will amount to approximately EUR 1.6 billion at the 2015 level in comparison to the last spending limit decision of the previous parliamentary term. In this figure, the revenue from the YLE tax has not been taken into consideration, but the measures taken to increase tax revenue include the waiver of earnings-level adjustments to income taxation in 2013, 2014 (partly) and 2016.

The key changes to taxation include the increase in all VAT tax rates in 2013 (approximately EUR 0.8 billion at the level of 2015) and the reduction of the corporate income tax rate in 2014 (around EUR -0.9 billion at the level of 2015).

Structural policy measures

The spending limits decision covers measures in the Government’s Structural Policy Programme provided that their implementation methods have been decided, the Parliament has approved the related amendments to legislation, and there is detailed information on their impacts. Structural policy measures budgeted in the spending limits decision increase central government expenditure by EUR 100 million per year on average.

Published by the Steering Group, the final report (27 February 2015) on the implementation of the Structural Policy Programme provides more detailed information on the progress of the programme measures. Since the final report was published, certain programme measures have been changed in parliamentary proceedings. The estimates provided here of the financial impact of the programme therefore differ from those presented in the final report.

Investments in growth 2014—2016

According to the previous General Government Fiscal Plan, the Government decided that government assets will be put to more productive use. As part of the reallocation of central government assets, decisions on significant investments in growth were made. The key investments were related to competence and innovation that create new growth, and to transport and building projects that offer immediate employment. Certain growth investments will continue to have impact on appropriations during the 2016—2019 spending limits period. For example, EUR 150 million has been earmarked for the capitalisation of universities in 2017. The extension of Tekes’ loan-granting authorisations will be continued for projects in the cleantech and bioeconomy sectors and for businesses based on digital value creation.

Packages decided upon during the current parliamentary term

Special efforts have been made during the current parliamentary term to combat the shadow economy. The additional appropriations for this purpose will be partly continued in 2016—2019. Over the entire spending limits period, additional EUR 2.3 million per year has been earmarked for the Prosecution Service operating expenditure in order to combat the shadow economy. The Tax Administration will also be allocated additional appropriations to combat the shadow economy.

As part of the implementation of the youth guarantee during the 2011—2015 parliamentary term, annual funding for the measures promoting young people’s employment was increased by EUR 60 million in the administrative branches of the Ministry of Employment and the Economy and the Ministry of Education and Culture. These additional appropriations, excluding the additional contribution of around EUR 7.5 million towards youth outreach, will continue to be included in the funding base after 2015, in compliance with the spending limits decision. In addition, the funding level of vocational upper secondary education will include the additional annual appropriation of EUR 14 million for safeguarding the implementation of the youth guarantee, in accordance with the 2014—2017 spending limits decision.

Finland 100 Years

In the spending limits period, funding has been allocated for the arrangement of events in 2017 marking the 100th anniversary of Finland’s independence. In accordance with Government policy, a total of EUR 20 million has been reserved for the anniversary expenditure as of 2013.

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 account for an average of EUR 210 million per year in the spending limits period.

The government's joint administration and service tasks were assigned to the Prime Minister's Office from 1 March 2015. A new department, the Government Administrative Unit, was set up in the Prime Minister's Office. The decision to bring together shared tasks seeks to harmonise operating methods across ministries and standardise administrative and service processes at the Government level. Corresponding to the transferred tasks, the transfer of resources from the other ministries' main titles to the main title of the Prime Minister's Office was included in the 2015 Budget and included for the future years in the spending limits.

Ministry for Foreign Affairs

The appropriation level of the Ministry for Foreign Affairs administrative branch is approximately EUR 1.2 billion in 2016, increasing to EUR 1.3 billion in 2019.

In the mission network, resources will be concentrated in countries and regions of growing economic and political importance, taking into account, for example, the priorities of Team Finland. Work will be continued to reform the structure and administrative practices of Finland's representation abroad, making use of the opportunities for collaboration, such as those with other Nordic countries, EU countries, and the European External Action Service. At the same time, more flexible arrangements will be sought for the provision of statutory citizens' services under the new Citizens' Services Act. The General Government Fiscal Plan takes into account the renovation of Finland's Embassy campus in New Delhi.

Crisis management appropriations take into account the Security and Defence Policy Report (2012), the National Strategy for Civilian Crisis Management (2008) and the Peace Mediation Action Programme (2011). Military crisis management appropriations have been calculated to meet the average level of realised appropriations over the previous four years, at approximately EUR 43 million per year.

The 2016—2019 development cooperation appropriations have been calculated at the estimated 2015 GNI level, accounting for 0.49 per cent of the nominal GDP. The calculation basis corresponds to that applied previously when a parliamentary term is about to expire. The goal is to ensure that appropriations are developed so as to meet the level of 0.7 per cent of GNI and Finland's international commitments. This commitment is a key area of Finland's systematic foreign and security policy. In compliance with the Government Programme, efforts have been made to increase the GNI financial contribution allocated to development cooperation appropriation in the parliamentary term ending in 2015 by directing revenue accrued from the auctioning of emissions allowances to development cooperation and climate funding as part of Finland's official development aid, as such revenue has accrued.

Ministry of Justice

The appropriations of the main title of the Ministry of Justice total EUR 868 million in 2016, increasing to EUR 889 million in 2019. This level is increased by the one-off expenditure item of the 2019 elections.

In order to ensure legal protection despite the difficult economic situation, operational efficiency in the sectors of the administrative branch must be significantly improved and structures reformed. The implementation of the measures included in the 2013—2025 Administration of Justice Reform Programme will be continued. The measures to be implemented in the planning period concern the structures, fees, procedural rules and the development of working methods of courts, public legal aid and the enforcement system. The institutions under the Criminal Sanctions Agency will be adjusted to the level required by the number of prisoners and the spending limits.

In law drafting, more attention will be paid to regulatory impact and the knowledge base of preparations so as to achieve the desired legislative objectives cost-efficiently while avoiding unnecessary strain on citizens or companies.

The Prosecution Service's efforts to combat the shadow economy have produced results. In practice, such efforts cover aggravated tax, debtor and accounting offences, where the effectiveness of financial crime investigation largely depends on the ability of the Prosecution Service to deal with the cases submitted for consideration. In the cases solved by the financial crime prosecutors, criminal damage or gain amounted to approximately EUR 95 million in 2012, approx. EUR 87 million in 2013 and approx. EUR 133 million in 2014. Assets acquired from financial crimes came to approximately EUR 182 million in 2010—2014. However, the amount of criminal gain does not provide a sufficient measure of the scale of the shadow economy, since the injured parties in criminal cases concerning the shadow economy are largely ordered to pay damages and there are no remaining criminal gains to confiscate. The scale of the spending limits takes into account an annual increase of EUR 3.3. million allocated to the Prosecution Service's efforts to combat the shadow economy throughout the 2016—2019 spending limits period, of which EUR 0.4 million will be allocated internally within the administrative branch. The 2016—2019 preparations of the programme to combat the shadow economy can be continued as collaboration between government authorities. In practice, the Finnish Tax Administration, the National Police Board and the Office of the Prosecutor General should create a shared operational strategy to combat the shadow economy and agree on the measures to be implemented during the next parliamentary term. Such measures will in part link to the development of the Prosecution Service's working processes, structures and efficiency in compliance with the Administration of Justice Reform Programme.

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 non-profit making service providers. In order to finance service provision, a victim of crime fee 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 as of 2017. The government revenue will increase correspondingly.

In the placement of prisoners, the focus will shift from closed institutions to open institutions and probationary liberty under supervision. Extension of the conversion sentence for unpaid fines to apply to repeatedly fined offenders and the tightening of the legislation concerning sex offences will increase the number of prisoners. However, the number of offenders ordered to community service is estimated to fall. As of 2018, an annual additional appropriation totalling EUR 7.4 million is allocated to the Prosecution Service, courts and the Criminal Sanctions Agency to cover expenditure from the reform of the conversion sentence for unpaid fines. Administration of prisoners' health care will be transferred from the administrative branch of the Ministry of Justice to the administrative branch of the Ministry of Social Affairs and Health as of 2016. This requires a transfer of appropriations amounting to EUR 16.4 million from the Criminal Sanctions Agency to the prisoners' health care unit under the National Institute for Health and Welfare. The permanent additional expenditure arising from the transfer of prisoners' health care will be allocated an additional appropriation of EUR

250,000. Supervision of the prisoners' and the Finnish Defence Force's health care will also create new tasks in the Regional State Administrative Agencies and the National Supervisory Authority for Welfare and Health. Funding for new personnel will be implemented entirely through appropriation transfers from the administrative branches of the Ministry of Defence, the Ministry of Justice and the Ministry of Social Affairs and Health.

Ministry of the Interior

The appropriations of the main title of the Ministry of the Interior come to EUR 1.2 billion in 2016, to be reduced by just over 3 per cent during the spending limits period.

The aim is to maintain the current 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 legislative reform concerning the conversion sentence for unpaid fines, appropriations allocated to the police operating costs will be increased by EUR 5 million per year. The changed timing of the Kejo project has resulted in an additional appropriation of EUR 4 million for the project in 2016.

The European security situation and Finland's border security have completely changed, and a quick turn for the better is not expected in the foreseeable future. The Border Guard has adjusted its operations to smaller appropriations by streamlining the organisation, making more efficient use of processes and labour and introducing technological solutions. At Finland's eastern border-crossing points, traffic has temporarily subsided. Plans have been made to make surveillance of the eastern border more efficient by transferring labour input from border checks to border surveillance. During the spending limits period, an additional appropriation of EUR 1.25 million will be allocated to the new navigation system for the Dornier surveillance aircraft in 2018.

The Emergency Response Centre Administration is preparing for the deployment of the emergency response information system, shared by the Emergency Response Centre Administration and government authorities, taking place at the beginning of the spending limits period.

Expenditure arising from the reception of refugees and asylum seekers will be increased by EUR 15 million per year on the basis of realised use and estimated cost development. Support appropriations for the customers of reception operations will be increased by EUR 1.5 million per year compared to the previous General Government Fiscal Plan. In 2015, the refugee quota was increased to 1,050 persons. Resources will be increased for Joutsa Reception Centre, opened at the end of 2014, by approximately EUR 0.3 million per year to cover the shortage of personnel and operating costs of the detention unit for aliens, and the additional resources required by the system of aid for the victims of trafficking in human beings.

Ministry of Defence

The appropriations of the main title of the Ministry of Defence total EUR 2,856 million in 2016 and EUR 2,699 million in 2019. The postponement in the payments for materiel costs for 2014—2015 will increase the 2016 level.

Finland's defence capability will be developed, from the perspective of the country's military defence. The priorities of maintaining and developing defence capability in the spending limits period are establishing the structures and operating methods introduced as part of the Defence Forces reform, responding to the long-term challenges of defence, and deepening and widening defence cooperation.

Troop and system capacity and operating methods will be developed in accordance with the requirements arising from the changes in the operating environment. Regarding the changes in the operating environment, the Finnish Defence Force pays particular attention to the wider range of tools available for the use of force. The focus of the maintenance of the Defence Forces performance capability will be on developing regional troops and remote impact. Systematic steps have been taken to shift the focus towards safeguarding the performance capability of operative troops. Operative capability has been returned to a level required for carrying out operations and providing efficient troops. To ensure adequate prevention and up-to-date defence capability, around one third of military defence appropriations is intended to be used for materiel readiness, around one third on fixed personnel expenditure and around one third on other operating expenditure.

The key conclusion of the parliamentary committee, appointed to discuss the long-term challenges to defence, was that, as a minimum, the additional appropriation proposed by the defence administration report (VNS12) will be necessary to correct the shortcomings identified in materiel performance capability. As the General Government Fiscal Plan does not include additional funding, the assessment of the matter will be referred to the next parliamentary term. The authorisation level for defence materiel purchases has been set at just over EUR 300 million per year in the spending limits period.

The Finnish Defence Force’s operating cost appropriation has been increased by EUR 36 million as of 2016 with the purpose of achieving a sustainable rental level for the defence force premises management. The rental expenditure will increase correspondingly.

As of 2016, a predictive 1.5 per cent cost-level adjustment will be made to appropriations for defence materiel procurement. This adjustment will be revised later to correspond with the realised index level.

Appropriation level for military crisis management has been increased so as to accommodate EUR 7 million per year to unforeseen needs.

A main challenge of the spending limits period is preparing for the ageing of the materiel of key troops, which will take place in the early 2020s, replacing the performance capability of the Hornet fleet, and renewing the ageing combat vessel fleet of the Finnish Navy.

Ministry of Finance

The appropriation level of the Ministry of Finance administrative branch is approximately EUR 17.6 billion in 2016 and around EUR 17.4 billion on average for the remaining years of the spending limits period. In 2016, the appropriation level is increased by the revised cost division between central and local government.

In order to safeguard operations, the Finnish Tax Administration appropriations have been increased by EUR 8 million in 2016—2017, EUR 6 million in 2018 and EUR 4 million in 2019. Continuing efforts to combat the shadow economy have been taken into account in the operating expenses of the Tax Administration by allocating EUR 6.3 million per year in the spending limits period.

Operating expenses of the Customs are allocated an additional appropriation of EUR 44.5 million for the spending limits period for the implementation of the EU customs systems software purchase, and an annual increase of EUR 2.5 million to secure operations, in comparison to the previous General Government Fiscal Plan.

Due to the decision to implement VAT relief in 2012, an increase of approximately EUR 47 million for 2016—2019 is proposed for the tax refund appropriations.

An annual additional appropriation of around EUR 0.3 million has been allocated to the continued piloting of the joint customer service for central government in the spending limits period.

Changes in forecasts for central government pension expenditure will reduce the net amount of pension expenditure and compensation by approximately EUR 122 million in the spending limits period, compared to the previous General Government Fiscal Plan. At the same time, however, the 2016 index rises are estimated to increase the amount of pension expenditure and compensation by approximately EUR 69 million.

In the General Government Fiscal Plan EUR 15 million is allocated in 2018—2019 for the expenditure arising from development, maintenance during development and steering of the national service architecture (including the service channel, electronic identity, data security and service perspectives). Centrally, EUR 60 million per year has been allocated to information system and development projects that arise during the spending limits period and are aimed at increasing productivity.

The EU payments in the central government spending limits decision are based on the 2014—2020 payment ceiling of the EU’s financial framework. The spending limits decision is based on the assessment that the decision on the EU’s own resources will come into force retrospectively in 2016, in which case three years’ payment reductions would be payable retrospectively to certain net contributors (the Netherlands, Austria, Sweden, Germany and Denmark). Compared with the previous General Government Fiscal Plan, the most important change has arisen from technical factors: the revision of the GDP basis especially will lower Finland’s payment share from the estimated amount. Finland’s payments compared with the previous spending limits decision have been revised downwards by around EUR 96—45 million per year for 2016—2019. In addition, it is necessary to make to the EU payment appropriation an annual price adjustment of EUR 28—31 million. In 2019, an appropriation of around EUR 2.05 billion is expected to be required for EU payments.

Central government transfers to local government

The 2010—2016 revised cost division between central and local government will increase central government transfers for municipalities’ basic public services by EUR 310 million and the government transfers of the Ministry of Education and Culture administrative branch by EUR 42 million, of which the share of municipalities will account for EUR 31 million. Indexation will increase central government transfers for basic public services by around EUR 53 million in 2016. The revision of cost division will be carried out annually as of 2016, instead of every four years as before. The revision of cost division has been allocated an annual cumulative appropriation of EUR 90 million in the administrative branches of the Ministry of Finance and Ministry of Education and Culture for 2017—2019.

Government transfers are reduced by the cuts made in accordance with the earlier spending limit decisions made during the parliamentary term. Government transfers for basic public services are also reduced by the proposals of the Structural Policy Programme. As of 2017, transfer of the basic social assistance payments to Kela will decrease government transfers (see the paragraphs for the administrative branch of the Ministry of Social Affairs and Health and Chapter 6. Local government finances).

Local government reform will be supported by funding merger grants and studies. In addition, central government transfer losses will be compensated in full from central government funds. However, the number of municipal mergers is estimated to be significantly reduced from that estimated in the previous General Government Fiscal Plan.

Merger grants will continue to be paid for municipal mergers related to the municipal reform and entering into force in 2016—2017. Merger grants and compensation for the loss of government transfers will be paid for the last time in 2019 under the Municipal Structure Act. In order to implement the municipal structural reform, municipalities are offered support for carrying out merger studies and the associated costs under section 41 of the Municipal Structure Act. Grants can also be paid for identifying measures to improve the finances of the new municipality if the study involves a municipality that meets the criteria for a financial study.

Municipal finances are discussed as a whole in Chapter 6 of the General Government Fiscal Plan, Local government finances.

Ministry of Education and Culture

The appropriation level of the administrative branch of the Ministry of Education and Culture is approximately EUR 7.0 billion in 2016, decreasing to EUR 6.9 billion in the spending limits period. Over the first years of the spending limits period, the level of appropriations will increase due to the revised cost division between central and local government in 2016 and the central government matching funds for university fundraising in 2017.

Central government funding for the social duties carried out by the Finnish Evangelical Lutheran Church will be renewed. As of 2016, the Ministry of Education and Culture will allocate annual funding to the Church for carrying out burials, maintaining population registers and carrying out the statutory obligations related to the maintenance of culturally and historically valuable buildings and property. The proposed funding will replace the corporate income tax received by parishes. The funding will total EUR 114 million in 2016, with an annual increase following the consumer price index.

The reform of the funding system and the provider network, proposed in the structural policy programme for general upper secondary education and vocational education and training, were meant to achieve a reduction of EUR 260 million of general government appropriations. However, the Government proposals for the implementation of the reforms were not passed by Parliament. The reductions in central government appropriations, carried out based on the measures outlined above in the previous spending limits decision for 2015—2018 , have therefore been restored in this spending limits decision. This excludes the reduction of EUR 6.5 million, arising for the waiver of the funding for the vocational education and training service and development responsibility, which was implemented in 2015. The spending limits expenditure level does not entail changes in the number of students in vocational education and training.

The effects of the central government adjustment measures, implemented during the 2012—2015 parliamentary term using index freezes, unit price cuts and other methods, will be permanent with regard to the expenditure levels of the coming years. In general education, government appropriations have supported measures such as reductions in class sizes, educational equality, school clubs, expansion of language immersion activities, development of special needs teaching, projects promoting the digitalisation of teaching and learning environments, and other projects developing the quality of general education. In the spending limits, these measures are allocated approximately EUR 73 million in 2016 and around EUR 70 million as of 2017.

An appropriation is allocated in the spending limits for the National Board of Education to develop and maintain a register of verified competences in accordance with the supplementary budget for 2015. Expenditure arising from the development of the register will be approximately EUR 3.7 million in total, of which EUR 2.9 million will be allocated to the spending limits period. The maintenance costs of the register will be covered by the bodies benefiting from the development and use of the register, i.e. the Ministry of Education and Culture, the Employment and Economic Development Offices and Statistics Finland, and appropriations from the government transfers for municipal basic public services. The Social Insurance Institution of Finland and other potential users outside the Budget will contribute to the maintenance of the register by paying use fees.

Under the Act on the funding of education and culture (laki opetus- ja kulttuuritoimen rahoituksesta), the guaranteed fixed-term increase in depreciation, included in the funding of vocational upper secondary education and training, will end in 2015. Consequently, the total funding for vocational upper secondary education and training will decrease by approximately EUR 59 million while the central government transfer will decrease by EUR 24.9 million as of 2016.

Central government transfers to the municipal basic public services take into account the computed impact of the revised cost division in full. With regard to activities funded under the Act on the funding of education and culture and the Act on independent provision of adult education (laki vapaasta sivistystyöstä), permanent savings were first subtracted from the revised unit prices, making the increase in central government transfers approximately EUR 42 million.

The reformed funding mechanism for independent adult education will be introduced on 1 January 2016, and the structure of providers maintaining the educational institutions will be developed. The funding mechanism will improve the predictability of funding and the systematic development and allocation of educational provision. EUR 18.7 million per year has been allocated in the spending limits system to the development of operating models in young people’s apprenticeships, the quality of apprenticeship training, and the competence-based qualification system. The annual allocation for the development and organisation of professional postgraduate education is EUR 4 million.

The funding available for research funding allocated by the Academy of Finland will be approximately EUR 319 million in 2016 and around EUR 329 million from 2017. The level of this authority includes an annual transfer of EUR 50 million from the central government funding of universities, to be allocated on the basis of competition. EUR 55.6 million will be available annually for the funding of strategic research and EUR 8.5 million for the funding of research infrastructure. The fixed-term increase of approximately 3,000 university and polytechnic places will be completed in 2014—2015 in order to remove the backlog of applicants.

With regard to student financial aid, the Tax Administration’s national income register will be accessed to improve the monitoring of students’ personal income, with the purpose of reducing the number of claims for recovery.

The saving of EUR 5—15 million directed at arts and culture, set out in the 2015—2018 General Government Fiscal Plan, has been reallocated.

The compensation for private copying will be used to compensate authors and other copyright holders for the copying for private purposes of works and objects subject to related rights. At this stage, an estimated appropriation of EUR 11 million has been allocated to this purpose.

Use of lottery and sports betting revenue complies with the 2015—2018 General Government Fiscal Plan and annually exceeds the projected revenue, gradually dissolving the lottery and sports betting fund for the benefit of the beneficiaries. The fund is projected to fall to just over EUR 10 million by 2019. The projected growth in lottery and sports betting revenue is 1 per cent per year. Should growth fall below the projected level, the fund will decrease further.

Ministry of Agriculture and Forestry

The appropriations of the main title of Ministry of Agriculture and Forestry total EUR 2,470 million in 2016. The appropriation level in 2019 will amount to EUR 2,528 million. The appropriation is increased by the EU and central government funding for rural development.

In 2014, the Government decided on additional cuts to the national aid for agriculture and horticulture, increasing from EUR 10.5 million in 2015 to EUR 18.3 million from 2017.

Following these savings, the reduction in the resources available to agricultural administration will pose a major challenge to the full-scale launch and implementation of aid programmes in compliance with the requirements. Resources available to agricultural administration at ELY Centres will also be reduced. 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 2015 level in the spending limits period. 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 the funding for the Rural Development Programme for Mainland Finland 2014—2020. The available EU financial contribution accounts for EUR 2,360 million during the programming period. The central government contribution accounts for EUR 3,184 million and the additional national contribution, solely funded by the central government, to EUR 2,647 million. Approximately 50 per cent of the total programme funding is allocated at the spending limits period.

The spending limits period includes 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 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 General Government Fiscal Plan takes account of the impacts of the new Fishing Act, entering into force in 2016. Under the new act, the funding mechanism continues to be based on fees payable by fishermen.

The spending limita include the wildlife predator compensation in full.

The implementation of the National Forest Strategy 2025, adopted in 2015, will be allocated to projects in 2015, making it necessary to assess the economic impacts of the measures. The potential impacts have not been taken into account in this General Government Fiscal Plan. The strategic programme objectives 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.

From the beginning of 2015, major changes have been implemented in the structure of the administrative branch's agencies in order to improve productivity and effectiveness. During the spending limits period, focus will be 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. Electronic information services and electronic methods of maintaining information resources will be developed to enhance customer service, improve the joint use of information resources and provide more up-to-date information and data.

Ministry of Transport and Communications

The appropriations of the main title of the Ministry of Transport and Communications will increase by just over EUR 200 million during the spending limits period, totalling EUR 3.15 billion in 2019.

In basic transport infrastructure maintenance, the primary duty is to ensure the daily functioning of transport. The main aim is to safeguard the level of daily maintenance and transport services over the entire transport infrastructure network. To improve logistical efficiency, the bridge and road network repair measures required by increases in the maximum weights and dimensions of heavy good vehicles will be continued and repairs will be directed at the sites most critical for business. Funding for basic road maintenance has been increased by EUR 0.5—6.5 million per year compared to the previous General Government Fiscal Plan. At EUR 965 million per year, this corresponds to the average funding for the 2012—2015 period.

During the spending limits period, implementation of the projects outlined in the Transport Policy Report will be continued. Other projects will be implemented to increase growth and support industry investment. The road investments for the Sokli mine will be realised in 2016—2018. The total scale of the project is EUR 140 million, of which EUR 105 million will be allocated during the spending limits period. A section of trunk road 8 by the Pyhäjoki nuclear power station will be improved in order to strengthen the road for heavy construction site traffic. EUR 19.5 million will be allocated to this purpose in the spending limits period. EUR 145 million will be allocated to road improvements required by the construction of a bio product plant in Äänekoski during the spending limit period. The total budget for the project is EUR 158 million. The plant will increase traffic significantly on the region's rail and road network, and the currently undersized transport network will require major improvements. EUR 60 million will be allocated to improving the functionality of the railway yard in Helsinki in the spending limits period.

The appropriations (31.10.77, 31.10.78 and 31.10.79) for the transport network investments implemented in the spending limits period total EUR 544 million per year, which corresponds to the average level of appropriations allocated for the 2012—2015 period. The spending limits period allows room for manoeuvre to set up new projects with EUR 0 million in 2016 and EUR 114—359 million per year for the 2017—2019 period.

In addition, a special appropriation of EUR 22—230 million has been allocated to the Pisara railway track in 2016—2019. The construction of the Pisara railway will start at the beginning of the spending limits period, with an initial budget of EUR 956 million. The Helsinki City Rail Loop, Pisara, is a planned railway loop in the south of Pasila, which will enable the running of commuter trains without terminating the lines at Helsinki Central railway station. Negotiations have been launched with the municipalities in the region, asking them to contribute approximately 20 per cent of the construction costs. The requirement for central government financial contribution is estimated at EUR 466 million in the spending limits period and after the period approximately EUR 300 million until 2022. The municipal financial contribution accounts for approximately EUR 116 million in the spending limits period.

The transport policy operating methods will be reformed in order to increase effectiveness and social impact. The reforms are aimed at, among other things, obtaining transport services that correspond better with users' needs and creating new opportunities for profitable and developing business activity for companies. Development of transport policy operating models will be accelerated through diverse trials relating to various subareas of transport policy. A further goal of the trials is to develop innovative solutions and to utilise in a new way the opportunities presented by information and communication technology in the transport sector. For example, trials seek to support the development of electronic transport services in wide cooperation with different actors.

In the spending limits period, EUR 98 million per year has been allocated to public transport support. The level does not significantly differ from that of the previous years.

Following the funding reform of the Finnish Broadcasting Company YLE, the transfer to the State Television and Radio Fund is estimated at EUR 514.5 million in 2016. An appropriation of EUR 1.3—2.4 million will be allocated to cover the increase in the membership fees paid by the Finnish Meteorological Institute in the spending limits period. This increase is largely explained by the higher fees charged by the European Organisation for the Exploitation of Meteorological Satellites (EUMETSAT). In addition, an appropriation of EUR 4 million has been allocated to the upgrade of the institute’s high-performance computer in 2018.

Ministry of Employment and the Economy

The appropriations of the main title of the Ministry of Employment and the Economy are EUR 2,759 million in 2016. In the spending limits period, appropriations will increase by approximately EUR 80 million to EUR 2,838 million in 2019.

Appropriations for the business and innovation policy will decrease from EUR 900 million to EUR 844 million during the spending limits period. This decrease will be largely explained by the ending of the Finnish Industry Investment Oy’s contribution to the growth financing programme in 2018 and the ending of the Finnvera Oyj’s capital loan in 2017. On the other hand, a change in the budgeting practice of the Finnish Export Credit Oy in relation to refinancing will increase the expenditure level. The authorisations of Tekes, the Finnish Funding Agency for Technology and Innovation, to issue grants (EUR 361 million) and loans (EUR 147 million) will remain unchanged throughout the spending limit period. With regard to Finnvera, compensations for losses will be increased by a few million euros per year, as Finnvera’s funding opportunities were extended in 2015 to companies larger than the EU’s SME definition outside national assisted areas.

The employment and enterprise policy will focus on lowering the unemployment rate and promoting growth by creating opportunities for new business, innovation and investment and by meeting the employment and skills needs identified by businesses. Appropriations for the employment and enterprise policy — at just over EUR 800 million — will remain largely unchanged in the spending limits period, the majority of the appropriations (75 per cent) allocated to public employment and business services. The regional transport subsidy will end in 2017.

The National Board of Patents and Registration of Finland (NBPR) operating costs will be allocated an increase of EUR 1.3 million in 2016, EUR 2.7 million in 2017, EUR 3.5 million in 2018 and EUR 4.1 million in 2019, based on the entry into force of the European unitary patent on 1 January 2016.

Appropriations for the energy policy will increase from EUR 354 million to EUR 417 million during the spending limits period. The subsidy for renewable energy takes into account the decrease in peat tax to EUR 1.9/MWh in 2016 and the corresponding changes to the subsidy for wood chips. The appropriations for energy generation support will increase during the spending limits period from EUR 229 million in 2016 to EUR 369 million in 2019. The calculation of the appropriation takes into account, in addition to the change in the peat tax level, changes to the electricity market price projections and capacity estimates. The authorisation for energy support will amount to EUR 35 million per year throughout the spending limits period, resulting in a lower level of appropriations.

Appropriations for the EU structural fund payments will increase from EUR 242 million to EUR 343 million. The calculation takes into consideration postponement of payments caused by the delay in the launch of the programming period, and revisions of the annual funding distribution of the European territorial cooperation and the ENI CBC programmes for cooperation at the external borders. In addition, this item is estimated to pay for the additional payment requirement of EUR 22 million caused by the partial lengthening of the 2007—2013 programming period implementation.

Integration compensation paid to municipalities is estimated at just over EUR 100 million per year. This estimate includes the increase in the refugee quota to 1,050 persons in 2015 and the appropriation increase of EUR 8 million due to rising costs.

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's Structural Policy Programme and adjustment measures but by cyclical factors such as the change in the unemployment rate, statutory index adjustments and factors relating to demographic structure. The appropriation level of the administrative branch will be the same as that for 2016 by the end of the spending limits period, i.e. approximately EUR 13.4 billion.

The calculation and payment of basic social assistance under the Structural Policy Programme will be transferred to the Social Insurance Institution of Finland KELA from the beginning of 2017. Following the change, the expenditure arising from basic social assistance will be fully included in the state budget. The contribution to funding from local government (50 %) is accounted for by deducting the share of basic social assistance from central government transfers to municipalities. Owing to the 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. Expenditure is expected to be at EUR 884 million in 2017 and fall to EUR 808 million by the end of the spending limits period.

The ICT Directive on intra-corporate transferees of other nationals will be implemented nationally in 2016. The additional health care costs incurred as a result will be paid fully to local authorities out of sickness insurance expenditure. The Directive will also put up the costs of child and home-care allowances. The estimated yearly costs are EUR 4.75 million. The Seasonal Workers Directive will be implemented nationally towards the end of 2016. The additional costs incurred as a result will be paid fully to local authorities out of sickness insurance expenditure. The estimated yearly costs are EUR 3.6 million.

The abolition of the disability benefit link to the medical rehabilitation of the severely disabled is being brought forward to take effect from the beginning of 2016 instead of 2018, as decided previously. This will put up the costs of rehabilitation and travel expenses by EUR 13.5 million in 2016 and EUR 27.3 million in 2017. The state's contribution to the additional costs will be around EUR 6.0 million in 2016 and EUR 12.3 million in 2017. The change will also mean that the expenses financed by the insured will go up, owing to which medical care contributions are projected to rise by about 0.01 percentage point, and 0.02 percentage points from 2017. Meanwhile, there will also be an opportunity to combine the journeys of severely disabled clients, a move that is expected to save around EUR 1 million in travel reimbursement expenses, of which the state's contribution is around EUR 0.4 million.

The General Government Fiscal Plan takes account of the appropriation transfer of EUR 125 million for wage subsidies and start-up money decided in the 2015 budget to the administrative branch of the Ministry of Employment and the Economy. Furthermore, the legislation on job alternation has become the responsibility of the Ministry of Social Affairs and Health.

The seamen's pension system is being reformed to fall in line more closely with the general earnings-related pension system, and at the same time central government funding will be gradually cut. As a result of the pension agreement, earnings-related contributions from employees and small employers and the contributions in connection with statutory pension insurance for farmers and recipients of grants and scholarships and self-employed persons' pension insurance (MyEl and YEL) will fall by 0.6% in 2016.

Accident insurance for agricultural entrepreneurs will be reformed, with the law on accidents in the workplace and occupational diseases becoming more consistent in content and structure. The aim is to make the reform as cost-neutral as possible. There will also be a temporary trial where an employee will have the right to support in the event of a change of employment, in situations where moisture damage causes harm to health that prevents people from working.

To safeguard elderly care services for veterans, the front-line veterans’ rehabilitation appropriation has been determined in such a way that the level of the available annual appropriation per veteran entitled to rehabilitation will rise by around EUR 50 per year during the spending limits period. The General Government Fiscal Plan also takes account of the fall in the disability rate for disabled war veterans from 20 % to 15 %.

EUR 1 million and EUR 2 million have been earmarked for the discretionary government transfer for social and health care development projects implemented by municipalities for 2016 and 2017 respectively. An annual spending limits reserve of EUR 5.35 million for 2016 and 2017 has been set aside for the reform in the social and health care service structure. An annual sum of EUR 20 million has been earmarked for central government compensation for health care units for research activity in accordance with the Act on Specialised Medical Care. State payments to health care units to cover costs incurred in medical and dental training will average around EUR 100 million annually, following savings decisions. During the spending limits period, the appropriation need for forensic psychiatry studies (child abuse) will increase by EUR 1 million.

In 2016, EUR 1 million is to be transferred from the municipal social and health care development project budgetary sub-item to discretionary government transfers for centres of excellence in social welfare. The transfer will safeguard the resources of the centres of excellence when the structural reform of social and health care goes ahead.

State funds for the expenditure incurred by shelter activities will be increased by EUR 3.3 million, with funding rising to EUR 11.3 million a year. Furthermore, the appropriation for the years 2017—2019 will be increased by EUR 2 million annually to bring the number of shelters closer to that recommended by the Council of Europe.

An appropriation of just over EUR 29 million is earmarked for the Helicopter Medical Emergency Service in 2016. The financing of activity under the previous framework decisions will fall under the local government discretionary transfers for basic public services.

The result of the savings in sector research for the administrative sector of the Ministry of Social Affairs and Health will be EUR 26.9 in 2016 and EUR 30 million from 2017. The saving will apply to research and development institutes, project budgetary sub-items and sub-items for special central government contributions to research and training.

Issues relating to basic public services provided by local government, and the central government transfers paid for them, are discussed generally in Chapter 6, Local government finances, of the spending limits decision.

Ministry of the Environment

The main title expenditure of the Ministry of Environment's administrative branch will be EUR 206 million in 2016 and will fall to EUR 197 million in 2019. Besides the savings, the fall in appropriations is explained by the non-recurring appropriations earmarked at the start of the spending limits period for investment in vessels, which raise the total for appropriations at the start of the period.

During the spending limits period, the emphasis will be on measures to enhance the effectiveness of the national and EU climate policy and to reach agreement on an international climate convention, to promote cooperation on improving the state of the Baltic Sea, and to invest in measures designed to safeguard the environment, biodiversity and sustainability. As regards the protection of the Baltic Sea, the implementation of the marine management programme is to go ahead, and fewer resources are to be allocated in water management to improve the treatment of waste water and protect groundwater. The state no longer grants aid for new local government water supply and environmental projects under the decision taken in connection with the General Government Fiscal Plan for 2015—2018. The sum of EUR 11 million has been earmarked for the renovation of the research vessel Aranda in 2016—2018. The old nature conservation programmes will be brought to an end; METSO, the Southern Finland Forest Biodiversity Programme will be extended and additional conservation of marshland will start. Sound management of the national parks and other popular conservation areas will help promote the recreational use of nature, nature tourism and the local economy. The aim is to promote the restoration of contaminated land under the 2015 National Remediation Strategy and the programme of restoration connected with it. To improve oil spill preparedness, there will be an additional EUR 1.5 million for maintenance expenditure and the procurement of equipment and resources.

An attempt is to be made to improve waste management in accordance with the national and regional waste plans and through enhanced measures to implement reforms in legislation relating to the waste sector.

In the built environment, there will be a focus on improving energy efficiency in construction, developing the viability of urban areas and securing the social and regional balance and stability of the housing market. An adequate supply of land for residential development supporting a good community structure is a key priority in growth centres. To implement the Government’s Structural Policy Programme, the municipal construction inspection service will become larger units that extend across local government borders, and a reduction in the institutional care for the elderly is to be promoted by improving conditions for the elderly to enable them live at home and by increasing the supply of sheltered housing. The focal point for the government-backed housing policy is in the larger growth centres, especially the Helsinki Metropolitan Area. The living conditions of older people are to be improved within the context of the Development Programme. Sums of EUR 140 million in 2016, EUR 160 million in 2017 and EUR 140 million in 2018 and 2019 are to be made available for investment grants for special groups to come from the National Housing Fund. The assistance under housing policy paid out of the National Housing Fund and the cut in the contribution to the interest on loans will end at the end of 2015.

5.3.2. Central government joint information system projects

Key information system projects

The annual sum of EUR 60 million has been set aside within the spending limits for key administrative information system and IT administration projects as well as other productivity projects.

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 public access to, and use of, data on the environment and natural resources.

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 feature in 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 department expresses a favourable opinion on significant information system projects as required under the Act on Information Management Governance in Public Administration (634/2011) and Government Decree 1239/2014. The Ministry of Finance will enter into a cooperation agreement on projects to receive financing with the 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 a roughly 40 % improvement in productivity in central government administration, half of which was achieved in the period 2005—2011 according to a statement by the State Treasury. The introduction of the KIEKU information system project in the period 2011—2016, the further harmonisation of practices and information systems in the spending limits period and the increased use, automation and self-service application of the service centre are all intended to reach the remaining 20 % of the productivity benefit.

Central government agencies and institutions (around 65,000 civil servants, excluding the Defence Forces) will gradually start using the KIEKU information system in financial and HR administrative services. The centrally acquired and funded KIEKU information system will replace agency-specific financial and HR information systems, which are at the end of their life cycle. KIEKU is in use by the administrative branches of the Ministry of the Interior, Ministry of Finance, Ministry of Defence and the Ministry of the Environment, and by the police. In 2015 it will start to be used by the Ministry of Agriculture and Forestry, the Ministry of Education and Culture, the Ministry of Social Affairs and Health, the Office of the President of the Republic and certain research institutes. The other ministries (Transport and Communications, Employment and the Economy, Education), the Prime Minister's Office, Parliament and the Natural Resources Institute Finland will be using KIEKU by the end of 2016. The ministries will supervise the progress of the introduction process in their administrative branches within the specified timetable and with reference to shared processes, avoiding customised solutions. Ministries and agencies are to continue the implementation of changes supporting the productivity development of financial and HR services as well as increasing the use of the Finnish Government Shared Services Centre for Finance.

The project has progressed adhering to the financial framework of approximately EUR 125 million set aside for it. The KIEKU project phase implemented under the leadership of the State Treasury will come to an end in the spending limits period. During the spending limits period, 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 Shared Services Centre for Finance and HR.

It will be necessary to continue with improvements to the productivity of the state financial and HR administration after the project phase has ended. This will mean a need to control and monitor the achievement of the productivity objectives in agencies and institutions and continue with the harmonisation of financial and HR administrative processes and the optimisation of resources committed to them by central government.

5.4. On-budget revenue

Actual on-budget revenue is expected to grow in the spending limits period on average by some 1½% per year. Tax revenue is expected to grow by over 2½% per year. Tax revenue accounts for on average 85% of actual on-budget revenue. In 2019 on-budget revenue is expected to be EUR 52.0 billion.

Central government on-budget revenue estimates are based on an estimate of the medium-term developments in the economy. Economic growth is forecast to be modest in the spending limits period, owing to which the tax base will grow slowly.

Tax criteria changes

The revenue estimates for the spending limits period have taken into account the changes in tax criteria decided during the terms of office of Prime Ministers Katainen and Stubb, even with respect to measures that will take effect in the spending limits period 2016—2019. The turnover thresholds that give entitlement to relief for VAT are to be changed so that the lower limit for tax liability will rise from EUR 8,500 to EUR 10,000, and the upper limit for tax relief in connection with this will go up from EUR 22,500 to EUR 30,000. The change is expected to reduce value-added tax revenue by approximately EUR 40 million a year. The eligibility for deducting the interest expenses on mortage loans will be reduced by five percentage points in 2016, 2017 and 2018. The deductible part of the loan is 60% for 2016, 55% for 2017 and 50% for 2018. This is expected to increase the central government revenue from earned income and capital income tax by around EUR 12 million a year. The validity of the temporary child tax credit ends at the end of 2017 and the 'solidarity tax' comes to an end at the end of 2018.

The period of validity of increased depreciation on production-related investments in income tax has been extended to the end of 2016. The change is expected to reduce tax revenue by approximately EUR 65 a year. The temporary tax incentive for investors will end at the end of 2015.

The tax rate for gifts and inheritance on sums of more than EUR 1,000,000 in 2013—2015, the highest scales for inheritance and gift tax, will become permanent under the law from the start of 2016. The measure is expected to raise on-budget revenue by around EUR 10 million a year. The period for which inheritance and gift tax is paid in connection with tax relief on generation changes on farms and other forms of enterprise is extended from five to 10 years which is expected to reduce tax revenue in the spending limits period by around EUR 10 million a year.

The tax on peat will be cut in the spending limits period, which is expected to reduce energy tax revenue by some EUR 12 million a year. Tax exemptions for liquid petroleum gas will be abolished from the start of 2016, which is projected to increase tax revenue by approximately EUR 10 million.

Furthermore, halving the fairway dues and the abolition of the rail goods transport tax in 2015—2017, decisions taken previously by the government, will serve to reduce tax revenue.

Trend in tax revenue 2016—2019

The central government revenue from earned income and capital income tax is expected to increase in the spending limits period by an average of just under 5½% a year. Earned income is expected to rise in the spending limits period by just under 3% and capital income by an average of a good 3%. The forecast for earned income and capital income tax includes, as a technical assumption, an index review made for the tax criteria for 2017—2019, to ensure that tax on work does not become an increased burden on average with the general rise in earnings. Index reviews are expected to reduce the central government revenue from earned income and capital income tax by around EUR 480 million in the spending limits period. In line with the policies of Prime Minister Stubb's Government, the forecast does not include the index review of the rise in consumer prices or earnings in 2016, as a result of which tax revenue will grow faster that year than the tax base.

The revenue on corporate income tax levied by the state is expected to increase by an average of just under 8% a year during the spending limits period. Corporate tax as a whole is expected to increase in the spending limits period by an average of around 5% a year, which is in line with average trend for the operating surplus in national accounts for the period. State corporate tax revenue will increase faster than the aggregate corporate tax, mainly because the temporary rises in the corporate tax contributions to local authorities and church parishes will come to an end in 2016 and the corporate tax paid to the parishes will go to the state. These changes are expected to increase the accrual of state corporation tax by as much as EUR 300 million in 2016. The corporate tax contribution to church parishes from the beginning of 2016 will be replaced with an index-linked appropriation.

Value-added tax revenue is projected to grow on average by around 2% per year in the spending limits period. This forecast is mainly based on estimates for the increase in household consumption expenditure.

Total revenue from excise duties is projected to fall in the spending limits period by around 1% per year. The tax revenue on tobacco is predicted to increase, owing to the value-based structure of the tax and the fact that, the tax increase coming in from the beginning of 2015 will only have its full impact on tax revenue in the spending limits period. The excise tax bases are expected to narrow in the main in the spending limits period.

The revenue from car tax is projected to fall in the spending limits period by an average of 3½% a year. This is because the trend in the reduction in carbon dioxide emissions from new vehicle is expected to continue. Fewer emissions mean a lower rate for tax on cars - in fact, by just less than one percentage point a year. In the beginning of the spending limits period, predicted car tax refunds will reduce the tax revenue slightly.

Revenue from vehicle tax is projected to increase slowly in the spending limits period. The rise in vehicle tax coming in from the start of 2016 will increase tax revenues at the start of the period. The change will serve to raise tax revenue by about EUR 180 million a year, but is already partly reflected in tax revenues for 2015 on account of the scheduling of vehicle tax.

The revenue from tax at source on interest earned is projected to fall in the spending limits period on average by around 2½% per year. Tax revenue at the start of the spending limits period is projected to fall as a result of the decrease in the expected average interest rate on deposited funds. But towards the end of the spending limits period, the revenue from tax at source is predicted to strongly increase with the expected rise in interest rates.

Other on-budget revenue

Miscellaneous income is predicted to fall in the spending limits period by an average of 3% a year, on account of the exceptionally large amounts of income in 2015. Revenue estimates for 2015 are affected by the 'growth package' decided under the General Government Fiscal Plan, as part of which recognition of revenue from the State Pension Fund and the assumed revenue from state company ownership arrangements were increased for 2015.

As regards other on-budget revenue, dividend revenue or repayments of capital are expected to be just less than EUR 1 billion per year. As regards sales of state-owned shares the assumption is for annual on-budget recognition of EUR 400 million. The estimate for the interest earned by central government is lower than that when the spring 2014 spending limits were being decided. This is explained by a lowering of market interest rates due to a slower than expected strengthening of the euro area economy. The lower market interest rates are reflected particularly in the estimate of interest earned on central government deposits.

Recognition of revenue from state enterprises is predicted to average around EUR 190 million a year (see Chapter 5.6 for more details).

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

	2015 Budget	2016	2017	2018	2019	2015—2019 average annual change, %
Total tax revenue	39.9	40.9	41.8	43.0	44.3	2.7
— taxes on earned and capital income	8.9	9.6	9.9	10.4	10.9	5.4
— corporate income tax	2.5	2.8	3.0	3.2	3.3	7.8
— VAT	16.9	17.0	17.3	17.8	18.3	2.0
— excise duties	7.1	7.0	7.0	6.9	6.9	-0.8
— other tax revenue	4.5	4.5	4.6	4.7	4.8	1.6
Miscellaneous revenue	6.1	5.1	5.1	5.3	5.4	-2.9
Interest earned, income from sales of shares and profit entered as income	2.8	2.0	1.9	1.9	1.9	-8.5
— Dividend income and income from sales of shares	2.1	1.4	1.4	1.4	1.4	-10.3
Total revenue[1]	49.1	48.4	49.3	50.6	52.0	1.4

[1)] Including repayment of loans granted by central government.

5.5. State 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 around EUR 6.0 billion, i.e. around 2.8% of GDP, in 2016. The deficit is expected to fall to EUR 5.3 billion in 2019.

The central government on-budget deficit, as compared to the General Government Fiscal Plan of spring 2014, will worsen by an average of EUR 3.1 billion across the period 2016—2018. This will mean net borrowing on the part of the state of more than EUR 9 billion more than that estimated a year ago by the end of 2018. Around EUR 1.9—2.7 billion per year of the increase in the deficits is explained by the weakened macroeconomic forecast. The review of the share of costs between the state and local government accounts for EUR 0.4—0.5 billion of the increase in the deficit. The decisions taken after the General Government Fiscal Plan in spring 2014, including those on new transport projects and certain changes to tax criteria, account for EUR 0.6—0.9 billion of the increase in the deficit. On the other hand, the fall in the inflation forecast and the decrease in the interest paid on state debt will cause the deficit to narrow.

It is assumed that central government debt will grow to around EUR 107 billion in 2016. The central government debt-to-GDP ratio will rise throughout the spending limits period. Central government debt is expected to be around EUR 124 billion in 2019, which is around 53% of GDP.

The central government's balance and debt outlook will be examined from the perspective of the national accounts in Chapter 2.2.

Ministry of Finance estimate of on-budget balance in 2016—2019, EUR billion, at current prices

	2015	2016	2017	2018	2019
On-budget revenue estimate, total[1]	49.1	48.4	49.3	50.6	52.0
On-budget expenditure estimate, total, at current prices[2]	54.3	54.4	55.5	56.2	57.3
On-budget balance estimate	**-5.2**	**-6.0**	**-6.2**	**-5.6**	**-5.3**
Central government debt-to-GDP ratio, %	49	50	52	52	53

[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 universities, Solidium Oy, the Finnish Broadcasting Company YLE, university real estate companies, Leijona Catering Oy, HAUS Finnish Institute of Public Management Ltd and VTT Technical Research Centre of Finland Ltd.

VTT Technical Research Centre of Finland Ltd. and MIKES, the Centre for Metrology and Accreditation, merged on 1 January 2015 and VTT became a limited liability company. 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 2013 funding of universities totalled around EUR 2.8 billion, of which the central government share was around 75%. Central government funding is expected to remain at around the same level in the next few years.

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, of which the central government owns one-third and the universities two-thirds.

Central government funding for the Finnish Broadcasting Company YLE consists of the special YLE tax introduced from the start 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. The revisions is based on a weighted index in which the weighting of the Cost-of Living Index is one-third and that of the Index of Wage and Salary Earnings two-thirds.

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 twelve companies listed on the Stock Exchange in which Sodium has a minority interest. Solidium's Board of Directors takes investment decisions independently with reference to the analyses and proposals prepared by the management. In the central government budget, EUR 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 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 design general policy on state holdings and ownership control practices and to coordinate ministerial cooperation on ownership control.

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 the budget for 2015. On the other hand, 1 January 2015 saw the start of a new off-budget fund, the Financial Stability Fund. The Fund is managed by the Financial Stability Authority and consists of a crisis resolution fund made up of stability contributions and the Deposit Guarantee Fund made up of deposit guarantee fees. The stability contributions from credit institutions will be transferred from the Financial Stability Fund to the EU Single Resolution Mechanism. The fund has not been included in the summary below, and its role in the national accounts has not been determined so far.

Other off-budget central government funds are the National Housing Fund, the National Pensions 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 5.0 billion and expenditure less than EUR 4.8 billion. The annual net surplus of off-budget funds will therefore be around EUR 0.2 billion. The annual net surplus for the funds, omitting the Pensions Fund, is a little less.

Central government off-budget funds, EUR million

	2015	2016	2017	2018	2019
Taxes and tax-like revenue, total	87	70	71	71	71
Miscellaneous revenue	314	152	167	137	135

	2015	2016	2017	2018	2019
Pension contributions	1,641	1,628	1,619	1,613	1,625
Interest earned and profit recognised as income	360	373	405	397	388
Transfers from budget	511	519	519	519	519
Revenue excluding financial transactions	2,913	2,743	2,782	2,737	2,738
Repayments of loans granted	2,219	2,223	2,230	2,244	2,263
Total revenue	**5,133**	**4,966**	**5,012**	**4,982**	**5,001**
Consumption expenditure	247	159	166	167	168
Current transfers	836	787	764	850	925
Interest paid	1	1	1	1	1
Transfers to budget	2,342	1,862	1,904	1,936	1,965
Expenditure excluding financial transactions	3,426	2,808	2,835	2,954	3,059
Loans granted and other financial investments	1,823	1,825	1,852	1,855	1,858
Total expenditure	**5,249**	**4,633**	**4,686**	**4,809**	**4,917**
Net financial surplus	**-116**	**333**	**326**	**173**	**84**

State enterprises

Senate Properties is a government owned state enterprise under the aegis of the Ministry of Finance and is the government’s expert on the working environment and working premises. It produces and delivers services mainly for the government. In 2014, it had 6.4 million m^2 of floor space to let, 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 tenancies was EUR 105 million. Income from the sale of real estate was EUR 72 million and profits stood at around EUR 24 million. The recognition of revenue from Senate Properties in 2015 was at around EUR 210 million in the state budget.

The state rental system is to be reformed from the start of 2016. Senate Properties will in future be the state's only property acquisition unit. The use of the state'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 state does not need. At the start of 2016, the state will switch to rents based on the absorption principle, which will lower the income that Senate Properties receives in rents by around EUR 81 million a year. Rent discounts will be included in the appropriations of different branches of government in the 2016 budget proposal and the General Government Fiscal Plan in the autumn. The revenue recognised from Senate Properties to the state is estimated at EUR 95 million in 2016, EUR 75 million in 2017 and EUR 55 million in 2018—2019. The estimate for revenue recognition takes account of the 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.

Metsähallitus is a state enterprise whose functions divide into business operations and public administrative duties funded out of the budget and contributions. It manages around 12.5 million hectares of state-owned land and areas of water, worth around EUR 2.7 billion in the balance sheet. Of this, the basic capital under the yield requirement is about EUR 2.5 billion. The annual turnover figure for Metsähallitus is approximately EUR 250 million. The legislation on the organisation is being reformed. Its on-budget recognised revenue is estimated at EUR 120 million a year.

The additional revenue under the balance sheet package from state enterprises totals EUR 175 million for the period 2014—2017, of which EUR 150 million is recognised revenue from Senate Properties and EUR 10 million from Metsähallitus. A return of capital from Metsähallitus worth EUR 15 million has also gone ahead for 2015.

6. Local government finances

The part of the General Government Fiscal Plan relating to local government finances includes an examination of the overall state of the local government economy and of the impact of state measures on it. The examination of the local government economy given here is supplemented by a separate Local Government Finance Programme.

6.1. Local government finance policies

The General Government Fiscal Plan under Government Decree 120/2014 should set a limit for the change in expenditure of local government finances as a result of central government measures, and this should be consistent with the local government budgetary objective. The present government has not set the budgetary objective for local government finances. Following the parliamentary elections in spring 2015, the new Government will set the objective for local government finances and the limit for the change in expenditure for the period 2016—2019 in its first General Government Fiscal Plan.

6.2. Central government measures directed at local government finances

Central government transfers in the spending limits period

State transfers to local government, EUR million, spending limits period at 2016 prices

	2014	2015	2016	2017	2018	2019
Imputed central government transfers	**9,483**	**9,416**	**9,827**	**9,486**	**9,483**	**9,364**
Ministry of Finance, central government transfer for basic public services	8,613	8,500	8,892	8,550	8,554	8,438
Ministry of Education and Culture[1]	871	916	935	936	929	926
— of which joint municipal authorities	1,227	1,078	1,054	993	989	987
Other central government transfers by administrative branch, total	**1,231**	**1,107**	**1,098**	**752**	**740**	**730**
Ministry of Education	8	9	0	0	20	20
Ministry of the Interior	5	6	5	5	5	5
Ministry of Finance	36	37	23	40	17	16
Ministry of Education and Culture	312	208	198	198	198	197
Ministry of Agriculture and Forestry	5	5	4	4	4	4
Ministry of Transport and Communications	45	39	38	38	38	38
Ministry of Employment and the Economy	143	165	175	175	174	172
Ministry of Social Affairs and Health[2]	649	603	619	257	252	245
Ministry of the Environment	29	35	35	33	33	33
Central government transfers, total	**10,715**	**10,523**	**10,925**	**10,238**	**10,223**	**10,094**

[1)] The estimated contribution from local government is estimated from the total financing from the Ministry of Education and Culture (including private). Responsibility for funding universities of applied sciences has transferred to central government since the beginning of 2015 and they will no longer fall within the analysis. The transfers associated with the funding system reform and the omission from the analysis with regard to universities of applied sciences will have the result that central government contributions for 2014 and 2015 are not be fully comparable with one another.

[2] Payment of basic social assistance will be transferred from local government to the Social Insurance Institution of Finland KELA in 2017. As a result, the state will no longer pay the local authorities a contribution to their basic social assistance expenditure, which will be reflected as a reduction in state aid from the Ministry of Social Affairs and Health. Furthermore, local government contributions to basic social assistance expenditure will be acknowledged as a reduction in the state contribution to basic services.

Central government transfers to local government total EUR 10.9 million in 2016. Transfers are to increase in 2016 as a consequence of revised cost division between central and local government , but will go down thereafter, on account of the transfer of payments of basic social assistance from local government to Kela. The transfer will be cost-neutral in the local-central government context, but will have an effect on state transfer to local government and local government expenditure.

Measures under the Structural Policy Programme

One objective under the Structural Policy Programme is to balance local government finances. Half of the two billion euro adjustment was on the responsibility of central government, and the other half was to be managed in the context of local government finances independently. A key measure on the part of the state was to lay down policy for a new steering system for local government finances and a reduction in local government tasks and responsibilities.

There are general principles for the steering system of local government finances, including its financial framework, which are contained in the Government Decree on the General Government Fiscal Plan. With the reforms intended to steer the entire local government economy, there will also be a new approach to the supervision of municipalities in connection with the overhaul of the Local Government Act. These reforms together will promote the balance of local government finances.

It has proven to be a challenge to reduce the tasks and responsibilities of local government, and this endeavour has failed. The measures under the Structural Policy Programme as part of the General Government Fiscal Plan are projected to reduce net local government expenditure considerably by under EUR 100 million.

The final report by the Steering Group on the implementation of the Structural Policy Programme (27 February 2015) gives more details on the progress of measures under the Programme. Since the report's publication, some measures under the Programme have been altered by Parliament, owing to which the estimates of its financial impacts presented here differ from those in the report.

Tax criteria changes

Under the Government’s decision, there will be no review in 2016 of tax on earned income that would reflect the rise in inflation or earnings. As regards the years to come, a technical assumption has been undertaken regarding a review of the criteria for income tax, to ensure that tax on work does not become an increased burden on average with the general rise in earnings.

The amendment to the Seamen's Pensions Act has given rise to a change in deductions on local and central government tax on earned income for seamen. The local government tax deduction on earned income for seamen is to be reduced. The change will take effect from the start of 2016, and will add around EUR 6 million to local government tax revenue. It has been decided to reduce the home loan interest deduction entitlement by a further five percentage points annually in the period 2016—2018, which will increase local government tax revenue by EUR 7 million a year over the period. Only half the interest on home loans would be eligible for deductions in 2018. The child tax credit that came in at the start of 2015 will be temporarily in force until the end of 2017.It serves as compensation for the cut in child allowances during the transition period. The child tax credit is expected to reduce local government tax revenue by approximately EUR 38 million a year.

For the period 2016—2019, it is assumed that all the changes to tax criteria that have an impact on local government tax revenue will be compensated for as net amounts paid to municipalities through the system of central government transfers, as previously.

The five percentage point rise in the corporate tax contribution to local government in the form of temporary support will end in 2016. With real estate tax, the purpose is to reform the valuation criteria for land and buildings. The aim is for the new valuation criteria to be introduced in 2019 at the latest, when real estate taxation will transfer to the Tax Administration's new OTS software project.

Impacts of other central government measures

The revised cost division between central and local government will increase central government transfers for municipalities' basic public services by EUR 310 million in 2016. As regards functions financed under the Act on the Financing of Education and Culture and Act on Liberal Adult Education, the revision of the cost basis for unit prices will increase central government transfers to local government by EUR 31 million in total.

Transfers for municipalities' basic public services will be reduced by the cuts under the former spending limits decisions, corresponding to total of EUR 90 million in the period 2016—2017.

In the area of general education, discretionary government transfers have gone towards cutting the size of study groups, equality in education, school club activities, expanding the practice of language immersion, the development of special education, and projects that promote the digitalisation of teaching and learning environments and generally improve the quality of general education. Approximately EUR 70 million a year has been earmarked for similar assistance within the spending limits.

The temporary rise in the depreciation guarantee as part of the financing of vocational education under the Act on the Financing of Education and Culture will end at the end of 2015.

The revised funding system for liberal adult education is to be introduced on 1 January 2016, and the maintenance structure of educational establishments developed. Central government funding to local government is to come down by EUR 4 million from 2017, and local government expenditure is estimated to go down by EUR 8 million.

The calculation and payment of basic social assistance will be transferred from local government to the Social Insurance Institution of Finland KELA in 2017. The contribution made by local government to the costs of basic social assistance will in future be taken into account though a reduction in the central government transfers for municipalities' basic public services. The change is expected to reduce local government administrative expenditure, but increase costs as a result of the fall in the under-utilisation of social assistance. The net result will have a slight adverse effect on the local government economy.

EUR 1 million and EUR 2 million have been earmarked for the discretionary government transfer for social and health care development projects implemented by municipalities for 2016 and 2017 respectively. An annual sum of EUR 20 million has been earmarked for central government compensation for health care units for research activity in accordance with the Act on Specialised Medical Care.

During the spending limits period, the implementation of projects outlined in the Transport Policy Report will be continued. Local government funding contributions will also go to new projects, such as VT 19, Seinäjoki's eastern bypass, the development of Kehä III (Helsinki ring road), the construction of the western metro extension in Helsinki, and the Tampere lake shore road project. The state has set aside EUR 466 million for the City Rail Loop project for the period 2016—2019. The financial contribution made by local government will be around EUR 116 million.

Payments to municipalities for purposes of integration are expected to be as much as EUR 100 million a year. The estimate includes the increase in the refugee quota for 2015 to 1,050 and the EUR 8 million overall increase owing to the rise in costs.

The table below illustrates the net impact of state measures on local government finances under the General Government Fiscal Plan.

Net impact of central government measures on local government finances, changes as compared to the previous year, EUR million

	2015	2016	2017	2018	2019
Ministry of Finance	-358	-53	-26	-20	-1
Ministry of Social Affairs and Health	-119	14	-36	0	-52
Ministry of Education and Culture	57	8	2	0	0
Ministry of Employment and the Economy	3	0	0	0	0
Revised cost division between central and local government		341			
Changes to tax and payment criteria	163	-252	0	0	0
Total	-254	58	-60	-20	-53

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

The trend in local government finances according to the local authority accounts, EUR billion, at current prices[1]

	2014	2015	2016	2017	2018	2019
Generation of profits						
1. Operating margin	-26.8	-28.1	-28.8	-29.2	-30.1	-31.1
2. Tax revenue	21.2	21.6	22.0	22.5	23.3	24.3
3. Central government transfers, operational economy	8.2	8.2	8.6	8.4	8.5	8.5
4. Financial income and expenses, net	0.2	0.3	0.3	0.2	0.2	0.1
5. Annual contribution margin	2.8	1.9	2.0	2.0	1.9	1.8
6. Depreciation	-2.6	-2.5	-2.6	-2.7	-2.8	-2.9
7. Extraordinary items	1.7	0.3	0.3	0.3	0.3	0.3
8. Result for the financial period	1.9	-0.4	-0.3	-0.5	-0.7	-0.9
Financing						
9. Annual contribution margin	2.8	1.9	2.0	2.0	1.9	1.8
10. Extraordinary items	1.7	0.3	0.3	0.3	0.3	0.3
11. Income financing adjustment items	-1.8	-0.5	-0.5	-0.5	-0.5	-0.5
12. Income financing, net	2.7	1.7	1.8	1.8	1.7	1.6
13. Investment in fixed assets	-7.7	-4.6	-4.7	-4.7	-4.7	-4.7

	2014	2015	2016	2017	2018	2019
14. Funding contributions and income from sales	4.2	1.0	1.0	1.0	1.0	1.0
15. Investments, net	-3.5	-3.6	-3.6	-3.6	-3.7	-3.7
16. Financing surplus (income financing - investment)	-0.9	-1.9	-1.8	-1.9	-2.0	-2.1
17. Loan portfolio	16.6	18.5	20.4	22.3	24.4	26.5
18. Cash assets	5.4	5.2	5.2	5.2	5.2	5.2
19. Net debt	11.3	13.3	15.1	17.1	19.1	21.3

[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 boosted profits for the financial period by around EUR 1.4 billion in 2014.

The combined result for the municipalities and joint municipal authorities will be a deficit this current year. The omission of government enterprise spin-offs from the analysis will reduce the combined profits for the municipalities and joint municipal authorities by around EUR 250 million. Spin-offs will lower both operating income and expenditure, but income will fall more dramatically than expenditure. Investment will remain considerable, and will be financed by taking on more debt. Local authorities, as they did the previous year, will continue with their savings measures and curb the upward pressure on costs by becoming more efficient.

The imbalance between expenditure and revenue in local government finances in the scenario calculation up to 2019 will increase further. The economic growth predicted for the next few years will not be enough to balance local government finances. The change in the population's age structure will increase the need for local authority social welfare and health care services in the period 2016—2019 by just under 1% a year. The increase in operational expenditure is therefore expected once again to accelerate if the municipalities and joint municipal authorities do not continue with their adjustment measures or the state of local government finances is not eased by reducing the tasks and responsibilities of the local authorities. The calculation does not make an assumption of the municipalities' own adjustment measures for the period 2016—2019.

Local government tax revenue and central government transfers are predicted to increase in the period 2016—2019 more slowly than the average for the first half of the decade. The increase in tax revenue will be hampered by the subdued development of the economy in general. The increase in local government corporate tax revenue will also slow down when the increased corporate income tax apportionment for municipalities ends in 2016. The calculation does not assume any rises in municipal tax or real estate tax rates for the period 2016—2019. The pressure on tax rate rises will nevertheless remain considerable.

Central government transfers in the operational economy will grow each year by a nominal average rate of 1% in the period 2016—2019. The annual fluctuation will be substantial, all the same. Central government transfers take account of the revised cost division between central and local government hitherto undertaken once every four years. This will increase the central government transfers by around EUR 340 million in 2016. Meanwhile, the transfer of the payment of basic social assistance will cut state contributions to local government in 2017. Furthermore, as an element in the adjustment measures in central government finances decided previously, state contributions to local government will be cut in 2016 and 2017. The additional cuts will total EUR 90 million.

The combined loan portfolio for the municipalities and joint municipal authorities will continue to grow quickly in the years to come if nothing is done about the structural problems underlying the trend in income and expenditure in local government finances. Investments in local government finances are sustained by a maintenance backlog, huge investments in hospitals and large investment projects associated with growth centres. The increase in interest paid will be curtailed in the medium term by the continuing very low interest rate. Unless the increase in debt is brought under control, increasing amounts of interest payable will also start to speed up the growth in debt, when interest rates go up in the future. If local government finances are to remain stable, therefore, there need to be robust measures in place to strengthen local government economies and curb the growth in debt.

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 funds cannot be described by a single rule. The financing criteria of the earnings-related pension sector 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. Old-age pensions that start are reduced by a life expectancy coefficient that takes account of the increase in life expectancy. Pensions being paid increase annually with reference to the Earnings-related Pension Index, in which inflation has an 80% weighting and the change in earnings 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 for 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 the 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 social partners, in which a uniform increase of the TyEL contribution (0.4 percentage points per year) has been agreed right up to 2016. 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 sectors and pension expenditure.

Employees insured under the **State Pension Act (VaEL)** (around 6.5% of those insured) and central government employees 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, and the rest of pension expenditure is covered by tax revenue. 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 cause growth of pension expenditure, which will be reflected in a reduction in surpluses. Due to prefunding, property income is substantial, however, so pension funds will nominally not have to sell off assets, even if pension expenditure exceeds contributions.

Overall, the surplus of pension funds fell from 4% of GDP at the beginning of the millennium to 1.7% of GDP in 2014. The surplus is projected to drop to around 1% of GDP in the medium term as pension expenditure grows faster than income. In the national accounts, private sector 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.

Pension reform in 2017

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 pension reform is to extend working life and reduce the sustainability gap of public finances. The earliest eligibility age for old-age pension will be raised gradually as of 2017, and the new eligibility ages will apply to individuals born in 1955 or later. As of 2017, the earliest eligibility age for old-age pension will be raised by 3 months per birth-year cohort until it is 65 years. The upper age limit for 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 scheme will be reviewed at 5-year intervals.

Alongside the disability pension there will be a years-of-service pension, which can be applied already at age 63. The preconditions for receiving this pension are that the applicant has a working life 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 a 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 per cent of the wages. 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 responsibilities, 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 2013 was 69%, while insurance contributions accounted for 26% and municipalities for 5%. In 2013 the costs of Kela benefit funds totalled around EUR 14 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 2013 the benefits paid by unemployment benefit societies totalled around EUR 2.5 billion. Of this expenditure, the state funded around 42%, the Unemployment Insurance Fund about 53% 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% of GDP.

8. Summary of measures at the level of public finances

This chapter examines the effect on public finances of measures based on key decisions taken in the parliamentary term 2011—2015. The analysis was carried out with reference to the national accounts.

8.1. Extent and timing of measures

In the parliamentary term 2011—2015, decisions were taken on adjustment measures worth up to around EUR 6 billion net for 2015 compared to the last spending limits decision in the previous parliamentary term.

The table below sets out the effects of government measures in such areas as state revenue, expenditure and finances, compared to the last spending limits decision in the previous parliamentary term. The combined effect of the government decisions on central government finances is the equivalent of around EUR 5 billion in 2015.

The measures decided will also impact on local government finances, the largest item being the cuts in central government transfers. The combined effect of state measures in terms of the level for 2015 will be approximately EUR 1.1 billion in relation to the last Basic Public Services Programme in the previous parliamentary term and the estimate arrived at in connection with the state's spending limits decision. The rises in municipal and real estate tax rates have resulted in additional income of about EUR 800 million in terms of 2015 levels. In relation to the estimate arrived at in connection with the state's last spending limits decision during the previous parliamentary term, local government finances have deteriorated by about EUR 300 million at 2015 levels.

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

	2012	2013	2014	2015	2016	2017	2018	2019
Decisions having the effect of increasing central government tax revenues	-0.8	-2.4	-3.3	-4.3	-4.5	-4.5	-4.4	-4.4
Decisions having the effect of lowering central government tax revenues	0.9	1.1	2.1	2.7	2.3	2.2	2.2	2.2
Decisions having the effect of lowering central government appropriations	-1.1	-2.0	-2.9	-4.6	-4.7	-4.8	-4.9	-4.9
Decisions having the effect of increasing central government appropriations	0.8	1.6	2.0	1.7	1.8	2.2	2.2	2.2
Revenue assumed from combating the shadow economy	0.0	-0.1	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3
Effect on central government finances, net	-0.1	-1.9	-2.3	-4.9	-5.4	-5.2	-5.2	-5.2
Effect of central government measures on local government finances	0.4	0.6	0.8	1.1	1.4	1.4	1.4	1.5
Rises in municipal tax rates	-0.1	-0.3	-0.7	-0.8	-0.8	-0.8	-0.8	-0.8
Effect on central government finances, net	0.3	0.3	0.2	0.3	0.6	0.6	0.6	0.7
Rises in social security contributions	-0.6	-0.6	-1.3	-1.6	-1.8	-2.1	-2.1	-2.1
Effect on central government finances	**-0.5**	**-2.2**	**-3.4**	**-6.2**	**-6.6**	**-6.7**	**-6.7**	**-6.3**
In relation to overall production	0.2 %	1.1 %	1.7 %	3.0 %	3.1 %	3.0 %	3.0 %	2.8 %

8.2. Measures directed at general government expenditure

The table below presents the annual change in central government expenditure (net) from measures based on key decisions in the parliamentary term 2011—2015. The measures presented are in practice central government economic measures, as there is considerable uncertainty in evaluating local government adjustment measures, which are therefore excluded from the table. The biggest spending cuts are in the area of state consumption expenditure. The most stringent measures are due in 2015.

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

	2012	2013	2014	2015	2016	2017	2018	2019
Consumption expenditure	-0.1	-0.2	-0.1	-0.4	0.0	-0.1	0.0	0.1
Transfers of expenditure to business and industry	-0.1	0.0	0.0	-0.1	0.0	-0.1	0.0	0.0
Transfers of expenditure to households	0.4	0.0	-0.2	-0.4	0.0	-0.1	0.0	0.0
Other transfers of expenditure	0.0	-0.2	-0.1	-0.3	0.0	0.0	0.1	0.0
Real investment	0.0	0.0	0.0	-0.1	0.1	0.1	0.2	0.1
Other expenditure	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	0.4	-0.5	-0.3	-1.3	0.0	0.0	0.2	0.2

8.3. Measures directed at general government revenue

The decisions taken in the parliamentary term 2011—2015 will increase general government revenue by almost EUR 3 billion at 2015 levels compared to the last spending limits decision in the previous parliamentary term. The table below presents the annual change in general government revenue due to changes in taxation in the past parliamentary term. The analysis takes no account of the revenue from the sale of assets.

The adjustments made to compensate for the rise in consumer prices and earnings in the context of tax on earned income in 2012, 2014 and 2015 and the rises in basic deductions and deductions on earned income lowered the revenue from tax on earned income significantly, compared to the last spending limits decision in the previous parliamentary term. The revenue from the discretionary taxation of capital in 2015 is EUR 400 million more than that in the last spending limits decision in the previous parliamentary term. The reductions in corporate tax in 2012 and 2014 will result in an EUR 1.3 billion overall cut in corporate tax at 2015 levels. The rise of one percentage point in VAT in 2013 and other increases in indirect taxes will raise tax revenue by around EUR 2 billion at 2015 levels.

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

	2012	2013	2014	2015	2016	2017	2018	2019
Income tax	-0.6	0.1	0.3	-0.1	0.0	0.0	0.1	0.0
Taxes on capital income	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Corporate taxes	-0.3	-0.1	-0.9	0.0	0.0	0.1	0.0	0.0
Other direct taxes	0.2	0.7	0.2	-0.1	0.0	0.0	0.0	0.0
VAT	0.1	0.7	0.2	0.0	0.0	0.0	0.0	0.0
Other indirect taxes	0.2	0.1	0.3	0.4	0.1	0.0	0.0	0.0
Social security contributions from employers	0.2	0.0	0.3	0.2	0.1	0.0	0.0	0.0
Social welfare contributions from the insured	0.5	0.0	0.4	0.2	0.1	0.3	0.0	0.0
Total	0.4	1.8	0.7	0.8	0.4	0.4	0.1	0.0

9. Estimate of central government revenue and expenditure

This chapter presents the estimates for revenue and expenditure in central government subsectors based on the national accounts.

Central government administration according to the national accounts, EUR billion

	2014*	2015**	2016**	2017**	2018**	2019**
Direct taxes	12.6	12.7	13.4	14.0	14.6	15.3
Taxes on production and imports	29.6	29.8	30.3	30.7	31.4	32.0
Social security contributions	0.0	0.0	0.0	0.0	0.0	0.0
Taxes and social security contributions, total	**42.7**	**43.1**	**44.3**	**45.4**	**46.7**	**48.0**
Other revenue	8.8	9.3	9.1	9.3	9.5	9.7
of which interest income	0.4	0.4	0.4	0.4	0.4	0.4
Total revenue	51.6	52.4	53.4	54.6	56.1	57.7
Consumption expenditure	13.7	13.9	14.0	14.2	14.5	14.8
Subsidies and other transfers	38.2	37.9	38.6	39.0	39.8	40.4
to general government	25.9	25.8	26.3	26.8	27.3	27.6
Interest paid	2.5	2.4	2.3	2.3	2.3	2.3
Capital expenditure	4.8	4.9	5.0	5.2	5.5	5.6
Total expenditure	59.2	59.1	60.0	60.7	62.0	63.1
Net lending (+) / net borrowing (-)	-7.6	-6.7	-6.5	-6.1	-5.9	-5.4

Local government administration according to the national accounts, EUR billion

	2014*	2015**	2016**	2017**	2018**	2019**
Taxes and social security contributions	21.2	21.7	22.1	22.6	23.5	24.4
Other revenue	18.4	18.4	19.0	18.8	19.3	19.6
of which interest income	0.3	0.3	0.3	0.3	0.3	0.3
of which transfers from central government	13.9	13.9	14.4	14.0	14.2	14.3
Total revenue	39.6	40.1	41.1	41.4	42.7	44.0
Consumption expenditure	33.6	34.2	35.0	36.0	37.1	38.3
of which employee compensation	21.7	21.8	22.1	22.3	22.7	23.2
Income transfers	3.1	3.4	3.4	2.7	2.8	2.9
of which social benefits and assistance	1.3	1.4	1.4	0.7	0.7	0.7
subsidies and other transfers	1.6	1.8	1.8	1.8	1.9	1.9
interest payments	0.2	0.2	0.2	0.2	0.2	0.3
Capital expenditure	4.6	4.6	4.7	4.7	4.8	4.9
Total expenditure	41.3	42.2	43.1	43.4	44.7	46.0
Net lending (+) / net borrowing (-)	-1.7	-2.1	-2.0	-2.0	-1.9	-2.0

Social security funds according to the national accounts, EUR billion

	2014*	2015**	2016**	2017**	2018**	2019**
Investment income	3.5	3.5	3.8	3.9	4.5	5.0
Social security contributions	26.3	27.1	27.7	28.4	29.1	29.8
of which payment paid by employers	17.9	18.3	18.7	19.1	19.5	20.0
contributions paid by the insured	8.4	8.7	8.9	9.4	9.6	9.9
Income and capital transfers from general government	13.5	13.6	13.6	14.6	14.9	15.1
Other revenue	0.6	0.6	0.6	0.6	0.6	0.6
Total revenue	43.9	44.7	45.6	47.6	49.1	50.6
Consumption expenditure	3.6	3.7	3.8	3.9	4.0	4.0
Social security benefits and allowances	34.4	35.6	36.8	38.9	40.0	41.3
Other expenditure	3.0	3.7	3.3	3.4	3.5	3.7
Total expenditure	41.0	43.0	43.9	46.2	47.5	49.0
Net lending (+) / net borrowing (-)	2.9	1.7	1.8	1.4	1.6	1.7
Pension providers	3.5	2.5	2.7	2.3	2.1	1.8
Other social security funds	-0.6	-0.8	-1.0	-1.0	-0.5	-0.1

General government fiscal forecast with unchanged policy

Revenue and expenditure with unchanged policy has been managed so that the income and expenditure measures based on the decisions referred to in Chapter 8 are absent from the central government revenue and expenditure baseline scenario from 2015 onwards.

Revenue and expenditure with unchanged policy

	2014 level, EUR billion	2014	2015	2016	2017	2018	2019
		% GDP					
Total revenue with unchanged policy	113,210	55.5	55.2	54.9	54.4	54.3	54.4
Total expenditure with unchanged policy	119,640	58.6	59.9	59.6	59.2	58.8	58.6

Minister of Finance Antti Rinne

Director General of the Budget Department Hannu Mäkinen

APPENDIX 1	Forecasts and assumptions made
APPENDIX 2	Reviews of prices and costs under the central government spending limits
APPENDIX 3	Changes in the forecasts for central government finances compared with the previous spring General Government Fiscal Plan
APPENDIX 4	Stability programme tables

DISTRIBUTION Central Office of Parliament
Office of the President of the Republic
Ministries

FOR INFORMATION Finance Committee Secretariat
Accounts Office of Parliament
National Audit Office

APPENDIX 1 Forecasts and assumptions made

The estimates of expenditure and revenue under the General Government Fiscal Plan and the price and cost adjustments are mainly based on the forecast by the Ministry of Finance Economics Department given below.

	2014	2015	2016	2017	2018	2019
GDP, change in volume	-0.1	0.5	1.4	1.5	1.3	1.2
GDP, change in price	1.1	0.7	1.4	1.6	1.9	1.9
GNI, value, EUR million	203,977	206,590	212,570	219,230	226,290	233,480
Consumer Price Index, change %	1.0	0.3	1.4	1.7	1.8	1.8
Index of Wage and Salary Earnings, change %	1.4	1.2	1.3	1.5	1.8	2.0
Building Cost Index, change %	1.0	0.8	1.5	1.9	2.2	2.2
Basic Price Index for Domestic Supply, change %	-1.3	-2.6	2.1	2.0	2.0	2.0
Unemployment rate, %	8.7	8.8	8.6	8.3	7.9	7.6
Wage bill, change %	0.6	1.5	1.6	1.9	2.3	2.5
Short-term interest, 3 months, %	0.2	0.1	0.1	0.2	0.4	0.6
Long-term interest, 10 years, %	1.4	0.6	0.7	0.9	1.4	1.9
TyEL index	2,509	2,519	2,528	2,564	2,607	2,654
KEL index	1,630	1,637	1,640	1,663	1,693	1,724
Index of Central Government Transfers to Local Government:						
Change in cost level, forecast	0.8	0.9	1.3	1.4	1.8	2.0
Change in cost level, budget proposal	1.5	0.6	0.8	1.4	1.8	2.0
— includes index adjustment	+0.3	-0.6	-0.5			
University Index	0.9	0.4	1.4	1.6	1.8	2.0
YLE index		0.9	1.3	1.6	1.8	1.9
Unemployment insurance contributions						
— employer, average	2.20	2.33	2.33	2.33	2.33	2.33
— employee	0.50	0.65	0.65	0.65	0.65	0.65
TyEL contribution	23.6	24.0	24.0	24.4	24.4	24.4
— employer	17.75	18.00	18.05	18.15	18.15	18.15
— employee aged 53 yrs and under	5.55	5.70	5.65	5.95	5.95	5.95
— employee over 53 yrs	7.05	7.20	7.15	7.45	7.45	7.45
— wage coefficient	1.350	1.363	1.375	1.395	1.413	1.439
Health insurance contributions for the insured						
— employees' daily allowance contribution	0.84	0.78	0.82	0.82	0.82	0.82

	2014	2015	2016	2017	2018	2019
— wage earners’ and entrepreneurs’ medical care contribution	1.32	1.32	1.34	1.36	1.37	1.38
— pensioners’ medical care contribution	1.49	1.49	1.51	1.53	1.54	1.55
Central government employer contributions	22.5	22.2	22.4	22.2	22.3	22.3
— health insurance contribution	2.14	2.08	2.12	2.12	2.12	2.12
— pension contribution (under Local Government Employees' Pensions Act)	20.40	20.11	20.30	20.07	20.16	20.15
Local government employer contributions	29.5	29.4	29.7	29.4	29.4	29.4
— health insurance contribution	2.14	2.08	2.12	2.12	2.12	2.12
— other social insurance contributions	0.7	0.7	0.7	0.7	0.7	0.7
— unemployment insurance premium	2.82	3.02	3.02	3.02	3.02	3.02
— pension contribution (under Local Government Employees' Pensions Act)	23.8	23.7	23.8	23.5	23.5	23.5

APPENDIX 2 Reviews of prices and costs under the central government spending limits

Adjustments to price and cost level

The estimate for central government appropriations for 2016—2018 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, including an estimate of the impact on the appropriation of the rise in prices in the spending limits period. In other respects, expenditure will be revised annually according to the estimated rise in costs and prices. This General Government Fiscal Plan does not include binding central government expenditure ceiling for 2016—2019. Consequently, only adjustments reflecting changes in prices and costs based on the law or agreements will be made to the spending limits in this connection, and these will be in respect of the spending limits level and appropriations. The adjustment to prices and costs that has now been made will be refocused to fall in line with the latest forecast data with the adoption of the first General Government Fiscal Plan of the parliamentary term in 2015 and the preparation of the budget proposal in 2016. At the same time, a decision will also be taken on a discretionary price adjustment, as it were, under the spending limits.

The price and cost adjustments with regard to the previous spending limits decision represent a total of EUR 207 million for 2016, when account is taken of the price and cost adjustments made when the 2015 budget is being drawn up and the effect of the switch to the 2016 price and cost levels.

Adjustment of spending limits to 2016 price and cost level, EUR million

		Adjustment to appropriation and spending limits level		Adjustment to spending limits level
Spending limits expenditure according to classification of economic nature	Index used in calculation	Statutory index adjustment	Contractual adjustment	Other cost adjustments
15-17 Pensions	Employee Pension Index (TyEL)	16.1		
18-19 Defence material acquisitions	Predictive increase 1.5%		14.1[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)	65.2		
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)			

Spending limits expenditure according to classification of economic nature	Index used in calculation	Adjustment to appropriation and spending limits level Statutory index adjustment	 Contractual adjustment	Adjustment to spending limits level Other cost adjustments
50-59 Central government aid to households and non-profit-making organisations indexed on a statutory basis	National Pension Index (KEL)	10.2		
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)			
60 Transfers to Social Insurance Institution of Finland	National Pension Index (KEL)	6.5		
60 Central government transfer for expenditure arising from the Sickness Insurance Act	KEL / Consumer Price Index (KHI)	0.2		
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	31.0		
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		165.0	14.1	

[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 material procurement. This adjustment will be revised later to correspond with the rise in prices indicated in the cost-of-living index for defence forces operating expenditure and military crisis management equipment and administrative expenditure as well as the rise in the DK subindex of the industrial producer price index fleet for defence material procurement.

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

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

	2015	2016	2017	2018
General government balance, spring 2014	-1.4	-0.9	-0.3	0.0
Central government:				
Impact of revised statistical basis on revenue and expenditure estimates	-0.2	-0.2	-0.2	-0.2
Impact of revised macroeconomic forecast on revenue and expenditure estimates	-0.2	-0.3	-0.3	-0.4
Impact of discretionary measures on revenue and expenditure estimates	-0.4	-0.4	-0.6	-0.7
Impact of other factors	0.0	-0.1	-0.2	-0.3
Local government:				
Impact of revised statistical basis on revenue and expenditure estimates	0.0	0.0	0.0	0.0
Impact of revised macroeconomic forecast on revenue and expenditure estimates	-0.1	-0.1	-0.1	-0.1
Impact of discretionary measures on revenue and expenditure estimates	0.2	0.2	0.2	0.2
Impact of other factors	0.0	0.2	0.1	0.2
Earnings-related pension funds:				
Impact of revised statistical basis on revenue and expenditure estimates	-0.3	-0.3	-0.3	-0.3
Impact of revised macroeconomic forecast on revenue and expenditure estimates	-0.6	-0.7	-0.8	-0.8
Impact of discretionary measures on revenue and expenditure estimates	0.1	0.1	0.2	0.2
Impact of other factors	-0.1	-0.1	-0.2	-0.3
Other social security funds:				
Impact of revised statistical basis on revenue and expenditure estimates	-0.2	-0.2	-0.2	-0.2
Impact of revised macroeconomic forecast on revenue and expenditure estimates	-0.1	-0.1	0.0	0.0
Impact of discretionary measures on revenue and expenditure estimates	0.1	0.1	0.1	0.1
Impact of other factors	-0.1	-0.3	-0.3	-0.2
General government balance, spring 2015	-3.4	-3.2	-3.1	-2.7

APPENDIX 4 Stability programme tables

Table 1a. Macroeconomic prospects

	2014 EUR billion	2014	2015	2016	2017	2018	2019
1. Real GDP	186.5	-0.1	0.5	1.4	1.5	1.3	1.2
2. Nominal GDP	204.0	1.1	1.3	2.9	3.1	3.2	3.2
Components of real GDP							
3. Private consumption expenditure	112.7	-0.2	0.5	0.8	1.0	1.0	1.0
4. Government consumption expenditure	51.0	0.2	0.2	0.5	0.4	0.8	0.6
5. Gross fixed capital formation	40.8	-5.1	-0.4	3.7	4.1	2.5	2.3
6. Changes in inventories (% of GDP)	0.9	0.5	0.0	-0.1	-0.1	-0.1	-0.1
7. Exports of goods and services	76.0	-0.4	1.5	3.0	3.5	3.6	3.6
8. Imports of goods and services	76.9	-1.4	1.0	2.8	3.4	3.5	3.5
Contributions to real GDP growth, % points							
9. Final domestic demand	204.5	-1.1	0.3	1.3	1.5	1.2	1.2
10. Changes in inventories	0.9	0.6	0.1	0.0	0.0	0.0	0.0
11. External balance of goods and services	-0.8	0.4	0.2	0.1	0.1	0.0	0.1

Table 1b. Price developments

	2014	2015	2016	2017	2018	2019
1. GDP deflator	1.3	0.7	1.4	1.6	1.9	1.9
2. Private consumption deflator	1.5	0.3	1.3	1.4	1.8	1.8
3. HICP	1.2	0.3	1.3	1.4	1.8	1.8
4. Public consumption deflator	1.4	1.4	1.6	1.9	1.9	2.0
5. Investment deflator	0.7	1.0	1.6	1.6	2.0	2.0
6. Export price deflator	-1.7	-0.3	1.2	1.4	1.5	1.5
7. Import price deflator	-1.8	-1.2	1.1	1.3	1.4	1.4

Table 1c. Labour market developments

	2014 level	2014	2015	2016 change, %	2017	2018	2019
1. Employment, 1.000 persons	2447	-0.4	0.3	0.3	0.4	0.5	0.4
2. Employment, 1.000 hours worked	4098	-0.2	0.3	0.3	0.4	0.5	0.4
3. Unemployment rate (%)	232	8.7	8.8	8.6	8.3	7.9	7.6
4. Labour productivity, persons	76.2	0.3	0.3	1.1	1.1	0.8	0.8
5. Labour productivity, hours worked	45.5	0.1	0.3	1.0	1.1	0.8	0.8
6. Compensation of employees	82.2	0.6	1.5	1.6	1.9	2.3	2.5
7. Compensation per employee	33.6	0.9	1.2	1.3	1.5	1.8	2.0

Table 1d. Sectoral balances (% of GDP)

	2014	2015	2016	2017	2018	2019
1. Net lending/borrowing vis-à-vis the rest of the world	-1.2	-0.6	-0.5	-0.4	-0.3	-0.2
of which:						
— Balance on goods and services	-0.4	0.1	0.2	0.3	0.4	0.4
— Balance of primary incomes and transfers	-0.7	-0.7	-0.7	-0.6	-0.6	-0.6
— Capital account	0.0	0.1	0.0	0.0	0.0	0.0
2. Net lending/borrowing of the private sector	0.8	1.2	1.0	0.9	0.8	0.9
3. Net lending/borrowing of general government	-3.2	-3.1	-2.8	-2.6	-2.3	-2.4
4. Statistical discrepancy	1.3	1.3	1.3	1.3	1.3	1.3

Table 2a. General government budgetary prospects (% of GDP)

	2014 EUR million	2014	2015	2016	2017	2018	2019
Net lending by sub-sector							
1. General government	-6,435	-3.2	-3.4	-3.2	-3.1	-2.7	-2.5
2. Central government	-7,598	-3.7	-3.2	-3.1	-2.8	-2.6	-2.3
3. -							
4. Local government	-1,737	-0.9	-1.0	-0.9	-0.9	-0.9	-0.9
5. Social security funds	2,900	1.4	0.8	0.8	0.6	0.7	0.7
General Government (S13)							
6. Total revenue	113,210	55.5	55.6	55.5	55.2	55.3	55.4
7. Total expenditure	119,640	58.6	59.1	58.7	58.3	58.0	57.9
8. Net lending/borrowing	-6,430	-3.2	-3.4	-3.2	-3.1	-2.7	-2.5
9. Interest expenditure	2,587	1.3	1.2	1.1	1.1	1.1	1.1
10. Primary balance	-3,843	-1.9	-2.2	-2.0	-2.0	-1.7	-1.4
11. One-off and other temporary measures	0	0.0	0.0	0.0	0.0	0.0	0.0
Selected components of revenue							
12. Tax revenue (12=12a+12b+12c)	63,890	31.3	31.3	31.2	31.0	31.0	31.0
12a. Taxes on production and imports	29,614	14.5	14.4	14.3	14.0	13.9	13.7
12b. Taxes on income	33,777	16.6	16.6	16.7	16.7	16.8	17.0
12c. Capital taxes	499	0.2	0.3	0.3	0.3	0.3	0.3
13. Social security contributions	26,332	12.9	13.1	13.0	13.0	12.9	12.8
14. Property income	6,636	3.3	3.1	3.2	3.2	3.4	3.5
15. Other income (15=16-12-13-14)	16,352	8.0	8.1	8.1	8.0	8.0	8.0
16. = 6. Total revenue	113,210	55.5	55.6	55.5	55.2	55.3	55.4
of which: Tax burden (D2+D.5+D.61+D.91-D.995)	90,393	44.3	44.5	44.3	44.1	43.9	43.9
Selected components of expenditure							
17. Compensation of employees + intermediate consumption	53,189	26.1	26.1	25.9	25.7	25.5	25.4
17a. Compensation of employees	29,190	14.3	14.2	13.9	13.6	13.4	13.3
17b. Intermediate consumption	23,999	11.8	12.0	12.0	12.0	12.0	12.1
18. Social transfers (18=18a+18b)	45,916	22.5	23.0	23.0	23.2	23.2	23.2
of which: Unemployment benefits	5,169	2.5	2.6	2.6	2.5	2.2	2.1
18a. Social transfers in kind	5,681	2.8	2.9	2.9	2.9	3.0	3.1
18b. Social transfers other than in kind	40,235	19.7	20.1	20.1	20.2	20.2	20.2
19. = 9. Interest expenditure	2,587	1.3	1.2	1.1	1.1	1.1	1.1
20. Subsidies	2,782	1.4	1.3	1.2	1.2	1.2	1.1

	2014 EUR million	2014	2015	2016	2017	2018	2019
21. Gross fixed capital formation	7,169	4.1	4.3	4.3	4.2	4.2	4.1
22. Capital transfers	627	0.3	0.3	0.3	0.3	0.3	0.3
23. Other expenditure (23 = 24-17-18-19-20-21-22)	7,370	3.0	2.9	2.9	2.7	2.7	2.7
24. = 7. Total expenditure	119,640	58.6	59.1	58.7	58.3	58.0	57.9
of which: Government consumption	50,895	24.9	25.1	24.9	24.7	24.6	24.4

Table 2b. No-policy change projections (% of GDP)

	2014 EUR million	2014	2015	2016	2017	2018	2019
1. Total revenue at unchanged policies	113,210	55.5	55.2	54.9	54.4	54.3	54.4
2. Total expenditure at unchanged policies	119,640	58.6	59.9	59.6	59.2	58.8	58.6

Table 2c. Amounts to be excluded from the expenditure benchmark (% of GDP)

	2014 EUR million	2014	2015	2016	2017	2018	2019
1. Expenditure on EU programmes fully matched by EU funds revenue	874	0.4	0.6	0.6	0.5	0.5	0.5
2. Cyclical unemployment benefit expenditure	723	0.4	0.4	0.4	0.3	0.1	0.1
3. Effect of discreationary revenue measures	677	0.3	0.4	0.2	0.2	0.1	0.0
4. Revenue increases mandated by law	106	0.1	0.0	0.0	0.0	0.0	0.0

Table 3. General government expenditure by function (% of GDP)

	COFOG-code	2013	2019
1. General public services	1	8.3	8.1
2. Defence	2	1.5	1.5
3. Public order and safety	3	1.4	1.3
4. Economic affairs	4	4.7	4.7
5. Environmental protection	5	0.3	0.2
6. Housing and community amenities	6	0.4	0.3
7. Health	7	8.4	8.6
8. Recreation, culture and religion	8	1.5	1.3
9. Education	9	6.5	6.5
10. Social protection	10	24.9	25.3
11. Total expenditure (=item 7=24 in Table 2)	TE	57.8	57.8

Table 4. General government debt developments (% of GDP)

	2014	2015	2016	2017	2018	2019
1. Gross debt	59.3	62.5	64.4	66.0	67.0	67.8
2. Change in gross debt ratio	3.5	3.2	1.9	1.6	1.0	0.8
Contributions to changes in gross debt						
3. Primary balance	-1.9	-2.2	-2.0	-2.0	-1.7	-1.4
4. Interest expenditure	1.3	1.2	1.1	1.1	1.1	1.1
5. Stock-flow adjustment	0.4	-0.3	-1.2	-1.5	-1.7	-1.7
of which:						
— Differences between cash and accruals	0.0	0.0	0.0	0.0	0.0	1.0
— Net accumulation of financial assets	1.7	1.2	1.3	1.1	0.9	0.8
— of which: privatisation proceeds	-0.2	-0.6	-0.2	-0.2	-0.2	-0.2
— Valuation effects (incl. GDP growth contribution)	-1.3	-1.4	-2.5	-2.5	-2.7	-3.4
Implicit interest rate on debt	2.3	2.1	1.9	1.7	1.7	1.7
Other relevant variables						
6. Liquid financial assets (AF1, AF2, AF3, AF5)	87.4	-	-	-	-	-
7. Net financial debt (7=1-6)	-28.1	-	-	-	-	-
8. Debt amortization (existing central government bonds)	7.2	-	-	-	-	-
9. Percentage of debt denominated in foreign currency	0	-	-	-	-	-
10. Average maturity of central government bonds (years)	6.0	-	-	-	-	-

Table 5. Cyclical developments (% of GDP)

	2014	2015	2016	2017	2018	2019
1. Real GDP growth (%)	-0.1	0.5	1.4	1.5	1.3	1.2
2. Net lending of general government	-3.2	-3.4	-3.2	-3.1	-2.7	-2.5
3. Interest expenditure	1.3	1.2	1.1	1.1	1.1	1.1
4. One-off and other temporary measures	0.0	0.0	0.0	0.0	0.0	0.0
5. Potential GDP growth (%)	-0.1	0.2	0.2	0.6	0.8	0.8
contributions:						
— labour	-0.1	0.0	-0.1	0.1	0.1	0.0
— capital	0.0	0.0	0.0	0.1	0.2	0.3
— total factor productivity	0.1	0.2	0.3	0.4	0.5	0.5
6. Output gap	-3.1	-2.8	-1.6	-0.8	-0.3	0.0
7. Cyclical budgetary component	-1.8	-1.6	-0.9	-0.4	-0.2	0.0
8. Cyclically-adjusted balance (2-7)	-1.4	-1.8	-2.3	-2.6	-2.6	-2.5
9. Cyclically-adjusted primary balance (8+3)	-0.1	-0.6	-1.1	-1.5	-1.5	-1.4
10. Structural balance (8-4)	-1.4	-1.8	-2.3	-2.6	-2.6	-2.5

Table 6. Divergence from previous programme

	2014	2015	2016	2017	2018	2019
Real GDP growth (%)						
SP-2014[1]	0.5	1.4	1.8	1.5	1.4	-
SP-2015[2]	-0.1	0.5	1.4	1.5	1.3	1.2
Difference, %-points	-0.6	-0.8	-0.3	0.0	-0.1	-
General government net lending (% of GDP)						
SP-2014[1]	-2.0	-1.1	-0.5	0.0	0.3	-
SP-2015[2]	-3.2	-3.4	-3.2	-3.1	-2.7	-2.5
Difference, %-points	-1.1	-2.3	-2.7	-3.0	-3.0	-
General government gross debt (% of GDP)						
SP-2014[1]	59.8	61.0	61.4	61.3	61.2	-
SP-2015[2]	59.3	62.5	64.4	66.0	67.0	67.8
Difference, %-points	-0.4	1.5	3.1	4.8	5.9	-

1) SP-2014: Stability programme 2014, April 2014

2) SP-2015: Stability programme 2015, April 2015

Table 7a. Sustainability estimate in 2014 and 2015 (% of GDP)

	2014	2015
Debt servicing expenditure	0.9	0.9
Primary balance	-1.8	1.3
Property income	1.7	0.9
Age-related expenditure	2.2	1.4
S2 sustainability gap	3.0	4.6

Table 7b: Long-term sustainability of public finances (2013—2060), % of GDP

	2013	2019	2030	2040	2060	2060—2013 change
Total expenditure	57.8	57.8	63.4	65.3	72.5	14.7
of which age-related and unemployment expenditure	29.3	30.7	32.3	32.0	32.2	2.9
Pensions	13.4	14.5	14.8	13.4	13.1	-0.3
Earnings-related pensions	12.1	13.3	13.6	12.3	12.3	0.2
Other pensions	1.3	1.2	1.2	1.1	0.8	-0.5
Health care	6.1	6.3	6.8	7.1	7.5	1.3
Long-term care	2.2	2.4	3.1	3.9	4.4	2.2
Education	6.1	6.1	6.3	6.3	6.1	0.0
Unemployment	1.5	1.3	1.2	1.2	1.3	-0.2
Interest expenditure	1.3	1.1	5.1	7.3	14.3	13.0
Total revenue	55.2	55.4	56.7	55.9	55.4	0.1
of which: property income	3.3	3.5	4.8	4.0	3.5	0.2
Net lending[1]	-2.5	-2.4	-6.6	-9.4	-17.1	-14.6
of which: transfer to pension funds	1.8	0.8	0.8	1.3	1.2	-0.6
Gross debt	55.8	67.8	106.0	152.2	293.5	237.8
Gross assets	119.5	124.4	110.6	94.9	88.0	-31.6
of which Pension funds assets	77.5	82.4	75.6	66.0	66.8	-10.7

	2013	2019	2030	2040	2060	2060—2013 change
		Assumptions, %				
		2019	2030	2040	2060	
Labour productivity growth		0.8	1.4	1.5	1.5	
Real GDP growth		1.2	1.5	1.8	1.6	
Participation rate						
males (15—64)		77.3	77.5	77.3	77.7	
females (15—64)		74.2	74.9	75.3	76.2	
total (15—64)		75.8	76.2	76.3	77.0	
Unemployment rate		7.6	6.9	6.8	7.2	
Population aged over 65 % of total population		36.3	43.8	44.8	49.8	
Inflation		1.8	2.0	2.0	2.0	
Real interest rate		0.1	3.0	3.0	3.0	
Real return of pension funds, %		0.7	3.5	3.5	3.5	
Net immigration, persons		17,000	17,000	17,000	17,000	
Fertility		1.84	1.84	1.84	1.84	

1) Cyclically adjusted balance as of 2019

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

Table 7 c. Contingent liabilities (% of GDP)

	2014	2015
Central government guarantees	19.0	-
of which: linked to the financial sector	1.2	-

Table 8. Basic assumptions[1]

	2014	2015	2016	2017
3-month Euribor	0.2	0.1	0.1	0.2
Long-term interest rate (10-year government bonds)	1.4	0.6	0.7	0.9
USD/€ exchange rate	1.3	1.1	1.1	1.0
Nominal effective exchange rate	1.6	-1.9	0.0	0.0
World GDP growth (excl. The EU)	3.6	4.0	4.3	4.3
EU-28 GDP growth	1.3	1.3	2.1	1.4
Growth of relevant foreign markets	2.3	2.6	3.4	3.9
World trade growth	3.3	4.0	4.5	5.0
Oil prices (Brent, USD/barrel)	98.9	63.0	68.0	72.0

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.