

# Budget review 2017



## **Budget review 2017**

September 2016

Ministry of Finance publications – 34c/2016



Economic Policy

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# Economic outlook



Growth prospects for the global economy and trade have deteriorated recently. Growth of global trade in 2016 remained at 2% and growth of the global economy at 3%. Global trade is expected to pick up slightly, however, in the next few years, and a growth rate of 4% is forecast for 2018. In China, economic growth will slow to 6% in 2018, which will be reflected in the economic prospects of other developing countries, particularly as demand for raw materials declines.

Finland's economic growth will be sluggish in 2016–2018. Although exports will pick up in 2017, they will remain at a low level, and at the same time loss of market shares in international trade will continue. Finland's GDP growth rate is expected to be 1.1% in 2016 and to slow to 0.9% in 2017. This growth will be mainly due to favourable trends in private consumption and investment. In the next few years, private consumption will grow due to an increase in real disposable income and a positive turn in the labour market. Growth of private consumption will slow slightly in 2017, however, as nominal earnings are reduced due to the Competitiveness Pact. Private investment overall is projected to grow in 2016–2017, which is explained by an in-

crease in machinery and equipment investment and a pick-up in R&D investment. The number of people in employment will increase by 0.3% and the unemployment rate is expected fall to 8.8% in 2017. The improving employment situation will support private consumption and economic growth. The rise in consumer prices will accelerate to 1.1%, but will continue to be slower than usual.

Trends in the national economy						
August 2016 forecast						
	2013	2014*	2015*	2016**	2017**	2018**
GDP at market prices (EUR bn)	203	205	209	213	218	223
GDP, change in volume (%)	-0.8	-0.7	0.2	1.1	0.9	1.1
Unemployment rate (%)	8.2	8.7	9.4	9.0	8.8	8.5
Employment rate (%)	68.5	68.3	68.1	68.5	68.8	69.3
Consumer price index, change (%)	1.5	1.0	-0.2	0.4	1.1	1.3
Interest rate (10 year bonds) (%)	1.9	1.4	0.7	0.3	0.4	1.0

\* Advance information  
\*\* Forecast

## General government finances

General government finances in Finland consists of central government, local government, earnings-related pension funds and other social security funds. Slow economic growth is not generating sufficient tax revenue to fund public expenditure at the same time as population ageing is increasing public expenditure. Substantial consolidation measures have been directed at general government finances, but despite these the deficit has not been significantly reduced. Finland's general government finances will remain in deficit over the next few years.

Public sector debt has increased rapidly for several years now, and debt will continue to rise in the next few years. For general

government finances to manage the expenditure pressures arising from population ageing in the coming decades without further measures, the general government financial balance should be approximately 2% in surplus in ratio to GDP at the beginning of the next decade.

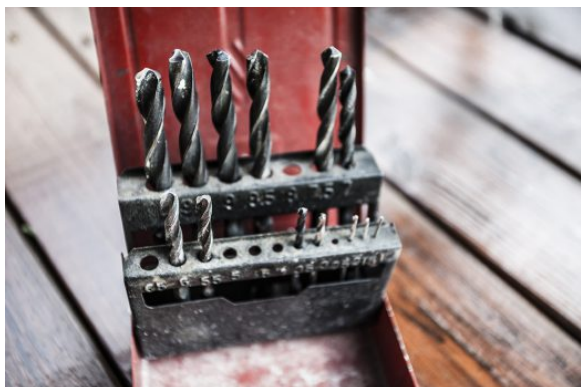
The tax rate, i.e. the ratio of taxes and tax-like payments to GDP, will fall in the next few years. The Competitiveness Pact will reduce the tax ratio significantly, because employers' health insurance contributions will be

lowered and taxation of labour and pension income will be eased in 2017.

<b>General government finances</b>						
<i>Key figures measured in terms of national accounting in ratio to GDP, percent</i>						
	2013	2014*	2015*	2016**	2017**	2018**
<b>Taxes and social security contributions, % of GDP</b>	43.7	43.9	44.1	44.3	43.3	42.9
<b>General government expenditure, % of GDP</b>	57.5	58.1	57.7	57.4	56.6	55.9
<b>Net lending, % of GDP</b>	-2.6	-3.2	-2.8	-2.4	-2.6	-2.0
- central government	-3.7	-3.7	-3.0	-2.8	-2.8	-2.3
- local government	-0.7	-0.8	-0.6	-0.5	-0.4	-0.4
- employment pension schemes	1.8	1.7	1.3	1.1	0.8	0.7
- other social security funds	0.0	-0.3	-0.4	-0.1	-0.1	0.0
<b>General government debt, % of GDP</b>	55.4	59.3	62.6	64.3	65.8	66.4
<b>Central government debt, % of GDP</b>	44.1	46.3	47.7	49.7	51.2	52.1

\* Advance information  
\*\* Forecast

# Government economic policy line



The objective of Prime Minister Juha Sipilä's Government is to bring the Finnish economy to a path of sustainable growth and increasing employment, and to secure the funding of public services and social security. The growth of public debt to GDP will be halted by the end of the parliamentary term and no further debt will be incurred after 2021. During its term in office, the Government is committed to making the savings and restructuring decisions necessary to bridge the EUR 10 billion sustainability gap in general government finances. The focus of taxation will shift from taxation of labour and entrepreneurship to environmentally- and health-motivated taxation in particular. The total tax rate will not rise during the parliamentary term. In accordance with the Government Programme, measures have been launched immediately to balance general government finances.

In addition to the debt target, the Government has set targets for the general government budgetary position related, on the one hand, to the budgetary position of central government, local government and the social security funds during the parliamentary term and, on the other hand, to the com-

bined structural budgetary position of general government in the medium term. These include:

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

If the targets are achieved, the general government budgetary position should be nearly in balance during the parliamentary term. With regard to the subsector-specific budgetary targets set by the Government for general government finances in 2019, central government finances will not, based on the Ministry of Finance's forecast, achieve its target. It would appear, however, that the budgetary targets of the social security funds and local government will be achieved.

Achieving the objective of the sustainable funding of general government finances requires immediate savings, efficiency improvements in public administration and service provision, and measures to strengthen conditions for economic growth. In addition to these fiscal policy objectives, the Government has set as targets increasing the employment rate to 72% and increasing the number of people in employment by 110,000 during the parliamentary term. Measures aimed at increasing employment and reducing unemployment will promote growth and strengthen

public finances.

The Government Programme includes an expenditure benchmark, aimed at controlling the development of on-budget expenditure, which sets a maximum limit for most (approximately 80%) of on-budget expenditure and covers the entire parliamentary term. Expenditure that changes according to cyclical conditions and automatic stabilisers, central government debt interest expenditure and financial investments remain outside the expenditure benchmark as well as the central government spending limits adopted on the basis of it.

## Fiscal policy rules

Finland's general government fiscal targets are governed by national and EU regulations, particularly the Stability and Growth Pact, which requires that Member States maintain structural balance in general government finances and avoid excessive budget deficits and public debt.

EU legislation sets three fiscal policy rules for the management of general government finances:

- The general government deficit must not exceed 3% in ratio to GDP.
- Public debt must not exceed 60% in ratio to GDP.

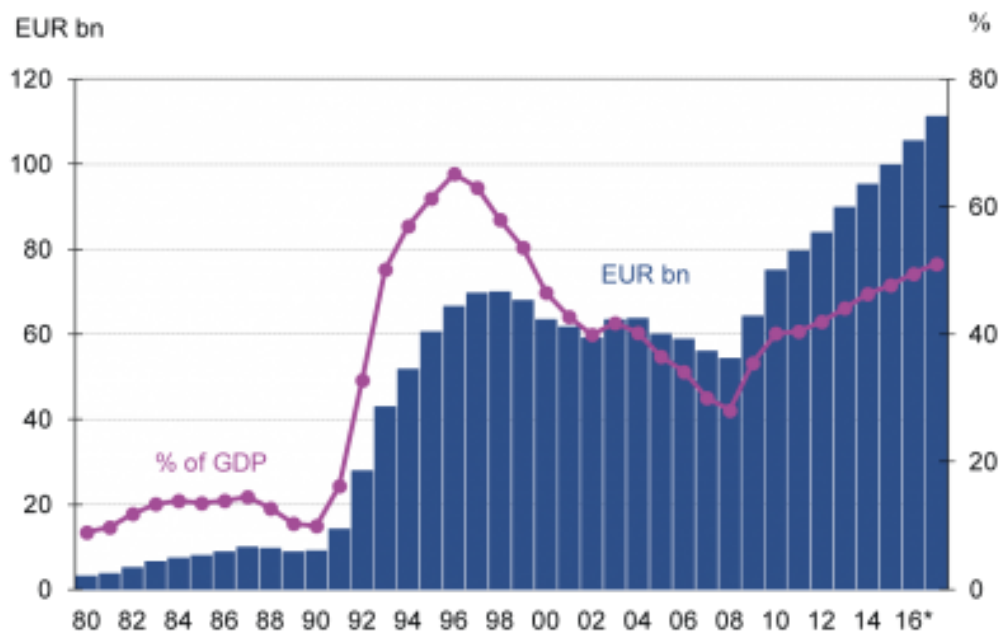
- In addition, a medium-term objective (MTO) must be set for the structural balance of general government finances.

The MTO for the structural balance of -0.5% in ratio to GDP, set by the Government in spring 2016, remains unchanged. The structural adjustment towards the MTO required from Finland is 0.5% of GDP in 2016. From 2017 onwards, the adjustment requirement will rise to 0.6% in ratio to GDP and will remain there until the MTO has been achieved. Finland fulfilled the requirements of the preventive arm of the Stability and Growth Pact in 2015.

According to the September forecast, the general government deficit will be 2.4% in ratio to GDP in 2016 and 2.6% in 2017. Finland will therefore meet the deficit criterion. The European Commission has stated that Finland will also meet the debt criterion, even though general government debt exceeded the 60% reference value in 2015. According to the forecast, the debt ratio will rise to 64.3% in 2016 and 65.8% in 2017.

According to the Ministry of Finance forecast, a particular risk with respect to 2017 is that Finland will not comply with the Stability and Growth Pact. The issue will be considered in more detail in the 2017 draft budgetary plan, to be submitted to the EU for approval in October.

## Central Government Debt



# Competitiveness pact



The labour market organizations signed a Competitiveness Pact in June 2016. The objective of the pact is to improve Finnish companies' price competitiveness in the global market, increase exports and employment, and accelerate economic growth. To achieve the objectives, unit costs of production will be reduced by approximately 4%. The pact will contribute to achieving the Government's target of 110,000 new jobs during the parliamentary term.

*The objective of the Competitiveness Pact is to improve Finnish companies' price competitiveness, increase exports and employment, and accelerate economic growth.*

The coverage of pact rose by the beginning of September to more than 90% of wage earners. The Government, employers and employees are committed in the Competitiveness Pact to measures, which include:

- Annual working time will be extended

by 24 hours.

- Public sector holiday bonuses will be reduced by 30% in 2017–2019.
- Employers' social insurance contributions will be reduced and partly transferred to wage earners for payment.
- Existing collective agreements will continue to 2017 without any pay increases.
- The basic component of the adult education allowance will be reduced by 15% and the maximum duration of the allowance will be cut from 19 months to 15 months.
- The Government will support the pact with tax concessions.

The next section of this review will examine the impacts of the Competitiveness Pact only on the central government budget. Pages 23–24 of the Ministry of Finance's autumn 2016 Economic Survey examine the impact of the Competitiveness Pact on general government finances as a whole in the next few years, taking into account, for example, the impact on local government finances and social security funds.

## **Impact of the Competitiveness Pact on the central government budget in 2017**

The Competitiveness Pact will increase the central government budget deficit by just under EUR 900 million in 2017. The change arises from a net increase in the appropriation



requirement of over EUR 400 million and a net decrease in tax revenue of over EUR 400 million.

### Measures strengthening the central government budgetary balance

As a consequence of the Competitiveness Pact, central government operating expenditure, central government transfers to local government, and central government funding for education will decrease by just over EUR 500 million. Expenditure will be reduced by payment changes in social insurance, holiday bonus cuts and the extension of working time.

- Central government operating expenditure will decrease as labour costs fall by just under EUR 130 million.
- Central government transfers to municipalities will decrease by just over EUR 370 million as municipalities' labour costs fall.
- Central government funding for universities and universities of applied sciences will be reduced by just over EUR 20 million as result of lower personnel costs.

### Measures weakening the central government budgetary balance

The central government budgetary balance will be weakened by a decline in tax revenue, an increase in central government funding

to the Social Insurance Institution of Finland (Kela) for health insurance expenditure and an increase in compensation payable to municipalities for tax concessions.

- Central government tax receipts will be reduced by the tax concessions on earned and pension income as well as by the impact of changes in social insurance contributions on earned income tax receipts. On the other hand, corporate tax revenue is expected to grow. In net terms, tax receipts are expected to be just under EUR 420 million lower.
- The increase in the central government's appropriation requirement will be greater than savings. The major factor impacting the increased appropriation requirement is changes to health insurance contributions, which will increase central government funding for Kela's expenditure. The tax concession for those on low-incomes as well as the changes to the adult education allowance and unemployment insurance contributions will also affect the central government's funding contribution for Kela's expenditure. The central government's funding contribution will grow by just over EUR 690 million.
- The central government will compensate municipalities for tax revenue losses arising from earned income tax concessions. This will increase central government transfers to local government by EUR 270 million.

# Budget figures for 2017



The central government budget consists of central government on-budget revenue and expenditure. Central government on-budget finances is a more limited concept than central government finances, because central government finances include, in addition to central government on-budget finances, the finances of central government funds and state-owned enterprises that lie outside on-budget finances.

*The tutkibudjettia.fi service will help in visualising central government expenditure and revenue estimates.*

## Expenditure

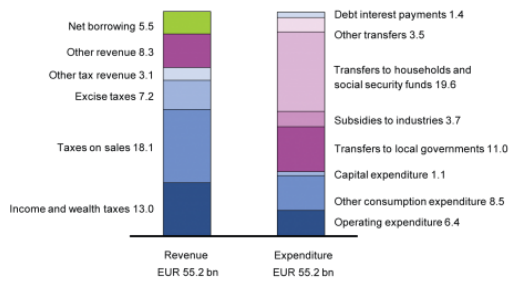
The appropriations of the budget proposal amount to EUR 55.2 billion, which is EUR 0.8 billion more than in the actual 2016 budget. Taking into account the increase in price levels and the structural changes to the budget proposal, appropriations will increase by approximately 0.7% in real terms from the

actual 2016 budget.

Among the factors contributing to the increase in the level of central government appropriations are the net increase in appropriations allocated to key Government projects and changes caused by the competitiveness package. Expenditure will also be increased by certain automatic factors, such as growth in central government age-related pension expenditure. Consolidation measures in accordance with Annex 6 of the Government Programme, on the other hand, will reduce central government expenditure by approximately EUR 0.5 billion from 2016. Immigration-related expenditure will decrease by approximately EUR 180 million compared with the 2016 budgeted figure.

*Budget appropriations amount to EUR 55.2 billion and revenue before borrowing EUR 49.7 billion. Central government debt will rise to EUR 111.0 billion.*

Central government budget revenue and expenditure in 2017, EUR bn



## Tax revenue

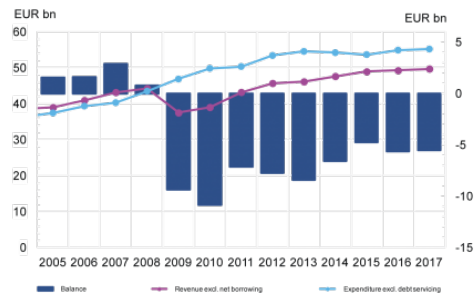
Central government on-budget revenue (excluding net borrowing) is estimated to be approximately EUR 49.7 billion, with tax revenue accounting for approximately 84%, i.e. EUR 41.6 billion. Tax revenue is expected to grow by approximately 2% in 2017, i.e. by approximately EUR 0.6 billion compared with the figure budgeted in the 2016 budget and supplementary budgets. Slow economic growth will continue to constrain growth of tax bases in 2017, in addition to which tax criteria changes will reduce tax receipts. A number of changes that reduce taxation in accordance with the Government Programme will be implemented in 2017. In addition, taxation will be eased to support the Competitiveness Pact.

## Deficit and debt

The central government budget proposal for 2017 shows a deficit of EUR 5.5 billion, which will be covered by increased borrowing. The deficit will decrease slightly compared with for 2016 budgeted figure (taking into account

already approved supplementary budgets). In national accounting terms, the central government deficit for 2017 is expected to be approximately 2.8% in ratio to GDP. At the end of 2017, central government debt (including debt of off-budget entities) is expected to be approximately EUR 111.0 billion, which is approximately 51% in ratio to GDP.

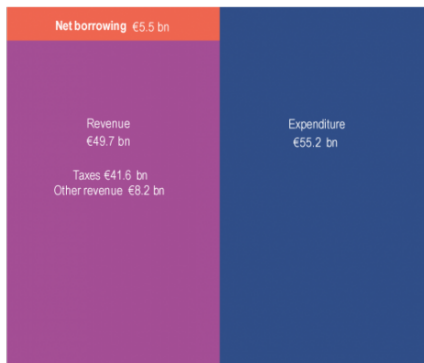
Central government budget revenue, expenditure, and balance



## Adjustment measures

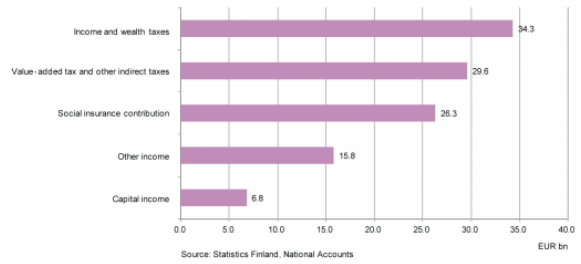
The 2017 budget appropriations take into account the consolidation measures outlined in the Government Programme, which were supplemented in the 2017–2020 General Government Fiscal Plan. The significant consolidation measures reducing central government expenditure that enter into effect in 2017 include savings directed at earnings-related unemployment security, financial aid for students and special central government funding for the education and research activities at the University of Helsinki and the University of Eastern Finland. In addition, an across-the-board reduction of 0.85% will be made to index-linked expenditure. The impact of a number of savings measures will grow in 2017.

### On-budget accounts

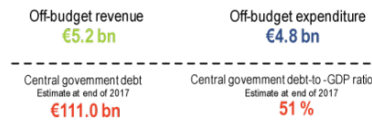


### Where do tax euros derive from?

General government revenue in 2014: EUR 112.7 bn / 54.9 % of GDP

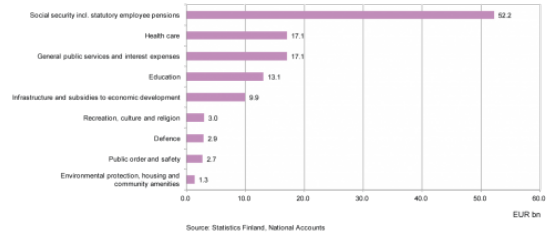


### Off-budget accounts



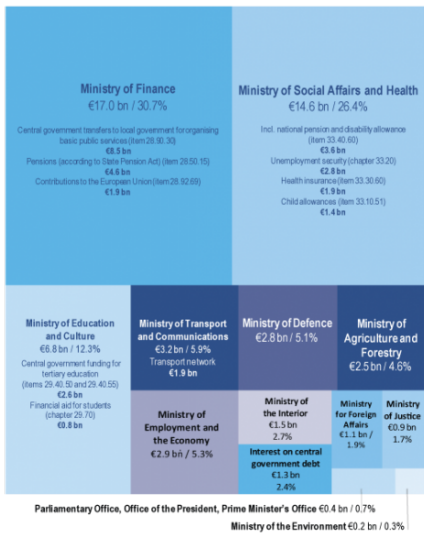
### What are tax euros spent on?

General government expenditure in 2014: EUR 119.2 bn / 58.1 % of GDP



### Expenditure by administrative branch and certain expenditure items

€bn / % of all expenditure



### Central government income tax scale in 2017

Taxable earned income, EUR	Tax at lower limit, EUR	Rate within brackets, %
16,900 - 25,300	8	6.25
25,300 - 41,200	533	17.5
41,200 - 73,100	3,315.5	21.5
73,100 -	10,174	31.5

### Value-added tax rates in 2017

<b>General tax rate</b>	<b>24 %</b>
<b>Reduced tax rate</b> ► foodstuffs, animal feed and restaurant's food services	<b>14 %</b>
<b>Reduced tax rate</b> ► e.g. medicine, passenger transport, accommodation services, sports and recreation services, cultural services, books, newspaper and magazine subscriptions	<b>10 %</b>

State tax revenue by type, years 2002–2017, EUR million



### Selected monthly benefits in 2017 and 2016, part 1

	EUR/month 2017	EUR/month 2016
<b>Full national pension</b>		
<i>From 1 January 2017</i>		
- living alone	628.85	634.30
- married	557.79	562.62
<b>Guaranteed pension</b>	760.26	766.85
<b>Child benefits</b>		
- 1st child	94.88	95.75
- 2nd child	104.84	105.80
- 3rd child	133.79	135.01
- 4th child	153.24	154.64
- 5th child and each child thereafter	172.69	174.27
- single parent supplement per child	48.55	48.55
<b>Sickness insurance daily allowances</b>		
- minimum level for sickness, maternity, paternity and parental allowances	593.25	598.25

1) Benefits granted on daily basis are estimated on a monthly level.

### Average expenses of selected public services in 2014

EDUCATION AND CULTURE	EUR	
basic education	8,860	/pupil
upper secondary education	7,734	/student
initial vocational education	11,679	/student
polytechnic education	7,693	/student
university education	9,279	/student
public libraries	3.45	/loan
<b>SOCIAL SERVICES</b>	EUR	
children's day care <sup>1</sup>	61.29	/day
old people's homes	137.7	/day
<b>HEALTH CARE SERVICES</b>	EUR	
Basic health care		
- visit to health centre	90.7	/visit
- ward treatment	220.8	/day
- dental care	80.9	/visit
Special medical treatment		
- somatic specialised medical treatment <sup>2</sup>	1,169.4	/day

<sup>1</sup> Includes both day care centre and family day care costs and care days. Part-time and full-time day care costs have not been commensurated.

<sup>2</sup> Includes inpatient care and day surgery.  
Sources: National Board of Education, Ministry of Education and Culture, National Institute for Health and Welfare and Statistics Finland

Number of library loans: Finnish Public Libraries Statistics <http://tilastot.kirjasto.fi/>

### Selected monthly benefits in 2017 and 2016, part 2

<b>Child home care allowance</b>		
- allowance for one child under three years of age	338.34	341.27
<b>Private childcare allowance</b>	172.25	173.74
- allowance per child		
<b>Partial child care allowance/parent</b>	96.89	97.73
<b>Basic unemployment security</b>		
- basic unemployment allowance	696.60	702.62
- labour market subsidy	696.60	702.62
<b>Student financial aid, maximum amounts from 1 August 2017</b>		
<b>Student grant</b>		
Higher education students		
- not living at home, under 18 years	101.74	163.80
- not living at home, 18 + years	250.28	336.76
Other students		
- not living at home, under 18 years	101.74	101.74
- not living at home, 18 + years	250.28	250.28
<b>Student housing supplement</b>		
- 80% of established housing costs <sup>2</sup> . Students will be transferred to within the scope of the general housing allowance from 1 August 2017.	201.60	201.60
<b>State guarantee for study loans</b>		
- Studying in Finland	650.00	400.00
- Studying abroad	800.00	700.00
- Under 18 years, elsewhere than in higher education	300.00	260.00

<sup>2</sup> The allowance is not granted for the part of the monthly housing cost that exceeds EUR 252.

# Local government finances



Municipalities organise for their inhabitants basic public services such as education, health and social services. The services are funded partly with the municipalities' tax revenue, which consists of municipal income tax (85% of tax revenue), real-estate tax (8%) and a share of corporate tax revenue (7%). The central government contributes to financing public services through a system of central government transfers.

## Local government loan portfolio still increasing

Total local government expenditure and revenue will develop sluggishly in 2016–2020 by historical standards. The result for the financial year is expected to strengthen in the next few years, but to weaken again at the end of the decade. Local government finances will be bolstered by the municipalities' and joint municipal authorities' own consolidation measures in 2016, measures in accordance with the Government Programme, and the pension reform that comes into force in 2017. The central government measures included in the budget proposal are expected to strengthen the financial position of local gov-

ernment by a net amount of approximately EUR 40 million compared with 2016.

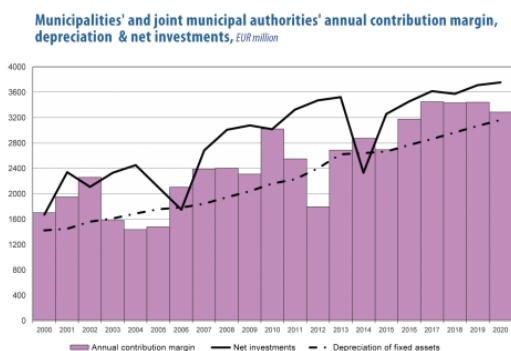
Municipalities' tax receipts are projected to be approximately EUR 21.8 billion in 2017, which is approximately 0.7% less than the previous year. Tax criteria changes made in earned income taxation, taking the Competitiveness Pact into account, will reduce municipal income tax revenue by a net amount of approximately EUR 390 million in 2017. Municipalities will, however, be compensated in full for changes in tax revenue arising from tax criteria changes. Increases made to real-estate taxation, on the other hand, will increase tax revenue by a total of approximately EUR 55 million.

In 2017 the central government will allocate to municipalities central government transfers and grants totalling EUR 10.3 billion, which is approximately 7% less than budgeted for 2016. The most significant factors contributing to the decrease in central government transfers are the transfer of the calculation and payment of basic social assistance from the municipalities to Kela and a reduction related to the Competitiveness Pact.

The central government participates in the financing of basic public services via the system of central government transfers to local government. In 2017 the central government transfer percentage for municipalities' basic public services is 25.23%. The municipalities will therefore finance 74.77% of basic public services. A total of EUR 9.4 billion will be allocated in 2017 to imputed central government transfers. Factors decreasing central government transfers include a reduction re-

lated to the Competitiveness Pact, a EUR 75 million additional saving in index-linked expenditure, and a EUR 50 million cut in central government transfers decided on in the previous parliamentary term.

Local government finances are faced with expenditure pressures arising from growth in the need for services, investments, the repair debt and an expansion of services and infrastructure in growth centres. Moreover, internal financing will be insufficient to cover net investment. The imbalance that has arisen between local government revenue and expenditure has led to an increase in the local government loan portfolio. The loan portfolio rose in 2015 to a total of EUR 17.4 billion and threatens to grow to more than EUR 20 billion by 2020.



In national accounting terms, the local government deficit was 0.6% in ratio to GDP in 2015. The deficit is expected to fall slightly in 2016 and to remain at approximately the same level in 2017–2020. The budgetary position target set in the General Government Fiscal Plan for local government lending is therefore achievable. A deficit of 0.5% at most has been set as the budgetary position target in 2019.

## Health, social services and regional government reform

In the health, social services and regional government reform, duties of the municipalities and joint municipal authorities will be transferred to the counties. Responsibility for organising health and social services will be transferred to 18 counties in 2019. Responsibility for organising rescue services will be transferred to five counties from the beginning of 2019. The Government will submit proposals on the reform to Parliament by the end of 2016. A provisional administration for the counties, which will prepare the implementation of the reform, is due to start its work on 1 July 2017.

The objective of the health, social services and regional government reform is to reduce wellbeing and health disparities between people, improve the equality, availability and effectiveness of services and reconcile regional state administration and county government. A further objective of the reform is to reduce the sustainability gap in general government finances by EUR 3 billion by 2030, which will require healthcare and social welfare expenditure to grow in the future by no more than 0.9% per year in real terms. Without the reform, expenditure is projected to grow, on average, by 2.4% per year.

The transfer of responsibility for organising health and social services will have a significant impact on municipalities' activities and finances. The total cost of health and social services, rescue services and environmental healthcare services to be transferred from the municipalities to the counties will be EUR 17.7 billion in 2016. These duties represent, on average, 57% of the municipalities' operating expenditure at the 2016 level. After the reform, the municipalities' operational expen-

diture will be focused mainly on early childhood education as well as pre-school and basic education.

The Government is also preparing the transfer to the counties of the duties of the Public Employment and Business Services, the Centres for Economic Development, Transport and the Environment, the Regional State Ad-

ministrative Agencies and the Regional Councils. The legislative changes are due to be implemented from the beginning of 2019, at which time the activities of the Centres for Economic Development, Transport and the Environment, the Public Employment and Business Services and the Regional Councils will be discontinued.



# Central government EU revenue and expenditure



On 30 June 2016, the Commission issued its proposal on the European Union budget for 2017. The proposal's total commitments to programmes within the multiannual financial framework amount to EUR 156.6 billion, while total payments amount to EUR 134.3 billion. The EU budget proposal amounts to approximately 1% of the EU's total GDP.

The budget proposal focuses on measures to promote employment, investment and competitiveness, which will support budding European economic growth. The second key area of focus is measures arising from the refugee crisis and irregular immigration, which have been financed from the EU budget with a total of approximately EUR 10.5 billion in 2015–2016. The 2017 EU budget proposal includes a total of approximately EUR 5.2 billion for funding allocated to migration, with the aim of enhancing policy measures to promote freedom, justice and security in the EU and to combat terrorism and organised crime. In addition, investment in activities outside the EU is intended to promote democracy, peace, solidarity and stability. At the same time, the goal is to reduce

poverty by investing in states neighbouring the EU and supporting countries preparing for EU membership, and to promote the EU's fundamental values worldwide.

At a meeting of the Council in July 2016, the level of payments was reduced on the proposal of the Commission by approximately EUR 1.1 billion (including so-called special instruments). In the next stage, the budget will be submitted to the European Parliament for consideration in September 2016. The 2017 budget will be finally approved in November–December 2016.

The EU budget is financed in full from the EU's own resources. These consist of traditional own resources (duties and levies on sugar production, approximately 15%) as well as payments based on the value-added tax base (approximately 14%) and gross national income (approximately 70%). In addition, the EU collects a small part of its revenue in the form of pension contributions, interest and fines (approximately 1%). Own resources are not permitted to exceed 1.23% of the Member States' total gross national income. Parliament and Council decisions concerning the EU's annual expenditure and revenue must fall within the financial framework adopted for 2014–2020.

At central government level, Finland is expected to contribute EUR 1.96 billion to the EU budget and the European Development Fund in 2017. This would represent a EUR 39 million reduction in contributions compared with the figure budgeted for 2016. Finland's share of the UK's budgetary rebate of

approximately EUR 4.9 billion will be EUR 130 million in 2017. Finland is expected to receive approximately EUR 1.06 billion from the EU budget, which is EUR 105 million less than the projected figure for 2016.

Flow of payments between Finland and the EU 2015–2017, EUR million			
CENTRAL GOVERNMENT EXPENDITURE	Final Accounts 2015	Budget 2016	Budget Proposal 2017
<b>On-budget finances</b>			
VAT payment	252	280	285
GNI payment	1,326	1,542	1,488
Finland's share of the UK budgetary rebate	139	129	130
<b>EU PAYMENTS TOTAL</b>	<b>1,717</b>	<b>1,951</b>	<b>1,903</b>
European Development Fund	50	45	54
<b>TOTAL</b>	<b>1,767</b>	<b>1,996</b>	<b>1,957</b>
CENTRAL GOVERNMENT REVENUE	Final Accounts 2015	Budget 2016	Budget Proposal 2017
<b>On-budget finances</b>			
Agricultural support	538	600	535
Rural development support	402	325	310
Subsidies from structural funds and cohesion funds	104	120	170
Customs duties and other levies	42	34	31
Other revenue	37	87	16
<b>Off-budget finances</b>			
Intervention Fund of Agriculture	0	1	0
Fund for Agricultural Development	8	0	0
<b>TOTAL</b>	<b>1,131</b>	<b>1,167</b>	<b>1,062</b>
<b>Customs duties, agricultural payments and sugar payments collected on behalf of the EU</b>	<b>125</b>	<b>138</b>	<b>149</b>

# Highlights of the budget proposal

## Taxation

### Taxes on income and wealth

- Taxation of labour will be reduced by EUR 515 million due to the Competitiveness Pact and the Government's tax concessions. Taxation of pension income will be correspondingly eased, reducing tax revenue by approximately EUR 135 million on an annual basis.
- The reduction in the deductible proportion of mortgage interest will continue. The domestic work credit will be increased.
- Generational changes in forest holdings will be facilitated by introducing a forest gift deduction, and incentives to engage in business activity will be strengthened with a new tax deduction for entrepreneurs.
- The inheritance and gift tax scales will be eased to promote generational changes in farms and other businesses.

## Excise duties

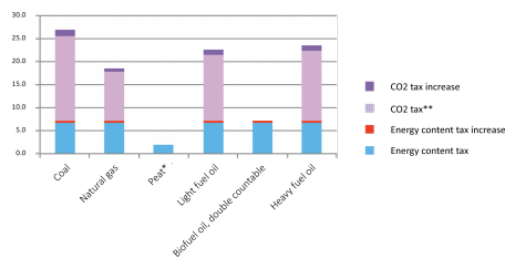
- The excise duty on sweets and ice cream will be abolished and minor changes will be made to the tax base of the excise duty on soft drinks.
- The tobacco tax will be raised in 2017 in two stages and a tax on electronic cigarettes will be introduced.
- The tax on transport fuels and on heating, power plant and working machine fuels will be increased.
- Mining activity will be returned to within the scope of the electricity tax rate.

Excise duty amounts in 2016 and 2017			
	2016	2017	Tax changes %
	EUR		
Cigarettes (20 pcs)*	4.00	4.46	11.5
Ice cream and sweets (1 kg)	0.95	0.00	-100.0
Petrol, fossil (100 l)	68.13	70.25	3.1
Diesel oil, fossil (100 l)	50.61	53.02	4.8
Light fuel oil, sulphur-free (100 l)	21.40	22.87	6.9
Base tax* of motor vehicle tax for average-emission vehicle (165 g/km) (yr)	213	249	17.2
		percent	
Car tax* for average-emission car (119 g/km) (% price)	19.1	18.3	-4.2

\* Decided by Parliament in 2015



Tax levels for energy products in 2017, €/MWh

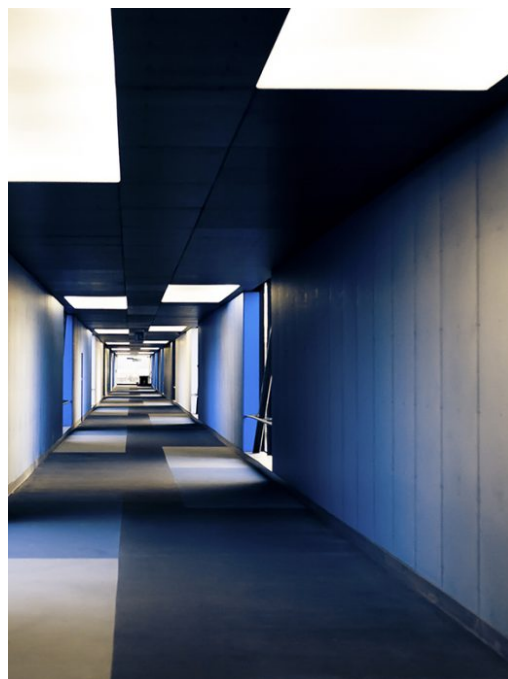


\*peat is not taxed according to energy content or CO2 emissions as other energy products, but is subject to energy tax

\*\* CO2 tax is halved for CHP production

## Other taxes

- The car tax will be eased gradually during the parliamentary term.
- The base tax component of the annual tax on vans and cars will be increased from the beginning of 2017. In addition, a tax on registered boat and light motor vehicles is due to be introduced during 2017.



## Appropriations

### Finland 100

Finland celebrates the centenary of its independence in 2017. The centenary year programme will be built around the 'Together' theme in collaboration with various participants. To mark the centenary year, a new national park, Hossa in Suomussalmi, will be opened in June 2017. In addition, the central government will contribute to the funding of the Helsinki Central Library. A total of EUR 10.1 million in 2017 is proposed for implementing the centenary year programme.

## Administration

In addition to the Competitiveness Pact, all central government operating expenditure will be affected by a number of operating expenditure savings. Operating expenditure savings in accordance with the Government Programme will grow by EUR 30 million in 2017. Other expenditure savings decided by the present Government include, for example, an enhancement of the procurement process, aimed at saving EUR 5 million in 2017. In addition, an annual 0.5% productivity saving directed at operating expenditure from the previous parliamentary term will increase the saving by just over EUR 20 million in 2017.

## Art and culture

The level of lending compensation payable to authors for lending from public libraries will be raised to EUR 15.6 million in 2017 (including value-added tax). The increase

means that the level of lending compensation payable to authors of protected works will be raised to the level of the other Nordic countries in the manner required by Parliament.



## General education

The matriculation examination will be developed to support the general objectives of education and to facilitate broader utilisation of the examination for student selection in higher education institutions. The introduction of information and communications technology will be implemented in the examination in stages by 2019.

## Vocational education and training

Vocational education and training will be reformed to increase its social effectiveness. The aim of the reform is, among other things, to remove overlaps in education and to tighten cooperation with working life. A common individualisation process will be introduced in the reform. At the same time, steering and financing systems in vocational education and training will be reformed, as will ways of gaining qualifications. Preparation of the reform will be completed by the end of 2017 and it is due to come into force in 2018. The funding of vocational upper

secondary education and training will be reduced in connection with the implementation of the reform by EUR 190 million.

## Higher education institutions

Research funding and research institutions will be reformed so that resources are redirected in accordance with the changing needs of society. An additional appropriation of approximately EUR 30 million will be allocated to enhance digital learning environments in higher education and to improve opportunities for all-year-round learning. In addition, the grant authorisation of the Academy of Finland will be increased by EUR 30 million and allocated to promote scientific work by young researchers.



## Financial aid for students

A reform of financial aid for students is under way. In the reform, the levels of the study grant will be standardised, the grant period will be shortened and the central government guarantee for student loans will be increased. In future, parents' income will not reduce the amount of the study grant with respect to 18 and 19 year-old upper secondary education students who live independently. In addition, a student's own income limits will be linked

to the Index of Wage and Salary Earnings. The increase in the amount of study grant and housing supplement recoverable on the basis of a student's own income will be moderated from 15% to 7.5%. The reform will result in a total saving of central government expenditure of approximately EUR 46 million in 2017.

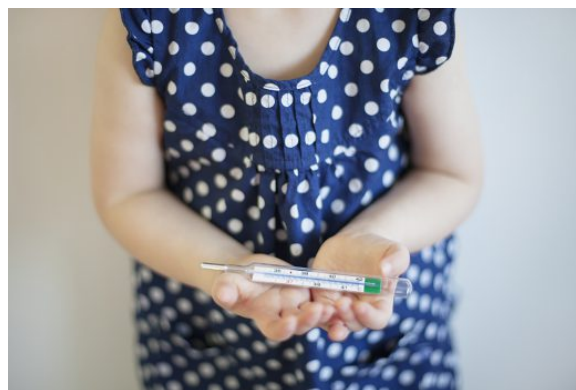
Students will be transferred to within the scope of the general housing allowance as of 1 August 2017. From the standpoint of general government finances, the change will be implemented in a cost-neutral way, so that any additional costs are covered from within the main title of the Ministry of Social Affairs and Health.

## Health and social services

The changes to be implemented in health and social services will have an impact on the central government transfers payable to municipalities. The development of informal and family care will continue. In this context, a net EUR 60 million increase compared with the actual 2016 budget will be allocated to the central government transfer for basic public services. A number of changes will be made in care services for the elderly. An increase of EUR 5 million will be allocated to home care for the elderly. On the other hand, certain services prescribed in the Act on Care Services for the Elderly will be discontinued, which will reduce the central government transfer by approximately EUR 7 million. Revising the quality recommendation related to the staff-client ratio in services for the elderly will reduce the central government transfer by approximately EUR 6 million. Emergency and specialised medical care in health and social services will be centralised in five university hospitals and seven

other emergency service hospitals. This will reduce the central government transfer to municipalities by approximately EUR 19 million.

In 2017–2018, the Government will launch service voucher and basic income pilot studies, which are part of the implementation of the Government's key projects in the area of wellbeing and health. To these key projects will be allocated EUR 56 million for 2017, which is EUR 32.5 million more than in the actual 2016 budget.



## Social benefits and health insurance reimbursements

As part of the across-the-board cut directed at benefits, child allowances will be reduced by 0.91%. This is expected to deliver EUR 11.7 million in savings to the central government. The reduction will not be applied to the supplementary child allowance paid to single parents. Prescription drug reimbursements will be reduced from the beginning of 2017 by EUR 134 million, which will save EUR 60 million in central government expenditure.

## Promotion of health and functional ability

It is proposed that the chicken pox vaccine be included in the national immunisation programme. The change will increase appropriations in 2017 by an estimated EUR 4.2 million. It is also proposed that the tick-borne encephalitis (TBE) vaccine be included in the national immunisation programme for all inhabitants of the Åland Islands and the municipalities of Parainen and Simo as well as for inhabitants of other municipalities who spend more than 4 weeks in natural settings in these areas. The estimated cost of the expansion is approximately EUR 120,000.

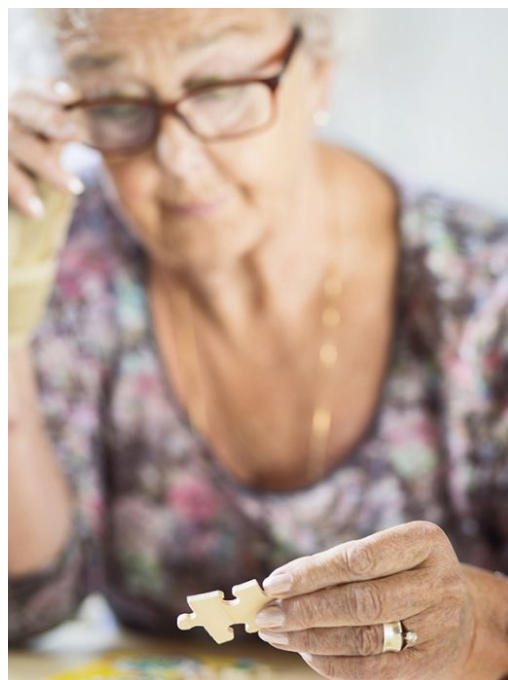
## National Genome Centre and National Cancer Centre

A National Genome Centre will be established in Finland, aimed at developing Finland into a pioneer and internationally desired partner in healthcare, high-level research and global business that utilises genome data, i.e. data on the entire human genome. In accordance with the genome strategy, the activity of biobanks will be enhanced and a National Cancer Centre established. A total of EUR 17 million will be allocated in 2017–2020 to the establishment costs of these centres, of which EUR 5.8 million will be allocated in 2017.

## Pensions paid by the central government

Pensions paid by the central government in 2017 will total approximately EUR 9.3 billion, of which EUR 4.5 billion will be paid from the main title of the Ministry of Social Affairs and

Health and EUR 4.8 billion from the main title of the Ministry of Finance. The Government will implement a one-off pension subsidy for long-term unemployed people over 60 years of age. The pension subsidy will apply to people over 60 years of age who have been unemployed for five years, and its cost will be approximately EUR 38 million in 2017.



## Employment policy

The Government is preparing to transfer responsibility for organising employment and business services to the counties from the beginning of 2019. Regional trials of job seeker- and employer-oriented employment services will be implemented in 2017–2018, aimed at creating a customer-oriented operating model. In the trial areas, responsibility for organising employment and business services will be transferred to a county body.

To remove incentive traps, the young peo-



ple's rehabilitation allowance and the rehabilitation allowance for vocational rehabilitation payable to young people will be increased to the level of guaranteed pension, the use of the rehabilitation allowance for vocational rehabilitation will be extended to general education, and everyone receiving the young people's rehabilitation allowance will also be paid compensation for travel costs and a study materials allowance. The minimum amount of rehabilitation allowance will be linked to the National Pensions Index. The proposal will increase central government expenditure by EUR 14.2 million.

As part of the Government's employment package, an additional EUR 17 million is proposed for the operating expenditure of the Public Employment and Business Services to enhance service activities so that, for all unemployed job seekers, an employment plan will be prepared, an interview arranged at 3-month intervals, and the enforcement of sanction rules ensured within the scope of current legislation.

A total of EUR 14.5 million will be allocated to a competence programme for young adults, youth workshops and outreach youth work.

A new production incentive is proposed for the audio-visual sector, aimed at improving Finland's competitiveness as a location for both domestic and international productions. Due to the reform, it is proposed that Tekes' grant authorisation be increased by EUR 9.5 million.



## Unemployment security

To implement the EUR 200 million saving in accordance with the Government Programme, the waiting period for unemployment security will be lengthened, the higher components of earnings-related unemployment security reduced, the higher component for long working careers abolished completely and the maximum duration of unemployment benefit shortened by 100 days. The change will save EUR 20 million in central government expenditure.

Unemployment security will be reformed in a more active way that supports employment. The use of unemployment benefits will be expanded to finance mobility grants, start-up grants and wage subsidies. The potential uses of start-up grants will be expanded. The number of people receiving wage subsidies will grow significantly. As part of the reform, the expenses compensation of students studying independently on unemployment benefit will be abolished, which will save approximately EUR 29 million in central government expenditure. Paying expenses compensation for the time of a trial work placement to young people lacking vocational education and training will increase central government costs by EUR 7 million.

## Immigration

Approximately 10,000 asylum seekers are projected to arrive in Finland in 2016 and in 2017. The proportion of asylum seekers receiving a favourable asylum decision is expected to be 24% in 2016 and 30% in 2017. The number of positive family reunification decisions is expected to amount to 1,000 people per year. The table below summarises the estimated additional expenditure arising from asylum seekers compared with the 3,000–4,000 annual number of asylum seekers recorded in previous years. In 2017 expenditure arising from the asylum seeker situation is expected to decrease by approximately EUR 180 million compared with the figure budgeted for 2016. The focus will shift from reception expenditure to integration expenditure as those who are granted asylum are transferred from reception centres to municipalities.

Additional expenditure* in different administrative branches arising from increased number of asylum seekers, EUR million			
	2015	2016	2017
Ministry for Foreign Affairs	0	0	0.4
Ministry of Justice	6	23	19
Ministry of the Interior	84	551	265
Ministry of Finance	1	1	0.1
Ministry of Education and Culture	0	27	65
Ministry of Economic Affairs and Employment	0	94	147
Ministry of Social Affairs and Health	0	89	106
<b>Total</b>	<b>90</b>	<b>786</b>	<b>602</b>

\*SBP4 2015, B 2016, GGFP 2016-2019, GGFP 2017-2020, SBP2 2016, BP 2017

In the administrative branch of the Ministry for Foreign Affairs, additional expenditure will arise mainly from personnel resource needs in embassies related to family reunification applications.

In the administrative branch of the Ministry of Justice, expenditure will arise from an increased number of appeals to courts of law

and from the use of legal-aid counsel in the asylum application process. The focus is increasingly shifting from private to public legal aid. To legal aid will be allocated EUR 11 million in 2016 and EUR 8 million in 2017. Additional expenditure of EUR 12 million in 2016 and EUR 11 million in 2017 has been budgeted for courts of law. A number of legislative amendments will enhance and accelerate the processing of asylum appeals in the Administrative Courts and in the Supreme Administrative Court.

In the administrative branch of the Ministry of the Interior, additional reception expenditure (including the Finnish Immigration Service and payable allowances) will be EUR 240 million in 2017, which is EUR 277 million less than in 2016. In 2017 there is expected to be 13,000 people within the reception system, and reception expenditure is estimated to be EUR 50 per person per day. Approximately EUR 14 million will be allocated for Police deportation and transfer expenditure and EUR 5.8 million for voluntary repatriations in 2017. The number of quota refugees will remain at 750 in 2017. EU joint decisions to transfer (internal transfers) and relocate asylum seekers will also affect Finland.

The appropriations of the administrative branch of the Ministry of Finance will be increased by approximately EUR 130,000 for registration duties in register offices.

The appropriations of the administrative branch of the Ministry of Education and Culture will be increased by approximately EUR 25 million in 2016 and 2017 due to an increase in student numbers in basic education. In the basic education of those who have reached the age of compulsory schooling, appropriations for 2017 will grow by EUR 8 million. Vocational education and training will be increased by 2,000 student places, to

which full central government funding, i.e. EUR 21 million, will be allocated.

In the administrative branch of the Ministry of Employment and the Economy, additional expenditure in integration compensation will increase from EUR 57 million in 2016 to EUR 115 million in 2017. The increase in integration education and training will be just over EUR 30 million in both years.

In the administrative branch of the Ministry of Social Affairs and Health, the increased number of asylum seekers will impact expenditure on child allowances, housing allowances, labour market support and health insurance. The additional expenditure is projected to be EUR 89 million in 2016 and EUR 106 million in 2017. Based on the Aliens Act, it is proposed that, instead of labour market support, an integration allowance be paid to unemployed job seekers who have been granted a residence permit in Finland. The change is expected to reduce labour market support expenditure by EUR 3.4 million and to increase social assistance expenditure by EUR 1 million in 2017.



## Public order and safety

The number of starting places in Police training will be increased to 400, and it is proposed that an additional appropriation of

EUR 0.4 million be granted for this purpose. In addition, a EUR 5 million appropriation increase will be made to Police operating expenditure for tackling the shadow economy and combating terrorism.

A number of structural reforms will be implemented in the administrative branch of the Ministry of Justice. Under the legal aid offices, legal aid districts will form six agencies from October 2016. In addition, a restructuring of enforcement procedures and the Finnish Prosecution Service is under preparation, and this will be completed in 2018. The number of District Courts is due to be reduced from 2017. The activities of the Criminal Sanctions Agency will be developed within the present prison network. To safeguard functional capacity, an appropriation increase of EUR 3.7 million is proposed for the Criminal Sanctions Agency.

An appropriation of EUR 8 million is proposed for compensation corresponding to forfeited confiscation orders. In criminal cases, the complainant has an opportunity to seek compensation from the Legal Register Centre in cases where the proceeds of crime have been forfeited to the state and the confiscation order has been enforced. The procedure seeks to reconcile the proceeds of crime received by the offender or a third party and the associated compensatory damages.

## National defence and crisis management

An appropriation of EUR 480 million will be allocated for defence materiel procurement, which is EUR 65 million less than in actual 2016 budget. The decrease is mainly attributable to changes in the timing of expenditure for order authorisations made earlier and

to an appropriation transfer to operating expenditure.

The budget proposal includes three new order authorisations:

- Expenditure related to the order authorisation (EUR 519 million) for the development of defence materiel is scheduled for 2017–2025.
- For the Defence Forces' operating expenditure is proposed a EUR 181 million order authorisation for the purpose of acquiring, among other things, vehicles, spare parts and materiel maintenance services.
- Expenditure (EUR 32 million) for the acquisition of maintenance and flight training services for a training system to replace the Air Forces' present Vinka training system is scheduled for 2017–2024.

## Development cooperation

A total of EUR 0.9 billion is proposed for international development cooperation. The level of development cooperation appropriations in 2017 is expected to be 0.40% of gross national income.

## Arctic issues

Finland will hold the Presidency of the Arctic Council in 2017–2019. A total of EUR 1.8 million will be allocated to Baltic Sea, Barents and Arctic region cooperation, which is EUR 0.2 million more than in 2016. The objective is also to promote the channelling of international funding to Finland for important projects.

## Agriculture and food economy

To ease the profitability situation of agriculture, additional EUR 16.7 million will be allocated to national aid for agriculture and horticulture and EUR 20.3 million to compensatory allowances in 2017.



## Energy policy

An appropriation of EUR 273 million is proposed for renewable energy production subsidies, an increase of EUR 39 million from 2016. The growing need for funding is partly due to changes in production capacity.

To improve the competitiveness of Finnish industry, compensation support for the indirect costs of emissions trading will be introduced, for which an appropriation of EUR 43 million is proposed for 2017. Sectors specified in law that are particularly susceptible to carbon leakage may receive support to compensate for a higher electricity price resulting from the price of emission allowances.

## Transport

A total of EUR 1.9 billion will be allocated to transport network investment and devel-

opment, which is EUR 209 million more than in the actual 2016 budget.

Five new transport projects will be launched in 2017:

- Highway 6 Luumäki–Imatra,
- Highway 4 Oulu–Kemi,
- Highway 5 Mikkeli–Juva,
- Highway 12 Lahti southern by-pass and
- Helsinki–Turku, further planning of high-speed rail link.

Additional funding for basic transport infrastructure to reduce the repair debt will grow by EUR 100 million. In addition, EUR 104 million of funding earmarked for new projects will be transferred for this purpose. An appropriation of EUR 83 million will contribute to the construction of the Western Metro.



## Housing construction

An interest subsidy authorisation of EUR 1.4 billion will be allocated to state-subsidised housing production. The construction and repair of housing for special groups will be supported with EUR 130 million in investment grants. The excess interest payable on the state-subsidised 40-year interest-subsidy model will be reduced from 3.4% to 1.7% until the end of 2019. Income limits will be introduced in state-subsidised housing in the Helsinki Metropolitan Area. The income limits will be reviewed for new residents and when people change homes, but they will not affect the position of other residents. The real-estate tax on unbuilt land will be increased by EUR 9 million.

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## **Budget review 2017 – September 2016**

ISSN 1797-9714 (zine)

ISBN 978-952-251-802-6 (zine)

Ministry of Finance publications 34c/2016

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