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GENERAL GOVERNMENT FISCAL PLAN 2018–2021

The General Government Fiscal Plan also includes Finland's Stability Programme, and it meets the EU's requirement for a medium-term fiscal plan. Specific information relating to the Stability Programme is presented in Appendix 6.

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

1. Economic challenges and the economic policy line

Finland's general government finances have been weak for nearly a decade. General government finances have been adversely affected by industrial restructuring and population ageing. The passing of the recession and the normalisation of economic conditions will not be sufficient to improve the state of public finances substantially, since population ageing is continuing and structural unemployment is high.

In the coming decades, Finland must be prepared for the fact that its economic growth will not return to the rates of the years and decades that preceded the financial crisis. The economy's growth potential is expected to settle at 1–1½ % in the next decade. Opportunities for economic growth will be limited by high structural unemployment and a reduction in the size of the working-age population. It also appears that productivity will develop more modestly than has been the case.

Public expenditure, however, will continue to grow rapidly until the 2030s. Growth in pension expenditure will begin to level off gradually after the baby boomers retire, but the fastest growth phase of care and nursing expenditure still lies ahead. In addition, the replacement of the fighter fleet and other required investments will create significant pressures for general government finances in the 2020s.

Public services and other general government expenditure are financed from revenue generated by economic activity. The subdued growth outlook for the economy therefore poses a major challenge for general government finances and economic policy. Subdued economic growth and increasing age-related expenditure have led to a permanent imbalance in general government finances. General government revenue will be insufficient to maintain all the public sector structures and functions created on the foundations of stronger economic growth.

The underlying causes of the fiscal imbalance are mainly structural. The economic policy line must therefore rely not only on direct measures to improve general government finances but also on reforms to strengthen economic growth opportunities and the sustainability of general government finances. This means the determined implementation of the measures planned in the Government Programme. There is no reason to revise the scale or implementation of the EUR 10 billion package of measures outlined in the Government Programme.

Safeguarding the funding of public services in the long term will require the implementation of the health, social services and regional government reform in such a way that the savings sought by the reform are secured. Many risks, which will be taken into account in further preparation, are still associated with achieving the EUR 3 billion savings target sought by the health, social services and regional government reform.

Raising the employment rate will also require effective measures to increase labour supply and demand. Finland's employment rate is low and the unemployment rate high compared with the other Nordic countries. The number of long-term unemployed people has more than doubled since the 1990s' recession. Preventing the prolongation of unemployment is vital, because after unemployment becomes structural it will not necessarily fall when economic conditions improve.

The passing of the recession and stable economic growth will create a good foundation for measures to improve conditions for growth and public finances. The second half of the parliamentary term will therefore be a favourable time to ensure the implementation of the package of measures planned in the Government Programme.

The Government's fiscal policy line

Competitiveness, employment and public service provision are at the heart of the economic policy of Prime Minister Juha Sipilä's Government. The Government's economic policy is aimed at levelling off fiscal indebtedness and bridging the sustainability gap through savings as well as measures to boost growth and enhance public service provision.

The Government's consolidation package, aimed at directly strengthening public finances, consists of measures to control growth of public expenditure as well as expenditure re-allocations, such that together the measures will strengthen public finances by approximately EUR 4 billion by 2019.

According to current estimates, the impact of the measures will exceed approximately EUR 4 billion at the 2020 level, but uncertainty is associated with the estimate due, for example, to decisions of the municipalities and uncertainty surrounding the impact assessments of some measures. Some of the measures are still in the preparation stage.

The Government aims to strengthen conditions for employment and economic growth through taxation as well as through measures supporting economic competitiveness and productivity growth. The Competitiveness Pact, agreed in 2016, will help support the achievement of the target. Moderate wage settlements, the introduction of an export industry-driven model in wage formation and reforms to increase local agreement in the labour market are a key part of this package. The objective has been that in this way new growth and employment would be created such that the budgetary position would improve by EUR 1–1½ billion in the medium term, but decisions on further measures are still required to achieve this.

Key longer-term measures include cutting public sector costs by reducing municipalities' statutory duties and related obligations and utilising digitalisation, as well as the health, social services and regional government reform package. The reforms are in the preparatory stage and are proceeding according to the planned schedule. With these measures, the Government aims to slow public expenditure growth by approximately EUR 4 billion in the long term. In addition, the pension reform that entered into force at the beginning of this year will strengthen general government finances significantly in the long term.

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

The General Government Fiscal Plan brings together decision-making relating to public finances. In its plan, the Government examines general government finances comprehensively and makes policy outlines and choices that form a solid foundation for the later preparation of legislation and the budget. The General Government Fiscal Plan contains sections relating to central government finances, local government finances, county finances, statutory earnings-related pension funds and other social security funds. The Government prepares the General Government Fiscal Plan for the parliamentary term and revises it annually for the following four years by the end of April. The plan also supports adherence to the Medium-Term Objective set for the structural balance of general government finances.

Medium-Term Objective

The Medium-Term Objective (MTO) for a structural balance of -0.5% in ratio to GDP remains unchanged. This is the minimum level to which Finland has committed in the Fiscal Compact. The Government aims to achieve the MTO at the latest in 2019.

Other fiscal policy targets

The table below presents multiannual nominal targets for the general government budgetary position, general government expenditure and general government debt, which are consistent with the MTO and with the annual change in structural budgetary position leading to it.

Multiannual objectives for general government finances in ratio to GDP (%)

	2017	2018	2019	2020 ¹⁾	2021 ¹⁾
Structural balance	-1.7	-1.1	-0.5	-0.0	-0.3
General government net lending	-2.3	-1.6	-0.8	-0.2	-0.3
General government expenditure	55.2	53.9	52.5	53.1	52.1
General government gross debt	64.7	64.5	63.8	62.7	61.9

¹⁾ The estimates for 2020 and 2021 are based on the assumption of unchanged policy and, because the independent forecast takes into account funding planned for strategic defence projects, in the target scenario general government finances will therefore also deteriorate in 2021.

The Government's nominal budgetary targets for the parliamentary term (2019) are still valid. These are:

- 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.

As a result of the health and social services reform, a new county finances subsector will arise in general government finances from 2019. As a more detailed specification of the subsector has not yet been made, the Government does not set a nominal budgetary target for county finances in this General Government Fiscal Plan.

Government expects that the targets decided on above will result in the achievement of the MTO, set in spring 2013 and confirmed in spring 2016, or an even stronger structural balance.

The measures decided by the Government to achieve the targets are described by subsector in Chapters 5–8. Chapter 9 examines the overall impact of Government measures on public finances. Chapter 3.2 presents an estimate of how the targets will be fulfilled in the light of the independent forecast of the Economics Department of the Ministry of Finance. The Stability Programme (Appendix 6) presents the Government's target scenario and assesses the fulfilment of the MTO, the other fiscal policy objectives and the EU criteria.

Central Government Spending Limits

The Government is committed to the central government spending limits system. The expenditure rule ensures a responsible, long-term central government spending policy that promotes economic stability. The system is based on a real, binding overall expenditure ceiling set for the duration of the parliamentary term, to which only the required price- and cost-level adjustments and structural corrections are made annually. The spending limits system restricts the level of expenditure budgeted in the State budget. The purpose of the spending limits system is to limit the total amount of expenditure incurred by the taxpayer.

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

supplementary budget provision, there remains between the parliamentary term expenditure ceiling and the administrative branch-specific expenditure ceilings an unallocated reserve to be allocated later.

The central government spending limits are discussed in Chapter 5.

Limit for local government expenditure set by central government measures

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

3. Economic fundamentals

3.1. Economic outlook

Economic outlook for 2017–2019

Finland's economy grew by 1.4 % in 2016. The sources of growth were private consumption and private investment. According to an independent forecast of the Economics Department of the Ministry of Finance, in 2017 Finland's economy will grow by 1.2% compared with the previous year. Growth in 2018 and 2019 is forecast to be 1.0% and 1.2% respectively.

The growth outlook for the world economy and trade has improved slightly. World trade will grow by 3% in 2017 and growth will accelerate to 3.7% in 2019. The economies of a number of important trading partners for Finland are projected to develop quite favourably. The outlook for growth in the United States remains good: in 2017–2019, the economy will grow annually by just under 3%. Sweden's economy will also grow annually by just under 3%.

The development of Finland's exports will remain more sluggish than world trade, and loss of market shares in international trade will slow the return to growth of exports. In the next few years, economic growth will become more broadly based, supported not only by private consumption and investment but also by a strengthening of exports.

In 2017 the rise in consumer prices will accelerate to 1.2%, and prices will rise during the outlook period by an annual rate of just under 1.5%. Nominal earnings will rise during the outlook period by, on average, approximately 1% per year. With the forecast development, Finland's competitiveness will improve compared with Sweden and Germany, for example.

Investment turned to clear growth in 2016. Investment will slow temporarily in 2017, but broad-based growth will continue throughout the outlook period. In 2017–2019, consumption will continue to grow in line with real incomes as consumer confidence strengthens.

The improvement in employment will continue throughout the outlook period at an annual rate of around ½%. By 2019, the unemployment rate will fall to 7.8%.

Medium-term outlook

Despite the return to growth, economy is also expected to grow moderately, by only around 1%, in 2020 and 2021. The economic restructuring and the demographic changes that have already been under way for years will also affect the longer-term growth outlook of the economy.

The contraction of the working age population will reduce labour input in the next few years, but labour force participation rates are expected to rise slightly, particularly in the older age cohorts. Another factor slowing labour input is high structural unemployment.

Total factor productivity growth has been a key source of economic growth in recent decades. In recent years, total factor productivity has developed very modestly. Behind this weak trend, there have been cyclical factors, but also structural factors. The output of high-productivity sectors has declined significantly, and the overall structure of the

economy has moved towards services. The total factor productivity growth trend has been around zero in recent years and growth is also expected to be significantly slower in the medium term than that experienced in the early 2000s.

In addition to labour input and total factor productivity, production conditions for the economy will be influenced by the capital stock. The low investment rate that continued for several years has partly slowed growth of the capital stock and has therefore weakened the future growth potential of the economy. However, growth of investment, which began last year, will correct the situation to some extent as it continues.

Development of the national economy

	2015	2016	2017	2018	2019	2020	2021
GDP value, EUR billion	209.5	214.1	219.1	224.8	231.7	238.3	245.8
GDP at market prices, change in volume, %	0.3	1.4	1.2	1.0	1.2	1.0	1.0
Unemployment rate, %	9.4	8.8	8.5	8.1	7.8	7.6	7.4
Employment rate, %	68.1	68.7	69.1	69.6	70.0	70.4	70.7
Consumer Price Index, change, %	-0.2	0.4	1.2	1.3	1.4	1.7	2.0
Long-term interest rate, 10 years, %	0.7	0.4	0.6	1.0	1.4	1.7	2.1

3.2. Outlook for general government finances

Finland's general government finances deteriorated into deficit at the end of last decade. Over the last couple of years, the general government budgetary position has improved significantly. This year, however, the general government deficit will grow, particularly due to the Competitiveness Pact and related tax reductions. Adjustment measures and stable economic growth will further strengthen the general government budgetary position in the coming years. Even so, general government finances will remain in deficit. The likely level of economic growth will not generate sufficient revenue to fund general government expenditure. The general government debt-to-GDP ratio will continue to grow and will level off only temporarily at the turn of the decade. For general government finances to be on a sustainable base, the budgetary position would have to be significantly in surplus in 2021 instead of in deficit.

Finland's general government finances consist of central government, local government and the social security funds, which are further divided into earnings-related pension funds, which handle statutory earnings-related pension insurance, and other social security funds. From 2019, the structure of general government finances will change when the new counties begin their work. Statistics Finland will only decide at later date on the sector classification of county government according to the national accounts. In the spring 2017 independent forecast and medium-term assessment of general government finances produced by the Economics Department of the Ministry of Finance, county government has been technically consolidated as part of central government administration. This transfers the local government deficit slightly, approximately 0.1% in ratio to GDP, to the central government sector. A more detailed forecast of county government finances as a separate sector will be prepared later.

The central government budgetary position improved last year. Central government finances were strengthened in particular by a pick-up in tax revenue growth. In the outlook period, the deficit will be reduced by moderate economic growth as well as the consolidation measures decided on by Prime Minister Juha Sipilä's Government. Municipal finances and later, from 2019, county finances will be burdened by growth in service needs resulting from population ageing. The combined budgetary position of central, county and municipal government is expected to be approximately EUR 4.5 billion in deficit in 2021. Due to an improvement of the employment situation, other social security funds will be slightly in surplus. The surplus of the earnings-related pension funds continued its decline last year and was just over 1% in ratio to GDP. The surplus is expected to fall in the outlook period to just under ½% in ratio to GDP.

The expenditure ratio, the ratio of expenditure to GDP, declined last year. The expenditure ratio declined particularly due to consolidation measures and a reduction in expenditure caused by unemployment. The expenditure ratio will continue to decline in the outlook period. The tax ratio, the ratio of taxes and tax-like payments to GDP, rose last year. The tax ratio rose as a result of tax increases as well as increases in social security contributions. The tax ratio is projected to decline significantly from 2017, due to the Competitiveness Pact and the tax concessions agreed in connection with it.

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

	2015	2016	2017	2018	2019	2020	2021
Taxes and social security contributions	44.0	44.4	43.1	42.8	42.5	42.6	42.5
General government expenditure	57.0	56.1	55.2	54.7	54.0	53.5	53.6
General government net lending	-2.7	-1.9	-2.3	-2.0	-1.7	-1.1	-1.2
— Central government	-3.0	-2.7	-2.7	-2.2	-1.8	-1.4	-1.5
— Local government	-0.6	-0.5	-0.5	-0.5	-0.5	-0.4	-0.4
— Earnings-related pension funds	1.3	1.1	0.8	0.6	0.4	0.4	0.4
— Other social security funds	-0.4	0.2	0.2	0.2	0.2	0.3	0.3
Primary balance	-2.5	-1.6	-2.2	-2.0	-1.7	-1.2	-1.3
Structural balance	-1.2	-0.9	-1.7	-1.5	-1.4	-1.0	-1.2
General government gross debt	63.7	63.6	64.7	65.4	65.7	65.2	6.0
Central government debt	47.6	47.8	49.1	49.7	450.0	49.7	49.7

Compliance with fiscal policy rules and objectives

In the light of the independent forecast of the Economics Department of Ministry of Finance, there is a risk that many of the key fiscal policy targets will not be achieved. Without new specified measures, the general government structural balance will not strengthen in line with the target, and the Medium-Term Objective will not be achieved by 2019 (see table). General government net lending, expenditure and gross debt will also develop more weakly than the multiannual targets consistent with the MTO and the change in the structural balance leading to it.

General government structural balance, net lending, expenditure and gross debt. Baseline scenario and target scenario, in ratio to GDP.

	2017 Baseline scenario	2017 Target scenario	2018 Baseline scenario	2018 Target scenario	2019 Baseline scenario	2019 Target scenario	2020 Baseline scenario	2020 Target scenario	2021 Baseline scenario	2021 Target scenario
Structural balance	-1.7	-1.7	-1.5	-1.1	-1.4	-0.5	-1.0	0.0	-1.2	-0.3
General government net lending	-2.3	-2.3	-2.0	-1.6	-1.7	-0.8	-1.1	-0.2	-1.2	-0.3
General government gross debt	64.7	64.7	65.4	64.5	65.7	63.8	65.2	62.7	65.0	61.9
General government expenditure	55.2	55.2	53.9	53.9	54.0	52.5	53.5	52.1	53.6	52.1

With regard to the subsector-specific budgetary position targets set for 2019, in the light of the Ministry of Finance's independent forecast it appears that the central government budgetary position in ratio to GDP will remain far from the -0.5% deficit target set for it. The budgetary position of the social security funds will also slightly fall short of the 1% surplus target set for it. Local government, on the other hand, will reach its budgetary position target (-0.5% in ratio to GDP).

There is also a risk that some of the targets set in the Government Programme are beyond reach. The Government has set as a target that the general government debt-to-GDP ratio will level off by the end of the parliamentary term, and that additional debt will no longer be taken after 2021. The general government debt-to-GDP ratio will start to fall slightly at the turn of the decade, but not during the parliamentary term. In addition, additional borrowing will not stop as intended, because central government and local government will still be clearly in deficit in 2021.

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

A list of all the units classified by subsector as general government units in the National Accounts can be found on the Statistics Finland website at the following address:

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

The general government budgetary position will be in deficit during the period under examination 2015–2021. Most of the deficit will be the central government subsector, on-budget deficit, but the local government core sector, the municipalities and joint municipal authorities, will also be in deficit. The social security funds will be in surplus. The combined deficit of units outside the core sectors will be approximately 0.5% in ratio to GDP.

General government consolidated EDP debt will exceed the 60% reference value throughout the period under examination. Most of the debt is central government on-budget debt. The municipalities and joint municipal authorities also have debt to a significant extent. Of the units outside the core sectors, it is mainly the real-estate companies that have debt. The budgetary position or debt of units outside the core sectors are not expected to change much during the period under examination.

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

	2015	2016	2017	2018	2019	2020	2021
General government, total							
Budgetary position in ratio to GDP	-2.7	-1.9	-2.3	-2.0	-1.7	-1.1	-1.2
Debt in ratio to GDP	63.7	63.6	64.7	65.4	65.7	65.2	65.0
Core sectors, total							
Budgetary position in ratio to GDP	-2.1	-1.6	-1.9	-1.6	-1.3	-0.7	-0.8
Debt in ratio to GDP	61.4	61.2	62.5	63.1	63.5	63.1	62.9
Units outside the cores sectors, total							
Budgetary position in ratio to GDP	-0.7	-0.3	-0.5	-0.5	-0.5	-0.4	-0.4
Debt in ratio to GDP	2.2	2.4	2.3	2.2	2.2	2.1	2.0

3.3. Economic restructuring, population ageing and fiscal sustainability

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

The sustainability gap in general government finances means that in the long term general government revenue will not be sufficient to cover expenditure. A permanent imbalance between revenue and expenditure threatens to result in an unmanageable increase in debt. The sustainability gap can be technically expressed as the difference between the surplus safeguarding the sustainability of general government finances and the general government deficit in the base year of the calculation (currently 2021). The surplus safeguarding sustainability means that general government finances should be approximately 2% in surplus in ratio to GDP at the beginning of the next decade for general government finances to manage the expenditure pressures arising from population ageing in the coming decades without additional measures. Instead of a 2% surplus, general government finances are projected to be approximately 1% in deficit in 2021.

The Ministry of Finance estimates the sustainability gap to be nearly 3% in ratio to GDP, i.e. approximately EUR 7 billion, at the 2021 level. Compared with last autumn, the sustainability gap estimate has reduced slightly. The estimate of the general government deficit in the base year of the sustainability gap calculation is better than the autumn estimate if the appropriation of some EUR 1 billion earmarked for new fighter aircraft purchases in 2021 is ignored². The sustainability gap calculation does not, moreover, take into account the long-term measures outlined in

² The impact of the fighter aircraft purchases on the sustainability gap has not been taken into account, because no decisions have yet been made on the purchases, and their exact price is not known. Although the purchases in total will be substantial, amounting to an estimated EUR 7–10 billion, their impact on the sustainability gap is quite small. It does not represent a permanent increase in expenditure, but despite maintenance costs it is more akin to a one-off replacement purchase.

the Government Programme to improve general government finances, such as the health and social services reform. There is naturally significant uncertainty associated within the sustainability gap estimate, because the calculation is sensitive to the assumptions used about future development. The calculation offers, however, a coherent way of examining the challenges facing public finances and means to overcome them.

4. Government liabilities and risks

Government financial liabilities and associated risks may emanate from decentralised sources within central government on-budget finances, central government funds and unincorporated state-owned enterprises. In addition, the central government may be subject to liabilities from within the municipalities, the private sector (e.g. state-owned companies) or the financial markets (e.g. banking sector). The central government may also be subject to de facto liabilities for securing the continuity of certain functions of society, even though there is no law or agreement directly conferring liability on it.

The table shows a summary of central government assets and nominal values of certain specifiable liabilities. An unambiguous assessment of risks related to liabilities is difficult, and therefore in this examination the nominal values of liabilities have been used in the interests of clarity. Data on central government real and financial assets are based on financial accounting. Concerning financial assets, the table also shows certain key publicly quoted shareholdings. In addition to these, the central government owns either in full or in part several other companies, which are valued on the basis of book value. The most significant of these include VR Group, Finnish Industry Investment Ltd and Patria Oy. In 2008, central government financial assets decreased by more than EUR 13 billion, accounting for over 8 percentage points in ratio to GDP. This was largely explained by falling share prices. Financial assets also decreased significantly in 2011. Since 2011, financial assets have grown due to rising share prices. In recent years, the central government has received from its shareholdings dividend income of approximately EUR 1.2 billion, which is approximately 2.5% of all central government accounted revenue. In the peak year of 2007, the corresponding figure was nearly 4%. The sale of holdings naturally reduces the stream of dividend income permanently.

Summary of government liabilities and risks, EUR billion

	2010	2011	2012	2013	2014	2015	2016
Assets							
Central government real assets	47.7	49.5	51.1	52.4	51.8	53.0	
% GDP	25.5	25.2	25.6	25.8	25.2	25.3	
Central government financial assets	63.7	55.5	58.5	59.5	60.4	61.3	61.1
% GDP	34.1	28.2	29.3	29.3	29.4	29.3	28.6
— of which							
Central government liquid assets	11.2	10.3	7.4	4.6	3.1	4.4	3.1
Solidium	9.3	6.9	7.2	8.2	7.6	6.8	7.8
Other shareholdings in listed companies	12.1	8.6	7.8	9.5	10.9	10.2	11.5
National Housing Fund receivables	8.2	7.7	7.2	6.5	6.0	5.4	4.8
Liabilities							
Central government debt	75.2	79.7	83.9	89.7	95.1	99.8	102.3
% GDP	40.2	40.5	42.0	44.1	46.6	48.2	47.8
Municipal debt	10.6	11.4	12.9	14.9	16.9	18.1	18.8
% GDP	5.7	5.8	6.4	7.3	8.2	8.4	8.8
Government guarantees ¹⁾	22.3	27.3	32.5	34.0	38.6	44.2	46.0

	2010	2011	2012	2013	2014	2015	2016
<i>% GDP</i>	11.9	13.9	16.2	16.8	18.8	21.1	21.5
— Finnvera	12.8	14.0	14.8	14.6	17.5	22.6	22.6
— Student loans	1.4	1.4	1.5	1.6	1.8	2.0	2.3
— EFSF	0	2.1	5.1	6.2	6.6	6.2	6.3
— Bank of Finland					0.6	0.5	0.6
— Government funds	7.9	9.1	10.2	11.2	11.8	12.3	13.1
— Other	0.3	0.6	0.8	0.5	0.3	0.6	1.0
Capital liabilities	5.1	5.8	17.0	17.1	17.2	17.8	18
<i>% GDP</i>	2.7	3.0	8.5	8.4	8.4	8.5	8.4
Other liabilities	105.1	112.3	119.0	117.8	132.9	130.8	129.5
<i>% GDP</i>	56.2	57.0	59.6	57.8	64.8	63.2	60.5
— Budget accounting	103.3	110.4	117.0	115.4	130.4	128.3	126.9
— Off-budget entities	0.3	0.4	0.5	0.6	0.7	0.9	1.2
— State enterprises	1.4	1.5	1.5	1.8	1.8	1.6	1.4

¹⁾ Government guarantees are presented in more detail in Appendix 12 of the central government final annual accounts.

Central government liabilities, in addition to debt and pension liabilities, largely comprise guarantees, the nominal value of which has increased significantly in recent years. Guarantees issued by Finnvera and central government funds – in practice, government-backed mortgages – have seen particularly high increases. The nominal value of the guarantees covered by this calculation has nearly doubled in the 2010s and is now approximately 21% in ratio to GDP. In addition, the amount of capital liabilities payable upon request to international financial institutions has multiplied, mainly due to the measures for managing the financial crisis in the EU. Finland's total liabilities from the management of the euro crisis that began in 2010 were approximately EUR 9.5 billion at the end of 2016.

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 data collected by Eurostat (2015), Finland's general government guarantees-to-GDP ratio is the highest among the EU Member States.

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

Costs arising from the triggering of central government liabilities may impose a significant burden on the economy. This highlights the importance of careful monitoring and management of central government financial liabilities, particularly in the current volatile external environment conditions.

Central government financial liabilities and associated risks are discussed in more detail in an overview of risks and liabilities, published by the Ministry of Finance. ⁴

5. Central government finances

5.1. Central government spending limits

The central government spending limits system is based on the real, binding overall expenditure ceiling set for the duration of the parliamentary term, to which only the required price- and cost-level adjustments and structural corrections are made. The spending limits system is based on ex ante examination, i.e. it restricts the level of expenditure budgeted in the State budget. The spending limits procedure sets a ceiling for approximately 80% of central government budget expenditure. Expenditure that changes according to cyclical conditions and automatic stabilisers, such as unemployment security expenditure, pay security, housing allowance and the central government

⁴ Overview of Central Government Risks and Liabilities, spring 2017

contribution to the cost of social assistance expenditure, is not included in the central government spending limits. However, expenditure effects generated by changes in the criteria for these items are included within the spending limits. Debt interest payments, value-added tax expenditure, financial investment expenditure and expenditure corresponding to technically transmitted payments by central government are also excluded from the spending limits. The spending limits, moreover, do not cover central government off-budget funds.

The spending limits also cover supplementary budgets, for which a certain portion of the spending limits, the so-called supplementary budget provision, has been reserved. The annual spending limits decision also sets administrative branch-specific expenditure ceilings, but only the overall expenditure ceiling for the parliamentary term is binding. Reallocations may be made between administrative branches. Alongside the supplementary budget provision, there remains between the parliamentary term expenditure ceiling and the administrative branch-specific expenditure ceilings an unallocated reserve to be allocated later. If the level of expenditure after supplementary budgets falls below that specified in the spending limits, the difference, to a maximum of EUR 200 million, may be used for one-off expenditure in the following year without reference to the spending limits.

As an exception to the spending limits according to the Government Programme, the appropriation “Transfer to the State Television and Radio Fund” will be transferred outside the spending limits in accordance with a proposal of a Parliamentary working group.

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

Development of on-budget expenditure 2017–2021

On-budget expenditure is expected to be EUR 55.4 billion in 2018, which is EUR 0.1 billion less than that budgeted for 2017. Compared with the spring 2016 spending limits decision, expenditure will be approximately EUR 0.5 billion higher in 2018. The Competitiveness Pact has contributed to the increase in expenditure, as have additional investments decided on in the General Government Fiscal Plan in security, skills and employment, for example. On the other hand, lower estimates for expenditure arising from asylum seekers and interest expenditure will have the effect of lowering the level of expenditure. As a consequence of the health, social services and regional government reform, the on-budget expenditure level will rise by approximately EUR 13 billion from 2019. With regard to the on-budget balance, the health, social services and regional government reform will be nearly neutral. As a consequence of implementation costs and a tax concession associated with the reform, the on-budget balance will, however, weaken to some extent. Excluding changes caused by the health, social services and regional government reform, on-budget expenditure is expected to grow nominally by approximately 1% per year during the spending limits period. In real terms, on the other hand, annual expenditure is expected to fall slightly on average.

The level of expenditure within the spending limits in 2018 will be approximately EUR 44.0 billion, which is approximately EUR 500 million less than the spending limits expenditure budgeted for 2017, mainly due to a structural change with respect to the spending limits in which the transfer to the State Television and Radio Fund will be transferred to expenditure outside the spending limits. The level of spending limits expenditure will rise to EUR 57.1 billion in 2021. In addition to the health, social services and regional government reform, spending limits expenditure will be increased at the end of the spending limits period, particularly by the financing of the Defence Forces’ strategic performance capability projects.

Expenditure outside the spending limits

The spending rule sets a maximum level for most, around four-fifths, of on-budget expenditure. The following expenditure, among others, falls outside the spending limits: cyclical expenditure, interest expenditure on central government debt, and expenditure where the central government acts as a technical intermediary for an external funding contribution. In addition, a change compared with the previous spending limits decision is that the transfer to the State Television and Radio Fund (Yle transfer) will be transferred to expenditure outside the spending limits in accordance with a proposal of a Parliamentary working group. This will increase expenditure outside the spending limits by EUR 508 million from 2018.

Expenditure outside the spending limits is expected to be approximately EUR 11.4 billion in 2018. Compared with the 2017 budget, expenditure outside the spending limits will grow by approximately EUR 0.4 billion, due mainly to the change relating to the Yle transfer. Excluding the change relating to the Yle transfer, expenditure outside the spending limits will fall by approximately EUR 60 million from 2017. A reduction in interest expenditure and

payments for the capitalisation of universities will contribute to the decline in expenditure. On the other hand, housing allowance expenditure will be increased by a change made in 2017 whereby students will be transferred within the scope of the general housing allowance.

In 2018–2021 expenditure outside the spending limits is expected to average approximately EUR 11.6 billion per year. Through the health, social services and regional government reform, technically transmitted payments will increase in 2019 by EUR 1.2 billion due to the compensation method for the counties' value-added tax costs, which will differ from the municipalities' compensation system. Central government revenue will increase accordingly. The health, social services and regional government reform will result in another technical change in expenditure outside the spending limits when compensation payments made due to changes in the municipalities' tax criteria are transferred partly to the counties. During the spending limits period, interest expenditure in particular will grow due to a projected rise in interest rates. Cyclical expenditure, on the other hand, will decline overall during the spending limits period as the employment situation improves. Labour market support expenditure, for example, will decline in total by more than EUR 400 million.

Compared with spring 2016 General Government Fiscal Plan, the total level of expenditure outside the spending limits has increased for the above-mentioned technical reasons. At the end of the spending limits period, expenditure outside the spending limits will be just over EUR 1.1 billion higher than in the previous General Government Fiscal Plan. Nevertheless, excluding the changes relating to the Yle transfer and the health, social services and regional government reform, expenditure outside the spending limits will be approximately EUR 0.4 billion lower.

	2018	2019	2020	2021
Cyclical expenditure	4.9	4.6	4.5	4.3
Compensation to municipalities for tax criteria changes	0.6	0.1	0.1	0.1
Expenditure corresponding to EU revenue	1.1	1.1	1.1	1.2
Expenditure corresponding to revenue recognised from Veikkaus Oy	1.0	1.0	1.0	1.0
Interest expenditure	1.2	1.2	1.2	1.4
Financial investment expenditure	0.5	0.4	0.4	0.4
Technical pass-through items	0.3	1.5	1.7	1.8
VAT appropriations	1.2	1.2	1.1	1.3
Transfer to State Television and Radio Fund	0.5	0.5	0.5	0.5
Total	11.4	11.6	11.6	11.9

Price and cost-level adjustments, and structural changes

The parliamentary term expenditure ceiling is adjusted annually to reflect structural changes in the spending limits as well as changes in price levels. The spending limits decision for 2017–2020 was prepared at the cost and price levels for 2017. The spending limits decision for 2018–2021 is prepared at the 2018 price level, as a result of which the 2018 expenditure ceiling is adjusted upwards by EUR 176 million. Index savings decided on earlier reduce the price adjustment. In addition, the 2018 expenditure ceiling is also adjusted downwards by a total of EUR 525 million corresponding to structural changes in the spending limits. The biggest change is the shifting of the transfer to the State Television and Radio Fund from expenditure within the spending limits to expenditure outside the spending limits. A structural adjustment in terms of 2019 will raise the spending limits level by EUR 12,004 million due, in particular, to the regional government reform and taxation and expenditure changes associated with it. The price- and cost-level adjustments and the structural corrections to the spending limits are described in more detail in Appendix 2.

	2018	2019
Spending limits decision 14 April 2016	44 830	44 300
Price- and cost-level adjustments	176	179
Structural changes	-525	12 004
Revised parliamentary term expenditure ceiling	44 481	56 483

After expenditure allocated to the administrative branches, there is an unallocated reserve of EUR 144 million in 2018 and EUR 109 million in 2019.

Central government spending limits by administrative branch and estimate of expenditure outside the spending limits in 2018–2021, EUR million at 2018 price and cost level

	2018	2019	2020	2021
23. Prime Minister's Office	176	170	167	167
Estimate of expenditure outside spending limits	25	25	25	25
Total	201	195	192	192
24. Ministry for Foreign Affairs	909	938	967	991
Estimate of expenditure outside spending limits	156	156	156	156
Total	1 065	1 094	1 123	1 147
25. Ministry of Justice	870	861	817	821
Estimate of expenditure outside spending limits	44	45	44	44
Total	914	906	861	865
26. Ministry of the Interior	1 244	1 212	1 202	1 194
Estimate of expenditure outside spending limits	123	117	107	107
Total	1 367	1 329	1 308	1 301
27. Ministry of Defence	2 485	2 730	2 670	3 694
Estimate of expenditure outside spending limits	359	362	368	608
Total	2 843	3 092	3 037	4 301
28. Ministry of Finance	16 355	30 071	30 325	30 552
Estimate of expenditure outside spending limits	996	1 713	1 882	1 955
Total	17 351	31 784	32 207	32 506
29. Ministry of Education and Culture	5 869	5 745	5 731	5 725
Estimate of expenditure outside spending limits	650	587	585	583
Total	6 519	6 332	6 317	6 308
30. Ministry of Agriculture and Forestry	1 628	1 533	1 452	1 582
Estimate of expenditure outside spending limits	957	960	904	980
Total	2 584	2 493	2 355	2 562
31. Ministry of Transport and Communications	2 324	1 879	1 837	1 795
Estimate of expenditure outside spending limits	976	879	859	817
Total	3 300	2 758	2 696	2 612
32. Ministry of Employment and the Economy	2 280	1 370	1 319	1 306
Estimate of expenditure outside spending limits	542	505	512	510
Total	2 821	1 875	1 831	1 816
33. The Ministry of Social Affairs and Health	9 591	9 278	8 966	8 963
Estimate of expenditure outside spending limits	5 331	5 004	4 851	4 695
Total	14 922	14 282	13 817	13 658
35. Ministry of the Environment	166	151	151	151
Estimate of expenditure outside spending limits	11	11	11	11
Total	177	162	162	162
36. Interest on central government debt	-	-	-	-
Estimate of expenditure outside spending limits	1 212	1 193	1 244	1 362
Total	1 212	1 193	1 244	1 362
Administrative branch spending limits, total¹⁾	44 037	56 074	55 734	57 070
Estimate of expenditure outside spending limits, total	11 390	11 567	11 558	11 861
Main titles, total	55 427	67 641	67 292	68 931
Parliamentary term expenditure ceiling	44 481	56 483		
— Administrative branch spending limits, total ¹⁾	44 037	56 074		
— Supplementary budget provision	300	300		
— Unallocated reserve	144	109		

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

5.3. Definitions of policy in budget finances 2018–2021

Key themes of the Government’s mid-term policy review

The General Government Fiscal Plan 2018–2021 includes additional investments made within the spending limits, directed particularly at the following themes:

- Knowledge, Growth and Employment
- Caring
- Reform
- Security

With respect to the Knowledge, Growth and Employment package, the additional appropriations will be allocated to, among others, Tekes, the Academy of Finland, employment services and Finpro.

With respect to the Caring package, the additional appropriations will be allocated to, among other things, supporting the implementation of the reform of vocational education and training, strengthening equality in comprehensive schools and developing the staff structure of early childhood education.

The Reform package includes investments in the Government’s Energy and Climate Strategy, for the implementation of which EUR 25 million will be allocated annually in 2018–2021.

In the Security package, an additional EUR 98 million will be allocated to the sector in 2018 compared with the previous General Government Fiscal Plan.

The appropriations of the above-mentioned packages are described in more detail in the text of the administrative branches in question and, with respect to the health, social services and regional government reform, in Chapter 7.

Incentive traps will be eliminated

To achieve the employment target, incentive traps will be reduced. The key measures are:

- Lowering early childhood education fees for low and middle-income families. The weakening effect (EUR 90 million in the first year) of the measures on local government finances will be compensated by increasing central government transfers for basic public services, the municipalities’ corporate tax apportionment, and the lower limits of the real-estate tax.
- A maximum limit on rent per square-metre will be restored to the housing allowance. Most of the net saving (EUR 8 million in 2018 and EUR 13 million thereafter) will be directed, in connection with the preparation of the 2018 budget proposal, at improving the position of those who are over-indebted.
- The housing allowance index will be changed from a rent index to a cost-of-living index in order to curb growth of housing allowance expenditure.

Consolidation of central government finances

Annex 6 of the Government Programme presents the general government consolidation measures to be implemented in the parliamentary term. The reducing effect on central government on-budget expenditure of measures outlined in Annex 6 is estimated to be approximately EUR 2.2 billion in 2018, an increase of EUR 700 million from 2017. Some of the consolidation measures, such as the reform of the quality recommendation in services for the elderly, will enter into force from 2018. In addition, the impact of a number of savings measures, such as savings resulting from cuts in spending authorisations, will increase from 2017.

With respect to local government finances, the consolidation measures are examined in Chapter 6.2, and at the level of general government finances as a whole in Chapter 9.1.

A number of operating expenditure savings were included in the Government Programme and these are described in more detail in Chapter 5.3.2.

Health, social services and regional government reform

This General Government Fiscal Plan takes into account the Government proposal on the health, social services and regional government reform that was submitted to Parliament on 2 March 2017 and which also includes, among other things, a proposal to establish the counties. In addition, a Government proposal to be submitted later on the transfer of duties from central government to the counties has also been taken into account. The reform changes the central government's and the municipalities' responsibilities for financing services, and it will have a significant, but on balance nearly neutral, impact on central government on-budget revenue and expenditure.

To the counties' universal (unearmarked) funding will be allocated funding based on healthcare, social welfare and rescue service duties as well as funding for other duties to be transferred from the municipalities and the central government, a total of approximately EUR 19 billion per year, which consists of the transfer of municipalities' tax revenue and a transfer from the central government contribution for basic public services as well as from other expenditure items of the State budget. A total of EUR 1.2 billion is allocated from 2019 to compensating counties' value-added tax costs.

The financing of the counties is covered in more detail in Chapter 5.3.1 in the Ministry of Finance administrative branch text, and county finances as a whole in Chapter 7.

Expenditure arising from asylum seekers

A figure of 7,000 per year has been assumed in the General Government Fiscal Plan for the number of asylum seekers. Compared with the situation that prevailed before autumn 2015, when an average of 3,000–4,000 asylum seekers arrived annually, the expenditure estimate has increased by just under EUR 400 million per year from the estimate prepared in spring 2015. In contrast, compared with the spring 2016 General Government Fiscal Plan, the expenditure estimate for 2018–2020 has fallen by an average of approximately EUR 300 million per year, due to a decrease in the estimated number of asylum seekers from 10,000 to 7,000 per year as well as a lower estimate for family reunifications.

Investments in key Government projects in the spending limits period

In accordance with decisions made earlier, a total of EUR 1.6 billion is allocated in 2016–2018 to key Government projects and to reducing the repair debt, of which EUR 770 million is allocated to 2018.

Competitiveness Pact

The Competitiveness Pact, signed in 2016, increases the appropriation requirement by just over EUR 300 million per year in the spending limits period. Central government operating expenditure will be reduced due to changes in social insurance contributions, reductions in holiday bonuses and an extension of working hours. Central government transfers to municipalities will also be reduced due to a saving arising from the reductions in holiday bonuses and the extension of working hours. Central government funding for universities and universities of applied sciences will be reduced as a result of the lowering of employers' contributions. Due to changes in private sector social insurance contributions, central government funding to the Social Insurance Institution of Finland (Kela) will grow. As revenue estimates weaken by approximately EUR 400 million annually due to the overall effect of the Competitiveness Pact, the on-budget balance will deteriorate by EUR 700–800 million.

5.3.1. Policy outlines for the administrative branches

Prime Minister's Office

The appropriations of the main title of the Prime Minister's Office will decrease during the spending limits period from EUR 201 million to EUR 192 million. The level of appropriations will be lowered by savings directed at the main title in accordance with the Government Programme and by the ending of the Finland 100 project from 2018.

The operating expenditure appropriations of the Prime Minister's Office will be increased temporarily in the spending limits period by joint government information system projects, which will result in the longer term in a reduction in costs. Productivity growth resulting from the projects has been taken into account in the appropriations as a reduction of approximately EUR 1 million from 2020 onwards. The level of operating expenditure appropriations will also be reduced in the spending limits period by the Government's Competitiveness Pact.

By a decision made after the United Kingdom's EU referendum, the Finnish Presidency of the EU will take place six months earlier and is scheduled for 1 July–31 December 2019. The Prime Minister's Office will lead preparations for the Presidency and attend to the reconciliation of issues relating to its planning and implementation. A total of EUR 70 million in 2018–2020 has been allocated in the spending limits to the overall expenses of the EU Presidency. In addition to this, the main title of the Ministry of the Interior includes an increase in security expenditure appropriations for the Presidency.

Administrative branch of the Ministry for Foreign Affairs

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

The objective of Finland's foreign and security policy is to strengthen Finland's international position and safeguard Finland's independence and territorial integrity. The main goal is to improve the security and wellbeing of Finns and to maintain the functioning of society. Finland's own network of diplomatic missions is an important instrument of influence that increases the country's security and wellbeing. The resources of the Foreign Service will be focused on those countries whose political and economic significance for Finland is growing. The Foreign Service's citizens' services will be developed through means facilitated by the reformed Consular Services Act and by using new digital solutions. Finland will be Chair of the Arctic Council in 2017–2019 and will hold the Presidency of the Council of Europe in 2018–2019 and the Presidency of the EU in the latter part of 2019.

The longer-term goal of development cooperation is to increase development funding to 0.7% of GNI in line with UN targets, even though savings will be made in the funding during the parliamentary term. The level of appropriations for actual development cooperation work will be approximately EUR 535 million in 2018 and EUR 621 million in 2021. In the spending limits period the average level of development cooperation appropriations is expected to be approximately 0.39% of gross national income. A total of EUR 130 million in 2018–2021 is proposed for development cooperation financial investment expenditure.

The appropriations for crisis management take into account the policy outlines of the Security and Defence Policy Report (2016), the National Strategy for Civilian Crisis Management (2014) and the Peace Mediation Action Programme (2011). In 2018 the military crisis management appropriations will be approximately EUR 79 million and from 2019 approximately EUR 63 million per year (total for the administrative branches of the Ministry for Foreign Affairs and the Ministry of Defence). The appropriations take into account those operations about which a decision of the President of the Republic has been made with respect to participation in such operations in accordance with the Act on Military Crisis Management. The civilian crisis management appropriations of EUR 15 million have been scaled to an annual level of approximately 120 experts.

In cooperation in the Baltic Sea, Barents and Arctic Region, the areas of particular focus will be multilateral cooperation in northern regional councils, Northern Dimension policy, and the implementation of the Government's Russia policy. In scaling the appropriation, cooperation and projects supporting Finland's Chair of the Arctic Council have been taken into account.

Ministry of Justice

The appropriations of the main title of the Ministry of Justice will decline during the spending limits period from EUR 914 million to EUR 865 million, as a result of, among other things, annual changes in election expenditure, an increase in expenditure savings, and the completion of ICT projects.

Operations will be adjusted to the tightening financial situation through the savings measures decided on in the Government Programme and a restructuring of the enforcement system as well as by developing the administrative branch's information systems and through other administration of justice reform programme measures.

Financial and debt counselling activities will be transferred from the administrative branch of the Ministry of Economic Affairs and Employment to the administrative branch of the Ministry of Justice, namely to the state legal aid offices of the legal aid and public guardianship districts. To these activities will be allocated funding of EUR 7.7 million, of which EUR 4.7 million is a transfer between the administrative branches and EUR 3 million new central government budget funding.

In the administrative branch of the Ministry of Justice, six extensive information management development projects are under way aimed at reforming operations with the aid of ICT. The objective of the projects is to enhance the operation of the courts of law, the Finnish Prosecution Service, the National Administrative Office for Enforcement, the Criminal Sanctions Agency and the Legal Register Centre as well as to introduce in all organisations common government mainstream products in the form of office and communication systems. Additional funding of EUR 18 million is allocated in 2018–2019 for developing these information systems.

Ministry of the Interior

The appropriation level of the main title of the Ministry of the Interior is higher in this spending limits period than in the previous period. The appropriation level will fall, however, during the spending limits period from EUR 1.4 billion to EUR 1.3 billion.

In accordance with the Government Programme, internal security and administration of justice will be particular areas of focus. The goal is to maintain the service level of the core functions of internal security actors (Police, Finnish Security Intelligence Service, Border Guard and Emergency Response Centre Administration). Finland's internal security is linked to the security situations of other EU Member States and neighbouring countries. The key issues currently are immigration, border security, cyber security, crime prevention and combating terrorism. International obligations set requirements for activities.

An annual EUR 33.5 million increase is allocated in the General Government Fiscal Plan to the operating expenditure of the Police and the Finnish Security Intelligence Service to safeguard core functions with respect to decisions made earlier, so that a level of 7,200 police can be maintained also in 2018. Additional funding of EUR 1 million in 2018 and 2019 is earmarked for Police equipment procurement. The Police will improve its performance capability by renewing its equipment and preparing for new security threats. Tasks will be performed in an efficient and appropriate way in the order of importance dictated by circumstances, within the framework of the allocated appropriations. The Police has completed earlier structural reforms and aims to achieve the savings targets set out in the reforms. The objective of the development of administration and support tasks is to boost productivity, develop processes, increase consistency and utilise the opportunities offered by digitalisation.

Security Intelligence Service resources will be strengthened by EUR 3.5 million due to change in the operating environment and to respond to new security threats.

Finland's border security situation has changed fundamentally and a quick turn for the better is not expected in the foreseeable future. The Board Guard has adjusted its operations by streamlining the organisation, making processes and use of labour more efficient, and making greater use of technology. Increasing EU obligations require additional resourcing, for example at Helsinki-Vantaa Airport, where efficient traffic flow is a critical success factor. Additional funding of EUR 8–10 million per year will be allocated in the spending limits period to eastern border surveillance, to securing the growth and efficient functioning of air transport at Helsinki-Vantaa Airport, and to meet increasing EU obligations.

A legislative proposal on the organisation of rescue services has been submitted to Parliament. Appropriation transfers from the Regional State Administrative Agencies to the administrative branch of the Ministry of the Interior as a result of the reorganisation of duties are in accordance with the legislative proposal. In emergency response centre activities, an emergency response centre information system is being introduced and the public authorities' common situation awareness and field management system is under development.

In a forecast based on the development of the asylum seeker and refugee situation and measures of different countries, the number of asylum seekers and quota refugees arriving in Finland is expected to be an average of approximately 7,000 per year. This will reduce the appropriation requirement in reception expenditure by EUR 30 million per year during the spending limits period.

Ministry of Defence

The appropriation level of the administrative branch of the Ministry of Defence will be EUR 2.8 billion in 2018 and it will rise during the spending limits period to EUR 4.3 billion. The increase is due to the planned financing of the Defence Forces' strategic performance capability projects. The appropriations for 2021 include EUR 1 billion for the first year of the HX fighter replacement project and a EUR 150 million appropriation increase for defence materiel procurement compared with 2015. The appropriation level for defence materiel procurement will be at the 2020 level in 2021, if HX project expenditure is not taken into account.

Finland's defence is based on general conscription and the defence of the entire territory of the nation. In accordance with the Government Programme, Finland will pursue an active foreign policy, strengthen the national defence capability and deepen international security and defence policy cooperation. Finland will ensure a credible defence in all circumstances and develop it to meet the increased demands of the operating environment. The change in the security environment is expected to be long-lasting.

In the spending limits period, sea and air defence strategic performance capability projects for the 2020s, launched in 2015, will be implemented. In these projects, the replacement of the performance capability of the Navy's ageing combat vessel fleet and the Air Force's Hornet fleet will be decided on. The appropriation level includes EUR 624 million for the Navy's Squadron 2020 vessel project (total expenditure EUR 1.2 billion for 2019–2025) as well as the estimated first-year expenditure for the HX project.

The Defence Forces' operating expenditure will be increased by EUR 50 million in 2018–2021 to improve preparedness required by change in the security situation. EUR 2 million will be allocated in 2018–2019 to hire contractual military personnel. According to established practice, cost-level adjustments will be made annually to defence materiel procurement appropriations, defence force operating expenditure (excluding personnel expenditure) and military crisis management appropriations (excluding personnel expenditure).

Ministry of Finance

The overall level of the appropriations of the main title of the Ministry of Finance will rise significantly compared with the previous spending limits decision. In 2018 the spending limits level will be EUR 17 billion and in 2021 EUR 33 billion. The increase is associated with the financing solution of the health, social services and regional government reform, by which expenditure previously funded by the municipalities will be transferred to within the sphere of central government funding.

The appropriations of the Tax Administration include funding for taxation duties transferred from Customs as well as a EUR 6 million appropriation reduction from 2021 for benefits generated by the information system renewal.

The appropriation level for pensions will be EUR 5.0 billion in 2018 and it will increase during the spending limits period to EUR 5.2 billion.

Payments to the European Union will rise during the spending limits period from EUR 2.0 billion to EUR 2.1 billion. The level is, on average, approximately EUR 45 million higher than estimated in the previous spending limits. The change is due to the accumulation of payment appropriations for the EU's multiannual budgetary framework for the final years of the financial period 2014–2020.

The spending limits provide for more extensive compensation due to an amendment of the Military Accidents Act and for the transfer of foreign travel accident compensation to the payment responsibility of the State Treasury.

Central government transfers to the municipalities and counties

In the spending limits period, the health, social services and regional government reform will reorganise the structure and financing levels of municipal and county funding. The health, social services and regional government reform is described in more detail in Chapter 7.

The General Government Fiscal Plan takes into account changes in accordance with the Government proposal on the health, social services and regional government reform submitted on 2 March 2017. It also takes into account those duties to be transferred from central government to the counties that the Government has decided on but for which

Government proposals are due to be submitted later in 2017. Effects associated with health and social services freedom of choice legislation have not been taken into account.

A total of EUR 18.6 billion will be allocated to the counties' universal central government funding in 2019. Of the funding, EUR 5.7 billion is a transfer from the central government contribution for basic public services and approximately EUR 1 billion a transfer from other administrative branches. In addition, as part of the health, social services and regional government reform, it is intended to abolish health insurance compensation of travel costs for emergency care and to transfer reimbursement of the costs of county residents' cross-border healthcare to the responsibility of the counties. As a result, a total of EUR 58.1 million for health insurance compensation will be transferred to the counties and an additional EUR 8.6 million will be allocated to cross-border healthcare expenditure. In the reform, responsibility for organising the Helicopter Medical Emergency Service will be transferred from central government to the counties, for which a total of EUR 29 million will be allocated.

Compensation of the counties' value-added tax costs is intended to be implemented for the counties in a different way from the municipalities, where refunds are paid via the value-added tax system. The intention is to pay compensation to the counties from the central government budget, which is estimated to increase central government expenditure by EUR 1,231 million. Central government value-added tax revenue will increase on an annual level by an amount corresponding to the compensation of value-added tax costs.

In 2020 only half of the index adjustment will be made to the central government funding of the counties.

A total of EUR 8,412 million is allocated to central government transfers for municipalities' basic public services in 2018. The spending limits level is affected by, among other things, a reduction associated with the Competitiveness Pact, a reduction associated with the pension subsidy for the long-term unemployed, and other changes made in the 2017 budget. The central government transfer related to the Competitiveness Pact will be reduced by EUR 468 million in 2018. From 2019, part of the reduction will be directed at counties, and the central government transfer for basic public services will be reduced by EUR 188 million in 2019 and EUR 62 million in 2020-2021.

Of the Government Programme measures, the estimated saving from the reform of the quality recommendation in services for the elderly has been reduced while the saving from the centralisation of specialised medical care has been increased, which has been taken into account in scaling of the central government transfer for basic public services and central government funding for the counties. In connection with the reform of vocational upper secondary education and training, more students will come within the scope of pupil and student welfare, which will increase municipalities' expenditure from 2018. In respect of this, an additional EUR 5.6 million will be allocated to the central government transfer for basic public services. An adjustment of the division of costs between central and local government based on actual data for 2015 will reduce the central government transfer to municipalities for basic public services by EUR 73.4 million. In contrast with the previous General Government Fiscal Plan, the Helicopter Medical Emergency Service will be transferred to the counties in 2019, in connection with which the central government transfer for basic public services will be reduced by EUR 23.71 million from 2018 onwards. An increase of EUR 25 million will be allocated in 2018 to the central government transfer for basic public services, to compensate for the lowering of early childhood education fees. EUR 2,638 million in 2019, EUR 2,799 million in 2020 and EUR 2,836 million in 2021 will be allocated to the central government transfer to municipalities for basic public services.

For preparing and steering the implementation of the health, social services and regional government reform, such as the costs of establishing and launching the counties' provisional administration and county councils as well as the counties' service centres, EUR 58 million will be allocated in 2018, EUR 7.7 million in 2019, EUR 2.2 million in 2020 and EUR 1.2 million in 2021. The reform will also mean major changes to information management and information systems. These solutions and the resources they require will be specified in more detail during further preparations.

Issues related to basic public services organised by municipalities, and to the central government transfers paid for them, are discussed as a whole in Chapter 6 Local government finances, and issues related to the counties' duties and their funding in Chapter 7 County finances.

Ministry of Education and Culture

The appropriation level of the administrative branch of the Ministry of Education and Culture will be EUR 6.5 billion in 2018, falling to EUR 6.3 billion during the spending limits period.

Educational equality will be promoted in early childhood education and comprehensive education in order to improve learning outcomes. Early childhood education fees will be lowered for small- and middle-income families, and EUR 5 million in 2018–2019 and EUR 9 million in 2020–2021 will be allocated to developing the staff structure of early childhood education. The goal is to strengthen the quality and pedagogics of early childhood education and to increase the multi-professional support received by children and families. EUR 15 million will be allocated in 2018 and 2019 to strengthen equality in comprehensive education. This support will be directed at schools in the most challenging areas and, for example, to special needs education and to reduce the size of teaching groups. As part of the Key Government Project for Knowledge and Education, the introduction of digital materials will be accelerated, digital learning will be trialled and developed, and teachers' competence will be increased.

The Government will launch a reform of general upper secondary education. The objective is to increase the attractiveness of general upper secondary education as a general form of education providing eligibility for further studies in tertiary education as well as to strengthen education quality and learning outcomes, and to smooth the transition from secondary to tertiary education.

The regulation, funding, steering and structures of vocational education and training will be reformed. The objective is a competency-based and client-oriented system, enhancing the effectiveness of the resources allocated to it. The new system will be introduced in 2018. EUR 15 million will be allocated in 2018 and 2019 to support the implementation of the reform of vocational education and training. The funding will be used to strengthen the digitalisation of vocational education and training, lower drop-out rates, prevent social exclusion, and build paths to education and employment as a cooperative effort of educational establishments and working life.

A division of responsibilities supporting the profiling of higher education institutions will be developed at the same time as cooperation between them and with research institutes is tightened. Cooperation between higher education institutions and businesses will be strengthened to commercialise innovations. The objective is to gather expertise into competitive clusters, use science and research resources more effectively, raise the quality and effectiveness of research, and support the renewal of science. The Academy of Finland's grant authorisation will be increased by EUR 25 million in 2018 and 2019 to implement flagship research centres, to be established in connection with universities and research institutes. The extensive utilisation and openness of research materials, research results and expertise will be promoted. The Government is committed to implementing a data-driven research development programme, to which a total of EUR 33 million will be allocated in the spending limits period.

The implementation of a teachers' education development programme will continue. The objective is the reform of teachers' basic and further education to fulfil new learning needs. In 2018, a total of EUR 21.5 million will be invested in developing teachers' competence. A total of EUR 45.7 million is allocated in 2018 for measures to develop tertiary education, strengthen digital learning environments and improve conditions for all-year-round learning. In 2018, EUR 46 million is allocated to the capitalisation of universities and EUR 24 million to the capitalisation of universities of applied sciences.

As part of measures to strengthen the economic vitality and business structure of the Savonlinna area, it is proposed that university of applied science education in mechanical wood construction be launched in the South-Eastern Finland University of Applied Sciences (Xamk). This will strengthen the development of wood construction expertise in the area, and a total of EUR 2.4 million will be allocated to its funding in the spending limits period.

The savings impact of implementing the reform of financial aid for students will be approximately EUR 113 million by the end of the spending limits period. Students will be transferred, as a rule, to within the scope of the general housing allowance from 1 August 2017, as a result of which the appropriation requirement for the housing supplement within the system of financial aid to students will decrease on an annual basis by EUR 250 million. The reform is cost neutral from the standpoint of general government finances, and the additional costs arising from it will be covered from the main title of the Ministry of Social Affairs and Health through changes made to the general housing allowance. A EUR 75 provider supplement will be made to safeguard the income of students with families. The change will increase central government expenditure by approximately EUR 10 million on an annual basis.

A reform of the system of central government transfers for art and culture will be prepared for implementation in 2019.

A key Government project aims to improve access to art and culture. The goal is to increase children's and young people's equal opportunities to participate in art and culture. The principle of percentage art will be expanded in cooperation with healthcare and social welfare to support the wellbeing effects of art. A key project, one hour's exercise a day, directed at comprehensive school pupils will be implemented as part of the Government Programme. Young people's workshop and outreach youth work activities will be enhanced and their effectiveness increased. The Key Government Project, Youth Guarantee to Community Guarantee, aims to deepen cooperation between parties providing services for young people and to identify best practices for adoption throughout Finland. In the spending limits period, budget funding of young people's workshop activities and outreach youth work will be maintained at the 2017 level, i.e. EUR 19.5 million.

There will be investment in teachers' basic and further education required by the asylum seekers situation and in developing skills identification and recognition services. Immigrants' mental wellbeing, functional capacity, sense of community and integration will also be supported through cultural, physical exercise and youth work measures.

Ministry of Agriculture and Forestry

The appropriations in the main title of the Ministry of Agriculture and Forestry will be at a higher level than in the previous General Government Fiscal Plan. The annual appropriations of the main title will decrease, however, during the spending limits period from EUR 2.58 billion to EUR 2.56 billion. The decrease is due to savings decisions, the ending of funding for key projects, and the health, social services and regional government reform. Of the expenditure savings, most relate to the agriculture and food economy and rural development.

A total of EUR 134 million in additional funding for key Government projects in the Government Programme's strategic priority area Bioeconomy and Clean Solutions has been taken into account in the administrative branch of the Ministry of Agriculture and Forestry in 2016–2018. Of this, EUR 95 million is allocated to the agriculture and food economy and EUR 39 million to the natural resources economy. EUR 63.5 million of this additional funding is allocated to 2018.

The revenue estimates and appropriations take into account an amendment to the Lotteries Act whereby 4% of Veikkaus Oy's shared proceeds will be directed to the main title of the Agriculture and Forestry for the promotion of horse breeding and the equestrian sports.

From 2019, the present Finnish Food Safety Authority (Evira) and Finnish Agency for Rural Affairs (Mavi) are due to be merged. In the same context, the organisation of the administrative branch's information technology services will also be examined. The impacts on appropriations of the reorganisation have not yet been taken into account in the spending limits.

The funding of the Rural Development Programme for Mainland Finland 2014–2020 is included in the spending limits as the programme progresses. The EU's new funding and programming period begins in 2021. At this stage, the appropriation level of the first year of the current programming period has been used as the appropriation level for 2021.

It is proposed that in 2016–2018, a total of EUR 90 million, of which EUR 49 million in 2018, will be transferred to the Development Fund of Agriculture and Forestry (Makera) as key Government project funding. National agricultural start-up and investment grants will be wholly funded from Makera. Co-financed agricultural grants will be funded as part of the Rural Development Programme for Mainland Finland from the appropriation allocated in the budget. The goal is also to influence the development of the structure of agriculture through an interest subsidy for rural business activity payable from the appropriation allocated in the budget and through government guarantees granted from Makera.

Government will strengthen protection of forest biodiversity by increasing by EUR 5 million the annual investment in the implementation of the Forest Biodiversity Programme for Southern Finland (METSO). METSO is focused primarily on the protection of old forests. The objectives of the programme also include the protection of wooded

mires and bogs. The increase will be divided between the administrative branches of the Ministry of Agriculture and Forestry and the Ministry of the Environment.

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

Ministry of Transport and Communications

The annual appropriations of the main title of the Ministry of Transport and Communications will average approximately EUR 2.8 billion in the spending limits period. The appropriations will decrease during the spending limits period from EUR 3.3 billion to EUR 2.6 billion. Of this, EUR 690 million will be due to, for example, the ending of increases for key Government projects and the impact of duties transferred to the counties. Approximately EUR 175 million of savings in 2018–2021 will be directed at operating expenditure items of the administrative branch.

The administrative branch of the Ministry of Transport and Communications serves society by facilitating an operating environment for new digital services. An effective market environment for the demand and supply of various transport, communications and digital services will be created such that new business opportunities and exports arise and the range of services grows. New services and earnings logic, transport automation and changing customer needs require new kinds of flexible online services.

The operating expenditure and other appropriations of the administrative branch's agencies and institutions will be used to promote the utilisation of digital services and data. Utilisation of digitalisation will be promoted by streamlining and reforming regulation, and by creating a framework for transport service and automation trials.

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

Funding of EUR 1.4 billion is allocated in 2018 to basic transport infrastructure maintenance, of which approximately EUR 300 million is key Government project funding for reducing the repair debt. In the final years of the spending limits period, approximately EUR 1 billion per year is allocated to basic transport infrastructure maintenance. The spending limits include an appropriation totalling EUR 723 million in 2018–2021 for halting the growth of the repair debt. EUR 153 million in 2018, EUR 90 million in 2019, EUR 90 million in 2020 and EUR 90 million in 2021 has been transferred from development projects to basic transport infrastructure maintenance. In addition, repair debt funding of EUR 10 million in 2018–2020 is allocated to private road grants. In 2021, the repair debt funding allocated to private road grants will be returned to transport infrastructure.

A new development project will be launched at Laajalahti on Ring Road I in connection with the construction of the Raide–Jokeri light rail link. The estimated cost of the project is EUR 30 million, of which the central government's funding contribution is EUR 20 million. The project will be funded by a re-allocation of basic transport infrastructure maintenance appropriations.

From 2019, the construction and maintenance of certain airfields, the maintenance of private roads and support for public transport, a total of EUR 37.9 million, will be transferred to county government. In addition, archipelago transport duties will be transferred to county government, which will be funded by a total of EUR 18 million from the main title of the Ministry of Transport and Communications.

An additional appropriation of EUR 2 million per year will be allocated in the spending limits period to the Finnish Communications Regulatory Authority to safeguard and develop the reliability of information security and protection of privacy, with the objective of, among other things, ensuring the smooth interoperability of digital platforms and services.

An annual EUR 0.5 million increase will be allocated from 2018 to the Finnish Meteorological Institute's project establishing the ACTRIS European Research Infrastructure and to locating its headquarters in Finland.

Ministry of Economic Affairs and Employment

The overall level of appropriations in the main title of Ministry of Economic Affairs and Employment will decrease compared with the previous spending limits decision. Main title appropriations will decrease during the spending limits period from approximately EUR 2.8 billion to EUR 1.8 billion due to transfers associated with the health, social services and regional government reform as well as the ending of key Government project investments. The transfers are described in Chapter 7. County finances.

Business and innovation policy appropriations will decrease during the spending limits period from EUR 844 million to EUR 690 million. A general increase of EUR 42 million has been made in 2018 and 2019 for the grant authorisations of Tekes, the Finnish Funding Agency for Innovation. The additional authorisations will be allocated to the joint projects of companies and research institutes, innovative procurement, and to support innovations and internationalisation. After the increase, Tekes' grant authorisations are EUR 274 million in 2018, EUR 278 million in 2019 and EUR 231 million in 2020 and 2021. Of the grant authorisations of Tekes, EUR 9.5 million will be allocated in 2018–2019 to a production incentive for the audio-visual sector, of which half will be financed as a transfer from the administrative branch of the Ministry of Education and Culture. EUR 2 million will be allocated to investment support for the circular economy and EUR 2 million to developing growth ecosystems, on an annual basis, in 2018–2019. Team Finland growth programmes will be continued with EUR 5 million of additional investments 2018–2019. Finpro's discretionary government transfer will be increased by EUR 1 million in 2018 and 2019 to strengthen the trade centre network. Tekes and Finpro services will be gathered under the same roof from 1 January 2018. EUR 8 million per year will be allocated to the Tourism 4.0 project in 2018–2019.

The maximum authorisation of loans allocated to Finnvera Plc's acquisition of funds will be raised from EUR 500 million to EUR 1 billion. Costs related to refinancing credits granted previously by Finnish Export Credit Ltd will decrease during the spending limits period from EUR 95 million to EUR 66 million. EUR 42 million in 2018 and EUR 34 million in 2021 is earmarked for interest and other support for publicly-subsidised export and ship credits, and EUR 56 million in 2018 and EUR 60 million in 2021 for Finnvera Plc's loss compensation.

Appropriations for public employment and business services will be increased by EUR 25 million as a result of an activation model to be introduced on 1 January 2018. An appropriation of EUR 347 million is earmarked in 2018 for public employment and business services. An annual EUR 5 million funding increase will be allocated to consolidating Ohjaamo (counselling centre) activity, which provides low-threshold services for under 30 year-olds. Employment and enterprise policy appropriations will be transferred in 2019 to the funding responsibility of the counties.

Financial and debt counselling activities will be transferred to the administrative branch of the Ministry of Justice, namely to the state legal aid offices of the legal aid and public guardianship districts.

Energy policy appropriations will decrease in the spending limits period from EUR 469 million to EUR 394 million. Appropriations for renewable energy production subsidies will increase slightly from EUR 314 million to EUR 319 million.

Estimates of immigration levels have fallen and main title appropriations have been reduced accordingly compared with the previous General Government Fiscal Plan. Appropriations earmarked for integration education and training are reduced by EUR 22 million in 2018, just over EUR 10 million in 2019 and EUR 6 million in 2021, in addition to which integration compensation paid by the central government to municipalities is reduced by EUR 128 million in 2018, EUR 151 million in 2019, EUR 112 million in 2020 and EUR 120 million in 2021.

Ministry of Social Affairs and Health

The overall level of the appropriations in the main title of the Ministry of Social Affairs and Health will be higher in the spending limits period than in the previous spending limits decision. The appropriation level of the administrative branch will fall during the spending limits period from EUR 14.9 billion to EUR 13.7 billion. In addition to the

implementation of the Government Programme and the Competitiveness Pact, the appropriation level is affected by cyclical factors, such as changes in the unemployment rate and demographic structure.

The most significant changes compared with the previous spending limits decision arise from the implementation of the Competitiveness Pact, appropriation transfers associated with the health, social services and regional government reform to the counties' financing item, the transfer of students to within the scope of the general housing allowance and the introduction of an activation model of unemployment security. The fall in the appropriation level in the spending limits period is mainly due to appropriation transfers associated with the health, social services and regional government reform.

The Competitiveness Pact will increase the appropriation requirement in the main title of the ministry by just over EUR 700 million in 2018 and just under EUR 400 million at the end of the spending limits period. Of this, the biggest impact is due to the reduction of the employer's health insurance contribution, which will increase expenditure by EUR 828 million in 2018 and by EUR 520 million at the end of the spending limits period. In addition, the reduction of the daily allowance contribution of those receiving low earned incomes will increase expenditure by EUR 76 million in 2018 and by EUR 64 million at the end of the spending limits period. The allocation of the unemployment insurance contributions of wage earners not belonging to unemployment benefit societies to basic daily allowance funding will reduce the central government's share of the basic daily allowance by EUR 90 million on an annual basis. The ending of the central government's funding contribution for the wage earner's adult education allowance will reduce the appropriation requirement by EUR 93.6 million on an annual basis. The Competitiveness Pact will reduce the operating expenditure of the administrative branch's agencies by approximately EUR 4 million in 2018 and EUR 2.7 million at the end of the spending limits period.

It is proposed that unemployment security be reformed by introducing an activation model in which the waiting period at the beginning of unemployment is reduced from seven days to five days. When the period of unemployment continues beyond three months, there would be one waiting day per month in unemployment security, which individuals could avoid by being active. The activation model would also apply to basic social security. The reform will reduce the central government transfer by approximately EUR 8 million on an annual basis.

A maximum limit on rent per square metre will be restored to the housing allowance. Most of the net saving will be directed, in the autumn 2017 budget session, at improving the position of those who are over-indebted. The housing allowance index will be changed from a rent index to a cost-of-living index in order to curb growth of housing allowance expenditure.

In connection with the health, social services and regional government reform, the General Government Fiscal Plan takes into account the transfers of financing responsibilities outlined at this stage to the counties' universal funding item 28.90.35. The transfers relate to agricultural entrepreneurs' substitute help activity, to rehabilitative work activity and partly to health insurance. The total impact of the transfer will be approximately EUR 222.5 million in 2019. Preparation and implementation resources for the health, social services and regional government reform have been centralised in the main title of the Ministry of Finance in accordance with a reform implemented in the 2017 budget. An appropriation of EUR 100 million will be allocated in 2018 for the implementation of freedom of choice experiments in health and social services.

The impacts of reforms decided in connection with the 2017 budget have been taken into account in the spending limits period. These included the pension subsidy for long-term unemployed people over 60 years of age from 1 June 2017, the transfer of students to within the scope of the general housing allowance from 1 August 2017, the gender neutral Marriage Act that entered into force in 1 March 2017, and the addition of the chicken pox vaccine to the national immunisation programme from 2017.

In accordance with a decision made earlier, index adjustments to benefits linked to the National Pension Index and the Consumer Price Index were not made in 2017–2019. This does not apply, however, to basic social assistance.

Owing to an increase in the number of people granted asylum, the appropriation requirement in the administrative branch of the Ministry of Social Affairs and Health is estimated to be approximately EUR 112 million in 2018 and approximately EUR 211 million at the end of the spending limits period. The costs affect the items relating to child allowance, housing allowance, labour market support, health insurance and basic social assistance.

The level of the front-line veterans' rehabilitation appropriation has again been set such that the level of the annual appropriation available for rehabilitation per veteran entitled to rehabilitation will rise. The intention is to safeguard elderly care services for veterans. Due to a reduction in the number of veterans, the appropriation requirement will fall from approximately EUR 197.2 million at the beginning of the spending limits period to approximately EUR 146.3 million at the end of the spending limits period.

An annual EUR 15 million has been earmarked for central government compensation to healthcare units for the funding of university-level medical research. In connection with the health, social services and regional government reform, social sector research will also be brought within the scope of funding from 2019. It is proposed that central government compensation to healthcare units and universities to cover costs arising from medical and dental training be approximately EUR 96 million in 2018. Due to the health, social services and regional government reform, the scaling of the appropriation takes into account an increase from 2019 in education relating to the limited right to prescribe medicines of specialist social workers and registered nurses.

The Government will allocate EUR 3 million of funding in 2018–2019 to the care of mothers with substance abuse problems. Central government funding for shelter activity expenditure will be increased by EUR 2 million per year in spending limits period.

EUR 10 million per year from 2018 onwards will be used to increase the basic level of the care allowance for pensioners.

The Unemployment Security (TTLK) and Social Security (Somla) Appeal Boards will be merged from 2018. At the same time, preparations will be made for the processing of appeals caused by an increase in the number of appeals.

The ethical assessment of clinical trials will be strengthened in accordance with the EU Clinical Trial Regulation. In this context, the National Committee on Medical Research Ethics (TUKIJA) will be transferred to the ministry from the National Supervisory Authority for Welfare and Health.

A total of EUR 123.7 million, of which EUR 50.5 million for 2018, is earmarked in 2016–2018 for the implementation of Key Government Projects for Wellbeing and Health. In addition, EUR 4 million is allocated in 2016–2018 for the reform of the operating processes of social and healthcare services for young people in accordance with the youth guarantee.

Grants to organisations and foundations to promote health and social welfare will increase due to a revised estimate of proceeds from betting and lottery activities by EUR 25.4 million to EUR 354.4 million by the end of the spending limits period.

Issues related to basic public services organised by the municipalities and the counties, and to their funding, are comprehensively discussed in Chapter 6 Local government finances and Chapter 7 County finances.

Ministry of the Environment

The overall level of the appropriations of the main title of the Ministry of the Environment will decrease during the spending limits period from EUR 177 million to EUR 162 million. The overall level of the appropriations will also fall compared with the previous General Government Fiscal Plan, owing to appropriation transfers implemented in connection with the regional government reform. In addition, projects promoting state-subsidised housing production will also be funded from the off-budget National Housing Fund.

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

The intention is increase housing construction in the built environment, with the objective of meeting housing demand. To increase the supply of land for construction and housing production in growth centres, the implementation of land use, housing and transport (MAL) agreements will be promoted with public utility service grants, EUR 15 million of which will be awarded annually from the National Housing Fund in 2018–2019. In addition, start-up grants for reasonably priced housing construction amounting to EUR 20 million per year in 2018–

2019 will be awarded from the National Housing Fund in connection with the Greater Helsinki MAL agreement. Wood construction will be promoted. Investment grants for special groups amounting to EUR 110 million in 2018–2019 and EUR 125 million in 2020–2021 from the National Housing Fund will be used to support the improvement of housing supply for the most vulnerable groups. The living at home of elderly people and the retro-fitting of lifts will be supported with repair grants, to which has been allocated in the budget, in addition to a EUR 20.5 million repair grant authorisation, a maximum EUR 15 million per year from the National Housing Fund in 2018–2019.

A maximum of EUR 1 million in 2018–2019 is allocated to implementing the second phase of the restoration of the Laajalahti area in Lievestuore. At the same time, a significant investment will be required from the Municipality of Laukaa to implement the project. In the protection of the Baltic Sea and inland waters, the implementation of the waterways and marine management action programmes as well as the nutrient recycling programme will be continued and resources again directed at reducing loading of nutrients and harmful substances and protecting groundwater. The renovation of the marine research vessel Aranda is expected to be completed in 2018, at which time a further EUR 3 million will be allocated to it. A total of EUR 21.6 million per year will be allocated to the acquisition of nature conservation areas and to compensation for nature conservation areas. Of this, approximately EUR 15 million will be allocated in 2018 and approximately EUR 13 million in 2019–2021 to the implementation of the Forest Biodiversity Programme for Southern Finland (METSO). Oil spill response will be improved by equipping a new offshore patrol vessel and an icebreaker with oil recovery equipment.

The funding base of the Oil Protection Fund will be revised so that any effects on public finances required by possible changes can still be taken into account in the General Government Fiscal Plan during the current parliamentary term. At the same time, the necessity of a separate fund will be explored.

5.3.2. Central government joint information system projects and administration

Key information system projects

In the spending limits, approximately EUR 34.3 million has been allocated in 2018 and approximately EUR 37.5 million annually in 2019–2021 for key information system and information management projects as well as other productivity projects in the administrative branches.

The key information system projects under way include the National Income Register, the common electronic desktop and case management system in central government, the Finnish Immigration Service's Smart Digital Agency, the Police enterprise resource planning system, the complete modernisation of customs clearance systems, the National Board of Education's register of verified competence, a restructuring of the enforcement system, the ERP and document management system of administrative and special courts of law, the Prosecution Service and general courts of law, the customer information system of the Criminal Sanctions Agency, the joint public authorities' field information system and the Tax Administration's OTS software project and information system upgrade.

In the spending limits, appropriations are allocated, if necessary, for significant information system, information management and other modernisation projects. In addition, funding has been made available for smaller productivity projects of the administrative branches.

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

In accordance with the Act on Shared Support Services for eGovernment (571/2016), which entered into force in July 2016, the Population Register Centre has been assigned the task of providing support services for electronic transactions in the public sector. The Government's aim is to strengthen use of electronic services in transactions and communications between citizens and the public sector. Of the appropriations associated with the Population Register Centre's new duties this General Government Fiscal Plan includes, among other things, a EUR 0.5 million transfer for identification fees to Population Register Centre operating expenditure item 28.30.03 from item 33.01.25 National electronic client data systems for healthcare and social welfare.

Financial and HR administration

The productivity of central government financial and HR administration will be improved by continuing the centralisation of tasks in the Government Shared Services Centre for Finance and HR (Palkeet) and by developing the shared financial and HR administration information system and operating practices.

Use of the service centre model will be enhanced in accordance with the Government Programme by prescribing directly in law many financial management tasks of agencies, institutions and off-budget funds to be tasks of the Government Shared Services Centre for Finance and HR. A saving of EUR 4 million is sought with this measure from 2019 onwards. Ministries, agencies and institutions will continue the implementation of changes supporting the productivity development of financial and HR services as well as increasing the use of the Government Shared Services Centre for Finance and HR.

The government shared financial and HR administration information system (Kieku) has been taken into use in all agencies and institutions (excluding the Defence Forces). The Government Shared Services Centre for Finance and HR will further develop the accessibility and functionality of the Kieku information system. A new electronic ordering and invoice processing solution will be introduced in all central government agencies and institutions between autumn 2018 and the end of 2019.

Financial and HR administration operating practices will be enhanced by taking into use new services and by automating existing services (e.g. digitalisation of production processes based on software robotics).

Developing central government procurement

Central government procurement will be developed, led by the Ministry of Finance in cooperation with the key procurement organisations and Hansel Ltd. In the spending limits period, an electronic competitive tendering system will be introduced in central government procurement units. The development of procurement activity will be continued in a digitalisation implementation programme for central government procurement.

Innovations and the roll-out of innovations will be supported with public procurement. In accordance with the Government Programme, the goal is that 5% of public procurement should either create innovations or support innovation activity. In order to take the innovation perspective into account, procurement units' skills capacity will be improved and support for innovations implemented in procurement activity development and joint purchases.

Reducing government premises expenditure

Central government premises expenditure will be reduced in accordance with the objective stated in the Government Programme. A EUR 30 million saving in appropriations directed at agencies' rents will be made from 2019. Together with Senate Properties, the administrative branches have made plans for the implementation of the premises strategy that when implemented will improve space efficiency to correspond with the space efficiency targets set in the premises strategy, altered working practices and an increase in citizens' electronic services.

Saving of administrative expenditure

The Government Programme outlined a saving in operating expenditure totalling EUR 120 million in 2016–2019, which will be implemented by, among other things, reducing duties and obligations, relinquishing premises and utilising retirement attrition. In accordance with the Government Programme, digitalisation will be increased and structures reformed. The saving obligations apply to all administrative branches. If the implementation in full of a savings measure allocated to an administrative branch proves to be impossible, a substitute saving will be made in the administrative branch in question.

An increasing operating expenditure saving, scheduled for 2017–2019, was targeted at items in the preparation of the General Government Fiscal Plan 2017–2020.

Operating expenditure savings at main title level in 2017–2021, EUR 1,000

	2017	2018	2019	2020	2021
Prime Minister's Office	-1 240	-1 990	-2 740	-2 740	-2 740
Ministry for Foreign Affairs	-1 480	-2 210	-2 940	-2 940	-2 940

	2017	2018	2019	2020	2021
Ministry of Justice	-5 750	-8 250	-10 750	-10 750	-10 750
Ministry of the Interior	-12 390	-18 600	-24 810	-24 810	-24 810
Ministry of Defence	-11 130	-16 770	-22 410	-22 410	-22 410
Ministry of Finance	-14 090	-21 170	-28 250	-28 250	-28 250
Ministry of Education and Culture	-2 120	-3 190	-4 260	-4 260	-4 260
Ministry of Agriculture and Forestry	-280	-390	-500	-500	-500
Ministry of Transport and Communications	-3 500	-5 280	-7 060	-7 060	-7 060
Ministry of Economic Affairs and Employment	-4 840	-7 340	-9 840	-9 840	-9 840
Ministry of Social Affairs and Health	-2 510	-3 860	-5 210	-5 210	-5 210
Ministry of the Environment	-710	-1 030	-1 350	-1 350	-1 350
Unallocated	40	80	120	120	120
Total	-60 000	-90 000	-120 000	-120 000	-120 000

5.4. On-budget revenue

Central government on-budget revenue estimates are based on a forecast of the medium-term development of the economy updated in spring 2017. In the next few years, economic growth and thereby also the development of tax bases will continue to be rather modest. The revenue estimates of the spending limits period have taken into account the tax criteria changes decided in the Government Programme and during the parliamentary term.

Actual on-budget revenue is expected to grow in the spending limits period by an average of approximately 8.1% per year. Tax revenue, on the other hand, is expected to grow, on average, by approximately 9.7% per year. A significant change in central government tax revenue will result from the tax reform associated with the health, social services and regional government reform, due to enter into force in 2019, which will increase budget tax revenue by approximately EUR 13.4 billion on an annual basis. Excluding the impact of the health, social services and regional government reform, revenue would grow, on average, by 2.1% per year. At the end of the spending limits period, the share of actual on-budget revenue accounted for by tax revenue will increase to nearly 90%. In 2021 on-budget revenue is expected to be EUR 68.3 billion.

Compared with the previous spending limits decision, tax revenue estimates have taken into account the tax changes associated with the Competitiveness Pact signed by the Government and labour market organisations. In connection with the Pact, employer's insurance contributions were transferred to employees and earned income taxation was reduced. Nevertheless, compared with the spending limits one year ago, development of tax revenue has been more positive than expected as a consequence economic activity being slightly stronger than forecast.

Tax criteria changes

The Government's tax policy aims to boost growth, entrepreneurship and employment. The Government Programme target that the total tax rate will not rise during the current parliamentary term is being fulfilled. Due to tax concessions associated with the Competitiveness Pact, the overall tax rate is expected fall.

The Government Programme contains both tax-tightening and tax-easing measures. A large proportion of the Government Programme's tax policy measures have already been implemented in 2016 and 2017, but some of the measures will be implemented gradually throughout the parliamentary term.

In accordance with the Government Programme, annual adjustments corresponding to rising earnings or inflation will be made in earned income taxation. The reduction of the deductibility of mortgage interest expenditure will be continued, such that the deductible portion of mortgage interest expenditure will be reduced by 10 percentage points to 25% by 2019. The highest income bracket in the central government income tax scale (the so-called solidarity tax), which was introduced as a temporary measure in 2012, will be discontinued at the end of 2019. Disabled person deductions will be abolished in connection with the health, social services and regional government reform in 2019.

The tobacco tax will be increased by a total of approximately EUR 270 million during the parliamentary term. At the beginning of the spending limits period, half of this has still not been realised. The increase in the tobacco tax will be implemented gradually to mitigate unexpected negative effects. The Government Programme included the phased

removal of the tax subsidy on combined electricity and heat production but, based on studies, it was decided to abandon this. Half of the EUR 90 million revenue target sought by removing the tax subsidy was replaced by a tax increase on heating fuels from the beginning of 2017. The required additional increase from the beginning of 2019 will be decided on separately, but the revenue target has been taken into account in the estimates of energy tax receipts. Taxation on cars will be eased gradually during the parliamentary term by a total of approximately EUR 182 million. In the spending limits period, the tax will be lowered at the beginning of both 2018 and 2019. The aim of the gradual implementation is to control behavioural impacts, to avoid market disturbances in the car trade and a sudden decrease of inventory values as well as unfair effects on consumers that a major one-off change in taxation could cause. The temporary removal of the rail goods transport tax and the halving of fairway dues will be continued until the end of 2018.

In connection with the health, social services and regional government reform, responsibility for organising health and social services will be transferred from the municipalities to the counties and responsibility for the financing of services from the municipalities to the central government. The municipalities' revenue will be reduced by decreasing central government transfers, the municipalities' share of corporate tax revenue and municipal income tax commensurately with the transferred costs. The central government's share of corporate tax revenue will grow and central government earned income taxation will be increased to correspond with the reduction of municipal income tax. Value-added tax revenue will also grow due to the health, social services and regional government reform by just over EUR 1 billion per year as municipal refunds decline.

The Government decided in its mid-term policy review session that early childhood education fees will be lowered from the beginning of 2018 and that the municipalities will be compensated for losses in fee income by increasing central government transfers for basic public services, the municipalities' corporate tax apportionment, and the lower limits of the real-estate tax. As a result of the corporate tax apportionment changes, central government corporate tax revenue will decrease by approximately EUR 60 million.

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

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

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

	2018	2019	2020	2021
Index adjustment of earned income taxation	-130	-220	-320	-335
Health and social services reform: earned income taxation		11 515		
Health and social services reform: corporate tax		590		
Restriction of deductibility of mortgage interest expenditure	16	28		
Continuation of solidarity tax to end of 2019		70		
Increase of tobacco tax	68	68		
Increase of energy taxes		45		
Reduction of car tax	-50	-65		
Removal of rail goods transport tax and extension of halving of fairway dues by one year	-55			
Compensation to municipalities for lowering early childhood education fees	-60			

Development of tax revenue 2017–2021

The earned and capital income tax base is expected to grow by an average of approximately 2.5% in the spending limits period. Earned income is expected to grow by an average of approximately 2.4% and capital income by an average of just over 3%. Pension income will grow more quickly than wage income as the pension system matures. Tax base growth is expected to accelerate slightly towards the end of the spending limits period.

It is assumed that annual index adjustments in accordance with the Government Programme will be made to earned income tax criteria. Index adjustments are also included as a technical assumption in the tax revenue estimates for 2020 and 2021. In connection with the health, social services and regional government reform, municipal taxes will be reduced in all municipalities, and central government earned income taxation will be increased by a corresponding amount. The Government has outlined that the reform must be implemented such that taxation of labour is not increased at any income level. To ensure this, taxation will be reduction in connection with the reform by approximately EUR 250 million from 2019 onwards. Changes made in connection with the health, social services and regional government reform are expected to increase the central government's earned and capital income tax revenue by approximately EUR 11,500 million in the tax year 2019. Due to taxation timing factors, tax receipts for the calendar year 2019 are expected grow by approximately EUR 10,700 million.

Corporate tax revenue as a whole is expected to increase in the spending limits period by an average of approximately 5.0% per year, which corresponds to growth of the operating surplus according to national accounts. Central government corporate tax revenue is expected to grow by an average of approximately 8.6% per year. The strong average growth in the spending limits period will be caused mainly by the health, social services and regional government reform, as part of which the municipalities' apportionment of corporate tax revenue will be reduced by 10.54 percentage points in 2019 and the central government's apportionment will be increased correspondingly. This will increase the central government's corporate tax revenue by approximately EUR 590 million in tax year 2019. Due to taxation timing factors, central government corporate tax receipts for the calendar year 2019 are expected, however, grow less than this, by approximately EUR 510 million.

The value-added tax base is projected to grow in the spending limits period on average by around 2.3% per year. This forecast is mainly based on estimates of growth in household consumption expenditure. The impact of the health, social services and regional government reform on value-added tax revenue will be EUR 1.2–1.4 billion per year from 2019. Tax revenue will grow because, in compensating the counties' value-added tax costs, it is intended to apply a different procedure than in the municipalities, whose refunds are paid via the value-added tax system, thereby reducing the value-added tax receipts. Value-added tax revenue in 2018 will be lowered by a one-off transfers of tax remittances beyond the turn of the year, when value-added taxation of imports is transferred from Customs to the Tax Administration in 2018.

Revenue from excise duties is projected overall to maintain its present level in the spending limits period. Tax criteria changes are expected to increase revenue from excise duties in the spending limits period by a total of approximately EUR 0.2 billion compared with the situation in which the increases would not be made. The excise tax bases are mainly expected to narrow, owing to the steering impact of taxation.

Car tax revenue is projected to fall by an average of around 6½% per year. This is due to the easing of car tax in accordance with the Government Programme and to the fact that the downward trend in the carbon dioxide emissions of new cars is expected to continue. The amount of car tax depends on the general retail sales value of a car on the Finnish market as well as on carbon dioxide emissions, so reducing emissions lowers the tax percentage of new cars.

Other on-budget revenue

Miscellaneous revenue is projected to grow in the spending limits period by an average of 1.4% per year. As regards other on-budget revenue, the most significant items are dividend income, income from share sales, and repayments of capital. These are expected to be highest in 2018, when they will rise to EUR 2.4 billion. This relates to a Government Programme entry, according to which key Government projects are financed with dividend income and income from share sales. At the end of the spending limits period, dividend income and income from share sales will be approximately EUR 1.5 billion. Recognition of revenue from state-owned enterprises is expected to average slightly less than EUR 200 million per year.

Ministry of Finance estimate of ordinary on-budget revenue in 2017–2021, EUR billion

	2017	2018	2019	2020	2021	2017–2021 average annual change, %
	Budget					
Total tax revenue	41.7	42.8	56.3	58.5	60.4	9.7
— taxes on earned and capital income	9.0	9.3	20.2	21.4	22.5	25.6

	2017	2018	2019	2020	2021	2017–2021 average annual change, %
	Budget					
— corporate tax	3.6	3.6	4.4	4.6	4.8	7.7
— VAT	17.1	17.6	19.3	19.9	20.6	4.7
— excise duties	7.2	7.3	7.3	7.3	7.2	0.2
— other tax revenue	4.7	5.0	5.1	5.3	5.4	3.2
Miscellaneous revenue	5.3	5.4	5.4	5.5	5.6	1.4
Interest earned, income from share sales and profit recognised as income	2.5	2.8	1.9	1.9	1.8	-7.4
— Dividend income and income from sales of shares	2.1	2.4	1.5	1.5	1.5	-8.4
Total revenue¹⁾	49.9	51.3	64.0	66.3	68.3	8.1

¹⁾ Including repayment of loans granted by central government.

5.5. Central government on-budget balance and debt

Taking into account the appropriations in line with the spending limits as well as revenue estimates, the central government on-budget deficit is projected to be approximately EUR 4.1 billion in 2018, whereas the deficit estimated for 2017 in the budget is EUR 5.6 billion. The deficit will fall in 2020, but it will grow again in 2021 due, in particular, to Defence Forces' strategic performance capability projects.

Compared with the spring 2016 General Government Fiscal Plan, the deficit has decreased with regard to 2018 as a consequence of higher revenue estimates.

Central government debt is assumed to grow by approximately EUR 14 billion during the spending limits and to rise to EUR 123 billion in 2021. The central government debt-to-GDP ratio will remain, however, at approximately 50% throughout the spending limits period.

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

Ministry of Finance estimate of on-budget balance in 2017–2021, EUR billion, at current prices

	2017	2018	2019	2020	2021
On-budget revenue estimate, total ¹⁾	49.9	51.3	64.0	66.3	68.3
On-budget expenditure estimate, total, at current prices ²⁾	55.5	55.4	68.2	68.8	71.8
On-budget balance estimate	-5.6	-4.1	-4.2	-2.5	-3.6
Central government debt-to-GDP ratio, %	49	50	50	50	50

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 earnings-related pension fund sector) as well as the universities, the Finnish Broadcasting Company Yle, Solidium Oy, Senate Properties, university real estate companies, HAUS Finnish Institute of Public Management Ltd, Leijona Catering Oy, Finnish Industry Investment Ltd, Terrafame Group Oy, the Financial Stability Authority, Gasonia Oy, Governia Oy, FinPro Oy, the State Business Development Company Vake Oy and VTT Technical Research Centre of Finland Ltd.

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

Central government transfers to VTT will amount to just over EUR 87 million in the spending limits period 2018–2021.

Overall funding of universities comprises appropriations allocated to universities in the budget and supplementary funding (e.g. paid services, donations, and sponsoring). According to provisional data, funding of universities in 2016 declined from approximately EUR 2.8 billion in 2015 to just over EUR 2.7 billion, of which the central government's direct and competitive funding accounted for approximately 75%.

Central government funding of the Finnish Broadcasting Company Yle has been based since 2013 on appropriations, covered by the special Yle tax, to the State Television and Radio Fund, which passes it on to Yle. In the spending limits period, no index adjustment to reflect changes in cost levels will be made to the funds transferred. In a report completed in 2016, a parliamentary working group has proposed that no index adjustments be made in 2017–2019. In autumn 2018, however, the parliamentary groups intend to assess the economic situation and opportunities to implement the 2019 index adjustment. In 2020 and thereafter, the index adjustment provision would be adhered to, as set out in the Act on the State Television and Radio Fund.

The investment company Solidium Oy is a limited company wholly owned by the state whose task is to strengthen and stabilise Finnish ownership in nationally important companies. The company's equity portfolio features 12 listed companies, in which Solidium has a minority interest. Solidium's Board of Directors makes investment decisions independently on the basis of analyses and proposals prepared by management. No revenue was recognised nor additional refunds of capital made from Solidium Oy in the State budget in 2016.

The State Business Development Company Vake Oy is a central government special assignment company whose task is to ensure that capital invested by the central government in companies is actively circulated and also to create value in the companies it owns. The company was founded in 2016.

In other respects, state ownership policy is the responsibility of the Government Ownership Steering Department of the Prime Minister's Office, in which the ownership steering of companies operating on a commercial basis is centralised. In December 2016, the department was responsible for 31 companies, which it oversees. It is also the department's responsibility to prepare general policy on state holdings and ownership steering practices and to coordinate ministerial cooperation on ownership steering.

Off-budget funds

Central government off-budget funds, EUR million

	2016	2017	2018	2019	2020	2021
Taxes and tax-like revenue, total	240	245	175	174	173	175
Miscellaneous revenue	215	150	98	98	104	79
Pension contributions	1 471	1 376	1 358	1 416	1 435	1 445
Interest earned and profit recognised as income	763	368	359	351	344	336
Transfers from budget	522	541	560	511	511	511
Revenue excluding financial transactions	3 211	2 680	2 550	2 550	2 568	2 546
Repayments of loans granted	2 656	2 433	2 496	2 551	2 535	2 489
Total revenue	5 867	5 113	5 046	5 101	5 102	5 035
Consumption expenditure	82	107	109	125	107	113
Current transfers	887	905	842	880	961	387
Interest paid	1	1	2	2	1	1
Transfers to budget	1 902	1 853	1 856	1 904	1 963	2 591
Other expenditure	44	20	20	20	20	20
Expenditure excluding financial transactions	2 916	2 887	2 829	2 930	3 052	3 112

	2016	2017	2018	2019	2020	2021
Loans granted and other financial investments	2 045	2 131	2 183	2 153	2 108	2 102
Total expenditure target	4 961	5 018	5 012	5 083	5 160	5 214
Net financial surplus or deficit	906	95	34	18	-57	-179

In the spending limits period, the interest income and profit recognised as income of the funds has declined. A reduction in loan portfolios and the development of interest rates, in particular, are reflected in a reduction of revenue with respect to the Development Fund of Agriculture and Forestry and the National Housing Fund. The interest income of the National Housing Fund has declined by approximately EUR 50 million per year in the spending limits period, while transfers made from the National Housing Fund to the budget have fallen by approximately EUR 30 million. The development of off-budget funds also reflects an approximately EUR 50 million reduction in Financial Stability Fund revenue when Nordea Bank in Finland was changed to a branch in 2017, and also a reduction in State Pension Fund revenue due to a reduction in the number of people in the state pension system.

State-owned enterprises

Metsähallitus is a state-owned enterprise whose task is to use, manage and protect the unbuilt land and water assets directly owned by the state. Metsähallitus engages in business operations and attends to statutory public administrative duties funded out of the budget and fee income. Metsähallitus engages in forestry and other market-based business operations via the subsidiaries it owns. The forestry operations of Metsähallitus have been incorporated into a wholly state-owned company Metsähallitus Metsätalous Oy. Metsähallitus pays to central government a revenue recognition on the basis of usage rights compensation and dividends. It manages approximately 12.5 million hectares of state-owned land and water areas, with a balance sheet value of approximately EUR 3.7 billion. Of this, the basic capital subject to the yield requirement is approximately EUR 2.5 billion. The annual turnover of Metsähallitus is approximately EUR 250 million. The annual turnover target of Metsähallitus business operations is approximately EUR 100 million and of the business operations group approximately EUR 350 million. In the spending limits period, revenue recognised annually from Metsähallitus is projected to rise from the EUR 86 million in the 2017 budget to EUR 120 million in 2021. A possible strengthening of the wood market due to bioeconomy investments would not improve Metsähallitus result until 2020. Revenue recognition potential will be reduced in the early years of the spending limits period by, among other things, non-recurring pension expenditure resulting from incorporation (approximately EUR 10 million), postponed wind power projects (approximately EUR 10 million) and certain pending legal proceedings.

Senate Properties is a state-owned enterprise whose task is to provide premises services and other directly related services to central government agencies and institutions. Senate Properties may also provide services to organisations whose activities are funded mainly with appropriations included in the State budget. Senate Properties operates according to business principles. Senate properties assets are owned by the Finnish State and designated for the owner administration of a state-owned enterprise.

Senate Properties' profit for 2016 was EUR 175 million. Senate Properties' 2016 turnover in leasing operations was EUR 582 million. From the beginning of 2016, Senate Properties introduced a new absorption-based (own cost) rental system, which reduced central government clients' rents by 15%. Senate Properties has a total of 6.2 million m² of leasable floor space and nearly 10,000 buildings. Senate Properties' balance sheet total amounts to EUR 4.7 billion. In the spending limits period, the balance sheet total is expected to decrease gradually by approximately EUR 400 million as property sales exceed the investment level. A 60% equity ratio target is the basis of Senate Properties' recognition of revenue target. The recognition of revenue targets are EUR 75 million in 2018, EUR 85 million in 2019 and 2020, and EUR 60 million in 2021. The decline in the revenue levels in the next few years is explained by a reduction in capital gains from sales. Due to property sales, recognition of revenue targets will exceed the projected financial year profits.

6. Local government finances

The part of the General Government Fiscal Plan relating to local government finances includes a limit for local government expenditure set by central government measures as well as the Government's other policy lines relating to local government finances and local government duties. It also includes an examination of the impact of central government measures on local government finances and the medium-term development prospects for local

government finances in local government accounting terms. The examination of local government finances presented here is supplemented by the Local Government Finance Programme, which is prepared separately.

6.1. Local government finance policies

Limit for local government expenditure set by central government measures

National rules relating to the General Government Fiscal Plan require that the Government specify a limit for local government expenditure set by central government measures. The expenditure limit is a monetary limit for the change in operating expenditure arising to local government finances from central government measures. The intention is that the expenditure limit is consistent with the budgetary target set by the Government for local government finances. The limit for local government expenditure does not, however, guarantee that the cost effects will be realised at that level in local government finances. Municipalities can themselves decide, for example, the extent to which they implement the reduction of duties and obligations.

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

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

In this General Government Fiscal Plan, the limit for local government expenditure set by central government measures takes into account the further specification of the impact assessments of certain measures previously included in the expenditure limit. The impact assessments of the reform of the quality recommendation in services for the elderly and the regional enhancement of specialised medical care have been revised as preparations advance. As a new measure, in relation to the reform of vocation education and training, the expansion of pupil and student care services to cover a higher number of students has been taken into account. From 2019, the level of the limit for local government expenditure set by central government measures takes into account the health, social services and regional government reform, through which health and social services measures will be assigned in the future to the counties instead of the municipalities.

After these changes, the limit for local government expenditure set by central government measures is EUR -450 million at the 2019 level. Due to the health, social services and regional government reform, this level is not comparable with the level of the limit for local government expenditure decided on by the Government in the first General Government Fiscal Plan.

Limit for local government expenditure set by central government measures, 2018–2021, EUR million

2018	2019	2020	2021
-720	-450	-470	-470

As the reform programme to reduce municipalities' duties and obligations proceeds and new measures reducing municipalities' duties and obligations are concretised during preparation such that they can be included in the State budget proposal and the General Government Fiscal Plan, these new measures will be taken into account in tightening the limit for local government expenditure.

In addition to what was outlined in the Government Programme about municipalities' duties and obligations, the municipalities will not be given new statutory duties and obligations, or extensions thereof, that permanently weaken local government finances. If, however, in exceptional circumstances, duties or obligations that permanently increase the operating expenditure of municipalities and joint municipal authorities are enacted to the overall benefit of general government finances, then weakening of the balance of local government finances will be prevented by increasing central government transfers, cutting in the same context other municipal duties and obligations or by

allowing increases in fee income. In accordance with effective legislation, a central government transfer covering 100% of the costs will be allocated to new or extended duties and obligations.

Other central government measures impacting the balance of local government finances

In addition to specifying a limit for local government expenditure set by central government measures, the Government will strengthen local government finances by giving municipalities the opportunity to increase fee income. The Decree on social and healthcare client fees has been amended from the beginning of 2016 such that the fee income of municipalities and joint municipal authorities could grow by EUR 150 million. The maximum amounts of fees charged for school pupils' morning and evening activities were increased from 1 August 2016. Early childhood education fees, on the other hand, were lowered in 2017. The Government has decided to lower early childhood education fees further in 2018. The impact of this fee reduction on local government finances will be compensated for by increasing central government transfers to local government, real estate tax and the municipalities' apportionment of corporate tax revenue.

Real estate tax will be increased gradually during the parliamentary term by a total of EUR 100 million. Furthermore, an additional EUR 50 million increase in real estate tax was implemented in 2017, compensating the municipalities for the lowering of early childhood education fees. In accordance with the Government Programme, the municipalities will be compensated for changes made to income tax criteria, so these will have no impact on the balance of local government finances.

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

The overall impact of the measures of Prime Minister Juha Sipilä's Government is to strengthen local government finances significantly on a net basis at the 2019 level, if the municipalities and joint municipal authorities implement the measures in full. In addition, the health, social services and regional government reform will transfer away from the municipalities healthcare and social welfare expenditure pressures arising from population ageing.

Most of the weakening effect on general government finances of the Competitiveness Pact is directed at central government finances. The Competitiveness Pact will lower the municipalities' labour costs, but it will also reduce the municipalities' tax revenue through changes to the wage bill and employees' contributions. In the spending limits period, the municipalities' central government transfers will be reduced in association with the Competitiveness Pact. After the reduction in central government transfers, the impact of the Competitiveness Pact will be lightly tightening on local government finances. Over the longer term, the favourable impact of the Competitiveness Pact on employment and growth will also benefit local government finances.

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

Limit for local government expenditure set by central government measures	450
Change of central government transfers relating to expenditure limit for local government set by central government measures	-90
Impact of index freezes on revenue of municipalities	-50
Changes in fee criteria	160
Increase of real estate tax	150
Total	620

According to the spring 2015 forecast that formed the basis of the Government Programme, the local government deficit was EUR 2.0 billion, i.e. 0.9% in ratio to GDP at the 2019 level in national accounting terms. The Ministry of Finance's updated forecast takes into account the Government Programme measures impacting local government finances that have already been specified, according to an assessment on the basis of information received of how the municipalities will implement them. These will strengthen the balance of local government finances on a net basis by approximately EUR 600 million at the 2019 level. According to the updated forecast, the local government deficit in 2019 will be EUR 1.2 billion, i.e. 0.5% in ratio to GDP. Local government is therefore achieving the budgetary position target set for it. Achieving the budgetary position target requires, however, that the municipalities utilise the savings potential facilitated by Government Programme measures and the Competitiveness Pact. The local government finances projection is a pressure projection that does not take into account the municipalities' own consolidation measures for 2018–2021. In recent years, the municipalities' own consolidation measures have been significant.

Municipalities' own measures

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

6.2. Central government measures impacting local government finances

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

The General Government Fiscal Plan has taken into account the effects of the health, social services and regional government reform under preparation. The reform will significantly affect the municipalities' duties and finances, and it will result in a reduction of local government finances of approximately EUR 17.7 billion. Central government transfers to municipalities will be lowered by an amount corresponding to the duties transferred, and the municipalities' corporate tax and municipal income tax will be reduced. The reform will be cost neutral between local government and central government. After the reform, the municipalities will retain responsibility for promoting wellbeing and health. For this purpose, EUR 29 million will be allocated to the municipalities from funding transferred to the counties.

Central government transfers to local government will be approximately EUR 10.2 billion in 2018, and they will decline to EUR 4.0 billion in 2019 as a result of the health, social services and regional government reform.

In accordance with the Government Programme, no index adjustment will be made to central government transfers to municipalities in 2018–2019. An adjustment of the division of costs between central government and the municipalities on the basis of actual costs will reduce the central government transfer to municipalities for basic public services by EUR 73.4 million and the central government transfer from the administrative branch of the Ministry of Education and Culture by a total of EUR 4.5 million. An increase of EUR 25 million will be allocated from 2018 to the central government transfer for basic public services, to compensate for the lowering of early childhood education fees.

The central government transfers take into account the reductions made on the basis of the Competitiveness Pact. The central government transfer for basic public services will be reduced by EUR 468 million in 2018 compared with the previous General Government Fiscal Plan. In 2019 the reduction will be EUR 188 million and in 2020–2021 approximately EUR 62 million. The reduction will be such that the saving corresponding to the cut in holiday bonuses is deducted in full and the estimated saving from the extension of working hours partially deducted. The cut based on the extension of annual working hours will be fully implemented in 2018. The extension of working hours is not expected, however, to cut costs in the education sector. In addition, in setting the level of the reduction, the impact of the health, social services and regional government reform on municipalities' expenditure will be taken into account.

In contrast with the previous General Government Fiscal Plan, the funding of the Helicopter Medical Emergency Service is not transferred in 2017 to within the scope of the municipalities' central government transfer funding. The service will be transferred to the responsibility of the counties from 1 January 2019, at which time the separate central government funding item will be abolished and the corresponding appropriation incorporated into the counties' universal central government funding.

The reformed quality recommendation in services for the elderly services is intended to enter into force on 1 June 2017. Its effects are expected to be smaller than anticipated earlier, namely EUR 17 million in 2018 and a further EUR 16.5 million in 2019. The central government transfer for basic public services will be reduced in this context by approximately EUR 4 million in 2018. From 2019, the effect of the quality recommendation reform will be taken into account in setting the level of central government funding to the counties.

The impact assessments of the regional enhancement of specialised medical care have been revised. The amendment of the Health Care Act and decrees issued pursuant to it are expected to reduce healthcare expenditure by EUR 350

million by 2020. As a consequence of the changes, local government expenditure is expected to decrease by EUR 125 million in 2018, and the corresponding reduction in central government transfers is EUR 32 million. From 2019, the effects will be taken into account in setting the level of central government funding to the counties.

EUR 15 million will be allocated in 2018 and 2019 to strengthen equality in comprehensive education. This support will be directed at schools in the most challenging areas and, for example, to special needs education and to reduce the size of teaching groups.

The Government will launch a reform of general upper secondary education. The objective is to increase the attractiveness of general upper secondary education as a general form of education providing eligibility for further studies in tertiary education as well as to strengthen education quality and learning outcomes, and to smooth the transition from secondary to tertiary education.

A reform of vocational education and training will be implemented from the beginning of 2018. To support the implementation of the reform, EUR 15 million will be allocated in 2018 and 2019. The funding will be used to strengthen the digitalisation of vocational education and training, lower drop-out rates, prevent social exclusion and build together with working life paths to education and employment. In connection with the reform, the number of students entitled to curator and psychologist services in accordance with the Pupil and Student Welfare Act will grow by nearly 50,000. Municipalities' expenditure is expected to grow by EUR 5.6 million, and a corresponding increase will be allocated to the central government transfer for basic public services.

Of the integration compensation to municipalities that increased as a result of growth in the number of asylum seekers, healthcare and social welfare compensation will be incorporated in 2019, as part of the health, social services and regional government reform, into the universal funding of the counties. Appropriations allocated to an increase in comprehensive education pupil numbers will fall compared with the previous General Government Fiscal Plan due to a reduction in the number of asylum seekers.

Budget funding of young people's workshop activities and outreach youth work will be maintained during the spending limits period at the 2017 level, i.e. EUR 19.5 million. An annual EUR 5 million funding increase will be allocated to consolidating Ohjaamo (counselling centre) activity, which provides low-threshold services for under 30 year-olds. It has been decided to abandon preparation of a proposal enabling, in accordance with Annex 6 of the Government Programme, the organisation of supplementary care for children in pre-school education in the form of paid extra-curricular activities.

Central government transfers to municipalities and joint municipal authorities, EUR million, spending limits period at 2018 prices¹⁾

	2016	2017	2018	2019	2020	2021
Imputed central government transfers	9 955	9 517	9 263	3 503	3 681	3 719
Ministry of Finance, central government transfer for basic public services	9 028	8 598	8 412	2 638	2 799	2836
Ministry of Education and Culture ²⁾	928	919	851	865	882	883
— of which joint municipal authorities	1 041	904	874	889	895	895
Other central government transfers by administrative branch, total	1 133	961	928	476	400	392
Ministry of Justice	0	0	20	20	0	0
Ministry of the Interior	5	5	5	0	0	0
Ministry of Finance	26	27	22	18	10	10
Ministry of Education and Culture	222	253	261	253	229	228
Ministry of Agriculture and Forestry	5	5	6	2	2	2
Ministry of Transport and Communications	36	36	36	1	1	1
Ministry of Economic Affairs and Employment	194	217	219	110	93	84
Ministry of Social Affairs and Health ³⁾	614	388	342	55	47	43
Ministry of the Environment	30	30	18	18	18	18
Central government transfers, total	11 088	10 478	10 191	3 979	4 081	4 111

¹⁾ In the health, social services and regional government reform, some of the duties of the municipalities will be transferred in 2019 to the counties, and at the same time central government transfers allocated to the municipalities for them will be removed.

²⁾ The municipalities' imputed share is estimated from the total funding of the administrative branch of the Ministry of Education and Culture (including private).

³⁾ Payment of basic social assistance was transferred in 2017 from the municipalities to the Social Insurance Institution of Finland (Kela). As a result, the central government will no longer pay to the municipalities a transfer for basic social assistance costs, which will be reflected as a reduction of the central government transfers of the Ministry of Social Affairs and Health in 2017. Furthermore, municipalities' share of basic social assistance expenditure costs will be acknowledged as a reduction in the central government transfer for basic public services. The reform will be cost neutral between local government and central government.

Tax criteria changes

The revenue estimates of the spending limits period have taken into account the tax criteria changes decided in the Government Programme and during the parliamentary term. A significant change in the municipalities' tax revenue will follow from a tax reform associated with the health, social services and regional government reform, which enters into force in 2019. Compared with the previous spending limits decision, tax revenue estimates have additionally taken into account the tax changes associated with the Competitiveness Pact agreed by the Government and labour market organisations. In connection with the Pact, employer's insurance contributions were transferred to employees and earned income taxation was reduced.

In accordance with the Government Programme, annual index adjustments corresponding to rising earnings or inflation will be made in earned income taxation. Index adjustments are also included as a technical assumption in the tax revenue estimates for 2020 and 2021. The reduction of the deductibility of mortgage interest expenditure will be continued, such that the deductible portion of mortgage interest expenditure will be reduced by 10 percentage points to 25% by 2019. Disabled persons' deductions will be abolished in connection with the health, social services and regional government reform in 2019.

In connection with the health, social services and regional government reform, responsibility for organising health and social services will be transferred from the municipalities to the counties and responsibility for financing services from the municipalities to the central government. The municipalities' revenue will be reduced by decreasing central government transfers, the municipalities' share of corporate tax revenue and municipal income tax commensurately with the transferred costs. Municipal income tax revenue will be reduced by lowering all of the municipalities' municipal income tax percentages by the same amount.

In accordance with the Government Programme, real estate taxation will be increased annually, by a total of EUR 100 million during the parliamentary term. Of this, half was implemented in 2016–2017.

Early childhood education fees will be lowered in 2018. The impact of this fee reduction on local government finances will be compensated for by increasing central government transfers to local government, the real-estate tax and the municipalities' apportionment of corporate tax revenue.

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

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

	2018	2019	2020	2021
Index of Wage and Salary Earnings/Consumer Price Index adjustment of earned income taxation	-65	-15	-22	-23
Health, social services and regional government reform, municipal income tax		-11 825		
Health, social services and regional government reform, corporate tax		-590		
Restriction of deductibility of mortgage interest expenditure	13	3		
Tightening of real estate taxation	25	25		
Increase of corporate tax apportionment as compensation for lowering early childhood education fees	60			
Increase of real-estate tax as compensation for lowering of early childhood education fees	25			

Changes in fee criteria

The Government will strengthen local government finances by giving municipalities the opportunity to increase fee income. During 2017, the Government will submit to Parliament a legislative proposal on the amendment of the Waste Act and Environmental Protection Act, which is expected to increase municipality's fee income by approximately EUR 5 million per year from 2018.

The Act on client fees in early childhood education, which entered into force on 1 March 2017, will lower early childhood education fees for low income families of 2–3 people and will change the second child discount to cover all families. The changes, implemented to increase incentives to work, are expected to reduce fee income on an annual basis by EUR 10 million. Early childhood education fees will be further lowered for low- and middle income families and the sibling discount will be increased from 1 January 2018.

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

Development of local government finances up to 2021 according to local government accounts, EUR billion, at current prices

	2016	2017	2018	2019	2020	2021
Result itemisation						
1. Operating margin	-28.0	-27.5	-28.0	-10.4	-10.6	-10.9
2. Tax revenue	22.1	21.8	22.4	11.7	11.4	11.6
3. Central government transfers, operational finances	8.8	8.7	8.5	2.4	2.5	2.6
4. Financial income and expenses, net	0.3	0.3	0.2	0.3	0.3	0.3
5. Annual contribution margin	3.1	3.3	3.2	4.0	3.6	3.5
6. Depreciation	-2.6	-2.7	-2.8	-2.7	-2.8	-2.9
7. Extraordinary items, net	0.3	0.3	0.3	0.3	0.3	0.3
8. Result for the financial year	0.8	0.8	0.6	1.6	1.1	0.9
Financing						
9. Annual contribution margin	3.1	3.3	3.2	4.0	3.6	3.5
10. Extraordinary items	0.3	0.3	0.3	0.3	0.3	0.3
11. Internal financing, adjustment items	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6
12. Internal financing, net	2.9	3.0	2.9	3.7	3.3	3.2
13. Investment in fixed assets	-4.2	-4.7	-4.9	-4.1	-4.1	-4.2
14. Funding contributions and income from sales	1.1	1.1	1.2	0.9	0.9	0.9
15. Investments, net	-3.2	-3.6	-3.7	-3.1	-3.2	-3.3
16. Financial balance (internal financing - investment)	-0.3	-0.6	-0.8	0.6	0.1	0.0
17. Loan portfolio	18.0	18.7	19.5	17.0	17.0	17.2
18. Cash assets	5.2	5.2	5.2	5.2	5.2	5.2
19. Net debt (loan portfolio - cash assets)	12.8	13.4	14.3	11.8	11.8	11.9

The economic projection of local government finances for 2018–2021 is a pressure projection that, in addition to general economic and population trends, only takes into account measures impacting local government finances that are already included in the General Government Fiscal Plan. The projection does not include municipalities' and joint municipal authorities' own consolidation measures or municipal income tax increases for 2018–2021. The development projection takes account the Government proposal on the health, social services and regional government reform. The impact assessment of the reform, however, is still based in many respects on technical assumptions.

In recent years, the municipalities and joint municipal authorities have successfully rationalised their operations and curbed growth in operating expenditure. Despite the difficult economic situation and expenditure pressures, operating expenditure growth has been very modest. Operating expenditure growth is expected to decline in the current year due to savings facilitated by the Competitiveness Pact and consolidation measures in accordance with the

Government Programme, and will continue to be moderate thereafter. In addition, operating expenditure will be reduced by the removal from the municipalities of the payment of basic social assistance, which will correspondingly also reduce the revenue received by municipalities as central government transfers. The savings potential facilitated by the extension of annual working hours in accordance with the Competitiveness Pact is assumed to reduce employee compensation in local government finances gradually in 2017–2020. This will require the utilisation in municipalities of retirement and employee attrition in the reorganisation of tasks.

Due to slow economic growth, the development of local government revenue will remain subdued. Municipalities' tax revenue will be adversely affected in the next few years by weak development of earned income, which will be reduced by the cut in holiday bonuses by 30% in accordance with the Competitiveness Pact and by high structural unemployment. In addition, the average municipal income tax percentage rose at the beginning of the year by only 0.05 percentage points, with only 47 municipalities increasing and 14 municipalities lowering their municipal income tax percentages. Real estate tax increases in accordance with the Government Programme will increase real estate tax revenue gradually by a total of EUR 100 million in 2016–2019. With respect to the reduction in fee income resulting from the lowering of early childhood education fees decided in the spring 2017 Government spending limits discussion and from growth in operating costs, the municipalities will be compensated via central government transfers, corporate tax and real estate tax, such that central government transfers will grow by EUR 25 million, corporate tax by EUR 60 million and real-estate tax by EUR 25 million from 2018.

Central government transfers will decline in the next few years. In the current year, the most significant factor in the decline of central government transfers is the transfer of the payment of basic social assistance from the municipalities to Kela. The municipalities' share of basic social assistance costs will be taken into account in the future by deducting it from the municipalities' central government transfers for basic public services but, due to a reduction in non-take-up, costs arising social assistance are assumed to increase. Growth of central government transfers will be slowed by consolidation measures in accordance with the Government Programme, including the freezing of the central government transfer index. Compensation to municipalities for costs arising from immigration have increased central government transfers in recent years, and costs will also continue to grow this year. Due to a normalisation of the asylum seeker stream, growth will tail off in 2018.

Local government net investment is, from a historical perspective, at a relatively high level. Even so, it is expected to grow in the next few years, because maintenance of the current building stock of the municipalities and joint municipal authorities still requires substantial renovation investment. In addition, hospital construction is brisk, despite the Act restricting health and social services investments, which entered into force in summer 2016. Through the health, social services and regional government reform, hospital investments will be transferred from local government finances to county-owned service centres responsible for facilities services. As revenue from operational finances is not sufficient to cover net investments, the municipalities will have to finance their investments with debt.

The health, social services and regional government reform will halve municipalities' operational finances in 2019. Through the transfer of responsibility for organising health and social services, growth pressure on local government finances' age-related expenditure will ease. This will be reflected in a slowing of growth of the municipalities' loan portfolio after the reform. In addition, approximately EUR 2 billion of loans will be transferred away from local government finances, when the assets and liabilities of hospital districts and special care districts are transferred to the counties. In practice, the relative indebtedness of local government finances will grow, however, because while local government revenue will be nearly halved, only a small proportion of the liabilities will be transferred to the counties. This will present major challenges to the already indebted municipalities, which have significant investment pressures.

Despite the consolidation measures directed at local government finances, cash flow from operations and investments reflects local government borrowing needs and is clearly in deficit. The health, social services and regional government reform will, however, reduce local government expenditure pressures and strengthen local government finances from 2019 onwards.

7. County finances

In accordance with the Counties Act under consideration in Parliament, county finances will be handled as a single entity in the General Government Fiscal Plan and a budgetary position target will be set for them. This General Government Fiscal Plan does not yet set a budgetary position target. This General Government Fiscal Plan aims,

however, to take into account the key effects of the reform on central government and local government finances. Some of the effects will be specified in more detail during further preparation.

Preparation of the reform

In the health, social services and regional government reform, responsibility for organising health and social services will be transferred on 1 January 2019 from the municipalities and joint municipal authorities to 18 counties, mainly formed on the basis of the present regional division. To the responsibility of the counties will also be transferred duties relating to rescue services and environmental healthcare, regional development and structural fund activity, business promotion, land-use supervision and planning, administration of agricultural and farmers' aid, provision of relief services for agricultural and fur farming entrepreneurs, management and use of water resources, waterway and maritime management, construction supervision, care of the cultural environment, promoting county identity and culture, providing and disseminating environmental information, and other regional services assigned on the basis of the Counties Act.

The Government submitted a bill (HE 15/2017) on the health, social services and regional government reform to Parliament on 2 March 2017. This bill is due to be supplemented in spring 2017 such that the counties' system of financing would be considered as a whole with respect to the financing of all the duties transferred to the responsibility of the counties. Since winter 2015, the Government has also prepared a proposal for legislation on freedom of choice in health and social services, and a bill is intended to be submitted to Parliament during spring 2017. The effects of the future bill have not been included in the General Government Fiscal Plan.

The Counties Act and Implementation Act are due to enter into force on 1 July 2017 or as soon as possible after their approval and confirmation. In the first stage, the counties' provisional administration and, after the county elections to be held in connection with the 2018 presidential election, the counties will prepare the operational organisation as well as personnel and asset transfers together with the municipalities, joint municipal authorities and certain central government agencies.

A Government proposal for legislation on the implementation of the regional government reform and on the reorganisation of central government licensing and supervision duties is due to be submitted to Parliament in the autumn session 2017. Pursuant to this, it is intended to establish a new Government Licensing and Supervisory Agency, which will handle the duties separately prescribed for it in the following areas: health and social services, education and culture, environment, and occupational health and safety. In addition, the agency will handle other separately prescribed legal protection and supervision duties. The agency will bring together the duties and financing of the Regional State Administrative Agencies, the Centres for Economic Development, Transport and the Environment and the National Supervisory Authority for Welfare and Health, and the agencies in question will be abolished. The General Government Fiscal Plan takes into account the transfers of financing relating to the establishment of the Government Licensing and Supervisory Agency.

Financing of the counties

The counties will have no right to levy taxes and they will finance their activities mainly with central government funding. A large proportion of the central government funding will be universal (i.e. unearmarked), but some of the duties are intended to be financed with separate funding based on separate statutes and the State budget.

The counties' universal financing in 2019 will total EUR 18.6 billion. The financing includes the financing of duties to be transferred from the municipalities, of which the most significant are health and social services and rescue services, and of duties to be transferred from central government to the counties. The financing will consist of transfers from the central government transfer for basic public services and other expenditure items as well as an addition corresponding to the increase in the central government's income tax revenue due to tax criteria changes. With the reduction in the municipalities' duties and financing requirement, municipal income tax percentages and the municipalities' corporate tax apportionment will decrease, and the corresponding tax revenue will be collected as central government tax revenue. Changes in taxation will therefore be implemented so that earned income taxation does not increase as a consequence of the reform.

A total of EUR 5,722 million will be transferred from the central government transfer for basic public services to the central government financing of the counties. A total of EUR 997 million, corresponding to duties transferred from the administrative branches of the Ministry of Economic Affairs and Employment, the Ministry of Transport and Communications, the Ministry of Agriculture and Forestry, the Ministry of Social Affairs and the Ministry of the

Environment, will be transferred in 2019. A EUR 12 billion increase corresponding to the change in the taxation relationship of central government and the municipalities will be allocated to financing the duties transferred from the municipalities to the counties. In 2020 only half of the index adjustment will be made to the central government funding of the counties.

In setting the level of the counties' central government financing in 2019, decreases and increases in accordance with Government Programme measures will be taken into account. The centralisation of specialised medical care, the reform of the quality recommendation in services for the elderly and a saving resulting from the development of informal and family care will reduce the counties' expenditure by a total of EUR 136 million. In accordance with the Government Programme, an additional EUR 15 million will be allocated in 2019 to child welfare and home-help services for families with children and EUR 1 million in 2019 to home care for the elderly. Part of a reduction associated with the Competitiveness Pact will be deducted from the counties' financing from 2019.

It is intended to abolish healthcare insurance reimbursement of emergency care travel costs, and corresponding financing, EUR 45 million, will be transferred to the counties central government financing. It is also the intention to change reimbursement arrangements in cross-border healthcare so that the counties will be responsible for reimbursement of costs for residents' use of health services abroad. As a result, a total of EUR 13.1 million for health insurance reimbursements will be transferred to the counties and an additional EUR 8.6 million will be allocated in 2019 to cross-border healthcare expenditure.

In addition to universal financing, the counties will be allocated separate funding of approximately EUR 2.9 billion in 2019. This separate funding would cover, among other things, funds used for the payment of agricultural aid and European Union and national money linked to EU funds as well as a few appropriations intended for activities focused on a geographically very restricted area, and pass-through item types of appropriations to the counties.

It is intended that compensation of counties' value-added tax costs will be implemented in a different way than with the municipalities. It is also the intention that the State budget will include an appropriation for payment of compensation of value-added tax costs. Approximately EUR 1.2 billion will be earmarked for this in 2019. Central government value-added tax revenue will grow by a corresponding sum on an annual basis, so the change will have no impact on the on-budget balance.

Financing the preparation and implementation of the counties

Preparation and implementation resources for the health, social services and regional government reform have been centralised in the main title of the Ministry of Finance in the State budget. For preparing and steering the implementation of the health, social services and regional government reform, such as the costs of establishing and launching the counties' provisional administration and county councils as well as the counties' service centres, EUR 58 million will be allocated in 2018, EUR 7.7 million in 2019, EUR 2.2 million in 2020 and EUR 1.2 million in 2021.

Through the establishment of the counties, the central government's supervision duties will increase, for which an additional EUR 1.8 million has been allocated to Ministry of Finance and an additional EUR 0.7 million to Ministry of Social Affairs and Health operating expenditure .

The reform will also mean major changes to information management and information systems. These solutions and the resources they require will be specified in more detail in further preparations.

An appropriation of EUR 100 million will be allocated in 2018 for the implementation of freedom of choice experiments in health and social services.

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

Earnings-related pension system

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

Finland's earnings-related pension system is partly funded, because some of the financing comes from prefunded pension assets and the income from them. However, pensions are financed mainly by annual pension contributions from employees and employers. In addition, part of the pensions of central government employees and of entrepreneurs, agricultural entrepreneurs and seafarers is financed from the central government budget. Employees' pension contributions are the same in all pension acts. Pensions accrue in all pension acts in nearly the same way from earnings during entire working careers. Starting old-age pensions are reduced by a life expectancy coefficient that takes account of the increase in life expectancy. Pensions in payment are increased annually by the Employee Pension Index, in which inflation has an 80% weight and change of earnings level a 20% weight. The pension reform that entered into force from the beginning of 2017, and its effects, are described in more detail in, for example, Appendix 1 of the 2017 Draft Budgetary Plan.

The private sector **Employees' Pensions Act (TyEL)** covers around two-thirds of the labour force. Of TyEL earnings-related pension contributions, part are prefunded individually and the remainder go to finance current pensions in a pay-as-you-go system. Pension contributions must be at a level that guarantees the payment of pensions and the funding required by law. The TyEL system's funding rate, i.e. the ratio of pension assets to pension liability, was approximately 26% at the end of 2014 (using in the calculation a 2.5% real discount rate).

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

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

Approximately 20% of those insured are covered under the **local government pensions system**. In the local government pensions 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.

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

Due to the prefunding of pensions, the earnings-related pension sector has shown a significant surplus historically. Demographic change will increase pension expenditure, which will be reflected in a reduction in surpluses. However, due to prefunding, property income is substantial, so pension funds will nominally not have to sell off assets, even if pension expenditure exceeds contributions. Overall, the surplus of the earnings-related pension funds has declined from an average of just over 3% in ratio to GDP in the first decade of the 2000s to 1.1% in ratio to GDP in 2016. The surplus is projected to decrease to under ½% in ratio to GDP in the medium term as pension expenditure grows faster than income. In the national accounts, private sector earnings-related pension funds are also included in general government finances and in general government finance assets. The earnings-related pension system surplus is not shown in general government gross debt.

Other social security funds

Other social security funds include other public sector entities with social security duties, such as the Social Insurance Institution of Finland (Kela) and entities handling the earnings-related unemployment insurance system. Kela's activities are financed statutorily by the sickness insurance contributions of the insured and employers as well as by public sector contributions. The central government's share of Kela's funding in 2016 was approximately 68%, while insurance contributions accounted for approximately 26% and municipalities for approximately 6%. In 2016 the costs of Kela's benefit funds totalled approximately EUR 14.8 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. The Unemployment Insurance Fund has a cyclical buffer whose net debt or net assets must be at most an amount corresponding to annual expenditure arising from an unemployment rate of 7% (in 2017 just over EUR 2 billion i.e. approximately 1% in ratio to GDP). In 2015 the benefits paid by unemployment benefit societies totalled approximately EUR 2,973 million. Of this expenditure, the central government funded around 38%, the Unemployment Insurance Fund 56.5% and the unemployment benefit societies approximately 5.5%.

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 funds providing flexibility. In the 2000s, the other social security funds have deviated from balance annually by at most 0.4% in ratio to GDP.

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

9.1. Extent and timing of measures

The table below brings together the cumulative impact on general government finances in 2016–2021 of the decisions of Juha Sipilä's Government affecting revenue and expenditure, excluding some of the, for the most part fixed-term, appropriation increases decided on within the scope of the spending limits. Measures weakening the general government balance are presented with a minus sign and strengthening measures with a plus sign. The effects have been presented in relation to the final General Government Fiscal Plan of the previous parliamentary term, the so-called technical General Government Fiscal Plan prepared in spring 2015.

Government Programme consolidation measures

Expenditure-reducing or fee revenue-raising measures aimed at strengthening general government finances by approximately a net EUR 4 billion at the 2019 level were agreed in the Government Programme. The effects of tax criteria changes are not included in this package. The consolidation measures agreed in the Government Programme have, as a rule, been included in the General Government Fiscal Plan for 2018–2021.

After the preparation of the original listing in the Government Programme, changes have been made to the savings list. The effects of the consolidation measures have been revised during preparation, in addition to which discretionary changes have been added to the savings list. Examples of recent changes in the consolidation measure estimates include, for example, reducing the savings impact of the reform of the quality recommendation for staffing levels in services for the elderly as well as the decision to abandon a measure in which the municipalities would have been given the opportunity to implement supplementary care for children in pre-school education in the form of paid extra-curricular activities.

To achieve the consolidation objectives according to the Government Programme, the Government already adopted in the autumn 2015 General Government Fiscal Plan additional savings decisions, the most significant of which was the index freezing in 2017–2019 of benefits linked to the National Pension Index and the Cost-of-Living Index (excluding basic social assistance). In connection with the preparation of the General Government Fiscal Plan for 2017–2020, new savings measures were decided on to achieve the EUR 4 billion consolidation objective according to the Government Programme. The largest of the new consolidation measures decided at that time were directed at the expenditure included in the index savings of Annex 6 of the Government Programme. In the General Government Fiscal Plan for 2018–2021, the Government decided to halve the 2020 index increase for the counties, the savings impact of which is estimated to be approximately EUR 166 million.

The net impact on general government finances of the decided expenditure measures and fee revenue increases is estimated to be approximately EUR 4 billion at the 2020 level, taking the above-mentioned changes into account. However, uncertainty is associated with the estimate due to, for example, decisions of the municipalities and uncertainty surrounding the impact assessments of some measures. Some of the measures are still at the preparation stage.

Social security contributions

Due to growing pension and unemployment expenditure, there has been upward pressure on social security contributions. At the beginning of this year, the private sector earnings-related pension insurance contribution was

increased to 24.4% and it has been agreed that it will remain at this level for at least the next two years. The unemployment insurance contribution, on the other hand, was increased until further notice by one percentage point at the beginning of 2015. The levelling off of unemployment expenditure growth last year and the projected decrease in expenditure might enable a modest lowering of the unemployment insurance contribution in the future.

Tax criteria changes

The revenue estimates of the spending limits period have taken into account the tax criteria changes decided on in the Prime Minister Sipilä's Government Programme. The Government Programme's tax policy aims to boost growth, entrepreneurship and employment. The Government Programme contains both tax-tightening and tax-easing measures.

In accordance with the Government Programme, annual adjustments corresponding to rising earnings or inflation will be made in earned income taxation. Taxation of low and medium incomes will be eased by increasing the earned income credit. Tax revenue estimates have also taken into account the tax changes associated with the Competitiveness Pact agreed by the Government and labour market organisations. In connection with the health, social services and regional government reform, municipal taxes will be reduced in all municipalities and central government earned income taxation will be increased by a corresponding amount. The Government policy is that the reform must be implemented so that taxation on labour does not increase at any income level. To ensure this, taxation must be eased in connection with the reform by approximately EUR 250 million from 2019 onwards.

A number of excise duties will be increased in order to balance general government finances. Taxation on cars will be eased gradually during the spending limits period. In accordance with the Government Programme, the municipalities will be compensated for the tax revenue impact of changes made by the Government to tax criteria. Real estate tax will be raised gradually during the parliamentary term. Taxation changes are discussed in more detail in terms of central government finances in Chapter 5.4 and in terms of local government finances in Chapter 6.2.

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

In accordance with the Government Programme, the Government will reduce municipalities' costs by EUR 1 billion by cutting statutory duties and related obligations in the long term, namely by 2029. The Government has decided that whole of the public sector will be taken into account in assessing the savings target. In addition to cutting municipalities' duties and obligations, increasing the productivity of the public sector via the utilisation of digitalisation and by making more efficient use of premises will also be taken into account in the assessment. As the measures are specified in more detail, their effects will be taken into account in the forecast.

Competitiveness Pact

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

Significant uncertainty, linked to international economic development, for example, is associated with the scale of the employment impact of the Competitiveness Pact. Thus, there is also a risk that the overall impact of the pact will weaken public finances. Without the positive effects of improving employment, the tax concessions associated with the pact will increase the general government deficit in 2017–2019 by just over EUR 1 billion and from 2020 on by approximately EUR 1 billion. The short-term costs of the pact are therefore significant. Despite this, the pact can be considered to be very important in terms of labour market stability, export competitiveness and consumer and business confidence.

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

	2016	2017	2018	2019	2020	2021
Decisions lowering central government appropriations	0.9	1.4	1.8	2.1	2.1	2.1
Decisions increasing central government appropriations	-0.2	-0.4	-0.5	-0.5	-0.5	-0.5
Estimated impact of index freezes and replacement savings	0.1	0.5	0.8	1.2	1.4	1.4
One-off additional investments for key projects, net	-0.3	-0.4	-0.5	0.0	0.0	0.0
Competitiveness Pact, incl. compensation for tax criteria changes	0.0	-0.9	-0.8	-0.8	-0.7	-0.7
Compensation to municipalities in central government transfers for tax revenue changes	-0.3	-0.4	-0.4	-0.4	-0.4	-0.4
Decisions increasing central government tax revenue	0.2	0.6	0.8	1.2	1.3	1.3
Decisions lowering central government tax revenue (excl. Index of Wage and Salary Earnings/Consumer Price Index adjustments)	-0.3	-0.6	-1.0	-1.3	-1.4	-1.4
Other decisions increasing central government revenue	0.0	0.1	0.1	0.1	0.1	0.1
One-off revenue-related measures (funding of key projects)	0.0	0.0	0.2	0.0	0.0	0.0
Impact on central government balance, net	0.1	-0.2	0.5	1.7	1.9	1.9
Government measures increasing local government revenue	0.2	0.2	0.2	0.2	0.2	0.2
Net impact of central government measures on local government tax revenue	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1
Competitiveness Pact, incl. tax compensation for tax criteria changes	0.0	-0.1	-0.1	-0.1	0.0	0.0
Compensation to municipalities in central government transfers for tax revenue changes	0.3	0.4	0.4	0.4	0.4	0.4
Impact of other central government measures on local government finances	0.1	0.3	0.4	0.4	0.5	0.5
Increases of municipalities' tax percentages	0.0	0.0	0.0	0.0	0.0	0.0
Impact on local government balance, net	0.4	0.8	0.8	0.9	1.1	1.1
Increases of social security contributions, expenditure savings and index savings	0.7	0.7	0.7	0.7	0.8	0.8
Competitiveness Pact	0.0	-0.3	-0.4	-0.3	-0.2	-0.2
Impact in social security funds' balance, net	0.7	0.4	0.4	0.4	0.6	0.5
Impact on general government balance, net	1.2	1.0	1.6	3.0	3.6	3.5
In ratio to GDP	0.5%	0.4%	0.7%	1.3%	1.5%	1.4%

9.2. Measures directed at general government expenditure

The table below presents the annual (net) change in general government expenditure in 2016–2021 from measures decided by Prime Minister Sipilä's Government⁵. In addition, the table includes the joint effect of measures of previous governments. The measures presented in the table are, in practice, central government finance measures, as there is considerable uncertainty in evaluating local government consolidation measures, and information on the latest measures is not yet available.

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

The figures presented in the General Government Fiscal Plan reflect the measures decided within it and their estimated financial effects. Planned measures are not included. In other words, only measures that have been concretised to the extent that their financial impact can be assessed have been taken into account in the General Government Fiscal Plan.

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

	2016	2017	2018	2019	2020	2021
Consumption expenditure	0.3	0.3	0.2	0.2	0.3	0.0
Transfers of expenditure to business and industry	0.1	0.0	0.1	0.1	0.0	0.0
Transfers of expenditure to households	0.1	0.6	0.4	0.4	0.1	0.0
Other transfers of expenditure	0.5	0.1	0.1	0.0	0.0	0.0
Real investment	0.0	0.1	0.0	0.1	0.0	0.0
Other expenditure	-0.1	0.0	0.0	0.0	0.0	0.0
Total	0.8	1.1	0.8	0.8	0.3	0.0
Discretionary measures of the previous parliamentary term	-0.1	0.2	-0.3	-0.2	0.0	0.0

9.3. Measures directed at general government revenue

The table below presents the annual (net) change in general government revenue in 2017–2021 from measures decided by the Government⁶. By net is meant the combined impact of measures that increase and decrease revenue. The table also takes into account changes in taxation criteria decided in the previous parliamentary term. Prime Minister Sipilä Government's changes relating to taxation are scheduled for the most part in the early years of the parliamentary term. The figures presented in the General Government Fiscal Plan reflect the measures decided within it and their estimated financial effects. Planned measures are not included.

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

	2017	2018	2019	2020	2021
Taxes on earned income	-0.8	-0.2	-0.4	-0.3	-0.4
Taxes on capital income	0.0	0.0	0.0	0.0	0.0
Corporate taxes	0.1	0.0	0.0	0.0	0.0
Other direct taxes	0.0	0.0	0.0	0.0	0.0
VAT	-0.2	-0.2	0.0	0.0	0.0
Other indirect taxes	0.3	0.1	0.1	0.0	0.0
Social security contributions from employers	-1.5	-0.5	-0.5	0.1	0.0
Social security contributions from the insured	0.4	0.5	0.4	0.3	0.0
Total	-1.6	-0.4	-0.4	0.1	-0.4

⁵ In the Table, measures weakening the general government balance are presented with a minus sign and strengthening measures with a plus sign.

⁶ In the Table, measures weakening the general government balance are presented with a minus sign and strengthening measures with a plus sign.

10. Estimate of general government revenue and expenditure

Central government according to the national accounts, EUR billion

	2016*	2017**	2018**	2019**	2020**	2021**
Current taxes	13.6	13.7	14	26.7	27.4	28.7
Taxes on production and imports	30.9	31.0	31.4	32.1	32.7	33.4
Social security contributions	0.0	0.0	0.0	0.0	0.0	0.0
Taxes and social security contributions, total	45.0	45.4	46.2	59.5	60.9	62.9
Other revenue	8.6	8.9	9.0	9.6	9.8	9.9
of which interest income	0.3	0.3	0.4	0.4	0.4	0.4
Total revenue	53.7	54.3	55.2	69.1	70.6	72.7
Consumption expenditure	14.2	14.2	14.2	33.3	33.9	34.7
Subsidies and other transfers to general government	38.6	39.2	39.1	32	32.2	32.6
Interest expenditure	2.2	2.0	1.9	1.9	1.9	2.1
Capital expenditure	4.6	4.9	5.1	6.0	5.9	7.0
Total expenditure	59.5	60.3	59.9	73.2	73.9	76.3
Net lending (+) / net borrowing (-)	-5.9	-6	-5	-4.1	-3.3	-3.6

Local government according to the national accounts, EUR billion

	2016*	2017**	2018**	2019**	2020**	2021**
Taxes and social security contributions	22.0	21.8	22.4	10.9	11.4	11.6
of which municipal income tax	18.7	18.5	19.0	7.7	8.2	8.3
corporate tax	1.5	1.5	1.6	1.2	1.2	1.2
real estate tax	1.7	1.8	1.8	1.9	1.9	1.9
Other revenue	18.6	18.2	18.4	10.5	10.9	11.2
of which interest income	0.3	0.3	0.3	0.3	0.3	0.3
of which transfers from central government	14.1	13.5	13.5	5.8	6.0	6.1
Total revenue	40.6	40.1	40.8	21.4	22.3	22.8
Consumption expenditure	34.1	34.1	34.7	16.7	17.2	17.7
of which compensation of employees	21.6	21.1	21.2	11.2	11.4	11.6
Income transfers	3.3	2.6	2.6	1.8	1.8	1.9
of which social security benefits and allowances	1.4	0.8	0.7	0.1	0.1	0.1
subsidies and other transfers	1.7	1.7	1.7	1.6	1.6	1.6
Interest paid	0.1	0.1	0.1	0.1	0.2	0.2
Capital expenditure	4.3	4.5	4.7	4.1	4.2	4.2
Total expenditure	41.6	41.2	42.0	22.6	23.2	23.7
Net lending (+) / net borrowing (-)	-1.0	-1.1	-1.2	-1.2	-0.9	-0.9

Social security funds according to the national accounts, EUR billion

	2016*	2017**	2018**	2019**	2020**	2021**
Investment income	3.3	3.4	3.7	4	4.3	4.8
Social security contributions	28	27.2	27.6	28.1	29.3	30.1
of which paid by employers	18.8	17.5	17.3	17.1	17.7	18.1
of which paid by the insured	9.2	9.7	10.4	11	11.6	12

	2016*	2017**	2018**	2019**	2020**	2021**
Income and capital transfers from general government	14.6	15.9	15.7	15.5	15.4	15.5
Other revenue	0.5	0.5	0.5	0.5	0.6	0.6
Total revenue	46.4	47.1	47.5	48.2	49.6	50.9
Consumption expenditure	3.6	3.6	3.7	3.8	3.9	4
Social security benefits and allowances	36.6	38.1	38.9	39.7	40.7	41.7
Other expenditure	3.4	3.4	3.4	3.4	3.5	3.6
Total expenditure	43.6	45.1	46	46.9	48.1	49.3
Net lending (+) / net borrowing (-)	2.8	2	1.6	1.3	1.5	1.5
Pension providers	2.3	1.6	1.2	0.8	0.9	0.9
Other social security funds	0.5	0.3	0.3	0.4	0.6	0.6

General government fiscal forecast with unchanged policies

Revenue and expenditure with unchanged policies

	2016 level, EUR billion	2016	2017	2018 % GDP	2019	2020	2021
Total revenue with unchanged policies	116.0	54.2	52.9	52.6	52.2	52.4	52.4
Total expenditure with unchanged policies	120.1	56.1	55.2	54.7	54.0	53.5	53.6

Minister of Finance

Petteri Orpo

Director General of the Budget Department

Hannu Mäkinen

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APPENDIX 1 Forecasts and assumptions used in the calculation

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

	2016	2017	2018	2019	2020	2021
GDP, change in volume	1.4	1.2	1.0	1.2	1.0	1.0
GDP, change in price	0.8	1.2	1.6	1.8	1.9	2.1
GNI, value, EUR million	216 333	221 471	227 185	234 088	240 702	248 146
Consumer Price Index, change %	0.4	1.2	1.3	1.4	1.7	2.0
Index of Wage and Salary Earnings, change %	1.2	0.5	1.2	1.5	2.2	2.3
Building Cost Index, change %	0.5	0.9	2.0	2.1	2.0	2.0
Basic Price Index for Domestic Supply, change %	-1.6	3.7	1.9	2.3	2.0	2.0
Unemployment rate, %	8.8	8.5	8.1	7.8	7.6	7.4
Wage bill, change %	1.6	0.9	1.7	2.0	2.6	2.7
Short-term interest rate, 3 months, %	-0.3	-0.3	-0.2	0.0	0.2	0.5
Long-term interest rate, 10 years, %	0.4	0.6	1.0	1.4	1.7	2.1
TyEL Index	2 519	2 534	2 559	2 589	2 626	2 673
National Pension Index (KEL)	1 631	1 617	1 617	1 617	1 640	1 668
Price index of basic public services, forecast	0.8	-1.7	0.7	0.7	3.1	2.0
Change in cost level used in Budget Proposal (Index of Central Government Transfers to Local Government)	0.0	-1.7	0.0	0.0	3.1	2.0
— index adjustment	-0.7	0.0				
Index of Central Government Transfers to Local Government without 2016–2019 freezing	0.5	-0.7	0.7	0.7	3.1	2.0
University Index	0.6	1.1	1.3	1.6	2.1	2.2
— forecast used in budgeting						
YLE Index	0.9	0.7	1.2	1.5	2.0	2.2
Unemployment insurance contributions						
— employer, average	2.85	2.40	2.00	2.00	2.00	2.00
— employee	1.15	1.60	2.00	2.00	2.00	2.00
TyEL contribution	24.0	24.4	24.4	24.4	24.4	24.4
— employer	18.0	18.0	17.8	17.4	17.0	17.0
— employee aged 53 yrs and under	5.70	6.15	6.35	6.75	7.15	7.15
— employee over 53 yrs	7.20	7.65	7.85	8.25	8.65	8.65
— wage coefficient	1.373	1.389	1.393	1.410	1.430	1.461
Health insurance contributions of the insured						
— employees' daily allowance contribution	0.82	1.58	1.58	1.67	1.26	1.23
— employees' and entrepreneurs' medical care contribution	1.30	0.00	0.00	0.00	0.55	0.58
— pensioners' medical care contribution	1.47	1.45	1.53	1.59	1.51	1.54

	2016	2017	2018	2019	2020	2021
Central government employer contributions	19.9	18.0	17.7	18.0	18.3	18.3
— health insurance contribution	2.12	1.08	0.98	0.98	1.55	1.53
— pension contribution (under Central Government Employees' Pensions Act)	17.82	16.95	16.75	17.05	16.70	16.76
Local government employer contributions	29.8	26.9	26.1	24.5	24.7	24.7
— health insurance contribution	2.12	1.08	0.98	0.98	1.55	1.53
— other social insurance contributions	0.7	0.7	0.7	0.7	0.7	0.7
— unemployment insurance contribution	3.74	3.16	2.63	2.63	2.63	2.63
— pension contribution (under Local Government Employees' Pensions Act)	23.2	22.0	21.8	20.2	19.8	19.8

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

Structural changes

As a result of structural changes made in the 2016 second and third supplementary budgets, the 2017 budget and the current spending limits, the level of the spending limits for 2018 will be approximately EUR 525 million lower than in the spring 2016 spending limits decision. The biggest change in the 2018 level is due to shifting the transfer made to the State Television and Radio Fund from spending limits expenditure to outside the spending limits. In 2019 the regional government reform will result in big changes when the spending limits are raised with an increase to county financing corresponding to the municipalities' self-financing share as central government tax revenue grows at the same time commensurately with the removal of the municipalities' right to levy taxes. Many of the smaller adjustments are due to a change in timing of project or procurement payments or to taking into account a transfer to gross/net budgeting in the expenditure ceiling.

The table below presents a more detailed description of structural changes that took place after the previous spending limits decision and their impact on the expenditure ceiling of the parliamentary term.

Item	Subject	2016	2017	2018	2019
SBP2 2016					
	Use of unallocated reserve transferred from 2015 to one-off supplementary budget expenditure	113.2			
23.90.26	Finland 100 project, changes in timing	1.0	-1.0		
25.10.50	VAT expenditure, change in budgeting practice	6.5	13.0	13.0	13.0
28.10.01	Valmis project, re-budgeting	38.2			
30.40.44	Kemera subsidies, re-budgeting	8.4			
31.40.50	Broadband project, re-budgeting	14.3			
32.50.64	Anticipation of performance reserve in Finland's Structural Fund programme (change in timing within programme's overall expenditure ceiling)	17.4			
BP 2017					
	Effect of Competitiveness Pact		229.5	229.5	229.5
24.01.20	Transition to gross budgeting with respect to rental income of foreign institute properties. Rental income budgeted to item 12.24.99.		1.0	1.0	1.0
24.30.66	Expenditure of projects implemented in cooperation with other countries. Revenue corresponding to expenditure in item 12.24.99 (pass-through item).		7.0		
29.80.59	Capitalisation of Finnish National Gallery Foundation, re-budgeting.		10.0		
31.10.20	Basic transport infrastructure key project financing, changes in timing.		-100.0	100.0	
32.60.40	Change in timing of energy subsidy payments due to delay of biorefinery projects.	-8.4	8.4		
32.60.41	Change in timing of LNG terminal support due to delay of Hamina terminal project.	-5.5	5.5		
33.10.54, 33.10.57	Transfer of students' housing allowance to within scope of general housing allowance. Transfer increases expenditure outside spending limits by a net EUR 112 million in 2017 and EUR 250 million on an annual basis.		-112.0	-250.0	-250.0
33.20.52	Due to one-off pension subsidy, unemployment security expenditure outside spending limits will decrease.		14.0	14.0	14.0
SBP3 2016					
26.20.70	Aircraft and guard vessel procurement, re-budgeting	0.7			
30.10.64	Implementation of rural programme, change in timing.	-15.7			
32.01.41	Payment of VTT research infrastructure projects, changes in timing.	-2.5	1.0	1.5	
32.50.64	SME initiative programme, change in timing.	-9.1	9.1		

Item	Subject	2016	2017	2018	2019
32.60.40	Changes in timing in energy subsidies (offshore wind turbine demo and biorefinery projects).	-16.0		16.0	
32.60.41	Change in timing of LNG terminal support due to delay of Hamina terminal project.	-8.3		2.8	5.5
BP 2017, revisions					
	Revisions to effects of Competitiveness Pact		26.6	26.6	26.6
32.20.42	INKA programme funding, re-budgeting		1.8		
33.10.54	Due to one-off pension subsidy, housing allowance expenditure outside spending limits will decrease.		6.2	9.9	7.5
33.10.54,	Revisions in transfer of students' housing allowance to within				
33.10.57	scope of general housing allowance.		3.8	10.5	10.5
33.20.52	Change in correction made due to pension subsidy, entry into force 1 June 2017.		-3.2		
GGFP 2018–2021					
	Revisions to effects of Competitiveness Pact			1.0	5.6
26.40.63	Increase of VAT share for allowances payable to asylum seekers. Corresponding revenue in VAT item.			7.0	6.5
28.90.35	Regional government reform: Increase corresponding to municipalities' self-financing share for financing of health and social services and rescue services; corresponding increase in central government tax revenue.				11 961.7
28.90.35	Regional government reform: Partial transfer of municipalities' tax compensation to within county financing and spending limits.				446.0
29.40.55	Adjustment of universities of applied sciences' VAT compensation, based on 2015 final accounts data			-9.6	-9.6
31.10.35	Western Metro construction, changes in timing.			-48.5	-10.0
31.10.36	Discretionary government transfers for rail transport projects, changes in timing.			-138.9	34.6
31.40.60	Transfer to State Television and Radio Fund transferred to outside spending limits.			-507.9	-507.9
32.50.64	Revision of payments in Finland's Structural Fund programme.			-13.2	
32.60.40	Changes in timing in energy subsidies (biorefinery projects).				8.4
33.10.54,	Tightening of housing allowance conditions reduces expenditure				
33.10.57	outside spending limits in housing allowance and increases expenditure in social assistance, net effect is to reduce expenditure by EUR 13 million on an annual basis.			8.0	13.0
33.20.52	Adjustment to reduction of unemployment security expenditure outside spending limits due to one-off pension subsidy.			2.2	-2.0
Total		134.1	120.7	-525.2	12 003.9

Price- and cost-level adjustments

The central government spending limits for 2018–2021 are expressed in cost and price levels for 2018. Some of the expenditure, such as development aid expenditure and national financing contributions corresponding to EU Structural Fund contributions, are estimated at current prices, in which case they include an estimate of the impact on the appropriation of the rise in prices in the spending limits period. In other respects, the expenditure level will be revised annually according to the estimated rise costs and prices.

Price- and cost-level adjustments compared with the previous spending limits decision total EUR 176 million for 2018, taking into account the impact of transferring to the 2018 price and cost level. The adjustment takes into account the following savings decisions directed earlier at index-linked expenditure. The index linking of the child allowance and financial aid for students has been abolished, the index increases of central government transfers to municipalities and for universities and universities of applied sciences have been frozen in 2016–2019 and the index increases based on the National Pension Index and the Consumer Price/Cost-of-Living Index, excluding basic social assistance have been frozen in 2016–2019.

Adjustments to 2018 price and cost levels compared with the 14 April 2016 spending limits decision, EUR million

Spending limits expenditure according to classification of economic nature	Index used in calculation	Adjustment to appropriation and spending limits level		Adjustment to spending limits level
		Statutory index adjustment	Contractual adjustment	Other cost adjustments of spending limits expenditure
15-17 Pensions	Employee Pension Index (TyEL)	45.7		
18-19 Defence materiel acquisitions	Predictive increase 1.5%		8.7 ¹⁾	
01-14 Wages and social security contributions	Agreement increases		-	
Transport infrastructure expenditure	Building Cost Index (RKI)			38.4
01-14, 20-28 Other operating expenses and consumption	Consumer Price Index (KHI)			22.4
30-39 Imputed central government aid to municipalities and joint municipal authorities	Index of Central Government Transfers to Local Government (VOS)	-60.8		
30-39 Other central government aid to municipalities and joint municipal authorities	Index of Central Government Transfers to Local Government (VOS)			-19.2
40-49 Central government aid to trade and industry	Consumer Price Index (KHI)			31.8
50-59 Central government aid to households and non-profit-making organisations indexed on a statutory basis	National Pension Index (KEL), Employee Pension Index (TyEL)	10.1		
50-59 Non-indexed central government aid to households	National Pension Index (KEL)			34.1
50 Central government funding for universities and universities of applied sciences	University Index			-
50-59 Other central government aid to households and non-profit-making organisations	Consumer Price Index (KHI)			17.4
60 Transfers to off-budget central government funds	Consumer Price Index (KHI)			0.1
60 Transfers to Social Insurance Institution of Finland	National Pension Index (KEL)			-
60 Central government transfer for expenditure arising from the Sickness Insurance Act	National Pension Index (KEL) / Consumer Price Index (KHI)			17.7
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	25.0		

70-79 Real investments	Building Cost Index (RKI)			0.8
90-99 Other expenditure	Consumer Price Index (KHI)			0.5
Supplementary budget provision and unallocated reserve	Consumer Price Index (KHI)			3.4
Total in 2018		20.0	8.7	147.3

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

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

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

	2017	2018	2019	2020
General government balance, spring 2016	-2.1	-1.8	-1.5	-1.3
Central government:				
Impact of revised statistical basis on revenue and expenditure estimates	0.2	0.2	0.2	0.2
Impact of revised macroeconomic forecast on revenue and expenditure estimates	0.0	-0.1	0.0	0.0
Impact of discretionary measures on revenue and expenditure estimates	-0.4	-0.4	-0.3	-0.2
Impact of other factors	0.0	0.1	0.2	0.2
Local government:				
Impact of revised statistical basis on revenue and expenditure estimates	0.2	0.2	0.2	0.2
Impact of revised macroeconomic forecast on revenue and expenditure estimates	0.0	0.0	0.0	0.0
Impact of discretionary measures on revenue and expenditure estimates	0.0	0.0	-0.1	-0.1
Impact of other factors	0.0	0.0	0.1	0.2
Earnings-related pension funds:				
Impact of revised statistical basis on revenue and expenditure estimates	-0.2	-0.2	-0.1	-0.1
Impact of revised macroeconomic forecast on revenue and expenditure estimates	-0.3	-0.3	-0.4	-0.4
Impact of discretionary measures on revenue and expenditure estimates	-0.1	-0.1	-0.2	-0.2
Impact of other factors	0.1	0.2	0.2	0.3
Other social security funds:				
Impact of revised statistical basis on revenue and expenditure estimates	0.4	0.4	0.4	0.4
Impact of revised macroeconomic forecast on revenue and expenditure estimates	0.0	0.0	0.1	0.0
Impact of discretionary measures on revenue and expenditure estimates	0.0	-0.1	-0.1	0.0
Impact of other factors	-0.1	-0.2	-0.3	-0.2
General government balance, spring 2017	-2.3	-2.0	-1.7	-1.1

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

APPENDIX 4 Economic development risks and their impact on general government finances

The baseline scenario of the General Government Fiscal Plan is based, with respect to 2017–2019, on the April 2017 independent economic outlook forecast of the Economics Department of the Ministry of Finance. 2020 and 2021 have been taken into account in the scenario based on, among other things, the growth estimate for potential output. In addition to the economic forecast, the baseline scenario's general government budgetary position is based on the Government Programme of Prime Minister Juha Sipilä's Government, the General Government Fiscal Plan for 2017–2020 adopted by the Government in April 2016, the 2016 State budget, the 2017 State budget, and the General Government Fiscal Plan adopted by the Government in April 2017. According to the baseline scenario, Finland's economy will grow on average by only 1.1% in 2017–2021.

The *international* risks of the forecast relate to the threat of protectionism and pressures directed at the multilateral trading system. In the euro area, the capital adequacy problems of some European banks and the level of problem loans, for example, still give cause for concern. *Domestic* risks are associated with, for example, private consumption, which is based more on robust confidence than on good development of purchasing power. Investment growth requires favourable total demand, which both domestic and international uncertainties may impact negatively. One risk to favourable development of employment is presented by various matching problems between unemployed job seekers and job vacancies.

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

In the slower growth scenario, GDP growth would remain rather subdued in 2017–2021 and the unemployment rate would rise to approximately 9.6%. The general government deficit at the beginning of the next decade would be over 4% and the debt-to-GDP ratio would rise to 74%. This would significantly increase the need to adjust general government finances, and general government finances would be more vulnerable to various negative shocks.

Faster growth than the baseline scenario of one percentage point would be sufficient to set the general government debt ratio on a downward path in the programme period. The general government budgetary position would improve into surplus. The unemployment rate would fall fairly rapidly. The materialisation of economic growth more favourable than the baseline scenario will require a significant recovery of the international economy as well as higher demand than anticipated for Finnish export products.

The overall impact of the *low level of interest rates* on Finland's general government budgetary position has been to increase the deficit. The exceptionally low level of interest rates means that general government interest expenditure has remained fairly low, i.e. just over 1% in ratio to GDP. On the other hand, the interest income received by earnings-related pension funds included in general government finances has declined significantly such that the impact of the decline in interest income on the general government budgetary position has been greater than the impact of falling interest expenditure. By a rough estimate, a rise in the level of interest rates by one percentage point would increase general government property income by approximately EUR 1 billion while at the same time general government interest expenditure would grow by approximately EUR ½ billion.

Sensitivity analysis

Baseline scenario	2016	2017	2018	2019	2020	2021
GDP, change, %	1.4	1.2	1.0	1.2	1.0	1.0
Unemployment rate, %	8.8	8.5	8.1	7.8	7.6	7.4
Budgetary position, % of GDP	-1.9	-2.3	-2.0	-1.7	-1.1	-1.2
Public debt, % GDP	63.6	64.7	65.4	65.7	65.2	65.0
Slow growth scenario						
GDP, change, %	1.4	0.2	0.0	0.2	0.0	0.0
Unemployment rate, %	8.8	9.2	9.5	9.9	10.2	10.6
Budgetary position, % GDP	-1.9	-2.9	-3.2	-3.5	-3.5	-4.2
Public debt, % GDP	63.6	65.8	67.8	69.9	71.7	74.1

Baseline scenario	2016	2017	2018	2019	2020	2021
Growth in 2016–2020 1%-point slower than in the baseline scenario						
Fast growth scenario						
GDP, change, %	1.4	2.2	2.0	2.2	2.0	2.0
Unemployment rate, %	8.8	8.1	7.2	6.3	5.4	4.5
Budgetary position, % GDP	-1.9	-1.8	-0.9	0.0	1.2	1.7
Public debt, % GDP	63.6	63.7	62.9	61.5	58.9	56.2
Growth in 2016–2020 1%-point faster than in the baseline scenario						
Change in interest expenditure, if level of interest rates rises 1%-point, % GDP		0.1	0.2	0.2	0.2	0.2

APPENDIX 5 Comparison with Commission's latest forecast

The following table compares the forecast of Finland's Ministry of Finance with the Commission's winter forecast. In contrast with the Commission's winter forecast, the Ministry of Finance had available more recent provisional data from 2016. The Commission has a more positive growth forecast for 2018 and at the same time a slightly economic development path. Despite this, the Ministry of Finance's unemployment forecast is slightly lower due to, among other things, the more recent data. The general government deficit forecast is roughly the same. In the Ministry of Finance's forecast, general government debt is slightly lower this year and next than in the Commission's forecast.

Table. Comparison with Commission's latest forecast

	Commission's winter forecast, February 2017				Ministry of Finance, April 2017			
	2015	2016	2017	2018	2015	2016	2017	2018
GDP, change, %	0.3	1.5	1.2	1.5	0.3	1.4	1.2	1.0
Unemployment rate, %	9.4	8.8	8.6	8.3	9.4	8.8	8.5	8.1
GDP deflator, change, %	1.7	0.9	1.0	0.9	1.7	0.8	1.2	1.6
General government budgetary position, % GDP	-2.7	-2.2	-2.3	-1.8	-2.7	-1.9	-2.3	-2.0
Structural balance, % of GDP	-1.1	-1.2	-1.5	-1.4	-1.2	-0.9	-1.7	-1.5
General government debt, % GDP	63.5	63.7	65.6	66.5	63.7	63.6	64.7	65.4

Appendix 6 Stability Programme

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

The figures in the Stability Programme's tables are actual data with respect to 2016, while 2017 data are based on the independent forecast of the Economics Department of the Ministry of Finance, and data for 2018–2019 on development according to the targets of the Government Programme. Development for 2018–2019 is mainly based on the implementation of the Government's 72% employment rate target as a consequence the Competitiveness Pact and other labour market measures decided on by the Government, including the measures decided in the mid-term review discussion in April 2017. The target path is based on the independent macroeconomic forecast of the Economics Department of the Ministry of Finance as well as the forecast for general government finances, and the target scenario is built upon them.⁷ As the term of Prime Minister Sipilä's Government will end in 2019, with respect to 2020 the targets of the following parliamentary term have been calculated according to the principle of unchanged policy.

Fiscal policy objectives

The Medium-Term Objective (MTO) for the structural balance, -0.5% in ratio to GDP, remains unchanged. This is also the minimum level to which Finland has committed in the Fiscal Compact. The Government still aims to achieve the MTO in 2019. This year, Finland is required, in accordance with the country-specific recommendations approved by the Council in July 2016, to make an adjustment towards the MTO of 0.5% in ratio to GDP in 2016, and an adjustment of 0.6% in ratio to GDP in 2017.

The multiannual nominal targets for budgetary position, expenditure and debt, which are consistent with the structural adjustment path towards the MTO, have been presented in Chapter 2 of the General Government Fiscal Plan.

Government measures to achieve the fiscal policy targets

A key role in achieving the targets is played by the Competitiveness Pact and employment-promotion measures, which aim to fulfil the 72% employment rate target set in the Government Programme, as well as supplementary measures, if necessary, to ensure that the effects of the Government's measures to improve general government finances are realised at the target level set in the Government Programme. In addition, reforms directed at the management of general government finances, in particular the health, social services and regional government reform, will improve the state of general government finances.

In summer 2016, the Government and social partners agreed the Competitiveness Pact, which will enhance the price competitiveness of Finnish production. In connection with the Competitiveness Pact, it was agreed that collective agreements will increase opportunities for local agreement. It was also agreed to cooperate on developing the collective agreement model in a more export-led direction. Development of the collective agreement model is currently under way in negotiations between labour market organisations. The Competitiveness Pact and its economic effects are described in more detail in the 2017 Draft Budgetary Plan.⁸ Employment-promotion measures are described in Finland's National Reform Programme (Europe 2020 Strategy).⁹

In addition, in the Government's mid-term review it was decided to implement a broad-based employment package, which includes both measures whose employment effects will be realised in this parliamentary term and measures

⁷ In the target scenario, the improvement in general government finances is based on a pick-up in employment and thereby an acceleration of GDP growth. The calculations are based on supply-oriented thinking, which assumes that the labour resources of the economy would be put to better use as a result of structural reforms. To what extent and how quickly the measures would lead to a rise in the employment rate also partly depends on factors influencing overall demand. Overall demand, in turn, is influenced by international economic development, among other things. The more positive the development, the better conditions will be for achieving the intended effects of structural reforms in the next few years.

⁸ <http://vm.fi/julkaisu?pubid=14303>

⁹ <http://vm.fi/eurooppa-2020-strategia>

with a longer-term impact. The key elements of the employment package include management of positive restructuring, activating the unemployed, boosting conditions for entrepreneurship, skills development measures, reforms connected with a regional growth service, and innovative experiments supporting employment.

Assessing the employment effects of the Government measures is challenging, and a especially cautious approach to this is adopted in the independent forecast of the Economics Department of the Ministry of Finance; the effects of the reforms can be assessed in more detail and taken into account in the macroeconomic forecast, in particular, only when the content of the reforms is known in more detail. Thus there are positive risks associated with development according to the independent forecast.

The Government believes that the 72% employment rate target set in the Government Programme will be achieved in 2019 through the measures decided both earlier and in the mid-term review in April 2017. This would also mean that the medium-term objective will be achieved as intended in 2019. The Government will review the situation next in context of the preparation of the 2018 budget proposal and the preparation of the spring 2018 General Government Fiscal Plan, and will adopt additional measures, if necessary.

Compliance with the preventive arm of the Stability and Growth Pact

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

Development of the structural balance

In 2016 the structural adjustment towards the MTO required from Finland is 0.5% in ratio to GDP. When the increase in refugee costs from 2015 is taken into account, the adjustment requirement falls to 0.3% in ratio to GDP.¹⁰ The structural balance improved in 2016 by 0.3% of GDP, i.e. the required adjustment was achieved. As Finland achieved the required adjustment in 2015, cumulatively the required adjustment was also achieved in 2015–2016.

In 2017 Finland is required, in accordance with the country-specific recommendations approved by the Council in July 2016, to make a structural adjustment towards the MTO of 0.6% in ratio to GDP. As the level of the structural balance in 2016 was better than expected (-0.9 % in ratio to GDP) and the distance to the MTO is therefore 0.4% in ratio to GDP, the 2017 adjustment requirement will fall to 0.4% in ratio to GDP. In addition, in the 2017 Draft Budgetary Plan prepared in autumn 2016, Finland has applied to utilise the structural reform clause in 2017. The Government's structural reform programme, particularly the Competitiveness Pact, the pension reform and the health, social services and regional government reform, is critical for economic adjustment and is in compliance with the requirements of the structural reform clause. An adequate safety margin with respect to the 3% reference value is not at risk, even though the Competitiveness Pact, in particular, and its associated tax concessions will have significant short-term costs that will weaken general government finances in 2017. The structural reforms and their effects are described in more detail in the 2017 Budgetary Plan. In the Draft Budgetary Plan, Finland also applied to utilise the investment clause in 2017. If it is considered possible for Finland to utilise the structural reform clause, it would also be able to utilise the investment clause in 2017.

The Commission stated in autumn 2016 that it will make a final assessment on the granting of the flexibility clauses in connection with its spring assessment. Commission stated that at that time it will pay particular attention to credible plans that will lead Finland back to the adjustment path toward the MTO and to progress in the structural reforms, taking into account the country-specific recommendations given in July 2016.

If Finland is granted the 0.5% of GDP flexibility it seeks based on the structural reform clause and the 0.1% flexibility based on the investment clause, the 2017 adjustment requirement will fall to -0.2% in ratio to GDP, i.e. the structural balance can weaken 0.2% in ratio to GDP in 2017.

¹⁰ In 2015 the impact on the budgetary position of costs arising from increased immigration was approximately 0.1% in ratio to GDP. In 2016 immigration costs grew by 0.2% in ratio to GDP compared with 2015. More precise figures can be found in Table 9.

According to the independent forecast of the Economics Department of the Ministry of Finance, the structural balance will weaken in 2017 by 0.7% in ratio to GDP. The strong weakening of the structural balance in 2017 is due to the Competitiveness Pact and tax concessions associated with it. In addition, the weakening is explained by the fact that the cyclical component of the structural balance is less this year than in 2016. According to the independent forecast, the deviation from the required adjustment will therefore be 0.5% in ratio to GDP. The cumulative deviation in 2016–2017 will also be close to the significant deviation limit. There are lots of uncertainties associated with the estimate, however, and it will be revised as updated data are received. The issue will be finally settled in the ex post examination in spring 2018.

The 2018 adjustment requirement for the structural budgetary position will be determined in the next country-specific recommendations in summer 2017. According to the independent forecast, the structural balance will improve by 0.1% in ratio to GDP, which means that the structural budgetary position will again approach the MTO. The Government still aims, however, to achieve an adjustment according to the target scenario, and believes that the measures agreed in the mid-term review discussions will be sufficient for this when, on being specified further, they can be taken into account in the forecast.

Expenditure benchmark

In 2016 expenditure benchmark was met in 2016 (with a margin of 0.5% in ratio to GDP). The expenditure benchmark was also met cumulatively in 2015–2016 (with a margin of 1.0% in ratio to GDP).¹¹

According to the independent forecast, the deviation from the expenditure benchmark in 2017 will, through the possible granting of the flexibility clauses, be less than the significant deviation limit. Cumulatively the expenditure benchmark has been met in 2016–2017. As with the structural balance, there are lots of uncertainties associated with the estimate, and it will be revised as updated data are received. The issue will be finally settled in the ex post examination in spring 2018.

At this point, it is not possible to reliably assess the expenditure benchmark with respect to 2018.

Overall assessment of progress towards the Medium-Term Objective

As the pillars relating to both the structural balance and the expenditure benchmark were met in 2016 and cumulatively in 2015–2016, the overall assessment for 2016 is that Finland met the requirements of the preventive arm of the Stability and Growth Pact.

Finland has applied to utilise the structural reforms and investment clauses in 2017. If Finland is granted the use of the clauses, the adjustment requirement for 2017 will be reduced. Examination of the structural balance and expenditure benchmark in 2017 and cumulatively in 2016–2017 shows that Finland has been at least broadly compliant with the provisions of the preventive arm. The risk of a significant deviation cannot be excluded, however. The assessment will be revised as updated data are received, and the issue will be finally settled in the ex post examination in spring 2018.

In 2018, Finland will again approach the MTO. The adjustment requirement for 2018 will not be determined, however, until the country-specific recommendations in summer 2017. Similarly, at this point it is not yet possible to reliably assess the expenditure benchmark. The Government's target path for 2018 meets the requirements of the preventive arm.

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

In the Government's assessment, Finland has approached the MTO in 2016 in the manner required in the country-specific recommendations.

The 2017 assessment is currently very uncertain, and whether Finland will be granted the use of the flexibility clauses it has applied for is also a consideration. An examination of the structural balance and expenditure benchmark,

¹¹ Refugee costs in 2015 and 2016 have been taken into account in calculating the expenditure benchmark.

assuming that the clauses are granted, shows both in 2017 and cumulatively in 2016–2017 that Finland has been at least broadly compliant with the provisions of the preventive arm. The risk of a significant deviation cannot be excluded, however. The assessment will be revised as updated data are received, and the issue will be finally settled in the ex post examination in spring 2018.

In 2018, Finland will again approach the MTO. The adjustment requirement for 2018 will not be determined, however, until the country-specific recommendations in summer 2017. Similarly, at this point it is not yet possible to reliably assess the expenditure benchmark. The Government aims to achieve an adjustment in line with target path and to meet the requirements of the preventive arm in 2018. The Government will review the situation next in with the context of the preparation of the 2018 budget proposal and the preparation of the spring 2018 General Government Fiscal Plan, and will adopt additional measures, if necessary.

Pursuant of Section 3.1 of the Fiscal Policy Act (869/2012), the Government will initiate the measures it deems necessary to correct budgetary stability and sustainability, if the structural balance of the general government, in the Government's assessment, deviates significantly in a manner that jeopardises the achievement of the medium-term objective.

Compliance with deficit and debt criteria

The general government deficit decreased to 1.9% in ratio to GDP in 2016, which is clearly better than the most recent forecasts of both the Commission and the Economics Department of the Ministry of Finance. According to the independent forecast of the Economics Department of the Ministry of Finance, the deficit would weaken in 2017 to 2.3% in ratio to GDP, but would remain clearly below the 3% reference value. In its letter to the Commission on 27 October 2016, the Government committed to initiating additional measures if they are necessary to keep the deficit below the 3% reference value, including in 2017. It can be assumed, therefore, that a sufficient safety margin with respect to the 3% reference value will also be maintained in 2017. According to the independent forecast, the deficit will continue to improve, to 2% in ratio to GDP in 2018 and to 1.7% in ratio to GDP in 2019. Therefore the deficit criterion will be met and exceeding the deficit reference cannot be considered a risk.

Although debt has exceeded the 60% reference value since 2014, the debt criterion was, however, met in the Commission's assessment in 2014 and 2015.¹² With respect to 2016, the debt criterion is still expected to be met, because cyclically adjusted debt will remain below 60% in 2016. In its earlier assessments, the Commission has considered this to be a sufficient justification for meeting the debt criterion. In addition, Finland will, at least broadly, comply with the requirements of the preventive arm in 2016 and 2017, which supports a positive assessment of meeting the debt criterion in 2016. The Commission will assess the fulfilment of the debt criterion with respect to 2016 in May 2017.

In 2017 the debt ratio will rise to 64.7% in ratio to GDP. The fulfilment of the debt criterion with respect to 2017 will be examined in 2018, when the key element may be the assessment of compliance with the preventive arm in 2017 and 2018.

In the case of Finland, it should be noted that although public debt has exceeded the 60% limit, the public sector's net assets are positive and among the largest of the OECD countries (53% in ratio to GDP). In theory, general government debt could be reduced by steering the investments of the earnings-related pension funds. The earnings-related pension funds, however, have autonomy in deciding on their investments and the Government will honour this. The low interest rate environment continues to adversely affect revenue from central government investments. Investments are larger than liabilities, so a low interest rate environment does not generate extraordinary income from a nominal reduction in liabilities.

As a consequence of the structural balance adjustment path followed by the Government as well as achieving the MTO in 2019, the debt ratio would also start to decline in 2018.

¹² http://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/stability-and-growth-pact/corrective-arm-excessive-deficit-procedure/closed-excessive-deficit-procedures/finland_en

Assessment of progress on the 2016 country-specific recommendations

The general government finances recommendation received by Finland is “achieve an annual fiscal adjustment of at least 0.5% of GDP towards the medium-term budgetary objective in 2016 and 0.6% in 2017; use any windfall gains to accelerate the reduction of the general government debt ratio; ensure timely adoption and implementation of the administrative reform with a view to better cost-effectiveness of health and social services.”

Progress towards the MTO has been assessed above. In 2016 Finland has achieved the objectives and required adjustment according to the country-specific recommendations, but in 2017 there is a risk that Finland will fall short of the adjustment required in the country-specific recommendations. There were no windfall gains in 2016. As noted above, Finland does not benefit from a low interest rate environment.

The health, social services and regional government reform is a long-term project with whose implementation the Government has advanced according to plan since receiving the country-specific recommendations. Preparatory work on implementing the reform is under way nationally and regionally, and the reform is due to enter into force on 1 January 2019. The reform is described in more detail in Finland’s National Reform Programme.

Comparison with other forecasts, and sensitivity analysis

A comparison with an independent forecast of the targets set by the Government, which are consistent with achieving the MTO in 2019, is presented in Chapter 3.2. A comparison with Commission’s winter forecast for 2016–2018 is presented in the table below.

The sensitivity analysis of the Government’s target scenario consists of the independent forecast of the Economics Department of the Ministry of Finance as well as the February 2017 publication Outlook and Challenges for Finland’s Public Finances.¹³

Table. Comparison with Commission’s previous forecast

	Commission’s winter forecast, February 2017				Ministry of Finance, April 2017			
	2015	2016	2017	2018	2015	2016	2017 ¹	2018 ²
GDP, change, %	0.3	1.5	1.2	1.5	0.3	1.4	1.2	1.8
Unemployment rate, %	9.4	8.8	8.6	8.3	9.4	8.8	8.5	7.2
General government budgetary position, % GDP	-2.7	-2.2	-2.3	-1.8	-2.7	-1.9	-2.3	-1.6
Structural balance, % of GDP	-1.1	-1.2	-1.5	-1.4	-1.2	-0.9	-1.7	-1.1
General government debt, % GDP	63.5	63.7	65.6	66.5	63.7	63.6	64.7	64.5

¹⁾ 2017 development is based on the independent forecast scenario of the Economics Department of the Ministry of Finance.

²⁾ 2018 development is based on development according to the Government’s target scenario.

Table 1a. Macroeconomic prospects

	2016	2016	2017	2018	2019	2020
	EUR billion					
Real GDP	189.6	1.4	1.2	1.8	2.0	1.0
GDP at current prices	214.1	2.2	2.4	3.4	3.9	2.9
Components of real GDP						

¹³ <http://vm.fi/julkaisu?pubid=17902>

	2016	2016	2017	2018	2019	2020
	EUR billion					
Private final expenditure	118.8	2.0	1.1	1.4	1.4	0.8
Government final consumption	51.9	0.5	-0.4	-0.5	0.1	0.0
Gross fixed final consumption	45.8	5.2	2.8	3.1	3.3	1.1
Changes in inventories and net acquisition of valuables (% of GDP)	1.1	0.4	0.6	0.6	0.6	0.6
Exports of goods and services	75.7	0.5	2.9	5.7	5.9	3.8
Imports of goods and services	78.3	2.5	3.1	4.4	4.4	3.0
Imputed impact in GDP growth, % points						
Final domestic demand	216.5	2.3	1.1	1.3	1.5	0.7
Change in inventories and net acquisition of valuables	1 116.0	-0.2	0.1	0.1	0.0	0.0
External balance of goods and services	-2.6	-0.7	-0.1	0.4	0.5	0.3

Table 1b. Development of price indices

	2016	2017	2018	2019	2020
GDP deflator	0.8	1.2	1.6	1.8	1.9
Private consumption deflator	0.6	1.1	1.2	1.4	1.6
Export price deflator	-2.4	1.8	1.9	1.7	1.7
Import price deflator	-1.8	2.1	2.1	1.8	1.8

Table 1c. Labour market developments

	2016 level	2016	2017	2018	2019	2020
Employment, 1,000 persons	2448	0.5	0.4	1.9	1.9	0.4
Unemployment rate (%)	237	8.8	8.5	7.2	6.0	5.8
Labour productivity, persons	77,5	0.9	0.8	-0.2	0.0	0.6
Compensation of employees	104,3	1.8	-0.6	2.5	2.9	2.7

Table 1d. Sectoral balances, % GDP

	2016	2017	2018	2019	2020
Finland's net lending/borrowing vis-à-vis the rest of the world	-1.3	-1.4	-1.1	-0.6	-0.3
Statistical discrepancy	-0.5				

Table 2a. General government prospects, % GDP

	2016	2016	2017	2018	2019	2020
	EUR million					
Net lending (+) / net borrowing (-) by subsector (EDP B.9)						
1. General government	-4 100	-1.9	-2.3	-1.6	-0.8	-0.2
2. Central government	-5 858	-2.7	-2.7	-1.8	-0.9	-0.5
3. -						
4. Local government	-1 039	-0.5	-0.5	-0.5	-0.5	-0.4
5. Social security funds	2 797	1.3	0.9	0.7	0.5	0.6
General government (S13)						
6. Total revenue	116 045	54.2	52.9	52.3	51.6	51.8
7. Total expenditure target	120 145	56.1	55.2	53.9	52.5	52.1

8. Net lending	-4 100	-1.9	-2.3	-1.6	-0.8	-0.2
9. Interest expenditure	2 275	1.1	0.9	0.9	0.8	0.8
10. Primary balance	-1 825	-0.9	-1.4	-0.7	0.0	0.6
11. One-off and other temporary measures	0	0.0	0.0	0.0	0.0	0.0
Revenue categories						
12. Tax revenue (12=12a+12b+12c)	66 971	31.3	30.7	30.4	30.1	30.1
12a. Taxes on production and imports	30 877	14.4	14.2	13.9	13.6	13.5
12b. Current taxes on income	35 572	16.6	16.2	16.2	16.1	16.2
12c. Taxes on capital income	522	0.2	0.3	0.3	0.3	0.3
13. Social security contributions	27 989	13.1	12.4	12.2	12.0	12.1
14. Property income	6 064	2.8	2.8	2.9	2.9	3.0
15. Other (15=16-12-13-14)	15 021	7.0	7.0	6.9	6.6	6.6
16. = 6. Total revenue	116 045	54.2	52.9	52.3	51.6	51.8
of which: Tax burden (D2+D.5+D.61+D.91-D.995)	95 131	44.5	43.2	42.7	42.2	42.3
Expenditure categories						
17. Compensation of employees + intermediate consumption	52 319	24.4	23.9	23.3	23.4	23.2
17a. Compensation of employees (i.e. wages + employer's social security contributions)						
17b. Intermediate consumption						
18. Social transfers (18=18a+18b)	48 411	22.6	22.6	21.9	20.7	20.7
of which unemployment benefits	5 202	2.6	2.4	2.2	2.0	2.0
18a. Social transfers in kind						
18b. Monetary social benefits						
19. = 9. Interest expenditure	2 275	1.1	0.9	0.9	0.8	0.8
20. Subsidies	2 669	1.2	1.2	1.2	1.1	1.1
21. Gross fixed capital formation	8 325	3.9	3.9	4.0	3.9	3.8
22. Capital transfers	852	0.4	0.4	0.3	0.3	0.3
23. Other expenditure (23 = 24 -17-18-19-20-21)	5 294	2.5	2.4	2.3	2.1	2.1
24. = 7. Total expenditure target	120 145	56.1	55.2	53.9	52.5	52.1
of which: Public consumption						

Table 2b. Revenue and expenditure with unchanged policies, % GDP¹

	2016	2016	2017	2018	2019	2020
	EUR million					
Total revenue with unchanged policies	116 045	54.2	52.9	52.6	52.2	52.4
Total expenditure with unchanged policies	120 145	56.1	55.2	54.7	54.0	53.5

¹⁾ The unchanged policy scenario corresponds to the independent forecast of the Economics Department of the Ministry of Finance, which serves as a basis of the General Government Fiscal Plan.

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

	2016	2016	2017	2018	2019	2020
	EUR million					
Expenditure on EU programmes fully matched by EU funds revenue	1 115	0.5	0.5	0.5	0.5	0.5
Cyclical unemployment benefit expenditure	798	0.4	0.3	0.2	0.2	0.1
Effect of discretionary revenue measures	526	0.2	-0.7	-0.2	-0.2	0.0
Revenue increases mandated by law	50	0.0	0.0	0.0	0.0	0.0

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

	COFOG code	2015
General public services	1	8.5
Defence	2	1.3
Public order and safety	3	1.2
Economic affairs	4	4.8
Environmental protection	5	0.2
Housing and community amenities	6	0.4
Health	7	7.2
Recreation, culture and religion	8	1.5
Education	9	6.2
Social protection	10	25.6
Total expenditure	Total	57.0

Table 4. Development of general government debt, % GDP

	2016	2017	2018	2019	2020
Gross debt, % GDP	63.6	64.7	64.5	63.8	62.7
Change in the gross debt ratio	-0.1	1.2	-0.2	-0.8	-1.0
Primary balance	-0.9	-1.4	-0.7	0.0	0.6
Interest expenditure	1.1	0.9	0.9	0.8	0.8
Stock-flow adjustment	-2.0	-1.2	-1.8	-1.6	-1.3
Implicit interest rate on debt (= embedded interest payments per the previous year's level of debt * 100)	1.7	1.5	1.4	1.3	1.3

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

	2016	2017	2018	2019	2020
Real GDP, % change	1.4	1.2	1.8	2.0	1.0
General government balance	-1.9	-2.3	-1.6	-0.8	-0.2
Interest expenditure	1.1	0.9	0.9	0.8	0.8
One-off and other temporary measures	0.0	0.0	0.0	0.0	0.0
Structural balance	-0.9	-1.7	-1.1	-0.5	0.0

Table 6. Divergence from previous Stability Programme

	2016	2017	2018	2019	2020
GDP growth (%)					
SP April 2016	0.9	1.2	1.2	1.1	1.1
SP April 2017	1.4	1.2	1.7	1.9	1.0
Difference, % points	0.5	0.0	0.5	0.8	-0.1
General government balance, % GDP					
SP April 2016	-2.5	-2.1	-1.8	-1.5	-1.3
SP April 2017	-1.9	-2.3	-1.6	-0.8	-0.2
Difference, % points	0.6	-0.2	0.2	0.6	1.1
General government gross debt, % GDP					
SP April 2016	65.0	66.7	67.4	67.4	67.2
SP April 2017	63.6	64.7	64.5	63.8	62.7
Difference, % points ¹	-1.5	-1.9	-2.8	-3.6	-4.5

¹) 2016 Stability Programme was prepared based on assumption of unchanged policies

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

	2007	2010	2020	2030	2040	2050	2060
Total expenditure	46.8	54.8	52.1	56.3	57.0	58.0	60.9
of which: age-related expenditure	23.2	27.1	29.8	32.2	32.0	31.6	32.4
Total revenue	51.9	52.1	51.8	53.7	52.6	52.2	52.0

Table 7a. Contingent liabilities, % of GDP

	2015	2016
Central government guarantees	21.5	-
of which: linked to financial sector	1.9	-

Table 8. Basic assumptions¹

	2016	2017	2018	2019
3-month Euribor	-0.3	-0.3	-0.2	0.0
Long-term interest rate (10-year bonds)	0.4	0.6	1.0	1.4
USD/EUR exchange rate	1.1	1.0	1.0	1.0
Nominal effective exchange rate	1.1	0.3	0.0	0.0
World GDP growth (excluding the EU)	3.2	3.7	3.9	3.9
EU-28 GDP growth	1.9	1.8	1.8	1.8
Growth of relevant foreign markets	0.5	3.6	3.9	3.9
World trade growth	1.4	3.0	3.6	3.7
Oil prices (Brent, USD/barrel)	45.0	54.0	56.0	58.0

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

Table 9. Impact of increased immigration on general government budgetary position

	2014	2015	2016	2017
	EUR million			
Reception costs of asylum-seekers	81	183	627	242
Administrative costs		6	23	19
Contributions to Turkey fund			8	11
Other costs and measures	191	193	89	175
Impact on budgetary position	272	381	747	446

Table 10. Impact of increased immigration on general government budgetary position, according to accounts

	2014	2015	2016	2017
	EUR million			
Compensation of employees	70	111	110	68
Intermediate consumption	192	250	490	184
Social transfers	10	20	139	183
Impact on budgetary position	272	381	739	435
Compensations from the EU			8	11
Impact on budgetary position excl. EU compensation	272	381	731	424
in ratio to GDP	0,13	0,18	0,34	0,19

Table 11. Further information

	2014	2015	2016
Number of arrived asylum seekers	3 651	32 476	5 657
Number of asylum seekers receiving a favourable decision	1 346	1 879	7 745