

06/02/2025

## Summary of Budget Proposal 2025

### Economic outlook

The economy will recover from the recession and GDP is expected to grow by 1.7% in 2025. Household consumption will increase as inflation slows down, interest rates fall and incomes grow moderately. Productive investments have continued to grow even during the recession and, driven by the energy transition, the investment volume will increase significantly in 2025. Economic growth is expected to boost employment and reduce unemployment.

### General government finances

In 2025, the general government deficit is projected to fall to 3.2% of GDP from the 3.7% anticipated for 2024. The adjustment measures decided by the Government will achieve significant reductions in expenditure and increases in revenue. At the same time, there are factors that will increase expenditure, such as major defence procurements. Growth of the general government debt ratio will slow down when the savings take effect and the economic situation improves. The government-debt-to-GDP ratio is projected to be around 84 per cent in 2025.

### Economic and fiscal policy

Prime Minister Orpo's Government aims to improve the standard of living in Finland, turn the Finnish economy on to a sustainable growth path and reverse the trend of indebtedness, which jeopardises wellbeing. The Government will improve the opportunities for Finns to build their futures through education, work and entrepreneurship. Stable economic development creates security and supports family formation. The Government's objective is to increase household purchasing power and take the impact on everyday costs into account in its decisions. The Government's objective is a Finland where the funding of the most important services of the welfare society is secured for future generations.

The Government is committed to implementing the packages of measures, set out in the Government Programme and again in spring 2024, which will strengthen general government finances by approximately EUR 9 billion. The measures decided in the Government Programme will strengthen general government finances by a net amount of EUR 6 billion at the 2027 level. They include both fast-acting adjustment measures and structural policy measures that increase employment. The additional measures decided in spring 2024 will strengthen general government finances by some EUR 3 billion from 2025 onwards. The Government will actively monitor the implementation of the EUR 9 billion

package of measures and will take corrective measures if the package threatens to fall short of the target. In its mid-term policy review session in spring 2025, the Government will assess the achievement of economic and fiscal policy objectives and, if necessary, make decisions on new measures.

Accelerating economic and employment growth is the most important means of stabilising general government finances. The measures to stimulate economic growth include improving fair competition, making significant investments in RDI, boosting knowledge and competence, and developing the labour market. During the parliamentary term, the Government will also implement a fixed-term investment programme of EUR 4 billion to create opportunities for sustainable growth.

The taxation policy of Prime Minister Orpo's Government seeks to boost the purchasing power of households, improve incentives for working, and strengthen conditions for economic growth. The Government's taxation policy encourages work and self-employment and supports domestic ownership.

### **Appropriations**

The appropriations in the budget proposal amount to EUR 88.8 billion, which is EUR 0.9 billion more than in the 2024 Budget. The increase in appropriations compared to 2024 is largely due to the ex-post control of the funding for wellbeing services counties (EUR 1.4 billion) and statutory and agreement-based index adjustments to be made in 2025 (EUR 1.8 billion). At the same time, the reforms and expenditure savings, agreed in the Programme of Prime Minister Orpo's Government and in the spring 2024 General Government Fiscal Plan, will reduce the level of expenditure by around EUR 1.8 billion. A reduction of approximately EUR 0.3 billion in the compensation for municipalities' tax losses will also lower the level of expenditure, as replacing the earned income allowance with the earned income deduction will increase municipal tax revenue.

### **Revenue estimates**

Revenue from the central government's on-budget entities in 2025, excluding net borrowing, is estimated at EUR 76.6 billion. Taxes and tax-like revenue account for approximately EUR 67.3 billion (88%). Central government tax revenue is expected to increase by 0.7%, or EUR 0.5 billion, in 2025 compared to the approved 2024 Budget. On-budget revenue, excluding net borrowing, is estimated to increase by 0.3%, or EUR 0.2 billion.

A weak economic cycle reduced tax revenue in 2024. Compared to the revenue budgeted for 2024 (including the second supplementary budget proposal), tax revenue will increase by 3.3% and total revenue by 1.8% in 2025.

### **Balance and debt in central government finances**

The budget proposal for 2025 is EUR 12.1 billion in deficit, which will be covered with additional borrowing. The balance of central government on-budget activities will decline by approximately EUR 0.7 billion compared to the approved 2024 Budget. Compared to the revenue and expenditure budgeted for 2024 (including the second supplementary budget), the balance will improve by EUR 0.6 billion. In terms of the national accounts, the central government deficit is projected to be 3.7% of GDP in 2025.

At the end of 2025, central government debt (including the debt of off-budget entities) is expected to amount to EUR 181 billion, which is 62.5% of GDP. Interest expenses on central government debt are

estimated at EUR 3.2 billion, which is the same as budgeted for 2024 (including the second supplementary budget).

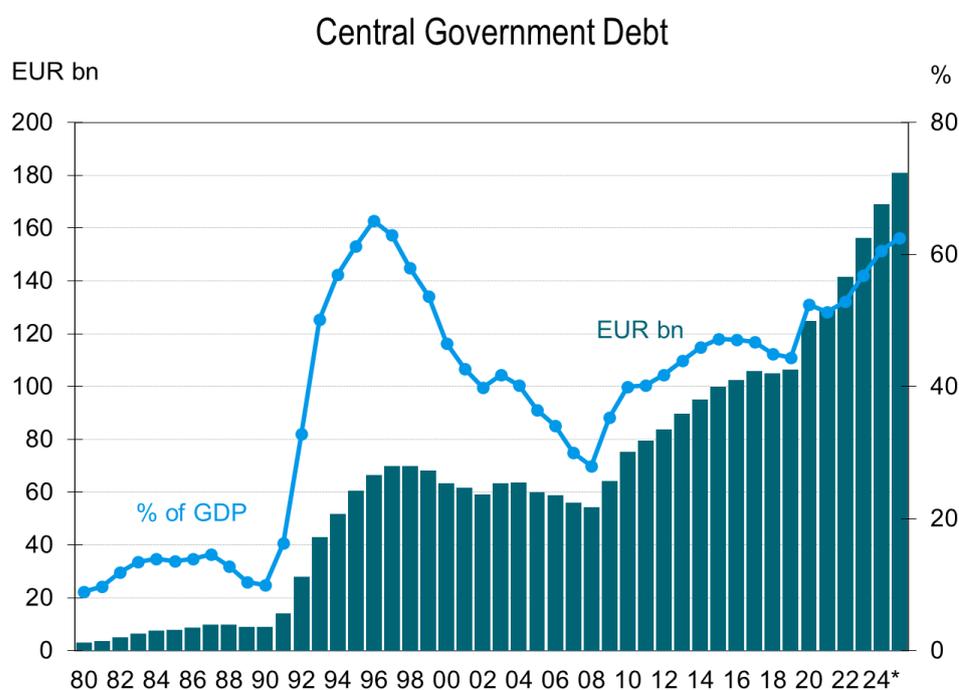
### On-budget revenue estimates, appropriations and balance, EUR million

	2023 Financial statements	2024 Approved Budget	2025 Proposal	Change, % 2024–2025
Taxes on earned income and capital income	24,590	26,596	26,769	1
Corporation tax	5,746	6,118	5,708	-7
Value added tax	21,405	22,579	23,624	5
Other taxes	11,719	11,549	11,200	-3
Other revenue	19,461	9,584	9,345	-3
<b>Total</b>	<b>82,921</b>	<b>76,426</b>	<b>76,646</b>	<b>0</b>
Net borrowing and debt management <sup>1</sup>	12,698	11,442	12,107	6
<b>Total revenue estimates</b>	<b>95,619</b>	<b>87,867</b>	<b>88,754</b>	<b>1</b>
Consumption expenditure	20,885	21,481	21,274	-1
Current transfers	56,545	62,169	63,197	2
Capital expenditure	1,739	974	1,001	3
Other expenditure	2,384	3,244	3,282	1
<b>Total appropriations</b>	<b>81,553</b>	<b>87,867</b>	<b>88,754</b>	<b>1</b>
Financial statement deficit (incl. previous years)	-5,921			

### Parliamentary term spending limits and unallocated reserve

In its Government Programme, Prime Minister Orpo's Government expressed its commitment to the spending limits procedure concerning central government expenditure. The central government spending limits system is a key instrument for steering Government fiscal policy and is the foundation of a credible economic policy. The entries and other measures of the Government Programme will be implemented within the restrictions of the spending limits for the parliamentary term.

The 2025 expenditure ceiling will be EUR 77,263 million. In the budget proposal spending limits, the appropriations amount to EUR 76,829 million. The unallocated reserve for 2025 is therefore EUR 134 million, in addition to which EUR 300 million has been reserved in the 2025 spending limits for supplementary budgets.

**Figure 1. Development of central government debt, EUR billion and % of GDP**

Source: MoF, Sep 2024

**Savings and appropriation increases agreed in the Government Programme**

The Government has decided on major adjustment measures both in the Government Programme and in the spring 2024 General Government Fiscal Plan. In addition to savings, the packages of measures include revenue-increasing measures and expenditure increases. The savings package is expected to reduce the on-budget appropriation requirement by a net amount of approximately EUR 1.8 billion in 2025 compared to 2024. Compared to 2023, the packages of measures are expected to reduce the appropriation requirement by a total of approximately EUR 2.5 billion at the 2025 level.

**Investment programme included in the Government Programme**

The Government Programme includes a EUR 4 billion package of one-off investments that will be financed through central government asset sales and by liquidating the over-capitalisations of state-owned unlisted companies and making revenue recognitions from the National Housing Fund without jeopardising the Fund's current level of activity. The investment programme will therefore not increase central government borrowing. Expenditures that are in accordance with the investment programme will be included in budget proposals and taken into account in General Government Fiscal Plans within the limits enabled by confirmed revenues.

In the budget proposal, a total of EUR 891 million in new budget authorities and appropriations is proposed for the investment programme agreed in the Government Programme. Appropriations allocated to 2025 amount to EUR 298 million of that total.

Under the investment programme, an increase of EUR 208.5 million is proposed for basic transport infrastructure management in 2025. A total of EUR 472 million in budget authorities and approximately EUR 19 million in appropriations are proposed for transport development projects. A budget authority of EUR 140 million is proposed for technical carbon sinks in the key clean energy projects. Finally, EUR 70 million is proposed for the Social Insurance Institution (Kela) reimbursements for private healthcare appointments.

### **Tax criteria changes**

In 2025, key tax criteria changes include the index adjustment made to earned income tax criteria, with the exception of the two highest income tax brackets of the central government income tax scale, and the reduction in taxation of work, with an emphasis on low and middle income earners. The adjustment measures also include increasing taxation of pension income and reducing the tax credit for household expenses. Finally, the municipalities' revenue base will be bolstered by abolishing the earned income allowance and increasing the earned income deduction by a corresponding amount.

Central government tax revenue will be improved by an increase in the general value added tax rate and the insurance premium tax rate, which entered into force at the beginning of September 2024. The tax rate for goods that were subject to the reduced value added tax rate of 10% will be increased in 2025, with the exception of newspapers and magazines. The value added tax rate for incontinence and sanitary pads and children's nappies, on the other hand, will be reduced. Value added tax relief for small businesses will be abolished, and the minimum threshold for value added taxation of small businesses will be raised. The value added tax rate on sweets and chocolate will be increased from the current reduced rate of 14% to 25.5%, in line with the standard value added tax rate. Excise duties will be increased for example on tobacco products and soft drinks.

### **Finances of the wellbeing services counties**

Approximately EUR 26.2 billion is proposed for the universal funding of wellbeing services counties.

The universal funding of wellbeing services counties will increase by approximately EUR 1.6 billion compared to the approved 2024 Budget. The increase is largely explained by the amount of the statutory ex-post control based on the 2023 data, which will increase the funding by around EUR 1.4 billion. Since the funding budgeted for 2024 included EUR 530 million of retrospectively paid funding for 2023, the actual increase in the funding of wellbeing services counties will be approximately EUR 2.2 billion in 2025.

The index increase for the funding of wellbeing services counties (3.00%) will increase funding by approximately EUR 800 million and the estimated annual increase in the need for healthcare and social welfare services by approximately EUR 270 million. Transitional equalisations for 2025 will reduce funding by approximately EUR 67 million. Amendments to the provisions on the counties' tasks and client fees, agreed in the Government Programme and the spring 2024 General Government Fiscal Plan, will reduce county funding by a net amount of approximately EUR 290 million compared to the approved 2024 Budget.

## **Municipal finances**

Approximately EUR 5.6 billion is proposed for central government transfers and discretionary grants to municipalities for operational finances in 2025. Imputed central government transfers will be around EUR 4.7 billion, compensation to municipalities for tax losses around EUR 0.5 billion and other central government grants around EUR 0.4 billion.

Some EUR 3.4 billion is proposed for central government transfers to municipalities for basic public services, which represents an increase of nearly EUR 900 million from the amount in the approved 2024 Budget. Imputed central government transfers will increase mainly as a result of the employment services reform, as municipalities take over from central government the responsibility for organising employment services at the beginning of 2025. This reform also means that municipalities will have more responsibility for funding unemployment security and, correspondingly, the central government will have less. In a cross-sectional situation, an increase corresponding to the increase in the responsibility for funding will be made to central government transfers to municipalities for basic public services.

The budget proposal contains a number of measures affecting municipal finances. The net impact of most of these measures on municipal finances is either close to neutral or somewhat strengthening. The combined impact of the measures decided by Prime Minister Orpo's Government will strengthen municipal finances by approximately EUR 270 million in 2025 compared to 2024. In the 2025 budget proposal, municipal finances will be strengthened by an increase of EUR 277 million in central government transfers, which will mitigate some of the effects which the transfer calculation related to the health and social services reform will have on central government transfers. Finally, the solution channelling savings in social security funds is expected to increase municipalities' tax revenue and reduce the contribution burden on municipal employers by a total of some EUR 90 million.