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Europe 2020 -Strategy

Finland's National Programme
Spring 2015

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Economic Prospects



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| Abstract | | |
| <p>The European Council approved an economic and employment strategy in 2010. The vision of the Europe 2020 Strategy, which extends to 2020, is smart, sustainable and inclusive economic growth. The strategy sets EU-wide targets for employment, research and development expenditure, climate policy, education and reducing poverty. Every Member State sets its own corresponding national targets.</p> <p>Finland's national targets are raising the employment rate of 20–64 year-olds to 78%, maintaining R&D spending at a minimum of 4% of GDP, reaching the climate and energy targets agreed in the EU, keeping the proportion of 30–34 year-olds having completed tertiary-level education at 42%, bringing the proportion of 18–24 year-old early school leavers below 8%, and reducing the number of people living at risk of poverty and social exclusion.</p> <p>In 2013 and 2014, the European Council adopted recommendations for all Member States aimed at guiding national decision-making. The recommendations given to Finland relate to the long-term sustainability of public finances, productivity of public services, reducing unemployment and raising the actual retirement age, increasing competition, and business structure diversification</p> | | |

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1 Introduction

The protracted recession of the Finnish economy is largely due to structural factors. Finland's competitiveness in the international market has deteriorated faster than that of competing countries due to increased costs. In addition, the country is also facing a restructuring of the information and technology sector and the forest industry. New, innovative companies and products have emerged in these areas, but establishing their position in the global market will take time.

Another key challenge is Finland's rapidly ageing population. A contraction of the working age population began a few years ago. Population ageing limits the growth potential of the economy and increases the growth of age-related expenditure.

The Government has endeavoured to improve competitiveness and bridge the sustainability gap in public finances caused by ageing by implementing a Structural Policy Programme agreed in August 2013. A key achievement was the agreement reached by the labour market organisations in autumn 2014 on pension reform, which will come into force in 2017.

The measures proposed in this National Reform Programme are aimed at returning Finland's total production to a growth track. This will be pursued through fiscal consolidation and by promoting competitiveness. A key priority is improving labour market functionality.

2 Macroeconomic situation and scenario

The development of the international economy has been dualistic in recent times. The growth prospects of the Russian economy have been weak for a long time and the Ukraine crisis has accelerated the economic downturn. The Russian economy will contract during the next couple of years and will therefore have a negative impact on Finland's exports. On the other hand, the economies of many trading partners important to Finland have developed favourably. In the United States and the United Kingdom in particular, growth is broad-based and the economic situation is expected to remain good throughout the entire outlook period. In the euro area, moderate economic growth has begun, although there are big differences in growth rates within the area. Growth in Germany, which is important for Finland's exports, may remain around 1½%. Sweden's economic development continues to be faster than the euro area, and the growth rate of China's economy will be around 7% during the coming years.

The Finnish economy is in a very difficult situation. The economy has been contracting for a long time now and a quick upturn to significantly better economic development is not expected. Export growth has long been slower than growth of world trade, and market shares have therefore been continuously lost. This development is also expected to continue throughout the entire outlook period.

Provisional data from Statistics Finland indicate that GDP contracted by 0.1% in 2014. At the same time, last year's seasonally-adjusted quarterly account figures for the second and third quarters were adjusted downwards. In the final quarter of last year, the economy contracted 0.2% from the previous quarter. It should be noted that the seasonally-adjusted figures may still change in future statistical publications and therefore the picture of the state of the economy may still be revised slightly.

2.1 Macroeconomic outlook in the programme period

In the current year, Finland's GDP is projected to grow by only 0.5%. The weak development in the final quarter of 2014 significantly reduced the growth carryover to this year. The forecast therefore assumes a very modest economic improvement during 2015. Exports of goods and services will increase by 1.5% and correspondingly imports will increase by only 1% due to weak domestic demand. The contribution of net exports is

therefore a significant growth-promoting factor. Private consumption will grow by 0.5% this year. Factors limiting growth of private consumption include economic uncertainty experienced by consumers, weak development of purchasing power, and the labour market situation. On the other hand, the interest rate level is very low and the fall in energy prices supports households' consumption opportunities. Private investment will decline by 1%, mainly due to the weak development of construction investment. On the other hand, a slight pick-up in machinery and equipment investment and R&D investment is perceptible. Infrastructure investment will increase public investment by 2.3%. The decline in industrial output is projected to end and turn to a modest 0.3% growth after four years of negative growth. The level of service output is also expected to increase. The labour market situation will remain challenging. The unemployment rate will rise this year to 8.8%. The number of people in employment will rise slightly, but this will be largely due to an increase in the supply of older workers. Development of labour productivity will remain sluggish. Inflation will remain at 0.3% and a large part of this will be the impact of tax increases on prices.

In 2016 economic growth is projected to accelerate to 1.4%. Growth will become broad-based, because all demand items of the balance of supply and demand will have a positive impact on economic growth. The significance of net exports as a source of economic growth will decline and the role of domestic demand will strengthen. Exports will increase by 3% from the previous year but, due to the revival of domestic demand, imports will grow by almost the same extent. Export growth will again be slower than growth of world trade. Private investment is expected to develop positively throughout the year, and construction investment will also increase. Replacements of capacity will be more prevalent than capacity additions, however, so growth will be slight. Private consumption is projected to increase by 0.8% and household indebtedness will not rise significantly. On the supply side, industrial output will grow by around 2%. In Finland the service sector is to a large extent dependent on industry and, in its wake, services output will grow by 1.5%. In the labour market, the number of people in employment will grow slightly due to a modest improvement of the economic situation. The unemployment rate is projected to be 8.6% and the proportion of long-term unemployed will remain high. Inflation will accelerate slightly, but will still remain well below 2%.

In 2017 the economy is expected to grow by 1.5%. Economic growth will be fuelled mainly by domestic demand, because the contribution of net exports will be very small. According to the outlook, cumulative growth in the period 2015–2017 will be only 3.4% and the level of GDP will still be 3% lower than at the previous cyclical peak at the end of 2007. In 2018 economic growth is projected to slow to 1.3% and in 2019 further to 1.2%.

3 Implementation of country-specific recommendations

3.1 Sustainability of public finances

EU recommendation 1: Limit the emerging gap relative to the medium-term objective in 2014, ensure to return to it in 2015 and respect it thereafter as planned. Ensure that the debt criterion is fulfilled, while pursuing a growth-friendly fiscal policy. Implement rapidly the reforms set out in the Structural Policy Programme and government spending limits and fiscal plan for 2015–18 in order to reduce the fiscal sustainability gap and strengthen conditions for growth.

3.1.1 Growth promoting economic policy

The goal of the fiscal and economic policy of Prime Minister Jyrki Katainen's and Prime Minister Alexander Stubbs' governments has been to strengthen conditions for growth and the financial foundation of the welfare society while stabilising public finances. The most significant objectives have been bridging the sustainability gap and reducing the central government debt ratio by the end of the parliamentary term. The principal means of achieving these objectives have been boosting economic growth, increasing employment, prolonging working careers, making expenditure savings, increasing tax revenues and cutting local government duties and obligations.

The Government has sought to promote these measures with, among other things, the Structural Policy Programme, adopted on 29 August 2013. In addition, the Government's earlier structural policy decisions, such as reducing the corporate tax rate and reforming the dividend tax system, together with the long-term moderate wage settlement agreed in 2013, support the aim set for growing the economy's output potential.

The spring 2013 Stability Programme set a medium-term objective (MTO) for Finland's general government finances, according to which the general government structural deficit must not exceed -0.5% of GDP. The Fiscal Compact between Member States, which came into force at the beginning of 2013, and the national act required by it set the legal framework for the MTO. The act also specifies a correction mechanism that will go into effect in

the event of any significant deviation from the MTO or the adjustment path leading to it. Finland's budgetary position will deviate from the MTO, however, and there is also a risk that Finland will not stay on the path leading to the MTO.

According to provisional data, general government debt increased last year by EUR 8.4 billion to EUR 121 billion. Euro-denominated debt has grown in six years by almost EUR 58 billion and the debt-to-GDP ratio has correspondingly risen by 27 percentage points to nearly 60%. The debt ratio will also grow in the coming years and the 60% reference value will be exceeded in 2015. Finland's debt ratio is still, however, around 35 percentage points smaller than the euro countries on average.

In addition to structural reforms, direct measures aimed at reducing general government expenditure and increasing revenue have been decided in different contexts. The net amount of these measures at 2019 level is around EUR 6.6 billion, i.e. around 2,8 % of GDP. Despite the decided adjustment measures and structural reforms, the sustainability gap has not been closed in this parliamentary term and the government debt ratio has not been reduced.

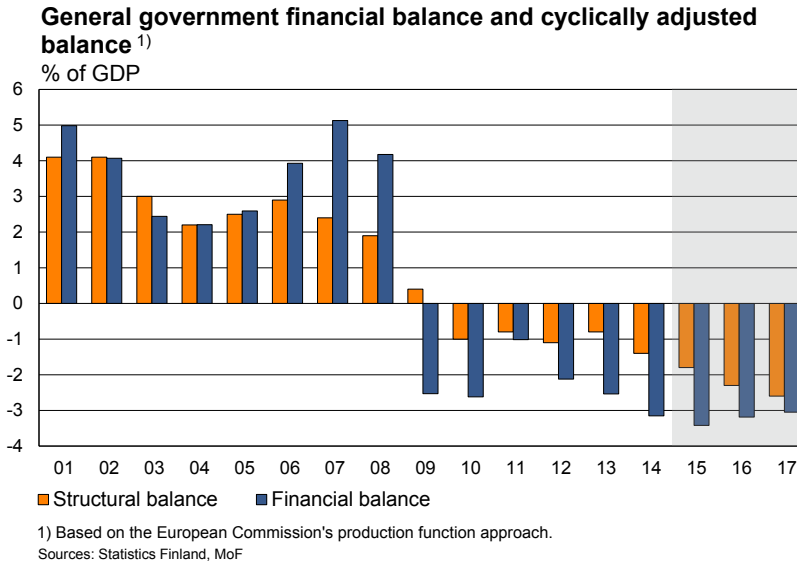
3.1.2 Medium-term objective and sustainability of public finances

As stated above, the 2013 Stability Programme set an MTO of -0.5% for Finland's general government structural budgetary position. On 2 October 2014, the Government adopted a resolution stating that, according to the Government's assessment, there is a significant deviation jeopardising the achievement of the MTO in the general government structural budgetary position.

The Ministry of Finance Economic Department's assessment of the long-term sustainability of public finances has been prepared adhering to the EU's jointly agreed methodology and calculation principles. The assessment of age-related expenditure has used the social expenditure analysis model (SOME model), developed in the Ministry of Social Affairs and Health. The scenario's underlying assumptions (employment, productivity, interest rate, inflation) are based on the assumptions of the 2015 Ageing Report of the EU Economic Policy Committee's Working Group on Ageing.

According to the assumptions, productivity growth in Finland will average 1.4% in the period 2019–2060. There are deviations from the assumptions of the Ageing Report in the assessment of population development, which uses Statistics Finland's 2012 population forecast, and in the estimate of 2015–2019 economic development, which is based on the economic forecast of the Ministry of Finance.

Taking the pension reform intended to come into force at the beginning of 2017 into account has reduced the general government sustainability gap by around one percentage point. The reform is expected to raise the employment rate and reduce pension expenditure. The estimate of the medium-term structural budgetary position of general government finances has, however, deteriorated very significantly from last autumn's estimate, and this has increased the sustainability gap by 2 percentage points. The sustainability gap is expected to be around 5% of GDP at the 2019 level.



3.2 Productivity and cost savings in public services

EU recommendation 2: Ensure effective implementation of the on-going administrative reforms concerning municipal structure and social and health care services, in order to increase cost-effectiveness in the provision of public services.

3.2.1 Reform of the structure of local government

In Finland the number of municipalities is large and the municipalities have very extensive responsibilities for arranging basic public services. As a result, over the longer term there has been a reconciliation of suitable population base and duties. Changes have been made both by reforming the local government structure and by allocating duties to entities larger than individual municipalities (joint municipal authorities).

In the 2000s, the number of municipalities has fallen by nearly a third. In 2015 there are 317 municipalities, of which 301 are in Mainland Finland and 16 in the Åland Islands. Mergers implemented during the 2000s have reduced the number of the smallest municipalities in particular.

As part of the local government reform, an obligation to study potential mergers of municipalities was enacted. The obligation to study potential mergers began on 1 July 2013. A municipality must study together with other municipalities the merger of municipalities in accordance with the study criteria prescribed in the Local Government Structure Act. The study criteria include the population base required by services (fewer than 20,000

inhabitants), the municipality's economic situation, job self-sufficiency, and commuting and urban structure criteria.

At the end of the year, 40 studies were under way, involving 158 municipalities. There were a total of 88 municipalities that are obliged to make a study but which have not made a study required by law. Study assistance under the Local Government Structure Act is granted for costs arising from municipalities' own studies. On 4 December 2014, the Government submitted to Parliament a proposal to amend the Local Government Structure Act. According to the proposal, studies and merger proposals must be made by 29 April 2016.

The Government decree on the General Government Fiscal Plan, which steers public finances as a whole, came into force on 14 February 2014. The macro-steering of local government finances will be implemented as part of the preparation of the General Government Fiscal Plan. In the General Government Fiscal Plan, the local government budgetary framework forms a package of measures by which the Government steers local government finances. The budgetary framework includes an objective set for the budgetary position of local government finances, a spending limit set for central government measures affecting local government finances, and other measures adopted to achieve the budgetary position objective. The reform of the macro-steering of local government finances will be supplemented by a tightening of fiscal regulations affecting individual municipalities or joint municipal authorities as part of the comprehensive reform of the Local Government Act. According to the proposal, a deficit accumulated in the balance sheet must be covered by a strengthening of the financial statements within a maximum of four years, starting from the following year, without any possibility in the fiscal plan to postpone the coverage of the deficit to a later date.

3.2.2 Social and health care services

A Government proposal (324/2014), prepared in co-operation with all the parties in Parliament, on an Act on the Arrangement of Social and Health Care Services and on related legislation was submitted to Parliament in December 2014. The purpose of the Act on the Arrangement of Social and Health Services was to transfer administration of services to the responsibility of five regions formed by municipalities, with the aim of strengthening basic-level services, reducing the sustainability gap in Finland's public finances, securing the funding of public services and benefits, and safeguarding the equal availability of services everywhere in the country.

According to the Constitutional Law Committee of Parliament, the proposal had constitutional law problems. It was possible to resolve some these during parliamentary sessions. Due to a scheduling problem caused by the upcoming parliamentary elections, it was not possible, however, to find a solution to the fact that the committee considered a new 19-region single-level joint municipal authority model to be in conflict with the autonomy of municipalities guaranteed by the Constitution.

The multi-stage preparation to date has increased awareness of the need for reform, on which there is wide political consensus. Reform is needed to safeguard citizens' social secu-

rity and health services based on the Constitution as well as their funding. The reform aims to expand the base for arranging services, combine social and health services, reform the structure of services and forms of working, and to strengthen national steering of social and health care.

The Ministry of Social Affairs and Health will continue preparation of the reform on the basis of statements given by Constitution Law Committee. The work done to date can be used in further preparation. Of the key principles, the creation of an integrated service structure and the guaranteeing of equal availability of services throughout the country will not be compromised in the preparation. The current estimate is that a new proposal may be submitted to Parliament at the end of 2016.

3.3 Improving the labour force participation rate (particularly for older workers)

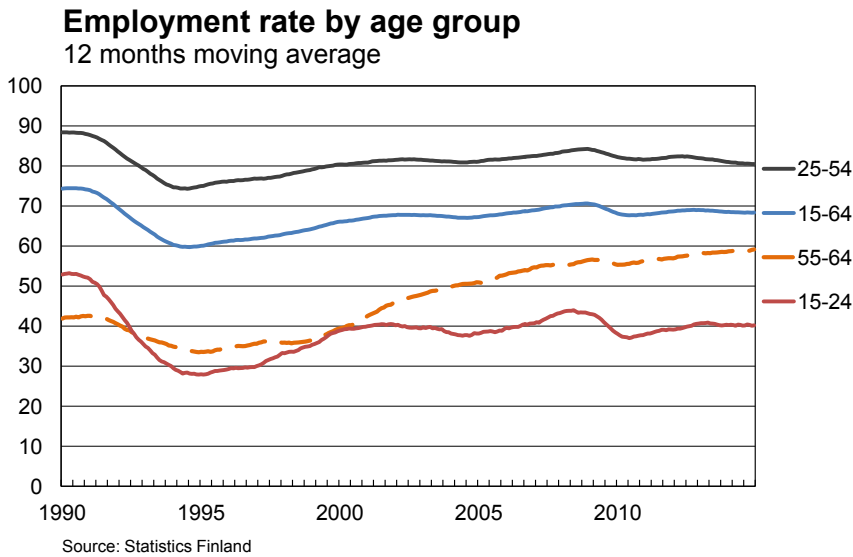
EU recommendation 3: Improve the use of the full labour force potential in the labour market, including by improving the employment rate and the employability of older workers, and increasing the effective retirement age, by reducing early exit pathways and aligning the retirement age or pension benefits to changes in life expectancy. Improve the labour-market prospects of young people and the long-term unemployed, with a particular focus on vocational education and targeted activation measures.

3.3.1 Development of the employment rate in different age groups

The employment of older people, 55–64 year-olds, has improved significantly in the 2000s, even though in other age groups the employment rates have remained roughly as before. In 2009, in the recession that followed the financial crisis, the employment rate fell in all age groups, but particularly strongly among young people. The employment of young people typically reacts sensitively to cyclical fluctuations, because young people have alternatives to employment, for example in the field of education. During the past three years, the employment rate has also developed most poorly among those in the middle stages of their careers (25–54 years) and has risen among young people and older people.

3.3.2 Improving labour market functionality

In accordance with a decision made in the Government's Structural Policy Programme, Employment and Economic Development (TE) Centres have increased significantly job offers made to the unemployed. The number of job offers to job vacancies more than



doubled during 2014. Employment plan monitoring and job-seeker reporting has been enhanced through an electronic service, and unemployment security sanctions related to active job seeking are being consistently applied.

The unemployment security conditions for accepting a job offer were changed from the beginning of 2015 in order to increase the regional mobility of the unemployed. An offered job must also be accepted outside a commuting area if the one-way travel time does not exceed 1.5 hours by public transport.

The effectiveness of the public employment service will be increased by strengthening partnerships. The main partners in services offered to different customer groups are municipalities, regional business services and private service providers. Employment and Economic Development Centres will increase and develop business cooperation by visiting companies and increasing the expertise of staff.

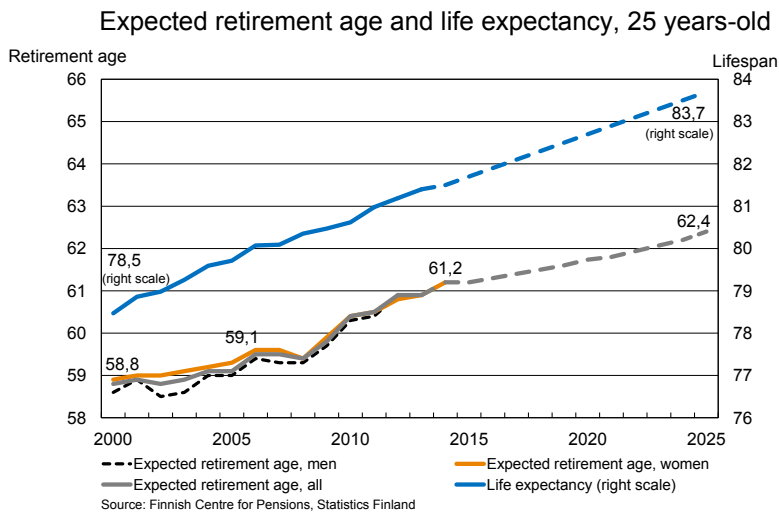
Matching problems will be alleviated by increasing the relevance of labour market training for the needs of business and the job market. Anticipation of skills and training needs has been improved with new tools, and work-oriented and other flexible training content has been increased.

3.3.3 Increasing the effective retirement age

In autumn 2014, labour market organisations negotiated a solution to the new employment pension reform. The pension reform will come into force at the beginning of 2017. The reform prepares for an increase in life expectancy. After the reform, the expected

retirement age is projected to rise to 62.4 years by 2025. In addition, through a reduction of pension expenditure and an improvement of employment, the sustainability gap in public finances is expected to narrow by one percentage point. Due to the reform, an employment pension contribution level of 24.4% will be established from 2017.

The retirement age will rise gradually until the minimum age of eligibility for the old-age pension is 65 years. From 2027 the minimum retirement age will be linked to life expectancy so that part of the increased lifespan is used in work. The retirement age will continue to be flexible so that the difference of the lower and upper age limit remains at 5 years.



The current part-time pension will be abolished and a partial early old-age pension introduced. Individuals who have reached 61 years of age will have the right to the partial early old-age pension until they transfer to the old-age pension. This age limit will be increased to 62 years of age from 2025, and from 2027 it will be linked to life expectancy. An individual can draw either 25% or 50% of the pension accrued up to the beginning of retirement. In addition, the pension is adjusted by a life expectancy coefficient and by a 0.4% reduction for each month the pension is drawn before the earliest eligibility age for the old-age pension.

A years-of-service pension is a new pension benefit. A requirement of receiving the years-of-service pension is that the individual is 63 years of age (from 2027 the age limit will be linked to life expectancy) and has had a working career spanning at least 38 years in work that is either physically or mentally wearing. A further requirement is the applicant's work capacity is impaired and opportunities to continue in the work have deteriorated. The level of the pension is the same as the disability pension, but it does not include a future time component.

The higher pension accrual rates for older workers will be abolished. Pension will accrue from 17 years of age during the whole working career at 1.5% per year from pensionable

income. Pension will be calculated from a larger wage than at present, since pension contributions will no longer be deducted from pensionable earnings. An individual's pension will be increased by 0.4% for each month of deferred retirement, if the individual continues in work after the earliest eligibility age for the old-age pension.

The pension reform also agreed that the central government and labour market organisations jointly study employer incentives to encourage workers to stay in work. The intention is to implement the required changes during 2015.

3.3.4 Changes in life expectancy, pension benefits and retirement age

A life expectancy coefficient, which links pension benefits to life expectancy, is used in Finland. The coefficient was applied for the first time in 2010. The life expectancy coefficient is calculated annually for the age group reaching 62 years of age. The more that life expectancy has grown for a certain age group in relation to the control age group, the more the life expectancy coefficient cuts pension benefits. The life expectancy coefficient therefore neutralises the effect of increased life expectancy on the costs of the pension system. In the reform of the earnings-related pension system, the earliest eligibility age for the old-age pension¹ will also be linked to change in life expectancy change from 2027. The objective is maintain the ratio of time in work to time in retirement at the 2025 level. As life expectancy increases, the retirement age must be raised so that the ratio of time in work to time in retirement is maintained at the 2025 level. The life expectancy coefficient remains in the pension reform and it will be adjusted to the change in retirement age from 2027.

3.3.5 Preventing retirement on disability pension

Incapacity for work is the single most significant factor shortening working careers, which is why the Government emphasises preventing incapacity for work and improving the working opportunities for people with partial work ability in extending working careers. This requires health promotion as well as the development of occupational health care, rehabilitation and working life. Particular attention is paid to enhancing the prevention and treatment of mental health and substance abuse problems, referral to treatment at workplaces and its implementation as well as facilitating return to work. The number of people retiring on disability pensions has reduced significantly in recent years.

The low average age of people retiring on the disability pension lowers the effective retirement age. The average age of people retiring on the disability pension is 52.0 years. In spring 2012, a working life development strategy was approved, which is being implemented in cooperation with all working life actors. The aim of the strategy is to prolong working careers, raise the employment rate and improve the quality of working life. These goals are being pursued by increasing information and reaching as many workplaces as possible to develop their operating methods.

¹ Also the minimum age for partial early old-age pension and minimum age for years-of-service pension

3.3.6 Supporting the employment of people with partial work capacity

The programme for people with partial work capacity (2013–2015) offers support and tools for people with partial work capacity to continue and enter employment, particularly in the open labour market. The programme covers people with partial work capacity who are in work and those who are outside the labour force. The programme consists of two components: 1) an operating concept preventing incapacity for work and promoting opportunities for people with partial work capacity to continue and enter employment, and 2) legislative amendments facilitating the employment of people with partial work capacity. The programme has trained work capacity coordinators, tested the concept prepared by the programme in pilot workplaces, and initiated an extensive research project on the effectiveness and financial profitability of the programme. The programme's funding has been taken into account in the central government spending limits decision for 2015–2018.

3.3.7 Implementation of the proposals of the “Jukka Ahtela report”, a proposal for building a new kind of operating model between national occupational health and safety actors

On 27 April 2014, the Ministry of Social Affairs and Health received a report, which it had commissioned from Jukka Ahtela LL.M. The report contains proposals aimed at enhancing the occupational health and safety cooperation of workplaces, supporting workplace activity and building a new kind of operating model between national occupational health and safety actors. Following the proposal, the Ministry of Social Affairs and Health has initiated measures to build the operating model described above in cooperation with labour market organisations and other parties.

3.3.8 Improving the labour-market position of young people

The implementation of the youth guarantee started at the beginning of 2013. Under the youth guarantee, every person under 25 years old and recent graduates under 30 years old is offered a study, work trial or workshop place or a job within three months of registering as unemployed. The youth guarantee also includes an education guarantee, which ensures every person who has just completed basic education a place in further education. Furthermore, the youth guarantee includes a skills programme for young adults, to be implemented in 2013–2016. The youth guarantee is implemented in an extensive cooperative effort by various administrative branches and other actors.

During 2014, the youth guarantee was strengthened by developing a country-wide one-stop-shop service point network, from which a young person will receive multi-professional support from one location. The service point network will open during 2015. The youth guarantee is also included in a Ministry of Finance municipal trial in which cooperation and exchange of information between Employment and Economic Development (TE) Centres and municipalities is promoted with new tools. The education guarantee, aimed at raising the education level of young people, was in force for the first time in the extensive joint application process of spring 2014. The education guarantee has increased the number of

young people moving directly from basic education to further education and is therefore reducing the number of under-educated young people entering the labour market. The skills programme for young adults operated with full funding during 2014 and the student number targets of the education programme was achieved for the year. The number of young people receiving vocational rehabilitation rose during 2014 due to criteria changes. The criteria for rehabilitation were changed to facilitate young people's access to rehabilitation.

3.3.9 Improving the labour market position of the long-term unemployed

In reducing long-term unemployment, the priorities are improving cooperation between central and local government, increasing municipalities' responsibility and influence, and targeting the wage subsidy and other employment services at people in a difficult labour market position.

The activity of the Employment Services Centres, which previously operated as a fixed-term trial, will be put on a permanent basis through new legislation that came into force at the beginning of 2015. A new multi-sector joint service aimed at promoting employment will bring together those services of the Employment and Economic Development Centres, municipalities and the Social Insurance Institution of Finland that promote the employment of the long-term unemployed. New legislation will safeguard the funding and operation of the multi-sector joint service throughout the country. The legislation will improve municipalities' opportunities to influence the arrangement of services for the long-term unemployed and to promote employment.

Municipalities' responsibility in funding labour market support was increased from the beginning of 2015. The Unemployment Security Act was amended so that municipalities pay half of labour market support during unemployment for those individuals who have received labour market support on the basis of unemployment for at least 300 days. The municipalities' payment contribution is 70% for those individuals who have received labour market support on the basis of unemployment for at least 1,000 days. The change will increase a municipality's financial incentives to activate the long-term unemployed.

To facilitate the employment of unemployed people in the most difficult position, earmarking of employment appropriations has been introduced. Of employment appropriations included in the central government's 2015 Budget, 34% is earmarked for clients of the multi-sector joint service and for unemployed people falling within the scope of the joint funding responsibility of central government and local government

Conditions relating to the amount and duration of the wage subsidy have been revised since the beginning of 2015. The objective of the revisions is to target the wage subsidy more than at present at the long-term unemployed and to increase companies' role in providing wage-subsidised work. The reform also introduced a long-term, in practice permanent, wage subsidy for long-term unemployed older workers. The wage subsidy can be granted as a two-year-long subsidy to those over 60 years of age who have been unemployed for more than a year. The subsidy is renewable should the individual's service needs so require.

3.3.10 Integration and employment of immigrants

The implementation of integration policy was continued in accordance with the goals of the Government Integration Programme 2012–2015. In the integration and the employment promotion of immigrants, the main emphasis was on developing integration education, strengthening expertise in local integration work and enhancing the placement of refugees in municipalities.

Integration education appropriations have been increased to strengthen immigrants' skills and improve the availability of integration education. The immigrants' service package includes information, guidance, an initial survey and the rudiments of Finnish or Swedish language. The goal is to build a coherent service path from early-stage guidance and information to integration education and further to education and training oriented towards working life. The foundation for good ethnic relations and positive attitudes in society is also strengthened by supporting the participation of immigrants.

The refugee quota for 2014 was increased temporarily to 1,050 due to the refugee crisis in Syria. New municipalities have been included in the reception of refugees, and the situation in terms of municipality placements has improved significantly as a result of additional funding. Cooperation between central government and the municipalities in the reception of refugees will be strengthened so that placement in municipalities of individuals receiving international protection is ensured. As part of this cooperation, the compensation system and official processes will be developed and simplified.

3.3.11 Vocational education

Student selection in upper secondary education has been reformed such that priority in selection is given to those who have completed basic education and who are without a post-basic education qualification. This will help ensure the transition of students who have completed basic education into upper secondary studies. A completion of studies efficiency programme has supported education providers in developing their activities so that completion of studies and transition to working life and further education are ensured.

The vocational education qualification structure has been reformed to ensure that it is skills-based, modular, oriented towards working life and facilitates the building of flexible study paths. It also promotes identification and recognition of previously acquired expertise as part of studies. The reforms will come into force on 1 August 2015.

3.3.12 Apprenticeship training and development of young people's apprenticeship training

As part of the implementation of the youth guarantee, a number of measures were launched to increase young people's apprenticeship training. The Ministry of Education

and Culture has launched a reform of young people's on-the-job learning and apprenticeship training in which young people's apprenticeship training will be increased and training models combining institutional and apprenticeship forms of training will be developed. The measures are targeted at under 25 year-old young people who do not have a post-basic education qualification. Most of the development measures were launched from the beginning of 2014 and development projects will be implemented until 2016. Approximately EUR 20 million was allocated to development measures in 2014. Commissioned by the Ministry of Education and Culture, a study has been initiated to review the results and effectiveness of the development projects of the on-the-job learning and apprenticeship training reform. The study will be completed in December 2015.

As part of Structural Fund measures, conditions for implementing young people's apprenticeship training will be improved in the programme period 2014–2020 by creating regional cooperation models for companies and apprenticeship training providers, and by preparing and communicating with different actors. National ESF measures will supplement the implementation of the youth guarantee and develop services promoting young people's training and employment as well as cooperation between education and working life. The projects will start in the first half of 2015.

3.3.13 Strengthening the competence base of adults

As part of the General Government Fiscal Plan for 2015–2018, the Government decided in spring 2014 to allocate EUR 20 million in 2014–2015 to strengthen the competence base of adults. The objective is to promote conditions for adults who do not have a secondary education qualification to respond to the competence needs of a changing labour market and also to promote the target group's opportunities to increase their own expertise.

The Ministry of Education and Culture has launched a programme to strengthen the competence base of adults. The programme is intended for people aged between 30 and 50 years who have not completed the basic education syllabus or do not have a post-basic education qualification. A total of EUR 20 million will be allocated to the activity in 2014–2015 for use in institutional vocational further education and training, vocational upper secondary education and training leading to a competence-based qualification, and vocational further education and training arranged as apprenticeship training. Funding was allocated at the end of 2014 to around 50 educational establishments. No data is available yet on the number of students supported by the programme.

3.4 Competition in product and service markets

EU recommendation 4: Continue efforts to enhance competition in product and service markets, especially in the daily consumer goods sector, by implementing the Programme for Promoting Healthy Competition, including amendments of the Land Use and Building Act to make it more supportive to healthy competition.

3.4.1 Structural Policy Programme and Programme for Promoting Healthy Competition

The Government approved an extensive Structural Policy Programme in November 2013. The Programme for Promoting Healthy Competition was incorporated into the Structural Policy Programme. At the end of the November 2013, the Government decided to implement the Structural Policy Programme and obliged the ministries to implement the Programme for Promoting Healthy Competition. Finland has amended its Competition Act so that a provision on dominant market position in the daily consumer goods trade as well as provisions on competition neutrality have been added to the Act. These provisions are now the law in force. As for barriers resulting from other legislation, some of the results are already perceptible and some are possibly yet to be seen.

3.4.2 Competition Act

The amendment to the Competition Act relating to the daily consumer goods trade came into force on 1 January 2014. The Competition Act's prohibition on the abuse of dominant market position can be applied to businesses or associations of businesses whose market share in Finland of the retail sale of daily consumer goods is at least 30%. In the current market situation, the provision applies to operations of the K and S retail groups (the largest daily consumer goods groups in Finland, with a combined market share of around 80%). The Finnish Competition and Consumer Authority (FCCA) has negotiated with the K and S groups and other market participants on several occasions and has given them advice.

The FCCA has also studied regular customer schemes and their impact on competition. On 8 January 2015, the FCCA published a study into the purchasing behaviour of consumers in the daily consumer goods trade. According to the study, the location of a store was a decisive factor when choosing a store and factors relating to regular customer schemes were less significant factors than location and opening hours when selecting a store. The study was part of wider FCCA research assessing the possible competition-restricting impact of the regular customer schemes and customer owner schemes of companies that have a dominant position in the daily consumer goods trade. The work will continue during this year. The FCCA has also studied goods suppliers' access to wholesale and retail trade sales data and procedures relating to private label products.

The FCCA received a new supervision task on 1 September 2013. The objective of the amendment to the Competition Act is to ensure equal conditions for competition, i.e. competition neutrality between the business activities of the public and private sectors. The provisions apply to the economic activities of municipalities, joint municipal authorities, central government and units belonging to them. The FCCA has the authority to intervene in the business activity of the public sector in the supply of goods and services, if the procedures used (for example predatory pricing) or operational structures (for example business activity in agency form) prevent or distort competition in the market. The Competition Act does not prohibit public entities from engaging in economic activity nor from competing with private companies in the same market.

In May 2014, a report was published on the extension of personal responsibility under criminal law to cartels. The project prepared two independent academic studies assessing, from a national and international perspective, the prerequisites, viability, advantages and disadvantages of criminalisation. On the criminalisation of cartels, the report presented the legal justifications required by the criminal justice system and the legitimate need in terms of the effectiveness of the competition law system. In connection with the report, it was stated, however, that criminalisation might jeopardise the functioning of the leniency system guaranteed under competition law. The view of the Ministry of Employment and the Economy, which is responsible for competition law, is that reform projects jeopardising leniency should not be carried forward. The effective functioning of the leniency system is vitally important in work related to the detection, investigation and sanctioning of cartels, which is one of the main priorities of competition policy. The report may be of use in the future assessment of the need and suitability of personal responsibility for Finland's competition law and criminal justice system. For concrete further assessments, additional studies on safeguarding leniency and revising the area of application of rules imposing bans on business operations are needed.

3.4.3 Location of Alko stores

The Ministry of Social Affairs and Health has given ownership steering to Alko, Finland's alcohol monopoly. The locations of Alko stores have been found to have an impact on where customers shop for daily consumer goods. The number of Alko stores that are located next to the two largest daily consumer goods groups has already declined to some extent. Gradually the situation will stabilise further.

3.4.4 Land use planning and construction

Parliament has approved an amendment to the Land Use and Building Act (334/2014), by which the perspective of promoting effective competition in business is introduced into land use planning regulations. In future, promoting effective competition will be a land use planning objective at all planning levels. The amendment supplements existing regulations, according to which conditions for business activity must be promoted by land use planning. Correspondingly, a requirement to promote effective competition has been

added alongside housing production as a consideration criterion to the provision prescribing the obligation to prepare a city plan. In addition, the effects of a planning decision on the development of effective competition must be assessed at all planning levels in future. The objective of the amendment is that companies are allocated establishment locations, sufficient in terms of quality and number, which also facilitate the entry into the market of new actors.

3.4.5 Waste

To resolve disputes between private and municipal waste companies, a guide will be produced on the regulations relating to order of precedence, a municipality's obligation to arrange waste management, the obligation to join a waste management system arranged by a municipality, waste management authorities, and decision-making relating to the waste transport system. In addition, a review will be made of possible provisions of the Waste Act whose effectiveness cannot be sufficiently safeguarded by elucidating the interpretation of the provisions and in terms of which legislative amendments should be considered.

3.4.6 Digital market

The system of compensation for private copying was revised so that from 2015 compensation for private copying will be paid from an appropriation included in the central government budget. The revision will safeguard better than the equipment fee system economic conditions for operating at a time of rapid technological development.

To improve the functioning of the digital market, obtaining copyright permits for new business models was facilitated by enacting provisions in the Copyright Act on agreement licences relating to television programme network recording services. In the same context, a blocking order provision was enacted to strengthen opportunities for copyright holders to safeguard their property rights against illegal network distribution in the digital market and a specific arbitration provision was prescribed in the Copyright Act to improve opportunities to influence the fairness of copyright agreements and their conditions.

3.5 Innovation and private sector productivity

EU recommendation 5: Continue to boost Finland's capacity to deliver innovative products, services and high-growth companies in a rapidly changing environment, and continue the diversification of industry, in particular by improving the business environment to strengthen investment in Finland and further facilitating smaller firms' entry into export markets. Step up the development of cross-border gas connection to Estonia.

3.5.1 Government measures to increase the number of innovative products, services and high-growth companies in a rapidly changing operating environment

The Government decided to allocate EUR 330 million to a fund programme in 2014–2017 in order to promote growth of private equity financing. EUR 100 million of this sum will be used to restructure manufacturing industry in the target areas bioeconomy, cleantech, health and digitalisation. In addition, Tekes Venture Capital Ltd was founded to make investments totalling EUR 20 million per year in companies and in funds focusing on start-ups.

As part of the Government's long-term fund programme, Finnish Industry Investment Ltd launched, in cooperation with pension insurance companies, the FoF Growth II Fund with a total investment capital of EUR 130 million. Based on the experience of an earlier, similar fund (FoF Growth Fund I), this investment capital is expected to catalyse a total of around one billion euros of investment at the portfolio company level.

In 2013, Finland was ranked first in Europe for the amount of venture capital investment per capita. Over five years, the Government-founded Vigo start-up accelerator programme has succeeded in gathering for participating companies more than EUR 300 million in funding, mostly from abroad.

The Government decided to introduce a fixed-term R&D tax incentive for companies in 2013–2014. During the first year, over 600 companies used this benefit and received an average EUR 125,000 tax deduction. Of these companies, 80% were SMEs and one fifth operated in the information technology sector.

To encourage investment in start-ups, the Government decided on a fixed-term tax credit in 2013–2015 for private individuals who invest in start-up companies. During the first half year, utilisation of this incentive fell short of expectations. In 2013 Finland was ranked second in Europe in the activity of private individuals' investments in unlisted companies per capita. The public-driven business angels network was privatised in the same year.

In its funding policy, the Government has shifted the focus from direct grants to refundable forms of funding, such as loans, guarantees and equity investments. An increasing amount of innovation support is targeted at SMEs. The Government's objective has been to use business aid to restructure the economy and industry and to boost the internationalisation of companies.

In 2014 the Government decided to stop the trend of declining public R&D by increasing the funding of universities, the Academy of Finland and TEKES by 4%. R&D appropriations and authorisations rose in the central government budget to EUR 2 billion in 2015. The amount of R&D funding grew by nearly EUR 50 million from the previous year. Public research funding as a proportion of GDP is estimated to be 0.96%.

3.5.2 Diversification of industry, in particular by improving the business environment to strengthen investment in Finland and further facilitating smaller firms' progress into export markets

Policy measures to increase the productivity of industry and services include acceleration of industrial restructuring (e.g. ICT 2015 programme, cleantech, bioeconomy). Efforts towards this goal will be made a) by using more the potential of ICT to increase productivity, b) by creating efficient e-services that facilitate the development and internationalisation of Finnish companies, c) by developing service sector productivity, e.g. with the aid of TEKES programmes.

The Team Finland network promotes Finland and its interests around the world: Finland's external economic relations, internationalisation of Finnish companies with the aim of export growth, increasing inward investment in Finland, and enhancing Finland's country brand. The objective of cooperation is to create a clear, flexible and customer-oriented approach in which projects falling within the scope of Team Finland are implemented in collaboration with the central government and businesses. The Team Finland network was established by bringing together services from the Ministry of Employment and the Economy, the Ministry for Foreign Affairs, the Ministry of Education and Culture, and publicly-funded organisations and international operating locations subordinate to these ministries (including Finland's foreign missions, Finpro and TEKES operating locations, and culture and science institutions). The establishment of Team Finland has streamlined business internationalisation services and increased the joint initiatives and cooperation of the key Finnish parties of the innovation system.

Funding of around EUR 50 million will be allocated in The Team Finland growth programme during the next three years to promote tourism, internationalisation of companies and foreign investment.

In 2007–2009, six Strategic Centres for Science, Technology and Innovation (SHOK) were established in Finland as a new kind of platform for innovative businesses and world-class research (in the fields of Energy and the Environment, Bioeconomy, Metal Products

and Mechanical Engineering, Built Environment, Health and Wellbeing, ICT Technology and Services). The activities of the SHOK centres are increasingly steered with funding towards international and cross-sectoral cooperation. The SHOK centres are encouraged to find means to utilise EU research funding. SHOK activities will continue to be developed on the basis of the policy outlines of the Research and Innovation Council for 2015–2020.

Finland has attracted major data centre investments by Google, TelecityGroup, Yandex and Atos thanks to its cool climate, highly expert IT professionals and well functioning infrastructure. The price of electricity also promotes Finland's competitiveness as a cost-effective location for data centres. The Finnish Government has amended the Electricity Tax Act to lower the electricity tax rate paid by data centres operating in Finland.

3.5.3 Accelerating the construction of a gas connection between Finland and Estonia

On 17 November 2014, the Prime Ministers of Finland and Estonia agreed on an accelerated plan for the construction of the Balticconnector gas pipeline. The plan also includes the construction of a regional LNG terminal in Finland and the construction of a smaller security of supply terminal in Estonia. The goal is for the Balticconnector pipeline to be completed in 2019.

4 Progress in attaining the Europe 2020 Strategy's national targets

| | EU headline target | Finland in 2013 | Finland in 2020 |
|--|-----------------------|---------------------|------------------|
| Employment rate (20 – 64 -years old) | 75 % | 73,1% | 78 % |
| R & D expenditure/GDP | 3 % | 3,32 % | target level 4 % |
| Climate: | | | |
| -Greenhouse gas emissions (outside emissions trading) | -10 % from 2005 level | -13 % | -16 % |
| -share of renewable energy 20 % | 20 % | 36,8 % | 38 % |
| -energy efficiency (end-use energy consumption) | -20 % | 304 TWh | 310 TWh |
| Education | | | |
| -proportion of 30 – 34 year olds having completed tertiary education | 40 % | 44,3% ¹⁾ | 42 % |
| - early school leavers | 10 % | 9,8 % ²⁾ | 8 % |
| People living at risk of poverty or social exclusion | 20 million less | 928 000 | 770 000 |

¹⁾ The figure is based on Statistics Finland's Labour Force Survey. In the Europe 2020 indicators published by Eurostat, the corresponding proportion was 45.1% in 2013.

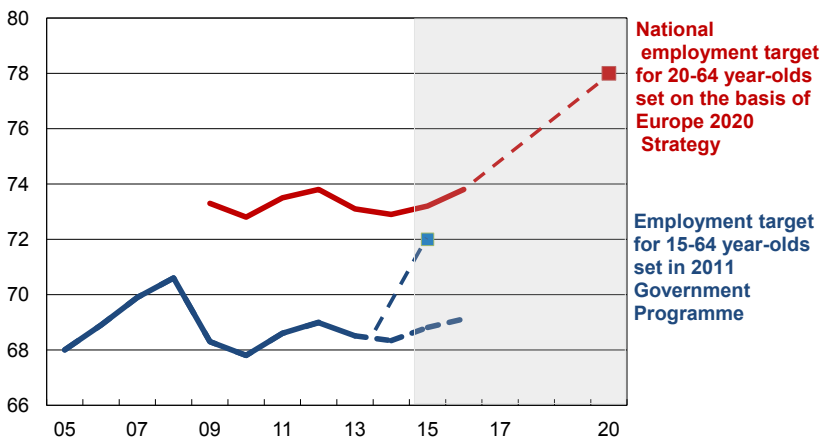
²⁾ 18–24 year-old early school leavers who have no post-basic education qualification and who are not studying in education leading to a qualification. The percentage has been calculated from the same age population using the qualification register and student files. The data differ from the figures published by Eurostat, which are based on the Labour Force Survey. Situation at 30 September 2014

4.2 Employment target

The Government has set as a national target that the employment rate of 15–64 year-olds will rise to 72% and the unemployment rate will fall to 5% by 2015. The employment target in the Europe 2020 Strategy has been set for 20–64 year-olds. The Government's target is more ambitious than the national target set in connection with the Europe 2020 Strategy. The Government will not achieve the employment and unemployment targets set in the Government Programme, as actual economic development has been significantly weaker than was anticipated when the Government Programme was prepared. According to the Ministry of Finance's April 2015 economic forecast, the employment rate of 15–64 year-

olds will be 68.8% and the unemployment rate 8.3% in 2015. Underlying the weak growth of the Finnish economy and employment are the problems of the global economy and the euro area, the restructuring of Finnish industry and weak competitiveness. To meet the challenges for employment, the Government has implemented employment -increasing measures in the manner decided in the Structural Policy Programme. The programme includes measures to extend working careers and reduce unemployment. The aim of the reforms decided in the Structural Policy Programme to improve the functioning of the labour market is to lower the level of unemployment by one percentage point.

Employment rate (20-64 year-olds), 78% in 2020



Source: Statistics Finland, MoF

To extend working careers, labour market organisations have prepared pension reforms in accordance with the objectives confirmed in the 2012 working careers agreement. Government has also decided on further measures to extend careers at the start of working life. These are reform of financial aid to students, reform of higher education funding incentives, renewal of higher education student selection, clearing the application backlog and shortening higher education graduation times. In addition, a change to eligibility requirements as well as a form of education combining vocational upper secondary education and apprenticeship training, e.g. the so-called 2+1 model, will be prepared.

The functioning of the labour market will be improved by increasing job offers made to the unemployed, by applying consistently the sanctions that are conditions of unemployment security, and by increasing the mobility of job seekers. Long-term unemployment will be reduced by a joint multi-sectoral, employment-promoting service of the Employment and Economic Development (TE) Centres, municipalities and the Social Insurance Institution of Finland, by increasing municipalities' responsibility for the funding of labour market

support and through a permanent wage subsidy for long-term unemployed people over 60 years old. Measures aimed at extending working careers and reducing youth and long-term unemployment are discussed in Section 3.3.

4.2 Research and development target

4.2.1 Research and innovation policy outline for 2015–2020

The Research and Innovation Council, chaired by Prime Minister Alexander Stubb, has outlined the research and innovation policy measures and funding for 2015–2020. The goal is to improve Finland's competitiveness, citizens' well-being and the state of the environment by strengthening the quality and effectiveness of research and innovation (R&I) activities.

The policy outline presents a national R&I policy reform programme aimed at stimulating the development of innovation system structures and measures. The reform programme consists of six main themes, supported by the recommended funding solutions.

The main development targets are: 1) implementing a radical reform of the higher education system, 2) promoting the utilisation of R&I results and their impacts, and 3) strengthening new sources of growth, intangible assets and entrepreneurship.

The other key development actions are aimed at: 4) improving the overall knowledge base and promoting selected cutting-edge skills, 5) reforming the public sector and increasing cross-ministerial cooperation, and 6) ensuring adequate R&D funding and targeting it effectively.

R&I funding will be increased to better meet intensifying international competition, while ensuring that the funding is allocated to enhance Finland's economy, employment and knowledge base. The recent downward trend in Finland's R&D expenditure will be reversed.

To implement the reform programme, the Council recommends that central government research and development funding be increased annually by 2% in real terms in the period 2015–2020. This would mean an increase of EUR 210 million in real terms by the end of the decade from the 2015 level. The funding would be used to support high quality R&I activities, dismantle inefficient structures, encourage experimentation and improve the utilisation of R&I results. The objectives are to find new sources of growth, further strengthen national competitive advantages and create internationally attractive centres of expertise.

An international evaluation of the activities of the Research and Innovation Council was published in March 2014. Based on the evaluation, the intention is to revamp the Council's activities during 2015.

In September 2013, the Government decided on the principles of the comprehensive reform of central government research institutes and research funding. The objective of the reform is to strengthen multidisciplinary, high-level and socially significant research, release resources from research support services and fixed structures into research activity and, by field of research, to organise research institutes into larger and stronger entities. The

key measures of the reform have advanced according to plan, including the merger of certain research institutes, the turning of the VTT Technical Research Centre of Finland into a wholly state-owned company, and the establishment of a new Strategic Research Council in connection with the Academy of Finland. Cooperation between research institutes and universities will be increased in accordance with a roadmap prepared in 2015.

A review of funding models for universities and universities of applied sciences was launched at the end of 2014 and the intention is for them to be introduced in 2017. The basic structure and emphases of the funding models will remain as before, but necessary adjustments will be made to criteria describing effectiveness, quality and internationality.

A national research infrastructure strategy as well as an updated roadmap were published in March 2014. The updated roadmap includes 31 national research infrastructures, of which 18 are ESFRI partnerships. The Open Science and Research Roadmap 2014–2017 was published in November 2014 and its main goal is publishing research results produced with public funds, research data, and the methods used in research so that they are openly available and accessible.

In October 2014, the Academy of Finland published a report, *The State of Finnish Research*. According to the report, Finland is ranked above average in global terms in an international comparison of scientific effectiveness, but the gap to the top countries for science has widened in recent years.

4.3 Climate and energy target

The Emissions Trading Scheme ensures that the emissions trading sector fulfils the greenhouse gas emissions reduction targets set for it by the EU (in the EU -21% by 2020 compared with 2005). The reduction of emissions outside emissions trading is the Member States' responsibility. Finland's obligation is reduce emissions outside emissions trading by 16% by 2020 compared with the 2005 level. According to Statistics Finland's provisional data (12 February 2015), emissions outside emissions trading (e.g. use of fuels in the heating of buildings, transport excluding air transport, agriculture, waste management and use of F gases) fell in 2013 by nearly 4% from the previous year. They were around 1% lower than the target set in EU legislation.

The 2020 target for renewable energy, 38% of end-use energy consumption (36.8% in 2013), can be achieved with existing measures. In Finland, growth of renewable energy use is front-loaded, i.e. Finland will exceed the annual minimum targets set by the EU for renewable energy annual during the 2010s. Right at the end of the review period, probable use of renewable energy and the obligation set by the EU will again be close to each other. The EU's renewable energy obligation for the transport sector is 10%, but Finland has nationally decided on the higher target of 20% for 2020. The biofuels distribution obligation for sellers of road transport fuels will ensure that this target is achieved. Finland's National Renewable Energy Action Plan set a target of 25 TWh for the use of forest chips in production of electricity and heat in 2020. A wind power production target of around 9 TWh will be set for 2025. The target set earlier, for 2020, is 6 TWh.

Under the Energy Efficiency Directive, which came into force in December 2012, EU Member States must set a national indicative energy efficiency target for 2020 based on primary energy or end consumption. The Government has set a target of restricting growth of energy end consumption by improving energy efficiency such that in 2020 energy consumption is a maximum of 310 TWh (26.7 Mtoe). An Energy Efficiency Act has been prepared to implement the Energy Efficiency Directive. In addition, a long-term strategy to improve the energy efficiency of buildings as well as an energy-saving plan for central government buildings have been prepared, energy efficiency agreements for municipalities developed, and the possibility of an obligation programme for energy companies investigated.

Parliament approved the Climate Act on 3 March 2015. The objective of the Act is make climate policy long-term, predictable and systematic, and to promote the cost-effectiveness of climate policy. The intention is to increase the openness of climate policy preparation as well as the participation of Parliament in the preparation and monitoring of climate policy. The Act sets an emissions reductions target of 80% for greenhouse gases by 2050.

The National Climate Panel was established for a second two-year term from 2015. The term expires at the end of 2015. The Climate Panel's work promotes dialogue between scientists and policy-makers and reinforces the extensive knowledge base of climate policy preparation.

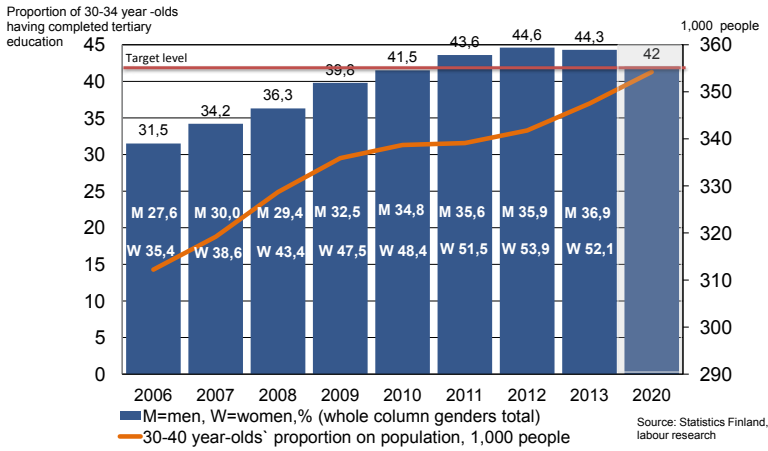
4.4 Education targets

4.4.1 People having completed tertiary education

Legislation relating to indicative completion times for higher education establishments will be tightened to accelerate completion of studies. In determining funding for higher education establishments, the weighting for students who gain more than 55 study credits per year will be increased. The higher education tertiary education application and selection reform will be implemented so that priority is given in selections to those applying for their first higher education place. In connection with the selection reform, the backlog of applications will be cleared by increasing intakes (3,000 starting places) for a fixed period, particularly in key sectors for employment.

Structural changes to financial aid for students came into force on 1 August 2014. The system was reformed to support full-time studies and the accelerated completion of studies. Financial aid was improved in terms of sufficiency and incentivisation through index increases as well as the study grant and loan guarantee. The study grant for new students was increased by 11%, with the support period being shortened by five months at the same time. In addition, incentivising study loan compensation was introduced for efficient completion of studies.

Proportion of 30-34 years-olds having completed tertiary education 42 % in 2020



4.4.2 Early school leavers

The Government has set as a target that the proportion of early school leavers, i.e. mainly 18–24 year-olds who only have an elementary school certificate, will be at most 8% in 2020. In 2013, according to the register data of Statistics Finland, the proportion of early school leavers was 9.8%, i.e. 46,129 people. Compared with 2012, the proportion of early school leavers has fallen by 1.4 percentage points.

The percentage used in the table is the proportion of 18-24 year-old early school leavers from the population of the same age. The size of the population is according to the situation on 31 December 2013 and the study information, on the other hand, according to the situation on 20 September 2013.

The measures have been reported in the section above on the implementation of country-specific recommendations. In addition, the Government will promote the achievement of the target relating to the reduction of the number of early school leavers through, for example, the following means:

Proportion of early school leavers in age group 18-24 in 2013

| Gender | Dropouts | Population | Proportion (%) |
|--------|----------|------------|----------------|
| Women | 19 691 | 231 276 | 8.5 |
| Men | 26 438 | 241 482 | 10.9 |
| Total | 46 129 | 472 758 | 9.8 |

Developing early childhood education and taking the learning path of children into account will facilitate early intervention in learning difficulties and the fulfilment of educational equality targets. Legislation relating to early childhood education has been developed in two stages. Amendments to the Child Day Care Act relating to the first stage of early childhood education will come into force on 1 August 2015. A Government proposal for an Early Childhood Education Act is in preparation.

The goal of pre-school education as part of the early childhood education and basic education continuum is to strengthen conditions for children's learning and development. An obligation to participate in pre-school education came into force on 1 January 2015. The obligation to participate in pre-school education means that, in the year preceding compulsory schooling, children must participate in one year of pre-school education or in other activity that achieves the objectives of pre-school education.

Preparatory instruction for immigrants' upper secondary education was launched in autumn 2014.

As part of the implementation of the youth guarantee, the Government will implement a fixed-term skills programme for young adults. In the skills programme for young adults, young people 20–29 years of age who only have basic education have the opportunity to obtain a vocational or specialist vocational qualification or basic vocational qualification. Preparatory education for qualifications will be arranged in education establishments and as apprenticeship training. The funding allocated to the programme will benefit 4,000 starting students annually in 2013–2016. In September 2014, the programme had started around 5,300 students in educational establishment education and around 400 in apprenticeship training.

4.4.3 Poverty target

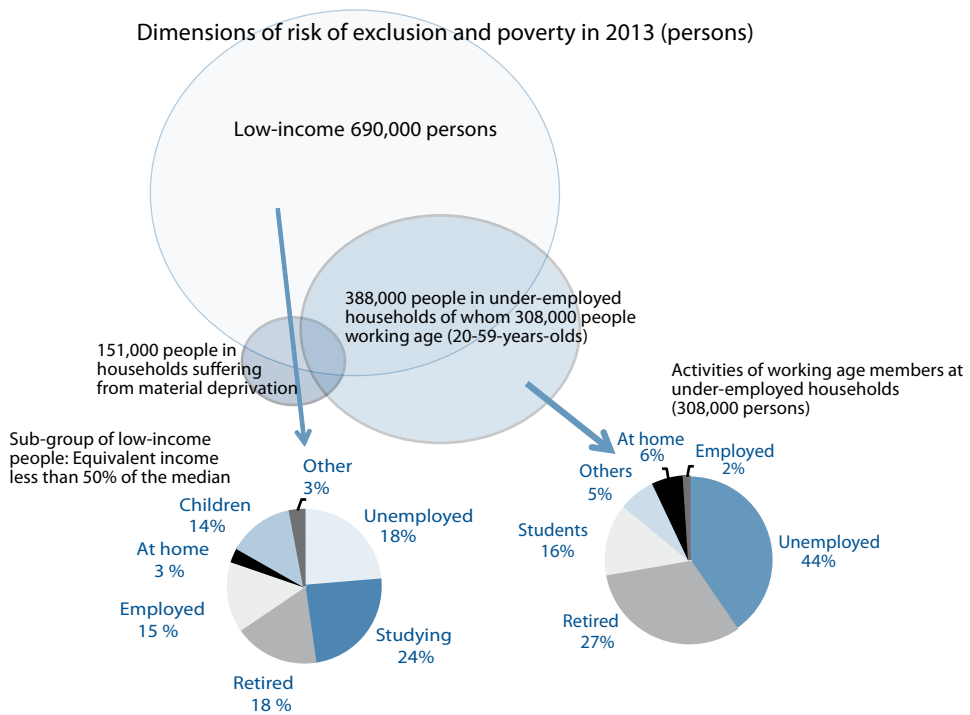
In June 2010, the European Council agreed that the group of people at risk of poverty and social exclusion should be assessed on the basis of three indicators, namely relative risk of poverty, material deprivation and the under-employment of working age members of households. When all of the indicators decided in the European Council are taken into account, risk of poverty or social exclusion affects a total of around 928,000 people in Finland. There are around 690,000 people living in low-income households, around 388,000 working-age members of under-employed households, and around 151,000 members of households suffering from material deprivation. In Finland the low-income group also includes students, whose low-income status is temporary.

In the poverty target monitoring period, the number of people on low incomes and suffering from material deprivation has fallen slightly, but the number of those in under-employed households has grown.

In 2013 Finland had nearly 466,000 long-term low-income people, i.e. 8.7% of the entire population. The number has been in the range 470,000–490,000 in the period 2008–2013. There are clearly more people on low incomes, however, than at the beginning of the 2000s.

The objective is to mitigate the transfer of poverty over generations and long-term dependence on social assistance. The Social Assistance Act was amended so that a temporary

provision according to which at least 20% of earnings is not taken into account as income, but at most EUR 150 per month, was made permanent. At the same time, the provision was amended so that the deduction is earner-specific whereas previously it was household-specific. The goal is to improve the position of workers receiving social assistance and to make the acquisition of small earnings more meaningful. The reform came into force on 1 January 2015. In addition, a full (1.1%) index increase was made to the basic component of social assistance, in contrast with other benefits linked to the National Pension Index, which were increased by only 0.4%.



5 Other reform measures and use of Structural Funds

The appropriations of the EU's Regional and Structural Policy have been used to support the achievement of targets according to the Europe 2020 Strategy. One programme "Sustainable Growth and Work", which contains both European Regional Development Fund and European Social Fund measures, has been prepared for the Structural Fund period 2014–2020. Funding will be directed on the basis of Europe 2020 strategy criteria mainly to Eastern and Northern Finland.

Finland's Structural Fund Programme particularly supports the competitiveness of SMEs, innovation, employment, social inclusion and combating poverty. A cross-sectional theme is the promotion of a low-carbon economy. Structural Fund appropriations will be used to create conditions for permanent structural changes and in situations of abrupt change to react quickly and flexibly to regional and local needs.

In accordance with the Europe 2020 Strategy National Reform Programme, the programme's measures particularly focus on job-creating, innovative growth companies as well as regions' own strong and new potential sectors. In addition, the measures will strengthen regions' smart specialisation and networking. Diversification of the business structure will be continued by supporting development of SMEs' product and services as well as by developing and introducing measures to expand the innovation base. To reduce energy consumption and greenhouse emissions, the programme aims to increase the share of renewable energy and use of local energy sources, and to improve energy and material efficiency.

In promoting social inclusion and combating poverty, there will be a particular focus on measures aimed at supporting the employment opportunities of people in a weak labour market position, strengthening services that promote working and functional capacity, and promoting inclusion in society of individuals at risk of social exclusion. In addition, new, innovative means to promote the employment of young people will be developed as part of the implementation of the youth guarantee.

Measures will support flexible and individual study and qualification paths in order to be able to respond quickly to the skills needs of working life, e.g. the needs of working life arising on sector interfaces or requiring high-level expertise. With the aid of various educational trials, for example, measures will also enhance the skills development and graduation of groups who need special support and who are under-represented in education (e.g. boys, men, ethnic minorities).

In implementing the EU 2020 Strategy, the metropolitan regions in particular will have an important role. In Finland's Structural Fund Programme, the (5%) funding of sustainable urban development required by the Commission will be directed to projects of the six largest cities, in which open innovation environments, open data utilisation in urban development and inclusion of inhabitants will be promoted.

The implementation of the Structural Fund Programme began in May 2014. The programme's implementation system has been revised in accordance with declining resources.

6 Institutional issues and stakeholder participation

The Finnish Constitution lays down provisions on the national preparation of decisions made in the EU. Under these provisions, the Government is responsible for the national preparation of EU issues and decides on the measures to be taken by Finland in respect of them.

EU affairs are prepared in the competent ministries, if necessary working with other ministries, and are coordinated in the coordination system for EU affairs, namely in sections under the Committee for EU Affairs and, if necessary, in the Cabinet Committee on European Union Affairs.

Under the Constitution, Parliament has extensive rights to be informed on EU affairs. The provisions are designed to ensure that Parliament has the opportunity to affect the content of decisions made in the EU. Parliament participates in the forming of the national position during the entire preparation and negotiation process taking place in the EU. The views of Parliament are the point of departure for the Government's actions in the EU.

Parliament has participated in the preparation of various Council configurations and the European Council with respect to the Commission's 2015 Growth Survey and the European Semester. The National Europe 2020 Programme will be submitted to Parliament. The programme will also be presented to social partners in connection with EU procedures.

Public investments other than those related to defence

Nearly half of central government investment is investment in R&D. Just over a third of central government investment is on transport infrastructure projects aimed, for example, at boosting economic growth and supporting business investment. Nearly half of local government investment is on housing construction and nearly one third on infrastructure projects. Local government investment is maintained by large-scale projects in growth centres as well as by the maintenance backlog and major hospital projects.



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