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**COMMISSION OPINION**

**of 21.11.2023**

**on the Draft Budgetary Plan of Finland**

{SWD(2023) 951 final}

(Only the Finnish and Swedish texts are authentic)

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### GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013<sup>1</sup> lays down provisions for enhanced monitoring of budgetary policies in the euro area, in order to ensure that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact and the European Semester for economic policy coordination.
2. Article 6 of Regulation (EU) No 473/2013 requires Member States to submit annually to the Commission and to the Eurogroup a Draft Budgetary Plan, by 15 October, setting out the budgetary targets for the forthcoming year, and outlining the main aspects underlying the budgetary outlook for general government and its subsectors.
3. On 8 March 2023, the Commission adopted a Communication<sup>2</sup> providing fiscal policy guidance for 2024, which confirmed that the general escape clause of the Stability and Growth Pact will be deactivated at the end of 2023.
4. On 26 April 2023, the Commission presented three legislative proposals<sup>3</sup> to implement a comprehensive reform of the EU fiscal framework. The central objective of the proposals is to strengthen public debt sustainability and to promote sustainable and inclusive growth through reforms and investments. In its proposals, the Commission aims at improving national ownership, simplifying the framework and moving towards a greater medium-term focus, combined with effective and more coherent enforcement. According to the Council Conclusions adopted on 14 March 2023<sup>4</sup> and on 27 October 2023<sup>5</sup>, the objective is to conclude the legislative work in 2023. As a new legal framework, based on the outcome of the ongoing economic governance review, is not yet in place, the current legal framework continues to apply. The fiscal component of the Spring 2023 country-specific recommendations

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<sup>1</sup> Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area, (OJ L 140, 27.5.2013, pp. 11).

<sup>2</sup> Communication from the Commission to the Council, 'Fiscal policy guidance for 2024', 8.3.2023, COM(2023) 141 final.

<sup>3</sup> Commission Proposal for a Regulation of the European Parliament and of the Council on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97, 26.4.2023, COM(2023) 240 final; Commission Proposal for a Council Regulation amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure, 26.4.2023, COM(2023) 241 final; Commission Proposal for a Council Directive amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States, 26.4.2023, COM(2023) 242 final.

<sup>4</sup> Council Conclusions on 'Orientations for a reform of the EU economic governance framework' of the ECOFIN Council meeting, 14.3.2023, 6995/1/23 – REV 1.

<sup>5</sup> European Council meeting (26 and 27 October 2023) – Conclusions, EUCO 14/23.

included elements of the legislative proposals of 26 April 2023 that were consistent with the existing legislation.

5. As announced in its fiscal policy guidance for 2024<sup>6</sup>, the Commission will propose to the Council to open deficit-based excessive deficit procedures in spring 2024, on the basis of the outturn data for 2023, in line with the existing legal provisions. Member States were invited to take this into account when executing their 2023 budgets and preparing their Draft Budgetary Plans for 2024.
6. The Recovery and Resilience Facility<sup>7</sup> provides financial support for the implementation of reforms and investments, notably to promote the green and digital transitions. The Facility also aims at increasing the resilience of the Union's energy system by reducing dependence on fossil fuels and diversifying energy supply at Union level ('REPowerEU objectives')<sup>8</sup>. The Facility will strengthen the resilience and potential growth of Member States' economies, which contributes to job creation and sustainable public finances. Part of this support takes the form of non-repayable financial support ("grants"), entailing a fiscal impulse financed by the Union. Together with cohesion policy funds and the Just Transition Mechanism, the Facility is supporting a fair and inclusive recovery in the EU, in line with the European Pillar of Social Rights.
7. Economic policy should continue to tackle the risks linked to high inflation and address long-term challenges. Despite declining, inflation in the euro area remains a concern. It is essential that inflation continues to fall and that inflation expectations remain well anchored, with consistent monetary and fiscal policies, while remaining agile in the face of high uncertainty. In particular, emergency energy support measures taken to respond to the energy price shock should be wound down, using the related savings to reduce the government deficits, as soon as possible in 2023 and 2024. Should renewed energy price increases necessitate new or continued support measures, these should be targeted at protecting vulnerable households and firms, as well as be fiscally affordable and preserve incentives for energy savings. Furthermore, Member States should continue to preserve nationally financed public investment and ensure the effective absorption of grants under the Recovery and Resilience Facility and of other EU funds, in particular to foster the green and digital transitions.

#### *CONSIDERATIONS CONCERNING FINLAND*

8. On 9 October 2023, Finland submitted its Draft Budgetary Plan for 2024. On that basis and taking into account the Council Recommendation to Finland of 14 July 2023<sup>9</sup>, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013. The Commission sent a letter to Finland on 27 October 2023 with its preliminary observations on the Draft Budgetary Plan and

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<sup>6</sup> Communication from the Commission to the Council, 'Fiscal policy guidance for 2024', 8.3.2023, COM(2023) 141 final

<sup>7</sup> Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility, (OJ L 57, 18.2.2021, p. 17).

<sup>8</sup> Regulation (EU) 2023/435 of the European Parliament and of the Council of 27 February 2023 amending Regulation (EU) 2021/241 as regards REPowerEU chapters in recovery and resilience plans and amending Regulations (EU) No 1303/2013, (EU) 2021/1060 and (EU) 2021/1755, and Directive 2003/87/EC (OJ L 63, 28.2.2023, p. 1).

<sup>9</sup> Council Recommendation on the 2023 National Reform Programme of Finland and delivering a Council opinion on the 2023 Stability Programme of Finland, OJ C 312, 1.9.2023, p. 243.

asking for further information. Finland replied to the Commission's letter on 2 November 2023<sup>10</sup>. This information has been taken into account in the Commission's assessment of budgetary developments and risks.

9. On 24 May 2023, the Commission adopted a report under Article 126(3) of the TFEU<sup>11</sup>. That report assessed the budgetary situation of Finland, as its general government debt in 2022 exceeded the 60% of GDP Treaty reference value and did not respect the debt reduction benchmark. The report concluded that the debt criterion was not fulfilled.
10. According to the Draft Budgetary Plan, Finland's real GDP is projected to grow by 1.2% in 2024 (0.0% in 2023), while HICP inflation is forecast at 1.6% in 2024 (4.3% in 2023). Similarly, according to the Commission 2023 autumn forecast, Finland's real GDP is projected to grow by 0.8% in 2024 (0.1% in 2023), while inflation is forecast at 1.9% in 2024 (4.4% in 2023).

Overall, the macroeconomic scenario underpinning the budgetary projections in the Draft Budgetary Plan appears to be in line with the Commission 2023 autumn forecast for 2023 and 2024.

Finland complies with the requirement of Article 4(4) of Regulation (EU) No 473/2013, since the Draft Budgetary Plan is based on independently produced macroeconomic forecasts.

11. According to the Draft Budgetary Plan, Finland's general government deficit is projected to increase to 3.2% of GDP in 2024 (from 2.4% in 2023), above 3% of GDP. This increase is mainly driven by a cut in social security contributions, as well as by a projected increase in defence spending, R&D and investment-related measures and higher interest expenditure. The general government debt-to-GDP ratio is set to increase to 76.8% at the end of 2024 (from 74.2% at the end of 2023).

In turn, according to the Commission 2023 autumn forecast, Finland's general government deficit is projected to increase to 3.2% of GDP in 2024 (from 2.4% in 2023), while the general government debt-to-GDP ratio is set to increase to 76.9% at the end of 2024 (from 74.3% at the end of 2023).

12. Based on the Commission's estimates, the fiscal stance<sup>12</sup> is projected to be expansionary at 0.5% of GDP in 2024, following an expansionary fiscal stance of 0.6% in 2023.
13. The Draft Budgetary Plan assumes that expenditure amounting to 0.3% of GDP will be financed by non-repayable support ("grants") from the Recovery and Resilience Facility in 2024, compared to 0.4% of GDP in 2023. This is in line with the assumptions underlying the Commission 2023 autumn forecast. Expenditure financed by Recovery and Resilience Facility grants will enable high-quality

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<sup>10</sup> The Commission's letter and the reply by Finland have been published: [https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/stability-and-growth-pact/annual-draft-budgetary-plans-dbps-euro-area-countries/draft-budgetary-plans-2024\\_en](https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/stability-and-growth-pact/annual-draft-budgetary-plans-dbps-euro-area-countries/draft-budgetary-plans-2024_en).

<sup>11</sup> Report from the Commission, prepared in accordance with Article 126(3) of the Treaty on the Functioning of the European Union, 24.5.2023, COM (2023) 631 final.

<sup>12</sup> The fiscal stance is measured as the change in general government primary expenditure, net of the incremental budgetary impact of discretionary revenue measures, excluding one-off and cyclical unemployment expenditure, but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to medium-term (10-year) average potential GDP growth rate, expressed as a ratio to nominal GDP.

investment and productivity-enhancing reforms without a direct impact on the general government balance and debt of Finland.

14. According to the Commission 2023 autumn forecast, taking into account the information contained in the Draft Budgetary Plan, the measures adopted to mitigate the economic and social impact of the increase in energy prices are planned to be wound down by the end of 2023.

In addition, the Draft Budgetary Plan includes new and extended revenue and expenditure measures for 2024 that are not directly related to energy price developments. These include, on the revenue side, a cut in social security contributions and, on the expenditure side, increased defence spending, expenditure linked to the healthcare and social services reform, the freezing of social benefits indexation and R&D and investment-related funding. The aggregate cost of these measures is estimated by the Commission at around 1.0% of GDP in 2024 and most measures are expected to have a permanent impact on public finances.

15. On 14 July 2023, the Council recommended that Finland ensure a prudent fiscal policy, in particular by limiting the nominal increase in nationally financed net primary expenditure<sup>13</sup> in 2024 to not more than 2.2%

According to the Commission 2023 autumn forecast, Finland's net nationally financed primary expenditure is projected to increase by 4.4% in 2024, which is above the recommended maximum growth rate. This excess spending over the recommended maximum growth rate in net nationally financed primary expenditure corresponds to 1.1% of GDP in 2024. This risks being not in line with what was recommended by the Council.

16. Moreover, the Council recommended that Finland take action to wind down the emergency energy support measures in force, using the related savings to reduce the government deficit, as soon as possible in 2023 and 2024. The Council further specified that, should renewed energy price increases necessitate new or continued support measures, Finland should ensure that these were targeted at protecting vulnerable households and firms, fiscally affordable, and preserve incentives for energy savings.

According to the Commission 2023 autumn forecast, the net budgetary cost<sup>14</sup> of energy support measures is projected at 0.3% of GDP in 2023 and 0.0% in 2024 and 2025. If the related savings were used to reduce the government deficit, as recommended by the Council, these projections would imply a fiscal adjustment of 0.3% of GDP in 2024, whereas net nationally financed primary expenditure<sup>15</sup> provides an expansionary contribution to the fiscal stance of 0.5% of GDP in that year.

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<sup>13</sup> Net primary expenditure is defined as nationally financed expenditure net of discretionary revenue measures and excluding interest expenditure as well as cyclical unemployment expenditure.

<sup>14</sup> The figure represents the level of the annual budgetary cost of those measures, including revenue and expenditure and, where applicable, net of the revenue from taxes on windfall profits of energy suppliers.

<sup>15</sup> This contribution is measured as the change in general government primary expenditure, net of the incremental budgetary impact of discretionary revenue measures, excluding one-off and cyclical unemployment expenditure, as well as expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to the medium-term (10-year) average potential nominal GDP growth rate, expressed as a ratio to nominal GDP.

The energy support measures are projected to be wound down as soon as possible in 2023 and 2024. This is in line with what was recommended by the Council. However, the related savings are not projected to be used to reduce the government deficit. This risks being not in line with the Council recommendation.

17. In addition, the Council recommended that Finland preserve nationally financed public investment and ensure the effective absorption of Recovery and Resilience Facility grants and other EU funds, in particular to foster the green and digital transitions.

According to the Commission 2023 autumn forecast, nationally financed public investment is projected to increase to 4.2% of GDP in 2024 (from 4.1% of GDP in 2023) and, therefore, it is expected to be preserved. This is in line with what was recommended by the Council. In turn, public expenditure financed from revenues from EU funds, including Recovery and Resilience Facility grants, is expected to remain broadly stable at 0.3% of GDP in 2024 (0.4% of GDP in 2023).

18. Furthermore, on 14 July 2023, the Council also recommended that, for the period beyond 2024, Finland continue to pursue a medium-term fiscal strategy of gradual and sustainable consolidation, combined with investments and reforms conducive to higher sustainable growth, to achieve a prudent medium-term fiscal position.

The Draft Budgetary Plan does not include budgetary projections beyond 2024.

19. Finally, on 14 July 2023, the Council also recommended Finland to pursue the reform of the social security system to increase the efficiency of the social benefits system, which would improve incentives to work and also support the long-term sustainability of public finances. The government is planning a reform of the basic social security, taking into account the recommendations made by the Social Security Committee's interim report.

20. According to the Commission's forecast, the growth of net nationally financed primary expenditure is projected to not respect the recommended maximum growth rate in 2024.

According to the Commission 2023 autumn forecast, and taking into consideration the information included in Finland's Draft Budgetary Plan, the emergency energy support measures are expected to be wound down by the end of 2023. Nevertheless, the related savings are not projected to be used to reduce the general government deficit in 2024.

Finland is expected to preserve nationally financed public investment. Finland should also continue to ensure the effective absorption of Recovery and Resilience Facility grants and other EU funds.

Overall, the Commission is of the opinion that the Draft Budgetary Plan of Finland risks being not in line with the Council Recommendation of 14 July 2023. Therefore, the Commission invites Finland to take the necessary measures within the national budgetary process to ensure that fiscal policy in 2024 will be in line with the Council Recommendation of 14 July 2023.

Moreover, the Commission projects Finland's headline budget deficit at 3.2% of GDP in 2024, above the Treaty reference value of 3% of GDP, and the government debt ratio at 76.9% in 2024, above the Treaty reference value of 60% of GDP.

The Commission is also of the opinion that Finland has made limited progress with regard to the structural elements of the fiscal recommendations made by the Council on 14 July 2023, and thus invites the Finland authorities to accelerate progress.

A comprehensive description of progress made with the implementation of the Council's country-specific recommendations will be included in the 2024 Country Report and assessed in the context of the Council's country-specific recommendations to be recommended by the Commission in spring 2024.

**Table: Key macroeconomic and fiscal figures**

		2022	2023		2024	
		Outturn	DBP	COM	DBP	COM
<b>Real GDP</b> (% change)		1.6	0.0	0.1	1.2	0.8
<b>HICP inflation</b> (%; annual average)		7.2	4.3	4.4	1.6	1.9
<b>General government balance</b> (% of GDP)		-0.8	-2.4	-2.4	-3.2	-3.2
<b>Primary balance</b> (% of GDP)		-0.2	-1.6	-1.6	-2.0	-2.0
<b>General government gross debt</b> (% of GDP; at end-year)		73.3	74.2	74.3	76.8	76.9
		<b>COM</b>	<b>COM</b>		<b>COM</b>	
<b>Fiscal stance</b> (*) (% of GDP)		0.2	-0.6		-0.5	
<b>Fiscal adjustment</b> (**) (% of GDP)		0.2	-0.5		-0.5	
<b>Change in total net budgetary cost of energy support measures</b> (***) (% of GDP)		0.1	0.2		-0.3	
<b>Growth in net nationally financed primary expenditure</b> (% change) (A)					4.4	
<b>Recommended maximum growth rate of net nationally financed primary expenditure</b> (****) (% change) (B)					2.2	
<b>Difference from recommended growth in net nationally financed primary expenditure</b> (pps.) (B-A)					-2.2	
<b>Impact on fiscal adjustment of deviation in net nationally financed primary expenditure compared with the Council recommendation</b> (*****) (% of GDP)					1.1	

**Notes:**

(\*) Change in general government primary expenditure, net of the incremental budgetary impact of discretionary revenue measures (and COVID-19 pandemic-related temporary emergency measures), excluding one-off and cyclical unemployment expenditure, but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to the medium-term (10-year) average potential nominal GDP growth rate. A negative (positive) sign indicates an excess (a shortfall) of net primary expenditure growth over medium-term potential GDP growth, corresponding to an expansionary (a contractionary) fiscal stance.

(\*\*) Change in general government primary expenditure, net of the incremental budgetary impact of discretionary revenue measures (and COVID-19 pandemic-related temporary emergency measures), excluding one-off and cyclical unemployment expenditure, as well as expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to the medium-term (10-year) average potential nominal GDP growth rate. A negative (positive) sign indicates an excess (a shortfall) of net nationally financed primary expenditure growth over medium-term potential GDP growth, corresponding to an expansionary (a contractionary) fiscal adjustment.

(\*\*\*) Energy support measures less revenue from new taxes and levies on windfall profits by energy producers.



(\*\*\*) According to the Council Recommendation ‘on the 2023 National Reform Programme of Finland and delivering a Council opinion on the 2023 Stability Programme of Finland’, (OJ C 312, 1.9.2023, p. 243).

(\*\*\*\*) Excess in growth of net nationally financed primary expenditure over the recommended maximum growth rate, expressed as a percentage of GDP.

*‘DBP’ 2024 Draft Budgetary Plan, ‘COM’ Commission 2023 autumn forecast.*

Done at Brussels, 21.11.2023

*For the Commission  
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Member of the Commission*