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GENERAL GOVERNMENT FISCAL PLAN 2020–2023

The General Government Fiscal Plan also includes Finland's Stability Programme, and it meets the EU's requirement for a medium-term fiscal plan. In accordance with Article 4 of Regulation 473/2013, the General Government Fiscal Plan is based on independent macroeconomic and fiscal forecasts produced by the Economics Department of the Ministry of Finance. Specific information relating to the Stability Programme is presented in Appendix 5. This time, Appendix 5 of the General Government Fiscal Plan also contains information required by the 2020 Draft Budgetary Plan.

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

1. Economic challenges and the economic policy line

The aim of the economic policy of Prime Minister Rinne's Government Programme is to increase wellbeing and prosperity. This means ecologically and socially sustainable economic growth, high employment and sustainable public finances. The key economic policy objectives for the government term are

- the employment rate will be raised to 75% and the number of people in employment will increase by a minimum of 60,000 by the end of 2023
- given normal global economic circumstances, Finland's general government finances will be in balance in 2023
- the Government's decisions will decrease inequality and narrow the income gaps
- the Government's decisions will put Finland on a path towards achieving carbon neutrality by 2035.

Economic policy planning over the next few years will be overshadowed by information on a slowdown in the growth of the international economy, particularly the euro area and emerging economies. Finland's

economic growth will also slacken, although the macroeconomic forecast underlying the General Government Fiscal Plan does not include a recession. The risks and uncertainty directed at economic development have increased, however.

Room for manoeuvre in fiscal policy is limited by the fact that public finances are structurally in deficit. The general government deficit has declined, supported by good cyclical conditions and the adjustment measures implemented in recent years, but the deficit has not disappeared, even during the economic upswing. Weakening economic growth and increasing uncertainty will be faced in a situation in which general government expenditure exceeds revenue and the debt-to-GDP ratio is close to 60%. The risks to public finances are also increased by higher guarantee liabilities.

Population ageing is increasing general government expenditure annually and will adversely impact efforts to balance general government finances. Growth in the numbers of pensioners has increased pension expenditure and has reduced the surplus of earnings-related pension funds for several years now. The increase in health care and long-term care expenditure will, moreover, weaken the budgetary position of local government in the coming years. In addition, the decline in the working-age population will weaken the growth potential of the economy and the financing of public services and benefits. In the long term, expenditure will grow more quickly than revenue, leading to a sustainability gap in public finances.

Slowing economic growth and the structural problems of the economy underline the importance of reforms to increase employment and productivity. The Ministry of Finance estimates that without measures to improve employment, the employment rate will remain around 73% in 2023. The good economic conditions no longer provide the same impetus to improving employment and balancing general government finances as in recent years.

Structural reforms to increase both labour supply and demand are required to increase employment. Measures are also needed to improve labour market matching, as the decline in unemployment has slackened, even though there are now more job vacancies than at the peak prior to the financial crisis. Businesses should be provided with sufficient skilled labour so that supply constraints do not slow down growth and lead to a cost spiral.

Economic policy can only indirectly influence productivity development. The key to productivity is a stable operating environment for businesses and flexible economic structures that support renewal. Fostering Finland's competitiveness is also important, particularly as growth in Finland's export markets slows.

The Government aims through its decisions to decrease inequality and monitor the impact of its measures on income distribution.

To achieve carbon neutrality by 2035, greenhouse gas emissions must be reduced and carbon sinks rapidly strengthened. For the effectiveness of climate policy and due to pressures on general government finances, measures must be effective and cost-efficient. At the same time, care must be taken to ensure that they do not give rise to unreasonable effects on population groups. Achieving carbon neutrality also requires additional investment in low-emission technologies. Chapter 5.7 examines the package of measures to promote carbon neutrality included in the General Government Fiscal Plan.

Fiscal policy line

The Government will increase permanent general government expenditure by approximately EUR 1.4 billion at the level of 2023 than in the spring 2019 technical General Government Fiscal Plan. Increases

will be allocated to, among other things, social security as well as health and social services, early childhood education, education and research, environmental protection and climate policy measures. The spending limits for the parliamentary term and the expenditure limit for local government expenditure set by central government measures will be set taking this expenditure policy into account.

The permanent additional expenditure will be covered mainly by discretionary permanent additional revenue and reallocations. According to the Government Programme, the financing base of the welfare state will be strengthened through taxation by approximately EUR 0.7 billion. The aim is also to promote climate goals through taxation decisions. The Government will strengthen the tax base and increase indirect taxes. Taxation on energy, tobacco, alcohol and soft drinks will be increased. To compensate for changes in indirect taxes, the earned income taxation of those on low and middle incomes will be eased in 2020.

Achieving the Government's 75% employment rate target would strengthen general government finances so that part of the strengthening could be allocated to additional expenditure. The employment measures required to achieve the employment rate target will be prepared in cooperation with labour market organisations. Half of the measures must be completed by the time of the budget session in August 2020. If this is not the case, an assessment will be made of the expenditure increases previously decided, which were made in relation to the technical General Government Fiscal Plan.

During the parliamentary term, the Government will implement a one-off programme of future-oriented investments, which will no longer increase general government expenditure in 2023. The measures will be funded for the most part through property income so that they will not lead to an increase in the debt burden in 2023. Within the framework of this investment programme, up to EUR 3 billion will be allocated to one-off investments and socially important experimental schemes. In this General Government Fiscal Plan, approximately EUR 1.4 billion of this funding has been allocated to 2020–2022. In addition, investments totalling over EUR 200 million will be allocated from the Housing Fund of Finland in 2020–2022.

The Prime Minister Rinne's Government will implement an active and responsible fiscal policy that is scaled in accordance with the economic conditions. The additional expenditure included in the Government Programme may be used to support Finland's economic growth as international economic growth slows down. In addition, as part of the central government finances spending limits, a mechanism will be put in place to allow an increase in expenditure of up to EUR 1 billion in the event of an exceptionally serious economic downturn. Alongside an active fiscal policy, economic growth will be stabilised by so-called automatic stabilisers, namely an automatic increase in general government expenditure and a reduction in tax revenues in an economic downturn.

The Government will continuously monitor the economic situation and the achievement of the employment and balance targets, and will react as required by the economic situation. The Government is committed to reviewing the measures in the Government Programme should their implementation jeopardise the achievement of the targets set for general government finances.

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

The purpose of the General Government Fiscal Plan is to support decision-making relating to general government finances as well as compliance with the medium-term objective set for the general government structural budgetary position. The General Government Fiscal Plan contains sections relating to central government finances, local government finances, statutory earning-related pension funds and other social security funds. The Government prepares the General Government Fiscal Plan for the parliamentary term and revises it annually for the following four years by the end of April.

Medium-Term Objective

Pursuant to section 2 of the Fiscal Policy Act (869/2012)¹, the Government sets a Medium-Term Objective (MTO) of -0.5% in ratio to GDP for the structural budgetary position of the general government. This is the minimum level to which Finland has committed to in the Fiscal Compact². The requirements relating to the MTO are described and its achievement is assessed in the Stability Programme (see Appendix 5), which also presents the Government's assessment under the Fiscal Policy Act of progress towards the MTO.

Other fiscal policy targets

Pursuant of section 3 of the Government Decree on the General Government Fiscal Plan (120/2014), the General Government Fiscal Plan sets multiannual budgetary targets as a share of gross domestic product (GDP) at market prices for the whole of general government finances as well as separately for each sector of general government finances. The budgetary targets shall be set such that they shall, taking into account the Ministry of Finance forecast, result at least in the achievement of the target set for the structural budgetary position of general government finances. In addition, multiannual targets corresponding to the budgetary targets for general government finances are presented for general government debt and general government expenditure in ratio to GDP at market prices.

The Government's aim is, given normal global economic circumstances, for general government finances to be in balance in 2023 and the general government debt-to-GDP ratio to decline.

Multiannual targets for the whole of general government finances for 2021–2023 are presented in Table 1. The nominal budgetary targets by sector for general government finances for 2023 are:

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

If the targets are achieved, they will result in the achievement of the MTO, or an even stronger structural balance, as required by the Decree on the General Government Fiscal Plan.

Chapter 3.2 presents an estimate of how the fiscal policy targets set by Prime Minister Rinne's Government will be realised in the light of the independent forecast of the Economics Department of the Ministry of Finance. The measures to achieve the targets are described by subsector in Chapters 5–7. Chapter 8 examines the overall impact of the measures on public finances.

¹ The Act on the Implementation of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (EMU) and provisions of a legislative nature as well as requirements concerning multi-annual budgetary frameworks.

² The Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, as well as the Act on requirements relating to multi-annual budgetary frameworks, which came into force on 1 January 2013.

Table 1. Multiannual targets for general government finances in ratio to GDP (%)

	2019	2020	2021	2022	2023
Nominal budgetary position of general government	-1.0	-1.4	-1.0	-0.6	0.0
General government expenditure	52.7	53.1	52.1	51.4	50.7
General government gross debt	58.8	58.8	58.7	58.6	58.1

Central Government Spending Limits

The Government is committed to the central government spending limits system. The parliamentary term spending limits are set such that the expenditure ceiling in 2023 is EUR 1.4 billion higher than in the technical spending limits decision of 4 April 2019. Measures in the Government Programme and others will be implemented insofar as this is possible within the framework of the spending limits.

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

The spending limits system sets a ceiling for approximately 80% of central government budget expenditure. Expenditure that changes according to cyclical conditions and automatic stabilisers, central government debt interest expenditure and financial investments remain outside the central government spending limits. In the annual spending limits decisions, spending limits are allocated to the administrative branches, but only the overall expenditure ceiling for the parliamentary term is binding. Reallocations may be made between administrative branches. Alongside the supplementary budget provision, there remains between the parliamentary term expenditure ceiling and the administrative branch-specific expenditure ceilings an unallocated reserve to be allocated later. The central government spending limits are discussed in Chapter 5.

Limit on local government expenditure set by central government measures

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

3. Economic fundamentals

In accordance with Article 4 of Regulation 473/2013, the General Government Fiscal Plan is based on independent macroeconomic and fiscal forecasts produced by the Economics Department of the Ministry of Finance. This chapter discusses the macroeconomic and public finance outlook based on the independent forecast. For a more detailed forecast, see the Ministry of Finance's Economic Survey.

3.1. Economic outlook

Economic outlook for 2019–2021

Finland's economic growth will slow down significantly after the recent upswing. In 2019, Finland's GDP is forecast to grow by 1.5%, with domestic demand maintaining growth. Private consumption will continue to grow strongly. The growth in disposable income will be sustained by the good employment trend and accelerating earnings growth. Growth in private investment will remain subdued. In particular, construction of new homes will decline sharply. Growth in Finnish exports will be constrained by slowing growth of world trade.

In 2020, economic growth will slow to 1.0%. Economic growth is primarily dependent on domestic demand, supported by growth in public investment and consumption. Rising earnings will support private consumption. The value of imports and exports will increase modestly as a result of both volume growth and rising prices. GDP will grow by 0.9% in 2021.

The slowdown in economic growth and the rise in nominal wages will gradually begin to weaken growth in demand for labour in 2020–2021. The fall in the unemployment rate to the levels recorded during the economic upswing that preceded the financial crisis will further tighten the labour market, which in turn will intensify wage pressures and create labour shortages in the economy.

Overall, inflationary pressures are expected to grow only slowly in the next few years. The rise in earnings is expected to be reflected gradually and more widely in prices, and consumer demand will grow steadily. The increase in raw material prices will be moderate, however.

Medium-term outlook

Economic growth is expected to slow to less than 1% in 2022–2023. The economic restructuring and demographic changes that have been under way for years will also affect the longer-term growth outlook of the economy.

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

Total factor productivity growth has been a key source of economic growth in recent decades. In recent years, total factor productivity growth has improved, although its development continues to be weak by historical standards. There have been both cyclical and structural factors underlying the weaker growth. The output of high-productivity sectors has declined significantly, and services have become more predominant in the overall structure of the economy. The total factor productivity growth trend is expected to remain slightly below 1% in the medium term, whereas growth exceeded 2% on average in the early 2000s. The expected growth trend in total factor productivity is expected to be significantly higher, however, than the average for the last ten years.

In addition to labour input and total factor productivity, production conditions for the economy will be influenced by the capital stock. Due to the weak economic situation, the low investment rate that continued for several years contributed to slowing growth of the capital stock and therefore weakened the future growth potential of the economy. Recovery of the investment rate from the weakest years has, however, remedied the situation to some extent.

Table 2. Trends in the national economy

	2017	2018	2019	2020	2021	2022	2023
GDP value, EUR billion ¹	225.8	234.5	242.1	249.3	256.6	263.8	270.8
GDP, change in volume, %	3.1	1.7	1.5	1.0	0.9	0.9	0.7
Unemployment rate, %	8.6	7.4	6.5	6.3	6.2	6.3	6.5
Employment rate, %	69.6	71.7	72.5	73.0	73.4	73.4	73.1
Consumer Price Index, change %	0.7	1.1	1.1	1.4	1.7	1.7	1.7
Long-term interest rate, 10 years, %	0.5	0.7	0.0	-0.2	-0.1	0.2	0.6

¹⁾ The figures take into account the GDP level updated by Statistics Finland on 20 September 2019 and the decisions of the Government's budget session

3.2. Outlook for general government finances

The steady growth of the Finnish economy over the past few years has improved the general government finances. As the upturn is slowing down, general government deficit will no longer improve. The deficit will start growing this year and the trend will continue over the next few years. Even though the Finnish economy will grow more or less at its potential rate during the outlook period, expenditure is increasing faster than the revenue. There is a structural imbalance between expenditure and revenue in general government finances.

General government debt-to-GDP ratio has fallen below the 60% limit but the ratio will start growing again during the early years of 2020s. Last year the debt-to-GDP ratio stood at 58.9%. During the economic upturn, the debt ratio only decreased by four percentage points whereas between 2009 and 2015 it had increased by more than 30 percentage points. The fiscal buffers for the next downturn are thin.

The economic upturn has helped to conceal the structural problems facing Finland's general government finances. Population ageing has already increased pension expenditure and it will also increase healthcare and long-term care expenditure in the future. There is a sustainability gap in general government finances which has not yet been resolved.

Last year, central government was the general government³ sector with the highest deficit. The deficit will still contract this year, a result of moderate spending growth, but it will start growing again next year. Expenditure in the next few years will be boosted by the permanent and one-off spending increases planned by Prime Minister Rinne's Government. The Government has, however, decided to introduce tax increases, which will mitigate the impact of the higher spending on general government finances. Central government deficit will be around one per cent of the GDP

Slow growth in tax revenue combined with higher consumption expenditure weakened the local government budgetary position last year. Local government deficit will grow again this year because consumption expenditure has continued to grow at a rapid rate. Local government budgetary position is

³ Finland's general government finances comprise central government, local government and the social security funds, which are further divided into earnings-related pension funds handling statutory pension insurance schemes, and other social security funds.

burdened by the increasing need for services arising for an ageing population and investments, which will remain at high level.

The earnings-related pension funds, which are part of the social security funds, have been significantly in surplus. The surplus of the earnings-related pension funds will reduce to just over ½% in ratio to GDP in the next few years. Pension expenditure is rising rapidly and the low level of interest rates is slowing growth in property income, but steady economic growth, on the other hand, is generating more pension contributions. Other social security funds have a slight surplus. Unemployment expenditure is expected to fall further and the unemployment insurance contribution will be lowered at the beginning of 2020. Lowering the contribution will reduce the surplus of social security funds close to balance.

There was a further decline in the expenditure rate (expenditure to GDP ratio) in 2018. The rate has declined by more than 4 percentage points since 2014. In 2020, the expenditure rate will be increased by additional expenditure in line with Prime Minister Rinne's Government Programme. In addition, unemployment expenditure will no longer fall as rapidly as in previous years. The expenditure rate will settle at around 53% at the end of the outlook period. The tax rate (i.e. taxes and tax-like payments relative to GDP) has decreased as a result of tax cuts and the Competitiveness Pact. The tax rate will be increased in the next few years by the tax increases outlined in Prime Minister Rinne's Government Programme.

In public finances, there are both internal and external risks. Internal risks are associated with the implementation of the Government Programme. Of the one-off expenditure increases, the forecast only takes into account investments of EUR 1.4 billion already decided and included in the General Government Fiscal Plan. If the maximum EUR 3 billion of one-off expenditure increases outlined in the Government Programme are implemented, there will be additional pressure of EUR 1.7 billion on general government finances in 2020–2022. The forecast, moreover, does not take into account the central government spending limits' annual supplementary budget provision nor the unallocated reserve. The latter will be taken into account in the forecast as decisions are made on their use and they are allocated to specific measures.

The projection for local government finances for 2020 and 2021 is a pressure calculation and thus it does not include the measures taken by municipalities and joint municipal authorities to consolidate their finances. Any such measures would have a positive impact on general government finances.

The external risks to public finances are closely linked to general economic development. If economic growth proves to be slower than projected, tax revenue growth will be weaker than projected and cyclical unemployment expenditure, for example, will grow faster than projected. The impact on tax revenue of economic development deviating from the forecast will depend on which factors the deviation is based. The impact will be greater the more the forecast deviation concerning general economic development is due to domestic demand as compared with changes derived from external demand. Another risk relates to the significant increase in general government contingent liabilities since the financial crisis 2008. A substantial triggering of liabilities would increase general government expenditure and could accentuate the rise in the debt ratio in a recession.

Table 3. Key figures for general government finances according to national accounts, % GDP

	2017	2018	2019	2020	2021	2022	2023
Taxes and social security contributions	43.0	42.3	41.9	42.2	42.1	42.1	42.1
General government expenditure	53.7	53.1	52.7	53.1	53.0	52.9	52.9
General government net lending	-0.7	-0.8	-1.0	-1.4	-1.5	-1.5	-1.4
— Central government	-1.8	-1.2	-0.9	-1.2	-1.1	-1.0	-0.9
— Local government	-0.2	-0.9	-1.2	-0.9	-1.1	-1.2	-1.2
— Earnings-related pension funds	1.0	1.0	0.8	0.7	0.6	0.6	0.6
— Other social security funds	0.3	0.3	0.2	0.1	0.1	0.1	0.0
Primary balance	-0.4	-0.7	-0.9	-1.3	-1.5	-1.5	-1.4
Structural balance	-0.8	-1.0	-1.3	-1.4	-1.6	-1.6	-1.4
General government gross debt	60.8	58.9	58.8	58.8	59.7	60.6	61.6
Central government debt ¹⁾	46.8	44.8	44.4	43.9	44.3	44.5	44.9

¹⁾ The Ministry of Finance Economics Department's estimate of central government debt differs from the estimate based on the budget due to, among other things, updated revenue forecasts.

Compliance with fiscal policy rules and objectives

Most of the fiscal policy targets of Prime Minister Rinne's Government will not be achieved without new measures to improve employment and general government finances during the parliamentary term. According to the independent forecast by the Ministry of Finance, the general government deficit will grow in the next few years and will be 1.4% in ratio to GDP in 2023.

Both central and local government are falling short of the nominal budgetary position targets set for them. According to the forecast, the deficit of both sectors will be around 1% in ratio to GDP at the end of the parliamentary term whereas, according to the targets, the deficits of the sectors should be at most 0.5% in ratio to GDP. Adhering merely to the central government spending limits and the limit for local government expenditure set by central government measures limit will not therefore result in the achievement of the budgetary position targets. Achieving these targets will require an improvement in employment and productivity. The surplus of the earnings-related pension funds will also fall short of the 1% surplus target. The surplus of the earnings-related pension funds will settle at 0.6% in ratio to GDP in 2020–2023. The budgetary position of the earnings-related pension funds will be weakened by the exceptionally low level of interest rates. The other social security funds, on the other hand, will remain in balance as targeted.

According to the forecast, debt-to-GDP ratio will remain slightly under 60% in 2018–2019, but will start to rise again in the early 2020s. The debt ratio will be increased by the central and local government deficits, the cooling economic situation and also, from 2021, the financing of fighter aircraft procurement included in the central government spending limits. The debt ratio would start to rise even without the financing of fighter procurement.

In the light of the forecast, the multiannual targets for the nominal budgetary position of general government and for general government debt and expenditure in ratio to GDP will not be achieved without additional measures (see Stability Programme Table 1). Progress towards the MTO set for the structural budgetary position is assessed in the Stability Programme (Appendix 5).

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

The general government budgetary position will remain in deficit in 2019. In national accounting terms, the central government core sector will also remain in deficit, even though on-budget debt was reduced in 2018. The central government will also remain in deficit in 2019–2023. The local government core sector, the municipalities and joint municipal authorities, will also be significantly in deficit in the coming years. The social security funds will be in surplus. The combined deficit of units outside the core sectors will be approximately 0.2% in ratio to GDP.

The general government consolidated EDP debt in ratio to GDP will remain unchanged in 2019. The debt ratio of core sectors will level off momentarily, but will start to increase from 2021. Most of the debt is central government on-budget debt. The municipalities and joint municipal authorities also have a significant amount of debt. Of the units outside the core sectors, indebtedness mainly affects real-estate companies and a few other units. The debt carried by units outside the core sectors will grow slowly by an amount corresponding to the deficit produced by these units annually. For a list of units in general government subsectors, see Statistics Finland's website⁵.

Table 4. General government budgetary position and debt in ratio to GDP, broken down into core sectors and units outside the core sectors

	2017	2018	2019	2020	2021	2022	2023
General government, total							
Budgetary position in ratio to GDP	-0.7	-0.8	-1.0	-1.4	-1.5	-1.5	-1.4
Debt in ratio to GDP	60.8	58.9	58.8	58.8	59.7	60.6	61.6
Core sectors, total							
Budgetary position in ratio to GDP	-0.4	-0.6	-0.8	-1.2	-1.3	-1.3	-1.2
Debt in ratio to GDP	58.7	57.1	56.9	56.7	57.5	58.3	59.2
Units outside cores sectors, total							
Budgetary position in ratio to GDP	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Debt in ratio to GDP	2.1	1.9	2.0	2.1	2.2	2.4	2.5

3.3. Economic restructuring, population ageing and fiscal sustainability

Over the past decade, the Finnish economy has been affected by industrial restructuring, which has weakened potential for economic growth. The GDP did not exceed the level preceding the 2008 financial crisis until 2018, and productivity growth is still weak. The growth outlook for the coming years will also be undermined by the declining number of the working-age population. In addition to the long recession, the rapid growth in the number of pensioners has contributed to the weak state of public finances. The increase in pension expenditure, among other things, explains why, despite the recent economic upswing, general government finances have been unable to gain surplus.

The retirement of the baby boomers is only a beginning of the demographic challenges that Finland faces in the coming decades. In ten years, the dependency ratio has deteriorated from approximately 50 dependants (under 15 and over 65 years of age) to approximately 60 dependants per 100 people of

⁵ https://www.stat.fi/meta/luokitukset/_linkki/soveltamisp.html

working-age people. According to population forecasts, the deterioration of the dependency ratio will continue for at least the next 50 years: in 2070, it is projected that there will be 80 dependants per 100 people of working age in Finland.

In public finances, a substantial sustainability gap prevails, i.e. general government revenue will not be sufficient to cover expenditure in the long term. The growth in the number of elderly people will increase particularly healthcare and long-term care expenditure, which the current overall tax rate will not be sufficient to finance in the future. In addition, the working-age population, which finances welfare services and social security with taxes, is shrinking. A permanent imbalance between revenue and expenditure therefore threatens to result in an unmanageable growth of public debt in the long run.

The Ministry of Finance estimates the sustainability gap to be just over 4½% in ratio to GDP. Public finances will accordingly have to be consolidated permanently by just over 4½% in ratio to GDP or through structural reforms to curb the future expenditure pressures, in order to balance the long-term revenue and expenditure. The sustainability gap mainly arises from costs related to population ageing. Sustainability gap estimates are proceeded with the use of assumptions about future development, which are subject to significant uncertainty. In spite of this uncertainty, the calculation offers a coherent way of examining the challenges that public finances face and means to overcome them.

4. Government liabilities and risks

Government liabilities can be divided into direct liabilities and contingent liabilities whereby, for example, a liability to pay arises through a government guarantee. Government financial liabilities and associated risks may emanate from decentralised sources within central government on-budget accounting, central government funds and unincorporated state-owned enterprises. The central government may also be subject to implicit liabilities for securing the continuity of certain functions of society, even though there is no law or agreement legally binding government to such liability. In times of crisis, an implicit central government liability may materialize within the municipalities, state-owned companies or the financial markets, for example.

The table shows a summary of central government assets and nominal values of certain specifiable liabilities. Assessing the risks related to liabilities unambiguously is difficult, and therefore the nominal values of liabilities have been used in this examination in the interests of clarity. Data on central government real and financial assets are based on financial accounting. Regarding financial assets, the table also shows certain key publicly quoted shareholdings. In addition to these, the central government owns either in full or in part several other companies, which are valued on the basis of book value.

In central government financial assets, values of corporate shareholdings may fluctuate significantly due to economic conditions. In 2007–2018, the central government has received dividend income of between EUR 1.1 and 1.9 billion from its shareholdings annually. In 2018, the central government's dividend income was approximately EUR 1.4 billion.

Table 5. Summary of government liabilities and risks, EUR billion

	2012	2013	2014	2015	2016	2017	2018
Assets							
Central government real assets	51.1	52.4	53.2	52.7	53.1	53.4	
<i>% GDP</i>	25.6	25.8	25.9	25.1	24.6	23.8	
Central government financial assets	58.5	59.5	60.4	61.1	61.4	64.0	66.1
<i>% GDP</i>	29.3	29.3	29.4	29.1	28.4	28.6	28.5 ¹
— of which							
Central government liquid assets	7.4	4.6	3.1	4.4	3.1	3.0	2.1
Solidium	7.2	8.2	7.6	6.8	7.8	8.6	6.8
Other shareholdings in listed companies	7.8	9.5	10.9	10.2	11.5	15.2	17.3
National Housing Fund receivables	7.5	6.9	6.4	5.9	5.2	4.6	4.2
Liabilities							
Central government debt	83.9	89.7	95.1	99.8	102.3	105.8	105.0
<i>% GDP</i>	42.0	44.1	46.3	47.5	47.3	47.3	45.2 ¹
Municipal debt	13.0	14.9	16.8	18.0	19.0	19.2	20.1
<i>% GDP</i>	6.5	7.3	8.2	8.6	8.8	8.6	8.7 ¹
Central government guarantees ²	33.7	35.0	39.2	44.2	46.1	52.3	56.6
<i>% GDP</i>	16.9	17.2	19.1	21.1	21.3	23.4	24.4 ¹
— Finnvera	14.8	14.6	17.5	22.6	22.6	27.7	30.3
— Student loans	1.5	1.6	1.8	2.0	2.3	2.7	3.4
— EFSF	5.1	6.2	6.6	6.2	6.3	7.0	7.0
— Bank of Finland	0.8	0.7	0.6	0.5	0.6	0.4	0.5
— Government funds	10.2	11.2	11.8	12.3	13.2	13.8	14.6
— Other	1.2	0.8	0.9	0.6	1.1	0.6	0.8
Capital liabilities	17.0	17.1	17.2	17.8	18.0	17.9	17.9
<i>% GDP</i>	8.5	8.4	8.4	8.5	8.3	8.0	7.7 ¹
Other liabilities	119.0	117.8	132.9	130.8	129.5	128.3	127.6
<i>% GDP</i>	59.6	57.9	64.7	62.3	59.9	57.3	55.0 ¹
— Budget accounting ³	117.0	115.4	130.4	128.3	126.9	125.5	124.7
— Off-budget entities	0.5	0.6	0.7	0.9	1.2	1.6	1.7
— State enterprises	1.5	1.8	1.8	1.6	1.4	1.2	1.2

¹⁾ Preliminary data

²⁾ For more detailed information on government guarantees, see Appendix 12 to the central government final annual accounts.

³⁾ Includes pension liabilities. Pension liabilities at the end of 2018 were EUR 92.1 billion.

The largest subareas of central government liabilities are central government debt, pension liabilities and central government guarantees. Pension liabilities amounted to EUR 92.1 billion at the end of 2018. The largest growth over the last 10 years has been in the amount of government debt and government guarantees. Central government debt has increased from EUR 54 billion in 2008 to EUR 105 billion in 2018. Central government guarantees have increased from EUR 23.2 billion in 2010 to EUR 56.6 billion at the end of 2018.

Guarantees issued by Finnvera and central government funds have seen particularly high increases. Of the EUR 14.6 billion in guarantees issued by funds, the majority – EUR 14.5 billion at the end of 2018 – consists of guarantees issued via the National Housing Fund. The growth in Finnvera guarantees has focused on export credit guarantees and Finnvera's acquisition of funds. At the end of 2018, export credit guarantees totalled EUR 19.7 billion, of which drawn guarantees amounted to EUR 10.3 billion. In export financing, it is typical for guarantee liabilities to be concentrated in certain sectors and large exposures of single clients. In the growth of the National Housing Fund's guarantees, particularly prominent is funding for government-guaranteed rental and right-of-occupancy housing, to which guarantees totalling EUR 12.4 billion had been allocated at the end of 2018. Guarantees allocated to housing loans of private individuals totalled EUR 2.1 billion at the end of 2018. In the financing of rental and right-of-occupancy housing, a key risk relates to government-subsidised and government-guaranteed properties located in areas of declining population, where occupancy rates and property values are falling. In addition to guarantee liabilities, a significant proportion of government-guaranteed housing financing includes government interest subsidies, which, when interest rates rise, increase the central government's payment obligation.

On an international scale, Finland's public sector guarantee liabilities are at a high level. Different reporting practices, among other reasons, make it difficult to compare the nominal values of guarantees between countries. Nevertheless, according to data collected by Eurostat, Finland's general government guarantees-to-GDP ratio was the highest among the EU Member States in 2017. Finland also has the highest level of central government guarantees in the EU countries, and the fastest growth of central government guarantees in the EU area in 2013–2017 was recorded in Finland.

Contingent liabilities also include capital liabilities totalling approximately EUR 17.9 billion payable on demand to international financial institutions. Most of the capital liabilities since 2012 have been consisted of a capital liability of EUR 11.1 billion relating to the European Stability Mechanism (ESM). Finland's total liabilities incurred from the management of the euro crisis that began in 2010 were approximately EUR 10.3 billion at the end of 2018, of which European Financial Stability Facility (EFSF) guarantees account for EUR 7.0 billion and the capital contribution paid to the ESM accounts for EUR 1.4 billion.

Risks related to public sector activities are linked in many ways to general economic development. In an exceptionally difficult economic situation, the fiscal position may weaken due to a number of different factors simultaneously. Risks relating to macroeconomic development, public debt, public sector holdings, granted export credit guarantees and other public sector risks are correlated. In normal business cycle conditions, typically only some of the risks are realised, but in the event of a more extensive external shock the risks to central government finances may be considerable.

Costs arising from the realisation of central government liabilities may impose a significant burden on the economy. This highlights the importance of careful assessment and management of the risks associated with binding financial decisions of central government and the management and monitoring of liabilities.

Central government financial liabilities and associated risks are discussed in more detail in the Overview of Central Government Risks and Liabilities, published by the Ministry of Finance.

5. Central government finances

The central government spending limits decision creates binding four-year spending limits for the term of Prime Minister Rinne's Government. The spending limits decision is based on the technical spending limits decided on 4 April 2019, which will be revised for 2020–2023 taking into account changes arising

from the Government Programme, price and structural corrections, and the latest Ministry of Finance forecast.

5.1. Central government spending limits

Prime Minister Rinne's Government will continue the spending limits procedure for central government finances. The expenditure benchmark guiding the development of central government on-budget expenditure during the parliamentary term is outlined in Annex 3 of the Government Programme. In this spending limits decision, the Government confirms the real parliamentary term spending limits for 2020–2023. The central government spending limits system is based on a real, binding overall expenditure ceiling set for the duration of the parliamentary term, to which only the required price- and cost-level adjustments and structural corrections are made. The spending limits system is based on ex ante examination, i.e. it restricts the level of expenditure budgeted in the State budget.

The Government Programme states that the expenditure ceiling in 2023 will be EUR 1.4 billion higher than in the technical spending limits decision. The Government Programme did not decide on the expenditure ceiling for 2020–2022; it is derived from decisions in accordance with Annexes 1 and 2 of the Government Programme. In setting the expenditure ceiling for 2020–2022, unanticipated appropriation needs have also been provided for. The Government will allocate EUR 300 million annually for the purpose of supplementary budgets (excluding 2023, the supplementary budget provision for which is EUR 100 million). In addition, the Government has decided on a spending limits provision of EUR 1.7 billion for 2021–2022 to be allocated to future-oriented investments. If the spending limits provision remains unused, the spending limits level will be correspondingly lowered.

The table below presents the formation of the parliamentary term spending limits.

Parliamentary term spending limits for 2020–2023 (at 2020 prices), EUR million

	2020	2021	2022	2023
Spending limits decision 4 April 2019	44 853	46 417	46 582	46 716
Spending limits expenditure according to the Government Programme, total	2 058	2 884	2 518	1 400
— permanent additional increases in spending limits expenditure	1 078	1 375	1 318	1 370
— permanent reallocations of spending limits expenditure	-50	-50	-125	-100
— one-off future-oriented investments (spending limits expenditure)	730	419	175	
— provision for financing future-oriented investments		840	850	
— supplementary budget provision	300	300	300	100
Transfer to spending limits of previous parliamentary term's compensation for municipalities' tax revenue losses	1 012	1 012	1 012	1 012
Other structural adjustments of expenditure ceiling	-251	-191	-293	-388
Price- and cost-level adjustments to expenditure ceiling	-45	-37	-38	-34
Provision for unanticipated expenditure needs in 2020–2022	150	244	135	
Parliamentary term expenditure ceiling (incl. supplementary budget provision)	47 778	50 329	49 915	48 706

At the turn of the parliamentary term, compensation allocated to municipalities for the previous parliamentary term's tax criteria changes will be transferred from outside the spending limits to within the spending limits. Only the current parliamentary term's compensation for tax criteria changes of

current will be outside the spending limits. In addition, the expenditure ceiling will be reduced in accordance with the Government Programme to correspond with changes in the energy tax rebate scheme. These technical adjustments as well as other structural adjustments will be made to the parliamentary term spending limits. Price- and cost-level adjustments will lower the overall level of expenditure within the 2020–2023 spending limits by approximately EUR 40 million compared with the spring 2019 technical General Government Fiscal Plan. Statutory index adjustments were already taken into account normally in the technical General Government Fiscal Plan after years of being frozen. Structural as well as price- and cost-level adjustments are described in more detail in Appendix 2.

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

Development of on-budget expenditure in 2020–2023

On-budget expenditure is expected to be approximately EUR 57.6 billion in 2020, which is approximately EUR 2.1 billion more than in the ordinary budget for 2019. The change is explained mainly by permanent additional expenditure in accordance with Prime Minister Rinne’s Government Programme and by temporary increases in 2020–2022, particularly for the Government’s future-oriented investments. In addition, full index adjustments and compensation to municipalities for the impact of tax criteria changes will be reflected in a rise in expenditure compared with 2019. Interest expenditure on central government debt, on the other hand, will decline.

By 2023, budget expenditure will rise to approximately EUR 59.2 billion. The increase is explained by, among other things, the budgeting of the expenditure deriving from the procurement of fighter aircraft for 2021–2023, the gradually increasing permanent additional expenditure of Prime Minister Rinne’s Government, growth in age-related expenditure and certain changes in expenditure outside the spending limits (see below). On-budget expenditure is expected to grow in the spending limits period 2020–2023 nominally by an average of approximately 3% per year. In real terms, annual average expenditure growth is expected to be approximately 1%.

Compared with the spring 2019 technical spending limits decision, on-budget expenditure will rise on average by approximately EUR 1.6 billion per year. The change is explained mainly by permanent and one-off expenditure increases in accordance with Prime Minister Rinne’s Government Programme. Annual interest expenditure on central government debt, on the other hand, will decline on average by approximately EUR 0.5 billion.

Expenditure outside the spending limits

Part of on-budget expenditure falls outside the spending limits. The expenditure benchmark sets a maximum level for most, around four-fifths, of on-budget expenditure. The following expenditure, among others, falls outside the spending limits: cyclical expenditure, financial investment expenditure, interest expenditure on central government debt, and expenditure where the central government acts as a technical intermediary for an external funding contribution. In addition, the transfer to the State Television and Radio Fund (Yle transfer) has been treated as expenditure outside the spending limits from 2018.

Expenditure outside the spending limits is expected to be approximately EUR 10.2 billion in 2020, which is approximately EUR 1.2 billion less than in the budget (excl. supplementary budgets) for 2019. Of this, approximately EUR 1.0 billion is explained by the fact that the previous parliamentary term’s compensation to municipalities for tax criteria changes will be transferred technically at the turn of the parliamentary term from outside the spending limits to within the spending limits.

In the spending limits period, expenditure outside the spending limits will rise by over EUR 0.5 billion to approximately EUR 10.7 billion at the 2023 level. Compensation for municipalities' tax revenue losses will increase throughout the spending limits period, mainly due to index adjustments made to earned income taxation. In addition, the level of value-added tax expenditure will rise significantly in 2021 due to the VAT expenditure associated with the Defence Forces' fighter procurement.

Compared with last spring's technical spending limits decision, expenditure outside the spending limits will fall by approximately EUR 0.9–1.4 billion per year. The change is mainly explained by the above-mentioned transfer of compensation for the previous parliamentary term's tax criteria changes technically to within the spending limits. In addition, the level of interest expenditure on central government debt is expected to fall significantly in line with a new interest rate level forecast (approximately EUR 0.4–0.7 billion per year). VAT expenditure, on the other hand, will increase mainly due to projects and procurement in accordance with the Government Programme. The estimated requirement for cyclical expenditure has also been adjusted upwards slightly compared with the technical spending limits decision.

	2020	2021	2022	2023
Cyclical expenditure	4.4	4.2	4.2	4.2
Compensation to municipalities for tax criteria changes	0.3	0.5	0.7	0.8
Expenditure corresponding to EU revenue	1.1	1.1	1.1	1.1
Expenditure corresponding to proceeds from profits on gambling activities	1.0	1.0	1.0	1.0
Interest expenditure	0.9	0.7	0.7	0.7
Financial investment expenditure	0.3	0.3	0.3	0.3
Technical pass-through items	0.4	0.3	0.3	0.4
VAT appropriations	1.3	1.7	1.7	1.7
Transfer to State Television and Radio Fund	0.5	0.5	0.5	0.5
Total	10.2	10.4	10.5	10.7

Price and cost-level adjustments and structural changes

The Government Programme states that in addition to structural adjustments, the overall spending limits level will be revised to reflect changes in price levels. For a more detailed description of price- and cost-level adjustments as well as structural adjustments, see Appendix 2.

Table 6. Central government spending limits by administrative branch and estimate of expenditure outside the spending limits in 2020–2023, EUR million at 2020 prices and costs

	2020 BUDGET PROPOSAL	2021	2022	2023
23. Prime Minister's Office	194	190	190	190
Estimate of expenditure outside spending limits	25	25	25	25
Total	219	215	215	214
24. Ministry for Foreign Affairs	1 103	1 126	1 150	1 187
Estimate of expenditure outside spending limits	153	153	154	154
Total	1 256	1 279	1 304	1 341
25. Ministry of Justice	907	903	902	913
Estimate of expenditure outside spending limits	47	47	47	47
Total	954	949	949	960

26. Ministry of the Interior	1 389	1 360	1 338	1 336
Estimate of expenditure outside spending limits	131	120	145	144
Total	1 520	1 480	1 483	1 480
27. Ministry of Defence	2 791	4 247	4 268	4 260
Estimate of expenditure outside spending limits	367	738	741	739
Total	3 158	4 984	5 009	5 000
28. Ministry of Finance	17 785	18 108	17 961	18 180
Estimate of expenditure outside spending limits	708	896	1 095	1 282
Total	18 493	19 004	19 056	19 463
29. Ministry of Education and Culture	6 237	6 208	6 250	6 165
Estimate of expenditure outside spending limits	600	592	571	571
Total	6 837	6 800	6 822	6 736
30. Ministry of Agriculture and Forestry	1 773	1 653	1 617	1 588
Estimate of expenditure outside spending limits	916	960	947	942
Total	2 689	2 613	2 564	2 531
31. Ministry of Transport and Communications	2 525	2 396	2 379	2 240
Estimate of expenditure outside spending limits	964	969	989	964
Total	3 490	3 365	3 368	3 204
32. Ministry of Economic Affairs and Employment	2 318	2 354	2 125	2 119
Estimate of expenditure outside spending limits	545	458	429	430
Total	2 863	2 812	2 554	2 548
33. Ministry of Social Affairs and Health	9 954	10 079	10 102	9 948
Estimate of expenditure outside spending limits	4 826	4 685	4 626	4 643
Total	14 780	14 764	14 728	14 591
35. Ministry of the Environment	268	282	196	195
Estimate of expenditure outside spending limits	9	9	9	9
Total	278	291	206	204
36. Interest on central government debt	-	-	-	-
Estimate of expenditure outside spending limits	873	745	673	745
Total	873	745	673	745
Administrative branch spending limits, total¹	47 378	49 039	48 615	48 462
Estimate of expenditure outside spending limits, total	10 174	10 406	10 460	10 707
Main titles, total	57 552	59 444	59 076	59 168
Parliamentary term expenditure ceiling	47 778	50 329	49 915	48 706
— Administrative branch spending limits, total ¹	47 378	49 039	48 615	48 462
— Supplementary budget provision	300	300	300	100
— Unallocated reserve	100	150	150	144
— Provision for future-oriented investments	=	<u>840</u>	<u>850</u>	=

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

5.3. Definitions of policy in budget finances 2020–2023

Government's permanent additional expenditure

Prime Minister Rinne's Government Programme outlined a total of EUR 1.4 billion in permanent additional general government expenditure at the 2023 level compared with the spring 2019 technical General Government Fiscal Plan. Expenditure will be allocated to, among other things, social security as well as health and social services, early childhood education, education and research, environmental protection and climate policy measures. The content of the additional expenditure is presented in more detail in Annex 1 of the Government Programme.

In the central government spending limits decision, the timing of the additional expenditure has been specified such that the increase in permanent expenditure will be approximately EUR 1.1 billion in 2020, approximately EUR 1.4 billion in 2021, approximately EUR 1.3 billion in 2022 and approximately EUR 1.4 billion in 2023. The phasing of expenditure has been examined taking into account the readiness to launch reforms and procurement as well as fiscal policy as a whole. The breakdown of permanent additional expenditure into strategic themes is present in the table below.

Permanent additional expenditure of Prime Minister Rinne's by strategic theme, EUR million

	2020	2021	2022	2023
Carbon-neutral Finland that protects biodiversity	57	95	107	108
Globally influential Finland	83	86	91	100
Safe and secure Finland built on the rule of law	32	42	50	69
Dynamic and thriving Finland	422	458	274	191
Finland built of trust and labour market equality	33	66	75	70
Fair, equal and inclusive Finland	414	521	562	619
Finland that promotes competence, education, culture and innovation	38	108	159	213

One-off future-oriented investments in 2020–2022

The Government has decided on an approximately EUR 1.4 billion programme of future-oriented investments for one-off investments and socially important experimental schemes. The measures will be financed mainly with central government property income. Of the investments, EUR 750 million is earmarked for 2020, EUR 439 million for 2021 and EUR 175 million for 2022. In addition, investments totalling over EUR 200 million will be allocated from the Housing Fund of Finland in 2020–2022.

For the final part of the future-oriented investment programme, amounting to approximately EUR 1.7 billion, a spending limits provision has been made for 2021 and 2022. The implementation of the programme will be decided on in the autumn 2020 budget session as part of a revenue in accordance with the Government Programme of employment measures and expenditure increases. If the spending limits provision remains unused, the spending limits level will be correspondingly lowered.

One-off future-oriented investments by administrative branch, EUR million

Administrative branch	2020	2021	2022
Ministry for Foreign Affairs	14.4	10.3	
Ministry of Justice	6.0	5.5	3.0
Ministry of the Interior	18.0	3.0	
Ministry of Finance	14.3	1.3	
Ministry of Education and Culture	205.4	130.0	120.0
Ministry of Agriculture and Forestry	196.5	35.8	19.1
Ministry of Transport and Communication	40.0	25.0	
Ministry of Economic Affairs and Employment	151.4	114.1	7.2
Ministry of Social Affairs and Health	34.1	36.4	26.0
Ministry of the Environment	69.4	77.9	
Total	750.4	439.3	175.3

Reductions in deferrable appropriations and operating expenditure

In accordance with the Government Programme, the levels of deferrable appropriation items will be permanently reduced by a total of EUR 50 million, the reductions being targeted at appropriations that have unjustifiably been used significantly below their budgeted level in recent years. The table below presents a breakdown of the deferrable appropriation reductions by administrative branch.

Breakdown of annual deferrable appropriation savings by administrative branch, EUR million

Administrative branch	Reduction in 2020–2022	Reduction in 2023
Prime Minister's Office	0.5	0.5
Ministry for Foreign Affairs	1	1
Ministry of Justice	-	1.5
Ministry of the Interior	2.1	2
Ministry of Defence	2.6	2.5
Ministry of Finance	15.5	15
Ministry of Education and Culture	6.2	6
Ministry of Agriculture and Forestry	5.2	5
Ministry of Transport and Communication	3.6	3.5
Ministry of Economic Affairs and Employment	7.2	7
Ministry of Social Affairs and Health	4.1	4
Ministry of the Environment	2.1	2

The appropriation level of the EU membership contribution based on the Commission's proposal has been reduced by EUR 75 million in 2020 and EUR 50 million in 2023 compared with the spring 2019 technical General Government Fiscal Plan, giving due consideration to the current situation in the negotiations.

Operating expenditure takes into account the operating expenditure saving included in the spring technical spending limits decision (digitalisation of central government activities and digitalisation), in which a 0.5% saving will be made in each administrative branch's operating expenditure, less premises expenditure, from 2020. A 0.3% saving applies to the administrative branches of the Ministry of Justice, the Ministry of the Interior and the Ministry of Defence and the operating expenditure of Customs. The reduction in central government operating expenditure will increase from EUR 18 million in 2020 to EUR 73 million in 2023.

The Government's discretionary changes with regard to local government finances are discussed in Chapter 6 and at the level of general government finances as a whole in Chapter 8.

5.3.1. Policy outlines for the administrative branches

Prime Minister's Office

The appropriations of the main title of the Prime Minister's Office will be approximately EUR 219 million in 2020 and approximately EUR 215 million in 2021–2023.

The operating expenditure appropriations of the Prime Minister's Office will total approximately EUR 126 million in the spending limits period. In accordance with the Government Programme, an appropriation of EUR 0.2 million is proposed for the Climate Panel's round table work and EUR 0.7

million per year for additional expenditure arising from the change in the composition of the Government. In addition, EUR 0.2 million per year is proposed for the Leo Mechelin history project.

An additional EUR 6 million per year is proposed to support party activities. An increase totalling approximately EUR 5 million is proposed for the remuneration of ministers, their state secretaries and special advisers, due to an increase in the number of ministers, state secretaries and special advisers, adjustments to remuneration criteria and the removal of savings directed at the remuneration of ministers of the previous Government.

Ministry for Foreign Affairs

Appropriations in the main title of the Ministry for Foreign Affairs will average approximately EUR 1.3 billion per year in the spending limits period.

The promotion of human rights, the rule of law, democracy, peace, freedom, tolerance and equality in all international activities forms the central element of the value base on which Finland's foreign and security policy rests. The objectives of Finland's foreign and security policy are strengthening Finland's international position, safeguarding its independence and territorial integrity, improving the security and wellbeing of Finland and its people, and ensuring that Finnish society functions efficiently. The activities of the Foreign Service rely on a comprehensive network of diplomatic missions abroad. In 2020–2022, the network of diplomatic missions will be strengthened with four new diplomatic missions. The Foreign Service's handling of immigration issues will be strengthened both in the ministry and the diplomatic missions, with a focus on work-based immigration. Special attention will be paid to improving information security, including secure transmission of information and sufficient numbers of information security personnel.

The Government's long-term goal is to allocate, in line with the UN commitments, 0.7% of GNI for development cooperation work and 0.2% of GNI for aid to least developed countries. The level of appropriations for actual development cooperation will rise to EUR 772 million in 2023. In the spending limits period, the average level of development cooperation appropriations will be approximately 0.41% of GNI. A total of approximately EUR 130 million per year is allocated to financial investment expenditure on development cooperation.

The appropriations for crisis management take into account the policy outlines of the Government Programme, the Government Report on Finnish Foreign and Security Policy (2016), the National Strategy for Civilian Crisis Management (2014) and the Peace Mediation Action Programme (2011). The military crisis management appropriations will be EUR 53 million per year in the main title of the Ministry for Foreign Affairs. The operations in which Finland is participating are taken into account in the appropriations. By the end of the spending limits period, the civilian crisis management appropriations will rise to EUR 19.6 million, which have been scaled to an annual level of 150 specialists, in line with the Government Programme.

Peace mediation is a part of comprehensive crisis management and an increasing priority of Finland's foreign policy. A sum of EUR 1.0 million is allocated to peace mediation in 2021, rising to EUR 2.0 million in 2023.

An appropriation of EUR 2.4–3.0 million per year in 2021–2023 will be allocated to Baltic Sea, Barents and Arctic Region cooperation. Participating in regional cooperation is an important way for Finland to promote stability, security, sustainable development and economic cooperation opportunities in the Baltic Sea, Barents and Arctic Region. The objective is also to promote the channelling of international funding to Finland for important projects.

Ministry of Justice

The appropriations of the main title of the Ministry of Justice will total EUR 954 million in 2020 and EUR 960 million in 2023. Excluding the cost-neutral changes in Senate Properties' rental expenditure (EUR -4 million), this represents an increase of EUR 18 million in 2023 compared with the technical spending limits.

Additional funding totalling EUR 5.2 million per year will be allocated to the Finnish Prosecution Service, courts of law, legal aid and the Criminal Sanctions Agency to improve the functioning of the criminal process and determine criminal liability. In addition, to secure the resources of the administrative branch, an annual additional appropriation of EUR 0.7–1.7 million will be allocated to the Judicial Administration and the Criminal Sanctions Agency. Crime prevention will be enhanced by EUR 2.5 million per year in 2020–2023.

Effective measures will be taken to reduce over-indebtedness and related problems. To improve the availability of financial and debt counselling services and referral to these services throughout Finland, an annual additional appropriation of EUR 1–1.5 million will be allocated to legal aid and public guardianship districts.

An annual additional appropriation of EUR 1–1.5 million compared with the previous spending limits decision will be directed to public legal aid and private assistants to strengthen legal aid for asylum seekers.

Population ageing is increasing the need for public guardianship services. Due to an increase in the number of clients, 10 additional people will be hired for public guardianship offices (EUR 0.6 million per year).

The taking of evidence in judicial proceedings will be centralised into district courts so that testimonies given in district courts will be recorded and used in proceedings in courts of appeal. The taking of personal testimonies in the courts of appeal from video and audio recordings will modernise the court of appeal procedure, clarify the role of the court of appeal as the court controlling the correctness of district court decisions, and shift the focus of judicial proceedings to the district courts. An additional appropriation of EUR 5.5 million will be allocated to this from 2021. An annual additional appropriation of EUR 0.5 million will also be allocated to maintenance expenditure arising from equipping courtrooms in connection with the AIPA information system project for ordinary courts of law.

In enforcement, special collection activities have been expanded nationwide through an annual additional appropriation of EUR 1.3 million aimed at combating the shadow economy. The appropriation has also been used to investigate the activities of bankrupt debtors. The funding will continue from 2020 onwards.

The network of enforcement offices will be preserved in its present form, and a gradually increasing additional appropriation (EUR 1.2 million in 2023) is allocated for addition exhibit arising from this.

The role of impact assessments in drafting legislation will be enhanced by centralising the making of impact assessments in the Ministry of Justice (EUR 0.4 million from 2021). This is a service provided to all ministries to guide support and produce impact assessments.

Ministry of the Interior

The appropriation level of the main title of the Ministry of the Interior will be approximately EUR 1.5 billion in the spending limits period.

According to the Government Programme, the objective is a safe and secure Finland built on the rule of law, strengthening a sense of security, and ensuring the operational capacity of the security authorities. The Government will safeguard the implementation of fundamental and human rights and tackle violations of people's rights. In the administrative branch of the Ministry of the Interior, particular attention will be paid to improving the safety and security of people, preparing for new security threats, and fostering a sense of security.

Cooperation will be continued between the Police, Customs and Border Guard (PCB cooperation). Administrative cooperation between the security authorities will be further developed and deepened.

An increase of EUR 0.38 million for 2020 and EUR 0.19 million for 2021 and 2022 will be allocated to strengthen oversight of civilian intelligence activities and the supervision of legality of the Finnish Security Intelligence Service.

To further develop Finland's crisis management policy, a comprehensive document will be drawn up setting out the objectives for crisis management across parliamentary terms. The aim will be to improve effectiveness and the careful planning of resource use, and to ensure sufficient participation. The aim is to raise the strength of Finland's civilian crisis management force to at least 150 specialists. An annual increase of EUR 0.4 million will be allocated to the operating expenditure of Crisis Management Centre Finland.

To determine criminal liability and accelerate the processing of criminal cases, the resources of the Police, prosecutors and courts will be increased with a view to shortening processing times across the entire legal process (criminal investigation, prosecution and court proceedings leading to legally final judgments), and better cooperation between the Police and prosecutors ensured. According to the Government Programme, the number of the police officers will be increased to 7,500 person-years by 2023. Efforts will be made to encourage people from various ethnic backgrounds to apply for police training.

In their activities, the Police will aim, in particular, to reduce offences against physical integrity and life or health, particularly offences against children and intimate partner violence. Radicalisation will be prevented through cooperation between authorities and organisations. The Action Plan against the Shadow Economy and Economic Crime will be continued and the capacity of the Police in financial investigations will be boosted. Prevention and investigation of online crime will be reinforced. A team will be established for detecting and investigating human trafficking offences. The Government will strengthen the presence and visibility of the authorities, particularly in areas with a lower level of service. Maximum response times will be specified for the Police throughout Finland. Community policing, control of heavy-vehicle traffic and resources for preventive work will be strengthened. The Police will refer people they encounter to other services they may need, such as substance abuse care and health services.

The effective and appropriate application of the new intelligence legislation will be ensured. In the spending limits period, the Finnish Security Intelligence Service will gain access to new information systems to support its activities, and its funding has been increased for the investment expenditure on these systems.

The capacity of the Border Guard will be secured in a changing environment. The Government Programme includes an additional appropriation to secure border security and the number of border guards; the increase is EUR 4.3 million at the 2023 level. An allocation of EUR 4.8 million at the 2023 level will be made to the expenditure of the permanent forces of the European Border and Coast Guard Agency. The Border Guard's oil and chemical spill response capabilities will be improved.

The resources of the rescue services will be ensured, taking into account national and regional service needs.

In accordance with the Government Programme, the operations and capacity of the Emergency Response Centre Administration will be secured. The resources of the Emergency Response Centre Administration will be increased annually; the increase will be EUR 2.5 million at the 2023 level. Responsibility for financing the maintenance expenditure of Erica, the new emergency response centre information system, will be decided on at the beginning of the spending limits period.

An increase of EUR 3 million for 2020 and 2021 will be made to clear the backlog of asylum applications at the Finnish Immigration Service. In addition, an increase of EUR 10 million for 2020 and 2021 will be made to secure the decision-making resources of the Finnish Immigration Service.

Within the framework of resources, efforts will be made to post immigration liaison officers in key countries of origin. The number of quota refugees will be increased to at least 850 refugees in 2020. Thereafter, the number of quota refugees is estimated at 850–1,050 per year, taking into account the number of asylum seekers. Applications for asylum will be processed without undue delay in an individual procedure that guarantees legal protection. The aim will be to process applications within six months. The system of voluntary return will be developed as the primary option for securing the departure of unsuccessful applicants while supporting sustainable return. The Government will seek to conclude return agreements with all key third countries whose citizens Finland can safely return.

In the new EU funding period 2021–2027, internal security and immigration funding will be included in the main title of the Ministry of the Interior separately from the funds of the previous funding period.

Ministry of Defence

The appropriation level of the administrative branch of the Ministry of Defence will be EUR 3.2 billion in 2020 and it will rise to EUR 5.0 billion during the spending limits period. The increase is due to the planned financing of the Defence Forces' strategic performance capability projects.

Finland will secure a credible national defence and ensure that sufficient resources are available. Finland's defence capability is based on general conscription, a trained reserve, the defence of the entire country and a strong will for national defence. Finland's foreign and security policy aim is to prevent Finland from becoming party to a military conflict. A defence capability that is abreast of the changes in the operating environment will be maintained and the required conditions for its development secured by ensuring sufficient resources for the defence administration. The scaling of resources for defence will be in line with the Defence Policy Report of 2017.

In the spending limits period, projects for the main weapon systems of sea and air defence will be implemented in which the Navy's ageing combat vessel fleet and the performance capability of the Air Force's Hornet fighter fleet will be replaced. Both procurement projects fall within the central government spending limits. The spending limits include expenditure for the Squadron 2020 project at an annual level of EUR 192–194 million, and estimated funding totalling EUR 4.5 billion from 2021 for the first three years of the procurement of multirole fighter aircraft.

Funding for operating expenditure has been increased in line with the Government Programme to increase the number of personnel and tasks during the parliamentary term by approximately 100, to gradually raise the amount of refresher training in the spending limits period and to restructure voluntary national defence training. For the purpose of implementing a new approach to voluntary national defence training, appropriations have also been reallocated within the administrative branch.

According to established practice, cost-level adjustments will be made annually to defence materiel procurement appropriations, defence force operating expenditure (excluding personnel expenditure) and military crisis management appropriations (excluding personnel expenditure).

Ministry of Finance

The annual appropriation level of the main title of the Ministry of Finance will rise from EUR 18.5 billion in 2020 to EUR 19.5 billion in 2023. The appropriation level will be raised by an increase in appropriations supporting municipalities by EUR 0.7 billion from 2021 to 2023. The appropriations for 2020–2022 include one-off additional investments in the digitalisation of the Tax Administration, a total of EUR 24 million, and to promote the general digitalisation of the Ministry of Finance, a total of EUR 46 million.

The duties of the Population Register Centre, Local Register Offices and the Development and Steering Unit of the Local Register Offices, which operates under the Regional State Administrative Agency for Eastern Finland, will be merged into a new Digital and Population Data Services Agency (Finnish Digital Agency) from the beginning of 2020. The new agency's appropriation is EUR 48.1 million in 2021, falling to EUR 45.3 million at the end of the spending limits period. The agency's appropriation will be reduced, in particular, by the productivity gains arising from the productivity project under way, which will be included in the spending limits in accordance with earlier decisions.

The appropriation level for pensions and compensation in the main title of the Ministry of Finance will be EUR 5.2–5.3 million in the years of the spending limits period.

Contributions to the European Union will rise from EUR 2.4 billion to EUR 2.5 billion during the spending limits period. 2021 is the first year of the EU's multiannual financial framework (2021–2027). Negotiations on the EU financial framework are ongoing, so no decision on the matter has yet been made. The level of Finland's EU contribution in the spending limits period 2021–2023 has been estimated on the basis of the Commission's proposals (published on 2 May 2018) for the EU's multiannual financial framework and the decision on own resources. In addition, it has not been possible to take into account the future contributions of the UK to the EU resulting from the UK's participation in EU programmes after 2020, due to unresolved issues relating to the future relationship of the UK and the EU. In accordance with the Government Programme, the appropriation for Finland's EU contributions was reduced by EUR 75 million in 2022 and by EUR 50 million in 2023.

Based on Government Programme entries, mining activities will be removed from the scope of the tax rebate for energy-intensive companies, and the energy tax rebate for energy-intensive companies will be abolished over a transition period with cost neutrality by reducing the category II electricity tax towards the minimum allowed by the European Union. In the General Government Fiscal Plan, a technical assumption is that these measures will take place in 2021 and 2022, as a consequence of which energy tax rebates are expected to decline by EUR 119 million in 2022 and by EUR 230 million in 2023.

Expenditure up to a maximum of EUR 290 million per year in 2021–2023 may arise from Senate Properties' investments.

Support for municipalities

The central government transfer to local government for basic public services in 2021 will be at the 2020 level of EUR 7.1 billion and will rise during the spending limits period to EUR 7.4 billion. The level of the central government transfer level for basic public services will be reduced compared with the previous spending limits by the transfer of compensation for municipalities' tax revenue losses to its own item. Compensation to municipalities for tax revenue losses will rise from EUR 2.3 billion to EUR 2.4 billion in 2021, and will rise to EUR 2.8 billion by the end of the spending limits period.

Parliament has approved a legislative initiative on raising the upper age limit for after-care services in child protection from 21 years to 25 years from 2020. The change is estimated to increase municipalities' costs by EUR 48 million in 2023. In connection with this, the central government transfer to local government for basic public services will be increased annually by EUR 12 million in 2020–2023.

In the previous parliamentary term, it was decided that the bringing forward of the study of the first foreign language will begin in 2020. In connection with this, the central government transfer to local government for basic public services will be increased by EUR 7.5 million in 2020 and by EUR 12 million from 2021.

Under previous spending limits decisions, EUR 10 million was already transferred from the item central government transfer to local government for basic public services to discretionary assistance for mergers of municipalities in crisis. A legal amendment relating to the matter has been made to the Act on Central Government Transfers to Local Government (1704/2009).

In connection with the 2020 budget, compensation for municipalities' tax revenue losses for 2010–2019 will be transferred from the item central government transfer to local government for basic public services to its own item. The compensation to be transferred totals EUR 1,967 million. Compensation for 2020–2023 will be a total of EUR 890 million. The level of compensation will therefore rise from EUR 2,279 million in 2020 to EUR 2,857 million by the end of the spending limits period.

An appropriation of EUR 40 million per year in 2020–2023 will be allocated to the incentive scheme for digitalisation in the municipalities. The incentive scheme is funded by a transfer from the central government transfer to local government for basic public services.

The development of basic public services in accordance with the Government Programme will be launched in 2020 with the conversion of Vaasa Central Hospital into a hospital providing extensive emergency care service (EUR 1 million), support for families and the diversity of life situations (EUR 2 million) and, from 1 August 2020, extending the subjective right to early childhood education and care (annual cost EUR 17 million) and reducing group sizes in early childhood education (annual cost EUR 16 million).

In 2021, the Act on Client Charges in Health and Social Services will be comprehensively reformed by expanding access to free services in basic healthcare and by making client charges more equitable. The central government transfer to local government for basic public services will be increased in connection with the reform by EUR 45 million. In addition, from 2022 an extension of the national screening programme will be implemented, in connection with which the central government transfer will be increased by EUR 10 million, and the minimum staffing level in child protection services will be tightened, in connection with which the increase in the central government transfer will be EUR 9 million. For these new and extended tasks, the central government transfer percentage in accordance with the Act on Central Government Transfers to Local Government for Basic Public Services is 100.

The intention is to fund a number of key reforms of the administrative branch of the Ministry of Social Affairs and Health in 2020–2022 as project funding in the main title of the Ministry of Social Affairs and Health. These include raising the minimum staffing level for care personnel, improving access to basic-level services (shorter maximum waiting times for access to care), increasing home care resources and the development of informal care, a national mental health strategy, the continuation of the programme to address child and family services, and the comprehensive reform of the Act on Disability Services and Assistance. From 2023, this funding would be directed to the future counties. As there is not yet a specific title for the funding of the counties, however, the funding for these reforms, a total EUR 209 million, has been added from 2023 to the item central government transfer to local government for basic public services.

In accordance with Prime Minister Rinne's Government Programme, the Government will start preparations for the reform of health and social services, taking into account the work done during previous parliamentary terms and constitutional constraints. The reform will transfer the responsibility for organising health and social services to autonomous regions (counties) that are larger than municipalities. The responsibility for organising rescue services will also be transferred to the counties. There will be a total of 18 autonomous counties. The Government will conduct a study by the end of the 2019 on special arrangements for Uusimaa, the Helsinki Metropolitan Area, or Helsinki, in cooperation with the cities and municipalities located in the area.

Ministry of Education and Culture

The appropriation level of the main title of the Ministry of Education and Culture will average EUR 6.8 billion during the spending limits period. The appropriations for 2020–2022 include annual one-off additional investments of approximately EUR 120 million.

The subjective right to early childhood education will be restored and, in addition, the number of children per educator will be reduced in early childhood education. Welfare services for pupils and students in basic and upper secondary education will be strengthened by allocating to this EUR 10 million in 2021, EUR 20 million in 2022 and EUR 29 million in 2023. In addition, free-of-charge leisure activities during the school day will be promoted with EUR 5 million in 2020 and annually by EUR 14.5 million in 2021–2023. Quality and equality programmes in basic education and early childhood education will be implemented as a one-off additional investment in 2020–2022. The basic education quality and equality programme will be allocated a total of EUR 180 million and the early childhood education quality and equality programme a total of EUR 125 million.

The minimum school leaving age will be raised to 18 years and fees for upper secondary education will be abolished. Allocations of EUR 22 million in 2021, EUR 65 million in 2022 and EUR 107 million in 2023 will be made to extend compulsory education and for free provision of upper secondary education.

The implementation of the reform of general upper secondary education will be continued. A general increase of EUR 7.5 million will be made to confirm the unit price of general upper secondary education, which will strengthen the funding of general upper secondary schools by EUR 18 million, taking into account the municipalities' funding contribution. In accordance with the previous spending limits decision, EUR 0.75 million will be allocated in 2020 for expenditure arising from the increase in the number of times students may repeat matriculation examination tests, and EUR 4 million will be allocated for the implementation of the reform of general upper secondary school education in 2021 and EUR 8.53 million from 2022 onwards, including additional costs arising from the number of times students may repeat matriculation examination tests. A general increase of EUR 2 million will be made to fund basic education in the arts.

The implementation of the reform of vocational education and training, which entered into force at the beginning of 2018, will be continued during the spending limits period in accordance with earlier decisions. A general increase of EUR 2.5 million will be made to increase training of workplace instructors. A one-off additional investment of EUR 80 million will be allocated in 2020 to hire teachers and instructors in vocational education and training and for education and counselling support activities.

From 2020, the core funding of universities and universities of applied sciences will be increased, such that the increase for universities will be EUR 40 million and for universities of applied sciences EUR 20 million. The number of starting places in universities of applied sciences will be increased in Savonlinna by 150 places from 2020.

Finland has made preparations to host one supercomputer of the European High-Performance Computing Joint Undertaking (EuroHPC). With a total cost of approximately EUR 240 million, Finland's financial contribution to the project would be at most a total of EUR 50 million in 2019–2026. Of this, half will be funded in the administrative branch of the Ministry of Education and Culture as a transfer from Academy of Finland authorisations and half from the administrative branch of the Ministry of Economic Affairs and Employment.

The extensive utilisation and openness of research materials, research results and expertise will be promoted. The programme to develop data-driven research will be continued. EUR 1.5 million per year will be allocated in 2020–2023 to the digitisation of documents in order to avoid new paper archive facilities. The operating expenditure of the National Archives of Finland will be raised with a general increase, which will decline gradually from EUR 1.5 million in 2020 to EUR 1.4 million in 2021, and to EUR 1 million from 2022.

Financial aid for students will be used to enable equal conditions for studying, and systematic and full-time studies as well as shortening of the duration of studying will be promoted. In accordance with the Government Programme, the study grant provider supplement will be increased and the study grant linked to the cost-of-living index from 1 August 2020.

In accordance with previous decisions, a new funding system for museums will be implemented. An appropriation of EUR 1.5 million in 2021, EUR 7 million in 2022 and EUR 10 million from 2023 will be allocated to the reform of the system of central government transfers for the performing arts. In accordance with the Government Programme, an additional appropriation will be allocated to discretionary government transfers for culture in 2021–2023 for, among other things, boosting cultural tourism, promoting children's culture, developing the "one per cent for art and culture" scheme and pursuing the "Lukuliike" reading promotion project. To raise the level of artists' grants, an annual allocation of EUR 1.4 million in 2020 and 2021 and EUR 1.8 million in 2022 and 2023 will be made. The system of fair compensation for private copying will be reformed. An annual EUR 4 million will be allocated in 2020–2021 to compensation for private copying. Provision of EUR 50 million will be made for the renovation of the Finnish National Theatre, of which EUR 40 million will be allocated from undistributed proceeds from gambling activities.

Proceeds from gambling activities allocated to the promotion of sport and physical education, art and youth work are expected to decline in the spending limits period compared with the previous spending limits. EUR 6.2 million in 2021 and an annual EUR 4.5 million in 2022–2023 is earmarked for the implementation of the Report on Sports Policy. A sum of EUR 2 million will be allocated annually in 2020–2023 to support young people's workshop activities.

Funding will be provided for the basic and continuing education of teachers necessitated by the asylum seeker situation and for the development of services for identifying and recognising competence.

Cultural, physical activity and youth work measures will also be used to support immigrants' mental wellbeing, functional capacity, togetherness and integration.

Ministry of Agriculture and Forestry

Annual appropriations of the main title of the Ministry of Agriculture and Forestry will total approximately EUR 2.6 billion in the spending limits period.

Funding under the Rural Development Programme for Mainland Finland and the Operational Programme of the European Maritime and Fisheries Fund for 2014–2020 is included in the spending limits of the administrative branch in accordance with the progress of the programmes. No decisions have yet been made on the level of EU funding and national funding for the new EU funding period 2021–2027, as a result of which, in the programme items, the appropriation levels for 2021–2023 have been estimated as being similar to the first three years of the current programming period. Direct subsidies fully funded by the EU will continue at the 2020 levels throughout the spending limits period.

The Government Programme has allocated additional appropriations in the spending limits period to the administrative branch of the Ministry of Agriculture and Forestry, including: a total of EUR 83.3 million for the climate policy of the land use sector, of which a total of EUR 39.8 million will be in the form of one-off increases in 2021–2022, EUR 21 million for new commitments to organic production made in 2020, EUR 9 million for measures to develop the structure of arable lands, EUR 16 million to promote nutrient recycling through biogas production and EUR 4.9 million for the Forest Biodiversity Programme for Southern Finland (METSO). Additional appropriations have also been allocated to promoting food exports, combating animal diseases and to flood protection and water management of arable lands.

In the policy sector of land survey and information resources, development projects relating to the Spatial Data Service Platform and the Residential and Commercial Property Information System will continue in the spending limits period. A total of EUR 3.0 million is allocated in 2021–2022 to implementation of the Spatial Data Report.

Ministry of Transport and Communications

The appropriations of the main title of the Ministry of Transport and Communications will average EUR 3.36 billion in the spending limits period 2020–2023.

In infrastructure maintenance, priority will be given to measures required to ensure the daily functioning of the transport network as well as halting and reducing the growth of the repair debt. Maintenance and development of the transport network will be enhanced by, among other things, better utilisation of information, using new methods of surveying the condition of the network, and the full introduction of information modelling. Transport network planning will be developed by taking into account the impacts of digitalisation and automation on the transport system and traffic volumes of the future.

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

Utilisation of digitalisation will be promoted by streamlining and reforming regulation, and by creating a framework for developing and automating transport services.

The annual appropriation for basic transport infrastructure maintenance will be increased on average to EUR 1.34 billion in the spending limits period. The objective is to halt and reduce growth of the repair debt. Of the appropriation, EUR 10 million will be allocated to removing dangerous level-crossings and EUR 5 million to implement the national broadband project as one-off future-oriented investments in 2021.

A general increase of EUR 20 million, targeted at climate policy measures, will be made to support public passenger transport.

Discretionary government transfers for private roads will be increased by EUR 10 million in 2021–2023, raising the annual total amount of such transfers to EUR 13 million.

An additional EUR 1.25 million will be allocated to archipelago and ferry traffic in 2021–2022 to repair ferry traffic quays.

The transfer to the State Television and Radio Fund will be EUR 532.1 million per year in the spending limits period.

Ministry of Economic Affairs and Employment

The appropriation level of the main title of Ministry of Employment and the Economy will total EUR 2.9 billion in 2020. The main title appropriations at the end of the spending limits period will be just under EUR 2.5 billion, which is approximately EUR 316 million less than at the beginning of the spending limits period. The appropriations include one-off additional investments of EUR 147 million in 2020, EUR 114 million in 2021 and EUR 7 million in 2022.

Appropriations allocated to renewal and low-carbon solutions will be just over EUR 915 million in 2020, from which they will decline in the spending limits period from to EUR 792 million. Business Finland's grant authorisations will grow in the spending limits period from EUR 328 million to EUR 343 million. The increases in accordance with the new Government Programme will be EUR 34.5 million in 2020, EUR 36 million in 2021, EUR 37.5 million in 2022 and EUR 49.5 million in 2023, to be used for billion-euro ecosystems and innovations as well as Talent Explorer activities. In addition, Business Finland's grant-based financing will be increased by EUR 55 million in 2020 and EUR 45 million in 2021 to support business-driven research, development and innovation activity, EUR 18 million in 2020 and EUR 17 million in 2021 for circular economy investments and innovations, EUR 12.35 million in 2020 for production aid to the audio-visual sector, and EUR 2.2 million in 2020 and 2021 for the sector-specific growth package. Business Finland's loan authorisations will be just under EUR 147 million per year.

The energy subsidy authorisation will be EUR 110 million in 2020, EUR 130 million in 2021, EUR 125 million in 2022 and EUR 35 million in 2023. Of the authorisation, a total of EUR 90 million has been allocated in 2020–2022 to support coal replacement investments in accordance with the Government Programme. In addition, EUR 40 million in 2020 and EUR 60 million in 2021 and 2022 has been allocated to support demo projects for transport biofuels. EUR 5 million will be allocated in 2020 and 2021 to the implementation of the national biogas programme.

Employment and entrepreneurship appropriations will decrease in the spending limits period from EUR 822 million to EUR 687 million. The decrease in the appropriation level is explained mainly by the cessation in 2021 of temporary compensation support for the indirect costs of emissions trading, which will reduce spending limits expenditure by EUR 121 million. As negotiations on the EU multiannual financial framework are still in progress, EUR 352 million from 2021 has been assumed for

the EU Structural Funds annual funding authorisation, which is close to the average funding level of the current EU financial framework period. The payment appropriation for the Structural Funds will decrease in the spending limits period by EUR 41 million. An annual EUR 6 million is allocated to the continuation of the regional transport subsidy. EUR 20 million in 2020 and EUR 10 million in 2021 will be allocated to supporting sustainable growth and vitality of the regions, agreement-based cooperation and regional development projects.

The appropriation for public employment and business services will be EUR 288–306 million in the spending limits period. In accordance with the Government Programme, EUR 143 million has been transferred from item's appropriation to the main title of the Ministry of Social Affairs and Health to finance active use of unemployment benefits. Wage subsidy appropriations have been increased by a total of EUR 20 million at the 2023 level, of which EUR 10 million in 2020, EUR 13 million in 2021 and EUR 16 million in 2022 and in 2023 will be allocated to public employment and business services. The increase will also be allocated to the operating expenditure of Centres for Economic Development, Transport and the Environment (ELY Centres) for wage subsidy payment duties (20 person work-years) and to the operating expenditure of Employment and Economic Development Offices (TE Offices) for developing the digitalisation of wage subsidy payment processes. EUR 5.5–6.6 million in 2020–2022 has been allocated to the main title of the Ministry of Economic Affairs and Employment for the implementation of the working capacity programme for people with partial working capacity, and EUR 9 million in 2021 for a recruitment subsidy trial for SMEs.

The operating expenditure of TE Offices will be EUR 196 million in 2020, from which it will decrease to EUR 177 million in 2023. In accordance with the Government Programme, operating expenditure has been increased by EUR 5 million in 2020, EUR 10 million in 2021 and EUR 9 million in 2022 and in 2023 for regular interviews and promoting the youth guarantee. In addition, operating expenditure includes an increase of EUR 8 million in 2020–2022 for occupational choice and career guidance, digital services, developing the administration of employment services and personnel skills, enabling various individual services for the unemployed. An additional appropriation of EUR 10 million for 2020 has been allocated to complete the TE digitalisation project.

A total of EUR 13 million in 2020, EUR 19 million in 2021, EUR 24 million in 2022 and EUR 29 million in 2023 will be allocated to an international growth programme. Of this, EUR 13.5 million at the 2023 level will be allocated to the operating expenditure of Business Finland for international network and Talent activities, to which an annual additional authorisation of EUR 6.5 million will be allocated for Business Finland grants. An SMEs growth programme will be launched, to which will be allocated EUR 4 million in 2020, EUR 3 million in 2021 and in 2022, and EUR 4 million in 2023. To support the sustainable growth and vitality of the regions, an appropriation rising to EUR 3 million will be allocated to Talent Hub activities. EUR 1 million will be allocated to enhancing the processing of work permits and EUR 2 million to an operating model for international recruitment.

The interest and other subsidies for export and ship credits receiving public support will increase by EUR 9.6 million in 2020 and EUR 23–26 million in 2021–2023 compared with the previous spending limits decision. The increase is due to changes in the level of interest rates.

An appropriation of EUR 12.6 million in 2020, approximately EUR 10 million in 2021–2022 and EUR 4.2 million in 2023 will be allocated to promoting the integration and employment of immigrants. Funding totalling EUR 8 million in 2020 and EUR 6 million in both 2021 and 2022 will be allocated from the appropriation to expanding municipalities' multidisciplinary centres of expertise and to counselling and advice points for immigrants.

In accordance with the Government Programme, the annual number of quota refugees will be increased by 100 people to 850 people. As a result, integration education and training appropriations will be increased by EUR 330,000 per year and central government compensation for integration by EUR 0.5 million in 2020, EUR 1.6 million in 2021, EUR 2.6 million in 2022 and EUR 3.6 million in 2023.

The operating expenditure of the Ministry of Economic Affairs and Employment has been increased by EUR 0.5–1.0 million per year for use in the preparation, implementation and monitoring of the strategy programme for the circular economy.

The operating expenditure of the Finnish Competition and Consumer Authority will be increased by EUR 1–1.5 million per year to boost its competition and consumer supervision resources and EUR 0.65 million in 2020–2022 to implement the EU Cooperation Regulation. An increase of EUR 0.3–0.5 million will be allocated to the discretionary government transfer for the Consumers' Union of Finland to enhance consumer information.

Ministry of Social Affairs and Health

The appropriation level of the administrative branch of the Ministry of Social Affairs and Health will fall from EUR 14.8 billion in the 2020 budget proposal to EUR 14.6 billion by the end of the spending limits period. In addition to the implementation of the Government Programme, the appropriation level is affected by cyclical factors, such as changes in the unemployment rate and demographic structure.

With regard to the need for changes in legislation in accordance with the Government Programme, a temporary increase of EUR 1.2 million in 2020–2021 is proposed for the Ministry's resources for drafting legislation. An increase of EUR 1.0 million is proposed for 2020.

A total of EUR 0.5 million in 2020–2023 is proposed for a Gender Equality and Equal Pay Programme. The appropriation will be allocated to the preparation a broadly based Action Plan for Gender Equality to coordinate measures for achieving a gender equal society in various sectors. Incentive traps for people on disability pension will be removed by taking into use in 2022 a linear model for partial disability pension, the cost impact of which will be EUR 8 million.

The implementation of the Healthcare Growth Strategy will be supported by securing the development in the spending limits period of national centres of excellence (National Genome Centre, National Comprehensive Cancer Centre, Neuro Centre, National Pharmaceutical Development Centre and biobank activities).

A total of EUR 5.7 million will be allocated in the spending limits period to resources for the start-up stage of the activities of the new licensing authority, which will administer the use of healthcare and social welfare data.

The transfer of duties relating to health care devices and equipment from the social affairs and health sector's National Supervisory Authority for Welfare and Health (Valvira) to the Finnish Medicines Agency (FIMEA) has been taken into account from 2020.

Basic social security and the pension of those receiving the lowest pensions will be increased. The position of families with children will be improved by increasing the single parent increment to the child benefit as well as the child benefit payable for the fourth and each additional child. The child maintenance allowance will also be increased. It is proposed that all of the increases will enter into force from the beginning of 2020. EUR 25 million will be allocated from 2021 to implementing the family leave reform.

The activities of the Finnish Student Health Service will be expanded also to cover students of the universities of applied sciences from 2021. A central government funding contribution of EUR 65.8 million at the 2021 level will be allocated to funding these activities.

From 2021, undocumented people will gain the right to essential health services, and the sharing of costs of the involuntary care of people without a municipality of residence will be clarified. The cost in the year of entry into force will be EUR 2 million and on an annual level EUR 3 million.

Funding the wage subsidy from unemployment benefit items will be continued.

It is proposed that EUR 440.7 million be allocated to the operating costs of the Social Insurance Institution of Finland (Kela) for 2021. Operating costs have grown due to, among other things, the transfer of new duties to Kela.

The level of the front-line veterans' rehabilitation appropriation has been set such that the level of the annual appropriation available for rehabilitation will secure for veterans the provision of services to the elderly. Due to a reduction in the number of veterans, the appropriation requirement will fall from EUR 175.2 million at the beginning of the spending limits period to EUR 130.7 million at the end of the spending limits period. The appropriations take into account a reform that enters into force on 1 November 2019 whereby all war veterans will receive the same services provided at home as disabled war veterans.

An increase of EUR 4 million in accordance with the Government Programme for social sciences research will be made in 2020 to central government reimbursement for the funding of university-level health research paid to health care units, which will increase the appropriation level to EUR 25 million per year.

To investigate and prevent sexual crimes against children, support for the introduction of the Children's Advocacy Centre operating model will be continued with grants, first for those university hospitals where it has not yet been adopted, and thereafter for other hospital districts.

An appropriation totalling EUR 420 million for 2020–2022 has been allocated to the development of health and social services and other activities. The objective is, for example, to improve access to services. Development projects will focus on:

- Securing access to basic-level services through, for example, shorter maximum waiting times for access to care, and coordinating the client's path between social services and health services
- Improving the care and nursing of older people by preparing a cross-sectoral programme on ageing and a statutory minimum staffing level for care personnel and by developing informal care, home care and family services
- Preparing a national cross-sectoral mental health strategy and a national strategy for children
- Piloting personal budgets for people with intellectual disabilities and piloting free contraceptives to everyone under the age of 25
- A working capacity programme for people with partial working capacity
- Developing the service structure to secure the second national language.

A general increase of EUR 2 million will be made in the spending limits period for developing the national immunisation programme.

A general increase of EUR 2 million will be made in 2020 and a further general increase of EUR 1 million in 2022 for funding shelters for victims of domestic violence. The item appropriation will rise to EUR 24.6 million. The capacity of the shelter network will be increased through an additional appropriation.

A general increase of EUR 0.5 million will be made in 2020–2022 to the appropriation for social services' centres of expertise. The item's appropriation will rise to EUR 2.75 million.

Legislation on provision of relief services will be reformed from 2021, and EUR 6 million per year from the entry into force of the changes has been allocated to expenditure increases arising from the changes. A total of EUR 4 million in 2021–2022 is proposed for the 'Consideration for farmers' project, which supports agricultural entrepreneurs' ability to cope.

The appropriations of agencies and institutions take into account an additional appropriation of EUR 1.5 million from 2020 for the strengthening resources of labour protection and foreign labour supervision.

For more comprehensive information on basic public services organised by the municipalities and their funding, see Chapter 6 Local government finances.

Ministry of the Environment

The overall level of the appropriations of the main title of the Ministry of the Environment will decrease during the spending limits period from EUR 278 million to EUR 205 million. The decrease in the appropriations is explained particularly by an increase in appropriations allocated to nature conservation at the beginning of the spending limits period, which partly include one-off increases. The administrative branch of the Ministry of the Environment also includes the Housing Fund of Finland and the Oil Protection Fund, which are funds outside the State budget and the spending limits.

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

An effort will be made to increase housing construction in growing urban areas, with the aim of meeting housing demand, moderating the cost of housing and facilitating labour mobility. Forward provision will be made to allocate up to EUR 15 million per year to public utility grants related to land use, housing and transport (MAL) agreements and up to EUR 30 million per year to start-up grants for affordable housing construction. The aforementioned grants will be made provided that new MAL agreements are concluded. Investment grants for special groups amounting to EUR 90 million per year in 2021–2023 will be provided by the Housing Fund of Finland to support the improvement of housing supply for the most vulnerable groups. Older people's ability to live at home, building inspections and the retro-fitting of lifts will be supported in the spending limits period with repair grants, to which will be allocated EUR 33.5 million in 2021, EUR 36.5 million in 2022 and EUR 21.95 in 2023. Of the appropriation, EUR 5.9–6.35 million annually will be funded from the budget, the remainder from the Housing Fund of Finland. A total of EUR 1.7 million per year will be allocated to architectural heritage grants in the spending limits period.

A new suburban development programme will be financed with a total of EUR 21 million in 2020–2022 from the Housing Fund of Finland. EUR 100 million will be allocated in 2020–2022 to an energy aid scheme for housing companies. A maximum of EUR 25 million up to 2022 will be allocated to supporting the renovation state-subsidised ARA housing to be more suitable for older people. Adjustment of the ARA housing stock in areas with shrinking populations will be supported by

increasing, on a one-off basis, both the demolition subsidy and the authorisation to make arrangements with creditors by EUR 5 million per year up to 2022.

Appropriations will be directed to measures promoting the bioeconomy and the circular economy and to the development and implementation of the climate and energy policy. A total of EUR 2.7 million in 2021–2023 will be allocated to implementing a strategic circular economy promotion programme to be prepared. This appropriation is intended to cover development work and projects aimed at promoting the circular economy. A total of EUR 0.45 million in additional funding will be allocated in the spending limits period to maintain more comprehensive reporting and monitoring of waste data. In addition, one-off funding totalling EUR 2 million in 2020–2021 will be allocated to reporting waste data and developing a database. Approximately EUR 0.2 million per year has been allocated for the maintenance costs of waste and side-stream information platform Materiaalitori in 2020–2022, after which operational costs are intended to be covered by fees. Waste management will be developed in accordance with the National Waste Plan and the reformed waste legislation will be implemented more efficiently.

A total of EUR 3.73 million will be allocated in 2021–2023 to enhancing climate policy, which includes municipalities' climate work and the Climate Panel. The activities of the Climate Panel will be enhanced, in particular, by the work of a secretariat supporting the panel.

In the protection of the Baltic Sea and inland waters, the implementation of the waterways and marine management action programmes as well as the nutrient recycling programme will be continued and resources again directed at reducing loading of nutrients and harmful substances and protecting groundwaters. The waterways protection enhancement programme, launched in 2019, will be continued and a total of EUR 39 million will be allocated to its implementation in 2021–2023. This appropriation is intended to improve waterways protection in agriculture and forestry, to carry out waterways rehabilitation and strengthen expert networks, to invest in urban waterways management and the reduction of harmful substances, to remove oil from wrecks in the Baltic Sea, and to fund research on the Baltic Sea and its waters.

The decline in biodiversity in Finland has continued and recent assessments suggest that nearly half of Finland's biotopes and approximately 12% of species are endangered. According to the Government Programme, Finland will achieve the goals of the UN Convention on Biological Diversity. As a result, funding for nature conservation will be increased during the parliamentary term. A favourable biodiversity status will be secured by 2030 by launching an action plan to improve the condition of habitats and by enhancing other measures to protect endangered species and biotopes. Additional funding will be allocated to Metsähallitus Nature Services to improve, restore and manage the natural state of nature reserves. The recreational use of nature and nature tourism, which has a positive impact on employment and local economies, will be promoted through good management of national parks and other nature reserves that attract high numbers of visitors. Implementation of the Forest Biodiversity Programme for Southern Finland (METSÖ) will continue, and efforts made to bring nationally valuable bogs also within the scope of protection. Appropriations will be increased for nature conservation during the spending limits period: the increase in appropriations in the administrative branch of the Ministry of the Environment will vary, due to one-off increases, from approximately EUR 100 million to EUR 43 million.

For organisations that own residential buildings, EUR 5.5 million is earmarked in 2021 for constructing infrastructure for charging electric cars. The clean-up of contaminated soils will be promoted in accordance with the National Risk Management Strategy for Contaminated Land and the related remediation programme. Waste management will be developed in accordance with the National Waste Plan and the reformed waste legislation will be implemented more efficiently.

5.3.2. Central government joint information system projects and administration

Key information system projects

In the spending limits, approximately EUR 20 million in 2020 and approximately EUR 23 million annually in 2021–2023 has been allocated for key information system and information management projects as well as other productivity projects in the administrative branches.

The key information system projects under way include the Ministry of Agriculture and Forestry's digital forest management recommendations, the renewal of the Natural Resources Institute's forest calculation software, the updating of the National Institution for Health and Welfare's prisoners healthcare patient system, the modernisation of the Finnish Medicines Agency's health technology and gene technology registers, the renewal of Valvira's alcohol trade register, the Ministry for Foreign Affairs national visa information system, central government's digital desktop and common case management system, the Finnish Immigration Service's smart digital agency, the Police's multi-biometric identification system, the complete modernisation of customs clearance systems, the Legal Register Centre's information system for the authorities, the ERP and document management system of administrative and special courts of law, the Prosecution Service and general courts of law as well as the upgrading of the Population Register Centre's population information system.

The proposed funding will only be incorporated into annual budgets provided that the project plans are sufficiently detailed with respect to project feasibility as well as costs arising and costs saved and that, in significant information system projects, the Ministry of Finance expresses an opinion supporting the advance of the project as required under the Act on Information Management Governance in Public Administration (634/2011) and the Government Decree (1249/2014), and in the future the Information Management Act (906/2019). The Ministry of Finance will conclude a cooperation agreement with respect to projects receiving funding with each relevant ministry.

Development of public sector ICT

High-quality, reliable, and accessible digital services will be secured for everyone. The activities of a proactive digital society will be supported with a strategic information policy and reformed information management legislation. During the spending limits period, the strategy of opening up and utilising public information will be implemented and strong authentication will be developed in public services. Citizens and businesses will participate in the development of public services. Development work will promote the utilisation of artificial intelligence and study the potential and impact of other new technologies on the provision of public services.

Security will be emphasised as a prerequisite of digitalisation. The implementation of digital security policies and the Development Programme for Digital Security in Public Administration will ensure that public sector digital services function efficiently and are trusted. Development will focus on leadership and risk management, skilled personnel, new operating practices and the security of services. Citizens' everyday security will be enhanced through a mobile public sector communications service, which will ensure for public authorities trouble-free and reliable communications in all situations.

Financial and HR administration

The productivity of central government financial and HR administration will be improved by continuing the voluntary centralisation of tasks in the Government Shared Services Centre for Finance and HR

(Palkeet Centre) and by developing operating practices and central government's shared financial and HR administration information system.

Financial and HR administration operating practices will be enhanced by taking into use new services and by automating existing Palkeet Centre services. Development and automation of production processes will be continued by, among other things, expanding the use of robotic process automation. The benefits of the Handi solution, which has been introduced in all central government agencies and institutions, will be realised by enhancing the ordering and invoicing process. The Ministry of Finance and Palkeet Centre will cooperate in a project developing the central government HR administration. The aim of the project is to boost the efficiency of HR functions by 304 person-years by 2029. Palkeet Centre will further develop the accessibility and functionality of the Kieku information system, which will be updated in accordance with the system architecture development plan prepared in 2019.

Developing central government procurement

The efficiency and productivity of public procurement will be improved, such that from September 2019 Hansel Oy, jointly owned by central government and the municipalities, will expand its customer base and services, particularly in the local government sector, and enhance the development of public procurement. The key development areas of procurement activity include, in addition to digitalisation, developing the collection and analysis of procurement information so that procurement activity can be steered and its results assessed better.

To ensure the quality and cost-efficiency of procurement, the Ministry of Finance will establish in September 2019 an action plan to promote the effectiveness of public procurement in cooperation with the Association of Finnish Local and Regional Authorities. The aim of the plan is to implement in a coordinated way the objectives set out for public procurement in the Government Programme in cooperation with various administrative branches as well as the municipalities and autonomous regions. To implement the plan, the broadly-based cooperation forum Hankinta-Suomi was established and a joint public procurement strategy for Finland prepared.

Central government premises investments

In central government premises, the objective is zero tolerance of indoor air problems. This goal requires the standard of renovations in state-owned properties to be raised. The current programme aimed at improving the efficiency of central government premises use will be continued from 2023 to the end of 2029, with the aim of achieving additional savings of EUR 50 million.

Impact of digitalisation and productivity on central government operating expenditure

Through digitalisation of central government activities and improved productivity, all operating expenditure of the central government will be reduced by 0.5% annually from 2020. This figure will be based on each administrative branch's operating expenditure, from which expenditure on premises would be deducted (a 0.3% target applies to the administrative branches of the Ministry of Justice, the Ministry of the Interior and the Ministry of Defence as well as the operating expenditure of Customs).

5.4. On-budget revenue

Actual on-budget revenue is expected to grow in the spending limits period by an average of approximately 2% per year. Tax revenue is expected to grow by an average of approximately 2½% per year. Tax revenue accounts for approximately 86% of actual on-budget revenue. In 2020, on-budget revenue is expected to be EUR 55.6 billion.

Central government on-budget revenue estimates are based on an estimate of the medium-term development of the economy⁶. Economic growth will slow towards the end of the spending limits period, which will be reflected in a weakening of tax base growth. The revenue estimates of the spending limits period have taken into account the tax criteria changes decided in the Government Programme.

Tax criteria changes

The tax criteria changes presented in the Prime Minister Rinne's Government Programme have been taken into account in the tax revenue forecasts. One objective of tax policy is to secure Finland's tax base and the funding of the welfare state. The tax base will be strengthened and indirect taxes, in particular, will be increased during the parliamentary term. As part of the tax reform for sustainable development, emissions guidance in energy production will be increased by abolishing during the parliamentary term the energy tax rebate mechanism for energy-intensive industries and reducing category II electricity tax towards the minimum rate allowed by the European Union. In addition, taxation of off-road work machine and heating fuels will be increased by EUR 100 million and taxation of transport fuels by EUR 250 million during the parliamentary term. Energy tax revenue will be increased by the phasing out of tax subsidies for paraffinic diesel during the parliamentary term. To compensate for increases in indirect taxes, the earned income taxation of those on low and middle incomes will be eased by approximately EUR 200 million in 2020.

Some of the tax criteria changes will enter into force gradually during the parliamentary term. The significant tax-increasing measures will affect indirect taxes. Tax revenue in the spending limits period will also be affected by certain decisions made in the previous parliamentary term that will enter into effect in 2020. In accordance with the Government Programme, the municipalities will be compensated for the tax revenue impact of changes made by the Government to tax criteria.

The table below presents an estimate of the impact of tax criteria changes on central government tax revenue on an annual basis. The impact of tax criteria changes on cash-based tax revenues of each year depends on the precise timing of the entry into effect of the changes and the magnitude of the time delay in tax accrual. The impact of tax criteria changes on the cash accrual of central government revenue will therefore be smaller than the annual level estimate in the year of entry into force.

In addition to the tax criteria changes included in the General Government Fiscal Plan, it was agreed in the Government budget session for 2020 that the Government will investigate and prepare a proposal on allowing double depreciation for a fixed term of four years to encourage investment in machinery and equipment. In addition, the Government will initiate a study on the possibility of submitting a proposal for a temporary incentive for research cooperation. The goal is for the reforms to enter into force in 2020. Both reforms would reduce corporate tax revenue.

Table 7. Annual impact on central government tax revenue of the main tax criteria changes, EUR million

	2020	2021	2022	2023
Index adjustment of earned income taxation	-275	-279	-270	-270
Continuation of solidarity tax	109			
Elimination of deductibility of interest payments on home loans	15	8	8	8

⁶ After the Government budget session, the forecast has taken into account, among other things, data published by Statistics Finland on 20 September 2019 (e.g. national accounts time series update), which does not result in any substantial need to change revenue estimates.

	2020	2021	2022	2023
Reduction of the domestic work credit	52			
Increase in tax on tobacco tax	50	50	50	50
Increase in tax on alcohol		50		
Increase in tax on soft drinks	25			
Increases in fuel taxes (1 August 2020)	250			
Increase in electricity tax for mines to category I		22		
Increase in tax on heating fuels (technical assumption)		33	33	33
Elimination of tax subsidy for paraffinic diesel		70		50
Elimination of tax exemption of low-value products imported from outside the EU		40		
Tax concession for personnel share issues		-6		
Reduction in earned income taxation of people on low- and middle-incomes	-54			
Continuation of Key Personnel Act	13			
Raising of lower limit for value-added tax to EUR 15,000		-20		
Heat pumps and data centres generating heat for district heating networks to category II electricity tax		-7		
Lowering of category II electricity tax as part of arrangement where tax rebates for energy-intensive companies will be abolished (technical assumption)		-111	-111	
Reduction in motor vehicle tax ⁷	-50			

Development of tax revenue 2019–2023

The **earned and capital income tax** base is expected to grow in the spending limits period by an average of approximately 3.0% per year. Tax base growth is expected to slow slightly towards the end of the period. Earned income is expected to grow by an average of around 3.2% and capital income by 1.9%. Pension income will grow more quickly than wage income as the number of those of pensionable age grows and the pension system matures. The revenue estimates of earned and capital income tax have been taken into account in entries of Prime Minister Rinne's Government Programme.

Corporate tax revenue as a whole is expected to increase in the spending limits period by an average of around 3.6% per year, corresponding to the growth of the operating surplus according to national accounts. Tax base growth is expected to slow slightly towards the end of the spending limits period. Corporate tax revenue is sensitive to business cycles. Changes in economic growth and corporate earnings may lead to an accumulation of significant changes.

The **value-added tax** base is projected to grow in the spending limits period on average by 3.0% per year. This forecast is mainly based on estimates of growth in household consumption expenditure. Tax revenue will be reduced slightly by a reduction in the tax rate for electronic books and magazines and for single-copy sales from the standard rate to a 10% rate from July 2019, the opportunity for artists to apply to become liable to VAT liable from April 2019, and the possible raising of the lower limit for VAT liability from the beginning of 2021. Tax revenue will be increased slightly by the abolition from the beginning of 2021 of the tax exemption for products valued at less than EUR 22 imported from outside the EU.

Overall, revenue from **excise duties** is projected to grow in the spending limits period by an average of around 0.4% per year, mainly due to increases in tobacco tax, alcoholic beverage tax, soft drinks tax and

⁷ Change made in the previous parliamentary term

energy taxes. The rate of growth of revenue from excise duties will be dampened by the lowering of category II electricity tax as part of an arrangement where tax rebates for energy-intensive companies will be abolished as well as the growing use of more lightly taxed biofuels through the biofuels distribution obligation.

Car tax revenue is projected to fall by an average of around 2.7% per year. This due to an expected reduction in vehicles' carbon dioxide emissions during the spending limits period. The amount of car tax depends on the general retail sales value of a car in the Finnish market as well as on the car's carbon dioxide emissions rating, so reducing the emissions rating lowers the tax percentage of new cars. The number of new passenger cars sold is projected to grow during the spending limits period by approximately 7,000 cars to 115,000 cars.

Motor vehicle tax revenue is projected to grow by an average of around 0.3%. Tax revenue growth will be dampened by a reduction in motor vehicle tax, which entered into force from the beginning of 2019 and will be applied for tax days beyond the start of 2020. The tax reduction will cut motor vehicle tax revenue by approximately EUR 50 million, of which EUR 15 million will be realised in 2019, as motor vehicle tax is levied in advance for a 12-month tax period.

Other on-budget revenue

Miscellaneous revenue is projected to grow in the spending limits period by an average of 0.4% per year. This increase is explained by the development of transfers made from the State Pension Fund related to pension expenditure in the budget. The dividend income estimate for each year is slightly more than EUR 1 billion, which is, on average, approximately EUR 200 million less than the actual figure for current parliamentary term. The central government borrowing requirement will be reduced by proceeds made available from sales of shares. Proceeds from sales of shares will include, in addition to an annual EUR 400 million, sales related to financing of future-oriented investments. During the parliamentary term, future-oriented investments will be financed with sales of shares totalling EUR 1.3 billion.

Table 8. Ministry of Finance estimate of ordinary on-budget revenue in 2019–2023, EUR billion

	2019	2020	2021	2022	2023	2019–2023 average annual change, %
	Budget					
Total tax revenue	46.0	47.1	48.7	49.8	51.1	2.7
— taxes on earned and capital income	10.3	10.7	10.9	11.3	11.6	3.0
— corporate tax	4.3	4.5	4.7	4.8	4.9	3.4
— value-added tax	18.8	19.4	20.3	20.8	21.4	3.3
— excise duties	7.5	7.6	7.7	7.6	7.6	0.4
— other tax revenue	5.0	5.0	5.2	5.3	5.5	2.1
Miscellaneous revenue	5.8	5.9	5.7	5.8	5.9	0.4
Interest earned, income from share sales and profit recognised as income	2.1	2.5	2.1	1.9	1.7	-4.4
— Dividend income and proceeds from sales of shares	1.8	2.2	1.8	1.6	1.4	-5.0
Total revenue¹	54.0	55.6	56.7	57.6	58.8	2.2

¹⁾ Including repayment of loans granted by central government.

5.5. Central government on-budget balance and debt

The central government on-budget deficit is projected to be approximately EUR 2.0 billion in 2020. By 2023, the deficit will grow to approximately EUR 4.0 billion.

Compared with the spring 2019 technical General Government Fiscal Plan, the on-budget balance will deteriorate by an average of approximately EUR 0.4 billion per year. Growth in the deficit is explained, in particular, by permanent additional expenditure decided by the Government, which will be front-loaded during the spending limits period relative to how tax criteria changes that increase tax revenue have a positive impact on revenue estimates. The weakening of the economic development forecast has a similar impact, mainly through lower tax revenue estimates. The significant lowering of central government debt interest expenditure through the new interest rate forecast has an opposite impact.

Central government debt is assumed to grow to approximately EUR 109 billion in 2020. The central government debt-to-GDP ratio will rise throughout the parliamentary term. Central government debt is expected to be approximately EUR 121 billion in 2023, which is approximately 45% in ratio to GDP.

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

Table 9. Ministry of Finance estimate of on-budget balance in 2019–2023, EUR billion, at current prices

	Budget 2019	Budget proposal 2020	2021	2022	2023
On-budget revenue estimate, total ¹	53.8	55.6	56.7	57.6	58.8
On-budget expenditure estimate, total, at current prices ²	55.5	57.6	60.6	61.5	62.8
On-budget balance estimate	-1.7	-2.0	-3.9	-3.9	-4.0
Central government debt-to-GDP ratio, %	44	44	44	44½	45

¹⁾ Including repayment of loans granted by central government.

²⁾ Expenditure converted into current prices using the Ministry of Finance central government expenditure price index projection, which provides a rough estimate of price trends over the spending limits period.

5.6. Off-budget central government finances

Central government in the national accounts

In the national accounts, the central government sector includes, alongside central government on-budget finances, the central government funds that are external to budget finances (excluding the State Pension Fund, which is placed under the earnings-related pension fund sector in the national accounts) as well as the universities, university real estate companies, Business Finland Oy, Business Finland Venture Capital Oy, Gasonia Oy, Governia Oy, HAUS Finnish Institute of Public Management Ltd, Hansel Oy, Hetli Oy, Leijona Catering Oy, the Counties' Service Centre for Facilities and Real Estate Management Maakuntien tilakeskus Oy, Senate Properties, Solidium Oy, Sotedigi Oy, Suomi Malmijalostus Oy, Finnish Industry Investment Ltd, State Business Development Company Vake Oy, Vimana Oy, Tapio Oy, VTT Technical Research Centre of Finland Ltd and the Finnish Broadcasting Company YLE.

The central government funds are the Housing Fund of Finland, the Development Fund of Agriculture and Forestry, the National Nuclear Waste Management Fund, the National Emergency Supply Fund, the

State Guarantee Fund, the Financial Stability Fund, the State Television and Radio Fund, the Agricultural Intervention Fund, the Fire Protection Fund and the Oil Protection Fund.

Central government transfers to VTT will amount to just over EUR 87 million in the spending limits period 2020–2023.

Overall funding of universities comprises appropriations allocated to universities in the budget and supplementary funding, which includes income from paid services, donations and sponsoring.

Since 2013, central government funding of the Finnish Broadcasting Company Yle has been based on a transfer of appropriations covered by the public broadcasting tax to the State Television and Radio Fund, which passes them on to YLE. In a report completed in 2016, a parliamentary working group proposed that no index adjustment be made in 2017–2019. An index adjustment was carried out in 2019, however, and thereafter the index adjustment provision will be adhered to as set out in the Act on the State Television and Radio Fund.

The investment company Solidium Oy is a limited company wholly owned by the central government whose task is to strengthen and stabilise Finnish ownership in companies of national importance. The company's equity portfolio consists of 12 listed companies in which Solidium has a minority interest. Solidium's Board of Directors makes investment decisions independently on the basis of analyses and proposals prepared by management. In 2017, revenue recognised by Solidium totalling EUR 585 million was remitted to central government revenue in two instalments, and the corresponding figure for 2018 was EUR 351 million. In the second half of last year, Solidium Oy's revenue stream began to fall, and revenue for the full year was down by 13.1%. At the end of 2018, the value of Solidium Oy's holdings was EUR 7 billion.

Founded in 2016, the State Business Development Company Vake Oy is a central government special assignment company whose task is to ensure that capital invested by the central government in companies is actively circulated and also to create value in the companies it owns. Vimana Oy, a service centre for the counties, was established in 2017 to produce and provide digitalisation and ICT services to the counties. Sotedigi Oy is a central government special assignment company founded in 2017 which develops national client and patient information system solutions as well as other new digital solutions for healthcare and social welfare.

In other respects, state ownership policy is the responsibility of the Government Ownership Steering Department of the Prime Minister's Office, in which the ownership steering of companies operating on a commercial basis is centralised. The department's responsibilities also include preparing general policy on state holdings and ownership steering practices and coordinating ministerial cooperation on ownership steering.

Off-budget funds

The taxes and tax-like revenue of funds will be increased by Nordea's decision to transfer the bank's domicile to Finland, and this will be reflected in the contributions received by the Financial Stability Fund. Growth in pension contributions received by the State Pension Fund will be constrained by a reduction in the number of personnel employed by central government. At the same time, transfers from the State Pension Fund to the budget will be increased to cover the central government's growing pensions expenditure. Most of the loans granted by funds and income received from their repayment relates to the activities of the National Nuclear Waste Management Fund. Those with a duty to dispose of waste have the right to receive loans against securing collateral for a fixed period. The Housing Fund of Finland has no longer granted new loans since 2007, as a result of which the decrease in repayments

of loans granted by the Fund has continued. As part of the Government's one-off and temporary future-oriented investments, resources of the Housing Fund of Finland will be allocated to, among other things, new suburban development programme, an energy aid scheme for housing companies, and measures to improve opportunities for older people to remain at home longer. Without financial transactions, the budgetary position of off-budget funds would remain slightly in deficit in the medium term.

Table 10. Central government off-budget funds, EUR million

	2018	2019	2020	2021	2022	2023
Taxes and tax-like revenue, total	168	419	419	422	424	424
Miscellaneous revenue	222	160	104	112	115	114
Pension contributions	1 419	1 414	1 445	1 402	1 425	1 451
Interest earned and profit recognised as income	924	490	482	478	475	472
Transfers from budget	560	522	624	534	534	534
Revenue excluding financial transactions	3 293	3 005	3 073	2 947	2 971	2 995
Repayments of loans granted	1 969	1 938	1 886	2 288	2 266	2 266
Total revenue	5 262	4 943	4 959	5 236	5 237	5 261
Consumption expenditure	141	126	130	138	138	134
Current transfers	779	1 041	1 135	1 034	1 024	1 005
Interest expenditure	1	2	1	1	1	1
Transfers to budget	1 870	1 909	1 948	1 971	2 001	2 034
Other expenditure	13	21	21	5	5	5
Expenditure excluding financial transactions	2 802	3 099	3 235	3 149	3 169	3 179
Loans granted and other financial investments	1 599	1 478	1 894	1 900	1 943	1 989
Total expenditure	4 401	4 577	5 129	5 049	5 112	5 168
Net financial surplus or deficit	862	366	-170	187	126	93

State-owned enterprises

Metsähallitus is a state-owned enterprise whose task is to use, manage and protect the unbuilt land and water assets directly owned by the state. Metsähallitus engages in business operations and attends to statutory public administrative duties funded out of the State budget. Metsähallitus engages in forestry and other market-based business operations through the subsidiaries it owns. The forestry operations of Metsähallitus have been incorporated into a wholly state-owned company Metsähallitus Forestry Ltd. Metsähallitus remits amounts recognised as revenue to the central government from rights of use compensation and dividends. It manages approximately 12.5 million hectares of state-owned land and water areas, with a balance sheet value of approximately EUR 3.8 billion. Of this, the core capital subject to the yield requirement is approximately EUR 2.6 billion. In 2019, the turnover of the Metsähallitus Group was EUR 362.8 million and the annual surplus was EUR 128.8 million. According to the 2020 Budget, Metsähallitus will remit to the central government EUR 138.9 million. By the end of the spending limits period, the recognised revenue received from Metsähallitus is projected to decline to EUR 120 million annually.

Senate Properties is a state-owned enterprise whose task is to provide work environment solutions in keeping with the goals of the Government Premises Strategy for its customers and to improve central government organisations' performance. Senate Properties' business is based on developing work environments and real estate assets, letting premises and providing premises services for its customers. Senate Properties may also provide services to organisations whose activities are funded mainly with

appropriations included in the State budget. Senate Properties operates according to commercial principles. Its assets are owned by the Finnish State and subject to the state-owned enterprise's ownership steering. Senate Properties does not perform public administration tasks or duties as an authority.

Property sales will amount in total to EUR 480 million in 2018–2023. In 2018, Senate Properties recognised EUR 135 million as revenue, but in 2019–2023 the amount recognised as revenue will fall to EUR 35 million per year. Income from letting activity will be adversely affected by a EUR 30 million rent reduction to be implemented from the beginning of 2020. Revenue recognition will also be reduced by investment growth related to the renovation of properties in poor condition in terms of interior air. The company's equity ratio will decrease to 61% at the end of the planning period.

5.7. Sustainable development

The global 2030 Agenda for Sustainable Development sets common goals for sustainable development for all UN member states. Agenda 2030 strives for sustainable development in terms of the economy, human well-being and the environment.

The aim of Prime Minister Rinne's Government Programme "Inclusive and Competent Finland" aims to transform Finland into a socially, economically and ecologically sustainable society by 2030.

A carbon-neutral Finland in the General Government Fiscal Plan 2020–2023

The General Government Fiscal Plan includes appropriations that can be considered to promote the Government Programme's carbon neutrality targets. The appropriations will promote, among other things, the wellbeing of the environment and nature as well as biodiversity by acquiring nature reserves and through development cooperation appropriations. The aim is to reduce emissions by, for example, supporting renewable energy and promoting public transport. Research, development and innovation projects will promote bioeconomy solutions and develop Finland towards a low-carbon society. EU greening support, environmental compensation and promotion of organic production have a significant role in developing agriculture in an environmentally sustainable direction. The appropriations are allocated, in particular, to the administrative branches of the Ministry of Economic Affairs and Employment, the Ministry of Agriculture and Forestry, the Ministry of Transport and Communications, the Ministry of the Environment and the Ministry for Foreign Affairs.

A breakdown of strategic themes according to the Government Programme has been used in classifying the appropriations in the General Government Fiscal Plan that promote carbon neutrality.

Table 11. A carbon-neutral Finland, key measures in 2020–2023 (EUR million)

	2020 proposal	2021	2022	2023
3.1 Carbon-neutral Finland that protects biodiversity	523	571	503	469
3.2 Globally influential Finland	271	277	285	295
3.4 Dynamic and thriving Finland	229	233	215	219
3.4.1 Transport network development and maintenance	292	211	125	107
3.4.2 Measures promoting sustainable development of agriculture	667	703	670	630
Total	1 981	1 996	1 798	1 719

In the General Government Fiscal Plan, the goals relating to carbon-neutrality will be promoted with a total of approximately EUR 2.0 billion in 2020, declining to approximately EUR 1.7 billion in 2023. During the spending limits period, grants for the Western Metro and certain other fixed-term rail projects, in particular, are scheduled for the early part of the period. Increases according to the Government Programme are also skewed toward the beginning of the spending limits, with the temporary future-oriented investments ending in 2022. In addition, the scheduling of rural development funding payments in the upcoming EU financial framework is front-loaded. Of the strategic themes according to the Government Programme, the themes Carbon-neutral Finland that protects biodiversity and Measures promoting the sustainable development of agriculture are clearly the largest.

Taxes

There are a number of taxes that may be considered as promoting the goals of a carbon-neutral Finland. These include, in particular, energy taxes, motor vehicle tax, car tax, excise duty on certain beverage packagings and waste tax. Although these may be considered to be taxes in accordance with sustainable development objectives, they may also include individual tax structures that are both in accordance with and contrary to the objectives.

The levels of these taxes, excluding car tax, are amount-based, so their steering effect will gradually be reduced by inflation during the spending limits period. At the same time, the proceeds from the taxes will account for a declining share of central government revenue. Tax revenue will also be reduced by the projected reduction in fuel consumption as a result of improved energy efficiency and also the shift to more lightly taxed lower emission vehicles and biofuels.

Energy taxes are collected on transport fuels, off-road work machine and heating fuels, and electricity. In addition to the tax revenue they raise, energy taxes boost incentives for energy-efficiency, energy saving and lower-emission energy production.

In addition to taxation of transport fuels, motor vehicle tax and car tax are determined partly on an emissions basis, so they increase the costs of owning and acquiring larger-emission vehicles and therefore encourage a shift towards lower-emission transport.

The excise duty on certain beverage packagings encourages recycling of such packagings. The waste tax is a steering environmental tax, primarily aimed at reducing landfill processing of waste and increasing recycling.

In accordance with the Government Programme, a tax reform for sustainable development will be prepared in 2020–2023, aimed at promoting movement towards carbon neutrality. The tax reform for sustainable development will consist of a reform of energy taxation, a reform of transport taxation, promotion of the circular economy, a study of emissions-based consumption taxation. As part of the promotion of the Government's climate goals, transport fuel taxes will be increased during the parliamentary term in line with the forecast rise in consumer prices by EUR 250 million and off-road work machine and heating fuel taxes by EUR 100 million. Emissions guidance in energy production will be increased by abolishing the energy tax rebate mechanism for energy-intensive industries, reducing the category II electricity tax towards the minimum rate allowed by the European Union and transferring mining to within the scope of the higher category I electricity tax.

As part of the cutting of business subsidies included in the Government Programme, the tax break for paraffinic diesel amounting EUR 120 million will be phased out, as the graduated system of fuel taxation based on the quality of the fuel is no longer justified due to the modernisation of the vehicle stock.

Environmentally harmful subsidies

Environmentally harmful subsidies refer to subsidies that result in an increase in the utilisation of natural resources and the environmental burden in the subsidised enterprise or the subsidised sector. Environmentally harmful subsidies may have positive effects in terms of other policy objectives.

In connection with the 2020 budget proposal, based on earlier reports the total amount of environmentally harmful subsidies was estimated to be approximately EUR 3.5 billion (see Chapter 6 of the rationale of the 2020 budget proposal).

6. Local government finances

The part of the General Government Fiscal Plan relating to local government finances includes a limit for local government expenditure set by central government measures as well as other policy lines of Prime Minister Rinne's Government relating to local government finances and duties. It also includes an examination of the impact of central government measures on local government finances and the medium-term development prospects for local government finances in local government accounting terms. The examination of local government finances presented here is supplemented by the Local Government Finance Programme, which is prepared separately in connection with the General Government Fiscal Plan.

6.1. Local government finance policies

The Government Decree on the General Government Fiscal Plan (120/2014) requires that the General Government Fiscal Plan set a maximum monetary limit consistent with the local government budgetary target for the change in local government operating expenditure arising from central government measures. The local government deficit can be at most ½% in ratio to GDP.

In accordance with the Government Programme, any measures that will result in an increase or decrease in the number of duties or obligations for municipalities and any changes in the tax criteria that will affect local government finances will be compensated in net terms with a 100% modification of the central government transfers and/or the corresponding fixed appropriation, or by removing other tasks or obligations.

Limit on local government expenditure set by central government measures

Under national rules relating to the General Government Fiscal Plan, the Government decides on a limit for local government expenditure set by central government measures. The expenditure limit is a monetary limit for the change in local government operating expenditure arising from central government measures, and it is to be consistent with the budgetary target set by the Government for local government finances. The limit for local government expenditure does not, however, guarantee that the cost effects will be realised at that level in local government finances. Municipalities may themselves decide, among other things, the extent to which they carry out the duties and obligations.

The level of the maximum limit for expenditure takes into account new measures with respect to the technical General Government Fiscal Plan decided on 4 April 2019, which was the basis of the Government Programme. The new measures are included in the General Government Fiscal Plan 2020–2023 and the 2020 Budget Proposal. The Government has decided that its measures will have the net effect in 2023 of increasing local government operating expenditure by a maximum of EUR 520 million compared with the spring technical General Government Fiscal Plan.

Compliance with the limit for local government expenditure set by central government measures is monitored through the annual revisions of the General Government Fiscal Plan. The maximum limit cannot be relaxed from the level set in this General Government Fiscal Plan, but it can be tightened.

In this General Government Fiscal Plan, the limit for local government expenditure set by central government measures takes into account, among other things, the restoration of the subjective right to day care and the reduction of group sizes as well as developing the service structure of health and social services. In accordance with current legislation, a central government transfer covering 100% of the costs will be allocated to municipalities' on new or extended duties and obligations.

Table 12. Limit for local government expenditure set by central government measures 2020–2023, EUR million.

2020	2021	2022	2023
430	510	600	520

Other central government measures impacting local government finances

The municipalities will be compensated for changes made to tax criteria.

Local government finances will also be impacted by certain measures decided by the previous Government. These include measures to enhance the efficiency of specialised medical care and a saving related to the development of informal and family care.

The limit for local government expenditure set by central government measures only includes discretionary measures impacting operating expenditure.

The reform of client fees in healthcare and social welfare will reduce fee income by EUR 45 million. An increase corresponding to this will be made in the central government transfer to local government for basic public services.

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

The joint impact on local government finances of Government measures included in the limit for local government expenditure set by central government measures is estimated to be nearly neutral. Although the Government measures increase local government expenditure, the central government transfers and grants relating to them will grow by nearly as much.

In the spring 2019 forecast, which was the basis of the Government Programme, the local government deficit was 0.7% in ratio to GDP at the 2023 level in national accounting terms. The Ministry of Finance forecast has taken into account the measures impacting local government finances included in this General Government Fiscal Plan and the 2020 budget proposal. The economic outlook and the situation of local government finances have deteriorated relative to the spring, however. According to the updated forecast, the local government deficit will be EUR 3.1 billion, i.e. -1.2% in ratio to GDP, in 2023. Achieving the budgetary target would require a local government adjustment by approximately EUR 1.8 billion at the 2023 level. This will be covered by the municipalities' own adjustment measures and by government-supported productivity measures as well as by measures to strengthen employment, which will boost economic growth and thus tax revenues.

Municipalities' own measures

Municipalities have wide-ranging autonomy, and the balancing of local government finances cannot be ensured by central government measures alone. Therefore, the municipalities also have great responsibility for balancing local government finances, for example by implementing structural reforms and improving productivity. Population ageing, the falling birth rate and the concentration of population in regional centres will weaken the capacity of sparsely populated rural areas, in particular, to organise statutory duties with current funding. The old building stock and demographic trends, in turn, will increase the need for new and renovation construction in municipalities during the parliamentary term. The Government has launched a reform of healthcare and social welfare. In the reform, the intention is transfer from the municipalities to 18 counties the organisation of health and social services as well as rescue services. This will reduce the expenditure pressure on local government finances as a result of population ageing, but it will not remove the need for structural reforms.

6.2. Central government measures impacting local government finances

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

Central government transfers and grants to local government will be approximately EUR 11.6 billion in 2020. Of this, the central government transfer to local government for basic public services will be EUR 7.1 billion and compensation for municipalities' tax revenue losses will be EUR 2.3 billion. If compensation is not taken into account in the central government transfers, the level of the central government transfer to local government for basic public services grows by approximately EUR 600 million compared with 2019. The increase is mainly due to the ending in 2019 of the reduction in the central government transfer associated with the Competitiveness Pact relating to the cutting of holiday bonuses, a revision of the division of costs between central and local government, and an index adjustment.

In 2020, the index adjustment to the central government transfer to local government for basic public services will be approximately EUR 166 million, and index adjustment to the central government transfers of the administrative branch of the Ministry of Education and Culture will be approximately EUR 32 million. The revision of the division of costs between central and local government was made on the basis of actual costs for 2017. It increases the central government transfer to local government for basic public services by EUR 102 million and central government transfers to local government of the administrative branch of the Ministry of Education and Culture by EUR 11.6 million.

EUR 10 million of the appropriation for central government transfers to local government for basic public services may be allocated to a discretionary increase of the central government transfers. In addition, EUR 10 million of the appropriation intended for supporting municipal mergers financially may be used as discretionary merger support for municipalities that are facing, or about to face, a crisis. This appropriation is a transfer from the central government transfer to local government for basic public services.

From 2020, EUR 40 million of the central government transfer to local government for basic public services will be allocated to the incentive scheme for digitalisation in municipalities, i.e. EUR 10 million more than in 2019.

In accordance with the Government Programme, EUR 7.1 million in 2020 and EUR 17 million from 2021 is proposed for the extension of the subjective right to early childhood education. It is proposed that the central government transfer for reducing group sizes in early childhood education will be increased by EUR 6.7 million in 2020 and by EUR 16 million per year from 2021. It is proposed that EUR 2 million from 2020 be allocated to support for families and the diversity of life situations. The

central government transfer relating to the conversion of Vaasa Central Hospital into a hospital providing extensive emergency care service will be increased by EUR 1 million.

EUR 5 million for 2020 and EUR 14.5 million from 2021 onwards is proposed to reinforce and improve the quality of the schools' morning and afternoon activities.

In 2021, the central government transfer to local government for basic public services will be increased by EUR 45 million in connection with the reform of the Act on Client Charges in Health and Social Services. In 2022, the central government transfer will be increased by EUR 10 million in connection with the extension of the national screening programme, and by EUR 9 million in connection with the tightening of the minimum staffing level in child protection services.

The Government is preparing a health and social reform in which organisation of health and social services as well as rescue services will be transferred to the counties. A number of reforms of the administrative branch of the Ministry of Social Affairs and Health are intended to be implemented from 2023 via the financing item of the counties in connection with the health, social services and regional government reform. These reforms include raising the minimum staffing level for care personnel, improving access to basic-level services (shorter maximum waiting times for access to care), increasing home care resources and the development of informal care, a national mental health strategy, the continuation of the programme to address child and family services, and the comprehensive reform of the Act on Disability Services and Assistance. In 2020–2022, it is proposed that some of these measures be implemented with discretionary government transfers. A total of EUR 208.6 million will be allocated to them in 2023.

EUR 10 million in 2020, EUR 8 million in 2021 and EUR 5 million in 2022 is proposed for the development of child and family services and for the continuation of the programme to address child and family services.

EUR 1.5 million will be allocated to improve the services for mothers engaged in substance abuse and EUR 2.5 million per year is proposed for piloting personal budgets for people with intellectual disabilities in 2020–2021. It is proposed that EUR 5 million per year be allocated in 2021–2022 to pilot free contraceptives to everyone under the age of 25. This is expected to be made permanent in the 2022 budget session.

It is proposed that EUR 2 million be allocated to the home care development project and that EUR 2 million per year be allocated to developing terminal care and palliative care in 2020–2022. It is proposed that EUR 4.5 million in 2020, EUR 5.4 million in 2021 and EUR 5.5 million in 2022 be allocated to the implementation of the working capacity programme for people with partial working capacity.

EUR 1 million per year will be allocated in 2020–2022 to developing the service structure to secure the second national language.

Extending compulsory education will increase central government transfers to local government by EUR 22 million in 2021, EUR 65 million in 2022 and EUR 107 million in 2023. In addition, it is proposed that an additional EUR 10 million in 2021, EUR 20 million in 2022 and EUR 29 million in 2023 be allocated to welfare services for pupils and students.

EUR 7.5 million, of which EUR 7.2 million will be allocated to local government finances, is proposed for confirming the unit price of general upper secondary education.

It is proposed that EUR 60 million be allocated in 2020–2022 to develop quality and equality programmes in basic education, of which EUR 57 million per year will be allocated to local government finances.

It is proposed that EUR 25 million be allocated in 2020 to develop quality and equality programmes in early childhood education, of which EUR 23.8 million will be allocated to local government finances, and EUR 50 million in 2021–2022, of which EUR 47.5 million per year will be allocated to local government finances. EUR 2.5 million will be allocated in 2020 to promote continuous learning. It is proposed that EUR 80 million, of which EUR 55.2 million to local government finances, be allocated in 2020 to hire teachers and instructors in vocational education and training and for education and counselling support activities.

It is proposed that EUR 5.8 million be allocated in 2020 to extending the Finnish Schools on the Move programme to different age groups and EUR 1.3 million to build sports and exercise facilities. EUR 1 million will be allocated in 2020 to developing library activities. In addition, EUR 2.5 million per year in 2020–2022 is proposed for developing the skills of immigrants to enhance their employability.

The role of municipalities and the third sector in promoting the integration of immigrants will be strengthened by, among other things, granting discretionary government transfers for the activities of municipalities' centres of expertise, to which an increase of EUR 4 million in 2020 and EUR 3 million in 2021–2022 is proposed. The annual number of quota refugees will be increased to at least 850 refugees in 2020, and as a result it is proposed that compensation to municipalities be increased by EUR 0.5 million for 2020, EUR 1.6 million for 2021, EUR 2.6 million for 2023 and EUR 3.6 million for 2023. In addition, an increase of EUR 2 million for 2021 and EUR 3 million from 2022 is proposed to provide undocumented people with access to essential health services. It is proposed that EUR 4 million in 2020 and EUR 3 million per year in 2021–2022 be allocated to advice services for immigrants.

An allocation of EUR 15 million in 2020 is proposed for the agreement-based cooperation of central government, cities and regions, of which EUR 14.7 million will be allocated to local government finances, and EUR 5 million in 2021, of which EUR 4.9 million will be allocated to local government. EUR 5 million in 2020–2021 is proposed for regions' independent development, of which EUR 4.9 will be allocated to local government finances. An allocation of EUR 1 million in 2020, EUR 2 million in 2021 and EUR 3 million in 2022–2023 is proposed for Talent Hub activities.

The programme for sustainable urban development will be continued and it is proposed that EUR 0.6 million per year be allocated to it in 2020–2022. EUR 15 million per year will be allocated to public utility grants related to land use, housing and transport (MAL) agreements and EUR 30 million per year to MAL start-up grants in 2020–2023. EUR 4 million in 2020 and EUR 6.5 million per year in 2021–2022 will be allocated a new suburban development programme. It is proposed that EUR 5 million in 2020 and EUR 10 million per year in 2021–2022 be allocated to renovation grants to make housing more suitable for older people.

EUR 8 million per year in 2020–2022 and EUR 3 million in 2023 will be allocated to demolition grants.

With regard to measures to enhance the efficiency of specialised medical care, as decided in the previous parliamentary term, it is expected that local government expenditure will decrease by EUR 90 million in 2020 compared with 2019. The corresponding reduction in central government transfers to local government will be EUR 22.9 million. Overall, it is estimated that enhancing specialised medical care will reduce healthcare expenditure by EUR 350 million at the 2020 level.

Savings in the municipalities' expenditure brought about by developing informal and family care are expected to grow by EUR 40 million in 2020 compared with 2019, and the corresponding reduction in central government transfers will be EUR 10.2 million in 2020. Overall, it is estimated that the savings will total EUR 220 million in 2020.

The central government transfers and grants will be EUR 11.6 billion in 2020, EUR 11.8 billion in 2021, EUR 12.1 billion in 2022 and EUR 12.2 billion in 2023.

Table 13. Central government transfers to municipalities and joint municipal authorities, EUR million, spending limits period at 2020 prices

	2018	2019	2020 ¹	2021	2022	2023
Imputed central government transfers	9 493	9 656	8 098	8 117	8 208	8 497
Ministry of Finance, central government transfer for basic public services ²	8 577	8 729	7 074	7 118	7 157	7 411
Ministry of Education and Culture ³	916	928	1 024	999	1 050	1 086
— of which joint municipal authorities	967	978	1 040	997	999	1 001
Other central government transfers by administrative branch, total	1 112	1 006	3 468	3 695	3 859	3 714
Ministry of Justice	30	20	0	0	0	11
Ministry of the Interior	5	5	5	5	5	5
Ministry of Finance	149	43	2 362	2 560	2 737	2 838
Ministry of Education and Culture	219	212	187	186	187	187
Ministry of Agriculture and Forestry	6	6	6	1	1	1
Ministry of Transport and Communication	54	63	49	38	36	36
Ministry of Economic Affairs and Employment	225	219	195	193	193	180
Ministry of Social Affairs and Health	398	405	539	569	567	394
Ministry of the Environment	26	30	80	87	81	59
Central government transfers, total	10 605	10 662	11 565	11 811	12 066	12 211

¹⁾ The local government subcommittee of the Finnish Accounting Board specifies the form of the municipalities' income statement and the content of items. An instruction may be amended definitively only when an act is in force. In this Local Government Finances Programme, compensation for tax revenue losses payable to the municipalities are included in the table of central government transfers in other central government transfers of the administrative branch of the Ministry of Finance.

²⁾ Tax compensation payable to the municipalities will be transferred from 2020 to a dedicated item 28.90.35. Previously, tax compensations have been included in the item central government transfers for basic public services.

³⁾ The municipalities' imputed share is estimated from the total funding of the administrative branch of the Ministry of Education and Culture (including private).

Tax criteria changes

The tax criteria changes decided in the Government Programme and during the parliamentary term have been taken into account in the revenue estimates of the spending limits period. In accordance with the Government Programme, annual index adjustments corresponding to rising earnings or inflation will be made in earned income taxation. In accordance with the Government Programme, the municipalities will be compensated for the tax revenue impact of changes made by the Government to tax criteria.

	2020	2021	2022	2023
Index adjustment of earned income taxation	-196	-189	-182	-176

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

The economic projection of local government finances for 2020–2023 is a pressure projection that, in addition to general economic and population trends, only takes into account measures impacting local government finances that are already included in the budget proposal and the General Government Fiscal Plan. The projection does not include the municipalities' and joint municipal authorities' own consolidation measures or the municipalities' tax percentage changes for 2020–2023.

In 2018, local government finances deteriorated significantly, as operating expenditure grew sharply and tax revenue declined. In addition, 2019 also looks weak in local government finances. In the current year, local government operating expenditure will be increased not only by growth in the need for services, but also by local government sector wage increases and the ending of the cut in holiday bonuses. According to Statistics Finland's quarterly local government finance statistics, growth in operating expenditure has continued more quickly in the first half of the current year than was forecast in the spring. Due to these data on tax receipts, the operating expenditure growth forecast for 2019 has been increased from the forecast of last spring. The tax revenue forecast has also been significantly reduced.

Local government expenditure

More than half of local government operating expenditure consists of personnel expenses, i.e. wages and employer's social security contributions. The number of local government employees grew in 2019 from 419,000 to 421,000, which was exceptional compared with the preceding years. In the pressure projection for local government finances, the number of employees will continue to grow, which is a consequence of the measures of Prime Minister Rinne's Government Programme. Measures that increase the number of employees include increasing the levels of care personnel in services for the elderly, cutting maximum waiting times for access to care, securing home care resources and hiring teachers and instructors in vocational education and training. In the projection, earnings development in the local government sector has been assumed to follow the economy as a whole, namely projected annual earnings development of just under 3%. Local government sector pay agreements are subject to renegotiation in spring 2020.

Purchases of services and goods also make up a significant part of local government expenditure. Purchases will grow at an annual rate of approximately 4% in the spending limits period. Purchases will be increased by Government Programme measures as well as growth in demand for health and social services arising from population ageing, which has been allocated to growth in purchases in the pressure projection. The change in the population age structure will increase the need for services by approximately 0.5% per year.

According to the local government finances pressure projection, growth in operating expenditure will continue at an average annual rate of 3.4% in the spending limits period 2020–2023. Expenditure will also be increased in the spending limits period by investments. Health and social services buildings and schools will continue to be constructed at a rapid pace, and growth-centre infrastructure investments will continue to be brisk. Investments are expected to remain at a high level during the spending limits period, because the construction projects under way cover many years and investment pressures will continue to be significant.

The permanent additional expenditure of Prime Minister Rinne's Government Programme have been planned to be implemented in a front-loaded manner. The permanent measures will increase local government expenditure by approximately EUR 500 million at the 2023 level. Of the Government Programme's one-off expenditure increases, the monetarily most significant investments are directed at quality and equality programmes in basic education and early childhood education as well as hiring teachers and instructors in vocational education and training. In total, the one-off expenditure increases of the Government Programme taken into account in the projection will increase local government expenditure by an average of EUR 200 million per year in 2020–2022.

Local government revenue

More than half of local government revenue consists of tax revenue. The municipalities' projected tax revenue for 2019 has been reduced significantly compared with the previous projection. The main change in the autumn projection update relates to the fact that income tax receipts have grown more slowly than expected in 2019. According to the Tax Administration, the tax revenue shortfall is a consequence of changes in the withholding tax procedure that came into effect at the beginning of 2019 as well as income register reporting problems. Both factors delay tax receipts and therefore reduce tax revenue for the current year on a one-off basis. The tax revenue shortfall arising from changes in withholding tax practice and income register problems are expected to reduce tax revenue for the current year, but the forecast assumes that half of the shortfall will be recovered in 2020. Due to these timing factors, among other things, tax revenue growth is expected to remain at 2.2% in the current year, but to accelerate to 6.6% in 2020. Tax revenue growth will continue in 2021–2023 at an average annual rate of 2.7%. Tax revenue growth will be maintained by, among other things, earnings growth.

Central government transfers and grants will decrease in 2019. An adjustment of the division of costs between central and local government based on actual costs for 2016 will reduce the central government transfer to municipalities for basic public services by just over EUR 200 million in 2019. Prime Minister Rinne's Government decided to bring forward to 2019 the payment of one-off compensation amounting EUR 237 million relating to the Competitiveness Pact's cutting of holiday bonuses. In 2020, central government transfers and grants will grow significantly, which is explained by, among other things, the removal of the central government transfer deduction made due to the cutting of holiday bonuses and the ending of the freezing of central government transfer index adjustments. Overall, the change in central government transfers does not mean a strengthening of local government finances; a significant part of the growth in central government transfers corresponds to a reduction in other revenue or growth in costs. In 2020, an index adjustment of 2.4% will be made to central government transfers, and in 2021–2023 the index adjustment is expected to be approximately 2.5% annually. In addition, central government transfers to local government will also be increased due to an adjustment of the division of costs based on actual costs for 2017. In addition to index adjustments, central government transfers will also be increased by compensation to municipalities for tax revenue losses.⁸ Prime Minister Rinne's Government Programme states that any measures that will result in an increase, decrease or expansion in the number of duties or obligations for municipalities as well as any changes in tax criteria that will affect local government finances will be compensated in net terms with a 100% modification of the central government transfers and/or the corresponding fixed appropriation, or by removing other tasks or obligations. Government Programme expenditure increases taken into account in the projection have

⁸ In the future, compensation for tax revenue losses will be stated in their own item separately from the central government transfers. Compensation for tax revenue losses has been included in central government transfers in the projection. An official decision has not yet been made about their disclosure location.

therefore, as rule, been taken into account in the central government transfers as equivalent additional revenue.

In the projection, cash flow from operations and investments, reflecting the local government borrowing requirement, will be EUR 1.9–2.7 billion negative in the spending limits period without new measures. The local government loan stock will grow rapidly in the spending limits period.

Table 14. Development of local government finances up to 2023 according to local government accounts, EUR billion, at current prices

	2018	2019	2020	2021	2022	2023
Profit/loss itemisation						
1. Operating margin	-28,6	-29,9	-31,3	-32,5	-33,7	-34,8
2. Tax revenue	22,4	22,9	24,4	25,0	25,8	26,5
3. Central government transfers, operational finances	8,5	8,5	9,4	9,9	10,3	10,7
4. Financial income and expenses, net	0,3	0,4	0,4	0,3	0,3	0,2
5. Annual margin	2,7	2,0	3,0	2,7	2,6	2,5
6. Depreciation and amortisation	-2,8	-2,9	-3,0	-3,1	-3,2	-3,3
7. Extraordinary items, net	0,1	0,1	0,1	0,1	0,1	0,1
8. Profit/loss for the financial period	-0,1	-0,9	0,0	-0,3	-0,5	-0,7
Funding						
9. Annual margin	2,7	2,0	3,0	2,7	2,6	2,5
10. Extraordinary items	0,1	0,1	0,1	0,1	0,1	0,1
11. Current income adjustments	-0,6	-0,6	-0,6	-0,6	-0,6	-0,6
12. Internal financing, net	2,2	1,4	2,5	2,2	2,1	2,0
13. Investment in fixed assets	-4,8	-5,2	-5,4	-5,5	-5,6	-5,6
14. Funding contributions and sales gains	1,0	1,0	1,0	1,0	0,9	0,9
15. Investments, net	-3,9	-4,2	-4,3	-4,5	-4,7	-4,7
16. Financial balance (internal financing - investment)	-1,7	-2,7	-1,9	-2,3	-2,5	-2,7
17. Loan stock	19,4	22,2	24,2	26,5	29,1	31,9
18. Cash	6,0	6,0	6,0	6,0	6,0	6,0
19. Net debt (loan stock - cash assets)	13,4	16,2	18,2	20,5	23,1	25,8

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

Earnings-related pension system

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

Finland's earnings-related pension system is partly funded, as some of the financing of pensions comes from prefunded pension assets and the income from them. Pensions are financed, however, mainly by annual pension contributions from employees and employers. In addition, part of the pensions of central government employees and entrepreneurs, agricultural entrepreneurs and seafarers is financed from the

central government budget. Employees' pension contributions are the same under all pension acts. Pensions accrue under all pension acts in more or less the same way from earnings during entire working careers. Starting old-age pensions are reduced by a life expectancy coefficient that takes the increase in life expectancy into account. Pensions paid out are increased annually by the Earnings-related Pension Index, in which inflation has an 80% weight and change of earnings level a 20% weight.

The pension reform that entered into force from the beginning of 2017 will increase the lowest old-age pension age in stages by 2027. The old-age pension age will be linked to life expectancy from 2030 so that the time spent working in relation to the time spent in retirement will remain at the 2025 level. To maintain the time spent working in relation to the time spent in retirement, the development of working careers as well as the economic and social sustainability of the entire earnings-related pension system will be regularly analysed. In the reform, alongside the disability pension was introduced a new form of pension, the years-of-service pension, and the part-time pension was replaced by a partial early old-age pension. In addition, changes were made to pension accrual rules, and it was decided to calculate the life expectancy coefficient in a more lenient manner from 2027.

The private sector **Employees' Pensions Act (TyEL)** covers around two-thirds of the labour force. Of TyEL earnings-related pension contributions, part are prefunded individually and the remainder go to finance current pensions in a pay-as-you-go system. Pension contributions must be at a level that guarantees the payment of pensions and the funding required by law. The TyEL system's funding rate, i.e. the ratio of pension assets to pension liability, was approximately 30.5% at the end of 2017 (based on a 2.5% real discount rate up to 2028 and 3.5% from 2029).

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

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

Just over 20% of those insured are covered under the **local government pensions system**. In the local government pension system, the aim is to set pension contributions at a level ensuring that the pension system is on a sustainable foundation and the level of pension contributions will remain stable in the future.

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

Due to the prefunding of pensions, the earnings-related pension sector has shown a significant surplus historically. Demographic change is increasing pension expenditure, which has been reflected in a reduction in the surplus. Due to prefunding, however, the property income of the pension funds is substantial, so they will nominally not have to sell off assets even if pension expenditure exceeds contributions. Overall, the surplus of the earnings-related pension funds has declined from an average

of just over 3% in ratio to GDP in the first decade of the 2000s to 1.0% in ratio to GDP in 2018. In the next few years, the surplus is projected to decline to approximately 0.6% in ratio to GDP, as growth in property income stalls due to the low level of interest rates. In the national accounts, private sector earnings-related pension funds are also included in general government finances and their assets in general government finance assets. The earnings-related pension system surplus is not used to reduce general government gross debt; it must be reinvested to ensure that the real value of earnings-related pension assets does not contract.

Other social security funds

Other social security funds include other public sector entities with social security duties, such as the Social Insurance Institution of Finland (Kela) and units handling the earnings-related unemployment insurance system. Kela's activities are financed statutorily by the health insurance contributions of the insured and employers as well as by public sector contributions. The central government's share of Kela's funding in 2018 was approximately 77%, while insurance contributions accounted for approximately 18% and municipalities for approximately 5%. In 2018 the costs of Kela's benefit funds totalled approximately EUR 15.4 billion. Kela's benefit funds are the National Pension Insurance Fund, the National Health Insurance Fund and the General Fund for Social Security.

The earnings-related unemployment insurance system is managed by the Employment Fund and unemployment benefit societies. Earnings-related unemployment expenditure is financed from unemployment insurance contributions collected from employees and employers (approximately 55%), central government contributions (approximately 40%) and the membership fees of unemployment benefit societies (approximately 5%). In 2018, the benefits paid by unemployment benefit societies totalled approximately EUR 1.9 billion. The Employment Fund has a cyclical buffer whose net debt or net assets must be at most an amount corresponding to annual expenditure arising from an unemployment rate of 7% (in 2018 just over EUR 2 billion, i.e. nearly 1% in ratio to GDP). In 2020, it is proposed to change the maximum size of the cyclical buffer to correspond to expenditure arising from an unemployment rate of 6%.

The financing of other social security funds is in balance in the medium term, but the financial balance may vary slightly on an annual basis, with the buffer funds providing flexibility. In the 2000s, the other social security funds have deviated from balance by at most 0.4% in ratio to GDP annually.

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

Chapter 5–7 addressed separately each subsector of general government finances. Chapter 8 aims to provide a concise review of the Government's discretionary measures and their impact on general government finances as a whole, with goal being balance at the end of the parliamentary term. The Chapter 8 review does not take into account so-called financial transactions.

8.1. Extent and timing of measures

The Government's objective is for general government finances to be in balance at the end of the parliamentary term in 2023. The following table summarises the cumulative impact on general government finances of the decisions affecting revenue and expenditure of Prime Minister Rinne's Government in 2019–2023. Measures weakening the general government balance are presented with a minus sign and strengthening measures with a plus sign. The impacts have been presented in relation to the final General Government Fiscal Plan of the previous parliamentary term, i.e. the so-called technical General Government Fiscal Plan adopted on 4 April 2019.

In addition to the discretionary measures taken into account in the table, the Government aims to increase further the employment rate and the number of people in employment by reforms that strengthen employment. In addition, productivity measures targeting general government finances will be implemented.

Government's permanent additional expenditure

Government decisions will increase permanent general government expenditure by approximately EUR 1.4 billion at the level of 2023 compared with the spring 2019 technical General Government Fiscal Plan. Permanent new expenditure will be allocated to, among other things, strengthening competence and social justice and to climate policy measures. This additional expenditure is discussed in more detail particularly in Chapter 5.3, as most of the impacts are directed at the general government subsector. The impacts of the measures on local government finances are examined in Chapter 6.

A small part of the additional expenditure will be financed such that central government on-budget expenditure and revenue are reallocated, for example, by lowering the level of certain deferrable appropriations.

In addition, the Government has decided to bring forward from 2020 to 2019 the one-off increase in central government transfers amounting to EUR 237 million to be paid to municipalities, which has been taken into account in the following table. The increase concerns compensation related to the Competitiveness Pact's holiday bonus cuts. The bringing forward of the payment will ease the municipalities' financial situation in 2019.

Fixed-term future-oriented investments in 2020–2022

The Government will implement a one-off programme of future-oriented investments. Within the scope of this programme, up to EUR 3 billion will be targeted at one-off investments and socially important experimental schemes in 2020–2022. The measures will be funded for the most part through property income so that they will not lead to an increase in the debt burden in 2023. The Government plenary session will decide on the use of these funds based on the preparations of the Ministerial Committee on Economic Policy.

In connection with the 2020 budget proposal and the General Government Fiscal Plan 2020–2023, a total of approximately EUR 1.4 billion will be allocated to future-oriented investments in 2020–2022. These additional investments are also discussed in more detail in Chapter 5.3 and 6. In addition, investments totalling over EUR 200 million will be allocated from the Housing Fund of Finland in 2020–2022 (see Chapter 5.6).

The General Government Fiscal Plan also includes a spending limits provision of approximately EUR 1.7 billion for 2021–2022 for the purpose of future-oriented investment proposals. A final decision on the future-oriented investments to be funded in 2021 will be made in connection with the autumn 2020 budget session as part of a review of employment measures and expenditure increases in accordance with the Government Programme. This spending limits provision of approximately EUR 1.7 billion is not included in the examination of the following table.

Tax criteria changes

Prime Minister Rinne's Government Programme pays particular attention to pressures for change due to technological advances and climate change. Technological advances include robotisation, digitalisation, the platform economy and artificial intelligence. The aim is to secure Finland's tax base in an internationalising and digitalising economy. In addition, the Government Programme seeks to promote employment and encourage entrepreneurship.

The tax base will be strengthened by phasing out during the parliamentary term the right to deduct interest on home loans. The domestic work credit will also be reduced. Earned income taxation of people on low and middle incomes will be eased and the solidarity tax, originally decreed to be temporary, will continue.

Emissions guidance in energy production and use will be increased by abolishing during the parliamentary term the energy tax rebate mechanism for energy-intensive industries and at the same time reducing the category II electricity tax budget neutrally towards the minimum rate allowed by the European Union. Taxation of off-road work machine and heating fuels will be increased gradually by EUR 100 million during the parliamentary term. Taxation of transport fuels will be increased by EUR 250 million during 2020. Energy tax revenue will be increased by EUR 120 million on an annual basis by the phasing out of tax subsidies for paraffinic diesel during the parliamentary term. Health will be promoted by increasing excise duties on tobacco, alcohol and soft drinks by a total of EUR 275 million.

Despite increases in indirect taxes, their tax revenue in ratio to GDP ratio will decline slightly during the spending limits period, as consumption of energy, tobacco and alcohol consumption, for example, develops more sluggishly than GDP. During the parliamentary term, the total tax rate is expected to remain nearly unchanged at 42.1% in 2023.

In accordance with Prime Minister Rinne's Government Programme, the municipalities will be compensated for the tax revenue impact of changes made to tax criteria. Taxation changes are discussed in more detail in terms of central government finances in Chapter 5.4, in terms of local government finances in Chapter 6.2 and in terms of general government finances in Chapter 8.3.

Social security contributions

A decline in unemployment expenditure has enabled a lowering of the unemployment insurance contribution in 2018–2019 by a total of one percentage point. With the continuation of the favourable economic situation, the unemployment insurance contribution will also be reduced in 2020. The private sector's earnings-related pension insurance contribution is expected to remain at its current level of 24.4% in the next few years. The reductions in health insurance contributions, agreed partly on a temporary basis in the Competitiveness Pact, will expire at the end of 2019.

Measures to support employment

The Government has taken the first step in the preparation of employment measures aimed at achieving an employment rate of 75%. This requires measures to support labour supply and demand as well as the alleviation of matching problems in the labour market. In the first stage, the wage subsidy will be reformed, investments will be made in the employment of people with partial working capacity and in work-based immigration, and the lower age limit of the right to additional days in unemployment security will be raised. The preparation of employment measures will continue such that measures corresponding to 30,000 new employed people are presented on a discretionary basis at the summer 2020 budget session. If this is not the case, a reassessment will be made of the expenditure increases previously decided, which were made in relation to the technical General Government Fiscal Plan.

Improving public sector productivity

In the preparation of the Government Programme, it was estimated that the general government balance could be improved through public sector productivity measures by just under EUR 300 million by the end of the parliamentary term. Achieving this target will require significant measures in the administrative sectors of both the Ministry of Finance and other ministries. Such measures and projects

include an ICT change programme for the operational development and systems integration of healthcare, social welfare and the rescue services, an action plan to improve the management and knowledge base of the local government building stock, a public procurement development programme as well as developing the public sector service network and promoting solutions to enable work in any location. The funding and implementation of the aforementioned measures will be elaborated in further preparation.

In addition, the Government will continue productivity-promotion measures already launched in the previous parliamentary term, such as developing digitalisation and productivity in central government activities, the central government premises efficiency improvement programme, and the incentive scheme for digitalisation in municipalities. These are explained in more detail in Chapter 5.3.2.

Table 15. Total impact on general government finances of decisions on revenue and expenditure, cumulative, EUR billion

	2019	2020	2021	2022	2023
Decisions lowering central government appropriations	0.0	0.1	0.1	0.2	0.1
Decisions increasing central government appropriations	-0.4	-1.0	-1.5	-1.4	-1.4
Future-oriented investments (incl. Housing Fund of Finland)	0.0	-0.8	-0.5	-0.3	0.0
Compensation to municipalities for tax criteria changes	0.0	-0.1	-0.1	-0.1	-0.1
Decisions increasing central government tax revenue	0.0	0.3	0.7	1.0	1.2
Decisions lowering central government tax revenue (excl. Index of Wage and Salary Earnings/Consumer Price Index adjustments)	0.0	-0.1	-0.2	-0.3	-0.3
Other decisions increasing central government revenue	0.0	0.0	0.0	0.0	0.0
Impact on central government budgetary position, net	-0.4	-1.6	-1.4	-0.9	-0.4
Government measures increasing local government revenue	0.2	0.1	0.3	0.4	0.5
Government measures increasing local government expenditure	0.0	-0.1	-0.3	-0.4	-0.5
Net impact of future-oriented investments on local government finances	0.0	0.0	0.0	0.0	0.0
Net impact of central government measures on local government tax revenue (excl. Index of Wage and Salary Earnings/Consumer Price Index adjustments)	0.0	-0.1	-0.1	-0.1	-0.1
Compensation to municipalities for tax criteria changes	0.0	0.1	0.1	0.1	0.1
Impact of other central government measures on local government finances ¹	0.0	0.0	0.0	0.0	0.0
Increases of municipalities' tax percentages	0.0	0.0	0.0	0.0	0.0

	2019	2020	2021	2022	2023
Impact on local government budgetary position, net	0.3	0.0	0.0	0.0	0.0
Changes in social security contributions	-0.6	-0.3	-0.4	-0.4	-0.4
Changes in expenditure	0.0	0.0	0.0	0.0	0.0
Impact on social security funds' balance, net	-0.6	-0.4	-0.5	-0.4	-0.4
Impact on general government balance, net	-0.7	-1.9	-1.9	-1.3	-0.8
In ratio to GDP	-0.3%	-0.8%	-0.7%	-0.5%	-0.3%

¹⁾ Does not include impacts on local government finances of transport projects co-funded by central and local government.

8.2. Measures directed at general government expenditure

The table below presents the annual net change in general government expenditure in 2019–2023 from measures decided by Prime Minister Rinne's Government⁹. The review does not contain so-called financial investment expenditure, which in turn is not included in general government figures in reviews according to the national accounts. The figures of the table also do not include a provision of approximately EUR 1.7 billion made for future-oriented investments, decisions on the use of which will be made later.

General government expenditure will grow significantly in 2020, driven both by the Government's permanent additional expenditure and to a significant extent also by one-off future-oriented investments, which in the first stage have been targeted on a front-loaded basis particularly at 2020. Expenditure on transfers to households will increase, in particular, through benefit improvements decided by the Government. The largest increase in consumption expenditure will also occur in the same year. Expenditure on transfers to business and industry will also increase in 2020, but will decline particularly from 2022, which is explained by changes in the energy tax rebate scheme. Real investment also takes into account increases allocated to basic transport infrastructure maintenance – both additional investments decided by the Government as well as the general increase proposed by the parliamentary working group that had already been taken into account in the technical General Government Fiscal Plan from 2022.

In addition, the table includes the joint impact of previous governments' measures, which mainly reflects the expenditure savings of Prime Minister Sipilä's government for 2019.

⁹ In the table, measures that increase general government expenditure, i.e. weaken the balance, are presented with a plus sign.

Table 16. Measures affecting general government expenditure, annual change, net, EUR billion

	2019	2020	2021	2022	2023
Consumption expenditure	0.0	0.6	0.0	0.0	-0.1
Expenditure on transfers to business and industry	0.0	0.3	-0.1	-0.2	-0.1
Expenditure on transfers to households	0.0	0.3	0.0	0.0	0.0
Other transfers	0.0	0.4	0.0	-0.2	-0.1
Real investment ¹	0.1	0.3	0.0	0.1	-0.1
Other expenditure	0.0	0.0	0.0	0.0	0.0
Total	0.2	1.9	-0.1	-0.2	-0.3
Discretionary measures of the previous parliamentary term	-0.5	0.0	0.0	0.0	0.0

¹⁾ Does not include impacts on local government finances of transport projects co-funded by central and local government.

8.3. Measures directed at general government revenue

The table below presents information on the timing of discretionary measures affecting general government revenue in 2019–2023, as annual net changes. Net change refers to the combined impact of measures that increase and decrease revenue. The table also takes into account changes in taxation criteria decided in the previous parliamentary term, index adjustments made to earned income tax criteria, and one-off factors affecting changes in the timing of taxation.

Changes related to taxation decided by Prime Minister Rinne's Government will be distributed over the entire parliamentary term. Tightening of indirect taxation will increase tax revenue, but annual index adjustments made to earned income will, on the other hand, reduce tax revenue. The figures presented in the General Government Fiscal Plan reflect the measures on which decisions have been made and their estimated financial effects. Planned measures are not included.

Table 17. Measures affecting general government revenue, annual change, net, EUR billion

	2019	2020	2021	2022	2023
Taxes on earned income	-0.2	-0.5	-0.5	-0.4	-0.4
Taxes on capital income	0.0	0.0	0.0	0.0	0.0
Corporate taxes	0.0	0.0	0.0	0.0	0.0
Other direct taxes	-0.1	0.0	0.0	0.0	0.0
VAT	0.0	0.0	0.0	0.0	0.0
Other indirect taxes	0.2	0.2	0.3	0.0	0.1
Social security contributions from employers	-0.7	0.2	-0.2	0.0	0.0
Social security contributions from the insured	0.1	0.4	-0.3	0.0	0.0
Total	-0.7	0.3	-0.7	-0.4	-0.3

9. Estimate of general government revenue and expenditure

Table 18. Central government according to the national accounts, EUR billion

	2018*	2019**	2020**	2021**	2022**	2023**
Direct taxes	14.9	15.5	16.2	16.7	17.3	17.9
Taxes on production and imports	33.1	33.5	34.2	35.1	35.9	36.7
Social security contributions	0.0	0.0	0.0	0.0	0.0	0.0
Taxes and social security contributions, total 2)	48.7	49.7	51.2	52.6	53.9	55.4
Other revenue 3)	9.0	9.1	8.9	8.9	9.0	9.0
of which interest income	0.2	0.2	0.2	0.2	0.2	0.2
Total revenue	57.7	58.8	60.1	61.5	62.9	64.4
Consumption expenditure	13.9	14.2	15.0	15.2	15.5	16.0
Subsidies and other transfers to general government	40.0	40.4	41.6	42.7	43.5	44.5
Interest expenditure	28.2	28.5	29.3	30.2	31.0	31.8
Capital expenditure 4)	1.9	1.9	1.7	1.5	1.5	1.5
Total expenditure	4.7	4.5	4.9	4.9	4.9	4.7
Net lending (+)/ net borrowing (-)	60.5	61.0	63.2	64.4	65.4	66.8
	-2.8	-2.1	-3.1	-2.9	-2.5	-2.3

Table 19. Local government according to the national accounts, EUR billion

	2018*	2019**	2020**	2021**	2022**	2023**
Taxes and social security contributions	22.5	23.4	24.4	25.1	25.8	26.6
of which municipal income tax	18.8	19.5	20.5	21.0	21.7	22.4
corporate tax	1.9	2.0	2.0	2.1	2.2	2.3
real estate tax	1.8	1.9	1.9	1.9	2.0	2.0
Other revenue 2)	19.3	19.7	21.0	21.7	22.4	23.1
of which interest income	0.3	0.3	0.3	0.3	0.3	0.3
of which transfers from central government	14.2	14.4	15.4	16.0	16.6	17.1
Total revenue	41.8	43.1	45.4	46.7	48.2	49.7
Consumption expenditure	35.6	37.2	39.0	40.5	42.1	43.6
of which compensation of employees	21.4	21.9	22.8	23.5	24.2	24.8
Income transfers	2.6	2.6	2.6	2.7	2.8	2.9
of which social security benefits and allowances	0.7	0.7	0.7	0.7	0.8	0.8
subsidies and other transfers	1.8	1.8	1.8	1.8	1.8	1.9
interest expenditure	0.1	0.1	0.1	0.1	0.2	0.3
Capital expenditure 3)	5.6	6.1	6.2	6.3	6.4	6.3
Total expenditure	43.8	45.9	47.8	49.5	51.3	52.8
Net lending (+)/ net borrowing (-)	-2.1	-2.8	-2.3	-2.8	-3.0	-3.1

Table 20. Earnings-related pension funds

	2018*	2019**	2020**	2021**	2022**	2023**
Investment income	4.0	4.0	3.9	3.9	4.2	4.9
Social security contributions	22.2	23.0	23.9	24.6	25.3	25.8
of which paid by employers	15.4	15.6	15.9	16.4	16.8	17.2
of which paid by the insured	6.8	7.4	8.0	8.3	8.5	8.7
Income and capital transfers from general government	2.3	2.3	2.3	2.4	2.5	2.6
Other revenue	0.3	0.3	0.3	0.3	0.3	0.3
Total revenue	28.8	29.6	30.4	31.2	32.3	33.6
Consumption expenditure	0.7	0.7	0.7	0.7	0.7	0.7
Social security benefits and allowances	23.7	24.7	25.6	26.6	27.7	28.8
Other expenditure	2.2	2.2	2.3	2.3	2.4	2.5
Total expenditure	26.5	27.6	28.5	29.6	30.8	32.0
Net lending (+)/ net borrowing (-)	2.2	2.0	1.8	1.6	1.5	1.7

Table 21. Other social security funds

	2018*	2019**	2020**	2021**	2022**	2023**
Investment income	0.0	0.0	0.1	0.1	0.1	0.1
Social security contributions	5.8	5.3	5.8	5.8	6.0	6.2
of which paid by employers	2.3	1.9	2.4	2.4	2.5	2.6
of which paid by the insured	3.5	3.3	3.4	3.4	3.5	3.6
Income and capital transfers from general government	13.2	13.2	12.9	13.1	13.3	13.6
Other revenue	0.0	0.0	0.0	0.0	0.0	0.0
Total revenue	19.1	18.5	18.7	19.0	19.4	19.8
Consumption expenditure	3.0	3.1	3.2	3.3	3.4	3.5
Social security benefits and allowances	14.2	13.9	14.2	14.4	14.7	15.1
Other expenditure	1.1	1.1	1.1	1.1	1.1	1.2
Total expenditure	18.4	18.1	18.5	18.8	19.3	19.7
Net lending (+)/ net borrowing (-)	0.7	0.4	0.2	0.2	0.2	0.1

General government fiscal forecast under unchanged policies**Table 22. Revenue and expenditure under unchanged policies**

	2018*	2018*	2019**	2020**	2021**	2022**	2023**
	level, EUR billion		% GDP				
Total revenue under unchanged policies	122.5	52.2	51.7	51.7	51.5	51.4	51.6
Total expenditure under unchanged policies	124.4	53.1	52.7	53.1	53.0	52.9	52.9

Minister of Finance

Mika Lintilä

Director General of the Budget Department Sami Yläoutinen

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APPENDIX 1 Forecasts and assumptions used in the calculations

The expenditure and revenue estimates of the General Government Fiscal Plan as well as the price- and cost-level adjustments are based on the independent forecast of the Ministry of Finance's Economics Department given below ¹⁰.

	2017	2018	2019	2020	2021	2022	2023
GDP, change in volume, %	3.1	1.7	1.5	1.0	0.9	0.9	0.7
GDP, change in price	0.7	2.1	1.7	1.9	1.9	1.9	1.9
GDP, value, EUR million	225 781	234 453	242 109	249 328	256 561	263 799	270 798
GNI, value, EUR million	225 816	235 225	242 349	249 568	256 801	264 039	271 038
Consumer Price Index, change %	0.7	1.1	1.1	1.4	1.7	1.7	1.7
Index of Wage and Salary Earnings, change %	0.2	1.7	2.7	3.1	2.9	2.8	2.7
Building Cost Index, change %	0.3	2.3	1.3	2.0	2.2	2.2	2.0
Basic Price Index for Domestic Supply, change %	4.9	4.7	0.9	1.9	2.2	2.1	2.0
Unemployment rate, %	8.6	7.4	6.5	6.3	6.2	6.3	6.5
Wage bill, change %	2.4	4.1	3.7	3.6	3.2	2.6	2.3
Short-term interest rate, 3 months, %	-0.3	-0.3	-0.3	-0.4	-0.3	-0.1	0.3
Long-term interest rate, 10 years, %	0.5	0.7	0.0	-0.2	-0.1	0.2	0.6
Earnings-related Pension Index (TyEL)	2534	2548	2585	2619	2668	2720	2772
National Pension Index (KEL)	1617	1617	1617	1633	1659	1688	1716
Price index of basic public services, forecast	-0.5	1.4	1.5	2.4	2.6	2.5	2.5
Change in cost level used in Budget Proposal (Index of Central Government Transfers to Local Government) — index adjustment	0.0	0.0	0.0				
Index of Central Government Transfers to Local Government without freezing in 2016—2019	-0.7	0.6	1.3	2.4	2.6	2.5	2.5
University index (forecast used in budgeting)	1.0	2.0	2.1	2.6	2.5	2.5	2.4
Vocational education and training index	1.4	2.3	2.0	2.6	2.6	2.5	2.4
YLE Index	0.4	1.5	2.2	2.5	2.5	2.4	2.4
Unemployment insurance contributions							

¹⁰ The forecast takes into account the GDP level updated by Statistics Finland on 20 September 2019 and the decisions of the Government budget session

	2017	2018	2019	2020	2021	2022	2023
— employer, average	2.41	1.91	1.50	1.26	1.26	1.26	1.26
— employee	1.60	1.90	1.50	1.25	1.25	1.25	1.25
TyEL contribution	24.4	24.4	24.4	24.4	24.4	24.4	24.4
— employer	18.0	17.8	17.4	17.0	17.0	17.0	17.0
— employee aged 53 yrs and under	6.15	6.35	6.75	7.15	7.15	7.15	7.15
— employee over 53 yrs	7.65	7.85	8.25	8.65	8.65	8.65	8.65
— wage coefficient	1.389	1.391	1.417	1.448	1.489	1.528	1.568
Health insurance contributions of the insured							
— employees' daily allowance contribution	1.58	1.53	1.54	1.20	1.19	1.20	1.21
— wage earners' and entrepreneurs' medical care contribution	0.00	0.00	0.00	0.68	0.59	0.60	0.59
— pensioners' medical care contribution	1.45	1.53	1.61	1.65	1.56	1.57	1.56
Central government employer contributions	18.0	17.8	17.9	18.1	18.1	18.1	18.1
— health insurance contribution	1.08	0.86	0.77	1.36	1.35	1.36	1.37
— pension contribution (under Central Government Employees' Pensions Act [VaEL])	16.95	16.95	17.13	16.73	16.74	16.74	16.74
Local government employer contributions	26.9	25.7	24.6	24.5	24.5	24.5	24.5
— health insurance contribution	1.08	0.86	0.77	1.36	1.35	1.36	1.37
— other social insurance contributions	0.7	0.7	0.7	0.7	0.7	0.7	0.7
— unemployment insurance contribution	3.16	2.49	1.96	1.63	1.63	1.63	1.63
— pension contribution (under Local Government Employees' Pensions Act [KuEL])	22.0	21.6	21.2	20.8	20.8	20.8	20.8

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

Structural changes

Structural changes included in this spending limits decision lower the 2020 spending limits level by EUR 251 million compared with the spring 2019 spending limits decision.

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

Structural changes in the spending limits, EUR million

Item	Matter	2020	2021	2022	2023
24.30.66	Joint development cooperation projects. Revenue corresponding to expenditure in item 12.24.99 (pass-through item).	5.8			
27.10.18, 27.10.19	Timing change related to procurement of multirole fighter aircraft	20.0	-20.0		
28.90.30	Timing change related to compensation to municipalities for 2019–2022 adjustments to division of costs, to ensure that holiday bonus cut is not counted twice	-237.0			
28.91.41	Abolition of energy tax rebate scheme for energy-intensive industrial companies			-119.0	-230.0
32.20.41	Timing change in payment of certain energy subsidy projects	-8.0	-4.0	-4.0	12.0
32.30.51, 33.20.52	Active use of unemployment benefits, wage subsidy. Transfer to spending limits of item included in spending limits to item outside spending limits.		-143.0	-143.0	-143.0
33.10.57	Single-parent increment to child benefit, change in criterion in item outside spending limits	-1.5	-1.5	-1.5	-1.5
33.20.50, 33.20.52, 33.10.54, 33.10.57, 33.30.60	Increase to basic social security, change in criterion in items outside spending limits	-35.2	-35.2	-35.2	-35.2
33.10.54, 33.10.57, 33.20.50, 33.20.52	Removal of activation model cuttings, change in criterion in items outside spending limits	-13.7	-13.7	-13.7	-13.7
33.20.50	Raising of lower age limit of the right to additional days in unemployment security, change in criterion in items outside spending limits	23.0	23.0	23.0	23.0
35.10.52	Bringing forward of construction of Vallisaari water supply and sewer network	-0.9			
35.10.61	Timing change in programme to improve the efficiency of water protection	-3.0	3.0		
Total		-250.5	-191.4	-293.4	-388.4

Price- and cost-level adjustments

The central government spending limits for 2020–2023 are expressed in price and cost levels for 2020. Some of the expenditure, such as development aid expenditure and national financing contributions corresponding to EU Structural Fund contributions, are estimated at current prices, in which case they include an estimate of the impact on the appropriation of the rise in prices in the spending limits period. In other respects, the expenditure level will be revised annually according to the estimated rise in prices and costs.

Price- and cost-level adjustments for 2020 will decrease by a total of EUR 45 million compared with the spring 2019 technical spending limits decision. This takes into account the revision of price index forecasts as well as the index-linking of study grants from 1 August 2020. Statutory index adjustments were already made normally in the technical spending limits decision normally after the years of freezing.

Adjustments to 2020 price and cost levels compared with the 4 April 2019 spending limits decision, EUR million

Spending limits expenditure according to classification of economic nature	Index used in calculation	Adjustment of appropriation and spending limits level		Adjustment to spending limits level
		Statutory index adjustment	Contractual adjustment	Other cost adjustments to spending limits expenditure
15-17 Pensions	Employee Pension Index (TyEL)	-6.4		
18-19 Defence materiel acquisitions	Predictive increase 1.5%			- ¹
01-14 Wages and social security contributions	Increases under agreements			
Transport infrastructure expenditure	Building Cost Index (RKI)			
01-14, 20-28 Other operating expenses and consumption	Consumer Price Index (KHI)			
30-39 Imputed central government aid to municipalities and joint municipal authorities etc.	Index of Central Government Transfers to Local Government (VOS)	-23.6		
30-39 Other central government aid to municipalities and joint municipal authorities	Index of Central Government Transfers to Local Government (VOS)			
30 Central government funding for vocational education and training	Vocational education and training index	-1.6		
40-49 Central government aid to trade and industry	Consumer Price Index (KHI)			

Spending limits expenditure according to classification of economic nature	Index used in calculation	Adjustment of appropriation and spending limits level		Adjustment to spending limits level
		Statutory index adjustment	Contractual adjustment	Other cost adjustments to spending limits expenditure
50-59 Central government aid to households and non-profit-making organisations indexed on a statutory basis	National Pension Index (KEL), Employee Pension Index (TyEL), Consumer Price Index (KHI)		-4.3	
51-52 Central government funding to Evangelical Lutheran Church and grant to Orthodox Church	Consumer Price Index (KHI)		-0.1	
50-59 Non-indexed central government aid to households	National Pension Index (KEL)			
50 Central government funding for universities and universities of applied sciences	University Index		-4.8	
50-59 Other central government aid to households and non-profit-making organisations	Consumer Price Index (KHI)			
60 Transfers to off-budget central government funds	Consumer Price Index (KHI)			
60 Transfers to Social Insurance Institution of Finland	National Pension Index (KEL)		-3.7	
60 Central government transfer for expenditure arising from the Health Insurance Act	National Pension Index (KEL)		-0.2	
61-65 Central government funding contributions corresponding to EU Structural Fund contributions and other domestic transfers	Included in programme spending limits			
66-68 Transfers abroad	At current prices			
69 Transfers to the EU	EU GDP Price Index			
70-79 Real investments	Building Cost Index (RKI)			
90-99 Other expenditure	Consumer Price Index (KHI)			
Supplementary budget provision and unallocated reserve	Consumer Price Index (KHI)			
Total in 2020			-44.6	

¹⁾ A predictive 1.5% price- and cost-level adjustment will be made to appropriation levels (excl. payroll expenditure) for the Defence Forces' operating expenditure, defence materiel procurement and military crisis management equipment and administration expenditure. This adjustment will be revised later to correspond with the rise in prices (annual average index change) indicated by the Consumer Price Index in terms of the Defence Forces' operating expenditure and military crisis management equipment and administrative expenditure as well as the rise (months total/annual change) of the C28 sub-index (Manufacturing of other machinery and equipment) of the Industrial Producer Price Index for defence materiel procurement. The actual index expenditure of the Squadron 2020 project will be adjusted later in accordance with actual expenditure.

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

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

	2020	2021	2022	2023
General government balance, spring 2019	0.0	-0.1	-0.3	-0.6
Central government:				
Impact of revised statistical basis on revenue and expenditure estimates	0.0	0.0	0.0	0.0
Impact of revised macroeconomic forecast on revenue and expenditure estimates	-0.1	-0.1	-0.1	-0.1
Impact of discretionary measures on revenue and expenditure estimates	-0.7	-0.5	-0.3	-0.2
Impact of other factors	0.2	0.2	0.2	0.4
Local government:				
Impact of revised statistical basis on revenue and expenditure estimates	-0.1	-0.1	-0.1	-0.1
Impact of revised macroeconomic forecast on revenue and expenditure estimates	-0.2	-0.2	-0.2	-0.2
Impact of discretionary measures on revenue and expenditure estimates	0.0	0.0	0.0	0.0
Impact of other factors	-0.1	-0.1	-0.1	-0.1
Earnings-related pension funds:				
Impact of revised statistical basis on revenue and expenditure estimates	-0.1	-0.1	-0.1	-0.1
Impact of revised macroeconomic forecast on revenue and expenditure estimates	-0.3	-0.5	-0.5	-0.4
Impact of discretionary measures on revenue and expenditure estimates	0.0	0.0	0.0	0.0
Impact of other factors	0.0	0.0	0.0	0.0
Other social security funds:				
Impact of revised statistical basis on revenue and expenditure estimates	0.0	0.0	0.0	0.0
Impact of revised macroeconomic forecast on revenue and expenditure estimates	0.0	0.0	0.0	0.0
Impact of discretionary measures on revenue and expenditure estimates	-0.1	0.0	0.0	0.0
Impact of other factors	0.1	0.0	0.1	0.0
General government balance, autumn 2019	-1.4	-1.5	-1.5	-1.4

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

APPENDIX 4 Economic development risks and their impact on public finances

The baseline scenario of the General Government Fiscal Plan is based, with respect to 2019–2021, on the independent economic outlook forecast of the Economics Department of the Ministry of Finance from August 2019. The years 2022 and 2023 have been taken into account in the scenario based on, among other things, the growth estimate for potential output. In addition to the economic outlook forecast, the general government budgetary position in the baseline scenario is based on the Government Programme of Prime Minister Rinne’s Government, the General Government Fiscal Plan for 2021–2023 adopted by the Government in September 2019, and the State budgets for 2019 and 2020.

According to the baseline scenario, Finland’s economy will grow on average by 1.2% per year in 2018–2020. The international risks of the forecast are down-side and high. The key risks are the trade dispute between the United States and China as well as a no-deal Brexit, which would impact economic development, particularly in Europe. There also remains a significant risk associated with Italy’s economic policy. An easing of trade disputes is the most significant positive risk.

Domestic risks are associated with, among other things, private consumption, which will continue to be brisk during the outlook period and support GDP growth. Realisation of external risks may result in a sudden decline in consumer confidence and thereby private consumption and GDP. A higher level of household indebtedness will make it more difficult for households to keep their consumption levels unchanged during a downturn. There are also risks in the development of investments, including a faster contraction of housing investments.

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

In the slower growth scenario, GDP growth would be more sluggish in 2019–2023. The unemployment rate would end up at 7.4%. The general government deficit would be approximately 4% in 2023 and the debt-to-GDP ratio would rise to 71%. This would significantly increase the need to consolidate general government finances, and general government finances would be more vulnerable to negative shocks.

Faster growth than the baseline scenario of one percentage point would be sufficient to set the general government debt ratio onto a steeply downward path in the programme period. The general government budgetary position would improve into surplus. The unemployment rate would fall fairly rapidly. A precondition for more favourable economic growth than in the baseline scenario is the continuation of the upturn in the international economy as well as higher than anticipated economic growth in the industrialised countries.

The overall impact of the *low level of interest rates* on Finland’s general government budgetary position has been to increase the deficit. The exceptionally low level of interest rates means that general government interest expenditure has remained fairly low, i.e. only just over 1% in ratio to GDP. On the other hand, the interest income received by earnings-related pension funds included in general government finances has declined significantly, and the impact of the decline in interest income on the general government budgetary position has been greater than the impact of falling interest expenditure.

By a rough estimate, a rise in the level of interest rates by one percentage point would increase general government property income by slightly more than EUR 1 billion while at the same time general government interest expenditure would grow initially by approximately EUR 0.5 billion. Interest expenditure would grow by 2023 by just under EUR 1 billion more than the baseline scenario. The

general government public deficit would improve initially by approximately EUR 0.5 billion, but the improvement effect would decrease as interest expenditure grows in the following years. The property income of the earnings-related pension funds would grow by approximately EUR 0.6 million and of the other general government entities by approximately EUR 0.4 billion. General government debt would increase compared with the baseline scenario, because the surplus of the earnings-related pension funds would not cover the weakened budgetary position of the other general government entities.

The calculation assumes with respect to interest income that the change in the level of interest rates would only impact the income of interest-bearing assets directly and the breakdown of investments would not change. Changes in the general level of interest rates may also impact the income of non-interest-bearing asset items. In that case, the budgetary balance would be better than the calculation as the level of interest rates rises. The level of interest rates may also affect investment decisions, in which case there would be a shift to investments that generate higher income.

Sensitivity analysis

Baseline	2018	2019	2020	2021	2022	2023
GDP, change, %	1.7	1.5	1.0	0.9	0.9	0.7
Unemployment rate, %	7.4	6.5	6.3	6.2	6.3	6.5
Budgetary position, % GDP	-0.8	-1.0	-1.4	-1.5	-1.5	-1.4
Public debt, % GDP	58.9	58.8	58.8	59.7	60.6	61.6
Slow growth						
GDP, change, %	1.7	0.5	0.0	-0.1	-0.1	-0.3
Unemployment rate, %	7.4	7.3	7.3	7.3	7.3	7.4
Budgetary position, % GDP	-0.8	-1.5	-2.4	-3.0	-3.5	-3.9
Public debt, % GDP	58.9	59.8	61.1	63.8	66.9	70.5
Growth in 2019–2023 1 pp slower than in the baseline scenario						
Fast growth						
GDP, change, %	1.7	2.5	2.0	1.9	1.9	1.7
Unemployment rate, %	7.4	6.3	6.0	5.5	5.2	4.8
Budgetary position, % GDP	-0.8	-0.5	-0.3	0.0	0.5	1.2
Public debt, % GDP	58.9	57.9	56.5	55.7	54.6	53.1
Growth in 2019–2023 1 pp faster than in the baseline scenario						
Change in interest expenditure, if level of interest rates rises 1 pp, % GDP		0.2	0.2	0.3	0.3	0.3
Change in interest income, if level of interest rates rises 1 pp, % GDP		0.4	0.4	0.4	0.4	0.4
Change in surplus/ deficit, if level of interest rates rises 1 pp, % GDP		0.2	0.2	0.1	0.1	0.1
Change in borrowing requirement, if level of interest rates rises 1 pp, % GDP		0.0	0.1	0.1	0.1	0.2

APPENDIX 5 Stability Programme and Draft Budgetary Plan

Stability Programme

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

The data¹¹ in the Stability Programme tables are actual data¹² with respect to 2018, and the data for 2019–2020 are based on the independent forecast of the Economics Department of the Ministry of Finance. A target scenario for general government finances, based on the independent macroeconomic forecast and the objectives of the Government Programme, is presented for 2021–2022. With regard to the target scenario, it should be noted that all of the measures of the Government Programme and their exact timing have not at this point been specified so that they could be taken into account in the General Government Fiscal Plan. This will take place in the General Government Fiscal Plans prepared in 2020–2022 and in the Government's mid-term review in autumn 2021.

Fiscal policy objectives

Setting the Medium-Term Objective

The Government maintains unchanged Finland's *Medium-Term Objective* (MTO) of -0.5% of GDP for the structural balance. This is the minimum level which Finland has committed to in the Fiscal Compact.

Other fiscal policy targets

The Stability Programme sets out for 2021–2022 multiannual nominal targets for the budgetary position of general government finances as a whole, general government expenditure and general government debt. The targets are in line with the achievement of the MTO and the Government's goal of general government finances being in balance in 2023. In addition, the Government is committed to strengthening the long-term sustainability of public finances consistently.

Government measures to achieve the fiscal policy targets

Prime Minister Rinne's Government will pursue the achievement of fiscal policy targets by boosting conditions for economic growth through measures to promote productivity and employment. Investments in the foundation for productivity growth – education, research, innovations and infrastructure – will be strengthened. Permanent additional expenditure will amount to approximately EUR 1.1 billion (i.e. just over 0.4% of GDP) in 2020, and EUR 1.4 billion at the 2023 level. Permanent additional expenditure will be financed during the parliamentary term mainly through increases in tax revenue as well as through reallocations of expenditure, whose sum will rise to approximately EUR 240 million (0.1% of GDP) in 2020 and EUR 940 million (0.4% of GDP) at the 2023 level. In 2020, the Government will increase indirect taxation but will compensate for this by easing taxation of the earned income, pensions and benefits of people on low and middle incomes.

¹¹ Under Article 4 of Regulation 473/2013, "national medium-term fiscal plans and draft budgets shall be based on independent macroeconomic forecasts, and shall indicate whether the budgetary forecasts have been produced or endorsed by an independent body", whereas under Article 3 of Regulation 1466/97, "the stability programme shall be based on the most likely macrofiscal scenario or on a more prudent scenario".

¹² Data are based on the national accounts published by Statistics Finland on 20 September 2019.

Raising the employment rate is the most important element of the Government Programme in strengthening the revenue base. The Government is committed to an employment rate target of 75% under normal economic circumstances. Achieving the employment target will require measures to support labour supply and demand as well as the alleviation of matching problems in the labour market, for example by reforming unemployment security, increasing active labour policy measures and encouraging company-level agreements. The Government will increase appropriations for employment, attracting top international talent and integration in the parliamentary term by nearly EUR 300 million, i.e. just over 0.1% of GDP. Achieving the employment rate will strengthen general government finances such that part of the strengthening can be allocated to additional expenditure while meeting the goal of balancing general government finances in 2023.

In addition, the Government will implement in the parliamentary term a one-off programme of future-oriented investments, which will support the achievement of the goals of the Government Programme as well as the long-term sustainability of general government finances. Within the framework of the programme, in 2020–2022 up to EUR 3 billion, i.e. 1.2% of GDP, will be allocated to one-off investments and development measures. At this stage, approximately EUR 1.4 billion (0.6% of GDP), of which EUR 750 million (0.3% of GDP) in 2020, will be allocated to future-oriented investments. For the remaining part of the programme, a spending limits provision has been made, the use of which will be decided on later as part of a review of employment measures. The measures decided on now will raise the level of skills and competence, and thereby economic growth. The measures will be financed mainly with proceeds from the sale of financial assets so that they do not lead to an increase in the debt burden in 2023.

The Government is committed to reviewing the measures in the Government Programme should their implementation jeopardise the achievement of the targets set for general government finances. A mid-term review of the policy measures will be made in which necessary, more extensive additional measures will be decided on.

Compliance with the preventive arm of the Stability and Growth Pact

Finland is in the preventive arm of the Stability and Growth Pact and subject to the requirements of the preventive arm that relate to progress towards the MTO. The requirements for each year are determined on the basis of the Country-Specific Recommendations for that year. The achievement of the MTO or progress towards it are assessed with the aid of two pillars, the change in the structural balance and the expenditure benchmark.

The Stability Programme of spring 2019 stated that, according to an assessment made by the Ministry of Finance, last year Finland achieved the MTO in the manner set out in the country-specific recommendations. An assessment published by the Commission at the beginning of June confirmed that Finland complied with the Stability and Growth Pact in 2018.

The Country-Specific Recommendations for 2019 were adopted in July 2018. The recommendation given to Finland at that time was to achieve the medium-term budgetary objective in 2019, taking into

account the allowances linked to the implementation of the structural reforms for which a temporary deviation is granted.^{13 14}

According to the independent forecast, the structural balance deteriorates to -1.3% of GDP in 2019. The estimate of the level structural balance for this year has weakened since the spring forecast, which is due, in particular, to rapid growth in local government expenditure in the early part of 2019. The change in the structural balance deviates from the required change in 2019, but the deviation is minor and cumulatively the required adjustment for 2018–2019 is achieved. In addition, taking into account the fact that the deterioration of the structural balance in 2019 is affected by unforeseen slow growth in revenue due to impact of the fall in the level of interest rates on the property income of earnings-related pension funds and temporarily weaker tax receipts due to a change in withholding tax procedure as well as a lowering of the unemployment insurance contribution¹⁵, the assessment of the Ministry of Finance is that Finland is broadly compliant with the pillar concerning the change in the structural balance. The Ministry of Finance considers that a deviation from the expenditure benchmark may emerge, which, however, remains slightly below 0.5% of GDP in 2019, but exceeds the threshold for a significant deviation cumulatively in 2018–2019. The structural balance and expenditure benchmark, therefore, possibly give differing pictures of meeting the requirements of the preventive arm. This means that an overall assessment is made of the requirements of the preventive arm. The structural balance would seem to perform better in a situation in which GDP growth has been slow for a long period.¹⁶ The structural balance would therefore currently be a more reliable indicator of fiscal policy stance than the expenditure benchmark. Given the broad compliance with the structural balance requirement, the Ministry of Finance's current assessment is that an ex-post analysis of the requirements of the preventive arm in spring 2020 could be that the deviation from the requirements of the preventive arm is not significant.¹⁷ Due to risks and uncertainties associated with the assessment, however, the possibility of the deviation turning out to be significant cannot be ruled out.

The Country-Specific Recommendations for 2020 were adopted in the Council in July 2019. Finland was recommended to take action “to ensure that the nominal growth rate of net primary government expenditure does not exceed 1.9% in 2020, corresponding to an annual structural adjustment of 0.5% of GDP”.

According to the independent forecast, the structural balance deteriorates to -1.4% of GDP in 2020. The deterioration of the structural balance is partly a consequence of future-oriented investments decided by the Government, which will be financed with proceeds from the sale of central government financial

¹³ In spring 2017, Finland was granted the allowances under the structural reform and investment clauses, in line with the Stability and Growth Pact, totalling 0.6% of GDP, due to reforms supporting the sustainability of general government finances and the implementation of EU co-funded investment projects. The allowances were granted for 2017–2019. As, according to preliminary information in spring 2018, public investments declined in 2017, the allowance granted by the investment clause was removed. Only the allowance under the structural reform clause, 0.5% of GDP, remained. The allowance will end in 2019.

¹⁴ The country-specific recommendations also state that based on the Commission 2018 spring forecast, Finland should ensure that the deviation from the medium-term budgetary objective in 2019 is limited to the allowance linked to the budgetary impact in relation to the implementation of the structural reforms for which a temporary deviation was granted in 2017. This is consistent with a maximum nominal growth rate of net primary government expenditure of 2.9%, corresponding to an allowed deterioration in the structural balance by 0.2% of GDP.

¹⁵ The Employment Fund, classified in the social security funds, must reduce the unemployment insurance contribution when the maximum amount of the Employment Fund's cyclical buffer threatens to be exceeded. In 2019, the maximum amount of the buffer is the unemployment expenditure corresponding to an unemployment rate of 7%. The unemployment insurance contribution will also be reduced in 2020.

¹⁶ The 10-year average of potential output used in the expenditure benchmark seems too low in relation to the annual growth rate of potential output in 2019–2020. The implemented structural reforms have probably boosted employment growth and thus also potential output growth in the longer term. On the other hand, the prolonged period of slow growth in recent years and changes in Finland's production structure may be having an accentuated downward impact on the 10-year average of potential output at present.

¹⁷ If the Commission identifies a significant deviation in an ex-post analysis, a significant deviation procedure will be initiated for Finland.

assets, and of front-loaded permanent additional expenditure aimed at boosting productivity, the financing of which through tax measures and expenditure reallocations will take place mainly in later years. These measures support the achievement of the Government's employment target and strengthen long-term potential growth and the sustainability of general government finances. In the assessment of the Ministry of Finance, a significant deviation in the structural balance would arise in 2020 and cumulatively in 2019–2020. The Ministry of Finance also considers that it would also appear that the expenditure benchmark deviates significantly both in 2020 and cumulatively in 2019–2020. The Ministry of Finance therefore concludes that there is a risk of a significant deviation from the requirements of the preventive arm in 2020. A final assessment will be made in an ex-post analysis in spring 2021. If employment improves as aimed by the Government, it is possible that the situation for general government finances is more favourable than now. In addition, the independent forecast does not take into account possible measures to correct the local government deficit that have not yet been decided on at this stage.

A target scenario for general government finances based on the independent forecast and the objectives of the Government Programme has been presented for 2021–2022. The target scenario is consistent with the aim of the Government Programme for balanced general government finances in 2023. The Government Programme measures required to achieve the target scenario and their exact timing will be agreed in the General Government Fiscal Plans in 2020–2022 and in the Government mid-term review in autumn 2021.

A comparison of the target scenario with the independent economic forecast is presented in Table 1. The assessment of later years is subject to uncertainties, including the fact that required adjustments concerning them have not yet been approved. In addition, the assessment is made more difficult by the fact that not all of the Government measures aimed at improving employment, particularly with regard to later years, have yet been specified, so they could not be taken into account in the independent forecast. Achieving the target scenario would reduce the sustainability gap in the general government finances by approximately 1.4 percentage points.

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

The Government endorses the above assessment of progress towards the MTO. The Government considers that Finland complied with the Stability and Growth Pact in 2018, which was also confirmed by the Commission in its spring assessment.

Pursuant of section 3, subsection 1 of the Fiscal Policy Act (869/2012), the Government will initiate the measures it deems necessary to correct budgetary stability and sustainability if the structural balance of the general government, in the Government's assessment, deviates significantly in a manner that jeopardises the achievement of the MTO. The Government will assess this in connection with the monitoring and overall assessment of the state of public finances or as the Council of the European Union draws attention to this matter in its statement on Finland's Stability Programme.¹⁸

¹⁸ If the Council makes a recommendation to Finland on the action to be taken under the second subparagraph of Article 6 (2) of Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies, the Government must submit a Government report to Parliament. The report must include an estimate of the size of the deviation from the structural balance compared to the medium-term objective or the adjustment path towards it and an account of the necessary legislative and other measures to remedy the deviation by the end of the following calendar year at the latest.

Compliance with deficit and debt criteria

The general government deficit will be approximately -1.0% of GDP in 2019 and will remain below 3% of GDP during the Stability Programme period. Finland fulfils the Treaty deficit criterion.

General government debt ratio decreased to below the 60% reference value to 58.9% of GDP in 2018. According to the independent forecast of the Ministry of Finance Economics Department, general government debt will remain at 58.8% of GDP in 2019–2020, but will grow to 59.7% in 2021¹⁹. According to the independent forecast, the debt ratio will exceed the 60% reference value in 2022. Finland will therefore meet the Treaty debt criterion in 2019–2021, but there are uncertainties associated with the period thereafter. The post-2020 forecast is based on the discretionary measures set out in the General Government Fiscal Plan. Decisions on revenues and expenditures will be planned on the basis that general government debt-to-GDP ratio will decrease.

Assessment of progress on country-specific recommendations of 2018

According to the country-specific recommendations adopted by the Council in June 2018, Finland should take action to “achieve the medium-term budgetary objective in 2019, taking into account the allowances linked to the implementation of the structural reforms for which a temporary deviation is granted”.

Progress made towards the MTO has been assessed in the spring 2018 Stability Programme and in this Stability Programme. In line with the country-specific recommendations adopted in summer 2017, Finland has achieved its MTO in 2018, taking into account the allowances granted to Finland.

Progress made in the other country-specific recommendations given to Finland in 2018 has been discussed in the spring 2019 National Reform Programme (EU2020 programme).²⁰

Comparison with other forecasts, and sensitivity analysis

For a comparison between the targets set by the Government and the Commission’s latest public finance forecast, see the table below and the sensitivity analysis in Appendix 4 to the General Government Fiscal Plan. The Commission’s most recent GDP and inflation figures date back to July 2019 and the public finance figures to May 2019.

Draft Budgetary Plan

Pursuant of Regulation (EU) No. 473/2013 of the European Parliament and of the Council, Member States deliver to the Commission their Draft Budgetary Plans (DPBs) for the coming year by 15 October. This time, the 2020 Draft Budgetary Plan is annexed to the General Government Fiscal Plan.

Finland’s Draft Budgetary Plan is based on the information available on 20 September 2019 and the Government’s 2020 budget proposal, which will be submitted to Parliament on 7 October 2019. Parliament will discuss the budget proposal during the autumn and will approve it in December 2019.

¹⁹ The debt will be impacted by the anticipated commencement in 2021 of financing of the Air Force’s fighter aircraft procurement.

²⁰ <http://vm.fi/europe-2020>

The Draft Budgetary Plan forecast, which was also the basis for the preparation of the budget proposal, has been prepared independently by the Economics Department of the Ministry of Finance.

Tables 1–3

General government structural balance, net lending, expenditure and gross debt. Target scenario and Ministry of Finance autumn 2019 forecast, % GDP.¹

	2018	2019	2020	2021	2022
Structural balance					
— target			-1.4	-1.1	-0.7
— forecast	-1.0	-1.3	-1.4	-1.6	-1.6
General government net lending					
— target			-1.4	-1.0	-0.6
— forecast	-0.8	-1.0	-1.4	-1.5	-1.5
General government gross debt					
— target			58.8	58.7	58.6
— forecast	58.9	58.8	58.8	59.7	60.6
General government expenditure					
— target			53.1	52.1	51.4
— forecast	53.1	52.7	53.1	53.0	52.9

¹ For 2020, all of the 2020 budget proposal measures have been taken into account, so the target and baseline scenarios are the same.

Comparison with Commission's previous forecast

	Commission's forecast ¹				Ministry of Finance September 2019			
	2017	2018	2019	2020	2017	2018	2019	2020
GDP, change, %	3.0	1.7	1.5	1.2	3.1	1.7	1.5	1.0
unemployment rate, %	8.6	7.4	6.7	6.2	8.6	7.4	6.5	6.3
General government balance, % GDP	-0.8	-0.7	-0.4	-0.2	-0.7	-0.8	-1.0	-1.4
Structural balance, % GDP	-0.7	-1.0	-1.0	-0.6	-0.8	-1.0	-1.3	-1.4
General government debt, % GDP	61.3	58.9	58.3	57.7	60.8	58.9	58.8	58.8

¹ Commission's GDP forecast is from June 2019 and other forecasts from May 2019.

Table 1a. Macroeconomic prospects

	2018	2018	2019	2020	2021	2022	2023
	EUR billion						
1. Real GDP	202.8	1.7	1.5	1.0	0.9	0.9	0.7
2. GDP at current prices	234.5	3.8	3.3	3.0	2.9	2.8	2.7
Components of real GDP							
3. Private consumption expenditure	109.7	1.8	1.7	1.4	1.5	1.3	1.2
4. Government final expenditure	47.1	1.5	1.4	1.7	0.1	0.7	0.7
5. Gross fixed final consumption	48.0	3.3	0.4	-0.3	0.3	0.2	-0.3

	2018 EUR billion	2018	2019	2020	2021	2022	2023
6. Changes in inventories and net acquisition of valuables (% of GDP)	3.2	1.6	2.1	2.7	3.5	4.6	6.0
7. Exports of goods and services	83.0	2.2	2.4	2.4	2.1	1.5	1.2
8. Imports of goods and services	88.1	5.0	1.8	2.3	2.0	1.5	1.2
Imputed impact in GDP growth, % points							
9. Final domestic demand	204.8	2.1	1.3	1.1	0.9	0.9	0.7
10. Change in inventories and net acquisition of valuables	3.2	0.6	0.0	0.0	0.0	0.0	0.0
11. External balance of goods and services	-5.1	-1.0	0.2	0.0	0.1	0.0	0.0

Table 1b. Development of price indices

	2018	2019	2020	2021	2022
1. GDP deflator	2.1	1.7	1.9	1.9	1.9
2. Private consumption deflator	1.1	1.1	1.4	1.6	1.6
3. Harmonised Index of Consumer Prices	1.2	1.2	1.5	1.8	1.8
4. Public consumption deflator	1.6	2.5	3.1	3.0	3.0
5. Investment deflator	2.3	2.4	1.9	1.7	1.8
6. Export price deflator	4.0	2.0	2.0	1.8	1.8
7. Import price deflator	3.4	1.8	2.3	1.8	1.8

Table 1c. Labour market development

	2018 level	2018	2019	2020	2021	2022
1. Employment, 1,000 persons	2540	2.7	0.9	0.5	0.3	-0.2
2. Employment, 1,000 working hours	420400	2.5	0.8	0.4	0.2	-0.2
3. Unemployment rate (%)	202	7.4	6.5	6.3	6.2	6.3
4. Labour productivity, persons	79.8	-1.0	0.6	0.5	0.6	1.1
5. Labour productivity, hours worked	482.4	-0.8	0.7	0.6	0.7	1.1
6. Compensation of employees	108.2	3.5	3.0	3.6	3.2	2.6
7. Compensation of employees per employee	42.6	0.7	2.0	3.0	2.9	2.8

Table 1d. Sectoral balances, % GDP

	2018	2019	2020	2021	2022
1. Finland's net lending/borrowing vis-à-vis the rest of the world	-1.8	-1.4	-1.3	-1.2	-1.2
of which:					
— Balance of goods and services					
— Factor income and transfer balance					
— Capital transfers, net					
2. Private sector net lending					
3. Public sector net lending					
4. Statistical discrepancy	0.7	0.7	0.7	0.7	0.7

Table 2a. General government prospects, % GDP

	2018	2018	2019	2020	2021	2022
	EUR million					
Net lending by subsector (EDP B.9)						
1. General government, total	-1 935	-0.8	-1.0	-1.4	-1.0	-0.6
2. Central government	-2 807	-1.2	-0.9	-1.2	-0.6	-0.1
3. County government						
4. Local government	-2 068	-0.9	-1.2	-0.9	-1.1	-1.1
5. Social security funds	2 940	1.3	1.0	0.8	0.7	0.6
General government (S13)						
6. Total revenue	122 485	52.2	51.7	51.7	51.1	50.8
7. Total expenditure	124 420	53.1	52.7	53.1	52.1	51.4
8. Net lending	-1 935	-0.8	-1.0	-1.4	-1.0	-0.6
9. Interest expenditure	2 069	0.9	0.8	0.7	0.6	0.6
10. Primary balance	134	0.1	-0.2	-0.6	-0.3	0.0
11. One-off measures	0	-0.1	0.1	0.0	0.0	0.0
Revenue categories						
12. Tax revenue (12=12a+12b+12c)	71 148	30.3	30.2	30.3	30.1	29.9
12a. Taxes on production and imports	33 092	14.1	13.8	13.7	13.6	13.4
12b. Current taxes on income	37 364	15.9	16.1	16.3	16.2	16.3
12c. Taxes on capital income	692	0.3	0.3	0.3	0.3	0.3
13. Social security contributions	27 947	11.9	11.7	11.9	11.8	11.7
14. Property income	7 071	3.0	3.0	2.7	2.6	2.7
15. Other revenue (15=16-12-13-14)	16 319	7.0	6.9	6.8	6.6	6.5
16. = 6. Total revenue	122 485	52.2	51.7	51.7	51.1	50.8
of which: Tax burden (D2+D.5+D.61+D.91-D.995)	99 392	42.4	42.0	42.3	41.9	41.7
Expenditure categories						
17. Compensation of employees + intermediate consumption	53 830	23.0	23.0	23.4	23.1	23.0
17a. Compensation of employees (i.e. wages + employer's social security contributions)						
17b. Intermediate consumption						
18. Social transfers (18=18a+18b)	49 709	21.2	21.0	21.0	20.5	20.2
of which unemployment benefits	4 500	1.9	1.7	1.6	1.6	1.5
18a. Social transfers in kind						
18b. Monetary social benefits						
19. = 9. Interest expenditure	2 069	0.9	0.8	0.7	0.6	0.6
20. Subsidies	2 749	1.2	1.2	1.2	1.1	1.0
21. Gross fixed capital formation	9 872	4.2	4.2	4.3	4.2	4.1
22. Capital transfers	407	0.2	0.2	0.2	0.2	0.2
23. Other expenditure (23= 24 -17-18-19-20-21)	5 784	2.5	2.4	2.3	2.4	2.3
24. = 7. Total expenditure	124 420	53.1	52.7	53.1	52.1	51.4
of which: Public consumption	53 133	22.7	22.8	23.2	23.0	23.0

Table 2b. Revenue and expenditure under unchanged policies, % GDP

	2018	2018	2019	2020	2021	2022
	EUR million					
1. Total revenue under unchanged policies	122 485	52.2	51.7	51.7	51.5	51.4
2. Total expenditure under unchanged policies	124 420	53.1	52.7	53.1	53.0	52.9

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

	2018 EUR million	2018	2019	2020	2021	2022
1. Expenditure on EU programmes fully matched by EU funds revenue	506	0.2	0.2	0.2	0.2	0.2
1a. of which investment fully matched by EU funds revenue	103	0.0	0.0	0.0	0.0	0.0
2. Cyclical unemployment benefit expenditure	422	0.2	0.0	0.0	0.0	0.1
3. Effect of discretionary revenue measures	-702	-0.3	-0.1	0.1	0.1	0.0
4. Revenue increases mandated by law	82	0.0	0.0	0.0	0.0	0.0

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

	COFOG code	2017	2022
1. General public services	1	7.9	
2. Defence	2	1.3	
3. Public order and safety	3	1.1	
4. Promotion of business and industry	4	4.3	
5. Environmental protection	5	0.2	
6. Housing and community amenities	6	0.3	
7. Healthcare	7	7.1	
8. Recreation, culture and religion	8	1.5	
9. Education	9	5.7	
10. Social security	10	24.9	
11. Total expenditure (=item 7=23 in Table 2)	Total	54.2	

Tables 4–8**Table 4. Development of general government debt, % GDP**

	2018	2019	2020	2021	2022
1. Gross debt, % GDP	58.9	58.8	58.8	58.7	58.6
2. Change in the gross debt ratio, pp	-1.9	-0.1	0.0	-0.1	-0.1
Contributions to changes in gross debt, pp					
3. Primary balance	-0.1	0.2	0.6	0.3	0.0
4. Interest expenditure	0.9	0.8	0.7	0.6	0.6
5. Stock-flow adjustment items	-2.7	-1.1	-1.4	-1.1	-0.8
of which:					
— Differences between cash-based and accrual-based					
— Net acquisition of financial assets					
— of which: privatisation proceeds					
— Other (incl. impacts of GDP growth)					
Implicit interest rate on debt	1.5	1.4	1.3	1.2	1.1
Other relevant variables					
6. Liquid financial assets (AF1, AF2, AF3, AF5)					
7. Net financial liability (7=1-6)					

	2018	2019	2020	2021	2022
8. Central government write-offs (existing bonds)					
9. Shares of foreign currency denominated loans					
10. Average maturity of government debts					

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

	2018	2019	2020	2021	2022
1. Real GDP, % change	1.7	1.5	1.0	0.9	0.9
2. General government financial balance	-0.8	-1.0	-1.4	-1.0	-0.6
3. Interest expenditure	0.9	0.8	0.7	0.6	0.6
4. One-off measures	-0.1	0.1	0.0	0.0	0.0
one-off measures affecting general government revenue	-0.1	0.1			
one-off measures affecting general government expenditure					
5. Potential GDP, change %	1.5	1.4	1.2	1.0	0.9
contributions:					
— labour input					
— invested capital					
— total factor productivity					
6. Production gap	0.3	0.3	0.1	0.2	0.1
7. Financial balance cyclical component	0.2	0.2	0.0	0.1	0.1
8. Cyclically-adjusted balance (2-7)	-1.0	-1.2	-1.4	-1.1	-0.7
9. Cyclically-adjusted primary balance (8+3)	-0.1	-0.4	-0.7	-0.4	-0.1
10. Structural balance (8-4)	-1.0	-1.3	-1.4	-1.1	-0.7

Table 6. Divergence from previous Stability Programme

	2018	2019	2020	2021	2022
GDP growth (%)					
SP-2019 April	2.3	1.7	1.4	1.2	1.0
SP-2019 October	1.7	1.5	1.0	0.9	0.9
Difference, pp	-0.7	-0.2	-0.3	-0.2	-0.1
General government balance, % GDP					
SP-2019 April	-0.6	-0.3	0.0	-0.1	-0.3
SP-2019 October	-0.8	-1.0	-1.4	-1.0	-0.6
Difference, pp*	-0.2	-0.8	-1.3	-0.9	-0.3
General government gross debt, % GDP					
SP-2019 April	58.9	58.1	57.4	57.4	57.7
SP-2019 October	58.9	58.8	58.8	58.7	58.6
Difference, pp*	0.0	0.8	1.5	1.3	0.9

Table 7. Long-term sustainability of general government finances, % GDP¹

	2007	2010	2020	2030	2040	2050	2060	2070
Total expenditure	46.6	53.9	53.1	56.0	58.4	59.8	62.7	67.0
of which: age-related expenditure	23.2	27.1	28.6	30.9	31.5	31.3	32.2	34.0
Total revenue	51.7	51.4	51.7	52.1	52.4	52.5	52.8	52.8

¹⁾ Table figures are in accordance with independent forecast.

Table 7a. Contingent liabilities, % of GDP

	2017	2018
Central government guarantees	22.6	24.6
of which: linked to financial sector	3.1	3.8
Local government guarantees	12.1	-

Table 8. Underlying assumptions¹

	2018	2019	2020	2021
3-month EURIBOR	-0.3	-0.3	-0.4	-0.3
Long-term interest rate (10 years)	0.7	0.0	-0.2	-0.1
USD/EUR exchange rate	1.2	1.1	1.1	1.1
Nominal effective exchange rate	3.4	-0.8	-0.1	
World GDP growth (excluding the EU)	3.6	3.0	3.2	3.3
EU-28 GDP growth	1.9	1.1	1.3	1.4
Growth of relevant foreign markets	3.0	1.1	2.1	2.4
World trade growth	3.7	1.0	2.1	2.8
Oil prices (USD/barrel)	71.6	63.3	63.8	67.8

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

Draft Budgetary Plan

Tables

1 Macroeconomic Forecasts

Table 0.i) Basic assumptions

	2018	2019	2020
3-month EURIBOR	-0.3	-0.3	-0.4
Long-term interest rate (10 years)	0.7	0.0	-0.2
USD/EUR exchange rate	1.2	1.1	1.1
Nominal effective exchange rate	3.4	-0.8	-0.1
World GDP growth (excluding the EU)	3.8	3.4	3.6
EU-28 GDP growth	2.0	1.4	1.6
GDP growth of relevant foreign markets	3.0	1.3	2.3
World trade growth	3.7	1.0	2.1
Oil prices (USD/barrel)	71.6	63.3	63.8

Table 1a. Macroeconomic prospects

	2018 EUR billion	2018 change, %	2019 change, %	2020
1. Real GDP	202.8	1.7	1.5	1.0
of which				
1.1. Attributable to the estimated impact of aggregated budgetary measures on economic growth				
2. Potential GDP	201.2	1.5	1.4	1.2
contributions:				
— labour input				
— capital				
— total factor productivity				
3. Nominal GDP	234.5	3.8	3.3	3.0
4. Private consumption expenditure	109.7	1.8	1.7	1.4
5. Government final expenditure	47.1	1.5	1.4	1.7
6. Gross fixed final consumption	48.0	3.3	0.4	-0.3
7. Changes in inventories and net acquisition of valuables (% of GDP)	3.2	1.6	2.1	2.7
8. Exports of goods and services	83.0	2.2	2.4	2.4
9. Imports of goods and services	88.1	5.0	1.8	2.3
Contributions to real GDP growth, % points				
10. Final domestic demand	204.8	2.1	1.3	1.1
11. Change in inventories and net acquisition of valuables	3	0.6	0.0	0.0
12. External balance of goods and services	-5.1	-1.0	0.2	0.0

Table 1b. Price developments

	2018	2019	2020
	change, %		
1. GDP deflator	2.1	1.7	1.9
2. Private consumption deflator	1.1	1.1	1.4
3. Harmonised Index of Consumer Prices	1.2	1.2	1.5
4. Public consumption deflator	1.6	2.5	3.1
5. Investment deflator	2.3	2.4	1.9
6. Export price deflator	4.0	2.0	2.0
7. Import price deflator	3.4	1.8	2.3

Table 1c. Labour market development

	2018	2018	2019	2020
	level	change, %		
1. Employment, 1,000 persons	2 540	2.7	0.9	0.5
2. Employment, 1,000,000 hours worked	420.4	2.5	0.8	0.4
3. Unemployment rate (%)	202	7.4	6.5	6.3
4. Labour productivity, persons	79.8	-1.0	0.6	0.5
5. Labour productivity, hours worked	482.4	-0.8	0.7	0.6
6. Compensation of employees	108.2	3.5	3.0	3.6
7. Compensation of employees per employee	42.6	0.7	2.0	3.0

Table 1d. Sectoral balances, % GDP

	2018	2019	2020
1. Finland's net lending/borrowing vis-à-vis the rest of the world	-1.3	-1.2	-1.3
of which:			
— Balance of goods and services	-0.7	-0.4	-0.5
— Factor income and transfer balance	-0.7	-0.9	-0.8
— Capital transfers, net	0.0	0.0	0.0
2. Private sector net lending	-0.1	0.2	0.4
3. Public sector net lending	-0.8	-1.0	-1.4
4. Statistical discrepancy	0.4	0.4	0.4

2. General government budgetary targets

Table 2a General government budgetary targets broken down by subsector, % GDP

Net lending (+)/ net borrowing (-) by subsector	2019	2020
1. General government, total	-1.0	-1.4
2. Central government	-0.9	-1.2
3. -	-	-
4. Local government	-1.2	-0.9
5. Social security funds	1.0	0.8
6. Interest expenditure	0.8	0.7
7. Primary balance	-0.2	-0.6
8. One-off measures	0.1	0.0
9. Real GDP growth, % change	1.4	0.9
10. Potential GDP, change %	1.4	1.2
contributions:		
— labour input		
— invested capital		
— total factor productivity		
11. Production gap	0.3	0.1
12. Financial balance cyclical component	0.2	0.0
13. Cyclically-adjusted balance	-1.2	-1.4
14. Cyclically-adjusted primary balance	-0.4	-0.7
15. Structural balance	-1.3	-1.4

Table 2b General government debt developments, EUR billion

	2019	2020
1. Gross debt	58.8	58.8
2. Change in the gross debt ratio, pp	-0.1	0.0
Contributions to changes in gross debt, pp		
3. Primary balance	0.2	0.6
4. Interest expenditure	0.8	0.7
5. Stock-flow adjustment items	-1.1	-1.4
of which:		
— Differences between cash-based and accrual-based	0.2	0.1
— Net acquisition of financial assets	0.6	0.3
— of which:		
— privatisation proceeds	-0.2	-0.5
— valuation effects and other	-1.9	-1.7
Implicit interest rate on debt	1.4	1.3
Other relevant variables		
6. Liquid financial assets		
7. Net financial debt		
8. Central government write-offs (existing bonds)		
9. Shares of foreign currency denominated loans		
10. Average maturity of government debts		

3 Expenditure and revenue projections under the no-change scenario

Table 3 General government expenditure and revenue projections at unchanged policies broken down by main components, % GDP

Public sector institutions	2019	2020
1. Total revenue at unchanged policies	51.7	51.6
of which:		
1.1. Taxes on production and imports	13.8	13.7
1.2. Current taxes on income	16.1	16.3
1.3. Taxes on capital income	0.3	0.3
1.4. Social security contributions	11.7	11.9
1.5. Property income	3.0	2.7
1.5. Other revenue	6.9	6.8
of which: tax burden	42.0	42.3
2. Total expenditure at unchanged policies	52.7	52.3
of which:		
2.1. Compensation of employees (i.e. wages + employer's social security contributions)	12.2	12.3
2.2. Intermediate consumption	10.8	10.8
2.3. Social transfers	21.0	20.8
of which unemployment benefits	1.7	1.6
2.4. Interest expenditure	0.8	0.7
2.5. Subsidies	1.2	1.1
2.6. Gross fixed capital formation	4.2	4.1
2.7. Capital transfers	0.2	0.2
2.8. Other expenditure	2.4	2.3

4 General government expenditure and revenue targets; broken down by main components

Table 4a General government revenue and expenditure targets, broken down by main components

Public sector institutions	2019	2020
1. Total revenue	51.7	51.7
of which:		
1.1. Taxes on production and imports	13.8	13.7
1.2. Current taxes on income	16.1	16.3
1.3. Taxes on capital income	0.3	0.3
1.4. Social security contributions	11.7	11.9
1.5. Property income	3.0	2.7
1.5. Other revenue	6.9	6.8
of which: tax burden	42.0	42.3
2. Total expenditure	52.7	53.1
of which:		
2.1. Compensation of employees	12.2	12.4
2.2. Intermediate consumption	10.8	10.9
2.3. Social transfers	21.0	21.0
of which unemployment benefits	1.7	1.6
2.4. Interest expenditure	0.8	0.7
2.5. Subsidies	1.2	1.2
2.6. Gross fixed capital formation	4.2	4.3
2.7. Capital transfers	0.2	0.2
2.8. Other expenditure	2.4	2.3

Table 4b Amounts to be excluded from the expenditure benchmark

	2018 EUR million	2018	2019 % GDP	2020
1. Expenditure on EU programmes fully matched by EU funds revenue	506	0.2	0.2	0.2
1.a of which investments	103	0.0	0.0	0.0
2. Cyclical unemployment benefit expenditure	422	0.2	0.0	0.0
3. Effect of discretionary revenue measures	-702	-0.3	-0.1	0.1
4. Revenue increases mandated by law	82	0.0	0.0	0.0

5 Description of discretionary measures included in the draft budget

Table 5a Discretionary measures taken by the general government

List of measures ¹	Detailed description	Target	Accounting principle	Adoption in status	Budgetary impact		
					2018	2019 % GDP	2020
Personal income tax	Personal income tax		accrual	mostly decided ²			0.0
Corporate income tax	Corporate income tax		accrual	mostly decided ²			0.0
Indirect taxes	Indirect taxes		accrual	mostly decided ²			0.0
Social security contributions	Social security contributions		accrual	proposal ³			0.1
Expenditure measures, total	Expenditure measures, total		accrual/ cash-based	mostly decided ²			0.8

¹⁾ Many of the discretionary measures do not pass a size criterion (at least 0.05% of the GDP), therefore the measures are combined and merely the aggregate effect of measures is reported. Some of the measures are temporary but most of them are permanent.

²⁾ Parliament will decide during autumn 2019

³⁾ The Ministry of Social Affairs and Health will confirm during autumn 2019

Table 5b Discretionary measures taken by central government

List of measures ¹	Detailed description	Target	Accounting principle	Adoption in status	Budgetary impact		
					2018	2019 % GDP	2020
Personal income tax	Personal income tax		accrual	mostly decided ²			0.0
Corporate income tax	Corporate income tax		accrual	mostly decided ²			0.0
Indirect taxes	Indirect taxes		accrual	mostly decided ²			0.0
Expenditure measures, total	Expenditure measures, total		accrual/ cash-based	mostly decided ²			0.8

¹⁾ Many of the discretionary measures do not pass a size criterion (at least 0.05% of the GDP), therefore the measures are combined and merely the aggregate effect of measures is reported. Some of the measures are temporary but most of them are permanent.

²⁾ Parliament will decide during autumn 2019

6 Indications on how measures of the Draft Budgetary Plan address Country-Specific Recommendations (CSR) and the targets set by the Union's Strategy for Growth and Jobs

Table 6a Country-Specific Recommendations

Recommendation	Measures	Description of direct relevance
CSR 1: ensure that the nominal growth rate of net primary government expenditure does not exceed 1.9% in 2020, corresponding to an annual structural adjustment of 0.5% of GDP; improve the cost-effectiveness of and equal access to social and healthcare services;	The first part of the recommendation has been addressed above and in the Stability Programme. The Government will initiate the preparation of a reform of health and social services. Preparation will take into account the work done during previous parliamentary terms and constitutional constraints. The Government will finance health and social services development projects aimed at improving the availability, accessibility, effectiveness and quality of basic services. In addition, the Government will implement a treatment time guarantee aimed at ensuring that, in non-urgent situations, people have access to treatment within seven days of the assessment of the need for treatment.	The measures respond to the recommendation with respect to improving access to social and healthcare services.
CSR 2: improve incentives to accept work and enhance skills and active inclusion, notably through well-integrated services for the unemployed and the inactive;	The Government will invest in education and skills at different levels of education to address labour shortages in enterprises. It will also promote continuous learning for employed people and education and training for unemployed people. The Government will increase the use of the wage subsidy by simplifying and speeding up the wage subsidy process and by reducing employer bureaucracy and by linking other services more closely to the wage subsidy scheme. The Government will reform the unemployment benefit system and services for the unemployed so that services and job search obligations will be based on personal employment plans. The Government will promote labour mobility with a proposal providing for half of the relocation costs paid by the employer to be exempt from tax.	The measures respond to the recommendation with respect to improving incentives to enhance skills and active inclusion.

Recommendation	Measures	Description of direct relevance
CSR 3: focus investment-related economic policy on research and innovation, low carbon and energy transition and sustainable transport, taking into account regional disparities;	The Government will initiate a study on the possibility of submitting a proposal for a temporary incentive for research cooperation aimed at encouraging intangible investment. In addition, the Government proposes that Business Finland's grant-based financing be increased by EUR 55 million in 2020 and EUR 45 million in 2021 to support business-driven research, development and innovation activity. The Government proposes an increase of EUR 90 million to the approval authority for energy subsidies in the spending limits period to support investments in energy technologies to replace coal as well as a total of EUR 48 million in fixed-term circular economy innovation and investment support for 2020–2021. The Government proposes a permanent general increase of EUR 300 million to fund basic transport infrastructure maintenance (road, rail and waterways) to improve transport connections throughout the country and to reduce the repair backlog.	The measures respond directly to the recommendation
CSR 4: strengthen the monitoring of household debt and establish the credit registry system.	The Government aims to establish a positive credit register during the parliamentary term. In addition, the Government has decided that the cap on tax deductions for mortgage interest payments will continue to be reduced gradually during the parliamentary term. Next year, 15% of mortgage interest payments will be tax deductible.	The measures respond directly to the recommendation

Table 6b Targets set by the Union's Strategy for Growth and Jobs

No significant changes since spring 2019, see:

https://ec.europa.eu/info/sites/info/files/business_economy_euro/economic_and_fiscal_policy_coordination/documents/2019-european-semester-national-reform-programme-finlad-en.pdf

7 Divergence from the latest Stability Programme

Table 7 Divergence from the latest Stability Programme

	2018	2019	2020
	% GDP		
General government net lending			
Stability Programme	-0.6	-0.3	0.0
Draft Budgetary Plan	-0.8	-1.0	-1.4
Difference, pp	-0.2	-0.8	-1.3
General government net lending at unchanged policies			
Stability Programme	-0.6	-0.3	0.0
Draft budget proposal	-0.8	-1.0	-0.6
Difference, pp	-0.2	-0.8	-0.6

Methodological aspects

The macro forecast is based on the views of experts, the Ministry of Finance DSGE model (see e.g. Economic Survey, autumn 2017, p. 17), a short-term factor model and various partial models.

The forecast for general government finances is based on, among other things, a short-term macro forecast and medium-term calculations as well as budget proposals, spending limits decisions, tax base forecasts and discretionary tax changes as well as detailed tax revenue estimates derived from them, the local government finances programme and decisions on social security contributions and benefits.