MINISTRY OF FINANCE

2018 Draft Budgetary Plan

Ministry of Finance publications – 35c/2017

Economic Policy

Ministry of Finance publications – 35c/2017

2018 Draft Budgetary Plan

Ministry of Finance, Helsinki 2017

MINISTRY OF FINANCE
PO Box 28 (Snellmaninkatu 1 A) FI-00023 GOVERNMENT
FINLAND
Tel. +358 295 16001
Internet: www.financeministry.fi
Layout: Government Administration Department / Information Support and Publications Unit / Anja Järvinen/
Pirkko Ala-Marttila

Helsinki 2017

PEFC/02-31-128
4041 0017
Painotuote

Description sheet

Published by	Ministry of Finance		5.10.2017
Authors	Economics Department		
Title of publication	2018 Draft Budgetary Plan		
Series and publication number	Ministry of Finance publications 35c/2017		
Register number		**Subject**	Economic Policy
ISBN (printed)	978-952-251-898-9	**ISSN (printed)**	1459-3394
ISBN PDF	978-952-251-899-6	**ISSN (PDF)**	1797-9714
Website address (URN)	http://urn.fi/URN:ISBN:978-952-251-899-6		
Pages	20	**Language**	English
Keywords			

Abstract

Under Regulation (EU) No 473/2013 of the European Parliament and of the Council (Regulation on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area), euro area Member States are required to sub-mit their draft budgetary plans (DBPs) for the forthcoming year to the Commission by 15 October. The DBPs are part of the coordinated surveillance exercise that takes place in the autumn. The DBP should allow the identification of any deviations from the general government finances strategy presented in the most recent Stability Programme. The DBP contains information on macroeconomic forecasts and assumptions, targets for general government finances, expenditure and revenue projections under the no-policy-change scenario, expenditure and revenue targets, discretionary measures included in the draft budget, the goals of the European Union's strategy for growth and jobs and the country specific recommendations, and a comparison between the DBP and the most recent Stability Programme, as well as a methodological annex. Finland's draft budgetary plan for 2018 is based on the Government's 2018 draft budget submitted to Parliament on 19 September 2017 which for the most part is founded upon the spring 2017 spending limits decision, on the 2017 supplementary budgets and on the 2018 programme for local government finances.

Publisher	Ministry of Finance
Printed by (place and time)	Lönnberg Print & Promo, 2017
Publication sales/ Distributed by	Online version: julkaisut.valtioneuvosto.fi Publication sales: julkaisutilaukset.valtioneuvosto.fi

Contents

Tables

Appendix

The 2018 Draft Budgetary Plan provides an assessment of the development of Finland's general government finances in 2017 and 2018 as well as the Government's assessment of progress towards the Medium-Term Objective.

Assessment of compliance with deficit and debt criteria

According to the independent forecast of the Ministry of Finance, Finland's general government deficit was 1.8% in ratio to GDP in 2016 and will be 1.2% in 2017 and 1.4% in 2018. Finland therefore continues to comply with the deficit criterion, in line with the European Commission's assessment of May 2017, and the deficit development has been more positive than the target trajectory set out in the Stability Programme.

In May 2017, the Commission's view was that Finland is also in compliance with the debt criterion, even though the ratio of general government debt to GDP has exceeded the 60% reference value since 2014. In its assessment, the Commission took into account cyclically-adjusted debt, which was below 60% of GDP, the structural reforms implemented by Finland, and compliance with the preventive arm of the Stability and Growth Pact (SGP).

According to the independent forecast of the Economics Department of the Ministry of Finance, the debt ratio decreased to 63.1% of GDP in 2016 and will decrease further to 62.5% in 2017 and to 61.9% in 2018. Therefore the debt ratio is also now expected to develop more favourably than was assessed in the Stability Programme or the Commission's Spring Economic Forecast. According to the Ministry of Finance forecast, Finland will comply with the forward-looking debt reduction benchmark in 2017 and the backward-looking one in 2018. Consequently, the debt criteria can be regarded as complied with. If relevant factors were also to be assessed, the solidarity operations relating to stability in the euro area, the impact of which on Finland's general government debt will be 2.6% of GDP in 2017 and 2.5% of GDP in 2018, must be taken into account as regards them. With the impact of the solidarity operations taken into account, the debt ratio will remain below the 60% reference value for both of the years.

General government debt to GDP ratio, %

	2016	2017	2018
Draft Budgetary Plan, September 2017	63.1	62.5	61.9
Stability Programme, April 2017	63.6	64.7	64.5
Commission Spring Economic Forecast, April 2017*	63.6	65.5	66.2

*Recalculated by the Commission on the basis of data from the Spring Forecast and Stability Programme

Medium-Term Objective (MTO)

Finland is still within the preventive arm of the Stability and Growth Pact (SGP) and subject to the requirements of the preventive arm that relate to progress towards the Medium-Term Objective (MTO). The achievement of the MTO or progress towards it are assessed on the basis of two pillars – change in structural balance, and the expenditure benchmark.

Finland's MTO for the structural balance is 0.5% of GDP, which the Government aims to attain no later than in 2019. Key roles in this are played by the Competitiveness Pact and the employment-promotion measures taken and, where necessary, measures taken to supplement these to ensure that the effects of the Government's measures to improve general government finances will be realised at the target level set in the Government Programme. In addition, reforms directed at the management of general government finances will improve the state of general government finances.

In spring 2017, Finland was granted flexibility under both the structural reform clause and the investment clause of the SGP to a total of 0.6% of GDP due to the implementation of major reforms with a positive impact on the sustainability of public finances and national expenditures on projects co-financed by the EU. This flexibility is granted for a period of three years.

According to the country-specific recommendations for Finland adopted by the Council in July 2017, Finland's structural balance is allowed to deteriorate by 0.5% of GDP in 2017 and the recommendation for 2018 is that Finland "for 2018, should achieve its medium-term budgetary objective, taking into account the allowance in relation to unusual events, as well as the allowances related to the implementation of the structural reforms and investments".

In the spring, the Commission forecast that Finland's structural balance will be -0.9% of GDP in 2016, 1.3% of GDP in 2017 and 1.4% of GDP in 2018. According to the autumn 2017 forecast of the Ministry of Finance, the development of the structural balance will be better than anticipated and be 0.4% of GDP in 2016, 0.8% of GDP in 2017 and 1.3% of

GDP in 2018. The figure for 2018 will, however, fall below the target trajectory set for the structural balance in the SGP.

In the spring, the Commission assessed that Finland had progressed in 2016 towards the MTO in compliance with the requirements of the preventive arm.

Assessment concerning 2017 should take into account the (over-)achievement of the MTO in 2016. In addition, taking the flexibility granted for Finland into account, the structural balance is allowed to deteriorate to 1.1% of GDP. The structural balance is stronger than that and, with the change in structural balance being 0.3% of GDP, Finland is in compliance with the pillar concerning structural balance. Finland also complies with the requirements set for the structural balance cumulatively in the 2016–2017 period.

According to the Ministry of Finance forecast, the expenditure benchmark rule will be complied with in 2017 and cumulatively in the 2016–2017 period.

Therefore Finland is in compliance with the requirements of the preventive arm in 2017.

As regards 2018, the MTO for Finland, with the flexibility taken into account, is 1.1% of GDP. The structural balance will be slightly below this at 1.3% of GDP. The deviation is not, however, significant.[1] Finland will also comply with the requirements set for the structural balance cumulatively in the 2017–2018 period.

In its country-specific recommendations for Finland, the Council has set Finland's expenditure benchmark, that is, the maximum nominal growth rate of net primary government expenditure, for 2018 at 1.6%. In the light of the projected figures, there will be a deviation regarding the expenditure benchmark rule for 2018, but this deviation will not be significant and will be cumulatively minor for the 2017–2018 period.

It can therefore be assessed that Finland will comply with the requirements of the preventive arm in 2018, too.

1 In analyses of the structural balance and the expenditure benchmark, a significant deviation is 0.5% of GDP. A deviation is considered significant if the deviation of the structural balance from the required change is 0.5 percentage points (of GDP) in a single year or at least 0.25 percentage points on average per year in two consecutive years. The aim of the latter definition is to prevent situations where there is a slight deviation from the required change each year in the structural balance, resulting in the cumulative deviation gradually becoming large. As regards the expenditure benchmark, a deviation is calculated as a deviation of net expenditure and of the target set for its growth.

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

The Government agrees with the above assessment of progress towards the Medium-Term Objective (MTO). The MTO was already attained in 2016. In 2017, Finland will continue to comply with the MTO when taking the flexibility granted to Finland into account. In 2018, Finland will move away from the MTO, but the deviation will be minor and Finland can be assessed as making progress towards the MTO as required, however.

Under 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.

1. Macroeconomic forecasts[1]

Table 0.i) Basic assumptions

	2016	2017	2018
3-month Euribor	-0.3	-0.3	-0.2
Long-term interest rate (10-year government bonds)	0.4	0.5	0.9
USD/€ exchange rate	1.10	1.12	1.09
Nominal effective exchange rate	1.1	-0.2	-0.1
World GDP growth (excl. The EU)	3.2	3.7	3.9
EU-27 GDP growth	1.9	1.9	1.9
Growth of relevant foreign markets	1.0	3.9	3.7
World trade growth	1.6	3.5	3.8
Oil prices (Brent, USD/barrel)	45.1	51.5	54.5

Table 1a. Macroeconomic prospects

	2016 level bn EUR	2016	2017	2018
		change, %		
1. Real GDP	190,1	1.9	2.9	2.1
Of which				
1.1. Attributable to the estimated impact of aggregated budgetary measures on economic growth				
2. Potential GDP	194.7	0.8	1.2	1.4
contributions:				
- labour				
- capital				
- total factor productivity				
3. Nominal GDP	215.6	4.9	3.9	3.7
Components of real GDP				
4. Private final consumption expenditure	119.1	1.8	2.4	1.4
5. Government final consumption	51.7	1.2	-0.3	0.8
6. Gross fixed capital formation	46.4	7.2	4.7	3.7
7. Changes in inventories and net acquisition of valuables (% of GDP)	0.6	0.3	0.0	0.0
8. Exports of goods and services	76.0	1.3	4.7	3.7
9. Imports of goods and services	78.6	4.4	2.9	2.6
Contributions to real GDP growth, % points				
10. Final domestic demand	217.2	2.8	2.3	1.7
11. Changes in inventories and net acquisition of valuables	632	0.3	0.0	0.0
12. External balance of goods and services	-2.6	-1.2	0.6	0.4

[1] The Draft Budgetary Plan forecast, which was also the basis for the preparation of the Budget Proposal, has been prepared in the Economics Department of the Ministry of Finance. The forecast is independent and its formal independence is based on the so-called FIPO Act (Act on the Implementation of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (EMU), the implementation of Treaty provisions of a legislative nature as well as the amendment of the Act on requirements concerning multi-annual budgetary frameworks, 79/2015). The Draft Budgetary Plan is based on the information available on 1 September 2017 and, in addition, the Government's 2018 Budget Proposal, which was submitted to Parliament on 19 September 2017.

Table 1b. Price developments

	2016	2017	2018
	change, %		
1. GDP deflator	3.0	0.9	1.6
2. Private consumption deflator	0.9	1.0	1.3
3. HICP	0.4	1.0	1.5
4. Public consumption deflator	0.0	-0.4	1.3
5. Investment deflator	1.4	2.2	2.5
6. Export price deflator	-1.9	2.5	1.3
7. Import price deflator	-2.8	4.9	2.5

Table 1c. Labour market developments

	2016 level	2016	2017	2018
		change, %		
1. Employment, 1 000 persons	2 448	0.5	0.7	0.8
2. Employment, 1 000 000 hours worked	4 115	0.4	1.0	0.6
3. Unemployment rate (%)	237	8.8	8.6	8.1
4. Labour productivity, persons	77.7	1.5	2.2	1.3
5. Labour productivity, hours worked	46.2	1.6	1.9	1.5
6. Compensation of employees	104.2	1.7	0.3	1.5
7. Compensation per employee	42.6	1.2	-0.4	0.6

Table 1d. Sectoral balances

	2016	2017	2018
	% of GDP		
1. Net lending/borrowing vis-à-vis the rest of the world	1.3	1.5	1.6
of which:			
- Balance on goods and services	-1.2	-1.5	-1.5
- Balance of primary incomes and transfers	-0.1	-0.1	-0.1
- Capital account	0.0	0.0	0.0
2. Net lending/borrowing of the private sector	0.6	-0.5	-0.3
3. Net lending/borrowing of general government	-1.8	-1.2	-1.4
4. Statistical discrepancy	0.2	-0.1	-0.1

2. Budgetary Targets

Table 2a. General government budgetary targets broken down by subsector

Net lending (+) / net borrowing (-) by subsector	2017	2018
	% of GDP	
1. General government	-1.2	-1.4
2. Central government	-2.3	-2.0
3. -	-	-
4. Local government	-0.1	-0.3
5. Social security funds	1.1	0.9
6. Interest expenditure	1.0	0.9
7. Primary balance	-0.2	-0.5
8. One-off and other temporary measures	0.0	-0.1
9. Real GDP growth (%)	2.9	2.1
10. Potential GDP growth (%)	1.2	1.4
contributions:		
- labour		
- capital		
- total factor productivity		
11. Output gap	-0.7	0.0
12. Cyclical budgetary component	-0.4	0.0
13. Cyclically-adjusted balance	-0.8	-1.4
14. Cyclically-adjusted primary balance	0.2	-0.5
15. Structural balance	-0.8	-1.3

Table 2b. General government debt developments

	2017	2018
	% of GDP	
1. Gross debt	62.5	61.9
2. Change in gross debt ratio	-0.6	-0.6
Contributions to changes in gross debt		
3. Primary balance	-0.2	-0.5
4. Interest expenditure	1.0	0.9
5. Stock-flow adjustment	-1.7	-2.0
of which:		
- Differences between cash and accruals		
- Net accumulation of financial assets		
of which:		
- privatisation proceeds		
- Valuation effects and other		
p.m.: Implicit interest rate on debt	1.6	1.5
Other relevant variables		
6. Liquid financial assets		
7. Net financial debt		
8. Debt amortization (existing bonds) since the end of the previous year		
9. Percentage of debt denominated in foreign currency		
10. Average maturity		

3. Expenditure and Revenue Projections under the no-policy change scenario

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

General government	2017	2018
	% of GDP	
1. Total revenue at unchanged policies	52.9	51.8
Of which		
1.1. Taxes on production and imports	14.0	13.7
1.2. Current taxes on income, wealth, etc.	16.6	16.3
1.3. Capital taxes	0.4	0.3
1.4. Social contributions	12.2	12.0
1.5. Property income	2.8	2.9
1.6. Other	6.8	6.6
p.m.: Tax burden	43.4	42.2
2. Total expenditure at unchanged policies	54.1	53.0
Of which		
2.1. Compensation of employees	12.4	12.0
2.2. Intermediate consumption	10.6	10.6
2.3. Social payments	22.1	21.8
of which Unemployment benefits	2.3	2.1
2.4. Interest expenditure	1.0	0.9
2.5. Subsidies	1.2	1.2
2.6. Gross fixed capital formation	3.9	4.0
2.7. Capital transfers	0.4	0.3
2.8. Other	2.5	2.4

4. Expenditure and Revenue targets

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

General government	2017	2018
	% of GDP	
1. Total revenue target	52.9	51.7
Of which		
1.1. Taxes on production and imports	14.0	13.8
1.2. Current taxes on income, wealth, etc.	16.6	16.2
1.3. Capital taxes	0.4	0.3
1.4. Social contributions	12.2	11.9
1.5. Property income	2.8	2.9
1.6. Other	6.8	6.6
p.m.: Tax burden	43.4	42.3
2. Total expenditure target	54.1	53.1
Of which		
2.1. Compensation of employees	12.4	12.0
2.2. Intermediate consumption	10.6	10.5
2.3. Social payments	22.1	21.8
of which Unemployment benefits	2.3	2.1
2.4. Interest expenditure	1.0	0.9
2.5. Subsidies	1.2	1.2
2.6. Gross fixed capital formation	3.9	4.0
2.7. Capital transfers	0.4	0.3
2.8. Other	2.5	2.4

Table 4b. Amounts to be excluded from the expenditure benchmark

	2016 EUR million	2016	2017	2018
		% of GDP		
1. Expenditure on EU programmes fully matched by EU funds revenue	1 168	0.5	0.5	0.5
2. Cyclical unemployment benefit expenditure	776	0.4	0.3	0.2
3. Effect of discretionary revenue measures	467	0.2	-0.7	-0.3
4. Revenue increases mandated by law	71	0.0	0.0	0.0

5. Description of discretionary measures included in the draft budget

Table 5a. Discretionary measures taken by General Government

List of measures	Detailed description	Target	Accounting principle	Adoption in status	Budgetary impact		
					2017	2018	2019
					of GDP %		
Personal income tax	Personal income tax		accrual	partly decided**	-0.3	-0.2	0.0
Corporate income tax	Corporate income tax		accrual	partly decided**	0.0	0.0	0.0
Indirect taxes	Indirect taxes		accrual	partly decided**	0.0	0.0	0.0
Contributions	Contributions		accrual	proposal***	-0.5	-0.1	0.1
Expenditure measures, total	Expenditure measures, total		accrual, cash-based	partly decided**	-0.9	-0.2	-0.2

* 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.

**Parliament will confirm during fall 2017

***Ministry of Social Affairs and Health will confirm during fall 2017

Table 5b. Discretionary measures taken by Central Government

List of measures	Detailed description	Target	Accounting principle	Adoption in status	Budgetary impact		
					2017	2018	2019
					of GDP %		
Personal in-come tax	Personal in-come tax		accrual	partly decided**	-0.3	-0.2	0.0
Corporate income tax	Corporate income tax		accrual	partly decided**	0.0	0.0	0.0
Indirect taxes	Indirect taxes		accrual	partly decided**	0.0	0.0	0.0
Expenditure measures, total	Expenditure measures, total		accrual, cash-based	partly decided**	-0.9	0.0	-0.1

* 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.

**Parliament will confirm during fall 2017

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

CSR number	Measures	Description of direct relevance
CSR1: Pursue its fiscal policy in line with the requirements of the preventive arm of the Stability and Growth Pact, which implies to achieve its medium term budgetary objective in 2018, taking into account the allowances linked to unusual events, the implementation of the structural reforms and investments for which a temporary deviation is granted. Ensure timely adoption and implementation of the administrative reform to improve cost-effectiveness of social and healthcare services	As reported above, Finland will comply with the requirements of the preventive arm in 2017 and 2018. The Government has decided to continue the preparation of the health, social services and regional government reform with a view to its entry into force at the beginning of 2020. The implementation of the reforms was deferred by one year in order to ensure taking the Constitution into account and careful preparation. If successful, the health and social services reform and other measures to reform public administration have the potential to strengthen general government finances by EUR 4 billion over the long term.	The measures respond directly to the recommendation
CSR 2: Promote the further alignment of wages with productivity developments, fully respecting the role of social partners. Take targeted active labour market policy measures to address employment and social challenges, provide incentives to accept work and promote entrepreneurship.	The Competitiveness Pact and the related easing of taxation support employment and promote exports and economic growth. The State also supports growth through investment and guarantees. The level of public investment is high, and public-sector guarantees have increased very rapidly in recent years. The Budget Proposal contains new measures to promote employment in addition to those already adopted earlier. The Government supports employment through measures including eliminating incentive traps, continuing the development of public employment services and employment security and ensuring that employees' income taxes do not increase. The Government will target measures at reducing youth unemployment.	The measures respond directly to the recommendation
CSR 3: Continue to improve the regulatory framework and reduce the administrative burden to increase competition in services and to promote investment.	On 9 August 2017, the Ministry of Transport and Communications set up a project to prepare for the opening of Finnish passenger rail transport to competition. The project commenced on 9 August 2017 and will continue until further notice. The aim is to improve service quality and responsiveness to customer needs in rail transport as well as to increase the volume and share of rail services in the future.	The measures respond directly to the recommendation

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

No significant changes after spring 2017

See: http://ec.europa.eu/europe2020/pdf/csr2017/nrp2017_finland_en.pdf

7. Divergence from latest SP

Table 7. Divergence from latest SP

	2016	2017	2018
	% GDP		
Target general government net lending/net borrowing			
Stability Programme	-1.9	-2.3	-1.6
Draft Budgetary Plan	-1.8	-1.2	-1.4
Difference	0.2	1.2	0.1
General government net lending projection at unchanged policies			
Stability Programme	-1.9	-2.3	-2.0
Draft Budgetary Plan	-1.8	-1.2	-1.3
Difference	0.2	1.2	0.8

APPENDIX 1

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 programme for local government finances and decisions on social security contributions and benefits.

MINISTRY OF FINANCE
Snellmaninkatu 1 A
PO BOX 28, 00023 Government
Tel. +358 295 160 01
Fax +358 9 160 33123
www.financeministry.fi

ISSN 1459-3394 (nid.)
ISBN 978-952-251-898-9 (nid.)
ISSN 1797-9714 (pdf)
ISBN 978-952-251-899-6 (pdf)

October 2017