2025 Draft Budgetary Plan

Economic Policy

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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 submit their Draft Budgetary Plans (DBPs) for the forthcoming year to the EU by 15 October.

The DBPs are part of the coordinated surveillance exercise, which takes place every autumn. The DBP contains the details of macroeconomic forecasts and assumptions, targets for general government finances, expenditure and revenue projections under the no-change scenario, expenditure and revenue targets, discretionary measures contained in the Budget proposal, the goals set out in the European Union's strategy for growth and jobs, and Country-Specific Recommendations, a comparison between the DBP as well as Finland's medium-term plan published 10 October and an appendix on methods. The 2025 Draft Budgetary Plan is based on the proposal for the 2025 Budget presented by the Government to Parliament, which is largely based on the spring 2024 spending limits decision and 2024 supplementary budgets.

Keywords	economic policy, fiscal policy, budgets, Stability and Growth Pact		
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Vuoden 2025 alustava talousarviosuunnitelma

Valtiovarainministeriön julkaisuja 2024:53		**Teema**	Talouspolitiikka
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Tiivistelmä

Euroopan parlamentin ja neuvoston asetuksen (EU) N:o 473/2013 (asetus alustavien talousarviosuunnitelmien seurantaa ja arviointia sekä euroalueen jäsenvaltioiden liiallisen alijäämän tilanteen korjaamisen varmistamista koskevista yhteisistä säännöksistä) mukaisesti euroalueen jäsenvaltiot toimittavat 15. lokakuuta mennessä tulevaa vuotta koskevat alustavat talousarviosuunnitelmansa (Draft Budgetary Plan, DBP) EU:lle.

Alustavat talousarviosuunnitelmat kuuluvat syksyisin toteutettavaan koordinoituun valvontamenettelyyn. Alustava talousarviosuunnitelma pitää sisällään tiedot makrotalouden ennusteista ja oletuksista, julkisen talouden tavoitteista, tulo- ja menoennusteista politiikan pysyessä muuttumattomana, tulo- ja menotavoitteista, talousarvioesitykseen sisältyvistä päätösperäisistä toimenpiteistä, unionin kasvu- ja työllisyysstrategian tavoitteista ja maakohtaisista suosituksista sekä 10.10. julkaistun ensimmäisen keskipitkän aikavälin suunnitelman ja alustavan talousarviosuunnitelman vertailusta sekä menetelmiä koskevan liitteen. Vuoden 2025 alustavan talousarviosuunnitelman pohjana toimivat hallituksen eduskunnalle antama vuoden 2025 valtion talousarvioesitys, joka perustuu pitkälti kevään 2024 kehyspäätökseen sekä vuoden 2024 lisätalousarvioihin.

Asiasanat	talouspolitiikka, finanssipolitiikka, talousarviot, vakaus- ja kasvusopimus		
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Utkast till budgetplan 2025

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Medlemsstaterna i euroområdet tillställer i enlighet med Europaparlamentets och rådets förordning (EU) nr 473/2013 (förordningen om gemensamma bestämmelser för övervakning och bedömning av utkast till budgetplaner och säkerställande av korrigering av alltför stora underskott i medlemsstater i euroområdet) EU sina utkast till budgetplaner för det kommande året (Draft Budgetary Plan, DBP) senast den 15 oktober.

Utkasten till budgetplaner ingår i EU:s samordnade tillsynsförfarande som genomförs varje höst. Utkastet till budgetplanen inkluderar uppgifter om makroekonomiska prognoser och antaganden, målen för den offentliga ekonomin, inkomst- och utgiftsprognoserna då politiken förblir oförändrad, inkomst- och utgiftsmålsättningarna, beslutsbaserade åtgärder som ingår i budgetpropositionen, målen i unionens tillväxt- och sysselsättningsstrategi och de landsspecifika rekommendationerna och utkastet till budgetplanen samt en bilaga om metoder och medel. Utkastet till budgetplanen för 2025 baserar sig på regeringens proposition om statsbudgeten för 2025 som till stora delar grundar sig på rambeslutet från våren 2024 och tilläggsbudgetarna för 2024.

Nyckelord	finanspolitiken, budgetar, stabilitets- och tillväxtpakten		
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Contents

The 2025 Draft Budgetary Plan presents an assessment of Finland's general government finances and compliance with the fiscal rules over the period 2023–2025.

1 Finland's first medium-term plan will be published on 10 October 2024

The EU's new fiscal rules entered into force on 30 April 2024. In the reform, Regulation 1466/97 on the preventive arm of the Stability and Growth Pact was completely replaced by a new Regulation 2024/1263[1], and Regulation 1467/97[2] on the corrective arm as well as the so-called Budgetary Frameworks Directive 2011/85[3] were amended.

On 10 October 2024, the Finnish Government will approve Finland's first Medium-Term Fiscal-Structural Plan (MTP)[4] for 2025–2028, in which the net expenditure path set in the plan will play a central role. The Commission will assess the plan and the Council will adopt recommendations on the plan and the net expenditure path on which the EU fiscal surveillance will focus in the future. While the reform did not change the legislation on draft budgetary plans, the assessment of compliance with EU fiscal rules in the draft budgetary plan is largely based on the new fiscal framework. National fiscal legislation has not yet been amended, so the assessment is based on existing national legislation in this regard. The new EU fiscal rules are presented in more detail in Chapter 1 of the MTP to be published on 10 October.

1 Regulation (EU) 2024/1263 of the European Parliament and of the Council on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97: https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=OJ:L_202401263.

2 Council Regulation (EU) 2024/1264 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure: https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=OJ:L_202401264

3 Council Directive (EU) 2024/1265 amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States: https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=OJ:L_202401265

4 Medium-Term Fiscal-Structural Plan, MTP (in Finnish)

Amendment of national fiscal legislation

In accordance with the Government Programme, national fiscal policy and the related legislation will be strengthened in order to better support debt sustainability. Legislative reform work has been initiated in the Ministry of Finance's working group and will be discussed in the Ministerial Committee on Economic Policy. The starting point of the reform work is to turn the general government debt ratio on a permanently downward path. The preparation takes into account the need to ensure the broadest possible parliamentary commitment and target-setting across parliamentary terms. National legislation must be amended by the end of 2025.

When amending national fiscal legislation, the removal of the Medium-Term Objective (MTO) from the EU fiscal rules will be taken into account. The current MTO (–0.5% of GDP for the general government structural balance, which is the minimum level to which Finland is committed in the Fiscal Compact[5]), remains in force as long as it is part of national fiscal legislation. In line with the new fiscal rules, the Draft Budgetary Plan assesses compliance with the net expenditure path of the MTP in 2024 and 2025, as instructed by the Commission to the Member States. It is no longer appropriate to carry out the assessment according to the old rules, i.e. through the review of the structural balance and the expenditure benchmark. An assessment of progress towards the MTO for 2023, as required by national legislation, has been carried out to assess compliance with the country-specific recommendations (CSRs).

5 The Treaty on Stability, Coordination, Governance and Governance in the Economic and Monetary Union and the Act on Requirements for Multiannual Budgetary Frameworks, which entered into force on 1 January 2013.

2 Finland requests the activation of the national escape clause

According to Article 26 of Regulation 2024/1263, a Member State may request the Council to activate a national escape clause where exceptional circumstances outside the control of the Member State have a major impact on the public finances of the Member State concerned. When a national exception clause is in force, the Member State may, under certain conditions, deviate from its net expenditure path as set by the Council. In addition, the validity of a national exception clause has implications for the assessment of the existence of an excessive deficit.[6] If the exceptional circumstances persist, the Council may, at the request of the Member State concerned and on the recommendation of the Commission, extend the validity of the escape clause for a period of up to one year at a time.[7]

6 In particular, in accordance with Article 2(5) of Regulation 1467/97, following a Council decision on the existence of exceptional circumstances, the Commission and the Council may decide not to reach a conclusion on the existence of an excessive deficit.

7 Regulation 2024/1263, Article 26: 1. Following a request from a Member State and on a recommendation by the Commission based on its analysis, the Council may within four weeks of the Commission recommendation adopt a recommendation allowing a Member State to deviate from its net expenditure path as set by the Council where exceptional circumstances outside the control of the Member State have a major impact on the public finances of the Member State concerned, provided that such deviation does not endanger fiscal sustainability over the medium term. The Council shall specify a time limit for such deviation. 2. Following a request from the Member State concerned and on a recommendation by the Commission, the Council may extend the period during which that Member State may deviate from the net expenditure path as set by the Council, provided that the exceptional circumstances persist. An extension may be granted more than once. However, each extension shall be for an additional period of up to one year.

Regulation 2024/1264, Article 2(1): The excess of the government deficit over the reference value shall be considered exceptional, in accordance with the second indent of point (a) of Article 126(2) of the Treaty on the Functioning of the European Union (TFEU), if it results from the existence of a severe economic downturn in the Eurozone or the Union as a whole established by the Council in accordance with Article 25 of Regulation (EU) 2024/1263 or from exceptional circumstances outside the control of the government with a major impact on the public finances of the Member State concerned, in accordance with Article 26 of that Regulation.

Russia's war of aggression in Ukraine has caused a significant change in the security environment in Finland. According to the assessment of the Ministry of Finance, this situation constitutes exceptional circumstances as defined in EU legislation, which have been outside the control of the Member State and which have a significant impact on Finland's general government finances. For this reason, Finland is applying for the activation of a national escape clause for the years 2024–2025.

The change in the security environment has wide-ranging negative impacts on the Finnish economy. In addition to direct impacts, indirect impacts have been wide-ranging. Finland's exports to and imports from Russia have almost entirely ceased.[8] Tourism from Russia has ceased altogether, and the number of Asian tourists has also decreased significantly, which has affected the service sector. Finnish companies have succeeded in replacing some Russian imports, but this has increased prices and reduced availability (for example in the forest sector). This has had a negative impact on the competitiveness of Finnish production. Negative effects have also been transmitted through export markets.

The attack has also had a negative impact on confidence. Economic confidence indicators have been clearly weaker in Finland than in the Eurozone on average since the outbreak of the war. The interest rate differential between Finnish and German government bonds has also increased, and interest costs for companies in relation to the Eurozone average have risen. Economic growth was clearly negative (–1.2%) in 2023 and will remain negative this year as well.

The impact on public finances is significant, especially through increased contingency expenditure. Inflation, which also accelerated as a result of the war, accelerated the growth of general government expenditure, especially in 2023 and 2024, due to a rapid increase in costs as well as a rapid increase in index-linked expenditure. At the same time, the economic downturn has led to weak tax revenue growth. The general government deficit increased significantly in 2023, although it did remain below the 3% reference value. In 2024, the general government deficit continued to grow and exceeded 3% of GDP. Despite significant fiscal consolidation measures for 2025, it is possible that the deficit will still exceed the 3% reference value in 2025.

8 Before the attack, Russia accounted for about 4% of Finland's exports and about 10% of imports.

3 Compliance with the deficit and debt criteria

Deficit criterion

The excessive deficit procedure (EDP) based on the breach of the deficit criterion remained largely unchanged in the reform.

According to Article 126(2) of the TFEU, the Commission shall monitor the development of the budgetary situation and of the stock of government debt in the Member States with a view to identifying gross errors. In particular it shall examine compliance with budgetary discipline on the basis of the following two criteria:

a) whether the ratio of the planned or actual government deficit to gross domestic product exceeds a reference value, unless:
   - either the ratio has declined substantially and continuously and reached a level that comes close to the reference value,
   - or, alternatively, the excess over the reference value is only exceptional and temporary and the ratio remains close to the reference value;

b) whether the ratio of government debt to gross domestic product exceeds a reference value, unless the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace.

Exceeding the reference value has generally been considered to be minor when the deficit does not exceed 3.5% of GDP[9]. According to Article 2 of Regulation 1467/97[10], the exceptional nature of the excess over the reference value is estimated to be due to exceptional circumstances, the existence of which has been established in accordance with Article 25 or 26 of Regulation 2024/1263.

The excess over the reference value is temporary in accordance with Article 2 of Regulation 1467/97 if the Commission forecasts for budgetary developments indicate that the deficit will no longer exceed the reference value after a severe economic downturn or exceptional circumstances have ended.

In the spring Stability Programme[11], the deficit for 2023 was 2.5% of GDP, while deficits of 3.4% of GDP and 2.7% of GDP were planned for 2024 and 2025. The Stability Programme estimated the excess over the 2024 reference value to be exceptional, small and temporary.

In its report[12] in accordance with Article 126(3) of 19 June 2024, the Commission estimated that Finland's deficit would remain close to the reference value and that the exceeding of the reference value would be temporary. Therefore, other relevant factors could be taken into account in the assessment. Other relevant factors included a revitalising increase in nationally financed primary current expenditure (excluding discretionary revenue measures) due to rapid and sustained price and cost increases, in particular in local government service procurement and personnel expenditure, as well as an increase in preparedness-related expenditure as a result of Russia's war of aggression against Ukraine.

9 For example, Luxemburg in 2010.

10 Regulation 1467/97, Article 2(1): The excess of the government deficit over the reference value shall be considered exceptional, in accordance with the second indent of point (a) of Article 126(2) of the Treaty on the Functioning of the European Union (TFEU), if it results from the existence of a severe economic downturn in the Eurozone or the Union as a whole established by the Council in accordance with Article 25 of Regulation (EU) 2024/1263 or from exceptional circumstances outside the control of the government with a major impact on the public finances of the Member State concerned, in accordance with Article 26 of that Regulation. In addition, the excess over the reference value shall be considered temporary if the Commission forecasts for budgetary developments indicate that the deficit will no longer exceed the reference value after a severe economic downturn or exceptional circumstances as referred to in the first subparagraph have ended.

11 General Government Fiscal Plan for 2025–2028, Annex 6

12 REPORT FROM THE COMMISSION Belgium, Czechia, Estonia, Spain, France, Italy, Hungary, Malta, Poland, Slovenia, Slovakia and Finland Report prepared in accordance with Article 126(3) of the Treaty on the Functioning of the European Union

In its assessment, the Commission states that the uncertainty related to the projected data for Finland and the fact that Finland's deficit is projected to remain close to the reference value in 2024 and fall below it in 2025 must be taken into account. Therefore, the Commission will monitor the development of Finland's public finances and will reassess the situation in the autumn.

According to the latest statistics, the general government financial position relative to GDP was –2.9% in 2023.[13] According to the independent forecast of the Economics Department of the Ministry of Finance, the general government budgetary position will deteriorate this year to –3.7% of GDP. Following the net expenditure path presented in Table 1.2 of Finland's MTP will bring the financial position to –2.9% of GDP in 2025 and –2.0% of GDP in 2026. According to the independent forecast, the financial position for 2025 will be –3.2% of GDP and –2.6% of GDP for 2026.

The Ministry of Finance's assessment of the exceptional, small and temporary nature of the excess over the deficit reference value is as follows:

– Exceptional: Finland is applying for the activation of a national escape clause for the years 2024–2025, as set out in Chapter 2. Thus, according to the Ministry of Finance, the excess over the deficit reference value is exceptional.
– Small: With the realisation of the deficit reference value in 2024 as now projected, the excess of the reference value would no longer be small. It should be noted, however, that the Commission decided in June not to launch excessive deficit procedures in situations where the excess over the deficit reference value in 2023 was not small but no additional fiscal adjustment was required to correct the excessive deficit.[14] According to the independent forecast, Finland's deficit for 2025 will slightly exceed the reference value, but following the net expenditure path will lead to a deficit of 2.9% in 2025, as can be seen from Table 1.2 of the MTP. The significant adjustment for 2025 without further action will correspond to at least the adjustment that Finland would be required to make in

13 The draft budgetary plan is based on statistics available by 17 September 2024. According to statistics that came in on 18 September 2024, the deficit for 2023 increased to 2.99% of GDP, remaining below 3%.

14 Commission report in accordance with Article 126(3): "As no additional fiscal adjustment will be required for Spain to bring its deficit below the reference value, initiating an excessive deficit procedure would not, at this stage, serve a useful purpose."

the EDP.[15] According to the Ministry of Finance's assessment, there is a risk that the excess over the reference value will not be small but, on the other hand, the launch of the EDP would not lead to a higher adjustment requirement, which is why, from the perspective of the uniform treatment of Member States, the launch of the EDP would not be necessary to correct the excessive deficit.

– Temporary: According to Table 1.2 of the MTP, Finland's planned deficit in 2025 will be less than 3% of GDP. In addition, in this Draft Budgetary Plan, Finland is applying for the activation of the national escape clause for the years 2024–2025. According to the independent forecast, the deficit will fall below the 3% reference value after the end of the exceptional circumstances in 2026. In the estimation of the Ministry of Finance, the excess over the reference value is temporary.

Article 2(4) of Regulation (EC) No 1467/97 provides that the relevant factors may be taken into account by the Council and the Commission in the steps leading to the decision on the existence of an excessive deficit, but only when: a) the government debt-to-GDP ratio does not exceed the 60% reference value, or b) if the government debt-to-GDP ratio exceeds the 60% reference value, the deficit remains close to the reference value and that the excess over the reference value is temporary.

In accordance with Article 2(3b) of Regulation 1467/97, compliance with the net expenditure path must also be taken into account when assessing compliance with the deficit criterion.[16] As stated in Chapter 4, Finland will follow the net expenditure path presented in the plan. In addition, in this context, it should be noted that, in July 2024, the Council recommended to Finland as follows: "In line with the requirements of the reformed Stability and Growth Pact, limit the growth in net expenditure in 2025 to a rate consistent with putting the general government debt on a plausibly downward trajectory over the medium term and reducing the general government deficit below the 3% of GDP Treaty reference value;" which will be realised in accordance with Table 1.2 of the MTP. The adjustment for 2025 will be approximately EUR 4.5 billion, or approximately 1.6% of GDP.

15 In the case of Finland, the adjustment requirement defined in the deficit EDP would be lower than without EDP.

16 Development of the medium-term budgetary position, including in particular the extent of deviation from the net expenditure path set by the Council on the basis of the control account on an annual and cumulative basis.

When assessing the year 2025, it is also necessary to take into account, as also indicated in the MTP, the spikes in the development of expenditure related to the timing of defence investments and their deliveries, which are especially targeted for the years 2025 and 2027. The most significant defence investments are related to the F35 and Squadron 2020 acquisitions. These defence investments will account for 0.5% of GDP in 2025. With this in mind, the adjustment for 2025 is even more significant.

According to the Ministry of Finance's assessment, there is a risk that the excess over the reference value in 2024 will not be small. However, it should be noted that the launch of EDP would not be useful, as the required adjustment will be implemented without further action.

Debt criterion

The most significant change in the corrective arm of the Stability and Growth Pact relates to the launch of the excessive deficit procedure based on the breach of the debt criterion ("debt-based EDP"). Under the new rules, Member States with a general government debt above the 60% reference value may be subject to the debt-based EDP as a result of the identified deviation from the net expenditure path. The procedure starts – as in the deficit-based EDP – with the Commission's report in accordance with Article 126(3), in which the Commission assesses the fulfilment of the criteria when the deviations[17] recorded in the control account of a Member State exceed either 0.3% of GDP annually or 0.6% of GDP cumulatively.

Also in the future, in the case of the debt criterion, only deviations observed on the basis of realisation data may lead to the launch of the debt EDP. As the first year of the Member States' plans is 2025, compliance with the debt criterion will be assessed for the first time such that the launch of debt-based EDP will be possible in the spring of 2026.

The Commission's report in accordance with Article 126(3) of 19 June 2024 concluded that the compliance with the debt criterion would not be assessed in the report due to the reform of the fiscal rules and changes to the debt criterion.

17 The control account is an element of the preventive arm that monitors deviations from the net expenditure path set by the Council per Member State.

General government debt to GDP ratio was 76.6% in 2023. According to the independent forecast, the debt ratio will rise to 81.7% in 2024. In Table 1.2 of the MTP, the debt ratio rises by 83.2% in 2025 and turns downwards in 2027. According to the independent forecast, the debt ratio will rise to 84.0% in 2025.

The Ministry of Finance's assessment of compliance with the net expenditure path is set out in Chapter 4.

4 Compliance with the preventive arm of the Stability and Growth Pact

Finland is in the preventive arm of the Stability and Growth Pact[18] and is subject to the requirements of the revised preventive arm, which include compliance with the net expenditure path defined in the MTP and the requirements of the MTP's framework.

For the year 2023, the Ministry of Finance estimates that exceptional circumstances prevailed in Finland under the fiscal rules in force at the time, with strongly negative economic growth. Taking this into account, the assessment of the Ministry of Finance is that Finland broadly followed the fiscal policy recommendations issued to it. The recommendations are assessed in more detail in Annex 1, which also deals with responses to the 2024 and 2025 recommendations.

For 2024, the adjustment committed in the MTP corresponds to the expenditure development of the independent forecast and the growth of net expenditure is 3.7%. For 2025, the increase in the MTP's net expenditure will be 1.6%, which the Finnish Government has undertaken to fulfil.

Table. The net expenditure path and fiscal variables presented in the medium-term plan

	2024	2025
Net expenditure path	3.7	1.6
General government balance	-3.7	-2.9
General government structural balance	-1.6	-1.1
General government structural primary balance	-0.4	0.4
General government gross debt	81.7	83.2

*The data for other years are presented in the medium-term plan

According to the Ministry of Finance's assessment, Finland will follow the fiscal policy recommendations in 2024 and 2025.

18 A country is said to be in the preventive arm when it is not in an EDP based on either criterion.

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

According to the Finnish Government's assessment, Finland has broadly complied with the CSR on general government finances it received in 2023, taking into account the exceptional circumstances prevailing at the time. Pursuant to 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, in the Government's assessment, the structural balance of the general government deviates significantly in a manner that endangers 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 European Union draws attention to this matter in its statement on Finland's Stability Programme.

6 Finland's Recovery and Resilience Plan and its updates

The Finnish Government approved Finland's Recovery and Resilience Plan (RRP) on 27 May 2021.

On 4 October 2021, the Commission issued its assessment of Finland's plan and the proposal for the Council's implementing decision regarding Finland's plan. The plan was approved by the Council on 29 October 2021.

An update containing the REPowerEU chapter for Finland was approved by the Council on 8 December 2023, and the implementation of the measures specified in the chapter has started on schedule. The RRP was subsequently updated for the third time, and the update was approved by the Council on 16 July 2024. The update focused on 16 measures where the achievement of targets or milestones before the end of 2026 was uncertain.

Table. Effects of the Recovery and Resilience Facility (RRF) on forecasts

Revenue from RRF grants (% of GDP)

	2020	2021	2022	2023	2024	2025	2026
RRF GRANTS as included in the revenue projections		*0.01*	*0.05*	*0.07*	*0.21*	*0.20*	*0.13*
Cash disbursements of RRF GRANTS from EU		*0.00*	*0.10*	*0.08*	*0.21*	*0.17*	*0.20*

Expenditure financed by RRF grants (% of GDP)

	2020	2021	2022	2023	2024	2025	2026
Compensation of employees D.1		0.00	0.02	0.01	0.03	0.03	0.02
Intermediate consumption P.2		0.00	0.01	0.02	0.03	0.03	0.02
Social payments D.62+D.632							
Interest expenditure D.41							
Subsidies, payable D.3		0.00	0.01	0.02	0.03	0.03	0.02
Current transfers D.7							
TOTAL CURRENT EXPENDITURE		***0.01***	***0.05***	***0.07***	***0.21***	***0.20***	***0.13***
Gross fixed capital formation P.51g		*0.00*	*0.00*	*0.00*	*0.04*	*0.04*	*0.02*
Capital transfers D.9		***0.00***	***0.01***	***0.01***	***0.09***	***0.07***	***0.05***
TOTAL CAPITAL EXPENDITURE		***0.00***	***0.01***	***0.02***	***0.13***	***0.11***	***0.07***

7 Tables

7.1 Macroeconomic forecasts[19]

Table 0.i). Basic assumptions

	2023	2024	2025
3-month EURIBOR	3.4	3.7	2.5
Bond interest rate (10 years)	3.0	2.9	2.7
USD/EUR exchange rate	1.1	1.1	1.1
Nominal effective exchange rate (Finland)	4.1	1.2	0.6
World GDP growth (excluding EU)	3.6	3.5	3.6
EU GDP growth	0.5	0.7	1.5
GDP growth in key export markets	-2.7	0.7	4.2
World trade growth	-1.8	1.5	4.6
Crude oil price (USD/barrel)	82.0	81.6	75.4

19 The Draft Budgetary Plan forecast, which was also the basis for the preparation of the Budget Proposal, has been prepared by the Economics Department of the Ministry of Finance. The forecast is independent and its formal independence is based on the Fiscal Policy 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)

Table 1a. Macroeconomic outlook

	2023	2023	2024	2025
	level	amount, %		
1. Real GDP	230.9	-1.2	-0.2	1.7
of which				
1.1. Attributable to the estimated impacts of aggregated budgetary measures on economic growth	-	-	-	-
2. Potential GDP	236.8	1.4	1.2	1.0
contributions:		0.5	0.4	0.3
- labour input		0.2	0.2	0.3
- capital		-0.1	0.0	0.1
- total factor productivity	-	-	-	-
3. Nominal GDP	274.9	2.7	1.5	3.9
4. Private consumption expenditure	123.4	0.2	0.9	1.4
5. Public consumption expenditure	58.3	3.4	0.5	-0.5
6. Capital formation	48.9	-8.8	-1.3	5.7
7. Change in inventories (% of GDP)	0.0	0.0	0.0	0.0
8. Exports of goods and services	92.9	-0.1	-1.1	4.0
9. Imports of goods and services	91.5	-6.6	0.2	4.4
Contribution to GDP growth, pp				
10. Final domestic demand	241.0	-1.2	0.3	1.9
11. Change in inventories	0	-3.1	0.0	0.0
12. Net exports	1.3	3.1	-0.5	-0.2

Table 1b. Price trends

	2023	2024	2025
	change, %		
1. GDP deflator	3.9	1.7	2.1
2. Private consumption deflator	4.4	1.3	2.0
3. Harmonised consumer price index	4.3	1.2	2.2
4. Public consumption deflator	5.9	3.0	3.5
5. Investment deflator	4.9	1.2	0.8
6. Export price deflator	-4.8	-0.7	1.9
7. Import price deflator	-2.7	-0.8	1.7

Table 1c. Labour market trends

	2023	2023	2024	2025
	level	change, %		
1. Employment, 1,000 persons	2 628	0.3	-0.5	0.7
2. Employment, 1,000,000 hours worked	433.3	0.3	-1.0	0.6
3. Unemployment rate (%)	204	7.2	8.0	7.6
4. Labour productivity, persons	87.9	-1.5	0.3	1.0
5. Labour productivity, hours worked	533.0	-1.5	0.8	1.1
6. Employee compensations	131.9	4.9	1.2	4.7
7. Employee compensations per employee	50.2	4.6	1.7	4.0

Table 1d. Sector-specific balances

	2023	2024	2025
	% of GDP		
1. Finland's net lending to the rest of the world	-1.2	-1.1	-1.1
of which:			
- Balance of goods and services	-0.3	-0.7	-0.8
- Factor incomes and income transfers, net	-0.8	-0.2	-0.2
- Capital transfers, net	-1.1	-0.9	-1.0
2. Private sector net lending	1.3	2.2	1.7
3. Public sector net lending	-2.9	-3.7	-3.2
4. Statistical discrepancy	0.4	0.4	0.4

7.2 Development of general government finances[20]

Table 2.a Development of general government finances broken down by subsector

	2024	2025
Net lending by subsector	**% of GDP**	
1. General government total	-3.7	-3.2
2. Central government	-3.2	-3.7
3. -	-	-
4. Local government	-1.1	-0.9
5. Social security funds	0.6	1.4
6. Interest expenses	1.3	1.5
7. Primary balance	-2.4	-1.7
8. One-off measures	0.0	0.0
9. Real GDP growth, % change	-0.2	1.7
10. Potential GDP growth, % change	1.2	1.0
contributions:		
- labour input	0.4	0.3
- capital input	0.2	0.3
- total factor productivity	0.0	0.1
11. Output gap	-2.8	-1.7
12. Financial balance cyclical component	-1.6	-1.0
13. Cyclically adjusted financial balance	-2.0	-2.2
14. Cyclically adjusted primary balance	-0.8	-0.7
15. Structural balance	-2.0	-2.2

20 Based on the independent forecast.

Table 2.b General government debt trends

	2024	2025
	% of GDP	
1. Gross debt	81.7	84.0
2. Change in gross debt, pp	5.1	2.3
Factors contributing to change in gross debt, pp		
3. Primary balance	2.4	1.7
4. Interest expenses	1.3	1.5
5. Stock-flow adjustment items	1.4	-0.8
of which:		
- Differences between cash-based and accrual-based statistics	0.8	0.5
- Net acquisition of financial assets	1.0	1.4
- of which:		
- privatisation proceeds	-0.2	-0.1
- valuation effects and other	-0.3	-2.8
Implicit interest rate on debt	1.7	1.9
Other relevant variables	-	-
6. Liquid financial assets	-	-
7. Net financial debt	-	-
8. Central government write-offs (existing bonds)	-	-
9. Percentage of foreign-currency loans	-	-
10. Average maturity of government debt	-	-

7.3 Expenditure and revenue projections under the no-policy-change scenario

Table 3. General government expenditure and revenue projections under the no-change scenario broken down by main components

	2024	2025
General government	**% of GDP**	
1. Total revenue under the no-change scenario	54.0	54.2
of which:		
1.1. Taxes on production and imports	13.1	13.3
1.2. Income taxes	16.7	16.7
1.3. Taxes on capital income	0.4	0.3
1.4. Social security contributions	11.6	11.9
1.5. Property income	4.5	4.5
1.5. Other revenue	7.6	7.5
of which: tax rate	42.0	42.4
2. Total expenditure under the no-change scenario	57.7	57.5
of which:		
2.1. Employee compensations (wages + employer's social security contributions)	13.2	13.1
2.2. Intermediate consumption	12.7	12.6
2.3. Social income transfers	22.5	21.9
of which unemployment benefits	1.6	1.5
2.4. Interest expenses	1.3	1.5
2.5. Subsidies	1.0	1.0
2.6. Gross fixed capital formation	4.2	4.9
2.7. Capital transfers	0.3	0.1
2.8. Other expenditure	2.5	2.5

7.4 Expenditure and revenue targets; general government expenditure by task[21]

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

	2024	2025
General government	**% of GDP**	
1. Total revenue	54.0	54.2
of which:		
1.1. Taxes on production and imports	13.1	13.3
1.2. Income taxes	16.7	16.7
1.3. Taxes on capital income	0.4	0.3
1.4. Social security contributions	11.6	11.9
1.5. Property income	4.5	4.5
1.5. Other revenue	7.6	7.5
of which: tax rate	42.0	42.4
2. Total expenditure	57.7	57.4
of which:		
2.1. Employee compensations	13.2	13.1
2.2. Intermediate consumption	12.7	12.6
2.3. Social income transfers	22.5	21.9
of which unemployment benefits	1.6	1.5
2.4. Interest expenses	1.3	1.5
2.5. Subsidies	1.0	1.0
2.6. Gross fixed capital formation	4.2	4.8
2.7. Capital transfers	0.3	0.1
2.8. Other expenditure	2.5	2.5

21 Based on the independent forecast.

7.5 Discretionary measures contained in the Budget proposal

Table 5.a Discretionary general government measures

List of measures*	Detailed description	Objective	Accounting principle	Status	Budgetary impacts 2023	Budgetary impacts 2024	Budgetary impacts 2025
					% of GDP		
Personal income tax	Personal income tax		accrual-based	majority approved**	-	-	0.0
Corporate income tax	Corporate income tax		accrual-based	majority approved**	-	-	0.0
Indirect taxes	Indirect taxes		accrual-based	majority approved**	-	-	0.4
Social security contributions	Social security contributions		accrual-based	proposed***	-	-	0.3
Expenditure measures	Expenditure measures		accrual-/ cash-based	majority approved**	-	-	-0.4

*Many of the measures do not meet the size criterion (at least 0.05% of the GDP) and for this reason, the measures are combined and only the aggregate effect of the measures is reported. Some of the measures are temporary but the majority of them are permanent.
**Parliament will decide on this in autumn 2024
***Ministry of Social Affairs and Health will decide on this in autumn 2024

Table 5.b Discretionary state measures

List of measures*	Detailed description	Objective	Accounting principle	Status	Budgetary impacts 2023	2024	2025
					% of GDP		
Personal income tax	Personal income tax		accrual-based	majority approved**	-	-	0.0
Corporate income tax	Corporate income tax		accrual-based	majority approved**	-	-	0.0
Indirect taxes	Indirect taxes		accrual-based	majority approved**	-	-	0.4
Expenditure measures	Expenditure measures		accrual-/ cash-based	majority approved**	-	-	-0.4

*Many of the measures do not meet the size criterion (at least 0.05% of the GDP) and for this reason, the measures are combined and only the aggregate effect of the measures is reported. Some of the measures are temporary but the majority of them are permanent.
**Parliament will decide on this in autumn 2024

7.6 Net expenditure growth[22]

Table 6. Net expenditure growth

	2023 (level)	2023 (% of GDP)	2024 (% of GDP)	2025 (% of GDP)
1. Total expenditure	155.0	56.4	57.7	57.4
2. Interest expenditure	3.2	1.2	1.3	1.5
3. Cyclical unemployment expenditure	0.3	0.1	0.2	0.2
4. Expenditure funded by transfers from the EU	1.0	0.4	0.4	0.4
4a. Of which: Investments (GFCF)	0.2	0.1	0.0	0.0
5. National co-financing of EU programmes	0.6	0.2	0.2	0.2
6. One-off expenditure (levels, excl. EU funded)	**0.0**	0.0	0.0	0.0
7. Net nationally financed primary expenditure (before DRM) (ne = 1-2-3-4-5-6)	**149.9**	54.5	55.5	55.1
8. DRM (excl. one-off revenue, incremental impact)	-	-	-0.2	0.8
9. Net nationally financed primary expenditure (after DRM) (ne - drm = 7 - 8)	-	-	55.7	54.3
			2024 (rate of change)	**2025 (rate of change)**
10. Nominal GDP growth (g) (growth rate)	-	-	1.5	3.9
11. Net expenditure growth (growth rate)	-	-	3.7	1.7

22 Based on the independent forecast.

Appendices

Response to CSRs

The CSRs adopted by the Council in July 2022 instructed Finland to take the following measures on general government finances: "Ensure in 2023 that the growth of nationally-financed current expenditure is in line with an overall neutral policy stance, taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Stand ready to adjust current spending to the evolving situation. Expand public investment for the green and digital transition and for energy security, including by making use of the RRF, REPowerEU and other EU funds. For the period beyond 2023, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions. Present policy proposals for the social security reform, aiming to increase the efficiency of the system of social benefits, improving incentives to work, and also supporting the long-term sustainability of general government finances."

In 2023, Finland's fiscal policy stance was slightly expansionary in a situation where inflation was high. The growth of nationally funded primary current expenditure (excluding discretionary revenue measures) was partly due to support given to people fleeing Ukraine, rapid and sustained price and cost increases, in particular in local government service procurement and personnel expenditure, as well as an increase in preparedness-related expenditure as a result of Russia's war of aggression against Ukraine.

According to the Ministry of Finance's assessment, Finland is largely following the fiscal policy stance recommendation for 2023.

As part of Finland's RRP, significant clean transition measures have been decided. To strengthen energy self-sufficiency and security of supply, a package of measures was decided on with a view to significantly accelerating disengagement from fossil energy and supporting the introduction of new technology. To boost investment in the green transition, the previous General Government Fiscal Plan included increased resources allocated to permit and other administrative procedures, and to digitalisation. A significant percentage of the RRP will be allocated to the promotion of the twin transition, even though Finland's final allocation has decreased.

The CSRs adopted by the Council in July 2023 instructed Finland to take the following measures on general government finances: "take action in 2023 and 2024 to wind down the emergency energy support measures in force, using the related savings to reduce the government deficit, as soon as possible in 2023 and 2024. Should renewed energy price increases necessitate new or continued support measures, ensure that such support measures are targeted at protecting vulnerable households and firms, are fiscally affordable, and preserve incentives for energy savings. Ensure prudent fiscal policy, in particular by limiting the nominal increase in nationally financed net primary expenditure in 2024 to not more than 2.2%. Preserve nationally financed public investment and ensure the effective absorption of grants under the Facility and of other Union funds, in particular to foster the green and digital transitions. For the period beyond 2024, continue to pursue a medium-term fiscal strategy of gradual and sustainable consolidation, combined with investments and reforms conducive to higher sustainable growth, in order to achieve a prudent medium-term fiscal position. Pursue the reform of the social security system in order to increase the efficiency of the social benefits system, which would improve incentives to work and also support the long-term sustainability of public finances."

According to the Ministry of Finance's current estimate, despite the extensive package of measures in the Government Programme, the growth in nationally funded net primary expenditure will exceed the 2.2% growth recommended by the Council in 2024. However, in accordance with the recommendation, the growth of general government expenditure will be limited in 2024, and the most significant measures presented above concern, among other things, housing subsidies as a whole, changes in unemployment security, the freezing of index increases in benefits, the reduction of the level of funding for transport infrastructure projects and the reduction of development cooperation funding. Thus, according to the Ministry of Finance's estimate, the recommendation on the growth of net basic expenditure will be departed from in 2024, but the growth in expenditure has been restrained since autumn 2023, as the Eurogroup called for in its statement.

All energy support measures decided for 2022 and 2023 have ended as planned, and no new ones are planned. To strengthen energy self-sufficiency and security of supply, a package of measures has been decided on with a view to significantly accelerating disengagement from fossil energy and supporting the introduction of new technology. To boost investment in the clean transition, increased resources have been allocated to permit and other administrative procedures, and to digitalisation. A significant proportion of the Recovery and Resilience Facility is allocated to promoting the twin transition in spite of the contraction of Finland's final amount of funding.

During the period, the Government will implement a substantial one-off EUR 4 billion investment programme, a significant part of which will be targeted at supporting economic growth, infrastructure projects and rail transport. In addition, the investment package will allocate funds to Clean Energy Finland key projects, effectiveness investments in health and social services and the clearance of queues for treatment, as well as industrial policy provisions. The investment package is expected to contribute to the green transition, regional competitiveness, energy independence and the modernisation of the rail network. At the same time, the investment package will sustain public investment and contribute to sustainable economic growth in a situation where the growth of public spending is being curbed.

According to the target scenario of the stability programme, the general government deficit will start to decline after 2024. The significant package of measures in the Government Programme, together with the additional measures, ensure that Finland will continue to comply with the medium-term budgetary strategy for gradual and sustainable consolidation after 2024, combined with investments and reforms to promote stronger sustainable growth in order to achieve a prudent medium-term budgetary position.

According to the assessment of the Ministry of Finance presented in the Stability Programme in the spring, Finland was largely in compliance with the requirements of the preventive arm of the Stability and Growth Pact and the fiscal policy recommendations in 2023. In spring 2024, the Commission and the Council estimated that there is a risk that Finland will not comply with the fiscal recommendation it received in terms of net expenditure growth.

The Council recommends that Finland take action in 2024 and 2025 to:

i. Submit the medium-term fiscal-structural plan in a timely manner. In line with the requirements of the reformed Stability and Growth Pact, limit the growth in net expenditure in 2025 to a rate consistent with putting the general government debt on a plausibly downward trajectory over the medium term and reducing the general government deficit below the 3% GDP Treaty reference value. Pursue the reform of the social security system in order to increase the efficiency of the social benefits system, which would improve incentives to work and support the long-term sustainability of public finances.

ii. Address emerging delays to allow for continued, swift and effective implementation of the recovery and resilience plan, including the REPowerEU chapter, ensuring the completion of reforms and investments by August 2026. Accelerate the implementation of cohesion policy programmes. In the context of the mid-term review, continue focusing on the agreed priorities, while considering the opportunities provided by the Strategic Technologies for Europe Platform initiative to improve competitiveness.
iii. Address labour and skills shortages by reskilling and upskilling the workforce and widening the higher education offer, in particular for the study fields most in demand in the labour market. Ensure that the reform of social and healthcare services improves access to and delivery of services and tackles inefficiencies.

The structural recommendations and responses to them have been assessed in Finland's National Reform Programme[23] and in Finland's first MTP.

According to the assessment of the Ministry of Finance, when assessing compliance with the CSR on public finances, it is necessary to take into account the following:

In addition to the measures decided on in the Government Programme, the Government decided on 16 April 2024 on additional measures to strengthen general government finances by approximately EUR 3 billion in order to achieve the fiscal policy objectives. The largest individual savings measures in euros are the reduction of central government operating expenses, the dismantling of municipalities' tasks and obligations, and the reduction of funding for vocational education and training. In addition, the growth of health and social services costs will be curbed and the prerequisites of wellbeing services counties suffering from labour shortages to organise statutory services will be improved. The most significant of the actions are the reduction of the personnel size of the 24-hour care of the elderly, the removal of the shorter maximum waiting times for access to primary healthcare and oral healthcare (returning the maximum waiting times to the level of 2022), the increase in client fees and the exclusion of some specialised healthcare and social welfare services from public services.

23 Finland's National Reform Programme 2024

The most significant tax measures are the increase of the general VAT and insurance premium tax rate to 25.5%, the tightening of the taxation of pension income, the reduction of the domestic help credit, and the increase of health and environmental protection taxes, such as the VAT rate on sweets and the excise on tobacco.

In addition, the Finnish Government has decided on new growth measures aimed at reversing the subdued growth and investment prospects. These include the introduction of a tax credit for major investments in the clean transition. As part of the growth package, the Finnish Government is also improving the opportunities of Finnish Industry Investment Ltd, the state-owned private equity company, to promote investments by reallocating a total of EUR 300 million of state investment assets to it for direct investments. Productivity growth is also being supported, for example, by additional investments in R&D activities in accordance with the Act on State Financing of Research and Development 2024–2030.

Information on methods

The macroeconomic forecast is based on expert opinions, the Ministry of Finance's DSGE model (see for example, Economic Survey, autumn 2017, p. 17), a short-term factor model and partial models. The forecast for general government finances is based on a short-term macroeconomic forecast, medium-term calculations, budget proposals, spending limits decisions, tax base forecasts and changes in tax criteria as well as detailed tax revenue estimates derived from them, the local government finances programme and decisions on social security contributions and benefits.

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