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ECONOMIC AND FINANCIAL AFFAIRS

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**Assessment of the 2018 Stability Programme for
Finland**

(Note prepared by DG ECFIN staff)

CONTENTS

| | |
|--|----|
| 1. INTRODUCTION..... | 3 |
| 2. MACROECONOMIC DEVELOPMENTS | 3 |
| 3. RECENT AND PLANNED BUDGETARY DEVELOPMENTS..... | 5 |
| 3.1. Deficit developments in 2017 and 2018..... | 5 |
| 3.2. Medium-term strategy and targets..... | 6 |
| 3.3. Measures underpinning the programme | 8 |
| 3.4. Debt developments | 9 |
| 3.5. Risk assessment..... | 11 |
| 4. COMPLIANCE WITH THE PROVISIONS OF THE STABILITY AND GROWTH PACT | 12 |
| 4.1. Compliance with the debt criterion | 12 |
| 4.2. Compliance with the MTO or the required adjustment path towards the MTO..... | 13 |
| 5. FISCAL SUSTAINABILITY | 16 |
| 6. FISCAL FRAMEWORK | 18 |
| 7. SUMMARY | 19 |
| 8. ANNEX..... | 20 |

1. INTRODUCTION

On 13 April 2018, Finland submitted its 2018 Stability Programme (hereafter called Stability Programme), covering the period 2018-2021. It was approved by the government as a part of the General Government Fiscal Plan for 2019-2022. This Plan will serve as a basis for the 2019 central government budget and gives guidance to the local authorities for their budget preparations. The Plan was submitted to the Parliament in parallel for a debate in the plenary session.

Finland is currently subject to the preventive arm of the the Stability and Growth Pact (SGP) and should ensure sufficient progress towards its Medium-Term Budgetary Objective (MTO). As the debt ratio was 61.4% of GDP in 2017, exceeding the 60% of GDP reference value, Finland is also subject to the debt reduction benchmark.

This document complements the Country Report published on 7 March 2018 and updates it with the information included in the Stability Programme.

Section 2 presents the macroeconomic outlook underlying the Stability Programme and provides an assessment based on the Commission 2018 spring forecast. The following section presents the recent and planned budgetary developments, according to the Stability Programme. In particular, it includes an overview on the medium term budgetary plans, an assessment of the measures underpinning the Stability Programme and a risk analysis of the budgetary plans based on Commission forecast. Section 4 assesses compliance with the rules of the SGP, including on the basis of the Commission forecast. Section 5 provides an overview on long term sustainability risks and Section 6 on recent developments and plans regarding the fiscal framework. Section 7 provides a summary.

2. MACROECONOMIC DEVELOPMENTS

Finnish GDP grew by 2.6% in 2017, accelerating from 2.1% in 2016. The growth rate in 2017 was 1.4 percentage points higher than envisaged in last year's Stability Programme, driven by net exports, investment and private consumption. Exports rose by 7.8%, with growth in all major categories, while imports growth remained subdued. Domestic demand rose on the back of the strongest increase in corporate investment since 2007 and private consumption increased despite subdued wage growth. Employment grew by 1.1% and unemployment fell to 8.6%, in line with the improving macroeconomic environment.

The macroeconomic projections underpinning the 2018 Stability Programme (SP), prepared by the Finnish Ministry of Finance, project real GDP growth of 2.6% in 2018 and 2.2% in 2019. Growth is expected to be supported by private consumption and investment, with a positive contribution from net exports. In 2019, growth is forecast to slow down in all components except investment, but the main drivers will be similar in both forecast years.

The Commission 2018 spring forecast (COM) projects real GDP to grow by 2.5% in 2018, decelerating to 2.3% in 2019. The key drivers of the projected growth in both 2018 and 2019 are the same as in the Stability Programme forecast, namely private consumption and investment, with a positive contribution from net exports.

Table 1: Comparison of macroeconomic developments and forecasts

| | 2017 | | 2018 | | 2019 | | 2020 | 2021 |
|---|------|------|------|-----|------|-----|------|------|
| | COM | SP | COM | SP | COM | SP | SP | SP |
| Real GDP (% change) | 2.6 | 2.6 | 2.5 | 2.6 | 2.3 | 2.2 | 1.8 | 1.3 |
| Private consumption (% change) | 1.6 | 1.6 | 1.8 | 1.8 | 1.8 | 1.5 | 1.4 | 1.1 |
| Gross fixed capital formation (% change) | 6.3 | 6.3 | 3.9 | 3.6 | 3.2 | 3.8 | 2.9 | 1.2 |
| Exports of goods and services (% change) | 7.8 | 7.8 | 5.4 | 6.1 | 4.8 | 4.8 | 3.5 | 3.5 |
| Imports of goods and services (% change) | 3.5 | 3.5 | 3.9 | 4.3 | 3.6 | 3.9 | 3.0 | 2.8 |
| <i>Contributions to real GDP growth:</i> | | | | | | | | |
| - Final domestic demand | 2.6 | 2.6 | 1.9 | 1.9 | 1.8 | 1.8 | 1.6 | 1.0 |
| - Change in inventories | -0.4 | -1.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| - Net exports | 1.5 | 1.5 | 0.6 | 0.7 | 0.5 | 0.4 | 0.2 | 0.3 |
| Output gap ¹ | -0.7 | -0.7 | 0.3 | 0.1 | 1.0 | 0.5 | 0.6 | 0.4 |
| Employment (% change) | 1.1 | 1.0 | 1.0 | 1.8 | 0.6 | 1.0 | 0.7 | 0.4 |
| Unemployment rate (%) | 8.6 | 8.6 | 8.4 | 8.1 | 8.3 | 7.5 | 7.0 | 6.9 |
| Labour productivity (% change) | 1.5 | 1.7 | 1.5 | 0.8 | 1.7 | 1.2 | 1.1 | 1.0 |
| HICP inflation (%) | 0.8 | 0.8 | 1.4 | 1.2 | 1.7 | 1.4 | 1.7 | 1.8 |
| GDP deflator (% change) | 0.9 | 0.9 | 1.5 | 1.5 | 1.6 | 2.0 | 1.8 | 1.9 |
| Comp. of employees (per head, % change) | -1.1 | -0.1 | 1.5 | 1.1 | 2.2 | 2.1 | 2.5 | 2.6 |
| Net lending/borrowing vis-à-vis the rest of the world (% of GDP) | 0.8 | 0.8 | 1.1 | 0.8 | 1.5 | 0.9 | 0.9 | 0.9 |
| <u>Note:</u> | | | | | | | | |
| ¹ In % of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology. | | | | | | | | |
| <u>Source :</u> | | | | | | | | |
| Commission 2018 spring forecast (COM); Stability Programme (SP). | | | | | | | | |

The comparison between the two projections shows many similarities. Both forecasts share the same main drivers and have decelerating paths for GDP growth, have similar views on HICP inflation, the GDP deflator and compensation of employees. The GDP growth projections for both 2018 and 2019 differ by only 0.1 percentage point. The projected growth rates of private consumption are the same in 2018 and 0.3 percentage point lower in the SP in 2019. The growth rate for investment is lower in the SP in 2018 (3.6% the SP vs. 3.9% COM) but higher in 2019 (3.8% the SP vs. 3.2% COM). The Stability Programme has higher forecasted rates of growth for both exports and imports, but the resulting net exports differ by only 0.1 percentage point in both years. On the other hand, the Stability Programme forecast differs significantly from the Commission in terms of the projected growth of employment. Higher employment growth rates (1.8% in 2018 and 1.0% in 2019 vs. COM 1.0% and 0.6%) result in lower unemployment rates (8.1% in 2018 and 7.5% in 2019 vs. COM 8.4% and 8.3%).

The output gaps as recalculated by the Commission, based on the information in the Stability Programme¹, and following the commonly agreed methodology, are lower for both 2018 and

¹ The output gap estimates in the Stability Programme are not taken at face value; instead they are recalculated using the commonly agreed production function methodology on the basis of the Stability Programme forecast.

2019 than those underpinning the Commission 2018 spring forecast. The recalculated output gap is 0.1% of potential GDP in 2018, compared to 0.3% using the Commission 2018 spring forecast. In 2019, the difference is larger, with a recalculated output gap of 0.5% of potential GDP compared to 1.0% in Commission 2018 spring forecast. The difference in output gaps stems from the higher labour participation rate assumed in the Stability Programme, which then drives higher potential growth in the SP scenario.

Overall, assessed against the Commission 2018 spring forecast (and taking into account relevant recent developments) the Stability Programme's macroeconomic scenario appears plausible.

3. RECENT AND PLANNED BUDGETARY DEVELOPMENTS

3.1. Deficit developments in 2017 and 2018

In 2017, the general government finances continued to improve. The general government deficit declined to 0.6% of GDP, which implies an improvement of 1.2 percentage points from the previous year. The outturn data for the balance exceeded the earlier projections for 2017 presented in the Draft Budgetary Plan for 2018 (-1.2% of GDP).

In 2017, at 53.2% of GDP, total government revenue provided a small upside surprise. The 2017 Draft Budgetary Plan (for the fiscal year of 2018) projected the revenue-to-GDP ratio at 52.9% of GDP. The growth rate of total revenue, at 1.6%, was rather modest compared to the growth of the economy following cuts in wage income taxes and social contributions in accordance with the Competitiveness Pact. In turn, corporate tax revenue increased by about a fifth from the previous year partly as a result of one single ownership arrangement. Total government expenditure was 0.4 percentage points of GDP smaller than projected in the 2017 Draft Budgetary Plan, at 53.7% of GDP. This was in particular due to lower social transfers and other expenditure such as transfers to the EU. In 2017 total general government expenditure fell by 0.6% from 2016.

In 2018, according to the 2018 Stability Programme the general government balance is expected to remain stable at -0.6% of GDP. Both total revenue and expenditure are projected to increase by less than nominal GDP and therefore their ratios to GDP would decrease by about one percentage point. The revenue share is projected at 52.1% and the expenditure ratio at 52.7% of GDP. All revenue components, i.e. indirect and direct taxation, contributions to social security and other income are projected to decrease as a share of GDP. A decrease in the share of social transfers of GDP is the largest contributor to the fall on the expenditure side.

In the Draft Budgetary Plan for 2018, the headline deficit was expected to worsen by 0.2 percentage points to 1.4% of GDP. The target for the deficit in 2018 was subsequently improved by 0.8 percentage points to 0.6% of GDP. The better-than-expected outcome for 2017 partly explains the revision of the deficit target, especially on the expenditure side. Expenditure on social transfers is now projected to be 0.3 percentage points of GDP smaller than in the 2017 forecast, largely explaining the difference in the target levels for government primary expenditure between the Draft Budgetary Plan for 2018 and the Stability Programme. On the revenue side, in particular the expectations for direct taxation revenues have risen but

total revenue growth, projected at 2.2% year-on-year, remains slow compared to nominal GDP growth.

Table 2: Composition of the budgetary adjustment

| (% of GDP) | 2017 | 2018 | | 2019 | | 2020 | 2021 | Change: 2017-2021 |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|----------------------|
| | COM | COM | SP | COM | SP | SP | SP | SP |
| Revenue | 53.2 | 51.9 | 52.1 | 51.3 | 51.8 | 51.8 | 51.7 | -1.4 |
| <i>of which:</i> | | | | | | | | |
| - Taxes on production and imports | 14.1 | 13.9 | 13.8 | 13.7 | 13.6 | 13.4 | 13.3 | -0.8 |
| - Current taxes on income, wealth, etc. | 16.6 | 16.2 | 16.4 | 16.0 | 16.5 | 16.3 | 16.4 | -0.3 |
| - Social contributions | 12.2 | 12.0 | 12.0 | 12.0 | 11.9 | 11.9 | 11.8 | -0.4 |
| - Other (residual) | 10.2 | 9.8 | 10.0 | 9.6 | 9.8 | 10.2 | 10.3 | 0.1 |
| Expenditure | 53.7 | 52.6 | 52.7 | 51.5 | 52.0 | 51.7 | 51.4 | -2.4 |
| <i>of which:</i> | | | | | | | | |
| - Primary expenditure | 52.8 | 51.7 | 51.8 | 50.6 | 51.1 | 50.8 | 50.5 | -2.2 |
| <i>of which:</i> | | | | | | | | |
| Compensation of employees | 12.5 | 12.2 | | 12.1 | | | | |
| Intermediate consumption | 10.8 | 10.7 | | 10.4 | | | | |
| Social payments | 21.8 | 21.4 | 21.5 | 21.1 | 21.1 | 20.9 | 20.8 | -1.0 |
| Subsidies | 1.2 | 1.1 | 1.1 | 1.1 | 1.1 | 1.0 | 1.0 | -0.2 |
| Gross fixed capital formation | 3.9 | 3.8 | 3.9 | 3.6 | 3.9 | 3.8 | 3.8 | -0.1 |
| Other (residual) | 2.6 | 2.5 | 2.5 | 2.3 | 2.5 | 2.5 | 2.5 | -0.1 |
| - Interest expenditure | 1.0 | 0.9 | 0.9 | 0.9 | 0.8 | 0.8 | 0.9 | -0.1 |
| General government balance (GGB) | -0.6 | -0.7 | -0.6 | -0.2 | -0.2 | 0.1 | 0.3 | 0.9 |
| Primary balance | 0.4 | 0.2 | 0.3 | 0.7 | 0.7 | 1.0 | 1.2 | 0.8 |
| One-off and other temporary | 0.0 | -0.1 | -0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 |
| GGB excl. one-offs | -0.6 | -0.7 | -0.5 | -0.3 | -0.3 | 0.1 | 0.3 | 0.9 |
| Output gap ¹ | -0.7 | 0.3 | 0.1 | 1.0 | 0.5 | 0.6 | 0.4 | 1.1 |
| Cyclically-adjusted balance ¹ | -0.1 | -0.9 | -0.6 | -0.8 | -0.5 | -0.2 | 0.1 | 0.3 |
| Structural balance² | -0.1 | -0.8 | -0.6 | -0.9 | -0.6 | -0.2 | 0.1 | 0.3 |
| Structural primary balance ² | 0.8 | 0.1 | 0.3 | 0.0 | 0.3 | 0.6 | 1.0 | 0.2 |

Notes:

¹Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by Commission on the basis of the programme scenario using the commonly agreed methodology.

²Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

Source:
Stability Programme (SP); Commission 2018 spring forecasts (COM); Commission calculations.

3.2. Medium-term strategy and targets

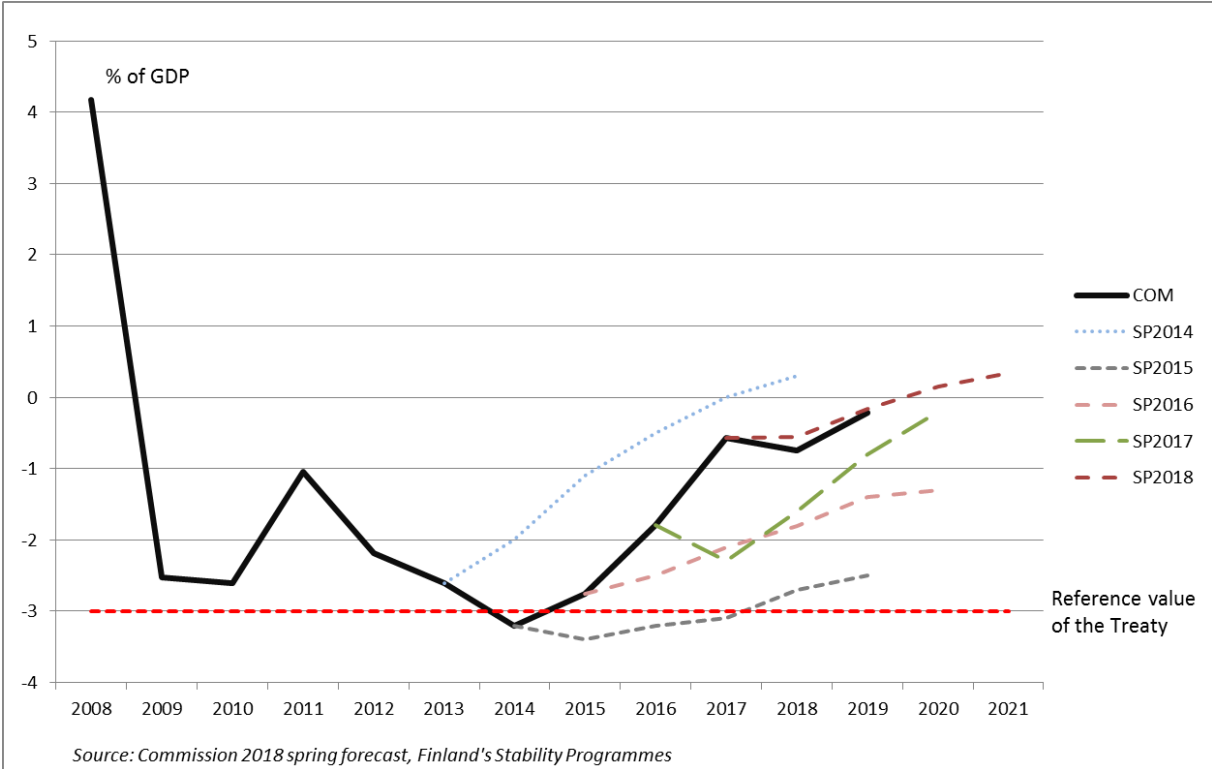
Finland's Stability Programme presents a fiscal forecast until 2021. The projections for the last two years of the Programme are designed under a no-policy-change assumption since the next general elections are to be held in spring 2019. Finland's 2018 Stability Programme recalls that Finland's medium-term budgetary objective for the structural balance is -0.5% of GDP and that the government is committed to achieving the MTO by 2019. According to the Commission's assessment, the MTO reflects the objectives of the Pact. The target for the

headline deficit in 2019 is set at 0.2% of GDP. By then, the consolidation measures are expected to be fully implemented and the one-off spending projects in accordance with the government’s priorities, such as investments in the transport network, will have come to an end. In 2019, owing to the finalisation of an IT-systems update at the Tax Authority, tax revenues from households are projected to increase by an additional EUR 250 million (0.1% of GDP). The new system allows an earlier settlement of income taxation of the preceding year and therefore this increase in government revenues is considered to be a one-off measure.

Towards the end of the Programme horizon, the revenue-to-GDP ratio is expected to remain broadly unchanged at about 52% of GDP. As the economy is projected to expand, albeit at a decelerating rate, the expenditure-to-GDP ratio is projected to decrease from 52.0% in 2019 to 51.4% of GDP in 2021. Consequently, the general government headline balance is projected to improve to 0.3% of GDP in 2021. According to the Stability Programme, Finland was above the MTO in 2017 and is projected to stand at the MTO in 2018. In 2019, the Programme projects the structural deficit to stand at 0.6% of GDP, which is considered sufficiently close to target. In 2020-2021, the structural balance would return above the MTO. The structural balance, as recalculated by the Commission on the basis of the information in the programme according to the commonly agreed methodology, is projected to similarly improve towards the end of the Programme horizon. The improving structural balance appears to be in line with the policy decisions to reduce government expenditure while reforming the labour and product markets.

Figure 1 presents the deficit projections of the recent Stability Programmes. Note that the 2017 Stability Programme was based on the government targets, while the previous Programmes and the 2018 programme assume no changes in policies.

Figure 1: Government balance projections in successive programmes (% of GDP)



3.3. Measures underpinning the programme

As outlined in Prime Minister Sipilä's Government's Programme in 2015, the government has decided to reduce public spending by about 2% of GDP between 2016 and 2019. Measures to achieve these savings include a freeze and a reduction of the CPI-indexation of social transfers (excluding means-tested social assistance) and savings in all the main government functions with the exception of defence spending. In 2019, expenditure on the priority projects of the current government, such as certain transport investment, will come to an end, which should improve the balance further. On the revenue side, the government has reduced taxes on labour income and contributions to social security, in particular in accordance with the Competitiveness Pact, which was agreed between the social partners in 2016 to improve Finland's cost competitiveness in a stepwise manner. As agreed in the coalition programme, indirect taxation such as recurring tax on real estate, energy taxes and excise duties on alcohol and cigarettes have been increased, thereby shifting the emphasis of taxation gradually away from less growth-friendly tax bases.

Table 3: Main budgetary measures

| Revenue | Expenditure |
|--|---|
| 2017 | |
| <ul style="list-style-type: none"> • Reduction of social security contributions (0.2% of GDP) • Reduction of wage income taxes (0.3% of GDP) | <ul style="list-style-type: none"> • A reduction of CPI-indexed transfers (-0.2% of GDP) • Expenditure cuts, net (-0.3% of GDP) |
| 2018 | |
| <ul style="list-style-type: none"> • Reduction of wage income taxes (-0.1% of GDP) | <ul style="list-style-type: none"> • A freeze of CPI-indexed transfers (-0.1% of GDP) • Expenditure cuts, net (-0.4% of GDP) |
| 2019 | |
| <ul style="list-style-type: none"> • Increase in tax revenue, net (0.1% of GDP) | <ul style="list-style-type: none"> • A freeze of CPI-indexed transfers (-0.2% of GDP) • Expenditure cuts, net (0.3% of GDP) |
| 2020-2021 | |
| No significant revenue or expenditure measures under the no-policy-change assumption. | |
| <p>Note: The budgetary impact in the table is the impact reported in the General Government Fiscal Plan 2019-2022, including the 2018 Stability Programme, i.e. by the national authorities. A positive sign implies that revenue / expenditure increases as a consequence of this measure.</p> | |

In the Stability Programme, the government decided on some reallocations of expenditure for 2019 within the budget frame. The changes allocate more resources to the preparations of the reform of social and healthcare services by increasing the appropriations to the pilot phase and to ICT investment. The government also decided to allocate more funding to employment services, to increase the incentives to accept short-term employment, and to allocate funding

to vocational training and education. In addition the government will boost the production of rental apartments in the Helsinki region.

In the description of the underlying measures, Finland's Stability Programme expects the Competitiveness Pact and certain other labour market measures to lift the employment rate to 72%, which is the government's key policy target. The Stability Programme does not quantify the impact of the measures on the general government headline balance, but as the Programme is an annex to the General Government Fiscal Plan, some details of above mentioned measures can be found in section 9 of the Fiscal Plan.

3.4. Debt developments

The general government gross debt-to-GDP ratio doubled from a very low base during and after the economic crisis, but has been on a declining path since 2015. The debt ratio was 61.4% of GDP in 2017 and is projected to decline to 58.9% of GDP in 2019 according to the Stability Programme. Smaller deficits and the expanding economy will continue to reduce the debt ratio towards the end of the Programme period in 2021, when it is projected at 56.7% of GDP. This declining path for the debt ratio differs from the one presented a year earlier in the 2017 Stability Programme, where the debt ratio was projected at 64.7% in 2017 and 64.5% of GDP in 2018. Similarly, the Commission 2017 spring forecast expected an increasing debt ratio.

Table 4: Debt developments

| (% of GDP) | Average 2012-2016 | 2017 | 2018 | | 2019 | | 2020 | 2021 |
|-------------------------------------|----------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | | | COM | SP | COM | SP | SP | SP |
| Gross debt ratio¹ | 59.4 | 61.4 | 60.4 | 60.4 | 59.6 | 58.9 | 57.4 | 56.7 |
| Change in the ratio | 2.9 | -1.6 | -1.0 | -1.0 | -0.8 | -1.5 | -1.5 | -0.7 |
| <i>Contributions² :</i> | | | | | | | | |
| 1. Primary balance | 1.3 | -0.4 | -0.2 | -0.3 | -0.7 | -0.7 | -1.0 | -1.2 |
| 2. “Snow-ball” effect | 0.2 | -1.2 | -1.4 | -1.6 | -1.4 | -1.6 | -1.2 | -0.9 |
| <i>Of which:</i> | | | | | | | | |
| Interest expenditure | 1.2 | 1.0 | 0.9 | 0.9 | 0.9 | 0.8 | 0.8 | 0.9 |
| Growth effect | 0.0 | -1.6 | -1.5 | -1.6 | -1.3 | -1.3 | -1.0 | -0.7 |
| Inflation effect | -1.1 | -0.6 | -0.9 | -0.9 | -0.9 | -1.2 | -1.0 | -1.0 |
| 3. Stock-flow adjustment | 1.4 | 0.0 | 0.6 | 0.9 | 1.2 | 0.8 | 0.7 | 1.4 |
| <i>Of which:</i> | | | | | | | | |
| Cash/accruals diff. | | | | | | | | |
| Acc. financial assets | | | | | | | | |
| <i>Privatisation</i> | | | | | | | | |
| Val. effect & residual | | | | | | | | |

Notes:

¹ End of period.

² The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.

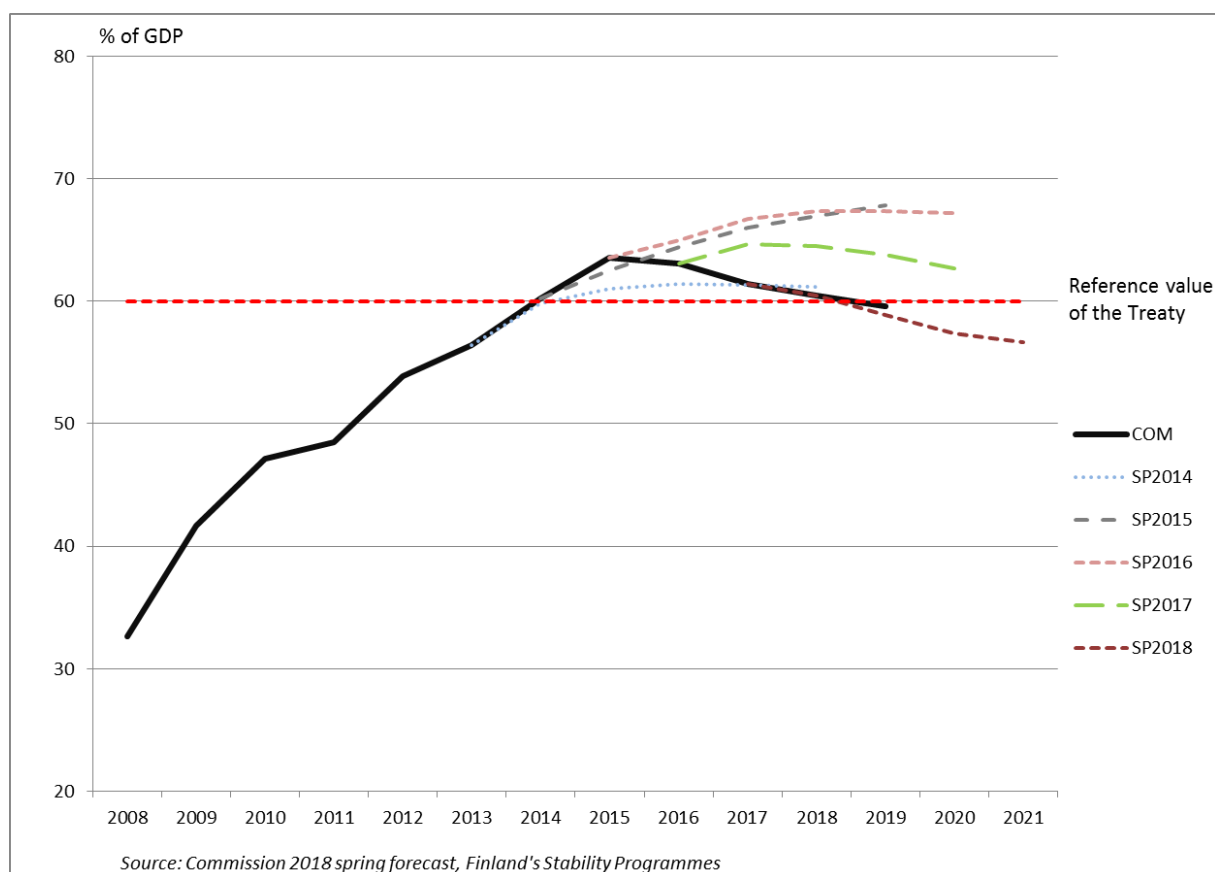
Source:

Commission 2018 spring forecast (COM); Stability Programme (SP), Commission calculations.

Finland achieved a surplus in the primary balance in 2017 while interest expenditure continued to decline. Over the Programme period, the primary surplus is projected to increase, helping to bring down the debt ratio. As real GDP growth has recovered, the debt ratio reduction is projected to accelerate further. As for the factors that increase the debt ratio, interest expenditure is expected to stabilise in coming years at the current level, implying a lower effective average interest rate. In 2017, the stock-flow adjustment had no impact on the debt ratio because the debt-increasing impact of the accumulation of financial assets by the earnings-related pension funds was offset by other adjustments with the opposite impact. In the coming years, as the earnings-related pension funds, which are included in general government, are projected to continue to remain in surplus, the accumulation of financial assets is projected to dominate the stock-flow adjustment and therefore slow down the reduction in the debt ratio. Largely owing to the partially funded statutory earnings-related pension system, the general government net asset position was about 60% of GDP in 2017.²

² According to Statistics Finland, general government (non-consolidated) total financial assets amounted to EUR 301.9 billion at the end of 2017 while total financial liabilities were EUR 171.0 billion. These figures indicate that Finland’s net asset position was EUR 130.9 billion or close to 60% of GDP in 2017. By convention, these estimates exclude the estimated present value of accrued pension entitlements of the statutory earnings-

Figure 2: Government debt projections in successive programmes (% of GDP)



3.5. Risk assessment

Overall, the Stability Programme's macroeconomic and fiscal projections for the programme period appear plausible. The Commission 2018 spring forecast broadly confirms the deficit and debt projections for 2018 and 2019. Finland has rigorously controlled the growth of expenditure during the current government term. A good example of this determination is the fact that total nominal general government expenditure decreased in 2017 from the previous year.³

Over the Programme period, Finland is planning to implement a major reform of social and healthcare services and of regional administration. Although the reforms are expected to take effect from 2020, the central government is already investing in IT-systems, setting up nationwide service centres, while the local governments are investing in healthcare facilities. A risk in the medium run is that the up-front implementation costs of the reforms could turn out higher than expected. Some of the possible expenditure is not yet known as some details of the reforms are yet to be decided.

related pension scheme, recently estimated at about EUR 630 billion (or 300% of GDP) at the end of 2015. See: http://www.tilastokeskus.fi/til/rtp/2015/13/rtp_2015_13_2018-03-07_tie_001_en.html

³ Partly this decrease is due to the change in the statistical treatment of the payments to the EU budget, which made the total amount of 2016 payments somewhat higher and the total amount of 2017 payments somewhat lower than normally in national accounts.

The reforms aim at savings, but these will materialise mainly after the Programme period. However, as these savings are to be achieved by imposing a tighter budget for the service providers rather than through individual and concrete measures to change the service provision, actual savings could fall short of the target.

The projections for 2020 and beyond are subject to the policy decisions of the government coalition that will take office after the general elections in April 2019.

4. COMPLIANCE WITH THE PROVISIONS OF THE STABILITY AND GROWTH PACT

Box 1. Council Recommendations addressed to Finland

On 11 July 2017, the Council addressed recommendations to Finland in the context of the European Semester. In particular, in the area of public finances the Council recommended Finland to pursue its fiscal policy in line with the requirements of the preventive arm of the Stability and Growth Pact, which entails achieving 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.

4.1. Compliance with the debt criterion

According to the validated budgetary data for 2017, the general government gross debt ratio was 61.4% of GDP, above the 60%-of-GDP reference value of the Treaty. Therefore, Finland is subject to the debt reduction benchmark. The 2018 Stability Programme plans the general government gross debt to decrease to 60.4% of GDP in 2018 and to 58.9% of GDP in 2019. The Commission 2018 spring forecast, albeit somewhat more cautious, similarly projects a decreasing path for the gross debt ratio. According to the Stability Programme, Finland would comply with the debt reduction benchmark in 2018, whereas in 2019 Finland would no longer be subject to the debt reduction benchmark as the debt ratio is projected to fall below the Treaty reference value. The Commission forecast confirms this projection.

Table 5. Compliance with the debt criterion

| | 2017 | 2018 | | 2019 | |
|---|------|------|------|------|------|
| | | SP | COM | SP | COM |
| Gross debt ratio | 61 | 60.4 | 60.4 | 58.9 | 59.6 |
| Gap to the debt benchmark ^{1,2} | | -2.8 | -2.0 | | |
| Structural adjustment ³ | | | | | |
| <i>To be compared to:</i> | | | | | |
| Required adjustment ⁴ | | | | | |
| Notes: | | | | | |
| ¹ Not relevant for Member States that were subject to an EDP procedure in November 2011 and for a period of three years following the correction of the excessive deficit. | | | | | |
| ² Shows the difference between the debt-to-GDP ratio and the debt benchmark. If positive, projected gross debt-to-GDP ratio does not comply with the debt reduction benchmark. | | | | | |
| ³ Applicable only during the transition period of three years from the correction of the excessive deficit for EDP that were ongoing in November 2011. | | | | | |
| ⁴ Defines the remaining annual structural adjustment over the transition period which ensures that - if followed - Member State will comply with the debt reduction benchmark at the end of the transition period, assuming that COM (S/CP) budgetary projections for the previous years are achieved. | | | | | |
| Source : | | | | | |
| <i>Commission 2018 spring forecast (COM); Stability Programme (SP), Commission calculations.</i> | | | | | |

4.2. Compliance with the MTO or the required adjustment path towards the MTO

Assessment of requests for deviating from SGP requirements

The 2018 Stability Programme recalls that the costs related to the exceptional inflow of refugees increased and that this budgetary impact was significant in 2015-2016. In the 2017 Stability Programme, the costs were projected to decrease by 0.15% of GDP in 2017. This figure was not confirmed in the 2018 Stability Programme and has therefore not been taken into account by the Commission.

In addition, for 2017, Finland was granted a temporary deviation of 0.5% of GDP from the required adjustment path towards the MTO to take account of major structural reforms, in particular, the 2017 pension reform and the Competitiveness Pact, with a positive impact on the long-term sustainability of public finances. For 2017, Finland was also granted a temporary deviation of 0.1% of GDP to take account of national investment expenditure in projects co-financed by the Union. As regards the investment clause, one of the eligibility criteria is the increase in public investment. Outturn data for 2017 showed a decrease in public investment in 2017 compared to the previous year while the investment linked to Union funds is estimated to have remained stable. Thereby, Finland is no longer considered eligible for a temporary deviation of 0.1% of GDP in relation to national investment expenditure in projects co-financed by the EU in 2017.

A Member State that is at, or close to, its MTO is allowed to depart from it for three years and therefore the flexibility granted in a given year is carried forward for the next two years. This

is the case of Finland, for which the temporary deviations granted in 2017 from the adjustment path towards the MTO are carried forward so that they cover a period of three years. Therefore, the allowed deviations under the unusual events and structural reform clauses amount to 0.72% of GDP in 2017, 0.67% of GDP in 2018 and 0.5% of GDP in 2019.

Compliance with the MTO

On the basis of outturn data and the Commission 2018 spring forecast, in 2017, the structural balance improved by 0.5 percentage point to -0.1% of GDP, i.e. Finland over-achieved its MTO. Therefore Finland was compliant with the recommended adjustment path towards the MTO in 2017.

For 2018, the Council's fiscal recommendation (Box 1), based on the Commission 2017 spring forecast, invited Finland to ensure that the nominal growth rate of net primary government expenditure⁴ in 2018 does not exceed 1.6%, corresponding to an improvement in the structural balance by 0.1% of GDP. Subsequently, the Commission 2017 autumn forecast indicated that Finland would be closer to its MTO in 2017 than expected in spring. Taking into account the revised outlook⁵, the applicable growth rate of government expenditure was set at 2.1%, corresponding to an allowed deterioration in the structural balance by 0.2% of GDP. Finally, taking into account the fiscal impact of the withdrawal of the investment clause, the applicable growth rate for the expenditure benchmark is considered at 1.9%, corresponding to an allowed deterioration in the structural balance by 0.1% of GDP. According to the Stability Programme, the growth rate of net primary government expenditure will exceed the applicable reference rate by 0.4 percentage point while the recalculated structural balance is projected to worsen by 0.4% of GDP. Thereby both pillars point to a risk of some deviation from the required adjustment. Based on the Commission 2018 spring forecast, the growth rate of net primary government expenditure will exceed the applicable reference rate by 0.2 percentage point, pointing to some deviation, while the structural balance is projected to worsen by 0.7 percentage point of GDP, overshooting the requirement and pointing to a risk of significant deviation. This calls for an overall assessment. The discrepancy between the two indicators is mainly due to the fact that the reading of the fiscal effort based on the structural balance pillar is negatively impacted by significant revenue shortfalls. Taking that into consideration, the overall assessment points to a risk of some deviation from the recommended adjustment path towards the MTO in 2018.

At the same time, given the better-than-expected starting point, the recalculated structural balance in 2018 is estimated at -0.6% of GDP while the Commission 2018 spring forecast estimated the balance at -0.8% of GDP. This indicates that the distance from the MTO in 2018 would be below what is allowed by the temporary allowances linked to the unusual events and the structural reform clauses. If confirmed, this will be taken into account in the ex post assessment for 2018.

⁴ As part of the agreement on the Economic and Financial Committee Opinion on "*Improving the predictability and transparency the SGP: a stronger focus on the expenditure benchmark in the preventive arm*", which was adopted by the Economic and Financial Committee on 29 November 2016, the expenditure benchmark, that is the maximum allowable growth rate of expenditure net of discretionary revenue measures, is expressed in nominal terms as from 2018.

⁵ Following the Opinion of the Economic and Financial Committee of 29 November 2016 and the subsequent discussion and endorsement by the Committee, the "unfreezing" of the required adjustment for year t may only take place in two occasions: in autumn t-1, which in principle allows the change to be taken into account in the Member State's budget for year t before it is finally adopted, and in spring t+1, at the time of the ex post assessment of compliance with the preventive arm.

Table 6: Compliance with the requirements under the preventive arm

| (% of GDP) | 2017 | 2018 | | 2019 | | |
|---|---------------------|-------------|------------|-------------|------------|-----|
| Initial position¹ | | | | | | |
| Medium-term objective (MTO) | -0.5 | -0.5 | | -0.5 | | |
| Structural balance ² (COM) | -0.1 | -0.8 | | -0.9 | | |
| Structural balance based on freezing (COM) | -1.0 | -0.8 | | - | | |
| Position vis-a-vis the MTO³ | At or above the MTO | Not at MTO | | Not at MTO | | |
| (% of GDP) | 2017 | 2018 | | 2019 | | |
| | COM | SP | COM | SP | COM | |
| Structural balance pillar | | | | | | |
| Required adjustment ⁴ | Compliance | 0.5 | | 0.3 | | |
| Required adjustment corrected ⁵ | | -0.1 | | -0.2 | | |
| Change in structural balance ⁶ | | -0.4 | -0.7 | 0.0 | -0.1 | |
| One-year deviation from the required adjustment ⁷ | | -0.3 | -0.5 | 0.2 | 0.1 | |
| Two-year average deviation from the required adjustment ⁷ | | 0.6 | -0.3 | 0.0 | -0.2 | |
| Expenditure benchmark pillar | | | | | | |
| Applicable reference rate ⁸ | | | 1.9 | | 2.9 | |
| One-year deviation adjusted for one-offs ⁹ | | | -0.4 | -0.2 | -0.1 | 0.5 |
| Two-year deviation adjusted for one-offs ⁹ | | | 0.3 | 0.4 | -0.3 | 0.2 |
| PER MEMORIAM: One-year deviation ¹⁰ | | | -0.5 | -0.3 | 0.0 | 0.7 |
| PER MEMORIAM: Two-year average deviation ¹⁰ | | 0.3 | 0.4 | -0.2 | 0.2 | |
| Notes | | | | | | |
| ¹ The most favourable level of the structural balance, measured as a percentage of GDP reached at the end of year t-1, between spring forecast (t-1) and the latest forecast, determines whether there is a need to adjust towards the MTO or not in year t. A margin of 0.25 percentage points (p.p.) is allowed in order to be evaluated as having reached the MTO. | | | | | | |
| ² Structural balance = cyclically-adjusted government balance excluding one-off measures. | | | | | | |
| ³ Based on the relevant structural balance at year t-1. | | | | | | |
| ⁴ Based on the position vis-à-vis the MTO, the cyclical position and the debt level (See European Commission: Vade mecum on the Stability and Growth Pact, page 38.). | | | | | | |
| ⁵ Required adjustment corrected for the clauses, the possible margin to the MTO and the allowed deviation in case of overachievers. | | | | | | |
| ⁶ Change in the structural balance compared to year t-1. Ex post assessment (for 2017) is carried out on the basis of the Commission 2018 spring forecast. | | | | | | |
| ⁷ The difference of the change in the structural balance and the corrected required adjustment. | | | | | | |
| ⁸ Reference medium-term rate of potential GDP growth. The (standard) reference rate applies from year t+1, if the country has reached its MTO in year t. A corrected rate applies as long as the country is adjusting towards its MTO, including in year t. | | | | | | |
| ⁹ Deviation of the growth rate of public expenditure net of discretionary revenue measures, revenue increases mandated by law and one-offs from the applicable reference rate in terms of the effect on the structural balance. The expenditure aggregate used for the expenditure benchmark is obtained following the commonly agreed methodology. A negative sign implies that expenditure growth exceeds the applicable reference rate. | | | | | | |
| ¹⁰ Deviation of the growth rate of public expenditure net of discretionary revenue measures and revenue increases mandated by law from the applicable reference rate in terms of the effect on the structural balance. The expenditure aggregate used for the expenditure benchmark is obtained following the commonly agreed methodology. A negative sign implies that expenditure growth exceeds the applicable reference rate. | | | | | | |
| <u>Source :</u> | | | | | | |
| Stability Programme (SP); Commission 2018 spring forecast (COM); Commission calculations. | | | | | | |

In 2019, Finland should continue to respect the MTO taking into account the allowance related to the structural reform clause (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. According to the Stability Programme, the growth rate of net primary government expenditure, net of discretionary revenue measures and one-offs will exceed the applicable reference rate by 0.1 percentage point while the recalculated structural balance is projected to remain unchanged. Over 2018

and 2019 taken together, the expenditure benchmark points to a risk of significant deviation as the growth of government expenditure is expected to exceed the applicable benchmark by 0.3 percentage point. On the basis of the Commission 2018 spring forecast, the growth rate of net primary government expenditure will not exceed the applicable reference rate in 2019 while the structural balance is projected to worsen less than allowed. The structural pillar points to some deviation over 2018 and 2019 taken together. An overall assessment based on the Commission forecast shows that the fiscal effort based on the change in the structural balance continues to be distorted by the revenue shortfalls in 2018-2019. Taking that into account, the overall assessment points to compliance with the required adjustment in 2019.

At the same time, the recalculated structural balance in 2019 is currently estimated at -0.6% of GDP. According to the Commission forecast the balance is projected at -0.9% of GDP. This again indicates that the distance from the MTO in 2019 would be below what is allowed by the temporary allowance linked to the structural reform clause. If confirmed, this will be taken into account in the ex post assessment for 2019.

5. FISCAL SUSTAINABILITY

Finland does not appear to face fiscal sustainability risks in the short run.⁶

Based on Commission 2018 spring forecasts and a no-fiscal policy change scenario beyond the forecast horizon, government debt, at 61.4% of GDP in 2019, is expected to decline to 58.6% of GDP in 2028, thus stabilizing somewhat below the 60%-of-GDP Treaty threshold. Over this horizon, government debt is projected to decrease to 57.3% of GDP in 2024. Sensitivity analysis shows similar risks. Overall, this highlights medium risks for the country from debt sustainability analysis in the medium term. The full implementation of the Stability Programme would put debt on a slightly decreasing path by 2028, keeping the ratio below the 60% of GDP reference value in 2028.

The medium-term fiscal sustainability risk indicator S1⁷ is at 0.4 percentage point of GDP, primarily related to the favourable initial budgetary position and the projected ageing costs contributing with 1.3 percentage points of GDP, thus indicating medium risks in the medium term. The full implementation of the Stability Programme would put the sustainability risk indicator S1 at -1.0 percentage points of GDP, leading to low medium-term risk. Overall, risks to fiscal sustainability over the medium-term are, therefore, medium. Fully implementing the fiscal plans in the Stability Programme would decrease those risks.

The long-term fiscal sustainability risk indicator S2 is at 2.9% of GDP. In the long term, Finland therefore appears to face medium fiscal sustainability risks, primarily related to the initial budgetary position, and the projected ageing costs contributing with 2.2 percentage points of GDP. Full implementation of the Programme would nonetheless put the S2 indicator at 1.9 percentage points of GDP, leading to a low long-term risk.⁸

⁶ This conclusion is based on the short-term fiscal sustainability risk indicator S0. See the note to Table 7 for a definition of this indicator

⁷ See the note to Table 7 for a definition of the indicator.

⁸ The projected costs of ageing used to compute the debt projections and the fiscal sustainability indicators S1 and S2 are based on the updated projections, endorsed by the EPC on 30 January 2018, and to be published in the forthcoming Ageing Report 2018.

Table 7: Sustainability indicators

| <i>Time horizon</i> | No-policy Change Scenario | | Stability Programme Scenario | |
|--------------------------------------|----------------------------------|-------------|-------------------------------------|----------|
| Short Term | LOW risk | | | |
| S0 indicator ^[1] | 0.1 | | | |
| Fiscal subindex | 0.0 | LOW risk | | |
| Financial & competitiveness subindex | 0.1 | LOW risk | | |
| Medium Term | MEDIUM risk | | | |
| DSA ^[2] | MEDIUM risk | | | |
| S1 indicator ^[3] | 0.4 | MEDIUM risk | -1.0 | LOW risk |
| <i>of which</i> | | | | |
| Initial Budgetary Position | -1.0 | | -1.9 | |
| Debt Requirement | 0.0 | | -0.3 | |
| Cost of Ageing | 1.3 | | 1.2 | |
| <i>of which</i> | | | | |
| Pensions | 0.6 | | 0.5 | |
| Health-care | 0.2 | | 0.2 | |
| Long-term care | 0.5 | | 0.4 | |
| Other | 0.1 | | 0.1 | |
| Long Term | MEDIUM risk | | LOW risk | |
| S2 indicator ^[4] | 2.9 | | 1.9 | |
| <i>of which</i> | | | | |
| Initial Budgetary Position | 0.8 | | 0.0 | |
| Cost of Ageing | 2.2 | | 1.9 | |
| <i>of which</i> | | | | |
| Pensions | 0.1 | | 0.0 | |
| Health-care | 0.5 | | 0.5 | |
| Long-term care | 1.6 | | 1.6 | |
| Other | -0.2 | | -0.2 | |

Source: Commission services; 2018 stability/convergence programme.

Note: the 'no-policy-change' scenario depicts the sustainability gap under the assumption that the structural primary balance position evolves according to the Commissions' spring 2018 forecast covering until 2019 included. The 'stability/convergence programme' scenario depicts the sustainability gap under the assumption that the budgetary plans in the programme are fully implemented over the period covered by the programme. Age-related expenditure as given in the 2018 Ageing Report.

[1] The S0 indicator of short term fiscal challenges informs the early detection of fiscal stress associated to fiscal risks within a one-year horizon. To estimate these risks S0 uses a set of fiscal, financial and competitiveness indicators selected and weighted according to their signalling power. S0 is therefore a composite indicator whose methodology is fundamentally different from the S1 and S2 indicators, which quantify fiscal adjustment efforts. The critical threshold for the overall S0 indicator is 0.46. For the fiscal and the financial-competitiveness sub-indexes, thresholds are respectively at 0.36 and 0.49*.

[2] Debt Sustainability Analysis (DSA) is performed around the no fiscal policy change scenario in a manner that tests the response of this scenario to different shocks presented as sensitivity tests and stochastic projections*.

[3] The S1 indicator is a medium-term sustainability gap; it measures the upfront fiscal adjustment effort required to bring the debt-to-GDP ratio to 60 % by 2032. This adjustment effort corresponds to a cumulated improvement in the structural primary balance over the 5 years following the forecast horizon (i.e. from 2020 for No-policy Change scenario and from last available year for the SCP scenario); it must be then sustained, including financing for any additional expenditure until the target date, arising from an ageing population. The critical thresholds for S1 are 0 and 2.5, between which S1 indicates medium risk. If S1 is below 0 or above 2.5, it indicates low or high risk, respectively*.

[4] The S2 indicator is a long-term sustainability gap; it shows the upfront and permanent fiscal adjustment required to stabilise the debt-to-GDP ratio over the infinite horizon, including the costs of ageing. The critical thresholds for S2 are 2 and 6, between which S2 indicates medium risk. If S2 is below 2 or above 6, it indicates low or high risk, respectively*.

* For more information see Fiscal Sustainability Report 2015 and Debt Sustainability Monitor 2017.

6. FISCAL FRAMEWORK

On 14 December 2017 Finland's National Audit Office published a preliminary assessment of Finland's compliance with the national fiscal rules in 2017 and 2018 on the basis of the Ministry of Finance 2017 autumn forecast and the central government budget proposal for 2018. The auditors considered Finland compliant with the preventive arm requirements in 2017 and 2018, taking into account the temporary deviations related to structural reforms and investment clauses which were granted in 2017.

The government has committed itself to achieving the MTO in 2019. According to the Stability Programme, as discussed in conjunction of the medium-term strategy (section 3.2), Finland plans to achieve this target. The recalculated structural balance points to a similar conclusion. Therefore, based on the information provided in the Stability Programme, the past, planned and forecast fiscal performance in Finland appears to comply with the requirements of the applicable national numerical fiscal rules.

Finland's Stability Programme is an annex to General Government Fiscal Plan for 2019-2022 which serves as Finland's national medium-term fiscal plan in accordance with the Two-Pack Regulation 473/2013. This is clearly stated in the introduction of the plan. The Regulation requires the Member States to present indications on the expected economic returns on significant non-defence public investment with significant fiscal impact. Neither the General Government Fiscal Plan 2019-2022 nor National Reform Programme provide such information for the years concerned.

The macroeconomic forecasts underpinning the Stability Programme and national medium-term fiscal plan in the meaning of the Regulation 473/2013 are produced by an independent forecaster, the Economics department of the Ministry of Finance. Finland is the only euro area country where the independent macroeconomic forecast is prepared by the Ministry of Finance, which is also responsible for the preparations of the central government annual budgets and the steering of general government finances. The management of the Economics department is separated from the Budget department and according to the law adopted in spring 2015, the Economics department is independent in its forecasting activities. Recently, the National Audit Office published a report⁹ on the macroeconomic forecasts used in the budget process, concluding that the forecasts by the Ministry of Finance are at least as good and unbiased as those of other national or international forecasters.

⁹ Valtiontalouden tarkastusvirasto: Finanssipolitiikan valvonnan arvio valtiovarainministeriön makroennusteiden luotettavuudesta. Valtiontalouden tarkastusviraston tarkastuskertomukset 7/2018.

7. SUMMARY

In 2017, Finland over-achieved the MTO and the public debt-to-GDP ratio was reduced in line with the debt reduction benchmark.

For 2018, Finland plans a nominal growth rate of government expenditure, net of discretionary revenue measures, which slightly exceeds the applicable expenditure benchmark rate. Finland also plans a worsening of the structural balance. Based on an overall assessment, which gives preference to the expenditure benchmark, this indicates a risk of some deviation from the required adjustment path towards the MTO in 2018. This assessment is confirmed on the basis of the Commission forecast. In 2019, Finland plans a nominal growth rate of government expenditure in line with the applicable expenditure benchmark rate, while the structural balance requirement is projected to be met. The deviation of the structural balance from the MTO in 2018-2019 does not exceed the allowance linked to the temporary deviations in relation with the unusual event clause and the structural reform clause. In 2018, Finland is projected to comply with the debt reduction benchmark, while in 2019 the debt ratio is projected to fall under the 60%-of-GDP reference value of the Treaty.

8. ANNEX

Table I. Macroeconomic indicators

| | 2000-2004 | 2005-2009 | 2010-2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|--|---------------|---------------|---------------|---------------|---------------|---------------|-------------|-------------|
| Core indicators | | | | | | | | |
| GDP growth rate | 3.2 | 0.9 | 0.5 | 0.1 | 2.1 | 2.6 | 2.5 | 2.3 |
| Output gap ¹ | 0.5 | 0.9 | -2.0 | -3.3 | -2.0 | -0.7 | 0.3 | 1.0 |
| HICP (annual % change) | 1.8 | 1.8 | 2.3 | -0.2 | 0.4 | 0.8 | 1.4 | 1.7 |
| Domestic demand (annual % change) ² | 2.8 | 1.1 | 1.0 | 1.3 | 2.7 | 2.1 | 1.9 | 1.8 |
| Unemployment rate (% of labour force) ³ | 9.2 | 7.5 | 8.2 | 9.4 | 8.8 | 8.6 | 8.4 | 8.3 |
| Gross fixed capital formation (% of GDP) | 22.3 | 23.4 | 21.6 | 20.4 | 21.6 | 22.6 | 23.0 | 23.2 |
| Gross national saving (% of GDP) | 29.7 | 27.4 | 21.0 | 20.0 | 20.5 | 22.7 | 23.3 | 24.0 |
| General Government (% of GDP) | | | | | | | | |
| Net lending (+) or net borrowing (-) | 4.1 | 2.7 | -2.3 | -2.8 | -1.8 | -0.6 | -0.7 | -0.2 |
| Gross debt | 41.8 | 37.3 | 53.2 | 63.5 | 63.0 | 61.4 | 60.4 | 59.6 |
| Net financial assets | 34.5 | 60.4 | 53.2 | 53.1 | 53.2 | 58.6 | n.a | n.a |
| Total revenue | 52.6 | 52.1 | 53.9 | 54.4 | 54.2 | 53.2 | 51.9 | 51.3 |
| Total expenditure | 48.5 | 49.5 | 56.2 | 57.1 | 56.0 | 53.7 | 52.6 | 51.5 |
| <i>of which: Interest</i> | 2.2 | 1.5 | 1.3 | 1.2 | 1.1 | 1.0 | 0.9 | 0.9 |
| Corporations (% of GDP) | | | | | | | | |
| Net lending (+) or net borrowing (-) | 4.0 | 3.4 | 3.2 | 3.9 | 3.6 | 4.2 | 4.4 | 4.0 |
| Net financial assets; non-financial corporations | -160.7 | -132.5 | -111.7 | -126.6 | -124.1 | -124.1 | n.a | n.a |
| Net financial assets; financial corporations | 4.9 | 0.4 | 4.3 | 4.3 | 4.7 | 2.6 | n.a | n.a |
| Gross capital formation | 13.1 | 13.6 | 11.5 | 11.2 | 11.4 | 12.2 | 12.8 | 13.5 |
| Gross operating surplus | 27.6 | 26.4 | 22.4 | 22.5 | 22.6 | 24.3 | 25.3 | 26.2 |
| Households and NPISH (% of GDP) | | | | | | | | |
| Net lending (+) or net borrowing (-) | -1.2 | -2.7 | -1.8 | -2.0 | -3.2 | -3.8 | -3.4 | -3.1 |
| Net financial assets | 64.6 | 59.0 | 61.4 | 72.2 | 74.0 | 75.3 | n.a | n.a |
| Gross wages and salaries | 37.5 | 38.4 | 40.3 | 39.7 | 39.2 | 38.8 | 38.4 | 38.0 |
| Net property income | 4.4 | 3.9 | 3.9 | 4.0 | 4.0 | 4.0 | 4.4 | 4.9 |
| Current transfers received | 19.4 | 19.2 | 22.2 | 23.8 | 23.4 | 22.7 | 22.2 | 21.9 |
| Gross saving | 5.0 | 4.3 | 4.9 | 4.1 | 3.6 | 3.4 | 3.4 | 3.5 |
| Rest of the world (% of GDP) | | | | | | | | |
| Net lending (+) or net borrowing (-) | 6.9 | 3.3 | -0.9 | -0.7 | -1.1 | 0.8 | 1.1 | 1.5 |
| Net financial assets | 56.7 | 12.8 | -7.1 | -3.0 | -7.8 | -12.4 | n.a | n.a |
| Net exports of goods and services | 8.0 | 3.7 | -0.6 | -0.5 | -0.7 | 0.5 | 0.9 | 1.3 |
| Net primary income from the rest of the world | -0.1 | 0.6 | 0.7 | 0.9 | 0.8 | 1.2 | 1.1 | 1.0 |
| Net capital transactions | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.1 | 0.1 | 0.1 |
| Tradable sector | 47.5 | 44.2 | 39.8 | 38.7 | 38.3 | 38.9 | n.a | n.a |
| Non tradable sector | 40.1 | 43.3 | 46.7 | 47.6 | 47.8 | 47.5 | n.a | n.a |
| <i>of which: Building and construction sector</i> | 5.2 | 5.9 | 5.6 | 5.5 | 5.9 | 6.2 | n.a | n.a |
| Real effective exchange rate (index, 2000=100) | 92.3 | 98.4 | 102.4 | 102.9 | 101.7 | 99.3 | 100.2 | 99.1 |
| Terms of trade goods and services (index, 2000=100) | 112.3 | 103.0 | 98.6 | 102.8 | 104.2 | 103.3 | 102.9 | 102.8 |
| Market performance of exports (index, 2000=100) | 108.1 | 107.7 | 95.3 | 85.6 | 85.4 | 87.8 | 88.1 | 88.6 |
| Notes: | | | | | | | | |
| ¹ The output gap constitutes the gap between the actual and potential gross domestic product at 2005 market prices. | | | | | | | | |
| ² The indicator on domestic demand includes stocks. | | | | | | | | |
| ³ Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed. The unemployment rate covers the age group 15-74. | | | | | | | | |
| Source: AMECO data, Commission 2018 spring forecast | | | | | | | | |