General Government Fiscal Plan for 2024–2027

Economic Policy

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Abstract

The purpose of the General Government Fiscal Plan is to support decision-making related to general government finances as well as compliance with the Medium-Term Objective set for the structural budgetary position of general government finances. The plan contains sections related to central government finances, wellbeing services county finances, municipal finances, statutory earnings-related pension funds and other social security funds. The Government prepares the General Government Fiscal Plan for the parliamentary term and revises it by the end of April each year for the following four-year periods. The General Government Fiscal Plan also includes Finland's Stability Programme, and it meets the EU's requirement for a medium-term fiscal plan. This time, the appendix to the General Government Fiscal Plan that includes the Stability Programme also contains information required by the 2024 Draft Budgetary Plan.

The revised General Government Fiscal Plan for 2024–2027 takes into account the policies outlined in the Government Programme of Prime Minister Orpo's Government. The General Government Fiscal Plan sets budgetary objectives and other objectives for general government finances. It also sets a binding expenditure ceiling for the parliamentary term.

Keywords	economic policy, general government fiscal plans, stability programmes, decisions on spending limits, JTS		
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Julkisen talouden suunnitelma vuosille 2024–2027

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Tiivistelmä

Julkisen talouden suunnitelman tarkoituksena on tukea julkista taloutta koskevaa päätöksentekoa sekä julkisen talouden rakenteelliselle rahoitusasemalle asetetun keskipitkän aikavälin tavoitteen noudattamista. Suunnitelma sisältää valtion, hyvinvointialueiden ja kuntien taloutta sekä lakisääteisiä työeläkelaitoksia ja muita sosiaaliturvarahastoja koskevat osat. Valtioneuvosto laatii julkisen talouden suunnitelman vaalikaudeksi ja tarkistaa sen vuosittain seuraavaksi neljäksi vuodeksi huhtikuun loppuun mennessä. Julkisen talouden suunnitelma sisältää samalla Suomen vakausohjelman sekä vastaa EU:n vaatimukseen keskipitkän aikavälin budjettisuunnitelmasta. Vakausohjelman sisältävä julkisen talouden suunnitelman liite pitää sisällään tällä kertaa myös vuoden 2024 alustavan talousarviosuunnitelman edellyttämän informaation.

Tarkistetussa julkisen talouden suunnitelmassa vuosille 2024–2027 on otettu huomioon pääministeri Orpon hallituksen hallitusohjelman linjaukset. Julkisen talouden suunnitelmassa asetetaan rahoitusasematavoitteet ja muut julkisen talouden tavoitteet. Lisäksi asetetaan sitova menokehys vaalikaudelle.

Asiasanat	talouspolitiikka, julkisen talouden suunnitelmat, vakausohjelmat, kehyspäätökset, JTS		
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Plan för de offentliga finanserna 2024–2027

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Referat

Syftet med planen för de offentliga finanserna är att stödja det beslutsfattande som gäller den offentliga ekonomin samt iakttagandet av det medelfristiga målet för det strukturella saldot i de offentliga finanserna. Planen innehåller avsnitt om statsfinanserna, välfärdsområdenas ekonomi och den kommunala ekonomin samt om lagstadgade arbetspensionanstalter och övriga socialskyddsfonder. Statsrådet gör upp en plan för de offentliga finanserna för varje valperiod och justerar årligen före utgången av april planen för de följande fyra åren. Planen för de offentliga finanserna innehåller Finlands stabilitetsprogram samtidigt som den uppfyller EU:s krav på en budgetplan på medellång sikt. Stabilitetsplanen innefattar en bilaga till planen för de offentliga finanserna. Denna bilaga innehåller denna gång även den information som krävs enligt utkastet till budgetplan för 2024.

I den reviderade planen för de offentliga finanserna 2024–2027 beaktas riktlinjerna i regeringsprogrammet för statsminister Petteri Orpos regering. I planen för de offentliga finanserna fastslås målen för det strukturella saldot och de övriga offentliga finanserna. Dessutom har det fastställs en bindande utgiftsram för valperioden.

Nyckelord	finanspolitiken, ekonomisk politik, planer för de offentliga finanserna, stabilitetsprogram, rambeslut, JTS		
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Contents

General Government Fiscal Plan 2024–2027

In accordance with Article 4 of Regulation 473/13, the General Government Fiscal Plan is based on independent macroeconomic and fiscal forecasts produced by the Economics Department of the Ministry of Finance. The General Government Fiscal Plan also includes Finland's Stability Programme, and it meets the EU's requirement for a medium-term fiscal plan. Appendix 6 of the General Government Fiscal Plan, which contains the Stability Programme, this time also contains information required by the 2024 Draft Budgetary Plan.

The Government has today, following preparatory consideration of the matter in the Ministerial Finance Committee and pursuant to section 2 of the Decree on the General Government Fiscal Plan (120/2014), section 1 of the Budget Decree (1243/1992) and the Government's decision issued on 24 April 2003 on the principles of formulating central government spending limits proposals, budget proposals and operating and financial plans, issued the following General Government Fiscal Plan and the Decision on Central Government Spending Limits included within it:

Summary

Economic challenges and the economic policy line

The Ministry of Finance considers that economic growth will close to zero in 2023, but that it will accelerate above the long-term growth rate in the next few years. At the beginning of the parliamentary term, the economic situation will be weakened by rising prices and interest rates, which will reduce private demand and increase general government costs. Strengthening household purchasing power and large investments related to sustainable growth will boost economic growth starting next year. The structural problems of the Finnish economy are weak productivity growth and low productive investment, which will keep economic growth relatively slow also in the longer term.

The permanent structural imbalance between expenditure and revenue in general government finances is an acute problem. The general government debt ratio, which is severely in deficit, has diverged significantly from that of the other Nordic countries. Stabilising the debt ratio requires strengthening general government finances annually by at least 0.5% of GDP, on average.

Reversing the trend of indebtedness requires strengthening general government finances by a total of EUR 9 billion over the course of two parliamentary terms. The Government's longer-term goal is to balance general government finances and set the debt ratio on a downward path towards to the level of the other Nordic countries.

For more details see Chapter 1: Economic challenges and the economic policy line.

Objectives and rules steering the management of general government finances

The General Government Fiscal Plan sets multiannual targets for the budgetary balance of general government finances as a whole, as well as a target for each subsector of general government finances. The budgetary targets are set such that they shall, taking into account the Ministry of Finance forecast, result at least in the achievement of the target set for the structural budgetary balance of general government. In addition, multiannual targets corresponding to the budgetary targets for general government finances are presented for general government debt and general government expenditure in ratio to GDP at market prices. The validity of the Medium-Term Objective is confirmed (structural budgetary balance of -0.5% in ratio to GDP.

For more details see Chapter 2: Objectives and rules steering the management of general government finances.

Economic fundamentals

Rising prices and interest rates have reduced household consumption and investment. The Finnish economy will not grow in 2023 from the previous year. In 2024, prices will rise more slowly than growth of household incomes, and interest rates will have stopped rising. The improvement in household purchasing power will increase consumption, and GDP will grow by 1.2%. However, the weak situation in construction will continue to undermine economic growth. The investment outlook is otherwise bright, however, with a very high number of investment plans, particularly for wind power. In 2025, growth will accelerate to 1.8%, with domestic demand being increased by consumption growth and investments.

Finland's general government budgetary position will weaken significantly in 2023 compared with 2022. Economic growth has stalled and many previously decided measures as well as higher spending due to inflation will increase the deficit in the current year. Despite the measures adopted by the Government to strengthen general government finances, the budgetary position will deteriorate in the coming years. Economic growth will accelerate towards the end of the forecast period compared with the next few years and, at the same time, the adjustment measures will take effect, leading to an improvement in the budgetary position. General government finances will remain substantially in deficit, however.

For more details see Chapter 3: Economic fundamentals.

Government liabilities and risks

The largest component areas of central government liabilities are central government debt, pension liabilities and central government guarantees. Pension liabilities amounted to EUR 97 billion at the end of 2022. The largest growth over the last 10 years has been in the amount of government debt and government guarantees. Outstanding central government debt stood at EUR 141.6 billion as at the end of 2022, while the outstanding portfolio of central government guarantees was EUR 68.5 billion.

For more details see Chapter 4: Government liabilities and risks.

Central government finances

In its Government Programme, Prime Minister Orpo's Government has committed to the spending limits procedure for central government expenditure. The central government spending limits system is a key instrument of the Government's fiscal policy steering and the foundation of a credible economic policy. Binding parliamentary term expenditure ceiling covering 2024–2027 is included in this spending limits decision.

On-budget expenditure in 2024 is expected to be EUR 87.9 billion, which is EUR 4.6 billion more than that budgeted for 2023 (incl. second supplementary budget proposal). The increase in the level of appropriations compared with 2023 is mainly explained by, among other things, the statutory and contractual index adjustments for 2024 (EUR 1.7 billion) and changes in the central government funding of the wellbeing services counties. In 2024, EUR 3.4 billion more funding will be allocated to the wellbeing services counties than has been budgeted for 2023, in addition to which a statutory index adjustment will be made. The increase in funding for the wellbeing services counties is explained by the fact that EUR 1.9 billion of the 2023 funding was paid already in December 2022, which reduces the 2023 reference figure.

Compared with the spending limits decision adopted in spring 2023, expenditure between 2024 and 2027 will decrease by c. EUR 0.4 billion in 2024 and by c. EUR 1.5 billion in 2027. Reforms and expenditure savings in accordance with Prime Minister Orpo's Government Programme will reduce the appropriation requirement by c. EUR 0.8 billion in 2024, gradually increasing to c. EUR 2.1 billion by 2027 (at the 2024 price level).

For more details see Chapter 5: Central government finances.

Finances of the wellbeing services counties

The universal funding of the wellbeing services counties will total c. EUR 24.7 billion at the 2024 level, of which EUR 551 million comprises non-recurring compensation to be paid in 2024, which will be recognised as revenue by the wellbeing services counties in 2023. Compared with the previous technical General Government Fiscal Plan, the level of funding for wellbeing services counties will increase by c. EUR 100 million in 2024. At the end of the spending limits period in 2027, universal funding of the wellbeing services counties will be c. EUR 24.8 billion, which is c. EUR 0.4 billion less than in the spring 2023 technical General Government Fiscal Plan.

The funding for wellbeing services counties will be increased in the spending limits period particularly by the further specification of expenditure transferred to the wellbeing services counties, a rise in price level (index adjustment), anticipated growth in service needs, funding for new and expanded duties, and the adding of the university hospital increment to imputed funding as of 2024. Funding, on the other hand, will be reduced in the spending limits period particularly by the changes to legislation on wellbeing services counties' duties agreed in the Government Programme.

A transfer calculation for the revenue and expenditure transferred from municipalities to wellbeing services counties will be prepared in late 2023. The funding for wellbeing services counties will then be adjusted to reflect the final transfer calculation.

For more details see Chapter 6: Finances of the wellbeing services counties.

Municipal finances

Central government transfers and grants to municipalities will be c. EUR 5.1 billion in 2024. Of this, imputed central government transfers will be c. EUR 3.7 billion, compensation to municipalities for tax criteria changes c. EUR 0.9 billion and other central government grants to c. EUR 0.6 billion. Central government transfers and grants in 2027 will be c. EUR 6.1 billion, of which c. EUR 4.6 billion comprises imputed central government transfers. In the spending limits period, the level of central government transfers and grants will grow due to, in particular, the reform of public employment and economic development services (TE services).

The central government transfer to municipalities for basic public services will be c. EUR 2.5 billion in 2024, rising to EUR 3.5 billion at the end of the spending limits period. The level will be c. EUR 214 million in 2024 and c. EUR 203 million in 2027 lower than in the technical General Government Fiscal Plan, particularly due to a revision of transfers related to the health and social services reform, based on municipalities' actual data for 2022. The index adjustment of the central government transfer for basic public services will increase the transfer by EUR 53 million in 2024. The index adjustment will be EUR 24 million lower than this, however, as a saving corresponding to a one percentage point increase will be made in the index adjustment in accordance with the Government Programme.

For more details see Chapter 7: Municipal finances.

Earnings-related pension funds and other social security funds

Due to the prefunding of pensions, the earnings-related pension sector has been significantly in surplus historically. Demographic change is increasing pension expenditure, which has been reflected in a reduction in the surplus. Due to prefunding, however, the property income of the pension funds is substantial, so they will nominally not have to sell off assets even if pension expenditure exceeds contributions. Overall, the surplus of the earnings-related pension funds has declined from an average of just over 3% of GDP in the first decade of the 2000s to 0.9% of GDP in 2022.

The financial position of other social security funds improved in 2022 to slightly in surplus and it will remain in surplus also in 2023. The expenditure of the sector will be significantly affected in the coming years by measures of Prime Minister Orpo's Government that will reduce many social benefits. In addition, unemployment insurance contributions will be reduced by 1.4 percentage points in 2024. The financial position of the sector will be slightly in deficit in 2024, but will return to balance in 2025–2027. The financial balance of the sector may fluctuate slightly on an annual basis, with the buffer funds providing flexibility.

For more details see Chapter 8: Earnings-related pension funds and other social security funds.

1 Economic challenges and the economic policy line

Economic challenges

The economic policy of Prime Minister Orpo's Government is based on the Ministry of Finance's assessment of the current state of the Finnish economy. The Ministry of Finance considers that economic growth will be close to zero in 2023, but that it will accelerate above the long-term growth rate in the next few years. At the beginning of the government term, the economic situation will be weakened by rising prices and interest rates, which will reduce private demand and increase general government costs. Strengthening household purchasing power and large investments related to sustainable growth will boost economic growth starting next year. Both the Finnish and the international economy are particularly uncertain at the moment, which is also reflected in the outlook for general government finances.

The structural problems of the Finnish economy are weak productivity growth and low productive investment. Productivity growth is held back by the relatively low level of research and development activity and the lower level of education of young people than in other advanced industrialised countries. Although the employment rate has risen significantly in recent years, the unemployment rate remains high and there is a shortage of skilled labour.

Over the last 15 years or so, the general government debt ratio has risen significantly. The deterioration in the dependency ratio has led to public sector expenditure growing faster than revenue, creating a large structural deficit in general government finances. Expenditure related to population ageing will continue to grow in the coming years and decades. In addition to this, a rise in the level of debt together with higher interest rates will increase central government debt servicing expenditure significantly. In the coming years, general government finances will also be burdened by a number of substantial security-related procurement items. Without significant action, general government deficits will remain large and the debt ratio will continue to grow, weakening the capacity of general government finances to secure the functioning of the welfare society during and after possible future crises.

Economic policy line

The objective of Prime Minister Orpo's Government is to improve the standard of living of Finns, turn the Finnish economy on to a sustainable growth path and reverse the trend of indebtedness, which jeopardises wellbeing. The Government will improve the opportunities for Finns to build their futures through education, work and self-employment. Stable economic development creates security and supports family formation. The Government's objective is to increase household purchasing power and take the impact on everyday costs into account in its decisions. The Government's objective is a Finland where the funding of the most important services of the welfare society is secured for future generations. To achieve these objectives, the Government will implement ambitious growth-boosting reforms and take the necessary action to balance general government finances.

The priorities of the Government's economic policy are economic stability, employment, economic growth and safeguarding welfare services. The Government is committed to balancing general government finances in order to ensure the wellbeing of the people and the sustainable development of the economy. The Government's employment and growth measures, together with direct adjustment measures, will create the conditions for balanced general government finances in 2030.

The permanent structural imbalance between expenditure and revenue in general government finances is an acute problem. The general government debt ratio, which is severely in deficit, has diverged significantly from that of the other Nordic countries. Stabilising the debt ratio requires strengthening general government finances annually by at least 0.5% of GDP.

Reversing the trend of indebtedness requires strengthening general government finances by a total of EUR 9 billion over the course of two parliamentary terms. A longer-term goal is to balance general government finances and set the debt ratio on a downward path towards to the level of the other Nordic countries.

Accelerating economic and employment growth is the most important means of stabilising general government finances. A credible economic policy also requires direct austerity measures. The aim is to implement such measures in a way that acknowledges the situation of the most vulnerable groups. Given the high tax burden by international standards and the need to safeguard the conditions for economic growth, balancing will not be implemented by increasing the overall tax rate.

To increase the purchasing power and wellbeing of Finns, a key objective of the Government will be to strengthen the conditions for economic growth. Economic growth will be boosted by improving fair competition, making significant investments in RDI, boosting knowledge and competence, and developing the labour market. The Government also aims to enhance Finland's competitiveness and the conditions for entrepreneurship.

During its term, the Government will make substantial one-off investments to support growth. The Government will finance a EUR 4 billion package of one-off investments with central government property income, liquidating the over-capitalisations of state-owned unlisted companies, and making revenue recognitions from the National Housing Fund without jeopardising the Fund's current level of activity.

The Government also aims through tax policy to strengthen purchasing power, economic growth, employment and self-employment. The Government will ensure a stable operating environment for entrepreneurship and investment through a predictable and stable regulatory framework as well as through taxation. The overall tax rate will not be increased by Government decisions.

Work creates wellbeing. Employment is created by profitable business activity. The goal is to increase the number of employed people by 100,000 through employment and growth measures. A further goal is to strengthen general government finances by c. EUR 2 billion through employment decisions. In the longer term, the Government aims is to raise the employment rate to 80%.

Fiscal policy line

The fiscal policy of Prime Minister Orpo's Government aims to strengthen general government finances and reverse the trend of Finland's indebtedness. To ensure this, the general government debt ratio will be stabilised and thereafter put on a lasting downward path, viewed over more than one parliamentary term. The long-term objective is to reach Nordic levels of economic growth and debt-to-GDP ratio. This will require determined action to strengthen general government finances and support economic growth over a number of parliamentary terms. It is matter of ensuring intergenerational justice.

The Government's objective is for the budgetary position of general government finances to improve so that the general government deficit will be a maximum of 1% relative to GDP during the parliamentary term, i.e. by 2027. This objective is in line with the debt sustainability goal. To achieve this, the Government commits during the parliamentary term to strengthen general government finances permanently through a set of measures that will improve general government finances by a net EUR 6 billion at the 2027 level. General government finances will be taken into account as a whole, in order to avoid partial optimisation between the subsectors (central government, municipalities, wellbeing services counties, social security funds). The Government will actively monitor the implementation of the set of measures within the government budget and spending limits sessions and react with corrective measures should the set of measures threaten to fall short of the targeted level of EUR 6 billion. The significant economic uncertainty underlines the need to monitor annually the achievement of the Government's other key objectives.

General government expenditure will be adjusted through the Government's decisions by an estimated c. EUR 4 billion net at the 2027 level. As part of the adjustment measures, the Government has outlined structural policy measures aimed at strengthening general government finances by c. EUR 2 billion at the 2027 level. The Government undertakes to re-examine the measures in the Government Programme if the impact assessments of the measures change significantly from those made in the Government Programme or if their implementation would jeopardise the achievement of the set of measures for general government finances or the target for the budgetary position. The Government also takes seriously the risks to central government finances associated with guarantee commitments.

2 Objectives and rules steering the management of general government finances

The purpose of the General Government Fiscal Plan is to support decision-making related to general government finances as well as compliance with the Medium-Term Objective (MTO) set for the general government structural budgetary position in accordance with current EU and domestic fiscal policy legislation. The plan contains sections related to central government finances, wellbeing services county finances, municipal finances, statutory earnings-related pension funds and other social security funds. The Government prepares the General Government Fiscal Plan for the parliamentary term and revises it annually for the following four years by the end of April.

The goals set in the General Government Fiscal Plan and its Stability Programme (Appendix 6) for the coming years and the estimates for past years are based on the current EU and domestic fiscal policy framework. Development of the EU's fiscal policy framework is under way. The Council adopted conclusions outlining this work on 14 March 2023[1], and the Commission published legislative proposals on 26 April 2023. The Commission's legislative proposals and ongoing discussions are presented in more detail in the Stability Programme. As changes to the EU fiscal policy framework are confirmed, the need for changes to national fiscal policy legislation will be assessed. In July 2023, the Council adopted country-specific recommendations, and the framework conditions they impose on the fiscal policy goalsetting of the Government are discussed in the Stability Programme.

1 https://www.consilium.europa.eu/en/press/press-releases/2023/03/14/economic-governance-framework-council-agrees-its-orientations-for-a-reform/

Medium-Term Objective

The Government confirms the validity of the Medium-Term Objective of -0.5% of GDP for the structural budgetary balance of general government finances, set pursuant to section 2 of the Fiscal Policy Act (869/2012)[2]. This is the minimum level to which Finland has committed in the Fiscal Compact[3]. The requirements relating to the MTO are described and its achievement is assessed in the Stability Programme, which also presents the Government's assessment under the Fiscal Policy Act of progress towards the MTO.

Exceptional circumstances

In March 2023, the Commission confirmed that the General Escape Clause of the Stability and Growth Pact activated in spring 2020 will expire at the end of 2023, as the EU has recovered from the significant economic downturn caused by the pandemic. The General Escape Clause, as well as unusual events encountered by individual countries, permits Member States to depart temporarily from the adjustment path towards the MTO, provided that this does not endanger fiscal sustainability in the medium term.

Other fiscal policy targets

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

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

3 The Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, as well as the Act on requirements related to multiannual budgetary frameworks, which came into force on 1 January 2013.

The fiscal policy goal of Prime Minister Orpo's Government is to stabilise the general government debt ratio and thereafter put it on a lasting downward path, viewed over more than one parliamentary term. The Government's objective is for the budgetary position of general government finances to improve so that the general government deficit will be a maximum of 1% in ratio to GDP during the parliamentary term, i.e. by 2027. In line with this, multiannual targets for the whole of general government finances for 2025–2027 are presented in the table below.

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

	2023	2024	2025	2026	2027
Nominal budgetary position of general government	-2.4	-3.2	-2.4	-1.6	-1.0
General government expenditure	54.7	54.7	53.9	52.7	51.8
General government gross debt	74.2	76.8	77.6	77.7	77.3

The nominal budgetary targets by sector[4] for general government finances for 2027 are:

- central government deficit a maximum of 2½% in ratio to GDP,
- budgetary position of the municipal administration close to balance,
- budgetary position of wellbeing services counties close to balance,
- surplus of earnings-related pension funds approximately 1½% in ratio to GDP and
- the financial position of other social security funds close to balance

With this target setting, the MTO (a general government structural budgetary balance of -0.5% in ratio to GDP) will not be reached until after 2027. It is also worth noting that the ongoing development in the EU of fiscal policy rules still leaves open the role of the MTO in the future EU, and thereby the domestic, fiscal policy framework.

4 In this review, the wellbeing services counties administration includes Helsinki's health, social and rescue services, deviating from the national accounts sector classification, in which they are classified in municipal administration.

The Ministerial Committee on Economic Policy will monitor the implementation of the economic objectives of the Government Programme. The Government will reassess the situation with regard to general government finances and decide on any further measures required at the mid-term policy review session.

Section 3.2 presents an estimate of how the fiscal policy targets set by Prime Minister Orpo's Government will be realised in the light of the independent forecast of the Economics Department of the Ministry of Finance. The measures decided on by the Government to achieve the targets are described by subsector in chapters 5–8. Chapter 9 examines the overall impact of the measures on general government finances.

Central government spending limits

The Government is committed to the spending limits procedure for central government expenditure. The central government spending limits system is a key instrument of the Government's fiscal policy steering and the foundation of a credible economic policy. The Government Programme entries and other measures will be implemented within the limits allowed by the parliamentary term spending limits.

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

The spending limits procedure sets a ceiling for c. 85% of central government budget expenditure at the 2024 level. Expenditure that changes according to cyclical conditions and automatic stabilisers, central government debt interest expenditure and financial investments remain outside the central government spending limits. In the annual spending limits decisions, spending limits are allocated to the administrative branches, but only the overall expenditure ceiling for the parliamentary term is binding. Reallocations may be made between administrative branches. Alongside the supplementary budget provision, there remains between the parliamentary term expenditure ceiling and the administrative branch-specific expenditure ceilings an unallocated reserve to be allocated later. The central government spending limits are discussed in chapter 5.

3 Economic fundamentals

3.1 Economic outlook

Economic outlook for 2023–2025

Rising prices and interest rates have reduced household consumption and investment. The Finnish economy will not grow in 2023 from the previous year. In 2024, prices will rise more slowly than household incomes, and interest rates will have stopped rising. The improvement in household purchasing power will increase consumption, and GDP will grow by 1.2%. However, the weak situation in construction will continue to undermine economic growth. The investment outlook is otherwise bright, however, with a very high number of investment plans, particularly for wind power. In 2025, growth will accelerate to 1.8%, with domestic demand being increased by consumption growth and investments. Employment will fall this year, but will return to growth next year. In 2025, the employment rate will be 74.3% and the unemployment rate 7%.

In the forecast, the downside risk is particularly related to construction. The decline of construction could also deepen if construction and real estate companies were to experience serious financial difficulties on a large scale. If the rise in prices continues for longer than expected and interest rates are raised more than anticipated, this will have a negative impact on the housing market and residential construction. In addition, the fall in household consumption would also be deeper than projected. International economic development may also be weaker than forecast. Economic development in China and Germany, in particular, may be weaker than projected. It is still possible that Russia's war in Ukraine or internal developments in Russia will give rise to new negative impacts on the global economy and the Finnish economy.

On the other hand, investments may also bring positive surprises. The transformation in energy and technology may boost investments more than projected. Household consumption may also grow faster than anticipated as inflation slows and incomes rise.

Medium-term outlook

In the medium term, economic output is expected to grow moderately. In 2026, GDP is expected to grow by c. 1.7% and in 2027 by c. 1.6%. GDP growth will be supported by, among other things, growth in private investments, which are expected to recover as a result of lower market interest rates.

The positive trend in the labour market is estimated to continue in the medium term. The employment rate (15-74 year olds) is projected to increase moderately in 2026 and 2027. In 2027, the employment rate is expected to be 75.2%. The unemployment rate, in turn, is expected to fall and to be 6.4% in 2027.

The contraction of the working age population will reduce labour input. The overall impact of labour input will start to reduce output after the middle of the decade, as the increase in the participation rate and the decline in structural unemployment fade.

Total factor productivity growth has been a key source of economic growth in recent decades, but its development will continue to be weak by historical standards. There have been both cyclical and structural factors underlying the weaker growth. The output of high-productivity sectors has declined significantly, and services have become more predominant in the overall structure of the economy.

Total factor productivity is expected to grow by just under 1% in the medium term, whereas annual growth exceeded 2% on average in the early 2000s. Productivity growth will, however, be slightly faster than the 2010s average.

In addition to labour input and total factor productivity, long-term production conditions for the economy will be influenced by the capital stock. The effect of the capital stock on output growth will be c. 0.5% per year.

Table 2. Trends in the national economy

	2021	2022	2023*	2024*	2025*	2026*	2027*
GDP value, EUR billion	250.9	268.7	281.6	291.1	303.0	315.5	327.8
GDP, change in volume, %	3.2	1.6	0.0	1.2	1.8	1.7	1.6
Unemployment rate, %	7.7	6.8	7.1	7.2	7.0	6.6	6.4
Employment rate, %	72.3	73.8	73.8	73.8	74.3	74.8	75.2
Consumer Price Index, change %	2.2	7.1	6.2	2.2	1.7	2.0	2.0
Long-term interest rate, 10 years, %	-0.1	1.7	3.1	3.2	3.2	3.1	3.1

3.2 Outlook for general government finances

Finland's general government budgetary position will weaken significantly in 2023 compared with 2022. Economic growth has stalled and many previously decided measures as well as higher spending due to inflation will increase the deficit in the current year. Despite the measures adopted by the Government to strengthen general government finances, the budgetary position will deteriorate in the next few years. Economic growth will accelerate towards the end of the outlook period compared with the next few years and, at the same time, the adjustment measures will take effect, leading to an improvement in the budgetary position. General government finances will remain substantially in deficit, however.

The public debt ratio has risen to a historically high level, both for structural reasons and as a result of the various crises at the beginning of the decade. Despite the adjustment measures, the debt ratio will slowly increase over the outlook period. The effect of the adjustment measures will be partially dampened by an increase in interest expenditure. In the longer term, general government finances are structurally in deficit and thus there is a sustainability gap.

Of the subsectors of general government finances, central government is the most in deficit. The adjustment measures decided by the Government will also apply to central government from 2024 onwards and the deficit will decrease slightly. Savings will be directed at, among other things, income transfers and operating expenditure. On the other hand, investments will be made in R&D, for example. Earlier budgeted expenditure related to preparedness will also fall in the next few years. Tax revenue growth will be moderate, as the growth of many tax bases will accelerate as economic growth picks up. The central government deficit will decline very slowly, however, and remain high throughout the period under review.

In local government, municipal administration remains slightly in deficit in the pressure projection. Municipalities' investment expenditure will remain high due to the ageing building stock, migration and infrastructure construction. The wellbeing services counties are expected to be in deficit at the end of the start-up year. The deficit is due to large-scale investments and personnel costs, among other things. Savings are also targeted at the wellbeing services counties in the Government Programme. The wellbeing services counties' own savings will be taken into account in the forecast once there is sufficient certainty about them.

The surplus declared by earnings-related pension funds will be just over 1%. Pension expenditure will increase, but growth in the property income of earnings-related pension funds will, on the other hand, be moderate. The financial position of other social security funds will be strengthened during the outlook period by an improvement in the unemployment situation and cuts to social benefits. The unemployment insurance contribution, on the other hand, will be reduced substantially from the beginning of 2024. The other social security funds will be close to balance during the outlook period.

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

	2021	2022	2023	2024	2025	2026	2027
Taxes and social security contributions	43.1	42.9	41.7	40.8	40.6	40.2	40.0
General government expenditure	55.7	53.4	54.7	54.7	54.6	53.8	53.2
General government net lending	-2.9	-0.8	-2.4	-3.2	-3.4	-3.0	-2.8
– Central government	-3.2	-1.6	-3.3	-3.4	-4.2	-3.7	-3.5
– Municipal administration	-0.3	-0.2	-0.1	-0.2	-0.3	-0.3	-0.4
– Wellbeing services counties			-0.4	-0.5	-0.3	-0.4	-0.5
– Earnings-related pension funds	0.7	0.9	1.0	1.0	1.3	1.3	1.3
– Other social security funds	-0.1	0.1	0.4	-0.1	0.1	0.1	0.1
Primary balance	-2.4	-0.3	-1.6	-2.0	-2.0	-1.6	-1.3
Structural balance	-2.4	-0.4	-1.3	-2.2	-2.8	-2.7	-2.9
General government gross debt	72.5	72.9	74.2	76.8	78.9	80.4	81.6
– Central government debt[1]	51.3	52.7	54.3	56.4	58.4	59.6	60.6

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

Compliance with fiscal policy rules and objectives

A significant part of the fiscal policy objectives of Prime Minister Orpo's Government will not be achieved without new measures to improve general government finances and economic growth during the parliamentary term. According to the independent forecast by the Ministry of Finance, the general government deficit will grow in the next few years and will be 2.8% in ratio to GDP in 2027. According to the forecast, the debt-to-GDP ratio will be 74.2% in 2023 and will rise to 81.6% in 2027. In its Government Programme, Prime Minister Orpo's Government set as an objective the stabilisation of the general government debt ratio and putting it on a lasting downward path, viewed over more than one parliamentary term, and improving the budgetary balance of general government finances so that the general government deficit will be a maximum of 1% in 2027. The debt ratio is increased by the deficits of the central government, the municipal administration and the wellbeing services counties and slowing economic growth.

Both central government and municipal administration are falling short of the nominal budgetary position targets set for them. According to the forecast, the central government deficit will be 3.5% in ratio to GDP at the end of the parliamentary term, while according to the targets, its deficit should be a maximum of 2.5% in ratio to GDP. According to the forecast, the municipal administration deficit will be 0.4% in ratio to GDP at the end of the parliamentary term, while according to the targets, it should be close to balance. According to the forecast, the deficit of wellbeing services counties will be 0.5% in ratio to GDP at the end of the parliamentary term, while according to the targets, it should be close to balance. The surplus of the earnings-related pension funds will also fall short of the 1.5% surplus target set for it. The surplus of the earnings-related pension funds will settle at 1.3% in ratio to GDP in 2025–2027. The other social security funds, on the other hand, will exceed the target according to which they should be close to balance at the end of the parliamentary term. According to the forecast, the surplus of the other social security funds will settle at 0.1% in 2025–2027.

In the light of the forecast, the multiannual targets for the nominal budgetary position of general government and for general government debt and expenditure in ratio to GDP will not be achieved without additional measures (see Stability Programme Table A).

Based on the forecast, the debt criterion of the Stability and Growth Pact will not be met during the outlook period. The deficit criterion will be met towards the end of the parliamentary term, for example as the Government adjustment measures gradually take effect and economic growth accelerates, but not in the period 2024–2025 without additional measures. Compliance with the deficit and debt criteria of the Stability and Growth Pact as well as progress towards the MTO set for the structural budgetary balance is assessed in the Stability Programme (Appendix 6). The purpose of the General Government Fiscal Plan is to support compliance with the Medium-Term Objective (MTO) set for the general government structural budgetary position. According to the Ministry of Finance forecast, the target will not be achieved (see Table A).

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

The general government budgetary position improved in 2022 but will decline significantly in the next few years. The central government core sector, on-budget finances, will be the most in deficit. The central government will also remain deeply in deficit going forward. The local government core sector (municipalities, joint municipal authorities and wellbeing services counties) will remain in deficit. The financial position of the social security funds improved in 2022, and the sector will remain slightly in surplus thereafter. The combined deficit of units outside the core sectors will be c. 0.3% in ratio to GDP.

General government consolidated EDP debt in ratio to GDP will grow throughout the period under review. Most of the debt is central government on-budget debt. The municipalities and joint municipal authorities also have a significant amount of debt. Of the units outside the core sectors, the debt burden is mainly borne by real-estate companies and a few other units. The debt carried by units outside the core sectors will grow slowly by an amount corresponding to the deficit produced by these units annually. For a list[5] of units in general government subsectors, see the Statistics Finland website.

Table 4. General government budgetary position and debt relative to GDP, broken down into core sectors and units outside the core sectors (%)

	2021	2022	2023	2024	2025	2026	2027
General government, total							
Budgetary position relative to GDP	-2.9	-0.8	-2.4	-3.2	-3.4	-3.0	-2.8
Debt relative to GDP	72.5	72.9	74.2	76.8	78.9	80.4	81.6
Core sectors, total							
Budgetary position relative to GDP	-2.8	-0.4	-2.1	-2.9	-3.1	-2.7	-2.6
Debt relative to GDP	70.4	70.4	71.5	73.9	75.8	77.2	78.2
Units outside core sectors, total							
Budgetary position relative to GDP	-0.1	-0.5	-0.3	-0.3	-0.3	-0.3	-0.3
Debt relative to GDP	2.1	2.5	2.7	2.9	3.1	3.2	3.4

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

3.3 Sustainability of public finances

Finland's economic growth has been slow since the financial crisis of 2008. The economy has suffered particularly from a structural shift in industry, which has hindered economic recovery from the recession that followed the financial crisis. In addition, productivity growth has been slow due to a low level of investments. Economic growth is expected to remain sluggish in the coming decades, as productivity growth will remain subdued while the labour force declines.

General government debt is increasing due to slow economic growth and recent crises and as well as the ageing of the population. The increase in pension expenditure, among other things, explains the fact that general government finances were not able reach a surplus despite the positive employment situation in recent times. Ageing of the population will continue to weigh on general government finances in the coming years. Ageing of the population increases public expenditure while simultaneously decreasing the revenue base of general government finances. The growth in the number of older people will increase healthcare and long-term care expenditure in particular. The simultaneous shrinking of the working-age population will stunt economic growth and thus reduce general government revenue.

In the forecast, the debt ratio will rise to nearly 82% by the end of the current parliamentary term, and in the long-term pressure projection for general government finances, to just under 90% in 2031 after two parliamentary terms. A growing debt ratio will increase interest expenditure, which in turn will increase the central government deficit and further accelerate indebtedness. The longer-term projection is subject to uncertainty about the expected development of the economy, which can be examined on the basis of historical fluctuations in economic data. Taking into account, based on Finland's economic history, possible weaker and more favourable development trends than the baseline scenario of the forecast, it can be estimated that at the end of the current parliamentary term, the general government debt ratio will be between 73% and 90% with a probability of around 50%, and after two parliamentary terms, between 76% and 100% with probability of around 50%. Based on the analysis, it can be concluded that it is very unlikely that the development of Finland's debt ratio will shift significantly on to a downward path.

Finland's population is ageing rapidly, as new age cohorts are smaller than previous ones due to a declining birth rate, and people are generally living longer now than before. Rapid ageing of the population will continue over the next few decades unless the birth rate goes up or immigration increases substantially. Since 2010, the dependency ratio has deteriorated from around 50 dependants (under 15 and over 65 years of age) to over 60 dependants per 100 people of working age. The dependency ratio is expected to continue to decline. According to the population projections of Statistics Finland published in 2021, there will be more than 80 dependants per 100 people of working age in Finland in 2070.

In public finances, a substantial sustainability gap prevails, i.e. general government revenue will not be sufficient to cover expenditure in the long term. Without effective measures to slow expenditure growth or expand the revenue base, the current overall tax rate will not be sufficient to finance expenditure in the future. A permanent imbalance between general government revenue and expenditure threatens to result in an uncontrollable increase in the debt ratio in the long term. To avoid this, general government finances should be strengthened, for example through structural reforms that improve employment and economic growth, without increasing government expenditure.

The Ministry of Finance estimates the sustainability gap to be c. 3% of GDP, i.e. c. EUR 10 billion at the 2027 level. There is significant uncertainty associated within the sustainability gap estimate, and it is sensitive to the assumptions used about future development. Notwithstanding the uncertainty, the calculation offers a coherent way of examining the challenges facing general government finances and the means to overcome them.

The sustainability gap calculations estimate how the ageing of the population will affect the outlook in general government finances in the coming decades. In addition to the ageing of the population, there are many other factors putting pressure on general government finances due, for example, to preparations related to the new more uncertain security environment, climate change, and renovation and repair needs of public infrastructure. These factors are not included in the sustainability gap analysis, however.

4 Government liabilities and risks

Government liabilities can be divided into direct liabilities and contingent liabilities whereby, for example, a liability to pay arises through a government guarantee. Government financial liabilities and associated risks may emanate from decentralised sources within central government on-budget accounting, central government funds and unincorporated state-owned enterprises. The central government may also be subject to implicit liabilities for securing the continuity of certain functions of society, even though there is no law or agreement legally binding the government to such liability. An unambiguous assessment of the risks related to liabilities is difficult, and therefore, in the interests of clarity, the analysis in the table below uses the nominal values of liabilities. Data on central government real and financial assets are based on financial accounting. Regarding financial assets, the table also shows certain key publicly quoted shareholdings. In addition to these, the central government owns either in full or in part several other companies, which are valued on the basis of book value.

In central government financial assets, values of corporate shareholdings may fluctuate significantly due to economic conditions. In 2010–2021, the central government has received annual dividend income of between EUR 0.8 and 2.0 billion from its shareholdings. In 2022, the central government's dividend income was c. EUR 1.36 billion.

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

	2015	2016	2017	2018	2019	2020	2021	2022
Assets								
Central government real assets	56.9	56.7	57.9	58.7	59.4	58.6	61.1	
% of GDP	26.9	26.1	25.6	25.1	24.8	24.6	24.4	
Central government financial assets[1]	75.6	76.8	77.5	80.4	89.2	106.9	101.8	94.5
% of GDP	35.8	35.3	34.2	34.4	37.2	44.9	40.6	35.4
– of which								
Central government liquid assets	4.4	3.1	3	2.1	2.3	7.6	4.8	3.7
Solidium Oy	6.8	7.8	8.6	6.8	7.5	7.6	9.0	7.9
Other shareholdings in listed companies	10.2	11.5	15.2	15.5	19	26	25	19.7
National Housing Fund receivables	5.9	5.2	4.6	4.2	3.7	3.2	2.8	2.4
Liabilities								
Central government debt	99.8	102.3	105.8	105	106.4	124.8	128.7	141.6
% of GDP	47.2	47	46.8	44.9	44.3	52.4	51.4	53.1[2]
Municipal debt	18	19	19.2	21.0	23.8	25.8	26.1	
% of GDP	8.5	8.7	8.5	9.0	9.9	10.8	10.4	
Central government guarantees[3]	44.2	46.1	52.3	56.6	60.2	61.7	64.2	68.5
% of GDP	20.9	21.2	23.1	24.2	25.1	25.9	25.6	25.7[2)]
– Finnvera	22.6	22.6	27.7	30.3	32.6	31.6	32.1	35.1
– Student loans	2	2.3	2.7	3.4	4	4.5	5	5.5
– EFSF	6.2	6.3	7	7	7	6.8	6.6	6.7
– Bank of Finland	0.5	0.6	0.4	0.5	0.6	0.6	0.8	0.8
– Government funds	12.3	13.2	13.8	14.6	15.5	16.5	17.7	18.6
– COVID-19 support measures[4]						1	1.4	1.4
– Other	0.6	1.1	0.6	0.8	0.5	0.7	0.7	0.5
Capital liabilities	17.8	18	17.9	17.9	17.9	18.2	19.4	19.4
% of GDP	8.4	8.3	7.9	7.6	7.4	7.6	7.7	7.3[2)]
Other liabilities	130.8	129.5	128.3	127.6	130	132.9	134.3	157.2
% of GDP	61.9	59.5	56.8	54.4	54.1	55.8	53.6	58.9[2)]
– On-budget accounting[5]	128.3	126.9	125.5	124.7	127.2	131.6	131.5	153.8
– Off-budget entities	0.9	1.2	1.6	1.7	1.7	1.8	2	2.4
– State enterprises	1.6	1.4	1.2	1.2	1.1	0.9	0.8	1.0

1) Time series updated to correspond to changed statistics compilation.
2) Preliminary information
3) Government guarantees are presented in more detail in Appendix 12 of the central government final annual accounts.
4) Includes guarantees for shipping companies critical for security of supply, for Finnair and for loans from the EU's SURE instrument and the EIB's COVID-19 Guarantee Fund, and also the COVID-19 vaccine guarantee.
5) Includes pension liabilities. Pension liabilities at the end of 2022 were EUR 97.0 billion.

The largest component areas of central government liabilities are central government debt, pension liabilities and central government guarantees. Pension liabilities amounted to EUR 97 billion at the end of 2022. The greatest growth in the past 10 years has been in the amount of central government debt and central government guarantees; central government debt stood at EUR 141.6 billion and the current portfolio of central government guarantees at EUR 68.5 billion at the end of 2022.

The guarantee portfolio issued by Finnvera and central government funds, in particular, has been rising for a long time now. The growth in Finnvera guarantees has focused on export guarantees and Finnvera's acquisition of funds. At the end of 2022, export guarantees totalled EUR 21.8 billion, of which drawn down guarantees amounted to EUR 14.1 billion. In export financing, it is typical for guarantee liabilities to be concentrated in certain sectors and large exposures of single clients.

Of the EUR 18.6 billion guarantee portfolio issued by funds, the majority (EUR 18.4 billion) consists of guarantees issued via the National Housing Fund. In the growth of the National Housing Fund's guarantees, particularly prominent is financing for government-guaranteed rental and right-of-occupancy housing, to which guarantees totalling EUR 16.6 billion had been allocated at the end of 2022. Guarantees allocated to housing loans of private individuals totalled EUR 1.8 billion at the end of 2022. In the financing of rental and right-of-occupancy housing, a key risk relates to government-subsidised and government-guaranteed properties located in areas of declining population, where occupancy rates and property values are falling. In addition to guarantee liabilities, a significant proportion of government-guaranteed housing financing includes central government interest subsidies, which, as the result of a significant rise in interest rates, involves the risk of an increase in the central government's payment obligation. In 2022, interest subsidy costs in housing financing were only c. EUR 1.7 million, but the projection simulation shows that if the interest rate on the loan portfolio were to increase to 5%, the annual cost would be c. EUR 255 million. This estimate is further augmented by the increase in the volume of the portfolio of interest-subsidy loans, which has been on the order of c. EUR 1 billion in recent years. At the end of 2022, the housing financing interest subsidy portfolio amounted to c. EUR 20.7 billion.

Guarantee liabilities granted as a result of the coronavirus pandemic and Russia invasion of Ukraine remain in force into the spending limits period, although the liabilities related to the coronavirus pandemic are expected to gradually decline.

Monitoring of guarantee fees collected, guarantee compensation paid out and recovered funds received has been introduced for central government guarantee liabilities. In 2022, EUR 17.8 million was collected in guarantee fees and EUR 79 million was paid out in guarantee compensations. Recovered payments amounted to EUR 37.5 million, meaning that net guarantee expenditure in 2022 was EUR 23.7 million. This figure includes both on-budget finances and off-budget funds. Items in Finnvera accounts are no longer included insofar as they are not liabilities for on-budget finances.

Table 6. Guarantee fees, guarantee compensations and recovered payments in on-budget finances and off-budget funds 2020–2022, EUR million

	2020	2021	2022
Guarantee fees	18.1	25.3	17.8
Guarantees compensations paid	51.2	77.2	79.0
Recovery	27.7	33.4	37.5
Expenditure, net	5.3	18.6	23.7

If the rules on collecting guarantee fees remain unchanged, the guarantee fee revenue trend depends principally on new guarantees granted, because a guarantee fee is principally collected as a non-recurring payment when the guarantee is drawn down. Guarantee fees are not collected at all for a significant percentage of new guarantees. According to Prime Minister Orpo's Government Programme, guarantees will, as a rule, always be subject to an appropriate guarantee fee, and collection of guarantee fees will also be introduced comprehensively in housing financing. The trend in the number of guarantee compensations depends on how the guarantee portfolio develops and on risk trends among counterparties. General economic trends and external shocks also have an impact on the risk of guarantee compensations being realised, because typically at economically weak times there is a higher than normal volume of guarantee losses.

In connection with the coronavirus pandemic, the European Union has adopted a decision on the Recovery and Resilience Facility and its financing as part of a new Own Resources Decision. Borrowing under the Recovery and Resilience Facility would increase the European Union's liabilities by a total of EUR 750 billion (expressed at 2018 prices). Of this, Finland's notional share is estimated to be c. EUR 13 billion. Finland's payments, to be realised after 2027, relate to the Recovery and Resilience Facility's support in the form of grants, of which Finland's share is estimated to total EUR 6.6 billion.

Contingent liabilities also include capital liabilities payable on demand to international financial institutions, which totalled c. EUR 19.4 billion at the end of 2022. Most of the capital liabilities since 2012 have consisted of a capital liability of EUR 11.1 billion related to the European Stability Mechanism (ESM).

The loan and financial liabilities transferred from the municipalities to the wellbeing services counties from the beginning of 2023 are discussed in chapter 6.

Risks related to public sector activities are linked in many ways to general economic development. In an exceptionally difficult economic situation, the fiscal position may weaken due to a number of different factors simultaneously. Risks related to macroeconomic development, public debt, public sector holdings, granted guarantees and other public sector liabilities are correlated. In normal business cycle conditions, typically only some of the risks are realised, but in the event of a more extensive external shock the risks to central government finances may be considerable. The exceptional situation caused by the coronavirus pandemic extensively impacted society as a whole, and the related support measures rapidly increased both central government debt and guarantee liabilities. Russia's invasion of Ukraine and consequent changes on the energy market have also required extraordinary financial input from the central government, in the form of both internal support measures and additional investments in national defence and security. In crisis situations, the risk of the realisation of outstanding guarantee liabilities also generally increases. Tax revenues also typically decline in conditions of poor economic development or crises.

An acceleration of inflation and rapidly rising interest rates emerged as a new threat to central government finances in 2022. Rising interest rates have increased and will increase interest expenditure central government debt. The interest expenditure on central government debt was EUR 0.8 billion in 2022 and is estimated to rise to EUR 2.3 billion in 2023 and to EUR 3.2 billion in 2024. Interest costs are expected to continue rising in the following years. A general rise in interest rates also means an increase in central government support for interest-subsidy loans and possibly an increase in risks for government-guaranteed loans. In addition to all of the above, the development of the liability items portfolio also has a bearing on central government risk. Elevated interest rates bring increased pressure to limit borrowing and the volume of contingent liabilities.

Costs arising from the realisation of central government liabilities may impose a significant burden on the economy. This highlights the importance of careful assessment and management of the risks associated with binding financial decisions of central government and the management and monitoring of liabilities. Long-term preparations must be made for surprising shocks to the economy as a whole, so that in economic upswings central government liabilities can be reduced, providing room for manoeuvre for measures in crisis situations.

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

5 Central government finances

5.1 Central government spending limits

In its Government Programme, Prime Minister Orpo's Government has committed to the spending limits procedure for central government expenditure. The central government spending limits system is a key instrument of the Government's fiscal policy steering and the foundation of a credible economic policy. The Government Programme entries and other measures will be implemented within the limits allowed by the parliamentary term spending limits.

The central government spending limits system is based on a real, binding overall expenditure ceiling set for the duration of the parliamentary term, to which only the required price and cost level adjustments and structural corrections are made. The spending limits system is based on ex ante examination, i.e. it restricts the level of expenditure budgeted in the State budget.

The Government is committed to ensuring that the permanent appropriation decisions outlined in the Government Programme lead to expenditure within the spending limits being EUR 1.5 billion smaller in 2027 than in the central government spending limits decided on 23 March 2023 (at 2024 prices). Of the parliamentary term spending limits, an unallocated reserve, rising gradually to EUR 250 million, will be earmarked for unforeseen expenditure, and EUR 400 million will be earmarked annually for supplementary budget needs. The Government undertakes to ensure that the provisions remain unused and the spending limits level will be lowered accordingly if expenditure pressures do not necessitate full use of the provisions.

The finances of the National Housing Fund and the Development Fund of Agriculture and Forestry will be brought within the spending limits system insofar as the Budget justifications take a position on the levels of their expenditure. The fixed-term investment programme of EUR 4 billion under the Government Programme will be considered as a structural adjustment to the spending limits level, meaning that the spending limits for the parliamentary term will be increased in line with expenditure.

New and temporary defence materiel, civilian material and humanitarian aid intended for supporting Ukraine due to the Russian invasion will be covered outside the spending limits. The aforementioned expenditure based on bilateral or multilateral agreements will be considered as a structural adjustment to the spending limits level, meaning that the spending limits for the parliamentary term will be increased in line with expenditure.

The spending limits include an exceptional situation mechanism with a view to ensuring the ability of economic policy to react to highly exceptional and significant external crisis situations that are beyond the Government's control in the manner that the circumstances require, and to limit economic policy manoeuvrability solely to additional appropriations that are essential from the point of view of the crisis without compromising the credibility of economic policy.

A possible reassessment in the budget session of the 2027 saving on grants promoting health and social wellbeing to a maximum of EUR 50 million in 2026 and correspondingly a possible reassessment of the saving on discretionary government transfers of the Ministry of Education and Culture to a maximum of EUR 75 million may be implemented neutrally with regard to the spending limits, if implementable without increasing central government debt.

Binding parliamentary term expenditure ceiling covering 2024–2027 are included in this spending limits decision. The parliamentary term spending limits have been set in compliance with the spending limits principles, and the formation of the spending limits is set out in the table.

Table 7. Parliamentary term spending limits for 2024–2027 (at 2024 prices), EUR million

	2024	2025	2026	2027
Level of spending limits expenditure in the technical spending limits decision 23.3.2023	74 840	75 473	75 382	75 541
Transfer to spending limits of previous parliamentary term's compensation for municipalities' tax revenue losses	275	275	275	275
Technical correction to spending limits level: expenditure outside the spending limits to which savings will be directed, will be added to the level spending limits expenditure	378	521	510	511
Other structural adjustments to spending limits level	33	130	356	420
Price and cost adjustments to the spending limits level	79	-45	-46	-45
Adjustment of spending limits provisions		680	340	
Total spending limits expenditure according to the Government Programme, of which	-246	-685	-981	-1 455
– savings and additional expenditure	-766	-1 235	-1 561	-2 105
– unallocated reserve	120	150	180	250
– supplementary budget provision	400	400	400	400
Transfer of National Housing Fund grants to within the spending limits	98	98	98	98
Transfer of Makera grants to within the spending limits	10	10	11	11
Preparedness for unforeseen expenditure needs	42	127	130	244
Parliamentary term expenditure ceiling (incl. supplementary budget provision)	**75 510**	**76 584**	**76 076**	**75 601**

In accordance with changes outlined in the Government Programme, technical corrections as well as other structural adjustments will be made to the spending limits level. At the turn of the parliamentary term, compensation allocated to municipalities for previous parliamentary terms' tax criteria changes will be transferred from outside the spending limits to within the spending limits. Only the current parliamentary term's compensation for tax criteria changes will be outside the spending limits. Price and cost level adjustments will raise the overall level of expenditure within the 2024 spending limits by approximately EUR 79 million compared with the spring 2023 technical General

Government Fiscal Plan. In 2025–2027, the total level of expenditure will decrease due to price and cost level adjustments. Structural as well as price and cost level adjustments are described in more detail in Appendix 2.

Taking into account the level of expenditure included in the spending limits in this General Government Fiscal Plan, EUR 147 / 150 / 180 / 250 million remains as an unallocated reserve for the period 2024–2027 (see table in section 5.2).

5.2 Development of on-budget expenditure and the spending limits

Development of on-budget expenditure in 2024–2027

On-budget expenditure in 2024 is expected to be EUR 87.9 billion, which is EUR 4.6 billion more than has been budgeted for 2023 (incl. second supplementary budget proposal). The increase in the level of appropriations compared to 2023 is mainly explained by, among other things, the statutory and contractual index adjustments for 2024 (EUR 1.7 billion) and changes in the central government funding of the wellbeing services counties. In 2024, EUR 3.4 billion more funding will be allocated to the wellbeing services counties than has been budgeted for 2023, in addition to which a statutory index adjustment will be made. The increase in funding for the wellbeing services counties is explained by the fact that EUR 1.9 billion of the 2023 funding was paid already in December 2022, which reduces the 2023 reference figure.

In 2025–2027, the level of on-budget appropriations will be raised by, among other things, preparing for additional R&D funding, the expenditure of the wellbeing services counties, and the permanent expenditure increases outlined in Prime Minister Orpo's Government Programme for, among other things, basic education, support for families with children and resources for the Police and the Defence Forces. On the other hand, the expenditure level will be lowered by reforms and expenditure savings in line with the Government Programme.

In the spending limits period, on-budget expenditure is expected to be, on average, EUR 87.6 billion at the 2024 price level. In 2027, on-budget expenditure is expected to be EUR 86.9 billion at the 2024 price level.

Compared with the spending limits decision adopted in spring 2023, expenditure between 2024 and 2027 will decrease by c. EUR 0.4 billion in 2024 and by c. EUR 1.5 billion in 2027. Reforms and expenditure savings in accordance with Prime Minister Orpo's Government Programme will reduce the appropriation requirement by c. EUR 0.8 billion in 2024, gradually increasing to c. EUR 2.1 billion by 2027 (at the 2024 price level).

Expenditure outside the spending limits

Some on-budget expenditure falls outside the spending limits. According to the spending limits outlined in Prime Minister Orpo's Government Programme, the following were classified as outside the spending limits: expenditure that changes with the economic cycle, i.e. expenditure on unemployment security, housing allowance, basic social assistance and pay security. Expenditure effects generated by changes to the criteria for these items will nevertheless be included in the spending limits. Also falling outside the spending limits are, among other things, interest expenditure on central government debt, value-added tax expenditure, financial investment expenditure, and expenditure where the central government acts as a technical intermediary for an external funding contribution.

Expenditure outside the spending limits is expected to be c. EUR 12.9 billion in 2024, which is c. EUR 0.2 billion less than budgeted for 2023 (incl. second supplementary budget proposal). With the increase in general interest rates, debt servicing expenditure is projected to be c. EUR 3.2 billion in 2024, which is EUR 0.8 billion more than budgeted for 2023. The previous parliamentary term's compensation to municipalities for tax criteria changes will be transferred technically at the turn of the parliamentary term from outside the spending limits to within the spending limits, which will reduced expenditure outside the spending limits by c. EUR 0.3 billion. In addition, of expenditure outside the spending limits, financial investments, among other things, will decrease.

The total level of expenditure outside the spending limits will be EUR 12.3 billion on average in the spending limits period. From 2025 onwards, expenditure outside the spending limits will be reduced by the fact that the entry into force of the reform of public employment and economic development services (TE services) will transfer a total of c. EUR 440 million from the main title of the Ministry of Social Affairs and Health to central government transfers for municipalities' basic public services. Interest expenditure on central government debt is estimated at EUR 2.3 billion in 2023, rising gradually to EUR 3.7 billion by 2027. Expenditure financed by EU Recovery and Resilience Facility funds will gradually decrease in the early years of the spending limits period, and will end in 2026.

Table 8. Expenditure outside the spending limits, EUR billion

	2023 (B+SB)	2024	2025	2026	2027
Cyclical expenditure	4.8	4.7	4.2	4.1	3.9
Compensation to municipalities for tax criteria changes	0.3	0.0	0.1	0.1	0.1
Expenditure corresponding to EU revenue	1.3	1.4	1.4	1.2	1.3
Interest expenditure	2.3	3.2	3.3	3.5	3.7
Financial investment expenditure	0.8	0.2	0.2	0.2	0.2
Technical pass-through items	0.3	0.4	0.4	0.4	0.4
VAT appropriations	1.7	1.8	1.7	1.6	1.6
Transfer to State Television and Radio Fund	0.6	0.6	0.6	0.6	0.6
Expenditure financed by EU RFF funds	0.4	0.5	0.3	0.2	0.0
Total	**12.7**	**12.9**	**12.3**	**12.0**	**12.0**

Price and cost-level adjustments and structural changes

The spring 2023 technical spending limits decision migrated to the 2024 price and cost level, i.e. the necessary index adjustments were made both to expenditure inside the spending limits and to expenditure outside the spending limits. This central government spending limits decision takes into account the index freezes and brakes outlined in the Government Programme, which will reduce expenditure from 2024 onwards compared with the technical spending limits decision. The updating of index forecasts has also been taken into account.

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

Table 9. Central government spending limits by administrative branch and estimate of expenditure outside the spending limits in 2024–2027, EUR million at 2024 prices and costs

	2024 BP	2025	2026	2027
23. Prime Minister's Office	**247**	**244**	**237**	**236**
Spending limits expenditure	222	219	212	211
Expenditure outside the spending limits	25	25	25	25
24. Ministry for Foreign Affairs	**1 287**	**1 255**	**1 224**	**1 220**
Spending limits expenditure	1 193	1 161	1 130	1 126
Expenditure outside the spending limits	94	94	94	94
25. Ministry of Justice	**1 213**	**1 200**	**1 210**	**1 208**
Spending limits expenditure	1 161	1 148	1 158	1 155
Expenditure outside the spending limits	52	52	52	52
26. Ministry of the Interior	**2 493**	**2 274**	**1 861**	**1 921**
Spending limits expenditure	2 174	2 056	1 678	1 687
Expenditure outside the spending limits	319	218	183	234
27. Ministry of Defence	**6 228**	**6 211**	**5 776**	**5 809**
Spending limits expenditure	5 501	5 481	5 105	5 144
Expenditure outside the spending limits	727	730	670	664
28. Ministry of Finance	**38 103**	**40 293**	**40 909**	**41 235**
Spending limits expenditure	37 532	39 657	40 208	40 440
Expenditure outside the spending limits	571	636	700	794
29. Ministry of Education and Culture	**8 001**	**8 031**	**8 077**	**7 952**
Spending limits expenditure	7 929	7 975	8 033	7 915
Expenditure outside the spending limits	72	56	44	36
30. Ministry of Agriculture and Forestry	**2 649**	**2 609**	**2 528**	**2 583**
Spending limits expenditure	1 698	1 659	1 597	1 624
Expenditure outside the spending limits	951	950	931	959
31. Ministry of Transport and Communications	**3 584**	**3 257**	**3 186**	**3 095**
Spending limits expenditure	2 493	2 218	2 155	2 109
Expenditure outside the spending limits	1 091	1 040	1 031	986

	2024 BP	2025	2026	2027
32. Ministry of Economic Affairs and Employment	**4 219**	**3 484**	**3 083**	**2 341**
Spending limits expenditure	3 206	2 648	2 441	1 887
Expenditure outside the spending limits	1 013	836	642	454
33. Ministry of Social Affairs and Health	**16 245**	**15 669**	**15 477**	**15 179**
Spending limits expenditure	11 458	11 413	11 388	11 271
Expenditure outside the spending limits	4 788	4 256	4 088	3 908
35. Ministry of the Environment	**241**	**245**	**254**	**244**
Spending limits expenditure	220	225	238	232
Expenditure outside the spending limits	21	20	16	12
36. Interest on central government debt	**3 177**	**3 350**	**3 471**	**3 726**
Spending limits expenditure	-	-	-	-
Expenditure outside the spending limits	3 177	3 350	3 471	3 726
Main titles, total	**87 879**	**88 310**	**87 453**	**86 906**
Administrative branch spending limits, total[1]	**74 963**	**76 035**	**75 496**	**74 950**
Expenditure outside the spending limits, total	12 916	12 275	11 957	11 955
Parliamentary term expenditure ceiling[1]	**75 510**	**76 584**	**76 076**	**75 601**
– Administrative branch spending limits expenditure, total	74 963	76 035	75 496	74 950
– Supplementary budget provision	400	400	400	400
– Unallocated reserve	147	150	180	250

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

5.3 Definitions of policy in budget finances 2024–2027

Research and development funding

The Act on Research and Development Funding in 2024–2030 entered into force at the start of 2023. Under this Act, the total amount of authorisations and appropriations for R&D in the central government budget will increase by 2030 to 1.2% of GDP. According to the most recent economic forecast by the Ministry of Finance, this means that central government R&D funding should total c. EUR 4.3 billion in 2030, representing an increase of c. EUR 2.0 billion to the total R&D funding in the 2023 central government budget. In other words, R&D funding in the central government budget should be increased by c. EUR 280 million year on year. This calculation is based on the current price estimate of GDP for 2030, which is EUR 360 billion.

Statistics Finland anticipates that central government R&D funding will come to EUR 2.35 billion in the 2023 budget. Based on decisions made earlier, the amount of central government R&D funding is expected to be EUR 2.4 billion in 2024. To meet the statutory funding level in 2024, R&D funding should be increased by EUR 264 million.

Under the Act on Research and Development Funding and according to the most recent economic forecast, central government R&D funding should be EUR 2.9 billion in the 2025 budget, EUR 3.2 billion in 2026 and EUR 3.5 billion in 2027.

Table 10. R&D funding in each year of the spending limits period as per the Act on Research and Development Funding, EUR billion

	2023 (Statistics Finland advance)	2024	2025	2026	2027
Level as per Act on R&D Funding, EUR billion	2.35	2.63	2.91	3.19	3.47
Previously decided funding, EUR billion		2.37	2.42	2.45	2.50
BP 2024 decisions, EUR billion		0.26	0.33	0.35	0.27
Funding to be decided later, EUR billion			0.16	0.39	0.70

In 2024, additional funding is proposed particularly for a researcher training pilot, support for business R&D, the research project authorisation of the Academy of Finland, and national co-funding of EU projects.

Table 11. Increases in R&D funding (BP 2024 and GGFP 2024–2027), EUR million

	2024	2025	2026	2027
Permanent increases in funding				
Business Finland's authorisation to support R&D	92	92	92	92
Business Finland's R&D loan authorisation	10	10	10	10
National co-funding of EU projects for higher education institutions and government research institutes	35	35	35	35
Academy of Finland's research project authorisation	55	45	45	45
Central government funding to health care units for university-level research and for university-level research in social work	5	5	5	5
Fixed-term funding				
Research training pilot (2024—2027)	40	86	86	50
VTT, microelectronics and quantum technology piloting environment (2024—2027)	5.3	11.2	45	17.5
VTT, quantum computer (2024–2027)	5	25	25	15
VTT, development of small-scale nuclear power plant projects (2025–2027)		2.12	2	0.38
REPowerEU, Clean Energy and Material Flows R&D project (2024–2026)	16.5	19	4.3	
BP 2024 funding decisions	**264**	**330**	**349**	**270**

The additional funding specified in the Act on Research and Development Funding for 2025–2027 is not allocated by administrative branch or by budget item in the present General Government Fiscal Plan, but there is a spending limits provision in place to allow for additional funding: EUR 100 million in 2025, EUR 300 million in 2026 and EUR 500 million in 2027. The spending limits provision is lower than the increase in R&D funding required in the Act, because the increase concerns available R&D funding (authorisations and appropriations), while the provision only considers the appropriation needs that will arise with delayed effect through authorisations. The allocation of R&D funding in 2025–2027 will be decided on at a later stage in the context of future budgets and General Government Fiscal Plans.

In addition, tax revenue estimates include the deduction for R&D cooperation currently in force (2021–2027) and the combined deduction for R&D that entered into force in 2023.

Savings and appropriation increases under the Government Programme

The Government Programme (Annex B) contains measures to achieve a net adjustment in general government finances of EUR 4 billion at the 2027 level. In addition to savings, the package includes expenditure increases and revenue-raising measures.

The central government spending limits decision for 2024-–2027 takes into account the savings and expenditure increases outlined in the above-mentioned annex to the Government Programme insofar as the impact is on the central government on-budget finances. To some extent, the impact assessments of the measures have been since the completion of the Government Programme, and allocation between the different levels of general government has also been further specified. The estimates will be further refined during budget and spending limits preparation and the preparation of Government proposals, but the Government is committed to the set of measures outlined in the annex to the Government Programme.

The above-mentioned expenditure policies of the Government Programme will have a net saving effect of c. EUR 0.8 billion on central government on-budget finances in 2024. At the end of the spending limits period in 2027, the impact of the Government Programme expenditure decisions will be EUR 2.1 billion at the 2024 price level, but taking into account the nominal effect of indexation savings, the impact will be EUR 2.5 billion. The figures do not include the impact on tax revenues of savings directed at benefits.

The measures are described in more detail by administrative branch in section 5.3.1. Operating expenditure savings and productivity programmes included in the governance section are examined in a separate text. The entities are described at the level of general government finances as a whole in chapter 9.

Index-linked entities include freezes of index increases and their partial implementation. There will be no index increases in benefits linked to the National Pension Index or the Consumer Price Index (excluding social assistance, pensions, front veteran's supplements, disability benefits, annual excess in reimbursements for medicines, child maintenance allowance) in 2024–2027. A saving corresponding to a one percentage point increase will be made in the index increase of central government transfers to municipalities for basic public services in 2024–2027, as well as in central government funding for the Evangelical Lutheran Church and grants for ecclesiastical and religious activities.

Table 12. Appropriation savings and increases (net) in central government on-budget finances in accordance with the Government Programme in 2024–2027, EUR million

	2024	2025	2026	2027
(- = appropriation saving, + = appropriation increase)				
Education, training and skills	9	44	61	28
Social and health services	-141	-178	-246	-430
Social security and benefits	-212	-473	-499	-564
Index-linked entities (effect at 2024 price level)	-195	-194	-194	-194
Agriculture and forestry, environment	-13	-44	-70	-68
Business and industry, transport and housing	-209	-274	-370	-421
National defence, public safety, migration and development cooperation	-19	-30	-121	-213
Governance	-10	-105	-155	-276
Total	**-792**	**-1 254**	**-1 595**	**-2 138**

Central government operating expenditure savings and productivity programmes

The Government will implement a productivity programme for central government, which aims to achieve a saving of c. EUR 240 million at the 2027 level. The implementation of the productivity programme will harness the potential of digitalisation to improve the efficiency of the public sector, for example by making digital communications the primary channel for communications by public authorities. As part of the productivity programme, a public sector premises programme will be launched, aimed at, among other things, rationalising the costs of public sector premises.

The above entities will cover part of the targeted saving of c. EUR 240 million, with the remainder being covered by the implementation of the general productivity programme. The Government will decide on the details of the implementation of the productivity programme at a later stage and, based on the implementation, the savings will be allocated to agencies' operating expenditure items in future spending limits and budget proposals.

Table 13. Savings of the central government productivity programme by main title, EUR million

Main title	2024	2025	2026	2027
Parliament	0	2	2	2
Office of the President of the Republic of Finland	0	0	0.3	0.5
Prime Minister's Office	0	0	3	10
Ministry of Justice	0	7	8	18
Ministry of the Interior	0	10	12	15
Ministry of Defence	0	0.8	0.9	0.9
Ministry of Finance	0	30	35	58
Ministry of Education and Culture	0	15	17	24
Ministry of Agriculture and Forestry	0	3	9	18
Ministry of Transport and Communications	0	8	12	19
Ministry of Economic Affairs and Employment	0	4	9	23
Ministry of Social Affairs and Health	0	12	24	48
Ministry of the Environment	0	1	3	7
Total	**0**	**92**	**135**	**243**

Investment programme included in the Government Programme

The Government Programme includes a EUR 4 billion package of one-off investments, which will be funded by central government property income, liquidating the over-capitalisations of state-owned unlisted companies, and making revenue recognitions from the National Housing Fund without jeopardising the Fund's current level of activity. Expenditure under the investment programme will be included in budget proposals and taken into account within the limits of revenue secured in general government fiscal plans. This General Government Fiscal Plan includes a total of EUR 800 million in revenue remittances from the National Housing Fund. The second supplementary budget proposal for 2023 includes the cancellation amounting to EUR 100 million of the capitalisation of Ilmastorahasto Ltd. In addition, shares transferred from Ilmastorahasto will generate additional tax revenue of c. EUR 120 million, which will be included in the investment programme revenue. At this stage, the secured revenue therefore amounts to c. EUR 1,020 million.

The General Government Fiscal Plan for 2024–2027 allocates appropriations and authorisations totalling EUR 734 million to the investment programme under the Government Programme. Appropriations allocated in 2024–2027 will be EUR 631 million. In addition, the second supplementary budget proposal for 2023 includes EUR 9.5 million to support the charging infrastructure network for housing companies.

Within the framework of the investment programme, an increase of EUR 250 million in 2024 is proposed for basic transport infrastructure maintenance to reduce the repair backlog. In addition, authorisations of EUR 347 million are proposed for transport development projects, which will give rise to an appropriation requirement of EUR 15.5 million in 2024. It is proposed to increase by EUR 110 million the authorisation for increasing the capacity of the Helsinki–Riihimäki main line. New projects will be launched, including the Tampere passenger railway yard project (EUR 163 million), planning of the electrification of the Tornio–Kolari rail section (EUR 7.5 million), the Pietarsaari harbour road (road 68 between Edsevö and Pietarsaari, EUR 7.5 million), main road 4 north of Leivonmäki, the Joutsa project (EUR 14 million), main road 4 Oravasaari interchange, the Jyväskylä project (EUR 7 million) and main road 9 at Lievestuore (EUR 30 million). Authorisations totalling EUR 8 million will be allocated the Suupohja rail line and Savonian railway planning projects. The development projects will give rise to an additional appropriation requirement of EUR 228.5 million in 2025–2027 and EUR 102 million in the next parliamentary term.

In the main title of the Ministry of Social Affairs and Health, a total of c. EUR 120 million will be allocated to the investment programme in 2024–2027. Of this, c. EUR 65 million will be allocated to increasing the Kela reimbursement of doctors' appointment fees in 2024, EUR 10 million to the healthcare and social welfare digitalisation programme, EUR 9 million to the National Health and Wellbeing Programme, EUR 9 million to the Good Work Programme, and EUR 27 million to support the functioning of older people, their coping at home and informal caregivers.

An authorisation of EUR 10 million will be allocated from the Clean Energy Finland key project to promote public charging and refuelling infrastructure for transport electricity and gas. A total of EUR 6 million will be allocated in 2024–2027 to strengthening the guidance of wellbeing services counties. An allocation of EUR 0.45 million in 2024 will be made to planning the demolition of dams on the Palokki rapids.

Recovery and Resilience Plan investments during the spending limits period, including REPowerEU

Finland's final allocation under the EU Recovery and Resiliency Facility was announced in June 2022. Finland's allocation decreased to EUR 1.823 billion, because Finland's economy had developed more favourably than expected. The Ministerial Working Group on Sustainable Growth in Finland outlined in June 2022 how Finland's Recovery and Resilience Plan will be updated to reflect this change. The Government adopted Finland's updated Recovery and Resilience Plan on 26 January 2023, and the EU Economic and Financial Affairs Council approved it on 14 March 2023. The Recovery and Resilience Plan is part of the Sustainable Growth Programme for Finland, which will boost reforms and investments.

Implementation of the Recovery and Resilience Plan will continue during the spending limits period, ending in 2026. The General Government Fiscal Plan includes EUR 462 million in 2024, EUR 277 million in 2025 and EUR 151 million in 2026 of expenditure in accordance with Finland's Recovery and Resilience Plan. Estimated revenue from the EU with regard to payments is EUR 703 million in 2024, EUR 312 million in 2025 and EUR 305 million in 2026.

The amendment to the EU Regulation on the REPowerEU plan, which aims to end the EU's dependence on fossil fuels from Russia and speed up the green transition, entered into force in February 2023. REPowerEU is part of the Recovery and Resilience Facility. Finland has EUR 113 million in additional financial support available, in addition to which EUR 14 million has been transferred from the Brexit Adjustment Reserve. This means that Finland has a total of EUR 127 million available. The Government has decided to allocate the REPowerEU funds to 1) accelerating environmental permit procedures in a manner compatible with the reform of regional state administration (c. EUR 32 million), 2) R&D funding and piloting of clean energy and material flows projects (c. EUR 40 million), and 3) investments in the clean transition (c. EUR 55 million).

REPowerEU programme expenditure is included in the General Government Fiscal Plan as follows: c. EUR 35 million in 2024, EUR 50 million in 2025 and EUR 38 million in 2026. REPowerEU payments from the EU are technically estimated to be spread evenly over the period 2024–2026.

5.3.1 Policy outlines for the administrative branches

Prime Minister's Office

The annual appropriations of the main title of the Prime Minister's Office will average EUR 241 million in 2024–2027. The operating expenditure appropriations of the Prime Minister's Office will be EUR 159 million in 2024 and will average approximately EUR 157 million in 2025–2027.

In accordance with the Government's premises plan, the intention is to carry out renovation and new construction projects on Government premises in the Government Palace block and neighbouring blocks between 2023 and 2028. The resulting increase in rent expenditure will be realised later, as the construction project is completed. The modernisation of Government premises between 2024 and 2027 will generate inevitable costs from planning, relocation and furniture procurement, which will mainly arise towards the end of the construction project.

Principal changes and decisions

The Prime Minister's Office will be allocated funding for procurement related to the renovation of the House of the Estates and the aggregation and modernisation of Government premises, for information management costs, for strengthening the secretariat of the Research and Innovation Council, and for financing the European Centre of Excellence for Countering Hybrid Threats due to the increase in the number of Member States. A total of EUR 6.0 million will be allocated in 2024–2027 to implementing the statement on promoting equality, gender equality and non-discrimination. A total of EUR 2.7 million in 2024 and 2025 will be allocated to promoting the truth and reconciliation process concerning the Sami People. A total of EUR 0.9 million in 2024 and 2025 will be allocated to psychosocial support for the truth and reconciliation process of deaf people.

In line with the Government Programme, the number of political state secretaries and special advisers will be rescaled (an annual appropriation increase of EUR 2 million compared with the technical spending limits decision) and ministerial staff secretaries will be centralised in the Prime Minister's Office. The level of party subsidies will be reduced by EUR 1.1 million. In line with the Government Programme, an operating expenditure saving will be directed at the main title of the Prime Minister's Office from 2026 onwards.

Ministry for Foreign Affairs

The annual appropriations of the main title of the Ministry of Foreign Affairs will be EUR 1.2 billion in the spending limits period. At the end of the spending limits period, the breakdown of main title appropriations will be as follows: foreign affairs administration 23%; crisis management 6%; development cooperation 61%; and other expenditure 10%. The key objectives of Finland's foreign and security policy are safeguarding Finland's independence and territorial integrity, preventing Finland's entry into military conflict, and ensuring the security and wellbeing of the Finland and its people.

An annual appropriation of c. EUR 255 million is allocated to the operating expenditure of the Ministry for Foreign Affairs. The activities of the Foreign Service rely on a comprehensive network of diplomatic missions abroad as well as effective bilateral and multilateral diplomacy and communication. In accordance with the Government Programme, decisions on the dimensioning of the network of diplomatic missions will be made systematically over the longer term. Finland holds the Chair of the Organisation for Security and Co-operation in Europe (OSCE) in 2025 and the Presidency of the Nordic Council of Ministers in 2026. In addition, Finland is a candidate for a seat on the UN Security Council for the term 2029–2030.

In the spending limits period, the military crisis management appropriations will be EUR 53 million per year in the main title of the Ministry for Foreign Affairs. The appropriations take into account the operations in which Finland is participating during the spending limits period. The civilian crisis management appropriations will be c. EUR 19 million per year in the spending limits period. A total of EUR 3.9 million per year is allocated to peace mediation.

Principle new decisions and changes

Finland has been committed, in line with the UN recommendation, to development funding of 0.7% of GNI, although the target has not been reached. In the prevailing economic situation, savings will be directed at development cooperation during the parliamentary term. These will be implemented gradually, taking into account commitments made. The level of appropriations for actual official development assistance will be lowered by EUR 118 million in 2024, EUR 158 million in 2025, EUR 231 million in 2026 and EUR 283 million in 2027. The appropriations will decline during the spending limits period from EUR 629 million to EUR 601 million. Funding for development cooperation in the form of loans and investments will be reduced by EUR 60 million per year, bringing the annual level of appropriations to c. EUR 70 million.

Ukraine will be the largest beneficiary of Finland's development cooperation assistance during the government term. An annual appropriation of EUR 58 million is allocated for the new item for assistance to Ukraine, of which EUR 38 million per year is a transfer from the actual official development assistance (ODA) budget item.

At the end of the spending limits period, it is estimated that development cooperation appropriations will be 0.36% of GNI.

As part of Finland's support to Ukraine, the NATO Comprehensive Assistance Package for Ukraine (CAP) will be allocated annual funding of EUR 5.0 million from the Ministry of Foreign Affairs appropriations reserved for membership fees and funding contributions.

As part of the general government adjustment measures, the appropriations allocated to cooperation within the Baltic Sea, Barents Sea and the Arctic region will be reduced by EUR 1.4 million. The annual appropriations will thereafter be EUR 1.6 million.

Ministry of Justice

The annual appropriations of the main title of the Ministry of Justice will be c. EUR 1.2 billion in the spending limits period, of which EUR 4–48 million is for election costs, depending on which elections are held in each year. The appropriations of the main title mostly consist of operating expenditure of administration of justice (82% on average in the spending limits period). The breakdown of appropriations of the main title of the Ministry of Justice will be as follows: courts 30%, enforcement of sentences 24%, legal aid 15%, the Ministry and administration 15%, payment default entries, enforcement and bankruptcy oversight 9%, prosecutors 5%, and election costs 2%.

The vision is to achieve a transparent, active and safe society where everyone can feel included and where everyone can trust that their rights will be respected.

In the spending limits period, the funding base of actors in the field of administration of justice will be strengthened by the appropriation increases of the spring 2023 technical spending limits: EUR 30 million in 2024, EUR 40 million in 2025, EUR 55 million in 2026 and EUR 50 million as of 2027.

Principle new decisions and changes

In line with the Government Programme, EUR 1 million will be allocated to crime prevention and development measures. EUR 1 million will be allocated in 2024–2026 to preparing a tightening of criminal policy. The Criminal Sanctions Agency will be allocated EUR 5 million in 2024 to the planning of prison projects and the upgrading of prison security technology. Resources for administration of justice will be boosted by EUR 25 million from 2025 onwards. A more precise allocation to the different actors will be set out in the spring 2024 General Government Fiscal Plan. A spending limits provision of EUR 11 million for 2025–2026 and EUR 12 million for 2027 has been made for the change in criminal policy in line with the Government Programme.

In line with the Government Programme, an operating expenditure saving will be directed at the main title of the Ministry of Justice from 2025 onwards.

Ministry of the Interior

The appropriation level of the main title of the Ministry of the Interior will be c. EUR 2.5 billion in 2024, decreasing to c. EUR 1.9 billion in 2027. At the end of the spending limits period, the breakdown of appropriations of the main title will be as follows: administration 13%; Police 56%; Border Guard 18%; rescue services and emergency response centres 5%; and immigration costs 8%.

The spending limit of the administrative branch of the Ministry of the Interior has been increased by appropriation needs required by measures in line with the Government Programme as well as by other appropriation needs of the administrative branch. The need for appropriation increases has arisen from the inadequacy of funding in the administrative branch relative to safeguarding the current level of operations, the non-recurring nature of appropriation increases allocated previously, major and unavoidable investment and development needs, the large premises repair deficit, and new legislative obligations with permanent financial impact.

Principle new decisions and changes

In accordance with the Government Programme, the resources of the Police will be gradually increased, such that the number of police officers will be 8,000 at the end of the parliamentary term. The permanent increase related to this target is EUR 70 million at the end of the spending limits period. In addition, a permanent appropriation increase of EUR 5 million will be allocated to preventing and combating youth crime and to Swedish-language police training.

A permanent appropriation increase of EUR 4 million for the increase in basic rent level will be allocated to the operating expenditure of the Border Guard. In addition, an increase of EUR 1.5 million will be allocated to increase the number of border guards.

The number of rescue worker trainees will be increased to reach the target of 1,000 more trainees by 2032. Training will be evaluated as a whole, and the increase in the number of trainees will be divided between the Emergency Services Academy in Kuopio and the Helsinki Rescue School. Accordingly, EUR 1 million per year under the 'Miscellaneous grants' item is proposed for the organisation of rescue training, and EUR 3.5 million for 2024, EUR 4.4 million for 2025 and 2026, and EUR 5.5 million for 2027 for the operating expenditure of the Emergency Services Academy. The final distribution of funding between actors will be further specified after the completion of studies. The recording system of emergency response centres will be renewed.

Processing times at the Finnish Immigration Service will be shortened by increasing automation, for example. The annual increase in the spending limits period 2025–2027 is EUR 21 million. Follow-up monitoring of work-based permits will be intensified and the use of automation in follow-up monitoring will be increased, which will permanently increase the appropriation requirement by EUR 6.8 million. The detention of aliens on grounds of public order and security and the increasing of the maximum period of detention to 12 months from the current six months will be enabled. A permanent increase of EUR 6.3 million is earmarked for this purpose. Through amendments to the Aliens Act, international protection will be made temporary in nature and the length of international protection permits shortened to the minimum allowed by EU law, which will increase the appropriation requirement permanently by EUR 3 million. A permanent increase of EUR 2 million will be allocated for the implementation of a set of measures related to voluntary return and departure.

The measures under the Government Programme on immigration and reception, the most significant of which are outlined above, will reduce the appropriation requirement for reception expenditure by c. EUR 44 million and the appropriation requirement for benefits paid to reception clients by c. EUR 15 million at the end of the spending limits period. The measures also include reducing the number of quota refugees to 500, in line with the Government Programme.

The appropriations requirement related to immigration has been increased by persons under temporary protection remaining to a greater extent than anticipated within the reception system.

In line with the Government Programme, an operating expenditure saving will be directed at the main title of the Ministry of the Interior from 2025 onwards.

Ministry of Defence

The appropriation level of the administrative branch of the Ministry of Defence will be EUR 6.2 billion in 2024, and it will decrease by c. EUR 420 million to EUR 5.8 billion in 2027. This change is mainly due to annual variations in the funding for the F-35 fighter aircraft project and in defence materiel procurements.

An increase in appropriations consistent with the change in the security environment has been allocated to the operating expenditure and defence materiel procurements of the Defence Forces. The spending limits include EUR 796 million for the financing the replacement procurement of material support transferred to Ukraine (incl. SB IV 2022, SB 2023 and SBP II 2023). Appropriations within the spending limits include total funding in 2025–2027 of EUR 4.4 billion for the fighter aircraft project and funding totalling EUR 266 million for the Squadron 2020 project,. In the spending limits period, projects for the main weapon systems of sea and air defence will be implemented, replacing the Navy's ageing combat vessel fleet and the performance capability of the Air Force's Hornet fighter fleet.

The level of military crisis management equipment and administrative expenditure will remain at its current level in the spending limits period, adjusted for cost increases, i.e. at c. EUR 66 million per year. Currently active operations will continue, the personnel complement being over 400. The largest operations are those in Lebanon, Iraq and Kosovo.

According to established practice, cost-level adjustments will be made annually to the Defence Forces' operating expenditure appropriations (excluding personnel expenditure) and to defence materiel procurement and military crisis management equipment and administration expenditure appropriations (excluding personnel expenditure). In addition, purchasing power corrections will be made to the uncommitted part of the order authorisation as well as to other available deferrable appropriations for multirole fighter aircraft procurement.

Principle new decisions and changes

In accordance with Prime Minister Orpo's Government Programme, the spending limits include a permanent EUR 50 million general increase for the additional operating expenditure needs of the Defence Forces.

In line with the Government Programme, an operating expenditure saving will be directed at the main title of the Ministry of Defence from 2025 onwards.

Ministry of Finance

The appropriation level of the main title of the Ministry of Finance will be EUR 38.1 billion and will grow during the spending limits period from to EUR 41.2 billion. In the spending limits period, funding for the health, social and rescue services of the wellbeing services counties and HUS Group will amount to EUR 24–25 billion, i.e. c. 60% of the expenditure of the main title on average. To support municipalities, EUR 3.3 billion will be allocated in 2024 and EUR 4.3–4.5 billion in 2025–2027, i.e. c. 10% of the expenditure of the main title on average. The activities and finances of the wellbeing services counties are discussed as a whole in Chapter 6. Finances of the wellbeing services counties. For more comprehensive information on basic public services organised by the municipalities and their funding, see Chapter 7. Municipal finances.

The annual operating expenses of the Tax Administration will be EUR 422–423 million. An appropriation of EUR 35–41 million per year will be allocated for the implementation of a positive credit information register and for the operation of the National Incomes Register. The operating expenditure of Customs will decrease in the spending limits period from EUR 203 million to EUR 186 million. The comprehensive reform of customs clearance systems is scheduled to be completed during the spending limits period, and the ending of investment funding will reduce operating expenditure at the end of the spending limits period.

An annual c. EUR 35 million will be allocated to the operating expenditure of the State Treasury. The annual operating expenditure of Statistics Finland during the spending limits period will be c. EUR 54 million. The data room pilot of Statistics Finland and the Government Institute for Economic Research (VATT) will end at the end of 2025. The legal protection programme of the Digital and Population Data Services Agency (DVV) will be funded with a productivity project appropriation totalling EUR 8.1 million in 2024–2025. At the end of the spending limits period, an annual appropriation of c. EUR 53 million will be allocated to the operating expenditure of the DVV.

An overview of the centralised funding earmarked for key information system and information management projects as well as other productivity projects in the administrative branches is discussed in section 5.3.2.

The annual appropriation for pensions and compensation in the main title of the Ministry of Finance will be EUR 6.0 billion, of which compensation will be EUR 40 million. The State Pension Fund and revenue recognised therefrom in the central government budget are discussed in section 5.6.

Finland's EU membership contribution is expected to rise from c. EUR 2.3 billion at the beginning of the spending limits period to EUR 3.1 billion in 2027. There is uncertainty as to the amount of Finland's EU membership contribution: consideration of the European Commission's proposal for revising the Multiannual Financial Framework is under way. There are pressures to expand the MFF due to, among other things, ongoing crises (such as Russia's invasion of Ukraine), interest expenditure of the RFF, and EU administrative costs.

Principle new decisions and changes

In line with the Government Programme, an operating expenditure saving will be directed at the main title of the Ministry of Finance from 2025 onwards and, in addition, the level of the centralised productivity appropriation of the central government will be permanently reduced and the productivity appropriations item of the administrative branch of the Ministry of Finance will be abolished.

Based on the new tax changes made by Parliament, the Tax Administration will be allocated c. EUR 3 million for 2024 and permanently c. EUR 2 million from 2025 onwards.

For the financial information service of the municipalities and wellbeing services counties, the State Treasury will be allocated just over EUR 1 million for 2024 and permanently nearly EUR 1 million per year from 2025 onwards.

An estimated appropriation of EUR 10 million per year for 2024–2027 will be allocated to Finland's contribution to the interest expenditure of the macro-financial assistance to Ukraine.

Ministry of Education and Culture

The appropriation level of the main title of the Ministry of Education and Culture will average c. EUR 8.0 billion per year during the spending limits period. Of the appropriations, c. EUR 880 million will be allocated to early childhood education and care, preschool and basic education, c. EUR 1.4 billion to upper secondary education, c. EUR 3.8 billion to higher education and research, c. EUR 870 million to financial aid to students, c. EUR 560 million to arts and culture, and c. EUR 240 million to sport and exercise, and youth work.

Expenditure in functions currently funded with revenue from gaming will be converted into central government universal budget funding as of 2024. The required changes in the item structure within the main title of the Ministry of Education and Culture are included in the General Government Fiscal Plan.

Principle new decisions and changes

In order to secure the operating potential of the Ministry of Education and Culture and of the agencies in its administrative branch, and in order to improve the effectiveness of the educational and cultural administration, the Ministry has launched the Educational and Cultural Administration 2030 development project, which will be implemented in 2023–2026. The agency structure will be developed in line with the Government Programme. In order to provide an overview of the educational and cultural administration's finances as a whole and to improve transparency, the operating expenditure items of the agencies have been included in the same budget class.

In line with the Government Programme, an operating expenditure saving will be directed at the main title of the Ministry of the Education cand Culture from 2025 onwards. In accordance with the Government Programme, the level of discretionary government transfers will also be gradually reduced by EUR 10 million in 2024, EUR 25 million in 2025, EUR 50 million in 2026 and EUR 125 million from 2027 onwards.

Primary and lower secondary education will be improved by EUR 50 million in 2024, EUR 100 million in 2025, EUR 150 million in 2026 and EUR 200 million from 2027. In 2024, the increase will be allocated to stabilise grants for positive discrimination funding in early childhood education and care and in pre-primary, primary and lower secondary education, and from 2025 onwards, subject to further preparation, also through the central government transfer for basic public services. In addition, funding for preparatory education will be extended to a maximum of two years, with EUR 3.5 million allocated from 2025 onwards. Transition phase education for young people of compulsory education age will be increased by doubling the intake of students in the folk high schools' year for youth study programme, to which EUR 3 million will be allocated from 2024. Central government funding for liberal adult education will be reduced by EUR 21 million by reducing performance measures.

Funding models for vocational education and training and upper secondary education will be reformed to encourage the provision of high-quality, relevant education in a cost-effective way that ensures accessibility to education across the country. The Government will strengthen learning support and study guidance in vocational education and training and upper secondary education, including preparatory education for programmes leading to a qualification (TUVA). Additional funding of EUR 10 million will be allocated for this purpose in 2024 and EUR 20 million from 2025 onwards. The aim is to have a clear and seamless system of learning support from the transition phase to completion of a upper secondary education qualification.

Higher education institutions will increase opportunities for continuous learning and remove obstacles to increasing private financing. The objective is to raise the share of young adults with tertiary education as close to 50% as possible by 2030, for example by launching before the 2024 spending limits session a set of measures to prevent unnecessary accumulation of tertiary education. Between 2024 and 2027, a total of EUR 41.3 million will be allocated to increasing student intake at higher education institutions and a total of EUR 262 million to a researcher training pilot.

As measures to strengthen general government finances, the regulated maximum fees for open education offered by universities and universities of applied sciences as well as the minimum tuition fees for non-EU/EEA students will be raised. Correspondingly, central government funding for higher education institutions will be gradually reduced such that the total reduction will be EUR 35 million from 2028. In addition, central government funding for universities of applied sciences will be reduced from 2024 by EUR 12 million due to the transfer of financial compensation for traineeships related to the health, social services and regional government reform. Funding for psychotherapist training will be increase by EUR 2 million for 2025, EUR 5 million for 2026 and EUR 10 million from 2027 onwards.

The research project authorisation of the Academy of Finland will increase to c. EUR 460 million during the spending limits period. The additional funding of EUR 30 million will be allocated annually to flagships (EUR 40 million in 2024), effectiveness of research knowledge (EUR 10 million) and national research infrastructure (EUR 5 million).

The indexation of study grants will be frozen for 2024–2027, which will reduce the appropriation requirement by an estimated EUR 50 million in nominal terms at the 2027 level. A general increase of EUR 5 million will be allocated to the family provider increment to study grants. A financially attractive option favouring shared student housing will be explored and developed to complement the general housing allowance for students. The Government will also launch a comprehensive reform of study grants.

The Government will prepare a report on cultural policy. In connection with the report, the Government will implement an intersectoral growth strategy for the creative industries. In addition, compensation paid under the public lending right for e-books will be implemented and the legislation on basic education in the arts will be reformed.

Implementation of the sports policy report will continue and an annual EUR 20 million will be earmarked for promoting a healthy lifestyle.

The Government will prepare an extensive programme of measures to prevent the social exclusion of young people.

Ministry of Agriculture and Forestry

Annual appropriations of the main title of the Ministry of Agriculture and Forestry will average c. EUR 2.6 billion in the spending limits period. The breakdown of this is as follows: rural development 17%; agriculture and food economy 69%; natural resources economy 7%; and other expenditure 7%. Most (c. 90%) of the appropriations for rural development and for the agriculture and food economy relate to the implementation of Finland's CAP Strategic Plan for 2023–2027, adopted at the beginning of 2023. The main objectives of Finland's CAP Strategic Plan are to ensure active food production, promote climate and environment-smart agriculture, and strengthen the viability of a countryside capable of renewing itself. In the spending limits decision, EU and national appropriations are allocated in accordance with the projected progress of the funding plan and payouts in the CAP Strategic Plan, taking into account the adjustment measures of the Government Programme.

The purpose of measures funded with rural development appropriations is to leverage the potential of rural areas and to improve their viability in sustainable ways. Rural development goals will be supported with, among other things, rural business subsidies, R&D projects and advisory services for farms. The annual appropriation for rural development in the spending limits period will be c. EUR 441.4 million on average.

Appropriations for the agriculture and food economy are intended to ensure supply security in a food system with overall sustainability, to improve sustainable and competitive growth in the bioeconomy and in food-based businesses and to responsibly secure the health, wellbeing and safety of humans, animals and plants. The annual appropriation for the agriculture and food economy in the spending limits period will be EUR 1.76 billion on average.

The purpose of the national resources economy is to ensure the sustainable management and use of renewable natural resources and related risk management. Appropriations allocated to fisheries, game, forestry and water economy and to general natural resource use are used to safeguard security of supply, replace use of non-renewable raw materials and energy, create potential for competitive business operations based on sustainable use of natural resources, while coordinating the needs of the use and protection of natural resources, and fostering wellbeing through recreational enjoyment of the natural environment. The annual appropriations for the natural resources economy in the spending limits period will be c. EUR 176.6 million on average.

Annual appropriations for managing the public administration duties of Metsähallitus will be c. EUR 7.4 million on average.

Reliable and widely accessible geographical, property and apartment information facilitate new business and secure ownership and a national collateral system. Annual appropriations for surveying and for recording housing shares in the spending limits period are c. EUR 49.8 million on average.

RDI activities and advisory services in the administrative branch proactively support the effectiveness of administration and the competitiveness of businesses. The annual appropriations for administration and research in the spending limits period will be c. EUR 134.2 million on average.

Principle new decisions and changes

In connection with the REPowerEU item of the Finland's Recovery and Resilience Plan, an additional EUR 3.0 million will be allocated to the Natural Resources Institute for a clean energy and material flows R&D project.

In connection with the implementation of the Government Programme, an additional EUR 3.5 million per year has been allocated for relaxing the requirement for annual entrepreneurial income in the setting-up aid for young farmers and for food market measures, such as improving the statistics on the cost indices of agricultural products and establishing a Food Panel. In addition, an annual contribution of EUR 0.6 million will be made to the Archipelago Sea programme, and the voluntary protection METSO, HELMI and NOUSU programmes will be continued and developed with an annual appropriation of EUR 6.0 million.

A total of EUR 15 million will be allocated in 2024–2027 to strengthening the activities of the Finnish Food Authority.

The impact of the Government Programme adjustment measures will be EUR 99.1 million per year. The measures relate to improving the efficiency of central government and other public sector actors, grants from the administrative branch of Ministry of Agriculture and Forestry, regional and local rural development, promoting the natural resources economy and bioeconomy, support for ensuring sustainable wood production as well as support for the afforestation of wastelands.

In accordance with the Government Programme, grants from the Development Fund of Agriculture and Forestry (Makera) will be transferred to within the central government spending limits system. In 2024–2027, Makera grants are projected to amount to EUR 10–11 million per year.

Ministry of Transport and Communications

The annual appropriations of the main title of the Ministry of Transport and Communications will be c. EUR 3.3 billion on average in the spending limits period. The level of appropriations will fall from c. EUR 3.2 billion in 2024 to c. EUR 3.0 billion in 2027. The change is mainly due to adjustment measures in line with the Government Programme and to front-loaded increases for the investment programme.

Most of the appropriations in the main title will be used for maintenance and development of transport and communication networks, which account for 55%. Transport and communication services account for 25% and operating expenditure of administrative branch agencies and joint expenditure of the administrative branch for around 20%.

Funding under the Sustainable Growth Programme for Finland for the development and verification phase of the Digirail project and for cybersecurity projects will end during the spending limits period, which will reduce the level of appropriations to a small extent.

Operating expenditure of administrative branch agencies and joint expenditure for the administrative branch will decrease by 2027 by c. EUR 62 million compared with the previous spending limits decision. Operating expenditure will be reduced by the development of VAT expenditure due to savings directed at development projects and the central government productivity programme under the Government Programme.

An appropriation of EUR 593.7 million will be earmarked for the annual transfer to the State Television and Radio Fund. The funding is outside the spending limits. The amount of funding will be revised annually to reflect changes in cost levels. The State Television and Radio Fund covers the costs of the public service broadcaster, Finnish Broadcasting Company YLE. In accordance with the Government Programme, the intention is to establish a parliamentary working group to assess YLE's funding, its relationship to commercial media, the need to amend the Act on the Finnish Broadcasting Company and to more clearly define YLE's duties.

Principle new decisions and changes

In line with the Government Programme, an operating expenditure saving will be directed at the main title of the Ministry of Transport and Communications from 2025 onwards.

The operating expenditure of the Finnish Transport and Communications Agency takes into account the implementation of new statutory duties (among other things the EU's Digital Services Regulation and the Data Governance Regulation), for which an increase of EUR 0.8 million is allocated. The agency will also be allocated an additional appropriation for the implementation of the NIS2 Directive and other cyber security duties as well as official duties according to the Commission's Fit for 55 package, c. EUR 1.4 million per year at the end of the spending limits period.

In accordance with the Government Programme, EUR 1.535 billion in 2024 and EUR 1.285 billion annually in 2025–2027 will be allocated for basic transport infrastructure maintenance. The level of grants for private roads and for promoting of walking and cycling will be reduced by EUR 5 million in 2024 and by EUR 8 million per year from 2025 onwards. The scale of the grants will accordingly be EUR 12.4 million in 2024 and EUR 9.4 million in subsequent years. The funding level for new transport infrastructure projects will be reduced over the spending limits period such that the reduction is EUR 100 million in 2024, EUR 170 million in 2025, EUR 200 million in 2026 and EUR 250 million in 2027. In accordance with the investment programme outlined in the Government Programme, additional funding will be allocated to new development projects. After the changes, EUR 332.1 million in 2024, EUR 332.8 million in 2025, EUR 303.1 million in 2026 and EUR 283.5 million in 2027 will be allocated to development projects.

In addition, in line with the Government Programme, newspaper delivery support will be reduced by EUR 7.5 million per year from 2026. Climate-based funding for the purchase and development of public transport services will be reduced, the impact being EUR 13.3 million per year. The level of funding for public transport will be increased in 2024–2026 by purchases of air transport services, as a result of which the appropriation level will be EUR 102.4 million in 2024, EUR 107.4 million in 2025 and EUR 90.4 million in 2026. In 2027, the appropriation level will return to EUR 87.4 million.

Following the introduction of the island exemption in the Emissions Trading Directive, annual support of EUR 2 million will be allocated to Kvarken shipping routes and, additionally, EUR 300,000 will be allocated in 2024–2025 to safeguard goods transport critical for security of supply in the Åland Islands. The halving of fairway dues will continue. This will reduce the annual revenue from fairway dues by EUR 36 million.

Ministry of Economic Affairs and Employment

The appropriations of the main title of the Ministry of Economic Affairs and Employment will total EUR 4.2 billion in 2024, declining to EUR 2.3 billion in 2027. This change is due to the reform of public employment and economic development services (TE services) and the termination of funding under the Recovery and Resilience Plan. The appropriations also take into account measures in accordance with the Government Programme. At the end of the spending limits period, the breakdown of the appropriations of main title will be as follows: administration 28%; renewal and low carbon 37%; employment and self-employment 16%; special funding for businesses 6%; and integration and international expertise 13%.

Appropriations allocated to administration will decline during the spending limits period from EUR 990 million to EUR 662 million. Appropriations allocated to renewal and low-carbon will be EUR 1.63 billion in 2024 and will decline to EUR 859 million in 2027. In addition to the termination of the Recovery and Resilience Plan, the appropriation requirement will be reduced by the expiry of the electrification subsidy for energy-intensive industries in 2026 and a reduction in renewable energy production subsidies.

Central government research and development expenditure will be gradually increased to 1.2% of GDP by 2030. The annual authorisation to support research, development and innovation activity will be increased to EUR 469 million in 2024. The energy subsidy authorisation will be EUR 68.6 million in 2024, of which EUR 54.5 million is part of the REPowerEU programme, and EUR 14.1 million per year in 2025–2027. The estimated appropriation level of the renewable energy production subsidy will be EUR 309 million in 2024, decreasing to EUR 211 million in 2027 due to the withdrawal of wind power capacity from the subsidy scheme.

Employment and entrepreneurship appropriations will decrease from EUR 994 million to EUR 372 million, mainly due to the reform of public employment and economic development services. As of 1 January 2025, responsibility for providing public employment services will be transferred from the Employment and Economic Development Offices to municipalities. The responsibility for providing employment services will be a new duty for municipalities, and its expenditure will be fully covered with central government transfers. With regard to the duties transferred to the municipalities, funding of the administrative branch of the Ministry of Economic Affairs and Employment will be transferred as part of central government transfers to municipalities for basic public services. Additionally, annual funding in EU Structural Fund programmes will decrease gradually during the spending limits period, from EUR 644 million in 2024 to EUR 323 million in 2027, as funding from the Just Transition Fund decreases.

Appropriations for special financing for businesses will be EUR 211 million in 2024 and EUR 142 million in 2027. The mainly consist of interest subsidies and hedging expenditure for export credits, and loss compensation paid out by Finnvera. Loss compensation paid out by Finnvera will be EUR 56 million per year on average.

Annual appropriations for integration and international expertise will be EUR 389 million in 2024 and EUR 298 million at the end the spending limits period. The annual appropriation requirement will be impacted particularly by the transfer of persons under temporary protection to be covered by integration benefits.

Principle new decisions and changes

The R&D funding authorisation to support research and development will be increased by EUR 92 million and loans for research and innovation by EUR 10 million in 2024–2027. An annual appropriation of EUR 35 million will be allocated for national co-funding of EU projects for higher education institutions and government research institutes. The funding will encourage higher education institutions and research organisations to participate more widely in EU R&D projects. Appropriations increases totalling EUR 79 million will be allocated in the spending limits period to the special and general grants of VTT Technology Research Centre for the acquisition and introduction of the shared-use equipment of the Kvanttinova piloting environment for microelectronics and quantum technology, and appropriations increases totalling EUR 70 million for scaling up the quantum computer to 300 qubits. In addition, a total of EUR 5 million will be allocated in 2025–2027 to VTT's general grants to develop preparedness and expertise in the industrialisation of small-scale nuclear power plant projects.

The annual authorisation for energy aid will be halved to EUR 14.1 million in line with the Government Programme.

In accordance with the Government Programme, employment appropriations will be reduced by EUR 41 million in 2024 in public employment and economic development services, and funding for business development services will be completely terminated, reducing annual funding for business development projects by EUR 13 million.

A number of changes in line with the Government Programme will be directed at appropriations for promoting integration. The reduction in the annual refugee quota to 500 persons will reduce central government compensation for promoting integration by EUR 2 million in 2024, rising to EUR 15 million in 2027. The shortening of the payment period for imputed compensation will begin to impact expenditure in 2027, at which time expenditure will decrease by an estimated EUR 34 million. In addition, the level of compensation for interpretation costs will be reduced by EUR 3.1 million from 2025 onwards.

In line with the Government Programme, an operating expenditure saving will be directed at the main title of the Ministry of Economic Affairs and Employment from 2025 onwards.

Ministry of Social Affairs and Health

The appropriation level of the main title of the Ministry of Social Affairs and Health will be c. EUR 15.6 billion in 2024, decreasing to c. EUR 15.1 billion at the end of the spending limits period. The appropriation level will fall compared with the previous spending limits decision by c. EUR 160 million at the beginning of the spending limits period and by c. EUR 460 million at the end of the spending limits period. The appropriation level will be impacted by reforms in accordance with the Government Programme and changes in requirement estimates.

Of the administrative branch appropriations, c. 35% will be allocated to pension expenditure, c. 30% to offsetting family and housing costs and to basic social assistance, c. 11% to unemployment security, c. 15% to health insurance, c. 2% to support for health and social welfare, and grants for the promotion of health and social wellbeing c. 2%. Between 0.3% and 0.9% of the main title appropriations will be allocated to each of the other classes of the main title. Of the main title appropriations, c. 98% are transfer costs and c. 2% are consumption costs, mainly operating expenditure of agencies in the administrative branch. Estimated appropriation items account for c. 93%.

From 2025, responsibility for providing employment services will be transferred to municipalities. Municipalities liability for unemployment benefits will be expanded from labour market support to include basic daily allowance and the basic amount of earnings-related daily allowance as of 100 days of receiving unemployment benefit, growing as unemployment continues. In keeping with this reform, a total of c. EUR 440 million will be transferred to central government transfers to municipalities for basic public services from 2025.

The activities and finances of the wellbeing services counties are discussed as a whole in Chapter 6. Finances of the wellbeing services counties.

Principle new decisions and changes

In accordance with Prime Minister Orpo's Government Programme, a number of reforms reducing the appropriation requirement will be made to social security, which will reduce central government expenditure by c. EUR 1 billion euros at the end of the spending limits period. The estimate takes into account the increase in expenditure on housing allowance and social assistance as a result of the reforms. The single most significant savings measure will be the freezing of index increases to benefits linked to the National Pension Index and consumer prices for the parliamentary term, excluding social assistance, pensions, front-line veterans' supplements, disability benefits, child maintenance allowance and the annual excess applied in the reimbursements for medicines. This will reduce the appropriation requirement in the main title by c. EUR 380 million in nominal terms at the end of the spending limits period. The final impact of the freezing will depend on the actual development of consumer prices.

The position of families with children will be strengthened through a family package, which includes a EUR 26 increase in child benefit for children under the age of three, a EUR 10 increase in the single parent increment for child benefit, and a EUR 10 increase in child benefit for the fourth and fifth child. The combined effect of the changes on benefit expenditure will be EUR 54 million in 2024 and EUR 65 million from 2025 onwards.

The general housing allowance will be targeted at the groups most in need of it. The general housing allowance will no longer have the earned income allowance, the basic deductible for general housing allowance will be raised, and the level of the general housing allowance will be adjusted. In addition, the municipality categories for the general housing allowance will be merged and the general housing allowance will no longer be available for owner-occupied homes. From 2025 onwards, means testing and consideration of the real income of entrepreneurs will be applied to the housing allowance. Taking into account the increase in social assistance, the housing allowance reforms will reduce the appropriation requirement by c. EUR 330 million at the end of the spending limits period. Taking into account the index freezing, the nominal impact will be c. EUR 100 million higher.

In basic social assistance, the method of calculating the acceptable housing costs of those entitled housing allowance will be clarified, which will reduce the appropriation requirement by EUR 7 million in 2024 and EUR 31 million from 2025 onwards. In addition, social assistance will be reformed to improve a person’s ability to live independently, and clarify the role of social assistance as a last-resort discretionary benefit included in basic social security. The reform would be prepared in such a way that it would strengthen general government finances by EUR 70 million. This would take effect gradually from 2026 onwards.

In unemployment security, the job alternation leave system and the adult education allowance will be abolished as of 1 August 2024. From 2024, the waiting period for unemployment security will be reduced from five days to seven days and the phasing of unemployment security will be reinstated. The exempt amounts of unemployment security will be discontinued and the child increments of unemployment security will be abolished as of 1 April 2024. The extending of the prior work requirement to 12 months and making the amount of earnings-related security dependent on the amount of earnings from prior work will enter into force on 1 January 2024, but their application will only begin on 1 September 2024. In addition, through the supplementary budget process, the intention is to bring into force from 1 September 2024 reforms by which pay-subsidised work will no longer count towards the prior work requirement, age-related exceptions to unemployment security will be abolished, and the level of earnings-related security will be staggered. The unemployment security reforms will reduce the appropriation requirement in the unemployment security item by c. EUR 140 million at the end of the spending limits period, with a significant part of the impact coming from the proportion financed by unemployment insurance contributions. The reforms will increase housing allowance and social assistance expenditure by c. EUR 120 million at the end of the spending limits period. In addition, the freezing of indexation will reduce unemployment security expenditure in nominal terms by c. EUR 160 million at the 2027 level.

In 2025, a procedure will be introduced in unemployment security whereby language skills must be demonstrated in order to receive a language supplement in labour market support. This will reduce the appropriation requirement by EUR 20 million at the beginning of the spending limits period and by EUR 30 million at the end of the spending limits period.

In health insurance, as a savings measure, the amount of rehabilitation allowance for periods of vocational rehabilitation will be reduced to the same level as sickness allowance granted to a rehabilitation client under the Health Insurance Act. In addition, the minimum amount of rehabilitation allowance for young people and the allowance for vocational rehabilitation will be lowered to the same level as the minimum amount of rehabilitation allowance. The impact of these measures on health insurance will be a reduction of c. EUR 30 million per year.

From 2025, a change in the law that has facilitated 16-29 year olds to access vocational rehabilitation without a diagnosis of illness or disability will be repealed. The impact of this in health insurance is a reduction of EUR 40 million annually. In addition, the freezing of indexation will reduce daily allowances funded by central government by more than EUR 40 million in nominal terms at the 2027 level.

An amendment to the Health Insurance Act, based on which conditional reimbursement status for medicinal products has been introduced, will be continued until the end of 2027. This will reduce the appropriation requirement by c. EUR 26.8 million from 2026 onwards.

From the beginning of 2024, a permanent change in the level of the annual excess applied in reimbursements for medicines will be made, whereby the index adjustment of the annual excess not made at the beginning of 2023 (c. 7.8%) will not be made on a permanent basis. The change will increase central government expenditure by c. EUR 11 million from 2024 onwards.

As part of the reform of the pharmacy sector, a reform of the financial base of pharmacies will be implemented, adjusting the levels of the medicine tariff and pharmacy tax to achieve a savings effect of EUR 30 million. The precise manner of implementing the reform has not yet been outlined.

EUR 10 million will be allocated for the implementation of the growth strategy for the health and wellbeing sector in 2024–2025.

In accordance with the Government Programme, EUR 20 million in 2024, EUR 33 million in 2025, EUR 38 million in 2026 and EUR 40 million in 2027 will be allocated to social justice. As part of this entity, the celiac allowance will be reinstated from 2025, which will increase the appropriation requirement for benefits by EUR 9 million. In addition, the costs of the wellbeing services counties are estimated to increase by EUR 1 million per year due to the cost of diagnosing celiac disease. The implementation of the Programme for Suicide Prevention programme will be allocated EUR 0.3 million per year in 2024–2027. In addition, EUR 3 million per year will be allocated to permanent support for food aid organisations. Insofar as funding for social justice has not yet been allocated to specific measures, there is a spending limits provision.

In the main title, a total of c. EUR 120 million in 2024–2027 will be allocated to the investment programme outlined in the Government Programme. Of this, c. EUR 65 million will be allocated to increasing the Kela reimbursement of doctors' appointment fees in 2024, EUR 10 million to the healthcare and social welfare digitalisation programme, EUR 9 million to the National Health and Wellbeing Programme, EUR 9 million to the Good Work Programme, and EUR 9 million to support the functioning of older people, their coping at home and informal caregivers.

A total of EUR 8.6 million will be allocated in the spending limits period to special care and drug education work directed at young people.

The freezing of indexation that enters into effect in 2024 for the housing allowance for pensioners will reduce the appropriation of the national pension item by c. EUR 90 million in nominal terms at the end of the spending limits period.

The right of people staying or residing in the country illegally to other than urgent health and social services and to social security will be withdrawn. The impact of this will be EUR 0.3 million annually.

EUR 0.5 million is proposed for the operating expenditure of the Prison Health Care Unit under the Finnish Institute for Health and Welfare to cover the increase in the cost of substitute treatment medication and EUR 0.2 million for the expansion of Vantaa Prison in 2025–2027.

A total appropriation of c. EUR 59 million in 2025–2027 is proposed for national information management in the health and social services, which includes EUR 6 million for the healthcare and social welfare digitalisation programme.

In line with the Government Programme, an operating expenditure saving will be directed at the main title of the Ministry of Social Affairs and Health from 2025 onwards. The savings apply to all administrative branch agencies and institutions, including the Finnish Institute of Occupational Health and the Social Insurance Institution (Kela), as well as to compensation for training.

An appropriation of EUR 1.65 million in 2025–2027 is proposed for the Radiation and Nuclear Safety Authority for the preparation of the safe commissioning of small-scale nuclear power plants (SNPPs) as well as the comprehensive reform of the Nuclear Energy Act.

For the activities of the Finnish Institute of Occupational Health, an additional appropriation of EUR 0.6 million in 2025–2027 is proposed for remuneration adjustments and EUR 0.3 million for compensation for rent increases.

An annual permanent appropriation of EUR 8 million will be allocated to improving the effectiveness of health and social welfare.

In addition, an increase of EUR 5 million in 2024–2027 will be allocated for central government funding to health care units for university-level research and for university-level research in social work in 2024–2027.

Funding for air ambulance and medical helicopter operations will be permanently increased by EUR 0.8 million from 2025 onwards, to ensure that the appropriation is sufficient, as prices rise, to cover flight and administration activities, particularly at the Kouvola base. Due to an increase in commissioning and operating costs of the Kouvola base, an appropriation of EUR 2.8 million is proposed for 2024. In addition, due to an increase in construction costs of the Pirkkala base, an appropriation of EUR 6.4 million is proposed for 2024.

An annual appropriation of EUR 1.1 million in the spending limits period is proposed for a discretionary government transfer to the Finnish Centre for Client and Patient Safety in the Wellbeing Services County of Ostrobothnia.

A general increase of EUR 1 million from 2024 will be allocated in view of an increase in the costs of providers of shelter services.

A general increase of EUR 4.4 million will be allocated to the procurement of vaccines due to an increase in vaccine prices.

A general increase of EUR 2 million will be allocated for changing the 'Consideration for Farmers' project to a permanent operating model.

In accordance with the Government Programme, the level of discretionary government grants to associations and foundations for the promotion of health and social wellbeing will be reduced, amounting to EUR 50 million at the beginning of the spending limits period to EUR 100 million at the end of the spending limits period. The level of the grant item will decrease to EUR 282.8 million at the end of the spending limits period.

Ministry of the Environment

The overall level of the appropriations of the main title of the Ministry of the Environment will increase from EUR 241 million at the beginning of the spending limits period to EUR 244 million in 2027. At the end of the spending limits period, the breakdown of appropriations will be as follows: environmental and nature protection expenditure 56%; housing and construction expenditure 16%; and operating expenditure 28%. Alongside central government on-budget appropriations, the administrative branch of the Ministry of the Environment includes the National Housing Fund and the Oil Pollution Compensation Fund, which are funds outside the State budget. In accordance with Government Programme, grants awarded from the National Housing Fund will be brought within the central government spending limits system. National Housing Fund grants are expected to be c. EUR 71 million in 2024 and EUR 51 million per year in 2025–2027. The Oil Pollution Compensation Fund will be wound down in 2024, and the new off-budget Environmental Damage Fund will start up in 2025.

Nature protection appropriations will be directed in particular to the implementation of the METSO and Helmi programmes and to the objectives of the EU's biodiversity strategy. Broadly speaking, natural protection appropriations are projected to be c. EUR 94–95 million per year in the administrative branch of the Ministry of the Environment. Funding for the public administration functions of Metsähallitus will be EUR 47.4 million at the end of the spending limits period, but this amount does not take into account operating expenditure savings to be allocated later. In protecting the Baltic Sea and other waterways, implementation of the waterway and marine management action plans will continue, with a particular focus on improving the state of the Archipelago Sea.

EUR 1.8–2.4 million per year will be allocated in the spending limits period to prevention and clean-up of environmental damage, of which c. EUR 1.6 million per year will be used to prevent environmental damage at the Hitura mine. EUR 5.8 million per year will be allocated in the spending limits period to various areas of environmental expenditure, such as environmental research, environment restoration and the development of environmental duties and the circular economy. Approximately EUR 1.3 million per year will be allocated to the work of the Climate Change Panel and to climate projects.

EUR 28–30 million per year will be allocated to the Finnish Environment Institute. Within the administrative branch of the Ministry of the Environment, EUR 2.1–2.2 million per year will be allocated in the spending limits period to grants for organisations and EUR 2.2 million per year will be allocated to international cooperation expenditure.

An annual EUR 6.2 million will be allocated in the spending limits period to the operating expenditure of the Housing Finance and Development Centre of Finland. EUR 1.7 million per year will be available for maintaining architectural heritage.

Various subsidies for housing construction will be granted from the National Housing Fund during the spending limits period. Authorisation for approving interest-subsidised loans and the ceiling for various guarantees will be decided on in connection with the budget proposal. No funding is budgeted in the spending limits period for public utility services grants or startup grants related to land use, housing and transport (MAL) agreements. Housing companies in financial difficulties may be granted assistance from an annual appropriation of EUR 2.6 million. The authorisation for remissions related to demolition and remissions related to exemption from restrictions will total EUR 8 million per year, while the demolition subsidy authorisation will total EUR 5 million per year. EUR 0.7 million per year will be allocated to the R&D activities of the Housing Finance and Development Centre of Finland.

Appropriations in the administrative branch will be increased in the spending limits period particularly by the national contribution to the InvestEU loan guarantee programme, a total of EUR 45.7 million between 2025 and 2027.

An appropriation of EUR 4 million per year will be allocated in transitional funding to the digitalisation of land use and construction data management for municipalities and regional councils between 2024 and 2026.

Principle new decisions and changes

In accordance with the Government Programme, additional appropriations of EUR 6 million per year in 2024 and 2025, EUR 8 million in 2026 and EUR 10 million in 2027 will be allocated to implement the programme to improve the efficiency of water protection and the Archipelago Sea Programme. Funding for Metsähallitus public administration duties will be increased by EUR 4 million per year for the implementation of the HELMI habitats programme.

The obligation for municipalities to draw up climate plans will be abolished, reducing expenditure by c. EUR 2.8 million per year.

The spending limits period includes an annual saving of EUR 47 million on investment aid for special groups granted from the National Housing Fund. The saving will amount to EUR 27 million in 2024, and the annual saving of EUR 47 million in line with the Government Programme will be realised from 2025 onwards. After the saving, investment aid for special groups amounting to EUR 63 million in 2024 and EUR 43 million per year in 2026–2027 will be granted to support the improvement of housing supply for groups with the greatest need.

In line with the Government Programme, the spending limits period includes a EUR 2 million annual saving on housing guidance, to which EUR 2.3 million per year will be allocated during the spending limits period. An annual saving of EUR 5 million will be made on repair grants, after which appropriations amounting to EUR 7.6-9.6 million per year will be earmarked for repair grants.

In line with the Government Programme, an operating expenditure saving will be directed at the main title of the Ministry of the Environment from 2025 onwards. The saving will be included in aggregate figures and will be distributed more precisely within the administrative branch in the spring 2024 General Government Fiscal Plan.

Within the framework of REPowerEU funding, additional funding totalling EUR 20.5 million will be in the spending limits period, the largest part of which will be used for a research project on a knowledge-based decision-making support system. In addition, the appropriations would be used to develop and streamline environmental permitting.

In 2024–-2026, a total of EUR 800 million in additional revenue remittances will be made from the National Housing Fund to the central government budget to finance the investment programme outlined in the Government Programme.

5.3.2 Administration and IT projects

Improving the efficiency of central government and other public sector activities

In accordance with the Government Programme, productivity programmes in the administrative branches will be prepared and implemented during the spending limits period. The key elements will be structural measures, increasing revenues, utilisation of digitalisation, more efficient use of facilities and reorganisation of tasks.

One of the key measures in the productivity programmes is making digital communications the primary channel for communications by public authorities. By moving primarily to digital services and enabling automation of decisions made by public authorities, savings and more efficient processes will be achieved. Valtori will be directed to prepare proposals for productivity measures for ICT not restricted to a given domain.

Financial and HR administration

The productivity of central government financial and HR administration will be improved by continuing the centralisation of tasks in the Government Shared Services Centre for Finance and HR (Palkeet Centre) as well as by harmonising operating practices and developing central government's shared financial and HR administration information systems.

The central government accounting will be revised, and extended final central government accounts will be prepared as outlined in the VALTIKE project. The goal is for the first extended final central government accounts to be prepared for 2025. During the spending limits period, a significant and necessary technology renewal (SAP system) of the Kieku information system will be implemented, including HR information systems, by 2027. The central government spending limits and budget IT system will also be upgraded during the spending limits period. Between 2024 and 2027, the statutory Hilma notification service for public procurements will be improved, with particular reference to basic-level tendering functions, the user experience of procurement units and tenderers, and facilitating leveraging of data.

Agencies and Palkeet Centre will continue goal-oriented development of central government HR administration. The aim is to boost the efficiency of central government HR functions by 304 person-years from the 2018 level by 2029. Palkeet will further develop the accessibility and functionality of the Kieku information system in preparation for an upgrade in accordance with the Palkeet development roadmap.

Developing central government procurement

The productivity and effectiveness of public procurement will be improved by supporting and monitoring progress with the goals set for the public sector as a whole. The Procurement Finland programme has prepared a National Public Procurement Strategy, which drives procurement development. Development measures cover all public sector procurement. The objectives of the public procurement strategy also apply to the wellbeing services counties. The wellbeing services counties will be supported in building and developing their procurement functions, particularly from the perspective of knowledge-based management and effectiveness, providing data in usable form to support the strategic management of procurement. The Procurement Finland programme also fosters improvements in competence and procurement productivity in the municipal sector. Hansel Oy, Valtori and Senate Properties include the goals of the national public procurement strategy in centralised procurement and framework arrangements.

The implementation of the public procurement strategy is regularly measured with strategic effectiveness indicators and new development activities are steered on the basis of it. For Finland's public procurement there is an up-to-date situation status and national information architecture that supports the analysis and development of the effectiveness of procurement at the national level. Joint networks of the public and private sectors support the exploitation of the potential and opportunities of public procurement and the sharing of best practices.

Central government premises investments

The goal of the adopted premises strategy is that the premises support productive activity. Development of the premises promotes efficient work and services and improves cost efficiency. The increase in teleworking and multi-location work is affecting the use of premises and reducing the need for premises. Utilisation rate measurements indicate that central government office premises are occupied by c. 25% of personnel. By the end of the decade, the goal is an extensive premises programme and sharing of premises, where personnel of different agencies can work in the same premises. Sharing will also be increased within the public sector, particularly at shared customer service points.

As part of the central government productivity programme, a public sector premises programme will be launched. The aim of the premises programme is to significantly improve the efficiency of public sector premises costs and to seek solutions to premises ownership issues between the central government, the wellbeing services counties and the municipalities. At the same time, the implementation of the central government premises programme will be enhanced and its objectives updated to reflect the way work is done post-pandemic.

The safety and operating reliability of government-owned properties and properties used by government authorities will be boosted so as to ensure continuity of critical operations of key central government authorities even in case of disruption or in extraordinary circumstances. Significant repairs and reinforcements will be carried out in the spending limits period to ensure supply of electricity, heat and water and to secure telecommunications links in critical government premises. The level of the investment authorisation of Senate Group unincorporated state-owned enterprises as well as service and other operating objectives will be outlined in connection with the preparation of budget proposals.

Renewal of central government service and premises network

The goal of the project is to gradually assemble the in-person services provided by government agencies in joint public governance service points, which will also provide a wide range of municipal and Kela services as well as, where applicable, services of wellbeing services counties. An additional goal is to reduce central government office space and renovation needs and increase shared use of premises. The renewal is linked to the implementation of the Public Governance Strategy, the Regional Presence Strategy and the Central Government Premises Strategy. The intention is to implement the project by 2030, with the goal of generating annual savings of EUR 50 million.

Reform of regional state administration

The aim of the reform of regional state administration is to streamline permitting processes and to make permitting and supervisory practices more uniform across regions. The approach will be cross-administrative. Primarily, this means that permitting, guidance and supervisory tasks will be brought under a new cross-administrative agency that will be established by merging the National Supervisory Authority for Welfare and Health (Valvira) and the Regional State Administrative Agencies and by incorporating, where appropriate, the tasks of the Centres for Economic Development, Transport and the Environment (ELY Centres) related to the environment. With regard to administration organised within the ELY Centres, the basic principle will be to organise regional state administration in a cross-administrative way through new Economic Development Centres that will be built on more robust regions.

In the project, steps will be taken to ensure that the transition does not interfere with the smooth running of ongoing permitting and supervisory processes and, in the same context, the central government productivity programme and the need to adjust operational expenditure will be taken into account.

IT system projects

Projects and policies funded separately in each administrative branch are also discussed in section 5.3.1 and entities related to the wellbeing services counties in chapter 6.

In addition, EUR 12–32 million per year has been allocated in 2024–2027 for key IT system and information management projects as well as other productivity projects in the administrative branches. Funding for projects has been committed through cooperation agreements as follows: c. EUR 24.5 in 2024, c. EUR 10.5 million in 2025, c. EUR 3.8 million in 2026 and c. EUR 1.0 million in 2027. Funding available for new projects is EUR 7.5 million in 2024, EUR 18.8 million in 2025, EUR 18.8 million in 2026 and EUR 10.8 million in 2027.

Currently, the principal IT system projects for the spending limits period are: the project to strengthen the legal protection of citizens through digitalisation of the Digital and Population Data Services Agency; the ARVO project to enhance the public administration duties of Metsähallitus; the project to improve productivity through digitalisation development for environmental permit and oversight procedures of the Ministry of the Environment; the Government's basic IT harmonisation project; and the cloud and application service development project of the judicial administration.

The planned funding will be incorporated into annual budgets provided that the project plans are sufficiently detailed with respect to costs arising and costs saved, project feasibility, and funding of a continuous service. Furthermore, in those projects where an opinion of the Ministry of Finance under the Act on Information Management in Public Administration (906/2019) and the Government Decree (1301/2019) is required, the opinion must not contain statements preventing the advance of the project or significantly slowing its advance. The Ministry of Finance requires, as a rule, that the central government's joint Project Portfolio be used in the monitoring of projects.

In addition, a total of c. EUR 74 million in 2024–2027 has been allocated in the spending limits for the development and phased introduction of a new communications service solution to replace the present government agency radio network VIRVE as well as EUR 8 million per year in 2024–2027 for electronic identification.

5.4 On-budget revenue

In 2024, on-budget revenue is expected to be EUR 76.3 billion. The share of actual on-budget revenue accounted for by tax revenue will be 90% on average across the spending limits period. At the end of the spending limits period, on-budget revenue is expected to total EUR 81.9 billion, of which tax revenue is expected to account for EUR 73.6 billion. The tax revenue estimate is based on the medium-term assessment of macroeconomic development according to the estimate made by the Ministry of Finance in September.

Tax criteria changes

Through its tax policy, the Prime Minister Orpo's Government will seek to boost the purchasing power of households, improve incentives for working and strengthen conditions for economic growth. Taxation policy will encourage work and self-employment, and support domestic ownership. The Government will avoid discretionary measures that increase the overall tax rate.

In accordance with the Government Programme, an index adjustment will be made to earned income tax criteria at all income levels. In 2024, the scale of the index adjustment will be adjusted so that the share corresponding to the 0.2 percentage point reduction in the unemployment insurance contribution will be directed to the central government to channel savings assigned to the Employment Fund to reverse the trend of central government debt. Taxation of work will be gradually reduced, with a focus on low and middle income earners.

Goods currently subject to a reduced VAT rate of 10%, other than newspapers and magazines, will be switched to a rate of 14%, which will increase tax revenue. In addition, tax revenue will be increased by, among other things, continuing the 2 percentage point temporary increase in the highest income bracket in the central government income tax scale, increasing the commuting expenses deduction threshold, reforming bonus practices in the financial sector and reallocating the age-based increased earned income tax credit. Nicotine pouches will also be brought within the scope of tobacco taxation and the tobacco tax and soft drinks tax will be increased. In addition, the level of the mining mineral tax will be revised and another tax category will be introduced. Tax revenue will also be boosted by tax increases on wines and spirits and the introduction of a vignette charge.

Tax revenue will be reduced by continuing the temporary increase in the tax credit for household expenses, increasing the deposit cap on equity savings accounts, and increasing the equalisation provision for agriculture. A child supplement to the earned income tax credit will also be introduced. Incontinence and sanitary pads and children's nappies will be switched to a 14% VAT rate. In addition, the basic motor vehicle tax and the tax on beer will be reduced. Tax revenues will also be reduced by reducing the late-payment interest and increasing the payment period for inheritance tax and continuing the temporary halving of fairway dues.

Excise duty on transportation fuels will be reduced as of the beginning of 2024 to compensate for the average fuel price increase over the spending limits period arising from the upward trend in the distribution obligation under the Government Programme. The CO2 component of the fuel tax will also be reduced later in the spending limits period.

An equalisation tax on large groups based on an EU directive will be introduced in 2024. The equalisation tax will be paid for the first time in 2026. In addition, the tax rate applied to ground areas will be differentiated from the general real estate tax and its lower limit will be increased to 1.3% in 2024, which will increase real estate tax revenue in the 245 municipalities where the general real estate tax rate is currently lower than this.

Table 14. Annual impact on central government tax revenue of the main tax criteria changes, EUR million

	2024	2025	2026	2027
Index adjustment of earned income taxation	-545	-644	-585	-585
Proceeds accrued through undersizing of index adjustment	138			
Increasing the earned income tax credit with a focus on low and middle income earners	-97	-97	-97	-10
Introduction of the child supplement to the earned income tax credit		-90		
Reallocating the age-based increased earned income tax credit	35			
Continuing the temporary increase in the highest income bracket in the central government income tax scale	39			
Reforming bonus practices in the financial sector		30		
Increasing the commuting expenses deduction threshold to EUR 900	29			
Continuing the temporary increase in the tax credit for household expenses by a year and extending the scope of the tax credit	-42			
Increasing the deposit cap on equity savings accounts to EUR 100,000	-5	-5	-5	-5
Increasing the equalisation provision for agriculture to EUR 25,000	-9			7
Harmonising the tax treatment of rental income from agriculture	15			
Increasing the forest management tax credit		-5	-5	-5
Differentiating the ground area real estate tax rate from general real estate tax rate	-7			
Switching products and services (excluding newspapers and magazines) currently subject to a reduced VAT rate of 10% to a rate of 14%		205		
Switching incontinence and sanitary pads and children’s nappies to a 14% VAT rate		-10		
Increasing alcohol tax on wines and spirits	40			
Reducing alcohol tax on beer	-25			
Increasing tobacco tax			50	50
Increasing tax on soft drinks		20	10	
Reducing the CO2 component of fuel taxation			-50	-50
Compensating the upward trend in the distribution obligation by reducing fuel tax	-168			
Reducing the basic motor vehicle tax		-50		
Introducing a vignette charge			15	
Increasing the payment period for inheritance tax to 10 years and reducing late-payment interest	-3		-20	1
Continuing the temporary halving of fairway dues	-36			
Equalisation tax on large groups			20	
Increasing the level of the mining mineral tax			2	4

Development of tax revenue 2024–2027

Revenue from **earned income and capital income tax** is expected to grow by an average c. 5.8% per year in the spending limits period. The fastest growth will be in 2024. The earned income tax forecast is based on projections of the development of taxable earned income and capital income. Wage income is estimated to grow by 3.7% in 2024 and by an average of 3.7% per year thereafter. Pension income is estimated to grow by 6.7% in 2024 and by an average of 3.2% thereafter. Capital income is expected to grow by 2.3% in 2024 and to grow by an average of 3.1% per year thereafter. Revenue from earned income and capital income tax will also be affected by the Government Programme tax changes outlined above.

Corporate tax revenue is expected to grow in 2024–2027, on average by c. 4.3% per year. The corporate tax revenue projection is based on trends in the projected operating surplus according to national accounts. Corporate tax revenue during the spending limits period will also be increased by, among other things, the expiry in 2026 of the double depreciation entitlement for machinery and equipment.

Value-added tax (VAT) revenue is projected to grow on average by 3.4% in 2024–2027. The growth forecast is mainly based on estimates of the development of household consumption expenditure. VAT revenue is projected to grow in the spending limits period in line with the tax base. From 2025, VAT revenue will be increased by changes in tax rates in line with the Government Programme.

Overall, revenue from **excise duties** is projected to decline in 2024–2027 by an average of 3.2% per year. The decline is explained particularly by the decrease in energy tax revenues, which will be 5.1% per year on average. Revenues from excise duties will be reduced by a decrease in taxable consumption and, in the case of energy taxation, also by, for example, an increase in the proportion of more lightly taxed biofuels.

Car tax revenue is expected to decrease by an average of 19.1% per year. The reduction in car tax revenue will be mainly due to the expected growth in the spending limits period of the share of sales accounted for by electric vehicles. The amount of car tax depends on the general retail sales value of the car as well as on the car's carbon dioxide emissions rating, so an increase in the share of sales accounted for by low-emission vehicles lowers the average tax revenue.

The **motor vehicle tax** consists of a basic tax, levied on the basis of carbon dioxide emissions, and a propelling force tax, levied for cars, vans and lorries that use some other fuel than petrol. Motor vehicle tax revenue is expected to decrease by an average of 2.9% per year, mainly due to a fall in the average carbon dioxide emissions rating of the vehicle stock.

Lottery tax revenue accrues mainly from lotteries organised by the monopoly operator. With the expiry of the temporary reduction in the lottery tax rate, which was in force from 2021 to 2023, lottery tax revenue is projected to increase by c. EUR 70 million in 2024 and is expected to be EUR 156 million per year on average between 2025 and 2027.

Other on-budget revenue

The largest single item of miscellaneous revenue received by central government is transfers from the State Pension Fund to finance pension expenditure. During the spending limits period, the share of pension expenditure financed by the transfers will increase from 41% in 2024 to 44% in 2027, once the funding target set for the fund has been reached.

Miscellaneous revenue includes revenue received from the EU. The EU RRF is expected to generate EUR 0.5 billion per year on average in 2024–2026, which is c. EUR 0.2 billion more than estimated in the previous spending limits decision. The increase is due to a timing change by which RFF revenue previously budgeted for 2023 has been shifted to 2024. In 2024–2026, a total of EUR 800 million in additional revenue remittances will be made from the National Housing Fund to the central government budget to finance the investment programme outlined in the Government Programme, which will increase the amount of miscellaneous revenue. The remittances will amount to EUR 500 million in 2024, EUR 200 million in 2025 and EUR 100 million in 2026. The estimate for miscellaneous revenue also includes an increase in traffic penalty fees of EUR 5 million per year in line with the Government Programme. Overall, central government miscellaneous revenue will be EUR 6.5 billion per year on average in 2024–2027, which is EUR 0.5 billion more than in the previous spending limits decision.

In 2024–2027, the dividend income received by the central government is projected to be EUR 1,150 million per year. From 2024 onwards, the revenue estimate for dividend income and proceeds from the sale of shares also includes revenue from gaming, which is estimated to be EUR 673 million in 2024 and EUR 682 million thereafter. In previous years, revenue from gaming was budgeted as part of miscellaneous revenue.

Table 15. Ministry of Finance estimate of ordinary on-budget revenue in 2023–2027, EUR billion

	2023	2024	2025	2026	2027	2024–2027
	budgeted					average annual change, %
Total tax revenue	64.4	66.8	68.8	71.3	73.6	3.4
– taxes on earned and capital income	23.9	26.6	27.7	28.9	29.9	5.8
– corporate tax	6.0	6.0	6.2	6.6	7.1	4.3
– VAT	22.2	22.6	23.5	24.4	25.4	3.4
– excise duties	7.4	7.0	6.8	6.7	6.5	-3.2
– other tax revenue	4.9	4.6	4.7	4.7	4.6	-1.5
Miscellaneous revenue	6.6	7.2	6.4	6.3	6.0	-2.1
Interest earned, income from share sales and profit recognised as income	1.9	2.2	2.2	2.2	2.2	3.9
– Dividend income and proceeds from sales of shares	1.6	1.8	1.8	1.8	1.8	3.1
Total revenue[1]	73.0	76.3	77.5	79.9	81.9	2.9

1) Also includes repayment of loans granted by central government.

5.5 Central government on-budget balance and debt

The central government on-budget deficit in 2024 is expected to be EUR 11.5 billion, which is EUR 1.4 billion more than that budgeted for 2023 (incl. second supplementary budget proposal). In 2024–2027, the deficit will average EUR 11.5 billion. In the spring technical spending limits decision, the deficit was on average EUR 11.7 billion.

Over the past year, general interest rates have risen sharply, as monetary policy has been tightened to curb inflation. As inflation slows, the rise in interest rate rises is expected to come to a halt. Compared with the spring technical spending limits decision, debt management expenditure will be on average c. EUR 0.1 billion lower annually than previously projected. This is influenced by a more moderate assumption about the trend of long-term interest rates, as well as the fact that the borrowing requirement in the spending limits period will be slightly smaller than was anticipated in the spring due, among other things, to the savings measures of the Government Programme. Annual interest expenditure is expected to rise from the EUR 3.2 billion projected for 2024 to EUR 3.7 billion by the end of the spending limits period. In the economic forecast of the Ministry of Finance, long-term interest rates are projected to remain nearly unchanged at just over 3% over the spending limits period, while short-term interest rates are projected to fall to 2% by the end of the spending limits period.

Central government debt is projected to be c. EUR 163 billion at the end of 2024, i.e. 56% of GDP. Central government debt is expected to grow by EUR 11.5 billion per year (just under 7% per year) on average in the spending limits period. At the end of 2027, central government debt is projected to be just under EUR 198 billion, i.e. 60% of GDP.

Table 16. Ministry of Finance estimate of on-budget balance in 2023–2027, EUR billion, at current prices

	B+SBP II 2023	BP 2024	2025	2026	2027
On-budget revenue estimate, total[1]	73.1	76.3.	77.5	79.9	81.9
On-budget expenditure estimate, total, at current prices[2]	83.2	87.9	90.2	91.1	92.5
On-budget balance estimate	-10.2	-11.5	-12.7	-11.3	-10.6
Central government debt-to-GDP ratio, %	54	56	58	59	60

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

5.6 Off-budget central government finances

Central government in the national accounts

In the national accounts, the central government sector includes, alongside central government on-budget finances, the central government funds that are external to budget finances (excluding the State Pension Fund, which is placed under the earnings-related pension fund sector in the national accounts) as well as the universities, university real estate companies, Business Finland Ltd, Business Finland Venture Capital Ltd, DigiFinland Ltd, Finlogic Ltd, Finnhems Ltd, Fintraffic Meriliikenteenohjaus Ltd, Fintraffic Raide Oy, Fintraffic Tie Ltd, Gasonia Ltd, Governia Ltd, Hansel Oy, HAUS Finnish Institute of Public Management Ltd, Ilmastorahasto Ltd, Itla Children's Foundation, Finnish National Gallery, Leijona Catering Ltd, Liikenteenohjausyhtiö Fintraffic Ltd, the Counties' Service Centre for Facilities and Real Estate Management, Maakuntien tilakeskus Oy, Senate Properties, Solidium Ltd, Finnish Minerals Group, Finnish Industry Investment Ltd, Finnish Rail Ltd, Tapio Oy, VTT Technical Research Centre of Finland Ltd, Turku One Hour Train Ltd, Finnish Institute of Occupational Health, Finnish Broadcasting Company Yle and Finnish Student Health Service FSHS.

In the national accounts, the central government has ten off-budget funds. The central government funds are the National Housing Fund, the Development Fund of Agriculture and Forestry, the National Nuclear Waste Management Fund, the National Emergency Supply Fund, the State Guarantee Fund, the Financial Stability Fund, the State Television and Radio Fund, the Agricultural Intervention Fund, the Fire Protection Fund and the Oil Pollution Compensation Fund. At the beginning of 2025, the new Environmental Damages Fund (EDF) will be launched, and the Oil Pollution Compensation Fund will cease operating.

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

Central government funding of the Finnish Broadcasting Company Yle is based on a transfer of appropriations covered by the public broadcasting tax to the State Television and Radio Fund, which passes them on to YLE. The appropriation level will be c. EUR 594 million in the spending limits period 2025–2027.

The investment company Solidium Ltd is a limited company wholly owned by the central government whose task is to strengthen and stabilise Finnish ownership in companies of national importance. The company's equity portfolio consists of 12 listed companies in which Solidium has a minority interest. Solidium's Board of Directors makes investment decisions independently on the basis of analyses and proposals prepared by management. Solidium's return on shareholdings was 5.4% in financial year 7/2022–6/2023. Solidium's Board of Directors has proposed that a dividend of EUR 290 million be distributed to the Finnish state for financial year 2022–2023. At the end of the financial year, the net asset value of Solidium Ltd's holdings was c. EUR 7.4 billion.

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

Off-budget funds

The deficit of off-budget funds is expected to be nearly EUR 700 million per year on average in the spending limits period, and excluding financial transactions the deficit will be over EUR 900 million per year on average. This deficit is due particularly to increasing payouts from the State Pension Fund into the central government budget and increasing interest subsidy expenditure paid out of the National Housing Fund. In 2024–-2026, a total of EUR 800 million in additional revenue remittances will be made from the National Housing Fund to the central government budget to finance the investment programme outlined in the Government Programme. Other funds in deficit include the National Emergency Supply Fund, the State Guarantee Fund and the Development Fund of Agriculture and Forestry, on the strength of their liquid assets. The other funds are close to balance or slightly in surplus.

A significant proportion of the loans granted by funds and income received from their repayment relate to the activities of the National Nuclear Waste Management Fund. Those with a duty to dispose of waste have the right to receive loans against securing collateral for a fixed period, and there are large annual fluctuations in this activity. The National Housing Fund has no longer granted new loans since 2007, as a result of which the decrease in repayments of loans granted by the Fund has continued.

Pension contributions collected by the State Pension Fund form one of the most significant revenue items of the funds. Other tax-like revenue includes, for example, strategic stockpile fees levied on fuel as well as Financial Stability Fund contributions collected from banks. Tax-like income and fees will decline from 2023 to 2025 by an estimated total EUR 400 million, when the Resolution Fund and the Deposit Guarantee Fund included in the Financial Stability Fund reach in 2024 the target levels set for them. From 2025 onwards, the Resolution Fund and the Deposit Guarantee Funds will be replenished annually if the size of the funds falls below their target level, for example due to an increase in the amount of reimbursable deposits.

Transfers to the central government budget relate mainly to financing pension expenditure and to the above-mentioned additional transfer from the National Housing Fund. Of pensions paid up to 2023, 40% are covered by revenue remitted from the State Pension Fund. From 2024, revenue remitted will increase gradually by one percentage point per year until it is 45% as of 2028. At the level of 2027, increasing the remittance percentage from 40% to 44% represents an increase in the budget transfer of c. EUR 200 million.

Pursuant to a law enacted in late 2022, the new Environmental Damages Fund will replace the Oil Pollution Compensation Fund as of 2025. The purpose of this reform is to ensure that operators will be collectively liable for funding the cleanup of environmental damage in a case where the actual party causing the damage is insolvent, bankrupt or unknown.

In the State Guarantee Fund's proactive funding calculation, provision has been made in 2023–2025 to cover any loss-making separate result that may arise from Finnvera's export guarantee and special financing activities. The riskiness of Finnvera's state-guaranteed export guarantee and special guarantee stock increased as a result of the coronavirus pandemic.

In accordance with the Government Programme, grants awarded from the National Housing Fund and the Development Fund of Agriculture and Forestry (Makera) will be transferred to within the central government spending limits system. The grants awarded by the National Housing Fund are expected to be c. EUR 71 million in 2024 and c. 51 million per year in 2025–2027. The grants awarded by Makera are expected to be c. EUR 10-11 million per year in 2024–2027.

Table 17. Central government off-budget funds, EUR million

	2022	2023	2024	2025	2026	2027
Taxes and tax-like revenue, total	522	467	213	68	63	62
Miscellaneous revenue	247	103	74	72	73	75
Pension contributions	1 606	1 613	1 625	1 642	1 640	1 674
Interest earned and profit recognised as income	747	524	534	545	545	545
Transfers from budget	605	580	594	597	597	597
Revenue excluding financial transactions	3 726	3 287	3 040	2 925	2 918	2 953
Repayments of loans granted	1 967	1 700	330	311	1 739	270
Total revenue	5 693	4 987	3 370	3 236	4 657	3 224
Consumption expenditure	238	292	220	219	216	214
Current transfers	1 139	1 168	1 044	1 134	1 124	1 006
Interest expenditure	16	16	20	20	20	21
Transfers to budget	1 984	2 119	2 784	2 543	2 492	2 445
Other expenditure	24	23	20	20	20	20
Expenditure excluding financial transactions	3 400	3 619	4 089	3 936	3 873	3 706
Loans granted and other financial investments	1 522	1 457	9	9	1 553	-3
Total expenditure	4 923	5 076	4 098	3 945	5 426	3 703
Net financial surplus or deficit	771	-88	-728	-709	-769	-479

State-owned enterprises

The central government has two state-owned enterprises, Metsähallitus and Senate Properties. Senate Properties is subject to the 2010 Act on Unincorporated State Enterprises (1062/2010) Metsähallitus is not subject to the corresponding Act; it is subject to the Act on Metsähallitus (234/2016) and the Act on Limited Liability Companies in the Forest Sector (235/2016).

The task of Metsähallitus is to use, manage and protect the unbuilt land and water assets directly owned by the state. Metsähallitus engages in business operations and attends to statutory public administrative duties funded out of the State budget. Metsähallitus engages in forestry and other market-based business operations through the subsidiaries it owns. The forestry operations of Metsähallitus have been incorporated into a wholly state-owned company Metsähallitus Forestry Ltd. Metsähallitus manages c. 12.6 million hectares of state-owned land and water areas, with a balance sheet value of c. EUR 4.0 billion. Of this, the core capital subject to the yield requirement is c. EUR 2.6 billion. In 2024, Metsähallitus remittances to the central government budget will be EUR 110 million. During the ending ownership policy period, remittances have been around EUR 114 million. A new ownership policy for 2024–2027 will be drawn up in autumn 2023.

Senate Group consists of Senate Properties and Defence Properties, the latter having started operating at the beginning of 2021. Senate Group's task is to provide work environment solutions in keeping with the goals of the Government Premises Strategy for its customers and to improve central government organisations' performance. Senate Group's business is based on developing work environments and real estate assets, letting premises and providing premises services for its customers. Services may also be provided to organisations whose activities are funded mainly with appropriations included in the State budget. The level of the investment authorisation of the Senate Group will be outlined in connection with the preparation of budget proposals. Senate Group operates according to commercial principles. The Group's recognised revenue remitted to the central government budget will be EUR 35–40 million per year in 2024–2027. Profits from the Group's rental operations are estimated to grow from EUR 22 million to EUR 28 million in the same period. The objective is for property sales to reach EUR 100 million per year in 2024–2027.

5.7 Sustainable development

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

Finland's revised Climate Change Act was designed to ensure that Finland will be carbon-neutral in 2035 at the latest. According to Prime Minister Orpo's Government Programme, Finland is committed to the objectives of the Climate Change Act.

Appropriations promoting carbon neutrality and the green transition in the General Government Fiscal Plan 2024–2027

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

The appropriations promoting carbon neutrality included in the General Government Fiscal Plan have been grouped into key thematic categories relevant for the green transition.

In the General Government Fiscal Plan, the goals related to carbon neutrality will be promoted with a total of c. EUR 2.3 billion in 2024, decreasing to c. EUR 1.6 billion in 2027.

The level of appropriations in 2024 will be increased significantly by funding in accordance with Finland's Recovery and Resilience Plan, which will end in 2026. About half of Finland's maximum allocation (EUR 1.82 billion) will be allocated to the green transition. With regard to the green transition, appropriation increases in the spending limits period be allocated to, among other things, investments for clean energy production, low-emission innovations and construction industry environmental solutions. In addition, the level of appropriations for 2024 will be increased by the decisions taken on the basis of the guidelines of the Ministerial Working Group on Preparedness in spring 2022, regarding a set of measures to strengthen energy self-sufficiency and security of supply.

The level of appropriations will be reduced by the general government adjustment measures agreed in the Government Programme, which will have the effect of decreasing development cooperation expenditure, among other things.

In addition to a decrease in RRP funding and a decrease in funding outlined by the Ministerial Working Group of Preparedness, a reduction in the production subsidy for renewable energy, among other things, will contribute to lowering the level of appropriations promoting carbon neutrality in the spending limits period.

Table 18. Appropriations promoting carbon neutrality and the green transition in the General Government Fiscal Plan 2024–2027 (EUR million)

	2024	2025	2026	2027
Biodiversity, water protection and environmental protection	126.4	129.5	131.3	132.6
Renewable energy and energy efficiency	762.2	622.6	497.7	230.2
The global dimension	228.0	228.2	221.4	220.5
Research and development	300.9	286.4	274.3	272.7
Transport	255.3	219.5	211.6	195.4
Agriculture, forestry and the land use sector	637.1	652.3	585.6	543.2
Total	2 310	2 138	1 922	1 595

Taxes

There are a number of taxes that may be considered as promoting the goals of carbon neutrality, specifically energy taxes, motor vehicle tax, car tax, excise duty on certain beverage packagings and waste tax. Although, on the whole, these may be considered to be taxes in accordance with carbon neutrality objectives, they may also include individual tax structures that are contrary to the objectives.

The General Government Fiscal Plan includes a continuation in 2024–2025 of the gradual elimination of tax refunds for energy-intensive companies, this being an energy tax change promoting carbon neutrality. The plan also includes a reduction of taxes on transportation fuels from the beginning of 2024 to compensate for the average fuel price increase over the spending limits period arising from the upward trend in the distribution obligation under the Government Programme, as well as reductions of taxes on transportation fuels in 2026–2027, these being energy tax changes slowing progress towards carbon neutrality. In addition, the motor vehicle tax will be reduced from the beginning of 2025 for medium and high emission vehicles according to the NEDC measurement method and for the oldest cars for which no emission measurement data are available. In addition to environmental tax changes, the commuting expenses deduction threshold will be increased from the beginning of 2024. As fixed-term tax measures, the raised household expenses tax credit for work to abandon oil-fired heating in 2024–2027 and reduced taxable values for company cars with zero or low emissions in 2024–2025 will be continued.

Environmental incentives through taxation are discussed in more detail in chapter 6 of the general strategy and outlook of the 2024 budget proposal.

6 Finances of the wellbeing services counties

6.1 Financing of the wellbeing services counties and central government measures

The finances of the wellbeing services counties, the impact of central government measures and the central government financing of the wellbeing services counties are addressed as a whole in the General Government Fiscal Plan. Consideration of the finances of the wellbeing services counties will also include the City of Helsinki with regard to health, social and rescue services.

Central government funding for the wellbeing services counties

Table 19. Funding of the wellbeing services counties, certain government grants and central government transfers to wellbeing services counties, EUR million, spending limits years at 2024 price level

	Budget[1]	2024	2025	2026	2027
Central government universal funding[2]					
Ministry of Finance	22 643.0	24 654.3	24 395.9	24 615.9	24 767.0
Additional financing under the Act on Funding of Wellbeing Services Counties[3]	1.0	1.0	1.0	1.0	1.0
Certain services fully compensated by the central government					
Ministry of the Interior	35.0	28.6	20.0	5.7	5.0
Ministry of Economic Affairs and Employment	140.0	198.5	294.6	273.7	171.0
Ministry of Social Affairs and Health	124.0	103.5	64.0	50.0	50.0
Central government transfers and other compensations					
Ministry of Justice	0.2	0.2	0.2	0.2	0.2
Ministry of the Interior	4.0	4.0	4.0	4.0	3.0
Ministry of Finance	350.0	100.0	9.0	9.0	9.0
Other health, social and rescue services reforms, costs of change, several main titles	16.9				
Ministry of Education and Culture	12.0				
Ministry of Economic Affairs and Employment	10.3	8.9	1.6	1.6	1.6
Ministry of Social Affairs and Health	342.4	256.8	232.1	199.3	199.3
Ministry of the Environment	0.3	0.0	3.0	3.0	3.0
Grand total	23 679.1	25 355.8	25 014.8	25 152.8	25 199.5

1) Combined from the current budget.
2) Includes new and expanded duties entering into force during the spending limits period and additions to the funding model. The funding for 2024 includes a non-recurring item of c. EUR 551 million for the ex-post correction of the 2023 funding of the wellbeing services counties.
3) EUR 1 million is in estimated appropriation item 28.89.32; the need for additional funding will be assessed on a case- by-case basis.

The wellbeing services counties will finance their activities mainly with central government universal funding. In addition to central government universal funding, the wellbeing services counties will receive central government transfers, customer fees and other operating income as well as financial income.

The nationwide central government universal funding of the wellbeing services counties will total c. EUR 24.7 billion in 2024. Of this, the central government funding recognised in the wellbeing services counties for 2023 is c. EUR 551 million. Compared with the previous General Government Fiscal Plan, the level of funding will increase by c. EUR 100 million in 2024. At the end of the spending limits period in 2027, universal funding of the wellbeing services counties will be c. EUR 24.8 billion, which is c. EUR 0.4 billion less than in the spring 2023 technical General Government Fiscal Plan.

The funding for wellbeing services counties will be increased in the spending limits period particularly by the revision of costs transferred from the municipalities to the wellbeing services counties, a rise in price level (index adjustment), anticipated growth in service needs, funding for new and expanded duties, and the adding of the university hospital increment to imputed funding as of 2024. Funding, on the other hand, will be reduced in the spending limits period particularly by the changes to legislation on health and social services duties agreed in the Government Programme.

The section on social and health services in the table of adjustment measures in Annex B of the Government Programme contains a separate item on the wellbeing services counties' own development measures, for which the Ministry of Finance has estimated the savings potential to be EUR 0.9 billion at the 2027 level. These measures seek to strengthen the finances of the wellbeing services counties by improving the efficiency of their activities, reforming operating practices and increasing cooperation between the counties. However, the range of measures for each county will, however, be determined on the basis of by its own starting points and decision-making. Each wellbeing services county will decide independently on its reform and structural adjustment measures, and the savings potential and implementation timetables will vary from county to county. The impact of these measures has not been taken into account in the financing of the wellbeing services counties in this General Government Fiscal Plan; the savings arising from the measures will be realised in the central government universal funding of the wellbeing services counties on the basis of ex-post revision.

Under the Act on Funding of Wellbeing Services Counties, the basis of central government funding for the wellbeing services counties will be revised from 2024 to correspond with costs transferred from the municipalities to the wellbeing services counties in connection with the health and social services reform with regard to the actual costs for 2022 of health, social and rescue services. Revenue transferred from the municipalities will be revised to correspond with levied tax revenue according to the completed tax assessment for 2022. Based on the final financial statements of municipalities, the net costs of health, social and rescue services transferred from municipalities to wellbeing services counties were c. EUR 21.9 billion, which is c. EUR 100 million more than was estimated in preparing the spring 2023 technical General Government Fiscal Plan. Adding the index adjustment for 2023 and the estimated increase in service needs, the total adjustment in the level of funding comes to c. EUR 107 million relative to the technical General Government Fiscal Plan.

The 2023 funding for the wellbeing services counties will be corrected in 2024 by an ex-post non-recurring payment to match the central government funding for municipalities final 2022 net costs of municipalities for health, social and rescue services. The non-recurring payment will total c. EUR 700 million. Of this, EUR 150 million has been paid to the wellbeing services counties in advance in spring 2023. The non-recurring payment to be paid in January 2024 will therefore be c. EUR 551 million.

A transfer calculation for the revenue and expenditure transferred from municipalities to wellbeing services counties will be prepared in the latter part of 2023. The funding for wellbeing services counties will then be adjusted to reflect the final transfer calculation. The revenue and expenditure transferred from municipalities to wellbeing services counties are discussed in more detail in Chapter 7. Municipal finances.

The funding for wellbeing services counties incorporates the growth in service needs as per the social security expenditure projection model (SOME) between 2024 and 2027, in accordance with the Act on the Funding of Wellbeing Services Counties. The growth in the need for services is estimated to increase funding by c. EUR 283.6 million in 2024. Taking into account the correction of the cost base for 2023, the growth in the need for services will increase funding for 2024 by EUR 291.8 million. The growth in the need for services will increase funding by EUR 240.8 million in 2025, EUR 233.8 million in 2026 and EUR 241.3 million in 2027. The index adjustment for 2024 of the funding for the wellbeing services counties will be 2.53%, and it will increase the amount of funding compared with 2023 by EUR 593.8 million. Taking into account the correction of the cost base, the impact of indexation is EUR 618.0 million.

Including the university hospital supplement in the funding of wellbeing services counties as of 2024 will have an impact on the level of funding nationwide, through both imputed funding and transition equalisation payments. Imputed funding will increase by the amount of the university hospital supplement in 2024 (EUR 130.3 million), but including this in transition equalisation payments will decrease the combined transition equalisation payments by EUR 104 million. The net impact of the university hospital supplement on funding will therefore be EUR 26.3 million in 2024, EUR 48.4 million in 2025, EUR 68.5 million in 2026 and EUR 82.2 million in 2027.

The transition equalisation payments of wellbeing services counties will further be impacted as of 2025 by the transitional period ceiling of EUR -50 per resident and the corresponding transitional period differentiation. As a result of changes to transition equalisation payments regulations, the impact of the transition equalisation payments on the funding of wellbeing services counties will be EUR -104 million in 2024, EUR -70 million in 2025, EUR -21 million in 2026 and EUR 14 million in 2027.

The General Government Fiscal Plan includes an annual EUR 1 million appropriation for additional funding for wellbeing services counties. This item will technically enable the handling of any additional financing needs that may arise during the year.

By law, the central government universal funding for wellbeing services counties will be revised on an ex-post basis with a delay of two years to reflect actual costs nationwide. The first ex-post revision will be carried out and applied to funding for 2025, based on actual data for 2023. Funding for 2023 was based on municipalities' budgets, which came to EUR 0.7 billion less than the subsequent financial statement estimates. Also, costs have been rising more rapidly than was anticipated in autumn 2022. Wellbeing services counties have less scope to adjust their finances in their first year of operations than they will have in the following years. Although the 2023 funding of wellbeing services counties will be corrected on an ex-post basis in the 2024 budget with a non-recurring payment corresponding to the net costs of health, social and rescue services transferred from municipalities, it may be expected that the ex-post revision to be carried out in 2025 will increase funding for the wellbeing services counties. Based on financial statement forecasts, the financial situation of wellbeing services counties has deteriorated slightly compared with budget estimates. It is assumed that consolidation and renewal measures undertaken by the wellbeing services counties themselves from 2024 onwards will curb cost increases.

A spending limits provision is earmarked for the statutory ex-post revision of the funding of the wellbeing services counties, which is made with a two-year delay, and similar unforeseen technical adjustment needs. This provision is not available to cover any other costs. The 2025 ex-post revision will be determined on the basis of the wellbeing services counties' actual costs for 2023. Based on financial statement forecasts of the wellbeing services counties, the finances of the wellbeing services counties will be clearly in deficit in 2023 at the national level, and accordingly the provision has been scaled at EUR 1,000 million for 2025. The provision is EUR 910 million in 2026 and EUR 820 million in 2027. The spending limits provision made for the ex-post revision does not remove the need for wellbeing services counties to make adjustments nor the obligation to cover deficits. In accordance with the Government Programme, the intention is to introduce from 2026 a gradual increase of wellbeing services counties' own risk to the ex-post revision.

New and expanded duties affecting the operations and funding of the wellbeing services counties

Completely new discretionary measures will be executed in the wellbeing services counties in the spending limits period along with reforms which were decided on previously and which will enter into force or expand by stages in 2024 or thereafter. Compared with the spring 2023 technical General Government Fiscal Plan, the most significant discretionary measures affecting the financing of wellbeing services counties relate to the postponement of the entry into force of the 0.7 minimum staffing level for care personnel and the use of technology in the provision of 24-hour care for older people, the laying down of provisions on hospitals and urgent and emergency health services as well as the reform of legislation on the division of responsibilities in specialised healthcare, the revision of the Act on Disability Services and Assistance and the maintenance of the 14-day maximum waiting time in primary healthcare.

Table 20. Changes to duties affecting the funding of the wellbeing services counties, EUR million, spending limits period at 2024 price level

	2023	2024	2025	2026	2027
Changes to duties decided on during PM Marin's government term, total	**244.4**	**386.6**	**412.6**	**425.4**	**426.4**
Changes to duties in accordance with PM Orpo's Government Programme:					
–Strengthening mental health services for children and young people	0	0	35.0	35.0	35.0
– 14-day cap on waiting time for access to primary healthcare, which enters into force on 1.9.2023, will be maintained	0	-5.0	-30.0	-30.0	-30.0
– Laying down of provisions on a national system of hospitals and urgent and emergency health services	0	0	0	-50.0	-75.0
– Reform of legislation on division of responsibilities in specialised healthcare	0	0	-10.0	-25.0	-25.0
–Increasing client fees in healthcare	0	0	-50.0	-50.0	-50.0
–Developing health checks	0	0	0	0	-30.0
–Reducing the administrative workload of healthcare and social welfare professionals	0	0	-10.0	-15.0	-20.0
–Lowering the age limit in child welfare after-care	0	-12.0	-24.0	-24.0	-24.0
–Extending prescription issuing practices	0	0	0	0	-5.0
–Improving the effectiveness of the service system	0	0	0	0	-58.0
–Legislation on the prioritisation of digital services	0	0	0	-2.7	-5.4
–Postponing to 1.1.2028 the entry into force of the minimum staffing level (0.7) for care personnel	0	-89.0	-89.0	-89.0	-89.0
–Developing minimum staffing level in 24-hour care for older people using technological solutions	0	0	-30.0	-30.0	-30.0
–Revision of and postponement of entry into force of Act on Disability Services and Assistance	0	-25.2	67.6	64.5	64.1
– Extending the coeliac allowance, increasing medical certificates	0	0	1.0	1.0	1.0
–Amending the Mental Health Act (legal protection of patients in involuntary psychiatric care)	0	0.7	0.4	0.4	0.4
–Investigation of birth mother and forensic genetic parentage		0.04			
Changes to duties in accordance with PM Orpo's Government Programme, total		**-130.5**	**-139.0**	**-214.8**	**-340.9**
Changes in duties of wellbeing services counties, total	**244.4**	**256.1**	**273.6**	**211.1**	**85.4**

In accordance with Government Programme, the current minimum staffing level under the Act on Care Services for Older Persons of 0.65 employees per client for care personnel will remain in force during this parliamentary term and the entry into force of the minimum staffing level of 0.7 employees per client will be postponed to start on 1 January 2028 in order to ensure a sufficient number of personnel in healthcare and social welfare services. As a result of this change, the funding of the wellbeing services counties will be reduced by EUR 89 million from 2024 compared with the technical General Government Fiscal Plan. Overall, however, c. EUR 147 million per year will be allocated to the minimum staffing level of care personnel from 2024 compared with 2021, when the minimum staffing level of care personnel had not yet been made binding in legislation.

In accordance with the Government Programme, the 14-day maximum waiting time for access to treatment in primary healthcare, which entered into effect on 1 September 2023, will be maintained. The measure will result in a reduction of EUR 5 million in the funding of the wellbeing services counties in 2024 and EUR 30 million from 2025 compared with the technical General Government Fiscal Plan. Overall, however, EUR 108.4 million in 2024, EUR 98.2 million in 2025 and EUR 96 million from 2026 will be allocated to the implementation of the maximum waiting time for access to treatment.

In accordance with the Government Programme, it will be ensured that the Act on Disability Services and Assistance remains in force as a special act. At the same time, appropriate services for older people and the sustainable funding of these services will be secured. As a result, the Act on Disability Services and Assistance will be revised and its entry into force will be postponed until 1 January 2025. At the same time, the maximum cost of the reform will be limited to EUR 100 million per year. As a result of this change, EUR 25.2 million earmarked for 2024 in the technical General Government Fiscal Plan will be deducted from the funding of the wellbeing services counties. However, an increase of EUR 67.6 million in 2025, EUR 64.5 million in 2026 and EUR 64.1 million in 2027 will be allocated to the implementation of the Act on Disability Services and Assistance relative to the technical General Government Fiscal Plan. The reduction relative to the technical General Government Fiscal Plan will be EUR 32.4 million in 2025, EUR 35.5 million in 2026 and EUR 35.9 million in 2027 as, at the same time, the spending limits provision made in the technical General Government Fiscal Plan will be cancelled.

The changes in the duties assigned to the wellbeing services counties will increase the funding of the wellbeing services counties in 2024 by c. EUR 5 million net compared with 2023. In total, the net cost impact of the new or expanded duties assigned to the wellbeing services counties during Prime Minister Marin's government term and the new measures in Prime Minister Orpo's Government Programme will be c. EUR -126 million net in 2027. The change is primarily explained by the new measures of the Government Programme aimed at improving the efficiency of wellbeing services counties' activities and curbing the growth of the counties' costs.

Due to the new measures of the Government Programme, the need for personnel in healthcare and social welfare will decrease somewhat, but demand for personnel will remain quite high in the spending limits period. For example, the minimum staffing level in 24-hour care for older people of 0.65 (compared with 0.7) will reduce the additional need for personnel by around 1,450 people, while the need for replacement staff will be significantly reduced. Nevertheless, achieving the 0.65 staffing level will require the wellbeing services counties to recruit around 330 additional personnel (including substitutes) in a situation where the need for additional personnel merely due to growth in the need for services and the retirement of personnel will be around 5,000 people per year (if the service structure remains unchanged). The maximum waiting time (14 days) for access to treatment in primary healthcare will also require a significant increase in personnel, particularly doctors and nurses. The situation is difficult because already in 2022 the number of unfilled doctor vacancies increased and the number of permanent doctors correspondingly decreased. The poor availability of personnel will also challenge the wellbeing services counties both operationally and financially in the spending limits period. Personnel availability problems are already reflected in a significant increase in the costs of purchased services and temporary agency workers.

To ensure the sufficiency and availability of personnel in health, social and rescue services, the Government will allocate in the spending limits a non-recurring appropriation totalling EUR 9 million to the Good Work Programme. The programme will include measures proposed in the Strategic Roadmap 2022–2027 to ensure the sufficiency and availability of personnel.

Central government transfers and other compensations paid to wellbeing services counties

With regard to the main title of the Ministry of Social Affairs and Health, discretionary government grants totalling approximately c. EUR 257 million will be transferred to the wellbeing services counties in 2024. The grants will gradually decrease by the end of the spending limits period, at which time the grants and other compensations will total c. EUR 199 million. The most significant single grant package concerns central government compensations to health and social services units for specialisation training for health and social services personnel, a total of EUR 108 million, including compensations payable to cover the costs of the job training included in health and social services degree programmes at universities of applied sciences (EUR 12 million).

Another significant grant package comprises the funding related to Pillar 4 of the Sustainable Growth Programme for Finland. The total funding for this Pillar in the programme period, 2021–2025, is c. EUR 350 million. Of this, the wellbeing services counties will be allocated c. EUR 290 million in the programme period and c. EUR 38 million in 2024 and EUR 30 million in 2025 in the spending limits period. The aim of the measures is, among other things, to dismantle the backlog in treatment, rehabilitation and services in healthcare and social welfare caused by the coronavirus pandemic, promote faster access to care, promote the implementation of the health and social services reform, strengthen prevention and early identification of problems, and reinforce the knowledge base supporting cost-effectiveness and effectiveness-based guidance, and adopt digital solutions. In addition, the Ministry of Social Affairs and Health is responsible for preparing certain aspects of Pillar 3 out of which an estimated EUR 3 million will be allocated to the wellbeing services counties in 2024. The aim of the Pillar 3 investments is to accelerate the increase in the employment rate.

A total of EUR 4.4 million will be allocated in 2024–2027 to the development activities of the Finnish Centre and Patient Safety. In the spending limits period, EUR 35 million per year, including an increase of EUR 5 million per year, will be allocated to central government funding for university-level research in healthcare and social work.

In accordance with Prime Minister Orpo's Government Programme, a total of EUR 1.2 million will be allocated from the main title of the Ministry of Social Affairs and Health in 2024–2027 to the Programme for Suicide Prevention.

Other central government transfers of the Ministry of Social Affairs and Health are discussed in section 5.3.

In the main titles of the Ministry of Economic Affairs and Employment and the Ministry of Social Affairs and Health, an estimated total of c. EUR 21 million in grants related to wage subsidies will be transferred to the wellbeing services counties in 2024, after which these payments by the central government will be discontinued due to the reform of public employment and economic development services (TE services).

Discretionary grants from the Fire Protection Fund, which falls within the administrative branch of the Ministry of the Interior, will be allocated to the wellbeing services counties, namely c. EUR 4 million in 2024–2026 and c. EUR 3 million in 2027.

Now that the rescue services have been taken over by the wellbeing services counties, rescue services will no longer be paid compensation out of the Oil Pollution Compensation Fund for maintaining pollution response readiness. The Oil Pollution Compensation Fund will, however, continue to compensate for costs incurred in oil spill prevention and response in situations where the costs cannot be recovered from the party responsible for the spill. Compensation paid out of the Fund has typically amounted to c. EUR 3 million per year. The Oil Pollution Compensation Fund will be wound down in 2025 as the Environmental Damage Fund starts up. Wellbeing services counties and the City of Helsinki may apply for discretionary grants to cover part of the cost of procuring equipment for combating environmental damage. As of 2025, c. EUR 3 million per year will be awarded in grants out of the Environmental Damage Fund.

Certain services fully compensated by the central government

The central government pays wellbeing services counties statutory separate compensation for certain health and social services. The monetarily largest compensation packages are described below. Other separately compensated services include compensation for urgent care for persons without a registered domicile, compensation paid by the Defence Forces for services provided by wellbeing services counties and compensation for certain health and social services and rehabilitation for prisoners.

Compensation for services promoting integration will be paid to the wellbeing services counties as follows: EUR 199 million in 2024, EUR 295 million in 2025, EUR 274 million in 2026 and EUR 171 million in 2027. The level of appropriations is affected by the fact that some beneficiaries of temporary protection have applied for a municipality of origin, under which they will be transferred from the reception system to the compensation scheme under the Integration Act.

The health and social services provided for in the Reception Act are principally organised by the reception centres themselves. However, some services are outsourced from service providers, for example certain health and social services are provided by wellbeing services counties. The Finnish Immigration Service compensates wellbeing services counties for the costs incurred by providing these services. Compensations paid for reception services provided by wellbeing services counties are estimated to total c. EUR 29 million per year at the beginning of the spending limits period, decreasing to c. EUR 5 million at its end. This estimate is uncertain, as it depends on, among other things, trends in the number of persons within the reception system.

Around EUR 101.5 million per year at the beginning of the spending limits period and c. EUR 48 million at its end will be allocated to services for combat veterans and war and military invalids that are subsidised by the central government (e.g. services provided at home).

Modification and preparation costs

EUR 350 million was allocated in the 2023 first supplementary budget to change and preparation costs of the wellbeing services counties. This appropriation will be used to award central government grants to wellbeing services counties, the City of Helsinki and the HUS Group for temporary costs incurred in transferring responsibilities and for consolidating and improving operations. The grants may be used during the period 2023–2025. In addition, EUR 100 million will be allocated to vital, non-recurring ICT modification costs necessitated by the health and social services reform, for paying on-budget costs of the authorisation granted and used in 2022.

6.2 Borrowing capacity of the wellbeing services counties

Borrowing capacity of the wellbeing services counties

Each year, the Government decides for a wellbeing services county an imputed debt service capacity based the capacity raise long-term loans to fund investments (borrowing capacity), pursuant to section 15 of the Act on Wellbeing Services Counties. The Government decided on the borrowing capacities for 2024 at the beginning of June 2023. According to the decision, only the Wellbeing Services County of North Karelia has new borrowing capacity (EUR 139 million). With regard to other wellbeing services counties this means that in 2024 it will be possible to launch only a few new investment projects or, alternatively, they must be covered with other financing instead of borrowing.

A wellbeing services county or the HUS Group may apply to change their borrowing capacity. The Government will decide on changing the borrowing capacity if the investment is necessary for the continuity of the provision of services within the organisation responsibility of the wellbeing services county or for securing services required by law, and the investment requirement cannot be covered in any other way. During the preparation of the General Government Fiscal Plan, preparations for a change in borrowing capacity were under way in eight wellbeing services counties. The Government will decide on the changes in autumn 2023.

However, the change in long-term loans of wellbeing services counties will still be influenced by the 2023 borrowing capacities, of which a total of EUR 4.8 billion will be used for investments under way or to be launched in 2023 and for contracts corresponding to the investments. EUR 1.7 billion of the borrowing capacity will be used during 2023 and EUR 3.1 billion in later years. The loan portfolio of the wellbeing services counties and the HUS Group is projected to be EUR 5.5 billion at the beginning of 2024.

The investments of the wellbeing services counties affect the operating expenditure, depreciation and interest (e.g. through the cost of premises) on which the financing of the welfare areas is based, and are therefore taken into account ex post when determining the level of central government funding. The borrowing capacities have no direct impact on central government finances, but the impact on central government funding of the wellbeing services counties depends on the amount of investments financed by each wellbeing services county with long-term loans and the associated financing costs. The wellbeing services counties themselves are responsible for repaying the loans through their universal funding.

6.3 Loan and financing agreement liabilities of the wellbeing services counties

The previous hospital districts (excl. HUS) and special care districts for individuals with intellectual disability, and their assets, debts and commitments, have been transferred to the wellbeing services counties. The movable property, agreements and responsibilities of the municipalities related to the organisation of health, social and rescue services were also transferred to the wellbeing services counties.

For financial institutions, the reassignment of loans and financing agreements to the wellbeing services counties resulted in new debtors taking on these liabilities. In an order issued in January 2022, the Financial Supervisory Authority classified receivables from the wellbeing services counties as belonging to the same zero risk category as receivables from the central government, municipalities and joint municipal authorities.

Loan and other financing agreement liabilities of the wellbeing services counties are significant in monetary terms. At the time of the reassignment, the liability portfolio of loans and financing agreements held by the wellbeing services counties (including HUS Group) stood at c. EUR 5 billion. The loan and financing liabilities of the wellbeing services counties are estimated to be c. EUR 5.5 billion at the start of the spending limits period and over EUR 11 billion at its end. These liabilities include bonds, credit facilities, municipal paper, leasing agreements and derivative contracts related to financing agreements. In addition, the wellbeing services counties have guarantee liabilities related to the financing agreements. Not only are the financial liabilities of the wellbeing services counties growing, but rapidly rising interest rates are causing a significant additional burden to their finances and will have an indirect impact on central government as far as managing the wellbeing services counties' funding framework is concerned.

In accordance with the policy adopted by the Ministerial Committee on Economic Policy on 1 March 2022, the central government has not provided government guarantees for the loans and financial liabilities transferred to the wellbeing services counties. In principle, guarantees will also not be provided for new loans taken out by the wellbeing services counties after the transition. Ultimately, the central government must safeguard the availability of basic public services for which the wellbeing services counties are responsible.

The central government will not have explicit responsibility for the loan and financial liabilities of the wellbeing services counties, nor will the liabilities will be entered into Annex 12 Guarantee liabilities of the central government financial statements. The central government may be considered to have the ultimate implicit responsibility for safeguarding the services of the wellbeing services counties and accordingly also for the funding of the wellbeing services counties in accordance with statutory principles. Pursuant to section 3 of the Bankruptcy Act, the wellbeing services counties cannot be declared bankrupt, so in the event of possible payment difficulties, the discharging of the counties' loan liabilities will be secured, taking into account, among other things, the statutory evaluation procedure.

6.4 Estimate of revenue and expenditure of the wellbeing services counties

This section contains a projection of the financial development of the wellbeing services counties. The projection was prepared by the Economics Department of the Ministry of Finance. It is a big picture illustration covering all wellbeing services counties (including the health, social and rescue services of the City of Helsinki) and joint authorities for health and wellbeing. The projection is a pressure projection: in the projection, expenditure increases in line with the growth in demand for services, changes in tasks and price changes, i.e. it does not assume possible savings or efficiencies in the wellbeing services counties in the coming years.

The changes to the tasks of the wellbeing services counties included in Prime Minister Orpo's Government Programme have been taken into account in the expenditure of the counties and in central government funding. Such changes include halting the growth in staffing level in 24-hour residential care for older people, which slows down expenditure growth. The Government Programme also includes in savings the wellbeing services counties' own measures, but they have not yet been taken into account in the projection. However, it is known that many counties are preparing measures aimed at curbing expenditure growth. The measures will be taken into account in the projection as the programmes become more concrete and information more specific. Central government funding takes into account the possible ex-post revision of funding with the magnitude of the spending limits provision made in the General Government Fiscal Plan, even though, based on the development of expenditure, the revision could be larger.

In the pressure calculation, the combined annual margin and financial performance of the wellbeing services counties are in deficit in 2023. Wages and prices have risen rapidly this year. While personnel availability problems have reduced the growth in wage expenditure, the prices of services have risen sharply. Many wellbeing services counties have covered personnel shortages with purchased services. The counties' own financial statement forecasts are weaker than the budgets, but there is still some uncertainty about the economic situation. Due to the high level of investments, the cash flow from operations and investments is negative and the wellbeing services counties will become further indebted.

In the coming years, expenditure will increase and the budgetary position will be weakened by a rapid increase in personnel costs, in particular. The personnel cost estimate is based on wage agreements concluded, including a five-year wage structure programme and a three-year wage harmonisation programme. Income levels in the wellbeing services counties will grow at a higher rate than general income levels, and to the projection of which the index revision of wellbeing services counties' funding is linked. This will weaken the counties' budgetary balance unless they can implement equivalent further efficiencies. However, due to ex-post revision, the annual margin and financial performance of the wellbeing services counties will be improve in 2025 and deteriorate thereafter.

It is estimated that c. EUR 5 billion in loans and liabilities were transferred to the wellbeing services counties at the beginning of 2023. In the following years, the amount of debt will increase, to over EUR 11 billion by 2027.

As the projection is a pressure projection, it involves multiple risks. Expenditure may be driven up by prices rising more rapidly than anticipated or by wellbeing services counties engaging in a bidding war for personnel. On the other hand, expenditure may prove to be lower than projected if the wellbeing services counties are able to find savings and boost efficiency. In principle, the wellbeing services counties are expected to adapt their expenditure trends to the framework defined by central government funding. This is made apparent in the provisions on the finances of the wellbeing services counties with regard, for example, to the period within which a deficit must be covered. Personnel shortage may also limit expenditure growth, at least in the short term.

Table 21. Estimate of revenue and expenditure of the wellbeing services counties 2023–2027, EUR billion

	2023	2024	2025	2026	2027
Operating expenses	28.1	29.2	30.7	31.9	32.9
change, %		4.1 %	5.1 %	3.8 %	3.3 %
Operating income	4.7	4.7	4.6	4.6	4.6
change, %		0.0 %	-2.2 %	-0.1 %	0.5 %
Operating margin	-23.3	-24.5	-26.1	-27.2	-28.3
change, %		5.0 %	6.5 %	4.4 %	3.8 %
Central government funding	23.2	24.1	26.1	27.0	27.8
of which by ex-post revision			1.0	1.0	0.9
Financial income and expenses	-0.0	-0.1	-0.1	-0.2	-0.2
Annual margin	-0.2	-0.5	-0.1	-0.4	-0.7
Depreciation	0.5	0.5	0.6	0.6	0.6
Extraordinary items	-	-	-	-	-
Result for the financial year	-0.7	-1.0	-0.7	-1.0	-1.3
Internal financing, adjustment items	-	-	-	-	-
Investment in fixed assets	0.9	0.9	0.9	0.9	0.8
Funding contributions and income from sales	-	-	-	-	-
Cash flow from operations and investments	-1.1	-1.4	-1.0	-1.3	-1.5
Loan portfolio	6.2	7.6	8.6	9.8	11.3

Assessment of the sufficiency of wellbeing services counties funding

Under section 12 of the Act on the Wellbeing Services Counties, the sufficiency of funding of the wellbeing services counties must be assessed in the General Government Fiscal Plan vis-à-vis the discharging of their duties, both jointly and separately (financing principle).

The operation of the wellbeing services counties is only at an early stage, and there is much uncertainty associated with the financial data of the first year. The two quarterly reports and the wellbeing services counties' financial statement forecasts are available, but this information is not sufficient for the county-specific assessment of the sufficiency of funding. Another source of uncertainty about future cost development is the fact that the wellbeing services counties' own adjustment measures are to some extent still unclear, both in terms of scale and the timing of the measures. Moreover, information on the costs transferred from the municipalities to the wellbeing services counties for 2022 will also be further revised slightly during the latter part of 2023, and the amount of the non-recurring compensation to correct the 2023 funding of the counties as well as and the permanent correction made to the funding base may still change slightly.

Due to these uncertainties and deficiencies in the information base, this General Government Fiscal Plan assesses the sufficiency of the funding of wellbeing services counties as a whole based on the nationwide pressure projection presented above. The county-specific analysis is based on the wellbeing services counties' budget data and financial statement forecasts for the current year. The assessment of county-specific funding adequacy will be deepened in future General Government Fiscal Plan, when more comparable and reliable data is available on the operations and finances of the wellbeing services counties.

Based on budget data, the finances of the wellbeing services counties were already in deficit in 2023, and the situation has deteriorated further slightly on the basis of financial statement forecasts. According to calculations published by the Ministry of Finance on 31 August 2023, central government funding for 2023 will be c. EUR 145 million higher than that recorded in the wellbeing services counties' financial statement forecasts. The combined deficit for 2023 would be around c. EUR 980 million, taking into account the updated level of funding. The deterioration of the situation compared with budgets is mainly explained by the faster-than-anticipated growth of operating expenses, particularly service purchases and personnel expenses.

According to financial statement forecasts, only one wellbeing services county would have a positive annual margin, which reflects the particular weakness of the economic situation. The number of positive annual margins may rise, however, when the given the above-mentioned upward revision of central government funding is taken into account. A negative annual balance means that the wellbeing services counties has to finance part of its operating expenses with cash and cash equivalents, sales of property or short-term borrowing. This, in turn, may increase the risk of seeking additional central government funding.

The table below presents the deficits per capita for the financial year according to county-specific financial statement forecasts (adjusted with central government funding as of 31 August 2023). The table shows that every wellbeing services county has projected a deficit for 2023. However, there is significant variation in the deficits between counties. For wellbeing services counties with significantly above-average deficits, there is a risk that the ex-post revision to be made at the nationwide level will not cover their 2023 deficits. These counties must cover their deficits primarily by means of the real economy, i.e. by increasing revenue or decreasing expenditure.

Table 22. Deficits per capita according to financial statement forecasts for 2023 of wellbeing services counties and City of Helsinki, adjusted by the Ministry of Finance's funding calculation updated on 31 August 2023.

Wellbeing services county	Deficit according to financial statement forecast, euro/capita
Central Ostrobothnia	-20
Helsinki	-28
North Ostrobothnia	-91
West Uusimaa	-138
Central Finland	-144
South Ostrobothnia	-151
Pirkanmaa	-152
North Karelia	-171
North Savo	-196
Lapland	-204
Southwest Finland	-216
South Karelia	-228
Päijät-Häme	-229
Vantaa-Kerava	-230
East Uusimaa	-238
Satakunta	-259
Central Uusimaa	-264
Ostrobothnia	-268
Kanta-Häme	-304
South Savo	-310
Kymenlaakso	-327
Kainuu	-354

The above pressure projection prepared for the spending limits period at the national level shows that without adaptation of the cost structure, the wellbeing services counties' costs will grow more rapidly in the spending limits period than the central government funding provided to them. The updated projection for the finances of the wellbeing services counties shows that costs will grow faster than was anticipated in the spring, which will result in a larger deficit at the national level than was estimated in the spring 2023 technical General Government Fiscal Plan. The rapid increase in costs is explained by the faster-than-anticipated increase in prices in 2023 and the wage settlements in the municipal sector and wellbeing services counties already taken into account in the technical General Government Fiscal Plan, which will accelerate the increase in costs in the years 2023–2027. Central government universal funding will be increased annually by the wellbeing services counties price index, which only partially takes wage settlements into account. On the other hand, personnel shortages may limit the cost-increasing impact of pressure to increase wages if positions remain unfilled. Personnel shortages may also, however, increase the number of overtime and temporary agency personnel, which will, in turn increase costs.

The funding of the wellbeing services counties will grow slightly more moderately than was presented in the spring estimate, because the estimate of future cost development and therefore the wellbeing services counties price index has been lowered slightly, particularly for 2024. The estimate of consumer price inflation and the change in the index of wage and salary earnings has been revised downwards slightly from earlier forecasts and, in addition, the change in the wellbeing services county employer's social security contributions will be negative in 2024.

In line with Prime Minister Orpo's Government Programme, the duties and obligations of the wellbeing services counties and their corresponding funding will be reduced relative to what was set out in the spring 2023 technical General Government Fiscal Plan. The changes to the duties of wellbeing services counties are described in more detail in section 6.1. The changes outlined in the Government Programme will support the wellbeing services counties in allocating limited personnel resources, which will reduce pressure to increase the use of temporary agency workers, for example, and thus reduce cost pressures on the wellbeing services counties.

The development of costs in the pressure projection does not take into account the wellbeing services counties' own adjustment measures, due to the imprecision regarding them, although many wellbeing services counties have reform and productivity programmes under preparation. In addition to financial priorities, the programmes aim to achieve the objectives of the health and social services reform, i.e. securing equal services, improving the sufficiency and availability of personnel, and reducing health and wellbeing inequalities. The programmes include measures related to, among other things, service structure, service network, digital and remote services, support services, procurement, human resources and operational effectiveness. Based on the central government funding and the projected cost development according to the calculation presented in this General Government Fiscal Plan, it is even more essential that all wellbeing services counties focus primarily in renewing their operations, so that the cost development can be adjusted to the central government funding framework, and the growth in costs is sustainable in the long term.

In the nationwide projection, the ex-post revision in accordance with the Act on the Funding of Wellbeing Services Counties is only partially taken into account in central government funding, up to the amount of the spending limits provision (see section 6.1). If the collective actual expenditure of the wellbeing services counties exceeds the central government funding provided, then the imputed funding will be revised two years later to cover the actual expenditure in full, in accordance with the Act on the Funding of Wellbeing Services Counties. A wellbeing services county is entitled to additional funding from the central government if the level of funding would otherwise be so inadequate as to jeopardise the provision of the constitutionally required sufficient level of health, social and rescue services. Conditions may be attached to additional funding, requiring more efficient service production or adjustment of operations.

Wellbeing services counties have strong incentives to increase productivity and efficiency and curb rising costs. Firstly, in order to ensure a sufficiency of personnel, it will be necessary to develop operating methods and reform service structures, so that the growing need for services can be met with the limited personnel resources available. In addition, under the Act on Wellbeing Services Counties, a wellbeing services county must prepare its financial plan so that it will be balanced or show a surplus no later than at the end of the second year after the budget year. Any deficit in the balance sheet of a wellbeing services county must be covered within no more than two years from the beginning of the year following the year in which that financial statement was confirmed. For example, any deficit accumulated in or after 2023 must be covered no later than in the final accounts for 2026. This objective will require determined adjustment measures by the wellbeing services counties already in 2024.

The regulatory framework for the funding, financial management and investments of wellbeing services counties guides them towards more productive and effective ways of providing their services. In line with Prime Minister Orpo's Government Programme, changes will be made to the overall financial and guidance framework during the current parliamentary term. From 2026, a wellbeing services counties' own risk element will be introduced to the ex-post revision of universal funding, which will affect the revision of funding made on the basis of 2024 central government funding and actual costs. A proactive procedure ('yellow card' procedure) for enhanced financial guidance of the wellbeing services counties will be added to the guidance of the wellbeing services counties and the evaluation procedure will be tightened.

7 Municipal finances

The state and outlook of municipal finances and the impact of central government measures on municipal finances are also examined in the Municipal Finances Programme prepared in connection with the preparation of the General Government Fiscal Plan and 2024 budget proposal.

7.1 Municipal finance policies

In this General Government Fiscal Plan, the Government sets as a target that the budgetary position of the municipal administration[6] according to national accounts will be close to balance by 2027. Achieving the target requires an improvement in the situation of municipal finances as, based on the general government pressure projection, the budgetary position of the municipal administration will be -0.4% of GDP in 2027.

According to the Government Programme, the central government undertakes to compensate municipalities for new duties and obligations imposed on them, and for any enlargement of such duties, either by financing them in full or eliminating other obligations. The municipalities will be compensated for the tax revenue impact of changes made by the Government to tax criteria.

Under the Act on Central Government Transfers to Municipalities for Basic Public Services, a central government transfer covering 100% of the costs will be allocated to new or extended duties and obligations. In order to receive full coverage, the impacts of any such new or extended duties and obligations on the municipal economy must be realistically assessed. Because large numbers of municipal finances employees are retiring and the availability of labour varies greatly by sector and region, attention must also be paid to the personnel impacts of any changes in duties and obligations.

6 However, deviating from the sector classification of the national accounts, this municipal administration does not include Helsinki's health, social and rescue services, which are included in the wellbeing services counties subsector.

Through the health and social services reform, the significant upward pressure on expenditure due to population ageing will be eliminated from municipal finances. There remains, however, a structural imbalance in revenue and expenditure in municipal finances, which threatens to deepen in the next few years without new measures. Following the reduction in their range of duties, municipalities have fewer opportunities to adjust expenditure, so the pressure to adjust is more focused on tax rate increases. Divergence between municipalities is also increasingly reflected in divergence of the outlook and the future challenges facing municipalities. With the reduction in the age cohorts of children and young people, there has been an even greater need for cooperation between municipalities in the organisation of educational services. Ensuring the availability of skilled labour also requires new ways of organising services. These trends and the deteriorating economic outlook highlight the importance of careful assessment of the need for investments.

According to Prime Minister Petteri Orpo's Government Programme, the system of municipal financing and central government transfers to municipalities will be overhauled to reflect the municipalities' new role and the situation following the completion of the health and social services reform and the reform of public employment and economic development services (TE services). The starting point for the reform is two goals: firstly, ensuring that municipalities of different sizes across Finland are able to organise statutory basic public services, taking into account the needs of municipalities with negative net migration and the demographic trends of different regions; and secondly, strengthening the conditions for municipalities and cities that are growing to invest in growth and address social problems. The intention is for the Government proposal to be submitted to Parliament in the spring session of 2025 and for the new legislation to enter into force on 1 January 2026.

To strengthen the operating conditions of municipalities, the Government will launch a programme aimed at reducing the scope of municipal activities and duties and cutting detailed regulations governing how municipal activities and duties should be carried.

7.2 Central government measures impacting municipal finances

Central government transfers and grants to municipal will be c. EUR 5.1 billion in 2024. Imputed central government transfers will be c. EUR 3.7 billion, compensation to municipalities for tax criteria changes EUR 0.9 billion and other central government grants EUR 0.6 billion. At the end of the spending limits period in 2027, central government transfers and grants will be c. EUR 6.1 billion, of which imputed central government transfers will be EUR 4.6 billion. Prime Minister Petteri Orpo's Government Programme includes both measures to increase and decrease the duties of municipalities and, in addition, the level of central government transfer and grants will be impacted by previously decided measures, the most significant of which is the reform of TE services.

Table 23. Central government transfers and grants to the operational finances municipalities and joint municipal authorities, EUR million, spending limits period at 2024 prices[1]

	2022	2023 budget	2024	2025	2026	2027
Imputed central government transfers	**9 150**	**4 001**	**3 673**	**4 518**	**4 642**	**4 646**
Ministry of Finance	7 987	2 752	2 463	3 358	3 484	3 491
Ministry of Education and Culture	1 163	1 249	1 210	1 160	1 158	1 155
– of which joint municipal authorities	1 070	1 095	1 119	1 107	1 107	1 107
Central government compensation to municipalities for tax revenue losses arising from tax criteria changes	**2 750**	**851**	**861**	**911**	**937**	**978**
Discretionary government grants:	**1 411**	**558**	**555**	**492**	**538**	**524**
Ministry of Justice	11	11	32	0	0	12
Ministry of Finance	30	11	11	11	11	11
Ministry of Education and Culture	391	254	202	260	318	342
Ministry of Agriculture and Forestry	0	4	4	4	4	4
Ministry of Transport and Communication	85	44	31	31	31	31
Ministry of Economic Affairs and Employment	208	134	207	147	132	86
Ministry of Social Affairs and Health	659	76	59	34	33	32
Ministry of the Environment	23	23	9	5	5	5
Total central government transfers and grants	**13 311**	**5 410**	**5 089**	**5 920**	**6 115**	**6 148**

1) With regard to the Ministry of Education and Culture's central government transfers and grants, the proportion allocated to municipalities has been estimated notionally.

The central government transfer to municipalities will be EUR 2.5 billion in 2024 and EUR 3.5 billion in 2027. The level of funding will be increased by the reform of public employment and economic development services (TE services), which will enter into force in 2025. As part of the reform, appropriations will be transferred from the main titles of the Ministry of Economic Affair and Employment and the Ministry of Social Affairs and Health to the central government transfer to municipalities for basic public services.

From 2024, the central government transfer will be reduced, in particular, by the further specification of the costs and revenue transferred from the municipalities to the wellbeing services counties in connection with the reform of health and social services. Revenue transferred from the municipalities to the wellbeing services counties will be revised on the basis of municipalities' financial statements for 2022 and levied tax revenue according to the completed tax assessment for 2022 to correspond to, in a nationwide analysis, the costs transferred from the municipalities. The difference between revenue and expenditure will be taken into account in the central government transfer to municipalities for basic public services as of 2024. For 2023, half of the difference will be taken into account in 2024 and half in 2025.

The total expenditure transferred from municipalities to wellbeing services counties will be c. EUR 21.97 billion, which is c. EUR 102 million more than was estimated in connection with the spring 2023 technical General Government Fiscal Plan. The estimated tax revenue to be transferred from municipalities in connection with the reform has, in turn, increased by c. EUR 39 million. The increase in the central government transfer for the funding of the wellbeing services counties will accordingly be c. EUR 63 million from 2024. The reduction made for 2023 in the years 2024 and 2025 will be c. EUR 31 million higher than in the technical General Government Fiscal Plan.

Taking into account the reduction in municipalities' tax costs as part of the reductions related to the reform of health and social services will reduce municipalities' central government transfer by EUR 94 million in 2024 and 2025 and by EUR 62 million from 2026, relative to the technical General Government Fiscal Plan.

In accordance with the Government Programme, an increase of EUR 4.9 million for improving the position of immigrant mothers as part of the overall reform of integration services and an increase of EUR 0.5 million for integration training in Swedish will be taken into account in the scaling of central government transfer for basic public services from 2025 onwards. The availability of language training included in integration services will be improved at workplaces, and EUR 2 million allocated to this from 2027. In connection with the overall reform of integration and language skills training, the central government transfer for basic public services will be reduced by EUR 7.5 million from 2027. In accordance with the Government Programme, a saving corresponding to a one percentage point increase will be made in the index adjustment of the central government transfer for basic public services, which will reduce the transfer by EUR 24 million at the level of 2024 and by c. EUR 111 million in nominal terms at the 2027 level. The level of the central government transfer for basic public services from 2025 onwards will also be affected by a EUR 37 million reduction in employment appropriations.

The Ministry of Education and Culture's central government transfers to municipalities will be slightly reduced in the spending limits period by the fact that the number of pupils and students will decrease. In accordance with the Government Programme, primary and lower secondary education will be improved by EUR 50 million in 2024, EUR 100 million in 2025, EUR 150 million in 2026 and EUR 200 million from 2027. In 2024, an increase will be allocated to stabilise the level of appropriations for positive discrimination funding in early childhood education and in pre-primary, primary and lower secondary education. From 2025 onwards, subject to further preparation, an increase in funding will also be allocated through the central government transfer for basic public services.

Due to the overall reform of integration and language skills training, the central government transfer for liberal adult education institutions will be reduced by EUR 7.5 million from 2027. It is expected that the reduction will mainly be directed at municipalities.

Learning support and study guidance will be strengthened in vocational education and training and in upper secondary education. Permanent funding of EUR 10 million will be allocated for this purpose in 2024 and EUR 20 million from 2025 onwards. Of this, it is estimated that c. EUR 8 million in 2024 and c. EUR 16 million from 2025 will be allocated to municipal finances.

The Government will launch the cross-administrative Get Finland Moving programme, aimed at increasing physical activity in every age group. EUR 20 million per year is earmarked for the programme in 2024–2027, of which it is estimated that more than half would be allocated to municipal finances in the form of grants.

In accordance with the Government Programme, funding of discretionary climate-based measures directed at public transport subsidies will be terminated, which will reducing funding by EUR 13.3 million.

The obligation under the Climate Act to draw up climate plans would enter into force in the next municipal council term, but in accordance with the Government Programme it is intended to be abolished before the obligation enters into force. The funding of EUR 2.63 million allocated to discretionary government transfers for the climate plans will be cancelled from the beginning of 2024.

The investment aid for improving the housing conditions of special groups will be cut as of 2024. The investment aid received by municipality-owned rental housing companies will decrease by an estimated c. 7 million in 2024 and by c. EUR 12 million in 2025–2026.

The fixed-term grants to municipalities for the development and expansion of housing guidance, which runs until 2027, will be halved from 2024. In the future, the grants will total EUR 2 million per year.

Index freezes and savings of social security benefits will also affect municipal finances in different directions. They will directly reduce municipalities' expenditure but will also, in turn, increase the need for social assistance and reduce tax receipts. In the longer term, the measures are expected to increase employment, which would, in turn, increase municipalities' tax revenues.

The analysis does not take into account the reduction in unemployment and health insurance contributions, which is estimated to increase municipalities' tax revenue and will reduce the contribution burden on municipal employers by a total of c. EUR 300 million in 2024.

7.3 Estimate of municipal finances: expenditure, revenue and balance

Municipal finances expenditure in the spending limits period

According to the pressure projection, municipal finances operating expenditure will increase in 2024–2027, mainly because of rising prices, even though the need for services in education (incl. early childhood education) remains in the projection on a downward trend due to the declining birth rate and smaller age cohorts. The only exception to this will be 2025, when municipalities will take over responsibility for organising public employment and economic development services, and at the same time municipalities' responsibility for financing unemployment benefits will be extended. The price index for basic public services, which describes the development of municipalities' costs, will increase on average by 3.1% per year in 2024–2027. The largest expense item in municipal finances is personnel costs, which agreement-based pay rises will increase by around 3% in 2024. The increase in agreement-based pay rises in 2024 will be on a significantly more moderate level than in the current year due to the fact that the non-recurring payments made to employees in 2023 will not be paid in 2024. In 2024, the increase in personnel costs will be mitigated by the lowering of the unemployment insurance contribution. The contribution will decrease on average by c. 0.90 percentage points in the municipal sector.

In 2025–2027, earnings development in the municipal sector is expected to be slightly faster than in the economy as a whole, due to the pay system development programme agreed for the municipal.

The most significant priorities directly affecting municipal finances in the decisions of Prime Minister Orpo's Government are aimed at improving primary and lower secondary education and promoting equality in pre-primary, primary and lower secondary education. Municipal finances will also be subject to cuts, however, as adjustment measures have been targeted, for example, at the operating costs of liberal adult education institutions. The largest adjustment measure directly targeted by the Government at municipal finances is the one percentage point index brake for 2024–2027, which will result in a reduction of central government transfers to municipalities by EUR 24 million in 2024, EUR 48 million in 2025, EUR 79 million in 2026 and EUR 111 million in 2027. The projection does not assume that municipalities would adjust their expenditure immediately as a result of the index brake. On the other hand, the reduction in revenue caused by the index brake will be offset by an increase in the lower limit of the ground area real estate tax, which is estimated to increase municipalities' real estate tax revenue by EUR 108 million from 2024. The Government's decisions will increase municipal finances revenue more than expenditure in the early years of the parliamentary term, but the effect will be approximately cost-neutral at the 2027 level due to the cumulative effect of the index brake on central government transfers.

In 2025, public employment and economic development services will be transferred to the responsibility of the municipalities. The change will expand the range of municipalities' duties and increase municipal operating expenditure by just under EUR 900 million in 2025. With the reform, the number of municipal personnel will increase by around 4,000 person-years, which will be reflected in 2025 particularly as a sharp increase in personnel expenses. Purchases will also increase as a result of the reform. The reform will expand municipalities' responsibility for financing unemployment benefits, which in turn will be reflected in a rise in the level of benefit expenditure in 2025. As a result of the reform, employment development will have a greater impact on the municipal finances in the future. New benefit expenditure will be influenced, in particular, by the development of unemployment (the unemployment rate is forecast to reach c. 6.4% in 2025–2027) as well as by changes in the National Pension Index, which determines the level of unemployment benefits. The Government has decided on, among other things, an index freeze for labour market support and basic daily allowance and the additional amounts related to them for 2024–2027.

The municipalities have significant investment needs due to, among other things, the age of the building stock, migration and the green transition. The uncertain outlook for the investment environment and elevated interest rates may result in investments being postponed or even cancelled altogether. Investments are expected to return to their normal growth path after 2023 and their share of GDP has been kept constant in the pressure projection for the remaining years of the period under review.

Municipal finances revenue in the spending limits period

In the pressure projection, municipalities' operating income will grow on average by 1.4% per year in 2024–2027.

Tax revenues will decrease by 5.0% in 2024, due to the fact that the impact of the health and social services reform will be reflected in the municipalities' tax revenues with a delay, as the tax year's taxes accrue over a number of calendar years. The decrease in tax revenues will be reduced by the lowering of the unemployment insurance contribution, which will increase the municipalities' tax revenues by EUR 85 million from 2024. The trend of municipalities' tax revenues will stabilise at an average annual growth rate of 3.2% in 2025–2027.

Central government transfers to municipalities are expected to decrease by 9.0% in 2024. Central government transfers to municipalities will be reduced as a result of the further specification of the transfer calculation related to the health and social services reform. In addition, the Government's one percentage point index brake directed at the central government transfer for basic public services will slow down the development of central government transfers. In the years analysed, growth of central government transfers to municipalities will remain fairly moderate, except for 2025, at which time the responsibilities for public employment and economic development services and for financing unemployment benefits transferred to municipalities will be accounted for in the central government grants.

Municipal finances balance in the spending limits period

Key indicators of municipal finances, such as result for the financial year and cash flow from operating and investing activities, are strong in 2023, largely due to the 'tax tail' related to the health and social services reform. When tax revenues still based on the old municipal tax percentages and corporate tax apportionments are removed, a growing imbalance will remain between municipal expenditure and revenues. Based on the projection, the annual margin will be sufficient to cover depreciation in all of the years under review, but not enough to cover net investments. The imbalance between revenue and expenditure will put pressure on municipal finances to adjust in the coming years. The adjustment can be made by reducing expenditure, increasing revenue or a combination of both. The importance of proactive planning of the service network and the careful assessment of the need for investments is highlighted. Problems with the availability of skilled labour, urbanisation, falling birth rates and the green transition call for new ways of organising services, with an emphasis on cooperation.

In 2023, over EUR 5 billion was removed from municipalities' loans through the health and social services reform. The rate of growth of the municipal finances loan portfolio stock will slow compared with the average growth rate of the last decade. The municipal finances loan portfolio will grow to EUR 24.2 billion at the end of the period under review.

Table 24. Development of municipal finances up to 2027, according to municipal accounts, EUR billion, at current prices

	2022	2023	2024	2025	2026	2027
Result itemisation						
1. Operating margin	-33.7	-13.2	-13.5	-14.8	-15.4	-16.0
2. Tax revenue	26.9	14.6	13.9	14.2	14.7	15.3
3. Central government transfers, operational finances	10.8	3.7	3.4	4.3	4.5	4.6
4. Financial income and expenses, net	0.3	0.2	0.1	0.0	0.0	0.0
5. Annual margin	4.3	5.3	3.8	3.7	3.8	3.9
6. Depreciation	-3.2	-2.9	-3.0	-3.1	-3.2	-3.3
7. Extraordinary items, net	0.2	0.1	0.1	0.1	0.1	0.1
8. Result for the financial year	1.3	2.5	0.9	0.7	0.7	0.7
Funding						
9. Annual margin	4.3	5.3	3.8	3.7	3.8	3.9
10. Extraordinary items	0.2	0.1	0.1	0.1	0.1	0.1
11. Internal financing, adjustment items	-0.9	-0.7	-0.7	-0.7	-0.7	-0.7
12. Internal financing, net	3.5	4.7	3.2	3.1	3.2	3.3
13. Investment in fixed assets	-5.9	-4.9	-5.1	-5.3	-5.5	-5.7
14. Funding contributions and income from sales	2.1	1.0	1.0	1.0	1.0	1.0
15. Investments, net	-3.7	-3.9	-4.1	-4.3	-4.5	-4.7
16. Financial balance (internal financing - investment)	-0.2	0.8	-0.9	-1.2	-1.3	-1.4
17. Loan portfolio	24.7	19.0	19.9	21.2	22.6	24.2
18. Cash	8.8	8.7	8.8	9.0	9.1	9.2
19. Net debt (loan stock - cash)	15.9	10.3	11.1	12.3	13.5	14.9

8 Employment pension schemes and other social security funds

Earnings-related pension system

Finland's earnings-related pension system consists of a number of different pension acts, under which pensions are generally determined by the same criteria, however. The funding of pension expenditure varies by pension act, as a result of which the financing criteria of the earnings-related pension sector cannot be described with a single rule. The financing criteria may, however, be examined by looking at the most significant pension acts separately. Finland's earnings-related pension system is partly funded-based, as some of the financing of pensions comes from prefunded pension assets and their capital gains. For the most part, however, pensions are financed by annual pension contributions from employees and employers. In addition, the pensions of central government employees and entrepreneurs, agricultural entrepreneurs and seafarers are partly funded out of the central government budget. Employees' pension contributions are the same under all pension acts. Pensions accrue under all pension acts in more or less the same way from earnings over a person's entire working career. Starting old-age pensions are reduced by a life expectancy coefficient that takes the increase in life expectancy into account. Pensions paid out are increased annually by the Earnings-related Pension Index, in which inflation has an 80% weight and change of earnings level a 20% weight.

The private sector Employees' Pensions Act (TyEL) covers nearly two-thirds of the labour force. Part of the earnings-related pension contributions under TyEL are prefunded individually, while the rest goes to financing current pensions in a pay-as-you-go system. Pension contributions must be at a level that guarantees the payment of existing pensions and the funding required by law. The funding rate of the TyEL system, i.e. the ratio of pension assets to pension liability, was c. 35.4 at the end of 2021 (based on a 2.5% real discount rate up to 2031 and 3.5% from 2032). The labour market organisations have agreed on what is know as the EMU buffer in the TyEL system. An amount corresponding to 2.5% of the annual private sector wage bill has been agreed as the target for the EMU buffer. The purpose of the buffer is, under certain conditions, to enable a temporary reduction in earnings-related pension contributions during weak economic conditions. When applying the buffer, a subsequent increase in earnings-related pension contributions must be correspondingly agreed, allowing the buffer to be restored to its former level. The reduction allowed by the buffer was applied in 2020 to reduce employer contributions. These were correspondingly increased for 2022–2025, so that the buffer will be restored to its former level.

The pension expenditure of entrepreneurs (c. 9% of those insured), agricultural entrepreneurs and seafarers is financed with contributions and, to the extent to which the expenditure exceeds this, out of the central government budget.

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

Employees insured under the state employee's pension system (c. 6% of those insured) and central government employers pay their pension contributions into the State Pension Fund. Funds are transferred annually from the State Pension Fund to the central government budget to cover state employees' pension expenditure. The transferred amount as been 40% of the expenditure arising from central government pensions, and the remainder of the pension expenditure is covered directly out of the central government budget. From 2024, revenue remitted will increase by one percentage point per year until it is 45% from 2028.

Due to the prefunding of pensions, the earnings-related pension sector has been significantly in surplus historically. Demographic change is increasing pension expenditure, which has been reflected in a reduction in the surplus. Due to prefunding, however, the property income of the pension funds is substantial, so they will nominally not have to sell off assets even if pension expenditure exceeds contributions. Overall, the surplus of the earnings-related pension funds has declined from an average of just over 3% of GDP in the first decade of the 2000s to 0.9% of GDP in 2022. In the national accounts, private sector earnings-related pension funds are also included in general government finances and their assets in general government finance assets.

In 2022, the surplus of the earnings-related pensions sector was c. 0.9% of GDP. Contributions revenue increased substantially. Property income was at the previous year's level. In 2022–2025, the employer's earnings-related pension contributions will be higher in order to compensate for the reduction in 2020. The financial position of the earnings-related pensions sector will improve as property income increases, even though benefit expenditure is growing rapidly, fuelled by index increases.

Other social security funds

Other social security funds include other public sector entities with social security duties, such as the Social Insurance Institution of Finland (Kela) and units handling the earnings-related unemployment insurance system. Kela's activities are financed statutorily by the health insurance contributions of the insured and employers as well as by public sector contributions. The central government's share of Kela's funding in 2021 was c.72%, while insurance contributions accounted for c. 22% and municipalities for c. 5%. In 2022, Kela's expenditure totalled c. EUR 16.9 billion. Kela's benefit funds are the National Pension Insurance Fund, the National Health Insurance Fund and the General Fund for Social Security.

The earnings-related unemployment insurance system is managed by the Employment Fund and unemployment funds. Earnings-related unemployment expenditure is financed from unemployment insurance contributions collected from employees and employers (c. 55%), central government contributions (c. 40%) and the membership fees of unemployment funds (c. 5%). In 2022, unemployment funds paid out a total of EUR 2.5 billion in benefits. The Employment Fund has a cyclical buffer whose net debt or net assets must be at most an amount corresponding to annual expenditure arising from an unemployment rate of 6%.

The financial position of other social security funds improved in 2022 to a slight surplus and it will remain in surplus also in 2023. The expenditure of the sector will be significantly affected in the coming years by measures of Prime Minister Orpo's Government that will reduce many social benefits. In addition, unemployment insurance contributions will be reduced by 1.4 percentage points in 2024. The financial position of the sector will be slightly in deficit in 2024, but will return to balance in 2025–2027. The financial balance of the sector may fluctuate slightly on an annual basis, with the buffer funds providing flexibility.

9 Summary of measures at the level of general government finances

Chapters 5–8 above address each subsector of general government finances separately. Chapter 9 aims to provide a concise review of the Government's discretionary measures and their impact on general government finances as a whole. The analysis in chapter 9 excludes what are known as financial transactions, for example loans and share purchases.

The following table summarises the cumulative impact on general government finances of the decisions affecting revenue and expenditure of Prime Minister Orpo's Government. Measures weakening the general government balance are presented with a minus sign and strengthening measures with a plus sign. The impacts have been presented in relation to the final General Government Fiscal Plan of the previous parliamentary term, i.e. the so-called technical General Government Fiscal Plan published on 23 March 2023.

Adjustment of general government finances in accordance with the Government Programme

The Government Programme (Annex B) contains measures to achieve a net adjustment in general government finances of EUR 4 billion at the 2027 level. In addition to savings, the package includes expenditure increases and revenue-raising measures.

In some respects, the impact assessments of the measures have been further specified since the Government Programme was finalised. In addition, the allocation of impacts between the different sectors of general government finances has been clarified. The estimates will be further refined during budget and spending limits preparation and the preparation of Government proposals, but the Government is committed to the set of measures outlined in the Annex B to the Government Programme.

The above-mentioned expenditure policies of the Government Programme will strengthen general government finances in the table by a net c. EUR 1.2 billion at the 2024 level. At the end of the spending limits table in 2027, the impact would be EUR 3.1 billion. This is an estimate based on current information. The table does not include wellbeing services counties' own development measures, for which the savings in the annex to the Government Programme amounts to EUR 0.9 billion at the 2027 level. If this saving is taken into account, the strengthening of general government finances would be EUR 3.9 billion at the 2027 level. In addition, the reduction of central government transfers to municipalities for basic public services by one percentage point per year will not strengthen general government finances in the table, as strengthening general government finances as a whole by more than EUR 100 million, as targeted, will require municipalities to make their own adjustment measures. The impact on tax revenue of savings directed at benefit expenditure has been taken into account in the table. The impact of index savings is shown at nominal prices. The analysis does not include financial investments, which are subject to a saving of EUR 80 million at the 2027 level in the Government Programme.

As part of the adjustment measures in general government finances (in addition to the EUR 4 billion package mentioned above), the Government has outlined structural policy measures aimed at strengthening general government finances by around EUR 2 billion at the 2027 level. This entity is not included in the table analysis.

Temporary investment programme included in the Government Programme

The General Government Fiscal Plan for 2024–2027 allocates appropriations totalling EUR 631 million and EUR 9.5 million in the second supplementary budget for 2023 to the investment programme included in the Government Programme.

The revenues to be used to finance the investment programme are not revenues in the analysis according to the table. The table is presented in national accounts terms, in which case financial transactions do not strengthen general government finances. For this reason, in the table the investment programme weakens the budgetary position of general government finances.

Wellbeing services counties

The Government's expenditure and revenue decisions related to the tasks of the wellbeing services counties are included in a table in the section on the finances of the wellbeing services counties. Such decisions include statutory reforms and discretionary government transfers and compensation payable to the wellbeing services counties.

The changes in the duties assigned to the wellbeing services counties in accordance with Annex B of the Government Programme will increase the funding of the wellbeing services counties in 2024 by c. EUR 5 million net compared with 2023. In total, the net cost impact of the new or expanded duties assigned to the wellbeing services counties during Prime Minister Marin's government term and the new measures in Prime Minister Orpo's Government Programme will be c. EUR -126 million net in 2027. The change is primarily explained by the new measures of the Government Programme aimed at improving the efficiency of wellbeing services counties' activities and curbing the growth of the counties' costs.

The section on social and health services in the table of adjustment measures in Annex B of the Government Programme contains a separate item on the wellbeing services counties' own development measures, for which the Ministry of Finance has estimated a savings potential of EUR 0.9 billion at the 2027 level. These measures seek to strengthen the finances of the wellbeing services counties by improving the efficiency of the counties' activities, reforming practices and increasing cooperation between counties. Each wellbeing services county will decide independently on its reform and adjustment measures, and the savings potential and implementation timetables will vary from county to county. The impact of these measures has not been taken into account in the financing of the wellbeing services counties in this General Government Fiscal Plan; the savings arising from the measures will be realised in the central government universal funding of the wellbeing services counties on the basis of ex-post revision.

Discretionary government transfers and other compensation will also be paid to the wellbeing services counties. In accordance with Prime Minister Orpo's Government Programme, a total of EUR 1.2 million will be allocated from the main title of the Ministry of Social Affairs and Health in 2024–2027 to the Programme for Suicide Prevention. In addition, a total of EUR 4.4 million will be allocated in 2024–2027 to the development activities of client and patient safety. As part of R&D funding, EUR 35 million per year, which is EUR 5 million more than previous decisions, will be allocated in the spending limits period to central government funding for university-level research in healthcare and social work.

The activities and finances of the wellbeing services counties are discussed as a whole in Chapter 6. Finances of the wellbeing services counties.

Tax criteria changes

Through its tax policy, the Prime Minister Orpo's Government will seek to boost the purchasing power of households, improve incentives for working and strengthen conditions for economic growth. The Government's taxation policy will encourage work and self-employment, and support domestic ownership. The Government will avoid discretionary measures that increase the overall tax rate.

In accordance with the Government Programme, an index adjustment will be made to earned income tax criteria at all income levels. In 2024, the scale of the index adjustment will be adjusted so that the share corresponding to the 0.2 percentage point reduction in the unemployment insurance contribution will be directed to the central government to channel savings assigned to the Employment Fund to reverse the trend of central government debt. In addition, taxation of work will be gradually reduced, with a focus on low and middle income earners.

Goods currently subject to a reduced VAT rate of 10%, other than newspapers and magazines, will be switched to a rate of 14%, which will increase tax revenue. In addition, tax revenue will be increased by, among other things, continuing the 2 percentage point temporary increase in the highest income bracket in the central government income tax scale, increasing the commuting expenses deduction threshold, reforming bonus practices in the financial sector and reallocating the age-based increased earned income tax credit. Nicotine pouches will also be brought within the scope of tobacco taxation and the tobacco tax and soft drinks tax will be increased. In addition, the level of the mining mineral tax will be revised and another tax category will be introduced. Tax revenue will also be boosted by tax increases on wines and spirits and the introduction of a vignette charge.

Tax revenue will be reduced by continuing the temporary increase in the tax credit for household expenses, increasing the deposit cap on equity savings accounts, and increasing the equalisation provision for agriculture. A child supplement to the earned income tax credit will also be done. Incontinence and sanitary pads and children's nappies will be switched to a 14% VAT rate. In addition, the basic motor vehicle tax and the tax on beer will be reduced. Tax revenues will also be reduced by reducing the late-payment interest and increasing the payment period for inheritance tax and continuing the halving of fairway dues.

Excise duty on transportation fuels will be reduced as of the beginning of 2024 to compensate for the average fuel price increase over the spending limits period arising from the upward trend in the distribution obligation under the Government Programme. The CO_2 component of the fuel tax will also be reduced later in the spending limits period.

An equalisation tax on large groups based on an EU directive will be introduced in 2024. The equalisation tax will be paid for the first time in 2026. In addition, the tax rate applied to ground areas will be differentiated from the general real estate tax and its lower limit will be increased to 1.3% in 2024, which will increase real estate tax revenue in the 245 municipalities where the general real estate tax rate is currently lower than this.

Changes in taxation and their impact assessments are discussed in more detail with regard to central government finances in section 5.4 and with regard to municipal finances in section 7.2.

Municipal finances

Prime Minister Orpo's Government Programme does not assign to municipalities new duties or obligations. If new and extended duties were to be assigned to municipalities, a full central government transfer would be allocated to them, and the municipalities will be compensated in full for tax criteria changes decided by central government.

The largest adjustment measure directly targeted by the Government at municipal finances is the saving corresponding to an increase of one percentage point made in 2024–2027 to the index adjustment of the central government transfer for basic public services. As a result of this, central government transfer to municipalities will gradually decrease and the impact will rise to c. EUR 111 million in 2027. The table assumes that municipalities will not immediately adjust their expenditure or raise their taxes as a result of the index cut. On the other hand, municipal finances will be strengthened by the proposed increase in the lower limit of the ground area real estate tax rate from the beginning of 2024. This is expected to increase municipalities' tax revenues by EUR 108 million per year. Other Government measures directly affecting municipalities are assumed to have an equal impact on municipalities' revenues and expenditures.

In addition to the measures mentioned above, index freezes and savings of social security benefits will also affect municipal finances in different directions. They will directly reduce municipalities' expenditure but will, on the other hand, reduce tax receipts, as the analysis excludes the impact on tax revenue of the employment growth intended by the reforms.

In addition, the reduction in unemployment insurance contributions proposed for 2024 will increase municipalities' tax revenues and will reduce the contribution burden on municipal employers by c. EUR 300 million per year. This will be almost fully reflected in a strengthening of municipal finances, as other measures are almost neutral with regard to municipal finances in the spending limits period.

Municipal finances as a whole are discussed in Chapter 7. Municipal finances.

Social security funds

The expenditure and revenue of the social security funds are significantly affected by measures decided on in the Government Programme. They will reduce benefit expenditure by c. EUR 1 billion at the 2024 level and c. EUR 2.0 billion at the 2027 level. The contributions of the central government and the municipalities to the social security funds will, in turn, decrease by c. EUR 0.3 billion in 2024 and by c. EUR 0.9 billion at the 2027 level.

Of the changes in social security contributions, the most significant are the reduction in unemployment insurance contributions in 2024, which will reduce contribution revenue by c. EUR 1.4 billion. In addition, health insurance contributions will decrease by nearly c. EUR 0.8 billion in 2024, but their revenue will increase by EUR 0.2 billion in 2025. In 2026, earnings-related insured contributions of the insured will decrease, according to assumptions, by c. EUR 0.4 billion. Changes in social security contributions also affect earned income tax receipts, corporation tax receipts and the contribution burden on public sector employers. The table also estimates their impact on central and local municipal finances.

Table 25. Total impact on general government finances of decisions on revenue and expenditure, cumulative, EUR billion

	2023	2024	2025	2026	2027
Impact on central government appropriations, Government Programme Annex B (including National Housing Fund)	0.0	0.7	1.4	1.8	2.5
Investment programme	0.0	-0.3	-0.1	-0.1	-0.1
Other decisions increasing central government appropriations	-0.1	-0.1	-0.2	-0.3	-0.2
Other decisions decreasing central government appropriations	0.0	0.0	0.0	0.0	0.0
Compensation to municipalities for tax criteria changes	0.0	0.0	0.0	0.0	0.0
Estimated impact on tax revenue of Government Programme Annex B benefit expenditure savings	0.0	-0.2	-0.3	-0.3	-0.4
Decisions increasing central government tax revenue	0.0	0.5	0.8	0.8	0.9
Decisions decreasing central government tax revenue (excluding Index of Wage and Salary Earnings / Consumer Price Index adjustments of earned income taxation)	0.0	-0.4	-0.6	-0.8	-1.0
Other decisions increasing central government revenue	0.0	0.0	0.0	0.0	0.0
The impact of changes in social security contributions on tax revenue and employer costs	0.0	0.6	0.5	0.6	0.6
Net impact on the budgetary position of central government finances	**-0.1**	**0.8**	**1.4**	**1.7**	**2.3**
Government measures increasing wellbeing services counties revenues (Government Programme Annex B)	0.0	0.0	0.0	0.0	0.0
Government measures increasing wellbeing services counties revenue (other)	0.0	0.0	0.0	0.0	0.0
Government measures decreasing wellbeing services counties revenues (Government Programme Annex B)	0.0	-0.1	-0.2	-0.3	-0.4
Government measures increasing wellbeing services counties expenditure (Government Programme Annex B)	0.0	0.0	0.0	0.0	0.0
Government measures increasing wellbeing services counties expenditure (other)	0.0	0.0	0.0	0.0	0.0
Government measures decreasing wellbeing services counties expenditure (Government Programme Annex B)	0.0	0.1	0.2	0.3	0.4
Net impact on budgetary position of wellbeing services counties	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

	2023	2024	2025	2026	2027
Government measures impacting municipalities revenues (Government Programme Annex B)	0.0	-0.1	-0.2	-0.2	-0.2
Government measures impacting municipalities expenditure (Government Programme Annex B)	0.0	0.0	0.0	0.0	0.0
Net impact of central government measures on municipalities tax revenue	0.0	0.1	0.1	0.1	0.1
Compensation to municipalities for tax criteria changes	0.0	0.0	0.0	0.0	0.0
Impact of other government measures on municipal finances	0.0	0.0	0.0	0.0	0.0
Impact of changes in social security contributions on tax revenue and employer costs	0.0	0.3	0.3	0.3	0.3
Net impact on budgetary position of municipalities	**0.0**	**0.3**	**0.3**	**0.2**	**0.2**
Impact of the Government Programme on social security funds expenditure	0.0	1.0	1.6	1.9	2.0
Impact of the Government Programme on social security funds revenue (estimate)	0.0	-0.3	-0.6	-0.8	-0.9
Changes in social security contributions	0.0	-2.2	-1.9	-2.3	-2.4
Net impact on financial position of social security funds	**0.0**	**-1.4**	**-0.9**	**-1.2**	**-1.2**
Net impact on general government budgetary position	**-0.1**	**-0.3**	**0.7**	**0.7**	**1.3**
as % of total production	0.0 %	-0.1 %	0.2 %	0.2 %	0.4 %

10 Estimate of general government revenue and expenditure

Table 26. Central government according to the national accounts, EUR billion

	2022*	2023**	2024**	2025**	2026**	2027**
Direct taxes	19.1	32.4	34.1	35.1	36.8	38.1
Taxes on production and imports	36.4	36.4	36.8	37.8	38.7	39.7
Social security contributions	0.0	0.0	0.0	0.0	0.0	0.0
Taxes and social security contributions, total[1]	56.4	70.0	71.8	73.9	76.5	78.9
Revenue from sales and fees	4.4	4.7	4.8	4.9	4.9	5.0
Property income	2.0	2.2	2.2	2.3	2.3	2.3
Other revenue	3.7	4.1	4.1	4.0	4.0	4.0
Total revenue	66.6	81.1	82.9	85.0	87.6	90.1
Compensation of employees and intermediate consumption	16.7	19.0	19.4	19.7	20.1	20.6
Property expenditure	1.3	1.9	2.9	3.4	3.8	4.3
Subsidies	2.5	2.2	2.2	2.2	2.2	2.1
Social security benefits and allowances	4.9	5.5	5.6	5.5	5.6	5.7
Other income transfers	39.2	55.3	56.2	58.9	59.9	61.3
to other general government bodies	33.1	49.2	50.5	53.0	54.1	55.2
Gross fixed capital formation	4.6	5.1	5.8	7.3	7.1	6.8
Other expenditure	1.6	1.6	0.7	0.7	0.6	0.7
Total expenditure	71.0	90.5	92.9	97.6	99.4	101.5
Consumption expenditure	17.3	19.4	19.9	20.2	20.9	21.6
Net lending (+) / net borrowing (-)	-4.4	-9.4	-9.9	-12.6	-11.7	-11.4

1) Includes gift and inheritance tax

Table 27. Municipal administration according to national accounts, billion euros

	2022*	2023**	2024**	2025**	2026**	2027**
Taxes and social security contributions	26.6	13.3	13.8	14.2	14.8	15.3
of which municipal income tax	21.8	9.1	9.6	9.9	10.3	10.7
corporate tax	2.8	1.9	1.9	1.9	2.0	2.1
real estate tax	2.0	2.2	2.3	2.4	2.4	2.5
Revenue from sales and fees	12.3	9.6	9.8	9.9	10.0	10.1
Income transfers from central government	18.3	8.0	7.7	8.7	9.0	9.1
Other revenue	1.7	1.6	1.7	1.7	1.8	1.8
Total revenue	58.9	32.5	33.0	34.5	35.5	36.4
Compensation of employees and intermediate consumption	45.3	24.6	25.0	25.9	26.7	27.4
Social assistance and benefits in kind	5.9	0.7	0.8	1.1	1.1	1.1
Other income transfers	1.8	1.6	1.6	2.1	2.1	2.1
Property expenditure	0.2	0.4	0.5	0.5	0.5	0.5
Gross fixed capital formation	6.5	5.5	5.7	6.0	6.3	6.5
Other expenditure	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1
Total expenditure	59.5	32.9	33.6	35.4	36.5	37.6
Consumption expenditure	43.2	20.6	21.2	22.4	23.4	24.4
Net lending (+) / net borrowing (-)	-0.5	-0.3	-0.6	-0.9	-1.0	-1.2

Table 28. Wellbeing services counties

	2022*	2023**	2024**	2025**	2026**	2027**
Revenue from sales and fees		3.7	3.8	3.9	4.0	4.2
Central government funding		25.7	26.5	28.3	29.1	29.9
Other revenue		0.2	0.2	0.2	0.2	0.2
Total revenue		29.6	30.5	32.5	33.4	34.3
Compensation of employees and intermediate consumption		23.7	24.6	25.8	26.8	27.6
Social benefits and benefits in kind		5.7	6.0	6.3	6.5	6.8
Investments		1.1	1.1	1.1	1.1	1.0
Property expenditure		0.1	0.1	0.2	0.2	0.3
Other expenditure		0.1	0.1	0.1	0.1	0.1
Total expenditure		30.6	31.9	33.5	34.6	35.7
Consumption expenditure		25.5	26.5	27.9	29.0	30.0
Net lending (+) / net borrowing (-)		-1.1	-1.4	-1.0	-1.2	-1.5

Table 29. Earnings-related pension funds

	2022*	2023**	2024**	2025**	2026**	2027**
Property income	3.6	5.5	6.6	7.6	8.3	8.7
Social security contributions	25.8	27.0	28.0	29.1	29.8	30.8
of which paid by employers	17.6	18.4	19.0	19.8	20.5	21.2
of which paid by the insured	8.3	8.7	9.0	9.3	9.3	9.6
Income and capital transfers from general government	2.6	2.8	2.8	2.8	2.9	3.1
Other revenue	0.8	0.8	0.8	0.8	0.9	0.9
Total revenue	32.8	36.1	38.2	40.4	41.9	43.5
Compensation of employees and intermediate consumption	1.2	1.2	1.2	1.3	1.3	1.3
Social security benefits and allowances	27.0	29.5	31.4	32.5	33.6	34.8
Other expenditure	2.4	2.5	2.7	2.8	2.9	3.0
Total expenditure	30.5	33.2	35.3	36.5	37.8	39.1
Consumption expenditure	0.6	0.6	0.6	0.7	0.7	0.7
Net lending (+) / net borrowing (-)	2.3	3.0	2.9	3.9	4.1	4.4

Table 30. Other social security funds

	2022*	2023**	2024**	2025**	2026**	2027**
Property income	0.0	0.0	0.1	0.1	0.1	0.1
Social security contributions	6.4	7.1	5.1	5.8	6.0	6.1
of which paid by employers	2.7	3.1	2.1	2.4	2.4	2.5
of which paid by the insured	3.7	4.0	3.1	3.4	3.5	3.6
Income and capital transfers from general government	13.6	14.1	14.6	14.5	14.3	14.4
Other revenue	0.1	0.1	0.1	0.1	0.1	0.1
Total revenue	20.1	21.4	19.9	20.4	20.4	20.6
Compensation of employees and intermediate consumption	0.8	0.9	0.9	0.9	0.9	1.0
Social security benefits and allowances	17.9	18.3	18.4	18.2	18.2	18.4
Other expenditure	1.1	1.1	0.9	0.9	0.8	0.9
Total expenditure	19.8	20.3	20.2	20.0	20.0	20.2
Consumption expenditure	3.63	3.64	3.89	3.92	4.03	4.16
Net lending (+) / net borrowing (-)	0.3	1.1	-0.3	0.5	0.4	0.4

General government fiscal forecast under unchanged policies

Table 31. Revenue and expenditure under unchanged policies

	2022*	2022*	2023**	2024**	2025**	2026**	2027**
	level, EUR billion	% of GDP					
Total revenue under unchanged policies	141.1	52.5	52.3	51.5	51.3	50.8	50.4
Total expenditure under unchanged policies	143.4	53.4	54.7	54.7	54.6	53.8	53.2

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Riikka Purra

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APPENDIX 1 Forecasts and assumptions used in the calculation

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

Table 32. Forecasts and assumptions used

	2021	2022	2023	2024	2025	2026	2027
GDP, change in volume, %	3.2	1.6	0.0	1.2	1.8	1.7	1.6
GDP, change in price	2.2	5.4	4.8	2.2	2.3	2.5	2.3
GDP value, EUR million	250 920	268 650	281 556	291 058	302 976	315 527	327 822
GNI value, EUR million	254 851	267 851	282 481	292 083	304 201	316 752	329 047
Consumer Price Index, change %	2.2	7.1	6.2	2.2	1.7	2.0	2.0
Index of Wage and Salary Earnings, change %	2.4	2.4	4.3	3.5	3.3	3.0	3.0
Building Cost Index, change %	5.5	8.2	3.0	-0.4	1.0	2.4	2.4
Basic Price Index for Domestic Supply, change %	10.1	20.3	-3.5	-2.9	1.9	2.5	2.5
Unemployment rate, %	7.7	6.8	7.1	7.2	7.0	6.6	6.4
Wage bill, change %	5.5	6.4	5.1	3.7	4.0	3.6	3.5
Short-term interest rate, 3 months, %	-0.5	0.3	3.5	3.6	3.0	2.4	2.0
Long-term interest rate, 10 years, %	-0.1	1.7	3.1	3.2	3.2	3.1	3.1
TyEL Index	2631	2691	2874	3032	3096	3160	3229
National Pension Index (KEL)	1639	1674	1805	1906	1944	1977	2017
Price index of basic public services, forecast	2.4	3.7	5.1	2.2	3.2	3.6	3.5
Change in cost level used in Budget Proposal (Index of Central Government Transfers to Local Government)	2.4	2.5	3.8	2.2	3.2	3.6	3.5
University Index (forecast used in budgeting)	3.5	6.1	3.5	2.3	2.8	2.7	2.7

	2021	2022	2023	2024	2025	2026	2027
Vocational education and training index	4.2	7.3	2.8	1.8	2.7	2.7	2.7
YLE Index	2.4	4.0	4.9	3.1	2.8	2.7	2.7
HVA Index				2.53	2.91	2.87	2.70
Unemployment insurance contributions							
– employer, on average	1.43	1.51	1.54	0.82	0.82	0.82	0.82
– employee	1.40	1.50	1.50	0.79	0.79	0.79	0.79
TyEL contribution	24.4	24.9	24.8	24.8	24.8	24.4	24.4
– employer	16.9	17.4	17.4	17.4	17.4	17.3	17.3
– employee aged 53 yrs or under	7.15	7.15	7.15	7.15	7.15	7.15	7.15
– employee aged over 53	8.65	8.65	8.65	8.65	8.65	7.15	7.15
– wage coefficient	1.465	1.501	1.558	1.639	1.678	1.731	1.780
Health insurance contributions of the insured							
– employees' daily allowance contribution	1.36	1.18	1.36	1.01	1.21	1.20	1.20
– employees' and entrepreneurs' medical care contribution	0.68	0.53	0.60	0.55	0.57	0.56	0.52
– pensioners' medical care contribution	1.65	1.50	1.57	1.52	1.54	1.53	1.49
Central government employer contributions	18.2	18.5	18.6	18.2	18.5	18.6	18.6
– health insurance contribution	1.53	1.34	1.53	1.14	1.35	1.33	1.34
– pension contribution (under Central Government Employees' Pensions Act)	16.68	17.12	17.10	17.10	17.10	17.25	17.25
Municipalities' employer contributions	24.7	24.3	24.0	22.7	22.9	23.3	23.3
– health insurance contribution	1.53	1.34	1.53	1.14	1.35	1.33	1.34
– other social insurance contributions	0.7	0.7	0.7	0.7	0.7	0.7	0.7
– unemployment insurance contribution	1.83	1.97	1.91	1.01	1.01	1.01	1.01
– pension contribution (under Local Government Employees' Pensions Act)	20.6	20.3	19.8	19.8	19.8	20.3	20.3

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

Structural changes

Structural changes included in this spending limits decision increase, for example, the 2024 spending limits level by EUR 33 million compared with the spring spending limits decision. The table below provides a more detailed description of the structural changes that have taken place since the technical spending limits decision and their impact on the spending limits level of the parliamentary term.

Table 33. Structural changes in the spending limits, EUR million

Item	Matter	2024	2025	2026	2027
SBP II 2023					
27.10.01	Timing change related to the development of Air Force bases.		3.0		
27.10.01	Support for Ukraine. Expenditure outside the spending limits framework in accordance with the spending limits rules.	16.8	62.0	106.1	142.0
27.10.18	Timing change in Defence Forces development programme (PVKEH 2021) payments.	2.2	-1.1	-1.3	9.7
27.10.19	Timing change in multirole fighter aircraft procurement payments	16.2			
28.89.69	Timing change in EU payments.		100.0	200.0	
BP 2024, GGFP 2024–2027					
	Technical change. National Housing Fund and Makera grants moved to within spending limits will be deducted from the spending limits level so that no extra room for manoeuvre remains in unallocated reserve.	-81.3	-61.3	-61.3	-61.3

Item	Matter	2024	2025	2026	2027
28.89.30	Technical change. Equalisation of revenue and costs transferred from municipalities to wellbeing services counties with regard to 2023	-31.4	-31.4		
28.89.30	Technical change. Reduction related to the decrease in municipalities' taxation costs in connection with the health and social services reform.	-94.0	-94.0	-62.0	-62.0
28.89.31	Technical change. Clarification of transfer made from municipalities' tax revenue.	39.0	39.0	39.0	39.0
28.89.31	Technical change. Non-recurring item equalising revenue and costs transferred to the wellbeing services counties in 2023; the share of item related to transfers in municipality/central government relationship.	101.7			
28.92.66	Interest expenditure of the macro-financial assistance to Ukraine. Expenditure outside the spending limits framework in accordance with the spending limits rules.	10.0	10.0	10.0	10.0
28.92.69	Timing change in EU payments.	-300.0		30.0	270.0
32.20.40	Timing change in R&D subsidy payments.	-5.7			
32.20.41	Timing change in energy subsidy payments.		39.6	45.0	
32.20.46	Timing change in shipbuilding innovation support payments.	4.9			
32.30.40	Timing change in payments related to the development of external border regions.	3.2		-1.6	-1.6
35.20.04	Rebudgeting related to built environment information system (RYHTI) project.	3.0			
	Investment programme included in Government Programme. Spending limits level increased in line with expenditure.	348.8	102.5	99.5	80.0
	REPowerEU. Spending limits reduced so that there is no extra room for manoeuvre when national funding becomes EU funding outside the spending limits.		-38.3	-46.3	-4.3
	Total	33.4	130.0	356.0	420.5

Price and cost level adjustments

The central government spending limits for 2024–2027 are expressed in price and cost levels for 2024. Some of the expenditure, such as development aid expenditure and national financing contributions corresponding to EU Structural Fund contributions, are estimated at current prices, in which case they include an estimate of the impact on the appropriation of the rise in prices in the spending limits period. In other respects, the expenditure level will be revised annually according to the estimated rise in costs and prices.

The spring 2023 technical spending limits decision migrated to the 2024 price and cost level, i.e. the necessary index adjustments were made to expenditure. This central government spending limits decision takes into account the index freezes and brakes outlined in the Government Programme, which will reduce expenditure from 2024 onwards compared with the technical spending limits decision. In addition, revisions to price index forecasts have been taken into account.

Price and cost level adjustments to the spending limits compared with the technical spending limits decision will total EUR 79 million in 2024. This consists of revisions related to the 2024 price level (EUR -194 million euros), revisions related to the 2022 price level (EUR 130 million euros), the effect of the central government wage agreement (EUR 11 million euros; the part that was not included in the technical spending limits decision) and exchange rate changes in the fighter aircraft procurement (EUR 132 million euros). The impact of index freezes and brakes is not included in the above figures.

Table 34. Adjustments to 2024 price and cost levels, EUR million (in spring technical spending limits decision and in this spending limits decision)

		Adjustment to appropriation and expenditure ceiling		Adjustment to expenditure ceiling
Spending limits expenditure classified by economic nature	**Index used for calculation**	**Statutory index adjustment**	**Agreement-based price adjustment**	**Cost adjustment of other spending limits expenditure**
15–17 Pensions	Employment pension index (TyEL)	292.5		
18–19 Defence materiel acquisitions	Predictive increase 1.5%		236.0[1]	
01–14 Wages as well as social security and pension contributions	Agreement increases		254.5	
Transport infrastructure expenditure	Building Cost Index (RKI)			
01–14, 20–28 Other operating expenses and consumption	Consumer Price Index (KHI)			
30–39 Imputed central government aid to municipalities and joint municipal authorities etc.	Index of Central Government Transfers to Local Government (VOS)	28.8		
31 Funding of wellbeing services counties	Wellbeing Services Counties Index (HVA)	617.7		
30–39 Other central government aid to municipalities and joint municipal authorities	Index of Central Government Transfers to Local Government (VOS)	24.7		
30 Central government funding for vocational education and training	Vocational education and training index	18.0		
40–49 Central government aid to trade and industry	Consumer Price Index (KHI)			
50–59 Central government aid to households and non-profit-making organisations indexed on a statutory basis	National Pension Index (KEL), Employee Pension Index (TyEL), Consumer Price Index (KHI)	109.4		
51–52 Central government funding for the Evangelical-Lutheran Church of Finland and grant to the Orthodox Church of Finland	Consumer Price Index (KHI)	1.5		

		Adjustment to appropriation and expenditure ceiling		Adjustment to expenditure ceiling
Spending limits expenditure classified by economic nature	**Index used for calculation**	**Statutory index adjustment**	**Agreement-based price adjustment**	**Cost adjustment of other spending limits expenditure**
50–59 Non-indexed central government aid to households	National Pension Index (KEL)			
50 Government funding for universities and universities of applied sciences	University Index	62.4		
50–59 Other central government aid to households and non-profit-making organisations	Consumer Price Index (KHI)			
60 Transfers to off-budget central government funds	Consumer Price Index (KHI)			
60 Transfers to Social Insurance Institution of Finland	National Pension Index (KEL)	183.4		
60 Central government transfer for expenditure arising from the Health Insurance Act	National Pension Index (KEL)	-		
61–65 Central government funding contributions corresponding to EU Structural Fund contributions and other domestic transfers	Included in programme spending limits			
66–68 Transfers abroad	At current prices			
69 Transfers to the EU	EU GDP Deflator Index			
70–79 Real investments	Building Cost Index (RKI)			
90–99 Other expenditure	Consumer Price Index (KHI)			
Supplementary budget provision and unallocated reserve	Consumer Price Index (KHI)			
Total in 2024		1 338.3	490.5	

1) A predictive 1.5% price- and cost-level adjustment will be made to the appropriation levels for the Defence Forces' operating expenditure (excl. payroll expenditure), defence materiel procurement, multirole fighter procurement, military crisis management equipment and administration expenditure. A predictive 1.5% cost level adjustment will be made to the uncommitted portion of the 2021 order authorisation for multirole fighter aircraft. A purchasing power adjustment of 1.5% will be made to the unused portion of other funding for the acquisition of multirole fighters, which will be subsequently revised according to actual figures with a combination of indices (Building Cost Index 70% and Producer Price Index for Services 30%). The index expenditure of the Squadron 2020 project will be adjusted later in accordance with actual figures of the indices specified in agreements. The indices for the multirole fighters will be processed in accordance with the Government's procurement decision. The level of other appropriations will be revised later to correspond with the change in prices (annual average index change) indicated by the Consumer Price Index in terms of the Defence Forces' operating expenditure and military crisis management equipment and administrative expenditure as well as the change (months total/annual change) of the C28 sub-index (Manufacturing of other machinery and equipment) of the Industrial Producer Price Index for defence materiel procurement.

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

Table 35. Factors affecting general government budgetary position, according to national accounts, % GDP[1]

	2023	2024	2025	2026	2027
General government budgetary position, spring 2023	-2.6	-2.6	-3.1	-2.9	-2.9
Central government:					
Impact of revised statistical basis on revenue and expenditure estimates	0.0	0.0	0.0	0.0	0.0
Impact of revised macroeconomic forecast on revenue and expenditure estimates	-0.2	-0.1	-0.2	-0.1	-0.1
Impact of discretionary measures on revenue and expenditure estimates	-0.1	0.0	0.3	0.6	0.8
Impact of other factors	0.4	0.1	-0.2	-0.2	-0.1
Local government:					
Impact of revised statistical basis on revenue and expenditure estimates	0.1	0.1	0.1	0.1	0.1
Impact of revised macroeconomic forecast on revenue and expenditure estimates	0.0	-0.1	-0.1	-0.1	-0.1
Impact of discretionary measures on revenue and expenditure estimates	0.2	0.1	0.3	0.2	0.0
Impact of other factors	-0.2	-0.2	-0.2	-0.2	-0.2
Earnings-related pension funds:					
Impact of revised statistical basis on revenue and expenditure estimates	-0.1	0.0	0.0	0.0	0.0
Impact of revised macroeconomic forecast on revenue and expenditure estimates	0.1	0.0	0.1	0.1	0.1
Impact of discretionary measures on revenue and expenditure estimates	0.0	0.0	0.0	0.0	0.0
Impact of other factors	0.0	-0.2	-0.2	-0.2	-0.2

	2023	2024	2025	2026	2027
Other social security funds:					
Impact of revised statistical basis on revenue and expenditure estimates	0.0	0.0	0.0	0.0	0.0
Impact of revised macroeconomic forecast on revenue and expenditure estimates	0.0	-0.1	-0.1	-0.1	0.0
Impact of discretionary measures on revenue and expenditure estimates	0.0	-0.2	-0.1	-0.1	-0.1
Impact of other factors	0.1	0.1	0.1	0.0	0.0
General government budgetary position, autumn 2023	-2.4	-3.2	-3.4	-3.0	-2.8

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

APPENDIX 4 Economic development risks and their impact on general government finances

The baseline scenario of the General Government Fiscal Plan is based, with respect to 2023–2025, on the autumn 2023 independent economic outlook forecast of the Economics Department of the Ministry of Finance. The years 2026 and 2027 have been taken into account in the scenario based on, among other things, the growth estimate for potential output. In addition to the economic outlook forecast, the baseline scenario's general government budgetary position is based on the Government Programme of Prime Minister Orpo's Government, the 2024 budget approved by the Government in autumn 2023, the General Government Fiscal Plan for 2021–2023 and the supplementary budgets for 2023.

According to the baseline scenario, Finland's economy will grow on average by 1.2% per year in 2023–2027. The international risks of the forecast are down-side. Developments may occur in Russia's war of aggression against Ukraine that will have significant and fast-spreading economic impacts. Rapidly rising interest rates have caused problems and heightened uncertainty on the financial markets.

Domestic risks are related to the international situation. There is also uncertainty regarding the housing market and consumer behaviour. Rising prices and interest rates have hit household finances hard. On the housing market and in consumer consumption, the dip may be deeper and more prolonged than assumed in the projection. On the other hand, the assumption made of how consumption will recover as inflation recedes is quite moderate.

The uncertain outlook for the investment environment may result in investments being postponed or their implementation prevented. There is a positive risk associated with green investment projects in the energy sector if independence from Russian fossil fuels is sought to a faster schedule. Russia's war of aggression against Ukraine is the most significant risk factor in the projection. There are other major geopolitical risks, such as increased tension between China and the West and tensions in the trade of strategic products. Other significant risks can be found on the financial markets, on the housing market and in the consumer behaviour of households as prices and interest rates have increased substantially.

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

In the slower growth scenario, GDP growth would be more sluggish in 2023–2027. The unemployment rate would increase significantly compared with the baseline scenario. The general government deficit would be deep throughout the outlook period and the debt ratio would grow to over 90%. General government finances would be more vulnerable than before to various negative shocks.

Faster growth than the baseline scenario would be sufficient to set the general government debt ratio on to a downward path in the programme period. The general government budgetary position would be balanced by the end of the parliamentary term. The unemployment rate would fall fairly rapidly. A precondition for more favourable economic growth than in the baseline scenario is buoyant activity in the international economy as well as higher than anticipated economic growth in the industrialised countries.

The impact of a low level of interest rates on Finland's general government budgetary position is to both increase and reduce the deficit. General government interest expenditure has been very low in recent years but has now increased sharply. On the other hand, the interest income received by earnings-related pension funds included in general government finances is also expected to grow. The property income of the earnings-related pension funds also depends on the allocation of their holdings.

As a rough estimate, a rise in the level of interest rates by one percentage point would increase general government interest expenditure by c. EU 0.5 billion in 2023, and by 2027 interest expenditure would increase by just over EUR 1.5 billion. A rise in interest rates would correspondingly increase the interest income of the earnings-related pension funds as well as the municipalities and central government. The general government debt ratio would increase, however, as the surplus produced by the earnings-related pension providers cannot be used to cover deficits in other sectors.

Table 36. Sensitivity analysis

Baseline scenario	2022	2023	2024	2025	2026	2027
GDP, change, %	1.6	0.0	1.2	1.8	1.7	1.6
Unemployment rate, %	6.8	7.1	7.2	7.0	6.6	6.4
Budgetary position, % of GDP	-0.8	-2.4	-3.2	-3.4	-3.0	-2.8
Public debt, % of GDP	72.9	74.2	76.8	78.9	80.4	81.6
Slow growth						
GDP, change, %	1.6	-1.0	0.2	0.8	0.7	0.6
Unemployment rate, %	6.8	7.3	7.3	7.1	7.0	6.9
Budgetary position, % of GDP	-0.8	-3.0	-4.4	-5.1	-5.3	-5.8
Public debt, % of GDP	72.9	75.3	79.4	83.5	87.3	91.2
Rapid growth						
GDP, change, %	1.6	1.0	2.2	2.8	2.7	2.6
Unemployment rate, %	6.8	6.6	6.1	5.6	5.1	4.5
Budgetary position, % of GDP	-0.8	-1.8	-2.0	-1.6	-0.6	0.1
Public debt, % of GDP	72.9	73.1	74.2	74.5	73.7	72.3
Change in interest expenditure, if interest rate level rises by 1 percentage point, % of GDP		0.2	0.3	0.4	0.4	0.5
Change in interest revenue, if interest rate level rises by 1 percentage point, % of GDP		0.4	0.4	0.4	0.4	0.4
Change in deficit, if interest rate level rises by 1 percentage point, % of GDP		0.3	0.1	0.1	0.0	-0.1
Change in borrowing requirement, if interest rat level rises by 1 percentage point, % of GDP		-0.1	0.1	0.1	0.2	0.2

APPENDIX 5 Comparison with Commission's latest forecast

The table below compares the forecast of Finland's Ministry of Finance with the Commission's spring forecast with regard to GDP change and inflation. Other forecasts are compared with the Commission's autumn forecast.

Table 37. Comparison with the previous Commission forecast (Commission's spring forecast 2023)

	Commission forecast			Ministry of Finance forecast		
	2022	2023	2024	2022	2023	2024
GDP, change, %	2.1	0.2	1.4	1.6	0.0	1.2
Consumer Price Index, change %	7.2	4.8	2.1	7.1	6.2	2.2
Unemployment rate, %	7.0	7.2	6.9	6.8	7.1	7.2
General government budgetary position, % of GDP	-0.9	-2.6	-2.6	-0.8	-2.4	-3.2
Structural balance, % of GDP	-0.6	-1.8	-1.9	-0.4	-1.3	-2.2
General government debt, % of GDP	73.0	73.9	76.2	72.9	74.2	76.8

APPENDIX 6 Stability Programme and Draft Budgetary Plan

The General Government Fiscal Plan meets the EU's requirement for a medium-term fiscal plan (Regulation (EU) No. 473/2013 of the European Parliament and of the Council). Finland's Stability Programme for 2023–2026 and the 2024 Draft Budgetary Plan are appended to the General Government Fiscal Plan.

Finland's Stability Programme in spring 2023 was prepared with 'no policy change' assumptions, and it was stated at that time that the new Government would prepare a Stability Programme for 2023–2026 as part of the General Government Fiscal Plan in autumn 2023. The Stability Programme sets out a target scenario for general government finances based on the objectives of the Government Programme. With regard to the target scenario, it should be noted that all of the measures of the Government Programme and their exact timing have not, at this point, been specified so that they could be taken into account in the General Government Fiscal Plan. This applies, in particular, to the structural policy measures outlined by the Government aimed at strengthening general government finances by c. EUR 2 billion euros at the 2027 level. In addition, it should be noted that the budgetary position of Finland's general government finances will deteriorate this year compared to 2022, driven by the weakening economic situation and less favourable development of tax revenues. The Government will reassess the situation with regard to general government finances and decide on any further measures required at the mid-term policy review session.

Pursuant to Regulation (EU) No. 473/2013 of the European Parliament and of the Council, Member States deliver their draft budgetary plans (DBP) to the Commission for the coming year by 15 October. The DBPs are part of the coordinated surveillance that takes place every autumn. The 2024 Draft Budgetary Plan is based on the 2024 Budget proposal presented by the Government to Parliament, which is largely based on the Government Programme published in June 2023, the autumn 2023 spending limits decision, the supplementary budgets for 2023 and the Local Government Finances Programme for the 2024. The data in the tables of the Draft Budgetary Plan are actual data for 2022. For 2023–2024, the data are based on the independent forecast of the Economics Department of the Ministry of Finance.

Fiscal policy objectives

Exceptional circumstances and the review of the EU fiscal policy framework

In March 2023[7], the Commission confirmed that the General Escape Clause of the Stability and Growth Pact, which was activated in March 2020, will expire at the end of 2023, as the EU has recovered from the significant economic downturn caused by the pandemic. The General Escape Clause, as well as unusual events encountered by individual countries, permits Member States to temporarily depart from the adjustment path towards the Medium-Term Objective, provided that this does not endanger fiscal sustainability in the medium term.

The Review of EU fiscal rules

Development work on the EU's fiscal policy framework is under way, and the goal is to approve changes to legislation by the end of 2023. Once the legislation is adopted at EU level, the need for changes to national fiscal policy legislation will be assessed.

On 26 April 2023, the European Commission published its legislative proposals for a comprehensive reform of the EU's fiscal policy framework.[8] The legislative reform package includes three proposals: a regulation replacing the current regulation on the preventive arm, an amendment to the regulation on the corrective part, and an amendment to the budgetary frameworks directive.[9] According to the Commission, the proposed legislative package will incorporate the medium-term perspective of the Fiscal Compact into EU legislation to foster budgetary discipline and promote growth.

7 https://ec.europa.eu/commission/presscorner/detail/en/ip_23_1410

8 https://ec.europa.eu/commission/presscorner/detail/en/ip_23_2393

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

Before the publication of the legislative proposals, the Economic and Financial Affairs Council agreed its conclusions[10] on the orientations for a reform of the EU economic governance framework. In its conclusions, the Council stated that it aims to conclude the legislative work by the end of the year. The details of the legislative proposals are currently being discussed at working group level. After the Council's general approach, negotiations on the legislative proposals will be initiated with the European Parliament.

The Treaty reference values for the general government deficit (3% of GDP) and general government debt (60% of GDP) will remain unchanged in the reform. At the centre of the reform of the preventive arm are national medium-term fiscal-structural plans, including an adjustment path for general government net expenditure over a period of at least four years as well as structural reforms and investments. It would be possible for Member States to extend their plans by an additional three-year adjustment period by committing to significant growth-promoting structural reforms and investments. In the future, monitoring of general government finances would largely focus on monitoring compliance with the Member State -specific budgetary adjustment path endorsed by the Council.

The aim of the changes to the corrective arm is to moderate and differentiate debt reduction targets and to strengthen the debt-based excessive deficit procedure. The 1/20 rule, which has been applied to debt reduction, would be removed and a sufficient debt reduction would be defined through compliance with the budgetary adjustment path endorsed by the Council. Several of the changes to the corrective arm are based on aligning it with the new preventive arm.

The goal of the directive amendment is to simplify current legislation. A further goal is also to extend the provisions related to independent fiscal institutions and to clarify reporting requirements, including those relating to contingent liabilities.

The Commission proposes a model in which it would formulate a technical path for net primary expenditure for Member States for which public debt exceeds 60% or deficit is over 3% of GDP, for a minimum of four and a maximum of seven years. Member States would prepare their fiscal-structural plans once the technical trajectory has been established. Some expectations about the requirements for the net expenditure path set by the Commission for Finland can be formed from the country-specific recommendations approved by the Council in July.[11] They state that the nominal increase

10 https://www.consilium.europa.eu/en/press/press-releases/2023/03/14/economic-governance-framework-council-agrees-its-orientations-for-a-reform/

11 https://data.consilium.europa.eu/doc/document/ST-9903-2023-REV-1/fi/pdf

in Finland's nationally financed net primary expenditure in 2024 should not be more than 2.2%. According to the Commission, this corresponds to an annual improvement in the structural budget balance of at least 0.3% of GDP. The adjustment is set proportionally according to the sustainability of the Member States' general government finances and is presented as a change in net primary expenditure in the spirit of the reform of the economic governance framework, while respecting the requirements of the current legislation.

A special feature of Finland's general government finances is the divergence of the public sector's deficit and debt trends. In Finland, statutory earnings-related pension funds are considered to be part of the public sector and, as they are partially funded, their finances are almost invariably significantly in surplus in national accounting terms. This surplus is not used to reduce public debt but, as required by law, to cover current and future pension expenditure. Therefore, public debt is growing faster than the general government deficit would suggest. For example, the European Commission's debt sustainability analysis has taken this special feature of Finland into account through the so-called *stock-flow adjustment*, whereby the surplus of the earnings-related pension funds does not, as required by law, influence the development of the debt ratio. However, this correction only applies to the first few years of the forecast. In order to obtain a correct picture of debt sustainability and the debt ratio also in the longer term, the stock-flow adjustment should also be taken into account in longer-term estimates of debt sustainability.[12]

Setting the Medium-Term Objective

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

Other fiscal policy targets

The fiscal policy goal of Prime Minister Orpo's Government is to stabilise the general government debt ratio and thereafter set it on a sustained downward path when observed over several parliamentary terms. The Government's objective is for the budgetary position of general government finances to improve so that the general government budget balance will be a maximum of -1% of GDP during the parliamentary term, i.e. by 2027. This objective is in line with the debt sustainability goal.

12 The special feature of Finland is discussed in more detail, for example, in the Commission's 2021 fiscal sustainability report: https://economy-finance.ec.europa.eu/system/files/2022-05/dp171_en_vol1.pdf

Chapter 2 of the General Government Fiscal Plan sets, in accordance with the Decree of the General Government Fiscal Plan (120/2014), multiannual nominal targets for the general government budgetary position, general government expenditure and general government debt as well as a target for each subsector of general government finances. The targets have been set so as to align with budgetary position target set for 2027 in the Government Programme. The medium-term target will be reached after 2027. The ongoing development of the EU fiscal rules still leaves the role of the MTO open in the future EU, and thereby the domestic, fiscal policy framework.

The tables of the Stability Programme present the target scenario based on the Government Programme's budgetary position target, with the key multiannual targets presented in Table 1. There is currently uncertainty about whether these targets will be met. The Government will reassess the situation with regard to general government finances and decide on any further measures required at the mid-term policy review session.

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

	2023	2024	2025	2026	2027
Nominal budgetary position of general government	-2.4	-3.2	-2.4	-1.6	-1.0
General government expenditure	54.7	54.7	53.9	52.7	51.8
General government gross debt	74.2	76.8	77.6	77.7	77.3

Government measures to achieve the fiscal policy targets

Accelerating economic and employment growth is the most important means of stabilising general government finances. Economic growth will be boosted by improving fair competition, making significant investments in RDI, boosting knowledge and competence, and developing the labour market. The Government also aims to enhance Finland's competitiveness and the conditions for entrepreneurship.

To achieve the target (-1% of GDP) for the general government budgetary position, the Government commits to strengthen general government finances permanently during the parliamentary term through a set of measures that will improve general government finances by a net EUR 6 billion at the 2027 level. General government finances will be taken into account as a whole, in order to avoid partial optimisation between the subsectors (central government, municipalities, wellbeing services counties, social security funds).

General government expenditure will be adjusted through the Government's decisions by c. EUR 4 billion net at the 2027 level. To achieve this, the Government commits to the measures listed in Annex B of the Government Programme, which will generate permanent savings or increase revenue.

Of the economic decisions in the Government Programme, the most significant measures with regard to 2024 relate to, among other things, the package of housing benefits, ensuring the Act on Disability Services and Assistance remains in force as a special act, the grading of earnings-related unemployment benefits, abandoning age-related dispensations in unemployment benefit, freezing index increases for benefits linked to the National Pension Index (NPI) and Consumer Price Index (CPI), reducing the funding level for transport infrastructure projects and reducing funding for development cooperation. In the long term, the most significant measures relate to strengthening primary and lower secondary education, changes to the funding model which will decided during the parliamentary term, strengthening the finances of wellbeing services counties, freezing of index increases, the package of housing benefits, and productivity programmes in the administrative branches.

As part of the adjustment measures, the Government has outlined structural policy measures aimed at strengthening general government finances, in a manner that stabilises the debt ratio, by EUR 2 billion at the 2027 level. Growth in employment, with a target of 100,000 new persons in work, would strengthen public finances by more than EUR 2 billion. The structural measures consist of an unemployment benefit package, other social security and taxation, labour market reforms, and other reforms to boost employment.

In the Government Programme, the most significant employment effects are estimated to come from indexation measures related to benefits linked to NPI/CPI (17,000 employed persons), the grading of earnings-related benefits (15,800 employed persons), the abolition of child supplements (10,000 employed persons), the reduction on taxation of work, (8,700 employed persons) and the abolition of the adult education benefit (8,000 employed persons). The total fiscal strengthening impact of employment generated by all the structural policy measures estimated in the Government Programme is around EUR 1.9 billion. In addition, the Government is planning labour market reforms, the development of working life and wellbeing at work, reforms to social assistance, measures to recruit international talent, as well as and strengthening integration, the employment-boosting effects of which will be assessed later. The Government is also exploring possible reforms to the pension system, the impact of which on employment and general government finances will be assessed based on measures prepared through a tripartite procedure.

During its term, the Government will make substantial one-off investments to support growth. The Government will finance a EUR 4 billion package of one-off investments by selling central government assets, liquidating the over-capitalisations of state-owned unlisted companies, and making revenue recognitions from the National Housing Fund without jeopardising the Fund's current level of activity.

The Government aims to strengthen purchasing power, economic growth, employment and self-employment through tax policy. The Government will ensure a stable operating environment for entrepreneurship and investment through a predictable and stable regulatory framework as well as through taxation. The total tax rate will not be increased by Government decisions.

Of the Government Programme tax measures affecting general government finances, the most significant relate to reducing taxation of work with a focus on low and middle income earners, introducing a EUR 50 child supplement to the earned income tax credit, easing excise duty on fuel to compensate for the upward trend in the distribution obligation, reducing the CO2 component of fuel taxation, and increasing the tax on tobacco. In addition, goods currently subject to a reduced VAT rate of 10%, other than newspapers and magazines, will be switched to a rate of 14%, and the lower limit for the ground area real estate tax will be raised to 1.30%.

In accordance with the Government Programme, a number of smaller tax measures will also be implemented and a significant number of additional measures will be explored.

The Government undertakes to re-examine the measures in the Government Programme if the impact assessments of the measures change significantly from those made in the Government Programme or if their implementation would jeopardise the achievement of the set of measures targeting general government finances or the target for the budgetary position. The Government commits to prioritising the implementation of the projects, if necessary.

Compliance with the Treaty deficit and debt criteria

On 8 March 2023, the Commission published a Communication[13] on fiscal policy guidance in 2024, according to which the fiscal targets of all Member States should be such that the deficit does not exceed 3% of GDP or is brought below 3% of GDP within the period covered by the Stability and Convergence Programme, and remain below 3% of GDP at unchanged policies over the medium term. According to the Commission, Member States with substantial or moderate public debt challenges, as identified in its November Communication[14], are invited to set fiscal targets that ensure plausible and continuous debt reduction or that debt is kept at prudent levels in the medium term.

The Commission already stated in its March Communication that it does not intend to propose the opening of new excessive deficit procedures in 2023, as the macroeconomic and budgetary outlook remains uncertain. In particular, the Commission states that the debt criterion is too demanding and that excessive deficit procedures will not be launched on the basis of a breach of the debt criterion.

However, in its Communication on the country-specific recommendations published on 24 May 2023, the Commission stated its intention to propose to the Council the launch of deficit-based excessive deficit procedures in spring 2024 on the basis of the outturn data for 2023, in line with existing legislation.

Deficit criterion

According to the Treaty, the deficit criterion is considered to be complied with, notwithstanding a breach of the 3% reference value, if the deficit in ratio to GDP has decreased significantly and continuously to a level close to the reference value or if the excess over the reference value is exceptional, temporary and minor.

Finland's general government deficit was 0.8% of GDP in 2022. According to the independent forecast, the deficit will rise to 2.4% of GDP in 2023 and 3.2% in 2024, before starting to decline as presented in the target scenario of the Stability Programme.

13 https://economy-finance.ec.europa.eu/system/files/2023-03/COM_2023_141_1_EN_ACT_part1_v4.pdf

14 https://economy-finance.ec.europa.eu/system/files/2022-11/com_2022_583_1_en.pdf

According to the Ministry of Finance's assessment, Finland will be in compliance with the deficit criterion in 2023. With regard to 2024, it is possible that the deficit will exceed the reference value in a minor and temporary manner if the employment measures of the Government Programme do not have the planned impact. The exceeding of the deficit reference value is explained by, for example, increased costs related to support for Ukraine and security. However, taking into account the deficit path outlined in the independent forecast, the risk of Finland being placed in an excessive deficit procedure in the near future on the basis of a breach of the deficit criterion cannot be excluded.

Debt criterion

The Treaty debt criterion is considered to be met, despite the 60% reference value being exceeded, if the debt ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace.

General government debt has remained above the 60% of GDP reference value since 2020 and reached 72.9% of GDP in 2022. According to the independent forecast, public debt will rise to 74.2% of GDP in 2023 and continue to rise to 76.8% of GDP in 2024. Public debt also continues to rise in the Stability Programme scenario, only beginning to diminish in 2027. The main reasons for the increase in the debt ratio are previously decided defence procurement, weak growth in tax revenues due to sluggish economic growth, higher age-related expenditure and higher debt servicing expenditure.

The Commission assessed the fulfilment of the debt criterion in a report[15] published on 24 May 2023 pursuant to the Article 126(3). In the report, the Commission found that Finland's debt level breached the Treaty debt reference value and that the debt criterion was not met in 2022. Besides Finland, two other Member States did not meet the debt criterion in 2022. The assessment of compliance with the debt criterion is likely to change based on the Commission's March Communication and the ongoing development of EU fiscal rules. Therefore, the launch of an excessive debt procedure based on a breach of the debt criterion is unlikely in spring 2024.

15 https://economy-finance.ec.europa.eu/system/files/2023-05/Report%20in%20acc%20with%20Art126%20TFEU.pdf

Compliance with the preventive arm of the Stability and Growth Pact and other fiscal policy recommendations

Finland remains within the preventive arm of the Stability and Growth Pact and is subject to the requirements of the preventive arm that relate to progress towards the MTO. The achievement of the MTO or progress towards it are assessed with the aid of two pillars, the structural balance and the expenditure benchmark, assessing them in relation to the requirements specified in the country-specific recommendations.

Taking into account the validity of the General Escape Clause of the Stability and Growth Pact in 2020–2023 and the Council's fiscal policy recommendations in 2020–2022 (which did not contain any numerical fiscal policy recommendations in terms of the structural balance or the expenditure benchmark), the Ministry of Finance's assessment concludes that it is not meaningful to examine the structural balance or the expenditure benchmark in 2023 or on a cumulative basis in 2022–2023 or 2023–2024 in this context. It is also worth noting that assessing the structural balance is subject to uncertainties in conditions of major economic change, where the assessment of the output gap is difficult and any estimation of the economic situation will likely be revised in future forecasts.

According to the Ministry of Finance's assessment in the spring 2023 Stability Programme, Finland complied with the requirements of the preventive part of the Stability and Growth Pact and the fiscal policy recommendations it received in 2022. The Commission and the Council gave an equivalent assessment in spring 2023.

In the country-specific recommendations adopted by the Council in July 2022, with regard to general government finances, Finland was given the following guidance: "take action in 2023 to ensure 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."

Based on the independent forecast, the fiscal policy stance will be slightly expansive in 2023. The mildly expansive fiscal policy is due to, for example, measures to enhance preparedness as well as targeted and temporary measures to support households and businesses due to the rise in energy prices. In addition, people fleeing the war in Ukraine have been provided with targeted aid. According to the Ministry of Finance's assessment, Finland broadly complies with the recommendation it received regarding the fiscal policy stance for 2023, but there is a risk that the Commission will find that Finland has deviated from the recommended fiscal policy stance.

As part of the Sustainable Growth Programme for Finland, significant green transition measures have been decided on.

In order to strengthen energy self-sufficiency and security of supply, a set of measures has been decided with the aim of significantly accelerating the withdrawal from fossil energy and supporting the introduction of new technologies. The previous General Government Fiscal Plan also included increases for permitting and other administrative procedures and for digitalisation in order to accelerate green transition investments. A significant part of the Recovery and Resilience Plan will be allocated to the promotion of the twin transition, despite the decrease of Finland's final allocation.

Table 2. Discretionary and planned measures related to energy prices and/or inflation (EUR million)

	2023
Expenditure	
Additional revision of 2022 National Pension Index and indexing of social benefits according to it	10
Temporary increase in travel compensation paid from health insurance	5
Measures supporting the purchasing power of households (social benefits)	56
Temporary support for household electricity	91
Compensation to government agencies for exceptionally high rent increases	28
Retroactive electricity reimbursement for households and housing	293
Financial support to communal houses for energy costs	2
Financial support to museums for energy costs	1
Temporary cost support for agriculture and aquaculture	35
Revenue	
Temporary increase in commuting expenses allowances	-24
Temporary reduction of 7.5 percentage points in the distribution obligation renewable fuels	73
Extension of household expenses tax credit for relinquishing oil-fired heating	-8
Temporary electricity credit in connection with household expenses tax credit	-245
Reduction in early childhood education and care fees (permanent)	-90
Electricity VAT rate reduced to 10% from December 2022 to April 2023	-290
VAT on passenger transport reduced to zero rate from January to April 2023	-60
Temporary windfall tax on profits of electricity and fossil fuels industries	200
Total impact	1 365
% of GDP	0.5

In the country-specific recommendations adopted by the Council in July 2023, with regard to general government finances, Finland was given the following guidance: "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 assessment, despite the Government Programme's extensive package of measures, the growth of nationally financed net primary expenditure will, according to the current estimate, slightly exceed the 2.2% recommended by the Council in 2024. However, in line with the recommendation, general government expenditure growth will be constrained in 2024 and the main measures will relate to, as outlined above, the package of housing benefits, changes to unemployment benefits, freezing of indexation increases of benefits, the reduction of the funding level for transport infrastructure projects and the reduction of development cooperation funding. Therefore, according to the Ministry of Finance's assessment, the recommendation given on the increase in net primary expenditure will be broadly complied with in 2024.

In line with the recommendation, all energy support measures decided for 2022 and 2023 have ended on schedule and no new measures are being planned. During the period, the Government will implement a large, one-off investment programme of EUR 4 billion, a significant part of which will be allocated to support economic growth, infrastructure projects and rail transport. In addition, funds from the investment package will be allocated to Clean Energy Finland key projects, effectiveness investments in social and health services, reducing waiting times for access to primary healthcare, and economic policy targets. The investment package is expected to promote the green transition, regional competitiveness, energy self-sufficiency and the modernisation of the rail network. At the same time, the investment package will maintain public investments and promote sustainable economic growth in a situation where an effort is made to limit growth in general government expenditure.

According to the target scenario of the Stability Programme, the general government deficit will start to decrease after 2024. A significant package of measures in the Government Programme will ensure that, after 2024, Finland continues to pursue a medium-term fiscal strategy of gradual and sustainable consolidation, combined with investments and reforms to promote stronger sustainable growth, in order to achieve a prudent medium-term fiscal position.

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

In the Government's assessment, Finland has complied with the preventive arm of the Stability and Growth Pact and the fiscal policy recommendations it received in 2022, as was also the assessment of the Commission and the Council in spring 2023.

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 the structural balance of the general government, in the Government's assessment, deviates significantly in a manner that jeopardises the achievement of the MTO. The Government will assess this in connection with the monitoring and overall assessment of the state of public finances or as the European Union draws attention to this matter in its statement on Finland's Stability Programme.

Comparison with other forecasts, and sensitivity analysis

For a comparison between the targets set by the Government and the Commission's latest public finance forecast, see the table below and the sensitivity analysis in Appendix 4 to the General Government Fiscal Plan. The Commission's most recent GDP, inflation and public finance figures are from May 2023. Unlike the Commission's spring forecast, the Ministry of Finance had access to fresh preliminary data for 2023.

Finland's Recovery and Resilience Plan

Finland submitted its Recovery and Resilience Plan (RRP) to the Commission on 27 May 2021.

The Commission gave its assessment of Finland's plan and made a proposal for a Council implementing decision on the plan on 4 October 2021. The Council formerly approved the plan on 29 October 2021.

The plan is divided into four pillars:

i. A green transition will support structural adjustment of the economy and help to build a carbon-neutral welfare society,

ii. Digitalisation and the data economy will boost productivity and make services available to everyone,

iii. Raising the employment rate and skills levels will boost sustainable growth, and

iv. Availability of health and social services will be improved and cost-effectiveness increased.

In accordance with an update published by the Commission on 30 June 2022, Finland's allocation of Recovery and Resilience Facility grants decreased to c. EUR 1.8 billion. Finland modified its Recovery and Resilience Plan to take account of the reduced allocation by cutting investments by a total of EUR 272.75 million and submitted the modified plan to the Commission on 26 January 2023. The Council approved Finland's modified plan on 14 March 2023.

On 18 May 2022, the Commission published the REPowerEU[16] plan in response to the problems caused by Russia's war of aggression in Ukraine and the disruption of global energy markets. With the support of the plan, the EU can save energy more efficiently, produce clean energy and diversify energy supplies. The EU will grant a total of EUR 20 billion in funding for REPowerEU measures. The EU will finance the plan mainly by selling emission allowances from the EU Innovation Fund and by bringing forward the sale of allowances allocated to Member States.

The REPowerEU plan is part of the Recovery and Resilience Facility and the measures within its scope are included in separate section in amended Recovery and Resilience Plans. Finland has EUR 127 million of REPowerEU funding available (EUR 113 million in non-reimbursable additional financial assistance and EUR 14 million from the Brexit Adjustment Reserve (BAR)).

16 https://eur-lex.europa.eu/eli/reg/2023/435/oj

Table 3. Impact of the Recovery and Resilience Facility (RRF) on Stability Programme's forecasts – grants

	2021	2022	2023	2024	2025	2026
Expenditure financed by RRF grants (% of GDP)						
RRF grants included in revenue forecasts	0.01	0.07	0.25	0.18	0.13	0.05
RRF grant payment from the EU	0.11	0.09	0.08	0.26	0.12	0.11
Expenditure financed by RRF grants (% of GDP)						
Employee compensations D.1	0.00	0.02	0.05	0.03	0.01	0.00
Intermediate consumption P.2	0.00	0.02	0.05	0.03	0.01	0.00
Social security contributions D.62 + D.632						
Interest expenditure D.41						
Subsidies D.3.	0.00	0.01	0.04	0.02	0.02	0.01
Other income transfers D.7						
TOTAL EXPENDITURE	0.01	0.07	0.25	0.18	0.13	0.05
Gross fixed capital formation P.51g	0.00	0.00	0.04	0.04	0.03	0.01
Capital transfers D.9	0.00	0.02	0.07	0.07	0.05	0.03
Investments and capital transfers, total	0.00	0.02	0.11	0.10	0.08	0.04
Other expenditure financed by RRF grants (% of GDP)[1]						
Lost tax revenues						
Other measures affecting revenue						
Financial transactions						

1) Expenditure that has no effect on national accounts expenditure.

Tables 1–3

Table A. General government structural balance, net lending, expenditure and gross debt. Target scenario and Ministry of Finance spring forecast, relative to GDP.

	2022	2023	2024	2025	2026
Structural balance					
– target			-2.2	-1.8	-1.3
– forecast	-0.4	-1.3	-2.2	-2.8	-2.7
General government net lending					
– target			-3.2	-2.4	-1.6
– forecast	-0.8	-2.4	-3.2	-3.4	-3.0
General government gross debt					
– target			76.8	77.6	77.7
– forecast	72.9	74.2	76.8	78.9	80.4
General government expenditure					
– target			54.7	53.9	52.7
– forecast	53.4	54.7	54.7	54.6	53.8

Table B. Comparison with the Commission's previous forecast

	Commission forecast			Ministry of Finance forecast		
	2022	2023	2024	2022	2023	2024
GDP, change, %[1]	2.1	0.2	1.4	1.6	0.0	1.2
Consumer Price Index, change, %[1]	7.2	4.8	2.1	7.2	4.3	1.6
Unemployment rate,%[2]	6.8	7.1	6.8	6.8	7.1	7.2
General government budgetary position, % of GDP[2]	-0.9	-2.6	-2.6	-0.8	-2.4	-3.2
Structural balance, % GDP[2]	-0.6	-1.8	-1.9	-0.4	-1.3	-2.2
General government debt, % of GDP[2]	73	73.9	76.2	72.9	74.2	76.8

1) Commission's winter forecast, February 2023
2) Commission's autumn forecast, November 2022

Table 1a. Macroeconomic outlook

	2022	2022	2023	2024	2025	2026
	EUR billion			Annual change		
1. Real GDP	235.0	1.6	0.0	1.2	1.8	1.7
2. GDP at current prices	268.7	7.1	4.8	3.4	4.1	4.1
Components of real GDP						
3. Private consumption expenditure	123.3	1.7	-0.2	1.0	1.8	2.0
4. General government consumption expenditure	57.4	0.8	1.8	-0.1	0.4	0.5
5. Capital formation	54.0	3.2	-3.1	2.1	4.4	2.1
6. Changes in inventories and net acquisition of valuables (% of GDP)	0.0	0.0	0.0	0.0	0.0	0.0
7. Exports of goods and services	92.6	3.5	-0.8	4.1	3.8	3.6
8. Imports of goods and services	97.8	8.3	-3.8	3.6	4.3	3.5
Imputed impact on GDP growth						
9. Domestic end product demand	241.4	1.8	-0.4	1.0	2.0	1.7
10. Change in inventories and net acquisition of valuables	0.0	1.7	-1.0	0.0	0.0	0.0
11. External balance of goods and services	-5.2	-1.9	1.4	0.2	-0.3	0.0

Table 1b. Development of price indices

	2022	2023	2024	2025	2026
			Annual change		
1. GDP deflator	5.4	4.8	2.2	2.3	2.5
2. Private consumption deflator	6.1	4.9	2.0	1.9	2.0
3. Harmonised Index of Consumer Prices	7.2	4.3	1.6	2.1	2.0
4. Public consumption deflator	4.0	5.6	3.1	3.7	3.6
5. Investment deflator	6.6	3.6	1.7	1.8	2.0
6. Export price deflator	18.6	-4.1	-1.3	1.8	1.9
7. Import price deflator	19.4	-4.0	-1.2	1.8	2.1

Table 1c. Labour market trends

	2022	2022	2023	2024	2025	2026
	level					
1. Employment, 1,000 persons	2 619	2.5	0.3	0.1	0.6	0.6
2. Employment, 1,000 working hours	427 400	1.5	0.2	0.0	0.5	0.6
3. Unemployment rate (%)	190	6.8	7.1	7.2	7.0	6.6
4. Labour productivity, persons	89.7	-0.9	-0.3	1.1	1.1	1.0
5. Labour productivity, hours worked	549.9	0.1	-0.2	1.2	1.3	1.0
6. Compensation of employees	125.2	6.3	5.4	2.7	4.2	3.6
7. Compensation of employees per employee	47.8	3.7	5.1	2.7	3.5	3.0

Table 1d. Sectoral balances, % GDP

	2022	2023	2024	2025	2026
1. Finland's net lending to the rest of the world	-3.6	-1.3	-1.1	-1.3	-1.4
of which:					
– Balance of goods and services	-2.4	-0.9	-0.7	-1.0	-1.0
– Factor incomes and income transfers, net	-1.3	-0.5	-0.5	-0.4	-0.4
– Capital transfers, net	0.1	0.1	0.0	0.0	0.0
2. Private sector net lending	-2.2	1.7	2.4	2.5	2.0
3. Public sector net lending	-0.8	-2.4	-3.2	-2.4	-1.6
4. Statistical discrepancy	-0.5	-0.5	-0.4	-1.4	-1.8

Table 2a. General government outlook

	2022	2022	2023	2024	2025	2026
	EUR million	% of GDP				
Net lending by subsector (EDP B.9)						
1. General government total	-2 275	-0.8	-2.4	-3.2	-2.4	-1.6
2. Central government	-4 402	-1.6	-3.3	-3.4	-3.3	-2.5
3. Regional government		0.0	0.0	0.0	0.0	0.0
4. Local government	-541	-0.2	-0.5	-0.7	-0.6	-0.7
5. Social security funds	2 668	1.0	1.4	0.9	1.5	1.6
General government (S13)						
6. Total revenue	141 142	52.5	52.3	51.5	51.2	50.7
7. Total expenditure	143 418	53.4	54.7	54.7	53.6	52.3
8. Net lending	-2 275	-0.8	-2.4	-3.2	-2.4	-1.6
9. Interest expenditure	1 479	0.6	0.8	1.2	1.3	1.4
10. Primary balance	-796	-0.3	-1.6	-2.0	-1.1	-0.2
11. Non-recurring measures	0	0.0	0.0	0.0	0.0	0.0
Revenue categories						
12. Tax revenue (12=12a+12b+12c)	83 004	30.9	29.6	29.4	29.0	28.8
12a. Taxes on production and imports	36 380	13.5	12.9	12.7	12.4	12.2
12b. Income tax	45 723	17.0	16.2	16.5	16.3	16.3
12c. Taxes on capital income	901	0.3	0.4	0.3	0.3	0.3
13. Social security contributions	20 292	12.0	12.1	11.4	11.6	11.4
14. Property income	6 973	2.6	3.3	3.6	3.8	3.9
15. Other revenue (15=16-12-13-14)	30 873	7.1	7.3	7.1	6.8	6.6
16. = 6. Total income	141 142	52.5	52.3	51.5	51.2	50.7
of which: Tax burden (D2+D.5+D.61+D.91-D.995)	103 593	43.1	41.9	41.0	40.6	40.1

	2022	2022	2023	2024	2025	2026
	EUR million			% of GDP		
Expenditure categories						
17. Compensation of employees + intermediate consumption	64 005	23.8	24.6	24.4	23.6	23.1
17a. Compensation of employees (i.e. wages + employer's social security contributions)	33 269	12.4	12.4	12.3	12.3	12.2
17b. Intermediate consumption	30 736	11.4	12.2	12.1	11.9	11.6
18. Social transfers (18=18a+18b)	55 628	20.7	21.2	21.4	20.6	20.1
of which unemployment benefits	4 080	1.5	1.6	1.5	1.2	1.0
18a. Social transfers in kind	8 340	3.1	3.1	3.2	3.2	3.2
18b. Monetary social benefits	47 288	17.6	18.0	18.1	17.4	16.9
19. = 9. Interest expenditure	1 479	0.6	0.8	1.2	1.3	1.4
20. Subsidies	2 953	1.1	0.9	0.9	0.9	0.8
21. Gross fixed capital formation	11 260	4.2	4.2	4.3	4.7	4.5
22. Capital transfers	1 250	0.5	0.5	0.1	0.1	0.1
23. Other expenditure (23 = 24 -17-18-19-20-21)	6 843	2.5	2.5	2.3	2.3	2.2
24. = 7. Total expenditure	143 418	53.4	54.7	54.7	53.6	52.3
of which: Public consumption	64 636	24.1	24.8	24.8	24.7	24.6

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

	2022	2022	2023	2024	2025	2026
	EUR million					
1. Total revenue under unchanged policies	141 142	52.5	52.3	51.5	51.3	50.8
2. Total expenditure under unchanged policies	143 418	53.4	54.7	54.7	54.6	53.8

Table 2c. Expenditure outside the expenditure benchmark, % GDP

	2022	2022	2023	2024	2025	2026
	EUR million					
1. Expenditure on EU programmes fully matched by EU funds revenue	742	0.3	0.4	0.3	0.2	0.1
1.a. of which investments fully matched by EU funds revenue	97	0.0	0.0	0.0	0.0	0.0
2. Cyclical unemployment benefit expenditure	236	0.1	0.1	0.1	0.1	0.1
3. Revenue impacts of discretionary measures	-142	-0.1	-0.2	-0.7	0.1	-0.1
4. Expenditure funded with earmarked revenue	78	0.0	0.0	0.0	0.0	0.0

Tables 4–9

Table 4. General government debt trends, % of GDP

	2022	2023	2024	2025	2026
1. Gross debt, % of GDP	72.9	74.2	76.8	77.6	77.7
2. Change in gross debt, % points	0.4	1.3	2.6	0.8	0.1
Contributions to changes in gross debt, % points					
3. Primary balance	0.3	1.6	1.8	1.1	0.2
4. Interest expenditure	0.6	0.8	1.2	1.3	1.4
5. Stock-flow adjustment items	-0.5	-1.1	-0.6	-1.6	-1.4
of which:					
– Differences between cash-based and accrual-based statistics	1.3	0.3	0.7	0.1	0.0
– Net acquisition of financial assets	2.7	0.8	0.8	1.2	1.3
– of which: privatisation proceeds	0.0	-0.2	-0.2	-0.1	0.0
– Other (incl. impacts of GDP growth)	-4.5	-2.3	-2.1	-2.9	-2.7
Implicit interest rate on debt (= embedded interest payments per the previous year's level of debt * 100)	0.8	1.2	1.7	1.8	1.9
Other relevant variables					
6. Liquid financial assets (AF1, AF2, AF3, AF5)					
7. Net financial liability (7=1-6)					
8. Central government write-offs (existing bonds)	12.0				
9. Percentage of foreign currency loans	0				
10. Average maturity of government debts	7.6				

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

	2022	2023	2024	2025	2026
1. Real GDP, % change	1.6	0.0	1.2	1.8	1.7
2. General government financial balance	-0.8	-2.4	-3.2	-2.4	-1.6
3. Interest expenditure	0.6	0.8	1.2	1.3	1.4
4. Non-recurring measures	0.0	0.0	0.0	0.0	0.0
one-off measures affecting general government revenue					
one-off measures affecting general government expenditure					
5. Potential GDP, change %	1.4	1.2	1.0	1.1	1.1
contributions:					
– labour input	0.5	0.4	0.1	0.1	0.0
– capital input	0.5	0.4	0.4	0.5	0.5
– total factor productivity	0.4	0.4	0.5	0.5	0.6
6. Production gap	-0.7	-1.9	-1.7	-1.0	-0.5
7. Financial balance cyclical component	-0.4	-1.1	-1.0	-0.6	-0.3
8. Cyclically-adjusted financial balance (2-7)	-0.4	-1.3	-2.2	-1.8	-1.3
9. Cyclically-adjusted primary balance (8+3)	0.1	-0.5	-1.0	-0.5	0.1
10. Structural balance (8-4)	-0.4	-1.3	-2.2	-1.8	-1.3

Table 6. Divergence from previous Stability Programme

	2022	2023	2024	2025	2026
GDP growth (%)					
SP-2023 – spring	2.1	-0.2	1.3	1.6	1.6
SP-2023 – autumn	1.6	0.0	1.2	1.8	1.7
Difference, % points	-0.5	0.2	-0.1	0.2	0.1
General government balance, % GDP					
SP-2023 – spring	-0.8	-2.6	-2.6	-3.1	-2.9
SP-2023 – autumn	-0.8	-2.4	-3.2	-2.4	-1.6
Difference, % points	0.0	0.2	-0.6	0.7	1.3
General government gross debt, % of GDP					
SP-2023 – spring	73.0	74.4	76.9	79.0	80.7
VO-2023 – autumn	72.9	74.2	76.8	77.6	77.7
Difference, % points	-0.1	-0.2	-0.1	-1.4	-3.0

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

	2007	2010	2020	2030	2040	2050	2060
Total expenditure	46.6	53.9	57.2	53.5	54.9	56.3	59.1
of which: age-related expenditure			29.4	29.2	29.4	28.9	29.8
Total revenue	51.7	51.4	51.6	50.5	51.2	52.2	54.0

Table 7a. Contingent liabilities, % of GDP

	2022	2023
Central government guarantees	25.3	
of which: linked to financial sector	4.3	

Table 8. Background assumptions of the projection1

	2022	2023	2024	2025	2026
3-month EURIBOR	0.3	3.5	3.6	3.0	2.4
Long-term interest rate (10 years)	1.7	3.1	3.2	3.2	3.1
USD/EUR exchange rate	1.1	1.1	1.1	1.1	0.0
Nominal effective exchange rate	-2.7	-0.6	0.0		
World GDP growth (excluding the EU)	3.3	2.8	3.1		
EU-28 GDP growth	3.5	1.0	1.7		
GDP growth of key export markets	3.9	-0.4	5.4	3.3	
World trade growth	3.6	0.0	5.7	3.8	
Oil prices (USD/barrel)	98.7	82.3	82.2	77.9	

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

Table 9. Impact of the Recovery and Resilience Facility (RRF) on Stability Programme's forecasts – grants

	2021	2022	2023	2024	2025	2026
Expenditure financed by RRF grants (% of GDP)						
RRF grants included in revenue forecasts	0.01	0.07	0.25	0.18	0.13	0.05
RRF grant payment from the EU	0.11	0.09	0.08	0.26	0.12	0.11
Expenditure financed by RRF grants (% of GDP)						
Employee compensations D.1	0.00	0.02	0.05	0.03	0.01	0.00
Intermediate consumption P.2	0.00	0.02	0.05	0.03	0.01	0.00
Social security contributions D.62 + D.632						
Interest expenditure D.41						
Subsidies D.3.	0.00	0.01	0.04	0.02	0.02	0.01
Other income transfers D.7						
TOTAL EXPENDITURE	0.01	0.07	0.25	0.18	0.13	0.05
Gross fixed capital formation P.51g	0.00	0.00	0.04	0.04	0.03	0.01
Capital transfers D.9	0.00	0.02	0.07	0.07	0.05	0.03
Investments and capital transfers, total	0.00	0.02	0.11	0.10	0.08	0.04
Other expenditure financed by RRF grants (% of GDP)[1]						
Lost tax revenues						
Other measures affecting revenue						
Financial transactions						

1) Expenditure that has no effect on national accounts expenditure.

Draft Budgetary Plan

Tables

1 Macroeconomic forecasts

Table 0.i). Basic assumptions

	2022	2023	2024
3-month EURIBOR	0.3	3.5	3.6
Bond interest rate (10 years)	1.7	3.1	3.2
USD/EUR exchange rate	1.1	1.1	1.1
Nominal effective exchange rate (Finland)	-2.7	-0.6	0.0
World GDP growth (excluding EU)	3.3	2.8	3.1
EU-28 GDP growth	3.5	1.0	1.7
GDP growth in key export markets	3.9	-0.4	5.4
World trade growth	3.6	0.0	5.7
Crude oil price (USD/barrel)	98.7	82.3	82.2

Table 1a. Macroeconomic outlook

	2022	2022	2023	2024
	EUR billion	amount, %		
1. Real GDP	235.0	1.6	0.0	1.2
of which				
Attributable to the estimated impacts of aggregated budgetary measures on economic growth				
2. Potential GDP	236.8	1.4	1.2	1.0
contributions:				
– labour input				
– capital				
– total factor productivity				
3. Nominal GDP	268.7	7.1	4.8	3.4
4. Private consumption expenditure	123.3	1.7	-0.2	1.0
5. Public consumption expenditure	57.4	0.8	1.8	-0.1
6. Capital formation	54.0	3.2	-3.1	2.1
7. Change in inventories (% of GDP)	0.0	0.0	0.0	0.0
8. Exports of goods and services	92.6	3.5	-0.8	4.1
9. Imports of goods and services	97.8	8.3	-3.8	3.6
Contributions to real GDP growth, % points				
10. Domestic end product demand	241.4	1.8	-0.4	1.0
11. Changes in inventories	0	1.7	-1.0	0.0
12. Net exports	-5.2	-1.9	1.4	0.2

Table 1b. Price trends

	2022	2023	2023
		change, %	
1. GDP deflator	5.4	4.8	2.2
2. Private consumption deflator	6.1	4.9	2.0
3. Harmonised Consumer Price Index	7.2	4.3	1.6
4. Public consumption deflator	4.0	5.6	3.1
5. Investment deflator	6.6	3.6	1.7
6. Export price deflator	18.6	-4.1	-1.3
7. Import price deflator	19.4	-4.0	-1.2

Table 1c. Labour market trends

	2022	2022	2023	2024
	level		change, %	
1. Employment, 1,000 persons	2 619	2.5	0.3	0.1
2. Employment, 1,000,000 hours worked	427.4	1.5	0.2	0.0
3. Unemployment rate (%)	190	6.8	7.1	7.2
4. Labour productivity, persons	89.7	-0.9	-0.3	1.1
5. Labour productivity, hours worked	549.9	0.1	-0.2	1.2
6. Compensation of employees	125.2	6.3	5.4	2.7
7. Compensation of employees per employee	47.8	3.7	5.1	2.7

Table 1d. Sector-specific balances, % GDP

	2022	2023	2024
1. Finland's net lending to the rest of the world	-3.6	-1.3	-1.1
of which:			
– Balance of goods and services	-2.4	-0.9	-0.7
– Factor incomes and income transfers, net	-1.3	-0.5	-0.5
– Capital transfers, net	0.1	0.1	0.0
2. Private sector net lending	-2.2	1.7	2.4
3. Public sector net lending	-0.8	-2.4	-3.2
4. Statistical discrepancy	-0.5	-0.5	-0.4

2. Targets for general government finances

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

Net lending by subsector	2023	2024
1. General government total	-2.4	-3.2
2. Central government	-3.3	-3.4
3. -		
4. Local government	-0.5	-0.7
5. Social security funds	1.4	0.9
6. Interest expenditure	1.2	1.3
7. Primary balance	-1.6	-2.0
8. Non-recurring measures	0.0	0.0
9. Real GDP growth, % change	0.0	1.2
10. Potential GDP, % change	1.2	1.0
contributions:		
– labour input	0.4	0.1
– capital input	0.4	0.4
– total factor productivity	0.4	0.5
11. Output gap	-1.9	-1.7
12. Financial balance cyclical component	-1.1	-1.0
13. Cyclically-adjusted financial balance	-1.3	-2.2
14. Cyclically-adjusted primary balance	-0.5	-1.0
15. Structural balance	-1.3	-2.2

Table 2b. General government debt developments, EUR billion

	2023	2024
1. Gross debt	74.2	76.8
2. Change in gross debt, % points	1.3	2.6
Factors contributing to change in gross debt, % points		
3. Primary balance	1.6	2.0
4. Interest expenditure	0.8	1.2
5. Stock-flow adjustment items	-1.1	-0.6
of which:		
– Differences between cash-based and accrual-based statistics	0.3	0.7
– Net acquisition of financial assets	0.8	0.8
– of which:		
– privatisation proceeds	-0.2	-0.2
– valuation effects and other	-2.3	-2.1
Implicit interest rate on debt	1.2	1.7
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 debts		

3 Expenditure and revenue projections under the no-change scenario

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

General government	2023	2024
1. Total revenue under the no-change scenario	52.3	51.6
of which:		
Taxes on production and imports	12.9	12.7
1.2 Income taxes	16.2	16.5
1.3. Taxes on capital income	0.4	0.3
1.4. Social security contributions	12.1	11.4
1.5. Property income	3.3	3.3
1.5. Other revenue	7.3	7.1
of which: tax rate	41.9	41.0
2. Total expenditure under the no-change scenario	54.7	54.9
of which:		
2.1. Compensation of employees (i.e. wages + employer's social security contributions)	12.4	12.3
2.2. Intermediate consumption	12.2	12.2
2.3. Social income transfers	21.2	21.4
of which unemployment benefits	1.6	1.5
2.4. Interest expenditure	0.8	1.2
2.5. Subsidies	0.9	0.9
2.6. Gross fixed capital formation	4.2	4.4
2.7. Capital transfers	0.5	0.1
2.8 Other expenditure	2.5	2.3

4 Expenditure and revenue targets; general government expenditure by task

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

General government	2023	2024
1. Total revenue	52.3	51.5
of which:		
1.1. Taxes on production and imports	12.9	12.7
1.2. Income taxes	16.2	16.5
1.3.Taxes on capital income	0.4	0.3
1.4. Social security contributions	12.1	11.4
1.5. Property income	3.3	3.6
1.5. Other revenue	7.3	7.1
of which: tax rate	41.9	41.0
2. Total expenditure	54.7	54.7
of which:		
2.1. Compensation of employees	12.4	12.3
2.2. Intermediate consumption	12.2	12.1
2.3. Social income transfers	21.2	21.4
of which unemployment benefits	1.6	1.5
2.4. Interest expenditure	0.8	1.2
2.5. Subsidies	0.9	0.9
2.6. Gross fixed capital formation	4.2	4.3
2.7. Capital transfers	0.5	0.1
2.8 Other expenditure	2.5	2.3

Table 4b. Expenditure outside the expenditure benchmark

	2021	2022	2023	2024
	EUR million		% of GDP	
1. Expenditure on EU programmes fully matched by EU funds revenue	742	0.3	0.4	0.3
1.a of which investments	97	0.0	0.0	0.0
2. Cyclical unemployment benefit expenditure	236	0.1	0.1	0.1
3. Revenue impacts of discretionary measures	-142	-0.1	-0.2	-0.7
4. Expenditure funded with earmarked revenue	78	0.0	0.0	0.0

5 Discretionary measures contained in the Budget proposal

Table 5a. Discretionary general government measures and budgetary impacts

					Budgetary impacts		
					2022	2022	2023
List of measures[1]	Detailed description	Objective	Accounting principle	Status	% of GDP		
Personal income tax	Personal income tax		accrual-based	majority approved[2]			0.1
Corporate tax	Corporate tax		accrual-based	majority approved[2]			0.0
Indirect taxes	Indirect taxes		accrual-based	majority approved[2]			0.0
Social security contributions	Social security contributions		accrual-based	proposed[3]			-0.7
Expenditure measures	Expenditure measures		accrual-/ cash-based	majority approved[2]			-0.4

1) Many of the measures do not meet the size criterion (at least 0.05% of 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 are permanent.
2) Parliament will decide on this in autumn 2023
3) The Ministry of Social Affairs and Health will decided on this in autumn 2023

Table 5b. Discretionary central government measures

					Budgetary impacts		
					2022	2023	2024
List of measures[1]	Detailed description	Objective	Accounting principle	Status	% of GDP		
Personal income tax	Personal income tax		accrual-based	majority approved[2]			0.1
Corporate tax	Corporate tax		accrual-based	majority approved[2]			0.0
Indirect taxes	Indirect taxes		accrual-based	majority approved[2]			0.0
Expenditure measures	Expenditure measures		accrual-/ cash-based	majority approved[2]			-0.4

1) Many of the measures do not meet the size criterion (at least 0.05% of 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 most are permanent.
2) Parliament will decide on this in autumn 2023

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

Table 6a. Country-Specific Recommendations

Recommendation	Measures	Description of direct relevance
CSR 1: 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;	Energy support measures ended on schedule in 2023 and no new measures are planned.	The measures respond directly to the recommendation.
CSR 2: 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%	Despite the Government Programme's extensive package of measures, the growth of nationally financed net primary expenditure will, according to the current estimate, slightly exceed in 2024 the 2.2% recommended by the Council. However, in line with the recommendation, general government expenditure growth will be constrained in 2024 and the main measures will relate to, as outlined above, the package of housing benefits, changes to unemployment benefits, freezing of indexation increases of benefits, the reduction of the funding level for transport infrastructure projects and the reduction of development cooperation funding.	These measures respond directly to the recommendation, taking into account the increased costs related to support for Ukraine and security.

Recommendation	Measures	Description of direct relevance
CSR 3: 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	A significant part of Finland's Recovery and Resilience Plan has been allocated to the promotion of the twin transition. The level of public investments will remain high despite the financial adjustment measures, taking into account the large one-off allocations made by the Government to support growth.	The measures respond directly to the recommendation.
CSR 4: 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.	The Government commits during the parliamentary term to strengthen general government finances permanently through a set of measures that will improve general government finances by a net EUR 6 billion at the 2027 level. As part of the Sustainable Growth Programme for Finland, major green transition measures have been decided on. In order to strengthen energy self-sufficiency and security of supply, a set of measures has been decided with the aim of significantly accelerating the withdrawal from fossil energy and supporting the introduction of new technologies.	The measures respond directly to the recommendation.
CSR 5: 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	The Government is planning a reform of basic social security that would improve the profitability of work, streamline social security and simplify benefits, taking into account the recommendations and reports made in Social Security Committee's interim report.	The measures respond directly to the recommendation with regard to the reform of the social security system.

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

The actions taken have been reviewed in detail in Finland's National Reform Programme

https://commission.europa.eu/system/files/2023-04/Finland-NRP-2023_en.pdf

7 Divergence from the latest Stability Programme

Table 7. Divergence from the latest Stability Programme

	2022	2023	2024
		% of GDP	
General government net lending			
Stability Programme	-0.8	-2.6	-2.6
Draft Budgetary Plan	-0.8	-2.4	-3.2
Difference, % points	0.0	0.2	-0.6
General government net lending at unchanged policies			
Stability Programme	-0.8	-2.6	-2.6
Draft budget proposal	-0.8	-2.4	-3.4
Difference, % points	0.0	0.2	-0.8

Methodological aspects

The macro forecast is based on the views of experts, the Ministry of Finance DSGE model, a short-term factor model and various partial models.

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

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