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**COMMISSION OPINION**

**of 21.11.2018**

**on the Draft Budgetary Plan of Finland**

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GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 sets out provisions for enhanced monitoring of budgetary policies in the euro area for ensuring that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact (SGP) and the European Semester for economic policy coordination.
2. Article 6 of Regulation (EU) No 473/2013 requires Member States to submit annually to the Commission and to the Eurogroup a Draft Budgetary Plan presenting by 15 October the main aspects of the budgetary situation of the general government and its subsectors for the forthcoming year.

CONSIDERATIONS CONCERNING FINLAND

3. On the basis of the Draft Budgetary Plan for 2019 submitted on 4 October 2018 by Finland, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.
4. Finland is subject to the preventive arm of the SGP. On 13 July 2018, the Council recommended Finland to achieve its medium term budgetary objective (MTO) – a structural deficit 0.5% of GDP in 2019, taking into account the allowances linked to the implementation of structural reforms.[1]
5. According to the Commission 2018 autumn forecast, the Finnish economy is expected to grow by 2.9% in 2018 and 2.2% in 2019. The Draft Budgetary Plan expects a higher growth in 2018 (3.0%) and a lower growth in 2019 (1.7%). The composition of growth is slightly different with somewhat lower growth of domestic demand and somewhat higher growth of net exports in the DBP compared to the Commission forecast. Overall, the macroeconomic scenario underlying the Draft Budgetary Plan is plausible for 2018 and cautious for 2019. Finland complies with the requirement of Regulation EU No 473/2013 since the draft budget is based on independently produced macroeconomic forecasts.
6. The Draft Budgetary Plan projects a headline deficit of 0.7% of GDP in 2018, decreasing to 0.1% of GDP in 2019. The Commission expects the headline deficit at 0.8% in 2018 and 0.2% in 2019. The difference is explained by the different macro-outlook and the more cautious Commission's assumptions regarding elasticities of government revenues in 2019. In the Draft Budgetary Plan, the structural balance[2] is estimated at -1.1% of GDP in 2018 and is set to improve to -0.8% of GDP in 2019. These projections are more pessimistic than the Commission 2018 autumn forecast

[1] Council Recommendation of 13 July 2018 on the 2018 National Reform Programme of Finland and delivering a Council opinion on the 2018 Stability Programme of Finland, OJ C 320, 10.9.2018, p. 112–115.

[2] Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission using the commonly agreed methodology.

(respectively at -0.8% in 2018 and -0.6% in 2019) due primarily to differences in the estimation of the output gap.

Since 2016, Finland has consolidated public finances mainly by reducing central government expenditure through appropriation cuts and lower or frozen social transfers. At the same time, taxes on earned income have been reduced, and indirect taxes and excise duties have been increased. For 2019, Finland's Draft Budgetary Plan contains a reduction in taxes on income and social security contributions, thereby continuing the gradual shift away from taxation of earned income (favouring small income earners) towards indirect taxation. With respect to the Recommendation of 13 July 2018 addressed by the Council to Finland[3] to ensure the adoption and implementation of the administrative reform to improve cost-effectiveness and equal access to social and healthcare services, the Draft Budgetary Plan highlights the SOTE (i.e. social and healthcare reform) and Regional Reform. The reforms are currently under discussion in the Parliament but, contrary to what had been initially announced, will likely not be adopted by the end of 2018.

7. The rising age-related expenditure remains a concern for the long-term sustainability of the Finnish public finances. The prepared reforms of the local administration and the social and healthcare services, if adopted by the Parliament, may contribute to addressing this concern.

8. In 2018, for Finland to comply with the requirements of the preventive arm, it should achieve its MTO, taking into account the allowances linked to unusual events and the implementation of structural reforms[4]. According to both the information provided in the Draft Budgetary Plan and the Commission 2018 autumn forecast, the projected distance of the (recalculated) structural balance to the MTO is below what is allowed when considering the temporary deviation granted related to unusual events and the implementation of structural reforms. Thus, the current assessment for 2018 points to compliance.

In 2019, Finland is required to respect its MTO taking into account the allowed temporary deviations. According to both the information provided in the Draft Budgetary Plan and the Commission forecast, the projected distance of the (recalculated) structural balance to the MTO is below what is allowed when considering the temporary deviation granted related to the implementation of structural reforms. Thus, the current assessment for 2019 points to compliance.

At the same time, Finland has a requirement that the nominal growth rate of net primary government expenditure should not exceed 1.9% in 2018 and 2.9% in 2019, corresponding to a deterioration of the structural balance by maximum 0.1% and 0.2% of GDP in 2018 and 2019, respectively. The expenditure benchmark would currently point to a risk of a significant deviation from the requirement in 2018 and 2019 taken together, based on both the Draft Budgetary Plan and the Commission forecast. If compliance with the MTO taking into account the allowances linked to unusual events and the implementation of structural reforms can no longer be

[3] Council Recommendation of 13 July 2018 on the 2018 National Reform Programme of Finland and delivering a Council opinion on the 2018 Stability Programme of Finland, OJ C 320, 10.9.2018, p. 112–115.

[4] Finland has been granted the temporary allowance linked to the structural reform clause (0.5% of GDP) and a temporary deviation from the adjustment path towards the MTO corresponding to the additional expenses incurred due to the exceptional inflow of refugees on a year-to-year basis. The granted deviation is carried forward for three years and amounts to 0.17% of GDP in 2018.

established in future assessments for 2018 or 2019, the overall assessment of compliance will need to take into account a possible deviation from the above-mentioned requirement.

9. The Draft Budgetary Plan and the Commission 2018 autumn forecast consistently indicate that government debt will decline below the reference value of the Treaty of 60% of GDP in 2018 (respectively at 59.9% and 59.8% in 2018 and 59.1% and 58.5% in 2019).

10. Overall, the Commission is of the opinion that the Draft Budgetary Plan of Finland is compliant with the provisions of the Stability and Growth Pact. However, this assessment is dependent on the current projection that Finland will respect the MTO, taking into account the allowances linked to unusual events and the implementation of structural reforms. If such a projection is not confirmed in future assessments, the overall assessment of compliance will need to take into account the extent of the deviation from the requirement set by the Council. The Commission invites the authorities to implement the 2019 budget.

    The Commission is also of the opinion that Finland has made limited progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 13 July 2018 in the context of the 2018 European Semester and invites the authorities to make further progress. A comprehensive description of progress made with the implementation of the country-specific recommendations will be made in the 2019 Country Reports and assessed in the context of the country-specific recommendations to be proposed by the Commission in May 2019.

Done at Brussels, 21.11.2018

*For the Commission*
*Pierre MOSCOVICI*
*Member of the Commission*