MINISTRY
OF FINANCE

2021 Draft Budgetary Plan

Economic Policy

Publications of the Ministry of Finance – 2020:76

Publications of the Ministry of Finance 2020:76

2021 Draft Budgetary Plan

Ministry of Finance, Helsinki 2020

Ministry of Finance

ISBN PDF: 978-952-367-515-5

Layout: Government Administration Department, Publications

Helsinki 2020

Description sheet

Published by	Ministry of Finance		15 October 2020
Authors	Ministry of Finance		
Title of publication	2021 Draft Budgetary Plan		
Series and publication number	Publications of the Ministry of Finance 2020:76		
Register number		**Subject**	Economic Policy
ISBN PDF	978-952-367-515-5	**ISSN (PDF)**	1797-9714
Website address (URN)	http://urn.fi/URN:ISBN:978-952-367-515-5		
Pages	24	**Language**	English
Keywords	Fiscal policy, budgets, Stability and Growth Pact		

Abstract

Under Regulation (EU) No 473/2013 of the European Parliament and of the Council (regulation on common provisions for monitoring and assessing Draft Budgetary Plans and ensuring the correction of excessive deficit of the Member States in the euro area), euro area Member States are required to submit their Draft Budgetary Plans (DBPs) for the forthcoming year to the European Commission by 15 October. The DBPs are part of the coordinated surveillance exercise, which takes place every autumn. The DBP contains the details of macroeconomic forecasts and assumptions, targets for general government finances, expenditure and revenue projections under the no-change scenario, expenditure and revenue targets, discretionary measures contained in the Budget proposal, the goals set out in the European Union's strategy for growth and jobs, and Country-Specific Recommendations, a comparison between the DBP and the most recent Stability Programme and an appendix on methods. The General Escape Clause of the Stability and Growth Pact was activated in March 2020 and will also remain in effect in 2021. The 2021 Draft Budgetary Plan is based on the proposal for the 2021 Budget presented by the Government to Parliament on 5 October 2020, which is largely based on the spring 2020 spending limits decision, Government resolutions pertaining to the coronavirus situation, 2020 supplementary budgets and the Local Government Finances Programme for the year 2021.

Publisher	Ministry of Finance
Distributed by/ Publication sales	Online version: julkaisut.valtioneuvosto.fi Publication sales: vnjulkaisumyynti.fi

Kuvailulehti

Julkaisija	Valtiovarainministeriö		15.10.2020
Tekijät	Valtiovarainministeriö		
Julkaisun nimi	2021 Draft Budgetary Plan (Vuoden 2021 alustava talousarviosuunnitelma)		
Julkaisusarjan nimi ja numero	Valtiovarainministeriön julkaisuja 2020:76		
Diaari/hankenumero	-	**Teema**	Talouspolitiikka
ISBN PDF	978-952-367-515-5	**ISSN PDF**	1797-9714
URN-osoite	http://urn.fi/URN:ISBN:978-952-367-515-5		
Sivumäärä	24	**Kieli**	Englanti
Asiasanat	Talouspolitiikka, finanssipolitiikka, talousarviot, vakaus- ja kasvusopimus		

Tiivistelmä

Euroopan parlamentin ja neuvoston asetuksen (EU) N:o 473/2013 (asetus alustavien talousarviosuunnitelmien seurantaa ja arviointia sekä euroalueen jäsenvaltioiden liiallisen alijäämän tilanteen korjaamisen varmistamista koskevista yhteisistä säännöksistä) mukaisesti euroalueen jäsenvaltiot toimittavat 15. lokakuuta mennessä tulevaa vuotta koskevat alustavat talousarviosuunnitelmansa (Draft Budgetary Plan, DBP) komissiolle. Alustavat talousarviosuunnitelmat kuuluvat syksyisin toteutettavaan koordinoituun valvontamenettelyyn. Alustava talousarviosuunnitelma pitää sisällään tiedot makrotalouden ennusteista ja oletuksista, julkisen talouden tavoitteista, tulo- ja menoennusteista politiikan pysyessä muuttumattomana, tulo- ja menotavoitteista, talousarvioesitykseen sisältyvistä päätösperäisistä toimenpiteistä, unionin kasvu- ja työllisyysstrategian tavoitteista ja maakohtaisista suosituksista ja viimeisimmän vakausohjelman ja alustavan talousarviosuunnitelman vertailusta sekä menetelmiä koskevan liitteen. Vakaus- ja kasvusopimuksen yleinen poikkeuslauseke aktivoitiin maaliskuussa 2020 ja se on voimassa myös v. 2021. Vuoden 2021 alustavan talousarviosuunnitelman pohjana toimivat hallituksen 5.10.2020 eduskunnalle antama vuoden 2021 valtion talousarvioesitys, joka perustuu pitkälti kevään 2020 kehyspäätökseen, valtioneuvoston koronavirustilannetta koskevat periaatepäätökset, vuoden 2020 lisätalousarviot sekä kuntatalousohjelma vuodelle 2021.

Kustantaja	Valtiovarainministeriö
Julkaisun jakaja/myynti	Sähköinen versio: julkaisut.valtioneuvosto.fi Julkaisumyynti: vnjulkaisumyynti.fi

Presentationsblad

Utgivare	Finansministeriet		15.10.2020
Författare	Finansministeriet		
Publikationens titel	2021 Draft Budgetary Plan (Utkast till budgetplan 2021)		
Publikationsseriens namn och nummer	Finansministeriets publikationer 2020:76		
Diarie-/ projektnummer		**Tema**	Finanspolitik
ISBN PDF	978-952-367-515-5	**ISSN PDF**	1797-9714
URN-adress	http://urn.fi/URN:ISBN:978-952-367-515-5		
Sidantal	24	**Språk**	Engelska
Nyckelord	Finanspolitik, budgetar, stabilitets- och tillväxtpakten		

Referat

Medlemsstaterna i euroområdet tillställer i enlighet med Europaparlamentets och rådets förordning (EU) nr 473/2013 (förordningen om gemensamma bestämmelser för övervakning och bedömning av utkast till budgetplaner och säkerställande av korrigering av alltför stora underskott i medlemsstater i euroområdet) kommissionen sina utkast till budgetplaner för det kommande året (Draft Budgetary Plan, DBP) senast den 15 oktober. Utkasten till budgetplaner ingår i EU:s samordnade tillsynsförfarande som genomförs varje höst. Utkastet till budgetplanen inkluderar uppgifter om makroekonomiska prognoser och antaganden, målen för den offentliga ekonomin, inkomst- och utgiftsprognoserna då politiken förblir oförändrad, inkomst- och utgiftsmålsättningarna, beslutsbaserade åtgärder som ingår i budgetpropositionen, målen i unionens tillväxt- och sysselsättningsstrategi och de landsspecifika rekommendationerna, en jämförelse av det senaste stabilitetsprogrammet och utkastet till budgetplanen samt en bilaga om metoder och medel. Stabilitets- och tillväxtpaktens allmänna undantagsklausul aktiverades i mars 2020 och den gäller också 2021. Utkastet till budgetplanen för 2021 baserar sig på regeringens proposition om statsbudgeten för 2021 som överlämnades till riksdagen den 5 oktober 2020, och som till stora delar grundar sig på rambeslutet från våren 2020, statsrådets principbeslut om coronavirusläget, tilläggsbudgetarna för 2020 samt kommunekonomiprogrammet för 2021.

Förläggare	Finansministeriet
Distribution/ beställningar	Elektronisk version: julkaisut.valtioneuvosto.fi Beställningar: vnjulkaisumyynti.fi

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The 2021 Draft Budgetary Plan presents an assessment of Finland's general government finances in 2020 and 2021 and Government's assessment of progress towards the Medium-Term Objective (MTO), as laid down in the Fiscal Policy Act (869/2012).

General Escape Clause of the Stability and Growth Pact

On 20 March 2020, the European Commission issued a communication[1] on the activation of the General Escape Clause of the Stability and Growth Pact.[2] The proposal to activate the clause was based on the severe economic downturn in the European Union as a whole caused by the coronavirus situation and the need to react to the situation with a sufficiently large fiscal response. In a statement issued on 23 March 2020,[3] the Finance Ministers of Member States expressed their support for the activation of the clause. Based on the General Escape Clause, Member States may be permitted to depart from the adjustment path towards the medium-term budgetary objective due to an unusual event beyond the Member State's control and which has a major impact on the general government budgetary position or in a severe economic downturn for the euro area or the EU as a whole, provided that this does not endanger fiscal sustainability in the medium term.

In the Country-Specific Recommendations adopted in July 2020,[4] as for the fiscal policy in 2020 and 2021, Finland was given recommendations to "take all necessary measures, in line with the General Escape Clause of the Stability and Growth Pact, to effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery" and "when economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment".

1 https://ec.europa.eu/info/files/communication-commission-council-activation-general-escape-clause-stability-and-growth-pact_en

2 Articles 5(1), 6(3), 9(1) and 10(3) of the Regulation (EC) 1466/97 and Articles 3(5) and 5(2) of the Regulation (EC) 1467/97

3 https://www.consilium.europa.eu/en/press/press-releases/2020/03/23/statement-of-eu-ministers-of-financeon-the-stability-and-growth-pact-in-light-of-the-covid-19-crisis/

4 OJ C 282, 26.8.2020, pp. 171—176. Council Recommendation of 20 July 2020 on the 2020 National Reform Programme of Finland and delivering a Council opinion on the 2020 Stability Programme of Finland.

Measures prompted by the coronavirus situation have a substantial impact on general government expenditure and revenue in 2020 and 2021

By the end of September this year, the Government has presented six supplementary budgets to Parliament in reaction to the epidemic and a weakening economic outlook. Most of the measures contained in the supplementary budgets have been prompted by the COVID-19 epidemic. The sixth supplementary budget proposal, which was presented to Parliament on 24 September 2020, is not included in the Draft Budgetary Plan (DBP). The seventh supplementary budget proposal for 2020 will be presented to Parliament before the end of the year.

Ensuring access to health services, supporting companies and extending unemployment security have been the key measures taken by the Government in the COVID-19 epidemic. A wide range of measures to tackle the epidemic have been budgeted for 2020 but many of the measures (such as appropriations to cover testing expenses) will also have impacts in 2021. The exact timing of all these measures cannot be estimated on the basis of on-budget annual appropriations. For example, investment projects are deferrable appropriations extending over several years, which means that the appropriations budgeted for this year can also be used in the coming years. For this reason, funding for basic transport infrastructure management and the development of the transport infrastructure will also have impacts beyond 2020. Some of the projects may continue or be postponed to 2021, in which case they will not have any short-term stimulus impact.

The COVID-19 measures contained in the first five supplementary budgets for 2020 and included in the DBP will increase general government expenditure recognised in the national accounts by about EUR 4.9 billion (2.1% of GDP) and reduce the revenue by about EUR 1.1 billion (0.5% of GDP). In 2021, the expenditure increases prompted by the coronavirus situation are expected to total EUR 2.1 billion (0.9% of GDP).

Finland would like to apply the General Escape Clause of the Stability and Growth Pact to its measures intended to deal with the coronavirus situation. The measures are described in Table 1 and more details are presented in the supplementary budget proposals[5] and the economic surveys produced by the Ministry of Finance's Economics Department and published in April, June and September 2020.[6] Table 2 shows changes in state guarantees prompted by the measures related to the coronavirus epidemic.

5 https://budjetti.vm.fi/indox/tae/frame_year.jsp?year=2020&lang=fi

6 Economic Survey Spring 2020. Publications of the Ministry of Finance 2020:31
http://urn.fi/URN:ISBN:978-952-367-285-7
Economic Survey Summer 2020. Publications of the Ministry of Finance 2020:55
http://urn.fi/URN:ISBN:978-952-367-330-4
Economic Survey Autumn 2020. Publications of the Ministry of Finance - 2020:70
http://urn.fi/URN:ISBN:978-952-367-499-8

Table 1. Measures prompted by the coronavirus situation that will impact general government net lending*, % of GDP

	2020	2021	2022
Support for enterprises: grants provided for companies by Business Finland and ELY Centres, support for solvency of sole entrepreneurs, support for catering entrepreneurs, support for agricultural and natural resource economy enterprises, general cost support for companies, estimated increase in Finnvera's loss compensation	0.9	0.2	0.1
Extension of unemployment security: eliminating the waiting period, speeding up the layoff procedure, making small entrepreneurs eligible for unemployment security, extending the payment period of startup grants, streamlining unemployment benefit payments	0.2	0.0	
Extension of social benefits: support for individuals arriving from other countries and for parents of small children, epidemic compensation	0.1	0.0	0.0
Children and young people and wellbeing of the elderly: free leisure activities, early childhood education and care, basic education and general upper secondary education, guidance counselling and youth work, student health care, ensuring properly functioning services for the elderly	0.1		
Investment projects: basic transport infrastructure management, developing the transport network, renovation construction and public transport support. The sums for the year 2022 are based on a technical assumption concerning the timing of the projects.	0.1	0.0	0.0
R&D&I, competence and wellbeing: additional starting places for higher education and developing continuous learning, research appropriations for the Academy of Finland, public employment and business services and developing the service structure	0.1	0.0	0.0
Health and social services resources and equipment purchases, and COVID-19 research	0.4	0.6	0.0
Other expenditure increases prompted by the coronavirus situation	0.2	0.0	0.0
Expenditure increases total	**2.1**	**0.9**	**0.1**
Lowering of private-sector pension contributions for the period 1 May - 31 December 2020. Funding will come from the EMU buffer fund of the employment pension scheme. The buffer fund will be augmented again by raising the pension contributions for the period 2022-2025.	-0.5	0.0	0.1
All measures impacting revenue	**-0.5**	**0.0**	**0.1**
Total impact on net lending	**-2.6**	**-0.9**	**0.0**

* Budgeted impacts of the measures are described in the table.

The table lists the measures contained in the five supplementary budgets presented to Parliament by the middle of September 2020 and in the 2021 Budget proposal.

Table 2. Guarantees related to the COVID-19 pandemic

List of measures*	Detailed description	Status	Maximum liabilities
			% of GDP
Finnvera	Increasing domestic guarantee authorisations from EUR 4 billon to 12 billion (increasing authorisations by EUR 8 billion).[1]	Adopted	4.4
Finnair	State guarantees (max. EUR 540 million) for TyEL reborrowing	Adopted	0.2
Guarantees for the freight traffic of the National Emergency Supply Agency	State guarantee scheme with proposed maximum of EUR 600 million	Adopted	0.3
		Total	**4.9**

[1]About EUR 2 billion of the authorisations had been used in spring and thus the increase in the guarantees would have been about EUR 10 billion.

Compliance with the deficit and debt criteria

The general government budgetary position relative to GDP was -1.0% in 2019. According to the independent forecast of the Ministry of Finance, the general government budgetary position will weaken substantially this year, and will amount to -7.7% of GDP. In 2021, the budgetary position is expected to be -5.0% of GDP.

According to the assessment of the Ministry of Finance, in 2020 and 2021, Finland's general government deficit will exceed the 3% reference value of the Treaty on the Functioning of the European Union (TFEU). On 20 May 2020, the European Commission published reports on nearly all Member States in accordance with Article 126(3) of TFEU that assess Member States' compliance with the deficit and debt criteria.

In its report on Finland,[7] the Commission concludes that Finland's general government deficit will exceed the reference value in 2020 and 2021. According to the Commission's report, the breach of the reference value in 2020 is exceptional, as it results from a severe economic downturn. The Commission is of the view that the excess over the reference value is not temporary as the deficit will remain above 3% of GDP in 2021. The conclusion is that the deficit criterion is not fulfilled, but the Commission did not propose the launching of the Excessive Deficit Procedure (EDP). In fact, in its communication on 20 May 2020,[8] the Commission noted that "the outbreak of COVID-19 has had an extraordinary

7 COM(2020) 540 final Report from the Commission Finland Report prepared in accordance with Article 126(3) of the Treaty on the Functioning of the European Union 20 May 2020

8 COM/2020/500 final Communication from the Commission to the European Parliament, the European Council, the Council, the European Central Bank, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank: 2020 European Semester: Country-Specific Recommendations 20 May 2020

macroeconomic and fiscal impact, which is still unfolding". The Commission considered "that at this juncture, a decision on whether to place Member States under EDP should not be taken". The Commission will assess Member States' public finances again in conjunction with the DBP assessments in November.

According to the assessment of the Ministry of Finance, Finland does not currently fulfil the deficit criterion but at the same time, the Ministry of Finance considers the Commission decision not to launch the EDP as justified. The Commission is expected to produce its next assessment on the compliance with the deficit criterion in spring 2021.

In 2019, Finland's general government debt was still below the 60% reference value of the Treaty, amounting to 59.2% of GDP. In its report referred to above, the Commission concluded that on this basis, the debt criterion is met, and this is also the Ministry of Finance's assessment. The debt will take an upward turn this year, a result of an economic slowdown and larger deficits. According to the independent forecast of the Ministry of Finance, the debt-to-GDP ratio will reach 70.2% this year and 72.8% in 2021. In its assessment of Finland's Stability Programme prepared in spring, the Commission projected that Finland would not respect the debt criterion in 2020 but would meet the criterion in 2021.[9] According to the assessment of the Ministry of Finance, general government debt will exceed the Treaty reference value from 2020 onwards and that Finland is at risk of breaching the debt criterion. The Commission is expected to assess compliance with the debt criterion regarding the year 2020 in spring 2021.

Compliance with the preventive arm of the Stability and Growth Pact

Finland is in 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 Medium-Term Objective (MTO). The achievement of the MTO or progress towards it is assessed on the basis of two pillars: structural balance and expenditure benchmark. The MTO set by Finland for the structural balance is -0.5% of GDP.

In its assessment of the 2020 Stability Programme, the European Commission concluded that there was some deviation from the adjustment path towards the MTO in 2019.

In the Country-Specific Recommendations adopted in summer 2019, Finland was given a recommendation to take measures ensuring "that the nominal growth rate of net primary government expenditure does not exceed 1.9% in 2020, corresponding to an annual structural adjustment of 0.5% of GDP".

9 European Commission DG ECFIN Staff Working Document 20 May 2020. Assessment of the 2020 Stability Programme for Finland

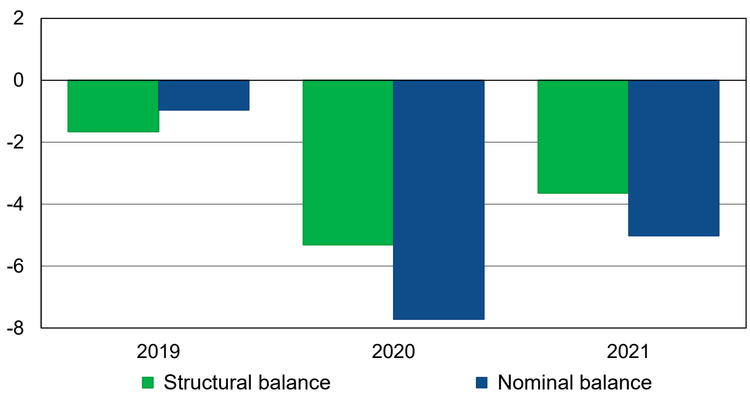
According to the independent forecast of the Ministry of Finance, the structural balance of the general government will weaken substantially in 2020. The balance will weaken also cumulatively in 2019 and 2020.

The activation of the General Escape Clause of the Stability and Growth Pact allows Member States to temporarily depart from the adjustment path towards the MTO provided that this does not endanger fiscal sustainability in the medium term. For this reason, according to the assessment of the Ministry of Finance, it is not useful at the moment to examine changes in structural balance in 2020. It should also be noted that the assessment of the structural balance involves uncertainties in the context of a major cyclical turnaround in which estimating the output gap is difficult and the assessment of the cyclical situation is likely to be subject to revisions in future forecasts. In the current situation, the assessment of the expenditure benchmark is not presented either.

Structural balance will strengthen in 2021, but as the General Escape Clause of the Stability and Growth Pact will still apply in 2021 and in view of the Country-Specific Recommendations adopted by the Council in July 2020 (which did not contain any numerical fiscal policy recommendations in terms of the structural balance or the expenditure benchmark for 2021), according to the assessment of the Ministry of Finance, it is not useful to examine the structural balance or the expenditure benchmark in 2021 or (on a cumulative basis) in 2020 and 2021 in the context of this DBP.

Thus, the assessment of the Ministry of Finance is that, as a whole, Finland was in compliance with the Stability and Growth Pact and its preventive arm in 2019 but an assessment of the years 2020 and 2021 can and should only be made when the situation has stabilised. The assessment of the Ministry of Finance is that in 2020 and 2021, Finland follows the recommendations that it has been given.

General government nominal and structural balance
relative to GDP, %



Based on the European Commission's production function approach

Sources: Statistics Finland, MoF

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

The Government agrees with the above Ministry of Finance assessment of progress towards the Medium-Term Objective. The Government's view is that Finland was broadly compliant with the Stability and Growth Pact in 2019, which was also confirmed by the Commission in its spring assessment.

Pursuant of 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 general government finances or after the Council of the European Union has drawn attention to the matter in its assessment of Finland's Stability Programme.

1 Macroeconomic forecasts[10]

Table 0.i) Basic assumptions

	2019	2020	2021
3-month EURIBOR	-0.4	-0.4	-0.4
Bond interest rate (10 years)	0.1	-0.2	-0.1
USD/EUR exchange rate	1.1	1.1	1.2
Nominal effective exchange rate (Finland)	-0.6	1.5	0.4
World GDP growth (excluding EU)	3.0	-2.9	5.0
EU-28 GDP growth	1.5	-8.3	5.8
GDP growth in key export markets	-0.8	-12.3	6.3
World trade growth	-0.4	-10.3	6.5
Crude oil price (USD/barrel)	64.1	43.0	45.9

Table 1a Macroeconomic outlook

	2019 level EUR bn	2019	2020	2021
		change, %		
1. Real GDP	196.7	1.1	-4.5	2.6
of which				
1.1. Attributable to the estimated impacts of aggregated budgetary measures on economic growth				
2. Potential GDP	203.7	1.2	0.7	0.8
contributions:				
- labour input				
- capital				
- total factor productivity				
3. Nominal GDP	232.6	2.9	-3.3	4.1
4. Private consumption expenditure	106.2	0.9	-3.8	4.0
5. Public consumption expenditure	49.4	1.2	3.9	1.1
6. Capital formation	45.8	-1.0	-4.7	0.0
7. Change in inventories (% of GDP)	-2.2	0.5	-1.1	-1.0
8. Exports of goods and services	78.9	7.5	-12.5	5.3
9. Imports of goods and services	81.1	2.4	-10.0	4.0
Contribution to GDP growth, pp				
10. Final domestic demand	201.4	0.5	-2.2	2.4
11. Change in inventories	-2.2	-1.3	-1.2	-0.2
12. Net exports	-2.2	1.9	-1.1	0.4

10 The forecast for the draft budgetary plan, which also served as a basis for the drafting of the Budget proposal, was prepared in the Ministry of Finance's Economics Department. The document is an independent projection and its formal independence is based on the Fiscal Policy Act (Act amending the Act on the implementation of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, the implementation of Treaty provisions of a legislative nature as well as requirements concerning multi-annual budgetary frameworks; 79/2015). The budgetary plan is based on statistical data available on 18 September 2020 and on the 2021 Budget proposal that the Government presented to Parliament on 5 October 2020.

Table 1b Price trends

	2019	2020	2021
	change, %		
1. GDP deflator	1.8	1.2	1.5
2. Private consumption deflator	1.0	0.4	1.2
3. Harmonised consumer price index	1.1	0.6	1.3
4. Public consumption deflator	2.5	3.1	1.9
5. Investment deflator	3.0	1.6	1.7
6. Export price deflator	-0.3	-4.5	1.3
7. Import price deflator	0.4	-5.0	1.5

Table 1c Labour market trends

	2019 level	2019	2020	2021
		change, %		
1. Employment, 1,000 persons	2 566	1.0	-2.0	-0.5
2. Employment, 1,000,000 hours worked	424.7	1.2	-3.5	0.5
3. Unemployment rate (%)	184	6.7	8.0	8.2
4. Labour productivity, persons	80.2	0.1	-2.5	3.1
5. Labour productivity, hours worked	484.8	0.0	-1.0	2.1
6. Employee compensations	111.9	3.0	-3.6	4.3
7. Employee compensations per employee	43.6	2.0	-1.6	4.8

Table 1d Sector-specific balances

	2019	2020	2021
	% of GDP		
1. Finland's net lending to the rest of the world	-0.4	-0.4	-1.1
of which:			
- Balance of goods and services	0.6	-0.3	0.1
- Factor incomes and income transfers, net	-1.0	-0.2	-1.2
- Capital transfers, net	0.0	0.0	0.0
2. Private sector net lending	0.4	7.1	3.8
3. Public sector net lending	-1.0	-7.7	-5.0
4. Statistical discrepancy	-0.2	-0.2	-0.2

2 Targets for general government finances

Table 2a General government budgetary targets broken down by subsector

Net lending by subsector	2020	2021
	% of GDP	
1. General government total	-7.7	-5.0
2. Central government	-7.2	-4.4
3. -	-	-
4. Local government	-0.4	-1.0
5. Social security funds	-0.1	0.3
6. Interest expenses	0.7	0.7
7. Primary balance	-7.0	-4.4
8. One-off measures	0.0	0.0
9. Real GDP growth, % change	-4.5	2.6
10. Potential GDP growth, % change	0.7	0.8
contributions:		
- labour input		
- capital input		
- total factor productivity		
11. Output gap	-4.1	-2.4
12. Financial balance cyclical component	-2.4	-1.4
13. Cyclically adjusted financial balance	-5.4	-3.7
14. Cyclically adjusted primary balance	-4.6	-3.0
15. Structural balance	-5.4	-3.7

Table 2b General government debt trends

	2020	2021
	% of GDP	
1. Gross debt	70.2	72.8
2. Change in gross debt, pp	11.0	2.6
Factors contributing to change in gross debt, pp		
3. Primary balance	7.0	4.4
4. Interest expenses	0.7	0.7
5. Stock-flow adjustment items	3.2	-2.4
of which:		
– Differences between cash-based and accrual-based	0.0	0.9
– Net acquisition of financial assets	0.8	0.1
- of which:		
- privatisation proceeds	0.0	-0.4
- valuation effects and other	2.5	-3.5
Implicit interest rate on debt	1.2	1.0
Other relevant variables		
6. Liquid financial assets		
7. Net financial debt		
8. Central government write-offs (existing bonds)		
9. Percentage of foreign-currency loans		
10. Average maturity of government debt		

3 Expenditure and revenue projections under the no-change scenario

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

General government	2020	2021
	% of GDP	
1. Total revenue under no-change scenario	52.1	52.6
of which:		
1.1. Taxes on production and imports	14.0	14.0
1.2. Income taxes	15.9	16.1
1.3. Taxes on capital income	0.4	0.3
1.4. Social security contributions	11.7	12.2
1.5. Property income	3.0	2.9
1.6. Other revenue	7.2	7.1
of which: tax rate	42.0	42.8
2. Total expenditure under no-change scenario	59.8	57.2
of which:		
2.1. Employee compensations (wages + employer's social security contributions)	13.5	13.1
2.2. Intermediate consumption	12.0	11.7
2.3. Social income transfers	23.5	22.6
of which unemployment benefits	2.6	2.1
2.4. Interest expenses	0.7	0.7
2.5. Subsidies	2.3	1.3
2.6. Gross fixed capital formation	4.8	4.7
2.7. Capital transfers	0.2	0.3
2.8. Other expenditure	2.8	2.8

4 Expenditure and revenue targets

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

General government	2020	2021
	% of GDP	
1. Total revenue	52.1	52.6
of which:		
1.1. Taxes on production and imports	14.0	14.0
1.2. Income taxes	15.9	16.1
1.3. Taxes on capital income	0.4	0.3
1.4. Social security contributions	11.7	12.2
1.5. Property income	3.0	2.9
1.6. Other revenue	7.2	7.1
of which: tax rate	42.0	42.8
2. Total expenditure	59.8	57.6
of which:		
2.1. Employee compensations	13.5	13.2
2.2. Intermediate consumption	12.0	11.9
2.3. Social income transfers	23.5	22.7
of which unemployment benefits	2.5	2.1
2.4. Interest expenses	0.7	0.7
2.5. Subsidies	2.3	1.3
2.6. Gross fixed capital formation	4.8	4.7
2.7. Capital transfers	0.2	0.3
2.8. Other expenditure	2.8	2.8

Table 4b Expenditure outside the expenditure benchmark

	2019 EUR million	2019	2020	2021
		% of GDP		
1. Expenditure on EU programmes fully matched by EU funds revenue	492	0.2	0.2	0.2
1a of which investments	104	0.0	0.0	0.0
2. Cyclical unemployment benefit expenditure	-202	-0.1	0.2	0.2
3. Revenue impacts of discretionary measures	79	0.0	-0.4	0.7
4. Expenditure funded with earmarked revenue	77	0.0	0.0	0.0

5 Discretionary measures contained in the Budget proposal

Table 5a Discretionary general government measures

List of measures*	Detailed description	Objective	Accounting principle	Status	Budgetary impacts		
					2019	2020	2021
					% of GDP		
Personal income tax	Personal income tax		accrual-based	Majority approved**			0.0
Corporate income tax	Corporate income tax		accrual-based	Majority approved**			0.0
Indirect taxes	Indirect taxes		accrual-based	Majority approved**			0.1
Social security contributions	Social security contributions		accrual-based	Proposed***			0.7
Expenditure measures	Expenditure measures		accrual/ cash-based	Majority approved**			1.9

*Many of the measures do not meet the size criterion (at least 0.05% of the GDP) and for this reason, the measures are combined and only the aggregate effect of the measures is reported.
**Parliament will decide on this in autumn 2020.
***Ministry of Social Affairs and Health will decide on this in autumn 2020.

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

Recommendations	Measures	Description of direct relevance
COUNTRY-SPECIFIC RECOMMENDATION 1: Take all necessary measures, in line with the General Escape Clause of the Stability and Growth Pact, to effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Address shortages of health workers to strengthen the resilience of the health system and improve access to social and health services.	The part of the recommendation addressing fiscal policy is discussed above. The consultation on the health and social services reform has ended and responses from (all) stakeholders have now been received. The Government will present its finalised legislative proposal to Parliament in December 2020.	The measures partially respond to the recommendation.
COUNTRY-SPECIFIC RECOMMENDATION 2: Strengthen measures to support employment and bolster active labour market policies.	In conjunction with the preparation of the 2021 Budget, the Government made the following decisions to increase the employment rate: - introducing a Nordic employment service model - and a pay subsidy reform - extending compulsory education - lowering fees for early childhood education and care. The Government also requested the social partners to prepare a proposal for measures to increase the employment rate among individuals aged over 55. Before the measures prepared as part of the Budget proposal, the Government had already drawn up measures to reform the adult education allowance scheme, to raise the minimum age for the additional days of unemployment security and to introduce a linear model for partial disability pension.	The measures partially respond to the recommendation.

Recommendations	Measures	Description of direct relevance
COUNTRY-SPECIFIC RECOMMENDATION 3: Take measures to provide liquidity to the real economy, in particular to small and medium-sized enterprises. Front-load mature public investment projects and promote private investment to foster the economic recovery. Focus investment on the green and digital transition, in particular on clean and efficient production and use of energy, sustainable and efficient infrastructure as well as research and innovation.	The Government has introduced measures to provide more liquidity for enterprises. Enterprises have been able to seek development funding from Business Finland and ELY Centres and general cost support, while sole entrepreneurs have been able to seek support under a scheme managed by municipalities. The Government has also launched preparations for the reintroduction of the cost support scheme. Finnvera's guarantee mandate has been raised so that the agency now has sufficient resources to guarantee loans provided by banks. After spring 2020, the Government has taken the following measures: - Business Finland has been provided with additional grant authorisations totalling EUR 980 million and additional lending authorisations totalling EUR 300 million. The funding is intended for SMEs and midcap enterprises affected by the COVID-19 epidemic for developing new products, services and business. - Business Finland has also been provided with a grant authorisation of EUR 60 million to boost RDI in growth engines and a grant authorisation of EUR 15 million to boost RDI cooperation between companies and research organisations (piloting of the partnership model). The aim is to support long-term competitiveness of companies and renewal of their business operations and in this way raise productivity. In its budget session, the Government took decisions concerning the energy tax reform. It was decided to lower the electricity tax paid by industrial companies (electricity tax class II) to the EU minimum from 1 January 2021 and the Government also decided to set a four-year transition period for the abolition of the fossil energy-tax rebate for energy-intensive industries. The energy taxes on data centres and industrial-size heat pumps generating heat for district heating networks will be transferred to a lower electricity tax class. This helps to speed up the replacement of combustion-based heating solutions (peat and fossil fuels). Taxes on heat generated with peat and fossil fuels will be raised from the start of 2021. The changes in the budgeted energy subsidies encouraging energy transition investments are intended to boost energy efficiency and the use of renewable energy sources. A new investment aid scheme to promote early phase-out of coal in energy production has been introduced during 2020. The aid will total EUR 30 million in 2020 and EUR 60 million in 2021. Moreover, the support for large demonstration plants was increased by EUR 20 million in the supplementary budget adopted in spring. Including the above measures, a total of EUR 130 million has been budgeted for energy subsidy authorisations for 2020, which is considerably more than in the previous years. The distribution infrastructure subsidies for alternative transport fuels (electricity and biogas) have also been increased. Fingrid has invested in north-south power transmission capacity. A new transmission line between Sweden and Finland, which will become operational in 2025, will facilitate the integration of renewable energy in the electricity markets.	The measures respond to the recommendation.

Recommendations	Measures	Description of direct relevance
COUNTRY-SPECIFIC RECOMMENDATION 4: Ensure effective supervision and enforcement of the anti-money-laundering framework.	The Ministry of Finance is currently updating the national risk assessment of money laundering and terrorist financing. The risk assessments and the action plans for them will be ready in March 2021. The Financial Supervisory Authority has incorporated the supervision of anti-money laundering into its strategy and allocated additional resources for the purpose. The Financial Intelligence Unit - added five (5) new employees to its staff in 2019 - completed the updating of its money laundering register in September 2020 (hardware & software) and is continuing the implementation of several IT projects - has taken part in the implementation of the bank account register project and will start using it for operational purposes in autumn 2020, the first Finnish body to do so - launched an artificial intelligence project in summer 2020. The project will continue until the end of 2021 - has strengthened the personnel resources and technical capabilities (PowerBI) of its strategic and tactical analysis capacity - signed a memorandum of understanding with the Financial Supervisory Authority in spring 2020 and has been engaged in extensive phenomenon-based and sector-specific exchange of information on high-risk sectors (virtual currency providers and Hawalas) - developed cooperation with AML/CFT supervisors on a bilateral and multilateral basis in the FATF management group, FATF group, and the national AML/CFT coordination group - has increased information disclosures to competent authorities during 2020 and made significantly more extensive use of the orders to suspend transactions during the year (2018: 58; 2019: 85; and by 16 September 2020: 114).	The measures respond directly to the recommendation.

7 Divergence from the previous Stability Programme

	2019	2020	2021
	% of GDP		
General government net lending			
Stability Programme	-1.1	-7.2	-4.0
Draft Budgetary Plan	-1.0	-7.7	-5.0
Difference, pp	0.2	-0.5	-1.0
General government net lending under no-policy-change scenario			
Stability Programme	-1.1	-7.2	-4.0
Draft Budget Plan	-1.0	-7.7	-4.6
Difference, pp	0.2	-0.5	-0.6

Appendix: Methodological aspects

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

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ISSN 1797-9714 (pdf)
ISBN 978-952-367-515-5 (pdf)

October 2020