Finland's Medium-Term Plan 2025–2028

National Medium-Term Fiscal-Structural Plan

Economic Policy

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Finland's Medium-Term Plan 2025–2028

National Medium-Term Fiscal-Structural Plan

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National Medium-Term Fiscal-Structural Plan

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Abstract

Finland's Medium-Term Plan 2025–2028 meets the requirement for Member States to submit a national medium-term fiscal-structural plan set by the EU's new fiscal policy rules that entered into force on 30 April 2024 (Regulation (EU) 2024/1263 of the European Parliament and of the Council).

The net expenditure path for 2025–2028 (i.e. the permitted growth rate for nominal net primary expenditure) presented in Finland's plan is based on an extension of the adjustment period to seven years. The set of reforms and investments underpinning the extension is made up of parts of Finland's Recovery and Resilience Plan (RRP) and two parts of the social security reform. The net expenditure path set out in the plan is compatible with the measures outlined in the Government Programme and in the General Government Fiscal Plan for 2025–2028, which will strengthen general government finances by a total of about EUR 9 billion. The Government is committed to implementing these measures in full. Together with the effects sought by the Government's labour market reforms, these measures will ensure that Finland complies with its net expenditure path.

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29.10.2024

Suomen keskipitkän aikavälin suunnitelma 2025–2028
Kansallinen keskipitkän aikavälin finanssipoliittis-rakenteellinen suunnitelma

Valtiovarainministeriön julkaisuja 2024:59		**Teema**	Talouspolitiikka
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Kieli	englanti	**Sivumäärä**	69

Tiivistelmä

Suomen keskipitkän aikavälin suunnitelma vuosille 2025–2028 vastaa EU:n 30.4.2024 voimaan tulleiden finanssipoliittisten sääntöjen vaatimukseen jäsenvaltioille toimittaa kansallinen keskipitkän aikavälin finanssipoliittis-rakenteellinen suunnitelma (Euroopan parlamentin ja neuvoston asetus (EU) N:o 2024/1263).

Suomen suunnitelmassa esitettävä nettomenopolku vuosille 2025–2028, eli sallittu nimellisten nettoperusmenojen kasvuvauhti, pohjautuu sopeutuskauden pidennykseen seitsemään vuoteen. Pidennyksen perusteena oleva uudistus- ja investointikokonaisuus muodostuu osista Suomen elpymis- ja palautumis-suunnitelmaa (RRP) sekä kahdesta sosiaaliturvauudistuksen osasta. Nettomenopolku on asetettu siten, että se on yhteensopiva hallitusohjelmassa ja vuosien 2025–2028 julkisen talouden suunnitelmassa päätettyjen julkista taloutta yhteensä noin 9 mrd. eurolla vahvistavien toimenpidekokonaisuuksien kanssa. Hallitus on sitoutunut toimenpidekokonaisuuksien täysimääräiseen toimeenpanoon, mikä yhdessä hallituksen tavoittelemien työmarkkinavaikutusten toteutumisen kanssa varmistaa, että Suomi noudattaa nettomenopolkuaan.

Asiasanat	finanssipolitiikka, EU, alijäämä, suunnitelmat, talous, talouspolitiikka		
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Finlands medelfristiga plan 2025–2028
Nationell medelfristig finans- och strukturpolitisk plan

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Finlands medelfristiga finans- och strukturpolitiska plan 2025–2028 är ett svar på det krav som EU:s finanspolitiska regler, som trädde i kraft den 30 april 2024, ställer på medlemsstaterna, det vill säga kravet på att lämna in nationella medelfristiga finans- och strukturpolitiska planer (Europaparlamentets och rådets förordning (EU) 2024/1263).

Den nettoutgiftsbana 2025–2028 som Finland föreslår i planen, det vill säga de nominella primära nettoutgifternas tillåtna ökningstakt, bygger på en förlängning av anpassningsperioden till sju år. Det reform- och investeringspaket som ligger till grund för en förlängning består av delar av Finlands plan för återhämtning och resiliens (RRP) och av två delar av reformen av den sociala tryggheten. Nettoutgiftsbanan har fastställts så att den är förenlig med de åtgärder för att stärka de offentliga finanserna med sammanlagt cirka 9 miljarder euro som ingår i regeringsprogrammet och i planen för de offentliga finanserna 2025–2028. Regeringen har förbundit sig att genomföra åtgärderna fullt ut. Tillsammans med de arbetsmarknadseffekter som regeringen eftersträvar säkerställer de att Finland följer sin nettoutgiftsbana.

Nyckelord	finanspolitik, EU, underskott, planer, ekonomi, ekonomisk politik		
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1 Economic and fiscal policy strategy

The EU's new fiscal rules entered into force on 30 April 2024.[1] Under Regulation 2024/1263,[2] Finland is preparing its first national medium-term (fiscal-structural) plan (*MTP or plan*) for 2025–2028, where a key role is played by the net expenditure path set in the plan. The Commission will assess the plan, and the Council will adopt the recommendations concerning the plan and the net expenditure path on which the EU's fiscal policy monitoring will focus going forward.[3] The EU's new fiscal rules are discussed in a box at the end of chapter 1.

A parliamentary election will be held in Finland in spring 2027. The Government formed after the election will assess the need to submit a new MTP at the beginning of its term in office, with the Government being entitled to do this under EU law.

Commitment to net expenditure path under MTP

In their plans, the Member States present their commitment to the annual growth rate of their net expenditure for the next four years. This so-called net expenditure path is framed by the reference trajectory transmitted by the Commission, which

1 Finland's Medium-Term Plan is based on statistical data available by 17 September 2024.

2 Regulation (EU) 2024/1263 of the European Parliament and of the Council on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97: https://eur-lex.europa.eu/eli/reg/2024/1263/oj.

3 If a Member State has a debt ratio exceeding the Treaty reference value (60% of GDP) and deviates from its net expenditure path, the excessive deficit procedure (EDP) may be activated for the Member State based on the breach of the debt criterion (debt-based EDP). As is the case with the deficit-based EDP, the procedure starts with the Commission's a report in accordance with Article 126(3) of the Treaty on the Functioning of the European Union (TFEU), in which the Commission assesses the fulfilment of the criteria when the deviations recorded in the control account of the Member State either exceed 0.3 percentage points of GDP annually or 0.6 percentage points of GDP cumulatively. The control account is an element of the preventive arm recording deviations from the country-specific net expenditure path.

covers an adjustment period of four as well as seven years. For the adjustment period to be extended to seven years requires Member States to commit to structural reforms and investments.

For Finland, the general government adjustment requirement arising from the Commission's reference trajectory is significant due to the continuing growth of Finland's debt ratio. For this reason, it is necessary for Finland to apply for an extension of the adjustment period of the MTP to seven years. The set of reforms and investments underpinning the extension presented in the MTP is made up of parts of Finland's Recovery and Resilience Plan (RRP) and two parts of the social security reform (single basic security benefit model and last-resort social assistance). This set of measures corresponding to the country-specific recommendations is presented in section 3.1. The selected set of reforms and investments responds to the Commission's guidance[4] concerning not-yet-implemented reforms and investments, which rules out using the major reforms, aimed in particular at the labour market, decided by the Government at the beginning of its term in office as grounds underpinning the extension. The use of the RRP in turn is based on the exception permitted by legislation for the first plans[5].

Finland's net expenditure path is shown in row 1 of Table 1.1. The path deviates from the seven-year reference trajectory calculated by the Commission and shown in row 2, which is possible under Article 13(b) of Regulation 2024/1263[6]. The arguments explaining the deviation are discussed in chapter 2. The net expenditure

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4 Guidance to Member States on the Information Requirements for the Medium-Term Fiscal-Structural Plans and for the Annual Progress Reports (C/2024/3975).

5 Article 36(d) of Regulation 2024/1263: during the period of operation of the Recovery and Resilience Facility, commitments included in the approved recovery and resilience plan of the Member State concerned shall be taken into account for an extension of the adjustment period in accordance with Article 14, provided that the recovery and resilience plan contains significant reforms and investments aimed at improving fiscal sustainability and enhancing the growth potential of the economy, and that the Member State concerned commits to continue the reform effort over the remainder of the period covered by the national medium-term fiscal-structural plan, as well as to maintain the nationally financed investment levels realised on average over the period covered by the recovery and resilience plan.

6 Article 13(b) of Regulation 2024/1263: the plan shall include the reference trajectory or the technical information transmitted by the Commission pursuant to Article 5 or Article 9(3), respectively. Where the national-medium-term fiscal-structural plan includes a higher net expenditure path than in the reference trajectory issued by the Commission pursuant to Article 5, the Member State concerned shall provide in its plan sound and data-driven economic arguments explaining the difference.

path set out in the plan is compatible with the sets of measures outlined in the Government Programme and in the General Government Fiscal Plan for 2025–2028, which will strengthen general government finances by a total of about EUR 9 billion. The Government is committed to implementing these measures in full. Together with the effects sought by the Government's labour market reforms, these measures will ensure that Finland complies with its net expenditure path. Compliance with the net expenditure path will bring the deficit below the 3% reference value in 2025[7], and the debt ratio will take a downturn in 2027 in line with the Government's targets, as shown in Table 1.2. The need for general government adjustments will, however, also continue after 2028.

Table 1.1. Net expenditure path and Commission's reference trajectory

	2024	2025	2026	2027	2028
Net expenditure path	3.7	1.6	1.9	2.6	2.6
Commission's reference trajectory		1.4	1.5	1.4	1.5

The adjustment of Finland's net expenditure path is strongly front-loaded due, in particular, to the major measures taken for 2025 to strengthen general government finances. On the other hand, the net expenditure path also reflects the recording of defence procurements in the national accounts anticipated for 2025 and 2027, which will result in a deviation of the adjustment from the linearity requirement of Article 6(c) of Regulation 2024/1263. The most significant defence investments relate to the F35 and Squadron 2020 acquisitions. These defence investments will account for 0.5% of GDP in 2025 and 0.9% of GDP in 2027. This deviation is in line with Article 2(3)(e) of Regulation 1467/97, under which the increase in government

7 In June 2024, the Commission stated that the deficit criterion is fulfilled for Finland and that the Commission will re-assess the situation in the autumn. The Ministry of Finance assessment of the fulfilment of the deficit criterion is presented in the Draft Budgetary Plan approved on 10 October 2024, which also presents the activation of the national escape clause for 2024–2025.

defence expenditure is taken into account in particular when the Commission assesses compliance with the deficit and debt criteria under the Treaty on the Functioning of the European Union (TFEU).[8]

Table 1.2. Variables of the net expenditure path presented in Table 1.1[9]

	2023	2024	2025	2026	2027	2028
			change, %			
Potential GDP	1.1	0.9	0.9	0.9	0.9	0.9
GDP deflator	3.9	1.7	2.1	2.2	2.2	2.3
			relative to GDP, %			
General government net lending	-2.9	-3.7	-2.9	-2.0	-1.4	-0.9
General government structural balance	-1.5	-1.6	-1.1	-0.5	-0.2	0.1
General government structural primary balance	-0.4	-0.4	0.4	1.1	1.4	1.8
General government gross debt	76.6	81.7	83.2	83.9	83.6	82.9
Change in general government gross debt	3.1	5.1	1.5	0.7	-0.3	-0.7

According to the independent forecast of the Economics Department of the Ministry of Finance provided in Appendix A.3, there is a risk of a deviation from the net expenditure path particularly with regard to the materialisation of the savings of the wellbeing services counties.[10]

8 Article 2(3)(e) of Regulation 1467/97: the increase of government investment in defence, where applicable, considering also the time of recording of military equipment expenditure.

9 The table corresponds to Table 1b of the Commission Guidance to Member States (C/2024/3975).

10 Around EUR 8 billion of the set of measures of EUR 9 billion is included in the independent forecast of the Economics Department. For more details, see Economic Survey, Autumn 2024 (upcoming).

Government fiscal policy line and measures to comply with net expenditure path

The priorities of the Government's economic policy are economic stability, employment, economic growth and safeguarding welfare services. The Government's fiscal policy aims to strengthen general government finances and reverse the trend of Finland's indebtedness. The general government debt ratio will be stabilised over the parliamentary term and thereafter put on a lasting downward path, viewed over more than one parliamentary term.

To reach this target, the Government has decided on a EUR 9 billion package of measures boosting general government finances and is committed to its implementation. The measures decided in the Government Programme will boost general government finances in net terms by EUR 6 billion at the 2027 level. In addition, in spring 2024, the Government decided in the General Government Fiscal Plan for 2025–2028 on an additional adjustment of around EUR 3 billion. A more detailed description of the measures can be found in the General Government Fiscal Plan, in Annexes B and D to the Government Programme and in the material describing the additional measures published in spring 2024.[11] Of the measures decided in the Government Programme, around EUR 4 billion are direct adjustment measures targeted at expenditure. In addition, structural policy measures increasing employment seek to strengthen general government finances in a manner that stabilises the debt ratio by EUR 2 billion by the end of 2027. Of the additional measures of EUR 3 billion decided in spring 2024, around half consist of direct expenditure savings and half of tax measures.

The majority of the structural policy measures increasing employment have already been implemented. The most significant measures consist of abolishing systems that encourage absences from work, large-scale reforms of unemployment benefits,

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11 General Government Fiscal Plan for 2025–2028: https://julkaisut.valtioneuvosto.fi/handle/10024/165583 and General Government Fiscal Plan for 2024–2027: General Government Fiscal Plan for 2024–2027
Government Programme: https://julkaisut.valtioneuvosto.fi/handle/10024/165044
Expenditure adjustment measures decided in spring 2024: https://valtioneuvosto.fi/documents/194055633/209551989/Government+decisions+on+new+expenditure+adjustment+measures,+16+April+2024.pdf/67e916ef-d5c4-2556-6f82-c42623275735/Government+decisions+on+new+expenditure+adjustment+measures,+16+April+2024.pdf?t=1714141136662
Tax measures decided in spring 2024: https://valtioneuvosto.fi/documents/194055633/209551989/Government+decisions+on+new+tax+measures,+16+April+2024.pdf/83158ad6-13e8-e414-a1d4-6f4b6eb7613f/Government+decisions+on+new+tax+measures,+16+April+2024.pdf?t=1714141137651

and labour market reforms increasing flexibility in the labour market. The structural reforms implemented so far are estimated to strengthen general government finances by around EUR 1.7 billion through employment being boosted over the longer term. The Government is committed to making any necessary additional decisions in the 2025 mid-term policy review session in order to reach the target set in the Government Programme.

The Government's objective is to turn the Finnish economy onto a sustainable growth path. Boosting economic growth is vital from the perspective of the sustainability of general government finances, too. The Government Programme includes several decisions that strengthen the conditions for economic growth, for example, to improve investment permit procedures, reform the labour market, strengthen the supply of skilled labour, support exports of high value-added products, enhance market competitiveness and strengthen productivity growth by boosting skills and competence and increasing research and development (R&D) investments in the national economy. The Government will also implement a fixed-term EUR 4 billion investment programme during the parliamentary term. The programme will be financed from asset income and from revenue generated by the Housing Fund of Finland, which means the programme will not increase the need for central government borrowing.

Under the Act on R&D Funding (1092/2022), Finland's R&D expenditure will be increased to 4% of GDP by 2030. The Government will raise central government funding for R&D activities to 1.2% of GDP, provided that private sector investments increase to 2.8%. To strengthen the capital market for high-growth enterprises, Finnish Industrial Investment Ltd will be provided with a recapitalisation of EUR 100 million in 2025 and EUR 300 million during the parliamentary term through reorganisation of central government assets. In addition, large industrial investments aiming at building a net-zero economy will be boosted with a tax credit that is to enter into force as soon as possible. The Government will ensure the investment capacity required by Finland's transmission system operator Fingrid Oyj and the gas and hydrogen network company Gasgrid Oy so that energy networks will not create national bottlenecks for investments anywhere in Finland.

The Government will actively monitor the implementation of the economic policy objectives of the Government Programme and the MTP. To reach the economic policy objectives, the Government will ensure progress made in the adjustment measures agreed in the Government Programme and, where necessary, will decide on new compensatory savings if the scale of the savings threatens to fall short of the level decided. The Government will subject the savings measures decided in the Government Programme for wellbeing services counties to enhanced monitoring.

The Government will review the realisation of the economic and fiscal policy targets in the mid-term policy review in spring 2025 and, where necessary, will decide on new measures. The Government is committed to compliance with the EU's fiscal rules.

BOX: EU's new fiscal rules

Amendments to EU fiscal policy legislation entered into force on 30 April 2024. This involved the preventive arm regulation of the Stability and Growth Pact (SGP) being replaced by a new regulation and amendments being made to the corrective arm regulation and the Budgetary Framework Directive.

Preventive arm

The reformed preventive arm obliges the Member States to prepare a medium-term fiscal-structural plan spanning four or five years depending on the length of the parliamentary term. In their plans, the Member States present their commitments to the annual growth rate of their net expenditure for a fiscal adjustment period of at least four and up to seven years. This so-called net expenditure path is framed by a reference trajectory prepared by the Commission if the general government debt or deficit exceeds 60% or 3% of GDP respectively. In addition, the plans present the set of reforms and investments and any additional reforms and investments to which a commitment is required for the adjustment period to be extended.

The reference trajectory is based on calculations made based on the Commission's Debt Sustainability Analysis (DSA) and, during the first planning cycle, on the methodology described in the Commission's Debt Sustainability Monitor 2023, which provides a projection of debt developments over the medium-term horizon. When forming the reference trajectory, it is used to determine the adjustment required for the debt development sought. The DSA examines the adjustment of the structural primary balance (SPB), which is translated into net primary expenditure growth using the formula already used in the EU fiscal rules.

The basic requirement for the reference trajectory is that the general government debt ratio is on a downward path over the medium term (10 years after the adjustment period) by the end of the adjustment period, remains on a plausibly downward path or stays below the reference value of 60% of GDP set out in the Treaty on the Functioning of the European Union (TFEU). The debt ratio must decline not only in the baseline but also in three alternative scenarios produced by the Commission's DSA. In addition to this, the probability of debt declining in the five years following the adjustment period must be at least 70%.

The reference trajectory ensures that the projected general government deficit is brought below 3% of GDP during the adjustment period and that it is maintained below the reference value over the medium term. In addition, the reference trajectory must ensure that the fiscal adjustment effort over the period of the MTP is linear as a rule and at least proportional to the total effort throughout the adjustment period. The assumption in defining the reference trajectory is that there are no other budgetary measures after the adjustment period.

The reference trajectory derived from the DSA must, in addition to risk-based requirements, also comply with two safeguards concerning debt sustainability and deficit. According to the debt sustainability safeguard, the projected general government debt-to-GDP ratio must decrease by a minimum annual average amount of 1.0 percentage point of GDP as long as the general government debt-to-GDP ratio exceeds 90%, or a minimum of 0.5 percentage points of GDP as long as the general government debt-to-GDP ratio remains between 60% and 90%. According to the deficit resilience safeguard, the reference trajectory must ensure that fiscal adjustment continues, where needed, until the Member State concerned reaches a deficit level that provides a sufficient resilience margin relative to the deficit reference value of 3% of GDP. In structural terms, the margin is 1.5% of GDP.

In their plans, the Member States present their proposed multi-annual trajectory for nominal net primary expenditure, that is, the net expenditure path, which, as a rule, should be consistent with the reference trajectory issued by the Commission. The Regulation does, however, provide the Member States with the opportunity to include, based on justified arguments, in the plan a higher net expenditure path than in the Commission's reference trajectory.

In this context, nominal net primary expenditure means government expenditure net of:

i. interest expenditure,
ii. expenditure on Union programmes fully matched by revenue from Union funds,
iii. national expenditure on co-financing of programmes funded by the Union,
iv. cyclical elements of unemployment benefit expenditure and
v. one-offs and other temporary measures.

In addition, discretionary revenue measures are taken into account in net primary expenditure so that tax-raising measures would allow for a higher net expenditure path, that is, increase the scope for spending increases, whereas tax cuts would reduce the scope.

In practice, the net expenditure path should enable the operation of automatic stabilisers and such revenue and expenditure fluctuations that are outside the direct control of governments. No other cyclical deviations of the trajectory are permitted. The annual growth rate set for net expenditure in the planning stage is a strategic commitment that governments must respect. It does not, however, limit the expenditure or revenue side measures governments may carry out.

The net expenditure path applies to general government finances as a whole, which means net primary expenditure includes not only central government expenditure but also the expenditure of municipalities, wellbeing services counties, statutory earnings-related pension funds and other social security funds. The net expenditure path also takes account of the discretionary revenue measures, such as municipal tax, earnings-related pension contribution and unemployment insurance contribution changes, of all of the above-mentioned subsectors. The net expenditure path can therefore be understood as a nominal framework covering general government finances as a whole.

On 21 June 2024, the Commission submitted the reference trajectories to the Member States for the purpose of supporting the preparation of the first fiscal-structural plans. The Member States' plans and the net expenditure paths included in them will be endorsed by the Council based on the Commission's assessments of them. The implementation of the plans will be monitored based on annual progress reports submitted.

Going forward, the EU's fiscal surveillance will focus largely on monitoring compliance with the general government net expenditure path approved by the Commission for the Member State. In addition, the Commission will set up a control account to keep track of annual and cumulative deviations of the net expenditure path.

Corrective arm

The excessive deficit procedure (EDP) based on a breach of the deficit criterion (deficit-based EDP) remained largely unchanged in the reform. The most significant change in the corrective arm is to do with the activation of the EDP based on a breach of the debt criterion (debt-based EDP). Under the new rules, Member States with a general government debt exceeding the reference value of 60% of GDP may be subjected to the EDP due to a deviation from the net expenditure trajectory. As is the case with the deficit-based EDP, the procedure starts with the Commission's a report in accordance with Article 126(3) of the TFEU, in which the Commission assesses the fulfilment of the criteria when the deviations recorded in the control account of the Member State either exceed 0.3 percentage points of GDP annually or 0.6 percentage points of GDP cumulatively.

The corrective arm was also amended to ensure consistency with the new preventive arm. In the deficit-based EDP, the corrective net expenditure path should be consistent with a minimum annual structural adjustment of at least 0.5% of GDP. In the debt-based EDP, the corrective net expenditure path should be at least as demanding as the one set in the plan.

Budgetary Framework Directive

The amendments to the Directive are mainly based on coordinating with the new preventive arm and strengthening the multiannual perspective in national budgetary planning. In addition, the amendments to the Directive include provisions relating to independent fiscal institutions being extended and reporting requirements being made more specific.

National fiscal legislation is undergoing reform, with the amendments made to EU fiscal legislation also to be taken into account. National legislation must be amended by the end of 2025. The amendments made will incorporate the Fiscal Compact into European Union law.

2 Macroeconomic assumptions and differences from Commission's reference trajectory

This chapter describes the arguments for the deviation of the net expenditure path from the seven-year reference trajectory calculated by the Commission. Article 13(b) of Regulation 2024/1263 provides the opportunity to deviate from the reference trajectory if a Member State provides in its plan sound economic arguments for this.

The fiscal path is based on a baseline scenario with 2024 as the base year (see Table 7c of Appendix A.1) where structural primary balance relative to potential output is assumed to remain constant in 2025–2041. The baseline scenario is based on the reference trajectory transmitted by the Commission under Article 5 and containing assumptions about interest rates, inflation, stock-flow adjustment items and potential output growth in 2024–2041. Data on 2023 and 2024 is based on the most recent available statistical data and an independent forecast of the Ministry of Finance.

The assumptions made by the Commission will be deviated from within the limits permitted by the rules as follows:

A more stable trajectory for potential growth permitted in the first plans under Article 36(f) of Regulation 2024/1263 may be used when setting the net expenditure path.[12] In the reference trajectory transmitted to Finland by the Commission on 21 June, the calculations are based on the Commission 2024 Spring Forecast. The Commission's technical reference trajectory assumes potential output to grow in 2024–2041 at the rate shown in Table 2.1, row (1). Growth is assumed to be subdued in the 2020s and to slow down in the early 2030s, after which growth will pick up towards the long-term growth assumption. The cumulative growth in 2024–2041 will be 16.8% or an annual average of 0.94%.

12 Article 36(f) of Regulation 2024/1263: acknowledging the exceptional impact of recent economic shocks and current uncertainty on estimates of potential growth, Member States may use more stable series than the ones resulting from the commonly agreed methodology, provided that such use is duly justified by economic arguments and that the cumulated growth over the projection horizon remains broadly in line with the results of that methodology.

The economic shocks caused by the pandemic in 2020–2021 and the impacts of Russia's war of aggression since 2022 have had an exceptionally strong slowing impact on Finnish economic growth and increased uncertainty about the development of potential output in the 2020s. The recent shocks referred to above have had particularly strong impacts on Finland's economic cycle but lesser impacts on the structure of the economy. The impacts of these shocks are, however, difficult to discern from the trend, especially in real time.[13] This view is also in line with research on the topic.[14] Therefore the current estimates of potential output growth are likely to underestimate the true growth potential of the Finnish economy during the current decade, and this is sought to be corrected by making use of the opportunity provided by Article 36(f) of Regulation 2024/1263 to base the net expenditure path presented in the first plan on a more stable trajectory of potential growth. In this trajectory, the cumulative growth is the same as in the technical trajectory provided by the Commission. This assumption of stable growth is shown in row (2) of the table. It should be noted that this assumption can no longer be used in the next plan, which is to be made in 2027 or no later than in 2028.

13 For example, Finland's potential output growth estimate for 2024 ranges between 0.6% and 1.2% depending on whether, for example, Commission Spring 2023 or Spring 2024 Forecast is used. New data obtained between spring 2023 and spring 2024 includes statistics on actual growth for 2023 (-1.2%), which turned out to be significantly weaker than projected. The outlook for growth in 2024 has also been revised downward based on latest data. Together, these factors appear to weaken the estimate of potential output growth in the 2020s. Consequently, there appears to be a strong weighting on the most recent observations in the latest potential output estimates.

14 E.g. Coibion, Gorodnichenko and Ulate (2018), which shows that the most commonly known potential output estimates respond to short-term shocks. See also Arsov and Watson (2019) discuss the difficulty of discerning structural and cyclical factors and their impacts on potential growth estimates, and the summary by Tóth (2021) on real-time and latest vintage output gap estimates of different institutions. An EPC report from 2004 (EPC/ECFIN/056/04-final) shows that the commonly agreed production function method is not fully free from the so-called end-point bias. The Output Gap Working Group (OGWG) has also discussed the effects of the COVID-19 shock on output gap estimation, so the problem has already been identified and efforts have been made to solve it at working group level. Finding a solution to the problem is, however, made more challenging by the economy having been hit by two rather exceptional shocks over a short period of time that may have a diversity of effects on the potential output growth estimate. The challenge is therefore to identify more than one latent variable in a single series of observations and, in Finland's view, there is not sufficient access to information for this to take place at least for now.

Table 2.1. Potential output growth, %, in the Commission's technical trajectory (1) and assumption of stable growth (2).

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041
(1)	0.63	0.63	0.68	0.59	0.64	0.58	0.56	0.59	0.66	0.68	0.89	1.10	1.30	1.38	1.42	1.49	1.53	1.49
(2)	0.94	0.94	0.94	0.94	0.94	0.94	0.94	0.94	0.94	0.94	0.94	0.94	0.94	0.94	0.94	0.94	0.94	0.94

The reference trajectory transmitted by the Commission under Article 5 takes account of the financing of certain procurements relating to security and national defence and their impact on the debt trajectory to 2025 in accordance with the Commission forecast. In 2022–2024, financing of procurements has increased debt without affecting deficit recorded in the accounts. In the coming years this will be reversed, that is, deficit will grow without a full impact on debt. The stock-flow adjustment item also takes account of investments decided by the Government that are financed from income generated by selling central government assets. The assumption deviation in the stock-flow adjustment item in 2025–2030 is shown in Table 2.2.

Table 2.2. Stock-flow adjustment item in the Commission's technical trajectory (1) and assumption based on updated data (2).

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041
(1)	2.6	1.7	1.7	1.7	1.6	1.6	1.5	1.5	1.5	1.4	1.2	1.1	0.9	0.8	0.6	0.5	0.3	0.2
(2)	2.5	1.3	1.7	1.4	1.4	1.0	1.1	1.5	1.5	1.4	1.2	1.1	0.9	0.8	0.6	0.5	0.3	0.2

Table 2 of Appendix A.1 presents the macroeconomic scenario in accordance with the net expenditure path as well as the statistical data for 2023 and the figures from the independent forecast for 2024 used in the scenario.

3 Reforms and investments

Section 3.1 presents the reforms and investments and their economic impacts underpinning the extension of the adjustment period in accordance with Article 14 of Regulation (EU) 2024/1263 of the European Parliament and of the Council. Section 3.2 examines the reforms and investments addressing the country-specific recommendations received by Finland and the common priorities of the Union and their economic impacts.

The measures presented as underpinning the extension of the adjustment period consist of reforms and investments under Finland's Recovery and Resilience Plan[15] and the social security reform package agreed in the Programme of Prime Minister Orpo's Government. The Government will promote an overall reform of social security towards a single basic social security benefit model and carry out a significant reform of last-resort social assistance, in addition to which the Government has already implemented the ambitious programme boosting employment described in section 3.2 which, as it has already been implemented, cannot be used to underpin the extension.

3.1 Reforms and investments underpinning the extension of the adjustment period

3.1.1 Recovery and Resilience Plan (RRP)

As required under Article 36 of Regulation 2024/1263, three sets of RRP measures with a key role from the perspective of the extension of the adjustment period that will strengthen economic growth and fiscal sustainability and fulfil the other criteria under Article 14 are presented below:

1. labour market reforms
2. health and social services refor
3. investments in green transition and RDI activities.

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These reforms and investments addressing the country-specific recommendations are described in more detail in Table 8 of Appendix A.1.

Labour market reforms

Finland's RRP contains labour market reforms that, through employment impacts, will support Finland's economic growth and significantly increase the economy's growth potential. They also address the common priority of the Union concerning social and economic resilience.

The following RRP reforms in particular play a key role in terms of the extension of the adjustment period:

1) Nordic model of employment services (P3C1R1)

This reform contains legislative amendments increasing the active search obligations of unemployed jobseekers. At the same time, the resources of employment services will be increased to support job searches. The aim is to increase the number of job search interviews to at least 2,000,000 in the period between 1 January 2023 and 31 March 2024 (compared to 783,070 interviews in the period from 1 January 2019 to 31 March 2020). To facilitate progress to this target, an information system integrated into public employment services will be developed and taken into use as part of the RRP reform. The amendments to the legislative package relating to the reform entered into force in 2022, and the information system will be taken into use in 2024. In addition, the reform target set for the number job search interviews was reached in the first quarter of 2024.

2) Removal of additional days of unemployment allowance (P3C1R2)

This reform means the phasing out of the so-called pathway to early retirement, as access to additional days of unemployment security will be abolished completely for those born in or after 1965. The minimum age for additional days will increase by one year for those born in 1963 or 1964. The relevant legislation entered into force at the beginning of 2023. The aim is to promote the employment of the ageing, as the abolishment of the age limits of these special provisions will significantly decrease the difference in the likelihoods of unemployment and re-employment of the age cohorts.

Health and social services reform

The health and social services reform (P4C1R1) addresses Finland's long-term country-specific recommendation. The reform aims to improve the availability and cost-effectiveness of health and social services.

The reform package contains a sizeable legislative package that entered into force in phases, with the first part in force since 1 July 2021 when the new wellbeing services counties were established and the second part since 1 January 2023 when the organising of healthcare and social welfare became the statutory duty of the wellbeing services counties. The implementation of the legislation has meant an enormous amount of operational work. In the reform, the responsibility for healthcare, social welfare and rescue services duties was transferred to 22 organisers (21 wellbeing services counties and the City of Helsinki). In addition, in the county of Uusimaa, the specialised healthcare duties are organised by the new HUS Group, the joint authority for Helsinki and Uusimaa. The implementation has required major operational changes in general government between municipalities and wellbeing services counties, such as transfers of assets and liabilities as well as personnel.

The activities of the wellbeing services counties are mainly funded from the State Budget and partly by means of client charges collected from service users. The Ministry of Finance monitors the activities and finances of the wellbeing services counties together with the Ministry of Social Affairs and Health and the Ministry of the Interior. The Ministry of Finance is responsible in particular for the regulation and assessment of the funding and finances of the wellbeing services counties as well as for the coordination of the strategic guidance carried out by central government. The reforms relating to the guidance of the wellbeing services counties outlined in the Programme of Prime Minister Orpo's Government and in the General Government Fiscal Plan for 2025–2028 are discussed in section 3.2.

Investments in service-driven digital innovations and their uptake play a key role in achieving the cost-effectiveness of the reform and at the same time in the availability of all health and social services. In pillar 4 of the RRP, investment P4C1I4 (introducing digital innovations for healthcare and social welfare services) supports the introduction of the wellbeing services counties' e-services. The objective is to increase the share of the population (aged 20 or over) using e-services in healthcare and social welfare from the 2020 figure of 26% to 35% by the end of 2025.

Investments in research, development and innovations as well as the clean transition

Finland's RRP also contains a significantly extensive set of investments in RDI activities and the clean transition. This includes investments in areas including new energy technologies and the hydrogen economy and an R&D package focusing on the clean transition itemised in Table 8 of Appendix A.1.

The RDI inputs and investments listed in Table 8 of Appendix A.1 support the objectives of the REPowerEU Plan and the Strategic Technologies for Europe Platform. In addition, R&D investments of RRP pillar 3 in particular support the parliamentary target, extending beyond individual government terms, to raise the level of R&D to 4% of GDP by 2030. Of this, the public sector accounts for 1.33% of GDP. RRP investments cover the first years of the public funding required to reach the target. The above-mentioned pillar 1 investments in the clean transition also include the application and innovative use of new technologies.

RRP investments will end by mid-2026.

3.1.2 Social security reform: general social security benefit

Prime Minister Orpo's Government is reforming social security during the parliamentary term through Government projects and the work of the Social Security Committee. Government projects reforming social security include the reform of basic social security by means of a general social security benefit model and a reform of social assistance. The parliamentary Social Security Committee started its work in spring 2020 and submitted its interim report in January 2023. Its second term commenced in December 2023. During the second term, the Committee will focus on the level of social security and the responsiveness of services to people's life situations. The reform addresses the country-specific recommendations received by Finland concerning the social security reform in 2022–2024.

The aim for the general social security benefit is to combine basic social security benefits and harmonise the various features and practices relating to benefits. The preparation of the general social security benefit is part of the gradual transition towards the single basic social security benefit model in line with the interim report of the parliamentary Committee[16] and will mean a major transformation of how basic social security is organised in Finland. The work of the parliamentary Committee aims to carry out a fundamental reform of Finland's basic social security and to create a new system that is clearer and more incentivising and takes better account of people's different life situations and their changes.

Over the longer term, the objective according to the Committee's interim report is to harmonise and combine the labour market subsidy, basic unemployment allowance, sickness allowance, rehabilitation allowance of the Social Insurance Institution of Finland (Kela) and parental allowances. This is a major reform, and its implementation will require work across several government terms. Prime Minister Orpo's Government is taking the first significant steps towards the parliamentary Committee's objective by launching the preparation of the general social security benefit.

Underlying the general social security benefit is the observation of the parliamentary Social Security Committee whereby the Finnish social security system has over time become unnecessarily complex, with this complexity causing bureaucracy traps and administrative burden. Complex application processes, the need to apply for multiple benefits, differences in adjustment and payment provisions depending on the type of benefit as well as other factors make the current system complex and disincentivising from the client perspective.

The Government is committed under the Government Programme to implementing the social security reform with the general social security model. In practice, the general social security benefit means a single basic social security benefit. The transition the general social security benefit aims to clarify and simplify the benefits system and its implementation. The aim of the general social security benefit is to promote incentives to work, in other words, to improve the linearity of tapering benefits on income.

As regards the general social security benefit, the aim is to move towards the so-called single benefit model[17] during the government term, with the benefit recipient only needing to submit a single application to the Social Insurance Institution of Finland (Kela) to receive the benefits they need. The change is

16 https://stm.fi/documents/1271139/34104054/sosiaaliturvakomitean_v%C3%A4limietint%C3%B6.pdf/f5e783c1-590f-e15b-4d55-5dee06096ea0/sosiaaliturvakomitean_v%C3%A4limietint%C3%B6.pdf?t=1681814707365 (in Finnish, abstract in English)

17 https://stm.fi/en/general-social-security-benefit

expected to simplify the client experience and eliminate bureaucracy traps. At the same time, the aim is to combine the existing form of labour market subsidy and basic unemployment allowance as the first step towards the single basic security benefit model.

3.1.3 Social security reform: social assistance

A major reform of social assistance will take place.[18] The reform addresses the country-specific recommendations addressed to Finland concerning the social security reform in 2022–2024. Underlying the reform is the observation whereby, compared to the other Nordic countries, Finland provides large amounts of unconditional social assistance, which leads to a great deal of incentive traps. In practice, this results from the poor coordination of the various components of social security, in particular unemployment security and social assistance, and the divergence of legislation over time. This has resulted in various procedural problems and blind spots. Significant shortcomings have, for example, been detected in the suitability of existing legislation to obliging social assistance recipients to register as unemployed jobseekers. This enables long-term passivity on social assistance without sanctions or consequences.

The Government will implement a comprehensive reform of social assistance that will improve people's ability to live independently, reduce long-term dependency on social assistance and halve the number of people in the population who need social assistance. The reform will clarify the role of social assistance as a last-resort discretionary cash benefit included in basic social security.

The way basic social assistance works has, over time, departed from the conditionality of the primary benefits, such as unemployment benefits. For example, the sanctions for non-compliance with obligations relating to unemployment benefits result, in practice, in hardly any financial consequences to social assistance recipients because the basic social assistance fully replaces the income from the primary benefit lost due to a sanction. For this reason, the conditionality of social assistance will be increased by expanding and simplifying the sanctions relating to social assistance, that is, the legal provisions on the reduction procedure. The aim is to make unemployed social assistance recipients

18 https://stm.fi/-/toimeentulotuen-kokonaisuudistuksen-valmistelu-kaynnistyy (in Finnish)

committed to the job search obligations of the new job search model that entered into force during the previous government term and, consequently, for them to make active efforts to advance their labour market situation.

The level of conditionality of social assistance will also be increased considerably. The aim is to make young people who are without education or training obliged to accept study places and to study as a condition for claiming assistance. The reform also looks into the option of fully refusing social assistance if the applicant has rejected an offered job, training, service or obligation. In practice, this could be the case in situations where a person has been clearly assigned a way of earning their livelihood by taking part in active measures but they have rejected this without a justified reason.

3.1.4 Impacts of reforms and investments underpinning the extension of the adjustment period

This section and Table 8 discuss the economic and other impacts of the set of reforms and investments underpinning the extension of the adjustment period in accordance with Article 14(2) of Regulation 2024/1263. The below describes how the set of reforms and investments will, as a general rule, entail, based on credible and prudent assumptions, an improvement of the growth and resilience potential of the economy in a sustainable manner. The below explains how the set of reforms and investments supports fiscal sustainability with a structural improvement of government finances over the medium term with regard to GDP and addresses the common priorities of the Union. In addition, this section describes how the set of measures and investments addresses the relevant country-specific recommendations. The set of reforms and investments ensures that the planned overall level of nationally financed public investment over the period covered by the plan is not lower than the medium-term level before that period (Table 4).

The reforms and investments under the recovery and resilience plan (RRP) are estimated to result in an aggregate cumulative GDP increase of 0.8% arising from the domestic measures funded from the Recovery and Resilience Facility (RRF) in 2021–2026. It is estimated that potential output growth will accelerate slightly on a temporary basis as investments grow and total factor productivity improves. GDP in 2026 would be around 0.3% higher than in the absence of the impact of the RRF. Over the long term, the RRF could increase the GDP level by 0.0%–0.8%. In addition to structural reforms, public investments are anticipated to boost long-term growth through growth in capital stock and productivity.

The reforms and investments under the RRP seek to further strengthen Finland's social conditions, which several indicators show are already good, and to strengthen social resilience. The health and social services reform safeguards equal and high-quality healthcare, social welfare and rescue services for everyone living in Finland, improves the availability and accessibility of these services and narrows gaps in health and wellbeing. To speed up access to care, the RRP focuses on introducing new digital operating models and services.

The labour market reforms under the RRP presented above will promote Finland's economic growth and growth potential through their positive employment effects and address the country-specific recommendations received by Finland in various years concerning the labour market. Put together, the Nordic model of employment services and the removal of additional days of unemployment allowance are estimated to increase employment by almost 20,000 employed persons. Indirectly, all these reforms will also strengthen general government finances by lowering general government expenditure relative to GDP over the long term, as unemployment benefits will decrease and GDP will grow.

The Nordic model of employment services is estimated to increase employment by around 10,000 persons. The impacts on employment will be fully achieved from the beginning of 2025. In particular, the discussions organised every two weeks at the start of the job search are expected to support employment. Research shows that regular interaction with jobseekers, active employment services and job search monitoring will shorten the periods of unemployment. In addition, the staggered sanctions system and the control system relating to the reform will increase the likelihood of access to employment.[19]

The removal of the additional days of unemployment allowance is estimated to increase employment by 9,100 employed persons. Research shows that the additional days have a significant impact on the risk of employment being terminated.[20] Because of this impact, the phasing out of the pathway to early retirement would reduce the risk of unemployment among those who are entitled to the additional days of unemployment security and other special provisions due to their age and would therefore improve the employment rate. Research

19 More details on the assessment of employment impacts can be found in a Ministry of Finance memorandum (in Finnish) of 13 September 2020.

20 See Kyyrä, T. and Pesola, H. (2020), Long-term effects of extended unemployment benefits for older workers, Labour Economics, Volume 62, 2020, 101777.

shows that the additional days of unemployment security and other age-specific special provisions also have impacts on the likelihood of re-employment among unemployed persons.[21]

The removal of the additional days of unemployment allowance is also estimated to have a direct impact on general government expenditure relative to GDP due to a decrease in unemployment benefits partially funded by general government.

The reform of health and social services legislation included in the RRP is an extensive structural reform resulting in a fundamental transformation of health and social services structures and creating a foundation for improving the availability of services and at the same time boosting cost-effectiveness. Since the beginning of the operations of the wellbeing services counties in 2023, it can be stated that health and social services function in a manner that is stable and equal enough. As regards services, several indicators show that services have improved since the reform. Staff shortage has reversed in many counties. All counties have adopted restructuring programmes and plans for balancing their finances. The most recent restructuring programmes were adopted in April. Following the reform, the scope and use of digital services has expanded significantly. The situation is also stable in rescue services and the availability of services is equal at the nationwide level.

The economic impacts of the reform will be seen over the longer term once the wellbeing services counties have started their activities in accordance with the statutory economic governance system, developed the structural and content integration of the service system, developed effective operating models and harmonised practices on the basis of best practices.

The cost-effectiveness impacts of the health and social services reform can be justified by economies of scale, productivity growth created by shared digital systems, and the safeguarding and more flexible allocation of human resources. Centralisation of health and social services helps to reduce overlaps in service production and investments and strengthens competitive tendering for public procurements, which in turn also increases cost-effectiveness.

21 More details on the assessment of employment impacts can be found in a Ministry of Finance memorandum (in Finnish) of 17 December 2020.

The funding model included in the legislative reform package also provides the wellbeing services counties with the incentive for increased efficiency in their operations and therefore slows down expenditure growth.[22] This incentive is made more effective by the fact that any recurring funding deficit (twice in three consecutive accounting periods) triggers a statutory evaluation procedure of the wellbeing services county. This way the mechanism may also reduce funding at the nationwide level if wellbeing services counties have been able to produce health and social services with spending below the funding provided. On the other hand, the reform secures sufficient funding for health and social services through annual nationwide reviews of imputed costs of wellbeing services counties to bring them in line with actual costs. The reforms outlined in the Programme of Prime Minister Orpo's Government and in the General Government Fiscal Plan for 2025–2028 increase cost-effectiveness incentives for the wellbeing services counties.[23]

In addition, the denser service network helps to secure the availability of staff. Centralising demanding specialised healthcare in larger hospitals can also improve the quality of treatment, as they have resources and special competence for implementing treatment that requires special expertise.

All of the RDI investments under the RRP promote the economic growth and resilience potential of the Finnish economy through their positive investment and productivity impacts. As regards impacts, the key aspect is that public investments will not crowd out private investments. Recent research shows that R&D subsidies crowd in rather than crowd out private R&D inputs.[24] A special characteristic of public investments under the RRP is that they seek to leverage private investments, which multiplies the economic impacts of public funding and reduces the need for public funding. On average, the leverage effect of investments is estimated to be

22 The impacts of the funding model were assessed in the government proposal to Parliament for legislation on establishing the wellbeing services counties and on reforming the organisation of health, social and rescue services as well as on issuing a notification referred to in Articles 12 and 13 of the European Charter of Local Self-Government (Government Proposal 241/2020, in Finnish).

23 See section 3.2.

24 See Becker, B. (2015), "Public R&D Policies and Private R&D Investment: A Survey of the Empirical Evidence: Public R&D Policies and Private R&D Investment", Journal of Economic Surveys 29, no. 5: 917–942. https://doi.org/10.1111/joes.12074; Ylhäinen, I., Rouvinen, P. and Kuusi, T. (2016), Katsaus yksityisen t&k-toiminnan ja sen julkisen rahoituksen vaikuttavuuteen, Valtioneuvoston selvitys- ja tutkimustoiminnan julkaisusarja, 57/2016 [Public Support of Private R&D: Review of Microeconometric Impact Studies. Publications of the Government´s analysis, assessment and research activities, 57/2016]. https://vnk.fi/julkaisu?pubid=15401 (in Finnish, abstract in English).

an around four-fold increase when subsidies account for around 25% of the total funding of investment projects. This means the direct impacts on total investment and GDP are manyfold when assuming in accordance with the research literature that public investments do not crowd out private investments.

Consequently, the long-term impacts of investments under the RRP will be generated from productivity growth. Research shows that innovation activity is a significant factor when explaining productivity growth.[25] Active innovation policy can influence private innovation activity.[26] Research has also identified a positive link between public R&D inputs and overall economic activity.[27] Research shows that government R&D inputs are particularly justified because of the positive externalities they generate. Benefits of new innovations may also spread to others without them themselves having to fully contribute towards the costs of innovation activity.

The estimates provided by the research literature of the impacts of R&D inputs vary. The Final Report of the Parliamentary Working Group on RDI provides calculations of impacts of R&D inputs in different scenarios.[28] According to the report, a conservative estimate shows that these so-called indirect impacts are translated into economic growth with an elasticity of 0.02, that is, a 1% increase in R&D input increases productivity by 0.02%. On the other hand, the report also provides several calculations showing higher productivity growth. For example, if R&D inputs are assumed to be particularly effective, a 0.01% increase in R&D inputs would increase productivity by 0.05%.

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25 See Aghion, P. and Howitt, P. (2009), The Economics of Growth, MIT Press, Cambridge, Massachusetts; Romer, P.M. (1990), "Endogenous Technological Change", Journal of Political Economy 98, no. 5: 71–102.

26 See Takalo, T. and Toivanen, O. (2021), "Sääntelyn vaikutukset innovaatiotoimintaan ja innovaatiotoimintaa edistävä sääntely [Effects of Regulation on Innovation Activity and Regulation Promoting Innovation", Kansantaloudellinen aikakauskirja 1: 7–28.

27 See e.g. Soete, L., Verspagen, B. and Ziesemer, T. H. W. (2021), "Economic impact of public R&D: an international perspective", Industrial and Corporate Change 31, no. 1: 1–18; Rehman, N. U., Hysa, E. and Mao, X. (2020), "Does public R&D complement or crowd-out private R&D in pre and post economic crisis of 2008?", Journal of Applied Economics 23, no. 1: 349–371. https://doi.org/10.1080/15140326.2020.1762341.

28 Parlamentaarisen TKI-työryhmän loppuraportti [Final Report of the Parliamentary Working Group on Research, Development and Innovation; in Finnish, abstract in English], Publications of the Finnish Government 2021:95.

The impacts of RDI inputs on general government finances depend on the productivity impacts examined above but also on how much public investments leverage private investments. As noted above, investments under the RRP will result on average in a four-fold increase in private investments, which means the impacts on general government finances will be significant. Impacts of RDI inputs are discussed more broadly in section 3.2.

In addition, these investments under the RRP are estimated to have a major impact on climate change due to reductions in CO2 emissions as well as on energy security. Following the update to Finland's RRP approved in July 2024, Finland is committed to increasing renewable energy capacity and/or grid connection capacity by at least around 380 megawatts.

The general social security benefit and social assistance reforms form the first part of the extensive overall social security reform of Prime Minister Orpo's Government initiated by a parliamentary committee and aiming for the structural and operational development of social security over the long term.[29] The reform is at its infancy, whereby impact assessments are only currently being conducted and will be included in legislative proposals submitted at a later date.

The general social security benefit reform aims to streamline and simplify the social security system and to introduce more incentives to work. The reform will create a single general social security benefit that includes a basic allowance for living costs, an allowance for housing costs and a discretionary allowance as last-resort social security. The aim is for the single general social security benefit to taper against increasing income from work as linearly as possible, making it easier for people to predict their take-home earnings and making it more worthwhile to take on work. Combining the benefit system is likely to have an impact reducing bureaucracy costs from the perspective of the benefit recipient and administrative costs alike. Research evidence concerning the impacts of bureaucracy costs on access to employment is, however, slim. Reducing bureaucracy is, however, also likely to increase the wellbeing of benefit recipients and, over the longer term, reduce administrative costs regardless of employment impacts. Potential employment impacts will also strengthen general government finances.

29 See Programme of Prime Minister Orpo's Government, p. 76-79: http://urn.fi/URN:ISBN:978-952-383-818-5.

The general social security benefit is a major reform with a considerably large target group. In the initial phase, the target group covers both recipients of basic unemployment allowance and recipients of labour market subsidy. In 2023, the target group totalled around 309 thousand (74.6 thousand recipients of basic unemployment allowance and 234.4 thousand recipients of labour market subsidy) and the benefit expenditure totalled around EUR 1.9 billion (EUR 1.6 billion of labour market subsidy expenditure and EUR 0.3 billion of basic unemployment allowance expenditure). According to Finnish research,[30] recipients of labour market subsidy respond to incentives in a manner that is fairly similar to that indicated overall concerning unemployment security by international literature. The reform does, however, involve constitutional challenges, such as the coverage doctrine that has emerged concerning section 19, subsection 2 of the Constitution of Finland and the relationship of the general social security benefit to that. Since the details of the reform have yet to be resolved in this respect and constitutionality has yet to be considered more specifically in drafting, it is not yet possible to assess the reform more specifically with regard to economic or labour market impacts.

The social assistance reform aims to strengthen the role of social assistance as a last-resort and temporary benefit that prevents social exclusion. The aim is to improve incentives to work by coordinating the sanction systems of unemployment security and social assistance and in this way eliminating situations where the last-resort benefit prevents the impacts of sanctions relating to unemployment security. In practice, these situations are those where, for example, a person is imposed a fixed benefit-free period concerning their unemployment benefit because they have rejected employment, the basic social assistance in places compensates fully for the amount of unemployment benefit lost. This means that basic social assistance has also become a factor reducing the effectiveness of sanctions relating to, and the conditionality of, unemployment security. The reform aims to halve the number of people in need of social assistance, increase employment and strengthen general government finances in line with the Government Programme.

The preparation of the overall reform of social assistance and of the general social security benefit is currently still in the working group phase. The government proposals concerning the general social security benefit as well as social assistance are due to be submitted to Parliament in autumn 2025. The details of the proposals will become more specific in conjunction with the bill drafting process, as will the more specific assessment of the impacts of the proposals. The impact assessments

30 Kyyrä, T. (2022): The effects of unemployment assistance on unemployment exits. International Tax and Public Finance 30, pp. 1457–1480.

of the proposals will assess the legislative proposals in terms of the relevant labour market impacts, impacts on general government finances and fiscal sustainability, and other material impacts relating to the proposals. Such material impacts include income distribution impacts, impacts on the position of various groups of people, and issues relating to fundamental rights. In addition, an essential element of the drafting of the legislative proposals is an open round for comments, which is likely to take place in the second half of 2025. During the round for comments, comments on the proposal will be requested from key stakeholders, such as the labour market organisations, associations and other interest organisations, but others may also submit their views on the contents of the proposal in this context. An appropriate period of time will be allocated for the round for comments. Once the bills have been adopted, their impacts will undergo routine monitoring based on data produced by the Social Insurance Institution of Finland (Kela).

The size of the target group of the reform is significant. In 2023, basic social assistance was received by around 355 thousand persons in around 250 thousand households and the benefit expenditure totalled around EUR 718 million.
For example, Swedish research[31] shows that the tightening of the activation requirements of social assistance can not only increase the likelihood of welfare exits but, in particular, reduce the likelihood of young individuals entering into welfare. A more recent study[32] has also found that activation programmes targeting people living on welfare benefits for a long time have improved the mental health of the target group, which has positive effects not only on general government finances but also on the realisation of social rights and on society's resilience.

The Government is also aiming for the reform to generate savings of EUR 100 million in social assistance benefit expenditure.[33] The realisation of these direct savings as well as of the indirect positive impacts will, however, depend to a significant extent on how the Government's objectives can be implemented in a manner that is favourable from the perspective of the Constitution of Finland. The constitutional assessment of the various implementation options has yet to be carried out, which is why it is not yet possible in this context to carry out any more specific assessment of economic impacts.

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31 Persson, A., Vikman, U. (2014): Dynamic effects of mandatory activation of welfare participants. Research in labor economics 2014, vol. 39, pp. 189–217.

32 Bastiaans, M., Dur, R., Gielen, A. C. (2024) Activating the long-term inactive: Labor market and mental health effects. Labour economics, vol 90., October 2024. Pre-proof.

33 See Programme of Prime Minister Orpo's Government: http://urn.fi/URN:ISBN:978-952-383-818-5.

Under Article 14(3) of Regulation 2024/1263[34], each of the reform and investment commitments underpinning an extension of the adjustment period must comply with the criteria set for them. This section (3.1) and Table 8 describe clearly how the reforms will be implemented within the period covered by the national medium-term fiscal-structural plan and how significant progress in the implementation of the investments will be achieved by the end of the adjustment period. In addition, Table 8 in particular presents indicators, where available or possible to define, to allow the assessment of their implementation and monitoring.

3.2 Other reforms and investments

3.2.1 Other reforms and investments – addressing country-specific recommendations and the common priorities of the Union

The implementation of the country-specific recommendations for 2019, 2020, 2022 and 2023 is presented with regard to fiscal policy recommendations in the General Government Fiscal Plans and in Draft Budgetary Plans and with regard to structural reforms in Finland's National Reform Programme 2024[35]. Earlier country-specific recommendations and the Commission's assessments of progress made in them are presented in Appendix A.5.

Table 9 of Appendix A.1 describes in more detail the reforms and investments addressing under Article 13 the below country-specific recommendations approved for Finland in 2024 and the common priorities of the Union. Table 10 of Appendix A.1 describes the investment needs relating to the common priorities of the Union.

34 Each of the reform and investment commitments underpinning an extension of the adjustment period shall be sufficiently detailed, front-loaded, time-bound and verifiable, and shall comply with the following criteria:
a) the description of the reform and investment commitments shall be clear and allow the Commission to assess them against the criteria set out in paragraph 2;
b) the reforms shall be implemented within the period covered by the national medium-term fiscal-structural plan;
c) significant progress in the implementation of the investments shall be achieved by the end of the adjustment period;
d) the description of the reforms and investments shall include indicators, where relevant, to allow the assessment of their implementation and monitoring.

35 https://julkaisut.valtioneuvosto.fi/handle/10024/165578. Compliance with fiscal policy recommendations is discussed in the General Government Fiscal Plans and Draft Budgetary Plans.

In addition, Finland's fiscal policy measures and measures regarding other areas of the recommendations relating to the social security reform and the Recovery and Resilience Plan (RRP)[36] are discussed above in chapters 1 and 2 and section 3.1 of this plan.

As regards 2024 and 2025, the Council recommends that Finland take action to:

1. submit the medium-term fiscal-structural plan in a timely manner; in line with the requirements of the reformed Stability and Growth Pact, limit the growth in net expenditure in 2025 to a rate consistent with, inter alia, putting the general government debt on a plausibly downward trajectory over the medium term and reducing the general government deficit below the 3% of GDP Treaty reference value; pursue the reform of the social security system in order to increase the efficiency of the social benefits system, which would improve incentives to work and support the long-term sustainability of public finances;
2. address relevant challenges to allow for continued, swift and effective implementation of the recovery and resilience plan including the REPowerEU chapter, ensuring completion of reforms and investments by August 2026; accelerate the implementation of cohesion policy programmes; in the context of the mid-term review continue focusing on the agreed priorities, while considering the opportunities provided by the Strategic Technologies for Europe Platform initiative to improve competitiveness;
3. address labour and skills shortages by reskilling and upskilling the workforce and widening the higher education offer, in particular for the study fields most in demand in the labour market; ensure that the reform of social and healthcare services improves access to and delivery of services and tackles inefficiencies.

Finland has promoted the implementation of the RRP in response to recommendation 2. An update including Finland's REPowerEU chapter was approved by the Council on 8 December 2023, and the implementation of the measures specified in the chapter has commenced on schedule. After that, the RRP

36 An update including Finland's REPowerEU chapter was approved by the Council on 8 December 2023, and the implementation of the measures specified in the chapter has commenced on schedule. After that, the RRP was updated for the third time and the update was approved by the Council on 16 July 2024. The update approved in July pertained to 16 measures with regard to which the fulfilment of the milestones or target by the end of 2026 was uncertain.

was updated for the third time and the update was approved by the Council on 16 July 2024. The update approved in July pertained to 16 measures with regard to which there was a significant risk of the fulfilment of the targets or milestones no longer being likely by the end of 2026. Following the update, the implementation risks have reduced considerably.

A significant part of the RRP focuses on promoting the dual transition. The update based on the inclusion of the REPowerEU chapter focused on promoting energy security.

The implementation of Finland's cohesion policy programmes continues. The cohesion policy programmes for 2021–2027 have been approved by the Commission and their implementation has commenced and is making progress. The complementarity and synergy of cohesion policy with Finland's RRP is discussed in Finland's National Reform Programme 2024.

Prime Minister Orpo's Government has implemented an ambitious programme improving incentives to work, which is expected to significantly strengthen employment over the medium term. These measures address the country-specific recommendations addressed to Finland concerning the labour market. Table 9 of Appendix A.1 presents these measures as well as measures seeking to address labour and skills shortages. The majority of these focus on promoting social and economic resilience, which is a common priority of the Union.

The set of measures promotes, in line with the interim report of the parliamentary Committee,[37] a transition to a single basic social security benefit by abandoning certain exceptions that occur in some but not in all basic social security benefits (the exempt amount in unemployment security and general housing allowance and the child increases in unemployment security).

In addition, benefits that research has shown to reduce labour supply without having a positive impact on long-term employment outcomes (adult education allowance, job alternation leave) will be abolished.

Major changes improving incentives to work will also be made in earnings-related unemployment security, the access criteria for which will be made tighter and the amount of which will be staggered on a downward scale based on the duration of unemployment.

37 https://stm.fi/sosiaaliturvakomitea (in Finnish)

The remaining parts of the right to additional days of unemployment security, or the so-called pathway to early retirement, removed by the previous Government, will also be abolished. These include the right of older age cohorts to fulfil the work requirement of unemployment security with work or services under the employment obligation of the municipality.

In addition to improving incentives to work, the Government will mitigate the skills shortage by increasing the funding of higher education institutions for fields experiencing labour shortages and by developing the funding model of higher education institutions to achieve more effective allocation of education and training investments. The measures address the country-specific recommendations addressed to Finland concerning education.

To ensure the cost-effectiveness of the health and social services reform, major policies relating to the wellbeing services counties were outlined in the Programme of Prime Minister Orpo's Government and the General Government Fiscal Plan for 2025–2028. The health of the population and the success of the health and social services reform will be supported by prioritising investments in health and social services. In addition, the Government will facilitate access to treatment by supporting self-funded private healthcare. These measures address the country-specific recommendations addressed to Finland concerning the health and social services reform.

Finland aims to increase research and development (R&D) expenditure to 4% of GDP by 2030 so that a third of the funding will be provided by the public sector. To promote the above target, the Act on R&D Funding (1092/2022) was enacted in 2023 as recommended by a parliamentary working group. The Act determines the annual level of central government R&D expenditure in a way that would raise public sector R&D funding to 1.33% of GDP by 2030 over the projected trajectory of economic development. The private sector is also committed to increasing its own research and innovation inputs so that the overall target of 4% of GDP set for Finland's RDI funding level could be reached by 2030.[38] The measures address the country-specific recommendation concerning research and development and promote the common priority of the Union concerning a fair green and digital transition.

38 See Commitment of Technology Industries of Finland 16 December 2021 (in Finnish), Teknologia yleisasiakirja (teknologiateollisuus.fi)

3.2.2 Impacts of other reforms and investments

The key structural reforms of the government term affecting employment are related to a reform of unemployment security. The first legislative proposal concerning the unemployment security reform has been adopted and the amendments will enter into force during 2024. The measures included in the first set of measures are: making the work requirement based on wage income and extending it from six to twelve months, periodising the annual holiday compensation, extending the waiting period before the start of entitlement to unemployment benefits and discontinuing the child increases. In the other set of measures, the Government proposes that the level of the earnings-related unemployment allowance be staggered based on the duration of unemployment, amendments be made to wage-subsidised work counting towards the work requirement and, as regards older persons, exceptions concerning activities counting towards the work requirement and the level of allowance be discontinued. The above amendments would also enter into force during 2024. The Ministry of Finance estimates[39] that the reforms concerning unemployment security will boost employment by around 40,000 persons. The Finnish Council of Regulatory Impact Analysis has stated that the impact assessments, including those on unemployment security, have been conducted well[40].

In autumn 2023, Parliament of Finland passed part of the social security benefits concerning the freezing of index increases for 2024–2027. If consumer price increases materialise as projected and the Government's social security reforms are for the most part laid down in legislation as agreed in the Government Programme, the Ministry of Finance estimates that the freezing of index increases will boost structural employment by around 18,600 persons.

The additional measures outlined in the Government Programme and decided in spring 2025 contain legislative amendments concerning the duties of the wellbeing services counties, such as reducing the minimum staffing level of 24-hour care for older persons, developing the division of duties in specialised healthcare, increasing the effectiveness of services and increasing client charges. The cost impact of these amendments to duties will reduce the wellbeing services counties' expenditure by around EUR 685 million in net terms in 2028. In line with the Government Programme, the funding model of the wellbeing services counties

39 https://vm.fi/tyollisyystavoitteiden-seuranta (in Finnish)

40 https://valtioneuvosto.fi/-/10616/tyottomyysturvaesityksen-vaikutukset-hyvin-arvioitu (in Finnish) and https://valtioneuvosto.fi/-/lainsaadannon-arviointineuvosto-sosiaaliturvamuutoksista-merkittavien-uudistusten-valmisteluun-varattava-aikaa-ja-resursseja (in Finnish)

will also be developed by introducing an element of wellbeing services counties' own risk to the ex-post control. It has been decided in connection with the General Government Fiscal Plan that the procedure for approving investment plans will be tightened so that the stabilisation goals for general government finances are not jeopardised.

The Government Programme also included the counties' own adjustment measures in the general government adjustment measures. Their potential impact on general government finances was estimated to be around EUR 875 million by the end of the government term. The assessment of the savings potential was based on the measures under the wellbeing services counties' own restructuring programmes and, in addition, on other measures identified by ministries, the savings potential of which could be used in the preparation of the nationwide assessment. Applying the prudent principle, the cost savings were estimated to be realised as follows: EUR 236 million in 2025, EUR 581 million in 2026 and EUR 874 million in 2027.

The financial planning of the wellbeing services counties is guided by the Act on Wellbeing Services Counties (611/2021), under which their financial plans must be balanced or show a surplus over a three-year period. In addition, any deficit that has accumulated 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 the financial statements were adopted. This means that any deficit accumulated in and after 2023 must be covered by the end of 2026.

It has also been set as a condition for amending the authority for borrowing that the county draws up an adjustment programme ensuring fiscal balance. The measures under the restructuring programmes typically consist of rapid cuts of costs, improvements of productivity and reform of service structures alike. All counties have drawn up a restructuring programme, with some counties having already prepared several.

According to a compilation based on the wellbeing services counties' budgets, financial plans and restructuring programmes, the adjustment measures of the wellbeing services counties amounted to EUR 0.8 billion 2024 and their scale already exceeds the level in accordance with the Annex to the Government Programme in 2025.

As regards this set of measures, Ministry of Finance guidance of the wellbeing services counties has been enhanced in accordance with the Government Programme. The first phase of the legislative amendments entered into force in summer 2024.

According to economics research, productivity growth is the most important factor for growth in the economy and, in particular, prosperity over the long term. As a rule, productivity grows following the introduction of new innovations and technology. As an economic policy measure, inputs in research, development and innovation activity can support the creation of new innovations and, consequently, long-term productivity growth in the economy. Research shows that central government R&D inputs are justified because of the positive externalities they generate. Benefits of new innovations may also spread to others without them themselves having to fully contribute towards the costs of innovation activity. Recent estimates provided in economics research concerning returns on R&D inputs range between 10% and 30%. According to a recent estimate by the International Monetary Fund (IMF), a 10% increase in a country's stock of basic scientific research can increase productivity by 0.3% on average.

The impacts of central government R&D inputs on productivity are not, however, fully unambiguous, and the generation of favourable economic impacts requires that certain conditions are fulfilled. These conditions are described in chapter 4, section 2 of the Act on R&D Funding and in contexts including the calculations produced by the Economics Department of the Ministry of Finance for a parliamentary working group in 2021.[41]

41 The memorandum is available in Finnish on the Ministry of Finance project page (24 November 2021).

4 Consultations

The Ministry of Finance published a draft of Finland’s Medium-Term Plan on 23 September 2024.

The draft plan will be notified to Parliament on 2 October 2024 by way of a Prime Minister’s announcement.[42]

The draft plan will be considered by the Economic Council[43] on 2 October 2024.

Civil society will be consulted on the plan in a consultation event organised on 3 October 2024. The invitation to the consultation event will be published on the Ministry of Finance website.

42 A Prime Minister’s announcement is an oral announcement concerning a topical matter made to Parliament by the Prime Minister or another member of the Government the Prime Minister designates. Parliament can hold a debate in plenary session on the Prime Minister's announcement but it cannot make a decision on it.

43 Chaired by the Prime Minister, the Economic Council of Finland is a body for facilitating cooperation between the Government, the Bank of Finland and major interest groups. It discusses economic and social policy issues of key importance for Finland’s prosperity. In addition to members of the Government, the Economic Council is composed of representatives of the Central Organisation of Finnish Trade Unions (SAK), the Confederation of Finnish Industries (EK), Local Government and County Employers KT, the Association of Finnish Local and Regional Authorities, Confederation of Unions for Professional and Managerial Staff in Finland (AKAVA), Confederation of Unions for Professional and Managerial Staff in Finland (AKAVA), Central Union of Agricultural Producers and Forest Owners (MTK), the Bank of Finland, Finnish Confederation of Professionals (STTK), Suomen Yrittäjät and Finland Chamber of Commerce.

Appendix A.1 Tables

Table 1. Fiscal commitment

	2023	2024	2025	2026	2027	2028
Net nationally financed primary expenditure						
change, %		3.7	1.6	1.9	2.6	2.6
cumulative change, %		3.7	5.3	7.4	10.1	13.0

Table 2. Macroeconomic scenario

	2023	2023	2024	2025	2026	2027	2028
GDP	**EUR bn**	**change, %**					
Real GDP	-	-1.2	-0.2	1.2	1.6	1.6	1.3
GDP deflator	-	3.9	1.7	2.1	2.2	2.2	2.3
Nominal GDP	274.9	2.7	1.5	3.4	3.7	3.8	3.6
Components of real GDP	**change, %**						
Private consumption expenditure	-	0.2	0.9	-	-	-	-
Government consumption expenditure	-	3.4	0.5	-	-	-	-
Gross fixed capital formation	-	-8.8	-1.3	-	-	-	-
Changes in inventories and net acquisition of valuables (% of GDP)	-	-	-	-	-	-	-
Exports of goods and services	-	-0.1	-1.1	-	-	-	-
Imports of goods and services	-	-6.6	0.2	-	-	-	-
Contribution to real GDP growth	-			-	-	-	-
• Final domestic demand	-	-1.2	0.3	-	-	-	-
• Changes in inventories and net acquisition of valuables	-	-3.1	-0.5	-	-	-	-
• External balance of goods and services	-	3.1	0	-	-	-	-

	2023	2023	2024	2025	2026	2027	2028
Deflators and HICP				change, %			
Private consumption deflator	-	4.4	1.3	-	-	-	-
• HICP	-	7.2	4.3	-	-	-	-
Government consumption deflator	-	5.9	3.0	-	-	-	-
Investment deflator	-	4.9	1.2	-	-	-	-
Export price deflator (goods and services)	-	-4.8	-0.7	-	-	-	-
Import price deflator (goods and services)	-	-2.7	-0.8	-	-	-	-
Labour market	level			change, %			
Domestic employment (1,000 persons, national accounts)	2,782.9	0.8	-0.5	-	-	-	-
Average annual hours worked per person employed	1,556.8	-0.5	-0.5	-	-	-	-
Real GDP per person employed	-	-1.9	0.3	-	-	-	-
Real GDP per hour worked	-	-1.5	0.8	-	-	-	-
Compensation of employees (EUR bn)	131.9	4.9	1.2	-	-	-	-
Compensation per employee (EUR thousand)	47.4	4.1	1.7	-	-	-	-
				%			
Unemployment rate	-	7.2	8.0	-	-	-	-
Potential GDP and components				change, %			
Potential GDP	-	1.1	0.9	0.9	0.9	0.9	0.9
Contribution to potential growth	-						
• Labour	-	0.7	0.6	-	-	-	-
• Capital	-	0.4	0.4	-	-	-	-
• Total factor productivity	-	-0.1	0.0	-	-	-	-
				% potential GDP			
Output gap	-	-2.4	-3.5	-3.2	-2.6	-2.0	-1.6

Table 3. External assumptions

		2023	2024	2025	2026	2027	2028
Short-term interest rate	%, annual average	3.4	3.6	2.8	2.8	2.8	2.8
Long-term interest rate	%, annual average	3.0	2.9	3.0	3.0	3.1	3.1
USD/EUR exchange rate	annual average	1.08	1.08	-	-	-	-
World real GDP (excluding EU)	change, %	3.6	3.5	-	-	-	-
EU real GDP	change, %	0.5	0.7	-	-	-	-
World import volumes (excluding EU)	change, %	0.9	3.3	-	-	-	-
Oil prices	Brent, USD/barrel	82.02	81.57	-	-	-	-

Table 4. Budgetary projections

		2023	2023	2024	2025	2026	2027	2028
	Revenue	**EUR bn**			**% GDP**			
1	Taxes on production and imports	35.5	12.9	13.1	-	-	-	-
2	Direct taxes	45.8	16.7	16.7	-	-	-	-
3	Social contributions	34.0	12.4	11.6	-	-	-	-
4	Other current revenue	30.4	11.1	12.1	-	-	-	-
5	Capital taxes	1.2	0.4	0.4	-	-	-	-
6	Other capital revenue	0.3	0.1	0.1	-	-	-	-
7	Total revenue (= 1+2+3+4+5+6)	147.1	53.5	54.0	-	-	-	-
8	• Of which: Transfers from the EU	1.0	0.4	0.4	-	-	-	-
9	Total revenue other than transfers from the EU (= 7-8)	146.1	53.2	53.6	-	-	-	-
10	• Revenue measures (increments, excluding EU funded)	-0.4	-0.1	-0.2	-	-	-	-
11	• One-off revenue included in the projections (levels, excl. EU funded measures)	0.0	0.0	0.0	-	-	-	-
	Expenditure	**EUR bn**			**% GDP**			
12	Compensation of employees	35.8	13.0	13.2	-	-	-	-
13	Intermediate consumption	34.3	12.5	12.7	-	-	-	-
14	Interest expenditure	3.2	1.2	1.3	1.5	1.6	1.7	1.7
15	Social benefits other than social transfers in kind	49.7	18.1	18.9	-	-	-	-
16	Social transfers in kind via market procedures	9.2	3.3	3.6	-	-	-	-

		2023	2023	2024	2025	2026	2027	2028
17	Subsidies	2.8	1.0	1.0	-	-	-	-
18	Other current expenditure	7.5	2.7	2.5	-	-	-	-
19	Gross fixed capital formation	11.1	4.0	4.2	-	-	-	-
20	• Of which: Nationally financed public investment	10.9	4.0	4.2	4.7	4.5	4.6	4.4
21	Capital transfers	1.3	0.5	0.3	-	-	-	-
22	Other capital expenditure	0.2	0.1	0.0	-	-	-	-
23	Total expenditure (= 12+13+14+15+16+17+18+19+21+22)	155.0	56.4	57.7	-	-	-	-
24	• Of which: Expenditure funded by transfers from the EU (= 8)	1.0	0.4	0.4	-	-	-	-
25	Nationally financed expenditure (= 23-24)	154.0	56.0	57.2	-	-	-	-
26	• National co-financing of programmes funded by the Union	0.6	0.2	0.2	-	-	-	-
27	• Cyclical component of unemployment benefits	0.3	0.1	0.2	-	-	-	-
28	One-off expenditure included in the projections (levels, excl. EU funded measures)	0.0	0.0	0.0	-	-	-	-
29	Net nationally financed primary expenditure (before revenue measures) (= 25-26-27-28-14)	149.9	54.5	55.5	-	-	-	-
	Net nationally financed primary expenditure	**-**	**-**			**change, %**		
30	Net nationally financed primary expenditure growth	-	-	3.7	1.6	1.9	2.6	2.6
	Balances	**EUR bn**			**% GDP**			
31	Net lending/borrowing (= 7-23)	-7.9	-2.9	-3.7	-2.9	-2.0	-1.4	-0.9
32	Primary balance (= 31-14)	-4.7	-1.7	-2.4	-1.4	-0.4	0.3	0.9

		2023	2023	2024	2025	2026	2027	2028
	Cyclical adjustment		% GDP					
33	Structural balance		-1.5	-1.6	-1.1	-0.5	-0.2	0.1
34	Structural primary balance		-0.4	-0.4	0.4	1.1	1.4	1.8
	Debt	EUR bn	% GDP					
35	Gross debt	210.5	76.6	81.7	83.2	83.9	83.6	82.9
36	Change in gross debt	13.7	3.1	5.1	1.5	0.7	-0.3	-0.7
37	**Contributions to changes in gross debt**							
38	• Primary balance (= minus 32)		1.7	2.4	1.4	0.4	-0.3	-0.9
39	• Snowball effect		-0.8	0.2	-1.2	-1.4	-1.5	-1.2
40	- Interest expenditure (= 14)		1.2	1.3	1.5	1.6	1.7	1.7
41	- Growth		0.8	0.2	-1.0	-1.2	-1.3	-1.1
42	- Inflation		-2.8	-1.3	-1.7	-1.8	-1.8	-1.9
43	• Stock-flow adjustment (= 36-38-39)		2.1	2.5	1.3	1.7	1.4	1.4
			%					
44	Implicit interest rate on debt		1.6	1.7	1.9	2.0	2.1	2.1

Table 5. Estimated impact of discretionary revenue measures

Description of measure	One-off	Expenditure / Revenue	Subsector	ESA Code	2023	2024
					% GDP	
Fixed-term reduction in value-added tax on electrical energy to 10% 1 December 2022 to 30 April 2023	No	Revenue	S.1311	D2R	-0.1	0.1
Health and social services reform tax reduction in central government earned income taxation	No	Revenue	S.1311	D5R	-0.1	-
Increase in standard value-added tax rate 24% -> 25.5% 1 September 2024	No	Revenue	S.1311	D2R	-	0.1
Change in unemployment insurance contribution	No	Revenue	S.1314	D6R	-	-0.5
Impact of change in unemployment insurance contribution on tax revenue	No	Revenue	S.1311 S.1313	D5R	-	0.1
Change in health insurance contribution	No	Revenue	S.1314	D6R	-	-0.3
Impact of change in health insurance contribution on tax revenue	No	Revenue	S.1311 S.1313	D5R	-	0.1
Other measures	No	Revenue	-	-	0.1	0.2
TOTAL		-		-	**-0.1**	**-0.2**

Table 7.a Debt and headline balance projections and key underlying assumptions (under the planned fiscal path)

		2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041
Gross debt	% of GDP	76.6	81.7	83.2	83.9	83.6	82.9	81.4	79.7	78.2	76.3	74.2	71.8	69.5	67.1	64.6	61.9	59.0	55.9	52.7
General government balance	% of GDP	-2.9	-3.7	-2.9	-2.0	-1.4	-0.9	-0.4	0.0	0.3	0.5	0.7	0.9	0.9	1.0	1.1	1.2	1.4	1.5	1.6
Structural primary balance	% of. pot. GDP	-0.4	-0.4	0.4	1.1	1.4	1.8	2.1	2.3	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6
Cyclical component	% of. GDP	1.4	2.0	1.9	1.5	1.2	0.9	0.7	0.6	0.5	0.4	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
One-off measures	% of. pot. GDP	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest expenditure	% of GDP	1.1	1.3	1.5	1.6	1.7	1.7	1.7	1.8	1.7	1.7	1.7	1.7	1.7	1.7	1.6	1.6	1.5	1.5	1.4
• Long-term interest rate	%	3.0	2.9	3.0	3.0	3.1	3.1	3.1	3.1	3.2	3.2	3.2	3.3	3.3	3.3	3.4	3.4	3.5	3.5	3.5
• Short-term interest rate	%	3.4	3.6	2.8	2.8	2.8	2.8	2.8	2.8	2.7	2.7	2.7	2.7	2.7	2.6	2.6	2.5	2.5	2.5	2.4
Implicit average interest rate	%	1.6	1.7	1.9	2.0	2.1	2.1	2.2	2.2	2.3	2.3	2.4	2.4	2.4	2.5	2.5	2.5	2.5	2.6	2.6
Stock-flow adjustment	% of GDP	2.1	2.5	1.3	1.7	1.4	1.4	1.0	1.1	1.5	1.5	1.4	1.2	1.1	0.9	0.8	0.6	0.5	0.3	0.2
Potential GDP	growth rate, %	1.1	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Real GDP	growth rate, %	-1.2	-0.2	1.2	1.6	1.6	1.3	1.3	1.2	1.1	1.2	1.2	1.2	0.9	0.9	0.9	0.9	0.9	0.9	0.9
GDP deflator	growth rate, %	3.9	1.7	2.1	2.2	2.2	2.3	2.3	2.4	2.4	2.5	2.6	2.5	2.5	2.5	2.4	2.4	2.4	2.4	2.3
Nominal GDP	growth rate, %	2.7	1.5	3.4	3.7	3.8	3.6	3.6	3.5	3.5	3.7	3.8	3.8	3.4	3.4	3.4	3.3	3.3	3.3	3.3

Table 7.b Debt projections and key stressed variables, deterministic scenarios and stochastic simulations

		2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041
Financial stress scenario																				
Gross debt	% of GDP	76.6	81.7	83.2	83.9	83.6	82.9	81.4	79.7	78.2	76.5	74.3	72.0	69.7	67.4	64.8	62.1	59.3	56.2	53.0
Long-term interest rate	%	3.0	2.9	3.0	3.0	3.1	3.1	3.1	3.1	3.2	4.2	3.2	3.3	3.3	3.3	3.4	3.4	3.5	3.5	3.5
Short-term interest rate	%	3.4	3.6	2.8	2.8	2.8	2.8	2.8	2.8	2.7	3.7	2.7	2.7	2.7	2.6	2.6	2.5	2.5	2.5	2.4
Lower SPB scenario																				
Gross debt	% of GDP	76.6	81.7	83.2	83.9	83.6	82.9	81.4	79.7	78.2	76.3	74.6	72.9	71.1	69.2	67.1	64.9	62.5	59.9	57.2
Structural primary balance	% of. pot. GDP	-0.4	-0.4	0.4	1.1	1.4	1.8	2.1	2.3	2.6	2.4	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Adverse ‘r-g’ scenario																				
Gross debt	% of GDP	76.6	81.7	83.2	83.9	83.6	82.9	81.4	79.7	78.2	76.8	75.1	73.1	71.3	69.3	67.2	64.9	62.5	59.8	56.9
Long-term interest rate	%	3.0	2.9	3.0	3.0	3.1	3.1	3.1	3.1	3.2	3.7	3.7	3.8	3.8	3.8	3.9	3.9	4.0	4.0	4.0
Short-term interest rate	%	3.4	3.6	2.8	2.8	2.8	2.8	2.8	2.8	2.7	3.2	3.2	3.2	3.2	3.1	3.1	3.0	3.0	3.0	2.9
Real GDP	growth rate, %	-1.2	-0.2	1.2	1.6	1.6	1.3	1.3	1.2	1.1	0.7	0.7	0.7	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Potential GDP	growth rate, %	1.1	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Stochastic simulations																				
Probability of debt being below its value in T+7	%	85.17																		

Table 7.c Debt and headline balance projections and underlying assumptions (under 'no-fiscal-policy-change' baseline)

		2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041
Gross debt	% of GDP	76.6	81.7	83.2	84.6	85.2	85.4	86.1	86.9	88.2	89.5	90.7	91.7	92.7	93.5	94.2	94.7	95.1	95.3	95.3
General government balance	% of GDP	-2.9	-3.7	-3.3	-2.9	-2.6	-2.2	-2.4	-2.5	-2.6	-2.7	-2.8	-2.9	-2.9	-3.0	-3.0	-3.0	-3.0	-2.9	-2.9
Structural primary balance	% of. pot. GDP	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
Cyclical component	% of. pot. GDP	1.4	2.0	1.5	1.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest expenditure	% of GDP	1.1	1.3	1.5	1.6	1.7	1.8	1.8	1.9	2.0	2.1	2.1	2.2	2.3	2.4	2.4	2.5	2.5	2.6	2.6
Long-term interest rate	%	3.0	2.9	3.0	3.0	3.1	3.1	3.1	3.1	3.2	3.2	3.2	3.3	3.3	3.3	3.4	3.4	3.5	3.5	3.5
Short-term interest rate	%	3.4	3.6	2.8	2.8	2.8	2.8	2.8	2.8	2.7	2.7	2.7	2.7	2.7	2.6	2.6	2.5	2.5	2.5	2.4
Implicit average interest rate	%	0.8	1.6	1.7	1.9	2.0	2.1	2.2	2.2	2.3	2.4	2.4	2.5	2.5	2.6	2.6	2.7	2.7	2.8	2.8
Potential GDP	growth rate, %	1.1	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Real GDP	growth rate, %	-1.2	-0.2	1.8	1.8	1.8	1.8	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
GDP deflator	growth rate, %	3.9	1.7	2.1	2.2	2.2	2.3	2.3	2.4	2.4	2.5	2.6	2.5	2.5	2.5	2.4	2.4	2.4	2.4	2.3
Nominal GDP	growth rate, %	2.7	1.5	4.0	4.0	4.1	4.1	3.3	3.3	3.4	3.4	3.5	3.5	3.4	3.4	3.4	3.3	3.3	3.3	3.3
Fiscal multiplier	%	0.75																		

Table 7.d Debt projections and additional assumptions (under the projected fiscal path)

% of GDP	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041
Gross debt	**76.6**	**81.7**	**83.2**	**83.9**	**83.6**	**82.9**	**81.4**	**79.7**	**78.2**	**76.3**	**74.2**	**71.8**	**69.5**	**67.1**	**64.6**	**61.9**	**59.0**	**55.9**	**52.7**
Rolled over long-term debt	2.5	2.2	2.3	2.4	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.4	2.4	2.3	2.1	2.0	1.8	1.6	1.4
Rolled over short-term debt	7.0	7.4	7.8	8.0	8.1	8.1	8.0	7.9	7.8	7.6	7.4	7.2	7.0	6.7	6.2	5.6	4.8	3.8	2.7
New long-term debt	4.5	5.5	3.7	3.3	2.5	2.0	1.3	1.0	1.0	0.9	0.6	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0
New short-term debt	0.5	0.7	0.5	0.4	0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Table 8. Reforms and investments underpinning the extension of the adjustment period

	RRF / MFF	Key steps	CSR	Common priorities	Main objective	Implemen-tation	Indicator(s) on objective
Nordic model of employment services	RRF	i) Entry into force of the Act on Public Employment and Business Services regulating the Nordic model of employment services for the jobseeker's service process ii) All five digital functionalities required by the Nordic employment service model are integrated into the public employment services' (TE-PES) information system and are operational	CSR.2019.2, CSR2019.2, CSR.2020.2, CSR.2020.2	Social and economic resilience	The objective of the measure is to reform the public em-ployment services process.	Q2/2024	Increase in the annual number of job search interviews conducted in line with the Nordic model of employment services
Removal of additional days of unemployment allowance	RRF	i) Entry into force of amendments to the Unemployment Security Act concerning the phasing out of additional days of unemployment security	CSR.2019.2, CSR.2020.2	Social and economic resilience	The objective of the reform is to foster employment by removing disincentives to work for older people and attenuating a targeting of redundancies on older employees	Q2/2023	Entry into force of amendments to the Unemployment Security Act concerning the phasing out of additional days of unemployment security

	RRF / MFF	Key steps	CSR	Common priorities	Main objective	Implemen-tation	Indicator(s) on objective
Preparation of the social welfare and health care reform in support of implementing the care guarantee	RRF	i) Entry into force of the initial legal framework establishing welfare areas [wellbeing services counties] and reforming the social and health care and rescue services ii) Entry into force of the additional legal framework completing the establishment of welfare areas [wellbeing services counties] and the reform of the social and health care and rescue services	CSR.2019.1, CSR.2020.1, CSR.2020.1, CSR.2020.1	Social and economic resilience	As part of the preparation of the social and healthcare reform, the objective of this measure is to improve the accessibility of health and social services by promoting the implementation of the care guarantee.	Q2/2023	Operationalisation of regional welfare areas [wellbeing services counties] with the capacity to take responsibility for organising social, health and rescue services
Introducing digital innovations for social welfare and health care services	RRF	i) Increase of the share of population using social welfare and health care e-services	CSR.2019.1, CSR.2020.1	A fair green and digital transition, social and economic resilience	The objective of this investment is to deliver digital solutions to support the development of social and healthcare services and promote the implementation of the care guarantee.	Q4/2025	Increase of the share of population using social welfare and health care e-services
Investments in new energy technologies	RRF	i) Publication of the first call for applications for investments in new energy technologies ii) Award of all grants for energy technology investments	CSR.2019.3, CSR.2019.3, CSR.2020.3, CSR.2020.3, CSR.2022.3, CSR2022.3, CSR2022.3, CSR.2023.4, CSR.2023.4	A fair green and digital transition, energy security	Contribute to Finland's goal to achieve carbon neutrality by 2035 by stimulating the introduction of new clean technologies for energy production and use.	Q2/2026	Completion of the supported projects

	RRF / MFF	Key steps	CSR	Common priorities	Main objective	Implemen-tation	Indicator(s) on objective
Low-carbon hydrogen and carbon capture and utilisation	RRF	i) Publication of the first national call for applications for the production and utilisation of low-emission hydrogen as well as carbon dioxide capture and utilisation ii) Implementing Agreement iii) Ministry has completed the investment	CSR.2019.3, CSR.2020.3, CSR.2022.3, CSR.2022.3, CSR.2023.4, CSR.2023.4, CSR.2023.4	A fair green and digital transition	The investment aims to promote the development of the production and storage of clean hydrogen on a commercial scale	Q2/2026	Legal agreements signed with final beneficiaries
Re-use and recycling of key materials and industrial side streams	RRF	i) Publication of the first call for applications for investment projects promoting the re-use of waste materials and side streams. ii) Award of all grants to the re-use and recycling projects	CSR.2019.3, CSR.2022.3, CSR.2022.3, CSR.2023.4, CSR.2023.4	A fair green and digital transition	The measure aims at promoting a circular economy that re-uses and recycles industrial side and waste streams and other key materials such as battery materials, plastics, textiles, packaging, electrical and electronic equipment, construction and demolition materials.	Q2/2026	Completion of the supported projects
RDI funding package promoting the green transition – Leading companies	RRF	i) Publication of a call for applications for leading companies' projects	CSR.2019.3, CSR.2019.3, CSR.2020.3, CSR.2020.3, CSR.2022.3, CSR.2022.3, CSR.2023.4, CSR.2023.4	A fair green and digital transition, social and economic resilience	The objective of the investment is to support (via scheme managed by Business Finland) partnerships and ecosystems between companies and other research organisations that strengthen the competitiveness of business and enhance the effectiveness of Research & Development activities.	Q4/2025	Award of grants for leading companies' projects Share of completed projects of leading companies

	RRF / MFF	Key steps	CSR	Common priorities	Main objective	Implemen-tation	Indicator(s) on objective
Energy infrastructure investments	RRF	i) Publication of the first call for applications for energy infrastructure projects ii) Award of all grants for energy infrastructure investments	2019.CSR3.2, 2020.CSR3.4, 2020.CSR3.5, 2022.CSR3.1, 2022.CSR3.4, 2022.CSR3.5, 2023.CSR4.5, 2023.CSR4.1, 2023.CSR4.2	A fair green and digital transition	The objective of the investment is to enhance the framework conditions for attracting investment in clean energy, with a focus on energy system integration, energy storage and transport. The investment shall support projects that promote the construction of energy infrastructure with the following focus: I) electricity grids and electricity transmission capacity; II) investments to integrate energy systems and produce, transmit and utilise surplus and waste heat in district heating networks; III) transport of low-carbon gases, including hydrogen, biogas and biomethane.	Q2/2026	Completion of the supported projects. At least four projects shall be completed, as evidenced by project reports submitted by project beneficiaries.

	RRF / MFF	Key steps	CSR	Common priorities	Main objective	Implemen-tation	Indicator(s) on objective
Comprehensive reform of social security and the single benefit model		i) Implementing the single application model of the Social Insurance Institution of Finland	CSR.2024.1	Social and economic resilience	The reform aims to promote the implementation of the overall reform of social security in Finland in accordance with the interim report of the parliamentary Social Security Committee	Q2/2026	Legislation enters into force. Impacts on the labour market, general government finances and vulnerable groups have been assessed. Stakeholders have been heard in conjunction with the round for comments.
Comprehensive reform of social assistance		i) Eliminating social assistance incentive traps by increasing conditionality	CSR.2024.1, CSR.2024.3	Social and economic resilience	The reform aims to improve incentives to work among social assistance recipients by linking the conditionality of social assistance more clearly with the conditions attached to unemployment security.	Q2/2026	Legislation enters into force. Impacts on the labour market, general government finances and vulnerable groups have been assessed. Stakeholders have been heard in conjunction with the round for comments.

Table 9. Other reforms and investments

	CSR	Common priorities
Changes in unemployment benefits, package 1	Improving incentives to work	Social and economic resilience
Changes in unemployment benefits, package 2	Improving incentives to work	Social and economic resilience
Removing benefits disincentivising labour supply	Improving incentives to work	Social and economic resilience
Index cuts in social security benefits	Improving incentives to work	Social and economic resilience
Permanent increase in the intake of students in studies towards a Licentiate of Medicine degree	Addressing labour and skills shortages	Social and economic resilience
Increasing student intake – registered nurses and teachers in early childhood education and care	Addressing labour and skills shortages	Social and economic resilience
Changes in funding models of higher education institutions – targeting of higher education	Addressing labour and skills shortages	Social and economic resilience
Ensuring access to treatment and strengthening general government finances	Health and social services reform	Social and economic resilience
Supporting private healthcare (KELA reimbursements) - shortening waiting times and accelerating access to treatment	Health and social services reform	Social and economic resilience
Safeguarding long-term R&D inputs	Investments to increase growth potential, investments in research and innovation	A fair green and digital transition

Table 10. Investment needs

Common priorities	Description of investment needs
1. A fair green and digital transition, including consistency with the European Climate Law	The main focus of the means of attaining the 2040 climate target of the EU should be on emissions reductions, so investments in clean energy should be promoted further. Measures related to renewable energy and energy efficiency should focus on reducing the use of fossil fuels. Energy efficiency targets should primarily serve emissions reductions rather than restricting consumption. In addition, the technologies needed for a clean transition at the national level should be taken into account on an equal basis. Nuclear energy should play a role as a carbon dioxide emissions free energy form in enabling the clean transition. Ensuring the biodiversity of forest nature is an important part of climate change mitigation, but it is also important to take into account the differences between Member States and changes in conditions to a sufficient extent. Digital solutions and their early adoption promote the clean transition as well. The potential of digital solutions for improving energy efficiency and reducing greenhouse gas emissions and other environmental loads should be utilised to the fullest extent possible. Digital solutions must also be ecological in and of themselves. The EU's digital leadership requires investments especially in disruptive technologies, such as artificial intelligence solutions, high-power and quantum computing, chip technology and 6G.

Common priorities	Description of investment needs
2. Social and economic resilience, including the European Pillar of Social Rights	Productivity growth is held back in Finland 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. Improving the availability of skilled and trained labour would be a key factor for Europe's competitiveness. It would be decisive for competitiveness and success to continue determined efforts to raise the level of education and strengthen continuous learning. EU must be a competitive area in global competition. The targeting of funding must be promoted with regard to measures strengthening comprehensive security and the external borders of the EU. Along with enhanced risk management measures, efforts to strengthen Europe's strategic competitiveness and resilience require additional investments in critical digital infrastructure, such as mobile networks, submarine cables, satellites, data centres, future technology solutions and critical technologies, as well as the development of European value chains. As part of this work, it is essential to recognise the importance of high-level cyber security and expertise for Europe's competitiveness. As part of strengthening the internal market and industrial policy, it is necessary to strengthen resource efficiency, the functioning of the circular economy and the development of carbon-neutral materials. The bioeconomy and renewable natural resources offer sustainable solutions for reducing carbon emissions, breaking away from harmful dependencies and safeguarding security of supply in the EU area. Bioeconomy research and development inputs should also be realised as investments in Finland. It would be important to reach the EU objectives of breaking away from harmful dependencies and identifying the EU's vulnerabilities in certain strategically important sectors.
3. Energy security	Clean energy investments should be promoted further, and the reduction in fossil fuel consumption (see 1 above) also aims to reduce the EU's dependence of third countries and to strengthen the EU's strategic autonomy.
4. Where necessary, the build-up of defence capabilities	It is in Finland's interest that the EU is as strong and effective as possible when it comes to security and defence. In developing cooperation, it is important to take into account both the EU's capacity as a global actor and Finland's ability to strengthen its own defence. This includes, among other things, developing capabilities in line with the commitments of permanent structured cooperation, ensuring military mobility, strengthening rapid response capabilities, adapting EU crisis management to changes in the operating environment, and promoting cooperation between the EU and NATO. Finland joined NATO in April 2023. Military integration relating to Finland's NATO membership will continue. Finland is preparing to operate as part of NATO's regional plan and to take part in NATO's peacetime duties and readiness obligations (incl. share of NATO's military budget and participation in NATO's Defence Innovation Accelerator for the North Atlantic (DIANA).

Appendix A.2 Commission's reference trajectory

Table. Commission's reference trajectory

	Average , (2025–28)	2025	2026	2027	2028	2029	2030	2031
Adjustment without extension of plan								
Net primary expenditure growth, %	-0.1	-0.1	0.0	-0.1	0.0			
Change in structural primary balance, percentage points	1.60	1.60	1.60	1.60	1.60			
Adjustment with extension of plan								
Net primary expenditure growth, %	1.5	1.4	1.5	1.4	1.5	1.5	1.6	1.7
Change in structural primary balance, percentage points	0.76	0.76	0.76	0.76	0.76	0.76	0.76	0.76

Appendix A.3 Independent forecast

Table. Key forecast figures for the medium term

	2022	2023	2024*	2025*	2026*	2027*	2028*
GDP at market prices, change in volume, %	1,3	-1,2	-0,2	1,7	1,5	1,3	1,2
GDP, nominal, EUR bn	268	275	279	290	301	312	323
Consumer price index, change, %	7,1	6,2	1,8	1,4	1,3	1,8	2,0
Unemployment rate, %	6,8	7,2	8,0	7,6	7,2	6,6	6,5
Employment rate, %	73,8	73,6	72,8	73,1	74,1	75,0	75,8
Output gap, % of potential output[1]	-0,2	-2,0	-2,8	-1,7	-0,8	-0,4	0,0
Potential output growth, %[1]	1,0	0,7	0,5	0,6	0,6	0,8	0,8
Relative to GDP, %							
General government net lending	-0,4	-2,9	-3,7	-3,2	-2,6	-2,3	-2,1
• Central government	-1,4	-3,2	-3,2	-3,7	-3,1	-2,9	-2,6
• Municipal finances[2]	-0,2	-0,5	-0,5	-0,6	-0,6	-0,7	-0,6
• Wellbeing services counties	-	-0,6	-0,7	-0,2	-0,2	-0,3	-0,5
• Social security funds	1,2	1,4	0,6	1,4	1,4	1,6	1,6
Structural balance	-0,2	-1,7	-2,0	-2,2	-2,1	-2,1	-2,1
General government debt	73,5	76,6	81,7	84,0	84,8	85,2	86,0
Central government debt	52,9	56,8	60,5	62,3	62,8	63,0	63,1

1 Estimated according to the method developed jointly by the EU Commission and Member States
2 Local government until 2022

Appendix A.4 Implicit and contingent liabilities

Table. General government guarantees, % of GDP

	2023
General government guarantees	17.7
of which to financial institutions	10.2

Appendix A.5 Country-specific recommendations

Table. Country-specific recommendations

Year, recommen-dation	Recommendation	Commission's assessment (2024)
2019, 1.1	Ensure 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.	CSR No Longer Relevant
2019, 1.2	Improve the cost-effectiveness of and equal access to social and healthcare services.	Some Progress
2019, 2.1	Improve incentives to accept work	Some Progress
2019, 2.2	and enhance skills	Some Progress
2019, 2.3	and enhance active inclusion, notably through well-integrated services for the unemployed and the inactive.	Some Progress
2019, 3.1	Focus investment-related economic policy on research and innovation, taking into account regional disparities,	Substantial Progress
2019, 3.2	focus investment-related economic policy on low carbon and energy transition, taking into account regional disparities,	Substantial Progress
2019, 3.3	and focus investment-related economic policy on sustainable transport, taking into account regional disparities.	Some Progress
2019, 4.1	Strengthen the monitoring of household debt	Substantial Progress
2019, 4.2	and establish the credit registry system.	Substantial Progress
2020, 1.1	In line with the general escape clause, take all necessary measures to effectively address the 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.	CSR No Longer Relevant

Year, recommen-dation	Recommendation	Commission's assessment (2024)
2020, 1.2	Address shortages of health workers to strengthen the resilience of the health system	Some Progress
2020, 1.3	and improve access to social and health services.	Some Progress
2020, 2.1	Strengthen measures to support employment and	Some Progress
2020, 2.2	bolster active labour market policies.	Some Progress
2020, 3.1	Take measures to provide liquidity to the real economy, in particular to small and medium-sized enterprises.	Full Implementation
2020, 3.2	Front-load mature public investment projects and	Full Implementation
2020, 3.3	promote private investment to foster the economic recovery.	Full Implementation
2020, 3.4	Focus investment on the green and digital transition, in particular on clean and efficient production and use of energy,	Some Progress
2020, 3.5	sustainable and efficient infrastructure	Limited Progress
2020, 3.6	as well as research and innovation.	Some Progress
2020, 4.1	Ensure effective supervision and enforcement of the anti-money-laundering framework.	Some Progress
2021, 1.1	In 2022, maintain a supportive fiscal stance, including the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment.	CSR No Longer Relevant
2021, 1.2	When economic conditions allow, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term.	CSR No Longer Relevant
2021, 1.3	At the same time, enhance investment to boost growth potential. Pay particular attention to the composition of public finances, both on the revenue and expenditure sides of the budget, and to the quality of budgetary measures, to ensure a sustainable and inclusive recovery. Prioritise sustainable and growth-enhancing investment, notably supporting the green and digital transition.	CSR No Longer Relevant

Year, recommen-dation	Recommendation	Commission's assessment (2024)
2021, 1.4	Give priority to fiscal structural reforms that will help provide financing for public policy priorities and contribute to the long-term sustainability of public finances, including by strengthening the coverage, adequacy, and sustainability of health and social protection systems for all.	CSR No Longer Relevant
2022, 1.1	In 2023, 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.	No Progress
2022, 1.2	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.	Limited Progress
2022, 1.3	For the period beyond 2023, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions.	Substantial Progress
2022, 1.4	Present policy proposals for the social security reform, aiming to increase the efficiency of the system of social benefits, improving incentives to work, and also supporting long-term sustainability of public finances.	Limited Progress
2022, 2.1	Proceed with the implementation of its recovery and resilience plan, in line with the milestones and targets included in the Council Implementing Decision of 29 October 2021.	CSR No Longer Relevant
2022, 2.2	Proceed with the implementation of the agreed 2021–2027 cohesion policy programme for Finland, and swiftly finalise the negotiations with the Commission of the 2021–2027 cohesion policy programming documents for the Åland Islands with a view to starting their implementation.	CSR No Longer Relevant
2022, 3.1	Reduce overall reliance on and diversify imports of fossil fuels	Substantial Progress
2022, 3.2	by accelerating the deployment of renewables, including by further streamlining permitting procedures	Substantial Progress
2022, 3.3	and boost investment in the decarbonisation of industry	Some Progress
2022, 3.4	and transport, including electrification of the transport sector.	Substantial Progress
2022, 3.5	Develop energy infrastructure to increase security of supply.	Some Progress

Year, recommen-dation	Recommendation	Commission's assessment (2024)
2023, 1.1	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.	Substantial Progress
2023, 1.2	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%.	No Progress
2023, 1.3	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.	Full Implementation
2023, 1.4	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.	Substantial Progress
2023, 1.5	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.	Limited Progress
2023, 2.1	Proceed with the steady implementation of its revised recovery and resilience plan and swiftly finalise the REPowerEU chapter with a view to rapidly starting the implementation thereof. Proceed with the swift implementation of cohesion policy programmes, in close complementarity and synergy with the recovery and resilience plan.	CSR No Longer Relevant
2023, 3.1	Address labour and skills shortages by reskilling and upskilling the workforce and widening the higher education offer, in particular for the study fields most in demand in the labour market.	Limited Progress
2023, 4.1	Reduce overall reliance on fossil fuels by	Substantial Progress
2023, 4.2	accelerating the deployment of renewables, including by further speeding up permitting procedures, and	Substantial Progress

Year, recommen-dation	Recommendation	Commission's assessment (2024)
2023, 4.3	boost public and private investment in the decarbonisation of industry and	Some Progress
2023, 4.4	transport, including through electrification.	Some Progress
2023, 4.5	Develop energy infrastructure to increase security of supply by strengthening the transmission of electricity.	Some Progress
2023, 4.6	Step up policy efforts aimed at the provision and acquisition of skills and competences needed for the green transition.	Limited Progress

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