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COMMISSION OPINION

of 18.11.2020

on the Draft Budgetary Plan of Finland

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(Only the Finnish and Swedish texts are authentic)

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GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 sets out provisions for enhanced monitoring of budgetary policies in the euro area, to ensure that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact and the European Semester for economic policy coordination.

2. Article 6 of Regulation (EU) No 473/2013 requires Member States to submit annually to the Commission and to the Eurogroup a Draft Budgetary Plan by 15 October, presenting the main aspects of the budgetary situation of the general government and its subsectors for the forthcoming year.

3. On 20 March 2020, the Commission adopted a Communication[1] on the activation of the general escape clause[2] of the Stability and Growth Pact. In its Communication, the Commission set out its view that, given the expected severe economic downturn resulting from the COVID-19 outbreak, the conditions to activate the general escape clause were met. On 23 March 2020, the Ministers of Finance of the Member States agreed with the assessment of the Commission.[3] As indicated in the Annual Sustainable Growth Strategy 2021[4] and as communicated in the letter of 19 September 2020 from the Commission to the EU Ministers of Finance[5], Member States should continue to provide targeted and temporary fiscal support in 2021 in a context where the general escape clause is activated, while safeguarding fiscal sustainability in the medium term.

4. On 27 May 2020, the European Commission put forward its proposal for the creation of a new recovery instrument Next Generation EU[6], alongside the proposal for the reinforced long-term budget of the EU for 2021-2027.[7] This proposal includes the

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[1] Communication from the Commission to the Council on the activation of the general escape clause of the Stability and Growth Pact, Brussels, 20.3.2020, COM(2020) 123 final.

[2] The clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) 1466/97 and Articles 3(5) and 5(2) of Regulation (EC) 1467/97, facilitates the coordination of budgetary policies in times of severe economic downturn.

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

[4] Communication from the Commission on Annual Sustainable Growth Strategy 2021, Brussels, 17.9.2020, COM(2020) 575 final.

[5] https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/stability-and-growth-pact/annual-draft-budgetary-plans-dbps-euro-area-countries/draft-budgetary-plans-2021_en

[6] Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions - Europe's moment: Repair and Prepare for the Next Generation, Brussels, 27.5.2020, COM(2020) 456 final.

[7] Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions - The EU budget powering the recovery plan for Europe, Brussels, 27.5.2020, COM(2020) 442 final.

establishment of a Recovery and Resilience Facility offering large-scale financial support for both public investments and reforms. By contributing to the economic recovery and by providing financial support to strengthen the economy's long-term growth, the Recovery and Resilience Facility will help public finances to return to more favourable positions in the near term and will contribute to strengthening their sustainability in the medium and long term.

CONSIDERATIONS CONCERNING FINLAND

5. On 15 October 2020, Finland submitted its Draft Budgetary Plan for 2021. On that basis, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.

6. On 20 July 2020, the Council recommended Finland[8] to take all necessary measures, in line with the general escape clause, to effectively address the pandemic, sustain the economy and support the ensuing recovery. It also recommended Finland to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

   On 20 May 2020, the Commission issued a report under Article 126(3) TFEU, as Finland's general government deficit in 2020 was planned to exceed the 3% of GDP Treaty reference value. The report concluded that the deficit criterion was not fulfilled. In light of the exceptional uncertainty created by the outbreak of COVID-19 and its extraordinary macroeconomic and fiscal impact, including for designing a credible path for fiscal policy, which will have to remain supportive in 2021, the Commission considered that a decision on whether to place Member States under the Excessive Deficit Procedure should not be taken.

7. According to the Commission 2020 autumn forecast, the Finnish economy is expected to contract by 4.3% in 2020 and grow by 2.9% in 2021. According to the Draft Budgetary Plan, the Finnish economy is expected to contract by 4.5% in 2020 before rebounding by 2.6% in 2021, driven by the fall and subsequent recovery of domestic demand, in particular private consumption. Overall, the macroeconomic projections underpinning the 2021 Draft Budgetary Plan are in line with the Commission 2020 autumn forecast. Finland complies with the requirement of Regulation EU No 473/2013 as the draft budget is based on an independently produced macroeconomic forecast.

8. For 2020, the Draft Budgetary Plan projects the general government deficit to rise to 7.7% of GDP. This represents an increase by more than 6 percentage points compared to the preceding year, resulting from both the normal working of automatic stabilisers, which led to a contraction in revenue and an increase of cyclical expenditure, and from discretionary measures related to the pandemic and the government programme. According to the 2021 Draft Budgetary Plan, the deficit is expected to narrow to 5.0% of GDP in 2021, helped by the rebound in economic activity. According to the 2020 Commission autumn forecast, the general government deficit is expected to rise to 7.6% of GDP in 2020 and fall to 4.8% in 2021.

[8] Council Recommendation of 20 July 2020 on the 2020 National Reform Programme of Finland and delivering a Council opinion on the 2020 Stability Programme of Finland 2020/C 282/26, OJ C 282, 26.8.2020, p. 171-176

The Draft Budgetary Plan does not assume revenue from or expenditure financed under the Recovery and Resilience Facility. For the time being, as the submission of the Recovery and Resilience Plans and their subsequent approval are expected to take place in 2021, the Commission forecast assumes in the budgetary projections for 2021 the 10% pre-financing of Recovery and Resilience Facility grants and treats it as a financial transaction with no impact on the budget balance, but with a public debt-reducing impact. In the case of Finland, the 10% pre-financing of Recovery and Resilience Facility grants is equivalent to EUR 252 million.[9] On the expenditure side, in line with its no-policy change assumption, the Commission forecast includes no expenditure related to the Recovery and Resilience Facility, as the corresponding measures were not sufficiently specified at the cut-off date of the forecast.[10] The evolution of the deficit in 2021 could turn out more favourably as a result of the higher growth from the implementation of measures financed by the Recovery and Resilience Facility.

The Draft Budgetary Plan indicates that the government debt-to-GDP ratio will increase from 70.2% at the end of 2020 to 72.8% in 2021, similar to the Commission's projection of 69.8% and 71.8%, respectively.

9. In 2020, Finland adopted budgetary measures to contain the spread of the pandemic and provide relief to those social groups and sectors that have been particularly affected. According to the Draft Budgetary Plan, those budgetary measures amount to 2.6% of GDP. Expenditure measures total 2.1% of GDP and include support for enterprises (0.9% of GDP), health and public safety measures (0.6% of GDP) and extensions of unemployment security and social benefits (0.3% of GDP). The Finnish temporary lay-off schemes were in place before the crisis, so they have operated as automatic stabilisers and most of their impact is not recorded among discretionary measures. A single measure affecting government revenue (decreasing it by 0.5% of GDP) consists of a temporary lowering of employers' pension contributions. The non-COVID-19 discretionary measures have a total deficit-increasing impact of 0.9% of GDP and are mostly permanent, according to the Commission forecast. These measures, which were planned before the COVID-19 outbreak, concern reforms in healthcare, education and social security and investments in transport infrastructure. To respond to the pandemic, Finland has also extended public guarantees to provide liquidity support to businesses, which the 2021 Draft Budgetary Plan estimates at 4.9% of GDP. The take-up of the guarantees as of September 2020 is estimated at 0.6% of GDP. Overall, the measures taken by Finland in 2020 were in line with the guidelines of the Commission Communication of 13 March 2020 on a coordinated economic response to the COVID-19 outbreak.

[9] Indicative number based on the Council Presidency compromise proposal for the RRF Regulation (11538/20) of 7 October 2020, on which the Council Presidency obtained a mandate for conducting the negotiations with the European Parliament.

[10] The treatment of the Recovery and Resilience Facility (RRF) in the Commission's 2020 autumn forecast is explained in detail in Box I.4.3 of the European Commission's Economic Forecast Autumn 2020 (https://ec.europa.eu/info/sites/info/files/economy-finance/ip136_en.pdf). In line with the customary no policy-change assumption, the forecast only incorporates those measures that are credibly announced and sufficiently detailed in the Draft Budgetary Plans, irrespective of whether they are planned to be part of Recovery and Resilience Plans. No financing from the RRF has been included on the revenue side of the budgetary projections. Only the pre-financing of RRF grants is included in the forecast for 2021. The assumptions on expenditure measures linked to the RRF in the Commission forecast are without prejudice to the assessment of the Recovery and Resilience Plans.

10. For 2021, the Draft Budgetary Plan presents discretionary measures relating to the COVID-19 pandemic that imply a budgetary impact of 0.9% of GDP in additional expenditures. Regarding measures prompted by the health situation, the government decided an appropriation of 0.6% of GDP for medical testing programmes. Some subsidies for companies and investments in the transport network will be continued through 2021 (0.3% of GDP) before they are terminated by the end of 2022. According to the Commission forecast, other discretionary measures related to the implementation of the government programme, which are mostly permanent, have a deficit-reducing effect of 0.1% of GDP in 2021. The new permanent measures include a compensation for the lowering of early education fees on the expenditure side and, on the revenue side, increases in social security contributions. Overall, the new temporary and permanent discretionary measures have a deficit-increasing effect of 0.7% of GDP in 2021. Liquidity measures adopted in 2020 are expected to continue to play an important role.

11. The Commission is of the opinion that the Draft Budgetary Plan of Finland is overall in line with the recommendation adopted by the Council on 20 July 2020. Most of the measures set out in the Draft Budgetary Plan of Finland are supporting economic activity against the background of considerable uncertainty. Finland is invited to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

    It is anticipated that the Finland will submit its Recovery and Resilience Plan in 2021. The Regulation establishing a Recovery and Resilience Facility will set out how the Commission is to assess that the reforms and investments included in the Recovery and Resilience Plan are coherent with the policy priorities of the Union and the challenges identified in the context of the European Semester. This assessment by the Commission will inform the approval of the Plan by the Council and the information to the European Parliament.

Done at Brussels, 18.11.2020

For the Commission
Paolo GENTILONI
Member of the Commission