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**FINLAND – REVIEW OF PROGRESS ON POLICY MEASURES RELEVANT FOR THE
CORRECTION OF MACROECONOMIC IMBALANCES**

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Executive summary

This report is the first specific monitoring report under the Macroeconomic Imbalance Procedure (MIP) for Finland, reflecting the strengthened monitoring of all Member States with imbalances¹. Finland had been found to have imbalances already in the previous years. The imbalances relate in particular to competitiveness losses and to the high indebtedness of the private sector. This report reviews the latest developments and policy initiatives to correct those imbalances which were identified in the 2016 Country Report and which were addressed by the 2016 country-specific recommendations. The cut-off date for this report is 12 October 2016.

Finland's economy grew by 0.2% in 2015 and is expected to grow by 0.7% in 2016. In 2016 economic growth has become more broad-based, driven by domestic demand. On the back of domestic demand, imports are projected to increase while exports continue to decline. The negative contribution from net exports to GDP growth is expected to fade only as of 2018. During 2016, the situation in the labour market has started to improve gradually. The unemployment rate stood at 8.8% in August 2016 down from 9.4% a year earlier. Households' indebtedness increased in 2015, as did the indebtedness of non-financial corporates and of the public sector. The government projects the deficit to improve from 2.8% of GDP in 2015 to 2.4% of GDP in 2016, while gross public debt is forecast to increase from 63.6% of GDP in 2015 to 64.3% in 2016.

On invitation by the government, the social partners have agreed on a set of measures – a Competitiveness Pact – to increase cost-competitiveness. The Pact will enter into force as of 2017 and will cover more than 90% of employees. It is expected to lower labour costs for employers by about 4% and increase the social security and pension contributions of employees by 1.2 pp. Annual working time is increased without compensation and the public sector annual holiday bonus is temporarily reduced. There will be no centrally agreed wage increases in 2017. The next round of wage negotiations, concerning wage adjustments in 2018 and beyond, are to be held at industry level with increased possibilities for local or firm-level bargaining. The agreement on the Competitiveness Pact follows the earlier agreement reached between the social partners on pension reform, which will link the old-age retirement age to life expectancy as recommended in the 2015 country-specific recommendations. The pension reform will enter into force in 2017.

Further reforms are being pursued in the labour market. These include the shortening of the duration of earnings-related unemployment benefits from 500 to 400 days, tightening the obligation to accept a job offer as well as the obligation to participate in activation schemes. Instead of an unemployment benefit, a job seeker can receive a mobility grant or a start-up grant, or his/her employer can receive a wage subsidy. The government has also announced that it will propose a further reform of the earnings-related unemployment insurance to encourage job search and participation in activation measures.

Progress has been made in improving the regulatory environment in the retail, gas and transport markets. The government is dismantling some of the hurdles to the opening of large retail establishments by increasing the size limit to which the special planning regulation applies. The authorities are preparing for the opening of the gas market, as the plans for the gas connection to the Baltics are becoming clearer. Land transport regulations will be overhauled, including increasing competition in the taxi market.

¹ COM(2016)95 final, 8.3.2016.

While moderate wage increases have prevented a further widening of the cost-competitiveness gap against the main competitor countries, productivity growth remains very modest. The April 2016 measures to boost entrepreneurship are a step to support renewal in the economy and productivity growth. At the same time, the cuts in government subsidies to private R&D appear to work against the aim of structural change.

Regarding private debt, measures have been taken to limit the risks arising from the indebtedness of the household sector. In addition to the introduction of a maximum loan-to-value ratio of 90% in June 2016, a 10% minimum level for the average risk weight on housing loans will be introduced from July 2017 at the latest for banks that have adopted the Internal Ratings Based Approach. The deductibility of mortgage interest payments from personal income in taxation will be gradually reduced so that by 2018, only 35% of the interest payments will be deductible.

Overall, the Competitiveness Pact is a major positive development, and other reforms such as the regulatory reform in the transport sector and measures to support entrepreneurship are expected to improve market functioning and contribute to higher productivity growth. Significant reforms have been taken on the labour market, but more is needed to increase employment.

Table 1: Key findings on the implementation of policy reforms²

On track	Wait-and-see	Action wanted
<ul style="list-style-type: none"> • Pension reform • Competitiveness Pact • Social- and healthcare services reform • Shorter duration of the unemployment allowance • Use of unemployment benefits as labour market subsidies • Active engagement of all unemployed through mandatory interviews • Transport services regulatory reform • Amendments to land use and building act • 10% minimum average risk weight for housing loans 	<ul style="list-style-type: none"> • New wage settlement model • Further reforms in the earnings related unemployment allowance; • Impact of the decision to reduce R&D subsidies • Corporate tax reform • Entrepreneurship package measures 	<ul style="list-style-type: none"> • Ensure targeted and sufficient active labour market measures, including for people with a migrant background • Measures to address the skills mismatch on the labour market

² The table classifies reforms under review on the basis of their respective adoption and implementation process and their credibility and level of detail. “On track“ are measures for which the legislative or implementation process has been completed or is progressing well according to the foreseen timeline, and which are expected to be sufficiently effective. “Wait and see” are measures for which the legislative process is on-going, but is still in a relatively early phase, or measures for which there is still uncertainty on the complete implementation and effectiveness. “Action wanted” are measures for which limited or no action has been taken, or measures that have been announced but which are not sufficiently detailed yet to be assessed.

1. Introduction

On 26 November 2015, the European Commission presented, in the context of the Macroeconomic Imbalance Procedure (MIP), its fifth Alert Mechanism Report³ to underpin the selection of Member States requiring an in-depth investigation into the existence and extent of macroeconomic imbalances. The subsequent In-Depth Review in the Country Report – published on 26 February 2016⁴ – examined the nature, origin and severity of macroeconomic imbalances and risks in Finland. In the accompanying Communication⁵, the Commission concluded that "Finland continues to experience macroeconomic imbalances". In particular, the Commission emphasised that Finland has recorded competitiveness losses linked to the decline of key sectors and companies and to wage growth above productivity, resulting in a sharp decline in the current account balance. The Commission also noted that the high level of private debt constitutes a vulnerability but, given the soundness of the financial sector and limited deleveraging pressures, private indebtedness is not an imminent risk to financial stability. Recent data confirm that cost competitiveness has gradually started to improve and the current account deficit has nearly vanished; nonetheless, exports continue to diminish.

In April 2016, Finland submitted its Stability Programme⁶ and National Reform Programme (NRP)⁷, respectively outlining the fiscal targets and the policy measures to improve its economic performance and to unwind imbalances. On the basis of an assessment of these plans, the Commission proposed a set of three country-specific recommendations (CSRs)⁸, which were adopted by the Council on 12 July 2016⁹. These recommendations concern sustainable public finances, social- and health care system, labour market issues and competitiveness. The recommendations on labour markets (CSR 2) and on competitiveness (CSR 3) were considered to be MIP relevant.

Moreover, the first recommendation which was addressed to all euro-area Member States¹⁰ calls for a regular assessment of progress with the delivery of reforms in those Member States which require specific monitoring within the framework of the MIP. For this purpose, a specific monitoring mission to Finland was conducted on 5-6 September 2016. The present report assesses the latest key policy initiatives¹¹ undertaken by the Finnish authorities also in the light of the findings of the monitoring mission. This report does not reflect the content of Finland's 2017 Draft Budgetary Plan nor the Commission's opinion on it, published on 16 November 2016, taking into account the outcome of the Commission's 2016 Autumn Forecast.

³ http://ec.europa.eu/europe2020/pdf/2016/ags2016_alert_mechanism_report.pdf

⁴ http://ec.europa.eu/europe2020/pdf/csr2016/cr2016_finland_en.pdf

⁵ http://ec.europa.eu/europe2020/pdf/csr2016/cr2016_comm_en.pdf

⁶ http://ec.europa.eu/europe2020/pdf/csr2016/sp2016_finland_en.pdf

⁷ http://ec.europa.eu/europe2020/pdf/csr2016/nrp2016_finland_en.pdf

⁸ http://ec.europa.eu/europe2020/pdf/csr2016/csr2016_finland_en.pdf

⁹ <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32016H0818%2819%29&from=EN>

¹⁰ http://ec.europa.eu/europe2020/pdf/2016/ags2016_euro_area_sw_d_en.pdf

¹¹ Details on the policy measures taken can be found in the overview table in the Annex.

2. Outlook and recent developments on imbalances

Recent economic developments and outlook

In 2015, Finland's economy returned to growth (0.2%) after declining for three years. The Commission's spring forecast expects GDP growth of 0.7% in 2016 and 2017. Domestic demand, in particular construction investment, is expected to be the main driver for growth. Manufacturing industries' outlook has stabilised but exports, which are focused on investment goods, suffer from the weakness of investment in the EU. In September the confidence indicators in industry jumped to their highest levels since summer 2011, possibly reflecting the conclusion of the Competitiveness Pact: it remains to be seen if the improvement in confidence is sustainable and translates into higher activity. Gross public debt rose above the 60% of GDP reference value in 2014. It is expected to increase relative to GDP until 2018 and to start declining gradually thereafter. The government projects the deficit to decline from 2.8% of GDP in 2015 to 2.4% of GDP in 2016.

The labour market situation has started to improve. According to the Labour Force Survey, in August 2016 the unemployment rate (15-74) was 8.8%, down from 9.4% a year earlier. The employment rate stood at 69.9%, up from 68.8% one year earlier.

Developments as regards imbalances

In March 2016, the Commission concluded that Finland was experiencing macroeconomic imbalances. The imbalances were related to external competitiveness and private sector indebtedness. The following text provides an update of the situation with regard to the imbalances.

Competitiveness

In 2015 Finland's export market shares decreased further, with export performance among the weakest in the EU. The weak export performance has continued in 2016: during the first seven months of the year, the value of goods exports decreased by 6% (y-o-y). The on-going structural change in the economy, including the decline of ICT industries, and the sensitivity of Finland's exports to the recession in Russia are the main drivers of the weakness in exports. The collective wage deal for 2013-2016 has already moderated the wage dynamics. This year average wages are expected to rise by 1.4% which is significantly below the average of 2005-2015, 2.9%. However, as labour productivity has grown only slowly, relative unit labour costs are decreasing only gradually. Policy measures taken in 2016, in particular the Competitiveness Pact, will further reduce the gap in unit labour costs vis-à-vis the closest competitor countries in 2017.

Private sector debt

In 2015, the indebtedness of the household sector increased and the increase has continued also in the first two quarters of 2016. At the end of the second quarter of 2016, the ratio of household debt to disposable income stood 2.8pp higher than a year earlier. Favourable credit conditions (including the campaign by several banks in 2015 for their customers with good credit history to pay only the interest on their mortgages and delay amortisation), low interest rates and stable house prices supported credit growth. In the first half of 2016 the loan stock of households grew by 3.4% (y-o-y) which is a slightly slower growth rate than in 2015 and well below the growth rates in the pre-crisis times.

Regarding non-financial corporations, the growth of bonds and loans slowed down in the first half of 2016 to 1.6% (y-o-y) from about 4.2% in 2015 (in 2015, non-financial corporations significantly increased their borrowing from abroad). The latest Survey on the Access to Finance of Enterprises by ECB shows that while the availability of bank loans has improved recently, Finnish SMEs' needs for loans have decreased.

The solvency ratio of the financial sector increased from 18.3% in Q1-2015 to 23.4% in Q1-2016, pushing it further above the EU average. During the same period the share of non-performing loans remained stable at 1.3%, one of the lowest in the EU.

3. Progress with policy implementation

3.1 Improvement of cost- and non-cost competitiveness

This section describes the policy measures to improve Finland's competitiveness in the context of the recommendation which called for measures to promote entrepreneurship and investment and to foster the growth of high value added production.

Between 2000 and 2014, Finland lost more than 40% of its export market shares. The Finnish government set a target to improve cost-competitiveness by 15% in terms of nominal unit labour costs. Of this, 5pp would be reached by structural reforms, 5pp by continuing wage moderation and 5pp by a one-off agreement between the social partners.

The central labour market organisations reached an agreement on 29 February 2016, referred to as the Competitiveness Pact. This includes a permanent increase in annual working time of 24 hours as from 2017 without additional compensation, a wage freeze in 2017 and a shift of a larger share of employers' social security contributions permanently towards the employees. Public sector employees' holiday bonuses, which correspond roughly to 50% of a month's salary, would be temporarily (2017-2019) reduced by 30%. The Ministry of Finance estimates that these measures would reduce wage costs for employers by about 4%, increase the social security and pension contributions of employees by 1.2 pp. and create about 35,000-40,000 new jobs (some 1.5% of the labour force). Other forecasters have provided somewhat lower estimates, but there is general consensus that the impact on job creation will be positive. The unions also agreed to extend the room for local bargaining.

To facilitate the conclusion of the Pact and to compensate the employees for the increased social contribution burden, the government will cut taxes on labour income in all income categories as of 2017. An income tax cut of 0.25% of GDP is included in the draft budget for 2017 but not in the Stability Programme projections.

In order to promote entrepreneurship, the government put forward a package of measures. This package includes a subsidy (grant or a wage subsidy) for one-person companies to hire a worker, a reform in unemployment insurance to facilitate becoming an entrepreneur, a review of the rules that guide the recruitment of foreign specialists and the creation of a public database of inventions that everyone can access and exploit. An innovation voucher for SMEs is in preparation, aimed at promoting the use of outside expertise in innovating and improving products or services. The government also plans to combine the existing public support instruments into a single "growth service". At the same

time, the government reduced the subsidies for research and development in the 2016 budget, as part of a larger savings package. The government's overall R&D expenditure was cut by approximately 10%, including a cut of one quarter (EUR 107 million) in the budget of the organization which is responsible for the subsidies for product development for enterprises (Tekes). In contrast, the government is introducing a new subsidy (EUR 43 million) to support industries with high energy consumption, including the forestry industry, by compensating them for the indirect costs arising from emissions trading.

Non-cost competitiveness remains a challenge, as labour productivity growth remains low and structural change in the economy is increasing the share of below-average-productivity sectors. Labour productivity growth turned to gradual growth in 2015 after having declined for three consecutive years. Labour productivity continued to increase in first half of 2016 in particular in professional services and trade, transport and HORECA-services. However, the on-going structural change in manufacturing acts as a drag on labour productivity developments. The phase of rapid downsizing in electronics or paper industries is over, while the growth of existing or new companies remains slow at aggregate level. At the moment, the growing sectors are construction and services, where labour productivity growth is not as rapid as in manufacturing. The business environment is generally considered to be of high quality and compares favourably to Finland's peers.

The government has announced its intention to carry out a corporate income tax reform. It has set up a working group to modernize the taxation of enterprises, with the goal of promoting investment in intangible assets and in human capital. The group is expected to provide proposals by spring 2017.

To further improve access to finance for enterprises, an agreement was concluded with the EIB Group and the European Commission for the implementation of the SME Initiative in Finland. The government will contribute EUR 40 million to this initiative from the payments it receives from the European Structural and Investment Funds and from its national budget. These will be leveraged with commercial lending through a risk-sharing mechanism. Overall, the initiative is expected to make available EUR 400 million of additional SME financing. The government has also proposed a significant increase the export financing capacity of the special financing vehicle Finnvera.

Overall, the agreement on the Competitiveness Pact represents a major positive development, while further progress is needed with regard to non-cost competitiveness and productivity growth. The pact will lower the labour costs from 2017 onwards, bringing about an improvement relative to the main trading partners. Also local or firm-level bargaining possibilities have been extended. Other measures such as the regulatory reform in the transport sector are expected to improve market functioning. The measures to support entrepreneurship and to improve access to finance are expected to support economic renewal in the economy.

3.2 Labour market reforms

This section describes the policy measures to increase the incentives to work, and measures to make active labour market policies better targeted and more adequate, devoting particular attention to people with a migrant background.

A new wage setting model will be negotiated for the next round of wage negotiations, i.e. when wage increases for 2018 and beyond are negotiated. The government and social

partners have discussed a model where the agreed wage increases in exporting industries set a limit for the wages in non-tradable sectors. Such a new wage setting mechanism would represent a significant change from the current model where central coordination is stronger, and would aim at preserving cost competitiveness.

In April 2016, the government launched a reform of the unemployment insurance. The reform aims at tightening the obligation to accept a job offer as well as the obligation to participate in activation schemes. As a first step, the duration of earnings-related unemployment insurance was reduced by one fifth to 400 days. In 2017 and 2018, instead of an unemployment benefit, a job seeker can receive a mobility grant or a start-up grant, or his/her employer can receive a wage subsidy. These will be financed from the basic unemployment allowance scheme. The use of earnings-related unemployment insurance in a similar manner will be discussed in 2017 in the light of the first experiences with the basic unemployment allowance scheme. The government is preparing a further reform to the earnings-related unemployment insurance, with the aim to strengthen the incentives for the unemployed to search for a job or to participate in active labour market measures. This would be done by linking the level of the unemployment benefit to participation or job-search.

Mandatory interviews with all the unemployed will be carried out at three-month intervals to monitor progress with the individual employment plans. The government further intends to expand the role of private providers of employment services. It has introduced multi-professional joint services providing a better integration of social, health and employment support services for those who are difficult to employ.

To increase incentives to work the government has proposed in the 2017 budget to reduce fees for early childhood education. The fee reductions, totalling EUR 10 million, target low income families of 2–3 persons and aim at improving the possibilities particularly for single parents to accept work.

A one-off measure removes from the labour market a group of older long-term unemployed. This group of 5 000 individuals over 60 years who have been unemployed for 5 years or more no longer need to seek employment until they reach the retirement age. While the decision will reduce unemployment, it will hinder progress towards a higher employment rate of older people, which is needed in order to counter the consequences of the shrinking working age population.

A new private sector initiative aims at training and employing at least 2,000 immigrants over 2017-2019. The initiative was introduced by The Ministry of Economic Affairs and Employment and Finnish Innovation Fund Sitra and the project offers immigrants vocational and language training that will support their future employment. Investors fund activities and carry the involved financial risks whereas the public sector will make the payments only if the employment objectives are met. The government has also introduced a new integration programme for migrants for the period 2016-2019, and in the second supplementary budget for 2016 some additional funding is envisaged for the training of migrants.

Overall, major reforms have been implemented in the labour market, in particular relating to the Competitiveness Pact, as well as the reform of unemployment benefits. The basic unemployment benefit will be used to activate jobseekers. The duration of the unemployment insurance will decrease and obligation to accept work as well as the obligation to participate in employment-promoting activation measures would be tightened. For 2017, the most important agreement to be found between the social partners concerns the

wage setting mechanism model for 2018 and beyond, while the government will propose further changes in the unemployment insurance to encourage job search or participation in activation measures.

3.3. Improvement of competition on product markets

This section describes the policy measures to increase competition in services, including in retail trade, and to promote entrepreneurship and investment, including by reducing administrative and regulatory burden.

A public consultation on amendments to the Land Use and Building Act was held. The aim of the amendments is to limit the bureaucracy in the area of zone planning and building. The proposal increases the lower size limit of the more tightly regulated large retail units from 2000 to 4000 square meters. The possibilities to establish these units in areas other than the city centres will be increased and access to outlets will become a more important factor in the planning than nature and size.

Transport market regulations will be reformed through the introduction of a unified regulatory act (Transport Code). The draft of this law was presented to the parliament on 22 September 2016 after being agreed by the coalition leaders. The reform will be implemented in three stages. The first stage includes provisions on road transport. Later stages include provisions on air, sea and rail transport markets as well as on transportation services. The first phase of the reform is foreseen to come in force on 1 July 2018 to enable the industry to prepare for the new provisions. The Transport Code creates the framework for organising publicly subsidised passenger transportations more efficiently e.g. by taking advantage of digitalisation, combining transportations and different types of equipment. The reform facilitates new entrances to the taxi sector and lowers regulation there. Taxi quotas would be abolished and the existing breakdown into zones of operation made more flexible. The regulation of taxi prices would be discontinued; however, provisions to determine maximum prices would remain. The Transport Code foresees that essential data on transport services are made open, laying down provisions for the interoperability of ticket and payment systems. This is expected to facilitate combining different services.

The government is proposing measures to liberalise the gas market. EUR 28 million funding have been granted for the construction of the EU co-funded Balticconnector gas pipeline, which will connect the Baltic and Finnish natural gas markets. The government plans to propose still in 2016 a new Natural Gas Market Act which aims to open the wholesale and retail natural gas market to competition with a transition period until 2020. The Act contains measures to unbundle the natural gas transmission grid from the sale of natural gas, to dismiss wholesale price regulation of natural gas and to limit retail regulation.

The government has set up an impact assessment board to review legislative proposals and the impact assessments which accompany them. The main purpose of the board is to improve the quality of legislation by commenting on the draft laws and the accompanying impact assessments. The board can make proposals to improve the quality of legislation.

Overall, regarding product market competition, there have been positive developments in transport regulation and land use regulation. Legislative amendments facilitating the construction of large retail stores have been proposed. A major overhaul of transport regulation aims at improving the cooperation between different forms of transport and at

deregulating the transport services market. The government has put a new organisation in place to improve the impact assessment of new legislation. The measures can be expected to improve market functioning and thereby productivity and competitiveness.

3.4. Private indebtedness

This section describes the policy measures to address the large private debt that has been identified as a vulnerability within the macroeconomic imbalance procedure.

Measures to limit the risks arising from the indebtedness of the household sector have been introduced. In June 2016, a maximum loan-to-value ratio for housing loans was introduced, at 90% (95% for first time buyers). A 10% minimum average risk weight for housing loans will be introduced in July 2017 for banks that have adopted the Internal Ratings Based Approach (IRBA). The minimum level of the risk weight was increased because the risk weights based on the IRBA are low in Finland by international comparison and vary significantly between credit institutions. The decision is expected to strengthen banks' capital adequacy and reduce the demand for housing loans through an increase in loan spreads. In the context of the low interest rate environment, Finland has significantly reduced the tax deductibility of interest payments on housing loans. In 2014, 75% of interest payments were deductible. In 2017, the share will decrease to 45% and in 2018 it will be further reduced to 35%. These measures are expected to constrain the growth of households' debt.

Annex 1: Overview table of MIP-relevant reforms

MIP objective: Improve cost- and non-cost competitiveness			
Labour market			
Incentives to work, job creation and labour market participation			
<i>Announced measures</i>	<i>Adopted measures</i>	<i>Implemented measures</i>	<i>Sources of commitment</i>
<p>Expected by end-2016: As part of the entrepreneurship package measure will be proposed for easier and faster employment of the first employee and improvement of the unemployment security of self-employed.</p>	<p>January 2017: Annual working time to be extended by 24 hours without additional compensation.</p> <p>January 2017: Temporary 30% reduction of holiday bonuses for public sector workers.</p> <p>January 2017: Part of employers' social contributions will be shifted towards the employees. This will be a permanent measure.</p>		<p>CSR (2) – 2016: Increase incentives to accept work and ensure targeted and sufficient active labour market measures...</p>
Wage and wage setting			
<i>Announced measures</i>	<i>Adopted measures</i>	<i>Implemented measures</i>	<i>Sources of commitment</i>
<p>Expected in 2017-H2: The details of the new wage setting mechanism that would increase local bargaining while preserving cost-competitiveness.</p>	<p>January 2017: Agreement not to raise wages in 2017.</p>	<p>Summer 2016: Majority of industry-level wage settlement agreements have a crisis clause which determines when it is possible to deviate from the collective agreements on issues such as wages and working times.</p>	<p>CSR (2) – 2016: While respecting the role of social partners, ensure that the wage setting system enhances local wage bargaining and removes rigidities, contributing to competitiveness and a more export industry-led approach.</p>

Public finances and taxation			
Taxation			
<i>Announced measures</i>	<i>Adopted measures</i>	<i>Implemented measures</i>	<i>Sources of commitment</i>
Expected by in spring 2017: Analysis of the options to reform both the corporate and the dividend taxation to better take into account the non-tangible investments and human capital.	January 2017: reduction of personal income tax for all income categories as a compensation for increased social contributions.		CSR (3) – 2016: Promote entrepreneurship and investment ... to foster growth of high value added production.
Product market			
Business environment			
<i>Announced measures</i>	<i>Adopted measures</i>	<i>Implemented measures</i>	<i>Sources of commitment</i>
Expected by end-2016: Adoption of the entrepreneurship package, including merging the existing public support institutions into single public 'growth service', launching the innovation voucher and the innovation bank and easing the hiring of foreign specialists.			CSR (3) – 2016: Promote entrepreneurship and investment, including by reducing administrative and regulatory burden, to foster growth of high value added production.
Financial services			
Access to finance			
<i>Announced measures</i>	<i>Adopted measures</i>	<i>Implemented measures</i>	<i>Sources of commitment</i>
	January 2017: Increase of Finnvera's capacity for export credit guarantees, export financing and interest rate equalisation funding.	September 2016: Launch of the SME initiative in partnership with the EIB and EIF, making available EUR 400 million EUR for SMEs financing.	CSR (3) – 2016: Promote entrepreneurship and investment, including by reducing administrative and regulatory burden, to foster growth of high value added production.

MIP objective: Reform of the labour			
Labour market			
Unemployment benefits			
<i>Announced measures</i>	<i>Adopted measures</i>	<i>Implemented measures</i>	<i>Sources of commitment</i>
<p>Expected later in 2017: Introducing a sanction in the unemployment benefits in case of lack of efforts of the beneficiary to find work or to participate in the ALMP. Using the unemployment insurance funds for active measures, start-up grants, wage subsidies</p>	<p>2017: shortening of the duration of the unemployment benefits. 2017: reversal of the decision to increase the childcare costs for parents. 2017: mandatory interviews with the unemployed every 3 months during the unemployment period. 2017: basic unemployment allowance may be used to finance mobility grants, start-up grants and wage subsidies.</p>		<p>CSR (2) – 2016: Increase incentives to accept work and ensure targeted and sufficient active labour market measures...</p>
Social inclusion			
<i>Announced measures</i>	<i>Adopted measures</i>	<i>Implemented measures</i>	<i>Sources of commitment</i>
	<p>May 2016: Additional budget for training of migrants. September 2016: Private sector initiative to involve the migrants better in the labour market through the use of a social impact bond.</p>		<p>CSR (2) – 2016: Increase incentives to accept work and ensure targeted and sufficient active labour market measures, including for people with a migrant background.</p>

MIP objective: Improve competition on product markets

Product market

Business environment

<i>Announced measures</i>	<i>Adopted measures</i>	<i>Implemented measures</i>	<i>Sources of commitment</i>
<p>Expected by end-2016: Adoption of the revision of the Act on land use and building permits will further ease the planning and construction of large retail establishment, by increasing the threshold when the special conditions apply.</p>		<p>September 2016: impact assessment board to review the quality of all impact assessments accompanying the legislative proposal.</p>	<p>CSR (3) – 2016: Promote entrepreneurship and investment, including by reducing administrative and regulatory burden, to foster growth of high value added production.</p>

Regulation of the energy and transport sector

<i>Announced measures</i>	<i>Adopted measures</i>	<i>Implemented measures</i>	<i>Sources of commitment</i>
<p>Expected by end-2016: Government adoption of the new Natural Gas Market Act. It will foster the interconnectivity of the pipeline. Expected in 2017: Second phase of the transport code legislation.</p>	<p>September 2016: First phase of transport code legislation presented to the parliament. The legislation increases competition in the taxi market and provides preconditions for using single tickets on multiple services. It will come into force in January 2018.</p>		<p>CSR (3) – 2016: Continue pursuing efforts to increase competition in services, including in retail.</p>

MIP objective: Reduction of private indebtedness

Financial sector

Private indebtedness

<i>Announced measures</i>	<i>Adopted measures</i>	<i>Implemented measures</i>	<i>Sources of commitment</i>
	<p>July 2017: A 10% minimum level for the average risk weight on housing loans will be introduced on July 2017 at the latest for banks that have adopted the Internal Ratings Based Approach</p>	<p>June 2016: a maximum loan-to-value ratio of 90% was introduced for housing loans (95% for first time buyers).</p>	<p>Recital (6) – 2015: Private-sector debt has stabilised and does not appear to be a source of immediate concern, but its relatively high level calls for close monitoring.</p>