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Assessment of the 2017 stability programme for

Finland

(Note prepared by DG ECFIN staff)

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1. INTRODUCTION

On 28 April 2017, Finland submitted its 2017 stability programme (hereafter called stability programme), covering the period 2018-2020. It was approved by the government as part of the General Government Fiscal Plan for 2018-2021, which serves as Finland's medium-term budgetary framework. This ensures full consistency between the stability programme and the medium-term budgetary framework. The General Government Fiscal Plan will serve as a basis for the 2018 central government budget and gives guidance to the local authorities for their budget preparations.

As a change from past practice, Finland's 2017 stability programme is based on the government's budgetary targets. Until this year, Finland's stability programmes had been produced assuming no changes in fiscal or economic policies. Therefore, comparisons between the 2017 stability programme and the 2016 programme might not be always meaningful.

Finland is currently subject to the preventive arm of the the Stability and Growth Pact (SGP) and should ensure sufficient progress towards its medium-term budgetary objective (MTO). As the debt ratio was 63.6% of GDP in 2016, exceeding the 60% of GDP Treaty reference value, Finland is also subject to the debt reduction benchmark. On 22 May 2017, the Commission issued a report under Article 126(3) TFEU investigating the reasons for the prima facie breach of the debt criterion.[Reference to the report in a footnote.] The report concluded that, after the assessment of all the relevant factors, the debt criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 should be considered as currently complied with.

This document complements the Country Report published on 22 February 2017 and updates it with the information included in the stability programme.

Section 2 presents the macroeconomic scenario underlying the stability programme and provides an assessment of it in the light of the Commission 2017 spring forecast. The following section presents the recent and planned budgetary developments, according to the stability programme. In particular, it includes an overview of the medium term budgetary plans, an assessment of the measures underpinning the stability programme and a risk analysis of the budgetary plans based on the Commission forecast. Section 4 assesses compliance with the rules of the SGP, where relevant on the basis of the Commission forecast. Section 5 provides an overview of long term sustainability risks and Section 6 reviews recent developments and plans regarding the fiscal framework and the quality of public finances. Section 7 provides a summary.

2. MACROECONOMIC DEVELOPMENTS

The Finnish economy grew by 1.4 % in 2016, following growth of 0.3% in 2015. The growth rate in 2016 was 0.5 pp. higher than envisaged in last year's stability programme, predominately driven by private consumption and construction investment. High consumer confidence drove private consumption, which grew faster than disposable income. Construction investment benefitted from the rapid increase in the demand for new housing and non-residential construction. Imports grew faster than exports (2.5% and 0.5%, respectively), resulting in even more negative net exports. Employment grew by 0.6% and unemployment fell to 8.8%, in line with the improved macroeconomic environment.

The macroeconomic scenario underpinning the stability programme[1] (SP) expects real GDP growth of 1.2% in 2017 and 1.8% in 2018. Growth is expected to be supported by private consumption and investment. Growth of both components is forecast to slow down in 2017, before accelerating in 2018. Export growth is expected to accelerate markedly in both years; import growth is forecast to accelerate as well, but at a slower rate than exports.

The Commission 2017 spring forecast projects real GDP to grow by 1.3% in 2017, accelerating to 1.7% in 2018. The key drivers of the projected growth in both 2017 and 2018 are the same as in the stability programme forecast, private consumption and investment, with a minor positive contribution from net exports in both years.

The GDP growth projections of the Commission and of the stability programme for both 2017 and 2018 differ only by 0.1 pp, with similar main drivers and dynamics. The projected growth rates of private consumption are exactly the same and the forecasts for investment are very similar. The stability programme contains a more positive forecast on both exports and imports, resulting in a slightly larger contribution of net exports to GDP growth in 2018, but a smaller contribution in 2017 (-0.1% in the stability programme compared to the Commission forecast of 0.2%). The Commission 2017 spring forecast envisages no change in inventories in 2017 and 2018 while in the inventories add 0.1 pp to GDP growth in both years. On the other hand, the stability programme forecast differs significantly from the Commission in terms of the projected growth in nominal GDP and employment in 2018. The GDP deflator of the stability programme (1.2% in 2017 and 1.6% in 2018) is higher than the Commission 2017 spring forecast (0.5% in 2017 and 1.2% in 2018), resulting in higher nominal GDP growth, which in turn results in a more favourable fiscal outlook. The stability programme assumes negative growth in public consumption in both years, whereas the Commission forecast expects small positive growth in 2018. Also the views on employment and unemployment developments in 2018 are markedly different. The stability programme envisages employment growth of 0.4% in 2017 followed by a fast acceleration to 1.9% in 2018, while unemployment falls to 8.5% and 7.2% in the same years. The rapid employment growth is accompanied by stagnating labour productivity. The Commission 2017 spring forecast for employment growth is 0.5% in 2017 and 0.7% in 2018, with the unemployment rate declining to 8.6% in 2017 and to 8.2% in 2018. The rapid acceleration in employment growth in the stability programme scenario follows from the underlying assumption that the government's ambitious target of 72% employment rate in 2019 is reached.

The output gaps as recalculated by the Commission based on the information in the stability programme, following the commonly agreed methodology, are the same for 2017 and more negative for 2018 than those underpinning the Commission 2017 spring forecast. The recalculated output gap is -1.0% of potential GDP in 2018, compared to -0.5% using the Commission 2017 spring forecast.

The plausibility tool developed by the Commission in consultation with the Member States points to a high degree of uncertainty of the output gap estimates for Finland provided by the

[1] External environment assumptions of the stability programme (SP) are in line with the assumptions of the Commission's 2017 spring forecast with no difference in World GDP growth and almost identical oil prices.

commonly agreed methodology. The analysis based on the constrained judgement approach can be found in box 2 in section 4.

Assessed against the Commission 2017 spring forecast (and taking into account relevant recent developments) the stability programme's real GDP growth forecast appears plausible for both 2017 and 2018; however, overall, the underlying macroeconomic assumptions, notably for employment growth, appear plausible for 2017 and favourable for 2018 onwards.

Table 1: Comparison of macroeconomic developments and forecasts

	2016		2017		2018		2019	2020
	COM	SP	COM	SP	COM	SP	SP	SP
Real GDP (% change)	1.4	1.4	1.3	1.2	1.7	1.8	2.0	1.0
Private consumption (% change)	2.0	2.0	1.1	1.1	1.4	1.4	1.4	0.8
Gross fixed capital formation (% change)	5.2	5.2	3.1	2.8	2.9	3.1	3.3	1.1
Exports of goods and services (% change)	0.5	0.5	2.3	2.9	3.3	5.7	5.9	3.8
Imports of goods and services (% change)	2.5	2.5	1.6	3.1	2.4	4.4	4.4	3.0
Contributions to real GDP growth:								
- Final domestic demand	2.3	2.3	1.1	1.1	1.5	1.3	1.5	0.7
- Change in inventories	-0.2	-0.2	0.0	0.1	0.0	0.1	0.0	0.0
- Net exports	-0.7	-0.7	0.2	-0.1	0.3	0.4	0.5	0.3
Output gap[1]	-1.8	-1.7	-1.4	-1.6	-0.5	-0.8	0.2	0.4
Employment (% change)	0.6	0.5	0.5	0.4	0.7	1.9	1.9	0.4
Unemployment rate (%)	8.8	8.8	8.6	8.5	8.2	7.2	6.0	5.8
Labour productivity (% change)	0.8	0.9	0.8	0.8	1.1	-0.2	0.0	0.6
HICP inflation (%)	0.4		1.0		1.2			
GDP deflator (% change)	0.8	0.8	0.5	1.2	1.2	1.6	1.8	1.9
Comp. of employees (per head, % change)	1.0	1.3	-0.8	-1.0	1.5			
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	-1.3	-1.3	-1.7	-1.4	-1.6	-1.1	-0.6	-0.3

Note:

[1] In % of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

Source :

Commission 2017 spring forecast (COM); stability programme (SP).

3. RECENT AND PLANNED BUDGETARY DEVELOPMENTS

3.1. DEFICIT DEVELOPMENTS IN 2016 AND 2017

In 2016, the general government deficit decreased to 1.9% of GDP, an improvement of 0.8 percentage point compared with the previous year. The deficit turned out to be better than the projected deficit of 2.5% of GDP in 2016 stability programme. Economic activity, measured as nominal GDP, expanded by 2.2%, which is 0.6 pp. more than expected, while the unemployment rate at 8.8% was 0.5 pp. lower than projected.

Total government revenue and expenditure were lower than expected in the 2016 stability programme. The total revenue-to-GDP ratio was projected at 55.6% but outturn data was

54.2%. As a share of GDP, tax revenue and social security contributions were somewhat higher than expected while property income of general government fell short of expectations. Social contributions increased on the back of an increase in the unemployment insurance contribution by 1 percentage point. The total expenditure-to-GDP ratio was projected at 58.2% but outturn data was 56.1%. In all the main categories, public expenditure as share of GDP was lower than expected. In 2016, unemployment-related expenditure started to decline, while the consolidation measures of the government programme slowed down the increase in other expenditures.

A part of the difference in the revenue and expenditure ratios between the 2016 and 2017 programmes is explained by a revision in the main data source for local government finances. The improvement in the quality of source data now allows a consolidation of purchases between government subsectors, resulting in a reduction in total revenue and expenditure at the level of general government while leaving the balance unchanged. Statistics Finland has estimated the impact of the revision at about 0.6% of GDP.

In 2017, the 2017 stability programme projects an increase in the deficit to 2.3% of GDP. In the 2016 stability programme, the deficit was projected to shrink by 0.4 pp of GDP from 2016, but this projection did not include the impact of the Competitiveness Pact on public finances. In conjunction with the signing of the Pact, the government decided to lower taxes on wage income as of 2017. In the 2017 Draft Budgetary Plan where these tax cuts were taken into account, the deficit was projected to increase by 0.2 pp. to 2.6% of GDP, 0.3 pp. higher than the current estimate.

Total nominal government revenue is expected to remain broadly unchanged in 2017, but is projected to decline as a share of GDP to 52.9%. Both tax revenues and social contributions are expected to decline as the wage freeze in accordance with the Competitiveness Pact will hold back the growth of the wage bill in 2017 and the tax cuts are projected to reduce tax revenue. Social contributions will decrease by 0.7 pp of GDP from 2016. Compared with the Draft Budgetary Plan for 2017, total revenues are projected to be 1.1 pps. of GDP lower in the stability programme, due to lower estimates of property income and social contributions. Other revenue is projected to be 0.8 pp. of GDP lower, on the back of the above-mentioned statistical revision.

Total government expenditure is projected to decline by 0.9 pp. of GDP to 55.2 % of GDP in 2017. The decrease in the expenditure-to-GDP ratio is roughly the same as in the draft budgetary plan (0.8 pp.). However, the level of the expenditure-of GDP ratio is now projected to be 1.4 pp lower than in the DBP, with a 0.9 pp revision in the compensation of employees and intermediate consumption and a slight downwards revisions in social transfers, interest rate expenditure and investment.

3.2. Medium-term strategy and targets

The stability programme states that in terms of the headline balance, the government seeks a balanced budget position in 2019, which is the last year of the current parliamentary term. Finland has chosen a structural deficit of 0.5% of GDP as its medium-term budgetary objective (MTO), which reflects the objectives of the Pact. According to the stability programme, the government's target for nominal deficit would bring the structural deficit at the MTO in 2019 and lead to a balanced structural position in the following year. The structural deficit, recalculated by the Commission on the basis of the information in the

programme according to the commonly agreed methodology, is planned to reach the 0.9% of GDP in 2019 and the MTO in 2020, which implies that there are some risks related to the adherence to MTO.

Finland's structural adjustment requirement has been reduced in 2015-2016 due to the budgetary impact of the exceptional inflow of refugees under the unusual event clause. In 2017 these costs are projected to decrease, which will increase the structural adjustment requirement. In 2017 Finland implemented two major structural reforms: the Competitiveness Pact and the pension reform, which was agreed in 2015. These reforms are expected to improve the long-run sustainability of public finances, but generate short run costs in 2017. In its Draft Budgetary Plan for 2017, Finland requested a temporary deviation of 0.5% of GDP from the required structural adjustment path towards the MTO in 2017. Additionally, Finland requested a temporary deviation of 0.1% of GDP to take account of EU co-financed investments. Finland is assessed to qualify for the temporary deviation from the required adjustment path towards the MTO in 2017.

In 2018, after an increase in 2017, the stability programme expects the headline deficit to decrease to 1.6% of GDP. Total revenues are projected to increase and total expenditure to decrease as economic activity and employment increase. Expenditure growth will be held back by spending cuts and by freezing of the indexation of transfers as outlined in the government programme. The Commission 2017 spring forecast projects a slightly larger deficit, at 1.8% of GDP, due to a higher expenditure estimate. The recalculated structural deficit is expected to fall by 0.4 pp, which is 0.2 pp less than the decline projected in the stability programme.

The target for the headline balance is set at 0.8% of GDP in 2019, when the consolidation measures are expected to be fully implemented and the one-off-nature spending in accordance with the government's priorities, such as investment transport network, will come to an end. The recalculated structural deficit would reach 0.9% of GDP, 0.4 pp larger than the MTO.

In 2020 the headline deficit is projected at 0.2% of GDP, which according to the authorities would mean a structural balance of close to zero, as the economy is projected to reach its full potential. By 2020, the revenue-to-GDP is projected at 51.8%, 2.4 pps lower than in 2016, and the expenditure-to-GDP is projected at 52.1% of GDP, or 4 pps. lower than in 2016.

Table 2: Composition of the budgetary adjustment

(% of GDP)	2016	2017		2018		2019	2020	Change: 2016-2020
	COM	COM	SP	COM	SP	SP	SP	SP
Revenue	**54.2**	**53.3**	**52.9**	**52.9**	**52.3**	**51.6**	**51.8**	**-2.4**
of which:								
- Taxes on production and imports	14.4	14.5	14.2	14.4	13.9	13.6	13.5	-0.9
- Current taxes on income, wealth, etc.	16.6	16.3	16.2	16.3	16.2	16.1	16.2	-0.4
- Social contributions	13.1	12.5	12.4	12.4	12.2	12.0	12.1	-1.0
- Other (residual)	10.1	10.0	10.1	9.8	10.0	9.9	10.0	-0.1
Expenditure	**56.1**	**55.5**	**55.2**	**54.6**	**53.9**	**52.5**	**52.1**	**-4.0**
of which:								
- Primary expenditure	55.1	54.5	54.3	53.7	53.0	51.7	51.3	-3.8
of which:								
Compensation of employees	13.5	13.0		12.8				n.a.
Intermediate consumption	11.0	11.0		10.9				n.a.
Social payments	22.6	22.6	22.6	22.3	21.9	20.7	20.7	-1.9
Subsidies	1.2	1.2	1.2	1.1	1.2	1.1	1.1	-0.1
Gross fixed capital formation	3.9	3.9	3.9	3.9	4.0	3.9	3.8	-0.1
Other (residual)	2.9	2.8	2.8	2.6	2.6	2.4	2.4	-0.5
- Interest expenditure	1.1	1.0	0.9	1.0	0.9	0.8	0.8	-0.3
General government balance (GGB)	**-1.9**	**-2.2**	**-2.3**	**-1.8**	**-1.6**	**-0.8**	**-0.2**	**1.7**
Primary balance	**-0.9**	**-1.1**	**-1.4**	**-0.8**	**-0.7**	**0.0**	**0.6**	**1.5**
One-off and other temporary	0.0	0.0	0.0	-0.1	-0.1	0.0	0.0	0.0
GGB excl. one-offs	**-1.9**	**-2.2**	**-2.3**	**-1.7**	**-1.5**	**-0.8**	**-0.2**	**1.7**
Output gap[1]	-1.8	-1.4	-1.6	-0.5	-0.8	0.2	0.4	2.2
Cyclically-adjusted balance[1]	-0.9	-1.3	-1.4	-1.5	-1.1	-0.9	-0.4	0.5
Structural balance[2]	**-0.9**	**-1.3**	**-1.4**	**-1.4**	**-1.0**	**-0.9**	**-0.4**	**0.5**
Structural primary balance[2]	0.2	-0.3	-0.5	-0.4	-0.1	-0.1	0.4	0.2

Notes:

[1]Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by Commission on the basis of the programme scenario using the commonly agreed methodology.

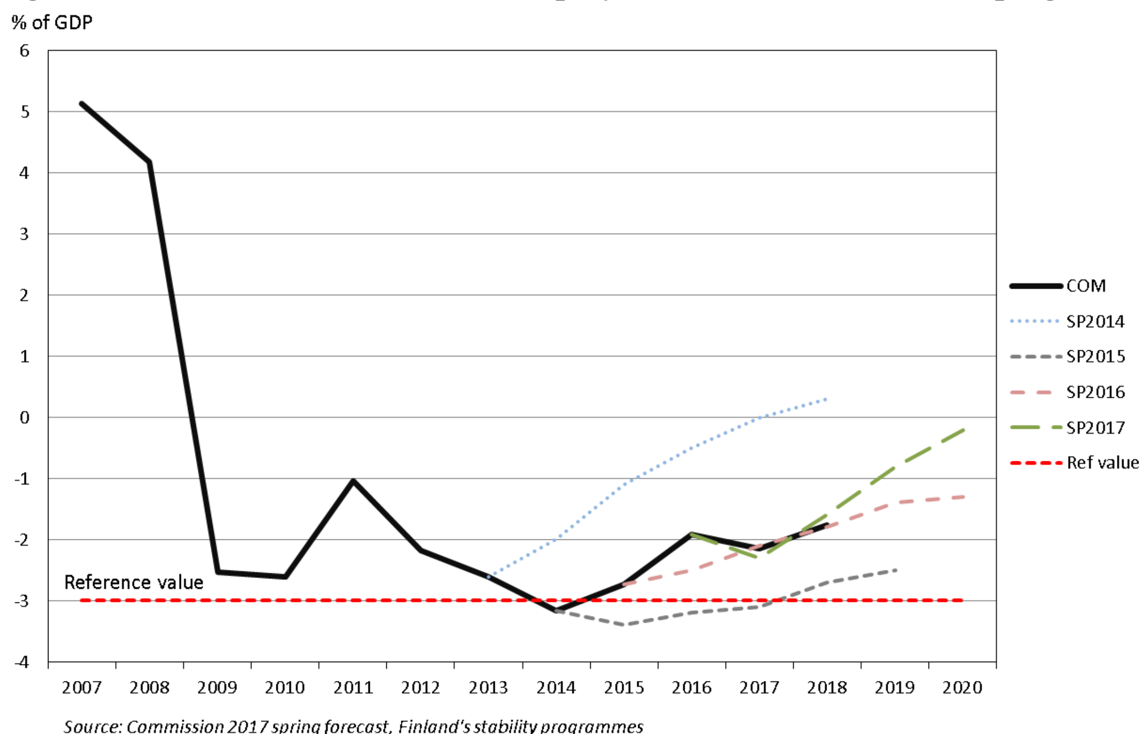
[2]Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

Source :

Commission 2017 spring forecast (COM); stability programme (SP); Commission calculations.

Figure 1 presents the deficit projections of the recent stability programmes. Note that the 2017 stability programme is based on the government targets, while the previous programmes assumed no changes in policies.

Figure 1: Government balance projections in successive programmes



Source: Commission 2017 spring forecast, Finland's stability programmes

3.3. MEASURES UNDERPINNING THE PROGRAMME

As outlined in the government programme, the current government decided to reduce public spending by about 2% from in 2016-2019. Measures to achieve these savings include a freeze of the CPI-indexation of transfers (excluding means-tested social assistance) and savings in all the main government functions with the exception of defence spending. In 2019, expenditure on the key projects of the current government will come to an end, which should improve the balance by about 0.3%.

In 2017, measures agreed as part of the Competitiveness Pact have a major impact on tax revenues, social contributions and government expenditure. A larger part of unemployment insurance contributions and pension contributions is shifted from employers to employees, while employers' contribution to sickness insurance is reduced by about 1 pp. In accordance with the Pact, a permanent increase in annual working time, a wage freeze in 2017 and a temporary cut in public sector holiday bonuses reduce government spending. Taxation of earned income has been eased as a partial compensation to employees for their increased contributions. Altogether, the Pact could worsen the deficit by around 0.6% of GDP in 2017.

In the General Government Fiscal Plan 2018-2021, the expected decline in refugee-related spending from 2017 onwards is reallocated to other items or to reduce revenues. Another part of the expenditure increases are planned to be financed by sales of financial assets. In 2018, the government will increase temporarily the funding to innovation, research and to the facilitation of exports. A larger number of low-income families will qualify for free daycare for their children, and the fees for medium-income families will be reduced. This measure is expected to increase incentives to take up a job and result in an increase in employment by about 0.2% from 2018 onwards.

Table 3: Main budgetary measures

Revenue	Expenditure
2016	
• Reduction of direct taxes (-0.15 % of GDP) • Increase of indirect taxes (0.1% of GDP) • Increase of social security contributions (0.3% of GDP)	• Expenditure cuts, net (-0.4% of GDP)
2017	
• Revenue increases, net (-0.4% of GDP) • Changes in social security contributions (-0.15% of GDP)	• Expenditure cuts, net (-0.4% of GDP)
2018	
• Revenue increases, net (-0.1% of GDP)	• Expenditure cuts, net (-0.3% of GDP)
2019	
	• Expenditure cuts, net (-0.6% of GDP)
2020	
• Revenue increases, net (0.1% of GDP)	• Expenditure cuts, net (-0.15% of GDP)
Note: The budgetary impact in the table is the impact reported in the programme, i.e. by the national authorities. A positive sign implies that revenue / expenditure increases as a consequence of this measure.	

3.4. DEBT DEVELOPMENTS

The general government gross debt-to-GDP ratio increased rapidly over the recent years, growing from 32.7% of GDP in 2008 to 63.6% in 2016, on the back of large primary deficits and stock-flow adjustments arising from the financial investments of the earnings-related pension funds. The stock-flow adjustment accounted for more than half of the increase in the debt ratio over these years.

Finland's stability programme envisages public debt to increase to 64.7% of GDP in 2017 and to remain broadly unchanged at 64.5% of GDP in 2018. The debt-to-GDP ratio is planned to decline to 62.7% in 2020. According to the Commission 2017 spring forecast, public debt is expected to reach 65.5% of GDP in 2017 and continue to grow to 66.2% of GDP in 2018 (Table 4).

In 2016, the debt ratio rose on the back of the primary deficit (0.9% of GDP), but this increase was offset by the "snow-ball" effect (-0.3% of GDP) and the stock-flow adjustment (-0.7% of GDP). The "snow-ball" effect started to curb the increase in the debt ratio in 2016, when nominal GDP growth accelerated. The stock-flow adjustment had been increasing the debt ratio until 2015, mainly driven by the surplus of the statutory earning related pension funds. In 2016, the stock-flow adjustment reduced the debt ratio because the State treasury used its accumulated cash buffers to pay off debt at the end of the year, and because the amount of security deposits in connection with derivative instruments declined. Moreover, the surplus of the pension funds was smaller than in previous years.

According to the Commission forecast, the primary deficit is projected to increase slightly to 1.1% of GDP in 2017 and decline to 0.8% of GDP in 2018. The projected expansion of nominal GDP is expected to limit the increase in the debt ratio in 2017 and especially in 2018. The stock-flow adjustment component, however, is assumed to turn positive and increase the debt ratio in 2017-2018. This positive contribution is due to the surplus of the earnings-related pension system and the fact that the negative stock-flow adjustment in 2016 was caused by exceptional factors. These factors are not expected to continue contributing similarly to the debt ratio and therefore the debt ratio is projected to grow.

Table 4: Debt developments

(% of GDP)	Average 2011-2015	2016	2017		2018		2019	2020
			COM	SP	COM	SP	SP	SP
Gross debt ratio[1]	**56.5**	**63.6**	**65.5**	**64.7**	**66.2**	**64.5**	**63.8**	**62.7**
Change in the ratio	3.3	-0.1	1.9	1.1	0.7	-0.2	-0.7	-1.1
Contributions[2] *:*								
1. Primary balance	**1.1**	**0.9**	**1.1**	**1.4**	**0.8**	**0.7**	**0.0**	**-0.6**
2. "Snow-ball" effect	**0.1**	**-0.3**	**-0.1**	**-0.6**	**-0.9**	**-1.2**	**-1.6**	**-1.0**
Of which:								
Interest expenditure	1.3	1.1	1.0	0.9	1.0	0.9	0.8	0.8
Growth effect	0.0	-0.9	-0.8	-0.7	-1.1	-1.1	-1.2	-0.6
Inflation effect	-1.2	-0.5	-0.3	-0.7	-0.8	-1.0	-1.2	-1.2
3. Stock-flow adjustment	**2.1**	**-0.7**	**0.9**	**0.3**	**0.9**	**0.3**	**0.9**	**0.5**

Notes:

[1] End of period.

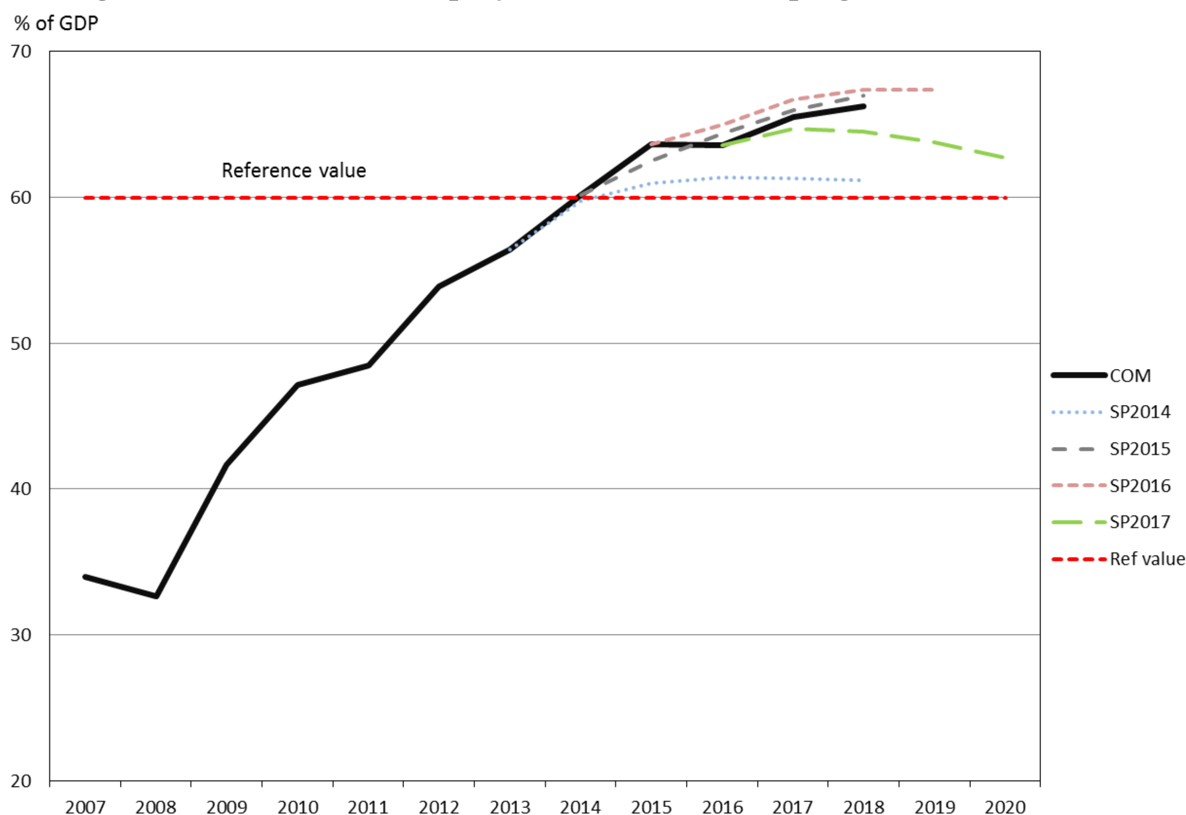
[2] The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.

Source :

Commission 2017 spring forecast (COM); stability programme (SP), Comission calculations.

The debt ratio projection in the 2017 stability programme deviates significantly from the projections in previous programmes, which were done under a no-policy change assumption. The Commission 2017 spring forecast projects the debt ratio to increase in 2017 and 2018 due to a somewhat less positive economic outlook and a larger positive contribution from the stock-flow adjustment.

Figure 2: Government debt projections in successive programmes (% of GDP)



Source: Commission 2017 spring forecast. stability and convergence programmes

3.5. RISK ASSESSMENT

The main risks to the achievement of the stability programme's targets relate to the performance of the labour market. The Programme projects employment to increase in 2018-2019 by close to 2% per year. Consequently, the unemployment rate would fall to 6% in 2019. The projected increase in employment seems rather favourable since over the past ten years, employment expanded on average by 0.2% per year. If employment growth falls short of expectations, higher deficits would follow.

The positive effects of the Competitiveness Pact on public finances might materialise later than expected or might be smaller than projected. The government decided to lower income taxes permanently as of 2017 while it encouraged social partners to reduce contributions to social security. As a result, the growth of the tax bases is expected to accelerate, partly compensating for the costs of the tax cuts and the reduced contribution rates. After the agreement on the Competitiveness Pact the Commission revised down the projection for nominal unit labour costs in 2017. According to the Commission 2017 spring forecast, nominal unit labour costs are forecast to decline by about 1.5% in 2017. This is expected to enhance the growth of exports, employment and GDP. However, as discussed in the 2017 country report for Finland, also non-cost competitiveness continues to act as a drag on economic growth in the medium run, possibly holding back the increase in exports.

In addition, a risk relates to the planned reform of social and healthcare services and the creation of counties, a new administrative layer between local and central government. The parliament has started to discuss the legislation that will establish the new layer of government, the counties, in 2019. The counties will take the responsibility to organise social and healthcare services from the municipalities as of 2019. They will also have other duties, such as organising rescue services, public employment services, regional development and business-promotion, as well as the management of land-use. However, the reforms might increase expenditure in the medium run as they require investments in ICT systems. The transition costs might surprise on the upside as harmonization of the working conditions of the new counties' employees might turn out more costly than expected.

On the positive side, Finland overachieved its budgetary targets in 2016 and there is a positive risk regarding the fiscal projections for 2017. The Commission 2017 spring forecast projects economic activity to increase slightly more in 2017 than the stability programme, consequently resulting in a slightly smaller headline deficit.

4. Compliance with the provisions of the Stability and Growth Pact

Box 1. Council recommendations addressed to Finland

On 12 July 2016, the Council addressed recommendations to Finland in the context of the European Semester. In particular, in the area of public finances the Council recommended to Finland chieve an annual fiscal adjustment of at least 0.5 % of GDP towards the medium-term budgetary objective in 2016 and 0.6 % in 2017. Use any windfall gains to accelerate the reduction of the general government debt ratio.

4.1. Compliance with the debt criterion

According to the validated budgetary data for 2016, the general government gross debt ratio was 63.6% of GDP, above the 60%-of-GDP reference value in the Treaty. The 2017 stability programme plans the general government gross debt to reach 64.7% of GDP in 2017, to stabilise at 64.5% of GDP in 2018 and decline thereafter. The Commission 2017 spring forecast projects gross debt above the reference value, at 65.5% of GDP in 2017 and at 66.2% of GDP in 2018. This suggests that there appears to be prima facie a risk of the existence of an excessive deficit in Finland in the sense of the Treaty and the Stability and Growth Pact. The Commission has therefore prepared a report under Article 126(3) TFEU, analysing whether Finland is compliant with the debt criterion of the Treaty.

The report concluded that, after the assessment of all the relevant factors, the debt criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 should be considered as currently complied with. However, the Commission noted that Finland's debt-to-GDP ratio has been on an increasing trend and is forecast to continue rising over the medium term under a no-policy-change assumption. The Commission urged Finland swiftly to adopt and implement the structural reforms targeted at increasing productivity and the supply of labour in order to enhance its growth prospects in the medium term.

Finland is subject to the debt reduction benchmark. According to the stability programme, Finland would comply with the debt rule in 2017 and 2018, reflecting the projected drop in the debt-to-GDP ratio. According to the Commission 2017 spring forecast, Finland is forecast not to comply with the benchmark in both 2017 and 2018, as its debt-to-GDP ratio is expected to be 0.8 pps. and 0.5 pps. of GDP above the debt benchmark.

Table 5: Compliance with the debt criterion

	2016	2017		2018		2019
		SP	COM	SP	COM	SP
Gross debt ratio	**64**	**64.7**	**65.5**	**64.5**	**66.2**	**63.8**
Gap to the debt benchmark [1,2]			0.8		0.5	
Structural adjustment [3]	0.3	-0.4	-0.5	0.3	0.0	0.1
To be compared to:						
Required adjustment [4]						

Notes:

[1] Not relevant for Member Sates that were subject to an EDP procedure in November 2011 and for a period of three years following the correction of the excessive deficit.

[2] Shows the difference between the debt-to-GDP ratio and the debt benchmark. If positive, projected gross debt-to-GDP ratio does not comply with the debt reduction benchmark.

[3] Applicable only during the transition period of three years from the correction of the excessive deficit for EDP that were ongoing in November 2011.

[4] Defines the remaining annual structural adjustment over the transition period which ensures that - if followed – Member State will comply with the debt reduction benchmark at the end of the transition period, assuming that COM (S/CP) budgetary projections for the previous years are achieved.

Source :
Commission 2017 spring forecast (COM); stability programme (SP), Comission calculations.

4.2. Compliance with the MTO or the required adjustment path towards the MTO

Finland's Medium-Term Objective (MTO) for the structural balance is -0.5% of GDP which the government aims to achieve in 2019. The MTO appears sufficiently stringent under what can be considered as normal economic conditions to ensure debt rule compliance in the medium and long term. According to the Commission 2017 spring forecast, it would require a structural improvement of 0.8% of GDP over 2018-2019. At the same time, the Commission forecast does not expect the structural balance to improve at unchanged policy in 2018, the last year of the Commission projections. As a result, achieving the MTO in 2019 will require substantial additional measures.

In the Draft Budgetary Plan (DBP) for 2017, Finland indicated that the budgetary impact of the exceptional inflow of refugees was significant and provided adequate evidence of the scope and nature of these additional budgetary costs. In particular, the expenditure increase in 2016 was estimated at 0.3% of GDP. In the 2017 Stability Programme, the budgetary impact of the refugees has turned out to be lower than expected with an increase in expenditure by 0.17 pp of GDP in 2016. In 2017 the budgetary impact of refugees is projected to decrease by 0.15 pp of GDP.

In 2016, the structural balance improved by 0.3 pp of GDP to -0.9% of GDP, pointing to a risk of some deviation (deviation of 0.1% of GDP) from the required structural adjustment of 0.3% of GDP after taking into account an allowance of 0.2% of GDP related to the exceptional inflow of refugees[2]. The growth of government expenditure, net of discretionary revenue measures and one-offs, complied with the expenditure benchmark with a positive margin. This calls for an overall assessment. The difference between the two indicators is mainly driven by revenue shortfalls (0.3% of GDP) that could be linked with low inflation and low interest rate environment and seem to distort the structural balance indicator. Taking that factor into consideration, the structural balance pillar would also point to compliance with the recommended structural adjustment, in line with the conclusion based on the expenditure benchmark indicator. Therefore, the overall assessment points to compliance with the recommended adjustment path towards the MTO in 2016.

In its DBP for 2017, Finland requested a temporary deviation of 0.5% of GDP from the required structural adjustment path towards the MTO in 2017, in view of major structural reforms with a positive impact on the long-term sustainability of public finances (the so-called "structural reform clause"), as well as a temporary deviation of 0.1% of GDP to take account of EU co-financed investments[3] (the so-called "investment clause"). The Commission's updated detailed analysis of the output gap estimate for 2017 on the basis of the Commission spring forecast imply that in 2017 Finland meets the minimum benchmark, which is designed to ensure sufficient safety margin towards the 3% of GDP reference value of the Treaty. In particular, if the output gap was considered to be -2.5% of potential GDP in 2016 as the plausibility tool suggests, the structural balance would be estimated at -0.5% in 2016 (Finland's MTO). The extrapolation of the output gap on the basis of the tool and the common methodology would lead the structural balance to be projected at -1% in 2017 and 2018. Other conditions for structural reform and investment clauses are also met: the structural reforms have been implemented; they are major reforms; and appear to have long-run positive budgetary effects. Regarding the investment clause, the output gap is estimated larger than -1.5% of GDP in 2017 according to the above mentioned detailed analysis and the Commission spring forecast projects general government gross fixed capital formation to increase by 2.0% in 2017. In addition, based on the spring forecast, Finland is expected to remain sufficiently close to its MTO in 2017-2018 and according to the government plans, Finland would return to MTO in 2019. On this basis, the Commission proposes to grant Finland a temporary deviation of 0.6% of GDP from the required adjustment path towards the MTO in 2017 in line with the "Commonly agreed position on Flexibility within the Stability and Growth Pact" endorsed by the ECOFIN Council in February 2016[4]. In November 2016, Finland's DBP for 2017 was assessed to be at risk of non-compliance with the requirements of the SGP before the use of any temporary deviations for 2017 on the basis of the flexibility clauses.

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[2] In July 2016, the Council gave Finland a recommendation to improve the structural balance by 0.5% of GDP in 2016.

[3] European Structural and Investment Funds support the competitiveness, boost research and innovation, create employment as well as facilitate education and training.

[4] http://data.consilium.europa.eu/doc/document/ST-14345-2015-INIT/en/pdf

Taking into account the temporary deviations granted in 2017 for structural reform and investment clauses, and the previously-granted allowance under the unusual event clause, which is carried forward for a period of three years, Finland's structural balance is allowed to deteriorate by 0.5% of GDP in 2017.[5] Based on the spring forecast, both pillars point to compliance with that requirement. An overall assessment would indicate that, on the one hand, the structural balance is negatively affected by revenue shortfalls, which worsen the balance by 0.3% of GDP. On the other hand, the medium-term average potential GDP growth (0.2%) ¬ compared with the potential growth rate which is estimated in the 2017 spring forecast for 2017 to be significantly higher (0.9%) ¬ might result in a rather stringent expenditure growth benchmark for 2017. The expenditure benchmark indicator is also affected by a difference between the current estimate for GDP deflator (0.5%) and the estimated deflator at the time when the requirement was set (0.9%). These differences in the estimated growth rates and the deflators would have an effect on the expenditure benchmark indicator which is estimated at 0.2% of GDP. Taking these factors into consideration, if the expected decrease of the budgetary impact in 2017 stemming from the exceptional inflow of refugees were deducted from the assessment, the overall assessment would not change.

In 2018, taking into account the previously-granted allowances under the unusual event clause and the structural reform and investment clauses, the recommended structural adjustment is 0.1% of GDP.[6] The structural balance is projected to remain unchanged, estimated at -1.4% of GDP, pointing to some deviation from the recommended structural adjustment (deviation 0.1% of GDP) while the expenditure benchmark points to compliance. This calls for an overall assessment. In 2018, the revenue shortfall continues to have an impact on the structural balance (0.4 pp of GDP), while the estimated potential growth rate (0.8%) continues to outpace the medium-term average potential GDP growth rate (0.4%) having an impact on the expenditure benchmark indicator (0.2% of GDP). Taking those factors into account, both indicators would point to compliance with the recommended adjustment path towards the MTO in 2018. Therefore, on the basis of the overall assessment, Finland is expected to comply with the requirements of the preventive arm in 2018. If the expected decrease of the budgetary impact in 2017 stemming from the exceptional inflow of refugees were deducted from the assessment, the overall assessment would not change.

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[5] The allowed deterioration in 2017 of 0.5% of GDP also takes into account that the observed distance from the MTO at the end of 2016 amounted to 0.4% of GDP.

[6] Based on the matrix, the annual structural adjustment towards the MTO would be 0.6% of GDP in 2018. However, this requirement is adjusted to 0.1% of GDP after taking into account the impact of the previously-granted allowances under the unusual event clause and the structural reform and investment clauses, which are carried forward for a period of three years.

Table 6: Compliance with the requirements under the preventive arm

(% of GDP)	2016	2017		2018	
Initial position[1]					
Medium-term objective (MTO)	-0.5	-0.5		-0.5	
Structural balance[2] (COM)	-0.9	-1.3		-1.4	
Structural balance based on freezing (COM)	-0.9	-1.3		-	
Position vis-a -vis the MTO[3]	Not at MTO	Not at MTO		Not at MTO	
(% of GDP)	**2016**	**2017**		**2018**	
	COM	**SP**	**COM**	**SP**	**COM**
Structural balance pillar					
Required adjustment[4]	0.5	0.4		0.6	
Required adjustment corrected[5]	0.3	-0.5		0.1	
Change in structural balance[6]	0.3	-0.4	-0.5	0.3	0.0
One-year deviation from the required adjustment [7]	-0.1	0.0	0.0	0.3	-0.1
Two-year average deviation from the required adjustment [7]	0.1	0.0	0.0	0.1	-0.1
Expenditure benchmark pillar					
Applicable reference rate[8]	0.2	1.0		1.6	
One-year deviation adjusted for one-offs[9]	0.5	n.a.	0.1	n.a.	0.1
Two-year deviation adjusted for one-offs[9]	0.7	n.a.	0.3	n.a.	0.1
PER MEMORIAM: One-year deviation [10]	0.6	n.a.	0.1	n.a.	0.0
PER MEMORIAM: Two-year average deviation [10]	0.6	n.a.	0.3	n.a.	0.0
Conclusion					
Conclusion over one year	Overall assessment		Compliance		Overall assessment
Conclusion over two years	Compliance		Compliance		Overall assessment

Notes

[1] The most favourable level of the structural balance, measured as a percentage of GDP reached at the end of year t-1, between spring forecast (t-1) and the latest forecast, determines whether there is a need to adjust towards the MTO or not in year t. A margin of 0.25 percentage points (p.p.) is allowed in order to be evaluated as having reached the MTO.

[2] Structural balance = cyclically-adjusted government balance excluding one-off measures.

[3] Based on the relevant structural balance at year t-1.

[4] Based on the position vis-à-vis the MTO, the cyclical position and the debt level (See European Commission: Vade mecum on the Stability and Growth Pact, page 38.).

[5] Required adjustment corrected for the clauses, the possible margin to the MTO and the allowed deviation in case of overachievers.

[6] Change in the structural balance compared to year t-1. Ex post assessment (for 2014) is carried out on the basis of Commission 2015 spring forecast.

[7] The difference of the change in the structural balance and the corrected required adjustment.

[8] Reference medium-term rate of potential GDP growth. The (standard) reference rate applies from year t+1, if the country has reached its MTO in year t. A corrected rate applies as long as the country is adjusting towards its MTO, including in year t.

[9] Deviation of the growth rate of public expenditure net of discretionary revenue measures, revenue increases mandated by law and one-offs from the applicable reference rate in terms of the effect on the structural balance. The expenditure aggregate used for the expenditure benchmark is obtained following the commonly agreed methodology. A negative sign implies that expenditure growth exceeds the applicable reference rate.

[10] Deviation of the growth rate of public expenditure net of discretionary revenue measures and revenue increases mandated by law from the applicable reference rate in terms of the effect on the structural balance. The expenditure aggregate used for the expenditure benchmark is obtained following the commonly agreed methodology. A negative sign implies that expenditure growth exceeds the applicable reference rate.

Source :

Stability Programme (SP); Commission 2017 spring forecast (COM); Commission calculations.

Box 2. Implementation of the "constrained judgement" approach and its impact in the context of the fiscal surveillance

The April 2016 Amsterdam Informal ECOFIN Council requested that improvements be made to the commonly agreed methodology for the estimation of potential growth and the output gap. In response to this mandate from the Council, two concrete decisions were taken in agreement with the Member States in October 2016.

First, it was agreed that a revised methodology for the estimation of the non-accelerating wage rate of unemployment (NAWRU) would be introduced in the commonly agreed methodology. Second, it was agreed to introduce a "constrained judgement" approach for cases where the commonly agreed methodology appears to produce "counterintuitive" output gap results for individual Member States. Both changes have already been implemented in the assessment of 2017 Draft Budgetary Plans.

The objective of the "constrained judgement" approach is to have a transparent and economically grounded tool to test statistically the plausibility of the output gap estimates for individual Member States estimated on the basis of the common method. To this end, the Commission developed an objective screening tool - based on a set of cyclically relevant indicators as well as thresholds/ranges - to signal cases when the outcomes of the commonly agreed methodology could be interpreted as being subject to a large degree of uncertainty and therefore deserving of further investigation on the part of the Commission. If this plausibility tool identifies possibly "counterintuitive" results from the common methodology, the Commission carries out an "in depth" analysis which could lead to the application of a "constrained" degree of judgement in conducting Member States' budgetary assessments.

On the basis of the Commission 2017 spring forecast, the plausibility tool provided indications that the output gap estimate for 2016 on the basis of the common methodology may be counterintuitive. Based on the commonly agreed methodology, the output gap for 2016 is estimated at -1.8% of potential GDP while the plausibility tool estimates the output gap somewhat wider at -2.5%. In particular, the exceptionally slow growth of nominal wages over the past few years signals significant labour market slackness. Therefore, the output gap estimate on the basis of the plausibility tool indicates that the amount of idle capacity that were available for production (manufacturing capacity and labour force) may have been higher than estimated on the basis of the commonly agreed methodology which produces a narrower output gap estimate. On this basis, the Commission considers that the output gap was -2.5% in 2016. This also falls between the output estimates of the IMF (-1.9%) and OECD (-3.6%).

Both the common methodology (output gap of -1.8% in 2016) and the detailed analysis carried out on the basis of the plausibility tool thus indicate that Finland is experiencing economically "bad times". On the basis of the extrapolation of the plausibility tool results, Finland's output gap could be -2.1% of potential GDP in 2017, and it would decline to -1.2% of potential GDP in 2018. This, however, would not change the required adjustment towards the MTO in 2018. If the output gap was considered to be -2.5% of potential GDP in 2016, the structural balance would be estimated at -0.5% in 2016 (Finland's MTO) and at -1% in 2017 and 2018. As a result, Finland would meet the minimum benchmark of a 1.1% of GDP structural deficit in 2017.

5. LONG-TERM SUSTAINABILITY

Finland appears to be at low fiscal risk in the short term, according to the S0 indicator, which captures short-term risks of fiscal stress stemming from the fiscal, as well as the macro-financial and competitiveness sides of the economy.

Based on Commission forecasts and a no-fiscal policy change scenario beyond forecasts, government debt, at 63.6% of GDP in 2016, is expected to increase to 75.8% in 2027, thus rising above the 60% of GDP Treaty threshold. Over this horizon, government debt is projected to peak in 2027. This highlights high risks for the country from debt sustainability analysis in the medium term according to the Commission forecast. The full implementation of the stability programme would nonetheless put debt on a decreasing path by 2027, although remaining slightly above the 60% of GDP reference value in 2027.

The medium-term fiscal sustainability risk indicator S1 is at 2.3 pps. of GDP, primarily related to the projected ageing costs contributing with 1.6 pps. of GDP, thus indicating medium risks in the medium term. The full implementation of the stability programme would put the sustainability risk indicator S1 at 0.7 pps. of GDP, leading to medium risk over the medium-term. Overall, risks to fiscal sustainability over the medium-term are, therefore, medium. Fully implementing the fiscal plans in the stability programme would however temper those risks.

The long-term fiscal sustainability risk indicator S2 (which shows the adjustment effort needed to ensure that the debt-to-GDP ratio is not on an ever-increasing path) is at 3 pps. of GDP. In the long-term, Finland therefore appears to face medium fiscal sustainability risks. Full implementation of the stability programme would nonetheless put the S2 indicator at 1.8 pps. of GDP, leading to a low long-term risk.[7] The pension reform, which came into force in 2017, will have a favourable impact on the long-term fiscal sustainability.

[7] The difference in the S2 indicator is mainly driven by differences in fiscal assumptions (e.g. for the structural primary balance) and in the start year (e.g. for estimating the cost of ageing - last forecast year in the COM no-fiscal policy change scenario versus last available year in the SCP scenario).

Table 7: Sustainability indicators

Time horizon				No-policy Change Scenario		Stability / Convergence Programme Scenario	
Short Term				**LOW risk**			
	S0 indicator [1]			0.1			
		Fiscal subindex		0.1	LOW risk		
		Financial & competitiveness subindex		0.2	LOW risk		
Medium Term				**HIGH risk**			
	DSA [2]			HIGH risk			
	S1 indicator [3]			2.3	MEDIUM risk	0.7	MEDIUM risk
	of which						
		Initial Budgetary Position		0.2		-0.8	
		Debt Requirement		0.5		0.2	
		Cost of Ageing		1.6		1.3	
		of which					
			Pensions	0.9		0.6	
			Health-care	0.2		0.2	
			Long-term care	0.4		0.4	
			Other	0.0		0.1	
Long Term				**MEDIUM risk**		**LOW risk**	
	S2 indicator [4]			3.0		1.8	
	of which						
		Initial Budgetary Position		1.4		0.8	
		Cost of Ageing		1.6		1.1	
		of which					
			Pensions	-0.5		-1.0	
			Health-care	0.5		0.4	
			Long-term care	1.6		1.5	
			Other	0.1		0.1	

Source: Commission services; 2017 stability/convergence programme.

Note: the 'no-policy-change' scenario depicts the sustainability gap under the assumption that the structural primary balance position evolves according to the Commissions' spring 2017 forecast covering until 2018 included. The 'stability/convergence programme' scenario depicts the sustainability gap under the assumption that the budgetary plans in the programme are fully implemented over the period covered by the programme. Age-related expenditure as given in the 2015 Ageing Report.

[1] The S0 indicator of short term fiscal challenges informs the early detection of fiscal stress associated to fiscal risks within a one-year horizon. To estimate these risks S0 uses a set of fiscal, financial and competitiveness indicators selected and weighted according to their signalling power. S0 is therefore a composite indicator whose methodology is fundamentally different from the S1 and S2 indicators, which quantify fiscal adjustment efforts. The critical threshold for the overall S0 indicator is 0.46. For the fiscal and the financial-competitiveness sub-indexes, thresholds are respectively at 0.36 and 0.49*.

[2] Debt Sustainability Analysis (DSA) is performed around the no fiscal policy change scenario in a manner that tests the response of this scenario to different shocks presented as sensitivity tests and stochastic projections*.

[3] The S1 indicator is a medium-term sustainability gap; it measures the upfront fiscal adjustment effort required to bring the debt-to-GDP ratio to 60 % by 2031. This adjustment effort corresponds to a cumulated improvement in the structural primary balance over the 5 years following the forecast horizon (i.e. from 2019 for No-policy Change scenario and from last available year for the SCP scenario); it must be then sustained, including financing for any additional expenditure until the target date, arising from an ageing population. The critical thresholds for S1 are 0 and 2.5, between which S1 indicates medium risk. If S1 is below 0 or above 2.5, it indicates low or high risk, respectively*.

[4] The S2 indicator is a long-term sustainability gap; it shows the upfront and permanent fiscal adjustment required to stabilise the debt-to-GDP ratio over the infinite horizon, including the costs of ageing. The critical thresholds for S2 are 2 and 6, between which S2 indicates medium risk. If S2 is below 2 or above 6, it indicates low or high risk, respectively*.

* For more information see Fiscal Sustainability Report 2015 and Debt Sustainability Monitor 2016.

6. FISCAL FRAMEWORK

The central government fiscal framework is tied to multiannual expenditure ceilings. To date, the framework has proved to be effective. At the beginning of the government's term, the expenditure ceilings are set for a four year period according to the government's fiscal policy. Thereafter, each spring the government updates the limits on central government spending for the remaining years of its term, establishing the multiannual financial framework. The ceilings are set in real terms. The framework includes built-in automatic stabilisers, as some spending, such as unemployment expenditure, falls outside its scope. Also interest payments on debt are excluded from the multiannual framework.

Neither nominal-balanced-budget requirements nor limits on annual deficits are included in the legislation. Following the ratification of the Fiscal Compact, a structural balance rule has been turned into national legislation. In autumn 2016, the government initiated legislative changes to remove government discretion on whether to launch the automatic correction and implement the 'comply or explain' principle, so that the government will in the future need to automatically respond to the observations of the Fiscal Council.

The responsibilities of the Fiscal Council have been entrusted to the National Audit Office which monitors the implementation of the fiscal rules, in particular the compliance with the medium-term budgetary objective. Based on the information provided in the stability programme, the past, planned and forecast fiscal performance in Finland appears to broadly comply with the requirements of the applicable national numerical fiscal rules.[8]

Finland is the only euro area country where the macroeconomic forecast underpinning budgetary planning is prepared by the Economics department of the Ministry of Finance. The management of the Economics department is separated from the Budget department and according to the law adopted in spring 2015, the Economics department is independent in its forecasting activities. However, in the 2017 stability programme the macroeconomic projections for 2018-2020 are based on the "development according to the targets of the Government Programme". Thus, it appears that the macroeconomic scenario underlying this stability programmeis calibrated so that the government's fiscal targets are met. This raises questions regarding the realistic and unbiased nature of the macroeconomic scenario, and thus their compliance with the Two-Pack Regulation to prepare medium-term fiscal plans on the basis of independent macroeconomic forecasts.

The 2017 stability programme indicates that it is the national medium-term fiscal plan in the sense of Two-Pack Regulation 473/2013. Neither the Stability Programme nor the National Reform Programme includes indications on the expected economic returns on non-defence public investment projects that have a significant budgetary impact.

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[8] See the discussion on the adherence to the MTO (or to the adjustment path towards it) in sections 3.2 and 4.2 and on the debt reduction benchmark in section 4.1.

7. SUMMARY

In 2016, Finland achieved an improvement of the structural balance of 0.3% of GDP, which was marginally below the required adjustment towards the MTO. On the other hand, the growth rate of government expenditure, net of discretionary revenue measures, complied with the applicable expenditure benchmark rate by a positive margin. Following an overall assessment, this appears in line with the recommended adjustment path towards the MTO.

Finland plans a deterioration of the structural balance of 0.5% of GDP in 2017 and an improvement of 0.3% of GDP in 2018. Taking into account the temporary deviations granted in 2017 and the previously-granted allowance under the unusual event clause which is carried forward for a period of three years, the recommended structural adjustment for 2017 is -0.5% of GDP. Based on the Commission spring forecast, an overall assessment would point to consistency with the required adjustment. In 2018, taking into account the previously-granted allowances under the unusual event clause and the structural reform and investment clauses, the planned progress towards the MTO appears consistent with the preventive arm requirements in 2018. Based on the Commission's spring forecast, the projected path of government debt in 2017 and 2018 is not consistent with the debt reduction benchmark.

8. ANNEXE

Table I. Macroeconomic indicators

	1999-2003	2004-2008	2009-2013	2014	2015	2016	2017	2018
Core indicators								
GDP growth rate	3.3	3.3	-1.0	-0.6	0.3	1.4	1.3	1.7
Output gap [1]	0.9	1.8	-2.3	-2.9	-2.7	-1.8	-1.4	-0.5
HICP (annual % change)	2.0	1.5	2.4	1.2	-0.2	0.4	1.0	1.2
Domestic demand (annual % change) [2]	2.6	3.1	-0.3	-0.1	1.4	2.1	1.0	1.4
Unemployment rate (% of labour force) [3]	9.4	7.6	8.1	8.7	9.4	8.8	8.6	8.2
Gross fixed capital formation (% of GDP)	22.4	23.3	22.1	20.6	20.5	21.4	22.1	22.5
Gross national saving (% of GDP)	29.6	28.5	21.7	19.6	20.0	20.2	20.4	20.9
General Government (% of GDP)								
Net lending (+) or net borrowing (-)	**4.0**	**3.6**	**-2.2**	**-3.2**	**-2.7**	**-1.9**	**-2.2**	**-1.8**
Gross debt	**42.1**	**37.5**	**49.5**	**60.2**	**63.7**	**63.6**	**65.5**	**66.2**
Net financial assets	**35.2**	**57.4**	**54.5**	**53.5**	**53.5**	**53.4**	**n.a**	**n.a**
Total revenue	52.9	52.0	53.3	54.9	54.2	54.2	53.3	52.9
Total expenditure	48.8	48.4	55.5	58.1	57.0	56.1	55.5	54.6
of which: Interest	2.4	1.5	1.3	1.2	1.2	1.1	1.0	1.0
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	**4.0**	**3.5**	**3.4**	**3.9**	**3.7**	**3.6**	**3.3**	**2.9**
Net financial assets; non-financial corporations	**-196.4**	**-133.9**	**-109.5**	**-127.2**	**-125.3**	**-127.0**	**n.a**	**n.a**
Net financial assets; financial corporations	**5.4**	**2.2**	**2.6**	**5.6**	**5.2**	**6.5**	**n.a**	**n.a**
Gross capital formation	13.0	13.9	11.5	10.6	11.3	11.6	12.3	12.8
Gross operating surplus	27.5	27.3	22.6	21.9	22.5	22.3	23.2	23.7
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	**-1.1**	**-2.9**	**-1.4**	**-1.9**	**-2.1**	**-3.4**	**-3.4**	**-3.2**
Net financial assets	**66.4**	**60.2**	**58.9**	**70.2**	**71.6**	**75.3**	**n.a**	**n.a**
Gross wages and salaries	37.4	37.8	40.4	40.1	39.7	39.5	39.1	38.8
Net property income	4.2	4.1	3.8	4.0	3.9	3.6	3.7	4.1
Current transfers received	19.7	18.9	21.7	23.6	23.8	23.7	23.7	23.3
Gross saving	5.0	4.1	5.3	4.3	4.0	3.3	3.3	3.3
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	**7.1**	**4.1**	**-0.2**	**-1.2**	**-0.7**	**-1.3**	**-1.7**	**-1.6**
Net financial assets	**89.4**	**14.1**	**-6.6**	**-2.1**	**-5.1**	**-8.2**	**n.a**	**n.a**
Net exports of goods and services	8.5	4.5	0.0	-0.9	-0.3	-1.2	-1.6	-1.5
Net primary income from the rest of the world	-0.4	0.5	0.8	0.9	0.8	1.1	1.0	0.9
Net capital transactions	0.1	0.1	0.1	0.1	0.0	0.0	0.1	0.1
Tradable sector	47.7	45.4	40.2	38.7	38.6	38.2	n.a	n.a
Non tradable sector	39.8	42.2	46.6	47.4	47.6	47.9	n.a	n.a
of which: Building and construction sector	5.1	5.7	5.7	5.4	5.5	5.8	n.a	n.a
Real effective exchange rate (index, 2000=100)	92.1	96.4	102.2	105.7	102.5	102.0	98.6	97.2
Terms of trade goods and services (index, 2000=100)	113.5	104.5	99.2	99.3	102.1	101.5	99.8	99.3
Market performance of exports (index, 2000=100)	107.8	107.9	98.4	88.9	86.7	84.3	83.1	82.5

Notes:

[1] The output gap constitutes the gap between the actual and potential gross domestic product at 2005 market prices.

[2] The indicator on domestic demand includes stocks.

[3] Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed. The unemployment rate covers the age group 15-74.

Source:
AMECO data, Commission 2017 spring forecast