MINISTRY OF FINANCE

Finland´s Stability Programme 2014

17c/2014

Economic outlook and economic policy

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Abstract

The Stability Programme is based on Prime Minister Katainen's Government Programme, the Budget approved by Parliament on 20 December 2013 and the General Government Fiscal Plan for 2015–2018, approved by the Government on 3 April 2014, and the forecasts on which this was based.

Finland's GDP is projected to grow by 0.5 per cent in 2014. In the medium term, GDP growth is expected to remain subdued. The forecast for average GDP growth in 2014–2018 is 1.3 per cent.

Despite the modest growth outlook, the state of Finland's general government finances will improve during the programme period. In 2013 the general government deficit was 2.1 per cent of GDP. Adjustment measures decided by the Government will particularly improve the central government budgetary position, such that, in accordance with the forecast presented in this Stability Programme, the general government budgetary position will balance by 2017 and the general government debt-to-GDP ratio will start to fall during the programme period.

Population ageing will adversely affect conditions for economic growth, increase central government age-related expenditure and inevitably weaken the general government budgetary position. The long-term sustainability gap in general government finances is estimated to be 3.0 per cent of GDP.

The 2013 Stability Programme set a medium-term objective of -0.5 per cent of GDP for the general government structural budgetary position and this was expected to be achieved in 2014. In 2013 the structural budgetary position was -0.4 per cent of GDP. In accordance with an assessment presented in this Stability Programme, the structural budgetary position will be -0.7 per cent of GDP in 2014. As a result of the adjustment measures decided by the Government, the structural budgetary position will strengthen during the programme period and will show a surplus in 2017.

In its winter forecast of February 2014, the Commission considered that Finland's fiscal deficit would be 2.4 per cent of GDP in 2013 and that Finland's structural budgetary position would deviate significantly from the medium-term objective in 2014 and 2015. After the publication of the Commission's forecast, it turned out, however, that the deficit in 2013 was 2.1 per cent of GDP. In addition, in March 2014 the Finnish Government agreed on extensive fiscal adjustment measures and also on the implementation of a Structural Policy Programme, adopted in the autumn 2013, as part of the General Government Fiscal Plan. The Structural Policy Programme includes significant structural reforms directed at fiscal management and public service provision, which will strengthen fiscal sustainability in the long term. The forecast presented in the Stability Programme takes into account the latest statistical data [1] as well as Government decisions and it concludes with the assessment that risk of a significant deviation with respect to Finland will not arise.

[1] In this Stability Programme, data published by Statistics Finland on 3 March 2014 has been used. The programme has not taken into account the revised data in Statistics Finland's EDP reporting of 31 March 2014.

Contents

Introduction

Stability and convergence programmes provided under the Stability and Growth Pact form the basis for the multilateral monitoring of the EU's fiscal policy and the coordination of economic policy.

According to new EU rules, Member States are required to prepare a medium-term budgetary framework providing for the adoption of a fiscal planning horizon of at least three years. Member States must publish annually their national medium-term fiscal plans in line with their medium-term budgetary framework. The General Government Fiscal Plan approved by the Government on 3 April 2014 fulfils these requirements.

The General Government Fiscal Plan in 2014 is part of Finland's Stability Programme for 2014—18. The Stability Programme contains, in addition to this introduction, the following items in conformity with the General Government Fiscal Plan

— a description of the provisions and objectives steering fiscal management as well as the Government's fiscal policy by which the achievement of these objectives will be pursued
— a macroeconomic forecast and an assessment of the fiscal outlook over the parliamentary term and beyond, in which the assessment of general government finances is based on independent, up-to-date and realistic estimates of real economic prospects during the parliamentary term
— a presentation of the key measures directed at general government revenue and expenditure as well as an assessment of the progress of structural reforms
— the Central Government Spending Limits Decision
— macroeconomic steering of local government, based on a summary of the Basic Public Services Programme.

The sensitivity analysis and tables belonging to the Stability Programme are presented in the appendices. The information presented in Chapters 1-7 of the General Government Fiscal Plan are based on National Accounts figures if not otherwise stated, while EDP figures are reported in the tables of Appendix 6.

Finland's general government finances consist of central government, local government and the social security funds, which are further divided into earnings-related pension funds, which handle statutory earnings-related pension insurance, and other social security funds.

Medium-term objective and structural reforms

The 2013 Stability Programme set a medium-term objective of -0.5 per cent of GDP for the general government structural budgetary position. The objective is in accordance with both the Stability and Growth Pact and the national FIPO Act, and it was approved by the Council in June 2013. The same Stability Programme included an assessment that the medium-term objective will be achieved in 2014. The Commission considered that Finland achieved the medium-term objective in 2012, when structural budgetary position was estimated to have been -0.7 per cent of GDP, which in the Commission's view is sufficiently close to the objective. In Finland's draft budgetary plan of October 2013, the structural budgetary position was estimated to be -0.7 per cent of GDP in 2013 and 2014, in other words the medium-term objective would have been maintained.

This Stability Programme estimates that Finland's structural budgetary position was -0.4 per cent of GDP in 2013, which would mean that Finland would have achieved the medium-term objective already one year earlier than expected. In the Commission's winter forecast, the 2013 structural budgetary position was -0.9 per cent of GDP, which is a deviation from the medium-term objective. This is not a significant deviation, however. [1]

According to the forecast presented in this Stability Programme, the structural budgetary position will be in 2014 -0.7 per cent and in 2015 -0.1 per cent of GDP. This deviates clearly from the assessment of the Commission's winter forecast, according to which Finland's structural deficit would rise in 2014 to -1.2 per cent and in 2015 to -1.4 per cent of GDP, both of which represent a significant deviation from the medium-term objective.

In its winter forecast of February 2014, the Commission considered that Finland's fiscal deficit would be 2.4 per cent of GDP in 2013. After the publication of the Commission's forecast, it turned out, however, that the deficit in 2013 was 2.1 per cent of GDP. In addition, in March 2014 the Finnish Government agreed on extensive fiscal adjustment measures and also on the implementation of a Structural Policy Programme, adopted in the autumn 2013, as part of the General Government Fiscal Plan. The Structural Policy Programme includes significant structural reforms directed at fiscal management and public service provision, which will strengthen fiscal sustainability in the long term. The forecast presented in the Stability Programme takes into account the latest statistical data[2] as well as Government decisions and it concludes with the assessment that risk of a significant deviation with respect to Finland will not arise.

On 29 August 2013, the Government decided on a Structural Policy Programme and set the objectives for it. On 29 November 2013, the Government specified the details of the

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1 In the event of a significant deviation from the medium-term objective being observed, the Commission shall address a warning to the Member State concerned in order to prevent the occurrence of an excessive deficit, after which the Council shall adopt recommendations for the Member State concerned to initiate effective measures to correct the situation within a deadline. If Council considers that the Member State concerned has failed to take appropriate action within the deadline, a non-interest-bearing deposit may be requested from the Member State until the situation is corrected.

2 In this Stability Programme, data published by Statistics Finland on 3 March 2014 has been used. The programme has not taken into account the revised data in Statistics Finland's EDP reporting of 31 March 2014.

programme and decided on its implementation. The Government supplemented its earlier decisions and on 25 March 2014 decided [3] on the implementation of the programme as part of the General Government Fiscal Plan. The central government spending limits include those Government Structural Policy Programme measures that have cost impacts and whose preparation is at this stage sufficiently advanced. These measures are presented in Section 5.3.

The measures of the Structural Policy Programme can be grouped into five areas: balancing local government finances, improving the productivity of public service provision, working careers and supply of labour, structural unemployment and the output potential of the economy. The measures of the Structural Policy Programme are presented in Section 4.3.

To restore balance to local government finances municipalities' duties and the obligations prescribed on the basis of them, are reassessed so that a EUR 1 billion reduction in municipalities' operating expenditure is achieved at 2017 prices. In addition, the goal is achieve a EUR 1 billion saving in the municipalities at the 2017 prices through municipalities' own measures, for example by improving productivity and through tax revenue. A local government budgetary framework will create conditions to reconcile municipalities' duties and obligations as well as their funding, such that the local government budgetary position remains in balance in the medium term. Provisions relating to the steering of local government finances as well as the setting of sector-specific budgetary targets and a local government spending limit will come into force on 1 January 2015.

In improving the productivity of public service provision, a key role will be played by the social and health care services reform, which has been agreed between the Government parties and the opposition parties. The intention of the reform is for all social and health care services to be delivered by five strong regional providers. These five regions will be based on the current specific catchment areas and on currently well-functioning structures. The horizontal and vertical integration of social and health services as well as the sufficiently large population bases of the catchment areas will create great potential for operational efficiencies and productivity improvements in public service provision, which will improve the sustainability of public finances significantly in the long term. The objective is to complete the preparation of a Government proposal by the end of May and to circulate it for comment in June. The proposal will be submitted to Parliament in autumn 2014. The plan is for the new regions responsible for social and health care services to start operating on 1 January 2017.

In the Structural Policy Programme, the Government has set as an objective the extension of working careers at the start by ½ a year and at the end by 1½ years. In addition, the programme includes many reforms aimed at reducing career breaks and under-employment during working careers. Social partners will negotiate on pension reform. They are committed to achieving a reform that with sufficient certainty can be expected to reduce the general government sustainability gap by just over 1 percentage point. In addition, social partners are committed to completing the details of the reform by autumn 2014, so that the reform can come into force at the beginning of 2017.

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3 Government decision on implementing the Structural Policy Programme as part of the General Government Fiscal Plan, 25 March 2014. http://valtioneuvosto.fi/tiedostot/julkinen/kehysneuvottelut-2014/paatos/fi.pdf

The goal of Government reforms to improve the functioning of the labour market is to reduce structural unemployment by one percentage point. If it is found that the measures decided to date are insufficient to achieve the target, the Government is committed to specifying together with social partners new measures to ensure that the target is achieved.

To improve the output potential of the economy, measures will be directed at the housing market, digitalisation and ICT utilisation, appeal and permit procedures, and the programme for promoting health competition.

Broad Economic Policy Guidelines

In 2010 the European Council decided on a new economic and employment strategy. The strategy aims to strengthen employment, productivity and social cohesion and to create for the EU a smart, sustainable and inclusive economy. The strategy sets EU-wide targets for employment, research and development expenditure, climate policy, education and reducing poverty. The current broad economic policy guidelines and employment guidelines were approved in 2010 and they are valid until 2014. Based on these headline targets, Member States set their national targets and specify obstacles to economic growth. More detailed measures to achieve the targets and to remove obstacles to growth are presented in the Europe 2020 national reform programmes prepared by the Member States.

Finland's Europe 2020 Strategy National Reform Programme was submitted in April 2013. The programme set as Finland's national targets the raising of the employment rate of 20–64 year-olds to 78 per cent, maintaining R&D spending at a minimum of 4 per cent of GDP, reaching the climate and energy targets agreed in the EU, raising the proportion of 30–34 year-olds having completed tertiary-level education to 42 per cent, reducing the proportion of early school leavers to 8 per cent and reducing the number of people living at risk of poverty and social exclusion. Finland's national targets exceed the headline targets set in the EU.

After assessing Finland's National Reform Programme for 2013 as well as Finland's Stability Programme for 2013—2017, the Council recommended for Finland in June 2013 the following measures for 2013—2014:

1. Pursue a growth-friendly fiscal policy and preserve a sound fiscal position as envisaged, ensuring compliance with the medium-term budgetary objective over the programme horizon; continue to carry out annual assessments of the size of the ageing-related sustainability gap and adjust public revenue and expenditure in accordance with long-term objectives and needs; ensure the cost-effectiveness and sustainability of long-term care and put a stronger focus on prevention, rehabilitation and independent living.
2. Ensure effective implementation of the on-going administrative reforms concerning the municipal structure, in order to deliver productivity gains and cost savings in the provision of public services, including social and health care services.
3. Take further steps to increase the employment rate of older workers, including by improving their employability and reducing early exit pathways, and align the minimal statutory retirement age with increased life expectancy; implement and monitor closely the impact of on-going measures to improve the labour-market position of young peo-

ple and the long-term unemployed, with a particular focus on the development of job-relevant skills.

4. Continue efforts to enhance competition in product and service markets, especially in the retail sector, by implementing the new programme on promoting healthy competition.
5. Boost Finland's capacity to deliver innovative products, services and high-growth companies in a rapidly changing environment, and continue diversification of the industry towards less energy intensive sectors; in the current low-growth environment, support the alignment of real wage and productivity developments whilst fully respecting the role of social partners and in line with national practices.

Stability Programme update in 2014 and its handling in Finland

The Stability Programme is based on the Budget approved by Parliament on 20 December 2013 and the General Government Fiscal Plan for 2015—2018 adopted by the Government on 3 April 2014, which contains within it the Central Government Spending Limits Decision, and the forecasts on which this was based.

The document will be delivered to the relevant EU bodies once it has been approved by the Government in plenary session. The contents of the Stability Programme have also been presented in writing and orally to the Grand Committee of Parliament. The Commission's assessment and the Council's statement on Finland's Stability Programme will be submitted to Parliament in connection with Ecofin preparations.

Stability Programme complies with the Code of Conduct endorsed by Ecofin in September 2012.

1 Provisions guiding the management of general government finances

1.1 EU provisions

EU provisions, particularly the Stability and Growth Pact, set the framework for the management of general government finances in the Member States. The preventive arm of the Stability and Growth Pact ensures that fiscal policy is sustainable over a normal economic cycle, while the corrective arm specifies a framework within which countries initiate corrective measures in the event of an excessive deficit. An excessive deficit arises when countries violate one or both of the rules of the EU treaties that the deficit must not exceed 3 per cent of GDP and general government debt must not exceed 60 per cent of GDP.

Budgetary target-setting is guided by the medium-term objective for the general government budgetary position. Its role is to ensure a safety margin with respect to the 3 per cent deficit limit and the rapid achievement of sustainability. Each Member State sets its own medium-term objective. Compliance with the objective must be included within national medium-term budgetary frameworks.

The state of Member States' public finances, the suitability of objectives and progress towards achieving them are monitored and assessed within the framework of the European Semester.

The General Government Fiscal Plan fulfils the requirements of the budgetary framework according to Directive 2011/85/EU as well as the medium-term fiscal plan according to the Regulation for monitoring and assessing draft budgetary plans EU No 473/2013.

The General Government Fiscal Plan forms the basis of Finland's Stability Programme in 2014.

1.2 National provisions

The General Government Fiscal Plan is prepared in accordance with a Government Decree (120/2014). The basis of the decree is the so-called FIPO Act (Act on the implementation of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, the implementation of Treaty provisions of a legislative nature as well as requirements concerning multi-annual budgetary frameworks, 869/2012), in which is prescribed an objective for the structural budgetary position and a correction mechanism for achieving the objective.

The purpose of the General Government Fiscal Plan is to support decision-making relating to general government finances as well as compliance with the medium-term objective set for the general government structural budgetary position. The General Government Fiscal Plan covers the whole of general government finances, including the parts relating to central government finances, local government finances, statutory pension providers and other social security funds. The Government prepares the General Government Fiscal Plan for the parliamentary term and revises it annually for the following four years by the end of April.

2 Targets guiding the management of general government finances and the government's fiscal policy line

Under a Government Decree (120/2014), the General Government Fiscal Plan sets a budgetary objective for the whole of general government finances as well as separately for each sector of general government finances from 2015. This General Government Fiscal Plan presents the targets which the Government has set in its Government Programme and which it supplemented in the 2013 Stability Programme and also in the Structural Policy Programme it agreed in autumn 2013.

2.1 Medium-term budgetary objective (MTO)

A medium-term objective, which is revised at three-year intervals, must be set for the general government structural budgetary position. The spring 2013 Stability Programme set for Finland a medium-term objective of -0.5 per cent of GDP, which fulfils the minimum requirements set by both the Stability and Growth Pact and the national FIPO Act.

2.2 Budgetary targets of central government, local government, earnings-related pension funds and other social security funds

The Government Programme has set as an objective the balancing of central government finances by the end of this parliamentary term.

Government Programme did not specify an objective for the budgetary position of local government finances. In local government finances, a structural balance of revenue and expenditure is a natural goal. In the implementation of the Structural Policy Programme, the Government has committed to the implementation of measures aimed at balancing local government finances.

The funding of the earnings-related pension system, which belongs to the social security fund sector, is guided by a rule according to which the funding of the system is kept on a sustainable basis by increasing as required the insurance contributions levied on employers and those insured. The financing of other social security funds is based on a pay-as-you-go system in which the system's insurance contributions and transfers from other general government subsectors are determined such that annual revenue is sufficient to cover annual expenditure.

2.3 Targets for general government debt

The Government Programme set as an objective the achievement of a substantial reduction in the central government debt-to-GDP ratio by the end of this parliamentary term. If there are no indications of a fall in the central government debt-to-GDP ratio, the Government is committed to implementing the necessary adjustment measures directed at central government revenue and expenditure to achieve the targets.

2.4 Fiscal policy line

The state of and outlook for general government finances, national targets set by the Government, and commitments based on the coordination of the EU's economic policy define the framework in which fiscal policy is practiced.

The objective of the fiscal and economic policy of Prime Minister Jyrki Katainen's Government is to strengthen the financial foundation of the welfare society and conditions for growth to ensure that public finances are on a sustainable basis.

Through its fiscal and economic policy, the Government aims to close the public finances sustainability gap. A change in population age structure is reducing the number of people of working age and increasing age-related public expenditure. This weakens the budgetary position of general government finances. General government revenue is insufficient to cover general government expenditure within the anticipated normal development of the economy.

In its Government Programme, the Government committed to initiating the measures necessary to fully close the sustainability gap by 2015. On 29 August 2013, the Government decided on a Structural Policy Programme aimed at strengthening conditions for economic growth and bridging the sustainability gap in general government finances. Details of the programme were specified in November 2013 and March 2014.

The programme includes key elements for the reform of economic structures in a manner that supports economic growth and the sustainability of public finances: balancing local government finances, improving the productivity of public services provision with the aid of a structural reform of social and health care services and funding, and extending working careers through pension reform and other measures directed at the beginning of working careers and career breaks. Other measures outlined in the Structural Policy Programme, together with a labour market settlement that improves cost-competitiveness, will create an opportunity for faster than anticipated growth in the long term. The Government's earlier structural policy decisions, such as the lowering of the corporate income tax rate, the reform of the dividend taxation system, and measures to promote the employment of young people are in line with the objectives of the Structural Policy Programme.

Structural reforms that support economic growth and improve the productivity of public services provision are the key to sustainable fiscal management, because without reforms the anticipated economic growth will be insufficient to remove the sustainability gap. This will require the sure implementation of the Structural Policy Programme according to Government targets. The favourable impacts of the reforms on growth and on the sustainability of public finances will, however, only be realised as a rule in the long term.

The state of the Finnish economy has consistently proved to be weaker than expected and assessments of the medium-term outlook have deteriorated. Underlying the weak economic growth have been the problems of the global economy and the euro area, the restructuring of Finnish industry and weak competitiveness. As economic growth and employment have remained weaker than expected, achieving the targets set by the Government for central government finances has proved to be difficult.

The risk has grown that indebtedness will grow uncontrollably when the level of interest rates returns to normal. At the same time, the starting position for bridging the sustainability gap is more challenging. Strengthening conditions for growth with the aid of the Structural Policy Programme threatens to be too slow a route.

In this situation, it is important to maintain confidence in Finland's ability to manage its public finances and meet its obligations. Confidence creates room for manoeuvre to decide on the measures required to reduce indebtedness and ensure the sustainability of public finances. A reduction of central government deficits in a credible way is important to maintain confidence and to prevent an accelerating spiral of indebtedness in the medium term, before structural reforms have time to take full effect.

To ensure that central government indebtedness levels off in a credible way and within a realistic time frame, the Government has decided on new measures, which will reduce central government expenditure and increase revenue by EUR 2.3 billion at the 2018 level. The measures will be implemented mainly in 2015. The Government will submit to Parliament for decision the legislative changes required by the measures during the current parliamentary term. These measures will also be sufficient to fulfil the fiscal management obligations set by EU treaties.

In addition, the Government has decided on measures which, when implemented, would strengthen central government finances but whose effects cannot yet be taken into account at this stage in the central government spending limits nor in the macroeconomic forecast. These measures include measures that reduce local government expenditure whose implementation requires the stronger steering to be adopted in line with the social and health care service reform. The strengthening effect of these measures on central government finances is estimated at EUR 130 million at the 2017 level. In addition, those measures to improve structural unemployment whose effects can already be estimated may boost central government finances by EUR 230 million at the 2017 level.

During its term, the Government has adopted a range of measures with immediate impact to reduce central government expenditure and increase revenue, which will have a net impact at the 2018 level of around EUR 6.8 billion, i.e. around 3 per cent of GDP, compared with the last central government spending limits decision of the previous parliamentary term.

3 Economic fundamentals

This chapter and Appendix 1 provide a summary of the Ministry of Finance's macroeconomic forecast, on which the General Government Fiscal Plan is based. The Ministry of Finance's macroeconomic forecast is prepared independently in the Ministry's Economics Department. The economic outlook is comprehensively described in the Ministry of Finance's Economic Survey. The Central Government Spending Limits Decision for 2015—2018 (Chapter 5) and the section relating to local government finances (Chapter 6) are based on a forecast prepared in the Economics Department and which was available in the Government negotiations of 24–25 March 2014.

3.1 Economic outlook and general government finances 2015—2018

Economic outlook

World economic growth is slowly returning. Above all, the economies of the USA and the UK are recovering, but economic activity is also strengthening in Germany and Sweden. Economic conditions are being improved by industrialised countries' very light monetary policy and by lighter fiscal policy adjustment than in previous years. Nevertheless, in many industrialised countries private consumption and particularly investment are still at a low level or even contracting. Political uncertainty, which continues to be high, is hampering investment, particularly in Europe. In many emerging economies, growth will be slower than customary in the coming years.

The improvement of the international economy will also lead in time to a recovery in Finland's economy. The recovery in economic growth is expected to be export-led. Domestic demand will fall further in the current year, but in 2015—2016 it will have a more significant role in boosting economic growth. In 2014 Finland's GDP is projected to grow by only 0.5 per cent. In 2015 growth is expected to be 1.4 per cent and to become more broadly based. In 2016 economic growth is expected to be 1.8 per cent.

Subdued domestic economic development will reduce price pressures, and no great cost burden from import prices will be reflected in consumer prices. This year, the inflation rate will average 1.5 per cent and next year 1.7 per cent. Inflation is expected to accelerate to 1.9 per cent in 2016. In the labour market, the situation remains weak. The unemployment rate is projected to remain in the next few years above 8 per cent, despite the fact that macroeconomic activity will pick up. Development of employment will be weakened by labour market compatibility problems, which will remain significant. In the current year, the number of people in employment is expected to decline slightly and the unemployment rate to rise to 8.4 per cent of the labour force. The forecast indicates that the employment situation will not begin to improve until 2015. Growth of the number of people in employment will remain modest, however, at 0.4 per cent, due to improving profitability and the industrial dominance of growth. The unemployment rate will fall only slightly. The improvement in employment will remain slow in 2016, when the number of people in employment will grow by 0.7 per cent, and unemployment rate will fall to 8.1 per cent.

Outlook for general government finances

The weak economic conditions have also been reflected in general government finances, which have long been in deficit. The general government budgetary position is expected to gradually balance towards the end of the forecast period. Although economic growth will accelerate momentarily and adjustment measures will take effect, growth in public spending arising from population ageing will impose pressures on the general government budgetary position. General government debt will rise above 60 per cent of GDP, but the debt ratio will level off gently during the spending limits period.

The general government medium-term budgetary objective was achieved in 2013 and the structural balance (EDP) will be stronger than the medium-term objective from 2015 onwards.

The central government budgetary position will remain clearly in deficit in the next few years, even though the deficit will decline towards the end of the spending limits period. The adjustment measures decided by the Government will reduce the central government deficit. Central government debt to GDP is expected to start to fall in the spending limits period.

Growth in demand for social and health care services as a result of population ageing as well as cutbacks in central government transfers will exert pressure on local government finances. In 2013 the deficit in local government finances was around one per cent of GDP, and it is not expected to decline in the medium term without new measures. Of the subsectors of general government finances, only the financial position of pension providers will be in surplus in the medium term. In the coming years, pressures will be directed at the financial position of pension providers due to growth of pension expenditure. Other social security funds are expected to remain close to balance.

The tax ratio, namely the taxes and social insurance contributions collected by general government relative to GDP, rose last year to 45.5 per cent. The tax ratio was increased by a number of changes to tax criteria. In 2015 the tax ratio will be increased further by, among other things, new changes to tax criteria. Thereafter, the tax ratio is expected to stabilise. The expenditure ratio, namely general government expenditure relative to GDP, was over 58 per cent in 2013. The expenditure ratio will remain at a historically very high level also in the medium term.

Key figures for general government finances according to National Accounts, % GDP

	2012	2013	2014	2015	2016	2017	2018
Taxes and social security contributions	44.0	45.5	45.7	46.0	46.1	46.2	46.2
General government expenditure	56.7	58.4	58.8	58.2	57.9	57.5	57.5
General government net lending	-2.4	-2.4	-2.4	-1.4	-0.9	-0.3	0.0
— Central government	-3.8	-3.7	-3.5	-2.4	-2.0	-1.4	-1.0
— Local Government	-1.1	-0.8	-0.9	-1.1	-1.1	-1.1	-1.1
— Earnings-related pension funds	2.5	2.1	2.1	2.2	2.3	2.2	2.1
— Other social security funds	0.2	0.0	0.1	-0.1	0.0	0.0	0.0
Primary balance	-0.8	-1.1	-1.0	0.0	0.7	1.4	1.8
Structural balance	-1.4	-0.8	-0.9	-0.4	-0.4	-0.2	0.0
Structural balance (EDP)	-1.0	-0.4	-0.7	-0.1	-0.1	0.1	0.3
General government gross debt	53.6	56.9	59.8	61.0	61.4	61.3	61.2
Central government debt	43.6	46.4	48.7	49.3	49.2	48.8	48.3

General government fiscal forecast with unchanged policy

Revenue and expenditure with unchanged policy represent the general government finances baseline scenario before new decisions made by the Government on 24–25 March 2014.

Revenue and expenditure with unchanged policy

	2013 level	2013	2014	2015 % of GDP	2016	2017	2018
Total revenue with unchanged policy	108 327	56.0	56.3	56.5	56.6	56.8	57.0
Total expenditure with unchanged policy	112 218	58.0	58.5	58.5	58.1	57.9	57.9

3.2 Economic restructuring, population ageing and fiscal sustainability in the long term

General government finances are not on a sustainable basis in the long term, even though normalisation of economic conditions and the decided adjustment measures will balance general government finances in the medium term. Demographic change is beginning to be reflected in growth of age-related public expenditure and in a contraction of the working age population. The pressure exerted by population ageing on public finances will continue to be strong for the next two decades.

The Ministry of Finance calculates the effects of population ageing on public spending using the SOME model, developed by the Ministry of Social Affairs and Health. The model can be used to estimate the development of expenditure up to 2060. As source data are used Statistics Finland's 2012 population forecast, age-group distributions of social and health care expenditure, and an assessment of macroeconomic development in the long term.

Pension expenditure is expected to grow by over 2 percentage points to nearly 15 per cent of GDP by 2030, when the number of people over 65 years old in the population is projected to grow by more than 400,000. Expenditure of health care and long-term care will also rise, both by one percentage point of GDP by 2030. Unemployment and education expenditure is expected to remain close to the present level throughout the review period. Age-related expenditure is projected to grow by a total of more than 3 percentage points of GDP by 2030.

Pension expenditure is expected to contract moderately after 2030, as the life expectancy coefficient cuts pensions in accordance with increasing lifespan. Growth of health care and long-term care expenditure, however, is expected to continue through the entire review period as the population structure ages, even though it is assumed that the improving state of health of the elderly will reduce the need for age group-standardised care. Age-related expenditure will grow by 4.4 percentage points of GDP in 2012—2060.

Age-related expenditure can be used to estimate the need to adjust general government finances in the long term, i.e. the so-called sustainability gap. The Ministry of Finance's estimate of the size of the general government finances sustainability gap is 3 per cent of GDP in 2018. Of the sustainability gap, 0.9 percentage points arises from future interest expenditure on current debt and 2.2 percentage points from growth of age-related expenditure. Maintaining the property income of the earnings-related pension system, central government and local government close to its present level relative to GDP will increase the sustainability gap by 1.7 percentage point. The primary budgetary surplus of general government finances, on the other hand, will reduce the sustainability gap by 1.8 percentage points.

The sustainability gap calculation does not take into account the favourable effects on growth, employment and public finances of the measures included in the Structural Policy Programme. Information on the measures is not sufficiently precise to make a reliable impact assessment. The calculation is based on current legislation and on measures already decided.

The sustainability calculation is in nature a scenario calculation, in which development according to current rules is projected to the future with the aid of population forecasts, age group-specific expenditure shares and long-term assessments of economic development. The further forward in time one goes, the greater the uncertainty connected with the calculation. The calculation is therefore sensitive to the assumptions used.

4 Key measures to balance general government finances

4.1 Measures directed at general government expenditure

Government has decided on new adjustment measures for 2015—2018. New expenditure adjustment measures relate particularly to 2015: an additional adjustment of around EUR 1 billion at the 2015 level, rising to around EUR 1.4 billion in 2018. The savings are directed broadly at different types of expenditure and at different administrative branches.

On the other hand, the Government also decided on additional investments to support growth, which will increase central government expenditure by around EUR 300 million in 2015.

Under the Government Structural Policy Programme, the goal is to reduce municipalities' duties and obligations such that local government operating expenditure is reduced by EUR 1 billion by 2017. The impact of savings is also reflected in central government finances through central government transfers.

The above-mentioned items are discussed in more detail in Section 5.3.

4.2 Measures directed at general government revenue

The Government will also implement fiscal adjustment measures in taxation. The adjustment measures cover the entire spending limits period, but the emphasis of the measures is on the first year of the spending limits period. Tax policy measures also include tax reductions, by which the Government aims to support emerging economic growth and the purchasing power of people on the lowest incomes. In the Government spending limits discussion, the Government decided on tax adjustments totalling around EUR 1 billion net at the 2018 level.

The measures that increase general government tax revenue were selected such that they would as little as possible adversely affect employment and the economic activity of businesses. For this reason, taxation was also lightened in a targeted manner. Tax increases will be made in indirect taxes, particularly in taxation of commodities harmful to the environment and health. Taxation will be lightened at the lowest income levels, safeguarding the purchasing power of those on the lowest incomes and boosting financial incentives to participate in the labour market. On the other hand, taxation of earned income will be tightened at the higher earnings levels and in this way the progressivity of earned income taxation will be increased. Similarly, taxation will be increased by increasing the progressivity of capital income tax and the inheritance and gift tax.

To increase tax revenue, tax deductions in income taxation were cut. In addition to tightenings made earlier by the Government, the right to deduct interest paid on home loans will be further limited by five percentage points per year in the spending limits period. The measure will increase tax revenue and will help reduce non-neutrality between ownership and rental housing. The right to deduct expenses for travel between home and workplace will also be reduced by increasing the co-payment portion.

As structural policy measures on the taxation side, measures relating to energy taxation will be implemented by reducing some tax subsidies and by increasing environmentally-based taxes. Energy tax subsidies for mining activity will be abolished and the tax-free status of liquefied petroleum gas discontinued. The car tax reductions on taxis (excluding specially equipped taxis) and on cars imported as removal goods will be abolished. The carbon dioxide tax on heating, power plant and working machine fuels and also the electricity tax will be increased. On the other hand, the 2015 tax increase on peat, decided earlier, will be cancelled.

With respect to indirect taxes, increases will be made in excise duties of tobacco products, and the motor vehicle tax for cars and vans will also increased. In addition, the waste tax will be increased.

The real-estate tax will be increased by raising the lower and upper limits of tax rates of the general real-estate tax and the real-estate tax for permanent residential buildings. The tax percentage increases will give municipalities the opportunity to increase real-estate tax rates themselves, while for some municipalities the increases will mean a compulsory raising of tax rates. The central government transfer for basic public services will be correspondingly reduced.

In line with an earlier decision, the Government will support local government finances in 2015 with a fixed-term five percentage point increase in the corporate income tax apportionment. The Government has compensated municipalities in full for the effects of tax criteria changes impacting corporate income tax revenue. For example, the reduction of the corporate income tax rate will not reduce municipalities' corporate income tax revenue, because the municipalities' share of the tax revenue was correspondingly increased. The municipalities will be able to benefit in full from any positive tax revenue effects generated by lowering the tax rate.

Tax criteria changes made to earned income and real-estate taxation will not affect municipalities' revenue development, because central government transfers will be adjusted to correspond with the tax revenue effects. A monetary sum corresponding to the increase in social and health care customer fees will also be deducted from central government transfers to municipalities. The additional tax revenue obtained from the increase in the waste tax will not be transferred to the municipalities.

The Government has already prepared a detailed programme for 2012—2015 to combat the shadow economy (see Enhanced Action Programme on the Shadow Economy and

Financial Crime). The measures are aimed at reducing opportunities to engage in criminal activity, increasing the probability of being apprehended and improving the authorities' reaction preparedness in uncovering the shadow economy. At the same time, legal business activity and healthy competition will be supported. The programme also aims to increase tax revenue.

4.3 Structural policy measures

On 29 August 2013, the Government decided on a Structural Policy Programme and set the objectives for it. On 29 November 2013, the Government specified the details of the programme and decided on its implementation. Government has further decided to supplement its earlier decisions and to steer the implementation [4] of the programme as part of the General Government Fiscal Plan.

The goal of the Structural Policy Programme is to remove the sustainability gap. Economic growth and structural reforms supporting growth are the key to sustainable public finances. The removal of the general government sustainability gap will require both economic growth and the implementation of the Structural Policy Programme in its entirety in a manner set by the Government as a target.

The programme includes key elements for the reform of economic structures in a manner that supports economic growth and the sustainability of public finances. In the programme, the goal of closing the entire sustainability gap is divided into subgoals relating to 1) local government finances, 2) improving the productivity of public services provision, 3) working careers and supply of labour, 4) structural unemployment and 5) the output potential of the whole economy.

Measures aimed at balancing local government finances consist of reducing municipalities' duties, municipalities' own measures to reduce expenditure and improve operational productivity, increases in fees and taxes, and a new steering system for local government finances. These measures should strengthen the budgetary position of local government finances by EUR 2 billion at the 2017 level and reduce the sustainability gap by one percentage point.

The growth target for the productivity of public service provision includes the assumption that, as a result of reform of the social and health care service structure and a more efficient division of labour, the net increase in personnel required in the provision of public services would remain at 1,000 people per year instead of the previously estimated 3,000 people. This would mean growth of productivity of one half of one per cent per year in public services provision, which would reduce the sustainability gap by 1.4 percentage points.

With respect to working careers and supply of work, the aim is to extend working careers by two years with the aid of pension reform and through other measures directed at the start of working careers and breaks in working careers. Social partners have committed to

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[4] Government decision on implementing the Structural Policy Programme as part of the General Government Fiscal Plan (in Finnish)
http://valtioneuvosto.fi/tiedostot/julkinen/kehysneuvottelut-2014/paatos/fi.pdf

finding a negotiated solution on pension reform that will increase the average retirement age at least to 62.4 years by 2025 and reduce the general government sustainability gap by just over 1 percentage point. Overall, the aim of measures directed at working careers and the supply of work is to reduce the sustainability gap by 1.4 percentage points.

The programme aims to reduce structural unemployment by one percentage point, which would reduce the sustainability gap by 0.3 percentage points. Measures will be directed at the activation and rapid employment of the unemployed and at increasing incentives to work.

The programme aims to increase the output potential of the economy by 1½ per cent, which would reduce the sustainability gap by 0.6 percentage points. The output potential of the whole economy and re-allocation of resources will be strengthened by promoting healthy competition, securing Finland's status as an investment location, enhancing the functioning of the commodity and housing markets, and reducing regulation of business. Other measures, together with the labour market settlement agreed in autumn 2013 that will improve cost-competitiveness, will create an opportunity for faster than anticipated growth in the long term.

The preparation and implementation of the programme have advanced in accordance with check marks set by the Government. The Government will monitor the implementation of the Structural Policy Programme in the summer 2014 budget discussion and will decide, if necessary, on additional measures to ensure that the programme is implemented in the manner decided by the Government in August 2013. If measures call for an increase in appropriations, the increases will be implemented through re-allocations within the framework of the central government spending limits.

Section 5.3 examines in more detail the measures of the Structural Policy Programme and the taking of them into account in the Central Government Spending Limits Decision and the Basic Public Services Programme.

4.4 Summary of adjustment measures decided during the current parliamentary term

Government Programme outlined adjustment measures rising to EUR 2.5 billion at the 2015 level. These measures were specified in more detail in the Government's first spending limits decision. Following a deterioration in the economic outlook, it has become clear that new adjustment measures are needed. New measures were decided on in spring 2012, in spring 2013 and now again in the spring 2014 spending limits decision.

Overall, the Government has decided on measures that will strengthen central government finances by 2.8 per cent of GDP in 2015, with the point of comparison being the final spending limits decision of the last parliamentary term. This is a net estimate of the current parliamentary term's discretionary measures, including both expenditure cuts and tax increases as well as additional expenditure and tax reductions. On the general government level, the adjustment measures are greater than at the central government level, which is due to increases in social security contributions.

In the years following the current parliamentary term, adjustment measures will continue to have an impact, due, for example, to the gradual entry into effect or phasing of measures as well as the ending of fixed-term measures. At the 2018 level, the adjustment measures will strengthen central government finances by around 3 per cent of GDP.

Magnitude of adjustment measures, EUR billion

	2012	2013	2014	2015	2016	2017	2018
Measures affecting central government tax revenue	0.0	1.4	1.3	2.2	2.7	2.7	2.7
Central government appropriation savings	0.0	0.4	0.9	3.2	3.3	3.6	3.8
Revenue assumed from combating the shadow economy	0.0	0.1	0.2	0.3	0.3	0.3	0.3
Central government adjustment, total	**0.0**	**1.9**	**2.4**	**5.7**	**6.3**	**6.6**	**6.8**

5 Central Government Spending Limits Decision 2015—2018

To ensure a prudent, long-term spending policy that promotes economic stability, the Government is committed to a spending limits procedure for central government finances. The current spending limits decision is based on the spending limits for the parliamentary term decided by the Government on 27 March 2013 (supplemented on 8 April 2013), which is revised for 2015—2018.

The appropriation and revenue estimates of the spending limits decision as well as price- and cost-level adjustments of the spending limits are based on a forecast prepared in the Economics Department and which was available in the Government negotiations on 24–25 March 2014. New decisions, relating particularly to taxation, made in the negotiations have been taken into account in the latest forecast, which is presented in Chapter 2 and in Appendix 1. The altered calculation bases will be taken into account in appropriation and revenue estimates and in price- and cost-level adjustments of the spending limits in summer 2014 in connection with the preparation of the 2015 budget proposal.

5.1 Central government spending limits rule

The central government spending limits system is based on the real, binding overall framework set for the duration of the parliamentary term, to which only the required price- and cost-level adjustments and structural corrections are made. The spending limits system is based on ex ante examination, i.e. it restricts the level of expenditure budgeted in the central government budget.

The spending limits procedure sets a maximum amount for around 80 per cent of on-budget expenditure. Expenditure that changes according to cyclical conditions and automatic stabilisers, such as unemployment security expenditure, pay security, housing allowance and the central government contribution to social assistance expenditure, remains outside the central government spending limits. However, expenditure effects generated by changes in the criteria for these items are included within the spending limits. In addition, interest payable on central government debt, value-added tax expenditure, financial investment expenditure and expenditure corresponding to technically transmitted payments, for example, also remain outside the spending limits. The spending limits, moreover, do not cover central government off-budget funds.

The spending limits also cover supplementary budgets, for which a certain portion of the spending limits, the so-called supplementary budget provision, has been reserved. In the annual spending limits decisions, spending frameworks are given to the administrative branches, but only the overall framework for the parliamentary term, namely the spending ceiling, is binding. Reallocations can be made between administrative branches. Alongside the supplementary budget provision, there remains between the parliamentary term spending limits and administrative branch-specific frameworks an unallocated provision to be allocated later.

If annual proceeds from the sale of shares exceed EUR 400 million, a maximum of EUR 150 million of the excess can be used for one-off infrastructure and skills investments to support sustainable growth. Proceeds accruing to central government from the auction of emissions allowances can be used without reference to the spending limits for one-off expenditure on climate measures and development cooperation.

If the level of expenditure falls below that specified in the spending limits after supplementary budgets, the difference, to a maximum of EUR 200 million, may be used for one-off expenditure in the following year without reference to the spending limits.

5.2 Central government spending limits

In the first spending limits decision of the parliamentary term, dated 5 October 2011, the Government agreed on additional investments and savings that would reduce the level of spending limits expenditure by a total of around EUR 1.2 billion in 2015 compared with the March 2011 spending limits decision. In the spring 2012 spending limits decision for 2013—2016, the Government implemented additional adjustment measures that lowered the level of spending limits expenditure by around a further EUR 1.2 billion at the 2015 level. As a result, the overall and annual spending limits levels of the parliamentary term were revised downwards by an amount equivalent to the additional expenditure cuts (excluding index-freeze savings, which reduce the price adjustment). The spring 2013 spending limits decision for 2014—2017 implemented additional adjustment measures and the 2015 spending limits level was reduced by EUR 450 million. Spending limits can be revised downwards, but not upwards, during the parliamentary term without this undermining the credibility of the spending limits system.

In the spending limits decision for 2015—2018, the Government implements new expenditure savings. The decisions will lower the level of 2015 spending limits expenditure by around EUR 810 million, of which savings relating to index increases amount to around EUR 120 million, reducing the spending limits price adjustment. The overall spending limits level of the parliamentary term will therefore be lowered by EUR 690 million for 2015.

The 2015 unallocated provision is at this stage technically negative, i.e. EUR -65.8 million. This is due to the fact that the Government has decided to cover its growth package with income from the sale of shares, of which a maximum of EUR 150 million from the portion exceeding EUR 400 million can, according to the Government Programme, be included on top of the spending limits. Of the increase in spending limits expenditure caused by the growth package, EUR 150 million will be covered by income from the sale of shares still to be recognised in 2014 in accordance with the above-mentioned spending limits rule. When the recognition of income from the sale of shares takes place, the negative provision presented now will actually correspond to a positive unallocated provision of around EUR 84 million.

Price and cost-level adjustments, and structural changes

The parliamentary term spending limits level is adjusted annually to reflect structural changes in the spending limits as well as changes in price levels.

The 2015—2018 spending limits decision is prepared at 2015 prices. Estimates of statutorily index-linked expenditure should be increased by a total of around EUR 290 million in line with index change forecasts. However, the following are taken into account in the 2015 index increase:

— the freezing of the child allowance index increase decided for the parliamentary term (saving around EUR 24 million in 2015)

— as a new savings measure, the raising of appropriations statutorily linked to the indices for national pensions (KEL) and employees’ pensions (TyEl) by 0.4 per cent instead of by the indices (saving in spending limits expenditure around EUR 106 million in 2015)

— halving of the index increase for the funding of the activities of universities and universities of applied (saving around EUR 17 million in 2015).

Statutory index adjustments will therefore total EUR 147 million in 2015. The overall level of the parliamentary term spending limits is adjusted accordingly.

The overall spending limits level is also adjusted to reflect contractual index increases in the Defence Forces of around EUR 17 million. With respect to defence materiel, an index increase will not be made in 2015 (saving around EUR 6 million).

In addition, spending limits expenditure that does not come under statutory or contractual indexation rules is adjusted to 2015 price and cost levels according to the weighting structure of the relevant type of expenditure, i.e. each expenditure item is adjusted using the most appropriate index forecast (total adjustment EUR 145 million). The price- and cost-level adjustments for 2015 are examined in more detail in Appendix 2.

In addition, the 2015 spending limits level will be adjusted to reflect structural changes made to the spending limits. All structural adjustments to the spending limits are presented in Appendix 2.

Revised parliamentary term spending limits for 2015 (at 2015 prices), EUR million

	2015
Revised parliamentary term spending limits 27 March 2013, at 2014 prices	**42 259**
Reduction of overall spending limits as part of adjustment measures	-690
Price- and cost-level adjustments made in connection with the 2014 Budget	-124
Price- and cost-level adjustment of transfer to 2015 price level	309
2014—2015 structural changes	130
Revised parliamentary term spending limits	**41 884**

Development of spending limits expenditure 2015—2018

The level of spending limits expenditure in 2015 amounts to around EUR 41.7 billion, which is around EUR 650 million less than budgeted for 2014. By the end of the spending limits period, spending limits expenditure will fall to around EUR 41.4 billion. Compared with the spring 2013 spending limits decision, spending limits expenditure for 2015—2017 will be on average around EUR 0.3 billion per year lower. The reduction of spending limits expenditure is explained by additional savings decided on by the Government. On the other hand, a change in price level increases expenditure, in addition to which certain needs estimates (e.g. EU payments) have been adjusted to higher figures than estimated in the previous spending limits decision.

Overall, administrative branch expenditure will fall in real terms during the spending limits period 2015—2018 by an average of just over 1 per cent per year when structural changes have been taken into account. Nominally, administrative branch expenditure is expected to grow on average by around ½ per cent per year. When all expenditure is taken into account (including debt interest expenditure), the expenditure level will fall in real terms on average by around ½ per cent per year. Nominally, expenditure will grow by an average of just under 1 per cent per year.

Expenditure outside the spending limits

Expenditure outside the spending limits is expected to be around EUR 11.7 billion in 2015, which is just under EUR 100 million more than expenditure outside the spending limits budgeted for 2014. Unemployment security expenditure will rise from the 2014 level, even though the transfer of labour market support funding and activation responsibility to the municipalities from 2015 will reduce central government unemployment security expenditure. Interest expenditure on central government debt will also rise compared with 2014.

Expenditure outside the spending limits will vary annually during the spending limits period 2015—2018 from around EUR 11.3 billion (in 2016) to around EUR 11.9 billion (in 2018). Interest expenditure on central government will rise during the spending limits period from around EUR 1.9 billion in 2015 to around EUR 2.9 billion in 2018. The increase is explained by an anticipated rise in interest rates during the spending limits period and by growth of the debt portfolio arising from the development of the central government deficit. On the other hand, financial investment expenditure will decline during the spending limits period, as the growth package targeted at the early years of the spending limits period is removed from appropriations and export refinancing appropriations are, in practice, removed from central government on-budget finances after 2015. Annual revenue from the bank tax is estimated at around EUR 133 million. The corresponding deferrable appropriation is assumed to be an expenditure item outside the spending limits.

Compared with the previous, spring 2013 spending limits decision, expenditure outside the spending limits is now annually on average around EUR 280 million higher. For example, cyclical unemployment security, housing allowance and similar expenditure is annually around EUR 250–310 million higher. This is due both to a deterioration of the cyclical economic forecast and Government-decided changes to the criteria for unemployment security and the housing allowance (with respect to these the spending limits have been reduced accordingly). On the other hand, compensation to municipalities for tax revenue changes is clearly on a lower level than the previous spending limits decision, due to new tax criteria changes and revised calculations.

Central government spending limits by administrative branch and estimate of expenditure outside the spending limits in 2015—2018, EUR million at 2015 price and cost levels

	2015	2016	2017	2018
23. Prime Minister's Office	83	89	88	86
Estimate of expenditure outside spending limits	6	6	6	6
Total	**88**	**95**	**94**	**92**
24. Ministry for Foreign Affairs	1 135	1 146	1 156	1 184
Estimate of expenditure outside spending limits	26	27	27	27
Total	**1 162**	**1 172**	**1 183**	**1 211**
25. Ministry of Justice	846	835	829	852
Estimate of expenditure outside spending limits	57	57	57	57
Total	**902**	**892**	**886**	**909**
26. Ministry of the Interior	1 147	1 152	1 148	1 140
Estimate of expenditure outside spending limits	72	74	71	71
Total	**1 219**	**1 226**	**1 219**	**1 211**
27. Ministry of Defence	2 355	2 387	2 335	2 338
Estimate of expenditure outside spending limits	332	335	323	324
Total	**2 687**	**2 722**	**2 658**	**2 662**
28. Ministry of Finance	15 188	15 488	15 293	15 334
Estimate of expenditure outside spending limits	1 699	1 735	1 747	1 760
Total	**16 887**	**17 223**	**17 041**	**17 094**
29. Ministry of Education and Culture	6 083	6 134	6 022	6 008
Estimate of expenditure outside spending limits	684	562	565	567
Total	**6 767**	**6 696**	**6 587**	**6 574**
30. Ministry of Agriculture and Forestry	1 725	1 620	1 641	1 645
Estimate of expenditure outside spending limits	951	868	888	893
Total	**2 677**	**2 488**	**2 529**	**2 537**
31. Ministry of Transport and Communications	1 966	1 827	1 771	1 768
Estimate of expenditure outside spending limits	874	909	871	869
Total	**2 840**	**2 736**	**2 642**	**2 637**
32. Ministry of Employment and the Economy	2 285	2 022	2 089	2 100
Estimate of expenditure outside spending limits	1 007	437	490	417
Total	**3 292**	**2 458**	**2 578**	**2 516**
33. Ministry of Social Affairs and Health	8 552	8 587	8 594	8 628
Estimate of expenditure outside spending limits	4 099	4 102	4 083	4 021
Total	**12 651**	**12 689**	**12 677**	**12 649**
35. Ministry of the Environment	216	193	190	189
Estimate of expenditure outside spending limits	12	12	12	12
Total	**227**	**205**	**201**	**201**
36. Interest on central government debt	-	-	-	-
Estimate of expenditure outside spending limits	1 869	2 120	2 458	2 851
Total	**1 869**	**2 120**	**2 458**	**2 851**
Administrative branch spending limits, total[1]	**41 750**	**41 645**	**41 310**	**41 397**
Estimate of expenditure outside spending limits, total	11 704	11 260	11 614	11 886
Main titles, total	**53 454**	**52 905**	**52 924**	**53 283**
Parliamentary term spending limits	**41 884**			
— Administrative branch spending limits, total[1]	41 750			
— Supplementary budget provision	200			
— Unallocated reserve	-66			

[1] Main titles 21 and 22 are included in the total

5.3 Spending limits policies 2015–2018

Structural Policy Programme

Those measures of the Government's Structural Policy Programme about whose manner of implementation and effects precise information and reliable estimates are already available have been included in the spending limits decision. Partly the preparation of the measures is incomplete, in which case there is still insufficient information about their implementation to produce proper cost and impact assessments. In the expenditure estimates of the spending limits decision, the aim has been to be realistic, because in the spending limits decision the year 2015 falls within the scope of the current parliamentary term's spending rule and years 2016—2018 form the foundation for the decisions of the next parliamentary term (so-called technical spending limits). In practice, savings impacts sought in the Structural Policy Programme can be included in the spending limits and budget proposals as soon as sufficiently accurate information about the measures and reliable estimates of their impacts is obtained.

Structural policy measures budgeted in the spending limits decision increase central government expenditure in 2015—2016 by around EUR 70–90 million per year. At the 2017 level, the impact of the programme on central government expenditure will be effectively zero, because expenditure-increasing measures in 2017 total around EUR 240 million, the same level as expenditure-reducing measures.

Labour market and working careers

— Measures aimed at raising the employment rate are directed at extending working careers and reducing unemployment. In the adjustment of unemployment benefit, a EUR 300 protected component has been introduced and the adjusted daily allowance has been changed so that the allowance plus child increments together with earned income can be at most 100 per cent of the pay that is the basis for unemployment benefit. In addition, the waiting period for unemployment benefit has been shortened from seven days to five days.

— A EUR 300 protected component without any employment or fixed-period conditions will be introduced in the housing allowance. The reform will be implemented from 1 September 2015. Central government expenditure will increase in 2015 by EUR 8 million and thereafter by EUR 30 million per year. Central government social assistance expenditure is accordingly assumed to fall by around EUR 5 million per year.

— The offering of work and activation measures and the sanctions for refusing them will be comprehensively implemented in all the areas of Centres for Economic Development, Transport and the Environment.

— A number of measures relating to the implementation of employment policy and to labour legislation have been prepared in cooperation with social partners. These measures will contribute to the functioning of the labour market and are aimed at reducing the structural unemployment rate and boosting service efficiency. In connection with the package of measures, a number of legislative amendments will be prepared, which will come into force on 1 January 2015. The reforms concern, for example, the long-term employment subsidy, social companies, Employment Service Centres, the wage subsidy and the municipalities' responsibility for arranging and funding the labour market support of the long-term unemployed. The measures relate in many respects to a larger package, with a longer time span, which will include the reform of the negotiation system and pension solutions.

— Conditions for access to job alternation leave will be tightened from the beginning of 2015.

— Funding will be allocated to the proposals of the working group promoting the employment of people with partial work ability, such that the central government's share of sickness insurance expenditure will increase by EUR 5.3 million in 2016, EUR 18.8 million in 2017 and EUR 29.1 million in 2018.

— To improve the employment opportunities of young people, the implementation of the youth guarantee will be enhanced and the age of compulsory schooling raised to 17 years from 2015, as a result of which central government transfers for general education and vocational upper secondary education and training will be increased by a total of EUR 5.6 million per year and funding allocated to transport aid for students by EUR 0.9 million in 2015 and by EUR 1.6 million from 2016 (for implementation of youth guarantee, see also Section 5.3.1 Administrative branch of the Ministry of Education and Culture).

— Pre-school education will be made compulsory.

— To accelerate the transition to tertiary education, the student selection system will be reformed and tertiary education starting places increased for a fixed term in 2014—2016. In the current year and during the spending limits period, funding directed at clearing the application backlog will total EUR 103.5 million and after the spending limits period EUR 20 million. The objective is to increase tertiary education starting places for a fixed-term by a total of around 3,000 in 2014—2016. Starting place additions will be targeted in line with forecasts at sectors where there is demand for labour and which are important in terms of future growth potential.

— To accelerate graduation times, universities and universities of applied sciences will be encouraged to arrange all-year-round study opportunities, and the significance of the proportion of students gaining more than 55 study credits per year will be increased in the criteria for determining the funding of tertiary education establishments.

— The right to day care will be limited to part-time for those children who have a parent at home on maternity, paternity, parental or child-care leave or home-care allowance. The home-care allowance will be directed to the parent caring for the child and the right to the allowance will be divided into half for both parents. In 2016 the central government transfer is expected to decrease by EUR 4 million and correspondingly in 2017 by EUR 15 million. The reform will be fully in force from 2018, at which time the central government transfer will decrease by EUR 19 million. Local government expenditure is expected to decline by EUR 64 million from 2018. The reform will increase day-care expenditure from 2018 by an estimated just over EUR 130 million, of which the central government transfer to local government will be EUR 39 million. In relation to the limitation of subjective day-care, central government transfers will be reduced by EUR 7 million from 2015. In addition, the maximum fee for day-care will be raised. Reform of the home-care allowance is expected to increase central government unemployment security expenditure by EUR 9 million in 2016, EUR 36 million in 2017 and EUR 45 million from 2018.

Competitiveness, renewal and growth of the economy

— The reform of business subsidies has taken into account environmentally harmful subsidies, which will be reduced. The key objective of business subsidies will be economic and industrial restructuring as well as the directing of business subsidies more strongly at activities supporting growth and internationalisation of enterprises and enhancing conditions for R&D&I activity.

— Housing construction will be support with fixed-term start-up assistance related to the 20-year loan guarantee model in the Helsinki Metropolitan Area until the end of 2015. The cost to the National Housing Fund is estimated at just over EUR 2.5 million per year. In addition, a new 20-year interest-subsidy model will be implemented with site-specific restrictions outside the not-for-profit housing legislation.

— To improve conditions for housing construction in the Helsinki region, the central government will withdraw its activities from Helsinki-Malmi Airport, to enable the area to be taken into residential use by the beginning of the 2020s at the latest.

Productivity of public services provision

— The reform of social welfare and health care is expected to result in a clear improvement in the productivity of local government finances. A permanent slowing of the rate of increase of costs will require strong national steering, which is also included in the new system.

— A notional increase corresponding to index increases of premises expenditure will be made annually to agencies' operating expenditure appropriations. Thereafter, appropriation reductions representing 0.5 per cent productivity growth compared with the current level will be made annually to operating expenditure appropriations. Due to the Defence Forces reform, a reduction will not be applied to the Defence Forces' operating expenditure appropriations during the spending limits period.

— During the spending limits period, the development of the national service architecture will continue. The package includes the following items: a National Service Channel, a national electronic identification solution, national solutions for managing the roles and authorisations of business, other organisations and natural persons, common service perspectives (for citizens, companies and authorities) as well as steering and management models. The objective is that, at the beginning of the spending limits period, citizens will have the opportunity to examine their own key information through the service channel and, at the end of the spending limits period, for the service channel to be widely used. The promotion of the information security culture and the implementation of the SecICT project will be continued.

— The clarification of information management structures will continue. The establishment of an Information Management Development Agency will be explored and the transfer of sector-independent ICT duties of central government agencies and institutions to the Government ICT Centre Valtori will be continued.

— The phased opening up of public sector information resources will be promoted. By extensively opening up different types of information resources, the Government is seeking to stimulate economic and social impacts and to improve the functioning of civil society, democracy and public sector productivity. In the spending limits period, the opening up process will continue with the partial opening of, among others, food composition data, cultural heritage data and Statistics Finland data, for example postcode areas. Through earlier decisions, terrain data, weather, climate and sea data as well as transport and communications data, for example, have been opened. A supplementary appropriation totalling EUR 1.2–4.2 million annually will be allocated for this purpose, and the funds will be directed to the Tax Administration, Statistics Finland, the Population Register Centre, to joint expenditure of tertiary education establishments, the Arts Promotion Centre Finland, the Governing Body of Suomenlinna, the National Audiovisual Institute, the Finnish Transport Safety Agency, the Radiation and Nuclear Safety Authority and the National Institution for Health and Welfare.

Programme to reduce local government duties and obligations

In accordance with the Structural Policy Programme, obligations prescribed on the basis of municipalities' statutory duties will be reduced, with the aim of achieving a total reduction of EUR 1 billion in the operating expenditure of municipalities and joint municipal authorities at the 2017 level.

In connection with the preparation of the spending limits decision, the situation of the implementation of Structural Policy Programme measures and their cost impacts on central and local government finances have been assessed. Proposals made by the ministries can be divided roughly into two groups:

1. Proposals that can be implemented through clear legislative changes or by other central government measures that directly affect municipalities' activities and costs.
2. Proposals whose impact cannot at present be sufficiently reliably demonstrated due, for example, to the fact that with respect to these proposals there are no effective legislative changes or corresponding central government measures directly steering municipalities' activities.

The preparation of proposals in Group 2 are incomplete and/or, in respect of them, a real reduction of municipalities' costs will substantially depend on measures of municipal actors within the sphere of local autonomy, and whose implementation and impacts can only be assessed later.

Group 1 proposals have so far been included within the central government spending limits. According to a preliminary notional estimate, they cover a good third of the desired EUR 1 billion savings at the 2017 level. Government bills relating to the decided changes will be submitted to Parliament in autumn 2014. The following measures particularly concern the aforementioned Group 1 issues:

— The funding system and provider network for upper secondary education will be reformed. Determination of funding based on actual costs will be discontinued and the total amount of central government funding allocated to upper secondary education will be changed to be based on a budget, as is already the case for universities and universities of applied sciences. In connection with the reform of the funding system, additional funding for general upper secondary education's special needs educational role will be halved and central government funding of the working life development and service role will be abolished from 2015. From 2017 central government transfer funding for general upper secondary education studies with respect to those who have passed the matriculation examination will be stopped, central government transfer funding granted to educational providers for students seeking a general level upper secondary or vocational education and training qualification will be limited to a maximum of three years, central government funding for education, or part thereof, not leading to a vocational further education and training qualification will be abolished, and funding of specialised vocational education and training institutions in its present form will be discontinued. By amending statutes, those who have already gained an upper secondary vocational qualification will be directed to education preparing for a competence-based qualification. Funding of education leading to a qualification or part of a qualification arranged by the Finnish Aviation Academy and specialised vocational education and training institutions will be transferred to be part of the funding of vocational further education and training. The new criteria for determining funding will be applied for the first time when determining funding for 2017. The reforms will implement a reduction of public funding totalling EUR 260 million, of which EUR 8 million in 2015—2016 and EUR 100.5 million from 2017 has been taken into account in the spending limits as a reduction of central government transfers to local government.

— Special needs assistants will be partly included in the teacher-student ratio in central government funding criteria, and as a result of this local government expenditure will be reduced by EUR 10 million and central government transfers by EUR 3 million from 2017.

— The minimum group size for teaching of subjects other than Evangelical-Lutheran and Orthodox religion and ethics will be adjusted, which will reduce local and central government expenditure to some extent from 2015. Central government transfers will be reduced by around EUR 0.4 million from 2015.

— Central government funding of liberal adult education will be reduced by EUR 10 million from 2015 and by EUR 18.5 million at the 2017 level. To facilitate corresponding cost savings, a comprehensive reform of the structure and finding system of liberal adult education will be implemented.

- As a result of the structural reform of municipalities and regions, the number of regional libraries will be reduced from 1 January 2016.
- A municipality's obligation to arrange work opportunities for unemployed job seekers will be removed when a region's unemployment rate is higher than the rest of the country. Central government expenditure will be reduced by EUR 0.8 million and local government expenditure by an estimated EUR 2.6 million.
- The validity period of prescriptions and the interval between dental care checks for adults will be lengthened through limits to be determined at a later date, but as a rule at least to two years. The changes will be implemented by decree during 2014. At the 2017 level, local government expenditure is expected to decline by around EUR 18 million.
- Calculation and payment of basic social assistance will be transferred to become a duty of the Social Insurance Institution of Finland KELA from the beginning of 2017. Local government expenditure is expected to decline by EUR 79 million. The central government transfer to local government will be reduced by EUR 39.5 million per year. Reducing the under-utilisation of social assistance will cut the saving gained. Basic social assistance benefit expenditure is expected to grow, such that the central government transfer directed to costs will grow by EUR 20 million. In addition, KELA administrative expenses compensated by the central government will rise by an estimated EUR 20 million.
- Shelters will be transferred to the responsibility of central government from the beginning of 2015, in relation to which a separate EUR 8 million in central government transfer funding will be allocated to the administrative branch of the Ministry of Social Affairs and Health. Half of the additional funding will be implemented as a transfer from the central government transfer appropriation for basic public services.
- Based on the Government Programme, an annual appropriation of around EUR 13 million, of which EUR 4 million will remain unused as a savings measure, has been allocated in the spending limits decision to the development of social and health care services.
- The investment grant authorisation for special groups will be raised by EUR 20 million in 2016, EUR 40 million in 2017 and EUR 20 million in 2018. This will promote, among other things, the reduction of institutional care for the elderly by improving conditions for the elderly to live at home by increasing the supply of sheltered housing.

In addition to these measures included in the spending limits, the Government will continue preparation of the measures relating to the reduction of duties and obligations decided on in the Structural Policy Programme. The changes will be taken into account in the justifications in the Act on Central Government Transfers. The required legislative proposals will be submitted to Parliament no later than the autumn session 2014. The following measures particularly concern the Group 2 issues still to be prepared:

- Arranging the centralised procurement of teaching materials in general education and shifting towards digital materials

- Easing eligibility requirements.
- Reducing institutional care in the care of the elderly; the goal is through various measures, particularly with the aid of a quality recommendation given to ensure good ageing and improve services and, if necessary, a revision of the Act on Care Services for the Elderly to accelerate the transition to appropriate home care in terms of conditions and services, such that local government expenditure declines relative to the now estimated spending limits by EUR 300 million in 2017.
- Reform of the emergency care system; the Ministry of Social Affairs and Health's Decree on criteria for urgent care and speciality-specific requirements for emergency care will be revised and, if necessary, Government decrees referred to in Sections 34 and 43 of the Health Care Act issued, such that the present basic health care round-the-clock emergency, maternity and surgical units are centralised into larger entities, with the aim of reducing local government expenditure by around EUR 60 million in 2017.
- Archiving of patient data in paper form will be discontinued; sufficient information technology capacity and the necessary support of municipalities will be ensured to implement the change.
- Reduction of planning obligations and norm-related recommendations and reassessment of supervision duties; survey and evaluation work will be continued, which will facilitate decision-making from 2014.
- For the easing of eligibility requirements, municipal actors will also be encouraged to check divisions of responsibilities and job descriptions particularly when public positions and jobs are filled. The aim is for more demanding duties than before to be directed to those possessing lower-level qualifications. To facilitate this, the Ministry of Social Affairs and Health will consider, by autumn 2014, proposals on amending the Act on Health Care Professionals and the Act on the Qualification Requirements of Social Services Personnel as well as on amending decrees issued pursuant of these acts, such that, for example, eligibility of nurses in respect of prescriptions is expanded to a limited extent. The easing of eligibility requirements will also be examined in the administrative branch of the Ministry of Education and Culture in accordance with the objectives of the Structural Policy Programme.
- Reduction of obligations to give public health care certificates only to those that are compulsory.
- Developing the integration of basic health care, specialised health care and social welfare. Reform work will be based on a model in which the responsibility to arrange social and health care services is centralised mainly in five specific catchment areas. This reform will bring to the local government sector significant potential for efficiencies and thereby significant costs savings for the whole of public finances without compromising quality of care and nursing.

Other measures in the Structural Policy Programme also fall within the sphere of the reduction of municipalities' duties and obligations. The Rescue Service will be reorganised, with the aim of saving EUR 7.5 million in local government finances. In addition, the intention is to bring building supervision duties into larger, supramunicipal units, for environmental protection duties and operating practices to be reformed, and for food supervision to be eased, while at the same time increasing the charges levied for these activities. Preparation of these measures is also partly incomplete and/or the actual cost reduction in respect of them is significantly dependent on municipalities' own measures.

Local government finances are also discussed in Chapter 6, Steering of local government finances 2015—2018.

New central government expenditure savings

New adjustment measures included in the spending limits decision will reduce central government expenditure by a net amount of around EUR 1 billion in 2015. By 2018 the net savings will rise to around EUR 1.4 billion. The legislative proposals required as a result of the adjustment will be submitted to Parliament during autumn 2014.

The expenditure savings are permanent and are widely directed at the administrative branches of different ministries, for example at:

- Support for political party activities, a total saving of EUR 2 million, of which the party subsidy EUR 1 million and communications support EUR 1 million.
- Development cooperation, 2015 saving EUR 53 million, rising to EUR 101 million in 2018.
- Military and civilian crisis management expenditure, 2015 saving a total of EUR 9 million, rising to EUR 15 million in 2018.
- The Construction Establishment of the Defence Administration, whose premises management and maintenance activities will be reformed, such that a EUR 7 million saving arises in the administrative branch of the Ministry of Defence.
- Financing for the founding of educational establishments, in which the central government will not participate in future, a saving of EUR 12-22 million during the spending limits period.
- Discretionary government transfer for improving the quality of basic education, a EUR 57 million saving.
- Research appropriations of the Academy of Finland, annual funding authorisation will be reduced by EUR 20 million in 2015 and 2016 as well as by EUR 10 million from 2017.
- Index increase for universities and universities of applied sciences, which will be halved in 2015, saving EUR 16.5 million.
- Student grant and housing supplement, whereby the studies for a second same-level qualification in tertiary education will not be supported from 1 August 2015, saving around EUR 2 million in 2015, rising to around EUR 11 million in 2018.
- Rental subsidy for student housing foundations and Student Health Service, saving EUR 5.9 million.
- Art and culture, saving EUR 5–15 million.

- Agriculture and forestry, for example national aid and the small-sized thinning wood energy subsidy, saving EUR 21.3 million.
- Central government grants for water supply and environmental projects, which will be discontinued; the saving in the administrative branches of Ministry of Agriculture and Forestry and the Ministry of the Environment will rise to a total of EUR 10 million in 2017 and 2018.
- Transport infrastructure funding, saving EUR 100 million.
- Purchase and development of public transport services, saving EUR 5 million.
- Operating expenditure of (ELY) Centres for Economic Development, Transport and the Environment, saving EUR 5 million in 2016 and EUR 11 million from 2017.
- Support for research, development and innovation activity, EUR 25 million authorisation cut.
- Support for businesses' investment and development projects, focusing on abrupt structural change, EUR 17 million authorisation cut.
- Labour policy funding, saving EUR 50 million.
- Earnings-related unemployment security. Provisions will be amended, such that central government expenditure falls by EUR 50 million at the 2015 level. The amendments will be prepared in cooperation with social partners with the goal of directing the saving at those receiving the highest unemployment benefits.
- Regional development funding, which will be abolished, saving EUR 4.6 million.
- Energy subsidy, EUR 5 million authorisation cut.
- Child allowances, saving EUR 110 million, including impact on social assistance expenditure.
- Central government's share of Social Insurance Institution of Finland KELA operating expenditure, saving EUR 10 million.
- Central government's share of health insurance reimbursements, saving EUR 25 million.
- Central government's share of drug reimbursements, saving EUR 26 million from 2016.
- National pension (KEL) and employees' pension (TyEL) index increases made in 2015 will be mainly 0.4%, saving EUR 152.5 million. These increases correspond to the level of the increase negotiated in the agreed labour market solution. The reduced increase will apply to TyEL index-linked benefits, including earnings-related pensions.
- Central government compensation for costs of agricultural entrepreneurs' relief worker services, saving EUR 5 million.
- Renovation grants, saving EUR 15 million.
- In addition, central government wage drift will be limited to the average level of the labour market, which is expected to bring a saving of around EUR 21 million in 2015, with the saving rising annually in the spending limits period.

Investments in growth

Central government assets will be directed to more productive use.

Some of the central government property holdings managed by Senate Properties and Metsähallitus will be sold. Balance sheet management of the central government's company ownerships will be enhanced by expanding the ownership base of state-owned unlisted companies and, if necessary, withdrawal from company ownership. In addition, sales of shares of state-owned listed companies as well as other measures will be implemented to increase revenue transferred to central government. The total amount of dividends of unlisted companies will be increased. A Government bill will be prepared to amend the Act on the State Pension Fund, such that the fund's revenue recognition can be raised. In addition, a recognition of revenue will be made from the State Guarantee Fund. The additional revenue arising from the measures compared with that outlined earlier will be around EUR 1.9 billion in 2014—2015. Central government additional revenue has been taken into account in the spending limits decision, see for more detail Section 5.4 On-budget revenue and Section 5.6 Off-budget central government finances.

Most of the additional recognition of revenue will be directed to the repayment of central government debt. As part of the reallocation of central government assets, significant investments in growth will also be made, totalling around EUR 600 million in 2014—2015. In the spending limits period, the cost of the investments will mainly be incurred in 2015, around EUR 300 million. The main investments will relate to investments in excellence and innovation creating new, future growth as well as in transport and construction projects that create jobs quickly.

A total of EUR 100 million for venture capital investments in industrial growth-stage and bioeconomy companies will be allocated to Finnish Industry Investment Ltd in 2014—2015. In addition, the First North marketplace for unlisted companies will be activated, with Solidium Oy acting as the anchor subscriber in share issues at an estimated annual level of around EUR 10 million.

Finnvera plc's funding authorisations will be boosted by increasing the share of loss compensation outside assisted areas from 40 per cent to 55 per cent. During the spending limits period, this is expected to result in central government on-budget expenditure of around EUR 4 million. To promote internationalisation and foreign investments, additional funding totalling EUR 20 million will be allocated to Team Finland activity in 2014—2015. In addition, Finpro grants will be raised by EUR 20 million in 2014 and EUR 5 million in 2015, focusing, for example, on enhancing the export capacity of industrial SMEs and attracting industrial investment into Finland.

The loan authorisations of the Finnish Funding Agency for Innovation TEKES will be permanently increased by EUR 40 million. Of this increase, EUR 20 million per year will be allocated to supporting cleantech and bioeconomy sector piloting and demonstration projects and EUR 20 million to promoting business activity based on digital value creation. New digital economy innovations will be supported by increasing TEKES' loan authorisations by an additional EUR 20 million in 2014—2015.

TEKES' venture capital investment appropriation for start-up companies will be increased by EUR 20 million in 2014—2015. The additional investment will be directed at venture capital investment funds promoting the objectives of the cleantech and bioeconomy strategy as well as the digital economy and health sector growth strategy.

Provision will be made to increase the capital of universities by an amount equal to three times the private capital raised by universities, however up to a maximum of EUR 150 million. To strengthen the competence base of adults, a total of EUR 20 million will be allocated in 2014—2015 to targeted adult education for 30–50 year-olds without a post-basic education qualification.

During 2015—2019, a total of EUR 50 million will be gradually transferred from universities' basic funding via the Academy of Finland into competitive research appropriations. This will increase the Academy of Finland's grant authorisation by EUR 50 million from 2015.

Media innovation support will be allocated a total of EUR 30 million in 2014—2016.

Transport infrastructure projects will be allocated a supplementary appropriation of EUR 20 million in 2014 and EUR 30 million in 2015 to strengthen the transport infrastructure most critical for employment and growth. In addition, the spending limits decision has taken into account the expenditure timing changes arising from the bringing forward of the Highway 6 project. The Government will make a resolution on the implementation of the Pisara railway track and will initiate preparation of the related funding model as well as negotiations on funding contributions.

A central government grant totalling EUR 80 million will be paid in 2014—2015 for the renovation of the Olympic Stadium in Helsinki. When the grant recipient's planning-period and pre-delivery interest income is taken into account, the value of the central government's investment may rise to around EUR 85 million.

In 2014—15, a supplementary appropriation totalling EUR 10 million will be allocated to improve the infrastructure of Metsähallitus nature and cultural sites.

A supplementary appropriation of EUR 10 million in 2014 and 2015 from the National Housing Fund will be allocated to renovations supporting the living at home of the elderly and the disabled. The interest contribution payable on youth and student housing will be reduced from 3.4 per cent to 1 per cent up to the end of 2015.

Decisions relating to 2014 will be included in the 2014 supplementary budget proposals.

Comprehensive reform of research institutes and research funding

On 5 September 2013, the Government made a resolution on the comprehensive reform of central government research institutes and research funding. In accordance with the resolution, a number of organisational reforms will be implemented during the spending limits period. In the administrative branches of the Ministry of Education and Culture and the Ministry of Agriculture and Forestry, research institutes will the merged into larger research institutes entities (the changes are outlined in more detail in connection with the respective administrative branches).

The spending limits decision also includes a number of appropriation transfers. Funding of various research institutes' on-budget research appropriations has been brought into the administrative branch of the Prime Minister's Office to strengthen research and study activity that supports the Government's social decision-making.

The establishment of a funding instrument for strategic research in connection with the Academy of Finland will be implemented by amending the Act on the Academy of Finland and so that the Academy of Finland can make its first funding decisions from the funding instrument for strategic research in 2015. Around EUR 57 million will be available annually in grants for the funding of strategic research projects, taking into account the decided adjustment measures and including administration costs.

5.3.1 Policy outlines for the administrative branches

Structural policy measures directed at the administrative branches, additional savings decided and investments in growth are examined in Section 5.3.

Prime Minister's Office

A resolution made by the Government on 5 September 2013 concerning the comprehensive reform of central government research institutes and research funding will impact all of the years of the spending limits period. In accordance with the Government Programme, a EUR 4 million saving directed at research activity will be implemented by deducting EUR 1 million from items transferred to the Prime Minister's Office from 2015.

In the spending limits period, the Government will allocate funding for the arrangement of events in 2017 marking the 100th anniversary of Finland's independence.

Ministry for Foreign Affairs

In accordance with the Government Programme, resources will be concentrated in countries and regions of growing economic and political importance, taking into account, for example, the priorities of the Team Finland strategy. At the same time, work will continue to reform the structure and administrative practices of Finland's representation abroad.

The appropriations take into account the Security and Defence Policy Report (2012), the National Strategy for Civilian Crisis Management (2008) and the Peace Mediation Action Programme (2011). From 2015 onwards, a reduction in the number of operational personnel has been taken into account in the appropriations for military crisis management.

With respect to development cooperation appropriations, the Government is committed to progressing towards the target of 0.7 per cent of GNI target as well as managing its growing climate funding obligations. Revenue accrued from the auctioning of emissions allowances will be directed to development cooperation and at the same time, as part of Finland's official development aid, also to climate funding as such revenue accrues. The level of development cooperation appropriations for 2015 is around EUR 788 million. In the following years, the share of GNI will be around 0.5 per cent.

Ministry of Justice

The main projects of the judicial system in the planning period relate to the Administration of Justice Reform Programme up to 2025 and the associated policy outlines. The objective is to ensure a high level of legal protection despite the difficult economic situation. The reform programme proposes the establishment of a National Courts Administration to attend to the administration of the courts. The advantages and disadvantages as well as the cost impacts of establishing a National Courts Administration will be studied.

In 2014 the advantages and disadvantages of the organisational merger of the supreme courts will be studied. Based on the study, possible further measures will be decided and also whether an evaluation of the advantages and disadvantages relating to the merger of the separate court lines should be initiated.

In the activities of the Prosecution Service, it is essential to enhance pre-trial investigation cooperation, promote the introduction of accelerated legal proceedings and increase the consistency of judgment activity.

In the criminal sanctions system, community sanctions are a particular area of development. Where possible, the focus will also be shifted to sanctions performed in open institutions and on monitored conditional release.

In connection with the Effectiveness and Productivity Programme, the intention is bring together into the Ministry of Justice the ombudspersons (Ombudsperson for Equality, Ombudsperson for Children and Ombudsperson for Minorities) of different administrative branches. Supplementary funding of EUR 540,000 per year has been allocated for the implementation of an amendment to the Equality Act.

Ministry of the Interior

A supplementary appropriation of EUR 7.1 million for 2015 and 2016, EUR 6.7 million for 2017 and EUR 6.2 million for 2018 will be allocated for additional costs arising from the provision of central government security network services as well as for the additional costs of network services purchased from State Security Networks Ltd.

Every effort will be made to maintain the current standard of police services and operational quality in emergency callouts and the solving of crimes as well as in licence administration and transport safety work. The Ministry of the Interior will continue the implementation of the restructuring of the police administration (Pora III) in order to adjust police finances through operating efficiencies and streamlining the organisation.

The Board Guard will prepare, in cooperation with other authorities operating at border posts, for significant growth in cross-border traffic by developing operations at border-crossing points.

During the spending limits period, the number of refugees and asylum seekers arriving in Finland is expected to develop such that the annual number of asylum seekers in 2015—2018 will be 3,300–3,500 people. In 2013 the average number of asylum seekers per month in the reception system was 3,536, of whom around 2,500 were accommodated in reception services. To ensure the efficiency of asylum decision-making and enhance it further, the technical competence of the electronic cross-administrative immigration case processing system (UMA) will be developed.

Ministry of Defence

Finland's defence capability will be developed, from the perspective of the country's military defence. The priorities of maintaining and developing defence capability in the spending limits period are completing the Defence Forces reform, responding to the long-term challenges of defence, and deepening and widening defence cooperation.

The Defence Forces reform will introduce a new emergency conditions troop structure, including operational, regional and local troops. The focus of the development of the Defence Forces performance capability will be on developing regional troops and remote impact. At the end of the spending limits period, the focus will shift to safeguarding the performance capability of operational troops.

The Defence Forces reform will create the foundation for the operating capacity and further development of the Defence Forces when building defence capability for the 2020s. The key objectives of the reform are restoring the defence system to the level required for effective operations as well as ensuring sufficient investment in materiel. To ensure adequate prevention and up-to-date defence capability, around one third of military defence appropriations should be used for materiel readiness, around one third on fixed personnel expenditure and around one third on other operating expenditure.

From the beginning of 2015, training and military exercises will be restored to the level required by wartime troop training requirements. The effectiveness of general military service will be promoted by ensuring framework conditions are in place for the efficient operation of training units.

A main challenge of the spending limits period key is preparing for the ageing of the materiel of key troops, which will take place in the 2020s.

Ministry of Finance

The Tax Administration will be allocated an additional EUR 2 million per year to combat the shadow economy also after 2015. The Tax Administration will also be allocated a supplementary appropriation of EUR 2.35 million in 2015 and EUR 0.25 million in 2016 for investment expenditure on various information systems. Moreover, additional funding as transfers from the administrative branch's productivity funding is proposed for investment expenditure on various information system projects: EUR 3.95 million in 2015, EUR 2.1 million in 2016, EUR 1.5 million in 2017 and EUR 0.7 million in 2018. To compensate for revenue losses arising from the opening up of public information resources, an annual increase of EUR 0.4 million as transfers and an annual supplementary appropriation of EUR 0.2 million are proposed for 2016—2018. In setting the level of the Tax Administration's operating expenditure, a reduction of EUR 0.5 million per year from 2016 due to the abolition of the forestry fee has been taken into account. Due to the reorganisation of premises in Turku, an additional EUR 1.5 million has been earmarked in operating expenditure for removal and furnishing expenses; at the same time, reductions in premises costs of EUR 0.8 million in 2015 and EUR 1.1 million from 2016 can be taken into account.

Additional funding of EUR 2.95 million for 2015 and EUR 3.4 million per year in 2016—2018 is allocated to Customs' operating expenditure to safeguard customs controls on the eastern border. To combat the illegal imports of alcohol by travellers, a supplementary appropriation of EUR 0.3 million in 2015 and a supplementary appropriation of EUR 0.35 million per year in 2016—2018 is allocated to Customs' operating expenditure.

It is proposed that the central government's damage compensation activities be centralised in the State Treasury, as a result of which it is further proposed that a total of EUR 0.43 million be transferred from administrative branches for the payment of compensation each year from 2015 as well as EUR 0.05 million for information system expenditure in 2015.

EUR 3 million per year will be allocated to the operating expenditure of the Government ICT Centre (Valtori). A separate appropriation public finances EUR 10 million per year will be allocated for Valtori's investment expenditure. Expenditure arising from Valtori's activities will be funded with fees collected from the agencies and institutions that are its customers. The operating expenditure appropriation is intended as buffer funding for unanticipated situations to even out fluctuations of customer-funded revenue and expenditure arising from activities.

Statistics Finland will be allocated a supplementary appropriation of EUR 0.15 in 2015 and EUR 0.4 million in 2016—2018 to continue the opening up of public information resources. Moreover, additional resource needs will arise to Statistics Finland from the implementation of obligatory requirements of EU statutes, as a result of which it is proposed that a supplementary appropriation of EUR 0.2 million per year during the spending limits period be allocated for Statistics Finland's operating expenditure.

The Economic Policy Council, established in 2014, will operate in connection with the Government Institute for Economic Research. The Council's role is to assess the Government's economic policy and fiscal decision-making and to enhance the quality, transparency and comprehensibility of its preparation. The EUR 0.1 million funding of the council's activities has been taken into account as a transfer from the appropriations of the administrative branch of the Prime Minister's Office.

The Population Register Centre will continue development of the personal data registration of the population register system. Together with the Building Information Development Project (RaKi) already under way, the project will ensure the life-cycle continuity of the population register system, and EUR 0.9 million will be allocated to it in 2015 from the productivity appropriation of the administrative branch.

An annual increase of EUR 0.4 million will be allocated to the operating expenditure of the Regional State Administrative Agencies for the increased resourcing of animal protection and food safety duties.

A total of EUR 0.9 million for 2015—2016 will be transferred from the productivity appropriation of the administrative branch to the Register Offices' operating expenditure for information system development projects.

Changes to central government pension expenditure forecasts, a change to the interest rate forecast and index adjustments will increase pension expenditure during the spending limits period by a total of around EUR 145 million.

2014 is the first year of the European Union's new financial framework period (2014—2020). The EU payments of the central government spending limits decision are based on the payment ceiling of the EU's financial framework. The spending limits decision is based on the assessment that the decision on the EU's own resources will come into force retrospectively in 2016, in which case three years' payment reductions would be payable retrospectively to certain net contributors (the Netherlands, Austria, Sweden, Germany and Denmark). The most significant change compared with the previous central government finances spending limits decision arises from the fact that the amount of customs revenue remitted to the EU is expected to decline substantially compared with the previous forecast. The decline in customs revenue must be covered by a GNI payment. The spending limits decision for 2015—2018 also includes the first estimate of the budget effects arising from the introduction of the new System of National Accounts (EKT-2010). The new accounts system is expected to come into use in the system of own resources retrospectively in 2016, after the entry into effect of the decision on own resources. For these reasons, Finland's payments compared with the previous spending limits decision have been revised upwards by around EUR 60 million in 2015, around EUR 176 million in 2016, around EUR 111 million in 2017 and around EUR 137 million in 2018. At the same time, it is necessary to make to the EU payment appropriation an annual increase signifying an index adjustment, EUR 32–36 million. In 2018 an appropriation of around EUR 2 billion is expected to be required for EU payments.

Central government transfers to local government

Indexation will increase central government transfers for municipalities' basic public services by around EUR 47 million in 2015. On the other hand, central government transfers will be reduced by cuts to transfers for basic public services. Development measures in the social and health care sector (including the Act on Care Services for the Elderly, the development of student care services and other areas of social and health care development) will increase central government transfers in 2015 by EUR 46.9 million compared with the 2014 level.

In connection with the funding reform of the universities of applied sciences, just over EUR 163 million annually from 2015 will be transferred from the central government funding appropriation for basic public services to the administrative branch of the Ministry of Education and Culture, to the discretionary government transfer appropriation for universities of applied sciences.

The minimum number of hours in basic education is proposed to be increased by three weekly lessons per year. In this context, the central government funding appropriation for basic public services will be increased by EUR 3.9 million in 2016 and EUR 9.4 million from 2017, such that half will be implemented from the administrative branch of the Ministry of Education and Culture.

In accordance with Government policy, municipalities will be supported at all stages of the local government reform. Local government reform will be supported by funding merger grants and studies. In addition, central government transfers losses will be compensated in full from central government funds. The number of municipal mergers is expected to decrease to some extent in connection with the reform of social and health care provision. Municipalities will be supported with concrete spearhead projects relating, for example, to change management in municipal merger situations, information management, and the preparation of plans to balance local government finances. In addition, development projects relating to local services and local democracy will be implemented.

The central government transfer appropriation for basic public services has taken into account the impacts of proposals relating to the implementation of Structural Policy Programme. These are described in more detail in Section 5.3. Local government finances as a whole are discussed in Chapter 6 Steering of local government finances 2015—2018

Ministry of Education and Culture

To ensure the implementation of the youth guarantee and the provision of adequate vocational upper secondary education and training, the funding of vocational upper secondary education and training throughout Finland will be increased by EUR 5.2 million per year. In vocational education, student selection processes will be developed further and a new integrated package of preparatory education for vocational upper secondary education and training will be introduced. In addition, new models will be developed and introduced to implement education as a combination of institutional education and apprenticeship training.

Reformed application and selection services in vocational education and general upper secondary education as well as application and education information services in adult education will be introduced.

The Government decree on national targets and allocation of lesson hours in general upper secondary education as well as the criteria of the upper secondary curriculum will be revised. The gradual introduction of information and communications technology into the performance of the matriculation examination will be prepared, and comparability of test grades included in the examination over test thresholds and sittings will be ensured in order to facilitate the utilisation of the matriculation examination in student selections.

The effectiveness of the education system will be improved by steering those who have already completed a vocational qualification into adult education. The competence-based qualification system and operating models for young people's apprenticeship training will be developed. In addition, new specialisation training for people with a university-level qualification will be introduced.

Index increases based on the projected change in the central government transfer index will increase administrative branch's central government transfers by EUR 9.5 million, of which municipalities and joint municipal authorities will account for EUR 6.4 million in 2015. In addition, index adjustments based on the university index will increase central government funding of universities and universities of applied sciences by a total of EUR 16.6 million, taking the halving of the index adjustments into account.

Responsibility for the basic funding of universities of applied sciences will be transferred completely to central government from the beginning of 2015. All universities of applied sciences will operate as independent legal entities, in the form of a limited company. The new tax status and financial consequences in respect of taxation will be taken into account in the funding of universities of applied sciences. Universities of applied sciences will be compensated for value-added tax expenditure arising from statutory duties and the annual setting of the appropriation will take into account the rise in cost level according to the university index. To support the reform, the central government is prepared to inject capital into the universities of applied sciences.

In connection with the comprehensive reform of central government research institutes and research funding, the National Consumer Research Centre and the National Research Institute of Legal Policy will be merged into the University of Helsinki from the beginning of 2015. The establishment of a funding instrument for strategic research in connection with the Academy of Finland will be implemented by amending the Act on the Academy of Finland and so that the Academy of Finland can make its first funding decisions from the funding instrument for strategic research in 2015. Around EUR 57 million will be available annually in grants for the funding of strategic research projects, taking into account the adopted adjustment measures and including administration costs.

The sustainability of cultural, sport and youth activities dependent of betting and lottery funding will be ensured. Conditions for municipalities' cultural activities will be promoted by developing production structures and by strengthening the local and regional availability of art education services and children's culture. The competence base of the creative economy will be enhanced by safeguarding the operating environment for artists.

Funds will be allocated for the central government funding contribution to the costs of establishing a project (library) marking the 100th anniversary of Finland's independence. The Hanasaari property of the Swedish-Finnish Cultural Foundation will be renovated.

Support will be given to the reform of sports organisations, local-level sports activities and measures promoting active lifestyles and health. Cooperation of administrative branches in promoting the effect impact of sports will be increased.

The Youth Act will be reformed. Outreach youth work included in the youth guarantee will be extended throughout Finland. Cooperation of young people's workshop activities with educational establishments will be ensured.

Ministry of Agriculture and Forestry

New support systems in accordance with the EU's Common Agriculture Policy for the development of agriculture and forestry in the funding period 2014—2020 will be introduced in 2015 and the funding required by them is included in the spending limits.

Adequate structural support for agriculture will be secured in accordance with the Government Programme. The annual requirement of the interest-subsidy loan authorisation for rural business activity is expected to remain at the 2014 level. Co-financed agricultural start-up and investment grants will be funded as part of the Rural Development Programme for Mainland Finland from the appropriation allocated in the budget. Wholly national grants will be funded from the Development Fund of Agriculture and Forestry (Makera). The 2015—2018 spending limits do not include a transfer to the Development Fund of Agriculture and Forestry.

The EU fisheries policy will also be reformed during the planning period. The preparation of the action programme for the 2014—2020 programming period of the European Maritime and Fisheries Fund is under way, and the funding contributions of the Member States are not yet known. Possible changes to appropriations as a result of the reform could not be taken into account in the now-approved spending limits.

The Forest Strategy 2025, which continues the National Forest Programme, will be prepared before the beginning of the spending limits period based on the policy outlines of the Forest Policy Report. Support systems will be revised taking into account EU guidelines on state aid in the agriculture and forestry sector and in rural areas.

The spending limits of the Ministry of Agriculture and Forestry include savings decisions made by the Government amounting to around EUR 210 million in the spending limits period. Of this expenditure saving, around 60 per cent is directed at agriculture. The Ministry of Agriculture and Forestry aims to increase administrative productivity and to improve the effectiveness of transfers to reduce the negative impact of the savings on the sector.

In 2015 the information technology development duties of the Information Centre of the Ministry of Agriculture and Forestry, the research and development duties of the Finnish Geodetic Institute, and the duties of the National Land Survey of Finland relating to promoting the joint use of location data will be centralised in the National Land Survey of Finland. To increase the research effectiveness and efficiency, a new entity, the Natural Resources Institute Finland, will be founded in the administrative branch as of 1 January 2015. It will be formed from MTT Agrifood Research Finland, the Finnish Game and Fisheries Research Institute (RKTL) and the Finnish Forest Research Institute (METLA), which will accordingly be abolished. In addition, the statistical services of the Information Centre of the Ministry of Agriculture and Forestry (TIKE) will be incorporated into the Natural Resources Institute Finland. Both organisational reforms will be implemented within the spending limits of the administrative branch.

An appropriate administration model will be explored for fisheries control and other official activity.

The Forestry Development Centre Tapio will be incorporated as a state-owned company from the beginning of 2015.

The ministry will continue to delegate implementation functions to its subordinate administration. Electronic information services and electronic methods of maintaining information resources will be developed to enhance customer service, improve the joint use of information resources and provide more up-to-date information and data. A study on the opening up of the administrative branch's information resources is under way and, based on the study, policy outlines will be prepared for the opening up of the administrative branch's information resources, the development of information resources and the promotion of their use.

Ministry of Transport and Communications

In basic transport infrastructure maintenance, the primary duty is to ensure the daily functioning of transport. The main aim is to safeguard the level of daily maintenance and transport services over the entire transport infrastructure network. To improve logistical efficiency, the bridge and road network repair measures required by increases in the maximum weights and dimensions of heavy good vehicles will be continued and repairs will be directed at the sites most critical for business, employment and growth.

In the spending limits period, the implementation of projects outlined in the Transport Policy Report will be continued in accordance with the spring 2013 spending limits decision and the schedule decided by the ministerial working group on transport and communications policy, except for the Taavetti–Lappeenranta of Highway 6, which will now begin in 2014 in accordance with the Government's growth package. EUR 25 million for 2017 and EUR 76 million for 2018, to be allocated by the new Government, has been transferred to a special spending limits provision for transport investments.

Fairway dues will be halved for 2015—2017 as part of sulphur compensation and support for a labour market settlement. Unit prices of fairway dues will be reduced, with the emphasis on cargo vessels and the best ice classes.

Development of new transport policy operating models will be accelerated through diverse trials relating to various subareas of transport policy, such as a trial concerning electronic transport services, in wide cooperation with different actors. The trials are aimed at, among other things, finding ways in which to enhance operations, obtaining transport services that correspond better with users' needs and creating for companies new opportunities for profitable and developing business activity. A further goal of the trials is to develop innovative solutions and to utilise in a new way the opportunities presented by information and communication technology in the transport sector.

Following the funding reform of the Finnish Broadcasting Company YLE, annual revenue from the YLE tax and the corresponding funds transfer in 2015 are estimated at EUR 508 million. The appropriation transferred is revised annually in accordance with rising costs, but Government groups have decided that no index increase will be made in 2015. The funds transfer is handled as an expenditure item outside the spending limits. This constitutes an exception to the spending limits rule set out in the Government Programme.

The operational capacity of the Finnish Communications Regulatory Authority will be strengthened to correspond with new duties brought by the Information Society Code. In addition, forward provision will be made for the fact that the authority will be nominated in accordance with EU provisions as the responsible authority for the highly accurate PRS positioning service.

The spearhead projects of the Effectiveness and Productivity Programme of the administrative branch of the Ministry of Transport and Communications are the development of the performance management of the administrative branch and the reform of publicly funded passenger transport. The latter aims to improve the efficiency of service provision and at the same time to raise quality standards. The project is expected to yield savings in general government finances or at least to curb growth in expenditure that would otherwise increase. The project is also in the Government's Structural Policy Programme.

Ministry of Employment and the Economy

The appropriations of the main title of Ministry of Employment and the Economy total EUR 3.3 billion in 2015. During the spending limits period, the appropriations will decrease by EUR 853 million. The principle reason for the lowering of the level of main title's appropriations is the discontinuation of the export refinancing loans that were temporarily in use. In addition to export credit guarantees and interest equalisation, export funding implemented with public funds in the spending limits period is based on Finnvera plc's acquisition of funds, which replaces budget funding, and on the export credit funding financed by it.

The objective of business and innovation policy is to increase the number of innovative, fast-growing and internationalising companies. The growth funding programme launched during 2013 will continue, and for this purpose EUR 30 million per year in 2015—2017 has been earmarked for the capitalisation of Finnish Industry Investment Ltd. Similarly, Finnvera will be capitalised in accordance with earlier decisions with EUR 5 million in 2015—2017. In addition, in the spending limits period EUR 20 million per year has been earmarked for the venture capital investment activity, launched in 2014, of the Finnish Funding Agency for Innovation TEKES. Finnvera's compensation percentage outside national assisted areas will be raised to 55 per cent.

To boost internationalisation and exports of SMEs, a new funding instrument, which will support companies' acquisition of internationalisation consulting, will be introduced. An additional authorisation of EUR 10 million per year to support companies' investment and development projects has been earmarked for the new form of funding. Due to the increase in the authorisation, appropriations have been increased by EUR 3.5 million in 2015, EUR 9 million in 2016 and EUR 10 million in 2017—2018.

In employment and entrepreneurship policy, appropriations will be directed in accordance with the Government Programme to employment- and growth-promoting measures, particularly to improve the employment of the long-term unemployed and young people. The target activation rate is 30 per cent during the entire spending limits period. Due to increased pay security expenditure, the estimated appropriation has been increased by EUR 6 million per year. In addition to the adopted adjustment measures, the appropriation for public employment and business services takes into account a reduction of EUR 1.2 million in 2017 and 2018 resulting from a revision of the cost of employment obligations relating to 60 year-olds under the working careers agreement. A funding authorisation of EUR 4 million for employment-based transfers will be transferred from 2015 to business investment and development projects. The employment-based investment subsidy and employment promotion programme will be discontinued, but the employment-based investment subsidy will be partly replaced, however, by a business operating environment development subsidy. The regional transport subsidy will end in 2017.

Funding authorisations of the EU Structural Funds programming period 2014—2020 have been revised due, among other things, to a revision of funding for programming period 2014—2020 as a result of a price adjustment as well as a change in the performance reserve from 7 per cent to 6 per cent.

The increase of the tax on peat planned for 2015 will cancelled, and as a result the production subsidy payable to producers of forest chip electricity will also remain at the 2014 level. In consequence, the estimate for the energy subsidy for renewable energy has been updated. The estimated appropriation falls by EUR 2.4 million in 2015, and rises by EUR 4.7 million in 2016, EUR 17.7 million in 2017 and EUR 47.2 million in 2018.

Specified government transfers paid to municipalities for integration have been increased by EUR 2.8 million in 2015—2017, and by EUR 1.4 million in 2018 due an earlier decision to increase the 2014 refugee quota.

Ministry of Social Affairs and Health

During the spending limits period, the appropriation level of the administrative branch of the Ministry of Social Affairs and Health will be affected not only by the implementation of the Government's Structural Policy Programme and adjustment measures but by cyclical factors such as the change in the unemployment rate, statutory index adjustments and factors relating to demographic structure.

In line with the Government's Structural Policy Programme and the autumn 2013 agreement of social partners on employment and growth, in the adjustment of unemployment benefit a EUR 300 per month protected component has been introduced from the beginning of 2014 and the adjusted daily allowance has been changed so that the allowance plus child increments together with earned income can be at most 100 per cent of the pay that is the basis for unemployment benefit. In addition, the waiting period for unemployment benefit has been shortened from seven days to five days. The reforms will increase central government unemployment security expenditure annually from 2014 by EUR 68.6 million and will reduce the central government transfer for the cost of municipalities' basic social assistance by EUR 1.8 million.

In accordance with the Government Programme and previous spending limits decisions, the housing allowance system will be reformed from the beginning of 2015.

For the opening up of information resources, the Radiation and Nuclear Safety Authority will be allocated a EUR 200,000 and the National Institution for Health and Welfare a EUR 400,000 one-off increase in appropriations in 2015.

To safeguard elderly care services for veterans, the level of the front-line veterans' rehabilitation appropriation has been adjusted, such that the level of the available annual appropriation per veteran entitled to rehabilitation will rise by around EUR 50 per year during the spending limits period.

An annual appropriation of EUR 0.3 million is proposed to put substitute help for reindeer herders on a permanent basis.

The requirement for the central government transfer payable to municipalities for the cost of basic social assistance is expected to decrease to around EUR 317 million at the end of the spending limits period. Following savings decisions, around EUR 5 million per year during the spending limits period has been earmarked for the discretionary government transfer for social and health care development projects implemented by municipalities. An annual EUR 21 million has been earmarked for central government compensation to health care units for research activity in accordance with the Act on Specialised Medical Care. Around EUR 105 million has been earmarked in 2015 for central government compensation to health care units for costs arising from the training of doctors and dentists, but the appropriation level will slightly rise during the spending limits period

An appropriation of just over EUR 29 million is proposed for the Helicopter Medical Emergency Service in 2015.

An annual appropriation of EUR 0.5 million is proposed for the development of central government reform school premises in 2015—2018, will the aim of maintaining conditions for the operation of reform school activities.

Issues relating to basic public services arranged by local government, and the central government transfers paid for them, are discussed as a whole in Chapter 6 Steering of local government finances 2015—2018

Ministry of the Environment

During the spending limits period, the emphasis will be on measures to enhance the effectiveness of the national and EU climate policy and to reach agreement on an international climate convention, to promote multilateral cooperation aimed at improving the state of the Baltic Sea, and to invest in measures designed to ensure the diversity and sustainability of nature. In the built environment, increasing focus will be given to improving the energy efficiency of building construction and land use and to securing the social and regional balance and stability of the housing market. An adequate supply of land for residential development supporting a good community structure is a key priority in growth centres and particularly in the Helsinki Metropolitan Area.

A total of EUR 0.7 million in additional funding will be allocated in 2015 to reduce damp and mould problems.

In accordance with the Government Programme, during the parliamentary term appropriations will be directed to funding green economy projects, particularly with a view to improving the eco-efficiency of production and consumption as well as the efficiency of materials processing and recycling. Steps will be taken to improve oil spill response preparedness.

The implementation of the Forest Biodiversity Programme for Southern Finland (METSO) and earlier protection programmes will be continued. Preparations will be made to launch a national mire protection programme.

5.3.2 Central government joint information system projects

Central government agencies and institutions (around 65 000 civil servants, excluding the Defence Forces and VTT Technical Research Centre of Finland) will gradually transfer to using the KIEKU information system in financial and HR services. The centrally acquired and funded KIEKU information system will replace agency-specific financial and HR information systems, which are at the end of their life cycle. In the first stage, the system has been introduced in 16 agencies in the administrative branches of the Ministry of Finance and Ministry of the Interior. The remaining administrative branches and agencies will transfer to using the KIEKU system in 2014—2016 in the second stage of the project. Through their steering, the ministries will ensure the advance of the introduction process within the specified timetable and avoiding customised solutions. Ministries and agencies are to continue the implementation of changes supporting the productivity development of financial and HR services as well as increasing the use of the Finnish Government Shared Services Centre for Finance and HR, for example, by implementing the introduction into the Shared Services Centre the occupational use of the KIEKU information system's SAP HR.

In the spending limits, the administrative branch of the Ministry of Finance has been allocated EUR 22 million for 2015 and EUR 40 million annually for future years for information system and information management projects as well as other productivity projects. This reserve is earmarked for priority information system projects, which include the ERP and document management system of the Prosecution Service and the general courts of law, the customer information system of the Criminal Sanctions Agency, the joint public authorities' field information system, and the Tax Administration's OTS software project and information system upgrade. In addition, funding has been made available for smaller productivity projects of the administrative branches.

Proposed projects will only be incorporated into annual budgets provided that the project plans are sufficiently detailed with respect to project feasibility as well as costs arising and costs saved, and that the Ministry of Finance expresses a favourable opinion on significant information system projects as required by the Act on Information Management Governance in Public Administration (634/2011). The Ministry of Finance will enter into a cooperation agreement on productivity-enhancing projects with each relevant ministry.

5.3.3 Effectiveness and Productivity Programme

The central government's Effectiveness and Productivity Programme, launched at the end of 2011, is one of the Government's tools in reducing the sustainability gap in public finances and in responding to the changes taking place in the labour market. These goals are being pursued by clarifying the role and functions of central government, highlighting the need for structural reforms, and introducing new approaches and practices that support the new role of central government. Through its implementation, the programme will enhance the operational efficiency of central government in a balanced way across all subareas of efficiency, namely effectiveness, service ability, performance, productivity and economy. Measures of the administrative branches will ensure that tight spending limits are adhered to while at the same time creating room for manoeuvre to respond to new needs arising from change in the operating environment.

The aspects monitored and evaluated in the programme are a) on-budget operational expenditure, b) person-years, c) the development and upgrading of skills and competencies (VMBaro index), d) motivation and work engagement (VMBaro index), e) management and interaction in the workplace (VMBaro index) and f) sickness absence days, which are monitored annually. Ministries assume responsibility for practical implementation within their respective administrative branches and produce relevant follow-up data.

5.4 On-budget revenue 2015—2018

Actual on-budget revenue is expected to grow in the spending limits period on average by 3.3 per cent per year. Tax revenue is expected to grow by 3.6 per cent per year. Tax revenue accounts for on average 85 per cent of actual on-budget revenue. In 2018 on-budget revenue (excluding borrowing) is expected to be EUR 53.4 billion.

Central government on-budget revenue estimates are based on an estimate of the medium-term development of the economy. Economic growth is expected to be slow in the medium term, and as a result growth of taxes bases will also be slow. Compared with the economic growth forecast that formed the basis of the previous year's spending limits decision, the economic growth projections for 2014—2017 have been cumulatively reduced by nearly 2 percentage point.

As well as new decisions, the revenue estimates also take into account the tax policy positions outlined in the Government Programme and other decisions taken by the Government, most of which have been put into effect in connection with the 2012—2014 Budgets.

As new decisions, adjustment measures on the taxation side consist mainly of increases in excise duties as well as measures taken in the taxation of earned and capital income that narrow income differences. On the other hand, it is estimated that tax changes included in the spending limits decision with respect to indirect taxes will, in a static evaluation, increase income differences.

No earnings-level or inflation adjustment will be made to earned income taxation thresholds in 2015, which is expected to increase central government tax revenue by around EUR 110 million. Taxation of those on low incomes will be eased by increasing the earned income deduction and the basic deduction in municipal income tax. The limit of the highest income class of the progressive income tax scale will be lowered from EUR 100,000 to EUR 90,000 and this will remain in effect until 2018. This will increase earned income tax revenue by EUR 54 million.

The right to deduct the interest on home loans will be reduced by a further 5 percentage points per year, and as a result only 50 per cent of the interest on home loans will be deductible in 2018. This measure will increase tax revenue by EUR 83 million at the 2018 level. In addition, the right to deduct commuting expenses will be reduced, such that the co-payment portion for commuting expenses will rise to EUR 750.

The changes made to capital income taxation will increase tax revenue by EUR 28 million while at the same time narrowing income differences. Taxation of capital income will be increased such that the income limit of the higher tax rate will be lowered by EUR 10,000 to EUR 30,000 and the higher rate increased by one percentage point to 33 per cent.

Inheritance and gift taxation will be increased by raising all marginal rates in tax scales by one percentage point. In addition, the tax class for the proportion of gifts and inheritances over EUR 1,000,000, which was previously prescribed as temporary, will be made permanent from 2016. The measures will increase tax revenue by a total of EUR 60 million.

In energy taxation, a number of measures increasing tax revenue will be made. Tax increases will be made to class I of the electricity tax (impact on central government tax revenue EUR 120 million in 2018), to the carbon dioxide tax on heating, power plant and working machine fuels (EUR 90 million) and to the tax on transport fuels (EUR 42 million). On the other hand, the 2015 tax increase on peat, decided earlier, will be cancelled (EUR -8 million). In addition, energy tax subsidies for mining activity will be abolished (EUR 20 million), and the previously tax-free liquefied petroleum gas will be made taxable (EUR 10 million). The measures taken in energy taxation will increase tax revenue by EUR 274 million in 2018.

The tobacco tax will be tightened by EUR 50 million. The annual motor vehicle tax on cars and vans will be increased by EUR 150 million. The car tax reductions on taxis (excluding specially equipped taxis) and on cars imported as removal goods will be abolished.

The adopted new tax policy measures will increase central government tax revenue on a net basis by around EUR 0.5 billion in 2015 and around EUR 0.9 billion in 2018.

The tightening of taxation in the next few years is also explained by earlier decisions of the Government in respect of taxation. The right to deduct interest on home loans will also be reduced on the basis of earlier decisions, the right to deduct interest on study loans will be abolished and an increase of the excise duty on sweets will be made in 2015. Under an earlier decision, the R&D tax incentive in corporate income tax will end after 2014, as will the right to increased depreciation of production-related investments. After 2015 the temporary tax incentive for investors will end, as will the increased corporate income tax apportionment for municipalities and parishes.

On the other hand, in respect of decisions made earlier by the Government, tax revenue will be reduced by measures outlined by the central government to support a labour market settlement in autumn 2013, namely the halving of fairway dues and the removal of the rail goods transport tax in 2015—2017.

Tax revenue

Corporate income tax revenue is expected to grow in the spending limits period on average by around 6 per cent per year. In 2014 corporate income tax revenue is expected fall significantly as a result of the reduction of the corporate income tax rate that came into force in 2014. Thereafter tax revenue is expected to grow at the same rate as the operating surplus forecast according to national accounts. By tax beneficiary, it is expected that the central government's corporate income tax revenue will grow faster than revenue overall, on average by around 9 per cent per year, due to the expiry in 2016 of the temporary increase in the apportionment of corporate income tax to municipalities and parishes.

Earned income is expected to grow in the spending limits period by an average of just over 2.7 per cent and capital income by an average of 3.8 per cent per year. Central government revenue from earned income and capital income tax is expected to grow in the spending limits period more quickly than the tax base, on average by around 5 per cent per year, because no adjustments corresponding to the rise in earnings level will be made to tax thresholds. In 2014 a 1.5 per cent adjustment was made to income tax thresholds. With respect to 2015, no adjustment to tax thresholds will be made for earnings level or inflation. For the years after the parliamentary term, i.e. 2016—2018, it is assumed that inflation adjustments will be made to the central government income tax scale.

Value-added tax revenue is projected to grow in the spending limits period on average by around 2.7 per cent per year. Projected tax revenue growth is derived from the estimated increase in household consumption expenditure.

Total revenue from excise duties is projected to grow in the spending limits period by an average of around 1 per cent per year. Revenue from the excise duties on sweets, ice cream and soft drinks as well as the tobacco tax is expected to grow, but revenue from the excise duty on alcoholic beverages is expected to fall due to an anticipated decline in taxable consumption.

Annual revenue from the bank tax in the spending limits period is assumed to be EUR 133 million per year according to tax receipts for 2013. A power plant tax was introduced at the beginning of 2014, but significantly lighter than stated in the Government Programme. The annual revenue from the tax is assumed to be EUR 50 million per year in the spending limits period.

Other on-budget revenue

Miscellaneous revenues are expected to grow by an average of around 2 per cent per year.

As regards other on-budget revenue, dividend revenue is expected to be around EUR 1 billion on an annual basis. Annual proceeds from the sale of state-owned shares are expected to generate on-budget revenue on average by around EUR 620 million per year in the spending limits period. This estimate takes into account the new policy on the sale of central government assets in 2014—2015, as a result of which projected proceeds from the sales of shares in 2015 will be around EUR 0.6 billion greater than previously projected. The estimate of central government interest revenue is slightly lower than the estimate made in connection with the spring 2013 spending limits decision. This is explained by a lowering of market interest rates due to a slower than expected strengthening of the euro area economy. The lower market interest rates are reflected particularly in the estimate of interest earned on central government deposits.

Fees levied by central government will be increased as part of adjustment measures so as to achieve EUR 30 million in additional revenue.

Ministry of Finance estimate of ordinary on-budget revenue in 2014—2018, EUR billion

	2014 B	2015	2016	2017	2018	2014—2018 average annual change, %
Total tax revenue	39.8	41.0	42.8	44.3	45.9	3.6
— taxes on earned and capital income	8.7	9.0	9.5	9.9	10.5	4.8
— corporate income tax	2.5	2.6	3.1	3.3	3.5	8.7
— value-added tax	17.0	17.2	17.8	18.3	18.9	2.7
— excise duties	6.9	7.2	7.3	7.2	7.2	1.0
— other tax revenue	4.7	4.9	5.2	5.5	5.9	5.7
Miscellaneous revenue	4.7	5.4	5.1	5.2	5.1	2.0
Interest income, income from share sales and profit entered as income	2.0	2.7	2.0	2.0	2.0	-0.3
— Dividend income and income from sales of shares	1.5	2.1	1.5	1.5	1.4	-1.6
Total revenue[1]	**46.9**	**49.6**	**50.4**	**52.0**	**53.4**	**3.3**

[1] Including repayment of loans granted by central government

5.5 Central government on-budget funding requirement and debt 2015—2018

Taking into account the development of appropriations in line with the spending limits as well as revenue estimates, the central government on-budget deficit is expected to be around EUR 4 billion, i.e. around 2 per cent of GDP, in 2015. The deficit is expected to fall to EUR 2.5 billion, i.e. 1.1 per cent of GDP, in 2018.

The slowing of the reduction of the deficit in 2018 will be to a large extent due to the fact that debt interest expenditure and age-related expenditure will rise. Revenue growth will also slow slightly from the previous year due to a projected slowing of GDP growth.

It is assumed that central government debt will grow to around EUR 100 billion in 2015. The central government debt-to-GDP ratio will rise in 2014—2015, but growth in the debt ratio will turn later in the spending limits period. Central government debt is expected to be around EUR 108 billion in 2018, which is around 48 per cent of GDP.

In national accounting terms, central government finances are projected to be in deficit during the entire spending limits period (see Section 3.1).

Ministry of Finance estimate of on-budget balance in 2014—2018, EUR billion, at current prices

	2014	2015	2016	2017	2018
On-budget revenue estimate, total[1]	46.9	49.6	50.4	52.0	53.4
On-budget expenditure estimate, total, at current prices[2]	54.1	53.5	53.7	54.6	55.9
On-budget balance estimate	-7.1	-3.9	-3.3	-2.6	-2.5
Central government debt-to-GDP ratio, %	49	49	49	49	48

[1] Including repayment of loans granted by central government.

[2] Expenditure converted into current prices using the Ministry of Finance central government expenditure price index projection, which provides a rough estimate of price trends over the spending limits period.

5.6 Off-budget central government finances

In the national accounts, the central government sector includes, alongside central government on-budget finances, the central government funds that are outside budget finances (excluding the State Pension Fund, which is classified in the national accounts under the pension provider sector) as well as the Finnish Broadcasting Company YLE, the universities and Solidium Oy.

The central government has 11 off-budget funds. Over the spending limits period, it is estimated that their combined annual revenue will be around EUR 5.5 billion and expenditure around EUR 5.1–5.3 billion. The annual net surplus of off-budget entities will therefore be around EUR 0.2–0.4 billion. The annual net surplus of off-budget funds, excluding the State Pension Fund, is estimated at EUR 0.1–0.2 billion.

From the beginning of 2013, the YLE tax was introduced to cover the costs of the public service broadcaster, the Finnish Broadcasting Company YLE. Revenue from the YLE tax is transferred to the State Television and Radio Fund. The amount of funds transferred will be revised annually to reflect changes in cost levels. The revisions will be based on a weighted index in which the weighting of the Cost-of Living Index is one third and that of the Index of Wage and Salary Earnings two thirds. Parliament groups decided that no index adjustment will be made in 2015.

With respect to the State Pension Fund, a legislative amendment will be prepared, on the basis of which revenue recognition from the fund into the budget will be increased in 2014—2015 by an estimated total of EUR 500 million. A revenue recognition into the budget will be made from the State Guarantee Fund, totalling EUR 100 million in the 2014 autumn supplementary budget.

The oil damage duty, paid into the Oil Pollution Compensation Fund, is levied on crude oil and petroleum products imported into and transported through Finland. The fixed-term increase of the duty will be continued in line with an objective stated in the Government Programme. The increased duty is EUR 1.50 per tonne of oil and it will be applied in 2013—2015.

Expenditure payable from the National Housing Fund will be increased by reducing the interest contribution payable on youth and student housing temporarily until the end of 2015 and through temporary start-up assistance, which will be targeted in connection with loan guarantees. In addition, renovation grants for the homes of the elderly and the disabled will be increased for 2014 and 2015. Investment grants for special groups will be increased in 2016—2018.

Off-budget central government funds, EUR million (at 2015 price and cost level)

	2015	2016	2017	2018
Taxes and tax-like revenue, total	87	71	71	71
Miscellaneous revenue	315	258	186	176
Pension contributions	1 727	1 757	1 789	1 818
Interest income and profit entered as income	490	508	497	488
Transfers from budget	511	511	511	511
Revenue excluding financial transactions	3 131	3 105	3 054	3 065
Repayments of loans granted	2 383	2 415	2 429	2 436
Total revenue	**5 513**	**5 520**	**5 483**	**5 501**
Consumption expenditure	283	238	210	181
Current transfers	870	889	959	947
Interest expenditure	2	1	1	2
Transfers to budget	2 109	1 912	1 978	2 048
Expenditure excluding financial transactions	3 264	3 041	3 148	3 176
Loans granted and other financial investments	2 034	2 034	2 037	2 044
Total expenditure	**5 297**	**5 075**	**5 185**	**5 220**
Net financial surplus	**216**	**445**	**297**	**280**

Overall funding of universities comprises appropriations allocated to universities in the budget and supplementary funding (e.g. paid services, donations, and sponsoring). In 2012 funding of universities totalled around EUR 2.8 billion, of which the central government share was around 75 per cent. Central government funding is expected to remain at around the same level in the next few years.

The investment company Solidium Oy is a limited company wholly owned by the state. In the central government budget, EUR 800 million in revenue was recognised from Solidium Oy in 2012 and also EUR 800 million in 2013.

State enterprises

For 2014 a total of EUR 220 million, of which Metsähallitus accounts for EUR 120 million, is budgeted for revenue recognitions into the central government budget from the state enterprises Metsähallitus and Senate Properties. In the spending limits period, annual revenue recognitions are expected to grow slightly. As part of the Government's growth package, revenue recognitions into the budget totalling EUR 175 million will be made in 2014—2015, in addition to the annual revenue recognitions. The additional recognition for 2015 is EUR 105 million, of which Senate Properties will account for EUR 90 million.

6 Steering of local government finances 2015—2018

Outlook for local government finances

An imbalance between expenditure and revenue has arisen in local government finances in recent years. Last year the budgetary position of local government finances improved temporarily due to non-recurring factors. Sluggish growth as well as adjustment measures in central government finances will keep municipalities' revenue growth slow in the next few years. Expenditure growth is also projected to slow compared with recent years but to be faster than growth of revenue over the entire outlook period. In the forecast, municipal income tax rates have been kept at the 2014 level, and expenditure growth has not been balanced with revenue. Local government finances will remain clearly in deficit, and growth of debt threatens to continue.

The state of and outlook for local government finances are comprehensively assessed in the Basic Public Services Programme.

Government's policy outlines for local government finances

The Government Programme did not set a target for the budgetary position of local government finances. In local government finances, however, it is natural to aim for a structural balance of revenue and expenditure, and in the implementation of the Structural Policy Programme, the Government is committed to implementing measures to balance local government finances.

Municipalities' duties and obligations will be reduced, such that local government operating expenditure is reduced by EUR 1 billion by 2017. In addition, the goal is achieve a EUR 1 billion saving at the 2017 level through tax funding and municipalities' own measures. The Government's decision on the implementation of the Structural Policy Programme includes a programme to reduce municipalities' duties and obligations, which will be implemented, for example, in the central government spending limits decision for 2015—2018.

The Government will refrain from giving new tasks and obligations that increase local government expenditure without deciding at the same time to cut tasks and obligations of corresponding size or fully funding the new tasks or obligations that are given. This principle will be applied to new projects with respect to the spending limits decision of 2014—2017. In addition, projects already included in the spending limits that will increase local government expenditure will be critically assessed.

In accordance with the Government Programme, the municipalities will be compensated in full for changes in tax criteria.

In its decision on the implementation of the Structural Policy Programme, the Government also decided to introduce a new steering system for local government finances, with the objective of securing the sustainability of local government finances. The new system will ensure that municipalities' tasks and obligations are consistent with the goal of balancing local government finances. The macroeconomic steering of local government finances will be implemented as part of the General Government Fiscal Plan and its annual revision. From 2015, the part of the General Government Fiscal Plan relating to local government finances will set a maximum limit for changes of expenditure arising to local government finances from central government measures. This maximum will be consistent with the target set for the budgetary position of local government finances.

In the comprehensive reform of the Local Government Act that will come into force from the beginning of 2015, the intention is to reform provisions relating to the financial management of individual municipalities. The changes will support the balancing of the whole of local government finances.

The Government will implement a nationwide municipal reform with the objective of creating a thriving municipal structure built on economically robust municipalities. The Local Government Structure Act came into force of 1 July 2013 and an amendment proposal relating to it, which concerns the Government's authority to decide on municipal mergers against the will of a municipality, will be submitted in spring 2014. It is intended that the new municipalities could start operating from the beginning of 2017.

The system of central government transfers to local government will be reformed from the beginning of 2015, with the objective being a funding model that incentivises economic activity and the effective arrangement of services. The objective is for the system to be mainly neutral in municipal merger situations and to function in a changing municipal and service structure. The rapporteur's preliminary Government proposal on the reform was circulated to municipalities for comment in February 2014.

In connection with the local government reform, the reform of the social and health care service structure will be taken forward. The Government has decided on a reform of the arrangement of social and health care services, such that arrangement responsibility would be transferred to five specific catchment areas.

Central government measures directed at local government finances

Central government transfers and grants in the spending limits period

Central government transfers within the scope of the municipalities' basic public services budget analysis will total around EUR 9.6 billion in 2015, which is around EUR 840 million less than in 2014. A large part of the change is explained by the fact that responsibility for the basic funding of universities of applied sciences will be transferred completely to central government from the beginning of 2015. In 2016—2018 central government transfers and grants will rise nominally by 1.2–1.7 per cent per year.

Most of the central government transfers and grants are notional central government transfers, including equalisation items, within the sphere of the central government transfer system. Excluding the funding of the universities of applied sciences, the level of central government transfers in the administrative branch of the Ministry of Finance is around EUR 8.5 billion and in the administrative branch of the Ministry of Education and Culture around EUR 0.6 billion.

Expenditure on social welfare and health care resulting from changes in population age structure and numbers is expected to grow notionally in the spending limits period by around EUR 1,127 million. Pre-school and basic education expenditure will grow notionally by EUR 87 million in the spending limits period.

Indexation of central government transfers will increase central government transfers for basic public services by around EUR 47 million in 2015. In the administrative branch of the Ministry of Education and Culture, indexation will increase central government transfers by a total of around EUR 9.5 million, of which EUR 6.4 million is the estimated share of municipalities and joint municipal authorities.

The central government transfer for basic public services takes into account changes that have taken place in tax revenue compensation compared with the spring 2013 spending limits decision. These changes will reduce central government transfers for municipalities' basic public services by EUR 93.5 million v. 2015, EUR 77.5 million in 2016 and EUR 50.5 million in 2017. In addition, an adjustment rising from EUR -12 million (in 2015) to EUR -85 million (in 2018) is taken into account for the impact of new tax criteria changes in spring 2014. The central government transfer for basic public services will also be reduced by the increases decided in the lower and upper limits of real-estate tax rates, correspondingly by EUR -54 million from 2015.

A technical assumption is that in the next parliamentary term's tax criteria changes will be compensated for in full in local government finances.

Central government transfers and grants to local government within the basic public services budget analysis, EUR million (spending limits period 2015—2018 at 2015 prices)

	2013[1]	2014[1]	2015	2016	2017	2018
Imputed transfers including equalisation items within the system of central government transfers to local government						
Ministry of Finance	8 677	8 613	8 476	8 501	8 456	8 453
Ministry of Education and Culture	979	782	645	639	595	591
Transfer for funding of universities of applied sciences[2]			-455	-455	-455	-455
Total	**9 657**	**9 395**	**8 666**	**8 685**	**8 596**	**8 590**
Other government aid included in the basic public services budget[3]						
Ministry of Finance	67	35	56	105	173	133
Ministry of Education and Culture	272	231	136	136	133	133
Ministry of Employment and the Economy	178	175	174	153	155	153
Ministry of Social Affairs and Health	562	523	490	487	507	508
Total	**1 079**	**963**	**856**	**881**	**967**	**926**
Specified government transfer for helicopter medical emergency service (33.60.40)[4]	26	33	29	29	0	0
Central government transfers and grants included in the basic public services budget analysis, total	**10 762**	**10 391**	**9 551**	**9 595**	**9 563**	**9 516**

1 Budgeted (budget and supplementary budgets)

2 Responsibility for funding universities of applied sciences will be transferred to central government from the beginning of 2015 and they will no longer fall within the analysis of the basic public services programme. The share of central government transfers for universities of applied sciences received by municipalities has been estimated notionally.

3 EUR 15 million has been earmarked in 2015 and EUR 25 million in 2016 as a discretionary government transfer for start-up costs of a new children's hospital providing public health care. Since the funding would go to a foundation, the appropriations are not entered in the table.

4 The specified government transfers do not include the local government funding share up to 2016. A reduction from 2017 relating to operational funding reform has been taken into account in the central government transfers of the main title of the Ministry of Finance.

During the spending limits period, the level of central government transfers takes into account the general reduction in central government transfers to local government decided earlier in this parliamentary term, which will reduce the 2015 central government transfers by just under EUR 200 million compared with 2014. Cuts in central government transfers decided during the parliamentary term total around EUR 1.3 billion at 2015 prices.

An overall increase of EUR 126 million at 2015 prices for the development of social and health care services will be made to central government transfers for municipalities' basic public services, when reductions of EUR 19 million, made as savings decisions, have been taken into account. Most of the increase in central government transfers, EUR 82 million at 2015 prices, will be allocated to implementing the Act on Care Services for the Elderly. An appropriation of EUR 9.4 million has been earmarked for the development of other social and health care services, which will be allocated to the implementation of the new Social Welfare Act. An annual EUR 13.1 million will be allocated to developing student care.

Certain reductions will be directed at the central government transfer appropriation for municipalities' basic public services as part of adjustment measures in central government finances. EUR 10 million earmarked as an increase in the discretionary central government transfer for municipalities will be cancelled from 2015.

The central government transfer appropriation for municipalities' basic public services will be reduced by an additional EUR 40 million from 2015. In respect of this, however, proposals will be made on increasing social and health customer fees such that a corresponding increase in payment receipts will be achieved, in which case the arrangement will be cost neutral overall from the perspective of local government finances.

Discretionary government transfers granted for the costs of establishing libraries will be transferred to central government transfers for municipalities' basic public services, as will the payment of ex-post funded discretionary government transfers granted before 2015 for the costs of projects setting up educational establishments. As part of savings measures, discretionary government transfers for the setting up of educational establishments will be abolished from 2015, as a result of which the appropriation saving is EUR 12.1 million in 2015 and will rise gradually to EUR 22 million in 2018.

Discretionary government transfers for general education will be cut by EUR 60 million and discretionary government transfers for vocational education by EUR 2.6 million.

Savings decisions directed earlier in this parliamentary term at liberal adult education, museums, theatres and orchestras, vocational upper secondary and further education, and general upper secondary have also been taken into account. One criterion taken into account in targeting savings is securing the implementation of the youth guarantee. From 2014 student places in vocational upper secondary education and training will be increased with the aid of EUR 5.2 million in order to implement the youth guarantee.

Young people's apprenticeship training will be strengthened and for young people there will a preliminary period in apprenticeship training. From 2014 additional funding will be allocated to apprenticeship training and the development of on-the-job learning.

The curricula of pre-school and basic education as well as the general objectives, allocation of lesson hours and curriculum criteria of general upper secondary education will be revised. The minimum number of lesson hours in basic education will be increased by three weekly lessons per year from 2016, as result of which central government transfers to local government will be raised by EUR 3.9 million in 2016 and EUR 9.4 million from 2017. Half of the increase will be covered by transfers from general education appropriations.

Municipalities' role and responsibility in the active care of long-term unemployment be emphasised. In accordance with the spending limits decision for 2014—2017, part of the funding responsibility for the labour market support of long-term unemployed people who have been on labour market support for over 300 days will be transferred to the municipalities from the beginning of 2015. The aim of the funding reform of labour market support is to create opportunities for those who are on labour market support to participate in activation measures.

To reduce long-term unemployment, a trial lasting until the end of the parliamentary term is under way, in which, after 12 months' unemployment at the latest, the main responsibility for managing unemployment is transferred to the municipality or municipalities jointly. A central government grant of EUR 20 million has been allocated to the trial still for 2015.

In the context of the reform of social and health care services, municipal mergers are expected to decline and slow down to some extent. On this basis, funding for municipalities' merger grants and for compensation of central government transfer losses has been reduced by EUR 5 million in 2015, EUR 10 million in 2016 and EUR 20 million from 2017. Financial support for the merging of municipalities (merger grants, compensation for central government transfer losses, feasibility studies) will accordingly be allocated as follows: around EUR 51 million in 2015, around EUR 95 million in 2016, around EUR 153 million in 2017 and around EUR 113 million in 2018.

Measures of the Structural Policy Programme

The impacts of the Government's Structural Policy Programme are described in Section 5.3.

Tax criteria changes

Tax criteria changes are outlined in Sections 4.2 and 5.4. Central government transfers to local government will be reduced so that the decided tax criteria changes have no impact on local government finances.

Impacts of central government measures

Central government measures will weaken local government finances in 2015 by an estimated net amount of around EUR 200 million compared with 2014. The biggest factors weakening local government finances are cuts to central government transfers and the shifting to municipalities of responsibility for funding the labour market support of the long-term unemployed. Central government measures will change to supporting local government finances in 2017, when there will be no new cuts to central government transfers and, moreover, the measures of the Structural Policy Programme will begin to have an impact. It should be noted, however, that the central government measures decided for 2015—2018 and their cost and impact assessments will be reviewed in further preparations.

7 Financing criteria of earnings-related pension funds 2015—2018

The earnings-related pension system consists of a number of different pension acts, in which pensions are generally determined, however, on the same criteria. The funding of pension expenditure varies by pension act, as a result of which the financing criteria of earnings-related pension funds cannot be described by a single rule. The financing criteria of the earnings-related pension sector can be examined, however, by looking separately at the financing criteria of the largest pension funds (TyEL, YEL, VaEL and KuEL) and the outcomes implied by them.

Finland's earnings-related pension system is a partially prefunded system in which pensions are financed, mainly annually, with pension contributions collected from employers and employees as well as partially prefunded pension assets and the income obtained from them. In addition, part of the pensions of central government employees and of entrepreneurs, agricultural entrepreneurs and seafarers is financed from the central government budget. Employees' pension contributions are the same in all pension acts. Pensions accrue in all pension acts in nearly the same way from earnings during the whole of working careers, with the accrual percentages being 1.5 per cent (18–52 year-olds), 1.9 per cent (53–62 year-olds) and 4.5 per cent (63–67 year-olds). Starting old-age pensions are reduced by a life expectancy coefficient, in which the starting pensions of each age class is reduced in proportion to the change in life expectancy of a 62 year-old compared with the 2010 level. Pensions being paid are increased annually by the Employee Pension Index, in which inflation has a 80 per cent weighting and change of earnings level has a 20 per cent weighting.

The Private-sector Employees' Pensions Act (TyEL) covers around 2/3 of the labour force. Of TyEL earnings-related pension contributions, part are prefunded individually and the remainder goes to finance current pensions in a pay-as-you-go system. With respect to 18–54 year-olds, an amount corresponding to an annual pension accrual of one half of one per cent is funded for old-age pensions. In addition, the parts of pensions placed in funds are supplemented by increase coefficients confirmed by the Ministry of Social Affairs and Health, which are based on the investment income received by the pension providers. The private earnings-related pension sector's EMU buffer is located in the pay-as-you-go system's buffer fund, which is termed the equalisation fund (equalisation liability). The target level of the EMU buffer has been agreed at a figure corresponding to 2.5 per cent of the private sector's annual wage bill, in which case the target level is around EUR 1.4 billion at the 2011 level. Pensions institutions jointly pay for the unfunded parts of pensions in due course using the equalisation part of insurance contributions. Around 17 per cent of TyEL and MEL (Seafarer's Pension Act) old-age pensions paid in 2012 were prefunded. Disability and unemployment pensions are not financed by the pension institutions in the same way as old-age pensions with annual prefunding; only as each pension starts does the pension institution allocate a sum calculated by actuarial principles for the payment of the starting pension. Around 55 per cent of TyEL and MEL disability pensions and around 52% of unemployment pensions were prefunded in 2012. Part-time and survivors' pensions are not prefunded; they are financed with a pay-as-you-go system. The pension expenditure of entrepreneurs (9 per cent of those insured), agricultural entrepreneurs and seafarers is financed from contribution income and the part exceeding this from the central government budget.

Criteria relating to level of the TyEL contribution are prepared in working groups established by the Finnish Pension Alliance TELA based on statistics and calculations produced by the earnings-related pension insurance companies and the Finnish Centre for Pensions. In addition, the contribution level is discussed in the pension negotiation group of social partners, in which a uniform increase of the TyEL contribution (0.4 percentage points per year) has been agreed right up to 2016. The aim is to set the TyEL contribution in such a way that pensions being paid and the prefunded part of pensions are covered by contributions. If no agreement is reached in the pension negotiation group on the level of the pension contribution, the act sets a minimum level for pension contributions. Pension contributions must be at a level that guarantees the payment of pensions and the funding required by law. According to the latest long-term calculations of the Finnish Centre for Pensions, the pension contribution increase requirement after 2016 is around one percentage point to ensure that the TyEL system is on a sustainable foundation.

The financial position of private earnings-related pension funds is influenced by how much of the pension contributions is placed in funds annually and how much is paid out in the form of prefunded pensions. The amount of fund assets paid out will grow in future and at the same time the amount of fund assets collected in relation to the wage bill will remain close to the current level. This will reduce the surplus of the TyEL system in future. Based on current long-term calculations, private pension assets (EUR 96 billion in 2012) in relation to the wage bill of those ensured will grow until 2020, after which the ratio will remain nearly stable (assuming one per cent pension contribution increases after 2016). Maintaining the level of fund assets stable in relation to the wage bill will require that fund assets accrue at the annual growth rate of the wage bill.

Pensions earned within the scope of the Local Government Pensions Act (KuEL) (21 per cent of those insured) are financed through KuEL contributions, which are collected each year at the level required for pension costs. The contributions also cover the system's administration expenses and in addition they are placed in a pension liability fund for future pensions. The part of contributions placed in funds have no corresponding link to increasing pension liabilities as in the TyEL system. The investment assets of KEVA (Local Government Pensions Institution) stood at EUR 34 billion at the end of 2012.

In the KuEL system, the financing of earnings-related pensions is based mainly on pension contributions, for which KEVA's member organisations are jointly responsible. The level of municipal sector pension contributions is decided by KEVA's Council. In the KuEL system, the aim is to set pension contributions in such a way that the pension system is on a sustainable foundation and the level of pension contributions remains stable in future. KuEL contributions are determined on the basis of wages paid in the municipal sector and also on the basis of pension expenditure. Both employers and employees pay KuEL's wage-based pension contributions. The contribution percentages of employees are the same as in the TyEL system. When pension expenditure exceeds pension contributions, the difference is covered by fund income or by selling off fund assets. In the light of current forecasts, fund assets will nominally not be sold off, so the KuEL system is projected to remain in surplus also in the long term. In the event of the anticipated financial balance changing, the system's balance will be restored by changing pension contributions or by selling off fund assets.

Employees ensured under the **State Pension Act (VaEL)** (6.5 per cent of those insured) and central government employees pay their pension contributions into the State Pension Fund (VER). Funds are transferred from the State Pension Fund annually into the central government budget to cover VaEL pension expenditure. The transferred amount is currently 40 per cent of the expenditure arising from central government pensions, the rest of pension expenditure is covered by tax revenue. A total of EUR 1,604 million was transferred into the central government budget in 2012. In the event the transferred amount exceeding pension contribution income, the difference is balanced out from pension fund income. State Pension Fund assets are projected to continue to grow nominally in the future, so the VaEL balance will not, in the light of current forecasts, go into deficit, despite growth in pension expenditure. The State Pension Fund aims to increase prefunded assets until their level exceeds one quarter of the central government's pension liabilities. At the end of 2012, pension liabilities totalled EUR 92.6 billion and over 65% of the prefunding target (EUR 15.4 billion) had been achieved. The State Pension Fund does not cover pension liabilities individually as in the private sector; it is a buffer fund. The State Treasury approves the actuarial criteria according to VaEL, excluding the administration expense part of the contribution, which is confirmed by the Ministry of Finance.

Other, smaller public sector pension acts and provisions include the Evangelical-Lutheran Church Pensions Act (KiEL) as well as the pension provisions of the Social Insurance Institution of Finland, the Bank of Finland and the Provincial Government of Åland.

In summary, it can be said that the earnings-related pension funds do not have any single rule by which financing criteria are determined. Due to the prefunding of pensions, the earnings-related pension sector has been significantly in surplus historically. Demographic change will cause growth of pension expenditure growth, which will be reflected in a reduction of surpluses. Due to prefunding, property income is substantial, however, so pension funds will nominally not have to sell off assets, even if pension expenditure exceeds contributions. Pension funds are also here to stay in the public sector, even though they were originally established to balance the pension expenditure of the baby-boom generation. It is possible, however, that pension funds will partially sell off assets in some circumstances, for example should the entire earnings-related pension fund sector fall into deficit, although in the light of current information this will not happen. Pay-as-you-go pension systems are by definition annually in balance.

Overall, the surplus of pension funds has reduced from four per cent of GDP at the beginning of the millennium to 2.1 per cent of GDP in 2013. The surplus is projected to fall to two per cent of GDP in the medium term as pension expenditure grows faster than income. The continuation of prefunding will keep pension funds in surplus by an estimated one per cent of GDP also in the future. In the national accounts, private sector pension funds are also included in general government finances and as general government finance assets. The earnings-related pension system surplus is not seen in general government gross debt.

8 Financing criteria of other social security funds 2015—2018

Other social security funds include other public sector entities implementing social security duties, such as the Social Insurance Institution of Finland (KELA) and entities handling the earnings-related unemployment insurance system.

KELA's activities are financed statutorily by the sickness insurance contributions of the insured and employers as well as by public sector contributions. The central government's share of KELA's funding in 2012 was 69 per cent, while insurance contributions accounted for 26 per cent and municipalities for 5 per cent. KELA's total expenditure was EUR 13.5 billion in 2012. Of total expenditure, benefit expenditure accounts for 97 per cent and operating expenditure for around 3 per cent. KELA's benefit funds are the National Pension Insurance Fund, the National Health Insurance Fund and the General Fund for Social Security.

The earnings-related unemployment insurance system is managed by the Unemployment Insurance Fund (TVR) and unemployment benefit societies. Earnings-related unemployment expenditure is financed from unemployment insurance contributions collected from employees and employers, central government contributions and the membership fees of unemployment benefit societies. In 2012 the benefits paid by unemployment benefit societies totalled around EUR 2.1 billion. Of this expenditure, the central government funded around 42 per cent, the Unemployment Insurance Fund 53 per cent and the unemployment benefit societies around 5 per cent.

To safeguard liquidity and to balance out changes in unemployment insurance contributions resulting from foreseeable fluctuations in the economy, the Unemployment Insurance Fund has a cyclical buffer, consisting of the difference of the fund's assets and liabilities. The forecast of the maximum amount of the assets and liabilities of the buffer when determining unemployment insurance contributions may be at most the magnitude of expenditure corresponding to an unemployment rate of 5.0 per cent.

The financing of other social security funds is in balance in the medium term, but the financial balance may vary slightly on an annual basis, with the buffer fund providing flexibility. In the 2000s the other social security funds have deviated from balance annually by at most 0.3 per cent of GDP.

APPENDIX 1: Macroeconomic forecasts and assumptions

The appropriation and revenue estimates of the spending limits decision as well as price- and cost-level adjustments of the spending limits are based on a forecast prepared in the Economics Department and which was available in the Government negotiations on 24–25 March 2014. The new decisions made in the negotiations, particularly with respect to taxation, influenced the forecast. The new, reviewed forecast is presented in the table below. The revised calculation bases will be taken into account in appropriation and revenue estimates and in price- and cost-level adjustments of the spending limits in summer 2014 in connection with the preparation of the 2015 budget proposal.

	2013	2014	2015	2016	2017	2018
GDP, change in volume	-1.4	0.5	1.4	1.8	1.5	1.4
GDP, change in price	2.0	1.6	1.4	1.5	1.8	1.9
GNI, value, EUR million	194 581	198 630	204 620	211 130	218 060	225 170
Consumer Price Index, change %	1.5	1.5	1.7	1.9	1.8	1.8
Index of Wage and Salary Earnings, change %	2.0	1.3	1.2	1.5	1.8	2.0
Building Cost Index, change %	1.0	1.3	1.6	2.4	2.4	2.4
Basic Price Index for Domestic Supply, change %	0.2	0.9	1.3	1.6	1.8	1.8
Unemployment rate, %	8.2	8.4	8.3	8.1	7.8	7.5
Wage bill, change %	1.0	1.3	1.8	2.5	2.2	2.4
Employee Pension Index (TyEL)	2 475	2 509	2 519	2 558	2 604	2 650
National Pension Index (KEL)	1 609	1 630	1 637	1 664	1 696	1 726
Index of Central Government Transfers to Local Government:						
Change in cost level, forecast	2.3	1.1	1.2	1.5	1.7	1.9
Change in cost level, budget proposal	3.0	1.5	0.7	1.5	1.7	1.9
— includes index adjustment	+0.7	+0.3	-0.6			
Actual change in cost level	1.8					
University Index	1.6	1.3	1.3	1.6	1.8	1.9
YLE Index		1.4	1.4	1.6	1.8	1.9
Unemployment insurance contributions						
— employer, average	2.32	2.20	2.20	2.20	2.20	2.20
— employee	0.60	0.50	0.50	0.50	0.50	0.50
Employee pension contributions (TyEL)	22.8	23.6	24.0	24.4	24.7	24.9
— employer	17.35	17.75	17.95	18.15	18.30	18.35
— employee aged 53 yrs and under	5.15	5.55	5.75	5.95	6.10	6.15
— employee over 53 yrs	6.50	7.05	7.30	7.55	7.75	7.80
— wage coefficient	1.327	1.350	1.364	1.379	1.398	1.421
Health insurance contributions for the insured						
— employees' daily allowance contribution	0.74	0.84	0.85	0.85	0.84	0.84
— wage earners' and entrepreneurs' medical care contribution	1.30	1.32	1.33	1.36	1.37	1.38
— pensioners' medical care contribution	1.47	1.49	1.50	1.53	1.54	1.55

	2013	2014	2015	2016	2017	2018
Central government employer contributions	21.3	22.5	22.4	22.3	22.2	23.3
— health insurance contribution	2.04	2.14	2.15	2.15	2.15	2.14
— pension contribution (under Central Government Employees' Pensions Act)	19.29	20.40	20.28	20.16	20.10	20.14
Local government employer contributions	29.8	29.4	29.4	29.2	29.0	28.9
— health insurance contribution	2.04	2.14	2.15	2.15	2.15	2.14
— other social insurance contributions	0.7	0.7	0.7	0.7	0.7	0.7
— unemployment insurance contributions	3.06	2.82	2.82	2.82	2.82	2.82
— pension contribution (under Local Government Employees' Pensions Act)	24.0	23.7	23.7	23.5	23.3	23.3

APPENDIX 2: Structural changes and cost- and price-level adjustment to spending limits

Structural changes

As a result of structural changes made in the 2013 supplementary budgets, the 2014 Budget and the current spending limits, the level of the spending limits for 2015 will be around EUR 130 million higher than in the spring 2013 spending limits decision. Many of the spending limits adjustments are due to timing changes in project implementation or acquisition payments or to the inclusion in the spending limits of pass-through funding.

Table 1 below presents a more detailed description of these structural changes and their impact on expenditure levels during the parliamentary term.

Budgetary structural changes compared with the spending limits decision of spring 2013, EUR million

Item	Matter	2013	2014	2015
Budget 2014				
24.30.66	Expenditure of cooperation projects corresponding revenue in 12.24.99 (pass-through item).		12 460	
29.40.30	In respect of the change of the legal entity form of the universities of applied sciences, there will be more privately maintained universities of applied sciences and therefore a greater part of imputed costs will be determined according to unit prices that include VAT, which increases the appropriation requirement by EUR 3.266 million. Correspondingly privately maintained universities of applied sciences will pay VAT to the state, which will increase the state's VAT revenue.		3 266	3 266
29.99.24	Adjustment for transfer of National Board of Antiquities' sites to Senate Properties. Previously there was a EUR 15 million provision, now EUR 6.4 million is confirmed as the absolute net rent.		-8 600	-8 600
31.10.77	Share of external providers of financing in Ring Road I project is smaller. Appears also in revenue item 12.31.10.		-15 000	
31.20.01	Gross budgeting of Transport Safety and Security Agency's inspection supervision fees (corresponding revenue in item 11.19.07)		4 785	4 785
32.20.02	Rebudgeting of VTT's operating expenditure due to delay of premises solution		4 390	
32.20.46	Rebudgeting of innovation support for shipbuilding relating to delay in completing vessel project		3 200	
32.40.03	Gross budgeting of National Board of Patents and Registration foundation supervision fees (corresponding revenue in item 11.19.09)		250	250
32.60.40	Change in payment estimate: payment estimate delayed of authorisation earmarked to support biorefinery projects		-15 000	15 000
33.10.54	Cost of increasing maximum housing expenditure of housing allowance decided in spending limits decision for 2014–2017 revised with respect to 2014		4 000	
33.20.50, 51, 52; 33.60.35	Deviating from spending limits decision, KEL-linked index adjustments will be implemented in full, giving rise to a total EUR 8.2 million cost to items outside spending limits.		-8 230	
33.20.50, 51, 52; 33.60.35	In connection with National Incomes Policy Agreement: protected component of unemployment security (EUR 300) and shortening waiting time for unemployment benefit from 7 days to 5 days. Net impact in which lowering of social assistance requirement is taken into account. All are in items outside spending limits, so overall spending limits level is correspondingly reduced.		-66 800	-66 800

Item	Matter	2013	2014	2015
Supplementary budgets 2013				
several	Financing of non-recurring investments, projects and acquisitions supporting growth and employment from spending limits provision left used in 2012 in 1st and 4th supplementary budgets	144 901		
21.10.74	Change of timing of Parliament renovation project	8 000	-8 000	
24.30.66	Directing of emissions allowance auction income to non-recurring development cooperation and climate funding projects in 1st and 4th supplementary budgets (in accordance with Government Programme can be implemented outside spending limits)	46 798		
24.30.66	Expenditure of project implemented in cooperation with Austrian development co-operation agency. Revenue corresponding to said expenditure in item 12.24.99 (pass-through item).	1 000		
27.10.18	Postponement of payments of defence materiel purchases from 2013 to later years of current parliamentary period.	-18 627	5 673	12 954
27.10.18	Value of Foreign Military Sales (FMS) agreement reduced (corresponding change in revenue in item 12.27.99)	1 545		
30.40.62	Rebudgeting of national funding contribution of European Fisheries Fund projects.	1 400		
31.10.40	Grant to Finavia for Tampere Airport repair investments cancelled and rebudgeted due to delay	1 100		
31.10.77	Expenditure corresponding to EU's TEN revenue in 1st and 4th supplementary budgets (revenue item 12.31.10)	7 603		
31.10.78	Budget transport project authorisations must not include outside financing contributions, for which the central government is not responsible. City of Vantaa financing contribution relating to 2013 removed from item 'certain transport route projects'.	-10 000		
31.40.50	Rebudgeting of EUR 9.37 million left used in 2012. Due to grant application process and progress of projects, the use of the appropriation will be earlier than original estimate.	9 370		
32.30.51	Increase in public employment service. As a result of redundancies of Nokia and companies linked with Nokia, Finland has submitted a funding application to the European Globalisation Fund (corresponding revenue entered in item 12.32.99).	7 790		
35.01.21	Completion of SALTI and LUPA information system projects has been delayed, and as a result around EUR 0.7 million of the appropriation remained used in 2012, and was rebudgeted for 2013.	700		
Spending limits decision 2015—2018				
25.10.05	Gross budgeting of general advocacy (corresponding revenue in item 12.25.15).			19 726
29.40.55	VAT compensation relating to reform of universities of applied sciences (formerly within municipal refund system, now VAT liable limited companies)			12 100
31.10.77	Share of external providers of financing in Ring Road I project is smaller (City of Helsinki financing must not be through state budget). Appears also in revenue item 12.31.10.			-13 500
32.60.40	Change in payment estimate: Payment estimate delayed of authorisation earmarked to support biorefinery projects		-15 000	15 000
33.20.52	Correction of technical error: EUR 150 million saving made for spending limits expenditure will be transferred to item outside spending limits and the spending limits level raised accordingly (thus item will not have both types of expenditure).			150 000
33.10.54	EUR 300 protected component in housing allowance. In item outside spending limits, so overall spending limits level reduced corresponding to change in criterion.			-14 000
Total		**201 580**	**-98 606**	**130 181**

Adjustments to price and cost level

The central government spending limits for 2015—2018 are expressed in cost and price levels for 2015. Some of the expenditure in the spending limits, such as development aid expenditure and national financing contributions corresponding to EU Structural Fund contributions, have been included in the spending limits decision at current prices, including an estimate of the impact on the appropriation of the rise in price level in the spending limits period. In other respects, the spending limits expenditure level will be revised annually according to the estimated rise in cost and price levels. The parliamentary term spending limits are transferred to the price level of the following year always in connection with the decision on spending limits, and the price- and cost-level adjustment made is determined according to the latest forecast data in connection with the preparation of the budget proposal.

The size of the price adjustment varies annually, according to the development of price and cost levels. The price- and cost-level adjustments for 2015 presented in the following table are based on the Ministry of Finance price development forecasts that were available in the Government spending limits negotiations on 24–25 March 2014.

Price and cost-level adjustments compared with the previous spending limits decision (spring 2013) are a total of EUR 185 million, when the price- and cost-level adjustments made in connection with the preparation of the 2014 Budget as well as the impact of moving to the 2015 price and cost level (including decisions not to make index increases to child allowances and defence materiel procurement, to increase KEL- and TyEL-linked expenditure by 0.4 per cent instead of the index, and to halve the index increases for universities and universities of applied sciences adjustments) have been taken into account.

The adjustments take into account both statutory and contractual price adjustments, which are made to both the spending limits level and appropriations, as well as price adjustments to other spending limits expenditure, which are made to the overall level of spending limits and on a discretionary basis to appropriations.

Adjustment of spending limits to 2015 price and cost level, EUR million

Spending limits expenditure according to classification of economic nature	Index used in calculation	Adjustment to appropriation and spending limits level		Adjustment to spending limits level
		Statutory index adjustment	Contractual adjustment	Other cost adjustments
15-17 Pensions	Employee Pension Index (TyEL)	17.7[1]		
18-19 Defence materiel acquisitions	Predictive increase 1.5%		17.3[2]	
01-14 Wages and social security contributions	Agreement increases		-	
Transport infrastructure expenditure	Building Cost Index (RKI)			24.5
01-14, 20-28 Other operating expenses and consumption	Consumer Price Index (KHI)			13.4
30-39 Imputed central government aid to municipalities and joint municipal authorities	Index of Central Government Transfers to Local Government (VOS)	56.8		

Spending limits expenditure according to classification of economic nature	Index used in calculation	Adjustment to appropriation and spending limits level		Adjustment to spending limits level
		Statutory index adjustment	Contractual adjustment	Other cost adjustments
30-39 Other central government aid to municipalities and joint municipal authorities	Index of Central Government Transfers to Local Government (VOS)			5.0
40-49 Central government aid to trade and industry	Consumer Price Index (KHI)			42.4
50-59 Central government aid to households and non-profit-making organisations indexed on a statutory basis	National Pension Index (KEL)	7.9[1,3]		
50-59 Non-indexed central government aid to households	National Pension Index (KEL)			23.9
50 Central government funding for universities and universities of applied sciences	University Index	16.6[4]		
50-59 Other central government aid to households and non-profit-making organisations	Consumer Price Index (KHI)			10.3
60 Transfers to off-budget central government funds	Consumer Price Index (KHI)			0.5
60 Transfers to Social Insurance Institution of Finland	National Pension Index (KEL)	15.1[1]		
60 Central government transfer for expenditure arising from the Sickness Insurance Act	KEL / Consumer Price Index (KHI)	0.6[1]		17.8
61-65 Central government funding contributions corresponding to EU Structural Fund contributions and other domestic transfers	Included in programme spending limits			
66-68 Transfers abroad	At current prices			
69 Transfers to the EU	EU's GDP Price Index	32.0		
70-79 Real investments	Building Cost Index (RKI)			0.9
90-99 Other expenditure	Consumer Price Index (KHI)			0.6
Supplementary budget provision and unallocated reserve	Consumer Price Index (KHI)			5.6
Total in 2015		**146.6**	**17.3**	**145.1**

[1] Takes account of the fact that expenditure linked to TyEL and KEL indexes will be increased in 2015 by 0.4 per cent instead of index.

[2] A predictive 1.5% price- and cost-level adjustment will be made to appropriation levels (excl. personnel expenses) for defence forces operating expenditure and defence materiel procurement. This adjustment will be revised later to correspond with the rise in price level indicated by the cost-of-living index in terms of defence forces operating expenditure and military crisis management equipment and administrative expenditure as well as the rise of the DK subindex of the industrial producer price index fleet in terms of defence materiel procurement. In 2015 the index increase for defence materiel adjustments will not be made, however, for savings reasons.

[3] Takes account of the fact that index increases for child allowance adjustments for 2013–2015 will be frozen (2015 impact around EUR 24 million).

[4] Takes into account the fact that index increases for universities and universities of applied sciences will be halved in 2015 (impact around EUR 17 million).

APPENDIX 3: General government revenue and expenditure by sector

Central government[1]

	2013*	2014**	2015**	2016**	2017**	2018**
Current taxes	6.2	6.0	6.1	6.4	6.6	6.8
Taxes on production and imports	14.8	15.1	15.2	15.1	14.9	14.8
Social security contributions	0.0	0.0	0.0	0.0	0.0	0.0
Taxes and social security contributions, total	21.4	21.4	21.6	21.8	21.9	21.9
Other revenue	3.4	3.4	3.4	3.2	3.2	3.3
of which interest receipts	0.2	0.2	0.2	0.2	0.3	0.3
Total revenue	**24.8**	**24.8**	**25.0**	**25.0**	**25.1**	**25.2**
Consumption expenditure	7.1	7.1	7.0	6.9	6.7	6.6
Subsidies and other transfers	19.1	18.9	18.1	17.8	17.4	17.1
to general government	12.8	12.7	12.1	11.9	11.7	11.4
Interest expenditure	1.2	1.3	1.3	1.4	1.5	1.5
Capital expenditure	1.0	1.1	1.1	1.0	1.0	1.0
Total expenditure	**28.5**	**28.3**	**27.5**	**27.0**	**26.5**	**26.2**
Net lending (+) / net borrowing (-)	**-3.7**	**-3.5**	**-2.4**	**-2.0**	**-1.4**	**-1.0**

[1] As calculated in the national accounts

Local government[1]

	2013*	2014**	2015**	2016**	2017**	2018**
Taxes and social security contributions	10.7	10.7	10.7	10.6	10.7	10.7
Other revenue	8.9	8.8	8.4	8.3	8.2	8.0
of which interest receipts	0.1	0.1	0.1	0.2	0.2	0.2
of which transfers from central government	6.9	6.7	6.3	6.3	6.2	6.1
Total revenue	**19.7**	**19.5**	**19.2**	**18.9**	**18.8**	**18.7**
Consumption expenditure	16.7	16.7	16.6	16.5	16.4	16.3
of which employee compensation	10.8	10.6	10.4	10.2	10.1	9.9
Income transfers	1.6	1.6	1.7	1.7	1.7	1.7
of which social security benefits and allowances	0.7	0.7	0.7	0.6	0.3	0.3
subsidies and other transfers	0.8	0.8	0.9	0.9	1.1	1.1
interest expenditure	0.1	0.1	0.1	0.2	0.3	0.3
Capital expenditure	2.1	2.0	2.0	1.8	1.8	1.8
Total expenditure	**20.4**	**20.3**	**20.3**	**20.1**	**19.9**	**19.8**
Net lending (+) / net borrowing (-)	**-0.8**	**-0.9**	**-1.1**	**-1.1**	**-1.1**	**-1.1**

[1] As calculated in the national accounts

Social security funds[1]

	2013*	2014**	2015**	2016**	2017**	2018**
Investment income	1.9	2.1	2.3	2.5	2.7	2.8
Social security contributions	13.4	13.6	13.6	13.7	13.6	13.6
of which payment paid by employers	9.3	9.3	9.3	9.2	9.2	9.1
contributions paid by the insured	4.1	4.3	4.4	4.4	4.5	4.5
Income and capital transfers from general government	6.7	6.7	6.5	6.4	6.5	6.3
Other revenue	0.3	0.3	0.3	0.3	0.3	0.3
Total revenue	**22.3**	**22.7**	**22.7**	**22.8**	**23.1**	**23.0**
Consumption expenditure	1.8	1.9	1.8	1.8	1.8	1.8
Social security benefits and allowances	16.8	17.2	17.1	17.2	17.6	17.6
Other expenditure	1.5	1.7	1.6	1.5	1.5	1.5
Total expenditure	**20.1**	**20.7**	**20.6**	**20.5**	**20.9**	**20.9**
Net lending (+) / net borrowing (-)	**2.1**	**2.0**	**2.1**	**2.3**	**2.2**	**2.1**
Earnings-related pension funds	2.1	2.1	2.2	2.3	2.2	2.1
Other social security funds	0.0	-0.1	-0.1	0.0	0.0	0.0

1 As calculated in the national accounts

APPENDIX 4: Changes compared with previous spring fiscal forecast

Factors affecting general government fiscal balance, according to national accounts, % GDP

	2014	2015	2016	2017
General government fiscal balance, spring 2013	**-1.7**	**-1.2**	**-1.0**	**-0.9**
CENTRAL GOVERNMENT:				
Impact of revised statistical basis on revenue and expenditure estimates	-0.2	-0.2	-0.2	-0.2
Impact of revised macroeconomic forecast on revenue and expenditure estimates	-0.3	-0.4	-0.4	-0.4
Impact of discretionary measures on revenue and expenditure estimates	-0.1	0.7	0.7	0.8
Change in interest expenditure estimate	-0.1	-0.1	-0.1	-0.1
Impact of other factors	-0.2	-0.2	-0.1	0.0
LOCAL GOVERNMENT:				
Impact of revised statistical basis on revenue and expenditure estimates	0.2	0.2	0.2	0.2
Impact of revised macroeconomic forecast on revenue and expenditure estimates	-0.1	-0.1	-0.1	-0.1
Impact of discretionary measures on revenue and expenditure estimates	0.3	0.3	0.3	0.3
Impact of other factors	-0.2	-0.4	-0.3	-0.3
EARNINGS-RELATED PENSION FUNDS:				
Impact of revised statistical basis on revenue and expenditure estimates	-0.1	-0.1	-0.1	-0.1
Impact of revised macroeconomic forecast on revenue and expenditure estimates	-0.1	-0.1	0.0	-0.1
Impact of discretionary measures on revenue and expenditure estimates	0.0	0.2	0.2	0.2
Impact of other factors	0.0	0.0	0.0	0.1
OTHER SOCIAL SECURITY FUNDS:				
Impact of revised statistical basis on revenue and expenditure estimates	0.0	0.0	0.0	0.0
Impact of revised macroeconomic forecast on revenue and expenditure estimates	-0.1	-0.1	-0.1	-0.1
Impact of discretionary measures on revenue and expenditure estimates	0.0	0.0	0.0	0.0
Impact of other factors	0.0	0.1	0.1	0.2
General government fiscal balance, spring 2014	**-2.4**	**-1.4**	**-0.9**	**-0.3**

APPENDIX 5: Sensitivity analysis and comparison with previous year's programme

5.1 Sensitivity analysis

The baseline scenario of the Stability Programme is based, in terms of 2014—2016, on the Ministry of Finance economic forecast of March 2014. The years 2017 and 2018 have been taken into account in the scenario based on, among other things, the growth estimate for potential output. The baseline scenario's general government budgetary position is based on, in addition to the economic forecast, the Government Programme of Prime Minister Jyrki Katainen's Government, the Spending Limits Decision for 2013—2016 approved by the Government in April 2012, the 2013 Central Government Budget, the Spending Limits Decision for 2014—2017, approved by the Government in March 2013, the 2014 Central Government Budget, and the Spending Limits Decision for 2015—2018, approved by the Government in March 2014. According to the baseline scenario, the Finnish economy will grow by 0.5 per cent in 2014, and thereafter by an average of 1.5 per cent per year in 2015—2018.

Despite the recent positive trend in the global economy and the improved outlook in the domestic economy, the risks associated with the forecast are still predominantly to the downside. In the euro area, the recovery of households from the debt and financial crisis might take longer than predicted, as the structural reforms designed to boost competitiveness have been a case of too little, too late. There is also uncertainty about the state of the banking sector, which may be weaker than previously estimated. In the United States, the sense of uncertainty is heightened by political tensions. Any disruptions in the United States will be widely reflected in the global economy. On the other hand, the improved net real investment position in the private sector may push demand onto a stronger than predicted growth track.

Failure to resolve the crisis in Ukraine would add to uncertainty and possibly increase the outflow of capital from Russia, reduce investment rates, weaken the rouble and drive the Russian economy into recession, which would have a negative impact of the Finnish economy. In the global economy, one upside risk to the forecast is the possibility of developing countries returning to growth sooner that predicted.

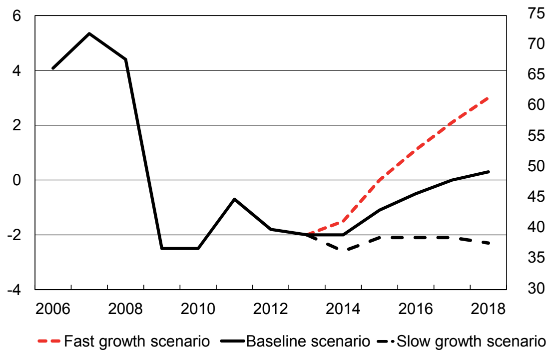
Domestically the main risks come from how quickly and how strongly the real economy reacts to the improvement in the global economic situation. At the moment, it seems that economic growth in Finland, at least in the short term, will be lower than in competitor countries. Structural policy measures will not yet have any growth effect in the short and medium term. If the credibility of the economic policy pursued is compromised in an environment of already weak economic growth, that could well lead to an accelerating downward cycle. Market-driven growth grounded in the real economy is also the key to achieving a true and sustainable improvement in public finances. The most critical factors with respect to open sector competitiveness are competitive input prices and the ready availability of inputs. Some of these factors are beyond the control of domestic economic policy. Others would require changes that have a genuine impact on the incentives of economic agents, both consumers and businesses.

The general government budgetary position has been in deficit for a long time now. The budgetary position will not be corrected in the programme period through economic growth alone. Population ageing will exert pressure on public finances and should negative risks materialise releasing this pressure would become more difficult. The euro crisis has recently been showing some signs of easing. The euro area debt crisis has increased Finland's public debt, however. Bilateral loans, capitalisation of the ESM, and state guarantees for the EFSF's acquisition of funds are raising the level of Finland's public debt. It can be considered a risk that, if various liabilities are realised, Finland's public debt might rise to a higher level.

The figures below present the impact on the general government budgetary position, debt and unemployment of slower-than-baseline and faster-than-baseline economic growth. The calculations are based on the assumption that, in the period under examination, annual output growth deviates by one percentage point in either direction from the baseline scenario.

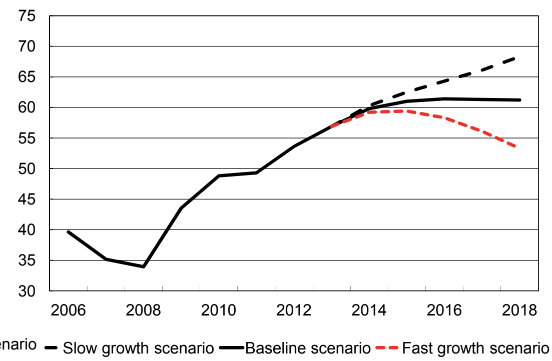
In the faster growth scenario, the general government budgetary position would move into surplus and the public debt ratio would begin to decline significantly and would be less than 60 per cent at the end of the programme period. Unemployment would also begin to fall significantly. On the other hand, in the lower growth scenario the general government deficit and debt would take a very worrying path. This would increase significantly the need to adjust public finances.

General government net lending
in ratio to GDP, per cent



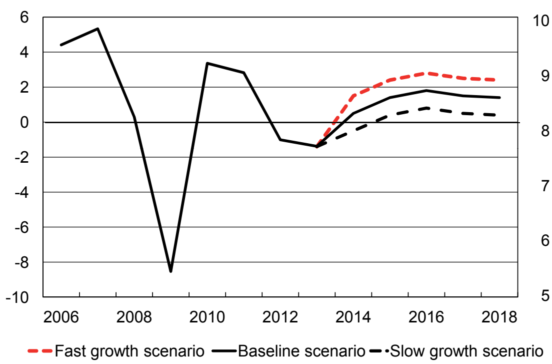
Source:Statistics Finland, MoF

General government gross debt
in ratio to GDP, per cent



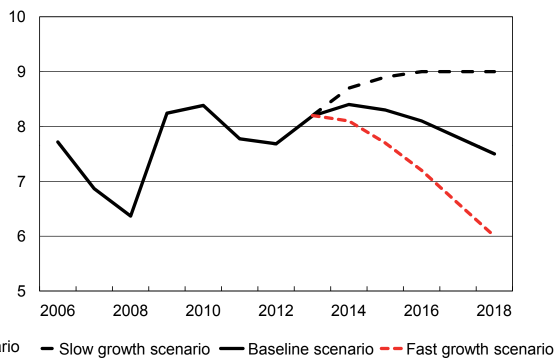
Source:Statistics Finland, MoF

GDP
change in volume, per cent



Source:Statistics Finland, MoF

Unemployment rate
per cent



Source:Statistics Finland, MoF

5.2 Comparison with last year's programme

In 2013 economic growth proved to be weaker than previously forecast (see Appendix 6, Table 6). The pick-up in the economy expected towards the end of the year was delayed and the economy contracted further in the final quarter. There was therefore a significant negative carry-over from last year into the current year. The growth forecast for the current year has accordingly weakened compared with last year's estimate. The medium-term growth outlook has also deteriorated slightly. Prolonged recession has adversely affected the development of potential output, on which the medium-term growth estimate is based.

Due to the deeper than expected recession, employment also weakened in 2013 more than forecast in the previous Stability Programme. As a result of the weaker growth outlook for the current and coming year, the recovery of the labour market recovery has been delayed. The unemployment rate is expected to rise further in the current year and in 2017 to still be slightly higher than last year's estimate.

Weaker than expected development of the economy will adversely affect the general government budgetary position in relation to GDP, particularly in 2014—2015. General government gross debt will also therefore remain at a higher level than estimated in the previous Stability Programme. On the other hand, the direct adjustment measures agreed by the Government will strengthen general government finances during the programme period. On 25 March 2014, the Government decided on a significant new package of measures, which is expected to reduce central government expenditure and increase revenue by around EUR 2.3 billion, i.e. around one percentage point of GDP at the 2018 level. The adjustment measures will be implemented mainly in 2015. The general government budgetary position relative to GDP will therefore strengthen in the programme period faster than estimated in the previous Stability Programme.

APPENDIX 6: Tables

Table 1a. Macroeconomic prospects

	2013 EUR bn	2013	2014	2015	2016	2017	2018
		change, %					
1. Real GDP	157.6	-1.4	0.5	1.4	1.8	1.5	1.4
2. Nominal GDP	193.4	0.6	2.1	2.8	3.3	3.3	3.3
Components of real GDP							
3. Private consumption expenditure	109.4	-0.8	0.0	0.3	1.1	1.5	1.5
4. Government consumption expenditure	49.7	0.8	0.3	0.4	0.7	0.5	0.6
5. Gross fixed capital formation	36.6	-4.4	-3.1	3.6	3.2	2.0	1.9
6. Changes in inventories (% of GDP)	-0.3	-0.2	-0.5	-0.2	-0.2	-0.2	-0.2
7. Exports of goods and services	77.6	0.3	3.5	4.1	4.8	4.5	4.5
8. Imports of goods and services	77.8	-1.8	2.1	3.3	3.9	4.2	4.4
Contributions to real GDP growth, % points							
9. Final domestic demand	195.8	-1.2	-0.5	0.9	1.4	1.3	1.3
10. Changes in inventories	-0.3	-1.1	0.4	0.1	0.0	-0.1	-0.1
11. External balance of goods and services	-0.2	0.9	0.6	0.3	0.4	0.2	0.1

Table 1b. Price developments

	2013	2014	2015	2016	2017	2018
	change, %					
1. GDP deflator	2.0	1.6	1.4	1.5	1.8	1.9
2. Private consumption deflator	1.7	1.7	1.3	1.3	1.8	1.8
3. HICP	2.3	2.2	1.8	2.0	2.0	2.0
4. Public consumption deflator	2.1	1.5	1.5	1.6	1.9	2.1
5. Investment deflator	1.5	1.4	1.6	1.9	2.1	2.1
6. Export price deflator	-0.9	0.2	0.4	0.5	1.0	1.2
7. Import price deflator	-1.0	0.7	0.7	0.6	1.2	1.4

Table 1c. Labour market developments

	2013 level	2013	2014	2015	2016	2017	2018
		change, %					
1. Employment, 1.000 persons	2 457	-1.1	-0.3	0.4	0.7	0.4	0.4
2. Employment, 1.000 hours worked	4 225	-1.9	0.3	0.8	0.7	0.4	0.4
3. Unemployment rate (%)	207	8.2	8.4	8.3	8.1	7.8	7.5
4. Labour productivity, persons	64.3	-0.3	0.8	1.0	1.1	1.0	1.0
5. Labour productivity, hours worked	37.8	0.5	0.2	0.5	0.5	1.0	1.0
6. Compensation of employees	81.0	1.0	1.3	1.8	2.5	2.2	2.4
7. Compensation per employee	32.6	2.1	1.6	1.4	1.8	1.8	2.0

Table 1d. Sectoral balances

	2013	2014	2015	2016	2017	2018
	% of GDP					
1. Net lending/borrowing vis-à-vis the rest of the world	-0.7	-0.3	-0.1	0.3	0.7	0.8
of which:						
- Balance on goods and services	-0.1	0.3	0.4	0.7	0.8	0.8
- Balance of primary incomes and transfers	-0.7	-0.7	-0.6	-0.5	-0.2	0.0
- Capital account	0.1	0.1	0.1	0.1	0.1	0.1
2. Net lending/borrowing of the private sector	1.6	2.1	2.1	2.1	2.0	2.0
3. Net lending/borrowing of general government	-2.0	-2.1	-1.8	-1.4	-0.9	-0.8
4. Statistical discrepancy	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4

Table 2a. General government budgetary prospects

		2013	2013	2014	2015	2016	2017	2018
		EUR million	% of GDP					
Net lending by sub-sector (EDP B.9)								
1.	General government	-3 891	-2.0	-2.0	-1.1	-0.5	0.0	0.3
2.	Central government	-6 539	-3.4	-3.2	-2.1	-1.7	-1.1	-0.7
3.	-							
4.	Local government	-1 480	-0.8	-0.9	-1.1	-1.1	-1.1	-1.1
5.	Social security funds	4 128	2.1	2.0	2.1	2.3	2.2	2.1
General Government (S13)								
6.	Total revenue	108 327	56.0	56.4	56.8	57.0	57.3	57.4
7.	Total expenditure	112 218	58.0	58.4	57.9	57.6	57.3	57.2
8.	Net lending/borrowing	-3 891	-2.0	-2.0	-1.1	-0.5	0.0	0.3
9.	Interest expenditure	1 840	1.0	1.0	1.1	1.2	1.4	1.5
10.	Primary balance	-2 719	-1.1	-1.0	0.0	0.7	1.4	1.8
11.	One-off and other temporary measures	0	0.0	0.1	0.1	0.0	0.0	0.0
	Selected components of revenue							
12.	Tax revenue (12=12a+12b+12c)	62 054	32.1	32.1	32.3	32.4	32.5	32.6
12a.	Taxes on production and imports	28 713	14.8	15.1	15.2	15.1	14.9	14.8
12b.	Taxes on income	32 695	16.9	16.7	16.8	17.0	17.3	17.5
12c.	Capital taxes	646	0.3	0.3	0.3	0.4	0.4	0.4
13.	Social security contributions	25 947	13.4	13.6	13.6	13.7	13.6	13.6
14.	Property income	7 083	3.7	3.8	4.0	4.1	4.3	4.5
15.	Other income (15=16-12-13-14)	13 243	6.8	6.9	6.9	6.8	6.8	6.7
16 = 6.	Total revenue	108 327	56.0	56.4	56.8	57.0	57.3	57.4
	of which: Tax burden (D2+D.5+D.61+D.91-D.995)	88 452	45.7	45.9	46.2	46.4	46.4	46.4
Selected components of expenditure								
17.	Compensation of employees + intermediate consumption	51 949	26.9	26.7	26.5	26.2	25.9	25.7
17a.	Compensation of employees	28 425	14.7	14.4	14.1	13.8	13.6	13.4
17b.	Intermediate consumption	23 524	12.2	12.3	12.3	12.4	12.3	12.3
18..	Social transfers (18=18a+18b)	43 685	22.6	23.1	23.0	23.1	23.2	23.3
	of which: Unemployment benefits	4 154	2.1	2.3	2.2	2.1	2.0	1.9
18a.	Social transfers in kind	5 491	2.8	2.9	2.9	3.0	3.0	3.1
18b.	Social transfers other than in kind	38 194	19.7	20.2	20.0	20.1	20.1	20.2
19 = 9.	Interest expenditure	1 840	1.0	1.0	1.1	1.2	1.4	1.5
20.	Subsidies	2 702	1.4	1.4	1.4	1.3	1.2	1.2
21.	Gross fixed capital formation	4 361	2.8	2.8	2.7	2.6	2.5	2.4
22.	Capital transfers	656	0.3	0.3	0.3	0.3	0.3	0.3
23.	Other expenditure (23 = 24 -17-18-19-20-21)	7 025	3.1	3.0	3.0	2.9	2.8	2.8
24 = 7.	Total expenditure	112 218	58.0	58.4	57.9	57.6	57.3	57.2
	of which: Government consumption	49 725	25.7	25.6	25.4	25.2	24.9	24.7

Table 2b. No-policy change projections

	2013 EUR million	2013	2014	2015	2016	2017	2018
		% of GDP					
1. Total revenue at unchanged policies	106 872	55.0	55.0	54.9	54.9	55.1	55.2
2. Total expenditure at unchanged policies	112 679	57.8	58.4	58.8	58.4	58.2	58.2

Table 2c. Amounts to be excluded from the revenue benchmark

	2013 EUR million	2013	2014	2015	2016	2017	2018
		% of GDP					
1. Expenditure on EU programmes fully matched by EU funds revenue	1 209	0.6	0.5	0.6	0.6	0.5	0.5
2. Cyclical unemployment benefit expenditure	584	0.3	0.3	0.3	0.2	0.1	0.0
3. Effect of discretionary revenue measures	1 456	0.8	0.4	0.6	0.2	0.1	0.0
4. Revenue increases mandated by law	440	0.2	0.0	0.0	0.0	0.0	0.0

Table 3. General government expenditure by function

	COFOG-	2012	2018
	code	% of GDP	
1. General public services	1	7.0	6.7
2. Defence	2	1.6	1.6
3. Public order and safety	3	1.5	1.4
4. Economic affairs	4	4.9	4.5
5. Environmental protection	5	0.3	0.2
6. Housing and community amenities	6	0.5	0.4
7. Health	7	8.2	8.7
8. Recreation, culture and religion	8	1.3	1.2
9. Education	9	6.3	6.4
10. Social protection	10	24.8	26.5
11. Total expenditure (=item 7=24 in Table 2)	TE	56.3	57.6

Table 4. General government debt developments

	2013	2014	2015	2016	2017	2018
	% of GDP					
1. Gross debt	56.9	59.8	61.0	61.4	61.3	61.2
2. Change in gross debt ratio	3.3	2.8	1.2	0.4	-0.1	-0.1
Contributions to changes in gross debt						
3. Primary balance	-1.1	-1.0	0.0	0.7	1.4	1.8
4. Interest expenditure	1.0	1.0	1.1	1.2	1.4	1.5
5. Stock-flow adjustment	1.3	0.8	0.2	-0.2	-0.1	0.2
of which:						
- Differences between cash and accruals	0.1	0.0	0.0	0.0	0.0	0.0
- Net accumulation of financial assets	2.1	2.1	2.2	2.3	2.2	2.1
- of which: privatisation proceeds	0.0	-0.2	-0.3	-0.2	-0.2	-0.2
- Valuation effects (incl. GDP growth contribution)	-0.9	-1.4	-2.0	-2.4	-2.3	-1.9
p.m.Implicit interest rate on debt	2.4	2.4	2.4	2.6	2.9	3.0
Other relevant variables						
6. Liquid financial assets	84.4	-	-	-	-	-
7. Net financial debt (7=1-6)	-27.5	-	-	-	-	-
8. Debt amortization (existing central government bonds)	7.4	-	-	-	-	-
9. Percentage of debt denominated in foreign currency	0	-	-	-	-	-
10. Average maturity of central government bonds (years)	6.1	-	-	-	-	-

Table 5. Cyclical developments

	2013	2014	2015	2016	2017	2018
	% of GDP					
1. Real GDP growth (%)	-1.4	0.5	1.5	1.8	1.5	1.4
2. Net lending of general government	-2.0	-2.0	-1.1	-0.5	0.0	0.3
3. Interest expenditure	1.0	1.0	1.1	1.2	1.4	1.5
4. One-off and other temporary measures	0.0	0.1	0.1	0.0	0.0	0.0
5. Potential GDP growth (%)	0.2	0.2	0.6	0.6	0.9	1.1
contributions:						
- labour	-0.1	0.0	0.2	0.0	0.2	0.2
- capital	0.3	0.2	0.3	0.3	0.4	0.4
- total factor productivity	-0.1	0.0	0.1	0.2	0.4	0.4
6. Output gap	-3.0	-2.7	-2.0	-0.8	-0.3	0.0
7. Cyclical budgetary component	-1.6	-1.4	-1.1	-0.4	-0.1	0.0
8. Cyclically-adjusted balance (2-7)	-0.4	-0.6	0.0	-0.1	0.1	0.3
9. Cyclically-adjusted primary balance (8+3)	0.5	0.4	1.0	1.1	1.6	1.8
10. Structural balance (8-4)	-0.4	-0.7	-0.1	-0.1	0.1	0.3

Table 6. Divergence from previous programme

	2013	2014	2015	2016	2017	2018
Real GDP growth (%)						
SP-2013	0.4	1.6	2.1	1.7	1.6	-
SP-2014	-1.4	0.5	1.4	1.8	1.5	1.4
Difference, %-points	-1.8	-1.1	-0.7	0.1	-0.2	-
General government net lending (% of GDP)						
SP-2013	-1.9	-1.3	-0.9	-0.7	-0.5	-
SP-2014	-2.0	-2.0	-1.1	-0.5	0.0	0.3
Difference, %-points	-0.1	-0.8	-0.2	0.1	0.5	-
General government gross debt (% of GDP)						
SP-2013	56.3	57.3	57.5	57.0	56.5	-
SP-2014	56.9	59.8	61.0	61.4	61.3	61.2
Difference, %-points	0.6	2.4	3.5	4.3	4.8	-

SP-2013: Stability programme update 2013, April 2013
SP-2014: Stability programme 2014, April 2014

Table 7a. Sustainability estimate in 2012 and 2013

	2013	2014
Debt servicing expenditure	0.8	0.9
Primary balance	-0.8	-1.8
Property income	1.8	1.7
Age-related expenditure	2.5	2.2
S2 sustainability gap	**4.2**	**3.0**

Table 7b: Long-term sustainability of public finances (2010—2060), % of GDP

	2012	2018	2030	2040	2060	2060-2012 change
	% of GDP					
Total expenditure	56.7	57.5	59.6	59.7	59.9	3.2
of which age-related and unemployment expenditure	28.4	30.4	32.5	32.6	32.8	4.4
Pensions	12.7	14.2	15.0	14.0	13.4	0.7
Earnings-related pensions	11.3	13.0	13.8	12.9	12.4	1.1
Other pensions	1.3	1.2	1.1	1.1	0.9	-0.4
Health care	6.0	6.3	6.8	7.1	7.4	1.4
Long-term care	2.1	2.3	3.0	3.8	4.3	2.2
Education	5.9	5.9	6.1	6.1	6.1	0.2
Unemployment	1.8	1.7	1.6	1.7	1.6	-0.2
Interest expenditure	1.4	1.8	3.8	5.1	9.7	8.3
Total revenue	54.5	57.4	57.8	56.9	56.4	1.9
of which: property income	3.7	4.5	4.8	4.0	3.5	-0.2
Net lending*)	-2.2	0.0	-3.9	-6.0	-11.4	-9.2
of which: transfer to pension funds	2.5	2.0	0.5	0.8	1.1	-1.4
Gross debt	53.6	61.2	78.1	104.3	199.3	145.7
Gross assets	123.8	135.0	122.6	106.4	97.3	-26.5
of which Pension funds assets	77.5	89.0	85.0	74.5	72.3	-5.2

*) Cyclically adjusted balance as of 2018

Source: Ministry of Social Affairs and Health, Ministry f Finance.

	Assumptions, %			
	2018	2030	2040	2060
Labour productivity growth	1.0	1.4	1.4	1.4
Real GDP growth	1.4	1.4	1.6	1.5
Participation rate				
males (20-64)	76.6	78.4	78.5	78.6
females (20-64)	75.6	74.6	75.1	75.6
total (20-64)	75.9	76.6	76.7	77.0
Unemployment rate	7.6	7.0	7.0	7.0
Population aged over 65 % of total population	35	44	45	50
Inflation	1.8	2.0	2.0	2.0
Real interest rate	1.0	3.0	3.0	3.0
Real return of pension funds, %	2.0	3.5	3.5	3.5
Net immigration, persons	17000	17000	17000	17000
Fertility	1.84	1.84	1.84	1.84

Source: Ministry of Social Affairs and Health, Statistics Finland, Ministry of Finance.

Table 7c. Contingent liabilities

	2013	2014
	% of GDP	
Central government guarantees	17.1	-
of which: linked to the financial sector	0.6	-

Table 8. Basic assumptions*

	2013	2014	2015	2016
3-month EURIBOR	0.2	0.3	0.5	1.3
Long-term interest rate (10-year government bonds)	1.9	2.3	2.9	3.5
USD/EUR exchange rate	1.3	1.3	1.3	1.3
Nominal effective exchange rate	3.1	2.0	0.0	0.0
World GDP growth (excl. The EU)	3.5	4.0	4.3	4.3
EU-27 GDP growth	0.1	1.5	2.0	1.4
GDP growth of relevant foreign markets	1.2	2.5	4.2	4.5
World trade growth	2.7	3.6	5.2	5.7
Oil prices, (Brent, USD/barrel)	108.9	106.0	103.0	100.0

* No specific underlying assumptions were defined for the medium-term computations.
Instead, they are based on general assessments on developments in the operating environment.

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