MINISTRY OF FINANCE

Europe 2020 -Strategy

Finlands National Programme Update, Autumn 2011

38c/2011

Economic outlook and economic policy

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Abstract

In June 2010 the European Council decided on a new economic and employment strategy. The strategy sets EU-wide targets for employment, research and development expenditure, climate policy, education and reducing poverty. Based on these headline targets, Member States prepare their national targets and specify barriers to economic growth.

Finland's Europe 2020 Strategy national programme was submitted in April 2011. The programme set as Finland's national targets the raising of the employment rate of 20 – 64 year-olds to 78%, maintaining R&D spending at a minimum of 4% of GDP, reaching the climate and energy targets agreed in the EU, raising the proportion of 30 – 34 year-olds with tertiary level education to 42%, keeping the proportion of early school leavers below 8% and reducing the number of people living at risk of poverty and social exclusion. Finland's national targets exceed those set in the EU.

According to the programme, economic growth in Finland requires safeguarding the long-term sustainability of public finances, diversifying the production structure, full utilisation of labour and increased competition.

The spring 2011 national programme stated that the Government formed after the April parliamentary elections in Finland would submit an updated programme after the autumn decision on spending limits had been submitted to Parliament.

This update of the national programme presents, from the perspective of the national implementation of the Europe 2020 Strategy, the main policy outlines of Prime Minister Jyrki Katainen's Government Programme dated 22 June 2011. In addition, the programme update presents, where necessary, the content of the 2012 central government budget proposal and the spending limits for 2012 – 2015, approved by the Government on 5 October 2011. The programme follows in terms of its structure the spring 2011 programme, focusing however on new policy outlines and decisions. Individual measures and their budget impact are presented as far as possible.

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Foreword

Finland submitted to the Commission its national programme based on the Europe 2020 Strategy in April 2011, just before the parliamentary elections. The programme's policy outlines were based on government programmes and resolutions of the previous parliamentary term.

The spring 2011 programme stated that the Government formed after the April parliament elections would submit an updated programme after the autumn decision on spending limits had been submitted to Parliament.

This programme update presents, from the perspective of the national implementation of the Europe 2020 Strategy, the main policy outlines of Prime Minister Jyrki Katainen's Government Programme dated June 2011. In addition, the programme update presents, where necessary, the content of the 2012 central government budget proposal and the spending limits for 2012 – 2015, approved by the Government in October. The programme follows in terms of its structure the spring 2011 programme, focusing however on new policy outlines and decisions. Individual measures and their budget impact are presented as far as possible.

Prime Minister Jyrki Katainen's Government confirms the Europe 2020 national targets set by the previous government. This programme update supplements the policy outlines presented in Finland's national programme in terms of required measures. The new Government's full Europe 2020 programme will be submitted in April 2012.

1 Objectives of Prime Minister Jyrki Katainen's Government Programme

The Government stated in its programme dated 22 June 2011 that it aims to achieve a caring and successful Finland. Finland will be developed as a Nordic welfare state and a society that not only looks after its own citizens, but also bears its international responsibilities as part of the Nordic region, Europe and the world. Well-managed public finances will ensure equal and quality public services and sufficient resources for social security.

The wellbeing of citizens, a high employment rate, education, comprehensive income security and effective social and health services are the basic requirements for the social and economic sustainability of the Nordic welfare state.

The Government will promote the competitiveness of Finnish work and entrepreneurship in close cooperation with social partners to reconcile economic and labour market policy.

Economic growth must be ecologically and socially sustainable.

The Finnish economic structure will be diversified and strengthened. In addition to traditional strengths, new sectors of growth will be developed in the industrial, service and creative sectors. Industrial policy measures will be targeted above all to support new, growth-oriented businesses that offer jobs and seek internationalisation.

On the international stage, Finland will aim for the top in professional expertise, in higher education, in research, development and innovation activities and in its low level of early school-leavers.

The Government's goal is to develop Finland into a carbon-neutral society and a forerunner in environmental expertise, clean technology and sustainable natural resource policy.

The Government will reduce poverty and inequality of all kinds. This requires the enhancement of employment, working capacity and social inclusion and the continued provision of social security. Immigrants are a permanent and welcome part of Finnish society. The Government will act purposefully against racism and discrimination.

Three core objectives link the Government's actions and all its decision-making:

1. Reducing poverty, inequality and social exclusion
2. Consolidating public finances
3. Strengthening economic growth, employment and competitiveness

The Government Programme's three priority areas provide a strong foundation for the specification and continuation of the Europe 2020 Strategy national programme. The national programme will be implemented within the central government spending limits.

2 Medium-term economic outlook in Finland

Finland's GDP returned to growth last year after a sharp decline in 2009. Growth has also continued on a reasonable level this year. Growth prospects are overshadowed, however, by the European debt crisis and the uncertain international economic outlook. As a small open economy, Finland is highly susceptible to external disruptions. Even if the international economy develops satisfactorily and external disruptions are avoided, Finland's economic growth is likely to remain modest in the next few years.

The Ministry of Finance's medium-term baseline scenario projects that growth will average 1.9% in the period 2012 – 2015, i.e. just under one half of one percentage point lower than the figure projected in spring 2011.

In the next few years, population ageing will begin to have a significant impact on Finland's economic development. Labour supply will decline as the baby-boomer generation retires. Due to the ageing trend, the employment situation will improve in the medium term despite the low growth figures. The employment rate will rise and the unemployment rate will fall. The baseline scenario indicates, however, that the Government's target employment rate of 72% and target unemployment rate of 5% will not be achieved.

Finland's strong position in terms of general government finances sharply deteriorated as a consequence of the financial crisis, but it is now improving as a result of implemented tax increases and the Government's new adjustment measures. The adjustment measures and the expected rather weak economic growth will be insufficient, however, to return public finances to surplus. To ensure long-term sustainability, public finances should be in surplus by around 4%.

Key national economic figures and forecasts

	2008	2010*	2011**	2012**	2013**	2014**	2015**
GDP, change in volume, %	1.0	3.6	3.5	1.8	2.3	2.0	1.6
Unemployment rate, %	6.4	8.4	7.9	7.6	7.4	7.0	6.9
Employment rate (15–64 year-olds), %	70.6	67.8	68.6	69.2	69.9	70.4	70.6
Employment rate							
(20–64 year-olds), %	75.5	72.8	73.4	74.0	74.7	75.0	75.1
Consumer Price Index, change, %	4.1	1.2	3.5	3.3	2.1	2.0	2.0
Budgetary position in general government, % GDP	4.2	-2.8	-1.1	-0.8	-0.6	-0.2	-0.2
Public debt, % GDP	34.1	48.3	48.7	50.3	51.7	54.6	53.5

3 Prerequisites for and barriers to growth and employment

The prerequisites for and the barriers, i.e. bottlenecks, to economic growth confirmed for Finland in June 2010 by the EU's Economic and Financial Affairs Council provide a justified basis for a economic and structural policy aimed at improving conditions for economic growth.

In Finland, population ageing and weak productivity development of public services will undermine the long-term sustainability of public finances. The unbalanced nature of the production structure, underutilisation of labour, and highly specialised exports will make the economy vulnerable. Price levels are increased by low competition in the domestic market and a centralised market structure, particularly in the service sector.

There follows a more detailed examination of the measures required to remove the above-mentioned barriers to growth and employment in Finland, from the perspective of Prime Minister Jyrki Katainen's Government Programme.

3.1 Safeguarding the long-term sustainability of public finances

In Finland, the public finances deficit and public debt as a proportion of GDP have in recent years remained below the 3% and 60% benchmarks set by the European Union. In 2011 the public finances deficit is projected to be 1.1% and public debt 48.7% of GDP.

Safeguarding the sustainability of public finances forms the basis of the Government's economic policy. The Government is committed to achieving a substantial reduction in the central government debt-to-GDP ratio by the end of this parliamentary term. To achieve this, the Government will take firm action to achieve balance in central government finances and to deliver stronger than predicted economic growth. A further objective is to maintain the credit rating of the Finnish State at its current best possible level.

The Government Programme outlines front-loaded expenditure and revenue adjustments as well as structural measures to safeguard the sustainability of public finances. These measures have been specified in the 2012 budget proposal and in the central government decision on spending limits for 2012 – 2015, approved by the Government on 5 October 2011.

The measures, which will strengthen central government finances with immediate effect, will improve the position of central government finances by EUR 2.5 billion on an annual basis by 2015. The adjustments will be divided equally between central government expenditure and revenue. The decision on spending limits includes a parliamentary term spending framework under which expenditure within the spending limits will be re-allocated, such that in 2015 the overall expenditure level will be EUR 1.2 billion lower than the corresponding figure in the technical decision on spending limits approved by the previous Government in spring 2011. At the same time, expenditure re-allocations will improve basic social security, combat youth unemployment and long-term unemployment, and promote growth and employment.

The Government Programme contains a commitment to increase tax revenue by just over EUR 1 billion on a net basis. Measures that increase tax revenue total around EUR 2 billion and measures reducing tax revenue correspondingly total around EUR 900 million. The focus of taxation will be shifted away from growth-hampering taxation of work and entrepreneurship towards environmentally and health motivated taxation. The largest tax cuts will be directed at earned income and corporate taxation, and correspondingly increases will be directed particularly at excise duty taxation, for example energy tax, motor vehicle tax and excise duties on alcohol and tobacco. The aim is to broaden the tax base by introducing two new taxes, namely a bank tax and a tax directed at the energy sector, which will cut unearned profits from nuclear and hydroelectric power plants.

The 2012 budget proposal contains tax increases totalling EUR 1.1 billion and tax cuts totalling EUR 900 million. Expenditure will be cut by EUR 1.1 billion. Funding for the Government's priority areas, such as combating the shadow economy and reducing youth and long-term unemployment, will be increased by a total of around EUR 410 million. The central government budget proposal shows a deficit of EUR 7.1 billion, which will be covered by taking additional debt.

The measures contained in the decision on spending limits will improve but will not alone be sufficient to balance central government finances and achieve a reduction of the debt ratio. A Ministry of Finance projection indicates that the central government deficit will still be just under 3% of GDP in 2015. The better than forecast economic growth and employment sought by the Government would, if achieved, strengthen the sustainability of public finances.

Tax changes in 2012:

Changes made to the tax criteria for earned and capital income will reduce central government tax revenue by around EUR 70 million on a net basis:

- Taxation on work will not be permitted to increase, and a 3.3% adjustment to tax criteria will accordingly be made to compensate for inflation and a rise in earnings level
- The taxation of people on basic social benefits and low income earners will be eased
- Tax subsidies to households will be cut by reducing mortgage interest relief and the domestic work deduction
- The tax rate on capital income will be increased from 28% to 30% and above EUR 50,000 to 32%
- Taxation of dividends paid by unlisted companies will be tightened

The corporate tax rate will be cut from 26% to 25%, reducing tax revenue by around EUR 160 million on an annual basis.

Taxation of inheritances and gifts over EUR 200,000 will be tightened by increasing the tax rate from 13% to 16%.

The tax rate on newspaper and magazine subscriptions will be changed from 0% to 9%, which will increase central government tax revenue by EUR 90 million per year.

Excise duties on alcohol, tobacco, sweets and ice cream will be increased, which will boost central government tax revenue by EUR 215 million per year.

Taxation of transport fuels will be increased in two stages, in 2012 and 2014. Both increases will boost central government tax revenue by EUR 125 million per year. In line with a decision of the previous Government, excise duty on diesel fuel will be increased and the motor vehicle motive force tax reduced. The tightening of motor vehicle taxation will increase central government tax revenue by EUR 140 million.

The most significant expenditure savings by 2015 on an annual basis are:

- A saving of around 1% directed at all administrative branch operating expenditure, EUR 245 million
- Defence forces and material procurement, EUR 200 million
- Development cooperation, EUR 115 million; development cooperation expenditure will be frozen in 2013 and 2014
- Higher education and research, EUR 170 million
- Drug reimbursement under health insurance, EUR 113 million per year from 2013
- Business subsidies, EUR 110 million
- Central government transfers to local government, EUR 631 million

The Government is committed to implementing further adjustment measures if the central government deficit shows signs of settling above 1% of GDP and there are no indications of a fall in the central government debt-to-GDP ratio. If economic growth proves to be faster than forecast, the increased revenue and lower expenditure arising as a result of faster growth will be used primarily to reduce central government indebtedness.

It will not be possible to close the public finances sustainability gap merely through fiscal policy measures. Structural measures are essential to balance public finances, to create faster than projected growth and close the public finances sustainability gap.

For public finances it is crucial that as many people of working age as possible are in work. Measures designed to prolong working careers will be directed at the early, middle and late stages of working careers. Better productivity in the public and private sectors, higher birth rates and more work-based immigration based on a genuine demand for labour will all help to reduce the sustainability gap.

The Government's aim is to raise the employment rate to 72% and to reduce unemployment to 5% by the end of this parliamentary term. The goal is also to raise the average retirement age in cooperation with social partners.

Framework agreement fosters competitiveness and employment

In autumn 2011, social partners negotiated a two-year framework agreement in which, in addition to pay increases, improvements to the quality of working life and to social security were agreed. Based on the negotiated result, sector-specific collective agreement negotiations will be held by 24 November 2011. The framework agreement and the associated central government measures will enter into effect if the agreement is sufficiently comprehensive.

The Government announced on 13 October 2011 that it is ready to support an inclusive and comprehensive labour market solution both financially and by participating in the preparation and promotion of legislative projects aimed at developing working life. The framework for measures requiring central government funding in 2012 is around EUR 400 million. With respect to 2013, the Government will outline measures in connection with the 2013 Budget.

The impact, effectiveness and productivity of public services will be improved. In public administration, information technology will be updated, joint procurement increased, facilities efficiency improved and operating practices revised.

The Government will launch a broad-based development campaign for municipal productivity and effectiveness, in connection with which a set of indicators for sustainable municipal productivity will be created to assess the quality and effectiveness of municipal services.

The Government's local government policy will pave the way for narrowing the sustainability gap in public finances and will help prepare for the impending growth in demand for services created by population ageing. The Government will implement a nationwide municipal reform with the objective of creating a thriving municipal structure built on economically robust municipalities. This will enable the customer-oriented provision of good quality and equal municipal services to be secured throughout the country. The legislative amendments required by the reform will be made in 2013 and 2014.

Economic crime and the shadow economy are a source of significant losses to society, and the Government has therefore made combating the shadow economy one of its spearhead projects. The fight against the shadow economy employs broad-based cooperation and a diverse range of tools. A programme to combat financial crime will be presented to Parliament by the end of 2011 and will be implemented without delay. The objective is to obtain EUR 300 million annually in additional tax revenue and social security contributions as well as recovered criminal proceeds. In 2012 a supplementary appropriation totalling EUR 20 million will be allocated to combating the shadow economy.

3.2 Diversifying the production structure

The Government aims to place Finland on a strong and sustainable growth track. Favourable conditions for existing and new business activities will be provided, and the renewal, diversification and strengthening of the economic structure will be promoted throughout the country.

In addition to traditional strengths, such as primary production and basic industries, new sectors of growth will be developed in the industrial, service and creative sectors. In 2012 the creation of growth, expertise and new innovations will be promoted by allocating EUR 8.5 million both to improving research infrastructures and to boosting the green economy.

Opportunities for risk-taking in export financing will be increased, and a permanent and internationally competitive export financing model will be introduced whose fundraising activity will enjoy free state guarantees provided by law. The Government will prepare a strategy to attract foreign investment and capital to Finland.

Business support measures:

- The corporate tax rate will be lowered
- Tightening of taxation on work will be prevented at all income levels
- Energy taxation of energy-intensive companies will be lowered to the EU minimum level from the beginning of 2013
- Environmental and innovation investment subsidies will continue for energy-efficient and environmentally friendly vessels
- Sufficient research, development and innovation support will be directed to the service sector
- Entrepreneurship training will be enhanced
- Business skills of SMEs will be enhanced
- Employment and entrepreneurship of educated young people will be promoted with the aid of business incubators and start-up accelerators
- The position of sole entrepreneurs and micro-enterprises will be improved
- The administrative burden on companies will be lightened
- Public and publicly-funded business services will be brought together on a one-stop-shop principle
- The Government will explore the introduction of terms and conditions incentives for research and development expenditure

In mining activity, the Government aims to increase the processing of minerals in Finland and develop the metal industry. Via Finnish Industry Investment Ltd, the government-owned investment company, EUR 30 million will be invested in a mining fund. In the forest sector, the objectives include increasing the degree of processing, enhancing the operations of basic forestry industry, diversifying the use of wood and increasing wood construction, and creating new entrepreneurial activities.

The Government will make environment-related business a priority of business policy. Growth of the environmental sector will be promoted through a programme that brings together measures aimed at developing the sector. New technology opportunities will be utilised in improving energy and material efficiency and in reducing emissions. Growth of the energy technology sector will be supported by means of innovation policy, research and product development, and education.

The Government will support cultural entrepreneurship, cultural exports and job creation in the creative sectors. Business activities and export opportunities in the creative sectors will be strengthened and the marketing expertise of the creative sectors enhanced. The need to reform employment, social security and tax legislation will be accordingly reviewed.

The food sector is a future growth area, and in the future, as now, food safety will be one of Finland's international strengths. The Government aims to enhance the processing, marketing and export of Finnish foodstuffs, including organic and special products. The strategic goal of agricultural policy is to achieve strong growth in the proportion of organic and local food.

In future, the Government will give greater support to the creation of new, permanent jobs in those areas and sectors which are subject to major structural change. The responsibility of companies will be emphasised both in the preparation of support packages and the promotion of re-employment.

An operating model to anticipate and manage acute structural change was launched in Finland in 2007. If a minimum of 1.5% – 2% of the total number of jobs in a district are lost and more than 200 people are affected, concrete measures are initiated immediately with sufficient central government funding. Change is managed and measured coordinated by a cross-administrative group in cooperation with local actors. The objective is to create for the area concerned new competitive production and to channel new labour to companies. The aim is to prevent the unemployment of redundant workers through 'from work – to work' solutions.

The Government will promote the introduction of intelligent solutions utilising information and communications technology in all sectors of society. Information resources produced using public funding will be opened up for public and corporate access. The development of public on-line services will be placed under the management of a single agency with robust powers. The interoperability of public information systems will be ensured and the overall architecture of public administration will be developed.

Transport policy will be linked to economic, financial, employment and regional development. Through agreements made with the largest metropolitan centres, land use, housing and transport solutions will be directed to mitigate urban sprawl and promote sustainable development. In addition, the Government will promote new intelligent services to improve transport efficiency.

The Government will also promote the introduction of fast, reasonably priced broadband connections throughout the country as well as the availability and use of high-speed broadband. The project "Broadband for All by 2015" will be evaluated in an interim review in autumn 2011 and decisions on further measures deemed necessary will be made accordingly.

In the use of EU Structural Fund resources, the emphasis will be on their permanent business policy effectiveness, growth and employment perspectives, and developing the economic structure and operating conditions of regions in a sustainable way. Project financing will be channelled more strongly for the generation of new sources of livelihood, enhanced employment, growth-oriented entrepreneurial activity, and the reduction of emissions.

3.3 Full utilisation of labour

It is the Government's goal to ensure that all those capable of working are given the opportunities and incentives to do so.

Each young person under 25 years old and recently graduated people under 30 years old will be offered a job, on-the-job training, a study place or a period in a workshop or rehabilitation within three months of becoming unemployed. This social guarantee for young people will be implemented by 2013 in cooperation with working life parties, municipalities and other key actors. In 2012 a total of EUR 55 million will be allocated to the social guarantee and EUR 10 million to improving the quality of basic education.

Youth unemployment will also be reduced by increasing labour policy and apprenticeship training and by developing workshop activity. Through vocational education, the engagement of young people in working life and their rapid employment will be improved.

The goal of returning the unemployed to the labour market as quickly as possible will be furthered by removing obstacles to work, lowering employment thresholds and increasing incentives. Health care services for the unemployed will be improved and successful rehabilitation ensured through preventive and timely measures.

The aim is to offer adult education on an equal basis to the entire adult population. Together with social partners the possibility of adopting a system of publicly funded personal training accounts for citizens will be investigated. The Government will improve adult education opportunities for small-scale entrepreneurs and other under-represented groups by abolishing tuition charges for them.

Incapacity for work is the most significant factor shortening working careers. For this reason, the Government will improve opportunities for people with partial work ability by developing occupational health care, rehabilitation and working life. Special attention will be paid to enhancing the prevention and treatment of mental health and substance abuse problems, referral to treatment at workplaces as well as facilitating people's return to work. The operation of the intermediate labour market will be improved by enhancing the opportunities of municipalities, companies, social enterprises and the third sector to employ people with partial work ability.

To reduce long-term unemployment, a fixed-term trial lasting until the end of this Government's term will be initiated in which the management of employment will be transferred under the sole or joint responsibility of a municipality or municipalities. A total of EUR 5 million will be allocated to the trial in 2012 and EUR 20 million per year in the period 2013 – 2015. Based on the results of the trial, decisions on the division of responsibilities between the municipalities and the central government in promoting employment will be made. In addition, the participation of the long-term unemployed in wage-subsidised work, training and other services will be supported from 2012 with an annual appropriation of EUR 20 million.

The inclusion of the hard-to-employ and the disabled in working life will be supported with a permanent wage subsidy. The job bank trial and the statutory operating model of labour force service centres will be extended to cover the whole country.

The objective is to increase the employment rate of immigrants and to halve their unemployment. Special attention will be paid to groups with low employment rates. Language education will be improved and the availability of education and support measures for young immigrants will be secured. Efficiency improvements in immigration policy and the speeding up of official procedures will facilitate the lowering of appropriations in 2015 by EUR 20 million than their previously estimated level.

The current system of determining availability of labour will be maintained and supervision of the labour market will be enhanced. The number of foreign workers residing in Finland and the future needs of the labour market will be assessed, and in future the rules of recruitment will be amended sector by sector in joint negotiations between the central government and labour market and entrepreneur organisations. The resources of the supervising authorities will be increased.

European Social Fund resources will be directed towards the employment of people in the most difficult labour market position, the development of the labour force skills and promoting the employment and integration of immigrants.

3.4 Increasing competition

With the aid of competition policy, equal competition conditions for businesses as well as well-functioning markets serving the interests of consumers will be safeguarded. Barriers to competition are generally structural, but they can also be a consequence of regulation, public funding or public sector activity in private service markets.

Promoting service markets:

- Reforms will facilitate social aspects to be taken better account in tendering processes
- National tender threshold values will be raised closer to the level specified in EU directives
- Procedures will be simplified within the framework provided by EU legislation
- Measures to combat the shadow economy will be enhanced
- The joint Public Procurement Advisory Unit of central and local government will be made permanent and its resources secured
- It will be made easier for residents to seek municipal services across municipal boundaries
- Clear parameters will be created to ensure that the business activity of municipalities, joint municipal authorities, municipal enterprises and other units owned by local government does not distort competition

The effectiveness of the Finnish Competition Authority will be secured by increasing its funding from 2012. Penalties for violations against competition legislation will be toughened. The Government will examine the possibility of imposing personal criminal responsibility on people found guilty of cartel violations.

The Forest Management Association Act will be amended to ensure the equal competitive position of different actors.

When granting licences pursuant to the Postal Act, conditions will be imposed on all operators, thus distributing benefits resulting from more open competition also to consumers and small enterprises, and guaranteeing high-quality mail delivery at sufficiently frequent intervals. Funding for the provision of universal postal services will be secured.

Efforts to combat the shadow economy and financial crime will be enhanced by increasing the resources available to the authorities, thereby improving the detection rate. Tax supervision and enforcing the prohibition on engaging in business will be strengthened. The amendments required to the Act on the Contractor's Obligations and Liability will be prepared in cooperation with social partners.

4 National targets and measures to achieve them

Europe 2020 Strategy National Targets in 2020

1) The employment rate of 20 – 64 year-olds should be 78%
2) The target level of R&D funding should be 4% of GDP
3) The climate and energy targets set in the EU should be achieved
4) 42% of 30 – 34 year-olds should have a tertiary degree, and the share of early school leavers aged 18 – 24 should be no more than 8%
5) The number of people at risk of poverty and exclusion should be reduced

4.1 Raising the employment rate to 78%

The national target set on the basis of the Europe 2020 Strategy is demanding, because an employment rate as high as this for 20 – 64 year-olds was last achieved just before the recession of the early 1990s. In 2010 the corresponding employment rate was 72.8%. The improvement in the use of labour resources implied by the fulfilment of the set employment rate target would mean a decline in the unemployment rate to around 5% in 2020. The employment trend will be influenced by the fact that the working age population will contract by 70,000 by 2015, and this trend will continue.

The Government's objective is to raise the employment rate of 15 – 64 year-olds to 72% and reduce unemployment of 15 – 74 year-olds to 5% by the end of 2015. The Government Programme's employment target is more ambitious than the Europe 2020 Strategy's national target, even though the targets have been set for different age groups. The difference between the employment rates of the age groups is 4 – 5 percentage points. Achieving the employment targets will require the number of people outside the labour force to fall significantly and for most of those entering the labour force to find employment. The Government's unemployment target is particularly challenging given the present number of unemployed and projected economic development.

A review of the implementation of the employment targets set by the Government will be conducted midway through the Government's term in office and decisions made on any further measures deemed necessary. Further measures required to improve the employment rate, the quality of working life, well-being in work and labour productivity will be decided in collaboration with social partners.

The Government underlines the importance of cooperation with social partners in the preparation and deciding of economic and labour market policy. The Government has stated that it is prepared to support the achievement of a labour market settlement through instruments that support the enhancement of competitiveness, employment and purchasing power.

As restructuring of the labour market continues strongly, the Government´s objective is to ensure that as many workers as possible who lose their jobs find new work quickly or are employed in some other way. The Government has launched a special strategic tripartite programme to improve the efficiency of the labour market. The programme will revise labour policy content and structures to improve their impact and effectiveness. A total of around EUR 500 million will be allocated to employment, training and special measures in 2012.

Targets supporting the improvement of employment:

- An industrial policy that supports sustainable growth and employment
- Prolonging working lives at all stages of the career cycle
- Employment-enhancing taxation measures
- Anticipation and effective management of structural change situations
- Active labour policy measures
- Alignment of employment and social security
- Reconciliation of work and family life
- Prevention of social exclusion among young people
- Measures to promote the faster completion of studies
- Improvement of adult education
- Improving the labour market position of hard-to-employ groups

Prolongation of unemployment will be prevented by securing the operating conditions of the Employment and Economic Development Offices. Sufficient resources will be provided for occupational rehabilitation and assessing the work capacity of the unemployed. Services will be developed, retargeted and quality criteria specified for them. Employment plans will be drawn up quickly, particularly taking into account the client's perspective.

The procurement procedures of labour market training will be reformed to better observe the quality and effectiveness of training and new operating models. Joint purchase training organised and funded in cooperation with companies will be developed and made use of more widely. Apprenticeship training will be increased, particularly in SMEs.

The employment in private companies of the unemployed will be supported by a wage subsidy, which will compensate for jobseekers' disadvantaged position in the labour market. The operating conditions of the third sector will be secured to improve the permanent employment of those who have most difficulties in the open labour market and to enhance their life management skills.

A national strategy for the development of working life will be prepared in a cross-administrative working group in cooperation with social partners. The working group's proposal will be completed by the end of April 2012. The objective is to improve the employment rate, quality of working life, wellbeing in work, and work productivity. In addition, a working group has been established to look into change-related trends and structural changes in the labour market and business activities and to assess their impact. The investigation will consider, among other things, the effects of temporary and part-time employment on the position of employees and the quality of working life and careers, a working time banking system and holiday periods for people working part-time. In addition, problems in social insurance and labour legislation concerning self-employment in the middle-ground between employment relationships and entrepreneurship will be specifically reviewed. Employment practices will also be assessed as a gender equality issue.

4.2 Target level of research and development expenditure 4% of GDP

The Government's goal is to safeguard a sufficient level of research, development and innovation activity. The target for the parliamentary term is 4% of GDP. In 2012 the central government's main research and development expenditure will fall to a total of EUR 1.87 billion, which is EUR 61 million less than in 2011. Public research and development funding, however, will still be an estimated 1% of GDP, which is a high level by international standards.

The effectiveness of funding will be improved by clarifying public funding bodies' division of responsibilities and by shifting the focus of funding to small and medium-sized, growth-oriented businesses that offer jobs and seek internationalisation. A sufficient level of research, development and innovation investment will be directed to developing the employment and productivity of service sectors and improving their export opportunities. The results achieved in research and product development will be assessed and support schemes reformed on the basis of the assessments made. The Government will investigate the possibility of introducing tax incentives.

The structural development of higher education establishments and research institutes will be continued by building extensive, high quality research and learning environments. The division of responsibilities will be clarified and cooperation strengthened. Funding of universities and higher education establishments will be reformed to support improvements to the quality of research and education, faster transition to working life, utilisation of research results, internationalisation, and specialisation among higher education establishments.

The operation of the Strategic Centres for Science, Technology and Innovation founded throughout the country will be continued and the smooth running of funding arrangements secured. Companies will assume the greatest responsibility for funding.

In addition to nationally and regionally networked innovation communities, strong regional hubs of innovation will be created in Finland. The innovation policy will also support the rest of the R&D policy.

4.3 Climate and energy targets under the EU effort-sharing agreement

The EU's climate targets have been incorporated into EU legislation via the climate and energy package. No new national targets have been set in connection with the Europe 2020 Strategy.

According to the effort-sharing decision included in the EU's climate and energy package, the emissions reduction obligations by 2020 are as follows:

- In the emissions trading sector, i.e. in manufacturing industry and energy production, the EU's target is to reduce emissions by 21% compared with the 2005 level
- In sectors not belonging to emissions trading, i.e. housing, transport and agriculture, the EU's target is reduce emissions by 10%, Finland's target is 16%
- To raise the proportion of renewable energy in the EU to 20%, in Finland to 38%
- In energy efficiency, the EU's target is a 20% improvement

By the end of 2012, the Government will decide on its position in respect of raising the EU's emissions reduction target to 30% by 2020. The long-term National Climate and Energy Strategy prepared in 2008 will be updated according to the same time schedule. The Government will establish a multi-disciplinary, independent climate panel to monitor the implementation of the strategy. In addition, the Government will prepare a long-term national EU strategy aimed at ensuring that Finland's special characteristics are taken into account in the EU's climate and energy decisions.

According to the Foresight Report on Climate and Energy Policy approved in 2009, the objective is to cut emissions by at least 80% from the 1990 level by 2050 as part of an international effort.

Based on studies and received experience, the Government will prepare a proposal and make a separate decision on the passing of a Climate Act to steer the reduction of emissions from housing, transport and agriculture, which are outside emissions trading.

Preparation and decision-making related to climate policy will include an investigation of its effects on finances, employment and income distribution. A further investigation will be made as to how environmental commitments can be fulfilled more cost-efficiently by developing economic instruments. Guidance will be provided for the pricing of energy and electricity consumption to encourage consumers to save energy and curb consumption peaks. With respect to the tightening of the EU's emissions reduction target, the cost impact, social benefits and effect on competitiveness will be reviewed.

The Government will enhance measures to promote energy efficiency and energy saving in accordance with proposals of the Energy Efficiency Committee. In 2013, a mid-term review will be prepared on the achievement of Finland's energy efficiency target and the potential additional measures required for its achievement.

To safeguard the competitive position of energy-intensive companies, the energy taxation of electricity will be reduced to the EU's minimum level and tax refund limits raised. When developing energy taxation, the prerequisites for co-generation of electricity and heat will be safeguarded. In addition, the Government will introduce a new tax aimed at cutting the unearned profits from old nuclear and hydro-electric power plants.

Promoting renewable energy

- The national target for renewable energy will be maintained. In 2012 a total of EUR 98 million will be allocated to renewable energy production subsidies. The functioning and effectiveness of subsidy decisions will be evaluated by the end of 2012 and the necessary further decisions made.
- The subsidy level for wind power will not be lowered. Land use planning, permit procedures, environmental impact assessments and compensation practices will be clarified and accelerated.
- Additional construction of hydroelectric power facilities will be promoted in river systems that are already harnessed.
- The utilisation of wood for energy will be supported, particularly in terms of local solutions. The impact of energy subsidies for small diameter wood will be monitored and the Government will ensure that subsidies do not distort competition or the acquisition of wood raw material.
- Utilisation of peat, on the other hand, will be systematically reduced. Taxation of peat will be raised by a moderate amount so that tax revenue is increased by EUR 20 million in 2013.

The Government will not grant permission principles for new nuclear power plants. Applications concerning construction licences for nuclear power plants will be processed without delay. Finland will participate in the EU stress tests and international cooperation for the promotion of nuclear power plant safety.

The Government will make preparations for the establishment of an EU-wide electricity market. Security of the power supply will be preserved by securing sufficient investments in transmission and distribution networks.

Transport emissions will be reduced by supporting public transport, renewing the vehicle fleet and favouring low-emission vehicle technology. Vehicle taxation will be reformed by shifting the focus of taxation from taxation on the purchase of vehicles to taxation on their use. The tax level of transport fuels will be raised gradually, with an emphasis on carbon dioxide emissions.

The Government will update the National Sustainable Development Strategy. Sustainable development targets will be taken into consideration in all administrative branches and the achievement of targets monitored with robust indicators. The Government will also prepare a programme for sustainable consumption and production. Subsidies that adversely affect the environment will be surveyed and subsidies redirected.

The Government will draw up a national programme for material efficiency and the sustainable use of natural resources and will explore opportunities to improve their measurement and evaluation. The Government will seek to actively influence the formulation of the EU's material efficiency policy.

4.4 Raising the proportion of people having completed tertiary education to 42% and reducing the proportion of early school leavers to 8%

The national targets are close to the long-term realised levels in Finland. In the next few years, the number of 30 – 34 year-olds having completed tertiary education in Finland will remain, due to a change in qualification structures, at the 37%–38% level, but this will rise to 42% by 2020. With respect to early school-leavers, Finland will record a lower figure than the EU's 10% target level set in the Europe 2020 Strategy. Achieving the national target would require that 95% of 18 – 24 year-olds have a post-basic education qualification. The target set in the Government Programme is that in 2020 more than 90% of 20 – 24 year-olds will have a post-basic education qualification.

The Government will ensure sufficient funding for education, skills and research. Education leading to a qualification will continue to be provided free of charge at the basic, secondary and tertiary levels.

The quality, effectiveness and internationalisation of higher education will be enhanced. Access to higher education studies will be made smoother. As a result of a revision to the higher education network's funding system, expenditure will be a total of EUR 136 million lower in 2015 than the previously estimated figure. The student financial aid system will be reformed to support full-time study and the accelerated completion of studies. Financial aid to students, which for higher education students is a maximum of EUR 508 per month, will be index-linked from 1 September 2014. The change will increase central government expenditure by EUR 15 million per year.

Every child who completes basic education will be guaranteed a place of study in upper secondary school education, vocational education, apprenticeship training, a workshop, rehabilitation or in some other way. The goal is that in 2020 more than 90% of 20 – 24 year-olds will have a post-basic education qualification. Participation in the information society will also be guaranteed for every child and young person. The Government will safeguard the sufficient provision of special needs and remedial teaching and will address the level of early school-leavers. Multi-professional student care will prevent the social exclusion of children and young people at all levels of education. Outreach youth work will be promoted and preventive substance abuse work supported. Workshop activities for young people will be further developed.

The integration and employment of migrants, communication across cultural boundaries, and activities to combat racism will be promoted through education. Special attention will be paid to young immigrants arriving in Finland who are near or at the end of compulsory school age. The recognition of existing competencies, language skills and vocational skills of migrants will be developed.

Investing in children and young people

- Social guarantee for young people, EUR 60 million
- Improving the quality of basic education, EUR 35 million
- Index-linking financial aid to students, EUR 15 million

4.5 Reducing the number of people living at risk of poverty and social exclusion

The goal of the Europe 2020 Strategy is that at least 20 million fewer people in the EU area should be at risk of poverty and social exclusion. According to the European Council, Member States can freely set national targets based on the three available indicators, namely at-risk-of poverty, material deprivation and jobless household.

In Finland, around 17% of the whole population live at risk of poverty or social exclusion. This group consists of elderly people, female pensioners, the unemployed, single parents, immigrants, the under-employed and women who care for children at home for extended periods. Poverty following periods of long-term unemployment is a growing problem, particularly among 45 – 54 year-olds. The poverty risk of those in work is low in Finland. Indicators of material deprivation are not of primary importance in terms of the comparison of different population groups and the targeting of measures, because an extensive service system safeguards free or reasonably priced basic social services for all.

Taking into consideration all of the criteria agreed in the European Council, namely relative risk of poverty, material deprivation and households weakly engaged with the labour market, a total of around 900,000 people are affected by risk of poverty and social exclusion in Finland. The quantitative target of the Europe 2020 Strategy will be achieved in Finland if the number of people at risk of poverty and social exclusion can be reduced by around 100,000 and the labour market position of households improved in terms of around 50,000 people.

The Government will reinforce the basic structures of the welfare state and ensure sufficient resources for public services and social security. Social welfare and health services will be delivered as an integrated system, emphasising preventive measures and the position of the client. The primary emphasis in improving the population's occupational and functional capacity as well as social security is on enhancing the quality, availability and effectiveness of services and on developing benefits so as to ensure everyone's livelihood. A supplementary appropriation of EUR 145 million will be allocated to developing social welfare and health services.

The Government will prepare a wide-ranging action plan to reduce poverty, inequality and social exclusion. In addition, the Government will launch a second National Development Programme for Social Welfare and Health Care (KASTE II), its points of emphasis falling on the prevention of social exclusion, development of informal care support services, general development of services, reduction of long-term homelessness, and prevention of domestic violence. The good practices created in development projects will be implemented across the entire country. High-quality, needs-based care for the elderly will be protected by an act on services for the elderly, which will come into force from the beginning of 2013. A housing policy action programme will be drawn up by the end of 2011.

The livelihood of the most disadvantaged groups in society will be improved from the beginning of 2012:

- Taxation will be eased by EUR 400 million
- The basic daily allowance and labour market support for the unemployed will be increased by EUR 100 per month to EUR 674 and at the same time the income limits for the housing allowance will be raised to correspond with the level of increased labour market support
- The basic amount of social assistance will be raised by 6%, which will increase the basic amount to EUR 444 per month
- Social assistance for single parents will be increased by 10%
- Production of social rented housing will be supported with EUR 110 million on an annual basis

Additional costs totalling just over EUR 300 million will arise to central government in 2012 from the increases in basic social security. In 2015 the general housing allowance will be improved by lowering personal liabilities by 8% and increasing maximum permitted housing expenditure by EUR 50 per month. The housing allowance reforms will increase central government expenditure on an annual basis by nearly EUR 70 million, but at the same time central government social assistance expenditure is expected to be more than EUR 50 million lower.

5 Implementation and monitoring of the National Programme

The Government will evaluate on an annual basis the development of the central government deficit and debt in relation to its set targets. If there are signs that the central government deficit has settled above 1% of GDP and there indications that the central government debt-to-GDP ratio is not falling, the Government will adjust central government expenditure and transfers to municipalities, increase taxes and cut tax deductions. The need for additional adjustment of expenditure and taxes will be reviewed annually starting from the 2013 – 2016 decision on spending limits.

A review of the implementation of the economic strategy will be conducted midway through the Government's term of office. Based on this review, additional measures necessary for the latter half of the Government's term of office will be specified to strengthen public finances and achieve set targets.

An assessment of the implementation of the employment targets set by the Government will also be conducted midway through the Government's term of office and decisions made on any further measures deemed necessary.

Appendix 1

RECOMMENDATIONS GIVEN BY THE COUNCIL TO FINLAND ON 12 JULY 2011

Based on the 2011 Europe 2020 Programme and the 2011 – 2014 Stability Programme, the Council recommends that Finland take action within the period 2011 – 2012 to:

1. Continue the fiscal consolidation using any windfall revenue to reduce the deficit, while taking additional measures to maintain the fiscal position above the medium-term objective, in particular through compliance with the medium-term expenditure benchmark1;

2. Take further measures to achieve productivity gains and cost savings in public service provision, including structural changes, in order to respond to the challenges arising from population ageing;

3. Target active labour market measures better on the long- term unemployed and young people;

4. Take measures to improve the employability of older workers and their participation in lifelong learning; take further steps to reduce early exit from the labour market; and consider a link between the statutory retirement age and life expectancy;

5. Take further measures to open up further the service sector to competition, by redesigning the regulatory framework and removing restrictions in order to facilitate the entry of new companies into service sector markets, especially in the retail sector.

1 In the Stability Programme update for 2009, Finland's medium-term objective for general government finances was set at a structural surplus of 0.5% of GDP.

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