



MINISTRY OF FINANCE

# Europe 2020 -Strategy



Finland's National Programme,  
Spring 2014

16c/2014

Economic outlook and economic policy





MINISTRY OF FINANCE

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# Europe 2020 –Strategy

Finlands National Programme, Spring 2014



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### Abstract

The European Council approved an economic and employment strategy in 2010. The vision of the Europe 2020 Strategy, which extends to 2020, is smart, sustainable and inclusive economic growth. The strategy sets EU-wide targets for employment, research and development expenditure, climate policy, education and reducing poverty. Every Member State sets its own corresponding national targets.

Finland's national targets are raising 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, keeping the proportion of 30–34 year-olds having completed tertiary-level education at 42%, bringing the proportion of 18–24 year-old early school leavers below 8%, and reducing the number of people living at risk of poverty and social exclusion.

In 2012 and 2013, the European Council adopted recommendations for all Member States aimed at guiding national decision-making. The recommendations given to Finland relate to the long-term sustainability of public finances, productivity of public services, reducing unemployment and raising the actual retirement age, increasing competition, and business structure diversification and wage development.

The Government now submits Finland's sixth Europe 2020 National Programme. The programme describes how the national targets will be achieved and how the EU recommendations have been taken into account. The information provided in the programme will facilitate a more detailed examination of Finland's situation at the EU level.



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# 1 Introduction

Finland has two major challenges. Economic growth prospects are subdued and there is a substantial sustainable gap in general government finances. Finland has lost ground in the global market due to industrial restructuring. The main reason for the general government sustainability gap, moreover, is Finland's rapidly ageing population. The deterioration of the old age dependency ratio will be particularly rapid in the current and next decade. The change in population age structure is reducing the number of people of working age and increasing age-related public expenditure.

To respond to these challenges, the Government decided in the 24–25 March 2014 spending limits discussion on significant adjustment measures, structural reforms to the public sector, and a programme for growth. As part of the General Government Fiscal Plan, the Government decided on significant measures to support growth. Central government assets will be directed to more productive use than at present. For example, central government property holdings managed by Senate Properties and Metsähallitus will be sold, and sales of state-owned listed companies and other measures will be implemented to increase central government revenue recognition. The additional recognition of revenue arising from the measures compared with that outlined earlier will be around EUR 1.9 billion in 2014–2015. 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. 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 structural reform programme was agreed in the budget session on 29 August 2013. The objective is to strengthen conditions for economic growth and bridge the sustainability gap by boosting employment and economic growth and by improving the productivity of public services. The aim of the structural reforms is to safeguard the funding of public services and benefits. The programme's effectiveness as well as economic growth and structural reform are supported by a moderate two-year labour market solution.

The measures presented in this National Reform Programme correspond in many ways to the policies outlined in the European Commission's Annual Growth Survey 2014. The goal is to strengthen conditions for economic growth through fiscal consolidation. Promoting economic growth and competitiveness is central to the reform programme. Particular attention is paid to the employment of young people and the long-term unemployed. In public administration, the main focus is on reforming the local government sector and the social and health care system.

In accordance with the European Council's spring 2014 guidance, this National Reform Programme focuses on measures to increase competitiveness, on improving the functioning of the labour market, and on combating youth unemployment. Furthermore, the programme aims to respond concretely and ambitiously to the country-specific recommendations and to the European Commission's latest in-depth analysis of Finland.

### **A Structural Policy Programme to strengthen conditions for economic growth and bridge the sustainability gap in general government finances**

It is customary to classify measures aimed at reducing the sustainability gap into direct measures, which adjust revenue and expenditure, and structural measures, which affect employment, productivity and economic growth over the longer term. Direct measures to reduce the gap are important, but covering the entire gap using such measures is not possible nor wise. Without action to reform economic structures and strengthen conditions for growth, the gap cannot be brought under control.

The structural reform programme is built on concrete structural policy measures to strengthen foundations for economic growth and the productivity of the public service system, to increase the employment rate and to solve the sustainability problem in general government finances. In the programme, the goal of closing the entire sustainability gap is divided into concrete sub-goals relating to central government finances, local government finances, working careers and the supply of work, structural unemployment, the productivity growth and competitiveness of the whole economy, and the productivity growth of public service provision. The measures aimed at achieving the set goals will be directed particularly at the institutional frameworks of economic activity and the incentives created by them. When deciding on concrete measures, the Government will ensure that the package also implements the priority of the Government Programme to narrow disparities in income, wellbeing and health.

## 2 Macroeconomic situation and scenario

Encouraging signals have been received from the international economy in recent times, although growth is fragile and the situation varies significantly from region to region. In the USA, economic growth is strengthening, in China growth is slowing and in Japan growth will not accelerate during the outlook period.

The situation in the euro area remains weak and is more susceptible than usual to negative shocks. Economic growth is still very modest and even small negative factors may still bring this emerging growth to a halt.

According to preliminary data, Finland's GDP contracted by 1.4 per cent in 2013. This was the second consecutive year of recession. In the final quarter of the year, GDP contracted by 0.3 per cent from the previous quarter.

### 2.1 Macroeconomic outlook in the programme period

At the same time as the Finnish economy has declined, the restructuring of industry and of the whole economy has continued, which has affected longer term growth prospects. The economy is expected to return to slight growth this year, but growth is also expected to be slow in the medium term.

According to forecasts, Finland's GDP will grow by only 0.5 per cent in 2014. An upturn in the economy is expected to take place during the year, however. The contribution of net exports will be clearly positive and will be the biggest single factor in initiating economic growth. Private consumption will not grow at all this year due to the weak development of real purchasing power, a subdued future outlook, and the labour market situation. Private investment will decline further and may fall to 15.5 per cent of GDP. The decline in industrial production will level off and growth of 1.4 per cent will be achieved this year. The unemployment rate will continue to rise. This year's average unemployment rate is forecast to be 8.4 per cent. Employment will also weaken by 0.4 per cent from the previous year. Productivity measured in working hours will develop rather sluggishly.

In 2015 economic growth is projected to accelerate to 1.4 per cent. Growth will become more broadly based, and of demand items only public investment will contract growth. In the wake of a clear recovery in world trade, exports will grow by over 4 per cent and

imports will also increase by over 3 per cent as a result of a pick-up in domestic demand. Private consumption will rise due to an improvement in real earnings and a strengthening of future expectations. This will also be evident in a fall in the household savings rate. It will be significant that household indebtedness will no longer rise. A clear upturn in private investment is projected, driven by investments in machinery and equipment and in construction. Public investment will continue to fall. In the labour market, the situation will remain weak and the unemployment rate is expected to stay more or less at this year's level, despite a pick-up in aggregate economic activity. There will continue to be substantial labour market compatibility problems. Inflation is expected to remain well below two per cent.

In 2016 the economy will grow by 1.8 per cent. Growth of total output is expected to exceed growth of the economy's potential output, despite a historically low rate of economic growth. Due to the economy's under-utilisation of resources, the level of total output will accordingly continue to be lower than potential output. Demographic factors, sluggish investment and changes in production structure will contribute to the economy's low growth potential.

In 2017 the economy is expected to grow by 1.5 per cent and in 2018 by 1.4 per cent. The output gap is expected to be closed in 2018. Slow growth in the programme period means that GDP volume will not reach the 2008 level until 2018.

One of the most significant domestic challenges is to improve the functioning of the labour market. During the deep recession of 2009, the development of employment was quite positive relative to prevailing conditions. Businesses' strong balance sheets as the recession began also contributed to this. The deterioration of employment that began in the latter part of 2012 continued through the whole of last year. The steepest decline in the number of people in employment took place in the third quarter of 2013, after which the annual change levelled off slightly. The number of people in employment declined overall by 1.1 per cent from the previous year. The reduction of employment was broad-based, because service sector employment, which was still growing in the previous year, also began to weaken. In manufacturing industry, employment fell for the fifth year in succession. The number of people in employment has declined by nearly 70,000 in manufacturing industry since 2008.

The employment situation is not expected to improve until 2015. Growth in the number of people in employment will remain modest, however, at 0.4 per cent. The improvement in employment will still be slow in 2016, despite broader-based output growth; the number of people in employment will grow by 0.7 per cent.

## 2.2 Macroeconomic impact of structural reforms

A number of measures mentioned in the programme have macroeconomic effects. It is not yet possible to assess in detail the impact of measures agreed in connection with the November 2013 Structural Policy Programme and the spring 2014 spending limits decision. The text box below lists the measures of the Structural Policy Programme on a general level.

## Key measures of the Government's Structural Policy Programme

The Government decided on the implementation of the Structural Policy Programme as part of the General Government Fiscal Plan on 25 March 2014. In the Structural Policy Programme, the goal of closing the entire sustainability gap is divided into concrete subgoals relating to central government finances, local government finances, improving the productivity of public service provision, working careers and the supply of work, structural unemployment, and the productivity potential and competitiveness of the whole economy. The key measures of the Structural Policy Programme are listed below.

### 1. Balancing local government finances (EUR 2 billion)

- Reduction of municipalities' duties and obligations EUR 1 billion
- Municipalities' own measures (improved efficiency and tax increases) EUR 1 billion
- Amendment of Local Government Act (2015), deficit coverage obligation and new steering system

### 2. Improving public services productivity by an average 0.5% per year

If productivity 0%/yr, due to growth of social and health care requirement, personnel +3,000/yr. If productivity 0.5%, personnel +1,000/yr.

- Reform of social welfare and health care
- Local government finances steering system takes productivity target into account
- In central government administration, also 0.5% productivity requirement

### 3. Working careers extended by 2 years

At end of working careers 1½ yr and at start (incl. working career breaks) ½ yr.

- Social partners' statement 19 March 2014: "...the solution will raise the average retirement age to at least 62.4 years by 2025. This will reduce the public finances sustainability gap by just over 1 percentage point." "The solution will be ready by autumn 2014."
- Start (1): central government transfer criteria for upper secondary school education will be restricted to target period (3 yr.)
- Start (2) & breaks: time limit on financial aid to students, incentives for universities, job alternation leave, home care

### 4. Structural unemployment rate down by 1 percentage point

- Activation and fast employment of the unemployed (change in operating practice):
  - more job offers, 3 months after unemployment from outside own occupational field
  - if work or activation measures refused, sanctions will be consistently applied
- If employment does not improve as expected – further measure proposals in August budget session
- Increase incentives to work (protected components of unemployment security and housing allowance)

### 5. Output potential 1½% increase

- Long-term moderate wage settlement
- Metropolitan region housing market: for metropolitan regions, 5-year plot reserve, if not fulfilled, sanctions possible; for employment pension companies, greater scope to fund housing projects from 2015; 20-year rental housing construction model
- National ICT service channel (first services in channel 2015)
- Acceleration of investment permit procedure



## 3 Implementation of country-specific recommendations

### 3.1 Long-term sustainability of public finances

*EU recommendation 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.*

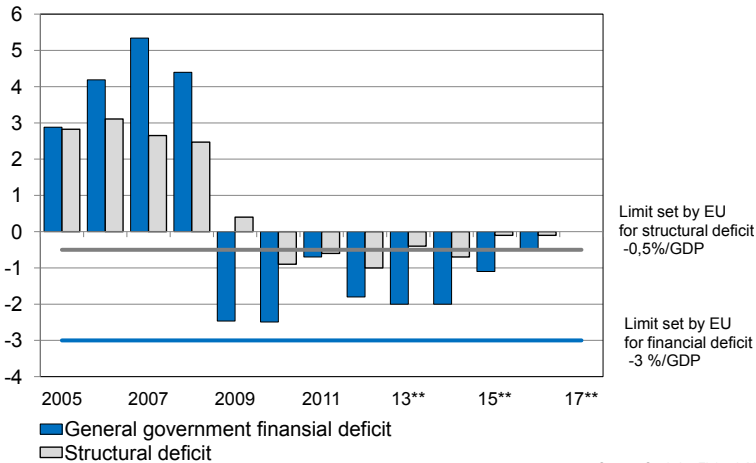
#### Growth-friendly economic policy

The objective of the fiscal and economic policy of Prime Minister Jyrki Katainen's Government is to promote conditions for economic growth and strengthen the financial foundation of the welfare society to ensure that public finances are on a sustainable basis. 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 2018 prices of around EUR 6.8 billion, i.e. 3.1 % of GDP.

The spring 2013 Stability Programme set a new medium-term objective for Finland's general government finances. The objective is a maximum general government structural deficit of 0.5 per cent of GDP. According to the Ministry of Finance's March 2014 forecast, the general government structural deficit will not deviate significantly from the medium-term objective in the next few years.

Economic and fiscal policy also aims to bridge the sustainability gap in general government finances. In March 2014, the Ministry of Finance estimated that the sustainability gap will be 3.0 per cent of GDP in 2018. Of the sustainability gap, 2.2 percentage points consists of growth of age-related expenditure.

General government financial deficit and structural deficit,  
% GDP



Economic growth and structural reforms supporting growth are the key to sustainable public finances. Anticipated growth and the closure of the output gap will not remove the sustainability gap. This will require the implementation of the Structural Policy Programme in a manner established by the Government as a target. The favourable impacts of the reforms on growth and on the sustainability of public finances will, however, only be realised as a rule over the long term.

In order to ensure that central government indebtedness levels off in a credible way and within a realistic time frame, the Government adopted in its general government fiscal plan discussions in March 2014 new measures that will reduce central government expenditure and increase revenue by EUR 2.3 billion at 2018 prices. The measures will be implemented mainly in 2015. At the same time, the Government decided that it will submit to Parliament for decision all 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.

### Cost-effectiveness and sustainability of long-term care

An act on supporting the functional capacity of the elderly and on social and health care services for the elderly (Act on Care Services for the Elderly) came into force on 1 July 2013. The purpose of the act is to support the wellbeing, health, functional capacity and independent coping of the entire elderly population as well as participation in the development of services within local authorities. In addition, opportunities for elderly people to receive quality social and health care services will be improved.



A revised quality recommendation, published in July 2013 and aimed at ensuring good ageing and improving services, concretised the objectives of the Act on Care Services for the Elderly. It covers, among other things, inclusion, housing, ensuring functionally active ageing, services, personnel and management.

An action plan prepared by the Ministry of Social Affairs and Health aimed at reducing institutional care of the elderly and increasing services provided at home was completed in February 2014. The plan is part of the Government's Structural Policy Programme and it aims to change the structure of services for the elderly and in the direction of less institutional care and thereby to control cost growth as the number of elderly people increases.

### 3.2 Productivity of public services

*EU recommendation 2: Ensure effective implementation of the ongoing 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.*

The Government is committed to reducing local authorities' duties and obligations to an extent corresponding to EUR 1 billion in operating expenditure. In addition, the goal is achieve a EUR 1 billion saving at 2017 prices through local authorities' own measures, for example by improving productivity and through tax revenue. In education and culture, the funding system for upper secondary education will be reformed and preparations made to improve the efficiency of the education provider network. In social and health care, the reduction will consist of the cutting and lightening of a number of duties and obligations. Overlapping activities will be cut and the efficiency of local authorities' administrative duties and service structures increased.

#### Local government administration and service structure reform

Under the Local Government Structure Act, which came into force in summer 2013, municipalities must study potential municipal mergers in areas that fulfil the study criteria. The deadline for the obligation to study potential mergers was linked in the legislation to the entry into force of the Act on the Arrangement of Social and Health Care, such that the study period will end at the earliest six months after the entry into force of the Act on the Arrangement of Social and Health Care. Municipalities which have undertaken sufficient studies and made merger decisions by the deadline will be entitled to central government merger grants, other change assistance and compensation for losses of central government transfers.

For the larger metropolitan regions (12), the central government has decided to appoint special municipal boundary rapporteurs to implement the obligation to study potential mergers included in the municipal structure reform. With the except of a few metropolitan regions, such studies are currently under way. In the other areas, the central government will assess on a case-by-case basis the need to establish a special municipal boundary study.

The Government's extensive reform of local government as well as the related reform of social and health care practices and structures will also improve the productivity of public services and achieve cost savings in the provision of public services.

### **Reform of the system of central government transfers to local government**

A reform of the system of central government transfers to local government will be implemented from the beginning of 2015. The reform will reconcile the municipalities' duties and obligations and their funding. The objective is a funding model that incentivises economic activity and the effective arrangement of services. In the reformed municipal administration and service structure, the reformed system of central government transfers will be mainly cost neutral in municipal merger situations.

### **Productivity targets in the Basic Public Services Programme**

The joint Basic Public Services Programme of central government and the municipalities sets three kinds of productivity target for municipalities, joint municipal authorities and other service providers. A key target relates to growth of local government operating expenditure. The Basic Public Services Programme approved in spring 2012 set as a target that by 2020 municipalities' operating expenditure will grow in real terms by at most 0.4 per cent annually on average and cumulatively by 4 per cent, assuming that the duties of the municipalities and joint municipal authorities are the same as in 2010.

In 2012 the municipalities' duties increased computationally by EUR 78 million. Correspondingly, the municipal sector's actual operating expenditure grew nominally by 5.0 per cent. When nominal growth is corrected by the price index and changes to duties, the position is such that operating expenditure grew by 1.28 per cent more than the 0.4 per cent figure set for as a target for annual growth.

The development outlook for local government finances in 2015–2017 was assessed in the Basic Public Services Budget prepared in autumn 2013. Information published in February 2014 about development in 2013 showed that the annual margin of municipalities and joint municipal authorities strengthened slightly more than expected, mainly due to better than anticipated development of municipalities' tax revenues. Tax revenue growth was positively influenced by changes in apportionments made in the municipalities' favour. Municipalities' operating expenditure also grew more slowly than expected. A new steering system for local government finances will replace the Basic Public Services Programme. The preparation of the financial framework for local government finances is proceeding in accordance with a Government decision of 29 November 2013. A Government decree on the General Government Fiscal Plan came into force on 14 February 2014. 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. The new steering model for local government finances may therefore be adopted in 2015.

### **Promoting local government productivity and effectiveness**

There are significant challenges facing the productivity and effectiveness work of municipalities. The changing population age structure will increase demand for social and health care services and competition for a diminishing labour force.

In spring 2012, a project was launched aimed at supporting and strengthening work promoting the productivity and effectiveness of municipalities and joint municipal authorities. Work during 2013 created a local government productivity scorecard, established a local government productivity databank, prepared a local government productivity and effectiveness measurement guide intended for municipalities, and arranged network meetings for municipalities engaged in productivity work.

### **Social and health care services**

The Government parties and the opposition parties agreed on 23 March 2014 that Finland will implement a fundamental social and health care services reform aimed at safeguarding the key welfare services of Finns for future decades. 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 established by the Act on Specialised Medical Care and also on currently well-functioning structures.

The new regions will form a single tier administration for the organisation of social and health care services. The administrative model for the new regions is the joint municipal authority and they will be funded by the municipalities on a weighted capitation basis. The reform will be pursued in parallel with the on-going review of social and health care financing options, but as an independent entity. At the same time, national level steering will be strengthened to ensure regional balance and economic efficiency.

The starting point for the reform is full integration of all social and health care services by a strong regional provider. The aim is to create seamless service chains for the provision of key welfare and health care services. The integration of social and health care services and the generation of sufficiently large population bases will have a positive impact on the sustainability gap in public finances.

In future, the organisation of social and health care services will be the responsibility of the five regions. Municipalities will continue to participate in the provision of the services. Local services, such as health centres, home help services for the elderly, and social welfare services will still be provided close to home.

The aim is to finalise a proposal based on the policy outline by the end of May and to circulate it for comments in June. The proposal will be submitted to Parliament in autumn 2014. The new regions responsible for social and health care services will start operating on 1 January 2017.

### **Decree on Emergency Care**

Growth of care opportunities and the attendant increase in skills requirements as well as the concentration of population in growth centres have led to the centralisation of urgent care in health care emergency services arranged in connection with major hospitals. The Decree on Emergency Care, adopted in August 2013, lays down quality criteria for good emergency care. At the same time, it indirectly centralises the emergency provision of specialised health care in hospitals. The development will facilitate the cost-effective use of resources as well as safeguarding the quality of care. The decree will come into force at the beginning of 2015.

### 3.3 Reducing unemployment and raising the effective retirement age

*EU recommendation 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 people and the long-term unemployed, with a particular focus on the development of job-relevant skills.*

A target was set in the Government Programme to raise the employment rate of 15–64 year-olds to 72 per cent and to reduce the unemployment rate to 5 per cent by the end of the parliamentary term in spring 2015. As economic growth in recent years has been clearly worse than that projected in summer 2011 when the Government Programme was prepared, neither target will be achieved. In 2013 the employment rate fell to 68.5 per cent and the unemployment rate rose to 8.2 per cent.

#### Development of the employment rate in different age groups

The employment of older people, 55–64 year-olds, has improved significantly in the 2000s, even though in other age groups the employment rates have remained roughly as before. In 2009, in the recession that followed the financial crisis, the employment rate fell in all age groups, but particularly strongly among young people. The employment of young people typically reacts sensitively to cyclical fluctuations, because young people have alternatives to employment, for example in the field of education. During the past two years, the employment rate has also developed most poorly among those in the middle stages of their careers (25–54 years) and has risen among young people and older people.

#### Improving labour market functionality

The Structural Policy Programme includes a package of measures to improve the functioning of the labour market. The measures are directed at developing employment office services and changing the terms of unemployment security.



In accordance with guidelines that came into force at the end of 2013, the Employment and Economic Development (TE) Centres are obliged to significantly increase the making of job offers to the unemployed. Job offers will be made to all unemployed people with sufficient labour market skills. Job offers will also help increase the regional and occupational mobility of the unemployed. For this reason, job offers will be made for a wider geographical area and also for more occupations, after the unemployed person's three-month occupational protection period ends. Unemployed job seekers will be obliged to apply for and accept work that is offered. Unemployment benefit sanctions related to job-seeking will be applied consistently. The Unemployment Security Act will be amended so that an offered job must also be accepted outside a commuting area if the one-way travel time does not exceed 1.5 hours by public transport. The amendment will come into force at the beginning of 2015.

The occupational skills of workers will be promoted through a new operating model, which came into force at the beginning of 2014. Under the operating model, it is possible for an employer to receive a tax deduction or other financial incentive for an employee's training. The financial incentive applies to three training days per year per employee. For businesses, the amount of the tax deduction is 50 per cent of the average wage cost of the training days.

### Improving the labour-market position of young people

The implementation of the youth guarantee started at the beginning of 2013. Under the youth guarantee, every person under 25 years old and recent graduates under 30 years old is offered a study, work trial or workshop place or a job within three months of registering as unemployed. The youth guarantee also includes an education guarantee, which ensures

every person who has just completed basic education a place in further education. Furthermore, the youth guarantee includes a skills programme for young adults, to be implemented in 2013–2016. The youth guarantee is implemented in an extensive cooperative effort by various administrative branches and other actors. The measures and appropriations of the youth guarantee were comprehensively outlined in the 2013 National Reform Programme.

During 2013, the youth guarantee has been strengthened, particularly by developing the education guarantee. In June 2013, decisions were made on the provision of vocational upper secondary education and training in 2014–2016. As a result of the decisions, the provision of vocational education was improved in areas where young people most need education and there is a demand for labour. Student selection has been developed to support rapid entry into upper secondary education.

In its Structural Policy Programme, the Government decided on additional measures to strengthen the youth guarantee. Under the programme, the age of compulsory schooling will be extended from the present 16 years to 17 years. The measure will extend young people's working careers and combat social exclusion by ensuring the transition of all young people from basic education to upper secondary education. The Government will submit a bill on the extension of compulsory schooling in autumn 2014, and it will come into force at the beginning of 2015.

### **Improving the labour market position of the long-term unemployed**

The Government will reduce long-term unemployment through a broad package of measures outlined in the Government Programme and the Structural Policy Programme. Reforms will improve cooperation between central and local government, increase municipalities' responsibility in promoting employment, and target the wage subsidy and other employment services at people in a difficult labour market position. A bill on the reforms will be submitted in autumn 2014.

A key measure will be putting the Employment Service Centres on a permanent basis. The Employment Service Centres bring together those services of the Employment and Economic Development Centres, the municipalities and the Social Insurance Institution of Finland that promote the employment of the long-term unemployed. Cooperation between central and local government will be improved by extending the activities of the Employment Service Centres nationally. The activities of the service centres will be put on a permanent basis through legislation, and the funding of the service centres will be ensured.

A local government trial aimed at reducing long-term unemployment is being implemented in 2012–2015. In all, 26 projects and 61 municipalities are involved. In the trial, employment-promotion services are being implemented in multi-professional cooperation that crosses sector boundaries. In the trial municipalities, the municipality coordinates the arrangement of services for the long-term unemployed and is responsible for ensuring that the services operate as a coherent entity. A research project will evaluate the results of the trial, and based on this research decisions on the division of responsibilities between the municipalities and the central government in promoting employment will be made.

## Integration and employment of immigrants

The Government's Structural Policy Programme requires that the central government integration programme be enhanced. The integration education of immigrants will be developed in cooperation with organisers from the Employment and Economic Development Centres, the municipalities and the education sector, based on the results of the Participative Integration in Finland project.

To enhance the implementation of integration policy, an integration centre of expertise was founded in association with the Ministry of Employment and the Economy. The centre supports the expertise of local actors to promote integration and employment. Furthermore, the centre assembles and disseminates information and good practices, and supports the work of NGOs. A total of EUR 2 million has been allocated for the work of the centre of expertise.

## Increasing the effective retirement age

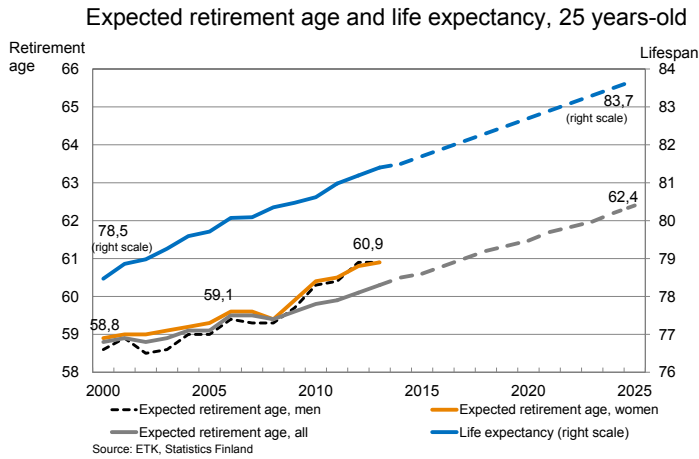
The Government aims to reach a consensus on a long-term solution to lengthen working careers, safeguard the funding of the earnings-related pension system and ensure adequate pension security.

In the spring 2012 working careers agreement, social partners committed to negotiate a long-term pension policy and a reform of the earnings-related pension system, which will come into force no later than 1 January 2017. The negotiations will cover the age limits of the pension system, the early retirement pension system, the future disability pension period, the survivor's pension, deduction of employee contributions from pensionable earnings, pension accrual and the starting date of accrual, indexes and contribution development safeguarding pension benefits. Social partners aim to bring negotiations to completion during late autumn 2014. The intention is to prepare legislative changes during 2015 and for the reforms to come into force from 2017.

The Government's aim is to raise the average retirement age. In 2009 a consensus was reached between the Government and social partners on raising the expected retirement age of 25 year-olds to at least 62.4 years by 2025. During the last ten years, the expected retirement age has risen substantially, calculated from the age of 25 and 50 years. In contrast, the expectancy calculated for 62 year-olds has remained stable, i.e. 64 years. In 2013 the retirement age expectancy for 25 year-olds was 60.9 years and for 50 year-olds 62.6 years.

## Changes in life expectancy, pension benefits and retirement age

A major study has been carried out as a basis for the reform of the earnings-related pension system. The study was completed in spring 2013. The study assessed social and financial sustainability gap pressures, particularly with respect to pensions, as well as the proposal of the Commission and international organisations on linking the retirement age to life expectancy. An assessment of the current situation also included an estimate of the still unrealised effects of the 2005 pension reform.



According to the study, the lengthening and adjustment of working careers to increased life expectancy can be implemented in a number of alternative ways. The study states, for example, that “the statutory retirement age can be linked in a predetermined way to the change of life expectancy. An advantage of an automatic process like this is that separate decisions, which may prove to be difficult, are not needed. But an automatic process also has its downside. The effects of a predetermined adjustment method on employment, the actual pension level, public finances and income differences are uncertain.” Different linking mechanisms have different consequences for employment and income distribution, for example.

A life expectancy coefficient, which links pension benefits to life expectancy, is used in Finland. The coefficient was applied for the first time in 2010. The life expectancy coefficient is calculated annually for the age group reaching 62 years of age. The more that life expectancy has grown for a certain age group in relation to the control age group, the more the life expectancy coefficient cuts pension benefits. The life expectancy coefficient therefore neutralises the effect of increased life expectancy on the costs of the pension system.

### Preventing retirement on disability pension

Incapacity for work is the single most significant factor shortening working careers, which is why the Government emphasises preventing incapacity for work and improving the working opportunities for people with partial work ability in extending working careers. This requires health promotion as well as the development of occupational health care, rehabilitation and working life. Particular attention will be paid to enhancing the prevention and treatment of mental health and substance abuse problems, referral to care at workplaces as well as facilitating return to work.

The low average age of people retiring on disability pension lowers the effective retirement age. The average age of people retiring on disability pension is 51.9 years. In spring 2012, a working life development strategy was approved, which is being implemented in



cooperation with all working life parties. The aim of the strategy is to prolong working careers, raise the employment rate and improve the quality of working life. These goals are being pursued by increasing information and reaching as many workplaces as possible to develop their operating methods.

### Supporting the employment of people with partial work ability

Measures to facilitate the participation of people with partial work ability in working life have been identified and development work initiated. A programme for maintaining people with partial work ability in work (2013–2015) offers support and tools for people with partial work ability to continue and enter employment. The programme covers people with partial work ability who are in work and those who are outside the labour force. In 2013 the Ministry of Social Affairs and Health prepared an action programme to promote the employment of people with partial work ability. The programme consists of two components: 1) an operating concept preventing incapacity for work and promoting opportunities for people with partial work ability to continue and enter employment and 2) legislative amendments facilitating the employment of people with partial work ability. The measures proposed by the working group are included in the Government's decision on 25 March 2014 to implement the Structural Policy Programme, and the necessary additional investments have also been taken into account to the central government spending limits decision for 2015–2018.

## 3.4 Increasing competition

*EU recommendation 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.*

### Programme for promoting healthy competition

In March 2012, the Government launched a programme for promoting healthy competition, which still continues. The programme includes measures aimed at increasing competition in the daily consumer goods trade, ensuring equal competitive conditions for public and private sector business activities, and removing barriers to competition caused by legislation.

Barriers to competition caused by legislation relate to legislation within the sphere of a number of ministries. The programme for promoting healthy competition was incorporated into the Government's Structural Policy Programme, even though amendments to the Competition Act required by the programme for promoting healthy competition have come into force.

### Daily consumer goods trade

An amendment to the Competition Act relating to the daily consumer goods trade came into force at the beginning of 2014. The objective of the amendment is to improve the functioning of the daily consumer goods market in Finland. Under the new provision, a daily consumer goods group is automatically in a dominant market position if its national market share exceeds 30 per cent of the retail sales of daily consumer goods. The Finnish Competition and Consumer Authority can in individual cases intervene in the abuse of a dominant market position of the largest retail chains in retail sales and/or procurement. In the current market situation in Finland, the provision applies to the K and S Groups, whose combined market share in retail sales of daily consumer goods trade is over 80 per cent. The amendment is expected to have a positive impact on consumer choice and suppliers' chances of getting their products into shop selections on fair and reasonable conditions.

### Competition neutrality

An amendment to the Competition Act aimed at ensuring competition neutrality, namely equal competition between the business activities of the public (central government, municipalities) and private sectors, through the monitoring of the Finnish Competition and Consumer Authority, came into force at the beginning of September 2013. The primary means is negotiation; alternatively, the authority may prohibit certain activities or impose obligations on them. Before the amendment, there were no sufficiently effective means in Finnish law to intervene in distortions to competition arising from public sector business activity.

### Criminalisation study

A criminalisation study, based on an entry in the Government Programme, was launched in autumn 2013. Its purpose is to explore whether it would be appropriate to introduce into the legal system criminal sanctions in addition to/instead of administrative sanctions. The study will be completed by the end of May 2014.

### Promoting effective competition through planning legislation

According to the Structural Policy Programme, an effort will be made to improve the functioning of competition through the amendment of planning legislation. To promote competition in the construction and retail sectors, the practice of land policy required in community development will be prescribed as a statutory duty of the municipalities.

The purpose of the law in promoting effective competition is to create conditions for the location of different functions, such as housing or retail provision. Including the promotion of effective competition in planning legislation will mean in practice that municipalities must offer opportunities for housing and retail operators, for example, to obtain suf-

ficient plots for their use. Effective provision of plots would lower the threshold for market entry, especially in growing urban areas, and would contribute to increasing and stimulating competition.

### **Digital market**

One aim of the programme for promoting healthy competition is to influence conditions for the development of the information society by creating a business environment that encourages creative work and at the same time the effective utilisation of copyright-protected material, as part of the safeguarding of economic vitality and growth while ensuring that the position of copyright holders is not weakened.

During 2014 the revision of the system of compensation for private copying under conditions of rapid technological development will be continued.

In accordance with the programme for promoting healthy competition, issues relating to opportunities for legal persons to become customers of copyright organisations have also been studied. The tax treatment of copyright income has been particularly assessed.

A review of the position of copyright organisations from a competition policy perspective is pending in the Finnish Competition and Consumer Authority. The review will be completed during the early part of 2014.

### **Pharmaceutical service system**

In accordance with the policies of the programme for promoting health competition, regulation should be reduced in the pharmaceutical service system, among other areas. The Ministry of Social Affairs and Health will continue developing pharmacy services based on the Medicines Policy 2020 strategy and the proposals of the Working Group on the Development of Pharmacy Services in order to ensure a cost-effective pharmaceutical service system. In connection with this, the process of awarding pharmacy licences, the density of the pharmacy network, the enhancement of pharmacy services, the pharmacy levy and the pharmaceutical pricing scheme will be subject to review. In November 2013, the Ministry of Social Affairs and Health established a working group on the development of pharmacy services and other pharmaceutical services. Its tasks include taking forward the proposals of the programme for promoting healthy competition and making the necessary legislative proposals. The operation of pharmaceutical services will be considered, particularly on the institutional and out-patient interface.

### 3.5 Diversification of business structure and wage development

*EU recommendation 5: Boost Finland's capacity to deliver innovative products, services and high-growth companies in a rapidly changing environment, and continue diversification of 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.*

#### Diversification of business structure

The declining success of the Nokia cluster has sharply reduced the value added of Finnish industry. The value added of industrial output fell from around EUR 35 billion in 2007 to even a slightly negative level in 2012. The value added of other industrial sectors has also fallen slightly, with the exception of the chemical industry. The challenge for the Finnish economy is to find new growth sectors and new growing markets while at the same time managing to diversify its economic and industrial base. The public sector can create a favourable setting for economic renewal and to a limited extent support the renewal process, but ultimately it is a question of the renewal of the private sector on its own terms.

The Government has discussed on a preliminary basis an action plan on industrial regeneration and has decided to continue consideration of the issue. Finland's imbalance challenges, mentioned in the Commission's in-depth analysis, also form a basis for this work.

In the Government spending limits discussion on 25 March, it was decided to direct resources into a significant new digital industry development programme. The aim of the multi-year programme is to utilise digital expertise to develop the next generations of radical solutions.

The ultimate objective is to support economic growth. In terms of industry, this means increasing value added. Nokia's success showed that Finland has the potential to succeed with innovation-driven industrial and economic segments. In the future, too, innovation-driven renewal will form the basis of the diversification of Finland's economy. Machinery and metals, chemicals, software, ICT and electronics, and health technology are sectors in which new growth can be found. Cleantech thinking seeks technological solutions to global challenges and growing demand needs. Digitalisation is seen in Finland as an opportunity and a tool for industrial and economic restructuring.

Finland's industrial structure is based on an energy- and raw material-intensive foundation. As a country of abundant, sustainably exploited forest raw material resources and, in European terms, a country of significant mineral resources, Finland cannot be directly compared to countries whose natural assets differ from this. The forest industry is restructuring and will continue to be a cornerstone of Finnish industry. The forest industry produces around 70 per cent of Finland's renewable energy. The mining sector has also experienced increasing growth. In the European and international division of labour, not everyone is able to specialise in the forestry and mining sectors. Those countries where the importance

of these sectors is high should be permitted to use greater amounts of energy than average, particularly if the companies operating in these sectors are energy- and material-efficient producers with good environmental performance records. Otherwise international specialisation and division of labour between countries would hardly be worth pursuing. At the same time, this would be contrary to the whole European integration project, which specifically aims at free trade of goods and services and thereby specialisation. The renewal strategy for Finland's forest industry is based on diversification of the bioeconomy and thereby on a more diverse exploitation of our raw material resources which increases value added. A major goal is also improving productivity, value added and energy efficiency, and reducing emissions in energy-intensive sectors.

New, growing business activity have also arisen in Finland. One of the new growth sectors is represented by Finnish gaming companies (e.g. Supercell and Rovio).

## Creating new strengths

### Business Programme for the Environmental Sector, Cleantech

Strategic development programmes to improve growth, competitiveness and employment, and to diversify business and industry are implemented as Government spearhead projects. The Business Programme for the Environmental Sector, Cleantech, was launched in 2012. The goal is by 2020 to create at least 40,000 new clean technology jobs and to double the combined turnover of Finnish cleantech businesses from the current EUR 25 billion to EUR 50 billion. The main measures already under way are: cleantech marketing as part of the Team Finland network and country brand, implementation of a sustainable extractive industry action programme, development of demonstration environments and clusters, streamlining project authorisation and tightening networks of excellence.

### Strategic Programme for the Forest Sector

The Strategic Programme for the Forest Sector implements as a spearhead project the Government priority of boosting economic growth, employment and competitiveness while promoting the competitiveness and renewal of the forest sector. In accordance with its objectives, the programme increases wood construction, use of wood, the sector's exports, and new bioeconomy business. Use of wood in the construction of apartment blocks has, through investments, become a new option in industrial construction. Competitiveness, growth and internationalisation have been promoted with various studies and development projects and by increasing awareness. In 2013 the Strategic Programme for the Forest Sector invested particularly, as a new priority, in developing the bioeconomy, for example by actively participating in preparation of Finland's National Bioeconomy Strategy, a new industrial policy, the National Material Efficiency Programme and the Forest Policy Report. New bioeconomy business has also been developed in cooperation with SMEs and larger companies, Fibic Oy and the forest sector's centre of excellence network.

### Bioeconomy Strategy

Preparation of the National Bioeconomy Strategy began in autumn 2012 and the work was completed in spring 2014. The objective is to create new business and improve employment by developing products and services based on renewable natural resources. For more detail, see text box in Section 4.3.

### Sustainable extractive industry

Making Finland a Leader in Sustainable Extractive Industry – an Action Plan was published on 29 April 2013. The plan consists of 35 of the industry's own, voluntary measures to obtain society's support for its activities. The measures also include administration, education and infrastructure proposals aimed at improving the operating conditions of extractive industry. The central government and the authorities have lead responsibility in implementing these measures. In addition, the plan proposes a more active and transparent exchange of information and experiences as well as continuous discussion on the implementation of the action plan and the development of the sector.

### Strategy for the Arctic Region

Finland's Strategy for the Arctic Region, adopted in 2013, aims to identify new innovation and business opportunities and to exploit economically Finland's Arctic expertise.

In a resolution on the strategy, the Government commits to take not only financial but also social, cultural and environmental effects into account in the exploitation of the Arctic's national resources. Finland's goal in the Arctic region is to be an active player, able in a sustainable way to reconcile environmental constraints and business opportunities through international cooperation.

### Strategy for Health Sector Research and Innovation Activity

A new Strategy for Health Sector Research and Innovation Activity was prepared at the beginning of 2014. The objective is to boost Finland's expertise and competitiveness in the sector to ensure that Finland also becomes an appealing and reliable growth environment for innovative health sector companies and attractive country for investment.

### Innovative Cities Programme and Growth Agreements

The Innovative Cities (INKA) Programme was launched at the beginning of 2014. Through the programme, resources of the central government and the largest metropolitan regions will be directed to five selected themes, namely Bioeconomy, Future Health Care, Sustainable Energy Solutions, and Smart Cities and Industrial Regeneration. The programme will utilise cities' investments for the future as development platforms for

innovations. Development and piloting will be carried out in authentic development environments in cooperation between users, businesses and the public sector.

The central government concluded growth agreements with the 12 largest metropolitan regions in December 2013. The growth agreements are aimed at strengthening the role of the large metropolitan regions as drivers of their areas and the Finnish economy. This has great national significance, because around two thirds of Finland's GDP is produced in the 12 largest metropolitan regions. In the growth agreements, the strategic development priorities for 2013–2015 have been agreed between the central government and the large metropolitan regions. The growth agreements prioritise the key fields of excellence for the cities. Their development will be supported by, among others, the Innovative Cities (INKA) Programme and the EU Structural Fund programmes. Common themes of the agreements include innovative public procurement and the development of station areas. The metropolitan regions in question are committed to promoting innovative public procurement through a percentage share or a specific area construction site.

### Strategic Centres for Science, Technology and Innovation

In 2007–2009, six Strategic Centres for Science, Technology and Innovation (SHOK) in the fields of Energy and the Environment, Bioeconomy, Metal Products and Mechanical Engineering, Built Environment, Health and Wellbeing, ICT Technology and Services were established in Finland as a new kind of platform for innovative businesses and world-class research. The objective is the creation of globally significant breakthrough innovations in Finnish areas of strength by building a bridge between research and business activity. Based on an international assessment of SHOK activities, the activities will be positioned in more precisely defined fields of excellence, cooperation increased and internationalisation enhanced.

### Intangible Value Creation Action Plan

In accordance with a decision of the spring 2013 Government spending limits discussion, the Ministry of Employment and the Economy and the Ministry of Education and Culture have prepared a Government resolution on an Intangible Value Creation Action Plan, which covers intellectual property rights, the creative economy and design. The Government is expected to decide on this in spring 2014. Team Finland activity was launched in February 2013 to promote Finland's external economic relations, country brand, internationalisation of business, and investments directed at Finland.

### Opening up public information resources

New growth will also be sought by widely opening up information resources produced with public funding for the use of citizens, research and businesses. The Ministry of Finance's Open Knowledge Programme was launched in 2013. The programme aims to make the opening up of information resources part of the normal activity of administra-

tion, such that it is already taken into account when designing and acquiring information systems. The opening up of Finland's information resources started off with terrain data and continued in 2013 with the opening up of weather, climate and sea data as well as climate models. The opening up of information resources will continue with statistical data, business information, traffic and communications data and airport observations. In addition, the Ministry of Education and Culture launched the Open Science and Research Project 2014–2017 to promote data accessibility and open science. The aim of the project is that by 2017 Finland will become a leading country in the openness of science and research and that the opportunities of open science will be extensively utilised in Finnish society.

### Restructuring of the ICT cluster

In 2012 the ICT 2015 working group prepared a strategy to mitigate the effects of sudden structural change in the ICT sector as well as to regenerate the sector and increase its competitiveness. The working group reviewed the extensive application of ICT in all sectors and in public administration. The working group's report "21 paths to Friction-free Finland" was completed in January 2013. The report lays down a road map for long-term efforts to make Finland a leader in the application of information technology over the next 10 years. In addition, in accordance with the goals of the Government Programme, a strategy was prepared for the development and enhancement of ICT use in the public sector. In January 2013 a monitoring group was established to coordinate the implementation of proposals and policies arising in ICT development products.

### Growth funding

At the beginning of 2014, the Government launched a long-term growth fund programme aimed at strengthening the venture capital investment market and supporting growth of SMEs. The fund programme will be implemented in cooperation with private investors such that at least half of the capital of funds comes from private sources. Central government funding for the programme will be channelled via the Finnish Funding Agency for Technology and Innovation TEKES into funds focusing on start-ups, and via Finnish Industry Investment Ltd into growth funds.

The fund programme's most significant investment is Finnish Industry Investment Ltd's new fund of growth funds. Finnish Industry Investment Ltd is capitalised annually with EUR 30 million. In turn, overall responsibility for the public funding of growth companies is centralised in TEKES. In future TEKES will be able to finance growth with venture capital investments in addition to grants and loans. TEKES' existing resources are targeted at venture capital investments to an annual level of EUR 20 million. Moreover, Finnvera's direct investments will be capitalised annually with EUR 5 million during a transition period until 2017, after which the central government will discontinue direct initial investments in companies. This central government investment combined with private investment of equal magnitude would give rise to an estimated ten venture capital funds, which would invest in around one hundred companies.



Nearly EUR 300 million had been gathered by the end of 2013 for portfolio companies of the Vigo programme, which accelerates funding and internationalisation of high-growth companies. Of this sum, more than half is sourced from foreign venture capital investors. The share of public funding is less than a quarter. The programme has a total of ten accelerators, which have provided guidance to around 100 high-growth start-ups. The best-known of the portfolio companies is Supercell, which rose from zero to over two billion euros in value in three years.

The goal in future is to direct Finnish Industry Investment Ltd's venture capital investment activity more strongly than at present to early-growth and growth-stage funding (fund investments), which were identified in an evaluation as areas of market failure relative to comparison countries. In cooperation with private investors, the company launched the FoF Growth II fund, with a total capital of around EUR 130 million, to accelerate growth of SMEs (investment period 2014–2018). Small and medium-sized enterprises seeking international growth have also been identified as a key business group for the export credit and guarantee activity of Finnvera Plc, the state-owned specialised financing company. The intention is also to increase export financing authorisations (e.g. export credit guarantees, export credits) as part of the implementation of the Government's Structural Policy Programme.

### Tax incentives

In the 2013 spending limits discussion tax decisions, the Government decided on tax solutions to support the growth opportunities of Finnish companies and the competitiveness of the export industry. In corporate taxation, a reform of the corporate income tax and the dividend tax was implemented at the beginning of 2014. The reform shifts the focus of corporate taxation from the taxation of companies' profits to the taxation of distribution of profits. The objective of the reform is to accelerate investment and create jobs in Finland.

To stimulate economic growth, a tax incentive for research and development activity and a double depreciation allowance for industrial investments are available in 2013 and 2014, and a tax incentive for investors in 2013–2015. Also to attract investment, the electricity tax for data centres was reduced from the beginning of 2014. The research and development tax incentive supports product development aimed at growth.

### Energy efficiency

The anticipated post-recession growth trend in energy consumption will be curbed by improving energy efficiency so that in 2020 end-use energy consumption will not exceed 310 TWh. In 2012 end-use energy consumption was 308 TWh.

A working group report was prepared in order to implement the EU Energy Efficiency Directive, which came into force in December 2012. Based on this report, an Energy Efficiency Act and an implementation plan will be prepared in spring 2014. In addition, a long-term strategy for improving the energy efficiency of buildings and an energy-saving plan for central government buildings will be formulated and energy-efficiency plans for

municipalities developed. A letter of intent was signed in November 2013 for the extension (2017–) of energy performance contracts (2008–2016) covering nearly 100 per cent of energy-intensive industry consumption and around 70 per cent of total energy consumption.

Finland's energy efficiency activity is wide-ranging and long-term. Energy performance contracts and closely related audit activity play a key role. Industry's high energy needs and high heating and lighting needs as well as the limited availability of domestic energy sources have guided energy efficiency for a long time now. Energy-intensive industry, such as paper and board as well as metal manufacturing and the chemical industry, is subject to intense international competition. With the price of energy being an important cost factor, energy efficiency has been an in-built competitive factor for a long time. As technology and operations improve, industrial energy efficiency is improving further, but slowly. Large, quickly executed and cost-effective energy-efficiency measures will not be found in well-audited industrial plants.

Energy-efficiency work has continued in all sectors in contract activity, audit activity, consumers' energy advice, equipment energy efficiency etc., i.e. throughout the whole economy. The goal is also to promote the creation and growth of international energy-efficiency business activity.

### **Development of real wages and productivity**

A framework agreement negotiated by social partners in November 2011 still determined the rise in earnings very comprehensively in 2013. The Index of Wage and Salary Earnings rose two per cent, of which 1.4 per cent came from negotiated wage increases. In 2014 and 2015, the earnings level will develop in accordance with the labour market solution negotiated in autumn 2013. The growth and employment agreement will increase negotiated wages in the first year by an average 0.7 per cent and in the second by around 0.5 per cent. Including other factors, nominal earnings are projected to grow by 1.3 per cent in 2014 and by 1.2 per cent in 2015, as measured by the Index of Wage and Salary Earnings. This rise in earnings levels is significantly slower than the average rate in the 2000s, which is in accord with slow economic growth and subdued development of employment.

**Finland's production structure is both energy intensive and energy efficient**

The energy intensity of Finnish industry is a consequence of the important contribution of forest industry, metal processing and chemical industry in industrial production. Forest industry production is underpinned by abundant forest resources and the northern conifer; the raw material for paper and board produced from this is a competitive advantage. In the steel industry, the logistic and raw material-based production chain for stainless steel (e.g. the EU's only chromium mine) is a worldwide competitive advantage in Finland.

During the last eight years, nearly one third of the production capacity of Finland's paper industry has been removed. Pulp production capacity, moreover, has decreased by just over ten per cent. Demand for packaging board has remained good, however. In the steel industry, production has already adjusted (one of Finland's three blast furnaces closed in 2012) to falling demand and new products. These reductions of production capacity have taken place on market terms. Correspondingly, in services, new energy-intensive production (e.g. data centres) has arisen in Finland to some extent.

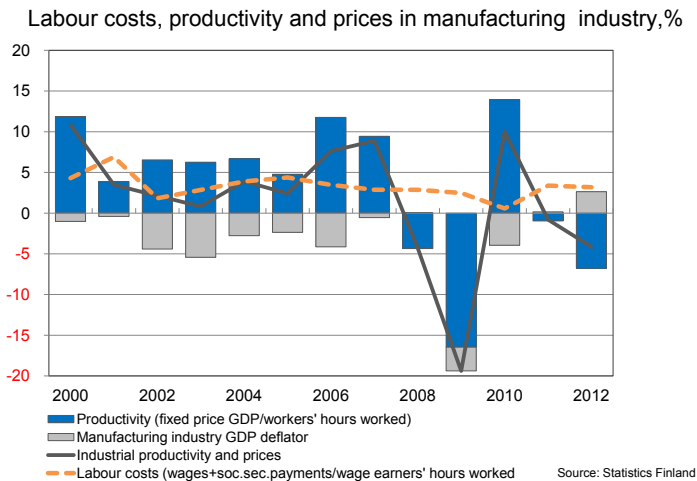
For the forest, metal and chemical industries, energy has always been a significant production factor and also a cost. As a result, energy efficiency both in consumption and procurement is a competitive advantage, which has been continually developed. The procurement of electricity for heavy industry in Finland particularly differs from a number of competitor countries in terms of the large share of own production. It is significant that forest industry companies produce nearly half of the electricity they need themselves in their own electricity and heat co-production (CHP) plants, in which the most important fuels are the companies' own wood-derived waste fuels obtained from production processes. In addition, the companies own very large shareholdings in hydro and nuclear power plants (so-called Mankala system), even to the extent that some of them are net sellers of electricity. The energy intensity of forest industry production will decline significantly in future, as the proportion of production accounted for by new products, such as liquid biofuels and biofibre materials, grows. The surplus heat of the forest and metal industries is used in many localities for district heating of the community.

In metal processing and the chemical industry, some of the electricity is also obtained from companies' own power plants and from shareholdings in hydro and nuclear power plants. The proportion of the latter will grow further after the completion of new nuclear power capacity.

In addition to companies' own electricity production, two thirds of fuel used by energy-intensive industry consists of own waste fuel materials, which are unaffected by fluctuations of the international fuel markets.

After the financial crisis, the development of real wages and productivity diverged, as wages continued to grow while output contracted strongly. The wage moderation achieved last autumn is an important step on a balanced path to restoring real wages and productivity. This and next year, real wages will decline, but productivity will improve as economic growth returns.

Measured by relative unit labour costs, the competitiveness of Finland's manufacturing industry is expected to have weakened in 2013 by around five per cent, as in 2011 and 2012. In addition to growth in unit labour costs, Finland's terms of trade have deteriorated and cost pressures exerted through intermediate products have increased, which has adversely affected conditions for companies to operate profitably and generate for Finland value added, i.e. economic growth. According to a European Commission forecast, in the coming years the rate of growth of unit labour costs for the economy as a whole will slow to the level of competitor countries and the deterioration of terms of trade will stop.



## 4 Progress in attaining the Europe 2020 Strategy's national targets

### EU targets and national targets in accordance with the Europe 2020 Strategy

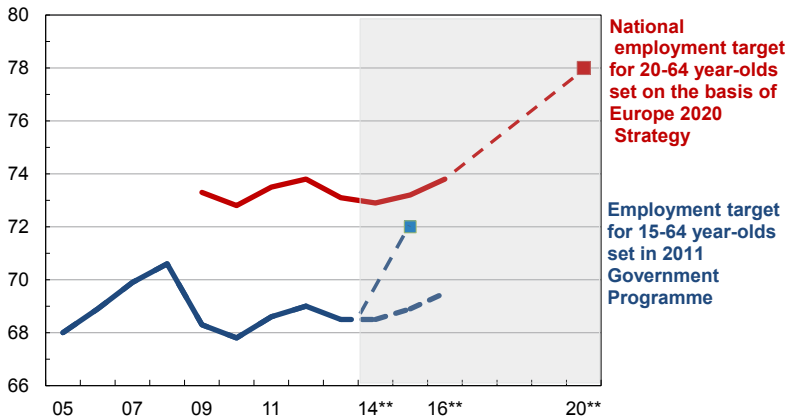
	EU headline target	Finland in 2012	Finland in 2020
Employment rate (20 – 64 -years old)	75 %	73,8%	78 %
R & D expenditure/GDP	3 %	3,55 %	target level 4 %
Climate:			
-Greenhouse gas emissions (outside emissions trading)	-10 % from 2005 level	-10 %	-16 %
-share of renewable energy 20 %	20 %	35,1 %	38 %
-energy efficiency (end-use energy consumption)	-20 %	308 TWh	310 TWh
Education			
-proportion of 30 – 34 year olds having completed tertiary education	40 %	44,6 %	42 %
- early school leavers	10 %	11,2 %	8 %
People living at risk of poverty or social exclusion	20 million less	854 000	770 000

NB. the targets have been set in 2011. Some of the national targets (Finland in 2020) have been already surpassed.

### 4.1 Employment target

The Government has set as a national target that the employment rate of 15–64 year-olds will rise to 72 per cent and the unemployment rate will fall to 5 per cent by 2015. The employment target in the Europe 2020 Strategy has been set for 20–64 year-olds. The Government's target is more ambitious than the national target set in connection with the Europe 2020 Strategy. The Government will not achieve the employment and unemployment targets set in the Government Programme by 2015, as actual economic has been significantly weaker than was anticipated when the Government Programme was prepared. According to the Ministry of Finance's March 2014 economic forecast, the employment rate will remain at 68.9 per cent and the unemployment rate at 8.3 per cent in 2015.

Employment rate (20-64 year-olds), 78% in 2020\*\*



Source: Statistics Finland, MoF

Underlying the weak growth of the Finnish economy and employment are the problems of the global economy and the euro area, the restructuring of Finnish industry and weak competitiveness. To meet the challenges for employment, the Government decided on employment-increasing measures in its Structural Policy Programme. The programme includes measures to extend careers at the beginning and end of working life, to reduce the interruption of working careers, and to lower unemployment.

The aim of the reforms decided in the Structural Policy Programme to improve the functioning of the labour market is to reduce the level of unemployment by one percentage point. If the projects included in the Structural Policy Programme do not produce the intended effect, the Government will determine new measures in cooperation with social partners to achieve the target.

To extend working careers, the social partners will prepare pension reforms in accordance with the objectives confirmed in the 2012 working careers agreement. Government has also decided on further measures to extend careers at the start of working life. These are reform of financial aid to students, reform of higher education funding incentives, renewal of higher education student selection, clearing the application backlog and shortening higher education graduation times. In addition, a change to eligibility requirements as well as a form of education combining vocational upper secondary education and apprenticeship training, e.g. the so-called 2+1 model, will be prepared. The measures are presented in detail in Section 4.4. The Government also aims to extend careers in the middle of working life by promoting the participation in work of people with partial work ability. More detailed measures relating to this were presented in Section 3.3.

Working careers will also be extended by reforming the child home-care allowance and conditions for job alternation leave. With respect to the home-care allowance, a quota will be prescribed, half for the father and half for the mother. Under a Government proposal given in April 2014, in future it would be possible enter job alternation leave after

16 years of employment history, and it would no longer be possible to move directly from job alternation leave to retirement. The requirements for the job alternation leave substitute individual would also be tightened, such that the substitute should have been 90 days unemployed during 14 months. Only one day's unemployment, however, will be required for those under 25 years of age, over 55 years of age and recent graduates under 30 years of age. The youth guarantee has been supplemented by strengthening education, and the compulsory schooling age will be raised from the present 16 years to 17 years. The measures are discussed in Section 3.3.

The functioning of the labour market will be improved by increasing job offers made to the unemployed, by applying consistently the sanctions that are conditions of unemployment security, and by increasing the mobility of job seekers. The aim is to reduce structural unemployment and long-term unemployment by putting the Employment Service Centres network on a permanent basis and by transferring part of the funding responsibility for labour market support from central to local government. In unemployment security, a EUR 300 protected portion was introduced at the beginning of 2014. In addition, the possibility of a long-term wage subsidy will be explored and public contracts utilised in the employment of people in a weak labour market position. Measures aimed at extending working careers and reducing youth and long-term unemployment are discussed in Section 3.3 of the National Reform Programme.

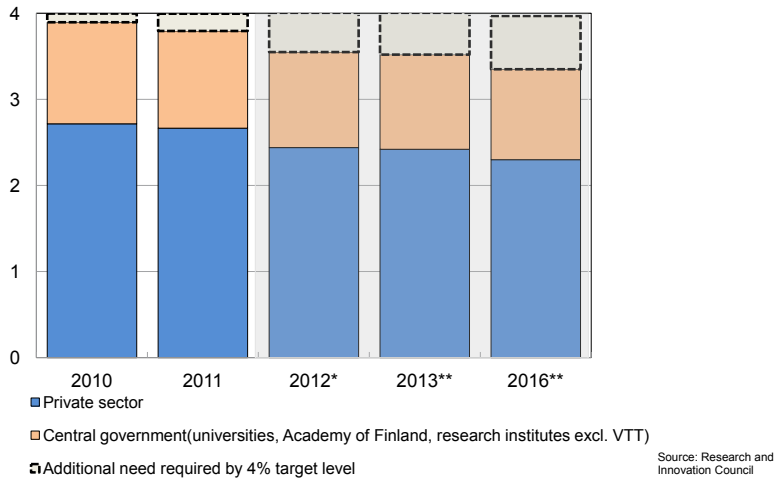
The basis of the Working Life 2020 project is the Government-approved Working Life Development Strategy, which highlights four operational priority areas to be developed: innovation and productivity, trust and cooperation, health and wellbeing, and skilled labour. The project's work is not assigned by age group, but the results of the work overall will be assessed by age group with the aid of employment rate indicators.

Over 40 national actors are involved in the Working Life 2020 project. The measures of the Ministry of Employment and the Economy and its administrative branch include regional networks of working life actors, a knowledge network, the international EUWIN network (European Workplace Innovation Network) and a TEKES programme (Liideri) to promote business, productivity and joy at work. A Wellbeing at Work forum, led by the Ministry of Social Affairs and Health, local workplace wellbeing-at-work networks and the Leadership Development Network will contribute to implementing the goals of the Working Life 2020 project. The annual activities of the Occupational Health and Safety Administration have addressed the coordination and reconciliation of these project network events with European projects such as the European Health and Safety Campaign and the SLIC Inspection Campaign.

## 4.2 Research and development target

The amount of research and development and innovation activity in relation to GDP has decreased slightly in recent years. The investment level of companies has remained good, however. In 2012 a total of EUR 6.83 billion, i.e. over 3.5% of GDP, was invested in Finland in research and innovation activity. Of this, the private sector accounted for nearly 69 per cent, which is an internationally high figure. The aim of a new tax incentive, which came into force at the beginning of 2013, is to increase companies' research and development investments. The tax incentive will expire at the end of 2014.

### Target level research and development expenditure 4%/GDP



In September 2013, the Government decided on the principles of the comprehensive reform of central government research institutes and research funding. Preparation of the reform was launched at the end of 2013. The objective of the reform is to strengthen multidisciplinary, high-level and socially significant research, release resources from research support services and fixed structures into research activity and, by field of research, to organise research institutes into larger and stronger entities. Among the key measures of the reform are the merger of certain research institutes, the turning of the VTT Technical Research Centre of Finland into a wholly state-owned company, and the establishment of a new strategic research funding instrument in connection with the Academy of Finland. Cooperation between research institutes and universities will be increased.

A new funding model for universities came into force from the beginning of 2013. Central government funding will be allocated particularly on the basis of qualifications and study credits completed and on scientific publications and competitive research funding. The funding model of the universities of applied sciences has been reformed to better support the improvement of the quality of teaching and research. The funding model came into force at the beginning of 2014.

The research and development work of universities of applied sciences was supported in 2013 with a supplementary appropriation of EUR 10 million. Funding was directed to measures aimed at strengthening knowledge-based growth and conditions for the universities of applied sciences to engage in employment-oriented teaching, research and development work.

Research activity was promoted with the aid of research infrastructure policy. Additional funding was granted and the roadmap of national research infrastructures updated in 2013. The open availability of research publications and data has been increased in 2011–2013. This will improve the effectiveness of research and innovation activity, and facilitate the widespread use of research results and data.



### 4.3 Climate and energy target

**Table of quantitative targets for 2020:**

	EU's target	Finland's target
Emissions trading sector (manufacturing industry and energy production)	Emissions to be reduced 21% from 2005 level	
Outside emissions trading (transport, not small and medium-sized industry, agriculture, household heating)	Emissions to be reduced 10%	16 %
Renewable energy	Share to be raised to 20%	38 %
Energy efficiency	20 % improvement (-368 Mtoe)	310 TWh

In March 2013 the Government submitted to Parliament a report on a new National Energy and Climate Strategy. This is an update of the 2008 strategy and examines the achievement of climate and energy targets set for 2020. In addition, the strategy examines the possible tightening of the EU 2020 emissions reduction target and the impact of this. The strategy also includes a so-called clean energy programme, in connection with which new energy policy targets and measures will to some extent be set in the strategy for 2025.

Implementation of the Energy Performance of Buildings Directive (EPBD) was completed in 2013. A Ministry of the Environment decree on improving the energy efficiency of buildings in conjunction with repair and modification work came into force for all buildings from 1 September 2013. An Energy Certificate Act relating to buildings, and other associated statutes came into force on 1 June 2013. The implementation of the Directive on the Promotion of the Use of Energy from Renewable Sources (RES) continues. Under preparation is a legislative project to amend the Land Use and Building Act to prescribe a minimum level of renewable energy in buildings. In 2011 the Government established an independent, multi-disciplinary Climate Panel to promote dialogue between science and policy-making in climate issues. In its first term, the Climate Panel produced, among other things, assessments relating to the preparation of the Climate Act and to the target-setting of the EU's Climate and Energy Policy.

The preparation of the Climate Act began in spring 2013 in a working group led by the Ministry of the Environment. The working group, consisting of public servants, also included a member of the Climate Panel. The intention is to prepare a framework act on emissions outside emissions trading that would not impose obligations on private operators. The purpose of the act is not to tighten Finland's emissions target; the act would serve as a tool of Government and Parliament for achieving the 2050 emission reduction target as cost-effectively, proactively and systematically as possible.

In June 2013, the Government established a Parliamentary Committee (PEIKKO) to prepare an energy and climate roadmap for 2050. The committee will examine means and costs of building a low-carbon society and reducing greenhouse gases by 80–95 per cent from the 1990 level by 2050. The committee has two members from each parliamentary party.

The Climate Policy Programme for Transport (ILPO) was updated in 2013 and published as part of the Environmental Strategy for Transport 2013–2020. In accordance with the Decision on Central Government Spending Limits for 2013–2016, the focus of trans-

### **Promoting the green economy**

In December 2013, Finland's Sustainable Development Committee approved Society's Commitment to Sustainable Development, the Finland We Want in 2050. This for Finland sets targets whose fulfilment will ensure that the Finland of the future will prosper and grow within the carrying capacity of nature. The targets relate to, among other things, carbon neutrality, resource efficiency, the welfare society and the responsible use of natural resources. The public sector together with other actors is committed to promoting sustainable development in all of its work and activities.

Finland's first National Bioeconomy Strategy will be published in the spring of 2014. Finland aims to use the Bioeconomy Strategy to create new business and wellbeing by developing competitive and sustainable solutions for the global problems of declining natural resources and climate change, and to reduce dependency on fossil natural resources. The objectives of the Bioeconomy Strategy are to create a competitive operating environment for the bioeconomy, create new business, strength the knowledge base, promote usability of biomasses and ensure sustainable use of resources. A further goal of the Bioeconomy Strategy is that, through its positive contribution, the output of the bioeconomy will grow to EUR 100 billion from the current EUR 60 billion and that 100,000 new jobs will be created in the bioeconomy by 2025.

The Strategic Programme for Cleantech aims to create at least 40,000 new jobs and to more than double cleantech business revenue by 2020. The strategic programme brings together and coordinates measures and actors associated with the development of the sector. The aim is to incorporate Cleantech and the promotion of sustainable environmental business into all significant national strategies and reports in preparation.

The National Material Efficiency Programme aims to achieve sustainable growth through material efficiency by focusing on economic growth, smart use of natural resources and avoiding harmful environmental effects. An update to the Government national resources report, Finland as a Leader in the Sustainable Natural Resource Economy 2050, will be prepared for Parliament during spring 2014. The removal and re-allocation of environmentally harmful subsidies is included in the implementation of the Government's Structural Policy Programme, which was decided in the March 2014 spending limits discussion.

The changes are part of a larger package in which the focus of taxation will move away from growth-hampering taxation of labour and entrepreneurship towards environmentally- and health-motivated taxation. The most significant structural changes have been made in respect of the waste tax, the car tax, the motor vehicle tax and in the taxation of energy and fuels. Excise duties on fossil fuels used in heating and transport have been increased and the waste tax has gone up.

Through the bill (HE 214/2013) proposed in December 2013 for a new Environmental Protection Act, the Government aims to enhance the environmental protection permit and monitoring system by making it more systematic and risk-based. The bill also improves and harmonises the best practicable technical requirements safeguarding the state of the environment and facilitates the taking of significant natural values better into account in the consideration of environmental permits relating to peat production.

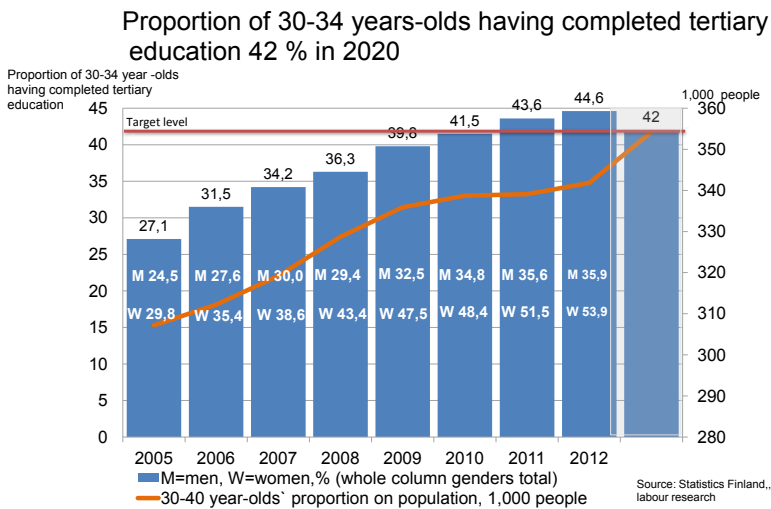
The Programme to Promote Sustainable Consumption and Production was revised in 2012. Based on the programme, in June 2013 the Government made the resolutions Smarter With Less and Promoting Sustainable Environmental and Energy Solutions (Cleantech Solutions) in Public Procurement. The objective is, among others things, to support, with the aid of financial guidance, public procurement, accountability systems and other steering, the dissemination of low-carbon and resource-smart solutions in municipalities, businesses and households.

port projects in the spending limits period will particularly be on the implementation of growth-promoting projects that are important in terms of low emissions, transport safety and the business sector.

## 4.4 Education targets

### People having completed tertiary education

In the EU 2020 Strategy, Finland's target has been that 42 per cent of 30–34 year-olds will have completed a university-level qualification in 2020. In 2011 the proportion of 30–34 year-olds having completed a university-level qualification was, according to the Statistics Finland Labour Force Survey, 43.6 per cent.<sup>1</sup> In the proportion of those having completed a university-level qualification, Finland is achieving the set target.



<sup>1</sup> The corresponding proportion in the Europe 2020 indicator published by Eurostat is 46 per cent. The difference is due to the fact that Eurostat statistics, and the targets set by other countries, use as an indicator the proportion of people having completed tertiary education, which also includes those who have old, post-secondary qualifications and who among 30–34 year-olds will be replaced in the next few years by those who have completed a university of applied sciences qualification. In Finland, the proportion of those having completed tertiary education is falling among 30-34 year-olds, but because those who have old, post-secondary qualifications are still being replaced by those who have completed a university of applied sciences qualification, the proportion of those having completed a university-level qualification is rising slightly.

In spring 2013, the Government decided to reform the application and selection services of vocational education, general upper secondary education and tertiary education, the application services of adult education, and education information services. The implementation of the youth guarantee will be supported by increasing student places in vocational education. Young people's apprenticeship training will be strengthened and for young people there will be a preliminary period in apprenticeship training.

The starting of tertiary education studies will be accelerated by reforming student selections. Universities and universities of applied sciences will continue to decide on student selections and the criteria for selection. Applications to education leading to a degree will take place in a national joint application process, in which an applicant can be accepted for only one education programme. Higher education institutions may, if they wish, reserve some of the study places for individuals who have not previously obtained a study place in Finland.

Legislative reforms to higher education institutions' educational responsibilities came into force at the beginning of 2014. These reforms will strengthen institutions' ability to respond flexibly to changes in science, working life and society. The changes will clarify higher education institutions' educational responsibilities, safeguard education and competence needs, and facilitate the formation of larger educational entities. Student's study motivation will be maintained by developing educational structures and study content as well as by improving guidance during studies.

### Early school leavers

The Government has set as a target that the proportion of early school leavers, i.e. mainly 18–24 year-olds who only have an elementary school certificate, will be at most 8 per cent in 2020. In 2012, according to the data of Statistics Finland, the proportion of early school leavers was 11.2 per cent, i.e. 53,058 people. Compared with 2011, the proportion of early school leavers has fallen by 0.4 per cent.

#### Share of early school leavers in age groups 18- 24 in 2012

Gender	Dropouts	Population	Share (%)
Men	30 475	241 636	12.6
Women	22 583	231 497	9.8
<b>Total</b>	<b>53 058</b>	<b>473 133</b>	<b>11.2</b>

The percentage share used in the table is the proportion of 18-24 year-old early school leavers from the population of the same age. The size of the population is according to the situation on 31 December 2012 and the study information, on the other hand, according to the situation on 20 September 2012.

The Government will promote the achievement of the national reform programme target relating to the reduction of the number early school leavers through, for example, the following means:

### **Other measures affecting growth and employment in the field of education policy**

Working careers will be extended by developing the entire education system, particularly with respect to student selection and financial aid to students.

The main measures initiated on the basis of the Government's Structural Policy Programme are a structural reform of upper secondary education and liberal adult education, clearing the tertiary education application backlog, raising the age of compulsory schooling, restricting the subjective right to day care, and making pre-school education compulsory. Eligibility requirements for various positions in public sector administration and service provision will be relaxed. The preparation of all these Structural Policy Programme measures was launched at the end of 2013, and their preparation and implementation will continue until the end of the parliamentary term, and in some cases for longer.

Starting places in universities of applied sciences have been reduced from 2013 by a total of 2,030 places. The reduction was directed particularly at the cultural sector, but also at the tourism, catering and domestic services sector as well as the technology and transport sector. Regionally, the contraction of age classes entering education has been taken into account in the reductions.

The funding model for universities was reformed at the beginning of 2013 and for universities of applied sciences at the beginning of 2014. Funding will be influenced more than before by the number of qualifications awarded and progress made with studies. The reform will improve completion of studies, accelerate the transition to working life, boost the quality and internationalisation of teaching and research, and strengthen the specialisation of higher education institutions. The transfer of the basic funding of universities of applied sciences completely to central government and the change to independent legal entity status will be implemented in a second stage, such that the changes will come into force from the beginning of 2015.

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.

To implement the education guarantee, the joint application process in upper secondary education and student selection in vocational education were reformed and the first applications under the reformed application criteria took place in autumn 2013. In upper secondary student selection, the changes will give priority to those who have just completed basic education and who are without a post-basic education qualification and study place.

The development of electronic application services was continued as part of the Learner's Service. This will help ensure the smooth transition of students from one stage of education to the next. The Opintopolku.fi search and application services were introduced in autumn 2013 and they were used in the implementation of the autumn joint application for upper secondary education that began in January 2014.

In academic year 2013–2014, 23 network projects participated in the programme to boost the completion of vocational education. The networks cover the entire country and they promote practices that improve the completion of education regionally and nationally.

The implementation of the reform of young people's on-the-job learning and apprenticeship training was launched from the beginning of 2014. Central government grants totalling EUR 8 million were awarded in 2014 for the promotion of young people's learning in the workplace and for the flexible integration of work and education.

Development of vocational education's qualification system was initiated in spring 2012. One aim of this development is to strengthen the competence basis and employment-orientation of qualifications and in this way promote the identification and recognition of previously acquired expertise.

The European Credit System for Vocational Education and Training will be adopted in connection with a competence-based description practice and the reform of the qualification system.

Early childhood education will be developed. Developing early childhood education and taking the learning path of children into account will facilitate early intervention in learning difficulties and the fulfilment of educational equality targets. A working group established by the Ministry of Education and Culture completed its work and further steps are being considered.

All children have had the right to pre-school education since 1 August 2001. Pre-school education is voluntary and its purpose is to ensure a quality continuum from day care to basic education. Local authorities are obliged to arrange pre-school education for children in their area in the year preceding the start of compulsory schooling. Raising the target level of basic education, building an unbroken educational continuum from early childhood education to pre-school and basic education as well as guaranteeing sufficient equality between children are important. The Government decided in the Structural Policy Programme to make pre-school compulsory.

In accordance with the Government decision on the implementation of the Structural Policy Programme, the age of compulsory schooling will be raised to 17 years in order to safeguard educational continuity at a critical transition point, reduce drop-out rates and extend the working careers of young people. The reform will be applied to the entire age group and it will be prepared in such a way as to target in particular young people who do not continue with education after basic education.

Sufficient support and conditions for educational success will be ensured for all immigrant students. Preparatory instruction for immigrants' upper secondary education will be launched in autumn 2014.

## 4.5 Poverty target

In June 2010, the European Council agreed that the group of people at risk of poverty and social exclusion should be assessed on the basis of three indicators, namely relative risk of poverty, material deprivation and the under-employment of working age members of households. Excluded from the calculation are 18–24 year-old students who live in households consisting of one or more students.

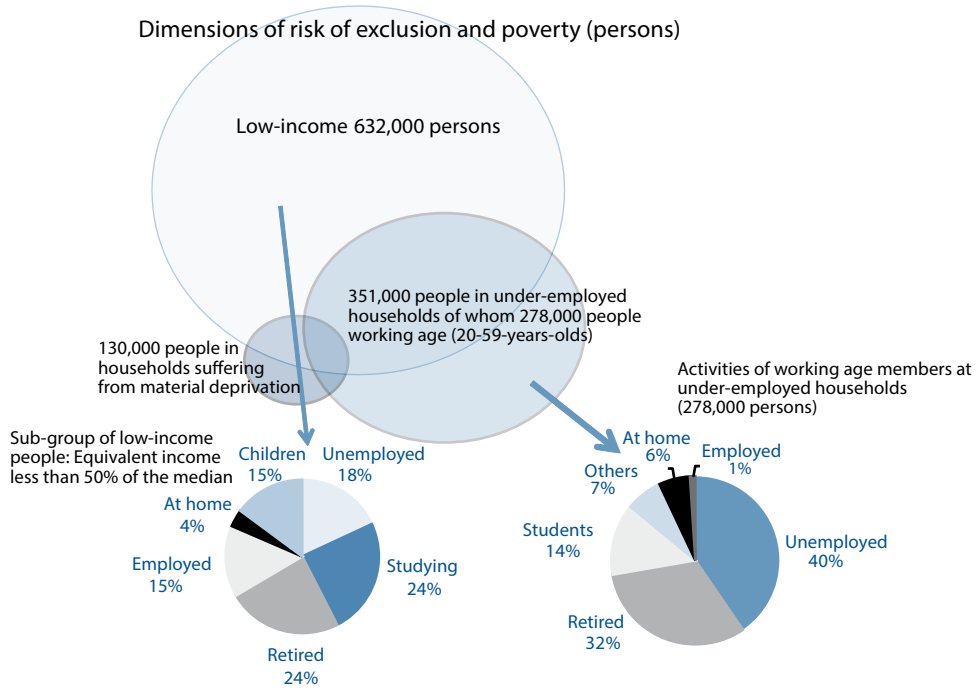
When all of the indicators decided in the European Council are taken into account, risk of poverty or social exclusion affects a total of around 854,000 people in Finland. There are around 632,000 people living in low-income households, around 351,000 working-age members of under-employed households, and around 132 000 members of households suffering from material deprivation.

In recent years, poverty has increased particularly in the metropolitan regions and has been concentrated within them in certain areas. In 2012 Finland had nearly 480,000 long-term low-income people, i.e. 9.0 per cent of the entire population. The number has been stable in recent years. It is, however, higher than in the early 2000s. Examining the period after 2005, the proportion of people 65 years old and over on low incomes has particularly declined. The proportion of children in low-income families has also fallen in recent years. In Finland, around 110,000 students, whose low-income status is temporary, are also included in the low-income group.

The Government decided on the development of participatory social security as part of the structural reform in autumn 2013, and the Ministry of Social Affairs and Health has established a working group for this purpose. The objective is a system in which opportunities to participate in the activities of society are offered to the entire working-age population. Following legislative amendments that entered into effect on 1 January 2014, unemployed persons receiving adjusted unemployment benefit can earn EUR 300 per month without their unemployment benefit being reduced. When income exceeds EUR 300, unemployment benefit is reduced by 50 per cent of the income. The changes are also aimed at encouraging the unemployed to accept short-term and part-time work.

At the beginning of 2014, the conditions for granting vocational rehabilitation were also changed so that more people of working age than at present, and particularly young people, will enter vocational rehabilitation at an earlier stage. When rehabilitation is granted, other issues affecting a person's life situation in addition to illness will also be taken into account more extensively than before. Moreover, the return to work and the continuation in work of people with partial work ability will be supported by extending the partial sickness allowance period. In the criteria for granting of the housing allowance, for 2014 an additional general increase in addition to the normal increase corresponding to the average change in rents was made to the maximum housing expenses acceptable in the housing allowance, and the preparation of a new Housing Allowance Act, which will come into force on 1 January 2015, will continue.

Dimensions of risk of exclusion and poverty (persons)





## 5 Other reform measures and use of Structural Funds

The appropriations of the EU's Regional and Structural Policy have been used to support the achievement of targets according to the Europe 2020 Strategy. Finland's Structural Fund Strategy for 2007–2013 has strengthened national and regional competitiveness, employment and wellbeing. The evaluation of activities was emphasised in the final actual implementation year of the programme.

In the Structural Fund period 2014–2020, the EU's Regional and Structural Policy will be linked more closely to activities in accordance with Europe 2020 Strategy targets. One programme document, which contains both European Regional Development Fund and European Social Fund measures, has been prepared for the programme period 2014–2020. Finland Structural Fund Programme has five priorities, which are particularly aimed at supporting the competitiveness of SMEs, employment, social inclusion and combating poverty. A cross-sectional theme is the promotion of a low-carbon economy.

In accordance with the Europe 2020 Strategy National Reform Programme, the programme's measures particularly focus on job-creating, innovative growth companies as well as regions' own strong and new potential sectors. In addition, the measures will strengthen regions' smart specialisation and networking. Diversification of the business structure will be continued by supporting development of SMEs' product and services as well as by developing and introducing measures to expand the innovation base, which will strengthen productivity growth promoting regions' competitive advantage.

With respect to nature, environmental quality, and promoting sustainable use of natural resources, the programme measures focus on innovation activity, which will develop with the business sector export-viable solutions to environmental issues, particularly relating to management of regions' natural resources, sustainable and efficient use, and reducing environmental loading.

To reduce energy consumption and greenhouse emissions, the programme aims to increase the share of renewable energy and use of local energy sources, and to improve energy and material efficiency. This means, for example, developing innovative solutions relating to renewable energy as well as energy- and resource-efficient products, and promoting associated business activity.

One priority of the programme is promoting social inclusion and combating poverty. During the programme period 2014–2020, there will be particular focus on measures aimed at supporting the employment opportunities of people in a weak labour market position,

strengthening services promoting working and functional capacity, and promoting inclusion in society of individuals at risk of social exclusion.

Measures supported by the European Social Fund will be used to develop new, innovative means to promote the employment of young people as part of the implementation of the youth guarantee.

In order to bring within the labour market those men and women who are outside the labour force, their occupational skills will be improved by offering individual services, enhancing operating models for educational guidance and motivation, and developing educational content and models taking gender aspects into account.

Measures will support flexible and individual study and qualification paths in order to be able to respond quickly to the skills needs of working life, e.g. the needs of working life arising on sector interfaces or requiring high-level expertise. With the aid of various educational trials, for example, measures will also enhance the skills development and graduation of groups who need special support and who are under-represented in education (e.g. boys, men, ethnic minorities).

Structural Fund appropriations will be used to create conditions for permanent structural changes and in situations of abrupt change to react quickly and flexibly to regional and local needs.

In implementing the EU 2020 Strategy, the metropolitan regions in particular will have an important role. In Finland's Structural Fund Programme, the (5 per cent) funding of sustainable urban development required by the Commission will be directed to projects of the six largest cities, in which open innovation environments, open data utilisation in urban development and inclusion of inhabitants will be promoted.

## 6 Institutional issues and stakeholder participation

The Finnish Constitution lays down provisions on the national preparation of decisions made in the EU. Under these provisions, the Government is responsible for the national preparation of EU issues and decides on the measures to be taken by Finland in respect of them.

EU affairs are prepared in the competent ministries, if necessary working with other ministries, and are coordinated in the coordination system for EU affairs, namely in sections under the Committee for EU Affairs and, if necessary, in the Cabinet Committee on European Union Affairs.

Under the Constitution, Parliament has extensive rights to be informed on EU affairs. The provisions are designed to ensure that Parliament has the opportunity to affect the content of decisions made in the EU. Parliament participates in the forming of the national position during the entire preparation and negotiation process taking place in the EU. The views of Parliament are the point of departure for the Government's actions in the EU.

Parliament has participated in the preparation of various Council configurations and the European Council with respect to the Commission's 2014 Growth Survey and the European Semester. The National Europe 2020 Programme will be submitted to Parliament. The programme will also be presented to social partners in connection with EU procedures.







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