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For those cited on the distribution list

GENERAL GOVERNMENT FISCAL PLAN 2019—2022

The General Government Fiscal Plan also includes Finland's Stability Programme and meets the EU requirement for a medium-term fiscal plan. In compliance with Article 4 of Regulation 473/13, the General Government Fiscal Plan is based on independent macroeconomic and fiscal forecasts produced by the Economics Department of the Ministry of Finance. For specific information relating to the Stability Programme, see Appendix 5.

The Government has today, following preparatory consideration of the matter in the Cabinet Finance Committee and pursuant to Section 2 of the Decree on General Government Fiscal Plans (120/2014), Section 1 of the Budget Decree (1243/1992) and the Government's decision issued on 24 April 2003 on the principles of formulating central government spending limits proposals, budget proposals and operating and financial plans, issued the following General Government Fiscal Plan and decision on spending limits included in it, as well as a limit for local government expenditure set by central government measures:

1. Economic challenges and the economic policy line

The Finnish economy is growing rapidly and broad-based. The economic upturn, which has continued for two years, has also brought a much brighter outlook for the labour market since late 2017. Business confidence is at a high level, and demand for labour has increased strongly. The employment rate is improving rapidly, and the unemployment rate is falling.

The growing economy and employment are boosting general government finances. Economic growth increases tax revenue and reduces unemployment expenditure. Also, decisions to curb expenditure growth improve central and local government finances. In the next few years, fiscal balance will be reached for the first time since the financial crises that began in 2008.

The economic upturn conceals structural factors that have affected general government finances negatively in the current decade. The population will age regardless of economic cycles, and expenditure on health care and long-term care resulting from the changing demographic structure will inevitably continue to grow at a rapid rate well into the 2030s, unless the health and social service reform is able to restrain this increase.

Once the current cyclical growth levels out, economic growth rate slows down to between 1% and 1.5%. As the population ages, there will be little or no growth in the amount of work performed. Economic growth will thus depend exclusively on increased productivity. The foreseeable economic growth will not be sufficient to finance the benefits and services granted to citizens by the current legislation over the long term.

Despite the rapid growth in employment, the Finnish labour market is also facing challenges that are not eliminated by the upturn. The employment rate will be significantly lower than in the other Nordic countries. The number of unemployed is high, and a large proportion of them are persons for whom it is difficult to find employment even during an economic upturn. The number of vacancies is increasing, and some sectors and regions are experiencing a shortage of skilled labour.

Consequently, economic policy aiming for improving the prerequisites for growth and strengthening public finances should be continued. When the economy is growing rapidly, the conditions are favourable for reforming economic structures, as strong demand will mitigate short-term negative effects of the reforms. By planning the reforms logically and implementing them with determination, in the best case we can also mitigate their less favourable effects over the short term.

At the peak of the economic cycle, measures that support employment, potential for long-term economic growth and more efficient public service provision will be at the centre of economic policy. In order to safeguard sustainable funding of public service provision and social security, Finland continues to need structural reforms that increase general government revenue and reduce expenditure, or curb the growth in expenditure, over the long term.

A peak in the economic cycle is inevitably followed by a downturn. We can prepare for it by reforming the structures of Finnish economy and ensuring that the cyclical upturn strengthens general government finances. Strengthening the buffers of general government finances is important to prepare not only for future downturns but also for the increase in age-related expenditure and major defence procurements.

The Government’s fiscal policy line

Competitiveness, employment and public service provision are at the heart of the economic policy of Prime Minister Sipilä’s Government. The Government’s economic policy is aimed at levelling off fiscal indebtedness and bridging the sustainability gap through savings as well as measures that boost growth and enhance public service provision.

The Government’s consolidation package aimed directly at strengthening public finances consists of measures to control growth in public expenditure as well as expenditure re-allocations, which will strengthen public finances by approximately EUR 4 billion by 2019 altogether.

According to current estimates, the impact of these measures will reach approximately EUR 4 billion at the 2020 level, but uncertainty is associated with the estimate due to such factors as decisions of the municipalities and uncertainty surrounding the impact assessments of some measures. Some of the measures are still in the preparation stage. On the other hand, the municipalities’ own consolidation measures have exceeded expectations.

The Government aims to strengthen the preconditions for employment and economic growth through taxation as well as through measures supporting economic competitiveness and productivity growth. Agreed in 2016, the Competitiveness Pact boosted Finnish companies’ competitiveness and preconditions for export growth, thus supporting the achievement of the target. Actions taken to increase the supply of labour, on the other hand, have included eliminating incentive traps, improving labour mobility, reforming the employment security system and employment services and ensuring that taxation on earned income will not be increased. The objective was creating enough new growth and employment to improve the budgetary position by EUR 2 billion in the medium term.

Key longer-term measures include cutting public sector costs by reducing municipalities' statutory duties and the obligations related to their fulfilment and utilising digitalisation as well as implementing the health, social services and regional government reform package. Through these measures, the Government aims to restrain public expenditure growth by approximately EUR 4 billion in the long term. In addition, the pension reform that entered into force at the beginning of 2017 will strengthen general government finances significantly over the long term.

2. Objectives and rules steering the management of general government finances

The General Government Fiscal Plan gathers decisions relating to public finances in a single document. In this plan, the Government examines general government finances as a whole, formulating policy outlines and making choices that lay a solid foundation for the later preparation of legislation and the budget. The General Government Fiscal Plan contains sections relating to central government finances, local government finances, county finances, statutory earnings-related pension funds and other social security funds. The Government prepares the General Government Fiscal Plan for the parliamentary term and revises it annually for the following four years by the end of April.

Medium-Term Objective

The Medium-Term Objective (MTO) for a structural balance of -0.5% in ratio to GDP, remains unchanged.

In spring 2017, allowances under the structural reform clause were granted to Finland, enabling a deviation from the adjustment path towards the Medium-Term Objective in 2017—2019. According to the country-specific recommendations, Finland should achieve the Medium-Term Objective (MTO) in 2018, taking into account the allowances granted to Finland, which means a structural balance of -1.0%.

The next three-yearly review of the MTO will take place in spring 2019. The new government to be elected in spring 2019 will thus have to define the MTO level and set the target year for achieving it in the first General Government Fiscal Plan of its parliamentary term (Stability Programme). Finland has committed to a minimum MTO level of -0.5% in ratio to GDP in the Fiscal Compact.

Other fiscal policy targets

In its General Government Fiscal Plan of spring 2017, the Government set multiannual nominal targets for general government budgetary position, expenditure and debt consistent with the Medium Term Objective and annual change in the structural balance leading to it for 2018—2021. These targets are based on achieving the 72% employment rate set as a goal by the Government, and a target scenario concerning them was included in the Stability Programme.

According to the target scenario set in last year's Stability Programme, the Medium-Term Objective was to be achieved no later than 2019. Based on the independent forecast, the Medium-Term Objective was already achieved in 2016 and Finland will stay on this track; in other words, the independent forecast predicts that the target scenario contained in last year's Stability Programme will be realised and that the general government finances will in fact be stronger than targeted, as shown in Table 1. Consequently, the targets set last year for general government deficit, debt and expenditure will not be adjusted, and the independent forecast will be presented in the Stability Programme.

Table 1. General government structural balance, net lending, expenditure and gross debt. Target scenario set in the General Government Fiscal Plan of spring 2017 and the Ministry of Finance forecast of spring 2018, % GDP.

	2018 Target	2018 Forecast	2019 Target	2019 Forecast	2020 Target	2020 Forecast	2021 Target	2021 Forecast
Structural balance	-1.1	-0.5	-0.5	-0.6	0.0	-0.3	-0.3	-0.1
General government net lending	-1.6	-0.6	-0.8	-0.2	-0.2	0.1	-0.3	0.3
General government gross debt	64.5	60.4	63.8	58.9	62.7	57.4	61.9	56.7
General government expenditure	53.9	53.7	52.5	52.0	52.1	51.7	52.1	51.4

The Government's nominal budgetary targets for the parliamentary term concerning 2019 are still valid. These are:

— central government deficit of at most ½% in ratio to GDP.

— local government deficit of at most ½% in ratio to GDP.

— surplus of earnings-related pension funds approximately 1% in ratio to GDP.

— balance of other social security funds approximately 0% in ratio to GDP.

As a result of the health and social services reform, a new county finances subsector will emerge in general government finances from 2020. As this subsector has not yet been specified in detail, the Government does not set a nominal budgetary target for county finances in this General Government Fiscal Plan.

The Government expects that the adopted targets will result in the achievement of the MTO set in spring 2013 and confirmed in spring 2016, or an even stronger structural balance.

The measures decided by the Government to achieve the targets are described by subsector in Chapters 5—8. Chapter 9 examines the overall impact of Government measures on public finances. Chapter 3.2 presents an estimate of how the targets will be fulfilled in the light of the independent forecast of the Ministry of Finance's Economics Department. The Stability Programme (Appendix 5) assesses in detail the fulfilment of the MTO and the EU criteria.

Central Government Spending Limits

The Government is committed to the central government spending limits system. The expenditure rule ensures a responsible, long-term central government spending policy that promotes economic stability. The system is based on a real, binding overall expenditure ceiling set for the duration of the parliamentary term, to which only the required price and cost level adjustments and structural corrections are made annually. The spending limits system restricts the level of expenditure budgeted in the State budget. The purpose of the rule is to limit the total amount of expenditure imposed on the taxpayer.

The spending limits system sets a ceiling for approximately 80% of central government budget expenditure. Expenditure that changes according to cyclical conditions and automatic stabilisers, central government debt interest expenditure and financial investments remain outside the central government spending limits. While spending limits are allocated to the administrative branches in the annual spending limits decision, only the overall expenditure ceiling for the parliamentary term is binding. Re-allocations may be made between administrative branches. In addition to the supplementary budget provision, there remains an unallocated reserve between the parliamentary term expenditure ceiling and the administrative branch-specific expenditure ceilings, which will be allocated later.

The central government spending limits are discussed in Chapter 5.

Limit for local government expenditure set by central government measures

The Government Decree on the General Government Fiscal Plan requires that the Government set in the General Government Fiscal Plan a maximum monetary limit consistent with the local government budgetary target for the change in expenditure in local government finances resulting from central government measures. The limit for local government expenditure set by central government measures and the impact of central government measures on local government finances are discussed in Chapter 7.

3. Economic fundamentals

In compliance with Article 4 of Regulation 473/13, the General Government Fiscal Plan is based on independent macroeconomic and fiscal forecasts produced by the Economics Department of the Ministry of Finance. This Chapter discusses the macroeconomic and public finance outlook based on the independent forecast. For a more detailed forecast, see the Ministry of Finance’s Economic Survey.

3.1. Economic outlook

Economic outlook for 2018—2020

Finland’s economic growth will continue at an annual rate exceeding two per cent in the next few years, only to slow down to a level closer to the medium-term rate of less than 1.5%.

The fast recovery of the economy and sustained strong economic growth boost the demand for labour, and employment growth will achieve its fastest rates in years. The employment rate will already reach 72.5 per cent in 2020. The unemployment situation will only improve slowly, however, regardless of the increasing number of vacancies.

Finland’s GDP is expected to grow by 2.6% in 2018. Higher employment will accelerate growth in private consumption. The faster economic growth in Finland and favourable international development will sustain growth in investments. While the growth in exports is slowing down, it continues to be faster than the growth in world trade.

In 2019, economic growth is expected to slow down to 2.2%. Accelerating inflation will slow down the growth in household disposable real income, decelerating the growth of private consumption. Strong growth in world trade during the outlook period will create better prospects for Finnish exports.

In 2020, Finnish GDP is expected to grow by 1.8%. Growth in private consumption will continue to slow down, even if the wage bill will continue to increase as the growth of earnings accelerates. The goods to services ratio of exports is expected to remain almost unchanged, which means that exports will continue to be mainly driven by exports of goods.

While private investments will grow on average 3.5% to 4% a year, their growth will be slower than in recent years.

In 2018, earnings will increase by 1.9%. Wage drifts are expected to remain below average because of local settlements and company-specific items. Driven by the timing of agreement-based increases, earnings growth will accelerate to 2.5% in 2019. In 2020, solid economic growth and the reintroduction of public sector holiday bonuses will further accelerate the growth of earnings to 2.8%.

Medium-term outlook

Economic growth will slow down to less than 1.5% in 2021 and 2022. The economic restructuring and demographic changes that have been under way for years will also affect the longer-term growth outlook of the economy.

The contraction of the working age population will reduce labour input in the next few years, but labour force participation rates are expected to rise slightly, particularly in the older age cohorts. Another factor slowing down the growth of labour input is high structural unemployment.

Total factor productivity growth has been a key source of economic growth in recent decades. In the last few years, total factor productivity has developed very modestly. Cyclical but also structural factors have contributed to this weak trend. The output of high-productivity sectors has declined significantly, and services have become more predominant in the overall structure of the economy. The total factor productivity growth trend has been around zero in recent years, and growth is also expected to be significantly slower in the medium term than that experienced in the early 2000s.

In addition to labour input and total factor productivity, the production conditions of the economy will be influenced by the capital stock. The low investment rate that continued for several years has partly slowed down capital stock growth and thus weakened the future growth potential of the economy. Should the growth of investments seen in the last few years continue, however, it will correct the situation to some extent.

Table 2. Trends in the national economy

	2016	2017	2018	2019	2020	2021	2022
GDP value, EUR billion[1]	215.8	223.8	233.1	243.1	252.0	260.1	268.3
GDP, change in volume, %	2.1	2.7	2.6	2.2	1.8	1.3	1.1
Unemployment rate, %	8.8	8.6	8.1	7.5	7.0	6.9	6.8
Employment rate, %	68.7	69.6	71.1	71.9	72.5	72.9	73.2
Consumer Price Index, change %	0.4	0.7	1.2	1.4	1.7	1.8	2.0
Long-term interest, 10 years, %	0.4	0.5	1.0	1.4	1.7	2.1	2.4

[1)] This figure includes GDP in 2017 updated by Statistics Finland on 29 March 2018.

3.2. Outlook for general government finances

Over the last couple of years, the general government budgetary position has improved significantly, thanks to consolidation measures positive economic cycle. Last year, the deficit contracted to -0.6 per cent in ratio to GDP. The favourable development of the general government budgetary position will continue, and general government finances will achieve a slight surplus in the next few years after being in deficit for more than a decade. Good cyclical conditions will not eliminate the sustainability gap in public finances, however. The increase in age-related expenditure due to demographic change will automatically have a weakening effect on general government finances for an extended period. In order for general government finances to be on a sustainable base, also in the longer term, an even greater budget surplus would be needed in the early 2020s.

The ratio of government debt to gross domestic product started decreasing in 2016, and the debt-to-GDP ratio will continue to decrease during the outlook period. Nominally, the debt and fiscal indebtedness will continue to grow, albeit more slowly. Finland will face the next downturn with an extremely high level of public debt, making the general government finances much more vulnerable to a new recession.

Finland’s general government finances comprise central government, local government and the social security funds, which are further divided into earnings-related pension funds handling statutory earnings-related pension insurance and other social security funds. The structure of general government finances will change in 2020 as the new counties begin operating. Statistics Finland will only determine the sector classification of county government in the national accounts at a later stage. In the forecast and medium-term assessment of general government finances produced by the Economics Department of the Ministry of Finance in spring 2018, county government is included as a separate sector.

While central government finances showed a clear deficit in 2017, this deficit decreased considerably year-on-year. Of all sectors, cyclical variations have the greatest impact on central government finances, especially as tax revenue is highly sensitive to economic cycles. Central government tax revenue increased thanks to strong economic growth, whereas expenditure was reduced by the consolidation measures set out in Annex 6 to the Government Programme. Stable economic growth and consolidation measures will continue to reduce this deficit in the next few years.

Local government finances showed a slight deficit in 2017, albeit smaller than the year before. In particular, local government finances are burdened by growth in healthcare and social welfare expenditure resulting from the ageing of the population. Some of the local government duties will be transferred to the counties as part of the regional government and health, social services and regional government reform in 2020. This reform will also transfer some of the growth in expenditure incurred from the demographic ageing to the county finances. Local government finances will continue to show a minor deficit or achieve fiscal balance during the outlook period.

The surplus of the earnings-related pension funds continued its decline last year and was just under 1% in ratio to GDP. This surplus has been reduced by a rapid growth in pension expenditure, which the increase in pension contribution revenue and property income have been inadequate to counterbalance. The budgetary position of other social security funds has been strengthened by the increase in unemployment insurance contributions in 2016 and the lower unemployment rate. The other social security funds will remain slightly in surplus during the outlook period.

Total general government expenditure decreased slightly last year. A sound increase was recorded in the total revenue, regardless of reductions in employer contributions and tax reductions contained in the Competitiveness Pact. The Pact succeeded in lowering both the expenditure rate and the tax rate. The expenditure rate and the tax rate will continue to decrease in the outlook period.

Table 3. Key figures for general government finances according to National Accounts, % GDP

	2016	2017	2018	2019	2020	2021	2022
Taxes and social security contributions	44.1	43.4	42.5	42.3	41.9	41.8	41.6
General government expenditure	56.0	53.7	52.7	52.0	51.7	51.4	51.2
General government net lending	-1.8	-0.6	-0.6	-0.2	0.1	0.3	0.3
— Central government	-2.7	-1.7	-1.6	-0.9	-0.4	-0.2	-0.1
— County government					-0.4	-0.5	-0.4
— Local government	-0.4	-0.1	-0.2	-0.4	-0.1	-0.1	-0.2
— Earnings-related pension funds	1.1	0.9	1.0	0.9	0.9	0.9	0.8

	2016	2017	2018	2019	2020	2021	2022
— Other social security funds	0.2	0.3	0.2	0.2	0.2	0.2	0.2
Primary balance	-1.6	-0.3	-0.4	-0.1	0.2	0.3	0.3
Structural balance	-0.5	-0.1	-0.5	-0.6	-0.3	-0.1	-0.1
General government gross debt	63.0	61.4	60.4	58.9	57.4	56.7	56.0
Central government debt	47.4	47.3	46.9	45.6	44.4	43.5	42.7

Compliance with fiscal policy rules and objectives

In the light of the independent forecast of the Ministry of Finance's Economics Department, it appears that many of the key fiscal policy targets are about to be achieved. The general government debt-to-GDP ratio levelled out in 2016, and this ratio will continue decreasing until the early 2020s. The Medium-Term Objective set for general government structural balance will also be achieved. Finland reached its Medium-Term Objective (-0,5% in ratio to GDP) in 2016, and the structural balance figure will also remain close to or above the MTO in 2018—2022.

Additionally, the Government has set separate objectives regarding general government fiscal balance for the central government, local governments and the social security funds. The social security funds are about to reach their objective of one per cent surplus, and local government deficit will remain at less than 0.5 per cent in ratio to GDP as targeted. However, central government deficit will remain higher than the targeted 0.5% in 2019.

In addition to levelling out the debt-GDP ratio, the Government has set the goal of ending dependence on borrowing by 2021. Despite solid economic growth, it is likely that this target will not be quite reached. While general government finances will show a slight surplus at the end of this decade, this surplus will rely on earnings-related pension institutions. Additional borrowing will continue until the early 2020s. Major hospital investments will also keep county finances in a slight deficit.

General government budgetary position and debt, broken down into the budgetary position and debt of core sectors and units outside the core sectors

The general government budgetary position will be in deficit until 2019, after which year it will show a slight surplus. Most of the deficit will comprise on-budget deficit in the core sector of central government, whereas the local government core sector, or the municipalities and joint municipal authorities, will be in fiscal balance or close to it. The social security funds will be in surplus. The combined deficit of units outside the core sectors will be approximately 0.2% in ratio to GDP.

General government consolidated EDP debt will be less than the 60% reference value in 2019. Most of the debt is central government on-budget debt. The municipalities and joint municipal authorities also have debt to a significant extent. Of the units outside the core sectors, indebtedness mainly affects real-estate companies and a few other units. The debt carried by units outside the core sectors grows slowly, or by an amount corresponding to the deficit produced by these units annually.

For a list of units in general government sub-sectors, see Statistics Finland's website.[1]

[1] http://www.stat.fi/meta/luokitukset/_linkki/julkisyhteisot.html

Table 4. General government budgetary position and debt in ratio to GDP, broken down into core sectors and units outside the core sectors

	2016	2017	2018	2019	2020	2021	2022
General government, total							
Budgetary position in ratio to GDP	-1.8	-0.6	-0.6	-0.2	0.1	0.3	0.3
Debt in ratio to GDP	63.0	61.4	60.4	58.9	57.4	56.7	56.0
Core sectors, total							
Budgetary position in ratio to GDP	-1.5	-0.3	-0.4	0.0	0.3	0.5	0.5
Debt in ratio to GDP	60.7	59.2	58.1	56.5	54.9	54.1	53.4
Units outside core sectors, total							
Budgetary position in ratio to GDP	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Debt in ratio to GDP	2.4	2.2	2.3	2.4	2.5	2.6	2.7

3.3. Economic restructuring, population ageing and fiscal sustainability

Over the last decade, Finland’s economy has been affected by industrial restructuring, which has weakened the potential for economic growth. The growth outlook for the years to come is also dimmed as the working-age population contracts. The increase in pension, health care and long-term care expenditure caused by population ageing will also pose a permanent additional challenge to efforts made to balance general government finances.

The sustainability gap in general government finances means that in the long term, general government revenue will not be sufficient to cover expenditure. The sustainability gap can be technically expressed as the difference between the surplus safeguarding the sustainability of general government finances and general government deficit in the base year of the calculation (currently 2022). The surplus safeguarding sustainability means that general government finances should be approximately 2.5% in surplus in ratio to GDP at the beginning of the next decade in order to cope with the expenditure pressures arising from population ageing in the coming decades without additional measures. Instead of a 2.5% surplus, general government finances are projected to have more or less reached structural balance in 2022.

The Ministry of Finance estimates the sustainability gap to be approximately 2.5% in ratio to GDP. The sustainability gap calculation does not currently take into account the long-term measures outlined in the Government Programme to strengthen general government finances, such as the health and social services reform. Significant uncertainty is associated within the sustainability gap estimate, and it is sensitive to the assumptions used about future development. Regardless of the uncertainty, however, the calculation offers a coherent way of examining the challenges facing public finances and means to overcome them.

4. Government liabilities and risks

Government financial liabilities and the associated risks may emanate from decentralised sources within central government on-budget finances, central government funds and unincorporated state-owned enterprises. In addition, the central government may be subject to liabilities from within the municipalities, the private sector, state-owned companies or the financial markets (e.g. the banking sector). The central government may also be subject to de facto liabilities associated with securing the continuity of certain functions of society, even though there is no law or agreement directly conferring such liability. The table shows a summary of central government assets and nominal values of certain specifiable liabilities. Assessing the risks related to liabilities unambiguously is difficult, and therefore the nominal values of liabilities have been used in this examination in the interest of clarity. Data on central government real and financial assets are based on financial accounting. Regarding financial assets, the table also shows certain key publicly quoted shareholdings. In addition, the central government owns either fully or in part several other companies, which are valued on the basis of their book value.

Economic cycles have had a major impact on the value of central government financial assets. In 2008, central government financial assets decreased by more than EUR 13 billion, or by over 8 percentage points in ratio to GDP. Financial assets also decreased significantly in 2011. Since 2011, financial assets have grown due to rising share prices. In 2007—2017, the central government has received dividend income of between EUR 1.1 and 1.9 billion from its shareholdings annually. In 2017, the central government’s dividend income was EUR 1.3 billion, accounting for approximately 2.4% of all central government revenue according to National Accounts. The proportion of dividend income reached its highest rates of approximately 3.9% in 2007 and 2008.

Table 5. Summary of government liabilities and risks, EUR billion

	2011	2012	2013	2014	2015	2016	2017
Assets							
Central government real assets	49.5	51.1	52.4	51.8	53.0	52.6	
% GDP	*25.2*	*25.6*	*25.8*	*25.2*	*25.3*	*24.4*	
Central government financial assets	55.5	58.5	59.5	60.4	61.1	61.3	64.2
% GDP	28.2	*29.3*	*29.3*	*29.4*	*29.1*	*28.4*	*28.7*
— of which							
Central government liquid assets	10.3	7.4	4.6	3.1	4.4	3.1	3.0
Solidium	6.9	7.2	8.2	7.6	6.8	7.8	8.6
Other shareholdings in listed companies	8.6	7.8	9.5	10.9	10.2	11.5	15.2
National Housing Fund receivables	7.7	7.2	6.5	6.0	5.4	4.8	4.2
Responsibilities							
Central government debt	79.7	83.9	89.7	95.1	99.8	102.3	105.8
% GDP	*40.5*	*42.0*	*44.1*	*46.6*	*48.2*	*47.8*	*47,3*[1]
Municipal debt	11.4	12.9	14.9	16.9	18.1	18.8	19.2
% GDP	*5.8*	*6.4*	*7.3*	*8.2*	*8.5*	*8.8*	*8.6*
Central government guarantees[2]	26.8	33.7	35.0	39.2	44.2	46.1	52.1
% GDP	*13.6*	*16.8*	*17.3*	*19.1*	*21.1*	*21.5*	23,3[1]
— Finnvera	14.0	14.8	14.6	17.5	22.6	22.6	27.7
— Student loans	1.4	1.5	1.6	1.8	2.0	2.3	2.7
— EFSF	0.5	5.1	6.2	6.6	6.2	6.3	7.0
— Bank of Finland	0.6	0.8	0.7	0.6	0.5	0.6	0.4
— Government funds	9.1	10.2	11.2	11.8	12.3	13.2	13.8
— Other	1.0	1.2	0.8	0.9	0.6	1.1	0.4
Capital liabilities	5.8	17.0	17.1	17.2	17.8	18.0	17.9

	2011	2012	2013	2014	2015	2016	2017
% GDP	*3.0*	*8.5*	*8.4*	*8.4*	*8.5*	*8.4*	8.0
Other liabilities	112.3	119.0	117.8	132.9	130.8	129.5	128.3
% GDP	*57.0*	*59.6*	*57.8*	*64.8*	*63.2*	*60.5*	*57.4*
— Budget accounting	110.4	117.0	115.4	130.4	128.3	126.9	125.5
— Off-budget entities	0.4	0.5	0.6	0.7	0.9	1.2	1.6
— State enterprises	1.5	1.5	1.8	1.8	1.6	1.4	1.2

1) Preliminary data

2) For more detailed information on government guarantees, see Appendix 12 to the central government final annual accounts.

Central government liabilities, in addition to debt and pension liabilities, largely comprise guarantees, the nominal value of which has increased significantly in recent years. Guarantees issued by Finnvera and central government funds have seen particularly high increases. The National Housing Fund accounts for the majority of guarantees issued by funds, EUR 13.7 billion at the end of 2017. The growth in Finnvera guarantees has focused on export credit guarantees and Finnvera's acquisition of funds. In the growth of the National Housing Fund's guarantees, funding for government-guaranteed rental and right-of-occupancy housing is prominent.

The nominal value of central government guarantees has nearly doubled in the 2010s and is now approximately 23% in ratio to GDP. In addition, the amount of capital liabilities payable upon request to international financial institutions has multiplied, mainly due to the measures related to managing the financial crisis in the EU. Finland's total liabilities incurred from the management of the euro crisis that began in 2010 were approximately EUR 10.3 billion at the end of 2017.

On an international scale, Finland's public sector guarantees are at a high level. Different reporting practices, among other reasons, make it difficult to compare the nominal values of guarantees between countries. Nevertheless, according to data collected by Eurostat, Finland's general government guarantees-to-GDP ratio was the highest among the EU Member States in 2016. Finland also has the highest level of state guarantees in the EU countries, and the fastest growth of state guarantees in the EU area in 2013—2016 was recorded in Finland.

Risks related to public sector activities are generally linked in many ways to general economic development. In an exceptionally difficult economic situation, the fiscal position may weaken due to a number of different factors simultaneously. Risks relating to macroeconomic development, public debt, public sector holdings, granted export credit guarantees and other public sector risks are correlated. In normal business cycle conditions, however, typically only some of the risks are realised.

Costs arising from the triggering of central government liabilities may impose a significant burden on the economy. This highlights the importance of careful management of central government financial liabilities as well as sufficient risk management and monitoring, particularly in a situation where the central government continues to be in a deficit.

Central government financial liabilities and the associated risks are discussed in greater detail in an Overview of Central Government Risks and Liabilities published by the Ministry of Finance.

5. Central government finances

5.1. Central government spending limits

The central government spending limits system is based on a real, binding overall expenditure ceiling set for the duration of the parliamentary term, to which only the required price and cost level adjustments and structural corrections are made. The spending limits system is based on ex ante examination, i.e. it restricts the level of expenditure budgeted in the State budget. The spending limits procedure sets a ceiling for approximately 80% of central government budget expenditure. Expenditure that changes according to cyclical conditions and automatic stabilisers, such as unemployment security expenditure, pay security, housing allowance and the central government contribution to the cost of social assistance expenditure, is not included in the central government spending limits. However, expenditure effects generated by changes in the criteria for these items are included within the spending limits. Debt interest payments, VAT expenditure, financial investment expenditure and expenditure corresponding to technically transmitted payments by central government are also excluded from the spending limits. The spending limits do not include off-budget funds.

The spending limits also cover supplementary budgets, for which a certain portion of the spending limits, the so-called supplementary budget provision, has been reserved. While the annual spending limits decision also sets administrative branch-specific spending limits, only the overall expenditure ceiling for the parliamentary term is binding. Re-allocations may be made between administrative branches. In addition to the supplementary budget provision, there remains an unallocated reserve between the parliamentary term expenditure ceiling and the administrative branch-specific expenditure ceilings, which will be allocated later. If the level of expenditure after supplementary budgets falls below that specified in the spending limits, the difference, to a maximum of EUR 200 million, may be used for one-off expenditure in the following year without reference to the spending limits.

5.2. Development of on-budget expenditure and the spending limits

Development of on-budget expenditure in 2018—2022

On-budget expenditure is expected to be around EUR 55.1 billion in 2019, which is EUR 0.7 billion less than the amount budgeted for 2018. Such factors as the lapsing of key project appropriations and decrease in unemployment security expenditure have contributed to this reduction in appropriations. Compared to the spending limits decision of spring 2017, expenditure will be approximately EUR 0.2 billion higher in 2019—2021 on average, excluding the impacts of the health, social services and regional government reform. The expenditure was increased by additional funding for such areas as transport projects decided in the 2018 budget and increases in social benefits decided in the 2018 budget and the General Government Fiscal Plan for 2019—2022. Statutory index and price corrections will also increase the level of on-budget expenditure, including an amount of EUR 130 million resulting from the central government collective agreement solution in 2019. On the other hand, the estimate of central government unemployment security expenditure is considerably lower than in the previous spending limits decision, and the expenditure incurred from the adjustment of the division of costs between central government and the municipalities will be lower than expected. Excluding changes resulting from the health, social services and regional government reform, on-budget expenditure is expected to grow nominally on average by approximately 1.5% per year during the spending limits period. In real terms, on the other hand, the annual average expenditure is expected to fall slightly.

The level of expenditure within the spending limits in 2019 will be approximately EUR 44.2 billion, which equals the spending limit expenditure budgeted for 2018. As a consequence of the health, social services and regional government reform, the on-budget expenditure level will rise by approximately EUR 12 billion in 2020 and reach EUR 57.4 billion by the end of the spending limits period.

The spending limits decided for the parliamentary term of Prime Minister Sipilä's government extend until 2019. The unallocated reserve is EUR 100 million in 2019, in addition to which EUR 300 million is reserved for supplementary budgets.

Expenditure outside the spending limits

The spending rule sets a maximum level for around four-fifths of on-budget expenditure. The following expenditure, among others, falls outside the spending limits: cyclical expenditure, interest expenditure on central government debt, and expenditure where the central government acts as a technical intermediary for an external funding contribution. In addition, a transfer to the State Television and Radio Fund (Yle transfer) will be dealt with as expenditure outside the spending limits from 2018.

Expenditure outside the spending limits is expected to be approximately EUR 10.9 billion in 2019. Compared to the 2018 budget, expenditure outside the spending limits will decrease clearly, mainly due to a lower level of cyclical expenditure. A reduction in the capitalisation of universities and universities of applied sciences will contribute to the decline in expenditure outside the spending limits.

In 2019—2022, expenditure outside the spending limits is expected to average EUR 11.7 billion annually. The health, social services and regional government reform will bring significant technical changes to expenditure outside the spending limits. As a consequence of this reform, compensation payments for changes in tax criteria to municipalities will be reduced in 2020 as they will mainly be transferred to county finances, which comprise expenditure included in the spending limits. The reform will also increase the volume of technical pass-through items due to the counties' value-added tax compensation model, which differs from the model used by the municipalities.

Cyclical expenditure will decline overall during the spending limits period as the employment situation improves. Interest expenditure is expected to grow during the spending limits period, as an increase in the interest level is forecast. VAT appropriations are also estimated to rise.

Compared to the General Government Fiscal Plan of spring 2017, the level of expenditure outside the spending limits will be approximately EUR 300 million higher towards the end of spending limits period. The most significant reason for this change is the growth in VAT expenditure, for instance in the Ministry of Defence's administrative branch. Expenditure corresponding to amounts from gambling activities recognised as revenue has also increased year-on-year.

	2019	2020	2021	2022
Cyclical expenditure	4.6	4.5	4.4	4.3
Compensation to municipalities for tax criteria changes	0.6	0.1	0.2	0.2
Expenditure corresponding to EU revenue	1.1	1.1	1.1	1.1
Expenditure corresponding to revenue recognised from Veikkaus Oy	1.0	1.0	1.0	1.0
Interest expenditure	1.2	1.3	1.4	1.5
Financial investment expenditure	0.4	0.4	0.4	0.3
Technical pass-through items	0.3	1.5	1.7	1.7
VAT appropriations	1.2	1.2	1.5	1.5
Transfer to State Television and Radio Fund	0.5	0.5	0.5	0.5
Total	**10.9**	**11.6**	**12.2**	**12.2**

Price and cost-level adjustments and structural changes

The parliamentary term expenditure ceiling is adjusted annually to reflect structural changes in the spending limits as well as changes in price levels. The spending limits decision for 2018—2021 was prepared at the cost and price levels of 2018. The spending limits decision for 2019—2022 is prepared at the price level of 2019, as a result of which the expenditure ceiling for 2018 is adjusted upwards by EUR 535 million. Index savings decided earlier reduce the price adjustment. In addition, the expenditure ceiling of 2019 is reduced by a total of EUR 12,441 million due to structural changes to the spending limits. The most important change decided since the previous spending limits decision is postponing the health, social services and regional government reform by a year to 2020, as a result of which any structural changes to the budget and the corresponding adjustments in the spending limits for 2019 have been removed. For a more detailed description of the structural corrections to the spending limits and the price and cost level adjustments, see Appendix 2.

	2019
Spending limits decision of 28 April 2017	56,483
Cost and price level adjustments	535
Structural changes	-12,441
Revised expenditure ceiling	44,578

Table 6. Central government spending limits by administrative branch and estimate of expenditure outside the spending limits in 2019—2022, EUR million at 2019 prices and costs

	2019	2020	2021	2022
23. Prime Minister's Office	234	174	171	171
Estimate of expenditure outside spending limits	25	25	25	25
Total	**259**	**199**	**196**	**196**
24. Ministry for Foreign Affairs	951	981	1,004	1,033
Estimate of expenditure outside spending limits	156	156	156	156
Total	**1,107**	**1,137**	**1,160**	**1,190**
25. Ministry of Justice	921	865	878	875
Estimate of expenditure outside spending limits	45	44	44	44
Total	**966**	**909**	**922**	**919**
26. Ministry of the Interior	1,310	1,299	1,270	1,240
Estimate of expenditure outside spending limits	120	119	110	108
Total	**1,430**	**1,419**	**1,380**	**1,348**
27. Ministry of Defence	2,809	2,744	3,763	3,763
Estimate of expenditure outside spending limits	374	380	740	741
Total	**3,184**	**3,124**	**4,503**	**4,505**
28. Ministry of Finance	16,408	29,548	29,696	29,925
Estimate of expenditure outside spending limits	941	1,746	1,932	1,994
Total	**17,349**	**31,294**	**31,628**	**31,919**
29. Ministry of Education and Culture	5,803	5,773	5,752	5,726
Estimate of expenditure outside spending limits	588	587	585	585
Total	**6,391**	**6,361**	**6,336**	**6,311**
30. Ministry of Agriculture and Forestry	1,560	1,469	1,595	1,565
Estimate of expenditure outside spending limits	969	904	980	962
Total	**2,529**	**2,373**	**2,575**	**2,527**
31. Ministry of Transport and Communications	1,980	1,918	1,862	2,067
Estimate of expenditure outside spending limits	904	895	895	888
Total	**2,884**	**2,813**	**2,757**	**2,956**
32. Ministry of Employment and the Economy	2,122	1,443	1,428	1,355

	2019	2020	2021	2022
Estimate of expenditure outside spending limits	510	510	486	447
Total	**2,632**	**1,953**	**1,914**	**1,802**
33. Ministry of Social Affairs and Health	9,788	9,164	9,169	9,232
Estimate of expenditure outside spending limits	5,062	4,909	4,822	4,730
Total	**14,850**	**14,073**	**13,991**	**13,962**
35. Ministry of the Environment	160	153	151	146
Estimate of expenditure outside spending limits	6	6	6	6
Total	**166**	**160**	**157**	**153**
36. Interest on central government debt	-	-	-	-
Estimate of expenditure outside spending limits	1,211	1,286	1,364	1,520
Total	**1,211**	**1,286**	**1,364**	**1,520**
Spending limits for the administrative branches, total[1]	**44,178**	**55,667**	**56,868**	**57,226**
Estimate of expenditure outside spending limits	10,922	11,579	12,155	12,216
Main titles, total	**55,100**	**67,247**	**69,023**	**69,442**
Expenditure ceiling	**44,578**			
— Spending limits for the administrative branches, total[1]	44,175			
— Supplementary budget provision	300			
— Unallocated reserve	100			

1) Main titles 21 and 22 are included in the total.

5.3. Definitions of policy in budget finances 2019—2022

The General Government Fiscal Plan for 2019—2022 contains, within the spending limits, additional funding for the following themes, in particular:

- employment
- inequality
- safety and security.

Regarding the theme of employment, additional appropriations have been allocated to the implementation of the active model and incentives for accepting short-term work among other things, for which the Government reserves EUR 20 million.

The measures aiming to mitigate inequality include increases in guarantee pensions and minimum daily allowances.

The safety and security theme includes additional funding for such purposes as reforming the system of converting fines to prison sentences.

For more details on the impacts of these themes on the appropriations, see the sections on each administrative branch.

Consolidation of central government finances

Annex 6 to the Government Programme contains the general government consolidation measures to be implemented in the parliamentary term. The reducing effect on central government on-budget expenditure of measures outlined in Annex 6 is estimated to be approximately EUR 2.9 billion in 2019, representing an increase of EUR 0.7 billion from 2018, due to a number of saving measures, including savings through cuts in spending limit authorisations and the growing impacts of savings obtained through index freezes from 2018 on.

In the General Government Fiscal Plan for 2018—2021, a decision was made to extend the reductions in municipalities’ duties and obligations by EUR 1 billion decided in the Government Programme to the entire public sector. The productivity target of 0.5% set for digitalisation and increased productivity in central government activities related to the so-called ‘Public sector billion’ has been included in the administrative branches’ appropriations from 2020. A target of 0.3% applies to the administrative branches of the Ministry of Justice, the Ministry of the Interior and the Ministry of Defence and the operating expenditure of the Customs. For more information about this and other savings affecting central government operating expenditure, see section 5.3.2.

Consolidation measures at the level of local government finances are discussed in section 7.2. and at the level of general government finances as a whole in section 9.1.

Health, social services and regional government reform

The health, social services and regional government reform, in which responsibility for organising health and social services will be transferred from municipalities and joint municipal authorities to 18 counties on 1 January 2020, has been addressed in the General Government Fiscal Plan. The counties will also take over such duties as rescue services and environmental health management, regional development and Structural Funds activities as well as business development.

The universal funding to be allocated to the counties will include funding for healthcare, social welfare and rescue service duties as well as other duties to be taken over from the municipalities and the central government, totalling approximately EUR 18.3 billion a year from 2020. This amount will consist of transfers from municipalities’ tax revenue and central government transfers for basic public services as well as from other expenditure items in the State budget. A total of EUR 1.2 billion is allocated to compensating counties for their value-added tax costs from 2020. Approximately EUR 213 million will be allocated to supporting the preparation and implementation of the health, social services and regional government reform in 2019.

For more information on county finances, see section 5.3.1, which deals with the Ministry of Finance’s administrative branch, and Chapter 6, which discusses county finances as a whole.

Expenditure arising from asylum seekers

The assumption used in the General Government Fiscal Plan puts the annual number of asylum seekers at 4,000. The estimated number of persons within the scope of reception measures has been increased due to appeal processes, which have become more prolonged and numerous. The estimated number of persons to whom asylum will be granted has also been adjusted upwards. Due to these changes in the assumptions, the estimate of expenditure arising from immigration is increased for the first three years of the spending limits period, whereas the estimated expenditure for 2022 is decreased slightly. In total, however, an average annual reduction of 8% is anticipated in the expenditure on immigration.

5.3.1. Policy outlines for the administrative branches

Prime Minister's Office

Appropriations in the main title of the Prime Minister’s Office will amount to EUR 259 million in 2019. The spending limits for 2019 include EUR 60 million of appropriations related to Finland's EU Presidency. By 2022, the level of appropriations in this main title will drop to EUR 196 million.

The operating expenditure appropriations of the Prime Minister's Office will decrease to EUR 116 million in the spending limits period. The expenditure on premises incurred from renovations in Merikasarmi building has been included in the spending limits.

The Prime Minister's Office will lead the preparations for Finland's EU Presidency in 2019 and coordinate the planning and implementation of matters related to it. A total of EUR 70 million has been reserved for the overall expenditure on the EU Presidency in 2017—2020. In addition, an increased appropriation for security expenditure during the Presidency is included in the Ministry of the Interior's main title.

EUR 0.5 million in 2019 and EUR 1.5 million annually in 2020—2022 will be allocated to the Healthy Premises 2028 action plan, the purpose of which is making public buildings healthier and providing more efficient treatment and rehabilitation for those suffering from symptoms caused by poor quality indoor air.

An annual appropriation of EUR 0.8 million is allocated to the membership fees of the European Centre of Excellence for Countering Hybrid Threats.

Ministry for Foreign Affairs

Appropriations in the main title of the Ministry for Foreign Affairs will average approximately EUR 1.1 billion per year in the spending limits period.

The objectives of Finland's foreign and security policy are strengthening Finland's international position and safeguarding Finland's independence and territorial integrity, improving the security and wellbeing of Finns and maintaining an effectively functioning society. The achievement of these objectives is supported by sustainable general government finances and international competitiveness. The Arctic region, safety and security in the Baltic Sea, building up cooperation between Finland and Sweden, transatlantic cooperation and peace mediation are systematically taken into account as focal points in the Ministry's operation. Finland's own network of diplomatic missions is an important instrument of influence that increases the country's security and wellbeing. The services for citizens offered by the Foreign Service will be developed through the Consular Services Act, which is due to be reformed, while ensuring that services provided by the Foreign Service are a positive factor in the competition for international talents who consider moving to Finland. To improve Finland's export potential, the Team Finland network will be built up by hiring special experts focusing on commercial and economic issues for selected Finnish diplomatic missions; an annual appropriation of EUR 1.6 million is allocated for this purpose. Finland will chair the Arctic Council in 2017—2019, and hold the Presidency of the Council of Europe in 2018—2019 and the Presidency of the European Union in late 2019.

The longer-term goal of development cooperation is to increase development funding to 0.7% of GNI in line with UN objectives. The level of appropriations for actual development cooperation work will be approximately EUR 573 million in 2019 and EUR 649 million in 2022. In the spending limits period, the average level of development cooperation appropriations is expected to be approximately 0.37% of the gross national income. The allocation of EUR 130 million to financial investment expenditure on development cooperation is proposed in 2019—2022.

The appropriations for crisis management take into account the policy outlines of the Security and Defence Policy Report (2016), the National Strategy for Civilian Crisis Management (2014) and the Peace Mediation Action Programme (2011). The military crisis management appropriations will average approximately EUR 110 million per year in the spending limits period (total for the administrative branches of the Ministry for Foreign Affairs and the Ministry of Defence). Expenditure on military crisis management will be increased as the operations in Lebanon and Iraq continue and the size of the force in Afghanistan is increased. The civilian crisis management appropriations of EUR 15 million have been scaled to an annual level of approximately 120 experts.

In cooperation in the Baltic Sea, Barents and Arctic Region, the areas of particular focus will be multilateral cooperation in northern regional councils, Northern Dimension policy, and the implementation of the Government's Russia policy. In the amount of the appropriation, cooperation and projects supporting Finnish Chairmanship of the Arctic Council have been taken into account.

Ministry of Justice

The appropriations in the main title of the Ministry of Justice will decline during the spending limits period from EUR 966 million to EUR 919 million as a result of, among other things, election expenditure, changes in WinCapita compensation and completion of ICT projects.

From the beginning of 2019, financial and debt counselling services will be transferred from the Ministry of Economic Affairs and Employment's administrative branch to the Legal Aid and Public Guardianship Districts in the Ministry of Justice's branch of government to operate in conjunction with the Legal Aid Offices. For these activities is reserved the annual funding of EUR 7.7 million, of which EUR 4.7 million comprises transfers between the administrative branches and EUR 3 million other central government budget funding.

The National Courts Administration is due to begin operating in 2020. Its estimated annual appropriation requirement will be EUR 3.3 million, resulting in an estimated additional requirement of EUR 1.7 million compared to the administrative branch's previous spending limits, and corresponding to the transfer of duties, an estimated EUR 1.6 million would be transferred to the National Courts Administration within the current spending limits of the administrative branch.

EUR 0.3 million in 2020, EUR 9.1 million in 2021 and EUR 8.8 million in 2022 will be reserved for the expenditure incurred from reforming the system of converting fines to prison sentences.

EUR 8 million in 2019—2020 and EUR 9 million in 2021—2022 will be allocated to helping over-indebted households. Appropriations will be increased in an effort to expand financial and debt counselling services, to improve the efficiency of advice provision for debtors as part of enforcement proceedings, and to speed up court hearings in matters related to over-indebtedness.

EUR 0.435 million in 2019 and EUR 0.87 million in 2021—2022 will be allocated to expenditure on reviewing the scale of penalties for sexual offences targeting children. EUR 0.67 million in 2019 and EUR 1.34 million in 2019—2022 will be allocated to expenditure on reducing the risk of repeated violent behaviour.

EUR 1.1 million in 2019 and EUR 2.2 million from 2020 will be allocated to expenses incurred from complementing the system of sanctions associated with suspended prison sentences. Expenditure incurred from reviewing the provisions on conditional release will be funded with EUR 2.2 million from 2021.

Local work among prisoners with a foreign background will be developed in the Criminal Sanctions Agency to prevent radicalisation. The women's prison project in Hämeenlinna will be delayed. It is slated for completion in autumn 2020, reducing the Criminal Sanctions Agency's appropriation requirement by EUR 2.5 million in 2019 and EUR 1.9 million in 2020.

The prisons of Oulu and Pelso will remain operational and the new investments required by them will be launched, and consequently, EUR 6.6 million will be reserved for this purpose in the spending limits from 2022.

The resources for legislative drafting in the Ministry of Justice will be strengthened, and the capabilities of the Non-Discrimination Ombudsman and the Data Protection Ombudsman for fulfilling their additional duties will be safeguarded.

The operating conditions of the Sámi Parliament will be provided for. The most important task of the Sámi Parliament is to implement the cultural autonomy of the Sámi people and safeguard the preservation and development of their culture as an indigenous people.

Ministry of the Interior

The appropriation level in the Ministry of the Interior’s main title is higher in this spending limits period than in the previous period. This level will fall, however, during the spending limits period from approximately EUR 1.4 billion to approximately EUR 1.3 billion.

The existing good level of internal security will be preserved in Finland. Finland’s internal security is linked to the security situation in other EU Member States and the neighbouring countries. International obligations also set requirements for the Ministry's activities. Key themes in this spending limits period are immigration, border security, cyber security, crime prevention and combating terrorism.

It is estimated that 7,200 police officer person-years will be required to safeguard activities at their current level in the spending limits period, and for this purpose, additional funding of EUR 18 million will be provided in 2019, with an increase of EUR 16.4 million in 2020—2022. Legislative amendments will also create resource requirements throughout the spending limits period. These appropriations will ensure that the police will be able to meet their obligations and maintain their performance capability. Additionally, an annual increase of EUR 2 million will be allocated to the system of converting fines into prison sentences from 2020.

To enable the Security Intelligence Service to maintain their core functions and performance capability at their current levels in 2019—2022, a permanent increase of EUR 2.5 million a year will be made in the agency’s funding. The Security Intelligence Service’s branch of activity has changed and will keep changing at a rapid pace. A civilian intelligence bill proposes that the Security Intelligence Service will be transformed into a combined domestic security and foreign intelligence service. Permanent annual additional funding of EUR 10 million is allocated for this purpose. The area of counter-terrorism duties has been impacted by terrorist attacks in Finland and Europe and the increasingly prominent activities of extremist movements.

Additional annual funding of EUR 2.5 million in total is reserved for the core activities of the Border Guard and for supporting the growth and smooth operation of air traffic at Helsinki-Vantaa airport during the spending limits period.

The health, social services and regional government reform will enter into force at the beginning of 2020. The rescue services reform project will progress in pace with it, and a total of EUR 9.9 million for 2019—2022 are reserved for ICT expenditure associated with the regional government reform of the rescue services. EUR 3 million were already allocated to this purpose in the budget of 2018.

Preconditions for safeguarding effective Emergency Response Centre operation include an effective Emergency Response Centre system and adequate personnel resources, which increases the annual appropriation requirement by EUR 0.4 million during the spending limits period. Annual additional funding of EUR 0.265 million is allocated to the training of Emergency Response Centre first responders. To improve the rescue service training system, an annual amount of EUR 0.2 million is allocated to reforming the training system for contract fire brigade staff during the spending limits period.

According to a forecast based on the prevailing development of the refugee situation and actions taken by different countries, Finland prepares to process approximately 4,000 new asylum applications and to receive 750 quota refugees annually. New and subsequent applications, applications returned by virtue of the Dublin Convention and those returned to the Finnish Immigration Service from different courts of appeal will add up to approximately 7,000—8,000 annual applications during the spending limits period. However, significant uncertainty factors are associated with the estimation of asylum seeker numbers and the funding requirements, for example as EU level decisions are still in the drafting stage. The appropriations for voluntary repatriation are reduced to EUR 3.8 million in this spending limits period.

Ministry of Defence

The appropriation level in the Ministry of Defence’s main title will be EUR 3.2 billion in 2019 and rise to EUR 4.5 billion during the spending limits period. This increase is due to the planned financing for the Defence Forces’ strategic performance capability projects.

Finland’s defence is based on general conscription and the defence of the entire territory of the nation. In accordance with the Government Programme, Finland will pursue an active foreign policy, strengthen the national defence capability and deepen international security and defence policy cooperation. Finland will ensure a credible defence in all circumstances and develop it to meet the increased demands of the operating environment. The change in the security environment is expected to be of a long duration.

The Government prepares for the reorganisation of voluntary defence training, with the requisite additional appropriation of EUR 6.5 million from 2020 being funded by an internal reallocation in the Ministry of Defence's administrative branch.

Sea and air defence strategic performance capability projects for the 2020s, which were launched in 2015, will be implemented during the spending limits period. In these projects, the performance capability of the Navy’s ageing combat vessel fleet and the Air Force’s Hornet fleet will be replaced. The appropriations for 2021—2022 include the estimated first-year expenditure on the HX fighter project of EUR 1.0 billion/year and yearly expenditure on the Squadron 2020 project.

The Defence Forces’ operating expenditure will be increased as required by the performance of the new statutory duties under the Military Intelligence Act. Expenditure on military crisis management equipment and administration will also be increased as the operations in Lebanon and Iraq continue and the size of the force in Afghanistan is increased.

According to established practice, cost-level adjustments will be made annually to defence material procurement appropriations, defence force operating expenditure (excluding personnel expenditure) and military crisis management appropriations (excluding personnel expenditure).

Ministry of Finance

The overall level of the appropriations in the Ministry of Finance’s main title will rise from EUR 17.3 billion to EUR 31.9 billion during the spending limits period. This increase is associated with the financing solution for the health, social services and regional government reform, in which expenditure previously funded by the municipalities will be taken over by the central government.

The appropriations of the Population Register Centre during the spending limits period contain funding for certain public administration ICT duties transferred from the Ministry of Finance in 2018 as well as for Public Service Info duties transferred from the State Treasury. These transfers are due to be continued during the spending limits period, with the aim of centralising services that promote digitalisation in society to the Population Register Centre. The General Government Fiscal Plan includes a transfer of consumer advisory duties and appropriations amounting to EUR 3.7 million from the Local Register Offices to the Finnish Competition and Consumer Authority from 1 January 2019, as consumer advice will not be integrated in the services offered by the new agency.

The operation of the National Licensing and Supervisory Authority Luova will be launched on 1 January 2020. The General Government Fiscal Plan includes the cancellation of item transfers for 2019 resulting from the postponement of the authority’s launch by one year as well as operative appropriations of EUR 87 million a year from 2020.

The appropriation level for pensions will be approximately EUR 5.1 billion in 2019, increasing to approximately EUR 5.2 billion during the spending limits period.

An annual amount of EUR 2.5 million will be allocated to compensation under the Military Accidents Act during the spending limits period.

Appropriations associated with implementing the health, social services and regional government reform have been centralised to the Ministry of Finance’s main title item 28.70.05. These appropriations will be used for the management, steering and coordination duties of the reform in the ministries participating in its implementation. They will also be used to provide change support during the reform to ensure that it will be implemented and to fund the counties’ activities before 2020. In 2019, approximately EUR 213 million has been reserved for funding this item, of which support for preparing the regional government reform accounts for EUR 95 million, with approximately EUR 98 million allocated to the implementation of the Digital Transformation Programme and ICT support for preparing the regional government reform. EUR 15 million is reserved as VAT compensation for the provisional administration. In order to implement the digitalisation and ICT services required by the counties, reservation is made for a capital injection into ICT Service Centre Vimana Oy by transferring central government shareholdings valued at approximately EUR 30 million to the company.

Payments to the European Union will rise during the spending limits period from EUR 2.1 billion to EUR 2.4 billion. The spending limits proposal for 2019—2022 shows an increase of approximately EUR 300 million compared to the previous period due to adjustments made as a result of Finland’s strong economic development and a change in the level of the EU multiannual financial framework characterised by accumulation of payments in the final years of the financial period 2014–2020. The actual discussions on the forthcoming EU financial period beginning in 2021 will start in May 2018, at which time the Commission will produce its proposal on this matter.

Financing of the counties

The Government decided to postpone the implementation of the health, social services and regional government reform until 2020. This change has been taken into account in the General Government Fiscal Plan. The funding of the counties has been addressed in accordance with the proposals debated by Parliament.

The new counties will have no right to levy taxes, and they will mainly finance their activities with central government funding. While a large proportion of the central government funding will be universal, some of the duties are to be financed with separate funding based on separate statutes and the State budget. The financing includes funding for duties to be transferred to the counties from the municipalities, the most significant ones of which are health and social services and rescue services, and from the central government. The financing will consist of transfers from the central government transfer for basic public services and other expenditure items as well as an additional amount corresponding to the increase in the central government's income tax revenue due to tax criteria changes. As the municipalities have less duties and their financing requirements diminish, municipal income tax rates and the municipalities' corporate tax apportionment will decrease, and the corresponding tax revenue will be collected as central government tax revenue. Changes in taxation will therefore be implemented ensuring that no increase will take place in earned income taxation as a consequence of the reform.

Approximately EUR 16,859 million will be allocated to the counties for financing social welfare and healthcare services in 2020. Along with changes to higher education students' health care, the prior funding contribution of the municipalities, or EUR 31.6 million, will be transferred from the funding for the counties' social welfare and healthcare to the Ministry of Social Affairs and Health's administrative branch. Approximately EUR 1,220 million have been reserved for financing the counties' other duties in 2020, with EUR 114 million allocated to the funding of growth services in Uusimaa county for 2020—2022. EUR 100 million in 2020 as well as EUR 150 million in 2021—2022 as a transfer from the counties' universal funding have been allocated to discretionary increases in the counties' financing. EUR 1,202 million is reserved for compensating the counties for their value-added tax costs in 2020.

Support for municipalities

The health, social services and regional government reform will have a major impact on local government duties and finances and reduce the municipalities' expenditure by approximately EUR 17.6 billion a year from 2020. For a description of the reduction in the municipalities' duties and funding needs, see the section Financing of the counties above. After the reform, the municipalities will retain some responsibility for promoting their residents' health and welfare. EUR 29 million of the funding transferred to the counties will be allocated to the municipalities for this purpose.

It is proposed that the central government transfer to local government for providing basic public services will be approximately EUR 8.3 billion in 2019. The central government transfer will be reduced by such factors as the adjustment of the division of costs between central government and the municipalities (EUR 214 million) and the reduction in central government transfers associated with the Competitiveness Pact (EUR 497 million). The level of the central government transfers is also affected by changes in the municipalities' duties set out in the Government Programme. An additional central government transfer of EUR 15 million will be allocated to child welfare and home help for families with young children in 2019. Compared to 2018, savings obtained from more efficient regional organisation of specialised medical care and development of informal and family care will reduce the central government transfers to local government by approximately EUR 28 million and the municipalities' costs by approximately EUR 110 million in 2019.

Pupils will start learning the first foreign language (A1 language) earlier, or during the spring term of grade 1 in basic education. The earlier start of language learning will extend to all grade 1 pupils from 2020. EUR 7.5 million in 2020 and EUR 12 million from 2021 will be allocated to the central government transfers to municipalities for this reform.

EUR 10 million was already transferred from the central government transfer to local government for providing basic public services to discretionary assistance for mergers of municipalities in crisis under previous spending limits decisions. A legislative amendment to this effect is being drafted.

For 2019, EUR 10 million is allocated to a discretionary increase in central government transfers to local government. The appropriation for the discretionary increase will be deducted from the central government transfers of all municipalities.

EUR 40 million will be transferred to the incentive scheme for digitalisation in municipalities as from 2019. The incentive scheme will be built up in stages, with the first stage focusing on the digitalisation of the municipalities' HR and financial administration and the use of robotic process automation for this purpose. Additionally, EUR 50 million in 2021 and EUR 100 million in 2022 will be transferred to the incentive scheme related to the municipalities' operational economy expenditure. EUR 50 million in 2021 and EUR 100 million in 2022 will also be transferred to the incentive scheme related to building stock development and more efficient premises use in municipalities. The funding of all three incentive schemes will be implemented as transfers from the central government transfer to local government for providing basic public services. During the further preparation of the incentive schemes, the implementation of the funding principle for the part of municipalities will be assessed and addressed.

Ministry of Education and Culture

Appropriations in the Ministry of Education and Culture's main title will average approximately EUR 6.3 billion a year in the spending limits period.

Educational equality will be promoted in early childhood education and care and basic education in order to improve learning outcomes. EUR 10 million in 2019 and EUR 7.5 million in 2020 will be allocated to improving equality in early childhood education and care. This funding can be used to reduce group sizes and recruit additional staff in day care centres operating in challenging areas. Experiments of free early childhood education for 5-year-olds will be expanded and continued. EUR 5 million will be earmarked for this purpose in 2019. The development of personnel structure in early childhood education and care will be continued. In order to strengthen equality in basic education, support will be targeted at schools in the most challenging areas and, for instance, providing learning support and reducing the size of teaching groups. From 2020, pupils will start learning the first foreign language (A1 language) earlier, or during the spring term of grade 1 in basic education.

As part of the Key Government Project for Knowledge and Education, the introduction of digital materials will be accelerated, digital learning will be trialled and developed, and teachers' competence will be increased.

The Government will launch a reform of general upper secondary education. The objective is to increase the attractiveness of general upper secondary education as a general form of education providing eligibility for further studies in higher education as well as to improve education quality and learning outcomes. Support and guidance provided for general upper secondary school students will be improved, cooperation with higher education institutions and working life will be increased, and internationalisation will be promoted. EUR 0.38 million in 2019 and EUR 0.75 million in 2020 will be reserved for expenditure arising from the increase in the number of times students may repeat matriculation examination tests. In total, EUR 4 million in 2021 and EUR 8.53 million from 2022 will be reserved for the expenditure on the general upper secondary school reform.

A reform of vocational education and training will be carried through during the spending limits period. It will be supported by an extensive programme for reforming the core processes and operating models of vocational education and training. Additional funding of EUR 15 million will be allocated to supporting the implementation of this reform in 2019. The funding will be used to strengthen the digitalisation of vocational education and training and cooperation with working life, reduce drop-out rates, prevent social exclusion, and build individual paths to education and employment.

Measures of the vision 2030 for higher education and research will ensure that higher education and research contribute more to Finnish society. A division of responsibilities that supports the profiling of higher education institutions will be developed while cooperation between them and with research institutes is intensified. Cooperation between higher education institutions and businesses will be strengthened to commercialise innovations. The objective is to gather expertise into competitive clusters, use science and research resources more effectively, improve the quality and effectiveness of research, and support the renewal of science. The Academy of Finland’s grant authorisation will be increased by EUR 25 million in 2019 to implement flagship research centres to be established in connection with universities and research institutes. The development of personnel structure in early childhood education and care and efforts to turn out highly educated talents responding to the needs created by a positive structural change will be continued.

Extensive utilisation and openness of research materials, research results and expertise will be promoted. A programme to develop data-driven research will be implemented. The mass digitisation of documents will be piloted in 2019.

From 1 August 2018, the entitlement to student financial aid and school transport subsidies will be extended to the basic education studies of students who are over the age of compulsory education, also outside adult education centres. This change will increase the costs by a total of EUR 1.3 million a year, of which EUR 1.1 million will be covered by internal transfers within the administrative branch. A supplement for study materials of EUR 46.80 a month will be granted to students aged under 20 who are entitled to a study grant low-income supplement, increasing the appropriation requirement by EUR 12.7 million annually. The maximum number of months for which student financial aid can be granted to general upper secondary students will be increased to ten. This change will promote the equality of secondary level students, improving financial preconditions for general upper secondary studies, especially in low-income families. This will result in an appropriation requirement of EUR 1.5 million. Changes to student financial aid for secondary-level students will enter into force on 1 August 2019.

The funding system for museums, theatres and orchestras will be updated by implementing a reform of the central government transfers for museums and improving the operating conditions of so-called free groups in performing arts. A total of EUR 7 million will be reserved for the costs incurred from implementing this reform from 2020. EUR 2 million of this appropriation will be sourced from gambling proceeds.

Access to art and culture will be improved based on the results of a key Government project. The goal is to increase children’s and young people’s equal opportunities for participating in art and culture through recreational classes scheduled to take place in connection with the school day. Based on experiences gathered in the Government’s key project on expanding the principle of spending 1% of construction costs on art in 2016—2018, art and cultural services will be made part of healthcare and social welfare services on a permanent basis. The efficiency and effectiveness of youth workshop activities and outreach youth work will be improved. The key Government project titled ‘Youth

Guarantee towards community guarantee' will intensify cooperation between stakeholders offering youth services and identify proven good practices for national use.

As less copies are being made, the appropriation related to compensation for reproduction for private use referred to in the Copyright Act (404/1961) will be reduced by EUR 2 million in 2019 and EUR 4 million as from 2020.

The Sámi Museum Siida will be renovated and expanded, resulting in additional costs of EUR 0.98 million from 2022.

Funding will be provided for the basic and continuing education of teachers necessitated by the asylum seeker situation and the development of services for identifying and recognising competence. Cultural, physical activity and youth work measures will also be used to support immigrants' mental wellbeing, functional capacity, togetherness and integration.

Ministry of Agriculture and Forestry

Appropriations in the Ministry of Agriculture and Forestry's main title will average approximately EUR 2.5 billion in the spending limits period. The annual appropriations will decrease by EUR 79 million from their 2018 level during the spending limits period.

The Ministry of Agriculture and Forestry is renewing the structures and practices of agricultural administration. From 2019, the present Finnish Food Safety Authority (Evira), the Finnish Agency for Rural Affairs (Mavi) and the National Land Survey of Finland's Information Services are due to be merged into a new agency, the proposed name of which is the Finnish Food Agency. This reorganisation project has not yet been addressed in the spending limits.

Funding under the Rural Development Programme for Mainland Finland 2014—2020 is included in the spending limits as required by the progress of the programme. A new EU financial and programming period will begin in 2021. At this stage, the appropriation levels of years 2021 and 2022 are expected to be similar to the first two years of the current programming period.

Agricultural investments are funded both from the Development Fund for Agriculture and Forestry (Makera) and budget appropriations. Key project funding included in Prime Minister Sipilä's Government Programme (transfer to the Development Fund of Agriculture and Forestry) lapses in 2018.

Metsähallitus' Parks & Wildlife Finland will have an annual increase in its funding of EUR 1.1 million during the spending limits period for duties associated with the supply and security stock of forest tree seeds in Northern Finland.

EUR 10 million will be allocated to compensatory allowance for permanent natural handicaps in 2019 on a one-off basis.

In the policy sector of land survey and information resources, actions required by the reduced resources are to be continued, and the potential offered by the digitalisation of services will be explored. The importance of more accurate geographic information of a better quality will increase during the spending limits period and have broad-ranging impacts in different sectors of society. The ministry will prepare for this through a digitalisation project implementing the Government Programme associated with a spatial data service platform, and additional resource needs will be identified as the spatial data report is implemented. The digitalisation of information services and production processes with the aim of improving customer service and increasing the efficiency of activities will continue.

Ministry of Transport and Communications

Appropriations in the Ministry of Transport and Communications' main title will average approximately EUR 2.8 billion per year in the spending limits period. Compared to the previous spending limits decision, the total level of the appropriations will increase by approximately EUR 126 million in 2019. The appropriations will increase during the spending limits period from EUR 2.9 billion to EUR 3.0 billion.

The administrative branch of the Ministry of Transport and Communications serves society by enabling the creation of an operating environment for new digital services. A well-functioning market environment for the demand and supply of various transport, communications and digital services will be created, generating new business opportunities and exports and expanding the range of services.

The operating expenditure and other appropriations of agencies and institutions in the administrative branch will be used to promote the utilisation of digital services and data. Utilisation of digitalisation will be promoted by streamlining and reforming regulation and by creating a framework for service and automation trials in the transport sector.

In infrastructure maintenance, priority will be given to measures ensuring the daily functioning of the transport network as well as halting the growth of repair debt. Maintenance and development of the transport network will be enhanced, among other things, by better utilisation of information, by using new methods of surveying the condition of the network, through local and central government procurement cooperation, and by the full introduction of information modelling. Planning practices will be developed to take into account the impacts of digitalisation and automation on the transport system and traffic volumes of the future.

During the spending limits period, EUR 1.0 million a year will be allocated to the incorporation of the Finnish Transport Agency's traffic control functions and to the governance of the companies subject to the Ministry of Transport and Communications' ownership steering.

EUR 1.0 billion is allocated to basic transport infrastructure maintenance in 2019, of which approximately EUR 90 million comprises Government key project funding for reducing the repair debt. In the final years of the spending limits period, funding for basic transport infrastructure maintenance will be approximately EUR 1.0 billion in 2020—2021 and EUR 1.3 billion in 2022. EUR 90 million annually has been transferred from development projects to basic transport infrastructure maintenance in 2019—2021. In addition, repair debt funding of EUR 10 million will be allocated to private road grants in 2018–2020. This amount will be reverted to infrastructure development in 2021. New transport projects decided in 2017 will increase the total level of appropriations by EUR 74 million in 2019 compared to the previous spending limits decision. The halving of fairway fees will be continued in 2019—2020.

From 2020, the construction and maintenance of certain airfields, the maintenance of private roads, and procurement and development of public transport will be transferred to county government. The appropriations for these duties, totalling EUR 36.4 million a year, will be transferred to the universal funding for the counties. The counties will also be responsible for regional road maintenance and connection boat traffic in the archipelago. From 2020, road maintenance funding for the counties will be an estimated EUR 410 million a year, and archipelago transport funding an estimated EUR 18 million a year.

To support the achievement of the objectives set in the National Energy and Climate Strategy, EUR 6 million will be allocated to support purchases of electric cars as well as purchases and conversions of gas and ethanol fuelled vehicles in 2019—2021. Additionally, procurements of contract traffic and/or traffic subject to the public service obligation in rail transport will be supported with EUR 2 million, and EUR 3.5 million will be allocated to developing public transport in large urban sub-regions and promoting the digitalisation and servicification of transport in 2019—2021.

EUR 2 million in 2019 and EUR 3 million in 2020—2022 will be allocated to improving the information security and reliability of the digital society. The allocation of this appropriation will be discussed in the Government Information Security Management Board (Vahti) appointed by the Ministry of Finance.

From 2019, an index adjustment of the public service broadcasting tax will be carried out based on the proposal of a parliamentary working group assessing this tax. The appropriation will be adjusted by EUR 10.7 million, or from EUR 508 million to EUR 519 million.

An increase of EUR 4.8 million will be allocated to the Finnish Meteorological Institute for the replacement of the Institute's high speed computing capacity in 2022.

Ministry of Economic Affairs and Employment

The overall level of appropriations in the Ministry of Economic Affairs and Employment's main title will increase by approximately EUR 757 million in 2019 compared to the previous spending limits decision. The increase of this level to EUR 2.6 billion is due to the postponement of the health, social services and regional government reform, in particular. Main title appropriations will decrease by the end of the spending limits period to EUR 1.8 billion due to transfers associated with the health, social services and regional government reform and the lapsing of fixed-term increases.

Business and innovation policy appropriations will decrease during the spending limits period from EUR 811 million to EUR 745 million. The grant authorisations of Business Finland will be EUR 275 million in 2019, decreasing to the level of EUR 231 million in 2020 as the general increases in the authorisations for 2018—2019 lapse. A total of EUR 5 million during the spending limits period will be allocated to preparing for Expo 2020 held in Dubai.

Technical Research Centre of Finland VTT Ltd's authorisation concerning a special allowance for research infrastructure has been increased by EUR 13.5 million for 2019. The additional expenditure caused by this authorisation will be EUR 10 million in 2019, EUR 2 million in 2020 and EUR 0.5 million in 2021—2022. The additional funding will be allocated to covering the increased costs arising from the decommissioning of FiR1 research reactor and the decontamination of premises in Otakaari 3. The operating expenditure of Geological Survey Finland will be increased by EUR 1 million, in particular for the purpose of studying the resources and potential of battery minerals.

Due to the favourable economic cycle and change in the loss guarantee commitment made in 2018, compensation for Finnvera Oyj's losses will be reduced by EUR 26 million in 2019, EUR 24 million in 2020 and 2021, and EUR 23 million in 2022 compared to the previous spending limits decision. Due to the good economic development, the anticipated risks of the credits and guarantees can be expected to be smaller than previously estimated. The liabilities and the loss rate are expected to increase towards the end of the spending limits period and, consequently, the amount of compensation for losses will increase from less than EUR 31 million to more than EUR 36 million during the spending limits period.

The interest and other subsidies for export and ship credits receiving public support will increase by EUR 35 million in 2019, EUR 48 million in 2020, EUR 57 million in 2021 and EUR 59 million in 2022 compared to the previous spending limits decision as a result of the increase in Vientiluotto Oy's funding portfolio. The total expenditure is expected to grow from EUR 75 million to EUR 94 million in the spending limits period. The costs associated with the refinancing credits granted by Suomen Vientiluotto Oy earlier will decrease from EUR 62 million to EUR 27 million in the spending limits period.

The operational expenditure of the TE Offices in 2019 has been increased by EUR 10 million, which will be used for conducting periodical interviews, and EUR 10.3 million will be allocated to recruitments of additional staff needed to implement the activation model. A EUR 25 million increase required by the activation model and EUR 6 million reserved for integration training have been taken into account as increases in the EUR 244 million appropriation for public employment and business services in 2019. In addition, a one-off reduction of EUR 50 million has been taken into consideration in the appropriation due to the transferred appropriations, which have increased considerably in previous years. From 2019, a total of EUR 143 million from this item will be transferred to the main title of the Ministry of Social Affairs and Health for continuing the expansion of active unemployment benefit use. The appropriations for employment and business policy will mainly be transferred to the financing of the counties in 2020.

Partly by means of internal transfers within the spending limits, a general increase of EUR 0.16 million has been made in the operational expenses of the Finnish Safety and Chemicals Agency in 2019, which will go up to EUR 0.36 million from 2020. A proposal on amending the Chemicals Safety Act is to be issued, which will expand the scope of the Act and create additional duties.

The EU Structural Funds authorisation of EUR 331 million is brought forward from 2020 to 2019, with the total Structural Funds authorisations amounting to EUR 669 million.

Energy policy appropriations will increase during the spending limits period from EUR 417 million to EUR 420 million.

The energy subsidy authorisation has been increased by EUR 5 million for 2019—2021 under the National Energy and Climate Strategy. The energy subsidy authorisation will also be increased by EUR 40 million in 2019—2020 and EUR 60 million in 2021—2022 to support biorefineries, provided that the pending EU regulation will enable investments in biorefineries in Finland. The additional expenditure resulting from this authorisation is expected to be EUR 9 million in 2019, EUR 27 million in 2020, EUR 40 million in 2021 and EUR 56 million in 2022. Following these increases, the authorisation to grant energy subsidies will total EUR 80 million in 2019 and 2020, EUR 100 million in 2021 and EUR 95 million in 2022.

The appropriations for renewable energy subsidies will increase from EUR 310 million to EUR 318 million during the spending limits period. In the scaling of this appropriation, the introduction of a premium scheme was taken into account. Expenditure on compensation for the indirect costs of the emissions trade will increase from EUR 30 million to EUR 51 million in 2021, after which year the expenditure on compensation will lapse.

Estimates of the number of asylum seekers to whom a residence permit will be issued have risen and, consequently, EUR 22 million in 2019, EUR 24 million in 2020, EUR 23 million in 2021 and EUR 12 million in 2022 have been added to the integration compensation paid by the central government to municipalities.

Ministry of Social Affairs and Health

The overall level of the appropriations in the Ministry of Social Affairs and Health’s main title will decrease in the spending limits period from EUR 14.8 billion to EUR 14.0 billion. In addition to the implementation of the Government Programme, the appropriation level will be affected by cyclical factors, such as changes in the unemployment rate and the demographic structure.

The most significant changes compared to the previous spending limits decision arise from appropriation transfers associated with the health, social services and regional government reform to the counties' financing item and an increase in grant appropriations for the Funding Centre for Social Welfare and Health Organisations (STEA).

In association with the health, social services and regional government reform, EUR 0.7 million will be allocated to the National Institute for Health and Welfare for assessment and other activities. To safeguard the operation of social welfare sector centres of expertise, an increase of EUR 0.25 million will be allocated in their appropriations in 2019 before they start operating in conjunction with the counties. An appropriation of EUR 0.5 million is allocated to the Social Security Appeal Board (SAMU) to cope with the growing number of appeals in order to prevent the lengthening of processing times and to avoid paying compensation for delays from 2019.

A general increase of EUR 0.6 million is made in the operational expenditure of prisoner health care due to growth in costs.

EUR 1.5—4 million annually during the spending limits period will be allocated to the establishment of the National Pharmaceutical Development Centre.

In connection with the establishment of the new National Licensing and Supervisory Authority Luova, the transfer of the activities and resources of the National Supervisory Authority for Welfare and Health (Valvira) to the Finnish Medicines Agency (Fimea), the Ministry of Social Affairs and Health and the Radiation and Nuclear Safety Authority (STUK) from 2020 has been taken into account.

As from 2020, no more than the amount corresponding to the cost that the county responsible for organising a client's healthcare and social welfare services would have incurred, from which the client fee is deducted, will be reimbursed to the client for health services received in another EU or EEA Member State or Switzerland.

A general increase of EUR 0.55 million is made in the expenditure on central government reimbursement for the costs of mediation in criminal cases due to the growth in the number of mediation cases in recent years.

The organisation of student health care for higher education students is to be taken over by the Social Insurance Institution from 2020. The Finnish Student Health Service (YTHS) would operate as a national service provider and also expand its activities to cover students at universities of applied sciences. EUR 3 million will be allocated for the one-off costs caused by the YTHS expansion in 2019. At the 2020 level, the total expenditure on higher education student health care would be approximately EUR 84 million, of which the central government's funding contribution would be EUR 64.7 million. The remainder would be covered by a tax-like health care fee levied from the students. The funding allocated to student health care is to be increased annually in pace with a suitable index. As the activities are expanded to include university of applied sciences students and the funding contribution of the insured in medical insurance reimbursements currently paid by the Social Insurance Institution is abolished, the central government's expenses will increase by EUR 22.3 million. EUR 13.2 million of this additional expenditure incurred as the contribution of the insured is dropped is to be compensated for by tax system readjustments to be carried out later. (See also Chapter 6, County finances)

The counties will assume responsibility for the Helicopter Medical Emergency Service and its funding from 2020. Responsibility for organising these services will be centralised to a single county.

The Government will promote the implementation of entrepreneurs' entitlement to earnings-related unemployment security by amending the provisions on unemployment benefit societies with the aim of ensuring that a person who is an entrepreneur under the Unemployment Security Act and who has mistakenly insured themselves with an unemployment benefit society for employees can retroactively transfer their membership to a society that insures entrepreneurs. EUR 10 million has been reserved for this purpose.

The possibilities of the unemployed for self-motivated study will be improved. It is proposed that a possibility of taking short-term studies which improve vocational capabilities or support enterprising without losing the unemployment benefit be provided for unemployed persons aged 25 or over. Jobseekers could accumulate activity days required under the activity model by studying. The bill is to be submitted to Parliament in time for the amendments to enter into force on 1 August 2018.

The Social Insurance Institution's operating expenditure will be increased by EUR 8.0 million to improve the processing of social assistance applications and telephone services and to prepare for renovations of premises.

In order to reduce inequality and emphasise their role as primary benefits, minimum-level daily allowances (sickness allowance, parental allowance, rehabilitation allowance and special care allowance) will be increased to a level equal with the labour market support. This is estimated to increase the costs by approximately EUR 20.2 million annually.

Amendments to parental allowance provisions applicable to diverse families are proposed from 2019. The cost effects of these amendments to the central government will be EUR 0.5 million a year.

EUR 5 million a year will be allocated to reducing the annual limit of co-payment for the costs of medicines.

An annual increase of EUR 10 million is allocated to increasing guarantee pensions during the spending limits period.

Legislation on self-determination, mental health and intoxicant abuse will be reformed during the current parliamentary term. In order to implement these reforms, the operating expenditure of state mental hospitals will be increased by EUR 600,000 in 2020-2021. In addition, central government transfers to the counties will be increased by a total of EUR 23.8 million due to this reform.

The impacts of the reforms decided in connection with the 2018 budget have been accounted for during the spending limits period. They include a general increase in the maternity allowance, an increase in the single-parent supplement to child benefit, an increase in minimum daily allowances, an additional increase in guarantee pensions as well as more flexible criteria for vocational rehabilitation intended for young people.

Additional appropriations of EUR 0.3 million a year are allocated to adjusting benefits for adoptive families.

The appropriation for war veterans' rehabilitation will also be set at an annual level that will secure the provision of services for older people for veterans in the future.

The central government reimbursement for the funding of university level health research paid to health care units amounts to EUR 15 million a year. EUR 96 million is allocated to health care units and universities for costs incurred from the education of physicians and dentists as central government reimbursements in 2019.

The ethical evaluation of clinical pharmacological research will be strengthened in compliance with the EU Clinical Trials Regulation. In this context, the National Committee on Medical Research Ethics (TUKIJA) will be transferred from the National Supervisory Authority for Welfare and Health (Valvira) to the Ministry of Social Affairs and Health.

Due to the predicted profits from gambling activities and the discontinuation of the so-called unallocated reserve, grants to organisations and foundations for promoting health and social welfare will be increased by EUR 25.8 million to EUR 396.8 million by the end of the spending limits period.

In the context of the health, social services and regional government reform, the General Government Fiscal Plan addresses transfers of funding responsibilities to the counties' universal item 28.89.30 decided so far from 2020.

As part of the health and social services reform and the discontinuation of multisource funding, transfers of central government funding contributions from health insurance expenditure have been accounted for in the counties' funding responsibilities. In keeping with the previous spending limits decision, as transfers have been taken into account EUR 43.5 million of reimbursements for emergency care travel costs, the central government funding contributions for which are to be dropped, and EUR 13.1 million for cross-border healthcare from 2020.

For more information on basic public services organised by the municipalities and the counties and their funding as a whole, see Chapter 6, County finances, and Chapter 7, Local government finances.

Ministry of the Environment

The overall level of the appropriations in the Ministry of the Environment's main title will decrease during the spending limits period from EUR 166 million to EUR 153 million. In addition, the Ministry of the Environment's administrative branch contains the National Housing Fund and the Finnish Oil Protection Fund, which are off-budget funds not included in the spending limits.

During the spending limits period, the emphasis will be on the bioeconomy and circular economy as well as measures to achieve climate targets, wide-ranging cooperation to improve the state of the Baltic Sea, and safeguarding the standard of nature conservation.

An effort will be made to boost housing construction with the objective of meeting the demand for housing. To increase the supply of land for construction and housing production in growth centres, the implementation of land use, housing and transport (MAL) agreements will be promoted through public utility service grants, EUR 15 million of which will be awarded by the National Housing Fund in 2019. In addition, start-up grants for affordable housing construction amounting to EUR 20 million will be awarded by the National Housing Fund in connection with Helsinki metropolitan area's MAL agreement in 2019. Investment grants for special groups will be increased by EUR 5 million a year to prevent homelessness. Investment grants for special groups amounting to EUR 110 million in 2019 and EUR 130 million in 2020–2022 will be provided by the National Housing Fund to support the improvement of housing supply for the most vulnerable groups. Older people's ability to live at home and retro-fitting of lifts will be supported by repair grants. In addition to a EUR 15.5 million repair grant authorisation, a maximum of EUR 20 million from the National Housing Fund has been allocated for this purpose in the budget of 2019. For the remainder of the spending limits period, EUR 20.5 million is reserved in the budget for repair grants. Preventing residents' financial problems in rental housing is included as a new activity in the spending limits period, for which EUR 1 million is reserved annually in 2019—2020. A capital injection of EUR 50 million in total will be made into A-Kruunu from the National Housing Fund during the spending limits period. This capital injection will enable the construction of 800 homes a year.

Appropriations are targeted at actions promoting the bioeconomy and circular economy as well as climate and energy policy development and implementation. In the protection of the Baltic Sea and inland waters, the implementation of the waterways and marine management action programmes as well as the nutrient recycling programme will be continued, and further resources will be directed at reducing the nutrient and harmful substance loading and protecting the groundwater. In the field of nature conservation, the implementation of the Forest Biodiversity Programme for Southern Finland (METSO) will be continued. Good management of national parks and other nature reserves that attract great numbers of visitors promotes the recreational use of nature and nature tourism, which has a positive impact on employment and local economies. In keeping with the Government's Strategy for the Conservation and Sustainable Use of Biodiversity in Finland, the management of endangered habitats, including heritage biotopes, is promoted, and additional funding of EUR 0.2 million a year is targeted at producing inventories of heritage biotopes in 2019—2021. EUR 1 million is reserved for implementing the medium-term climate change plan in 2019—2021. Additionally, EUR 2 million a year in 2019—2021 will be allocated to promoting wood construction. For organisations that own residential buildings, EUR 1.5 million is reserved in 2019—2021 for constructing infrastructure for recharging electric cars. Clean-up of contaminated soils is promoted in line with the National risk management strategy for contaminated land and the remediation programme associated with.

An increase of EUR 1,145 million will be allocated to Metsähallitus' Parks & Wildlife Finland for the expansion of Siida, the Sámi Museum and Nature Centre for Northern Lapland, and the upgrade of its basic exhibition in 2020. In addition, reservation is made for an increase in its rental and operational expenditure by EUR 0.15 million from 2022.

Prevention of oil and chemical spills is to be transferred from the Ministry of the Environment to the Ministry of the Interior. In this context, EUR 5.5 million a year is transferred from the Ministry of the Environment to the Ministry of the Interior for the costs incurred from combating oil spills. An appropriation corresponding to 3 person-years (EUR 0.18 million) would also be transferred from the operational expenditure of the Finnish Environment Institute. These transfers will take place from 2019.

Waste management will be developed in line with the National Waste Plan, and the reformed waste legislation will be implemented more efficiently.

5.3.2. Central government joint information system projects and administration

Key information system projects

Approximately EUR 11 million in 2019 and EUR 35 million a year in 2020—2022 have been allocated to key information system and information management projects as well as other productivity projects of the administrative branches in the spending limits.

The key information system projects under way include the common electronic desktop and case management system in central government, the Finnish Immigration Service's Smart Digital Agency, the multi-biometric identification system of the Police, the complete modernisation of customs clearance systems, the Legal Register Centre's information system for the authorities, the ERP and document management system of administrative and special courts of law, the Prosecution Service and general courts of law, as well as the upgrade of the Population Register Centre's Population Information System.

The proposed funding will only be incorporated in annual budgets provided that the project plans are sufficiently detailed with respect to project feasibility as well as costs arising and costs saved and that, in significant information system projects, the Ministry of Finance expresses an opinion supporting the advance of the project as required under the Act on Information Management Governance in Public Administration (634/2011) and Government Decree (1249/2014). The Ministry of Finance will conclude a cooperation agreement on projects to be funded with each relevant ministry.

The Government’s aim is to strengthen the use of electronic services as the primary service channel. The Population Register Centre’s role as an agency promoting digitalisation will be strengthened, and tasks related to providing support services to organisations for developing digitalisation and information management will be centralised to this agency.

The Government also aims to strengthen the use of electronic services in transactions and communications between citizens and the public sector. To support the achievement of this goal, an annual appropriation of EUR 5 million up till 2021 has been reserved under a new variable annual appropriation item for centrally paid identification service fees.

Financial and HR administration

The productivity of central government financial and HR administration will be improved by continuing the centralisation of tasks to the Government Shared Services Centre for Finance and HR (Palkeet) and by developing practices and the central government's shared financial and HR administration information system.

Service centre model use will be enhanced in accordance with the Government Programme by including in statutes direct provisions under which a number of financial management tasks of agencies, institutions and off-budget funds are to be performed by the Government Shared Services Centre for Finance and HR. A saving of EUR 4 million will be sought through this measure from 2019 onwards. Ministries, agencies and institutions will continue to implement changes improving the productivity of financial and HR services and to increase the use of the services provided by Government Shared Services Centre for Finance and HR.

The efficiency of financial and HR administration practices will be improved by introducing new services and automating existing Palkeet Centre services (including production process digitalisation based on robotic process automation). Handi, a new electronic ordering and invoice processing solution, will be introduced in all central government agencies and institutions by the end of 2019. Government HR administration will be developed in a separate project. The Government Shared Services Centre for Finance and HR Palkeet will develop the usability and functionalities of the Kieku information system further.

Developing central government procurement

Led by the Ministry of Finance, central government procurement will be developed in cooperation with the key procurement organisations and Hansel Ltd in the Digitalisation of government procurement programme.

Innovations and their roll-out will be supported through public procurement. The goal set in the Government Programme is that 5% of public procurement either creates innovations or supports innovation activity. Procurement entities’ capabilities for taking the innovation perspective into account will be improved, and innovations will be supported in procurement activity development and joint purchases.

Reducing the central government's premises expenditure

Central government premises expenditure will be reduced in line with the objective stated in the Government Programme. Savings amounting to EUR 30 million in appropriations set aside for agencies' rents will be achieved from 2019. Together with Senate Properties, the administrative branches have made premises strategy implementation plans which, once put to practice, will improve space efficiency to correspond with the targets set in the premises strategy and respond to the altered working practices and the increased electronic service use by the citizens. In the context of the Public sector billion, the current programme aiming to improve the efficiency of central government premises use will be continued from 2023 till the end of 2029, with the aim of achieving additional savings of EUR 50 million.

Savings in administrative expenditure

The Government Programme sets the target of achieving savings in operating expenditure totalling EUR 120 million in 2016–2019, which will be implemented by such measures as reducing duties and obligations, relinquishing premises and utilising retirement attrition. In accordance with the Government Programme, digitalisation will be increased and structures reformed. The obligation to find savings applies to all administrative branches. If the full implementation of a savings measure allocated to an administrative branch proves impossible, a substitute saving will be made in the administrative branch in question. In the context of preparing the General Government Fiscal Plan for 2017–2020, increasing savings in operating expenditure scheduled for 2017–2019 were recorded under the relevant items.

Impacts of the Public sector billion on central government operating expenditure

In connection with the General Government Fiscal Plan for 2018—2021, the Government decided that the cuts in local government costs amounting to EUR 1 billion would be applied to the entire public sector. Through digitalisation of central government activities and improved productivity, all operating costs of the central government will be reduced by 0.5% annually from 2020. This figure will be based on each administrative branch's operating expenditure, from which expenditure on premises would be deducted. A target of 0.3% applies to the administrative branches of the Ministry of Justice, the Ministry of the Interior and the Ministry of Defence and the operating expenditure of the Customs. The reduction in central government operating expenditure will increase from EUR 18 million in 2020 to EUR 55 million in 2022. For each EUR 6 million of savings, EUR 1 million will be added to the joint development project investment item. If a new decision was not made, the productivity reduction target of a similar level set in the previous parliamentary term would lapse in 2019.

In order to support and ensure the digitalisation of central government activities and genuine improvements in productivity, an analysis of productivity and digitalisation potential covering all administrative branches, their duties and their organisations will be conducted by 2021.

Central government collective agreement for 2018—2020

On 9 March 2018, the Ministry of Finance and the main labour market organisations involved in the bargaining signed a collective agreement for central government public servants and employees for the period 1 February 2018—31 March 2020. Under this agreement, salaries will be adjusted from 1 April 2018 by a general increase of 1.00% and from 1 June 2018 by a 0.60% increase subject to negotiation at agency level. In 2019, a general increase of 1.10% will be applied from 1 April 2019, however amounting to EUR 24 a month at minimum, and an increase of 0.75% negotiated at agency level. In addition, a productivity-based one-off amount, which accounts for 9.2% of the monthly salary, will be paid in January 2019.

The cost impact of the increases and one-off payment agreed for 2018 and 2019 totals approximately EUR 176 million. The agencies' expenditure will grow by approximately EUR 50 million in 2018 and by a total of EUR 107 million in 2019, of which the one-off payment accounts for approximately EUR 28 million. In 2020, the agencies' expenditure will grow by approximately EUR 19 million due to so-called legacy impacts.

Within these spending limits, the appropriations under the items for the agencies' operating expenditure have been increased as indicated by the wage increases. Compared to the 2018 budget, these increases in spending limits in 2019 will total approximately EUR 130 million, of which EUR 24 million will be one-off expenditure. From 2020, the spending limits increase will be EUR 122 million in total.

5.4. On-budget revenue

The actual on-budget revenue is expected to grow in the spending limits period by an average of approximately 8% per year. Tax revenue is expected to grow on average by approximately 9.7% per year. The average growth in tax revenue will be increased by tax solutions associated with the health, social services and regional government reform in 2020. Tax revenue accounts for around 89% of actual on-budget revenue. In 2022, on-budget revenue is expected to be EUR 71.6 billion.

The estimate of central government on-budget revenue is based on an estimate updated in March 2018 of the medium-term development of the national economy. Positive economic development is expected to continue in the spending limits period, albeit slowing down towards the end of the period. Tax criteria changes decided in the Government Programme and during the parliamentary term have been taken into account in the revenue estimates for the spending limits period.

Tax criteria changes

While the majority of the tax policy measures in Prime Minister Sipilä's Government Programme have already been implemented in 2016—2018, some will continue to be carried out gradually throughout the parliamentary term. The increase in tobacco tax, reduction in the deductibility of mortgage interest expenditure and reduction of car tax will continue to be implemented in 2019. In keeping with the Government Programme, an index adjustment of earned income taxation will be carried out in 2019. The index adjustment is included in the forecasts for the entire spending limits period as a technical assumption.

The most significant tax criteria change affecting tax revenue in the spending limits period is the health, social services and regional government reform entering into force in 2020, in which responsibility for organising health and social services will be transferred from the municipalities to the counties and the responsibility for financing the services from the municipalities to the central government. The municipalities' revenue will be reduced commensurately with the transferred costs by reductions in central government transfers, the municipalities' share of corporate tax revenue and municipal income tax. The central government's share of corporate tax revenue will grow and central government earned income taxation will be increased to correspond with the reduction in municipal income tax. It is currently estimated that approximately EUR 12 billion of tax revenue will be transferred from the municipalities to the central government. Value-added tax revenue will also grow due to the health, social services and regional government reform by just over EUR 1 billion per year as less compensation will be paid to municipalities.

The table below presents an estimate of how the tax criteria changes will impact central government tax revenue. In accordance with the Government Programme, the municipalities will be compensated for the tax revenue impact of changes made by the Government to tax criteria in the current parliamentary term.

Table 7. Annual impact on central government tax revenue of the main tax criteria changes, EUR million

	2019	2020	2021	2022
Index adjustment of earned income taxation	-219	-406	-377	-377
Health and social services reform: earned income taxation		11,365		
Health and social services reform: corporate tax		625		
Health and social services reform: value-added tax		1,300		
Abolishment of the disability deduction in government tax in connection with the health and social services reform		12		
Reduction of mortgage interest expenditure deductibility	17			
Continuation of solidarity tax till end of 2019	100			
Increase of tobacco tax	68			
Reduction of car tax	-65			
Changes in regulation concerning the reduction in mortgage interest expenditure deductibility	32			

Development of tax revenue in 2018–2022

The earned and capital income tax base is expected to grow in the spending limits period by an average of approximately 3.2 % per year. Earned income is expected to grow by an average of approximately 3.1% and capital income by over 3.8%. Pension income will grow faster than wage income as the number of those in pensionable age grows and the pension system matures, whereas unemployment benefits are expected to decrease as the employment rate goes up in the early part of the spending limits period. The deductibility of mortgage interests will be reduced by 10 percentage points in 2019, after which 25% of mortgage interests may be deducted. The maximum deduction for temporary accommodation will be increased from EUR 250 to EUR 450 a month from the beginning of 2019. The validity of the highest income class introduced on a temporary basis in the central government income tax scale (solidarity tax) in 2012 will expire at the end of 2019. It is assumed that annual index adjustments in accordance with the Government Programme will be made to earned income tax criteria in 2019. Index adjustments are also included as a technical assumption in the tax revenue estimates for 2020—2022. Changes made in connection with the health, social services and regional government reform are expected to increase the central government's earned and capital income tax revenue by approximately EUR 11,380 million in tax year 2020. Due to timing factors, the impact on tax receipts for the calendar year 2020 is expected to be less significant than this, or an estimated EUR 10,580 million. Disabled persons' deductions in central and local government taxation will be abolished in connection with the health, social services and regional government reform.

Corporate tax revenue as a whole is expected to increase in the spending limits period by an average of approximately 5.5% per year, corresponding to the growth of the operating surplus according to national accounts. Corporate tax revenue remitted to the central government is expected to grow by an average of approximately 8.5% per year. The strong growth of central government tax revenue in the spending limits period will mainly be due to the health, social services and regional government reform, as part of which the municipalities' apportionment of corporate tax revenue will be reduced by 9.02 percentage points in 2020, while the central government's apportionment will be grow correspondingly.

This will increase the central government’s corporate tax revenue by approximately EUR 625 million in tax year 2020. Due to timing factors, however, central government corporate tax receipts for the calendar year 2020 are expected to grow less than this, or by approximately EUR 600 million. In addition, the change in the regulation concerning the reduction in mortgage interest deductibility due to enter force in 2019 is expected to increase corporate tax receipts by approximately EUR 32 million a year. The impacts of the change that concerns dropping the distinction between different sources of corporate income entering into force in 2019 are expected to be minor at this stage.

The value-added tax base is projected to grow on average by around 3.0% during the spending limits period. This forecast is mainly based on estimates of growth in household consumption expenditure. The impact of the health, social services and regional government reform on value-added tax revenue will be EUR 1.3–1.4 billion per year from 2020 even if, due to timing factors, the impact on the receipts for calendar year 2020 will be less than this, or an estimated EUR 1.2 billion. Tax revenue will grow because refunds to municipalities will be reduced as their duties are taken over by the counties and the budgeting practices of value-added tax refunds will change.

Revenue from **excise duties** is projected to decrease as a whole by 0.3% a year during the spending limits period. The excise duty tax bases are mainly expected to contract, owing to the steering impact of taxation. The tobacco tax will be gradually increased by a total of approximately EUR 270 million during the parliamentary term, with the last part of this increase, or EUR 68 million, falling in 2019.

Car tax revenue is projected to fall by an average of around 3.2% per year. This is due to cuts in car tax made in accordance with the Government Programme and the fact that the downward trend in the carbon dioxide emissions from new cars is expected to continue. The amount of car tax to be paid depends on the general retail sales value of a car in the Finnish market as well as on the car’s carbon dioxide emissions, so reducing emissions lowers the tax percentage of new cars. Car taxation will be cut stepwise during the parliamentary term by a total of approximately EUR 182 million, of which EUR 65 million will be implemented in 2019.

Other on-budget revenue

Miscellaneous revenue is projected to grow in the spending limits period by an average of 0.6% per year. This increase is explained by the development in the transfers made from the State Pension Fund related to pension expenditure in the budget. The higher than usual level of dividend income and income from share sales in 2018 relates to a Government Programme entry, according to which key Government projects are funded with property income. Towards the end of the spending limits period, dividend income and income from share sales are estimated to be no more than approximately EUR 1.5 billion. Recognition of revenue from state-owned enterprises is expected to average slightly less than EUR 200 million towards the end of the period considered.

Table 8. Ministry of Finance estimate of ordinary on-budget revenue in 2018—2022, EUR billion

	2018 Budget	2019	2020	2021	2022	2018—2022 average annual change, %
Total tax revenue	44.0	45.9	59.4	61.9	63.7	9.7
— taxes on earned and capital income	9.5	10.1	20.9	22.2	23.1	24.8
— corporate tax	4.2	4.5	5.3	5.6	5.8	8.4
— valued-added tax	17.9	18.7	20.5	21.2	21.9	5.1
— excise duties	7.4	7.4	7.4	7.3	7.3	-0.4
— other tax revenue	5.0	5.2	5.4	5.5	5.7	3.2

	2018 Budget	2019	2020	2021	2022	2018—2022 average annual change, %
Miscellaneous revenue	5.5	5.7	5.7	5.7	5.7	0.6
Interest earned, income from share sales and profit recognised as income	2.8	1.9	1.9	1.9	1.9	-9.3
— Dividend income and income from sales of shares	2.4	1.5	1.5	1.5	1.5	-11.4
Total revenue[1]	52.7	53.8	67.3	69.9	71.6	7.9

1) Including repayment of loans granted by the central government.

5.5. Central government on-budget balance and debt

Taking into account the appropriations in line with the spending limits as well as revenue estimates, the central government on-budget deficit is projected to be approximately EUR 1.3 billion in 2019, whereas the estimated deficit in 2018 shown in the budget will be EUR 3.1 billion. The deficit will fall in 2020 only to grow again in 2021 due to, in particular, the Defence Forces' strategic performance capability projects.

Compared with the General Government Fiscal Plan of spring 2017, the estimated deficit during the spending limits period has decreased clearly as a consequence of the higher revenue estimates, in particular. The lower estimates of expenditure on unemployment security are another contributing factor.

Central government debt is assumed to grow by approximately EUR 5.1 billion during the spending limits period, reaching EUR 114 billion in 2022. The central government debt-to-GDP ratio is projected to decrease during the spending limits period.

The central government's balance and debt outlook from the perspective of the national accounts is examined in section 3.2.

Table 9. Ministry of Finance estimate of on-budget balance in 2018—2022, EUR billion, at current prices

	2018	2019	2020	2021	2022
On-budget revenue estimate, total[1]	52.7	53.8	67.3	69.9	71.6
On-budget expenditure estimate, total, at current prices[2]	55.8	55.1	68.3	71.3	73.1
On-budget balance estimate	-3.1	-1.3	-1.0	-1.4	-1.5
Central government debt-to-GDP ratio, %	47	45½	44	43½	42½

1) Including repayment of loans granted by the central government.

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

5.6. Off-budget central government finances

Central government in the national accounts

In the national accounts, the central government sector includes, alongside central government on-budget finances, the central government funds that are external to budget finances (excluding the State

Pension Fund, which is placed under the earnings-related pension fund sector in the national accounts) as well as the universities, the Finnish Broadcasting Company Yle, Solidium Oy, Senate Properties, university real estate companies, HAUS Finnish Institute of Public Management Ltd, Leijona Catering Oy, Finnish Industry Investment Ltd, Terrafame Group Oy, Tekes Venture Capital, Gasonia Oy, Governia Oy, Business Finland Oy, State Business Development Company Vake Oy, Vimana Oy, Sotedigi Oy, The Counties' Service Centre for Facilities and Real Estate Management Maakuntien tilakeskus Oy and VTT Technical Research Centre of Finland Ltd.

The central government funds are the National Housing Fund, the State Pension Fund, the Development Fund of Agriculture and Forestry, the National Nuclear Waste Management Fund, the National Emergency Supply Fund, the State Guarantee Fund, the Financial Stability Fund, the State Television and Radio Fund, the Agricultural Intervention Fund, the Fire Protection Fund and the Oil Protection Fund.

Central government transfers to VTT Technical Research Centre of Finland Ltd will amount to over EUR 87 million in the spending limits period 2019–2022.

Universities' overall funding consists of appropriations allocated to universities in the budget and supplementary funding (e.g. paid services, donations, and sponsoring).

Since 2013, central government funding of the Finnish Broadcasting Company Yle has been based on a transfer of appropriations covered from the public broadcasting tax to the State Television and Radio Fund, which passes them on to Yle. In the previous spending limits period, no index adjustment to reflect changes in cost levels was made to the transferred appropriation. In a report completed in 2016, a parliamentary working group proposed that no index adjustment be made in 2017–2019. An index adjustment will be carried out in 2019, however, and thereafter the index adjustment provision will be adhered to as set out in the Act on the State Television and Radio Fund.

The investment company Solidium Oy is a limited company fully owned by the central government whose task is to strengthen and stabilise Finnish ownership in companies of national importance. The company's equity portfolio consists of 12 listed companies in which Solidium has a minority interest. Solidium's Board of Directors makes investment decisions independently on the basis of analyses and proposals prepared by its management. No revenue was recognised by Solidium Oy, nor did the company make additional refunds of capital to the State budget in 2016. In 2017, revenue was recognised in two instalments. EUR 278 million of revenue from the previous year was recognised in January, and EUR 307 million in the autumn.

Founded in 2016, the State Business Development Company Vake Oy is a central government special assignment company whose task is to ensure that capital invested by the central government in companies is actively circulated and also to create value in the companies it owns. Vimana Oy, a service centre for the counties, was established in 2017 to produce and offer digitalisation and ICT services. Sotedigi Oy is a central government special assignment company founded in 2017 which develops national client and patient information system solutions as well as other new digital solutions for healthcare and social welfare.

In other respects, state ownership policy is the responsibility of the Government Ownership Steering Department in the Prime Minister's Office, to which the ownership steering of companies operating on a commercial basis is centralised. The Department's responsibilities also include preparing general policy on state holdings and ownership steering practices and coordinating ministerial cooperation on ownership steering.

Off-budget funds

Over the medium term, the budgetary position of the funds will continue to deteriorate. Their total revenue will decrease while the expenditure increases. The development of pension contributions received by the State Pension Fund is held back by a reduction in the number of personnel employed by the central government. At the same time, transfers from the State Pension Fund to the budget are increased to cover the central government's growing pensions expenditure. The reduction in the interest income received by the funds will level off. In the case of the National Housing Fund, the interest income will continue decreasing as the loan portfolio diminishes. The National Housing Fund has no longer granted new loans since 2007. This is also seen as a decrease in the repayments of loans granted by the Fund. As a whole, however, the amounts of loans granted by the funds and other financial investments increased by EUR 0.6 billion during the spending limits period compared to 2017. Without financial transactions, the off-budget funds would show a deficit of EUR -0.6 billion in 2022.

Table 10. Central government off-budget funds, EUR million

	2017	2018	2019	2020	2021	2022
Taxes and tax-like revenue, total	245	154	153	153	152	151
Miscellaneous revenue	155	125	92	101	105	108
Pension contributions	1,376	1,358	1,350	1,348	1,366	1,391
Interest earned and profit recognised as income	418	401	392	383	378	373
Transfers from budget	544	550	518	518	518	518
Revenue excluding financial transactions	2,738	2,588	2,507	2,504	2,520	2,541
Repayments of loans granted	2,693	2,107	2,567	2,506	2,473	2,455
Total revenue	**5,431**	**4,694**	**5,073**	**5,010**	**4,993**	**4,996**
Consumption expenditure	103	110	129	119	118	123
Current transfers	906	833	877	954	910	962
Interest expenditure	1	2	2	2	1	1
Transfers to budget	1,856	1,878	1,886	1,913	1,947	1,978
Other expenditure	20	20	20	20	20	20
Expenditure excluding financial transactions	2,886	2,843	2,914	2,925	3,038	3,126
Loans granted and other financial investments	2,095	1,748	2,032	2,022	2,038	2,092
Total expenditure	**4,981**	**4,591**	**4,946**	**4,947**	**5,076**	**5,218**
Net financial surplus or deficit	**450**	**113**	**129**	**62**	**-83**	**-222**

State-owned enterprises

Metsähallitus is a state-owned enterprise whose task is to use, manage and protect the unbuilt land and water assets directly owned by the state. Metsähallitus engages in business operations and attends to statutory public administrative duties funded out of the State budget. Metsähallitus engages in forestry and other market-based business operations through the subsidiaries it owns. The forestry operations of Metsähallitus have been incorporated in a fully state-owned company Metsähallitus Forestry Ltd. Metsähallitus remits amounts recognised as revenue to the central government from rights of use compensation and dividends. It manages approximately 12.5 million hectares of state-owned land and water areas, with a balance sheet value of approximately EUR 3.7 billion. Of this, the principal sum subject to the yield requirement is approximately EUR 2.5 billion.

Year 2017 was the first full operating year during which the new Metsähallitus Act was in force. The group had a turnover of EUR 328 million. The annual surplus of the Metsähallitus Group was EUR 105.9 million. According to the 2018 budget, Metsähallitus will recognise EUR 94.9 million as revenue for the central government. By the end of the spending limits period, the recognised revenue received from Metsähallitus is projected to rise to EUR 120 million annually.

Senate Properties is a state-owned enterprise whose task is to provide work environment solutions in keeping with the goals of the Government Premises Strategy for its customers and to improve central government organisations' performance. Senate Properties' business is based on developing work environments and real estate assets, letting premises and providing premises services for its customers. Senate Properties may also provide services for organisations whose activities are funded mainly from appropriations included in the State budget. Senate Properties operates according to commercial principles. Its assets are owned by the Finnish State and subject to the state-owned enterprise's ownership steering. It does not perform public administration tasks or duties as an authority.

While the company's total assets were approximately EUR 4.5 billion in 2017, this amount will decrease stepwise by approximately EUR 95 million during the spending limits period. In other words, the balance sheet value of property sales and depreciations will exceed the investment level. The property sales will amount to a total of EUR 560 million in 2017—2022. In 2017, Senate Properties recognised EUR 125 million as revenue, and its target for 2018—2022 is EUR 85 million. The profit level will decrease from the EUR 130 million predicted for 2017 to slightly less than EUR 80 million a year due to a reduction in capital gains from sales. The company's equity ratio will remain at 63% throughout the spending limits period.

6. County finances

Preparation of the reform

In the health, social services and regional government reform, responsibility for organising health and social services will be transferred from the municipalities and joint municipal authorities to 18 counties, mainly formed on the basis of the present regional division, on 1 January 2020. The counties will also take over duties relating to rescue services and environmental health, regional development and Structural Funds activity, business development, land use supervision and planning, administration of agricultural and farmers' aid, provision of relief services for farmers, management and use of water resources, waterway and maritime management, construction supervision, care of the cultural environment, promotion of regional identity and culture, provision and dissemination of environmental information, and other regional services assigned to them on the basis of the Counties Act.

The Government submitted a bill (HE 15/2017) on the health, social services and regional government reform to Parliament on 2 March 2017. This bill was supplemented on 18 May 2017 with the aim of addressing the counties' system of financing as a whole, encompassing the financing of all duties transferred to them. On 8 March 2018, the Government submitted a new bill on freedom of choice in health and social services to Parliament. The overall financial impacts of this bill cannot currently be estimated, as it contains both factors that curb the growth in expenditure and those that may increase it. Freedom of choice will only be introduced towards the end of the period considered, and many of its impacts are likely to materialise in the years following this spending limits period.

The Counties Act and Implementation Act are due to enter into force on 1 July 2018 or as soon as possible after their approval and ratification. In the first stage, the counties' provisional administration and, after the county elections to be held in October 2018, the counties will prepare the organisation of their activities as well as personnel and asset transfers together with the municipalities, joint municipal authorities and certain central government agencies.

A Government proposal concerning legislation on the implementation of the regional government reform and on the reorganisation of central government licensing and supervision duties was submitted to Parliament on 8 March 2018. Pursuant to this proposal, a new National Licensing and Supervisory Agency is to be established, which will handle the duties separately assigned to it in the areas of health and social services, education and culture, environment, and occupational health and safety. In addition, the agency will handle other legal protection and supervision duties separately assigned to it. The duties and financing of the Regional State Administrative Agencies, the Centres for Economic Development, Transport and the Environment and the National Supervisory Authority for Welfare and Health will be centralised to it, and the other agencies will be abolished. The transfers of financing relating to the establishment of the National Licensing and Supervisory Agency were already included in the previous General Government Fiscal Plan. In the current Plan, the transfers are mainly examined from the perspective of the postponement of the agency's establishment.

Financing of the counties

The counties will have no right to levy taxes and they will finance their activities mainly with central government funding. While a large proportion of the central government funding will be universal, some of the duties are to be financed with separate funding based on separate statutes and the State budget.

The counties' universal financing in 2020 will total EUR 18.3 billion. In comparison to the previous General Government Fiscal Plan, the allocation of universal funding takes into account the postponement of the reform until 2020, a calculation updated in February 2018 of the expenditure transferred from the municipalities, and increased specificity of the duties transferred from the central government.

Approximately EUR 6 billion will be transferred from the central government transfers for basic public services to central government financing for the counties. A total of EUR 0.9 billion corresponding to duties transferred from the administrative branches of the Ministry of Economic Affairs and Employment, the Ministry of Transport and Communications, the Ministry of Agriculture and Forestry, the Ministry of Social Affairs and Health, the Ministry of the Environment and the Ministry of Finance will be transferred in 2020. Funding for pay subsidies and start-up grants will continue to be included in the unemployment benefit appropriations and, consequently, the funding transferred from these administrative branches to the counties has been reduced by EUR 143 million compared to the previous General Government Fiscal Plan._An increase of approximately EUR 12 billion corresponding to the change in the taxation arrangements between the central government and the municipalities will be allocated to financing the duties transferred from the municipalities to the counties. In 2021, only one half of the index adjustment will be made to the central government funding of the counties.

In the scaling of the counties' central government financing in 2020, decreases and increases in accordance with Government Programme measures will be taken into account. The centralisation of specialised medical care, the reform of the quality recommendation on services for older people and savings resulting from the development of informal and family care will reduce the counties' expenditure by a total of EUR 136 million. Part of the reduction associated with the Competitiveness Pact will be taken out of the counties' financing from 2020.

Health insurance reimbursement for emergency care travel costs is to be dropped, and the corresponding financing, EUR 45 million, will be transferred to the counties' central government financing. Arrangements for reimbursement of cross-border healthcare costs are also to be changed: the counties will be responsible for reimbursing the costs of health services used by their residents abroad. As a result, a total of EUR 13.1 million of funds previously spent on health insurance reimbursements will be transferred to the counties, and an additional EUR 8.6 million will be allocated to cross-border healthcare expenditure in 2020. Legislation on self-determination, mental health and intoxicant abuse will be reformed during the current parliamentary term. Central government transfers to the counties will be increased by EUR 23.8 million during the spending limits period for the implementation of these reforms. Additionally, the operating expenditure of state mental hospitals will be increased by EUR 600,000 in 2020–2021 due to the reform.

The organisation of student health care for higher education students is to be taken over by the Social Insurance Institution from 2020. The Finnish Student Health Service would operate as a national service provider and also expand its activities to cover students at universities of applied sciences. In connection with this reform, EUR 31.6 million of the counties' healthcare and social welfare funding will be transferred to the main class of the Ministry of Social Affairs and Health.

In addition to universal financing, the counties will be allocated approximately EUR 2.8 billion in separate funding in 2020. This separate funding would cover such items as funds used for the payment of agricultural aid and European Union and national moneys linked to EU funds as well as a few appropriations intended for activities focused on a very restricted geographical area, and pass-through item type appropriations to the counties.

Compensation for the counties' value-added tax costs is to be arranged differently from compensation for municipalities. An appropriation for compensating for value-added tax costs is to be included in the State budget. Approximately EUR 1.2 billion will be earmarked for this purpose in 2020. Central government value-added tax revenue will grow by a corresponding sum on an annual basis, so the change will have no impact on the on-budget balance.

Financing of the preparation and implementation of the counties

Resources for preparing and implementing the health, social services and regional government reform have been centralised to the main title of the Ministry of Finance in the State budget. For preparing and steering the implementation of the health, social services and regional government reform, including the costs of establishing and launching the counties' provisional administration and county councils, EUR 100 million will be allocated in 2019, approximately EUR 3 million in 2020, EUR 0.5 million in 2021 and EUR 0.3 million in 2022. In addition, EUR 15 million will be reserved for the VAT compensation of the provisional administration. The increase in funding requirements compared to the previous General Government Fiscal Plan is mainly due to the postponement of the reform by a year.

The reform will also necessitate significant changes in information management and information systems. EUR 98.2 million in 2019, EUR 5.6 million in 2020 and EUR 1.3 million in 2021 will be reserved for funding the Digital Transformation Programme. Funding is to be allocated to national projects in different administrative branches as well as to grants for counties to support their ICT transformation. The development of healthcare and social welfare systems will be centralised to SoteDigi Oy, and EUR 90 million of the State Business Development Company Vake Oy's own funds were transferred to form the equity of the new company in 2017. In order to implement the digitalisation and ICT services required by the counties, reservation is made for a capital injection into ICT Service Centre Vimana Oy by transferring central government shareholdings valued at approximately EUR 30 million to the company.

7. Local government finances

The part of the General Government Fiscal Plan relating to local government finances includes the limit for local government expenditure set by central government measures as well as the Government's other policies on local government finances and duties. It also includes an examination of the impact of central government measures on local government finances and the medium-term development prospects of local government finances in local government accounting terms. The examination of local government finances presented here is supplemented by the Local Government Finance Programme, which is prepared separately in connection with the General Government Fiscal Plan.

7.1. Local government finance policies

Limit for local government expenditure set by central government measures

Under national rules relating to the General Government Fiscal Plan, the Government is required to specify a limit for local government expenditure set by central government measures. The expenditure limit is a monetary limit for the change in local government operating expenditure arising from central government measures. The expenditure limit is to be consistent with the budgetary target set by the Government for local government finances. The limit for local government expenditure does not, however, guarantee that the cost effects will be realised at that level in local government finances. Among other things, the municipalities can themselves decide the extent to which they carry out the reduction of duties and obligations.

In its General Government Fiscal Plan of 28 September 2015, the Government decided that its measures will have the net effect of reducing local government operating expenditure by at least EUR 540 million in 2019 compared to the technical General Government Fiscal Plan adopted on 2 April 2015, which was the basis of the Government Programme.

Compliance with the limit for local government expenditure set by central government measures is monitored through the annual revisions of the General Government Fiscal Plan. The limit cannot be relaxed from the level set in the General Government Fiscal Plan adopted on 28 September 2015. It will be tightened annually as progress is made in the preparation of as yet unspecified measures agreed in the Government Programme.

In this General Government Fiscal Plan, the postponement of the health, social services and regional government reform until 2020 has been taken into account in the limit for local government expenditure. The more specific impact assessments of certain adjustment measures adopted in the Government Programme were already addressed in the previous General Government Fiscal Plan. These include more specific impact assessments of the quality recommendation on services for older people and increased efficiency of regionally organised specialised medical care. The savings related to the quality recommendation on services for older people was set at EUR 33.5 million by 2019, rather than the EUR 70 million estimated in the Government Programme.

Additionally, the expansion of pupil and student welfare services to cover a higher number of students in connection with the reform of vocational education and training was taken into account as a new measure in the previous General Government Fiscal Plan. The limit for local government expenditure set by central government measures will be EUR -830 million at the 2019 level.

Table 11. Limit for local government expenditure set by central government measures, 2019—2022, EUR million

2019	2020	2021	2022
-830	-470	-470	-470

As the action plan aiming to reduce municipalities' duties and obligations progresses and new measures reducing municipalities' duties and obligations are concretised during preparation to the extent that they can be included in the State budget proposal and the General Government Fiscal Plan, these new measures will be taken into account in tightening the limit for local government expenditure.

In addition to decisions concerning municipalities' duties and obligations contained in the Government Programme, no new or extended statutory duties and obligations permanently weakening local government finances will be imposed on the municipalities. If, however, in exceptional circumstances, duties or obligations that permanently increase the operating expenditure of municipalities and joint municipal authorities are enacted to the overall benefit of general government finances, any weakening of local government fiscal balance will be prevented by increases in central government transfers, simultaneous cuts in other municipal duties and obligations, or allowing increases in fee income. In accordance with effective legislation, a central government transfer covering 100% of the costs will be allocated to new or extended duties and obligations.

Other central government measures impacting the balance of local government finances

In addition to specifying a limit for local government expenditure set by central government measures, the Government will bolster local government finances by giving municipalities the opportunity to increase their fee income. The real estate tax increase intended as compensation for reduced early childhood education and care fees was cancelled by the Government. The impacts of reductions in these fees on local government finances will be compensated for by increasing central government transfers to local government and the municipalities' apportionment of corporate tax revenue. Real estate tax was increased by EUR 25 million in 2016 and 2017 as stated in the Government Programme. An additional EUR 50 million increase in real estate tax was carried out in 2017. In accordance with the Government Programme, the municipalities will be compensated for changes made to income tax criteria, ensuring that they will have no impact on the balance of local government finances.

Overall impact of central government measures, and the adjustment requirement in local government finances

The overall impact of the measures decided by Prime Minister Sipilä's Government is to strengthen local government finances significantly on a net basis at the 2019 level if the municipalities and joint municipal authorities implement the measures in full. In addition, the health, social services and regional government reform will eliminate the municipalities' healthcare and social welfare expenditure pressures arising from population ageing from 2020.

The central government bears the brunt of the weakening effect on general government finances of the Competitiveness Pact made in 2016. While the Competitiveness Pact lowers the municipalities' labour costs, it also reduces the municipalities' tax revenue through changes to the wage bill and employees' contributions. During the current spending limits period, the municipalities' central government transfers will be reduced in association with the Competitiveness Pact. Once the reductions in central government transfers have been put to practice, the Competitiveness Pact will have a slight tightening effect on local government finances. Over the longer term, the favourable impact of the Competitiveness Pact on employment and growth will also benefit local government finances.

Table 12. Strengthening impact on local government finances of central government measures in 2019, EUR million[1]

Limit for local government expenditure set by central government measures	830
Change in central government transfers relating to the limit for local government expenditure set by central government measures	-90
Impact of index freezes on revenue of municipalities	-320
Changes in fee criteria	60
Increase of real estate tax	100
Total	580

1) The Table does not account for the impacts of the Competitiveness Pact and the measures associated with it.

According to a forecast from spring 2015 that formed the basis of the Government Programme, the local government deficit would be EUR 2.0 billion, i.e. 0.9% in ratio to GDP, in 2019 in national accounting terms. The Ministry of Finance's updated forecast takes into account the Government Programme measures impacting local government finances that have already been specified on the basis of information currently available on how the municipalities will implement them. These measures will strengthen the balance of local government finances on a net basis by approximately EUR 200 million at the 2019 level. The estimates of savings achieved through the measures have been reduced and carried over to later years, as a result of which their impacts will be mainly felt in county finances. According to the updated forecast, local government deficit in 2019 will be EUR 0.9 billion, i.e. 0.4% in ratio to GDP. Local government is therefore achieving the targeted budgetary position. A precondition for achieving the budgetary position target is, however, that the municipalities utilise the savings potential facilitated by Government Programme measures, including more efficient regional organisation of specialised medical care and development of family and informal care as well as the Competitiveness Pact. The local government finances projection is a pressure projection that does not take into account the municipalities' own consolidation measures in 2019–2022. In recent years, the municipalities' own consolidation measures have been significant.

Municipalities' own measures

Municipalities have wide-ranging autonomy, and the balancing of local government finances cannot be ensured by central government measures alone. Therefore, the municipalities also have great responsibility for balancing local government finances, for example by implementing structural reforms and improving productivity. The central government cannot control local government investments nor thereby curb local government indebtedness. Prioritising investments, scheduling them correctly and implementing them to a high quality are very important in the adjustment of local government finances. The Government Programme's objectives relating to the easing of taxation on labour and the overall level of taxation should also be taken into account when selecting means of adjustment.

7.2. Central government measures impacting local government finances

Central government transfers and local government duties in the spending limits period

The General Government Fiscal Plan has taken into account the postponement of the pending health, social services and regional government reform until 2020. As the reform enters into force in 2020, it will reduce local government net expenditure by approximately EUR 17.6 billion. Central government transfers to municipalities will be lowered by an amount corresponding to the transferred duties, and the municipalities' corporate tax and municipal income tax revenue will be reduced. According to the latest estimate, central government transfers will be reduced by slightly under EUR 6 billion from 2020. The municipal tax rates and the municipalities' apportionment of corporate tax revenues will be reduced, and the central government's tax revenue will increase accordingly. An estimated EUR 11.7 billion of income tax revenue and EUR 0.6 billion of corporate tax revenue will be channelled to financing the counties. The reform will be cost neutral between local government and central government. After the reform, the municipalities will retain some responsibility for promoting their residents' health and welfare. EUR 29 million of the funding transferred to the counties will be allocated to the municipalities for this purpose.

Central government transfers to local government will be approximately EUR 10.3 billion in 2019, and decline to EUR 4.3 billion in 2020 as a result of the health, social services and regional government reform. In Uusimaa county, responsibility for organising growth services will be assumed by a joint municipal authority to be established by the Cities of Espoo, Helsinki, Kauniainen and Vantaa. The current General Government Fiscal Plan allocates approximately EUR 113 million of county financing annually to this joint municipal authority in 2020—2022.

In accordance with the Government Programme, no index adjustment will be made in central government transfers to municipalities in 2019. An adjustment of the division of costs between central government and the municipalities based on the actual costs of 2016 will reduce central government transfers to municipalities for basic public services by EUR 213.5 million. In 2016, the actual costs of the municipalities' basic services were lower by EUR 854 million than the calculated costs on the basis of which the central government transfers for 2016 were remitted. This reduction in the actual costs was due both to measures taken by the municipalities to improve efficiency and the cutting of holiday bonuses in 2017, as three quarters of these amounts were already recorded as cost savings in municipalities for 2016. Due to the cutting of holiday bonuses, the municipalities' costs were reduced by EUR 236 million in 2016, and the deduction from this figure based on the central government transfer rate would be EUR 59 million. The municipalities will receive compensation for this additional cut of EUR 59 million in 2020. In this connection, compensation will also be paid for the additional cut in holiday bonuses in 2017—2019. The total compensation will thus amount to EUR 237 million.

As part of the Government reform aiming to cut the costs of the municipalities, counties and the entire public administration, a report on devising incentive schemes for municipalities was commissioned. The funding for these incentive schemes will be deducted from central government transfers to municipalities for basic public services (EUR/resident).

In this General Government Fiscal Plan, EUR 50 million in 2021 and EUR 100 million in 2022 are allocated to the incentive scheme related to the municipalities' operational economy expenditure.

EUR 40 million will be allocated to the incentive scheme for digitalisation in municipalities from 2019. The incentive scheme is to be built up in stages, with the first stage focusing on the digitalisation of the municipalities' HR and financial administration and the use of robotic process automation for this purpose.

EUR 50 million in 2021 and EUR 100 million in 2022 are also allocated to the incentive scheme for building stock development and more efficient premises use in municipalities.

EUR 10 million of the appropriation for central government transfers to municipalities for basic public services may be allocated to a discretionary increase of the central government transfers. In addition, EUR 10 million of the appropriation intended for supporting municipal mergers financially may be used as discretionary support for municipalities that are facing, or about to face, a crisis. Rather than increasing the overall level of these appropriations, internal transfers to discretionary support will be made.

Reductions to be made under the Competitiveness Pact are taken into account in the central government transfers. Central government transfers for basic public services will be reduced by EUR 497 million in 2019. The impacts of the health, social services and regional government reform on local government expenditure are also taken into account in the level of this reduction from 2020, resulting in a reduction of approximately EUR 62 million in the central government transfers under the Competitiveness Pact in 2020—2021.

The quality recommendation to guarantee improved services for older persons was updated in 2017. It is estimated to reduce the municipalities' expenditure by EUR 16.5 million year-on-year in 2019. In this context, central government transfers to municipalities for basic public services will be reduced by EUR 4 million in 2019. The impacts of the updated quality recommendation will be addressed in the level of central government funding for the counties from 2020.

The amendment of the Health Care Act and the Decrees issued by virtue of it on division of labour in specialised medical care, centralisation of certain tasks, criteria for urgent care and criteria for emergency care in specialist fields contain provisions on specialised medical care duties that will be centralised to hospitals with extensive emergency care services, units providing primary and specialised 24-hour services, and five or less university hospitals. The specific volume of procedures required in order for certain surgical operations to be centralised will also be set in a decree. The transition period set in the act and the decrees extends until the end of 2018 and, for number of surgical procedures, until the end of June 2018. These changes are estimated to reduce health care costs by EUR 350 million by 2020. As a consequence of the changes, local government expenditure is expected to decrease by EUR 85 million in 2019 compared to the year before, and the corresponding reduction in central government transfers will be EUR 21.5 million. From 2020, this reduction will be taken into account in the level of central government funding to the counties.

Savings in the municipalities' expenditure brought about by developing informal and family care will be EUR 25 million, and the corresponding reduction in central government transfers will be EUR 6 million in 2019.

The postponement of the health, social services and regional government reform by one year until 2020 has been addressed in this General Government Fiscal Plan. The EUR 5.7 billion reduction in central government transfers to municipalities will be refunded regarding the year 2019. In accordance with the Government Programme, EUR 15 million of central government transfers are allocated to child welfare and home help for families with young children, and EUR 1 million to home care for older persons in 2019. Pension subsidies for the long-term unemployed will increase the central government transfers by EUR 5.37 million. This will be taken into account in the level of central government funding for the counties from 2020.

EUR 15 million will be allocated to enhancing equality in basic education in 2019. This support will be targeted at schools in the most challenging areas and, for instance, providing special needs education and reducing the size of teaching groups. EUR 10 million in 2019 and EUR 7.5 million in 2020 will be allocated to improving equality in early childhood education and care. This funding can be used to reduce group sizes and recruit additional staff in day care centres operating in challenging areas. Experiments of free early childhood education for 5-year-olds will be expanded and continued. EUR 5 million will be earmarked for this purpose in 2019.

Pupils will start learning the first foreign language (A1 language) earlier, or during the spring term of grade 1 in basic education. The earlier start of language learning will extend to all grade 1 pupils from 1 January 2020. This reform will increase the central government transfers to municipalities for basic public services by EUR 7.5 million in 2020 and EUR 12 million from 2021. Under the Act on Central

Government Transfers to Local Government, the central government transfer rate for expanding duties subject to the transfer system will be 100%.

The Government will launch a reform of general upper secondary education. The objective is to increase the attractiveness of general upper secondary education as a general form of education providing eligibility for further studies in higher education as well as to strengthen education quality, improve learning outcomes and smooth the transition from secondary to tertiary education. EUR 0.38 million in 2019 and EUR 0.75 million in 2020 will be reserved for expenditure arising from the increase in the number of times students may repeat matriculation examination tests. In total, EUR 4 million in 2021 and EUR 8.53 million from 2022 have been reserved for the expenditure on the general upper secondary reform.

A reform of vocational education and training entered into force from the beginning of 2018. EUR 15 million will be allocated to supporting the implementation of this reform in 2019. The funding will be used to strengthen the digitalisation of vocational education and training and cooperation with working life, reduce drop-out rates, prevent social exclusion, and build individual paths to education and employment.

The funding system for museums, theatres and orchestras will be updated by implementing a reform of the central government transfers for museums and improving the operating conditions of so-called free groups in performing arts. A total of EUR 7 million will be reserved for the costs incurred from implementing this reform from 2020. EUR 2 million of this appropriation will be sourced from gambling proceeds.

Estimates of the number of asylum seekers to whom a residence permit will be issued have risen and, consequently, slightly over EUR 20 million in 2019—2020 and EUR 12 million in 2022 have been added to the integration compensation paid by the central government to municipalities. As a result of the health, social services and regional government reform, integration compensation to municipalities will become part of the counties' universal funding in 2020.

An annual EUR 5 million of funding increase will be allocated to putting Ohjaamo activities on a permanent footing. These counselling centres provide low-threshold services for under 30 year-olds.

The calculation and remittance of basic social assistance were transferred from the municipalities to the Social Insurance Institution at the beginning of 2017. As the transition period associated with this reform expires, the municipalities will no longer incur administrative expenditure related to these tasks. Consequently, central government transfers to municipalities will be reduced by EUR 3.8 million in 2019.

Table 13. Central government transfers to municipalities and joint municipal authorities, EUR million, spending limits period at 2019 prices[1]

	2016	2017	2018	2019	2020	2021	2022
Imputed central government transfers	**9,955**	**9,526**	**9,502**	**9,239**	**3,709**	**3,412**	**3,326**
Ministry of Finance, central government transfer for basic public services	9,028	8,607	8,577	8,313	2,763	2,470	2,382
Ministry of Education and Culture[2]	928	919	925	926	947	942	944
— of which joint municipal authorities	1,041	904	920	934	946	943	943
Other central government transfers by administrative branch, total	**1,123**	**1,061**	**1,202**	**1,028**	**632**	**707**	**782**

	2016	2017	2018	2019	2020	2021	2022
Ministry of Justice	0	0	30	20	0	0	0
Ministry of the Interior	5	5	5	5	5	5	0
Ministry of Finance	26	48	80	61	164	264	363
Ministry of Education and Culture	222	253	271	261	232	225	225
Ministry of Agriculture and Forestry	5	5	6	6	2	2	0
Ministry of Transport and Communications	37	36	36	37	1	1	1
Ministry of Employment and the Economy	193	257	269	257	138	131	121
Ministry of Social Affairs and Health[3]	601	426	478	355	66	58	51
Ministry of the Environment	34	30	27	27	25	22	22
Central government transfers, total	**11,078**	**10,587**	**10,704**	**10,267**	**4,342**	**4,120**	**4,108**

1) In the health, social services and regional government reform, some of the duties of the municipalities will be transferred to the counties in 2020, while central government transfers allocated to the municipalities for these duties will be abolished.

2) The municipalities' imputed share is estimated based on the total funding for the Ministry of Education and Culture's administrative branch (including private).

3) Remittance of basic social assistance was transferred from the municipalities to the Social Insurance Institution of Finland (Kela) in 2017. As a result, the central government will no longer pay a transfer for basic social assistance costs to the municipalities, which will be reflected as a reduction in the central government transfers to the Ministry of Social Affairs and Health in 2017. Municipalities' share of basic social assistance expenditure will additionally be acknowledged as a reduction in the central government transfer for basic public services. This reform was cost neutral between local government and central government.

Tax criteria changes

Tax criteria changes decided in the Government Programme and during the parliamentary term have been taken into account in the revenue estimates for the spending limits period. In accordance with the Government Programme, the municipalities will be compensated for the tax revenue impact of changes made by the Government to tax criteria. Annual index adjustments corresponding to rising earnings or inflation will reduce the municipalities' tax revenue by an estimated EUR 149 million. Index adjustments are also included as a technical assumption in the tax revenue estimates for 2020—2022.

The deductibility of mortgage interests will be reduced further in line with the Government Programme, with 25% of mortgage interests being deductible in 2019. This will increase the municipalities' tax revenue by an estimated EUR 13 million.

The postponement of the health, social services and regional government reform by one year until 2020 has also been accounted for in the revenue estimate for the spending limits period. In connection with this reform, responsibility for organising health and social services will be transferred from the municipalities to the counties and responsibility for financing the services from the municipalities to the central government from 2020. The municipalities' revenue will be reduced commensurately with the transferred costs by reductions in central government transfers, the municipalities' share of corporate tax revenue and municipal income tax. Municipal income tax revenue will be reduced by cutting every municipality's municipal income tax rates equally. According to preliminary information, the reduction in the municipal tax will be 11.60 percentage points, or EUR 11.7 billion. At the same time, EUR 0.6 billion of the municipalities' corporate tax revenue will be transferred from the municipalities to the central government and, consequently, used to fund the counties. Disabled persons' deductions will be abolished in connection with the health, social services and regional government reform in 2020. This change will increase municipal tax revenue by an estimated EUR 13 million and central government income tax by EUR 12 million. The deduction for temporary accommodation will be increased by approximately EUR 2.5 million from 2019, of which the municipalities' share is EUR 2 million.

See the table below for an estimate of the impact of tax criteria changes on local government tax revenue.

	2018	2019	2020	2021	2022
Index adjustment of earned income taxation	-77	-149	-28	-26	-26
Health, social services and regional government reform, municipal income tax			-11,660		
Health, social services and regional government reform, corporate tax			-625		
Reduction of mortgage interest expenditure deductibility	13	13			
Cuts in income taxation	-105				
Increase of corporate tax apportionment as compensation for lowering early childhood education fees	60				
Abolishment of deductions for disabled persons			13		
Increase in the deduction for temporary accommodation		-2			

7.3. Estimate of local government finances: expenditure, revenue and balance

Table 14. Development of local government finances up till 2022 according to local government accounts, EUR billion, at current prices

	2017	2018	2019	2020	2021	2022
Profit/loss itemisation						
1. Operating margin	-27.5	-28.1	-29.0	-11.8	-12.1	-12.4
2. Tax revenue	22.5	23.2	24.2	13.6	13.3	13.5
3. Central government transfers, operational finances	8.5	8.7	8.2	2.4	2.3	2.3
4. Financial income and expenses, net	0.4	0.3	0.2	0.3	0.3	0.3
5. Annual margin	3.9	4.1	3.6	4.6	3.7	3.7
6. Depreciation and amortisation	-2.7	-2.8	-2.9	-2.7	-2.8	-2.9
7. Extraordinary items, net	0.1	0.1	0.1	0.1	0.1	0.1
8. Profit/loss for the financial period	1.3	1.4	0.8	2.0	1.1	0.9
Funding						
9. Annual margin	3.9	4.1	3.6	4.6	3.7	3.7
10. Extraordinary items	0.1	0.1	0.1	0.1	0.1	0.1
11. Current income adjustments	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
12. Internal financing, net	3.6	3.8	3.3	4.3	3.4	3.4
13. Investment in fixed assets	-4.5	-4.6	-4.7	-4.0	-4.1	-4.2
14. Financial contributions and sales gains	1.1	1.1	1.1	1.1	1.0	1.0
15. Investments, net	-3.4	-3.6	-3.6	-2.9	-3.1	-3.2
16. Financial balance (internal financing - investment)	0.3	0.2	-0.3	1.3	0.4	0.1
17. Outstanding loans	18.3	18.3	18.9	14.8	14.5	14.4
18. Cash	5.8	6.0	6.2	6.4	6.4	6.4
19. Net debt (loan portfolio - cash assets)	12.5	12.3	12.7	8.4	8.1	8.0

The economic projection of local government finances for 2019–2022 is a pressure projection that, in addition to general economic and population trends, only takes into account measures impacting local government finances that are already included in the General Government Fiscal Plan. The projection does not include municipalities' and joint municipal authorities' own consolidation measures or municipal income tax increases in 2019—2022. The development projection takes into account the Government proposal on the health, social services and regional government reform.

In the last few years, municipal finances have improved considerably. Pressure to increase local government operating expenditure will remain great until the health, social services and regional government reform has been implemented, as the demographic change is pushing care and nursing expenditure up. This year, the pressure to increase operating expenditure will be curbed by municipalities' and joint municipal authorities' consolidation measures, among others things. A survey concerning personnel savings conducted by KT Local Government Employers indicates that these measures will mainly be achieved through retirement attrition, rearrangements of duties and increased efficiency. However, municipalities' and joint municipal authorities' consolidation measures are likely to be more modest in 2018 than in the preceding years. The impacts on restraining the growth of local government expenditure resulting from the Government's adjustment measures will also decline.

Growth in local government operating expenditure will accelerate in 2019. The pay increases agreed upon in the municipal sector, the majority of which are scheduled to take place in 2019, will increase the payroll expenditure. The payroll expenditure increase in 2019 will also be speeded up by the lapsing of the holiday bonus cuts made under the Competitiveness Pact. Less than EUR 240 million of holiday bonuses will reappear as a cost in local government finances in 2019. The remainder of the payroll expenditure increase due to the holiday bonus reintroduction, or EUR 40 million, will take place in 2020.

While investment expenditure is already at a high level from a historical perspective, it is expected to grow further in the next few years. Hospital districts' financial plans show that their investment expenditure will reach record-breaking figures in 2019. Some of the planned investments have not yet been given the go-ahead, however.

In 2018, the growth in local government tax revenue will be slowed down by a 0.04 percentage point decrease in the average municipal tax rate to 19.86 per cent. Changes in the municipal tax rates will reduce the local government tax revenue by approximately EUR 38 million. The growth in corporate tax revenue will also remain moderate, as last year's exceptionally good growth was underpinned by a one-off factor whose impact will not extend to future years.

The reduction in the early childhood education and care fees of small and medium income families is estimated to reduce the municipalities' fee income by approximately EUR 70 million in 2018. The net loss of fee income from early childhood education and care will remain at less than EUR 60 million in 2018—2021, however, as the reduced fees are expected to provide parents of young children with better incentives for working, which is presumed to lead to an increase in the demand for day care and fee income from this service. Municipalities will be compensated for the reduction in fee income resulting from the lowering of early childhood education fees and the expected growth in the costs of providing these services through EUR 25 million of central government transfers and approximately EUR 60 million of corporate tax from 2018.

Central government transfers to municipalities will decline in the next few years. In keeping with the Government Programme, no index increases will be made in the central government transfers in 2018 and 2019. The adjustment of the division of costs will decrease central government transfers to municipalities by EUR 71 million in 2018 and EUR 214 million in 2019. In 2020, the central government transfers to municipalities will be increased by EUR 237 million as compensation for the additional holiday bonus cuts under the Competitive Pact. The compensation will rectify a situation where the reduction in expenditure achieved through the holiday bonus cut affects the central government transfers to municipalities for basic public services also through the adjustment of the division of costs, which would partly result in a double reduction from central government transfers.

The health, social services and regional government reform will remove the expenditure on social welfare and healthcare, which has been the item exposed to the greatest growth pressures, from local government finances. After the reform, the municipalities' duties will focus on education, which is not subject to similar expenditure pressures arising from the demographic change. This will result in more moderate development in local government operational expenditure. The cash flow of the activities and investments will reach positive figures from 2020. The growth in the municipalities' loan portfolio will also level off. The exceptionally good situation of municipal finances in 2020 is partly explained by the fact that payments of taxes subject to the higher municipal tax rate levied in previous tax years will continue to boost the municipalities' tax accrual in 2020. This phenomenon will also be visible in corporate tax yields.

8. Earnings-related pension funds and other social security funds

Earnings-related pension system

Finland's earnings-related pension system consists of a number of different pension acts, under which pensions are generally determined by the same criteria, however. The funding of pension expenditure varies by pension act, as a result of which the financing criteria of the earnings-related pension sector cannot be described by a single rule. The financing criteria can be examined, however, by looking at the most significant pension acts separately.

The Finnish earnings-related pension system is partly funded, as some of the financing comes from prefunded pension assets and the income from them. However, pensions are financed mainly by annual pension contributions from employees and employers. In addition, part of the pensions of central government employees and entrepreneurs, agricultural entrepreneurs and seafarers is financed from the central government budget. Employees' pension contributions are the same under all pension acts. Under all pension acts, pensions accrue in more or less the same way from earnings during entire working careers. Starting old-age pensions are reduced by a life expectancy coefficient that takes the increase in life expectancy into account. Pensions paid out are increased annually by the Employee Pension Index, in which inflation has an 80% weight and change of earnings level a 20% weight. The pension reform that entered into force from the beginning of 2017 and its effects are described in more detail in such documents as Annex 1 to the 2017 Draft Budgetary Plan.

The private sector **Employees' Pensions Act (TyEL)** covers around two-thirds of the labour force. Of TyEL earnings-related pension contributions, part are prefunded individually and the remainder go to finance current pensions in a pay-as-you-go system. Pension contributions must be at a level that guarantees the payment of pensions and the funding required by law. The TyEL system's funding rate, i.e. the ratio of pension assets to pension liability, was approximately 27% at the end of 2015 (based on a 2.5% real discount rate).

The labour market organisations have agreed on the TyEL system's EMU buffer. As the target for the EMU buffer has been agreed an amount corresponding to 2.5% of the annual private sector wage bill. The idea of the buffer is to, under certain conditions, enable a temporary reduction in earnings-related pension contributions during weak economic conditions. When applying the buffer, a later increase in earnings-related pension contributions must be correspondingly agreed, allowing the buffer to return to its former level.

The pension expenditure of **entrepreneurs** (approximately 9% of the insured), farmers and seafarers is financed from contributions and the portion exceeding this from the State budget.

Approximately 20% of the insured are covered under the **local government pensions system**. In the local government pensions system, the aim is to set pension contributions at a level ensuring that the pension system is on a sustainable foundation and the level of pension contributions will remain stable in future.

Employees ensured under the **state employees' pension system** (approximately 6% of the insured) and central government employers pay their pension contributions into the State Pension Fund (VER). Funds are annually transferred from the State Pension Fund to the central government budget to cover state employees' pension expenditure. The transferred amount is currently 40% of the expenditure incurred from central government pensions, and the remainder of the pension expenditure is covered directly from the central government budget.

Due to the prefunding of pensions, the earnings-related pension funds have shown a significant surplus historically. The demographic change will increase pension expenditure, which will be reflected as a reduction in surpluses. Due to prefunding, however, the property income of the pension funds is substantial, so they will nominally not have to sell off assets even if pension expenditure exceeds contributions. Overall, the surplus of the earnings-related pension funds has declined from an average of just over 3% of GDP in the first decade of the 2000s to 0.9% in 2017. The surplus is projected to remain at approximately last year's level in the medium term. In the national accounts, private sector earnings-related pension funds are also included in general government finances and in general government finance assets. The earnings-related pension system surplus is not shown in general government gross debt.

Other social security funds

Other social security funds include other public sector entities with social security duties, such as the Social Insurance Institution of Finland (Kela) and units handling the earnings-related unemployment insurance system. Kela's activities are financed statutorily by the health insurance contributions of the insured and employers as well as by public sector contributions. The central government's share of Kela's funding in 2016 was approximately 68%, while insurance contributions accounted for approximately 26% and municipalities for approximately 6%. In 2016, the costs of Kela's benefit funds totalled approximately EUR 14.8 billion. Kela's benefit funds are the National Pension Insurance Fund, the National Health Insurance Fund and the General Fund for Social Security.

The earnings-related unemployment insurance system is managed by the Unemployment Insurance Fund (TVR) and unemployment funds. Earnings-related unemployment expenditure is financed from unemployment insurance contributions collected from employees and employers, central government contributions and the membership fees of unemployment funds. The Unemployment Insurance Fund has a cyclical buffer whose net debt or net assets may not exceed the amount corresponding to annual expenditure arising from an unemployment rate of 7% (in 2017, just over EUR 2 billion, i.e. approximately 1% in ratio to GDP). In 2016, the benefits paid by unemployment funds totalled approximately EUR 2,805 million. Of this expenditure, the central government funded around 38.9%, the Unemployment Insurance Fund 55.5% and the unemployment benefit funds approximately 5.6%.

The financing of other social security funds is in balance in the medium term, but the financial balance may vary slightly on an annual basis, with the buffer funds providing flexibility. In the 2000s, the other social security funds have deviated from balance by at most 0.4% in ratio to GDP annually.

9. Summary of measures at the level of general government finances

9.1. Extent and timing of measures

The table below gives an overview of the cumulative impact on general government finances in 2016–2022 of the decisions made by Prime Minister Sipilä's Government affecting revenue and expenditure, excluding some of the appropriation increases decided within the scope of the spending limits, which for the most part are for a fixed term (see also Economic Survey, section 2.2.1). Measures weakening the general government balance are presented with a minus sign and strengthening measures with a plus sign. The impacts have been presented in relation to the final General Government Fiscal Plan of the previous parliamentary term, or the so-called technical General Government Fiscal Plan prepared in spring 2015.

Government Programme consolidation measures

Measures aiming to reduce expenditure or increase fee income that strengthen general government finances by approximately EUR 4 billion in net amounts at the 2019 level were agreed in the Government Programme. The effects of tax criteria changes are not included in this package. The consolidation measures agreed in the Government Programme have, as a rule, been included in the General Government Fiscal Plan for 2019—2022.

Since the original list of savings was prepared for the Government Programme, changes have been made to this list. The more specific impacts of the consolidation measures have been worked out during the drafting process, in addition to which discretionary changes have been made. Examples of recent changes in the estimate concerning consolidation measures include the cancellation of measures related to resident selections in government-supported housing production and the reform of the system for converting fines into prison sentences.

To achieve the consolidation objectives in keeping with the Government Programme, the Government already adopted additional savings decisions in the General Government Fiscal Plan of autumn 2015, the most significant of which was the index freezing of benefits linked to the National Pension Index and the Cost-of-Living Index in 2017–2019 (excluding basic social assistance). In connection with the preparation of the General Government Fiscal Plan for 2017–2020, new savings measures were decided to achieve the EUR 4 billion consolidation objective of the Government Programme. The largest of the new consolidation measures decided at that time concerned the expenditure included in the index savings of Annex 6 to the Government Programme. In the General Government Fiscal Plan for 2018–2021, the Government decided to halve the 2020 index increase for the counties, the savings impact of which is estimated to be approximately EUR 166 million. As a consequence of postponing the health, social services and regional government reform, the Government made a decision in the General Government Fiscal Plan for 2019—2022 to postpone the halving of the index increase to 2021.

However, uncertainty is associated with the estimate due to such factors as the municipalities' decisions and the uncertainty surrounding the impact assessments of some measures. On the other hand, the municipalities have consolidated their finances by other means and to a greater extent than what was expected in spring 2015 as the decision on Government Programme Annex 6 was made. Taking the municipalities' own consolidation measures into account, the EUR 4 billion adjustment in general government finances can be assessed as having been achieved.

Social security contributions

Due to a weak economic situation and growing pension expenditure, social security contributions have been increased in recent years, whereas the improved economic situation has partly already made it possible to reduce these contributions from the beginning of 2018. As recently as the beginning of 2017, the private sector earnings-related pension insurance contribution was increased to 24.4%, and an agreement has been reached to keep it at this level for the next few years. The unemployment insurance contribution was also increased by one percentage point at the beginning of 2016. However, a decrease in unemployment expenditure enabled a modest lowering of the unemployment insurance contribution at the beginning of 2018 and, should the favourable economic situation continue, it is likely that the contribution can be reduced further. Under the Competitiveness Pact, health insurance contributions were lowered from the beginning of 2017, partly permanently and partly on a temporary basis for 2017—2019. Additionally, a further small reduction in the health insurance contributions became possible from the beginning of 2018.

Tax criteria changes

The tax criteria changes decided in the Prime Minister Sipilä's Government Programme have been taken into account in the revenue estimates. The Government Programme's tax policy aims to boost growth, entrepreneurship and employment. The Government Programme contains measures that both tighten and ease taxation. In accordance with the Government Programme, annual adjustments corresponding to rising earnings or inflation will be made in earned income taxation. This assumption has also been applied to the years following the current parliamentary term. Taxation of low and medium incomes will be cut by increasing the earned income credit.

In connection with the health, social services and regional government reform, municipal taxes will be reduced in all municipalities, and central government earned income taxation will be increased by a corresponding amount. The Government policy is that the reform must be implemented without increasing taxation on labour at any income level. To ensure this, taxation must be eased in connection with the reform by approximately EUR 225 million from the start of 2020. The gradual reduction of car tax will be continued during the current parliamentary term.

In accordance with the Government Programme, the municipalities will be compensated for the tax revenue impact of changes made by the Government to tax criteria. Real estate tax will be raised gradually during the parliamentary term. Taxation changes are discussed in more detail in terms of central government finances in section 5.4 and in terms of local government finances in section 7.2.

Cutting the costs of municipalities, counties and the entire public sector, the 'Public sector billion'

In its General Government Fiscal Plan for 2018—2021, the Government decided to expand the reduction in municipalities' costs by EUR 1 million contained in the Government Programme to apply to the entire public sector. In addition to cutting municipalities' duties and obligations, actions taken in an effort to achieve the one billion target will include using digitalisation and making more efficient use of premises.

The means for achieving the one billion target in 2020—2029 will include:

— an action plan for cutting municipalities' duties and obligations (EUR 340 million)

— incentive schemes relevant to municipalities' operating expenditure, digitalisation and premises costs (EUR 300 million)

— developing digitalisation and productivity in central government activities (EUR 250 million)

— central government premises programme (EUR 50 million).

Since the previous spending limits decision was made, detail has been added to these measures, and the following packages of measures related to the Public sector billion are addressed in the General Government Fiscal Plan for the first time:

— a digitalisation incentive scheme for municipalities from 2019 (for more information, see section 5.3.1, Ministry of Finance main title)

— an incentive scheme related to municipalities' operating expenditure from 2021 (for more information, see section 5.3.1, Ministry of Finance main title)

— development of municipalities building stock and an incentive scheme for more efficient premises use from 2021 (for more information, see section 5.3.1, Ministry of Finance main title)

— in the context of the digitalisation and improved productivity of State activities, all central government operating expenditure will be reduced by 0.5% annually from 2020. A target of 0.3% applies to the administrative branches of the Ministry of Justice, the Ministry of the Interior and the Ministry of Defence and the operating expenditure of the Customs (for more information, see section 5.3.2).

During the further preparation of incentive schemes for municipalities, the implementation of the funding principle for the part of municipalities will be assessed and addressed.

Competitiveness Pact

The Competitiveness Pact signed in 2016 includes elements that both strengthen and weaken public finances. If the Pact increases employment as expected and if central and local government are able to take full advantage of the savings potential created by the extension of working hours, the impact of the Pact on public finances will be almost neutral in the long term. In other words, a significant part of the room for manoeuvre brought to public finances by the Pact will be used to lower Finland's comparatively high total tax rate, which in turn will create opportunities to boost economic activity. It should also be noted that the assessment does not include the positive effects on public finances of promoting local agreement and introducing the so-called Finnish model (export-led wage-setting model), which are difficult to estimate.

Table 15. Total impact of decisions on revenue and expenditure, cumulative, EUR billion

	2016	2017	2018	2019	2020	2021	2022
Decisions lowering central government appropriations	0.9	1.4	1.8	2.0	2.1	2.1	2.1
Decisions increasing central government appropriations	-0.2	-0.4	-0.5	-0.5	-0.5	-0.5	-0.5
Estimated impact of index freezes and replacement savings	0.1	0.5	0.8	1.2	1.3	1.5	1.5
One-off additional investments in key projects, net	-0.3	-0.4	-0.5	0.0	0.0	0.0	0.0
Competitiveness Pact, incl. compensation for tax criteria changes	0.0	-0.9	-0.8	-0.8	-0.7	-0.7	-0.7
Compensation to municipalities through central government transfers for tax revenue changes	-0.3	-0.4	-0.5	-0.6	-0.6	-0.7	-0.7
Decisions increasing central government tax revenue	0.2	0.6	0.9	1.2	1.3	1.3	1.3

	2016	2017	2018	2019	2020	2021	2022
Decisions lowering central government tax revenue (excl. Index of Wage and Salary Earnings/Consumer Price Index adjustments)	-0.3	-0.6	-1.0	-1.2	-1.2	-1.2	-1.2
Other decisions increasing central government revenue	0.0	0.1	0.1	0.1	0.1	0.1	0.1
One-off revenue-related measures (funding of key projects)	0.0	0.0	0.2	0.0	0.0	0.0	0.0
Impact on central government budgetary position, net	**0.1**	**-0.2**	**0.5**	**1.4**	**1.6**	**1.8**	**1.8**
Government measures increasing local government revenue	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Net impact of central government measures on local government tax revenue	-0.2	-0.1	-0.1	-0.1	-0.1	0.0	0.0
Competitiveness Pact, incl. compensation for tax criteria changes	0.0	-0.1	-0.1	-0.1	0.0	0.0	0.0
Compensation to municipalities through central government transfers for tax revenue changes	0.3	0.4	0.5	0.6	0.6	0.7	0.7
Impact of other central government measures on local government finances	0.1	0.3	0.4	0.4	0.5	0.5	0.5
Increases of municipalities' tax percentages	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Impact on local government balance, net	**0.4**	**0.8**	**0.8**	**1.0**	**1.2**	**1.3**	**1.3**
Increases of social security contributions, expenditure savings and index savings	0.7	0.7	0.4	0.4	0.0	0.0	0.0
Competitiveness Pact	0.0	-0.3	-0.4	-0.3	-0.2	-0.2	-0.2
Impact on social security funds' balance, net	**0.7**	**0.4**	**0.0**	**0.0**	**-0.2**	**-0.2**	**-0.2**
Impact on general government balance, net	**1.2**	**0.9**	**1.3**	**2.5**	**2.6**	**2.8**	**2.9**
In ratio to GDP	0.5 %	0.4 %	0.6 %	1.0 %	1.0 %	1.1 %	1.1 %

9.2. Measures directed at general government expenditure

The table below presents the annual net change in general government expenditure in 2016–2022 to measures decided by Prime Minister Sipilä's Government[2]. In addition, the table includes the joint impacts of the previous governments' measures. In practice, the measures presented in the table are central government finance measures, as considerable uncertainty is associated with local government consolidation measures, and information on the latest measures is not yet available.

[2] Measures weakening the general government balance are presented with a minus sign and strengthening measures with a plus sign in the table.

The largest savings of Prime Minister Sipilä’s Government concern expenditure on transfers to households. The strongest impacts of the savings will be felt in the early part of the period. When the measures of previous governments are included, the intensity of savings is greatest in 2017.

The figures presented in the General Government Fiscal Plan reflect the measures on which decisions have been made and their estimated financial effects. Planned measures are not included. In other words, only measures that have been concretised to the extent that their financial impact can be assessed have been taken into account in the General Government Fiscal Plan.

Table 16. Measures affecting general government expenditure, annual change, net, EUR billion

	2016	2017	2018	2019	2020	2021	2022
Consumption expenditure	0.3	0.3	0.2	0.2	0.1	0.0	0.0
Expenditure on transfers to business and industry	0.1	0.0	0.1	0.1	0.0	0.0	0.1
Expenditure on transfers to households	0.1	0.6	0.4	0.4	0.0	0.0	0.0
Other transfers	0.5	0.1	0.1	0.0	0.0	0.2	0.0
Real investment	0.0	0.1	0.0	0.1	0.0	0.0	0.0
Other expenditure	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Total	**0.8**	**1.1**	**0.8**	**0.8**	**0.2**	**0.2**	0.1
Discretionary measures of the previous parliamentary term	-0.1	0.2	-0.3	-0.2	0.0	0.0	0.0

9.3. Measures directed at general government revenue

The table below presents the annual net change to measures affecting general government revenue in 2018—2022 on which decisions have been made by the Government. Net change refers to the combined impact of measures that increase and decrease revenue. The table also takes into account changes in taxation criteria decided in the previous parliamentary term. Changes related to taxation decided by Prime Minister Sipilä’s Government were for the most part scheduled to take place in the early years of the parliamentary term. The figures presented in the General Government Fiscal Plan reflect the measures on which decisions have been made and their estimated financial effects. Planned measures are not included.

Table 17. Measures affecting general government revenue, annual change, net, EUR billion

	2018	2019	2020	2021	2022
Taxes on earned income	-0.4	-0.1	-0.6	-0.4	-0.4
Taxes on capital income	0.0	0.0	0.0	0.0	0.0
Corporate taxes	0.0	0.0	0.0	0.0	0.0
Other direct taxes	-0.1	-0.1	0.0	0.0	0.0
VAT	-0.2	0.0	0.0	0.0	0.0
Other indirect taxes	0.2	0.1	0.0	0.0	0.0
Social security contributions from employers	-0.7	-0.4	-0.2	0.0	0.0
Social security contributions from the insured	0.3	0.3	0.2	0.0	0.0
Total	-0.9	-0.1	-0.5	-0.4	-0.4

10. Estimate of general government revenue and expenditure

Table 18. Central government according to the national accounts, EUR billion

	2017*	2018**	2019**	2020**	2021**	2022**
Direct taxes	14.4	14.9	15.8	28.5	29.3	30.4
Taxes on production and imports	31.5	32.2	33.0	33.6	34.4	35.1
Social security contributions	0.0	0.0	0.0	0.0	0.0	0.0
Taxes and social security contributions, total 2)	46.8	47.8	49.6	62.9	64.5	66.3
Other revenue 3)	8.8	9.0	9.2	9.2	9.4	9.5
of which interest income	0.3	0.3	0.3	0.4	0.4	0.4
Total revenue	55.7	56.8	58.7	72.1	73.9	75.8
Consumption expenditure	13.9	14.1	14.6	14.3	14.5	14.8
Subsidies and other transfers	39.3	39.7	39.4	51.8	52.7	53.6
to general government	27.9	28.3	27.7	40.3	40.8	41.7
Interest expenditure	2.1	1.9	1.9	2.0	2.1	2.2
Capital expenditure 4)	4.3	4.8	5.0	5.1	5.1	5.4
Total expenditure	59.5	60.6	60.9	73.1	74.4	76.1
Net lending (+) / net borrowing (-)	-3.8	-3.8	-2.1	-1.0	-0.5	-0.3

Table 19. Regional government according to the national accounts, EUR billion

	2017*	2018**	2019**	2020**	2021**	2022**
Central government funding				19.7	20.3	21.0
Other revenue				3.3	3.4	3.4
Total revenue				23.0	23.7	24.4
Consumption expenditure				19.5	20.2	21.0
Transfers and other expenditure				1.0	1.0	1.0
Investments				0.8	0.9	0.7
Total expenditure				24.0	24.9	25.6
Net lending (+) / net borrowing (-)				-1.0	-1.2	-1.2

Table 20. Local government according to the national accounts, EUR billion

	2017*	2018**	2019**	2020**	2021**	2022**
Taxes and social security contributions	22.8	23.2	24.3	12.7	13.2	13.6
of which municipal income tax	19.1	19.5	20.4	9.2	9.7	9.9
corporate tax	1.9	1.9	2.1	1.5	1.6	1.7
real estate tax	1.8	1.8	1.9	1.9	1.9	1.9
Other revenue 2)	18.5	18.9	18.7	11.4	11.4	11.6
of which interest income	0.3	0.3	0.3	0.3	0.3	0.3
of which transfers from central government	13.7	14.0	13.6	6.5	6.4	6.5
Total revenue	41.3	42.1	43.0	24.0	24.7	25.2

	2017*	2018**	2019**	2020**	2021**	2022**
Consumption expenditure	34.0	34.8	36.0	18.0	18.5	19.1
of which compensation of employees	21.0	21.0	21.7	11.3	11.6	11.8
Income transfers	2.7	2.7	2.7	1.9	2.0	2.0
of which social security benefits and allowances	0.8	0.7	0.7	0.1	0.1	0.1
subsidies and other transfers	1.8	1.9	1.9	1.8	1.8	1.8
interest expenditure	0.1	0.1	0.1	0.1	0.1	0.1
Capital expenditure 3)	4.7	5.1	5.2	4.4	4.4	4.4
Total expenditure	41.5	42.6	43.9	24.3	25.0	25.6
Net lending (+) / net borrowing (-)	-0.2	-0.4	-1.0	-0.3	-0.3	-0.4

Table 21. Social security funds according to the national accounts, EUR billion

	2017*	2018**	2019**	2020**	2021**	2022**
Investment income	3.5	3.8	4.0	4.4	4.8	5.2
Social security contributions	27.3	27.9	28.8	29.8	30.7	31.6
of which paid by employers	17.6	17.5	17.7	18.1	18.6	19.1
of which paid by the insured	9.7	10.4	11.1	11.7	12.1	12.4
Income and capital transfers from general government	15.8	15.9	15.7	15.5	15.6	15.8
Other revenue	0.4	0.5	0.5	0.5	0.5	0.5
Total revenue	47.1	48.0	49.0	50.2	51.7	53.0
Consumption expenditure	3.6	3.7	3.8	3.9	4.0	4.1
Social security benefits and allowances	37.4	38.2	39.1	40.1	41.3	42.5
Other expenditure	3.3	3.2	3.4	3.4	3.5	3.6
Total expenditure	44.3	45.1	46.3	47.5	48.8	50.2
Net lending (+) / net borrowing (-)	2.8	2.9	2.7	2.7	2.9	2.8
Pension providers	2.1	2.4	2.2	2.1	2.3	2.2
Other social security funds	0.7	0.6	0.4	0.6	0.6	0.6

General government fiscal forecast under unchanged policies

Table 22. Revenue and expenditure under unchanged policies

	2017*	2017*	2018**	2019**	2020**	2021**	2022**
	level, EUR billion			% GDP			
Total revenue under unchanged policies	118.8	53.2	52.1	51.8	51.8	51.7	51.5
Total expenditure under unchanged policies	120.1	53.7	52.7	52.0	51.7	51.4	51.2

Minister of Finance	Petteri Orpo
Director General of the Budget Department	Hannu Mäkinen

APPENDIX 1	Forecasts and assumptions used in the calculations
APPENDIX 2	Price and cost level adjustments under the central government spending limits
APPENDIX 3	Changes in the forecasts for general government finances compared with the previous General Government Fiscal Plan
APPENDIX 4	Economic development risks and their impact on general government finances
APPENDIX 5	Stability Programme
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APPENDIX 1 Forecasts and assumptions used in the calculation

The expenditure and revenue estimates of the General Government Fiscal Plan as well as the price and cost adjustments are based on the independent forecast of the Ministry of Finance's Economics Department given below.

	2017	2018	2019	2020	2021	2022
GDP, change in volume, %	2.7	2.6	2.2	1.8	1.3	1.1
GDP, change in price	0.9	1.5	2.0	1.8	1.9	2.0
GNI, value, EUR million[1]	223,765	233,111	243,072	251,963	260,083	268,316
Consumer Price Index, change %	0.7	1.2	1.4	1.7	1.8	2.0
Index of Wage and Salary Earnings, change %	0.2	1.9	2.5	2.8	2.6	2.6
Building Cost Index, change %	0.3	2.0	2.0	2.1	2.1	2.1
Basic Price Index for Domestic Supply, change %	5.2	3.4	2.4	2.3	2.3	2.3
Unemployment rate, %	8.6	8.1	7.5	7.0	6.9	6.8
Wage bill, change %	2.6	3.7	3.5	3.5	3.0	2.8
Short-term interest rate, 3 months, %	-0.3	-0.3	0.0	0.1	0.4	0.6
Long-term interest, 10 years, %	0.5	1.0	1.4	1.7	2.1	2.4
TyEL Index	2,534	2,548	2,584	2,624	2,674	2,727
National Pension Index (KEL)	1,617	1,617	1,617	1,638	1,666	1,696
Price index of basic public services, forecast	-1.0	0.6	2.6	0.5	2.2	2.2
Change in cost level used in Budget Proposal (Index of Central Government Transfers to Local Government)	-1.0	0.0	0.0	0.5	2.2	2.2
— index adjustment	0.0	0.0				
Index of Central Government Transfers to Local Government without the freezing in 2016—2019	-0.7	0.6	2.6	0.5	2.2	2.2
University index (forecast used in budgeting)	1.1	2.0	2.3	2.5	2.4	2.4
Vocational education and training index	1.4	2.1	2.3	2.5	2.4	2.4
YLE index	0.4	1.7	2.1	2.4	2.3	2.4
Unemployment insurance contributions						
— employer, average	2.41	1.91	1.91	1.76	1.76	1.76
— employee	1.60	1.90	1.90	1.75	1.75	1.75
TyEL contribution	24.4	24.4	24.4	24.4	24.4	24.4
— employer	18.0	17.8	17.4	17.0	17.0	17.0
— employee aged 53 years and under	6.15	6.35	6.75	7.15	7.15	7.15

	2017	2018	2019	2020	2021	2022
— employee over 53 years	7.65	7.85	8.25	8.65	8.65	8.65
— wage coefficient	1.389	1.391	1.416	1.448	1.485	1.521
Health insurance contributions of the insured						
— employees’ daily allowance contribution	1.58	1.53	1.50	1.14	1.14	1.13
— employees’ and entrepreneurs’ medical care contribution	0.00	0.00	0.00	0.50	0.54	0.54
— pensioners’ medical care contribution	1.45	1.53	1.59	1.46	1.51	1.51
Central government employer contributions	18.0	17.8	17.9	18.1	18.0	18.0
— health insurance contribution	1.08	0.86	0.75	1.32	1.30	1.30
— pension contribution (under Central Government Employees’ Pensions Act [VaEL])	16.95	16.95	17.14	16.73	16.74	16.74
Local government employer contributions	26.9	25.7	25.1	23.6	23.6	23.6
— health insurance contribution	1.08	0.86	0.75	1.32	1.30	1.30
— other social insurance contributions	0.7	0.7	0.7	0.7	0.7	0.7
— unemployment insurance contribution	3.16	2.49	2.49	2.20	2.20	2.20
— pension contribution (under Local Government Employees’ Pensions Act [KuEL])	22.0	21.6	21.2	19.4	19.4	19.4

[1] This figure includes GDP in 2017 updated by Statistics Finland on 29 March 2018.

APPENDIX 2 Price and cost level adjustments under the central government spending limits

Structural changes

As a result of structural changes made in the supplementary budgets of 2017, the 2018 budget and the current spending limits decision, the level of the spending limits for 2019 will be approximately EUR 12,441 million less than indicated in the spending limits decision of spring 2017. The most important change decided since the previous spending limits decision is postponing the health, social services and regional government reform by a year to 2020, as a result of which any structural changes to the budget and the corresponding adjustments in the spending limits for 2019 have been removed. Many of the minor adjustments are due to a change in the timing of project or procurement payments or accounting for a transfer to gross/net budgeting in the expenditure ceiling.

The table below presents a more detailed description of structural changes having taken place since the previous spending limits decision and their impact on the expenditure ceiling of the parliamentary term.

Item	Item	2017	2018	2019
Supplementary budget 1 2017				
	Use of unallocated reserve transferred from 2016 for one-off supplementary budget expenditure	1.0		
30.20.47, 30.20.61	Re-budgeting of the appropriations for the agricultural crisis package in the third supplementary budget of 2016 to other items for corresponding expenditure	5.0		
30.40.44	Financing of Sustainable Forestry subsidies, re-budgeting	11.0		
31.10.77	Increases corresponding to third-party funding contributions in transport infrastructure projects	13.5		
31.40.50	Broadband project, re-budgeting	7.6		
32.20.42	INKA programme, re-budgeting	4.0		
Budget 2018				
	Adjustments in Competitiveness Pact impacts		2.2	1.2
24.30.66	Expenditure on projects implemented in cooperation with other countries. Revenue corresponding to expenditure in item 12.24.99 (pass-through item).		2.0	
33.10.54, 60; 33.20.50, 51, 52	Expenditure outside the spending limits on unemployment security, housing allowances and social assistance will be reduced with the introduction of the activation model.		8.9	8.9
33.20.50, 51, 52	Use of unemployment security to start an enterprise: unemployment security expenditure outside the spending limits will grow.		-10.0	-10.0
33.20.50, 51, 52	Expansion of self-motivated study supported by unemployment security: unemployment security expenditure outside the spending limits will grow.		-3.5	-3.5
Supplementary budget 3 2017				
26.10.21	KEJO project, re-budgeting	1.8		
26.20.70	Aircraft and guard vessel procurement, re-budgeting	4.2		
30.10.64	Implementation of the Rural Development Programme, change in timing.	14.5		

Item	Item	2017	2018	2019
30.20.47	National portion of appropriation for developing an EU co-funded food chain, re-budgeting for a similar purpose under a different item.	0.4		
32.20.41	Launch of the Tourism 4.0 programme earlier than originally planned.	0.8	-0.8	
32.20.46	Innovation subsidies for shipbuilding, re-budgeting.	6.5		
32.50.64	Adjustment related to payments under Finland's Structural Funds programme (change of timing).	-9.1		9.1
32.60.40	Change of timing in certain major energy subsidy projects.	9.0	-6.0	-3.0
32.60.41	Change of timing in LNG terminal project in Hamina.	-13.8	5.5	2.8
Amendment to the budget 2018				
24.30.66	Expenditure on projects implemented in cooperation with other countries. Revenue corresponding to expenditure in item 12.24.99 (pass-through item).		3.6	
31.10.41	Building of air freight facilities at Vaasa airport, re-budgeting.		1.3	
Budget 2018				
33.10.54, 57	Change to the more stringent conditions for housing allowance. Expenditure outside the spending limits on housing allowance will increase and on social assistance will decrease compared to the earlier form of the reform. Net effect is to increase expenditure by EUR 4 million at the annual level.		-2.4	-4.0
Fiscal plan 2019—2022				
22.02.75	Repairs and renovations to the presidential residences at Kultaranta and Mäntyniemi, change of timing.			-4.0
28.89.30	Postponement of the health, social services and regional government reform, removal of the spending limits correction for 2019 (an increase corresponding to the municipalities' self-financing share in the funding of healthcare and social welfare as well as rescue services, a corresponding increase in central government tax revenue).			-11,961.7
28.89.30	Postponement of the health, social services and regional government reform, removal of the spending limits correction for 2019 (partial transfer of the tax compensations for municipalities to the funding and spending limits of the counties)			-446.0
30.10.40	Bringing the authorisations under the Rural Development Programme for Mainland Finland forward from 2020 to 2019 (change of timing).			11.6
32.50.64	Bringing the authorisations under Finland's Structural Funds programme forward from 2020 to 2019 (change of timing).			11.8
33.10.57	Increase in the study grant for materials, minimum daily allowances and guarantee pension: expenditure outside the spending limits on social assistance will be reduced.			3.7
33.20.50	Unemployment security for entrepreneurs' family members: expenditure outside the spending limits on unemployment security will grow.			-10.0
33.20.51 and 52	Expansion of self-motivated study supported by unemployment security (specification of the model): unemployment security expenditure outside the spending limits will grow.			-1.4

Item	Item	2017	2018	2019
33.20.52	Expansion of the active use of unemployment benefits, continuation of the fixed-term reform in 2019. Fixed-term transfer to unemployment security expenditure external to the spending limits from item 32.30.51.			-143.0
33.30.60	Adjustment of Competitiveness Pact impacts.			97.0
Total		**56.5**	**0.8**	**-12,440.5**

Cost and price level adjustments

The spending limits decision for 2019—2022 is prepared at the cost and price levels of 2019. Some of the costs, including development aid expenditure and national financing contributions corresponding to EU Structural Funds contributions, are estimated at current prices, in which case they include an estimate of the impact on the appropriation of the rise in prices in the spending limits period. In other respects, the expenditure level will be revised annually according to the estimated rise in costs and prices.

Price and cost level adjustments compared to the previous spending limits decision will total EUR 562 million in 2019, taking into account the conversion into the 2019 price and cost level. The adjustment takes into account the following savings decisions concerning expenditure that was previously index linked: the index linking of the child allowance and financial aid for students has been dropped, the index increases of central government transfers to municipalities and for universities and universities of applied sciences have been frozen in 2016–2019, and the index increases based on the National Pension Index and the Consumer Price/Cost-of-Living Index, excluding basic social assistance, have been frozen in 2016–2019. Compared to the previous decision, the spending limits are adjusted upwards by EUR 535 million, including not only the increase to match the price and cost level of 2019 but also adjustments of the supplementary budget for 2017 and the 2018 budget to match the price and cost level of 2018.

Adjustments to 2019 price and cost levels of the spending limits decision, EUR million

		Adjustment of appropriation and spending limits level		Adjustment of spending limits level
Spending limits expenditure according to classification of economic nature	Index used in calculation	Statutory index adjustment	Contractual adjustment	Other cost adjustments of spending limits expenditure
15–17 Pensions	Employee Pension Index (TyEL)	68.6		
18–19 Defence materiel acquisitions	Predictive increase 1.5%		17,4[1]	
01-14 Wages and social security contributions	Increases under agreements		130.3	
Transport infrastructure expenditure	Building Cost Index (RKI)			37.3
01-14, 20–28 Other operating expenses and consumption	Consumer Price Index (KHI)			28.5
30–39 Imputed central government aid to municipalities and joint municipal authorities	Index of Central Government Transfers to Local Government (VOS)	0.0		

		Adjustment of appropriation and spending limits level		Adjustment of spending limits level
Spending limits expenditure according to classification of economic nature	Index used in calculation	Statutory index adjustment	Contractual adjustment	Other cost adjustments of spending limits expenditure
30–39 Other central government aid to municipalities and joint municipal authorities	Index of Central Government Transfers to Local Government (VOS)			67.7
40–49 Central government aid to trade and industry	Consumer Price Index (KHI)			41.0
50–59 Central government aid to households and non-profit-making organisations indexed on a statutory basis	National Pension Index (KEL), Employee Pension Index (TyEL)	15.0		
50-59 Non-indexed central government aid to households	National Pension Index (KEL)			32.7
50 Central government funding for universities and universities of applied sciences	University Index	-		
50–59 Other central government aid to households and non-profit-making organisations	Consumer Price Index (KHI)			22.3
60 Transfers to off-budget central government funds	Consumer Price Index (KHI)			0.1
60 Transfers to Social Insurance Institution of Finland	National Pension Index (KEL)	-		
60 Central government transfer for expenditure arising from the Health Insurance Act	National Pension Index (KEL) / Consumer Price Index (KHI)	30.5		17.1
61–65 Central government funding contributions corresponding to EU Structural Funds contributions and other domestic transfers	Included in programme spending limits			
66–68 Transfers abroad	At current prices			
69 Transfers to the EU	EU GDP Price Index	48.0		
70–79 Real investments	Building Cost Index (RKI)			0.7
90–99 Other expenditure	Consumer Price Index (KHI)			0.5
Supplementary budget provision and unallocated reserve	Consumer Price Index (KHI)			4.2
Total in 2019		162.1	147.7	252.0

[1] A predictive 1.5% price and cost level adjustment will be made to appropriation levels (excl. payroll expenditure) for the Defence Forces' operating expenditure, defence materiel procurement and military crisis management equipment and administration expenditure. This adjustment will be revised later to correspond with the rise in prices (annual average index change) indicated by the Consumer Price Index in terms of the Defence Forces' operating expenditure and military crisis management equipment and administrative expenditure as well as the rise (months total/annual change) of the C28 sub-index (Manufacturing of other machinery and equipment) of the Industrial Producer Price Index for defence materiel procurement.

APPENDIX 3 Changes in the forecasts for general government finances compared with the previous General Government Fiscal Plan

Factors affecting general government budgetary position, according to national accounts, % GDP[1]

	2018	2019	2020	2021
General government balance, spring 2017	-2.0	-1.7	-1.1	-1.2
Central government:				
Impact of revised statistical basis on revenue and expenditure estimates	0.4	0.4	0.4	0.4
Impact of revised macroeconomic forecast on revenue and expenditure estimates	0.2	0.4	0.5	0.6
Impact of discretionary measures on revenue and expenditure estimates	-0.1	-0.1	-0.1	-0.1
Impact of other factors[2]	0.0	0.2	-0.3	-0.1
Local government:				
Impact of revised statistical basis on revenue and expenditure estimates	0.3	0.3	0.3	0.3
Impact of revised macroeconomic forecast on revenue and expenditure estimates	0.2	0.3	0.4	0.4
Impact of discretionary measures on revenue and expenditure estimates	-0.1	-0.2	-0.1	-0.2
Impact of other factors	0.0	-0.2	-0.2	-0.2
Earnings-related pension funds				
Impact of revised statistical basis on revenue and expenditure estimates	0.2	0.2	0.2	0.2
Impact of revised macroeconomic forecast on revenue and expenditure estimates	0.2	0.3	0.4	0.4
Impact of discretionary measures on revenue and expenditure estimates	0.0	0.1	0.0	0.0
Impact of other factors	0.1	0.0	0.0	0.0
Other social security funds:				
Impact of revised statistical basis on revenue and expenditure estimates	0.2	0.1	0.1	0.1
Impact of revised macroeconomic forecast on revenue and expenditure estimates	0.0	0.1	0.2	0.2
Impact of discretionary measures on revenue and expenditure estimates	-0.1	-0.2	-0.3	-0.3
Impact of other factors	0.0	0.0	-0.1	-0.1
General government balance, spring 2018	-0.6	-0.2	0.1	0.3

1) Due to rounding, the figures do not necessarily add up to totals.

2) Last spring, regional government was part of central government. Changes in regional government have thus once more been included in central government data. In the future, a specific row will be provided for the counties.

APPENDIX 4 Economic development risks and their impact on general government finances

The baseline scenario of the General Government Fiscal Plan is based, with respect to 2018–2020, on the independent economic outlook forecast of the Ministry of Finance’s Economics Department from April 2018. The years 2021 and 2022 have been taken into account in the scenario based on, among other things, the growth estimate for potential output. In addition to the economic forecast, general government budgetary position in the baseline scenario is based on the Government Programme of Prime Minister Sipilä’s Government, the General Government Fiscal Plan for 2016–2019 adopted by the Government in September 2015 and the State budget 2016, the General Government Fiscal Plan for 2017–2020 adopted by the Government in April 2016 and the State budget for 2017, the General Government Fiscal Plan for 2018–2021 adopted by the Government in April 2017 and the State budget for 2018, and the General Government Fiscal Plan for 2019—2022 adopted by the Government in April 2018.

According to the baseline scenario, Finland’s economy will grow on average by 1.8% in 2018—2021. The *international* risks of the forecast relate to the threat of protectionism and pressures on the multilateral trading system. The tariffs imposed by the US Government on steel and aluminium may give rise to trade policy measures elsewhere. Creating obstructions to trade in one country will spark countermeasures elsewhere, and these will have wide knock-on effects. In the euro area, the capital adequacy problems of some European banks and the level of problem loans, for example, still give cause for concern. *Domestic* risks are associated with such areas as private consumption, which is based on robust confidence rather than on good development of purchasing power. Investment growth requires favourable total demand, which both domestic and international uncertainties may impact negatively. Risks to positive development in employment include various mismatches of unemployed jobseekers and vacancies.

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

In the slower growth scenario, GDP growth would remain rather subdued in 2018—2022. Regardless of this, the unemployment rate would drop to 7.9%. The general government deficit would be over 2% in 2022, and the debt-to-GDP ratio would begin to rise again, reaching approximately 65%. This would significantly increase the need to consolidate general government finances, and general government finances would be more vulnerable to various negative shocks.

Faster growth than the baseline scenario by one percentage point would be sufficient to set the general government debt ratio onto a downward path in the programme period. The general government budgetary position would improve to produce a clear surplus. The unemployment rate would fall fairly rapidly. A precondition for more favourable economic growth than in the baseline scenario is the continuation of the upturn in the international economy as well as higher than anticipated economic growth in the industrialised countries.

The overall impact of the *low level of interest rates* on Finland’s general government budgetary position has been to increase the deficit. The exceptionally low level of interest rates means that general government interest expenditure has remained fairly low, i.e. just over 1% in ratio to GDP. On the other hand, the interest income received by earnings-related pension funds included in general government finances has declined significantly, and the impact of the decline in interest income on the general government budgetary position has been greater than the impact of falling interest expenditure. As a rough estimate, a rise in the level of interest rates by one percentage point would increase general government property income by approximately EUR 1 billion, while general government interest expenditure would grow by approximately EUR 0.5 billion. The public debt-to-GDP ratio would increase, however, as the surplus produced by earnings-related pension providers cannot be used to cover deficits in other sectors.

Sensitivity analysis

Baseline scenario	2017	2018	2019	2020	2021	2022
GDP, change, %	2.6	2.6	2.2	1.8	1.3	1.1
Unemployment rate, %	8.6	8.1	7.5	7.0	6.9	6.8
Budgetary position, % GDP	-0.6	-0.6	-0.2	0.1	0.3	0.3
Public debt, % GDP	61.4	60.4	58.9	57.4	56.7	56.0
Slow growth						
GDP, change, %	2.6	1.6	1.2	0.8	0.3	0.1
Unemployment rate, %	8.6	8.3	8.1	7.9	7.9	7.9
Budgetary position, % GDP	-0.6	-1.1	-1.3	-1.6	-2.0	-2.6
Public debt, % GDP	61.4	61.4	613	61.5	62.9	64.8
Growth in 2016–2020 1 pp slower than in the baseline scenario						
Fast growth						
GDP, change, %	2.6	3.6	3.2	2.8	2.3	2.1
Unemployment rate, %	8.6	7.9	7.3	6.8	6.3	5.9
Budgetary position, % GDP	-0.6	0.0	1.0	1.9	2.7	3.3
Public debt, % GDP	61.4	59.5	56.6	53.4	50.6	47.5
Growth in 2016–2020 1 pp faster than in the baseline scenario						
Change in interest expenditure if level of interest rates rises by 1 pp, % GDP		0.11	0.15	0.18	0,20	0,22

APPENDIX 5 Stability Programme

Finland’s Stability Programme is part of the General Government Fiscal Plan, which meets the EU requirement for a medium-term fiscal plan (Regulation (EU) No. 473/2013 of the European Parliament and of the Council).[3]

According to the target scenario set in last year’s Stability Programme, Finland was to achieve its Medium-Term Objective for structural balance, or -0.5% of GDP, at the latest in 2019.[4] According to the independent forecast, the Medium-Term Objective was already achieved in 2016 and Finland will stay on this track; in other words, the independent forecast predicts that the target scenario contained in last year’s Stability Programme would be realised and that the general government finances are in fact stronger than the target scenario. Consequently, the targets set last year for general government deficit, debt and expenditure will not be adjusted this year. The Stablity Porgramme’s tables are based on the independent forecast, as under the updated Decree on the General Government Fiscal Plan (601/2017), the target scenario shall be based on an independent macroeconomic forecast, which would in the current situation lead to a better than targeted general government budgetary position. This is also compatible with the fact that Government Programme measures with medium-term impacts have mainly been taken into account in the forecast, and the parliamentary term will end in 2019.

The data in the Stability Programme tables for 2016 and 2017 are actual figures, whereas the figures for 2018—2021 are based on an independent forecast of the Ministry of Finance’s Economics Department. As the parliamentary term of Prime Minister Sipilä’s Government will end in 2019, the so-called unchanged policy scenario is presented for 2020—2021[5], which only contains measures decided or planned by the current Government.

Fiscal policy objectives

The Medium-Term Objective (MTO), which aims for a structural balance of -0.5% of GDP, remains unchanged. This is also the minimum level to which Finland has committed in the Fiscal Compact. In spring 2017, Finland was granted flexibility of 0.6% of GDP under the structural reform and investment clauses of the Stability and Growth Pact for reforms supporting the sustainability of public finances and the implementation of jointly funded EU investment projects. These allowances were granted for three years in 2017—2019. According to preliminary National Accounts data for 2017 published by Statistics Finland on 16 March 2018, public investments decreased year-on-year. This means that Finland is unable to use the allowance granted under the investment clause (0.1% of GDP).

According to the country-specific recommendations approved by the Council in July 2017, Finland's structural balance is allowed to deteriorate by 0.5% of GDP in 2017, and the recommendation issued to

[3] In this context, it should be noted that under Article 4 of Regulation 473/13, ”national medium-term fiscal plans and draft budgets shall be based on independent macroeconomic forecasts, and shall indicate whether the budgetary forecasts have been produced or endorsed by an independent body”, whereas under Article 3 of Regulation 1466/97, “the stability programme shall be based on the most likely macrofiscal scenario or on a more prudent scenario”.

[4] In its General Government Fiscal Plan of spring 2017, the Government set a Medium-Term Objective and multiannual nominal targets for general government budgetary position, expenditure and debt consistent with the annual change in the structural balance leading to it for 2018—2021. These targets are based on achieving the 72% employment rate set as a goal by the Government, and a target scenario concerning them was included in the Stability Programme.

[5] The general government budgetary position figures for 2021—2022 do not include the Defence Forces’ fighter procurements. These procurements will be reported in the national accounts on accrual basis, or as the fighters are delivered. However, the forward-looking funding of these procurements is reflected as a debt in central government on-budget debt and thus national debt.

Finland for 2018 is ”to achieve its medium term budgetary objective in 2018, taking into account the allowances linked to unusual events, the implementation of the structural reforms and investments for which a temporary deviation is granted”. Taking the allowances into account in the MTO means a deficit of 1% in structural terms, taking into consideration what is said above in the context of the investment clause.[6]

The allowances granted to Finland will expire in 2019, and Finland thus must return to the adjustment path towards the MTO in 2020.

The next three-yearly review of the MTO will take place in spring 2019. The new government to be elected in spring 2019 will thus have to define the MTO level and set the target year for achieving it in the first General Government Fiscal Plan of its parliamentary term (Stability Programme). Finland has committed to a minimum MTO level of -0.5% of GDP in the Fiscal Compact.

Government measures to achieve the fiscal policy objectives

Key roles in achieving the targets are played by the Competitiveness Pact and measures promoting employment aiming to meet the 72% employment rate target set in the Government Programme, as well as supplementary actions taken, where necessary, to ensure that the effects of the Government’s measures to improve general government finances will be realised at the target level set in the Government Programme.

The favourable economic development, which has continued for two years, has made the outlook for employment significantly brighter in the last few months. Business confidence is at a high level, and demand for labour has increased strongly. The employment rate is improving rapidly, and the unemployment rate is falling. Many of the fiscal policy objectives set by Prime Minister Sipilä’s Government are about to be achieved. In particular, it appears likely that the Government’s goals of increasing the employment rate to 72% and the number of the employed by 110,000 during the parliamentary term will be reached in practical terms. As a result of the rapid improvement in the labour market situation, the number of the employed and the employment rate are likely to be close to the target in 2019.

Economic growth and the improving employment rate have also strengthened public finances. Economic growth increases tax revenue and reduces unemployment expenditure. Decisions that curb growth in expenditure also improve central and local government finances. In the next few years, fiscal balance will be reached for the first time since the financial crises began in 2008.

The Government has striven to support the preconditions for growth in employment and the economy through both structural reforms and taxation. The Competitiveness Pact enhanced the price competitiveness of Finnish companies and the preconditions for export growth. Actions taken to increase the supply of labour, on the other hand, have included eliminating incentive traps, improving labour mobility, reforming the employment security system and employment services and ensuring that taxation on earned income will not be increased. Actions that support employment and growth are also one of the focal points for the Government at the beginning of the final year of the parliamentary term.

On 11 April 2018, the Government agreed upon growth-promoting measures through increased funding for knowledge and education. Employment will be improved by making it easier to employ unemployed

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[6] In its assessment, the Commission also takes into account the budgetary impact of the exceptional inflow of refugees in 2015—2016. In the interest of simplicity, these have been left out of this assessment.

young people, increasing conversion training and providing the TE Offices with additional resources. The Government will also expand services and benefits to support social justice.

Compliance with the preventive arm of the Stability and Growth Pact

Finland is within the preventive arm of the Stability and Growth Pact and subject to the requirements of the preventive arm that relate to progress towards the MTO. The achievement of the MTO or progress towards it are assessed with the aid of two pillars, or change in the structural balance and the expenditure benchmark.

When assessing the year 2017, the achievement of the MTO in 2016 must be taken into account. Considering the allowance granted to Finland under the structural reform clause, the structural balance was allowed to drop to -1% of GDP. The structural balance improved by 0.4% of GDP in 2017 and reached -0.1% of GDP, which exceeds Finland's MTO of -0.5% of GDP (the MTO was overachieved). The Ministry of Finance thus estimates that Finland complied with the structural balance requirements in 2017 and, cumulatively, in 2016—2017.

The Ministry of Finance concludes that the expenditure benchmark was met in 2017 and, cumulatively, in 2016—2017. It should also be noted that, as the MTO was overachieved in 2017, the deviation from the expenditure benchmark would in any case be ignored for 2017. [7]

According to the country-specific recommendation for 2018, Finland was to achieve the MTO taking the allowance into account which, according to the Commission's forecast from spring 2017, meant an adjustment of 0.1% of GDP on the path towards the Medium-Term Objective. These two requirements no longer are consistent, and the less demanding of them, or achieving the MTO of -1.0% of GDP taking the allowance into consideration, is thus binding. According to the independent forecast, the structural deficit is at the MTO, -0.5% of GDP, and the Ministry of Finance thus estimates that Finland will comply with the requirements concerning structural deficit in 2018 and, cumulatively, in 2017—2018.

The Ministry of Finance concludes that the expenditure benchmark was met in 2018 and, cumulatively, in 2017—2018.[8]

The country-specific recommendation for 2019 will be adopted by the Council in summer 2018. However, the allowances granted in spring 2017 will still be valid in 2019. According to the independent forecast, the structural balance will be -0.6% of GDP and thus sufficiently close to the MTO of -0.5%, and clearly stronger than the MTO in which the allowances are taken into account.[9] The Ministry of Finance thus estimates that Finland will comply with the structural balance requirements in 2019 and, cumulatively, in 2018—2019.

The Ministry of Finance concludes that the expenditure benchmark will be met in 2019 and, cumulatively, in 2018—2019.

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[7] Under Article 6 (3) of Regulation 1466/97, deviation of expenditure developments shall not be considered significant if the Member State concerned has overachieved the medium-term budgetary objective, taking into account the possibility of significant revenue windfalls. There were no revenue windfalls in 2017.

[8] According to the country-specific recommendations issued in 2017, achieving the MTO taking the allowances into account in 2018 would be consistent with a maximum nominal growth rate of net primary government expenditure of 1.6% based on the Commission's spring forecast in 2017. However, the strengthening of the structural balance in 2017 compared to the Commission's forecast from spring 2017 changes the assessment grounds.

[9] The MTO is regarded as having been achieved when the structural balance is sufficiently close to it (0.25% in ratio to GDP).

It can thus be estimated that Finland met the preventive arm requirements in 2017 and will also meet them in 2018 and 2019.

Government's assessment of progress towards the Medium-Term Objective

The Government endorses the estimate of progress towards the MTO presented above. The Government estimates that Finland already achieved the MTO in 2016 and will stay at the MTO in 2017 and 2018. The structural balance of 2019 will remain close enough to the MTO and, considering the allowances, exceed it. The Government thus estimates that Finland will also stay on track for achieving the MTO until the end of the parliamentary term, including the target year of 2019 set earlier.

Pursuant to section 3, subsection 1 of the Fiscal Policy Act (869/2012), the Government will initiate the measures it deems necessary to correct budgetary stability and sustainability if the structural balance of the general government, in the Government's assessment, deviates significantly in a manner that jeopardises the achievement of the Medium-Term Objective. The Government will assess this in connection with the monitoring and overall assessment of the public finance status or as the European Union draws attention to this matter in its statement on Finland's Stability Programme.

Compliance with deficit and debt criteria

The general government deficit decreased to -0.6% of GDP in 2017, which is clearly better than the most recent forecasts of both the Commission and the Economics Department of the Ministry of Finance. According to the independent forecast of the Ministry of Finance's Economics Department, the fiscal balance will stay at -0.6% of GDP in 2018, improve further to -0.2% of GDP in 2019, and show a surplus of 0.1% in 2020. Therefore the deficit criterion of 3% will be met and exceeding the deficit reference value cannot be considered a risk.

According to the independent forecast of the Ministry of Finance's Economics Department, public debt will decrease from 61.4% of GDP in 2017 to 60.4% in 2018 and further to 58.9% in 2019, thus falling below the reference value of 60% from 2019 onwards. The forecast figures indicate that Finland will meet the backward-looking debt rule in 2017 and 2018 and therefore the debt rule can also be regarded as being met in 2017 and 2018.

Assessment of progress on the country-specific recommendations of 2017

In accordance with the country-specific recommendations approved by the Council in July 2017, Finland's structural balance may decline by 0.5% of GDP in 2017, and the recommendation issued to Finland in 2018 is "to achieve its medium term budgetary objective in 2018, taking into account the allowances linked to unusual events, the implementation of the structural reforms and investments for which a temporary deviation is granted".

Progress towards the MTO has been assessed above. Finland has achieved the objectives and required adjustments of the country-specific recommendations in 2017 and reached the objective for structural balance set in these recommendations in 2018.

Progress with the other country-specific recommendations issued to Finland is discussed in the National Reform Programme (EU2020 Programme).[10]

[10] http://vm.fi/eurooppa-2020-strategia

Comparison with other forecasts and sensitivity analysis

For a comparison between the targets set by the Government and the Commission's latest public finance forecast, see the table below and the sensitivity analysis in Appendix 4 to the General Government Fiscal Plan. The Commission's most recent GDP and inflation figures date back to February 2018 and the public finance figures to November 2017. Unlike the Commission's winter forecast, the Ministry of Finance had access to fresh preliminary data from 2017. The Ministry of Finance's general government fiscal forecast also addresses the latest data on the improving employment rates and their impact on general government finance.

Tables 1.—3.

Comparison with the Commission's previous forecast

	Commission's autumn forecast[1]				Ministry of Finance, April 2018			
	2016	2017	2018	2019	2016	2017	2018	2019
GDP*, change, %	1.9	3.3	2.8	2.5	2.6	2.6	2.2	1.8
unemployment rate, %	8.8	8.6	8.3	8.0	8.8	8.6	8.1	7.5
General government budgetary position, % GDP	-1.7	-1.4	-1.2	-0.8	-1.8	-0.6	-0.6	-0.2
Structural balance, % GDP	-0.4	-1.0	-1.4	-1.4	-0.5	-0.1	-0.5	-0.6
General government debt, % GDP	61.1	62.7	62.1	61.6	63	61.4	60.4	58.9

1) The Commission's macroeconomic forecasts date back to February 2018 and the public finance forecasts to November 2017.

Table 1a. Macroeconomic prospects

	2017 EUR billion	2017	2018	2019	2020	2021
1. Real GDP	195.8	2.6	2.6	2.2	1.8	1.3
2. GDP at current prices	223.5	3.6	4.2	4.3	3.7	3.2
Components of real GDP						
3. Private consumption expenditure	122.0	1.6	1.8	1.5	1.4	1.1
4. Government final consumption	51.5	1.3	0.5	0.5	0.9	0.6
5. Gross fixed final consumption	50.5	6.3	3.6	3.8	2.9	1.2
6. Change in inventories and net acquisition of valuables (% of GDP)	0.4	-0.1	-0.4	-0.8	-1.4	-2.1
7. Exports of goods and services	86.3	7.8	6.1	4.8	3.5	3.5
8. Imports of goods and services	85.2	3.5	4.3	3.9	3.0	2.8
Imputed impact on GDP growth, % points						
9. Final domestic demand	224.0	2.6	1.9	1.8	1.6	1.0
10. Change in inventories and net acquisition of valuables	403.0	-1.4	0.0	0.0	0.0	0.0
11. External balance of goods and services	1.0	1.5	0.7	0.4	0.2	0.3

Table 1b. Development of price indices

	2017	2018	2019	2020	2021
1. GDP deflator	0.9	1.5	2.0	1.8	1.9

	2017	2018	2019	2020	2021
2. Private consumption deflator	0.9	1.3	1.5	1.8	1.8
3. Harmonised Index of Consumer Prices	0.8	1.2	1.4	1.7	1.8
4. Public consumption deflator	-1.6	1.4	3.1	1.3	2.2
5. Investment deflator	2.0	2.2	2.2	2.3	2.2
6. Export price deflator	2.9	1.8	1.9	1.5	1.7
7. Import price deflator	3.8	2.2	2.4	2.1	2.2

Table 1c. Labour market development

	2017 level	2017	2018	2019	2020	2021
1. Employment, 1,000 persons	2,473	1.0	1.8	1.0	0.7	0.4
2. Employment, 1,000 working hours	413240 0	0.7	1.8	1.0	0.6	0.4
3. Unemployment rate (%)	234	8.6	8.1	7.5	7.0	6.9
4. Labour productivity, persons	79.3	1.7	0.8	1.2	1.1	1.0
5. Labour productivity, hours worked	47.4	2.0	0.8	1.2	1.2	1.0
6. Compensation of employees	105.3	0.9	2.9	3.1	3.3	2.9
7. Compensation of employees per employee	42.6	-0.1	1.1	2.1	2.5	2.6

Table 1d. Sectoral balances, % GDP

	2017	2018	2019	2020	2021
1. Finland’s net lending vis-à-vis the rest of the world	0.8	0.8	0.9	0.9	0.9
of which:					
— Balance of goods and services	0.5	1.0	1.2	1.1	1.2
— Factor income and transfer balance	0.2	-0.2	-0.2	-0.2	-0.3
— Capital transfers, net	0.0	-0.1	-0.1	-0.1	0.0
2. Private sector net lending	0.5	0.4	0.3	-0.1	-0.3
3. Public sector net lending	-0.6	-0.5	-0.2	0.2	0.4
4. Statistical difference	-0.9	-0.9	-0.8	-0.8	-0.8

Table 2a. General government prospects, % GDP

	2017 EUR million	2017	2018	2019	2020	2021
Net lending by subsector (EDP B.9)						
1. General government, total	-1,278	-0.6	-0.6	-0.2	0.1	0.3
2. Central government	-3,806	-1.7	-1.6	-0.9	-0.4	-0.2
3. County government					-0.4	-0.5
4. Local government	-228	-0.1	-0.2	-0.4	-0.1	-0.1
5. Social security funds	2,756	1.2	1.2	1.1	1.1	1.1
General government (S13)						
6. Total revenue	118,825	53.2	52.1	51.8	51.8	51.7
7. Total expenditure	120,103	53.7	52.7	52.0	51.7	51.4
8. Net lending	-1,278	-0.6	-0.6	-0.2	0.1	0.3
9. Interest expenditure	2,175	1.0	0.9	0.8	0.8	0.9
10. Primary balance	897	0.4	0.3	0.7	1.0	1.2
11. One-off measures	0	0.0	-0.1	0.1	0.0	0.0

	2017 EUR million	2017	2018	2019	2020	2021
Revenue categories						
12. Tax revenue (12=12a+12b+12c)	69,614	31.1	30.5	30.4	30.0	29.9
12a. Taxes on production and imports	31,494	14.1	13.8	13.6	13.4	13.3
12b. Current taxes on income	37,211	16.6	16.4	16.5	16.3	16.4
12c. Taxes on capital income	909	0.4	0.3	0.3	0.3	0.3
13. Social security contributions	27,334	12.2	12.0	11.9	11.9	11.8
14. Property income	6,276	2.8	2.9	2.9	2.9	3.0
15. Other revenue (15=16-12-13-14)	15,601	7.0	6.8	6.6	7.0	6.9
16. = 6. Total revenue	118,825	53.2	52.1	51.8	51.8	51.7
of which: Tax burden (D2+D.5+D.61+D.91-D.995)	97,245	43.5	42.6	42.4	42.0	41.9
Expenditure categories						
17. Compensation of employees + intermediate consumption	52,101	23.3	22.7	22.4	22.5	22.4
17a. Compensation of employees (i.e. wages + employer's social security contributions)						
17b. Intermediate consumption						
18. Social transfers (18=18a+18b)	48,753	21.8	21.5	21.1	20.9	20.8
of which unemployment benefits	5,089	2.3	2.1	1.9	1.8	1.7
18a. Social transfers in kind						
18b. Monetary social benefits						
19. = 9. Interest expenditure	2,175	1.0	0.9	0.8	0.8	0.9
20. Subsidies	2,655	1.2	1.1	1.1	1.0	1.0
21. Gross fixed capital formation	8,670	3.9	3.9	3.9	3.8	3.8
22. Capital transfers	531	0.2	0.2	0.2	0.2	0.2
23. Other expenditure (23 = 24 -17-18-19-20-21)	5,218	2.3	2.3	2.3	2.3	2.3
24. = 7. Total expenditure	120,103	53.7	52.7	52.0	51.7	51.4
of which: Public consumption	51,522	23.1	22.6	22.4	22.1	22.0

Table 2b. Revenue and expenditure under unchanged policies, % GDP

	2017 EUR million	2017	2018	2019	2020	2021
1. Total revenue under unchanged policies	118,825	53.2	52.1	51.8	51.8	51.7
2. Total expenditure under unchanged policies	120,103	53.7	52.7	52.0	51.7	51.4

Table 2c. Amounts to be excluded from the expenditure benchmark, % GDP

	2017 EUR million	2017	2018	2019	2020	2021
1. Expenditure on EU programmes fully matched by EU funds revenue	1,137	0.5	0.5	0.5	0.5	0.4
1.a of which investments fully matched by EU funds revenue						
2. Cyclical unemployment benefit expenditure	841	0.4	0.3	0.2	0.1	0.1
3. Effect of discretionary revenue measures	-1,583	-0.7	-0.4	0.0	-0.2	-0.2
4. Revenue increases mandated by law	80	0.0	0.0	0.1	0.1	0.1

Table 3. General government expenditure broken down by main components, % GDP

	COFOG code	2016
1. General public services	1	8.1
2. Defence	2	1.3
3. Public order and safety	3	1.2
4. Promotion of business and industry	4	4.5
5. Environmental protection	5	0.2
6. Housing and communities	6	0.3
7. Health care	7	7.2
8. Recreation, culture and religion	8	1.4
9. Education	9	6.1
10. Social security	10	25.6
11. Total expenditure (=item 7=23 in table 2)	Total	56.0

Tables 4.—8.

Table 4. Development of general government debt, % GDP

	2017	2018	2019	2020	2021
1. Gross debt, % GDP	61.4	60.4	58.9	57.4	56.7
2. Change in gross debt ratio, pp	-1.6	-1.0	-1.5	-1.5	-0.7
Factors affecting change in gross debt ratio, pp.					
3. Primary balance	-0.4	-0.3	-0.7	-1.0	-1.2
4. Interest expenditure	1.0	0.9	0.8	0.8	0.9
5. Stock-flow adjustment items	-2.2	-1.5	-1.7	-1.3	-0.4
of which:					
— Difference between cash-based and accrual-based statistics					
— Net acquisition of financial assets					
— of which: privatisation proceeds					
— Others (incl. impacts of GDP growth)					
Implicit interest rate on debt (= embedded interest payments per the previous year’s level of debt * 100)	1.6	1.5	1.4	1.5	1.5
Other relevant variables					
6. Liquid financial assets (AF1, AF2, AF3, AF5)					
7. Net financial liability (7=1-6)					
8. Government debt write-offs (existing bonds)					
9. Share of foreign currency denominated loans					
10. Average maturity of government debts					

Table 5. Cyclical impact on the general government balance, % GDP

	2017	2018	2019	2020	2021
1. Real GDP, % change	2.6	2.6	2.2	1.8	1.3
2. General government financial balance	-0.6	-0.6	-0.2	0.1	0.3
3. Interest expenditure	1.0	0.9	0.8	0.8	0.9
4. One-off measures	0.0	-0.1	0.1	0.0	0.0

	2017	2018	2019	2020	2021
one-off measures affecting general government revenue					
one-off measures affecting general government expenditure					
5. Potential GDP, change, %	1.3	1.7	1.8	1.6	1.3
contributions:					
— labour input	0.0	0.0	0.0	0.0	-0.2
— invested capital	0.3	0.3	0.4	0.4	0.5
— total factor productivity	0.1	0.2	0.3	0.3	0.4
6. Production gap	-0.9	0.1	0.5	0.7	0.7
7. Financial balance cyclical component	-0.5	0.0	0.3	0.4	0.4
8. Cyclically adjusted financial balance (2-7)	-0.1	-0.6	-0.5	-0.3	-0.1
9. Cyclically adjusted primary balance (8+3)	0.9	0.3	0.4	0.6	0.8
10. Structural balance (8-4)	-0.1	-0.5	-0.6	-0.3	-0.1

Table 6. Divergence from previous Stability Programme

	2017	2018	2019	2020	2021
GDP growth (%)					
SP-2017 April	1.2	1.7	1.9	1.0	1.0
SP-2018 April	2.6	2.6	2.2	1.8	1.3
Difference, pp.	1.5	0.9	0.3	0.9	0.3
General government balance, % GDP					
SP-2017 April	-2.3	-1.5	-0.8	-0.3	-0.4
SP-2018 April	-0.6	-0.6	-0.2	0.1	0.3
Difference, pp.	1.7	1.0	0.7	0.5	0.8
General government gross debt, % GDP					
SP-2017 April	64.7	64.6	63.9	63.0	62.1
SP-2018 April	61.4	60.4	58.9	57.4	56.7
Difference, pp.	-3.3	-4.2	-5.0	-5.6	-5.5

Table 7. Long-term sustainability of general government finances, % GDP

	2007	2010	2020	2030	2040	2050	2060
Total expenditure	46.8	54.8	51.7	55.2	56.8	57.7	60.4
of which: age-related expenditure	23.2	27.1	29.2	31.7	32.2	31.7	32.3
Total revenue	51.9	52.1	51.8	53.1	52.7	52.2	51.9

Table 7a. Contingent liabilities, % of GDP

	2016	2017
Central government guarantees	21.0	22.9
of which: linked to financial sector	2.3	3.1
Local government guarantees	10.4	-

Table 8. Underlying assumptions[1]

	2017	2018	2019	2020
3-month EURIBOR	-0.3	-0.3	0.0	0.1
Long-term interest rate, 10 years	0.5	1.0	1.4	1.7
USD/EUR exchange rate	1.2	1.2	1.1	1.1
Nominal effective exchange rate	1.6	1.3	0.0	-0.2
World GDP growth (excluding the EU)	3.8	4.0	4.0	3.8
EU-28 GDP growth	2.3	2.1	1.9	1.8
Growth of relevant foreign markets	3.9	4.9	4.0	3.4
World trade growth	4.7	4.7	4.7	4.4
Oil prices (USD/barrel)	54.8	63.8	66.9	69.4

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