



MINISTRY OF FINANCE

Europe 2020 Strategy

Finland's National Reform Programme,
Spring 2016

Ministry of Finance publications – 11c/2016



Economic Prospects



MINISTRY OF FINANCE

Europe 2020 Strategy

Finland's National Reform Programme,
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MINISTRY OF FINANCE

PO Box 28 (Snellmaninkatu 1 A) FI-00023 GOVERNMENT

FINLAND

Tel. +358 295 16001

Internet: www.financeministry.fi

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Abstract

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

Finland's national targets are raising the employment rate of 20–64 year-olds to 78%, maintaining R&D spending at a minimum of 4% of GDP, reaching the climate and energy targets agreed in the EU, keeping the proportion of 30–34 year-olds having completed tertiary-level education at 42%, bringing the proportion of 18–24 year-old early school leavers below 8%, and reducing the number of people living at risk of poverty and social exclusion.

In 2014 and 2015, the European Council adopted recommendations for all Member States aimed at guiding national decision-making. The recommendations given to Finland relate to the long-term sustainability of public finances, productivity of public services, reducing unemployment and raising the actual retirement age, increasing competition, and business structure diversification.

The Government presents now the eight Europe 2020 national reform programme. The programme presents measures to attain the national targets and how the country specific recommendations given by the EU have been taken into consideration. The programme enables detailed analysis of the Finnish economy at the EU level.

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1 Introduction

Finland emerged in 2015 from three years of recession. Total production increased for the first time since 2011, due to growth in exports, consumption and, particularly towards the end of the year, investment.

Positive signs of growth were eagerly awaited, because Finland's general government finances, in the wake of the strong and prolonged economic recession, have been for some time close to EU Treaty limits. The economy has been strongly consolidated for several years, and consolidation measures are still continuing. The Government's objective is to level off the trend in indebtedness without jeopardising emerging economic growth.

At the same time, progress has been made with key reforms with respect to the growth potential of the economy. A pension reform prolonging working careers was agreed in autumn 2014, and the reform will come into force in 2017. The social and healthcare reform has proved to be more difficult due to various problems, but work towards the reform is under way. The Government and social partners have worked intensively to achieve a competitiveness pact. At the end of February, the labour market organisations agreed on a competitiveness pact within whose framework union-specific negotiations will be held during the spring. In promoting competition, major steps forward have been taken. Aid relating to social security and education has been reformed, and further reforms are being prepared.

Restoring total production to a growth track and determined work to implement structural reforms show that Finland's economic prospects are improving, even though the growth outlook for the next few years is rather subdued. Finland's structural competitiveness, for example in terms of education system, research and investment and government transparency and efficiency, is among the best in the world. Intensive work is being done on cost-competitiveness. With the aid of these factors, the Finnish economy is expected to reach its growth potential by 2020.

2 Macroeconomic situation and scenario

2.1 Macroeconomic outlook in the programme period

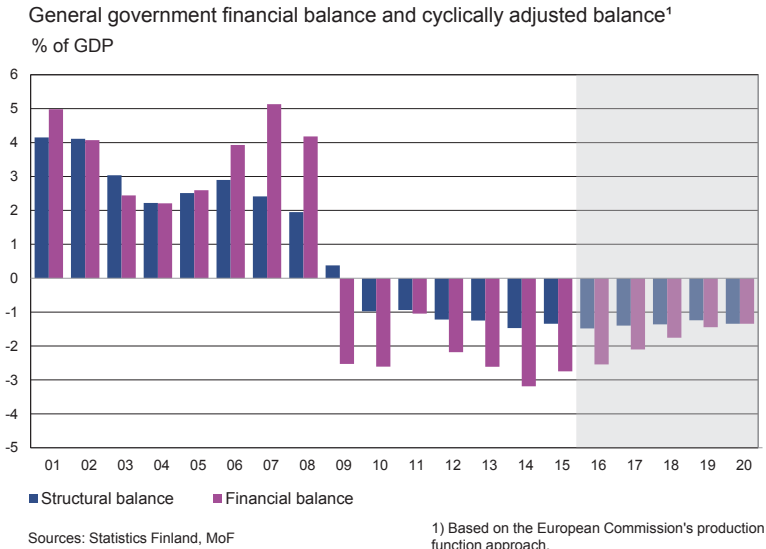
Based on preliminary data from Statistics Finland, Finland's economy grew last year by 0.5% after three years of recession. The sources of this subdued growth were exports and consumption at the beginning of last year as well as investment, particularly in latter part of the year.

This year, Finland's economy is projected to grow by 0.9% compared with the previous year. A modest 1.2% is forecast for growth in 2017 and 2018. The forecast does not take into account the effects of the competitiveness pact, because union-level negotiations are still under way.

Despite the slight pick-up in the economy, Finland's economic situation will remain challenging in the next few years. According to the forecast, even in 2018 GDP will be around 2% lower than in 2008, and the level of industrial production in 2018 would be around one-fifth lower than ten years ago. The development of exports will remain more sluggish than world trade, and therefore the loss of market shares in international trade will continue. In the next few years, economic activity will be supported mainly by private consumption and investment. In the medium term, the economy is expected to grow, on average, by just over 1% per year.

The difficult times of recent years have been strongly reflected in Finland's public finances. The general government budgetary position has deteriorated and debt has grown. The general government deficit exceeded 3% in ratio to GDP in 2014. In 2015 the deficit decreased, but debt rose to over 60% in ratio to GDP.

The development of the general government structural balance and financial balance is shown in Figure 1.



As the economic recession recedes, the budgetary position is expected to improve gradually. The Government's measures to consolidate general government finances will also improve the budgetary position. Nevertheless, the perceptible economic growth will not be sufficient to finance in the long term the current structures of public finances and the benefits and public services guaranteed for citizens by legislation.

Due to the projected upturn in the economy, a slight improvement in the development of employment is also expected. Employment declined last year by 0.4%, and the number of hours worked decreased by 0.2%. The end of the long period of recession in the Finnish economy and the rise in economic activity, particularly in construction, will be reflected in a slight increase in employment this year. The number of job vacancies has been growing in recent months, which also suggests improved employment prospects.

The increase in unemployment has stopped, at least temporarily. Last year, the unemployment rate rose to 9.4%, and in January of the current year the unemployment rate trend was still on the same path. This year, the tentative economic growth will still not reduce the number of unemployed, because some of the hidden unemployed may be activated as job vacancies increase. The forecast unemployment rate for the current year is 9.3%.

Even as economic conditions improve, high structural unemployment will slow the reduction of unemployment. The number of long-term and structural unemployed has increased further. In January, there were 120,000 people who had been continuously unemployed for over a year, i.e. 19,000 more than a year earlier. According to Ministry of Employment and the Economy statistics, the number of structural unemployed in October 2015 was 217,000, i.e. 16,000 people more than a year earlier. Long-term unemployment has increased in recent years in all age groups, but most of all among 25–54 year-olds.

2.2 Macroeconomic impact of structural reforms

The objective of the main structural reforms is to reduce the sustainability gap in Finland's public finances and to improve Finland's competitiveness and thereby employment.

The pension reform is expected to reduce the sustainability gap in public finances by around one percentage point of GDP.

The aim of the social and healthcare reform, in turn, is to reduce the sustainability gap in the long term by EUR 3 billion.

The third major structural reform is the competitiveness pact package relating to the labour market. According to estimates, the package could, when fully implemented, generate 35,000 jobs and strengthen public finances in the long term by up to EUR 600 million. These estimates are preliminary and the coverage of the agreement will be confirmed later.

Major structural reforms will also be made to increase market competition, but for these there are no macroeconomic estimates.

Planning of structural reforms in education is still under way, so the macroeconomic effects are not available.

3 Implementation of country-specific recommendations

3.1 Long-term sustainability of public finances

Recommendation 1: Achieve a fiscal adjustment of at least 0.1% of GDP towards the medium-term budgetary objective in 2015 and of 0.5% of GDP in 2016. Continue efforts to reduce the fiscal sustainability gap and strengthen conditions for growth.

Competitiveness, employment and public service provision are at the core of the economic policy of Prime Minister Juha 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 to boost growth and enhance public service provision.

The Government's consolidation package, aimed at directly strengthening public finances, consists of measures to control growth of public expenditure as well as expenditure re-allocations, such that together the measures will strengthen public finances by approximately EUR 4 billion by 2019. Through decisions made by the Government on 5 April 2016, the package has been confirmed close to its full magnitude. The package will be implemented in connection with the central government annual budgets according to the planned timetable. The timing and scale of the measures is described in more detail in the Stability Programme (General Government Fiscal Plan, Appendix 4).

The Government aims to strengthen conditions for employment and economic growth through taxation as well as through measures supporting economic competitiveness and productivity growth. Moderate wage settlements, the introduction of an export industry-driven model in wage formation and reforms to increase local agreement in the labour market are a key part of this package (see Recommendation 3).

The Government also aims to bridge the sustainability gap through structural measures; the pension reform and the reform of social and healthcare services are covered more comprehensively in Recommendation 2.

3.2 Growth-promoting structural reforms

Recommendation 2: adopt the agreed pension reform and gradually eliminate early exit pathways. Ensure effective design and implementation of the administrative reforms concerning municipal structure and social and healthcare services, with a view to increasing productivity and cost-effectiveness in the provision of public services, while ensuring their quality.

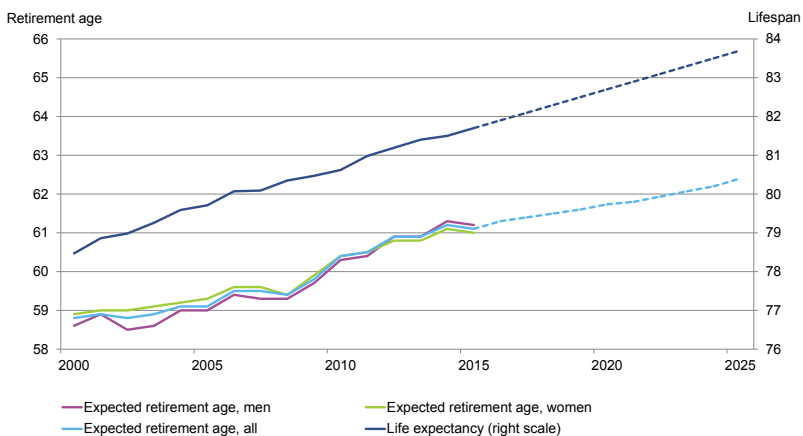
3.2.1 Implementation of the pension reform

The labour market organisations agreed on a new pension reform in autumn 2014. A Government proposal on pension reform for the amendment of earnings-related pension system legislation and for certain related Acts was submitted to Parliament on 3 September 2015. Parliament approved the pension reform legislation on 20 November 2015 and the President confirmed the Acts on 29 January 2016.

The pension reform will come into force at the beginning of 2017. The reform will lengthen working careers. Part of the expected longer lifetimes will be spent in work. As a result of the reform, average earnings-related pensions are expected to rise in all future pensioner age cohorts. The pension level will improve, the younger the age cohort in question. Average monthly pensions for men and women are expected to rise by nearly the same amount.

After the reform, the expected retirement age is projected to rise to 62.4 years by 2025. In addition, through a reduction of pension expenditure and an improvement of employment, the sustainability gap in general government finances is expected to narrow by around one percentage point. Due to the reform, the earnings-related pension contribution level is expected to stabilise at 24.4% from 2017.

Expected retirement age and life expectancy, 25 years-old



Source: Finnish Centre for Pensions, Statistics Finland

3.2.2 Elimination of early exit pathways from labour market

Under the pension agreement, the labour market organisations will assess by 31 May 2019 the impact on employees' labour market position of changes made to the right to additional days. If the parties conclude that the agreed measures have the intended effect, the lower age limit of the right to additional days will be raised by one year to 62 years for those born in 1961 and thereafter.

3.2.3 Reforming social and healthcare services

A Government proposal for an Act on the Arrangement of Social and Healthcare Services (HE 324/2014) lapsed in Parliament in spring 2015. The Act would have reformed the arrangement of social and healthcare services.

Preparation of the reform was relaunched on the basis of Prime Minister Sipilä's Government Programme, with the aim of reducing health disparities and controlling costs better. In line with Government policy, the reform will be implemented by establishing throughout the counties, led by councils elected by direct vote. In addition to social and healthcare services, the counties will also be given other duties. In accordance with a policy line adopted on 5 April 2016, these duties include rescue services, environmental healthcare, regional development and business-promotion duties, land-use management and planning, promoting county identity and culture, and other regional services as prescribed in law.

Alongside the reform of the arrangement of services, freedom of choice of social welfare and healthcare services will also be extended and the funding of services and the principles of provision completely reformed.

Financing the arrangement of social and healthcare services will take place via 18 counties. Services and measures requiring a large population base and volume as well as less common and more expensive services will be assembled and handled nationally or regionally within the framework of five university hospitals and seven other extensive 24-hour hospital units. There will be five cooperation areas for the regional and national assembly of services and for other cooperation of counties' in publicly provided services, research and development activity and planning of services and service network more extensive than a county. Every cooperation area will have a university hospital unit.

In accordance with the Government's policy line, social and healthcare services will be financed primarily with central government funding, supplemented by revenue from client fees, revenue from services provided by the counties for others in accordance with a division of responsibilities, and the counties' other, own revenue. The Government will not prepare legislative proposals in this parliamentary term on the counties' right to levy taxation. Further studies will be initiated in this parliamentary term on the implementation of the counties' right to levy taxation.

Each county will be responsible for arranging official duties as well as for the effectiveness of the entire system and the implementation of fundamental rights. Public power will be exercised with public liability. Each county will provide the necessary social and healthcare services itself or in cooperation with other counties or it may use private or third sector services.

In accordance with the Government's policy line, legislation on freedom of choice will be enacted, enabling clients to choose between public, private or third sector service providers. Moreover, extensive freedom of choice will significantly promote competition in the provision of social and healthcare services. Ways of implementing freedom are being studied in a rapporteur group, and after the completion of this work the Government will assess the proposals and adopt policy lines on the freedom of choice model. The study and preparation will take into account aspects of EU law related to the issue as well as the implementation of fundamental rights.

The social and healthcare services reform aims to achieve total savings of EUR 3 billion in the long term. The goal is to achieve this through comprehensive integration of social and healthcare services, larger arrangers of services than at present, and digitalisation. In addition, the reform will create more favourable conditions for strategic change management and improving the cost-effectiveness of services.

The intention is to implement this major reform in stages. The objective is for the Government proposals required by the reform to be submitted to Parliament in the latter part of 2016 and for the implementation of the reform to begin in 2019.

3.3 Labour market and competitiveness

Recommendation 3: pursue efforts to improve the employability of young people, older workers and the long-term unemployed, focusing particularly on developing job-relevant skills. Promote wage developments in line with productivity, fully respecting the role of the social partners and in accordance with national practices.

3.3.1 Competitiveness pact

The labour market organisations agreed a competitiveness pact on 29 February 2016. The competitiveness pact provides for a reduction in employers' social security contributions as well as an increase in the employee's earnings-related pension contribution and unemployment insurance contribution and a corresponding decrease in the employer's contributions. In addition, the pact provides for a lengthening of working time on average by 24 hours with no change in the yearly earnings level as well as a reduction in the public sector holiday bonus by 30%.

Employer and employee organisations have started sectoral collective agreement negotiations on introducing the terms of the competitiveness pact into collective agreements. It was also agreed that provisions allowing local agreement will be added to sectoral collective agreements, and that a resilience clause will be prepared to safeguard the employer's operations and jobs through an adjustment of terms of employment. The intention is complete collective agreement negotiations by the end of May 2016, at which time it will be confirmed whether the coverage that is a prerequisite for the making of competitiveness pact has been achieved.

The labour market organisations' competitiveness pact also includes a proposal prepared by Government by which employers adhering to a generally binding collective agreement will be set in the same position as employers adhering to a normally binding collective agreement when they apply the provisions in the collective agreement allowing local agreement. In the same context, it is proposed that it be prescribed in which court disputes arising from a local agreement concluded on the basis of a generally-binding collective agreement will be heard.

The Government will also prepare a proposal on the amendment of the Employment Contracts Act. The proposal would include changes to provisions relating to the justification for specifying a fixed-term, the probationary period and the obligation to re-employ an employee. The objective of the proposal is to lower the threshold to employment. The proposal may be submitted in April, after the Government has outlined the details of the proposal.

The labour market organisations agreed in March 2016 that preparation of a so-called negotiation model for Finland will begin after the competitiveness pact enters into effect, and that this preparation will take a more detailed position from the perspective of wage earners and employers on issues important for the scope of the pact and its development. Labour market solutions will be used to support the competitiveness of sectors exposed to international competition as well as long-term employment, productivity development and the balance of general government finances.

3.3.2 Reforming employment service activities

The Government will implement a reform of employment services. Key objectives of the reform are easing labour market matching problems and focusing resources on active measures. Job seekers' own role and activity in job-seeking will be increased and effective implementation of unemployment security sanctions will be ensured through increasing their binding force and monitoring.

Regional trials of job seeker- and employer-oriented employment services will be implemented in 2017 and 2018. The content of the trials will be outlined during 2016.

3.3.3 Incentive traps and structural unemployment

The Government has launched a reform of unemployment security aimed at encouraging quick acceptance of work and tightening the obligation to accept work as well as the obligation to participate in employment-promoting activation measures.

The reform of unemployment security will proceed in stages; changes to the general terms and conditions of unemployment security have been prepared in the Ministry of Social Affairs and Health. A Government proposal on the issue will be submitted this spring. The obligation to accept work will be tightened by obliging the unemployed to always accept full-time work and to accept immediately at the beginning of unemployment work other than that in their own field, by extending the waiting time imposed on the basis of refusal of work, and by requiring that individuals use their own cars also outside commuting areas.

The Government proposal under preparation will include shortening the duration of unemployment security, lengthening the waiting period from five to seven days, reducing the increase payable for the period of employment-promoting services, and abolishing the increased benefit payable for 90 days to those made redundant who have been working for a long time. The maximum duration of unemployment benefit will be cut for those who have been working for up to three years to 300 days from the present 400 days, and for those who have been working for more than three years from 500 days to 400 days. For those who are 58 years old or more who become unemployed, the maximum duration of unemployment benefit will remain at 500 days.

The Government has launched preparations to create an inclusive social security model aimed at coordinating wages and social security as well as better support for redundant workers as soon as they become unemployed. As part of the creation of the model, a study will be made as to whether unemployment security can be used more extensively than at present to develop skills and lower the threshold to employment as well as to boost inclusion in working life. A further study will be made as to whether the social security system, particularly the unemployment security system, contains elements that adversely affect the opportunities of the unemployed to improve conditions for their employment. The Government will make unemployment security more active and increase the flexibility of the wage subsidy system. In 2017 and 2018, unemployment benefits may under certain conditions be used to finance mobility grants, start-up grants and wage subsidies. The impact of the new funding model will be monitored and evaluated.

3.3.4 Youth guarantee

In 2015 the youth guarantee has been strengthened by launching one-stop guidance centre (Ohjaamo) activity, supported by the European Social Fund (ESF). Ohjaamo is a low-threshold service point for young people under 30 years of age that offers, taking the individual circumstances of young people into account, multidisciplinary information, guidance and support with the aid of the basic public services of various administrative branches and a cooperation network. The centres are run as a collaborative effort of the public, private and third sectors. The intention is to continue the centres on a permanent basis after the pilot stage ends in 2018. At the beginning of 2016, there were Ohjaamo centres in more than 30 localities, where around 60% of Finland's 16–30 year-olds live. The Ohjaamo centres currently employ around 300 people, of which one quarter are supported by ESF funding.

The Kohtaamo project, launched in 2015, supports and coordinates the work of the Ohjaamo centres. Its task is to develop the Ohjaamo service model as well as an online information, advice and guidance service for young people. Digital guidance services will be developed for all young people (eGuidance services, telephone services and information videos) and their integration ensured as part of the electronic service and application services (studyinfo.fi).

Services for young people outside education, work and other required support (NEET) will be enhanced through outreach youth work and by offering guidance, advice and support service packages. The task of outreach youth work is to contact young people in need of support and to help them within the sphere of services and other support that will promote their growth and independence as well as their entry into education and employment.

To promote young people's employment, job-seeking activity will be strengthened by encouraging company visits and thereby finding hidden jobs. The wage subsidy was reformed at the beginning of 2015. In autumn 2016, a study will be initiated on the effects of the study, after which possible areas requiring further development will be examined. The Ministry of Employment and the Economy is currently exploring the option of extending the possibility of using unemployment benefits so that, in future, appropriations allocated to benefits could fund a wage subsidy or start-up grant corresponding to job seekers' needs. The change in funding would support the implementation of the youth guarantee. The use of the Sanssi card, which acts as a wage subsidy marketing tool, will be continued. On the completion of the above-mentioned funding reform, it is expected that use of the Sanssi card will increase. Unemployed young people who have no vocational training will be directed towards apprenticeship training. An apprenticeship will be offered as one possible option to young people who are not in employment or education. An Employment and Economic Development Centre expert will examine apprenticeship opportunities together with the young person.

Young people's entrepreneurship workshops will be established for those intending to become entrepreneurs, and the operating model taken into use throughout the country. The workshops will provide training, advice and coaching on entrepreneurship. The digitalisation of guidance services (eGuidance services, telephone services and information videos) will also be developed. Entrepreneurship workshops were created as part of the youth guarantee and were widely introduced in 2015. Work on establishing the entrepreneurship workshops will be continued. The goal is to set up around 20 entrepreneurship workshops through the country by the end of 2016.

Employment and Economic Development Centres will acquire purchased services intended for young people based on the results. Service providers will focus on the individual guidance, coaching, skills evaluation and job-seeking of young people. The Ministry of Employment and the Economy has initiated competitive tendering of employment services as part of the key project 'Reform of employment service activities to support employment'. Young people and the youth guarantee will be taken into account as far as possible in the pilots.

3.3.5 Integration of immigrants

Integration of immigrants has been enhanced to correspond to the increased number of people receiving residence permits in the asylum procedure. The resources of the Employment and Economic Development Centres and integration training as well as local government support for the reception of immigrants have been increased.

Preparation of the Government Integration Programme 2016–2019 has begun. The programme will specify integration objectives and measures as well as the required resources. Simultaneously with the Government Integration Programme, an Integration Partnership Programme will be prepared with other key partners (municipalities, labour market organisations, immigrant communications and organisations, religious communities, non-governmental organisations, business representatives). It is intended to publish both programmes during spring 2016.

The focus of integration measures is rapid access to education and training and other integration services as well as employment. The recognition of immigrants' skills and competence-based qualifications will be expanded and accelerated in cooperation with educational institutions. Immigrants will be directed particularly to sectors suffering from labour availability problems, and the utilisation of immigrants' innovation and entrepreneurship potential will be emphasised.

The active participation in integration measures of asylum seekers given leave to stay will be emphasised and a support system developed to activate and promote integration into society.

The Employment and Economic Development Centres are prepared for an increasing number of clients. Impact investments will be utilised to implement a rapid employment trial in which the rapid employment of immigrants will be combined with the continuation of training and education during employment.

3.3.6 Vocational education

The vocational education qualification structure has been reformed so that it is skills-based, modular, oriented towards working life and facilitates the building of flexible study paths. The learning outcomes of qualifications and competence requirements have been specified based on skills, and the building of qualifications from mandatory and optional study modules has been strengthened, which facilitates their flexible utilisation in responding to skills needs. The new structure also promotes identification and recognition of previously acquired expertise as part of studies. The reforms came into force on 1 August 2015.

In addition to the reform of the qualification structure, a reform of the funding and governance framework of vocational upper secondary education was launched in October 2015. The reform will also increase and diversify learning in the workplace by developing apprenticeship training and by introducing a new training agreement model that facilitates flexible paths to learning in the workplace and a practical approach to obtaining a qualification. The objective is for various forms of learning in the workplace to form a clear and coherent entity for the learner, the employer and training provider. The reform is intended to come into force at the beginning of 2018.

3.4 Competition in the retail sector

Recommendation 4: take measures to open the retail sector to effective competition.

The most significant legislative change in the retail sector has been the liberalisation of the opening hours of shops, barbers and hairdressers from the beginning of 2016, when the Act on the Opening Hours of the Retail Trade and Barbers and Hairdressers was repealed. Traders can now decide freely when they wish to keep their businesses open. At the same time, consumers' opportunities to shop at times suitable for them improved. The right of small entrepreneurs operating in shopping centres to one free day per week was maintained, however. The reform removed opaque opening hour rules as well as the obligation for shops and hairdressers to apply for exceptional permission to open. In addition, shops of different types and sizes have been set on an equal footing.

In accordance with Prime Minister Juha Sipilä's Government Programme, market activity and free competition will be promoted by reforming key legislation and removing sectoral regulation that prevents competition. Based on the Government Programme, a number of other legislative projects are pending aimed at facilitating access to markets, improving competitiveness and streamlining regulation. A few on-going projects are outlined below.

Regulation of transport markets will be brought together into a unified Transport Code. Regulation will be reformed by bringing together and, where possible, harmonising the Public Transport Act, the Taxi Transport Act, the Act on Commercial Freight Transport on Roads, certain provisions on the qualifications of drivers and some provisions of the Vehicle Act. The aim of the project is to promote the creation of new service models, thereby better fulfilling users' needs and facilitating market access. The Transport Code will promote the introduction of new technologies, digitalisation and new business concepts, and at the same time ease regulation.

A comprehensive reform of alcohol legislation aims to integrate and balance the Government's objectives relating to people's health and wellbeing as well as objectives relating to business competition and reduced regulation. The changes would likely liberalise provisions relating to restaurants' serving hours and customer service, abolish the categorisation between all alcoholic beverages, wines and class III beer when granting licences to serve alcoholic beverages, and extend the opening hours of Alko shops. The Government's proposal on the Alcohol Act is due to be submitted to Parliament in early summer and the legislation is due to come into force on 1 January 2017.

A first-stage proposal to amend postal legislation has been submitted to Parliament and it is due to come into force on 1 May 2016. According to the proposal, a notification obligation would be adopted instead of an operating licence requirement. In the second stage of the reform of postal legislation, access to the postal distribution network and the extent of the universal service will be reviewed.

A working group examining the natural gas market proposes, in its report prepared in the form of a Government proposal and published on 21 January 2016, the reform of the Natural Gas Market Act and the gradual liberalisation of the natural gas wholesale and

retail markets to competition. Proposal would be based on the ending of an isolated market's derogation for from applying the rules of the Natural Gas Market Directive. The proposal would relate to the planned Baltic connector gas pipeline between Finland and Estonia.

At the beginning of April 2015, an amendment to the Land Use and Building Act came into force whereby a perspective promoting the effectiveness of business competition was included in land use planning provisions. In the same context, the practising of a land-use policy was prescribed as a municipality's statutory duty. The objective of the change was to increase the effectiveness of competition through land use policy means, for example with respect to the wholesale and retail trade as well as housing production. At the beginning of February 2016, an amendment to the Land Use and Building Act came into force whereby the Ministry of the Environment's confirmation procedure relating to regional land use plans and joint master plans was abolished. The amendment will accelerate regional land use planning and increase the opportunities for regional councils to react more quickly to changes in the operating environment of the wholesale and retail trade. In accordance with the Government Programme, "the retail outlet quality classification in land use planning will be abolished" and "large unit regulation will be eased in the area of city centre operations". An amendment of the Land Use and Building Act relating to the easing of controls on the wholesale and retail trade as well as the streamlining of permits for other land use planning and construction is in preparation.

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

Table 1 lists the targets according to the EU 2020 Strategy, Finland's situation in 2014 and the strategy target for 2020. Each target is examined separately in the sections of this chapter.

Table 1. EU targets and national targets in accordance with the Europe 2020 Strategy

	EU headline target	Finalnd in 2014	Finalnd in 2020
Employment rate (20 - 64 year-olds)	75 %	73.1 %	78 %
R&D expenditure / GDP	3 %	3.17 %	target level 4 %
Climate:			
Greenhouse gas emissions (outside emissions trading)	-10% from 2005 level	30.1 ¹⁾	28.4 ²⁾ million t CO ₂ equivalent
- share of renewable energy	20 %	38.7 %	38 %
- energy efficiency (end-use energy consumption)	-20 %	297 TWh	310 TWh
Education:			
- proportion of 30 - 34 year-olds having completed tertiary education	40 %	45.3 % ³⁾	42 %
- early school-leavers	10 %	9.5 % ⁴⁾	8 %
People living at risk of poverty or social exclusion	20 million less	909 000	770 000

¹⁾ Finland's target for 2014 for the sector outside emissions trading is 31.3 million t CO₂ equivalent. In 2014 the sector's emissions were 1.1 million t CO₂ equivalent lower than the target. Source: Decisions (2013/162/EU; 2013/634/EU); Statistics Finland 2015 percentage figures are no longer suitable as such for this purpose, because the calculation basis has changed (coverage of the sector outside emissions trading has changed due to changes that have taken place within the emissions trading sector).

²⁾ Finland's target for 2020 for the sector outside emissions trading is 28.4 million t CO₂ equivalent.

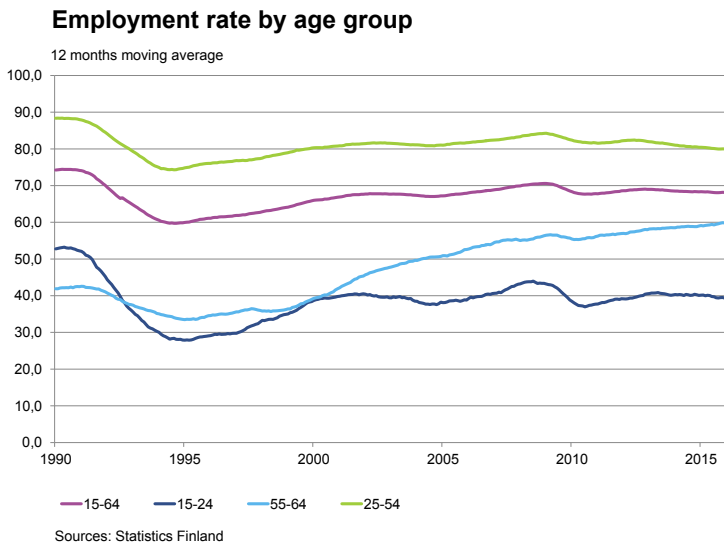
³⁾ The figure is based on Statistics Finland's Labour Force Survey. In the Europe 2020 indicators published by Eurostat, the corresponding proportion was 45.1% in 2013.

⁴⁾ 18–24 year-old early school leavers who have no post-basic education qualification and who are not studying in education leading to a qualification. The percentage has been calculated from the same age population using the qualification register and student files. The data differ from the figures published by Eurostat, which are based on the Labour Force Survey. Situation on 30 September 2014.

4.1 Employment target

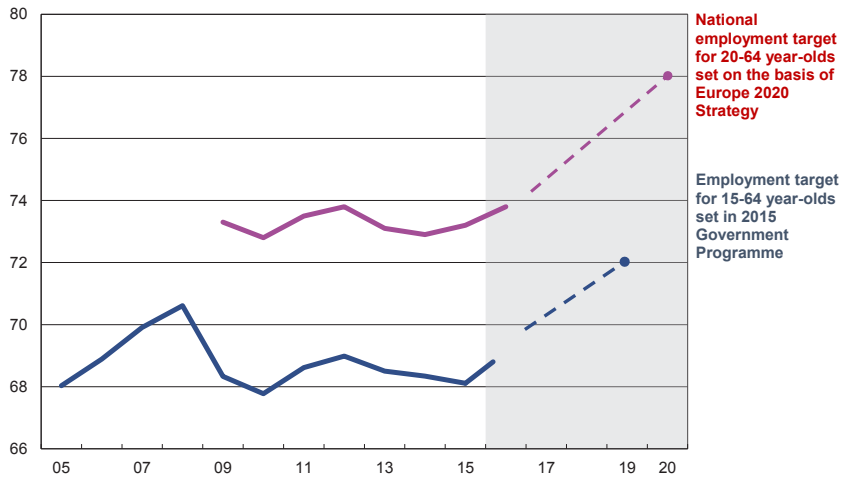
The Government's objective is to raise the employment rate of 15–64 year-olds to 72%, to increase the number of employed by 110,000 people and to boost the level of labour input. On a one-off basis, the Government will invest EUR 1 billion in key projects to promote economic growth. A planned entrepreneurship package will be part of this. Section 3.3 describes the related labour market measures.

Achieving the employment target will be challenging, due to the prolonged weak economic development and restructuring. There has been an increase in job vacancies, although there are not as many as before the recession. A key challenge is presented by mismatches in labour demand and supply. As a result of restructuring, vocational matching problems in particular have spread, but there are also problems in regional matching, despite the expansion of commuting areas. The prolonged weakness of demand has reduced the employment of young people and of those at the best working age, and has increased at the same time unemployment and movement to outside employment. Through growth in the number of unemployed, periods of unemployment have lengthened and the drift to long-term unemployment has grown. Due to restructuring, completely new groups have joined the long-term unemployed.



An increase in part-time work, in particular, but partly also the age structure of labour will have a positive impact on achieving the employment target. The labour supply has grown, particularly due to the later retirement of older workers. The supply of labour and employment have not, however, developed as positively in younger age cohorts.

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



Sources: Statistics Finland, MoF

4.2 Research and development target

The main objectives of research and innovation policy are improving the level of research activity, reforming public sector research structurally and operationally, and diversifying the structure of business and industry.

The Government's objective is to raise Finland to a path of sustainable growth and employment. The Government is adjusting research activity to economic constraints, as a result of which cuts have had to be made in central government research funding. Despite this, the aim is to ensure sufficient funding in the most important fields in terms of the economy, productivity and employment, and in selected fields supporting renewal and growth. Even after the cuts, Finland will achieve the EU's headline target.

The volume of R&D activity and its share of GDP (R&D intensity) have declined in recent years. R&D intensity peaked at 3.8% of GDP in 2009. Since then, both the central government and businesses have reduced their research expenditure. According to Statistics Finland, Finland's R&D intensity was 3.2% in 2014 and it declined in 2015 to an estimated 3.1%. At the end of the decade, current data indicate that R&D intensity will be around 3%. The intensity of central government research funding in 2015 was 0.97% and it will be an estimated 0.90% in 2016.

In the period 2015–2019, the Government will make reforms in five priority areas, which will be implemented through 26 key projects. A number of key projects are connected with R&D policy, and one of the most important is the key project to strengthen cooperation between universities and business in order to utilise and commercialise research results.

The Academy of Finland will implement a new form of funding aimed at financing researcher-proposed measures to utilise the results of their scientific research. The Finnish Funding Agency's for Innovation (Tekes) existing and new instruments for utilising research will be increasingly directed to commercialisation of research results and to solving social challenges (e.g. Creating Business from Research instrument, Challenge Finland, Research Benefit and Innovation Scout instruments). In the key project, EUR 59 million will be directed to Tekes and EUR 30 million to the Academy of Finland for these measures in the period 2016–2018. The utilisation of research will also be better taken into account in other public R&D funding.

Development of cooperation and division of responsibilities between universities and research institutes will be continued. In early 2016, universities and research institutes will make proposals on this, and further measures will be prepared during 2016.

In agreement negotiations conducted with universities during 2016, reforms of structures and operating practices as well as a timetable will be agreed in order to enhance the quality and effectiveness of universities. Funding models for universities and universities of applied sciences will be renewed so that they enhance the quality, effectiveness and productivity of their activities. Decisions on funding models for the period 2017–2020 will be made in spring 2016.

A multi-annual roadmap for deepening cooperation between universities and research institutes was prepared in April 2015. The Academy of Finland's Finnish Research Infrastructure Committee funded research infrastructure projects with EUR 13.6 million in 2015.

Conditions for new, skills-based business activity will be improved by building growth environments as well as innovation and development platforms for digital business and by utilising open data and information resources. A further goal is to direct 5% of public procurement to acquisitions supporting R&D activity. Business and industry as well as entrepreneurship will be boosted by strengthening funding for business capital markets.

4.3 Climate and energy target

The Emissions Trading Scheme ensures that the emissions trading sector fulfils the greenhouse gas emissions reduction targets set for it by the EU (in the EU -21% by 2020 compared with 2005). The reduction of emissions outside emissions trading is the Member States' responsibility. Finland's obligation is to reduce emissions outside emissions trading by 16% by 2020 compared with the 2005 level. According to Statistics Finland (14 December 2015), emissions outside emissions trading (e.g. use of fuels in the heating of buildings, transport excluding air transport, agriculture, waste management and use of F gases) fell in 2014 by nearly 4% from the previous year, were below the emissions quota set by the EU by 1.1 million tonnes, and were again below the obligation according to the target path for emissions reductions set in EU legislation.

The 2020 target for renewable energy is 38% of end-use energy consumption. In Finland, use of renewable energy has grown in a front-loaded manner, and Finland has already exceeded the minimum target set by the EU for renewable energy. In 2014 renewable energy

accounted for 38.7%, i.e. 126 TWh, of end-use energy consumption. The EU's renewable energy obligation for the transport sector is 10%, but Finland has nationally decided on the higher target of 20% for 2020. The biofuels distribution obligation for sellers of road transport fuels will ensure that this target is achieved. Finland's National Renewable Energy Action Plan set a target of 25 TWh for the use of forest chips in production of electricity and heat in 2020. A wind power production target of around 9 TWh will be set for 2025. The target set earlier, for 2020, is 6 TWh.

Under the Energy Efficiency Directive, EU Member States must set a national indicative energy efficiency target for 2020 based on primary energy or end-use consumption. The Government has set a target of restricting growth of energy end consumption by improving energy efficiency such that in 2020 energy consumption is a maximum of 310 TWh (26.7 Mtoe). An Energy Efficiency Act has been prepared to implement the Energy Efficiency Directive. In addition, a long-term strategy to improve the energy efficiency of buildings as well as an energy-saving plan for central government buildings have been formulated, energy efficiency agreements for municipalities as well as the continuation of energy-efficiency plans from 2017 onward have been prepared, and the possibility of an obligation programme for energy companies has been explored.

Parliament approved the Climate Act on 3 March 2015. The Act sets an emissions reduction target of 80% for greenhouse gases by 2050. By the end of 2016, a National Energy and Climate Strategy will also be prepared. The Energy and Climate Strategy will comprehensively examine energy sources, energy production and energy consumption and outline the measures by which the energy targets stated in the Government Programme will be achieved. In addition, the strategy will examine, among other things, electricity and gas market issues. The Energy and Climate Strategy and the medium-term climate policy plan will be prepared in parallel, using, for example, the same scenario calculations in both.

The National Climate Panel was established for a four-year term from the beginning of 2016. The term expires at the end of 2019. The Climate Panel's work promotes dialogue between scientists and policy-makers and reinforces the extensive knowledge base of climate policy preparation.

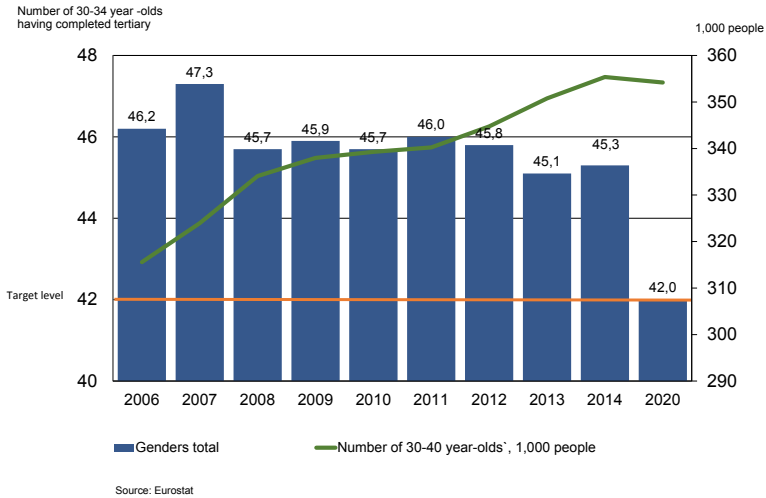
4.4 Education targets

4.4.1 People having completed tertiary education

Finland fulfils the EU's headline targets in both education targets. The goal, however, is to develop education from a national perspective.

The selection procedure for universities will be reformed and cooperation between secondary and tertiary education will be tightened to ensure that young people move more quickly into further education. Flexible study paths will facilitate the completion of studies as well as reconciliation of work and studies. In negotiations to be held in 2016 for the agreement period 2017–2020, the Ministry of Education and Culture will agree with the universities targets to accelerate transfers into working life. The target will be supported by allocating to it strategy funding for tertiary education.

Proportion of 30-34 years-olds having completed tertiary education 42 % ir



Financial aid for students will be reformed. From the beginning of August 2016, the study grant will no longer be increased in line with the National Pensions Index. The Government Programme outlined a saving on financial aid for students. The criteria for granting financial aid for students will also be changed so that financial aid for students will be granted for studies abroad to Finnish citizens and comparable persons who, based on living conditions, have a fixed connection with Finland. The purpose of the change is to take into account EU legislation and the increased mobility of students. Tertiary education study grant levels will be standardised with secondary education study grant levels. The grant period intended for all tertiary education will be shortened by 10 months and the degree-specific grant period will be shortened by two months. The amount of the government guarantee for student loans will rise. By the autumn 2016 budget session, the Government will prepare a proposal on the transfer of students to within the scope of the general housing allowance.

4.4.2 Early school leavers

According to Finland's national target, the proportion of early school leavers, i.e. mainly 18–24 year-olds who only have an elementary school certificate, will be at most 8% in 2020.

Table 2. Proportion of early school leavers in 18–24 year-old age cohort in 2015

Gender	Dropouts	Population	Proportion (%)
Women	17 500	225 700	7.8
Men	23 600	216 800	10.9
TOTAL	41 300	442 600	9.3

The Government's objective is to reform basic education for the 2020s. The reform consists of three parts: a new pedagogy, new learning environments and digitalisation of education. The goal is to improve learning results, respond to future skills needs, renew pedagogy through experimental schemes and inspire lifelong learning. The goal is to promote school peace and to ensure a psychologically, physically and socially safe and secure school day for every pupil and student.

Legislation on early childhood education will be reformed in stages. The first changes came into force on 1 August 2015; objectives for early childhood education were revised, right of a child to early childhood was reinforced, the inclusion of the child and guardian was strengthened, and the preparation of early childhood education plans was made obligatory for organisers of early childhood education.

As part of public sector consolidation measures, changes to early childhood education have been prepared and are due to come into force on 1 August 2016. The changes relate to restricting the subjective right to early childhood education and increasing the ratio between of over 3 year-old children to educators in day care centres. In addition, an increase in early childhood education customer fees is being prepared.

An obligation to participate in pre-school education came into force on 1 January 2015. The obligation to participate in pre-school education means that, in the year preceding compulsory schooling, children must participate in one year of pre-school education or in other activity that achieves the objectives of pre-school education.

4.5 Poverty reduction target

In 2010, the European Council agreed that the group of people at risk of poverty and social exclusion should be assessed on the basis of three indicators, namely relative risk of poverty, material deprivation and the under-employment of households. When all of the indicators decided in the European Council are taken into account, risk of poverty or social exclusion affects a total of around 909,000 people in Finland. There are around 674,000 people living in low-income households, around 416,000 working-age members of under-employed households, and around 118,000 members of households suffering from material deprivation. In Finland the low-income group also includes students, whose low-income status is temporary.

In the poverty target monitoring period, the number of people on low incomes and suffering from material deprivation has fallen, but the number of those in under-employed households has grown.

In 2014 Finland had nearly 423,000 long-term low-income people, i.e. 7.9% of the entire population. The number has been falling since 2011. There are clearly more people on low incomes, however, than at the beginning of the 2000s.

In 2014 the number of households receiving social assistance increased by 3.1% compared with the previous year. Altogether, 7.2% of the population received social assistance. In 2014 social assistance was received by 26.5% of single parent women, 17.4% of single parent men, 14.1% of men living alone and 8.7% of women living alone. On the other hand,

5% of two-adult households with children and only 2.1% of two-adult households without children received social assistance. In real terms, social assistance expenditure increased by 0.1% from the previous year. Since 2000, gross expenditure on social assistance has grown in real terms by 37%. The basic component of social assistance was increased in 2016, so its level was maintained at the 2015 level, despite a fall of 0.4% in the National Pensions Index. The granting and payment of basic social assistance was transferred to the responsibility of the Social Insurance Institution of Finland at the beginning of 2017. The aim of the reform was that clients applying for basic social assistance would as far as possible be on an equal footing.

The guarantee pension was increased from the beginning of 2016 and will increase further from 2018. The purpose of the guarantee pension is to safeguard the income of pensioners if their pension is otherwise insufficient for a reasonable income.

Among the Government's key projects, there are a number that have the effect of mitigating poverty and social exclusion, for example the reform of unemployment security, the removal of incentive traps, the development of an inclusive social security model, the basic income experiment, the promotion of employment for people with partial work ability, the development of the youth guarantee and the reform of employment service activities.

5 EU funds

The Partnership Agreement is a framework document bringing together all the measures, results and reconciliation of European Structural and Investment Funds. It has been prepared on the basis of the strategic objectives and key challenges set out in the Europe 2020 Strategy, its National Reform Programme and the Council's country-specific recommendations. The Partnership Agreement was approved in October 2014 and it took into account the Council's country-specific recommendations, given in connection with the 2014 Semester, with respect to the following challenges: expansion of research and innovation, weaker competitiveness of businesses in sparsely populated areas and the reduction of services, unemployment (particularly young people, older people and the long-term employed), changing skills needs and flexible transitions to education and work, exclusion from working life, and growth of wellbeing and health disparities as well as inequality.

In accordance with the Prime Minister Sipilä's Government Programme and the country-specific recommendations given by the Council in July 2015, conditions for growth were enhanced by amending the Mainland Finland Structural Fund. The European Regional Development Fund's support to secure conditions for growth of businesses was increased by establishing Finland's SME Initiative programme. By moving from direct grants to more innovative financial instruments aimed at achieving greater leverage, the risk financing options for SMEs will be improved by easing lending terms. With respect to the SME Initiative, a separate programme has been prepared that is not linked to the Structural Fund programme.

6 Institutional issues and stakeholder participation

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

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

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

Parliament has participated in the preparation of various Council configurations and the European Council with respect to the Commission's 2016 Growth Survey and the European Semester. The National Europe 2020 Reform Programme will be submitted to Parliament. The programme will also be presented to social partners in connection with EU procedures.



MINISTRY OF FINANCE
Snellmaninkatu 1 A
PO BOX 28, 00023 Government
Tel. +358 295 160 01
Fax 09 160 33123
www.financeministry.fi

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