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Finlands National Programme
Spring 2013

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Economic outlook and economic policy

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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 with 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 2011 and 2012, the European Council adopted recommendations for all Member States aimed at guiding national decision-making. The recommendations given to Finland relate to the long-term sustainability of public finances, productivity of public services, reducing unemployment and raising the actual retirement age, increasing competition, and business structure diversification and wage development.

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

Contens

1 Introduction

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.

The first European Semester was launched at the beginning of 2011. The goal of the annual Semester is to enhance coordination of economic policy in the EU.

The Semester is launched by the Commission's Growth Survey. Based on the survey, the European Council specifies in March the most important economic and employment policy challenges, and gives general guidance to Member States. In April, the Member States report to the EU in the form of a stability or convergence programme and a Europe 2020 national programme. These programmes take into account the guidance given by the European Council. At the end of May, the Commission makes proposals for country-specific recommendations. After discussion in committee, the Council approves the recommendations in July.

The weighting given to the EU's country-specific recommendations rose significantly at the beginning of 2012. Recommendations are now given under EU regulations strengthening economic governance. Member States have committed to take due account of the guidance addressed to them in the development of their economic, employment and budgetary policies. The Commission monitors the Member States' progress and can give a Member State further recommendations and sanctions, if necessary.

The EU's new economic policy legislation also includes a regulation on macroeconomic imbalance, by which the Commission assesses whether there is an excessive macroeconomic imbalance or threat thereof in a Member State. Fourteen Member States, including Finland, are now subject to assessment. The review carried out in 2012 showed that none of the countries studied had an excessive imbalance that would have launched a new excessive macroeconomic imbalance. Some of the country-specific recommendations, however, were given on the basis of macroeconomic imbalance.

On 28 November 2012, the Commission published the 2013 Growth Survey, which initiated the EU's third Semester. In the 2013 Growth Survey, the Commission confirmed the same priorities as in 2012. All Member States should focus on five priorities to safeguard growth and stability:

1. pursuing differentiated, growth-friendly fiscal consolidation,
2. restoring normal lending to the economy,
3. promoting growth and competitiveness,
4. tackling unemployment and the social consequences of the crisis, and
5. modernising public administration.

The March European Council also emphasised supporting youth employment, deepening the Single Market and reducing bureaucracy.

2 Macroeconomic situation and scenario

In 2012 Finland's GDP contracted by 0.2 per cent. Exports declined from the previous year by around 1½ per cent. The subdued outlook for the real economy and the continued sense of high uncertainty also contributed to depress investment. Private consumption grew by 1.6 per cent, however, and public consumption by nearly 1 per cent, which maintained demand in the economy.

Despite the sluggish economic development, employment increased last year by 0.4 per cent last year and the unemployment rate fell to 7.7 per cent. At the end of the year, the employment situation started to deteriorate. According to a forecast made by the Ministry of Finance in spring 2013, unemployment will rise significantly this year, and the average unemployment rate for the year will be 8.2 per cent.

In both 2014 and 2015, the economy is projected to grow by around 2 per cent and to be more broadly based. Exports and imports will grow faster than in previous years. Private consumption will grow and the household debt ratio will rise to 122 per cent. Once growth gets underway, investment will also begin to edge up slowly. Unemployment is expected to remain above 8 per cent and no clear turn for the better is foreseen in structural unemployment.

The financial markets are expected to settle down. The euro area crisis will continue, however, and financial market instability may increase. This may have serious consequences for economic activity.

The Ministry of Finance considers that domestically the main source of risk lies in how the real economy reacts to the international economic situation. This is largely a matter of decisions taken by individual businesses, but economic policy can certainly play a part in this, too. A predictable and transparent fiscal policy coupled with a clear tax structure with strong incentive effects creates the necessary conditions for economic growth. In the longer term, the challenge is how to mount a credible economic policy response to the sustainability gap problem. The risk of increasing household indebtedness should not be underestimated.

On 21 March 2013, the Government decided on the central government spending limits for 2014–2017. Public finances will be adjusted by measures that will improve the central government financial position by a total of around EUR 500 million. Over the parliamentary term, half of the adjustment measures are tax increases, half spending cuts. As a result of the Government measures, the central government debt ratio will level off in the final year of the parliamentary term.

The revenue base will be reinforced particularly by increasing excise duties on products harmful to health, such as alcohol, tobacco, sweets and soft drinks. The Government will make no changes to value-added tax.

The Government will reform the structure of taxation by lowering the corporate income tax rate from 24.5 per cent to 20 per cent, while at the same time increasing the taxation of dividends. The tax base will be expanded by reducing the temporary research and development tax incentive as well as the validity period of the double depreciation allowance for industrial production investments, i.e. the tax deduction will be available only in 2013 and 2014. The objective is to strengthen growth potential, boost investment, create jobs and to improve businesses' salary payment capacity. Reform of the tax structure will clarify the tax system and reduce the administrative burden and opportunities for unwelcome tax planning. In addition, the progression limit of capital income taxation will be lowered from EUR 50,000 to EUR 40,000. Changes in corporate and capital income taxation will reduce income disparities.

Taxation of dividends will be revised and in future dividend income will be taxed only as capital income. With respect to listed companies, 85 per cent of dividends will be taxed as capital income. As regards non-listed companies, 25 per cent of dividends will be taxed as capital income up to an amount corresponding to an 8 per cent rate of return on the mathematical value of the shares, however not exceeding EUR 150,000. Of the amount exceeding this threshold, 85 per cent will be taxable as capital income.

The Government emphasises the importance of economic growth and new jobs as the solution to the challenges facing public finances. Finland's economic success depends and will continue to depend on high employment, competitive production, high skills levels, equitable welfare services and social justice as well as a universal and inclusive welfare system.

2.1 Macroeconomic outlook in the programme period

In November 2012, the Commission published its second report on the alert mechanism relating to macroeconomic imbalances. The previous report was published in February 2012.

The macrostability reports assess the situation of Member States using a number of indicators and threshold values. A new indicator describes the change in financial institution debt. The Commission's assessment is based on financial considerations, and exceeding a threshold value alone does not indicate that an imbalance is developing.

According to the Commission, no threat of an excessive imbalance in evident in Germany, Austria, Poland, Luxembourg, the Czech Republic, Slovakia, Estonia, Latvia and Lithuania. The situation of Greece, Ireland, Portugal and Romania was not assessed in this context.

According to the Commission's assessment, there might be an excessive imbalance or a threat thereof in 14 Member States, namely Spain, France, Italy, Hungary, Slovenia, Cyprus, the Netherlands, Belgium, Bulgaria, Malta, Sweden, Denmark, the United Kingdom and

Finland. The situation is considered to be serious in Spain, France, Italy, Hungary, Slovenia and Cyprus. The Commission is preparing a more thorough assessment of all 14 countries. If further investigation finds that the economies of these Member States have no significant imbalance, the procedure will be halted. If a harmful imbalance is found, the Member State must initiate corrective measures.

According to the Commission, Finland's biggest challenge is an erosion of competitiveness. A particular problem is loss of export market share and increasing unit labour costs. The level of private debt and the liabilities of the financial sector are also high. In terms of capital adequacy, the Commission considers Finland's financial sector to be stable, however, but that its liquidity should be strengthened. The assessment of the now published report does not differ significantly from the Commission's first report.

The Commission's assessment of Finland's macroeconomic imbalance is partly justified. This was confirmed last spring, after the Commission's first assessment. The financial crisis that began in 2008 and the European debt crisis that followed it have strongly tested Finland's export industry. Finland's exports have not yet recovered from this setback.

The weak development of exports is partly explained by the fact that the production structure of the economy in the first decade after the turn of the millennium did not react quickly enough to changes in international demand. The restructuring of production is a big challenge to Finnish exports, and developing new significant export goods and services will take time. In 2012 the proportion of export goods, excluding re-exports, accounted for by electronics was less than 5 per cent. This represents a decline of more than 10 percentage points since 2008. At the same time, the proportion of export goods accounted for by chemical products has risen to around 21 per cent. This growth is partly explained by a rise in the prices of chemical products.

Moreover, the proportion of Finnish exports accounted for by emerging markets has not grown significantly. Around 30 per cent of export goods is still directed to the euro area, 24 per cent to other EU countries and 17 per cent to elsewhere in Europe. In services trade, the role of Europe is lower and that of Asia significantly higher.

The value of export goods relative to GDP has declined from 38 per cent to 29 per cent between 2000 and 2012. In the same period, the value of service exports has grown, however, from 6 per cent to 13 per cent. Finland's exports are now based more on exports of services, and on exports of digital services in particular. Of the ten sectors considered to be the most competitive internationally, already three are service sectors: information technology services, construction services and business services.

In addition to the structure of foreign trade, a faster increase of unit labour costs than in competitor countries has also contributed to weakening the external balance of the economy. It was believed that the financial crisis and the recession that followed it would remain relatively short-lived in Finland, and for this reason businesses did not make workers redundant to the same extent as total output contracted. Business responded to the recession with temporary lay-offs and by reducing working hours. Labour productivity weakened. Wages rose, however, on the basis of settlements negotiated before the crisis. A two-year framework agreement concluded in autumn 2011 fostered industrial peace, stability and predictability in Finland's economy. Labour costs have still increased relatively quickly, however.

The Government's measures supporting the agreement have been timely in terms of cyclical policy.

The risk-sensitive development expenses mentioned with respect to Finland in the Commission's macroeconomic imbalance report are to a large extent such that the Government can only influence them indirectly or direct opportunities to influence them are very limited. Many factors affecting the macroeconomic balance require the input of social partners.

2.2 Macroeconomic impact of structural reforms

A number of measures mentioned in the programme have macroeconomic effects. It is not yet possible to assess the impact of measures agreed in connection with the spring 2013 spending limits decision. The Ministry of Finance has estimated that the pension decisions made in the spring 2012 spending limits decision and which came into force at the beginning of 2013, namely the abolition of the early old-age pension, the raising of the lower age limit for the part-time pension and the raising of the minimum age of eligibility for the unemployment path to retirement, will increase the number of people in employment by 24,000 and extend working careers by four months.

3 Implementation of country-specific recommendations

3.1 Long-term sustainability of public finances

EU recommendation 1: Preserve a sound fiscal position in 2012 and beyond by correcting any departure from the medium-term budgetary objective that ensures the long-term sustainability of public finances; reinforce and rigorously implement the budgetary strategy, supported by sufficiently specified measures, for the year 2013 and beyond including meeting the expenditure benchmark; continue to carry out annual assessments of the size of the ageing-related sustainability gap and adjust public revenue and expenditure in accordance with the long-term objectives and needs; integrate the local government sector better in the system of multi-annual fiscal framework including through measures to control expenditure.

According to the EU regulation[1], each Member State should have a differenrentiated medium-term objective for its budgetary position. The objective should be revised every three years.

The Fiscal Compact[2], signed by 25 EU countries in 2012, came into force at the beginning of 2013. According to the compact, a medium-objective for the general government structural balance must be enacted in national legislation as well as a correction mechanism which would be launched if there were significant deviation from the medium-term objective or from the adjustment path leading to it. In Finland, this legislation (the so-called FIPO Act)[3] came into force at the beginning of 2013.

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1 European Parliament and Council Regulation (EC) No. 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies, last amended in 2011 in connection with the so-called Six Pack.

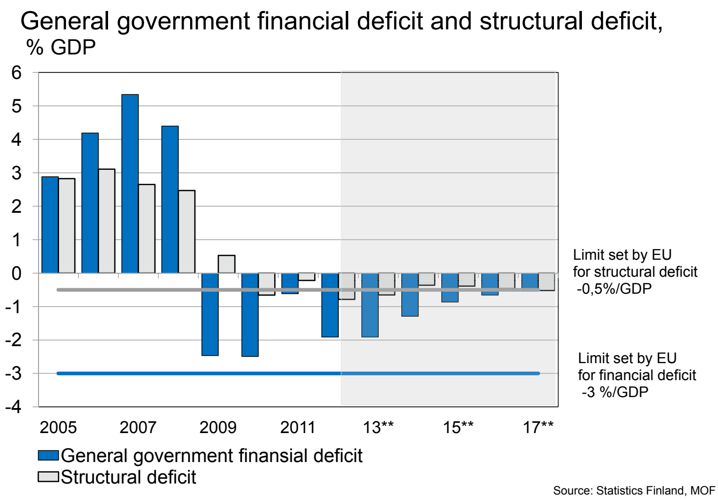
2 The Treaty on Stability, Coordination and Governance in the Economic and Monetary Union between Belgium, Bulgaria, Denmark, Germany, Estonia, Ireland, Greece, Spain, France, Italy, Cyprus, Latvia, Lithuania, Luxembourg, Hungary, Malta, the Netherlands, Austria, Poland, Portugal, Romania, Slovenia, Slovakia, Finland and Sweden.

3 The Act on the implementation of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, the implementation of Treaty provisions of a legislative nature and as well as requirements concerning multi-annual budgetary frameworks (869/2012).

The spring 2013 Stability Programme sets a medium-term objective of -0.5 per cent of GDP for the general government structural balance. This fulfils the minimum requirements of both the Stability and Growth Pact and national legislation.

According to the forecast presented in the Stability Programme, the general government financial position will strengthen and the general government debt to GDP ratio will start to decline during the programme period. The general government structural balance will remain stronger than the medium-term objective, but the deficit target set for central government finances will not be achieved. The financial position of both central and local government will remain in deficit in the spending limits period and the surplus of earnings-related pension funds will decrease as pension expenditure grows. At the end of the period, the surplus of the earnings-related pension funds will be around 2 per cent of GDP. The finances of other social security funds are expected to remain close to balance.

Population ageing will adversely affect conditions for economic growth, increase central government age-related expenditure and inevitably weaken the general government financial position. The funding of Finland's public finances does not rest on a stable foundation over the longer term. According to a revised sustainability estimate of the Ministry of Finance, the general government financial surplus ought to be 3.3 per cent of GDP in 2017 to enable the public authorities to handle their obligations also over the longer term. The size of the sustainability gap is assessed annually.



In its Government Programme agreed in June 2011, the Government committed to initiate the measures necessary to fully close the sustainability gap by 2015. To cover the sustainability gap, the Government aims to raise the employment rate, prolong working careers and improve the impact, effectiveness and productivity of public services and to strengthen the economy's growth potential by means of taxation and the allocation of central government expenditure.

The Government adjusts public revenue and expenditure in accordance with long-term objectives and needs through an annual spending limits decision. The Government has adopted a range of measures with immediate effect to reduce central government expenditure and boost revenue. The most significant of these measures are included in the Government Programme and in the spending limits decisions of October 2011, April 2012 and March 2013. The measures will be implemented gradually by 2015 and they will improve the central government's net financial position by a total of around EUR 5.4 billion by 2017.

The central government spending limits only cover central government expenditure, even though local government expenditure accounts for most of the costs of public services. The central government spending limits regulate this expenditure only via the central government transfers to local government included within the spending limits system.

The municipal policy pursued jointly by the central government and municipalities is implemented through the statutory Basic Public Services Programme and Budget. The Basic Public Services Programme is approved in connection with the central government spending limits decision and the Basic Public Services Budget is included in the central government budget proposal. The Basic Public Services Programme assesses changes in the local government operating environment and services as well as the development of local government finances. Local government finances are assessed as a whole, as part of public finances and with respect to groups of municipalities. The assessment of local government finances as a whole takes into account changes in municipalities' statutory duties. Steering includes measures to develop local government revenue and expenditure. Steering, moreover, also examines the fulfilment of the municipal sector's national productivity target.

The Government is committed to strengthening the long-term nature, binding effect and steering role of the Basic Public Services Programme procedure and in this way aims to integrate the local government sector better into the multi-annual spending limits system for public finances. The Government decided in spring 2013 that the Ministry of Finance will establish a civil service working group to develop the Basic Public Services Programme procedure with the aim of boosting the macroeconomic steering of local government. This working group will examine the spending limits treatment of local government finances.

The long-term sustainability of public finances as a whole will be improved through an extensive reform of the municipal sector. In addition to the restructuring of local government, the reform package covers local government legislation (Local Government Act), legislation relating to central government transfers to local government, reform of the structure of social and health care services, and the effective utilisation of information and communications technology in public services.

The goal of local government reform is a municipal structure based on economically robust municipalities. The reform of the municipal structure is based as a rule on the joint proposals of municipalities. Mergers of municipalities are supported with central government grants and targeted change assistance, particularly for modernisation of ICT systems, the strengthening of finances and the promotion of change management. The Government has the power to decide on the mergers of municipalities which are in a particularly difficult financial situation.

In spring 2013, the Government decided the main lines of the reform of the structure of social and health care services. The goal is to safeguard local services with a service structure based on economically robust municipalities. Responsibility for arranging and funding services will for the most part remain with the municipalities. Five specific catchment areas, which will coordinate the extensive primary level, will be formed for demanding social and health care services.

Social and health care services will be arranged mainly applying a model in which certain municipalities bear primary responsibility. The central cities of 18 regions as well as economically robust municipalities with sufficient financial capacity and based on natural commuting areas will act as the responsible municipalities. Medium-sized municipalities with 20,000–50,000 inhabitants will arrange primary level services themselves, but a social and health services region administered on the responsible municipality model will be responsible for arranging more demanding services. Municipalities with fewer than 20,000 inhabitants will be responsible for the funding of services, but responsibility for arranging services will rest with the appropriate social and health service region.

Timetable of the municipal and service structure reform

The Municipal Structure Act was submitted to Parliament in April 2013 and it is due to come into force in July. Municipalities must undertake studies and make decisions in accordance with the act by 1 July 2014. Municipalities who have undertaken sufficient studies and made merger decisions by the deadline will be entitled to central government merger grants, other change assistance and compensation for losses of central government transfers. During 2013, the central government will appoint special municipal division rapporteurs for the largest metropolitan regions (12).

The Government will assess the progress of municipal reform towards the end of 2013. A plan to ensure the regional cohesion of metropolitan regions will be prepared based on an assessment of the metropolitan regions' operational configurations.

An action plan aimed at reducing the statutory duties of municipalities will be implemented in 2014–2017. The objective is to achieve an overall reduction of one billion euros in municipalities' and joint municipal authorities' operating expenditure at 2017 prices. Local trials will be launched from the beginning of 2014 to support the action plan.

A new system of central government transfers to local government and legislation reforming the structure of social and health care services are due to come into force at the beginning of 2015.

Assessing the impact of municipal mergers

The impact of municipal mergers has been studied in connection with the structural reform of municipalities and services implemented in 2008–2012. The reform included an extensive five-year research and evaluation programme (ARTTU), for which the Association of Finnish Local and Regional Authorities was responsible. The research and evaluation programme produced systematic and comparable data on the impact of the reform on local services, democracy and leadership, personnel, municipal and local finance, and municipal structures.

The research found that among the benefits of municipal mergers were more efficiently and more economically produced services, a moderation of cost growth and positive effects on personnel. At this stage of the preparation of municipal reform, it is not yet possible to assess its impact on education and social services.

Combating the shadow economy

The Government will step up its efforts to combat the shadow economy. In the spring 2013 spending limits discussion, the Government decided on a number of additional measures. The following additional measures are in preparation:

- enacting an obligation for businesses always to provide an accountable receipt for purchases as well as prohibiting the use of cash for the payment of salaries unless there is a compelling reason to do so
- the granter of business support or a licence must receive electronically and without delay a comprehensive report on how the applicant business has fulfilled its statutory obligations
- a public tax liability register will be introduced
- the construction industry's experiences of the introduction of the tax number will be reviewed with the aim of extending the introduction of tax number into new sectors
- if a foreign company does not register in Finland with the prepayment register or obtain a tax-at-source card, the payer of work compensation should charge tax at source on payments to such a company
- monitoring of money laundering and of the funding of terrorism will be increased
- a fair competition programme will prepare legislative changes with respect to planning and construction as well as the digital, pharmaceutical and waste markets and the third sector
- the competitive neutrality of public and private business activity will be improved
- legislation relating to contractor's liability and public procurement will be reformed. A new Contractor's Liability Act will come into force in 2015. A proposed amendment to the Competition Act relating to competition neutrality was submitted to Parliament in April 2013 and it is due to come into force in September.

The objectives of the Government's action programme to combat the shadow economy and economic crime in 2012–2015 are to reduce opportunities to engage in criminal activity, increase the probability of being apprehended and improve the authorities reaction preparedness in uncovering the shadow economy. At the same time, legal business activity and fair competition will be supported. The Government also emphasises the responsibility of business in combating the shadow economy.

The Government's action programme includes 22 projects. Nearly all of the projects are in preparation and some have already been launched. The Government will continue its information campaign on the theme "participants in the shadow economy always take more than they give". The campaign aims to influence young people's attitudes in particular.

3.2 Productivity of public services

EU recommendation 2: In 2012–2013 take further measures to achieve productivity gains and cost savings in public service provision, including structural changes and efficiency-enhancing territorial administrative reforms, also in order to respond to the challenges arising from population ageing.

An extensive reform of the central government's regional administration was implemented in 2009. In the reform, six authorities were merged into two new authorities, namely the Regional State Administrative Agency (AVI) and the Centre for Economic Development, Transport and the Environment (ELY centre). The new Regional State Administrative Agencies started operating at the beginning of 2010. The aim of the reform was to create a citizen- and customer-oriented regional administration that operates efficiently and effectively.

According to a report submitted to Parliament by the Government in February 2013, the regional administration reform has been a success. The number of authorities has been reduced and the efficiency of regional administration has been improved through the merging of support services and cross-administrative cooperation. The division of responsibilities between authorities is still being developed, however. The Government aims in future to improve the effectiveness of regional administrative reforms.

Central Government Effectiveness and Productivity Programme 2011–2015

The objective of the programme is to increase the effectiveness of central government administration through measures aimed at improving productivity. Further objectives are to improve job satisfaction, enhance customers' perception of service quality and boost the social effectiveness of central government work. Operating practices will be updated and electronic systems introduced by implementing the proposals contained in the programme. In this way, central government effectiveness will be improved and the administrative burden lightened.

In the spending limits discussion in spring 2013, the Government decided to prepare by June a package of measures to lighten the administrative burden, based on ministries' core function analysis proposals. By September, the Ministry of Finance will prepare proposals relating to implementing conditions for electronic services in the public sector, focusing on the management and steering of basic information resources and registers, and joint support for the development of electronic services activity.

Customer Service 2014 Project in 2012 and 2013

The project's objective is to create a nationwide network of citizen services points. The municipalities would be responsible for ensuring that customers receive from one location the services of central government, local government and various public authorities, including services provided at a distance. The intention is to launch this activity at the beginning 2014.

TORI Project in 2012–2014

The project's objective is to gather together the sector-independent information and communications technology tasks of central government agencies and ICT service centres. The aim is to achieve overall financial savings in central government and to safeguard the reliability and quality of services. A total of 11 centres have been listed as ICT service centres.

Promoting local government effectiveness and productivity

The Government's extensive reform of local government as well as the related reform of social and health care practices and structures (described in Section 3.1 above) will also improve the productivity of public services and achieve cost savings in public services.

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

	2010	2011
Operating expenditure, EUR billion	33.8	35.5
Nominal change, %	4.2	4.8
Change in price, %	2.1	3.4
Change in duties, %	0.09	0.18
Change in duties, EUR billion	0.032	0.065
Real change,%	2.01	1.25
Real change, target	1.61	0.85

In 2011 the municipalities' duties increased computationally by EUR 650,000 and the municipal sector's operating expenditure grew nominally by 4.8 per cent. When nominal growth is corrected by the price index and change of duties, the position is such that operating expenditure grew by 0.85 per cent more than the 0.4 per cent figure set for annual growth.

According to the 2014–2017 Basic Public Services Programme, local government finances will be tight throughout the entire spending limits period. Population ageing will increase local government expenditure, while revenue growth will slow. Responding to the challenges caused by population ageing requires strict spending discipline, which would require curtailing growth in wage expenditure, improving productivity, reallocating resources and reforming service models.

There are significant challenges facing the productivity and effectiveness work of municipalities. The changing population age structure will increase demand for social and health services and competition for a diminishing labour force. The productivity and effectiveness of the municipalities will be improved through the cooperation of central government, the municipalities and social partners.

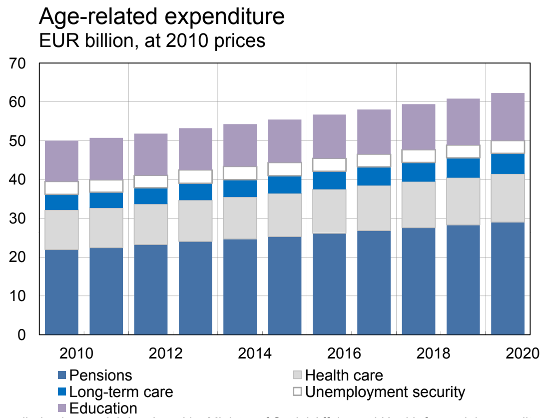


Figure compiled using model developed by Ministry of Social Affairs and Health for social expenditure analysis.

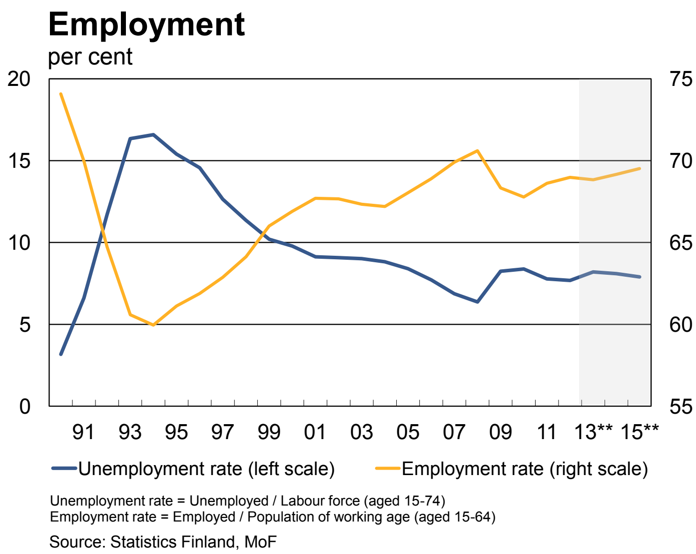
A local government productivity programme implemented in 2010 and 2011 monitored and assessed the productivity programme work of the 20 largest towns and cities. The programme set national targets for improving productivity, prepared a proposal for guidelines on the drafting of a productivity programme for municipalities and joint municipal authorities, and monitored the implementation of measures relating to improving the productivity of municipalities and joint municipal authorities.

In spring 2012, a project was launched aimed at supporting and strengthening work promoting the productivity and effectiveness of municipalities and joint municipal authorities. By the end of 2014, a scorecard on sustainable local government productivity to assess service quality and effectiveness will be created, the exchange of information and cooperation will be enhanced, and good practices disseminated.

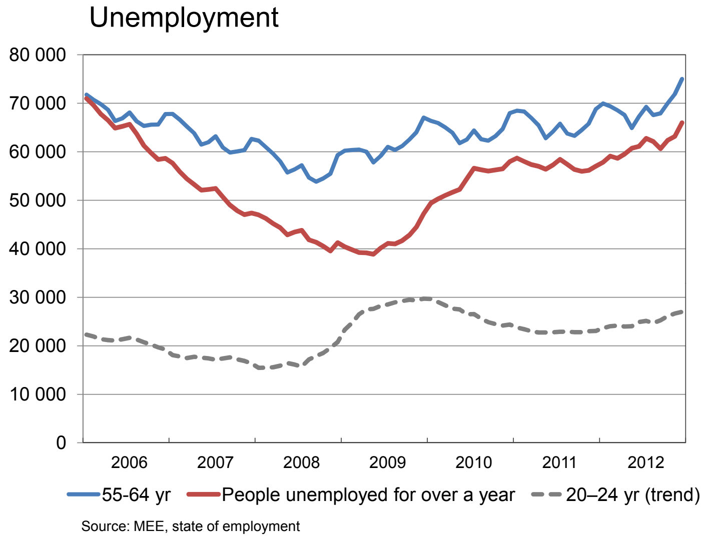
3.3 Reducing unemployment and raising the effective retirement age

EU recommendation 3: In 2012–2013, implement the on-going measures to improve the labour market position of young people and the long-term unemployed, with a particular focus on skills development; take further steps to improve the employment rate of older workers, including by reducing early exit pathways; take measures to increase the effective retirement age taking into account the improved life expectancy.

The aim of the Government's fiscal policy is to raise the employment rate to 72 per cent and lower the unemployment rate to 5 per cent by the end of the parliamentary term, that is to say the end of 2014. As it is, it seems likely that neither of the aims will be achieved since economic growth in recent years has been clearly worse than what was estimated in summer 2011. However, considering the economic trend, employment has developed rather positively. In 2012, the employment rate was 69 per cent while the unemployment rate went down to 7.7 per cent. However, the employment situation started worsening towards the end of the year.



According to the EU recommendation, Finland should pay special attention to improving the labour market situation of young people and the long-term unemployed as well as to raise the employment rate of older workers. Employment of older workers has improved significantly in the 2000s but employment rates in other age groups have remained at the same level. The unemployment rate has gone down in all age groups in the 2000s.



According to the EU recommendation, the labour market situation of young people and the long-term unemployed should be improved especially by skills developing. Development of skills is developed with a new operating model, on which agreement was reached between labour market confederations in March 2013. According to the model, companies would draw up a training plan which would also comment on employees under the threat of disability or unemployment as well as older employees. The point of departure would be the needs of each company. The employer would be entitled to an additional tax deduction on vocational training provided to the staff in accordance with the training plan. Tax deduction amount would be 50 per cent of the average daily wages of the employees including social security costs multiplied with the number of training days. The maximum amount of deduction would be three days per employee a year.

Improvement of young people's labour market situation

At the end of 2012 in Finland there were

- more than 30,000 under 25-year-old unemployed job seekers, less than 5 per cent of the age group
- approximately 2,400 newly graduated 25–29-year-old unemployed job seekers
- approximately 5,000 young people annually graduated from comprehensive school who have chosen not to continue in degree education
- 100,000 under 30-year-olds without a vocational qualification and approximately further 40,000 outside workforce and education system
- outreach youth work reached over 15,000 young people
- approximately 13,000 young people under 29 years of age participated in youth workshop activities

From the beginning of 2013, social guarantee for young people that has been implemented since 2005 was expanded to a comprehensive Youth Guarantee. Each person under 25 years of age, and recent graduates under 30 years of age, will be offered a study, work trial, or workshop or work place within three months of registering as an unemployed jobseeker. Annually EUR 56 million has been reserved for the implementation of the Youth Guarantee, of which employment guarantee accounts for EUR 28 million, educational guarantee EUR 20 million and outreach youth work and workshop activities EUR 8 million. The spring 2013 Government decision on spending limits increased Youth Guarantee appropriation by EUR 10 million in 2014 and 2015 and by EUR 14 million in 2016 and 2017. Additional investments are steered to increasing the range of vocational upper secondary education.

An employment plan must be drawn up for each unemployed young person within two weeks of the registration as a job seeker. The plan will include jointly agreed goals and services. According to the plan, young people will be obligated to apply to degree education. The Employment and Economic Development Office (TE Office) is obligated to offer vocational guidance and career planning services, work and education trials, start-up money and vocational workforce training.

Young entrepreneurs are supported in enterprise workshops and they may receive a start-up grant of EUR 35.88/working day for the duration of 18 months. An unemployed young person may receive a Sanssi Card, which guarantees the young person wages complying with collective agreement while the employer will receive approximately EUR 700/month subsidy from the Government. The card is valid up to 10 months or for the entire duration of apprenticeship training.

Educational guarantee ensures a place in further studies for each recent comprehensive school graduate. In order to implement the educational guarantee, 1,200 study places were added to vocational education and training in autumn 2012 with further 500 study places added at the beginning of 2013. At the same time, student selection to vocational education and training will be revised to give precedence to applicants newly graduated from basic education and those without an upper secondary qualification or study place. Moreover, new electronic general upper secondary school and vocational education and training application services will be simultaneously rolled out. These application services will be fully operational in 2014.

A young person may also receive an educational guarantee for apprenticeship training. From the beginning of 2013, employers have been entitled to EUR 800 monthly subsidy when the earlier subsidy was EUR 105/month on average. The subsidy will decrease gradually after the first year. Training for young immigrants to improve study and language skills will be increased in folk high schools and colleges.

A skills programme for young adults is also included in Youth Guarantee. The programme offers young people under the age of 30 with no qualification an opportunity to complete a vocational qualification or a part of it. In 2013, EUR 27 million has been reserved for the programme in order to increase education in educational institutions as well as apprenticeship training. The aim is to provide education to 36,000 young people in 2013–2016. All in all, EUR 183 million has been reserved for the implementation of the programme.

Outreach youth work will be expanded to cover the whole country during the current government term. Outreach youth work is a statutory activity, the aim of which is to reach young people in need of support and help them gain access to services and other support promoting their growth and independence as well as access to education and labour markets. Help offered by outreach youth work is voluntary for the young people.

The aim of youth workshop activities is to support young peoples' life management skills, social empowerment and social growth at one's own pace as well as learning by doing. Workshops provide young people with an opportunity to participate in work under guidance and support, to attend and complete a tailored education path in cooperation with an education provider or find employment on the open labour market. In the public service range, workshop activities are located between social sector services and open education and labour markets and they are multidisciplinary in nature. Approximately 75 per cent of young people participating in workshop activities find their place in education, working life or other activities after the workshop period.

The spring 2013 Government decision on spending limits appropriated EUR 81 million of additional funding to the development of young people's apprenticeship training and on-the-job learning in 2014–2017. The additional resources are used to create a preliminary period for young people's apprenticeship education and to experiment with flexible transfer from training at educational institutions to apprenticeship as well as to increase the variety of on-the-job learning methods through cooperation between education providers and workplaces.

Reforming TE office services

Services provided by Employment and Economic Development Offices (TE offices) were reformed with an act that entered into force at the beginning of 2013. Private and corporate customers are now offered more varied and clear services. TE services are organised nationwide through three service lines which are 1) employment and business services, 2) development of competence and 3) services related to subsidised employment. Access to services becomes easier as electronic services are revised and developed. Services are provided by 15 local TE offices with an adequate amount of offices. TE offices cooperate in serving job seekers and employers in local networks, in which the key partners are labour force service centres and regional business services.

Improving the labour market situation of the long-term unemployed

The role and responsibility of municipalities in the active care of long-term unemployment will be emphasised. With this in mind, part of the the funding responsibility for labour market support will be transferred to municipalities from the beginning of 2015. The funding reform will create opportunities for people living on labour market support to gain access to active measures. The transfer will decrease government expenditure by EUR 150 million.

The Government is reducing long-term unemployment with a local government trial implemented in 2012–2015. In all 61 municipalities and 23 projects participate in the trial. The trial municipalities coordinate the provision of services for the long-term unemployed, evaluate service needs as well as plan and monitor service processes. Services promoting employment are implemented with a cooperation that is multidisciplinary and crosses sector boundaries.

The trial covers those long-term unemployed who have received unemployment benefit for at least 500 days and who, in addition labour force services, require other services improving their chances of finding employment. The target group may also include job seekers who have been unemployed for at least 12 months and who are at risk of being excluded from the labour market. The long-term employed falling within the sphere of the local government trial are encouraged to accept work with an employment bonus. It means that after finding employment, the unemployed person will get to keep one month's labour market support.

The trial will not change the basic division of responsibilities for providing employment services between the central government and municipalities. During the trial, the central government will be responsible for funding employment services and the municipalities for funding services falling under their provision responsibility. In order to implement the trial, the central government will pay a special trial appropriation to the municipalities. The trial evaluation study will be launched in 2013. Decisions on the division of labour between municipalities and the central government will be made based on the results.

In accordance with the Government Programme, employment appropriations will be increased so that the activation rate will be approximately 30 per cent. Social assistance will be reformed by redefining the increments for unemployment security during active life as preferential income. The reform encourages the long-term employed to participate in active measures.

In 2012, a programme to promote the employment of people with partial work ability was launched in cooperation with labour market confederations. The programme studies the development of the pension system, retention of employees and part-time employment as well as better coordination between work and social security. Raising the application age limit of partial disability pension and disability pension rehabilitation from 63 to 68 years and enabling partial disability pension also in national old-age pension are being discussed. Interim report completed in February 2013 proposes that the Act Promoting Return to Work from a Disability Pension be continued as provisional until more information has been gathered on the effects of the act on the employment of people on disability pension as well as the guidelines of the pension reform of 2017. The programme will be completed in October 2013.

Raising the employment rate of older workforce

In conjunction with the decision on central government spending limits for 2013–2016, the Government confirmed the social partners' policy outlines on measures to lengthen work careers. Acts pertaining to the earnings-related pension provision entered into force at the beginning of 2013:

- the right for the early old-age pension was abolished for people born on 1958 or later
- the minimum age of eligibility for the part-time pension will be raised from 60 to 61 years for people born in 1954 or later
- the right for the early old-age pension for the long-term unemployed was abolished for people born on 1958 or later.

Integration and employment of immigrants

In 2012, the Government approved the central government integration programme. Increasing immigration presents development needs to public services while the significance of special integration measures increases. The integration programme is a comprehensive and concrete action programme, in which the needs of immigrant population are taken into account at all policy levels, especially in employment, education, housing and social and health services. Special focus areas of the programme include promotion of employment of immigrants and support provided for immigrant children and young people as well as families and women. Employment will be promoted especially by improving integration training. In addition to training, immigrant families are supported also by developing early childhood education as well as social and health services.

Implementation of integration policy is promoted by the establishment of an integration centre of expertise. It aims to support the competence of local parties in the promotion of integration and employment. The centre collects and disseminates information and good practices and supports the work NGOs. EUR 2 million will be allocated for the centre of expertise activities.

Increasing the effective retirement age

The Government aims to reach a consensus on a long-term solution to lengthen work careers, to ensure the funding of the earnings-related pension system and to ensure a sufficient level of pension insurance.

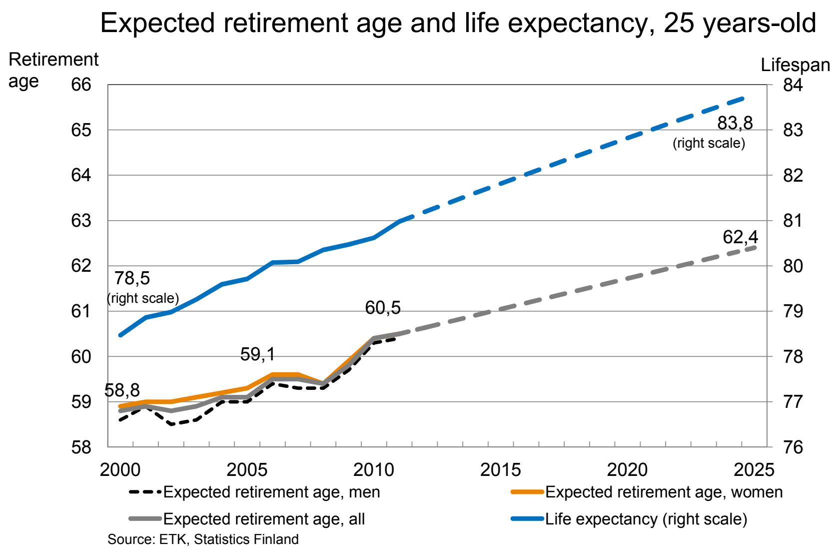
In the work career agreement of spring 2012, labour market confederations committed to negotiate long-term pension policy and reform on earnings-related pension system that is to enter into force no later than 1 January 2017. The negotiations will be on age limits of the pensions system, early old age pension systems, future disability pension period, survivor's pension, deduction of social contributions from pension salary, pension accumulation and start date of accumulation, indexes and payment development ensuring pension benefits.

A high-level survey will be conducted as a basis for the reform of earnings-related pension system by the end of 2013. The survey will evaluate the effects of the pension reform implemented in 2005 and the need for additional measures to ensure that the pension system will remain financially and socially sustainable as life expectancy lengthens.

At the beginning of 2005, the earnings-related pension system went through the most comprehensive reform of its 40-year history. The aims of the reform included postponing the average retirement age by 2–3 years and adapt the pension system to the increase in the average life expectancy. At the same time, groundwork was done for combining and simplifying earnings-related pension legislation related wage earners in the private sector. In the 2005 reform, provisions were also laid down on life expectancy coefficient. The life expectancy coefficient is a mechanism affecting the amount of pension that is designed to keep pension expenditure incurred by increasing life expectancy in check. The coefficient is always determined for the 62-year-old age group and it adjusts the pension level of each age group in accordance with the fact that the age group in question will live longer on average than its predecessors.

In accordance with the 2005 legislation, life expectancy coefficient will be applied to all new old age pensions and spouse's pensions. The life expectancy coefficient had its first effect in 2010 and it applies to everyone born on 1948 or later. The more the life expectancy of each age group lengthens the more effect the life expectancy coefficient will have.

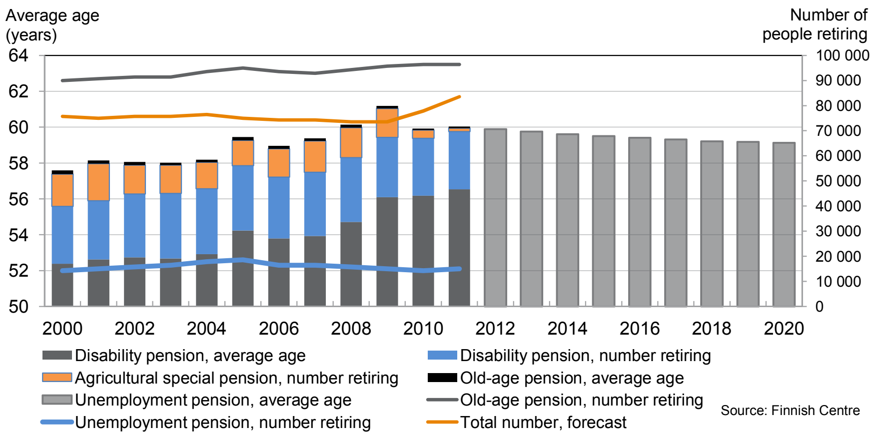
The Government aims to raise the average retirement age. After the 2005 pension reform, the average retirement age of 55–64-year-olds has risen from 59.1 years to 60.5 years. In 2009, a consensus was reached between the central government and social partners to raise the expected retirement age of 25-year-olds to 62.4 years by 2025.



In spring 2012, a working life development strategy was approved, which is implemented in cooperation with all working life parties. The aim of the strategy is to prolong work careers, to raise the employment rate and to improve the quality of working life. These aims are to be achieved by increasing information and reaching as many workplaces as possible to develop their operating methods.

Disability is the single most significant factor shortening work careers, which is why the Government emphasises prevention of disability and improvement of working opportunities for people with partial work ability in prolonging work careers. This requires development of health promotion as well as occupational healthcare, rehabilitation and working life. Special attention will be paid on making the prevention and care of mental health and substance abuse problems more efficient, referral to care at workplaces, its implementation as well as facilitating return to work. The low average age of people entering disability pension lowers the effective retirement age.

Number of people retiring and average age by type of pension



Source: Finnish Centre

3.4 Increasing competition

EU recommendation 4: In 2012–2013, continue enhancing competition in product and service markets, especially in the retail sector, by ensuring the effective implementation of the new Competition Act and the new programme on promoting healthy competition; continue to take measures to increase the efficiency of municipal service provision, including increasing, where appropriate, the share of services subject to competitive bidding, and to ensure competition neutrality between private and public undertakings; take further steps to ensure that competition law fines have a sufficiently deterrent effect.

Healthy competition promotion programme

In March 2012, the Government launched a healthy competition promotion programme and it regularly monitors its progress and, if needed, decides upon further measures. Value-added of various sectors selected for the programme is estimated EUR 50 billion, which accounts for approximately one-fourth of the GDP.

The programme entails measures to increase competition in the retail sector, to ensure equal competitive conditions for public and private sector business activities and to remove obstacles to competition caused by legislation.

Retail trade

The healthy competition promotion programme includes an amendment to Competition Act related to retail trade, which is supposed to enter into force at the beginning of September 2013. The aim of the amendment is to improve the functioning of retail markets in Finland.

A provision is proposed to be included in the Competition Act pursuant to which a retail trade group would be automatically in a dominant market position if its market share exceeded 30 per cent. The Finnish Competition and Consumer Authority (FCCA) could in individual cases interfere with the abuse of a dominant market position of the largest retail chains in retail and/or procurement. Abuse would be evaluated on a case-to-case basis and based on established principles.

In the current Finnish market situation, this provision would apply to K and S Groups, the combined market share of which in Finnish retail trade exceeds 80 per cent. The market share of the K Group is currently approximately 35 per cent and that of the S group approximately 45 per cent.

The amendment is expected to have a positive effect in consumer choices and suppliers' chances of getting their products in shop selections with equal and reasonable prices.

Fines based on competition legislation

The aim is to conduct a survey towards the end of 2013 on whether criminal sanctions should apply to parties guilty of forbidden cartels instead of administrative sanction payments.

Competition neutrality

The healthy competition promotion programme also entails a bill to amend the Competition Act, which aims to remove competition neutrality problems related to business activities in the public sector. The bill was presented to Parliament in April 2013 and it is supposed to enter into force in September. It lays down provisions on incorporation of municipal business activities, if the municipality performs its duty in a competitive situation in the markets.

3.5 Diversification of corporate structure and salary development

EU recommendation 5: In 2012 and 2013, in order to strengthen productivity growth and external competitiveness, continue efforts to diversify the business structure, in particular by hastening the introduction of planned measures to broaden the innovation base while continuing to align wage and productivity developments fully respecting the role of social partners in line with national practices.

Diversification of corporate structure

Tax incentives

In the 2013 Government discussion on spending limits, the Government decided on tax solutions to support the growth opportunities of Finnish companies and the competitiveness of the export industry. In corporate taxation, the focus shifts from taxation of profit to taxation of dividends. The aim of the reforms is to accelerate investments and create jobs in Finland.

Corporate tax rate will be lowered by 4.5 per cent from 24.5 per cent to 20 per cent. At the same time, dividend taxation will be reformed and dividend income will be taxed only as capital income from now on. With respect to listed companies, 85 per cent of dividends will be taxed as capital income. As regards non-listed companies, 25 per cent of dividends will be taxed as capital income up to an amount corresponding to an 8 per cent rate of return on the mathematical value of the shares, however not exceeding EUR 150,000. Of the amount exceeding this threshold, 85 per cent will be taxable as capital income.

In order to accelerate economic growth in 2013 and 2014, a tax incentive for research and development activities, double depreciation right as well as tax relief for investments in 2013–2015 will be utilised.

The research and development tax incentive supports product development aiming at growth. Limited companies and cooperatives with salary costs related to research and development activities are entitled to tax deduction. An additional deduction can be made for these salaries, however no more than EUR 400,000 and no less than EUR 15,000 annually. Tax relief or direct subsidies cannot be received for research and development on the basis of the same costs. The tax relief decreased central government tax revenue by approximately EUR 190 million annually.

Industry investments will be encouraged with double depreciation right. Double depreciation may be entered for procurement costs of new factories or workshops and machinery and equipment used in factories or workshops in 2013 and 2014. The increased depreciation right is estimated to decrease tax revenue by approximately EUR 20 million in 2013 and by approximately EUR 40 million in 2014.

In capital taxation, a 'business angel' tax incentive will be introduced, according to which an investor will receive a deduction for investment made in a growth company. The deduction is 50 per cent of the capital invested in a limited company. The minimum amount of deduction is EUR 5,000 and maximum amount EUR 75,000 annually. Consequently, deduction is available for investments of EUR 10,000–150,000. Even if an individual investor invested in several companies, the maximum tax deduction will be EUR 150,000 a year. A company may receive investments entitling the investors to a tax deduction to the maximum amount of EUR 2.5 million over a 12-month period. Investments giving the right to a tax deduction must be made in a small company with less than 50 employees and the balance sheet total or turnover of no more than EUR 10 million. It is estimated that this tax relief will decrease central government tax revenue by EUR 12 million in 2013–2015. Loss of tax revenue is final only for the investments where shares to the target company are never transferred and where the target company does not terminate business undertakings. Because of this, a major part of tax revenue loss from 2013–2015 will be returned to central government within the future 10–20 years.

The parliament has passed the bill on business angel tax incentive and the EU Commission has approved the system as appropriate to the single market in March. The act will enter into force by a separate decree later in spring. Tax deduction is available only for investments that have been made after the act has entered into force.

Creation of new strengths

The aim of the Government's business and innovation policy is to increase the number of innovative, rapidly growing and internationalising companies. In accordance with the Government Programme, risk-taking of Finnvera will be increased. A new Innovative Cities (INKA) programme will be launched in 2014.

In spring 2013, the Government decided to launch a long-term growth funding programme with view to strengthening investment markets and to support small and mid-sized companies. The funding programme combines central government investments and private capital. During spending limit period 2014–2017, the central government's share of the funding programme is EUR 230 million.

In 2007–2009, Strategic Centres for Science, Technology and Innovation (SHOK) were established in Finland as a new kind of cooperation platform for innovative companies and world-class research. The six strategic centres operating as limited companies are: energy and the environment, bioeconomy, metal products and mechanical engineering, built environment innovations, health and wellbeing and information and communication industry and services. The aim is to create globally significant breakthrough innovations in strong areas of Finland by building a bridge between research and business activities.

In 2008–2012, the Finnish Funding Agency for Technology and Innovation TEKES has funded SHOK research programmes by a total of EUR 373 million. The companies have funded 40 per cent of research programme costs. Almost 500 companies and approximately 30 research organisations have participated in SHOK research programmes. In addition, the Academy of Finland has allocated funding and special application processes on fields with SHOK research. An international evaluation of SHOKs was published in February 2013. The operating model will be developed further on the basis of evaluation outcomes.

Strategic development programmes to promote growth, competitiveness and employment as well as to diversify the business sector are implemented as Government's spearhead projects.

In 2012, the Business Programme for the Environmental Sector, Cleantech, was launched. The aim is to create at least 40,000 new cleantech jobs by 2020 and to double the combined turnover of Finnish cleantech companies from the current EUR 20 billion to EUR 50 billion. Public sector demand is used to support rollout of innovations in the field.

Preparation of National Bioeconomy Strategy was started in autumn 2012 and will be completed in spring 2013. The aim is to generate new business activities and improve employment by developing products and services based on renewable natural resources.

The Strategic Programme for the Forest Sector has influenced the significant growth of wood construction in construction of blocks of flats. Measures have been launched to promote competitiveness, growth and export, commercialisation of new products and the growth of small and medium-sized companies in forest industry and especially wood product industry. The Strategic Programme for the Forest Sector is linked with the national bioeconomy strategy.

The significance of the mining sector is increasing. The central government has promoted investments in the mining cluster and its internationalisation by capitalising central government investor, Finnish Industry Investment Ltd., with EUR 30 million. The investment strengthens the domestic ownership of development-stage mining companies and other players within the mining cluster and increases availability of funding.

An action programme for creative economy was drawn up in 2012 and national design programme was completed in March 2013. Team Finland activities were launched in February 2013 to promote Finland's economic foreign relations, country image, internationalisation of companies and investments directed at Finland.

New growth is also sought by opening up information resources produced with public funding gradually for the whole society. Opening up of Finnish information resources started off in 2012 with terrain information and continued in 2013 with weather, climate and sea data as well as opening up of climate models. The opening up of information resources will be continued with statistical data, company information, traffic and communications data and airport observations.

Structural change management

An operating model for sudden structural changes was introduced in 2007. Thus far, it has been used in 27 areas and 10 garrison towns. The model has also been used in managing structural changes in maritime industry and the ICT sector. Funding from European Globalisation Fund has also been used to manage structural change in the ICT sector.

The rapid reaction model based on cooperation between administration and the private sector has proved to be functional. Municipal economic development companies and good network cooperation between authorities play the key role. However, the companies have the primary responsibility for subsidy packages and promotion of re-employment.

Structural change in the ICT sector

In 2012, ICT 2015 working group was appointed to prepare a strategy to mitigate the effects of the sudden structural change in the ICT sector as well as to reform the information and communications technology sector and to increase its competitiveness. The working group reviewed extensive application of ICT in all sectors and public administration.

The work group report "21 paths to a Friction-free Finland" was completed in January 2013. It determines a road map for long-term efforts to make Finland a leader in information technology applications over the next 10 years. The report contains proposals for measures to be carried out in 2013. Implementation of the working group's proposals requires central government funding of EUR 55–70 million.

The working group makes the following crucial proposals for the initial stage:

1. Building a common national IT service architecture. Harnessing of this common architecture will enable easier creation of services across organisational boundaries.
2. A ten-year research, development and innovation programme, ICT 2023. This programme would bring together key actors in the sector, such as universities, research institutions, companies and funding agencies. Annual expenditure for this programme would be EUR 20 million.
3. A new financing programme to ensure sufficient funds for start-ups and companies in the growth phase. Annual expenditure for this programme would be approximately EUR 25–40 million.
4. To ensure the rapid implementation of the working group's proposals an expert ICT group will be established in the Prime Minister's Office to monitor and accelerate the implementation of the measures.

The working group proposes that re-employment of people who have become unemployed due to structural change in the Nokia cluster be supported with retraining, freed up ICT expertise be commercialised for export and Finnish competence be marketed to international ICT companies.

In accordance with the ICT 2015 working group proposal, the Government will invest in strengthening competence in the ICT sector. A comprehensive and harmonised electronic service channel will be created in Finland with emphasis on cost effectiveness, and opportunities for cooperation cross borders will be charted. The Government will continue surveying the Baltic Sea data cable project. The Government has made a provision for establishing a cyber-security centre.

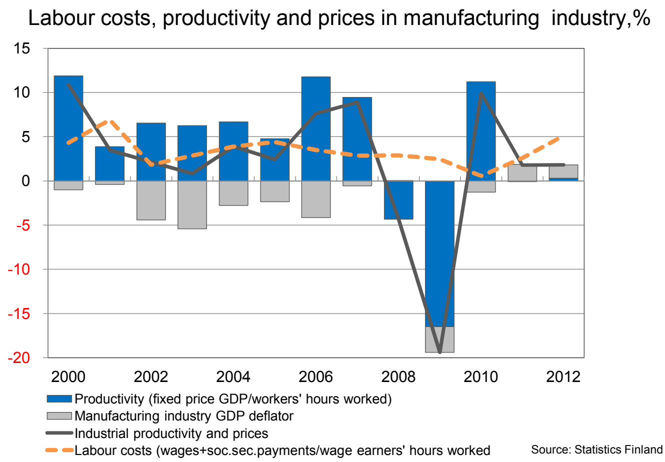
Wage negotiations and development of wages

In order to ensure competitiveness and employment, the labour market confederations negotiated a two-year framework agreement covering over 90 per cent of wage earners in November 2011. The wage raise level was agreed as approximately 2 per cent during the entire agreement period. The Government supported the creation of the framework agreement with tax solutions. The framework agreements in various sectors end mostly in spring 2014; some end as soon as the end of 2013.

In Finland, the Government will not interfere with wage negotiations; they are the responsibility of social partners. The Information Committee on Cost and Income Developments appointed by the Government supports the integration of economic and labour market policies and, based on international and national reference points, produces shared information for wage formation. Report published annually by the Information Committee studies the development and outlook of income level, prices and purchasing power as well as competitiveness. The committee utilises the economic trend forecast of the Ministry of Finance in its assessments.

Labour market and interest organisations are represented in the Information Committee on Cost and Income Developments. Under the guidance of the Ministry of Finance, it serves as a discussion forum for assessing to what extend wage formation and collective bargaining can promote employment and advance the functioning of the labour market in the evolving circumstances.

According to the 2013 economic report, the rise of income will slow down to 2.4 per cent and inflation to 2.2 per cent. The combined real purchasing power of wage earners will decrease by one per cent which has not happened since the 1990s. Relative manufacturing industry unit wage costs remain at a higher level than before the financial crisis. Finland's competitiveness is also burdened by weakening terms of trade and cost pressures faced through intermediate products.



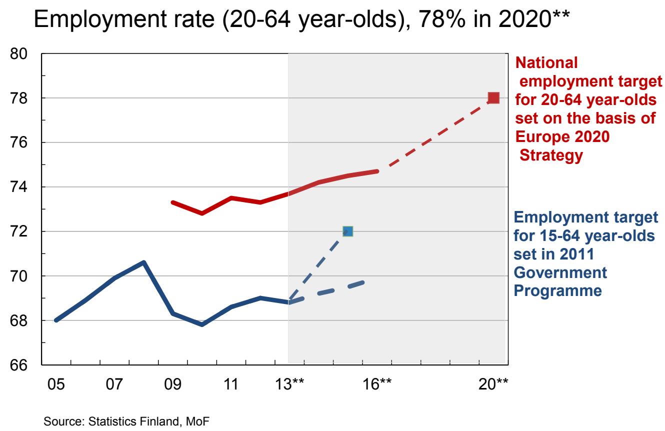
4 Progress in attaining Europe 2020 Strategy's national targets

	General EU target	Finland in 2011	Finland in 2020
Employment rate (20–64-year-olds)	75 %	73.4 %	78 %
R&D expenditure/GDP	3 %	3.73 %	Target level 4%
Climate:			
- Greenhouse gas emissions (outside emissions trading)	- 10% of the year 2005 level	-9 %	- 16 %
-share of renewable energy	20 %	33 %	38 %
-energy efficiency	-20 %	320 TWh	310 TWh
Education			
-Proportion of 30–34 year-olds having completed tertiary education	40 %	43.6 %	42 %
-Early school-leavers	10 %	11.6 %	8 %
People at risk of poverty and social exclusion	20 million less	920 000	770 000

4.1 Employment target

The national target set by the Government is that the employment rate of 15–64-year-olds will rise to 72 per cent and unemployment will fall to 5 per cent by 2015. The employment target in the Europe 2020 Strategy is set for 20–64-year-olds. The government objective is more ambitious than the national target set in the Europe 2020 strategy.

According to the economic trend forecast drawn up by the Ministry of Finance in March 2013, it does not look likely that the Government will achieve the employment target set in the Government Programme.



Looking at employment development by age group shows that there is potential to raise the employment rate in all age group but it is most evident among those in best working age and older workforce. With regard to youth unemployment, attention should be paid in the young people who are in risk of becoming entirely excluded from the labour market. Improving immigrant employment can help to ease somewhat prolonging work careers even in short term.

In May 2012, the Government approved a resolution on labour policy determining the labour policy as a whole and its guidelines. The aims include fast transfer from work to work, mobilisation of the whole labour force potential and support of continuous renewal of business life. Implementation of the decision in principle has been started in cooperation with various ministries and labour market confederations. In 2012 and 2013, the aim is:

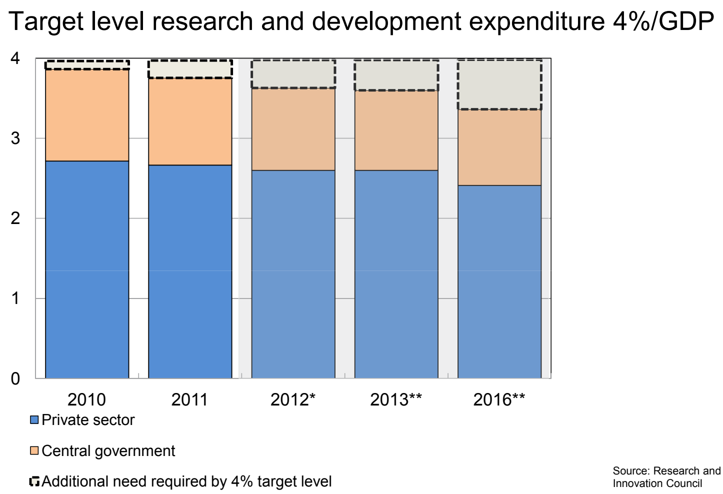
- to develop labour policy service system into a whole crossing administrative branches
- to improve the labour market situation of the most socially excluded young people
- to prepare in advance for structural changes in the business sector
- to increase regional mobility of labour force
- to take these development needs into account in the contents of EU structural funds

In 2012, the Government appointed a working group to study change trends in labour markets and business activities. Issues studied included effects fixed-term and part-time employment contracts on the position of the employees, the quality of working life and work careers. The working group submitted its interim report in May 2012 but will continue its work until the end of the government period.

In spring 2013, the Government decided to promote consolidation of work and family life with a new flexible child home care allowance. The monthly allowance supports employment and part-time work.

4.2 Research and development target

The amount of research and development and innovation activities has decreased somewhat in proportion to gross domestic product in recent years. However, investment level of companies has remained good. The aim of the new tax incentive, which entered into force at the beginning of 2013, is to increase companies' research and development investments.



Science, research and innovations

In addition to research, development and innovation measures referred to in chapter 3.5, a new research and innovation policy action programme will be launched. The Academy of Finland will fund the programme with EUR 10 million annually. The programme measures will for their part support the implementation of the European Research Area.

Evaluation related to the reform of central government's research funding and institutions was completed in autumn 2012. The Government will discuss the proposals during spring 2013.

In 2012, the Government approved the decrees related to the revision of university funding model. Government appropriations will be directed especially on the basis of completed qualifications and credits as well as scientific publications and competed research funding. Funding of universities of applied sciences will be revised to better support educational targets, such as improvement of the quality of teaching and research.

Research activities were consolidated by launching a research infrastructure policy. Additional funding was granted in 2012 and the national road map will be updated in 2013. In 2011–2013, open access to research publications and materials was increased. This improves the efficiency of research and innovation activities and enables wide-ranging use of research results and materials.

The Government has discussed the theme of economic growth in several investigator reports. These include "Investointeja Suomeen" ('Investments in Finland') (Jorma Eloranta), "Taloudellisten ulkosuhteiden verkosto" ('Network of external economic relations') (Matti Alahuhta), "Pääomamarkkinat ja kasvu" ('Capital markets and growth') (Kari Stadigh) and ICT 2015 working group (Pekka Ala-Pietilä).

4.3 Climate and energy target

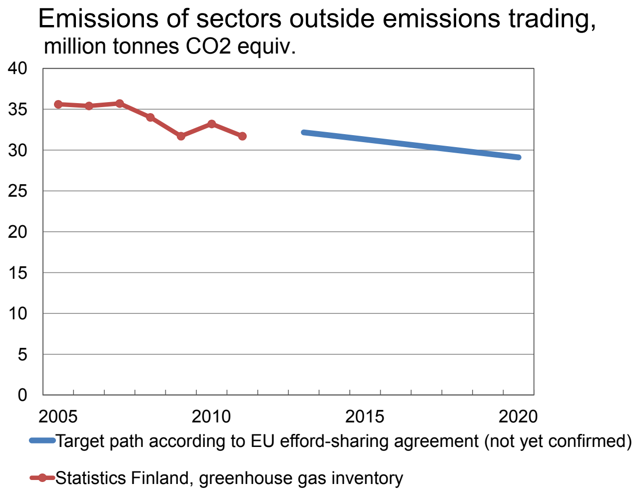
The Government has set a carbon neutral society as the long-term target for Finland. At the beginning of 2013, the Government updated the National Energy and Climate strategy report on which will be submitted to Parliament. The key objective of the strategy is to ensure the achievement of national energy and climate targets set for the year 2020 and to secure the way towards long-term energy and climate targets.

The strategy includes a mineral oil reduction programme, which aims at reducing the share of oil in overall energy consumption from the current 24 per cent to less than 17 per cent. The strategy also includes clean energy measures, which can further reduce emissions from energy production, housing and traffic as well as generate new technology exports. In addition, the Government will draw up a road map, which aims to greenhouse gas emissions by at least 80 per cent by 2050.

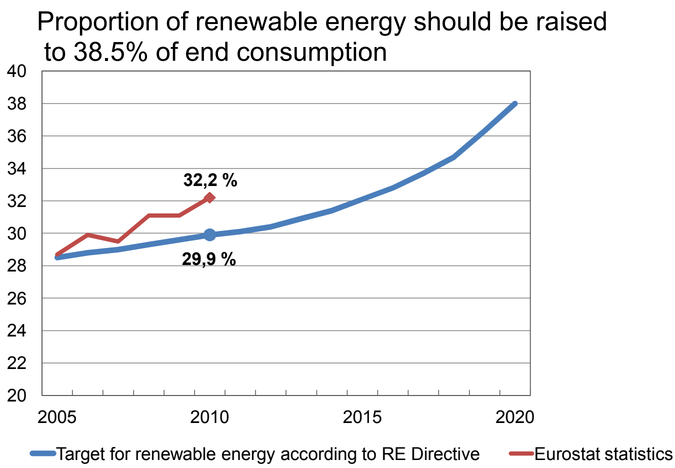
In 2011, Finland's greenhouse gas emissions corresponded to 66.8 million tonnes of carbon dioxide, which was 7.7 million tonnes less than in 2010. The emissions were approximately six per cent under the Kyoto Protocol target limit. In EU's internal burden distribution, Finland has been given an obligation to stabilise emissions in 2008–2012 on average at 1990 level. In 2008–2012, emissions were approximately 1.5 per cent under this level.

EU's emissions trading system ensures that emission trading sector, that is to say, industry and energy production, fulfil the reduction targets set by the EU. According to the most recent estimates, sector falling outside emissions trading scheme, that is to say traffic, agriculture and house-specific heating, the obligations may also be met with national measures already decided.

In February 2013, the Government decided to start preparing a climate act. The aim is to draw up a framework act that would not lay down obligations to individual parties. The aim of the act is not to tighten Finnish emission targets, but it would function as a tool for the Government and Parliament to achieve emission reduction targets in as cost-effective, predictable and systematic way as possible. The Government will make a separate decision on enacting the act.



The use of renewable energy will grow in a front-heavy manner, that is to say Finland will exceed the annual minimum targets set by the EU throughout the 2010s. The 38 per cent target for renewable energy in the end consumption of energy in 2020 seems likely to be fulfilled.



Source: Eurostat

Finland is strongly dependent on import of electricity during the coldest winter months. Self-sufficiency will be achieved in the 2020s, when the nuclear power plant units, which have been given a decision in principle permission, are launched and production of renewable electricity increases.

The increase of energy consumption will be curbed by increasing energy efficiency so that in 2020, the consumption will not exceed 310TWh. In 2010, the overall consumption was 323TWh. In order to implement the Energy Efficiency Directive, which entered into force in December 2012, an energy efficiency act and implementation plan will be drawn up. In addition, a long-term strategy for improving energy efficiency of buildings and central government's energy saving plan will be drawn up, municipal energy efficiency plans are developed and opportunities to introduce energy companies' obligation programme will be studied. The aim is also to promote creation and growth of international energy efficiency business activities.

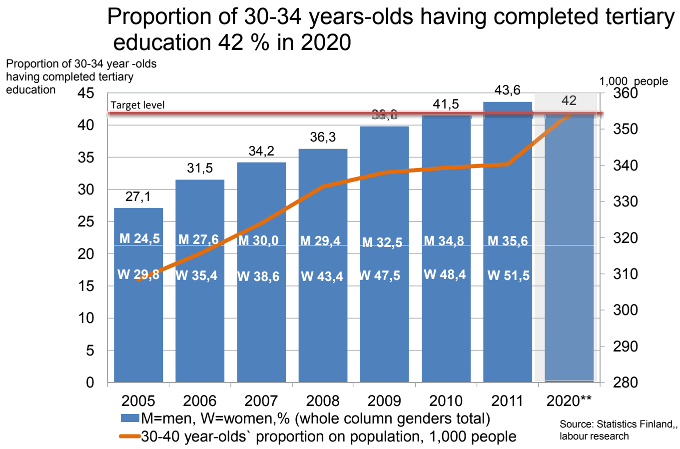
In 2012, the Government charted the subsidies that are detrimental to the environment. This is a part of a larger whole to shift the focus of taxation from taxation of work and enterprising hindering growth towards taxation based on environmental and health effects.

4.4 Education targets

People with completed tertiary qualifications

The Government's goal is that 42 per cent of all 30–34-year-olds have completed a higher education qualification in 2020. In 2011, the share of people in this age group with a completed tertiary qualification was 43.6 per cent according to the Statistics Finland's qualification register[4]. By 2020, the number of 30–34-year-olds will grow, which will lower the calculated share of people with completed tertiary qualifications in the age group. On the other hand, improved study processes and clarification of degree structures accelerate studies and decrease dropping out.

[4] The corresponding share in the Europe 2020 indicator published by Eurostat is 46 per cent. The difference is due to the fact that Eurostat statistics also include people with the old post-secondary qualifications who will disappear from the statistics in a few years.



The Government's goal is to make the Finns the most competent nation in the world by 2020. The aim is that Finland is among the best OECD countries in the share of young and work age population with completed tertiary qualifications. The Government aims to shorten study times and lower the graduation age.

In spring 2013, the Government decided to reform the application and selection services of vocational education and training, general upper secondary education and tertiary education as well as application services to adult education and education information services. Legislation pertaining to universities of applied sciences will be amended at the beginning of 2014. The aim is to accelerate structural renewal and improve the quality and impact of the activities. The timetable of the overall reform of the system of central government transfers to local government will assess how the transfer of funding from the municipalities to the central government and change of the legal person will be implemented. To support the reform, the central government will make provisions for making financial investments in universities of applied sciences in 2015.

The central government transfer index to education and culture departments will be frozen for 2014. This does not apply to the university index.

Student social aid will be tied to an index starting on 1 August 2014. Student financial aid system will be reformed in accordance with the Government Programme and the Government statement on structural policy to support full-time studies and faster graduation.

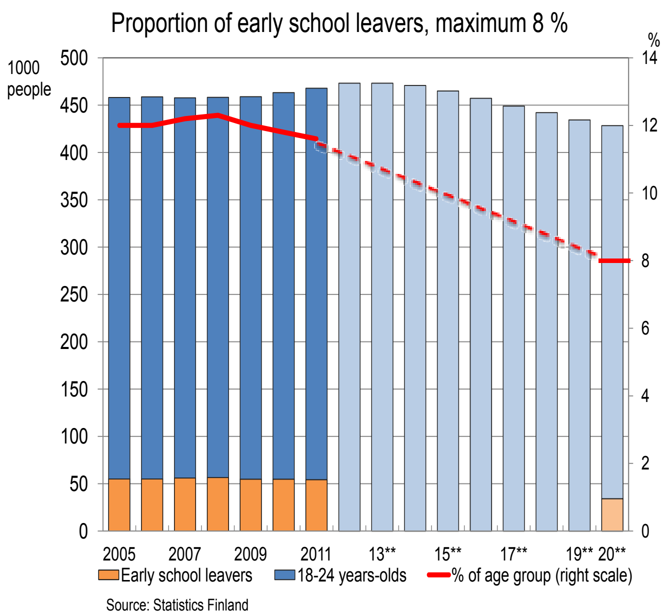
Commencement of tertiary studies will be accelerated through a student selection reform. Universities and universities of applied sciences will continue to decide on the principles of student selection. Application to degree education is done in national joint application process, where an applicant can only be accepted to one higher education institution. If they so wish, higher education institutions may reserve some of the study places to persons who have not previously received a study place in Finland.

In the second stage to be implemented in 2015, only people who have not completed a tertiary qualification in Finland or have not accepted a study place will be selected in the joint application process. Equal opportunities of other young people to change their field will be secured with additional applications outside the joint application system.

These decrees entering into force at the beginning of 2014 aim at strengthening higher education institutions' ability to react flexibly to changes in working life and society. The changes will clarify higher education institutions' educational responsibility, ensure education and competence needs and enable collating education in larger wholes. Students' study motivation is maintained by developing educational structures and study contents as well as improving guidance during studies.

Early school leavers

The Government's goal is that the share of early school leavers, that is to say mostly young people with only a comprehensive school certificate, of all 18–24-year-olds will be at most 8 per cent in 2020. In 2011, according to the register information from the Statistics Finland, the share early school leavers was 11.6 per cent[5] or 54,330 people. Achievement of the target requires decreasing the number of these people by approximately 20,000.



5 The corresponding share in the Europe 2020 indicator published by Eurostat was 9.8 per cent.

Early dropout from school will be reduced with an educational guarantee and skills programme for young adults introduced at the beginning of 2013 and described in chapter 3.3. As a part of the educational guarantee, vocational upper secondary education and training starting places have been increased by 1,700 places. New places are focused in the Helsinki metropolitan area, where they have been the fewest when compared with the number of young people.

Student welfare will be strengthened in primary and secondary education. The aim is to promote the comprehensive wellbeing of students and to increase the preventive impact and systematic nature of the services. A Government proposal will be submitted in spring 2013.

Sufficient support and prerequisites for successful school career will be provided to all immigrant students. The aim is lay down provisions on preparatory training for general upper secondary education for immigrants in the General Upper Secondary Schools Act. A Government proposal will be submitted in spring 2013.

Other measures affecting growth and employment within the field of education policy

Work careers are prolonged by developing the entire education system, especially student selection and financial aid.

The education selection offered by higher education institutions has been dimensioned and directed based on extensive foresight work. Based on future labour force needs, starting places at universities of applied sciences will be channelled to meet future labour needs by reducing the supply of education from 2013 by a total of 2030 starting places. The reduction will be directed particularly at the cultural sector, but also at the tourism, catering and domestic services sector as well as the technology and transport sector. Regionally, the reduction of age classes entering education will be taken into account in the reductions.

The university funding model was revised at the beginning of 2013 and that of universities of applied sciences will be revised at the beginning of 2014. The number of completed qualifications and study progress will affect funding more than before. The reform will improve completion of studies, accelerate the transition to working life, boost the quality and internationalisation of teaching and research, and strengthen the specialisation of higher education institutions.

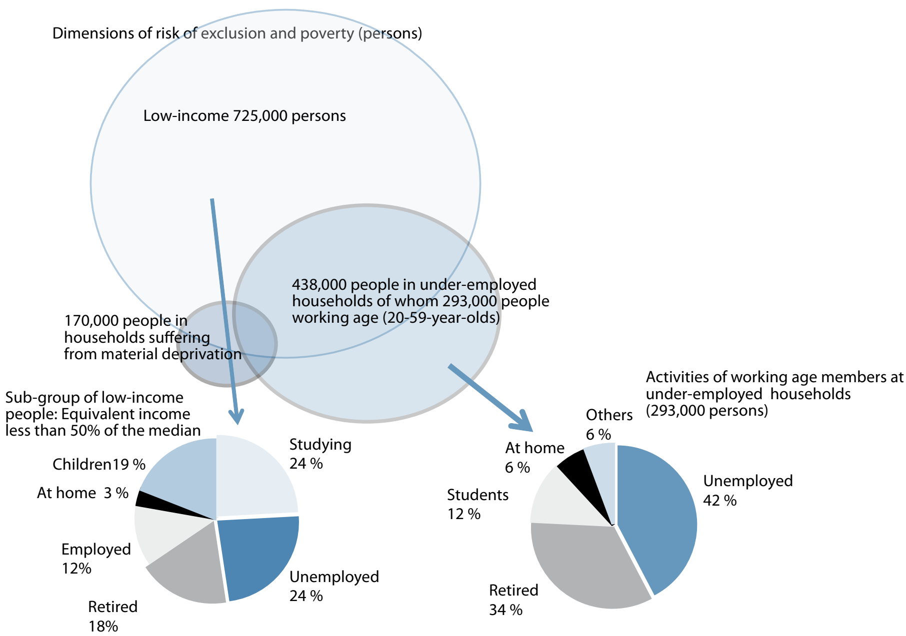
Reforms related to upper secondary education joint application and student selection will enter into force during the joint application process in autumn 2013. Upper secondary education student selection will prioritise those students who have recently completed their basic education and those without a post-basic education qualification and a study place. The electronic upper secondary education application and education database will be expanded to also cover training and adult education outside the joint application process starting in 2014.

In 2011, a programme for the promotion of completion of vocational education and training was launched with the aim of reducing dropping out from education, supporting progress in studies and completion of the qualification. The programme will receive EUR 4 million of funding in 2013 and 2014.

4.5 Poverty target

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

When all of the indicators decided in the European Council are taken into account, risk of poverty or social exclusion affects a total of around 947,000 people in Finland. There are approximately 725,000 people living in low-income households, some 388,000 working age members in under-employed households and approximately 170,000 members in households suffering from material deprivation.



Poverty has increased significantly especially in urban areas and concentrated on certain areas there. In 2010 and 2011, Finland had almost 50,000 long-term low-income people which equals 9.3 per cent of population. The number has increased since the beginning of the 2000s. Especially the number of low-income families with children has increased. The number of low-income pensioners has remained at the same level for the last 20 years. In Finland, approximately 120,000 students are included in the number of low-income individuals, whose presence there is temporary.

Unemployment presents a great risk of poverty. However, finding employment does not raise people out of poverty if their earnings remain below average poverty line due to, for example, part-time work.

The quantitative goal of Europe 2020 strategy will be achieved in Finland if the number of people living under the risk of poverty or social exclusion can be reduced by approximately 100,000 people and the labour market situation of approximately 50,000 households can be improved. Achieving this goal is a challenge.

Reduction of poverty, inequality and social exclusion is one of the three strategic focus areas of the Government. Measures are taken to prevent social exclusion, reduce unemployment and poverty as well as people's lack of prospects and feeling of not having a say. The aim is to create an operating model through which the reduction of social exclusion and inequality will become a fixed part of social decision-making. Problems will be addressed with a cross-administrative reform programme, which will be prepared under the leadership of a ministerial working group. At the beginning of 2012, the National Development Programme for Social Welfare and Health Care (KASTE II) was launched. Its objectives include narrowing wellbeing and health differences and developing social welfare and health care structures and services on a more customer-oriented basis.

Several reforms supporting employment, improving unemployment security and the level of benefits, such as Youth Guarantee and promotion of employment of people with partial work ability, entered into force at the beginning of 2013.

The new act on services for older people will enter into force in July 2013. A further goal is to expand family centre activities, increase home care services and develop low-threshold services. A report on the overhaul of social welfare legislation will be completed in summer 2012.

According to a survey published in 2012 on the health and wellbeing of immigrants, there are considerable differences between various immigrant groups. According to the survey, there is an urgent need of mental health services, health education know-how, health promotion and rehabilitation. The situation of immigrants will also be improved with education projects to be implemented in different parts of the country. In 2012, funds reserved for trial projects were used to increase studies by immigrants and supporting early childhood and basic education.

5 Other reform measures and use of structural funds

The appropriations used in the EU's Regional and Structural Policy have been used to support achieving targets in accordance with the Europe 2020 Strategy. Finland's Structural Fund Strategy for 2007–2013 has been used to improve national and regional competitiveness, employment and wellbeing. Evaluation of activities will be emphasised during the last actual implementation year of the programme.

During the programme period 2014–2020, the EU's Regional and Structural Policy will be tied more closely with activities complying with the Europe 2020 strategy One programme document will be drawn up for the programme period 2014–2020, which contains measures by both the European Regional Development Fund (ERDF) and European Social Fund (ESF).

The ERDF project funding will be channelled more strongly into the generation of new sources of livelihood, enhanced employment, growth-oriented entrepreneurial activity, and the reduction of emissions. The areas of priority for the ESF include the employment of people in the most difficult labour market position and the development of labour force skills The ESF funds will also be used to promote the employment and integration of immigrants. Structural fund financing creates both prerequisites for permanent structural changes and ability to react rapidly flexibly on regional and local needs in sudden change situations.

6 Institutional issues and stakeholder participation

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

EU affairs are prepared in competent ministries, if needed in collaboration between ministries and coordinated in the in the EU affair coordination system, that is to say in committees under the Committee for EU Affairs and, if needed, in the Cabinet Committee on European Union Affairs.

According to the Constitution, Parliament has extensive rights to be informed on EU affairs. The aim of decrees is to ensure that Parliament has the opportunity to affect the content of decisions made in the EU. Parliament participates in the forming of national position during the entire preparation and negotiation process taking place in the EU. The views of Parliament are the point of departure for Government activities in the EU.

The Government has submitted the Commission's growth survey to parliamentary process. Parliament has participated in the preparation of various council compositions and the European Council with regard to the growth survey and European Semester. In this context, Parliament has been notified about the preparation of Europe 2020 programme.

The national Europe 2020 programme will be presented and handed over to the parliamentary Grand Committee before it is delivered to the Commission. The programme will also be presented to social partners in conjunction with the EU procedures.

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