MINISTRY OF FINANCE

14 April 2016

Mr Dombrovskis
Mr Moscovici
European Commission

Your letter to Mr Alexander Stubb, 9 March 2016

Dear Commissioners,

Thank you for your letter of 9 March, where you raised concerns about Finland's fulfillment of the deficit and debt criteria in 2015.

With regard fulfillment of the deficit criterion, the data published by Statistics Finland on 31 March showed that the general government deficit came out at 2.7% and, according to the Ministry of Finance forecast, continues to decrease in 2016. This means that the breach of the deficit criterion in 2014 was small, temporary and exceptional, and thus the deficit criterion must be considered fulfilled.

As to the general government debt, it rose in 2015 to 63.1%, thereby for the first time breaching the 60% debt reference value. However, examination of relevant factors shows that the cyclically-adjusted debt still remained below 60% in 2015. According to established tradition, this leads to the conclusion that Finland fulfills the debt criterion.

As you point out in your letter, compliance with the preventive arm is another relevant factor to be considered. According to Ministry of Finance calculations, and in line with the Commission winter forecast, Finland complied with the recommended adjustment towards the MTO in 2015. Further, Ministry of Finance calculations show that, once accounting for the extraordinary costs due to asylum seekers, the deviation from the recommended adjustment in 2016 would not appear significant. Overall, this confirms the conclusion of broad compliance in 2016. The Stability Programme provides a more detailed analysis of the issue.

Ministry of Finance
Snellmaninkatu 1 A, Helsinki
PO Box 28, FI-00023 Government, Finland
Tel +358 295 16001
valtiovarainministerio@vm.fi
www.financeministry.fi

I would like to underline that the Government remains fully committed to the consolidation target set in the Government Programme. To ensure reaching the target, the Government decided on 5 April on further deficit-reducing measures. These measures bring the total consolidation to EUR 4 bn. by 2019.

You also raise the issue of growth-enhancing structural reforms as a further relevant factor in assessing fulfillment of the debt criterion. The letter points to remaining challenges in ensuring appropriate wage developments, advancing reform in the health care system and social services, providing further incentives for low-skilled individuals to seek employment, lengthening working careers and opening up competition in the non-tradable sector.

Finland has made progress with regards the 2015 CSRs, as analyzed in detail in the Stability Programme (CSR1) and the National Reform Programme (CSR2-4). Further, I would however like to draw your attention here to a few priority reforms of the Government. Firstly, the Government is engaging with the social partners to agree on a Competitiveness Pact, which aims to generate growth and jobs so as to improve the general government budgetary position by EUR 1–1.5 bn. over the medium term. As negotiations are still ongoing, detailed calculation of the effects cannot be made, and hence they have not been incorporated in the Government's annual targets for public finances. Secondly, the Government is taking major steps in restructuring social welfare and health care services and funding, as part of a broader reform of regional and central administration. This will have a significant positive impact on public finances.

Regarding the other reform areas referred to in the letter, the following reforms should be mentioned: Firstly, the Competitiveness Pact is set to entail introduction of an export-industry-led approach to wage formation and enhancements to local wage bargaining, which should help ensuring moderate wage developments. Secondly, on Tuesday, the Government agreed on two packages of measures: one to promote entrepreneurship and another to support employment. The measures are within the budgetary frames. Thirdly, the pension reform has been legislated and will take effect in 2017. Finally, regarding reforms of the non-tradables sector, deregulation of shop opening hours, bus and rail transport and haulage, to just name a few initiatives, are either implemented or at an advanced stage of preparation.

In line with the Government Programme, the Government remains committed to turning general government debt on a declining path. By lifting medium-term growth potential, the reforms outlined above will be essential in this regard.

Please find enclosed the Finnish Stability Programme, which has today been adopted by Government.

Sincerely,

Minister of Finance Alexander Stubb

Encls.

Distribution

For Information