



## **Programme of Prime Minister Alexander Stubb's Government**

**24 June 2014**

## A NEW BOOST FOR FINLAND: GROWTH AND EMPLOYMENT

The goal of Prime Minister Stubb's Government is an open, fair and confident Finland. The Government Programme is based on Prime Minister Katainen's Government Programme as well as the Structural Policy Programme and policies relating to its implementation and to fiscal adjustment. Prime Minister Katainen's Government Programme for the 2011–2015 parliamentary term and its objectives remain valid. The Government's priorities are reducing poverty, inequality and social exclusion, consolidating public finances and promoting sustainable economic growth, employment and competitiveness. The Government will implement the objectives set and the decisions made both in the Government Programme and later in the current parliamentary term. Continuity and predictability of decision-making will strengthen the confidence of Finnish households and businesses.

Strong public finances are a prerequisite for sustainable well-being. Closing the sustainability gap in public finances requires structural reforms, the strengthening of conditions for growth and employment, and the adjustment of central government finances. Implementing the Structural Policy Programme in the manner decided in August 2013 will be ensured as previously agreed through further decisions made, if necessary, in the budget session of summer 2014. The Structural Policy Programme agreed in August 2013, the General Government Fiscal Plan for 2015–2018 and implementation decisions clarifying them will be prioritised in the actions of the administrative branches during the remainder of the parliamentary term.

## PUBLIC FINANCES ON A SUSTAINABLE BASIS AND DEBT RATIO TO FALL

The Government will make decisions aimed at closing the sustainability gap in Finland's public finances in the long term. This will require the effective and immediate implementation of the Structural Policy Programme. The Government aims to reduce the central government debt-to-GDP ratio and to maintain Finland's credit rating at its present level. It is estimated that the adjustment measures included in the General Government Fiscal Plan for 2015–2018 and the measures of this Government Programme will together be sufficient to reduce the central government debt-to-GDP ratio during the spending limits period.

The Government will formulate the central government budget proposal for 2015 in accordance with the spending limits adopted in the General Government Fiscal Plan. The Government will adhere to the spending limits rules outlined in Prime Minister Katainen's Government Programme. The Government's policies will be implemented during the parliamentary term in accordance with the spending limits decision. The spending rule will ensure a responsible, long-term central government spending policy that promotes economic growth.

Under the spending limits rules, a maximum of EUR 150 million of the annual proceeds from possible sales of shares exceeding EUR 400 million can be used for one-off infrastructure and skills investments to support sustainable growth, without reference to the spending limits. No changes will be made to the EUR 1.9 billion of asset sales agreed in the spending limits negotiations and to the allocation of the proceeds received from them.

Of the estimated local government deficit, it has been agreed that half will be covered in 2017 by reducing municipalities' duties and obligations and half through the municipalities' own measures. In the autumn session of 2014, the Government will submit to Parliament proposals sufficient to reduce

municipalities' duties and obligations. From the beginning of 2015, a budgetary framework for local government finances will reconcile local government finances and duties and obligations so that the budgetary position is in balance in the medium term. The Government will refrain from giving new duties and obligations that increase local government expenditure without deciding at the same time to cut duties and obligations of corresponding size or fully funding the new duties or obligations that are given. This principle will be applied to new projects with respect to the spring 2013 spending limits. Amendments to the Social Welfare Act and preparation of an act on early childhood education and care will continue according to plan.

The Government is committed to the policy agreed by Prime Minister Katainen's Government and opposition parties to safeguard the key welfare services of Finns by implementing a fundamental reform of social and health care services. National as well as social welfare and health care regional controls will ensure that the objective set for the reform of reducing the sustainability gap will be achieved. Parliamentary preparation of a reform of the social and health care funding system will continue.

One objective of structural policy measures is to extend working careers by ½ a year at the beginning and by 1½ years at the end. The Government is committed to promoting a reform of the pension system in accordance with the working careers agreement based a proposal negotiated by labour market organisations. The Government notes that labour market organisations have committed to finding a negotiated solution on pension reform that will reduce the general government sustainability gap by just over 1 percentage point and increase the average retirement age at least to 62.4 years by 2025 and that this will be ready by autumn 2014. The aim is to submit all the Government bills relating to the pension reform to Parliament immediately after the spring 2015 parliamentary elections and for the reform to come into force at the beginning of 2017 at the latest.

Working life will be renewed and developed in cooperation with labour market organisations. In the current situation, a harmonisation of economic policy and labour market policy is required. In Structural Policy Programme solutions, the Government will respect the negotiated accord of social partners in accordance with the target schedule and agreements made with labour market organisations.

## GROWTH, ENTREPRENEURSHIP, JOBS AND WELL-BEING FOR FINNS

The creation of new jobs to replace those lost during economic restructuring requires renewal of the economic structure and investment in skills. The Government will systematically pursue new means to improve Finland's competitiveness, boost conditions for the export industry, increase purchasing power and domestic demand, remove obstacles to business activity, promote employment and support excellence in education. Decision-making in support of competitiveness will be systematic, proactive and long-term.

To promote domestic demand, purchasing power, employment, and economic conditions, full adjustments for inflation will be made in earned income taxation in the three lowest income categories in 2015 and the freezing of adjustments will be postponed until 2016. The objective of the change is to ensure that the taxation of low- and middle-income pensioners and wage earners does not increase in 2015. The implementation of the change will be prepared by the time of the budget session to take into account increases to basic and earned income deductions agreed in the spending limits decision. In addition, to support low-income families with children, changes to the tax deduction system with an annual cost impact of EUR 70 million will be prepared before the budget session. In preparing tax changes, attention will be paid to ensure that their income distribution effects are fair. The 50% deductibility of companies' entertainment and representation expenses will be restored from the beginning of 2015.

The greatest potential for creating new jobs and economic growth is in small and medium-sized companies. The Government will make a proposal, aimed at the next parliamentary term, surveying conditions for business activity and growth as well as the treatment of different corporate forms. Earlier reports and the industrial policy prepared last spring will be utilised in this. As part of this work, the most effective means in terms of growth and employment to facilitate generation changes in companies, including agricultural and forestry companies, will be promptly investigated.

Bottlenecks to business financing will be removed to ensure the availability of financing to SMEs in particular. Finnvera's opportunities to finance the growth and internationalisation of medium-sized companies will be extended. The Government commitment decision on compensating Finnvera's credit and guarantee losses will be amended to allow the financing of larger companies than the EU's SME definition also outside national assisted areas. In addition to introducing new financing options, the Government will make provision to ensure that growth funds are at an adequate level. SME projects are a particular priority of the EU Structural Fund period that has just begun.

The Government will strengthen the use of economic foreign relations and the Team Finland network in promoting Finland's economic growth and employment and in supporting the internationalisation of SMEs. Resources will be concentrated particularly in countries and regions whose economic importance is growing. In all activities, Finland will emphasise the principle of corporate responsibility.

In industrial renewal, the bioeconomy, cleantech and digital business will be the Government's priority sectors, and these will be supported according to agreement in separate resolutions. In its decisions during the remainder of the parliamentary term, the Government undertakes to avoid increasing the costs and regulatory burden arising to industry. Corporate taxation will remain as at present. The Government will not introduce a windfall tax on power plants. Replacing this tax revenue with an alternative environmental or consumption tax will be investigated. During autumn 2014, the Ministry of Finance will conduct a study on the adoption of payment-based value-added tax with respect to small companies.

From the perspective of business competitiveness, costs arising from energy and logistics in particular will be examined. The Government will launch an energy technology development project. In electricity and heat co-production and in separate heat production, solutions will be sought to ensure the competitiveness of the domestic fuels such as forest chips and peat relative to coal.

With respect to the EU 2030 Energy and Climate Package, Finland is prepared to accept a 40% emissions reduction target if the adjustment burden is shared fairly among Member States. Finland will build a low-carbon society utilising the National Energy and Climate Strategy, the Energy and Climate Roadmap 2050, and a climate act to be adopted during the parliamentary term. Finland will pay particular attention to securing and developing the energy use of biomass.

Based on parliamentary work, the Government will prepare an extensive study of the development of energy sector policy options. The focus will be on renewable energy and on promoting distributed energy production. The objective of the study is to improve Finland's competitiveness and strengthen energy self-sufficiency, taking climate targets into account. The Government is committed to the Katainen Government's targets on halting the degradation of biodiversity.

A legislative project will be launched, enabling fundraising to be released from the current permit procedure to correspond better with today's operating environment.

## MORE HOUSES, TRACKS AND TRANSPORT INFRASTRUCTURE

In addition to the growth and employment package agreed in the spending limits discussion, the Government will launch a programme of measures on housing and infrastructure construction. The use of available housing fund instruments will be enhanced. The 2014 grant authorisation for start-up assistance intended for renovations will be raised from EUR 100 million to EUR 140 million. The link between production of right-of-occupancy (ASO) homes and so-called normal rental homes will be removed from the letters of intent on land use, housing and transport (MAL). The terms of the savings and subsidy (ASP) scheme will be made more attractive. Details of the terms will be decided by the time of the budget session. Assistance for modification of use will be introduced in the Helsinki Metropolitan Area to promote conversion of office and industrial buildings to rental housing. The housing policy package will include measures to ensure effective competition in the building industry.

A new 20-year interest-subsidy model will be implemented with site-specific restrictions outside the not-for-profit housing legislation. The key criteria of the interest-subsidy model will be agreed separately so that an act can come into force from the beginning of 2015.

A study will be made as to whether there is a need to amend legislation so that housing funds would be obliged on application to cancel a not-for-profit organisation's designation as a not-for-profit organisation after the period of restriction on use and transfer has ended. This will enable the unrestricted use of capital accrued by housing developers, however on the condition that part of the capital released from restrictions on use is re-invested in not-for-profit housing production. A Government proposal on the issue will be submitted in 2014 and intention is for the legislation to come into force from the beginning of 2015.

Large infrastructure construction projects in the Helsinki Metropolitan Area will be supported and promoted at the same time as the area's housing production. A condition of this is that the municipalities of the Helsinki Metropolitan Area commit to accelerating planning and significantly increasing the supply of land for house building. An agreement will be negotiated with the Helsinki Metropolitan Area municipalities by the time of the budget session. A study on the funding of the City Rail Loop is under way. Based on the study and an agreement increasing the supply of land, the Government will assess the possible participation of central government in the construction of the track. Based on an agreement on the supply of land, the central government is prepared to commit to its participation in the construction of the Western Metro all the way to its end point at Kivenlahti; the central government's share of the project's costs is a maximum of EUR 240 million and it will be payable from 2017 at the earliest.

With respect to infrastructure construction elsewhere than in the Helsinki Metropolitan Area, the Government will decide on the bringing forward and extent of transport projects within the spending limits in the autumn budget session. At the same time, the Government will assess small job-creating business policy transport projects that can be launched quickly as well as basic road maintenance needs. The central government will support the Tampere tram system project as part of the development of the area's transport system, land use and land supply policy. The central government will participate in the project's planning costs. After planning is completed, the central government will participate in the implementation of the project after first assessing the measures of the City of Tampere and Tampere Region municipalities in increasing the supply of building land and in housing production.

The need and requirements for setting up a construction development company owned by central government, local government and the private sector will be investigated. The new company would operate as a developer for municipalities in projects where buildings in poor condition (particularly schools) would be renovated or replaced with new buildings. The company would own the constructed buildings and would lease them on long-term agreements to the municipalities.

## UTILISING SKILLS AND TECHNOLOGY TO THE FULL

Skills are a key part of strengthening conditions for new growth and employment. The length of working careers is also impacted by education policy measures, education and training during employment, and measures promoting well-being in work. The Government will enhance measures to develop the quality of basic education with the aim of halting the decline in learning outcomes observed in certain research studies. Language immersion education will be expanded throughout the whole of Finland area. Funding of these measures will be assessed in the budget session. A reform relating to the extension of the age of compulsory schooling will be implemented as agreed in the structural package, its implementation policies and the spring 2014 spending limits decision, and so that its cost impact on public finances does not exceed the previously agreed maximum amount. The allocation of lesson hours in upper secondary school education will be revised. The funding and structure of general and vocational upper secondary education and training will be reformed by 2017.

The Government will strengthen as agreed universities' own funding opportunities and will also aim to ensure opportunities for the qualitative development of research through changes made to the funding system. The Government will agree in the budget session on a one-off increase in the basic funding of universities within the framework of the 2015 unallocated reserve. The Government will initiate discussions on the sale of university properties partly owned by Senate Properties to universities and other possible buyers in 2015.

For Finland, digitalisation is a key opportunity to increase productivity, and it must be utilised to the full. The industrial revolution connected with digitalisation requires a strengthening of the telecommunications infrastructure and of skills relating to the digital services of the future. The digital revolution in education and learning will be strongly promoted through, for example, the development and introduction of the education cloud.

The goal-directed opening up of public information resources will also contribute to promoting open science and will create opportunities for the creation of a new kind of entrepreneurship and service innovations. An effective national electronic identification solution will be implemented. The Government will continue the determined implementation of its cyber security strategy. The goal is for Finland to be a global forerunner in cyber threat preparedness planning and in managing cyber security incidents.

Finland will be developed into an international data traffic centre. Following on from the decision on the Baltic Sea submarine cable, the construction of a Northeast Passage Arctic submarine cable will be actively promoted. Data centre investments, which in future will form a skills ecosystem extending from the design of data centres all the way to their use and maintenance, will be actively attracted to Finland.

## WORKING LIFE AND WELL-BEING WILL BE IMPROVED

The Government will continue work to reduce poverty, social exclusion and inequality. Reconciliation of work and social security will be improved to increase incentives to work and to raise the employment rate. In legislative work and decision-making, the Government will pay particular attention to and will assess the position of families, especially families with children.

It will also continue determined efforts to alleviate the unemployment of those who are difficult to employ. Conditions for the employment of young people threatened by social exclusion, people with partial work ability and people with disabilities will be improved. Participatory social security will be developed.

Further measures relating to the youth guarantee will focus on low-threshold services and those based on young people's needs. The goal is the seamless integration of services and particularly the effective prevention of social exclusion. Young people in the most difficult situation of all will be supported by social welfare and health care, family work and rehabilitative services targeted at young people.

Measures agreed in connection with the Structural Policy Programme, for example to restrict the use of so-called zero-hours contracts, provide opportunities for part-time workers to do additional work, and tackle underpayment irregularities, will be continued on the basis of tripartite preparations. The position of the self-employed in labour legislation as well as their social and pension security will be improved by agreement based on proposals by a social security working group which represents those employed in the creative sectors and the self-employed. The position of small-scale entrepreneurs will also be improved.

A comprehensive reform of the Alcohol Act will not be completed within the previously estimated timetable during this parliamentary term. The development of preventive substance abuse work will be continued with the aim of it coming into force in 2015.

## EU, FOREIGN AND SECURITY POLICY

The aim of Finland's foreign policy is to strengthen international stability, security, peace, justice and sustainable development as well as to promote the rule of law, democracy and human rights. The Government will act to strengthen Finland's international position and ensure the continuity, predictability and consistency of foreign and security policy.

Finland's security and well-being are based on good bilateral relations and cooperation with other states and international actors as a member of the United Nations, the European Union, the Organisation for Security and Cooperation in Europe and the Council of Europe as well as in Nordic cooperation and as a partner country of NATO. Finland will contribute to the development of a EU recovering from economic crisis and to the next EU Commission work programme, with the priorities being competitiveness that supports economic growth, an improvement in employment, and a Social Europe.

The European security system has been put to the test as a result of events in Ukraine. Finland emphasises the necessity of respecting international law and supports a negotiated solution to the crisis.

Finland promotes an ambitious and fair international climate agreement aimed at limiting global warming to less than two degrees. In the preparation of the UN's Sustainable Development Goals and Post-2015 Development Agenda, Finland pursues, as part of the EU, solutions safeguarding social, economic and environmental sustainable development.

Convention 169 of the International Labour Organisation will be ratified, provided that the Government reaches a common understanding on a definition relating to the Saami people.