

# Government statement to Parliament on the Government Programme of Prime Minister Mari Kiviniemi's Government appointed on 22 June 2010

## FINLAND TOWARDS A CONSISTENT PATH TO GROWTH, EMPLOYMENT AND STABILITY

1. The goal of the Government is to promote economic stability, sustainable growth, equality and integrity of our society. The Government seeks to strengthen Finland's competitiveness and to build a low-carbon economy. Through work and entrepreneurship, this is a way to sustainably ensure justice in society and the prosperity of Finnish citizens. Nobody is to be excluded from well-being.

Work should always be economically rewarding. The Government will ensure the necessary framework for expertise, work and entrepreneurship in all of Finland. The Government aims at increasing the employment rate to 75 per cent in the long term by supporting growth and implementing structural changes to secure our well-being.

The incoming Government takes office in a situation which still reflects signs of the global recession and in which international economic development remains uncertain.

Future challenges for the Finnish economy are presented by reforms required by the global economy, the need to prepare for increasing expenses for population ageing, fair distribution of costs arising from the recession and levelling-out of regional and welfare differences.

The recession will have an impact on public finances for years to come. The schedule and extent of stabilisation measures will be gauged in such a way as not to hamper economic recovery or growth in employment.

The earlier the sustainability problem of public finances is tackled, the better Finland will manage in the future.

Along international lines, the Government will launch preparations to introduce, in the next few years, a more broad-based development indicator to be used in addition to the GDP. In addition to economic development, such indicators reflect people's personal well-being and state of the environment.

2. The historically deep recession faced by Finland has been managed systematically and phase by phase. The economic recession that originated from the fall of international demand could not have been prevented by national measures. Finland has undertaken successful stimulus measures in the domestic market and maintained consumer confidence. Thanks to the economic policy pursued, the level of unemployment is significantly lower than could have been anticipated as a result of the strong reduction of the GDP.

The decisions made by the European Union and implemented by Member States to stabilise the financial markets form a basis for sustainable economic growth. Instability of international financial markets will continue to cause considerable uncertainty about growth in the next few years. Important steps have been taken to restore stability and trust in the euro area. Restoring stability and normalising loan and interest rate markets will remain key goals in future, too. Trust is also supported by the fact that all Member States are committed to reviving their economies. Publication of the results of bank stress tests and possible use of support measures will decrease economic uncertainty. These measures will enable consistent stabilisation of the public economy also in Finland.

Finland is an active promoter of transparency and sustainability in the EU's financial markets. Economic growth in the near future requires stable and well-functioning financial markets. Finland supports the European Commission's efforts to establish international legislation for financial markets.

3. In 2010, the general government deficit is projected to deepen and break the three per cent threshold. The Government's objective is that Finland would be among the first euro area countries to again meet the EU's stability criteria.

The Government undertakes to lower the deficit in 2011 well below the three per cent threshold set in the EU's Stability and Growth Pact.

The Government is committed to pursuing a responsible and consistent financial policy. It will continue to apply the system of spending limits as agreed in the Government Programme of Matti Vanhanen's second Government and comply with the principles for the spending limits of the electoral term as adopted by the Government in May 2007. The Government may implement internal transfers to promote growth and employment.

Effects and costs of temporary or one-off stimulus measures will fall under the years 2009-2011. As to these measures, no separate withdrawal decision is necessary.

The Government will draw up, for the next two electoral terms, a plan to stabilise public finances and to bridge the sustainability gap after receiving the results of the programme for sustainable growth and employment which is being carried out on the tripartite basis. The Government expects ambitious and concrete proposals from the programme.

The first steps will be taken in 2010 to enter the path stabilising the public economy. The adjustments agreed to the value-added tax, energy tax and excise duty on sweets and soft drinks will have the tightening effect on financial policy equalling nearly one per cent of the GDP.

Public finances should be strengthened further to bridge the sustainability gap by the end of the decade. The share of public debt in relation to GDP will be stabilised to stand below 60 per cent.

4. For Finland to pull through, necessary elements include enabling growth, raising productivity, extending working lives and curbing expenses. In addition, reforms to boost employment and a structural reform of taxation to increase tax revenue are needed.

The path to survival is to be built by supporting growth and integrity of our society – phase by phase, systematically by avoiding any sudden moves.

Should the international economic situation fundamentally change, the Government will need to react fast and make decisions to increase economic stability.

5. The Government seeks to provide conditions for faster-than-projected economic growth and a higher employment rate in the entire country.

To promote exports, boost investment and secure funding for SMEs, risk-taking capacity of special funding will be increased, possible amendments to the Act of the State's Export Credit Guarantees will be explored and use of counter-cyclical financing will be reviewed.

The Government supports growth entrepreneurship. In research, development and innovation, an increased emphasis will be placed on the commercialisation and internalisation of R&D results. The Government will continue the creation of lead markets, particularly in the field of environmental business.

The Government will carry out the legislative projects as required by the renewable energy package and make binding decisions concerning the funding needed for the entire package.

As regards infrastructure investments promoting growth, steps will be taken to determine what kind of budget or financing practices are required in order to properly carry out large investments.

6. Availability of skilled labour is an increasingly important element in terms of future economic growth. Preconditions for maximised work input include professional skills derived from education, high workforce participation rate, work-based immigration, well-being at work, long enough working lives and low structural unemployment.

Extending working lives requires measures to accelerate young people's access to employment, to reconcile work and family life, to promote well-being at work, to increase the work input of elderly population and to develop work life so that the causes of early retirement and incapacity for work can be addressed. Proposals put forward by the Ahtela group on quality issues of work life will be implemented on the basis of the preparations launched. Together with labour market organisations, the Government will, in the manner agreed, discuss options to develop the pension system.

Steps will be taken to prevent young people's early exclusion from the labour market. The Government's goal is to provide each comprehensive school leaver a training place. Increased youth and long-term unemployment rates will be taken account of in employment policy measures.

The Government will make efforts to promote equality in the labour market. The equal pay programme will be continued. The Ministry of Social Affairs and Health and the Ministry of Finance together with labour market organisations will draft a proposal concerning the distribution of costs associated with parenthood. They will also prepare guidelines for the development of the family leave system on the basis of proposals put forward by the Ministry of Social Affairs and Health working group.

7. Taxation will be developed in ways intended to promote economic growth and employment, sustainable development, increased tax revenues and a broader tax revenue base.

Guidelines provided in the programme for combating off-the-books economy will be implemented. The most urgent measures include expanding the commissioning body's notification requirement in the construction sector, boosting the tax liability of posted workers, enabling the tax administration to conduct tax audits for reference purposes in credit institutions, and entering data pursuant to the Act on the Contractor's Obligations and Liability in a public register.

The Government will continue the ecological tax reform by changing energy taxes into environmentally based taxes. The use of renewable transport fuels and the adoption of low-carbon cars are encouraged.

8. The level and structure of public expenditure need to be adjusted to comply with the requirements determined by the prevailing circumstances. The Government will proceed with the productivity programme. The municipal and service structure reforms will be continued in order to secure the quality and availability of services and to curtail the growth in outlays.

Measures to improve the productivity of the public service system are essential in terms of reducing the sustainability gap. They make it possible to guarantee high-quality services in the future. Steps will be taken to improve the functioning and productivity of care services that municipalities are responsible for providing. The skills and expertise of personnel hold a key role when it comes to improving productivity.

A spending limit system will be drafted for local government finances to enable the management of cost trends over the medium-term and to secure the availability of services in all parts of Finland.

Information systems used in public administration will be harmonised as quickly as possible. ICT management in the public sector will be centralised and strengthened. The Government will give decisions which provide for the opening and availability of data in the possession of the public sector without compromising data security.

9. The changes brought about by the global division of duties in the labour market and the world of work highlight the importance of and the need for cooperation. A smoothly functioning cooperation system provides a competitive edge. It takes account of facts resulting from globalisation and population ageing.

In Finland, the global economic recovery is best utilised through wide-ranging cooperation between the Government, business life and wage and salary earners. One goal of such cooperation needs to be the securing of our international competitiveness.

Labour market agreements have a large impact on Finland's competitiveness, employment and the stability of general government finances. At its budget session to be held in August, the Government will review measures to promote the creation of moderate pay agreements and to support the purchasing power of citizens.

The Government has received conclusions submitted by labour market organisations' group for the assessment and development of agreement and labour market peace system, and will take part in the preparatory work in accordance with the proposal.

10. The Government will proceed with the implementation of decisions of Matti Vanhanen's second Government, Government Programme and the Mid-Term Policy Review.