

14 April 2016

Distribution as listed

GENERAL GOVERNMENT FISCAL PLAN 2017–2020

The General Government Fiscal Plan is also Finland's Stability Programme, and it meets the EU's requirement for a national medium-term fiscal plan. Specific information relating to the Stability Programme is presented in Appendix 4.

The Government has today, following preparatory consideration of the matter in the Ministerial Finance Committee and pursuant to Section 2 of the Decree on the General Government Fiscal Plan (120/2014), Section 1 of the Budget Decree (1243/1992) and the Government's decision issued on 24 April 2003 on the principles of formulating central government spending limits proposals, budget proposals and operating and financial plans, issued the following General Government Fiscal Plan and the central government spending limits decision included within it as well as a limit on the local government expenditures caused by central government measures:

1. Economic challenges and the economic policy line

General government expenditure is financed from revenue generated by economic activity. Households and businesses pay tax on their income and consumption. In addition, public sector holdings generate property income. The slow growth of the economy is therefore a big challenge for Finland's general government finances.

Finland's economy in recent years has been in a difficult situation. Gross domestic product has contracted for several years. Unemployment has increased and periods of unemployment have lengthened. The recession has proved to be longer and deeper than expected. At the same time, industrial restructuring, low investment, unemployment that when protracted has become structural, and changes in population age structure have weakened conditions for economic growth.

The population age structure will continue to change strongly over the next two decades. During this period, only total factor productivity growth will increase the total output of the economy. On this basis, the economy's growth potential can be expected to settle at 1–1½% over the long term.

The difficult times have been strongly reflected in Finland's public finances. The general government budgetary position has deteriorated and debt has grown quickly. The general government deficit

exceeded 3% in ratio to GDP in 2014. In 2015 the deficit decreased, but public debt rose to over 60% in ratio to GDP.

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

In such a situation, in fiscal and other economic policy a balance must be found to support domestic demand over the recession and halt growth in public indebtedness in the medium term, and to improve conditions for economic growth and safeguard the sustainability of public finances in the long term.

To formulate an appropriate economic policy package, it is necessary to know the factors underlying the weak development of the economy. In Finland, these factors are largely structural. Supporting domestic demand will not solve problems that stem from economic structures and changes to them. Fiscal measures aimed at supporting demand are meaningful if at the same time they promote economic restructuring and improve conditions for production in the future. Sustainable growth will only arise through innovations and productivity growth generated within businesses.

In Finland, the strong and stable fundamental structures of society, healthcare, education, public social insurance, the banking and financial system, and membership of the euro area strengthen the capacity of households and businesses to withstand risks. They provide a good basis for innovations and productivity growth.

The Government's fiscal policy line

Competitiveness, employment and public service provision are at the heart of the economic policy of Prime Minister Juha Sipilä's Government. The Government's economic policy is aimed at levelling off fiscal indebtedness and bridging the sustainability gap through savings as well as measures to boost growth and enhance public service provision.

The Government's consolidation package, aimed at directly strengthening public finances, consists of measures to control growth of public expenditure as well as expenditure re-allocations, such that together the measures will strengthen public finances by approximately EUR 4 billion by 2019. Through decisions made by the Government on 5 April 2016, the package is being realised.

The Government aims to strengthen conditions for employment and economic growth through taxation as well as through measures supporting economic competitiveness and productivity growth. Moderate wage settlements, the introduction of an export industry-driven model in wage formation and reforms to increase local agreement in the labour market are a key part of this package. The objective is that in this way new growth and employment are created such that the budgetary position improves by EUR 1–1½ billion in the medium term.

Key long-term measures include cutting public sector costs by reducing municipalities' statutory duties and related obligations and by utilising digitalisation, as well as the healthcare, social welfare and regional government reform package. The reforms are in the preparatory stage and are proceeding according to the planned schedule. With these measures, the Government aims to slow public expenditure growth by approximately EUR 4 billion in the long term.

In addition, Parliament has approved the pension reform initiated by the previous Government. The reform will come into force at the beginning 2017 and will strengthen public finances in the long term.

2. National objectives and rules steering the management of general government finances

The General Government Fiscal Plan brings together decision-making relating to public finances. In its plan, the Government examines public finances comprehensively and makes policy outlines and choices that form a solid foundation for the later preparation of legislation and the budget. The General Government Fiscal Plan contains sections relating to central government finances, local government finances, statutory earnings-related pension funds and other social security funds. The Government prepares the General Government Fiscal Plan for the parliamentary term and revises it annually for the following four years by the end of April. The plan also supports adherence to the Medium-Term Objective set for the structural balance of general government finances.

Budgetary targets

The Government has decided on the following nominal budgetary targets for the parliamentary term:

- central government deficit at most ½% in ratio to GDP.
- local government deficit at most ½% in ratio to GDP.
- surplus of earnings-related pension funds approximately 1% in ratio to GDP.
- balance of other social security funds approximately 0% in ratio to GDP.

The Government expects that the targets decided on above will result in the achievement of the Medium-Term Objective (MTO), set in spring 2013 and confirmed in autumn 2016, for a structural balance of -0.5% in ratio to GDP or an even stronger structural balance. The measures decided by the Government to achieve the targets are described by subsector in Chapters 5–7. Chapter 8 examines the overall impact of Government measures on public finances.

Central Government Spending Limits

The Government is committed to the central government spending limits system. The expenditure rule ensures a responsible, long-term central government spending policy that promotes economic stability. The system is based on a real, binding overall expenditure ceiling set for the duration of the parliamentary term, to which only the required price- and cost-level adjustments and structural corrections are made annually. The spending limits system restricts the level of expenditure budgeted in the central government budget. The purpose of the spending limits system is to limit the total amount of expenditure incurred by the taxpayer.

The spending limits system sets a ceiling for approximately 80% of central government budget expenditure. Expenditure that changes according to cyclical conditions and automatic stabilisers, central government debt interest expenditure and financial investments remain outside the central government spending limits. In the annual spending limits decisions, spending limits are allocated to the administrative branches, but only the overall expenditure ceiling for the parliamentary term is binding. Reallocations may be made between administrative branches. Alongside the supplementary budget provision, there remains between the parliamentary term expenditure ceiling and the administrative branch-specific spending limits an unallocated provision to be allocated later.

The central government spending limits are discussed in Chapter 5.

Limit on the local government expenditures caused by central government measures

The Government Decree on the General Government Fiscal Plan requires that the Government set in the General Government Fiscal Plan a maximum monetary limit consistent with the local government budgetary target for the change in expenditure arising to local government finances from central government measures. The limit on the local government expenditures caused by central government measures and the impact of central government measures on local government finances are discussed in Chapter 6.

3. Economic fundamentals

This chapter and Appendix 1 provide a summary of the Ministry of Finance's macroeconomic forecast, on which the General Government Fiscal Plan is based. The Ministry of Finance's macroeconomic forecast is prepared independently in the Ministry's Economics Department (869/2012, Section 2 a). The economic outlook is comprehensively described in the Ministry of Finance's Economic Survey.

3.1. Economic outlook

Economic outlook for 2016–2018

Finland's economy grew by 0.5% in 2015 after three years of recession. The sources of this subdued growth were exports and consumption at the beginning of 2015 as well as investment, particularly in latter part of the year. In 2016 Finland's economy is projected to grow by 0.9% compared with the previous year. A modest 1.2% is forecast for growth in 2017 and 2018.

The growth outlook for the world economy and trade is modest. World trade will grow by 3% in 2016 and growth will accelerate in 2018 to only 5%. The economies of a number of important trading partners for Finland are projected to develop quite favourably. The outlook for growth in the United States remains good: over the next few years, the economy will grow annually by around 2.5%. In 2015 Sweden's economy grew very quickly, by 4.5%.

The development of Finland's exports will remain more sluggish than world trade, and therefore the loss of market shares in international trade will continue. In the next few years, economic activity will be supported mainly by private consumption and investment.

The low price of energy, particularly oil, will promote the growth prospects of energy-intensive economies, such as Finland. The strongest phase in the fall of energy and raw materials has passed, and with respect to oil the price will increase moderately. In 2017 the rise in consumer prices will accelerate to 1.3%. Nominal earnings will rise during the outlook period by around 1% per year. With the forecast development, Finland's competitiveness will improve compared with Sweden and Germany, for example.

Investment will turn to clear growth in 2016 and this will continue broad-based during the outlook period. Growth of private consumption will be supported in 2016 by moderate development of prices. In 2017–2018 consumption growth will continue slightly faster than the development of real incomes as consumer confidence strengthens.

Through the recovery in economic growth, the number of employed people will grow by 0.3% in 2016. The improvement in employment will continue throughout the outlook period. By 2018, the unemployment rate will fall to 8.7%.

Medium-term outlook

Despite the return to growth, the economy is also expected to grow slowly in 2019 and 2020. Industry and the economy as a whole have for some years been undergoing a restructuring, which has also affected the longer-term growth outlook of the economy.

The contraction of the working age population will reduce labour input in the next few years, but labour force participation rates are expected to rise slightly, particularly in the older age cohorts. Another factor slowing labour input is high structural unemployment.

Total factor productivity growth has been a key source of economic growth in recent decades. In recent years, total factor productivity has developed very modestly. Behind this weak trend, there have been cyclical factors, but also structural factors. The output of high-productivity sectors has declined significantly, and the overall structure of the economy has moved towards services. The total factor productivity growth trend has been around zero in recent years and growth is also expected to be significantly slower in the medium term than that which was experienced in the early 2000s.

In addition to labour input and total factor productivity, production conditions for the economy will be influenced by the capital stock. The low investment rate that continued for several years has partly slowed growth of capital stock and therefore weakened the future growth potential of the economy. Overall, the economy is projected to grow by slightly over 1% in 2019 and 2020.

Development of the national economy

	2014	2015	2016	2017	2018	2019	2020
GDP value, EUR billion	205.3	207.2	210.6	215.4	221.1	227.6	234.5
GDP, change in volume, %	-0.7	0.5	0.9	1.2	1.2	1.1	1.1
Unemployment rate, %	8.7	9.4	9.3	9.0	8.7	8.4	8.1
Employment rate, %	68.3	68.1	68.4	68.8	69.1	69.4	69.7
Consumer Price Index, change %	1.0	-0.2	0.3	1.3	1.5	1.7	1.8
Long-term interest rate, 10 years, %	1.4	0.7	0.6	1.1	1.6	2.2	2.8

3.2. Outlook for general government finances

Finland's general government finances have been in deficit since the latter part of the last decade. The budgetary position will improve gradually in the coming years, but threatens to remain in deficit. The general government debt-to-GDP ratio has grown continuously for many years and there is no significant sign of a levelling off in the debt ratio. For Finland's general government finances to be on a sustainable base in the long term, the budgetary position would have to be approximately 2% in surplus in ratio to GDP at the turn of the decade.

Central government finances are deeply in deficit. Consolidation measures have reduced the deficit, however. In the outlook period, the deficit will fall gradually through reviving economic growth and consolidation measures. The local government deficit, on the other hand, will increase slightly in the outlook period. Local government will be burdened by growth of service needs due to population ageing. The combined budgetary position of central and local government is expected to be just over EUR 5 billion in deficit in 2020.

The budgetary position of other social security funds has been weakened by expenditure arising from high unemployment. Due to an increase in unemployment insurance contributions and an

improvement of the employment situation, the budgetary position of other social security funds will return to close to balance. The surplus of the earnings-related pension funds continued its decline last year. The surplus is expected to fall in the outlook period to just under 1% in ratio to GDP.

The expenditure ratio, the ratio of expenditure to GDP, has grown in recent years. The expenditure ratio has been increased, particularly by expenditure arising from unemployment. Behind the growth of the expenditure ratio is also slow growth in GDP value as well as growth of age-related expenditure. Growth of the expenditure ratio will level off in the outlook period due to consolidation measures and as growth of unemployment expenditure subsidies. In recent years, tax increases have increased the tax ratio, i.e. the ratio of taxes and tax-like payments to GDP. The tax ratio is projected to fall slightly in the outlook period.

Key figures for general government finances according to National Accounts, % GDP

	2014	2015	2016	2017	2018	2019	2020
Taxes and social security contributions	43.9	44.5	44.6	44.4	44.1	44.0	43.8
General government expenditure	58.1	58.3	58.2	57.6	57.0	56.7	56.4
General government net lending	-3.2	-2.7	-2.5	-2.1	-1.8	-1.4	-1.3
— Central government	-3.8	-3.1	-2.9	-2.6	-2.2	-1.7	-1.5
— Local government	-0.8	-0.7	-0.7	-0.6	-0.6	-0.7	-0.8
— Earnings-related pension funds	1.7	1.4	1.3	1.2	1.0	0.9	0.8
— Other social security funds	-0.3	-0.4	-0.2	-0.1	0.0	0.1	0.1
Primary balance	-3.0	-2.5	-2.3	-2.0	-1.7	-1.5	-1.3
Structural balance	-1.5	-1.3	-1.5	-1.4	-1.4	-1.2	-1.3
General government gross debt	59.3	63.1	65.0	66.7	67.4	67.4	67.2
Central government debt	46.3	48.2	50.0	51.6	52.4	52.6	52.5

Compliance with fiscal policy rules and objectives

The general government deficit exceeded the EU Treaty's 3% reference value in 2014, but the excess was small, temporary and exceptional, which means that the deficit criterion was met. In 2015 the deficit was again below 3% in ratio to GDP and it will remain there, according to the Ministry of Finance forecast.

General government debt exceed the 60% reference value in 2015, but the debt criterion could still possibly be considered to be met.

Finland is under the requirements of the preventive arm of the Stability and Growth Pact. According to the Ministry of Finance forecast, Finland was compliant with the requirements of the preventive arm in 2015. This year, the deviation of the change in the structural balance from the required adjustment is close to significant, also taking into account increased costs relating to asylum seekers. According to the Ministry of Finance forecast, a significant deviation from the requirements of the preventive arm of the Stability and Growth Pact might arise in 2017.

Compliance with the above-mentioned EU requirements has been assessed in Appendix 4, which also contains the Stability Programme tables. As negotiations on the Competitiveness Pact are still ongoing, the effects of the Pact could not be taken into account in the Ministry of Finance's forecast or the Stability Programme tables.

With regard to the subsector-specific budgetary targets set by the Government for general government finances in 2019 (see Chapter 2), based on the Ministry of Finance's forecast neither local government nor central government finances will achieve their targets.

3.3. Economic restructuring, population ageing and fiscal sustainability

In recent years, Finland's economy has suffered from industrial restructuring, which has weakened opportunities for economic growth. The growth outlook of the coming years will also be undermined by the declining number of the working-age population. The increase in pension, healthcare and long-term care expenditure caused by population ageing will pose a permanent additional challenge to efforts made to balance general government finances.

The long-term difference between general government revenue and expenditure is measured by the sustainability gap. In other words, the sustainability gap is the current value of future general government deficits. The sustainability gap indicates how much general government finances would have to be strengthened in the medium term in order to keep indebtedness in check without additional measures in the long term, taking growth of age-related expenditure into account.

The assessment by the Economics Department of the Ministry of Finance of the long-term sustainability of general government finances is prepared in accordance with the methods and calculation principles agreed with the EU. The assessment of age-related expenditure is carried out using the SOME model, developed by the Ministry of Social Affairs and Health for analysing social expenditure. The background assumptions of the calculation (employment, productivity, interest rate, inflation) are based on the assumptions of the 2015 Ageing Report published by the Working Group on Ageing Populations and Sustainability (AWG) of the EU's Economic Policy Committee.¹

According to the assumptions of the Ageing Report, the average productivity growth in Finland will amount to 1.4% between 2019 and 2060. The assumptions of the calculation differ from the assumptions of the Ageing Report in two areas: in the assessment of population development, which uses the 2015 population projection by Statistics Finland, and in the assessment of 2016–2020 economic development, which is based on the forecast of the Economics Department of the Ministry of Finance presented in this publication.

The sustainability gap is estimated to be just over 3½% in ratio to GDP at the level of 2019. Compared with last autumn's estimate, the figure has decreased slightly. Taking the new population forecast into account has increased the sustainability gap estimate a trace, but other factors have reduced it slightly. Both the autumn estimate and the present sustainability gap estimate take into account the reducing effect, approximately one percentage point, on the sustainability gap of the pension reform, which is due to come into force at the beginning of 2017. The reform is expected to raise the employment rate and reduce pension expenditure. The calculation does not take into account the long-term measures, such as the healthcare, social welfare and regional government reform package, outlined in the Government Programme to improve general government finances.

The sustainability calculation is in nature a pressure projection, in which development according to current legislation and practices is projected into the future with the aid of population forecasts, age cohort-specific expenditure shares and long-term assessments of economic development. The further forward in time one goes, the greater the uncertainty connected with the calculation, making it sensitive to the assumptions used. Nevertheless, sustainability gap calculations are useful as they offer

¹ The 2015 Ageing Report: Underlying Assumptions and Projection Methodologies, European Economy 8/2014.

a systematic way of analysing future challenges faced by general government finances as well as solutions to overcome them.

4. Government liabilities and risks

Government fiscal liabilities – and thereby risks – may emanate from decentralised sources within the central government (e.g. budget accounting), other public finances (e.g. government funds, public utilities, municipalities), the private sector (e.g. government-controlled enterprises), or the financial markets (e.g. the banking sector). It is not possible to identify all fiscal risks, however.

The table shows a summary of central government assets and nominal values of certain specifiable liabilities. An unambiguous assessment of risks related to liabilities is difficult, and therefore in this examination the nominal values of liabilities have been used in the interests of clarity. Data on central government real and financial assets are based on financial accounting. Concerning financial assets, the table also shows certain key publicly quoted shareholdings. In addition to these, the central government owns either in full or in part several other companies, which are valued on the basis of book value. The most significant of these include VR Group, Finnish Industry Investment Ltd and Patria Oy. In 2008, central government financial assets decreased by more than EUR 13 billion, accounting for over 8 percentage points in ratio to GDP. This was largely explained by falling share prices. Financial assets also decreased significantly in 2011. Since 2011, financial assets have grown due to rising share prices. In recent years, the central government has received from its shareholdings dividend income of approximately EUR 1.2 billion, which is approximately 2.5% of all central government accounted revenue. In the peak year of 2007, the corresponding figure was nearly 4%. The sale of holdings naturally reduces the stream of dividend income permanently.

Summary of government liabilities and risks, EUR billion

	2009	2010	2011	2012	2013	2014	2015
Assets							
Central government real assets		47.7	49.5	51.1	52.4	51.8	
<i>% GDP</i>		25.5	25.1	25.6	25.8	25.2	
Central government financial assets	58.5	63.7	55.5	58.5	59.4	60.6	61.1
<i>% GDP</i>	32.3	34.1	28.2	29.3	29.2	29.5	29.5
— of which							
Central government liquid assets	9.6	11.2	10.3	7.4	4.6	3.1	4.4
Solidium	7.6	9.3	6.9	7.2	8.2	7.6	6.8
Other shareholdings in listed companies	10.4	12.1	8.6	7.8	9.5	10.9	10.2
National Housing Fund receivables	8.6	8.2	7.7	7.2	6.5	6.0	5.4
Liabilities							
Central government debt	64.3	75.2	79.7	83.9	89.7	95.1	99.8
<i>% GDP</i>	35.5	40.2	40.5	42.0	44.1	46.3	48.2
Municipal debt	10.0	10.6	11.4	12.9	14.9	16.8	17.8
<i>% GDP</i>	5.5	5.7	5.8	6.5	7.3	8.2	8.6
Government guarantees	22.9	23.2	28.2	33.6	35.6	41.3	49.2
<i>% GDP</i>	12.6	12.4	14.3	16.8	17.5	20.1	23.7

	2009	2010	2011	2012	2013	2014	2015
— Finnvera	13.6	13.2	14.4	15.4	15.7	20.3	27.7
— Student loans	1.3	1.4	1.4	1.5	1.6	1.7	2.0
— EFSF	0	0	2.1	5.1	6.2	6.6	6.2
— Bank of Finland						0.5	0.6
— Government funds	6.3	7.9	9.1	10.2	11.2	11.8	12.3
— Other	1.2	0.3	0.6	0.8	0.5	0.3	0.3
Capital liabilities ¹	4.7	5.1	5.8	17.0	17.1	17.2	17.8
% GDP	2.6	2.7	3.0	8.5	8.4	8.5	8.6
Other liabilities ²	99.5	105.1	112.3	119.0	117.6	132.6	132.1
% GDP	55.0	56.2	57.0	59.6	58.2	65.0	63.8
— Budget accounting	99.5	103.3	110.4	117.0	115.4	130.1	129.6
— Off-budget entities	-	0.3	0.4	0.5	0.6	0.7	0.9
— State enterprises	-	1.4	1.5	1.5	1.6	1.8	1.6

¹⁾ Capital payable to international financial institutions in the event that capital is required to cover losses or avoid insolvency (callable capital).

²⁾ e.g. government pension liabilities and appropriations required due to authorisations

Central government liabilities, in addition to debt and pension liabilities, largely comprise guarantees, the nominal value of which has increased significantly in recent years. Guarantees issued by Finnvera and central government funds – in practice, government-backed mortgages – have seen particularly high increases. The nominal value of the guarantees covered by this calculation has doubled in a few years and is now approximately 24% in ratio to GDP. In addition, the amount of capital liabilities payable upon request to international financial institutions has multiplied, mainly due to the measures for managing the financial crisis in the EU. Currently, they account for approximately 9% in ratio to GDP.

On an international scale, Finland's guarantees are at a high level. Different reporting practices, among other reasons, make it difficult to compare the nominal values of guarantees between countries. Nevertheless, according to data collected by Eurostat, Finland's guarantees-to-GDP ratio is the third highest among the EU Member States.

Risks related to public sector activities are generally linked in one way or another to general economic development. In an exceptionally difficult economic situation, the fiscal position may weaken due to a number of different factors simultaneously. Risks relating to macroeconomic development, public debt, public sector holdings, granted export credit guarantees and other public sector risks are correlated with each other. In normal business cycle conditions, typically only some of the risks are realised.²

Costs arising from the triggering of central government liabilities may impose a significant burden on the economy. This highlights the importance of careful monitoring and management of central government financial liabilities, particularly in the current volatile external environment conditions.

² The International Monetary Fund has prepared research on the costs arising from the triggering of contingent liabilities in the period 1990–2014. The research includes a database covering 80 countries, including Finland. According to the research, the average cost arising to general government finances from the triggering of liabilities has been 6% in ratio to GDP. In the average country, the triggering of a contingent liability significant to general government finances (cost more than 0.2% in ratio to GDP) happens once in 12 years, with a 8.7% probability in any year.

5. Central government finances

5.1. Central government spending limits

The central government spending limits system is based on the real, binding overall expenditure ceiling set for the duration of the parliamentary term, to which only the required price- and cost-level adjustments and structural corrections are made. The spending limits system is based on ex ante examination, i.e. it restricts the level of expenditure budgeted in the central government budget.

The spending limits procedure sets a ceiling for approximately 80% of central government budget expenditure. Expenditure that changes according to cyclical conditions and automatic stabilisers, such as unemployment security expenditure, pay security, housing allowance and the central government contribution to the cost of social assistance expenditure, is not included in the central government spending limits. However, expenditure effects generated by changes in the criteria for these items are included within the spending limits. Debt interest payments, value-added tax expenditure, financial investment expenditure and expenditure corresponding to technically transmitted payments by central government are also excluded from the spending limits. The spending limits, moreover, do not cover central government off-budget funds.

The spending limits also cover supplementary budgets, for which a certain portion of the spending limits, the so-called supplementary budget provision, has been reserved. The annual spending limits decision also sets administrative branch-specific expenditure ceilings, but only the overall expenditure ceiling for the parliamentary term is binding. Reallocations may be made between administrative branches. Alongside the supplementary budget provision, there remains between the parliamentary term expenditure ceiling and the administrative branch-specific expenditure ceilings an unallocated provision to be allocated later.

If the level of expenditure falls below that specified in the spending limits after supplementary budgets, the difference, to a maximum of EUR 200 million, may be used for one-off expenditure in the following year without reference to the spending limits.

5.2. Development of on-budget expenditure and the spending limits

Development of on-budget expenditure 2016–2020

Compared with the autumn 2015 spending limits decision, on-budget expenditure will be approximately EUR 0.3 billion higher in 2017, but only EUR 50 million higher in 2019. An increased number of asylum seekers has contributed to the increase in expenditure, while lower interest expenditure and new consolidation measures have had the effect of decreasing expenditure. Administrative branch expenditure will decrease in real terms during the spending limits period 2017–2020 by an average of approximately 0.7% per year when structural changes have been taken into account. Nominally, administrative branch expenditure will grow by an average of approximately 0.5% per year.

The level of spending limits expenditure in 2017 will be approximately EUR 44.4 billion, which is slightly less than budgeted expenditure for 2016. In the spending limits period, the level of spending limits expenditure will fall to EUR 43.4 billion in 2020 as a result of savings decisions in accordance with the Government Programme.

Compared with the autumn 2015 spending limits decision, spending limits expenditure will grow annually by EUR 0.5–0.7 billion. Of this growth, EUR 0.5–0.6 billion is explained by a structural

change in terms of the spending limits, namely a change made in connection with the amendment to the 2016 budget proposal to cancel the merging of pension recipients' housing allowance with the general housing allowance. Expenditure outside the spending limits will fall correspondingly. Price- and cost-level changes will increase the level of spending limits expenditure by approximately EUR 65 million annually. In addition, growth in the number of asylum seekers will increase spending limits expenditure by an average of approximately EUR 200 million annually. Due to uncertainty relating to the estimated number of asylum seekers, the spending limits includes a EUR 150 million reserve in 2017–2019. New consolidation measures and a reduced estimate of the EU membership fee as well as a lower than expected adjustment made to the division of costs between central and local government had the effect of reducing spending limits expenditure.

On-budget expenditure does not take into account the healthcare, social welfare and regional government reform package nor the result of the Competitiveness Pact negotiations, because their expenditure effects are as yet unspecified.

Expenditure outside the spending limits

The spending rule sets a maximum level for most, around four-fifths, of on-budget expenditure. The following expenditure falls outside of the spending limits:

- unemployment security expenditure, social assistance expenditure, wage subsidy and housing allowance. However, expenditure effects generated by changes to the criteria for these items and by discretionary decisions affecting their level are included in the spending limits.
- interest expenditure on central government debt
- possible compensation payable to other tax recipients for tax changes decided by central government (including social insurance contributions)
- expenditure corresponding to technically transmitted payments and external funding contributions
- expenditure corresponding to the revenue from sports betting and lotteries, totalisator betting revenue, and revenue recognised from the Slot Machine Association RAY
- financial investment expenditure
- appropriations for VAT expenditure.

Expenditure outside the spending limits is expected to be approximately EUR 10.7 billion in 2017, which is approximately EUR 0.9 billion more than expenditure outside the spending limits budgeted for 2016. The most significant factor in the increase is a technical change with respect to the spending limits that comes into force in 2017, in which the granting and payment of basic social assistance will transfer from the municipalities to the Social Insurance Institution of Finland (Kela). Similarly, the partial transfer the financing of the start-up grant and wage-subsidised work to unemployment benefit appropriations for 2017 and 2018 will increase expenditure outside the spending limits. Growth of expenditure outside the spending limits is also explained by the capitalisation of universities in 2017 as well as increased labour market support and housing allowance expenditure resulting from higher immigration.

In 2017–2020 expenditure outside the spending limits is expected to average approximately EUR 10.5 billion per year. During the spending limits period, interest expenditure in particular will grow due to a projected rise in interest rates. Cyclical expenditure will fall overall during the spending limits period as the employment situation improves and due to the impact of the above-mentioned fixed-term financing reform of the start-up grant and wage-subsidised work. The higher number of asylum

seekers, on the other hand, will increase labour market support and housing allowance expenditure, for example.

Compared with autumn 2015 General Government Fiscal Plan, the total level of expenditure outside the spending limits has fallen. The fall is due to the Government's decision to cancel the merging of the pension recipients' housing allowance with the general housing allowance. The pension recipients' housing allowance is expenditure within the spending limits, whereas the general housing allowance is outside the spending limits. In addition, estimated interest expenditure has fallen significantly.

	2017	2018	2019	2020
Cyclical expenditure	4.9	4.8	4.7	4.6
Compensation to municipalities for tax criteria changes	0.4	0.4	0.4	0.5
Expenditure corresponding to EU revenue	1.1	1.1	1.1	1.1
Expenditure corresponding to revenue from sports betting and lotteries, totalisator betting revenue, and revenue recognised from the Slot Machine Association RAY	0.9	0.9	0.9	0.9
Interest expenditure	1.4	1.4	1.5	1.6
Financial investment expenditure	0.6	0.5	0.4	0.4
Technical pass-through items	0.2	0.2	0.3	0.3
VAT appropriations	1.2	1.2	1.1	1.1
Total	10.7	10.6	10.4	10.5

Price and cost-level adjustments, and structural changes

The parliamentary term expenditure ceiling is adjusted annually to reflect structural changes in the spending limits as well as changes in price levels. In the September 2015 spending limits decision, the 2017–2019 spending limits were set at the 2016 price and cost level in respect of statutorily and contractually based indexed expenditure. The spending limits decision for 2017–2020 is prepared at the 2017 price level, as a result of which the 2017 expenditure ceiling is adjusted upwards by EUR 212 million. Index savings decided on in the Government Programme and the autumn 2015 General Government Fiscal Plan reduce the price adjustment. In addition, the 2017 expenditure ceiling is also adjusted by a total of EUR 449 million corresponding to structural changes in the spending limits. The price- and cost-level adjustments and the structural corrections are described in more detail in Appendix 2.

In addition, as part of consolidation measures, the Government has decided to lower the parliamentary term expenditure ceiling by EUR 80 million in 2017–2018 and by EUR 120 million in 2019. The expenditure ceiling can be revised downwards, but not upwards, during the parliamentary term without this undermining the credibility of the spending limits system.

	2017	2018	2019
Parliamentary term expenditure ceiling 28 September 2015	44 252	44 199	43 551
Reduction of expenditure ceiling as part of consolidation measures	-80	-80	-120
Price- and cost-level adjustments	212	215	215
Structural changes	449	496	654
Revised parliamentary term expenditure ceiling	44 833	44 830	44 300

Central government spending limits by administrative branch and estimate of expenditure outside the spending limits in 2017–2020, EUR million at 2017 price and cost level

	2017	2018	2019	2020
23. Prime Minister's Office	187	176	170	168
Estimate of expenditure outside spending limits	25	25	25	25
Total	212	201	195	193
24. Ministry for Foreign Affairs	916	900	938	961
Estimate of expenditure outside spending limits	156	156	156	156
Total	1 072	1 056	1 094	1 117
25. Ministry of Justice	866	869	856	807
Estimate of expenditure outside spending limits	57	57	58	57
Total	923	925	914	864
26. Ministry of the Interior	1 270	1 235	1 213	1 201
Estimate of expenditure outside spending limits	107	94	92	82
Total	1 377	1 328	1 305	1 283
27. Ministry of Defence	2 489	2 447	2 701	2 630
Estimate of expenditure outside spending limits	365	357	360	366
Total	2 854	2 805	3 061	2 996
28. Ministry of Finance	16 634	16 782	16 815	16 821
Estimate of expenditure outside spending limits	694	731	749	837
Total	17 328	17 512	17 563	17 659
29. Ministry of Education and Culture	6 226	6 249	6 053	6 017
Estimate of expenditure outside spending limits	719	641	576	576
Total	6 945	6 890	6 629	6 593
30. Ministry of Agriculture and Forestry	1 645	1 634	1 554	1 464
Estimate of expenditure outside spending limits	908	918	918	856
Total	2 553	2 552	2 472	2 321
31. Ministry of Transport and Communications	2 865	2 905	2 402	2 284
Estimate of expenditure outside spending limits	434	414	344	344
Total	3 299	3 319	2 746	2 628
32. Ministry of Employment and the Economy	2 448	2 368	2 314	2 225
Estimate of expenditure outside spending limits	559	550	504	508
Total	3 008	2 919	2 818	2 733
33. Ministry of Social Affairs and Health	8 524	8 547	8 547	8 587
Estimate of expenditure outside spending limits	5 234	5 226	5 064	4 997
Total	13 758	13 773	13 611	13 584
35. Ministry of the Environment	170	164	156	155
Estimate of expenditure outside spending limits	11	11	11	11
Total	181	175	167	166
36. Interest on central government debt	-	-	-	-
Estimate of expenditure outside spending limits	1 393	1 367	1 450	1 634
Total	1 393	1 367	1 450	1 634
Administrative branch spending limits, total¹	44 422	44 415	43 853	43 447
Estimate of expenditure outside spending limits, total	10 683	10 559	10 319	10 461
Main titles, total	55 105	54 973	54 172	53 908
Parliamentary term expenditure ceiling	44 833	44 830	44 300	
— Administrative branch spending limits, total ¹	44 422	44 415	43 853	
— Supplementary budget provision	300	300	300	
— Unallocated reserve	112	115	147	

¹⁾ Main titles 21 and 22 are included in the total.

5.3. Definitions of policy in budget finances 2017–2020

Consolidation of central government finances

Annex 6 of the Government Programme presents the general government consolidation measures to be implemented in the parliamentary term. With respect to central government finances, the annex to the Government Programme contains significant savings measures as well as some expenditure increases, both of which are permanent in nature. To maintain the consolidation measures at the level agreed in Annex 6 of the Government Programme, new consolidation measures have been decided on in connection with the preparation of the General Government Fiscal Plan 2017–2020. The largest additional savings in central government finances relate to basic transport infrastructure maintenance and actual development cooperation as well as to expenditure included in the index savings of Annex 6 of the Government Programme, to which a 0.85% across-the-board reduction in expenditure will be applied. The impact of the measure will be compensated for, however, with increased appropriations to the administrative branch of the Ministry of Education and Culture as well as to universities and universities of applied sciences. The scale of expenditure-side consolidation measures will rise in on-budget finances during this spending limits period from EUR 1.6 billion in 2017 to EUR 2.9 billion in 2020. In autumn 2015, Government decided to cancel the merging of the pension recipients' housing allowance and the general housing allowance, which was partially compensated for by additional savings decisions.

With respect to local government finances, the consolidation measures are examined in Chapter 6.2, and at the level of general government finances as a whole in Chapter 8.1.

A number of operating expenditure savings were agreed on in the Government Programme and these are described in more detail in Chapter 5.3.2.

Expenditure arising from asylum seekers

The number of asylum seekers started to increase in 2015, and it is expected to remain at a high level in the coming years. In 2015 just over 32,000 asylum seekers arrived in Finland. From 2016, the number of asylum seekers is estimated at 10,000 per year, and this figure is used as the calculation basis in immigration-related appropriation expenditure during the spending limits period. Of those seeking asylum, approximately one third will be granted asylum. For each person granted asylum, three family unification applications are expected to be made, of which approximately one half would be approved. The calculation assumes that those granted asylum will not yet be employed in the spending limits period.

In this spending limits decision, expenditure estimates relating to asylum seekers will increase compared with the previous spending limits decision by a total of EUR 407 million in 2017, EUR 429 million in 2018, EUR 397 million in 2019 and EUR 340 million in 2020. Chapter 2 of the Economic Survey provides a summary of all expenditure increases that have been made in response to the increase in the number of asylum seekers since spring 2015.

	2017	2018	2019	2020
Administrative branch of the Ministry for Foreign Affairs	6.8	-	-	-
Administrative branch of the Ministry of Justice	5.9	3.4	-0.3	-2.8
Administrative branch of the Ministry of the Interior	33.1	14.7	8.1	5.6
Administrative branch of the Ministry of Finance	0.3	0.2	0.1	0.1
Administrative branch of the Ministry of Education and Culture	92.3	80.6	51.9	36.0
Administrative branch of the Ministry of Employment and the Economy	97.4	102.9	52.7	-27.0

	2017	2018	2019	2020
Administrative branch of the Ministry of Social Affairs and Health	171.2	227.2	284.0	327.8
Total	407	429	397	340
— of spending limits expenditure	244	218	133	35

Investments in Key Government Projects in the spending limits period

In accordance with decisions made earlier, a total of EUR 1.6 billion is allocated in 2016–2018 to Key Government Projects and to reducing the repair debt. Investments in Key Government Projects will increase on-budget expenditure by EUR 641 million in 2017 and EUR 641 million in 2018.

Moreover, in connection with the General Government Fiscal Plan 2017–2020 it was decided to establish in Finland a Genome Centre, which is linked to the Key Government Project for employment and competitiveness. The matter is examined in more detail in the text on the administrative branch of the Ministry of Social Affairs and Health in Chapter 5.3.1.

Use of unemployment benefits for activation measures

Wage-subsidised work as well as start-up grants for the unemployed will be financed in 2017 and 2018 from unemployment benefit appropriations, such that the amount of basic daily allowance and the earnings-related component will be financed from unemployment appropriations. In the main title of the Ministry of Employment and the Economy, an appropriation will be transferred from public employment and business services to the labour market support expenditure of the Ministry of Social Affairs and Health to cover the additional costs of unemployment security arising from the reform of the financing model. The amount transferred will be EUR 151 million in 2017 and EUR 143 million in 2018.

Appropriations released when expenses compensation for independent studying, subsidised with unemployment benefit, is abolished will also be used for the increase in wage subsidies and start-up grants. The released funds will amount to EUR 22 million in 2017 and EUR 30 million in 2018.

5.3.1. Policy outlines for the administrative branches

Prime Minister's Office

The appropriations of the main title of the Prime Minister's Office will total EUR 212 million in 2017 and will decrease to EUR 193 million by the end of the spending limits period. They will be reduced by savings directed at the main title in accordance with the Government Programme and by the ending of the Finland 100 project from 2018.

The implementation of the central government's shared case management system (Vahva) will continue during the spending limits, such that operating processes are renewed and the system is taken into use by the end of 2009. The new system will streamline operations, and as a result appropriations can be reduced from ministries' operating expenditure items by a total of approximately EUR 1 million in 2020 and 2021. The Prime Minister's Office share of the productivity reduction is EUR 0.2 million (-5 person working years) in 2020.

Finland's next EU presidency period is in 2020. Possible additional resource requirements for the period have not yet been taken into account at this stage.

The 7% reduction in ministers' salaries, decided on in the 2016 Budget, will be continued in the spending limits period 2017–2019.

Ministry for Foreign Affairs

The appropriations of the main title of the Ministry for Foreign Affairs will average approximately EUR 1.1 billion per year in the spending limits period.

The objective of Finland's foreign and security policy is to strengthen Finland's international position, safeguard Finland's independence and territorial integrity, and to improve the security and wellbeing of Finns. It is important for Finland to have its own network of diplomatic missions. The resources of the Foreign Service will be focused on those countries whose political and economic significance for Finland is growing. The development of the structure and operating practices of Finland's representation abroad will continue, taking into account opportunities to cooperate with the Nordic countries, the Baltic countries and the European External Action Service as well as the Team Finland operating model. As part of the Key Government Project package, the Team Finland network will be strengthened by hiring on a one-off basis for 2016–2018 special experts focusing on trade and economic issues for selected Finnish diplomatic missions with the aim of increasing Finland's export opportunities. In the operating expenditure of the Ministry for Foreign Affairs, provision has been made for increased expenditure in diplomatic missions relating to family unification processes, among other things, resulting from the higher number of asylum seekers. Citizens' services provided by the Foreign Service will be developed by taking into account the reformed Citizens' Services Act, the Government's asylum policy action programme and digitalisation. Finland will be Chair of the Arctic Council in 2017–2019.

The longer-term goal of development cooperation is to increase development funding to 0.7% of GNI in line with UN targets, even though savings will be made in the funding during the parliamentary term. A new EUR 25 million saving will be made in actual development cooperation compared with the autumn spending limits decision from 2018. The level of appropriations for actual development cooperation will accordingly be approximately EUR 528 million in 2017, growing to approximately EUR 587 million in 2020. The development cooperation appropriations take into account Finland's national share of the Facility for Refugees in Turkey. Finland's national share is a total of EUR 28.4 million, of which approximately EUR 20 million concerns the spending limits period. A total of EUR 40 million in 2017 and EUR 10 million in 2018–2020 is proposed for development cooperation financial investment expenditure. A total of EUR 100 million in 2017 and EUR 130 million in 2018–2020 will be allocated to development cooperation loans. The average GNI level of development cooperation appropriations in the spending limits period will be approximately 0.39% per year.

The appropriations for crisis management take into account the policy outlines of the Security and Defence Policy Report (2012), the National Strategy for Civilian Crisis Management (2008) and the Peace Mediation Action Programme (2011). In 2017 the military crisis management appropriation will be approximately EUR 81 million and from 2018 approximately EUR 62 million per year (total for the administrative branches of the Ministry for Foreign Affairs and the Ministry of Defence). Civilian crisis management appropriations have been scaled to an annual level of 115–120 experts.

In the cooperation of Baltic Sea, Barents and Arctic Region, the areas of particular focus will be Northern Dimension policy, multilateral cooperation in northern regional councils, and the implementation of the Government's Russia policy.

Ministry of Justice

The appropriations of the main title of the Ministry of Justice will total EUR 923 million in 2017 and EUR 864 million in 2020. The reduction in the level of appropriations is due to, among other things,

an increase in net savings, the completion of ICT projects and lower than estimated legal expenditure relating to asylum seekers.

Operations were adjusted to the tight economic situation through the savings measures decided on in the Government Programme and a restructuring of the enforcement system as well as by developing the administrative branch's information systems and through other administration of justice reform programme measures. A restructuring of the District Courts is part of the structural reform package, and policy lines on further development are due to be made in the near future.

In the administrative branch of the Ministry of Justice, five extensive information management development projects are under way. The objective of the projects is to enhance the operation of the courts of law, the Finnish Prosecution Service, the National Administrative Office for Enforcement and the Criminal Sanctions Agency as well as to introduce common government mainstream products in the form of office and communication systems in all organisations. Additional funding of EUR 32 million is allocated in 2017–2019 for developing these information systems.

An information system to be introduced through the case management system project (AIPA) for the general courts of law and the Finnish Prosecution Service will facilitate electronic handling of case material, which will require significant investments (costs EUR 10 million) in equipping courtrooms.

To safeguard the operational capacity of the Criminal Sanctions Agency and to maintain the prison network, additional funding totalling EUR 34.9 million will be allocated in 2017–2020.

The number of asylum seekers is expected to remain at a high level in the next few years. The courts of law, with respect to administration of justice procedures, and the legal aid offices, with respect to public legal aid, will streamline handling of cases throughout the asylum process, from the submission of applications to appeal procedures and the enforcement of decisions. Despite the streamlining measures, approximately EUR 6 million in additional funding compared with the appropriation level of the previous spending limits decision will be allocated at the beginning of the spending limits period in the administrative branch of the Ministry of Justice for asylum seeker and family unification cases. At the end of spending limits period, the appropriations will decrease compared with the previous spending limits decision due to an estimated lower number of asylum seekers.

A total EUR 1.3 million per year in continuation funding is allocated in 2017–2019 to the National Administrative Office for Enforcement to curb financial crime and the shadow economy.

Ministry of the Interior

The appropriation level of the main title of the Ministry of the Interior will be EUR 1.4 billion in 2017 and will decrease to EUR 1.3 billion in 2020. In accordance with the Government Programme, internal security and administration of justice will be particular areas of focus. Further operational efficiencies and structural reforms are required in the administrative branch. Internal security will be maintained at an adequate level.

Police operations will be adjusted to the available resources. Tasks will be performed in an efficient and appropriate way in the order of importance dictated by circumstances. Savings measures concerning the Police in the spending limits period are significant, and they will affect the number of police personnel and also operational performance targets. The Police will complete earlier structural reforms and ensure that the savings targets set for the reforms are achieved. The savings targets of the Police administrative reform project PORA III as well as operational policy lines will be reviewed. The objective of the development of administration and support tasks is to increase productivity and

consistency, develop processes, and utilise the opportunities offered by digitalisation. It is proposed that Police operating appropriations be increased by EUR 5 million in 2017, and in the latter years of the spending limits period by EUR 10 million. The additional resources will facilitate, among other things, the maintenance of shadow economy prevention efforts at the present level and the enhancement of traffic control. To implement negative asylum decisions, additional funding of EUR 11.7 million is allocated for Police return transports and interpretation services in 2017 and EUR 3.2 million in the latter years of the spending limits period. An annual additional appropriation of EUR 2 million is allocated in the spending limits period to safeguard the activities of the Finnish Security Intelligence Service.

The European security situation and Finland's border security have changed fundamentally and a quick turn for the better is not expected in the foreseeable future. In addition to the Border Guard's financial consolidation programme currently being implemented, public administration savings obligations will continue until the end of the planning period. The Border Guard has adjusted its operations by streamlining the organisation, making processes and use of labour more efficient, and making greater use of technology. There are plans to enhance monitoring of the eastern border by returning labour input from border checks to border guarding. An additional appropriation totalling EUR 6 million for 2018–2019 is allocated to Border Guard equipment procurement, so that the Border Guard can acquire two boats according to the new Merivene 15 boat concept.

A reform of rescue services will be implemented based on the counties to be formed in connection with the healthcare, social welfare and regional government reform package. The objective of the reform is a more effective and more economic system, ensuring the efficient use of the rescue services' resources, and so that the operational preparedness of the rescue services is not weakened. A reform of emergency response centre operations is approaching completion, with the emergency response centre information system currently being introduced and the public authorities' common situation awareness and field management system under development. The objective is to ensure the introduction of the new emergency response centre system and smooth-running emergency response centre activities, for which purpose additional funding of EUR 2 million per year is allocated in the spending limits period to the Emergency Response Centre Administration.

Official functions and reception activity relating to immigration and the processing of asylum applications have faced great challenges. The number of asylum seekers increased sharply in 2015. The resources of the Finnish Immigration Service were increased. The goal is to enhance the activities and decision-making of the Finnish Immigration Service and government reception centres to enable completion of procedures within specified periods (asylum decision in 3 months and family unification decisions in 9 months). An appropriation increase is allocated to the operating expenditure of the Finnish Immigration Service and government reception centres of EUR 16.4 million in 2017 and EUR 6.5 million in 2018, and a decrease of EUR 0.1 million in 2019 and EUR 2.6 million in 2020, compared with autumn spending limits. Owing to the Finnish Immigration Service's large number of decisions in 2016, in 2017 there will still be within the reception process some asylum seekers who came to Finland in 2015 and who have appealed a decision they received to the Administrative Court or who are still awaiting settlement in a municipality. The average transfer time to a municipality slowed in 2015 (average time from receiving notification of the granting of a residence permit to transferring to a municipality 3.8 months) compared with 2014 (then 1.5 months).

The expenditure level of reception activities ordered by central government from external parties as a purchased service will be reviewed. The expenditure ceiling of the item is based on an annual number of 10,000 asylum seekers. Reception expenditure arising from approximately 1,000 asylum seekers is paid partly from the operating expenditure appropriations of the central government's own reception centres. The previous expenditure ceiling was estimated such that for one asylum seeker place in a

reception centre would be paid on average EUR 12,000 per year, i.e. around EUR 33 per day. The estimate will be increased such that the appropriation level would enable on average EUR 18,000 per year, i.e. around EUR 50 per day, to be paid for one asylum seeker place. Furthermore, an additional appropriation would be allocated to guarding and premises preparedness. Additional funding for reception of EUR 18 million per year is thereby proposed in the spending limits. The appropriation for aid payable to reception activity clients will be decreased annually by EUR 13 million, taking into account the fact that in reception centres that provide meals the reception allowance is lower and that aid for minors is lower than for adults.

Ministry of Defence

The appropriations of the main title of the Ministry of Defence will total approximately EUR 2.9 billion in 2017. During the spending limits period, the appropriation level will increase by EUR 142 million to approximately EUR 3 billion in 2020. The increase is mainly due to the planning of financing for the Navy's vessel procurement. In accordance with the Government Programme, the spending limits include a general increase in the defence budget, which will gradually grow to EUR 150 million in 2020, to correct shortcomings in the defence forces' materiel performance capability. The spending limits also take into account the operating expenditure savings directed at all administrative branches in accordance with the Government Programme.

Finland's defence is based on general conscription and the defence of the entire territory of the nation. Finland will ensure a credible defence in all circumstances. The Government will ensure that a sufficient number of military refresher courses are organised and will also secure the preconditions for voluntary exercises and reservists' independent training.

In a rapidly-changing security environment, the implementation of the defence forces' duties also requires a higher state of operational readiness and combat endurance than at present. It is not possible, however, to improve the readiness of forces significantly with the present funding of the defence forces.

In the spending limits decision, an appropriation of EUR 76–116 million per year within the overall spending limits of the administrative branch is transferred from defence materiel procurement to the defence forces' operating expenditure. The transferred appropriation is also intended for logistics procurement and to cover the personnel expenditure in the early stage of a cyber security project.

In the spending limits period, sea and air defence strategic performance capability projects for the 2020s, launched in 2015, will be implemented. In these projects, the replacement of the Navy's ageing combat vessel fleet will be decided on and the replacement of the Air Force's Hornet fleet will be prepared in order to maintain performance capability. A procurement authorisation amounting to just over EUR 1 billion for the Navy's Squadron 2020 vessel project is included in the spending limits. The expenditure is scheduled for 2019–2024. Of the expenditure, EUR 260 million is allocated to 2019 and EUR 170 million to 2020.

According to established practice, cost-level adjustments will be made annually to defence materiel procurement appropriations, defence force operating expenditure (excluding personnel expenditure) and military crisis management appropriations (excluding personnel expenditure).

Ministry of Finance

The appropriations of the main title of the Ministry of Finance will total approximately EUR 17.3 billion in 2017. During the spending limits period, the appropriation level will increase by just over

EUR 0.3 million to just under EUR 17.7 billion in 2020. The level of appropriations will be raised by a spending limits provision for 2018–2020, made for the division of costs between central and local government, as well as by growth of pension expenditure resulting from the population ageing trend, and an anticipated increase in the EU membership fee.

A total of EUR 2.3 million in 2017–2019 will be allocated to the Tax Administration to finance the phase 1 of a programme for the real-time income taxation of individual taxpayers.

In the spending limits period, Customs will receive an increased appropriation totalling approximately EUR 2.7 million for the renovation of operating locations on the Norwegian border and the Rajajooseppi border crossing point.

The operating expenditure of the Population Register Centre will be increased in the spending limits period by a total of approximately EUR 43 million through appropriation transfers within the main title as well as transfers from the main titles of the Ministry of Employment and the Economy and the Ministry of Social Affairs and Health due to permanent new tasks and transfers of responsibility caused by the National Service Architecture programme.

The operating expenditure of Register Offices will be increased by approximately EUR 0.3 million in 2017 and approximately EUR 0.1 million in 2020 for anticipated additional tasks relating to the registration of asylum seekers.

The appropriation earmarked for compensating expenses arising to employers for the arrangement of personnel training will be reduced by EUR 22.3 million per year after training compensation paid proved to be lower than anticipated.

Central government transfers to local government

An average EUR 8.7 billion is allocated to central government transfers for municipalities' basic public services in the spending limits period. The level of central government transfers is affected by the Government Programme's measures directed at local government duties and obligations, tax loss compensations, the transfer of the payment of basic social assistance from the municipalities to the Social Insurance Institution of Finland (Kela), and the across-the-board 0.85% additional reduction of expenditure items included in the index savings of Annex 6 of the Government Programme. In addition, no index increase will be made to central government transfers to local government in the period 2017–2019. An adjustment of the division of costs between central and local government will be made annually. The adjustment made in 2017 will increase central government transfers for basic public services by approximately EUR 33 million.

In accordance with the Government Programme, an incentive scheme for specialised medical care will be launched in 2017. Funding for the incentive scheme will be deducted from the central government transfers for basic public services and redirected back to local government finances as discretionary government transfers. The objective of the reform is to enhance the arrangement of specialised medical care and to thereby achieve savings in local government finances.

A total of EUR 0.4 million in 2017 and EUR 0.8 million in 2018–2019 will be allocated for the preparation of the healthcare, social welfare and regional government reform package. The preparation of the reform will also be funded by the administrative branch of the Ministry of Social Affairs and Health.

Issues relating to basic public services arranged by municipalities, and to the central government transfers paid for them, are discussed as a whole in Chapter 6 Local government finances.

Ministry of Education and Culture

The appropriation level of the main title of the Ministry of Education and Culture will be EUR 6.9 billion in 2017 and will decrease to EUR 6.6 billion during the spending limits period. The appropriation level will be decreased by central government consolidation measures and increased by Key Government Project investments to be implemented in 2017–2018.

The Key Government Projects for knowledge and education will develop new learning environments and increase digital materials in elementary schools, implement a reform of vocational upper secondary education, revise the youth guarantee towards a community guarantee, boost cooperation between higher education institutions and business to promote commercialisation of innovations, accelerate transitions into employment, and improve access to art and culture.

To safeguard accessibility to education, education equality will be developed in general education. General upper secondary education will be developed and a reform of the funding system of general upper secondary education prepared.

An appropriation saving of EUR 190 million will be directed at vocational education from 2017. The saving will be implemented by setting the number of students that is a criterion for the funding of vocational upper secondary education at a lower level than the maximum number of students according to authorisations to provide education (in 2017 approximately 90% of the maximum number of students of authorisations). The procedure will facilitate the implementation of the saving in an education provider-specific manner by appropriately rationalising and streamlining activities or ultimately reducing the number of students. The saving will be directed in full at the local government share of vocational upper secondary education funding by changing the funding ratio between central and local government, i.e. the central government transfer percentage. At the same time, it will also be insured that, despite the change in the cost level, the saving will also be implemented in future years. Legislative changes required by the implementation of the saving will be submitted to Parliament at the latest in connection with the 2017 budget proposal.

The intention is to reform the funding system of vocational education as part of the reform of vocational education from 2018. At the same time, the regulatory and steering systems as well as the structures of vocational education will also be reformed. The objective is increase the effectiveness and incentivisation of the vocational education system and to make education more skills-based and customer-oriented. The cost basis of funding will be discontinued and in future the level of funding will be decided annually in the central government budget, similar to the funding of higher education institutions. The transfer to the new system will take place, in principle, in the 2017 funding level, which will be increased annually through indexation.

In 2017–2018, an additional investment totalling approximately EUR 105 million will be allocated to enhance digital learning environments in tertiary education, to improve opportunities for all-year-round learning, and to promote scientific work by young researchers.

A reform of financial aid for students will be implemented in the spending limits period, the long-term savings impact of which will be approximately EUR 122 million. The levels of tertiary education study grants will be standardised with the levels of second education study grants, such that the maximum amount of study grant is EUR 250.28 per month. The amount of the government guarantee for student loans will increase to EUR 650 per month for studies in Finland and to EUR 800 per month

for studies abroad. Student loan compensation will be maintained within the framework of financial constraints. The maximum amount of financial aid for students in tertiary education will, as of 1 August 2017, be EUR 1,101.88 per month for studies in Finland and EUR 1,260.28 per month for studies abroad.

The period of aid intended for all tertiary education studies will be shortened by 10 months from 64 months to 54 months. The degree-specific period of aid will be shortened by two months. The performance requirement used in monitoring progress will be maintained as before at 5 study credits per month of aid.

The reducing effect of parents' incomes on the study grant will be abolished for 18 and 19 year-old secondary education students who live independently. A student's own income limits will be linked to the Index of Wage and Salary Earnings and they will be reviewed at regular intervals, but so that the income limits do not fall. The increase in the amount of study grant and housing supplement recoverable on the basis of a student's own income will be moderated from 15% to 7.5%.

By the autumn 2017 budget session, the Government will prepare a proposal on the transfer of secondary and tertiary education students to within the scope of the general housing allowance. If the proposal increases housing allowance expenditure, it will be covered within the spending limits of the administrative branch of the Ministry of Social Affairs and Health. Those studying abroad would remain within the scope of the housing supplement according to the system of financial aid for students.

The level of lending compensation payable for lending from public libraries will be raised by EUR 2 million to EUR 11.4 million in 2017.

Provision will be made with appropriation increases for an increase in student numbers in basic education due to an increase in asylum seekers. As student numbers and teaching groups grow, the coefficient determining the funding paid per student in preparatory studies for basic education may be reduced to 1.67, which corresponds to the average price of basic education in a 12-student group. Vocational education will be increased by 2,000 student places from 2017, to which full central government funding will be allocated. At the same time, the language proficiency requirement in preparatory studies for vocational education will be lowered, and language teaching during studies increased, so that continuation of studies in preparatory education would be possible after around half a year of integration training. In addition, funding earmarked for training of education personnel will be directed to training of the teachers required by the asylum seeker situation. Skills identification and recognition services will be developed. Immigrants' emotional wellbeing, functional capacity, communality and integration will also be supported through cultural, physical exercise and youth work measures.

Ministry of Agriculture and Forestry

The appropriations of the main title of the Ministry of Agriculture and Forestry will total approximately EUR 2.5 billion per year in the spending limits period. Savings decisions will result in a decrease of approximately EUR 232 million in the appropriation level during the spending limits period.

A total of EUR 134 million in additional funding for Key Government Projects in the Government Programme's strategic priority area Bioeconomy and Clean Solutions has been taken into account in the administrative branch of the Ministry of Agriculture and Forestry in 2016–2018. Of this, EUR 95

million is allocated to the agriculture and food economy and EUR 39 million to natural resources. Moreover, EUR 111 million of the additional funding is allocated to 2017–2018.

Of the expenditure savings, most relate to the agriculture and food economy and rural development. Compared with the autumn 2015 spending limits decision, the spending limits include a EUR 6.7 million annual increase in 2017 and 2018 allocated to national aid for agriculture and horticulture to ease the income and profitability situation of agriculture as well as a EUR 20.3 million increase in 2017 allocated to compensatory allowances. The reduction in the resources available to agriculture administration and the Centres for Economic Development, Transport and the Environment (ELY Centres) will pose challenges for the full-scale launch and implementation of aid programmes in compliance with the requirements. The Ministry of Agriculture and Forestry will take an active approach and the initiative in reforming the structures and operating methods of agricultural administration.

The annual requirement of the interest-subsidy loan authorisation for rural business activity is expected to remain at the 2016 level in the spending limits period. Co-financed agricultural start-up and investment grants will be funded as part of the Rural Development Programme for Mainland Finland from the appropriation allocated in the budget. Wholly national grants will be funded from the Development Fund of Agriculture and Forestry (Makera). In the spending limits, it is assumed that a total of EUR 90 million will be transferred to the fund in 2016–2018 as funding for Key Government Projects. Support in accordance with the EU's Common Agriculture Policy for the development of agriculture and forestry in the 2014–2020 funding period was introduced in 2015, and the required funding is included in the spending limits.

The spending limits include funding for the action programme for the 2014–2020 programming period of the European Maritime and Fisheries Fund. The available EU financial contribution for the programming period accounts for approximately EUR 74 million, including the EU contribution transferred to the Åland Islands. The national financial contribution for the programming period of Mainland Finland is approximately EUR 63 million, of which approximately EUR 43 million is allocated during the spending limits period.

The implementation of the National Forest Strategy 2025, adopted in 2015, will be initiated in the spending limits period. The strategic goals include the improving of Finland's competitiveness through forest-based businesses, renewal and diversification of the forest industry, and active and diverse use of forests ineconomically, ecologically and socially sustainably.

During the spending limits period, the intention is to focus on measures required due to reduced resources, especially with regard to the realisation of productivity benefits arising from digitalisation and the changes in the agency structure. Development of electronic methods of handling information services and production processes will continue in order to improve customer service and improve operational efficiency.

At this stage, all of the changes that may arise from the reform of Metsähallitus legislation could not, of necessity, be taken into account.

Ministry of Transport and Communications

In the spending limits period, the appropriations of the main title of the Ministry of Transport and Communications will be on average approximately EUR 3 billion per year, however such that the appropriations will decrease, as Key Government Project increases are removed, by approximately EUR 670 million during the spending limits period to stand at a total of EUR 2.6 billion in 2020.

The administrative branch of the Ministry of Transport and Communications serves society by facilitating an operating environment for new digital services. An effective market environment for the demand and supply of various transport, communications and digital services will be created such that new business opportunities and exports arise and the range of services grows. New services and earnings logic, transport automation and changing customer needs require new kinds of flexible online services. Through the increasing use of digital services and amounts of data, demand for telecommunications capacity will grow. The functioning of society requires networks to be reliable and secure.

The operating expenditure and other appropriations of the administrative branch's agencies and institutions will be used to promote the utilisation of digital services and data. Utilisation of digitalisation will be promoted by streamlining and reforming regulation, and by creating a framework for transport service and automation trials.

In infrastructure maintenance, priority will be given to measures ensuring the daily functioning of the transport network as well as halting the growth of the repair debt and its controlled reduction. Maintenance and development of the transport network will be enhanced, for example by better utilisation of information, by using new methods of surveying the condition of the network, through local and central government procurement cooperation, and by the full introduction of information modelling. Planning practice will be developed to take into account the effects of digitalisation and automation on the transport system and traffic volumes of the future.

Funding of EUR 1.0–1.4 billion in 2017–2020 is earmarked for basic transport infrastructure maintenance. The spending limits include an appropriation totalling EUR 964 million in 2017–2020 for halting the growth of the repair debt. Of Key Government Project funding, EUR 300 million in 2017 and EUR 200 million in 2018 is allocated to basic transport infrastructure maintenance to reduce the repair debt. EUR 104 million in 2017, EUR 140 million in 2018, EUR 90 million in 2019 and EUR 90 million in 2020 has been transferred from development projects to basic transport infrastructure maintenance. In addition, repair debt funding of EUR 10 million in 2017–2020 is allocated to private road grants. In the spending limits period, implementation of transport network investments already decided on will continue.

To maintain consolidation measures at the level agreed in Annex 6 of the Government Programme, a total EUR 95 million saving in 2018–2020 will be directed at basic transport infrastructure maintenance.

New projects totalling EUR 764 million will be launched in the spending limits period: EUR 165 million is allocated to improving the Luumäki-Imatra rail link, EUR 125 million to Highway 4 Oulu-Kemi, EUR 121 million to Highway 5 Mikkeli-Juva, and EUR 198 million to the investments of the Highway 12 Lahti southern by-pass. EUR 84 million will be allocated in 2018 to the investments of the Raide-Jokeri light rail link, which is 30% of the project's EUR 280 million total cost. EUR 71 million will be allocated in 2018 to the Tampere tramway project. Appropriations for project planning will be increased by a total of EUR 40 million. New projects will be funded largely using a reserve (EUR 33–140 million) previously in the project item of the spending limits for as yet unnamed projects. At the same time, this reserve will be cleared.

In accordance with a comprehensive reform of motor vehicle liability insurance legislation currently under way, the Finnish Transport Safety Agency would in future handle the collection of the traffic safety fee and would be responsible for granting the collected funds to the relevant actors. Income from the fee is estimated at EUR 8.4 million. The new Act is due to come into force on 1 January 2017.

The start of the Finnish Meteorological Institute's procurement process for a high-performance computer will be brought forward by EUR 2 million to 2017.

Ministry of Employment and the Economy

The appropriations of the main title of the Ministry of Employment and the Economy will decrease during the spending limits period from EUR 3 billion to EUR 2.7 billion. The decrease in the level of appropriations is mainly due to the transfer to the administrative branch of the Ministry of Education and Culture of the procurement of vocational labour market training as well as to savings measures in accordance with the Government Programme. In addition, the additional investments included in Key Government Projects will end in 2018. Changes compared with the previous fiscal plan have been caused by the increase in migration costs, as well as by the EU's Structural Funds over the timing of the 2019–2020 performance reserve. Other expenditure levels are based mainly on decisions already made.

In the spending limits period, EUR 37.5 million in 2017 and EUR 67 million in 2018 will be directed to investments of the Key Government Project for Employment and Competitiveness, EUR 56.5 million in 2017 and EUR 55 million in 2018 to investments of the Key Government Project for the Bioeconomy, and EUR 20 million in 2017 and EUR 25 million in 2018 to investments of the Key Government Project for Knowledge and Education (commercialisation of research results).

Due to the increase in the number of asylum seekers and changes in calculation assumptions, integration compensation to municipalities will increase in the spending limits period by EUR 49 million in 2017, EUR 71 million in 2018 and EUR 41 million in 2019. From 2016 the number of asylum seekers is estimated to be 10,000 annually. For duties relating to the placement in municipalities of asylum seekers who have received a residence permit, the operating expenditure appropriation level of the Centres for Economic Development, Transport and the Environment (ELY centres) will be increased by EUR 360,000 and the operating expenditure appropriation level of the Employment and Economic Development Centres (TE centres) by EUR 1.4 million in 2017–2020. Additional investments in integration training arising from the increase in the number of asylum seekers will be allocated to public employment and business services, namely EUR 47 million in 2017 and EUR 5 million in 2020.

Business and innovation policy appropriations will decrease in the spending limits period from EUR 858 million to EUR 722 million. The annual reduction of EUR 130 million, in accordance with the Government Programme, in the grant authorisations of Tekes – the Finnish Funding Agency for Innovation will decrease the payment authorisations of the item by EUR 70 million during the spending limits period. Tekes' grant authorisations (EUR 231 million per year) and loan authorisations (EUR 147 million per year) will remain at the same level throughout the spending limits period. In accordance with Government Programme, the Innovative Cities Programme (INKA) will end in 2017. New grants for internationalisation will no longer be awarded as of 2017. Costs related to refinancing credits granted previously by Finnish Export Credit Ltd will decrease in the spending limits period from EUR 97 million to EUR 71 million. EUR 31 million in 2017 and EUR 46 million in 2020 is earmarked for interest and other support for publicly-subsidised export and ship credits, and EUR 65 million in 2017 and EUR 60 million in 2020 for Finnvera Plc's loss compensation. Finnvera Plc's venture capital investment activity will be discontinued at the end of 2017, when seed and start-up capital investment activity will be gradually transferred to Tekes.

Employment and enterprise policy appropriations will decrease in the spending limits period from EUR 628 million to EUR 562 million. As part of the Government's savings decisions, the development project authorisation will be discontinued in 2017, and the regional transport subsidy will

also end in the same year. Public employment and business services appropriations will be EUR 438 million in 2017 and EUR 413 million in 2020. In setting the level of the item, the Government's savings decisions, the transfer of vocational education to the administrative branch of the Ministry of Education and Culture in 2018, the partial transfer of wage subsidies and start-up grants to the administrative branch of the Ministry of Social Affairs and Health in 2017–2018, and additional costs of integration training arising from immigration have been taken into account.

Appropriations for EU Structural Fund payments will increase from EUR 357 million to EUR 400 million. The authorisation level of the item will be EUR 379 million in 2017 and EUR 331 million in 2020. The transfer of payments for the programme period 2014–2020 will result in an additional requirement in the appropriations of EUR 30 million in 2017. The advance payment of the performance reserve for years 2019 and 2020 (6%, EUR 136 million) from 2016 as annual equal authorisation items (EUR 45.5 million) will increase the appropriation requirement by EUR 12 million in 2017, EUR 43 million in 2018, EUR 30 million in 2019 and EUR 57 million in 2020.

Energy policy appropriations will decrease in the spending limits period from EUR 436 million to EUR 369 million. Appropriations for renewable energy production subsidies, on the other hand, will grow from EUR 299 million to EUR 325 million, due an increase in subsidy capacity as well as changes in the market price forecasts of electricity and emissions allowances. The limitation of the wind power quota in accordance with the Government Programme has been taken into account in the production subsidy. The energy subsidy authorisation is EUR 35 million in 2017–2020. Payment of the investment subsidy for LNG terminals will end in 2019.

Ministry of Social Affairs and Health

The appropriation level of the main title of the Ministry of Social Affairs and Health will be, on average, EUR 13.7 billion in the spending limits period. In addition to the implementation of the Government Programme, the appropriation level is affected by cyclical factors, such as changes in the unemployment rate and demographic structure. The most significant changes compared with the previous spending limits decision arise from the cancellation of the merging of housing allowances, the re-allocation of unemployment security savings, the increase in the number of asylum seekers, and the impact of savings decisions taken into account in the 2016 Budget.

The merging of the general and pension recipients' housing allowances, which was taken into account in the previous spending limits decision, will be cancelled and the related appropriation transfers and reductions have been annulled. The annual saving achieved in the spending limits period by not increasing the maximum living expenses implemented in the general housing allowance in the 2016 Budget and by tightening the income linkage of the basic deductible will be EUR 27 million, taking growth of social assistance into account. In addition, a EUR 9 million annual saving will be achieved in the spending limits period by not adjusting the determination criteria implemented in the pension recipients' housing allowance.

Earnings-related unemployment security will be reformed from the beginning of 2017 such that the saving in unemployment security expenditure will be EUR 150 million when the changes are fully in force. The allocation of the savings to the unemployment security items has been revised.

Index adjustments in 2016 of benefits linked to the National Pension Index and the Consumer Price Index will reduce the appropriation requirement on an annual basis by EUR 27 million due to falling indexes. The index adjustment of basic social assistance was frozen at the 2015 level, so the level of the benefit did not fall. The cost impact of the freezing on central government transfers was EUR 1.4 million. In addition, the index adjustment of benefits linked to the National Pension Index and the

Consumer Price Index will not be made in the period 2017–2019. In addition to this, a 0.85% across-the-board reduction will be made to, among other things, benefits linked to the National Pension Index as well as to the child allowance. In the main title of the Ministry of Social Affairs and Health, the net impact of the measure is estimated to be approximately EUR 80 million per year, after growth of social assistance expenditure and tax revenue.

To promote the employment of people with partial work ability, the rehabilitation allowance will be raised to the level of the guaranteed pension, in order to encourage young people to seek rehabilitation instead of applying for the disability pension from 2017. The reform will increase central government expenditure by EUR 17.4 million.

In accordance with an earlier spending limits decision, the calculation and payment of basic social assistance will be transferred from the municipalities to the Social Insurance Institution of Finland Kela from the beginning of 2017. Following the change, expenditure arising from basic social assistance will be fully included in the central government budget. The municipalities' financial contribution (50%) will be accounted for by deducting the share of basic social assistance from central government transfers to municipalities. Owing to the estimated reduction in the under-utilisation of social assistance, overall expenditure is expected to rise by just under EUR 90 million in connection with the transfer. Expenditure is estimated to be approximately EUR 832 million in 2017 and approximately EUR 833 million at the end of the spending limits period, in which case the increase compared with the previous spending limits decision will be approximately EUR 30 million.

The increase in the number of asylum seekers affects the items relating to child allowance, housing allowance, labour market support, health insurance and basic social assistance. With an assumption of 10,000 annual asylum seekers, the additional appropriation requirement is estimated to be approximately EUR 173 million in 2017 and approximately EUR 331 million at the end of the spending limits period.

The guaranteed pension will be increased by EUR 10 million from 2018. The increase amounts to approximately EUR 8 per month per guaranteed pension recipient.

To safeguard elderly care services for veterans, the level of the front-line veterans' rehabilitation appropriation has again been set such that the level of the annual appropriation available for rehabilitation per veteran entitled to rehabilitation will rise. In addition, the General Government Fiscal Plan includes a reduction in the degree of disability of disabled war veterans from 15% to 10% from 1 March 2017, the cost impact of which is EUR 5.2 million at the beginning of the spending limits period and EUR 4.2 million at the end of the spending limits period.

An annual EUR 15 million has been earmarked for central government compensation to healthcare units for research activity in accordance with the Act on Specialised Medical Care. Central government compensation to healthcare units to cover costs arising from medical and dental training will be approximately EUR 94 million in 2017 and EUR 95.7 million as of 2018, which takes into account a reduction of EUR 6 million. The appropriation allocated for forensic psychiatry studies is EUR 15.2 million per year.

Savings in accordance with the previous spending limits decision have been directed at health insurance reimbursements and medicine reimbursements by reducing travel allowances, dentist and doctor fee reimbursements, and expenditure for discretionary rehabilitation. In addition, the drug reimbursement system will be reformed so that the joint impact of the savings on public finances will be EUR 134 million in 2017 and the central government share of the saving will be EUR 60 million.

A EUR 22 million saving will be directed at sickness allowances by changing the upper income limits from 2017. The saving will not be directed at the central government's payment share, because the central government only participates in the costs of minimum sickness allowances.

The EUR 20 million saving directed at relief for agricultural entrepreneurs has been re-allocated. Of the saving, EUR 19 million has been allocated to relief services and EUR 1 million to administrative expenditure for relief services.

The Unemployment Security (TTLK) and Social Security (Somla) Appeal Boards will be merged from 2018.

EUR 2.6 million in 2017, EUR 2 million in 2018 and EUR 1 million in 2019 has been earmarked for further preparation of the healthcare, social welfare and regional government reform package.

A total of EUR 130 million is earmarked for the implementation of Key Government Projects for Wellbeing and Health, in accordance with the previous spending limits decision, of which EUR 23.5 million is allocated to 2016, EUR 56 million to 2017 and EUR 50.5 million to 2018. In addition, EUR 4 million is allocated to 2016–2018 for the reform of the operating processes of social and healthcare services for young people in accordance with the youth guarantee.

In connection with the General Government Fiscal Plan 2017–2020, it was decided to establish in Finland a Genome Centre, aimed at developing Finland into a pioneer and internationally desired partner in healthcare, high-level research and global business utilising genome data. As research that utilises genome data largely takes place within the framework of biobank activity, public biobank activity will also be enhanced at the same time and effective cooperation ensured with the Genome Centre. A National Cancer Centre will also be established. A total of EUR 17 million will be allocated in the period 2017–2020 to the establishment costs of these centres.

Issues relating to basic public services arranged by municipalities, and to the central government transfers paid for them, are discussed as a whole in Chapter 6 Local government finances.

Ministry of the Environment

The overall level of the appropriations of the main title of the Ministry of the Environment will be approximately EUR 181 million in 2017 and will decrease during the spending limits period such that it is EUR 166 million in 2020. In addition, projects promoting state-subsidised housing production will be from funded off-budget National Housing Fund.

In the built environment, action will be taken to expand housing construction with the aim of meeting demand for homes. To increase the supply of land for construction and housing production, the implementation of land use, housing and transport (MAL) agreements will be promoted with public utility service grants, EUR 15 million of which will be awarded annually from the National Housing Fund in 2017–2019. In addition, start-up grants for reasonably priced housing construction amounting to EUR 10 million per year in 2017–2019 will be awarded to Greater Helsinki on the basis of a MAL agreement. A condition of the award of public utility service and start-up grants is that sufficiently ambitious land use, housing and transport agreements are obtained in the agreement areas. Investment grants for special groups amounting to EUR 140 million in 2017 and EUR 120 million in 2018–2020 from the National Housing Fund will be used to support the improvement of housing supply for the most vulnerable groups. Repair grants, to which approximately EUR 25 million per year will be allocated in the spending limits period, will be used to support the living at home of elderly people as well as the

retro-fitting of lifts. The repair grants will be paid from the central government budget and the National Housing Fund.

During the spending limits period, there will be particular emphasis on the bioeconomy and the circular economy as well as measures to achieve climate targets, wide-ranging cooperation to improve the state of the Baltic Sea and safeguard the level of nature conservation. Approximately EUR 2.1 million will be directed in the spending limits period to the protection of the Baltic Sea, and the implementation of the marine management action programme will be launched. In the implementation of waterways management, resources will be directed to improving waste water treatment, restoring waterways and protecting groundwater. Monitoring of waterways will be developed taking the requirements of EU legislation into account. Funding directed at waterways management will gradually decrease from EUR 6 million to EUR 3 million in 2020. The renovation of the research vessel Aranda, which began in 2015, will support this objective. In nature conservation, old conservation programmes will be implemented and the implementation of the Forest Biodiversity Programme for Southern Finland (METSU) will be continued with an allocation of approximately EUR 8 million per year. The recreational use of nature, nature tourism and local economies will be promoted through good management of national parks and other frequently visited nature conservation areas. The restoration of contaminated land areas will be promoted in accordance with the national restoration strategy, completed in 2015, and the related restoration programme. Oil spill response will be improved by equipping a new offshore patrol vessel and an icebreaker with oil recovery equipment.

Waste management will be improved in accordance with national and regional waste plans and through enhanced measures to implement reforms in legislation relating to the waste sector.

5.3.2. Central government joint information system projects and financial administration

Key information system projects

In the spending limits, approximately EUR 57.5 million has been allocated annually in 2017–2020 for key information system and information management projects as well as other productivity projects in the administrative branches.

The key information system projects under way include a complete modernisation of customs clearance systems, the National Board of Education's register of verified competence, the ERP and document management system of the Prosecution Service and the general courts of law, the customer information system of the Criminal Sanctions Agency, the joint public authorities' field information system, the Tax Administration's OTS software project and information system upgrade, and the Finnish Environment Institute Envibase project for the opening up and use of environmental and natural resources data.

In the spending limits, appropriations are allocated, if necessary, for significant information system, information management and other modernisation projects. In addition, funding has been made available for smaller productivity projects of the administrative branches.

The proposed funding will only be incorporated into annual budgets provided that the project plans are sufficiently detailed with respect to project feasibility as well as costs arising and costs saved and that, in significant information system projects, the Ministry of Finance expresses an opinion supporting the advance of the project as required under the Act on Information Management Governance in Public Administration (634/2011) and the Government Decree (1249/2014). The Ministry of Finance will

enter into a cooperation agreement with respect to projects receiving funding with each relevant ministry.

Financial and HR administration

The productivity of central government financial and HR administration will be improved by increased centralisation of tasks in the Government Shared Services Centre for Finance and HR (Palkeet), by completing the introduction of the shared financial and HR administration information system, and by developing operating practices.

Use of the service centre model will be enhanced in accordance with the Government Programme by prescribing directly in law many financial management tasks of agencies, institutions and off-budget funds to be tasks of the Government Shared Services Centre for Finance and HR. A saving of EUR 4 million at the 2019 level (EUR 1 million in 2017 and EUR 3 million in 2018) is sought through this measure. Ministries, agencies and institutions will continue the implementation of changes supporting the productivity development of financial and HR services as well as increasing the use of the Government Shared Services Centre for Finance and HR.

The government shared financial and HR administration information system (Kieku) will be taken into use in all agencies and institutions (excluding the Defence Forces). The shared information system will be used by approximately 60,000 civil servants by the end of 2016. From the beginning of 2017, the development and service activity of the Kieku and Rondo (the invoice and document circulation and archiving system) information systems will be transferred from the State Treasury to the Government Shared Services Centre for Finance and HR. The Government Shared Services Centre for Finance and HR will further develop the accessibility and functionalities of the Kieku system and implement during the spending limits period an upgrade of the Rondo system in cooperation with the State Treasury.

Financial and HR administration operating practices will be enhanced by taking into use new services and by automating existing services (e.g. software robotics-based digitalisation of production processes). The results of the Government Programme's financial administration From Procurement to Payment project will be taken into use in all bookkeeping units. Procurement activities will be digitalised. The State Treasury will steer and supervise the productivity development of the administrative branches and agencies as well as the implementation of objectives, and will continue standardisation of financial and HR administration processes. The development of central government financial administration will be continued in accordance with the principles of the Government Financial Administration Strategy 2020.

Developing central government procurement

Central government procurement will be developed, led by the Ministry of Finance in cooperation with the key procurement organisations and Hansel Ltd. In the spending limits period, Hansel Ltd will introduce an electronic competitive tendering system intended for central government procurement units. The development of procurement activity will be continued based on the recommendations and action programme of the Procurement Activity Development Project (Hanko).

Innovations and the roll-out of innovations will be supported with public procurement. In accordance with the Government Programme, the goal is that 5% of public procurement should either create innovations or support innovation activity. In order to take the innovation perspective into account, procurement units' skills capacity will be improved and support for innovations implemented in procurement activity development and joint purchases.

The Ministry of Finance will launch a government procurement digitalisation project. The project's task is the overall steering of responsible actors' development measures and implementation projects, which will enable the development of the from procurement to payment process area and related information systems as well as a significant increase in the degree of process automation.

Reducing government premises expenditure

Central government premises expenditure will be reduced in accordance with the objective stated in the Government Programme. A EUR 30 million saving in appropriations allocated to agencies' rents will be made from 2019. The saving will be targeted in proportion to agencies' premises expenditure and to will apply to all premises costs payable from the budget.

The savings target directed at premises will be realised by implementing premises projects aimed at achieving space efficiency and rental savings. Together with Senate Properties, the administrative branches have made plans for the implementation of the premises strategy that when implemented will improve space efficiency to correspond with the space efficiency targets set in the premises strategy, altered working practices and the increase in citizens' electronic services.

Saving of administrative expenditure

The Government Programme outlined a saving in operating expenditure totalling EUR 120 million in 2016–2019, which will be implemented by, among other things, reducing duties and obligations, relinquishing premises and utilising retirement attrition. In accordance with the Government Programme, digitalisation will be increased and structures reformed. The saving obligations apply to all administrative branches. If the implementation in full of a savings measure allocated to an administrative branch proves to be impossible, a substitute saving will be made in the administrative branch in question.

An increasing operating expenditure saving, scheduled for 2017–2019, has been allocated in the preparation of the General Government Fiscal Plan to the main title level of the administrative branches, from which the ministries have allocated, in turn, administrative branch-specific savings to budget items.

Operating expenditure savings at main title level in 2016–2020, EUR 1,000

	2016	2017	2018	2019	2020
Prime Minister's Office	-490	-1 240	-1 990	-2 740	-2 740
Ministry for Foreign Affairs	-750	-1 480	-2 210	-2 940	-2 940
Ministry of Justice	-3 250	-5 750	-8 250	-10 750	-10 750
Ministry of the Interior	-6 180	-12 390	-18 600	-24 810	-24 810
Ministry of Defence	-5 490	-11 130	-16 770	-22 410	-22 410
Ministry of Finance	-7 010	-14 090	-21 170	-28 250	-28 250
Ministry of Education and Culture	-1 050	-2 120	-3 190	-4 260	-4 260
Ministry of Agriculture and Forestry	-170	-280	-390	-500	-500
Ministry of Transport and Communications	-1 720	-3 500	-5 280	-7 060	-7 060
Ministry of Employment and the Economy	-2 340	-4 840	-7 340	-9 840	-9 840
Ministry of Social Affairs and Health	-1 160	-2 510	-3 860	-5 210	-5 210
Ministry of the Environment	-390	-710	-1 030	-1 350	-1 350
Unallocated	80	40	80	120	120
Total	-30 000	-60 000	-90 000	-120 000	-120 000

The distribution of main title-level savings in 2017–2019 is based on item-specific savings and productivity potential. The estimate takes into account:

- retirement attrition in 2016–2019 (EUR 17 million/year),
- enhancing ICT in 2017–2020 (EUR 4.6 million/year)
- enhancing HR administration in 2017–2020 (EUR 4.4 million/year)
- level and development of transferable operating appropriations (EUR 3 million/year)
- development of person working years in 2011–2014 (EUR 1 million/year),
- personnel redundancies in 2014–2015,
- reforms decided in the Government Programme directed at the administrative branches and which have savings impacts
- growth of personnel costs in net-budgeted activities.

5.4. On-budget revenue

Actual on-budget revenue is expected to grow in the spending limits period 2017–2020 by an average of around 1½% per year. Tax revenue is expected to grow by an average of around 2% per year. Tax revenue accounts for around 84% of actual on-budget revenue. In 2020 on-budget revenue is expected to be EUR 52.4 billion.

Tax criteria changes

The Government's tax policy aims to boost growth, entrepreneurship and employment. The Government Programme contains both tax-tightening and tax-easing measures. In the parliamentary term, room for manoeuvre in tax policy is limited by the central government deficit and the need to consolidate general government finances. To support sustainability of general government finances, the Government Programme's tax cuts will be implemented gradually during the parliamentary term.

In accordance with the Government Programme, annual adjustments corresponding to rising earnings or inflation will be made in earned income taxation. The reduction of the deductibility of mortgage interest expenditure will be continued, such that the deductible portion of mortgage interest expenditure will be reduced by 10 percentage points per year from the present 55% to 25% by 2019. In accordance with current legislation, the temporary child deduction will expire at the end of 2017. The highest income bracket in the central government income tax scale (the so-called solidarity tax), which was introduced as a temporary measure in 2012, will remain in effect until the end of 2019. In addition, the lower limit of the solidarity tax will be lowered from EUR 90,000 to EUR 72,300 for 2016 and 2017. The domestic work credit will be increased. A 5% entrepreneur deduction will be introduced for business operators and self-employed persons, entrepreneurs engaged in agriculture, forestry and reindeer husbandry, and business partnerships and tax consortiums.

The deductibility of limited companies' losses will be expanded. Succession through generation changes will be facilitated by easing inheritance tax. Succession in forest holdings will also be promoted.

The tobacco tax will be increased gradually, by a total of approximately EUR 270 million during the parliamentary term. Combined production of electricity and heat will be steered towards lower emission levels by the phased removal of the tax subsidy on such production. In 2017 mining will be

transferred back to the lower electricity tax class II and within the scope of the energy tax refund mechanism of energy-intensive industry.

The decision made by the Government in autumn 2015 to abolish the excise duty on sweets and ice cream at the beginning of 2017 is taken into account as a new tax criterion change. To cover the lowering impact on tax revenue of removing the excise duty on sweets and ice cream, taxes on transport fuels will be increased.

Taxation on cars will be eased gradually during the parliamentary term by a total of approximately EUR 180 million. The aim of the gradual implementation is to control behavioural impacts, to avoid market disturbances and a sudden decrease of inventory values as well as unfair effects on consumers that a major one-off change in taxation could cause. Vehicle tax will be increased by EUR 100 million from 2017. The vehicle tax will be extended to apply to new types of vehicle. The temporary removal of the rail goods transport tax and the halving of fairway dues will be continued until the end of 2018.

Tax revenue in the spending limits period will also be affected by certain decisions made in the previous parliamentary term that will come into force in the spending limits period 2017–2020.

In accordance with the Government Programme, the municipalities will be compensated for the tax revenue impact of changes made by the Government to tax criteria.

The table below presents an estimate of the impact of tax criteria changes on central government tax revenue compared with the previous year.

Annual impact on central government tax revenue of the main tax criteria changes of Prime Minister Sipilä's Government, EUR million

	2017	2018	2019	2020
Index of Wage and Salary Earnings/Consumer Price				
Index adjustment of earned income taxation	-137	-158	-179	-210
Increase of domestic work credit	-18			
Introduction of entrepreneur deduction	-70			
Restriction of deductibility of mortgage interest expenditure (not including changes approved by previous Parliament)	10	10	20	
Continuation of solidarity tax to end of 2019			70	
Lowering of lower limit at which solidarity tax is paid (in force 2016 and 2017)	34			
Expansion of deductibility of limited companies' losses	-10			
Succession promoted by easing inheritance tax	-40			
Facilitating succession in forest holdings	-20			
Increase of tobacco tax	68	68	68	
Abolition of excise duty on sweets and ice cream	-109			
Removal of tax subsidy of combined electricity and heat production	35		35	
Increase of excise duty on transport fuels	100			
Return of mining to electricity tax class II and to within scope of energy tax refund mechanism	-27			
Reduction of car tax	-36	-50	-65	
Increase of vehicle tax	100			
Extension of vehicle tax to new types of vehicle	50			

	2017	2018	2019	2020
Removal of rail goods transport tax and extension of halving of fairway dues by one year		-55		

Development of tax revenue 2017–2020

Revenue from earned income and capital income tax is expected to increase in the spending limits period by an average of around 2.2% per year. Earned income is expected to grow by an average of around 2% and capital income by just under 3%. Growth of the total wage bill will accelerate slightly at the end of the spending limits period and at the same time unemployment will gradually decrease. Pension income will grow as the number of pensioners increases and the level of the average pension rises as the pension system matures. Tax criteria changes, including index adjustments, are expected to reduce earned income and capital income tax revenue by a total of just under EUR 0.7 billion in the spending limits period.

Corporate tax as a whole is expected to increase in the spending limits period by an average of around 4.9% per year, which is slightly faster than the operating surplus according to national accounts. Corporate tax revenue remitted to central government is expected to increase on average by around 5.1% per year.

Value-added tax revenue is projected to grow in the spending limits period by an average of around 2½% per year. This forecast is mainly based on estimates for the growth in household consumption expenditure. Value-added tax revenue will be reduced in 2017 and 2018 by one-off transfers of tax remittances beyond the turn of the year. These relate to the opportunity for small companies to transfer to payment-based settlement of value-added tax in 2017 as well as to the transfer of value-added taxation of imports from Customs to the Tax Administration in 2018.

Revenue from excise duties is projected to grow in the spending limits period by an average of around ½% per year. Tax criteria changes are expected to increase revenue from excise duties in the spending limits period by a total of just over EUR 0.2 billion compared with the situation in which the increases would not be made. The excise tax bases are mainly expected to narrow, owing to the steering impact of taxation.

Car tax revenue is projected to fall by an average of around 5% per year. This is due to the easing of car tax in accordance with the Government Programme and to the fact that downward trend in the carbon dioxide emissions of new cars is expected to continue. The amount of car tax depends on the general retail sales value of a car on the Finnish market as well as on carbon dioxide emissions, so reducing emissions lowers the tax percentage of new cars.

Vehicle tax revenue is projected to grow by an average of around 2½%. Growth in tax revenue will be weighted towards the early years of the spending limits period due to increases of the vehicle tax. Vehicle tax will be increased by EUR 100 million at the beginning of 2017. As vehicle tax is levied in advance for a running 12-month tax period, the increase will have an impact on the 2016 revenue from vehicle tax.

Other on-budget revenue

Miscellaneous revenue is projected to grow in the spending limits period by an average of around 1% per year.

As regards other on-budget revenue, dividend income and income from share sales or repayments of capital are expected to amount to just under EUR 1.7 billion per year.

Recognition of revenue from state-owned enterprises is expected to average just over EUR 200 million per year (see Chapter 5.6 for more details).

Ministry of Finance estimate of ordinary on-budget revenue in 2016–2020, EUR billion

	2016	2017	2018	2019	2020	2016–2020 average annual change, %
	Budget					
Total tax revenue	40.8	41.6	42.3	43.6	44.5	2.2
— taxes on earned and capital income	9.2	9.4	9.6	9.9	10.1	2.2
— corporate tax	2.9	3.0	3.2	3.3	3.5	5.0
— VAT	16.9	17.0	17.3	18.0	18.5	2.3
— excise duties	7.1	7.2	7.2	7.3	7.3	0.7
— other tax revenue	4.8	5.0	5.0	5.1	5.3	2.6
Miscellaneous revenue	5.4	5.2	5.4	5.5	5.6	1.0
Interest earned, income from share sales and profit recognised as income	2.4	2.0	2.5	1.9	1.9	-6.2
— Dividend income and income from sales of shares	2.0	1.6	2.1	1.5	1.5	-6.8
Total revenue¹	49.1	49.3	50.6	51.4	52.4	1.7

¹⁾Including repayment of loans granted by central government.

5.5. Central government on-budget balance and debt

Taking into account the appropriations in line with the spending limits as well as revenue estimates, the central government on-budget deficit is expected to be approximately EUR 5.8 billion in 2017. The deficit is expected to fall to EUR 3.3 billion in 2020.

Overall, the on-budget balance has not changed compared with the Government's first General Government Fiscal Plan (autumn 2015). The deficit will be increased by, among other things, the increase in appropriations resulting from the asylum seeker situation. On the other hand, the estimate of interest paid on central government debt has decreased, owing to lower interest rate assumptions. The projection of the future development of the economy has changed relatively little from autumn 2015, and therefore its impact on the General Government Fiscal Plan's revenue and expenditure estimates is relatively minor.

In 2017 the on-budget balance will deteriorate temporarily. This is mainly the result of the timing of Key Government Projects but also to other factors, such as estimated expenditure arising from asylum seekers as well as the timing of changes in taxation.

It is assumed that central government debt will grow to approximately EUR 111 billion in 2017. The central government debt-to-GDP ratio will rise during the parliamentary term. Central government debt is expected to be approximately EUR 123 billion in 2020, which is around 52% in ratio to GDP.

The central government's balance and debt outlook is examined from the perspective of the national accounts in Chapter 3.2.

Ministry of Finance estimate of on-budget balance in 2016–2020, EUR billion, at current prices

	2016	2017	2018	2019	2020
On-budget revenue estimate, total ¹	49.1	49.3	50.6	51.4	52.4
On-budget expenditure estimate, total, at current prices ²	55.4	55.1	55.4	55.1	55.7
On-budget balance estimate	-5.4	-5.8	-4.8	-3.8	-3.3
Central government debt-to-GDP ratio, %	50	52	52	53	52

¹) Including repayment of loans granted by central government.

²) Expenditure converted into current prices using the Ministry of Finance central government expenditure price index projection, which provides a rough estimate of price trends over the spending limits period.

5.6. Off-budget central government finances

Central government in the national accounts

In the national accounts, the central government sector includes, alongside central government on-budget finances, the central government funds that are outside budget finances (excluding the State Pension Fund, which is classified in the national accounts under the pension provider sector) as well as the universities, the Finnish Broadcasting Company YLE, Solidium Oy, Senate Properties, university real estate companies, HAUS Finnish Institute of Public Management Ltd, Leijona Catering Oy, Finnish Industry Investment Ltd, Terrafame Group Oy, the Financial Stability Authority, Gasonia Oy, Governia Oy and VTT Technical Research Centre of Finland Ltd.

Central government transfers to VTT will amount to just over EUR 87 million in the spending limits period 2017–2020.

Overall funding of universities comprises appropriations allocated to universities in the budget and supplementary funding (e.g. paid services, donations, and sponsoring). According to preliminary data, funding of universities in 2015 was at the 2014 level, i.e. approximately EUR 2.8 billion, of which the central government's direct and competitive funding accounted for approximately 75%.

Central government funding of the Finnish Broadcasting Company YLE has been based since 2013 on appropriations, covered by the special YLE tax, to the State Television and Radio Fund, which passes it on to YLE. In the spending limits period, no index revision to reflect changes in cost levels will be made to the funds transferred. The Finnish Broadcasting Company YLE's tasks and financing will, however, be discussed in a parliamentary working group to be appointed.

The investment company Solidium Oy is a limited company wholly owned by the state whose task is to strengthen and stabilise Finnish ownership in nationally important companies. The company's equity portfolio features 12 listed companies, in which Solidium has a minority interest. Solidium's Board of Directors makes investment decisions independently on the basis of analyses and proposals prepared by management. In the central government budget, EUR 1,087 million in revenue was recognised from Solidium Oy in 2014 and EUR 706 million in 2015.

In other respects, state ownership policy is the responsibility of the Government Ownership Steering Department of the Prime Minister's Office, in which the ownership steering of companies operating on a commercial basis is centralised. In December 2015, the department was responsible for 29 companies, which it oversees. It is also the department's responsibility to prepare general policy on state holdings and ownership steering practices and to coordinate ministerial cooperation on ownership steering.

Off-budget funds

The central government has 11 off-budget funds. These funds are the Housing Fund of Finland, the State Pension Fund, the Development Fund of Agriculture and Forestry, the National Nuclear Waste Management Fund, the National Emergency Supply Fund, the State Guarantee Fund, the Financial Stability Fund, the State Television and Radio Fund, the Agricultural Intervention Fund, the Fire Protection Fund and the Oil Protection Fund.

Over the spending limits period, it is estimated that the combined annual revenue of off-budget funds will average approximately EUR 5.3 billion and expenditure approximately EUR 4.9 billion. The annual surplus of the off-budget funds will therefore be on average approximately EUR 0.4 billion. The net annual surplus of the funds, omitting the Pensions Fund, will be slightly higher.

Central government off-budget funds, EUR million

	2015	2016	2017	2018	2019	2020
Taxes and tax-like revenue, total	224	179	188	193	196	199
Miscellaneous revenue	321	183	153	93	106	80
Pension contributions	1 621	1 460	1 449	1 445	1 518	1 543
Interest earned and profit recognised as income	1 117	559	588	593	585	577
Transfers from budget	512	525	552	552	511	511
Revenue excluding financial transactions	3 794	2 907	2 930	2 875	2 916	2 910
Repayments of loans granted	2 296	2 246	2 237	2 234	2 239	2 261
Total revenue	6 091	5 153	5 167	5 109	5 155	5 171
Consumption expenditure	233	75	108	115	114	110
Current transfers	941	884	911	927	974	1 000
Interest paid	1	1	1	1	1	1
Transfers to budget	2 330	1 948	1 846	1 873	1 911	1 949
Expenditure excluding financial transactions	3 506	2 908	2 867	2 916	3 000	3 059
Loans granted and other financial investments	1 833	1 922	1 877	1 855	1 858	1 852
Total expenditure target	5 339	4 830	4 744	4 771	4 858	4 911
Net financial surplus	752	323	424	338	297	260

State-owned enterprises

Senate Properties is a state-owned enterprise under the aegis of the Ministry of Finance and is the central government's expert on the working environment and working premises. Senate Properties produces and delivers services for central government. In 2015 it had a total of 6.2 million m² of leasable floor space, its turnover was EUR 622 million and the balance sheet total was EUR 4.6 billion. Approximately EUR 268 million was spent on investment in major improvements and new construction. The profit from leasing operations was EUR 85 million. Income from sales of real estate was EUR 325.5 million and profit from sales was approximately EUR 105.2 million. The level of sales was exceptionally high in 2015 due to sales of the shares of two university real estate companies in August 2015. The recognition of revenue from Senate Properties in the central government budget was EUR 370 million in 2015.

The recognition of revenue from Senate Properties in the central government budget will be EUR 100 million in 2016. The revenue recognised from Senate Properties to the central government will be an

estimated EUR 95 million in 2018, EUR 75 million in 2019 and EUR 85 million in 2020. The estimate for revenue recognition takes into account the following changes implemented in 2016: a rise in rent for the Defence Forces (+ EUR 36 million) and the introduction of rents based on the absorption principle (- EUR 81 million). An additional revenue recognition of EUR 20 million in 2017 arises from the General Government Fiscal Plan for 2015–2018. In addition, Senate Properties' revenue estimate takes into account, as additional revenue recognitions, EUR 10 million in 2017, EUR 20 million in 2018 and EUR 30 million in 2019 as a result of a Government savings decision, in accordance with which Senate Properties' investment authorisation will be limited.

Metsähallitus is a state-owned enterprise whose task is to manage state-owned unbuilt real estate holdings. Metsähallitus engages in business operations and attends to statutory public administrative duties funded out of the budget and fee income. It manages approximately 12.5 million hectares of state-owned land and water areas, with a balance sheet value of approximately EUR 3.7 billion. Of this, the basic capital subject to the yield requirement is approximately EUR 2.5 billion. The annual turnover of Metsähallitus is approximately EUR 250 million. The Metsähallitus legislation will come into force on 15 April 2016. The forestry operations of Metsähallitus will be incorporated into a wholly state-owned company. State land and water assets will remain directly owned by the state and managed by the Metsähallitus. Metsähallitus will pay to central government a revenue recognition on the basis of usage rights compensation and dividends. The revenue recognition of the old Metsähallitus will be brought forward so that a revenue recognition of EUR 10 million is made to the central government in 2016 from profit made in the early part of 2016. This will reduce the revenue recognition in 2017. From 2018, revenue recognised from Metsähallitus is projected to be EUR 120 million per year. At this stage, all of the changes that may arise from the reform of Metsähallitus legislation could not, of necessity, be taken into account.

6. Local government finances

The part of the General Government Fiscal Plan relating to local government finances includes a limit for local government expenditure set by central government measures as well as the Government's other policy lines relating to local government finances and local government duties. It also includes an examination of the impact of central government measures on local government finances and the medium-term development prospects for local government finances in local government accounting terms. The examination of local government finances presented here is supplemented by Local Government Finance Programme, which is prepared separately as part of the General Government Fiscal Plan.

6.1. Local government finance policies

Limit for local government expenditure set by central government measures

National rules relating to the General Government Fiscal Plan require that the Government sets a limit for local government expenditure set by central government measures. The limit for local government expenditure set by central government measures is a monetary limit for the change in expenditure arising to local government finances from central government measures. The intention is that the limit for expenditure set by central government measures is consistent with the budgetary target set by the Government for local government finances.

In its General Government Fiscal Plan of 28 September 2015, the Government decided that its measures will have the net effect in 2019 of reducing local government operating expenditure by at least EUR 540 million compared with the technical General Government Fiscal Plan adopted on 2 April 2015, which was the basis for the Government Programme.

Compliance with the limit for local government expenditure set by central government measures is monitored in the annual revisions of the General Government Fiscal Plan. The limit cannot be relaxed from the level set in the General Government Fiscal Plan adopted on 28 September 2015. It will be tightened annually as preparation progresses on yet unspecified measures agreed in the Government Programme.

In this General Government Fiscal Plan, the limit for local government expenditure set by central government measures takes in account new measures, namely the reform of upper secondary vocational education and training (EUR -190 million), the lowering of the unit price of preparatory studies for basic education, and the increase in student places of vocational education and training. The limit does not take into account the funding of Key Government Projects, because this is not a permanent increase.

After these changes, the limit for local government expenditure set by central government measures is EUR -770 million at the 2019 level, and it has been tightened by EUR 230 million compared with the autumn 2015 level. This means, therefore, that as a result of the Government's measures the level of local government operating expenditure would be EUR 770 million lower than was projected before the parliamentary term. The limit on local government expenditure set by central government measures does not, however, guarantee that the cost effects will be realised at that level in local government finances. Municipalities can themselves decide, inter alia, the extent to which they implement the reduction of duties and obligations.

Maximum limit for local government expenditure 2017–2020, EUR million

2017	2018	2019	2020
-560	-690	-770	-840

As the EUR 1 billion reform programme to reduce municipalities' duties and obligations proceeds and new measures reducing municipalities' duties and obligations become concrete during preparation such that they can be included in the State Budget Proposal and the General Government Fiscal Plan, these new measures will be taken into account as tightening the limit for local government expenditure set by central government measures. So far, the measures included in the reform programme have not been included in the General Government Fiscal Plan. The objective of the social welfare and health care reform to reduce growth of social welfare and health care expenditure by EUR 3 billion by 2029 is not included within the scope of the limit for local government expenditure set by central government measures.

In addition to what has been decided in the Government Programme about municipalities' duties and obligations, the municipalities will not be given new statutory duties or obligations, or extensions thereof, that permanently weaken local government finances. If, however, in exceptional circumstances, duties or obligations that permanently increase the operating expenditure of municipalities and joint municipal authorities are enacted to the overall benefit of general government finances, then weakening of the balance of local government finances will be prevented by increasing central government transfers, cutting other municipal duties and obligations in the same context or by enabling increases in fee income. In accordance with effective legislation, a central government transfer covering 100% of the costs will be allocated to new or extended duties and obligations.

Other central government measures impacting the balance of local government finances

In addition to setting a limit for local government expenditure set by central government measures, the Government will strengthen local government finances by giving municipalities the opportunity to increase fee income. The Decree on social and health care client fees has been amended such that the fee income of municipalities and joint municipal authorities could grow by EUR 150 million. The maximum amounts of fees charged for school pupils' morning and afternoon activities will be increased from 1 August 2016. It is also the intention to raise daycare fees from 1 August 2016.

Real estate tax will be raised gradually during the parliamentary term by a total of EUR 100 million. In accordance with the Government Programme, municipalities will be compensated for changes made to income tax criteria, so these will have no impact on the balance of local government finances.

As part of an additional saving of index-linked expenditure, the central government transfer for municipalities' basic public services will be reduced by EUR 75 million. On the other hand, the reduction of index-linked expenditure will also reduce municipalities' benefit expenditure and increase municipalities' tax revenue, so the net impact on local government finances will be smaller.

Overall impact of central government measures and the adjustment requirement on local government finances

The overall impact of the measures of Prime Minister Juha Sipilä's Government will strengthen local government finances by EUR 0.7 billion at the 2019 level, if the municipalities and joint municipal authorities implement the measures in full. In addition, local government finances will be affected by measures decided by the previous Government, such as a total of EUR 90 million in central government transfer cuts in 2016–2017.

Some municipalities have decided not to implement to some extent the measures decided on in the Government Programme to strengthen local government finances. At this stage, the scale of the shortfall is estimated to be at least EUR 130 million. The Government will decide in the spring 2017 spending limits discussion on compensating for the shortfall by, for example, enacting minimum client fee limits for municipalities' social and health care services or by deciding on other budgetary savings or revenue increases, such as raising the lower limit of the real estate tax, to achieve the desired total balancing effect of EUR 130 million in general government finances.

Strengthening impact on local government finances of central government measures in 2019, EUR million

Limit for local government expenditure set by central government measures	770
Change of central government transfers relating to the limit for local government expenditure set by central government measures	-90
Index freezing of central government transfers	-240
Changes in fee criteria	225
Increase of real estate tax	100
Additional reduction of index-linked expenditure	-55
Total	710

According to the spring 2015 forecast that was the basis of the Government Programme, the local government deficit was EUR 2.0 billion, i.e. 0.9% in ratio to GDP at the 2019 level in national economy's accounting terms. The Ministry of Finance's updated forecast takes into account the Government Programme measures impacting local government finances that have already been

specified, according to an assessment on the basis of information received of how the municipalities will implement them. These will strengthen the balance of local government finances by a net sum of approximately EUR 600 million at the 2019 level. The economic outlook relative to the spring 2015 forecast has deteriorated, however. According to the updated forecast, the local government deficit in 2019 will be EUR 1.7 billion, which is 0.7% in ratio to GDP. Achieving the budgetary target would therefore require a local government adjustment by a further approximately EUR 0.5 billion at the 2019 level. This will be covered by Government Programme measures that as yet have not been fully specified or by new central government measures to be decided later and the municipalities' own measures. The local government finances projection is a pressure projection that does not take into the municipalities' own consolidation measures for 2017–2020. In recent years, the municipalities' own deficit-reduction measures have been significant.

To safeguard the stability of local government finances, it is essential that adjustment measures in accordance with the Government Programme are purposefully prepared and implemented, so that the desired savings can be achieved.

Municipalities' own measures

Municipalities have wide-ranging autonomy, and the central government cannot by its own measures alone ensure the balancing of local government finances. Therefore, the municipalities also have great responsibility for balancing local government finances, for example by implementing structural reforms and improving productivity. The central government cannot control local government investments nor thereby curb local government indebtedness. Prioritising investments, scheduling them correctly and implementing them in a high quality way are very important in the adjustment of local government finances. The Government Programme's objectives relating to easing taxation on labour and to the overall level of taxation should also be taken into account when selecting means of adjustment.

6.2. Central government measures impacting local government finances

Central government transfers and local government duties in the spending limits period

The effects of the social welfare and health care reform under preparation have not been taken into account in this General Government Fiscal Plan. When implemented, it will significantly impact municipalities' duties and level of funding. The effects will be taken into account in the General Government Fiscal Plan as preparation proceeds.

Central government transfers to local government will be approximately EUR 10.6 billion in 2017, and they will decline to EUR 10.5 billion in 2020. In addition to Government decisions, the level of central government transfers will be affected by the cut in central government transfers for 2017 decided by the previous Government, the transfer of basic social assistance from the municipalities to the Social Insurance Institution of Finland (a.k.a. Kela) in 2017, and the trend in the number of asylum seekers. Key Government Projects in the administrative branches of the Ministry of Education and Culture and the Ministry of Social Affairs and Health will increase central government transfers to local government in 2016–2018.

No index adjustment to central government transfers will be made in 2017–2019. As a new consolidation measure, an additional 0.85% across-the-board reduction will be directed at the expenditure package included in the index savings of Annex 6 of the Government Programme. This will reduce the central government transfer for basic public services by EUR 74.8 million. In the administrative branch of the Ministry of Education and Culture, the additional reduction will be compensated for in full through corresponding appropriation increases.

An adjustment of the division of costs between central and local government is made annually. Based on 2014 data, the adjustment made for 2017 will be EUR 33 million in the administrative branch of the Ministry of Finance and EUR -5 million in the administrative branch of the Ministry of Education and Culture, of which the municipalities' share is EUR -3.4 million.

In accordance with the Government Programme, informal and family care will be developed. A Government proposal is due to be submitted to Parliament in May 2016 and the legislative changes will come into force on 1 July 2016. Additional investments, for which a 100% central government transfer will be allocated, will be directed to the development of informal and family care. On the other hand, the development of informal and family care is expected to generate a saving in municipalities' costs, which will correspondingly reduce the central government transfer for basic public services.

From the beginning of 2016, a EUR 10 million increase in the central government transfer for municipalities' basic public services will be directed, with full central government funding, at child welfare and home help provision for families with children. In 2019 a further EUR 15 million will be allocated for the same purpose. The increase will especially facilitate the implementation of the reformed Social Welfare Act. Sums of EUR 4.8 million in 2017–2018 and EUR 5.8 million from 2019 will be allocated to home care for older people. The central government transfer percentage of this increase is also 100.

The staff-client ratio in services for older people will be reviewed in 2017. Local government expenditure is expected to decrease by EUR 70 million at the 2019 level, for which the corresponding reduction in central government transfers is EUR 19 million.

The arrangement of regional specialised medical care will be enhanced from 2017 by amending the Health Care Act and related Decrees. The optimisation of the hospital network is expected to generate a saving in local government expenditure gradually from 2017. At the 2020 level, the saving is estimated to be EUR 150 million. A corresponding reduction will be made to the central government transfer for basic public services. In accordance with the Government Programme, an incentive scheme for specialised medical care will be introduced in 2017. Funding for the incentive scheme will be deducted from the central government transfer for basic public services and allocated to local government finances as discretionary government transfers. EUR 100 million in 2017, EUR 175 million in 2018 and EUR 250 million from 2019 will be allocated to the incentive scheme.

A reform of upper secondary vocational education and training will be implemented in the spending limits period. As part of the reform, a EUR 190 million appropriation saving will be directed at upper secondary vocational education and training from 2017. The saving will be directed in full at the local government share of funding.

As a result of the increase in the number of asylum seekers, integration compensation to municipalities will grow until 2019. Provision will be made with appropriation increases for an increase in student numbers in basic education due to the increase in asylum seekers. Upper secondary vocational education and training will be increased by 2,000 student places from 2017, to which full central government funding will be allocated. At the same time, the language proficiency requirement in preparatory studies for upper secondary vocational education and training will be lowered and language teaching during studies increased, so that continuation of studies in preparatory education would be possible after around half a year of integration training.

Transfers related to municipal mergers will start to decrease in the spending limits period. The estimate of the number of so-called crisis municipalities has been reduced, based on the latest actual data received on local government finances.

The Government Programme includes, in addition to those mentioned herein, a number of different administrative branch measures that might have an impact on local government finances. Preparation of these measures is still under way and it has not yet been possible to assess their financial impact.

Central government transfers to municipalities and joint municipal authorities, EUR million, spending limits period at 2017 prices

	2015	2016	2017	2018	2019	2020
Imputed central government transfers	9 426	9 915	9 709	9 695	9 555	9 653
Ministry of Finance, central government transfer for basic public services	8 500	8 987	8 763	8 756	8 645	8 762
Ministry of Education and Culture ¹	926	928	946	940	909	891
— of which joint municipal authorities	1 082	1 041	1 027	1 027	1 025	1 024
Other central government transfers by administrative branch, total	1 150	1 183	892	959	925	821
Ministry of Justice	9	0	0	20	20	0
Ministry of the Interior	3	5	5	5	5	5
Ministry of Finance	37	27	33	23	19	10
Ministry of Education and Culture	237	239	197	200	191	192
Ministry of Agriculture and Forestry	5	5	5	5	5	5
Ministry of Transport and Communications	39	36	36	36	36	36
Ministry of Employment and the Economy	176	224	323	412	413	339
Ministry of Social Affairs and Health ²	609	613	276	243	220	218
Ministry of the Environment	35	35	17	17	17	17
Central government transfers, total	10 576	11 098	10 600	10 654	10 479	10 473

¹⁾ The municipalities' imputed share is estimated from the total funding of the administrative branch of the Ministry of Education and Culture (including private).

²⁾ Payment of basic social assistance will be transferred in 2017 from the municipalities to the Social Insurance Institution of Finland a.k.a. Kela. As a result, the central government will no longer pay to the municipalities a transfer for basic social assistance costs, which will be reflected as a reduction of the central government transfers of the Ministry of Social Affairs and Health. Furthermore, municipalities' share of basic social assistance expenditure costs will be acknowledged as a reduction in the central government transfer for basic public services. The reform is cost neutral with respect to central government-local government.

Tax criteria changes

The revenue estimates of the spending limits period have taken into account the tax criteria changes decided in the Government Programme and during the parliamentary term. Compared with the previous spending limits decision, the Government has not decided on new tax criteria changes affecting local government tax revenue that will come into force in the spending limits period 2017–2020.

In accordance with the Government Programme, annual index adjustments corresponding to rising earnings or inflation will be made in earned income taxation. The reduction of the deductibility of mortgage interest expenditure will be continued, such that the deductible portion of mortgage interest expenditure will be reduced by 10 percentage points per year from the present 55% to 25% by 2019. The domestic help credit will be increased. A 5% entrepreneur deduction will be introduced for business operators and self-employed persons, entrepreneurs engaged in agriculture, forestry and

reindeer husbandry, and business partnerships and tax consortiums. In accordance with current legislation, the temporary child deduction will expire at the end of 2017.

Real estate taxation will be increased annually, by a total of EUR 100 million during the parliamentary term. Tax revenue in the spending limits period will also be affected by certain decisions made in the previous parliamentary term that will come into force in the spending limits period 2017–2020.

In accordance with the Government Programme, the municipalities will be compensated for the tax revenue impact of changes made by the Government to tax criteria.

The table below presents an estimate of the impact of tax criteria changes on local government tax revenue compared with the previous year.

Annual impact on local government tax revenue of the main tax criteria changes of Prime Minister Sipilä's Government, EUR million

	2017	2018	2019	2020
Index of Wage and Salary Earnings/Consumer Price Index adjustment of earned income taxation	-72	-83	-94	-110
Increase of domestic work credit	-10			
Introduction of entrepreneur deduction	-55			
Additional reduction of deductibility of mortgage interest expenditure	7	7	14	
Tightening of real estate taxation	25	25	25	

Changes in fee criteria

The maximum amounts of fees charged for school pupils' morning and afternoon activities will be increased from 1 August 2016. It is also the intention to increase day-care fees from 1 August 2016. The impact of these increases on an annual basis will be just over EUR 70 million, if all municipalities increase the fees in full.

6.3. Estimate of local government finances: expenditure, revenue and balance

Development of local government finances up to 2020 according to local government accounts, EUR billion, at current prices

	2015	2016	2017	2018	2019	2020
Result itemisation						
1. Operating margin	-27.7	-28.1	-28.1	-28.8	-29.6	-30.5
2. Tax revenue	21.8	21.7	22.1	22.7	23.3	24.0
3. Central government transfers, operational finances	8.2	8.8	8.6	8.7	8.5	8.7
4. Financial income and expenses, net	0.2	0.3	0.2	0.2	0.2	0.1
5. Annual contribution margin	2.6	2.7	2.9	2.8	2.5	2.4
6. Depreciation	-2.6	-2.7	-2.8	-2.9	-3.0	-3.1
7. Extraordinary items, net	0.3	0.3	0.3	0.3	0.3	0.3
8. Result for the financial year	0.3	0.3	0.4	0.2	-0.3	-0.5
Financing						
9. Annual contribution margin	2.6	2.7	2.9	2.8	2.5	2.4

	2015	2016	2017	2018	2019	2020
10. Extraordinary items	0.3	0.3	0.3	0.3	0.3	0.3
11. Internal financing, adjustment items	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6
12. Internal financing, net	2.3	2.4	2.6	2.6	2.2	2.1
13. Investment in fixed assets	-4.3	-4.5	-4.6	-4.6	-4.8	-4.8
14. Funding contributions and income from sales	1.0	1.0	1.0	1.1	1.0	1.0
15. Investments, net	-3.3	-3.5	-3.6	-3.6	-3.7	-3.8
16. Financial balance (internal financing - investment)	-1.0	-1.0	-1.0	-1.1	-1.5	-1.7
17. Loan portfolio	17.0	18.1	19.1	20.3	21.8	23.6
18. Cash assets	5.1	5.1	5.1	5.1	5.1	5.1
19. Net debt (loan portfolio - cash assets)	12.0	13.1	14.1	15.2	16.7	18.5

The outlook for local government finances is difficult. The growth pressure on operating expenditure will remain high in the coming years, because service needs will be increased by the change in the population age structure, higher immigration and the weak labour market situation. Due to slow economic growth, the development of local government finances will, moreover, remain subdued. The consolidation measures of the municipalities and joint municipal authorities will, however, strengthen local government finances in the current year. The Government Programme's measures to strengthen local government finances will also keep the municipalities' combined result for the near financial years to come roughly in balance. Without new adjustment measures or structural reforms to curb expenditure pressures, the result for the financial year will, however, deteriorate into deficit at the end of the decade. The indebtedness of local government finances will grow rapidly and the loan portfolio will increase in the pressure projection to over EUR 23 billion by 2020.

The economic projection of local government finances for 2017–2020 is a pressure projection that, addition to general economic and population trends, only takes into account measures impacting local government finances that are already included in the General Government Fiscal Plan. The projection does not include municipalities' and joint municipal authorities' own consolidation measures or municipal income tax increases for 2017–2020.

In recent years, the municipalities have successfully rationalised their operations and curbed growth in operating expenditure: despite the difficult economic situation and expenditure pressures, operating expenditure growth has been very weak. The municipalities are expected to continue to consolidate their expenditure by just over EUR 200 million in the current year. With respect to personnel expenditure, consolidation measures will be implemented mainly utilising natural retirement attrition. The municipalities will also seek savings in procurement. On the other hand, the aim will be, as in recent years, to avoid lay-offs and redundancies.

Growth of municipalities' tax revenue will remain modest in the next few years due to the subdued economic outlook. The municipalities' combined tax revenue will also be reduced by the removal in 2016 of the fixed-term elevated share of corporate tax. The average municipal income tax percentage rose only slightly at the beginning of the year, because just 45 municipalities resorted to increases of the municipal income tax percentage to boost their finances. The increases in municipal income tax percentages are estimated to increase municipalities' tax revenue by approximately EUR 40 million. Real estate tax increases in accordance with the Government Programme will increase real estate tax revenue gradually by a total of EUR 100 million in 2016–2019.

Central government transfers to local government will be increased in the current year by an adjustment of the division of costs between central and local government in which imputed costs will be adjusted to correspond with actual costs, as well as by compensation to municipalities for changes made to tax criteria. Higher immigration will also increase central government transfers to local government, because the central government will compensate municipalities for costs arising from immigration. Growth of central government transfers will be slowed, on the other hand, by consolidation measures in accordance with the Government Programme, including the freezing of the central government transfer index in 2016–2019. Moreover, cuts in central government transfers decided earlier as part of central government consolidation measures will reduce central government transfers to local government in 2016 and 2017.

Local government net investment has been growing strongly for some time, but growth seems to have levelled off in recent years. Investment is expected to remain high, however, in the coming years, because particularly in growth centres the expansion of the service network and infrastructure will require further significant investment. As revenue from operational finances is not sufficient to cover new netinvestments, the municipalities will have to finance their investments with debt. Due to the tight economic situation and the growing loan portfolio, municipalities will also have to prioritise their investment projects.

Despite the significant consolidation measures directed at local government finances, cash flow from operations and investments reflects local government borrowing needs and is clearly in deficit. Without new measures to strengthen local government finances, the deficit will also grow once again in the pressure projection towards the end of the decade. Correcting the mismatch between revenue and expenditure will require the implementation of the social welfare and health care reform as well as the implementation of the measures to reduce municipalities' duties and obligations. The municipalities and joint municipal authorities should also continue their own measures to strengthen local government finances. Without structural reforms to curb expenditure pressures, significant pressure to increase municipal income tax percentages will arise.

7. Earnings-related pension funds and other social security funds

Earnings-related pension system

Finland's earnings-related pension system consists of a number of different pension acts, in which pensions are generally determined, however, by the same criteria. The funding of pension expenditure varies by pension act, as a result of which the financing criteria of earnings-related pension sector cannot be described by a single rule. The financing criteria can be examined, however, by looking separately at the largest pension acts (TyEL, YEL, VaEL and KuEL).

Finland's earnings-related pension system is partly funded, because some of the financing comes from prefunded pension assets and the income from them. However, pensions are financed annually mainly by pension contributions from employees and employers. In addition, part of the pensions of central government employees and of entrepreneurs, agricultural entrepreneurs and seafarers is financed from the central government budget. Employees' pension contributions are the same in all pension acts. Pensions accrue in all pension acts in nearly the same way from earnings during entire working careers. Starting old-age pensions are reduced by a life expectancy coefficient that takes account of the increase in life expectancy. Pensions in payment are increased annually by the Employee Pension Index, in which inflation has an 80% weight and change of earnings level a 20% weight. In November 2015, Parliament approved an earnings-related pension reform, which will come into force at the beginning of 2017. The reform is described in more detail in, for example, the General Government Fiscal Plan published in spring 2015.

The private sector Employees' Pensions Act (TyEL) covers around two-thirds of the labour force. Of TyEL earnings-related pension contributions, part are prefunded individually and the remainder go to finance current pensions in a pay-as-you-go system. Pension contributions must be at a level that guarantees the payment of pensions and the funding required by law. The private earnings-related pension sector's EMU buffer is located in the pay-as-you-go system's buffer fund, which is termed the equalisation fund (equalisation liability). The target for the EMU buffer has been agreed to an amount corresponding to 2.5% of the annual wage bill of the private sector. The TyEL system's funding rate, i.e. the ratio of pension assets to pension liability, was around 25–30% at the end of 2012, depending on the method of calculation. The pension expenditure of entrepreneurs (around 8% of those insured), agricultural entrepreneurs and seafarers is financed from contributions and the portion exceeding this from the central government budget.

Approximately 20% of those insured are covered under the **Local Government Pensions Act (KuEL)**. In the KuEL system, the aim is to set pension contributions in such a way that the pension system is on a sustainable foundation and the level of pension contributions remains stable in future. KuEL contributions are determined on the basis of wages paid in the municipal sector and also on pension expenditure.

Employees insured under the **State Employees' Pension Act (VaEL)** (around 6% of those insured) and central government employers pay their pension contributions into the State Pension Fund (VER). Funds are transferred from the State Pension Fund annually into the central government budget to cover VaEL pension expenditure. The transferred amount is currently 40% of the expenditure arising from central government pensions, because the rest of pension expenditure is covered directly from the central government budget.

Due to the prefunding of pensions, the earnings-related pension sector has shown a significant surplus historically. Demographic change will increase pension expenditure, which will be reflected in a reduction in surpluses. However, due to prefunding, property income is substantial, so pension funds will nominally not have to sell off assets, even if pension expenditure exceeds contributions.

Overall, the surplus of the earnings-related pension funds has declined from 4% in ratio to GDP at the beginning of the millennium to 1.4% in ratio to GDP in 2015. The surplus is projected to decrease to under 1% in ratio to GDP in the medium term as pension expenditure grows faster than income. In the national accounts, private sector earnings-related pension funds are also included in general government finances and in general government finance assets. The earnings-related pension system surplus is not shown in general government gross debt.

Other social security funds

Other social security funds include other public sector entities with social security duties, such as the Social Insurance Institution of Finland (Kela) and entities handling the earnings-related unemployment insurance system. Kela's activities are financed statutorily by the sickness insurance contributions of the insured and employers as well as by public sector contributions. The central government's share of Kela's funding in 2015 was around 69%, while insurance contributions accounted for around 25% and municipalities for around 6%. In 2015 the costs of Kela's benefit funds totalled approximately EUR 14.8 billion. Kela's benefit funds are the National Pension Insurance Fund, the National Health Insurance Fund and the General Fund for Social Security.

The earnings-related unemployment insurance system is managed by the Unemployment Insurance Fund (TVR) and unemployment funds. Earnings-related unemployment expenditure is financed from unemployment insurance contributions collected from employees and employers, central government

contributions and the membership fees of unemployment funds. In 2015 the benefits paid by unemployment benefit societies totalled approximately EUR 2.5 billion. In 2014, of this expenditure, the central government funded around 37%, the Unemployment Insurance Fund around 58% and the unemployment benefit societies around 5%.

The financing of other social security funds is in balance in the medium term, but the financial balance may vary slightly on an annual basis, with the buffer funds providing flexibility. In the 2000s, the other social security funds have deviated from balance annually by at most 0.4% in ratio to GDP.

8. Summary of measures at the level of general government finances

8.1. Extent and timing of measures

Expenditure-reducing or fee revenue-raising measures aimed at strengthening general government finances by approximately a net EUR 4 billion at the 2019 level were agreed in the Government Programme. The effects of tax criteria changes are not included in this package. The consolidation measures agreed in the Government Programme have, as a rule, been included in the General Government Fiscal Plan for 2017–2020.

After the original listing of the Government Programme, changes have occurred to the savings list. The effects of the consolidation measures have been revised during preparation, for example the estimate of the saving to be achieved by freezing index increases has been lowered from the impact estimates at the time of the Government Programme due to lower inflation forecasts. In addition, discretionary changes have been made to the savings list, such as the decision made in connection with the amendment to the 2016 budget proposal to cancel the merging of the pension recipients' housing allowance and the general housing allowance as well as the partial replacement of the saving. Some municipalities have decided not to implement to some extent the measures decided on in the Government Programme to strengthen general government finances. At this stage, the scale of the shortfall is estimated to be at least EUR 130 million.

To achieve the consolidation objectives according to the Government Programme, the Government already adopted in the autumn 2015 General Government Fiscal Plan additional savings decisions, such as the index freezing in 2017–2019 of benefits linked to the National Pension Index and the Cost-of-Living Index (excluding basic social assistance). In connection with the preparation of the General Government Fiscal Plan for 2017–2020, new savings measures have been decided on to achieve the EUR 4 billion consolidation objective according to the Government Programme. The largest new consolidation measures are directed at the expenditure package included in the index savings of Annex 6 of the Government Programme, to which is directed a 0.85% across-the-board reduction. In spring 2017, the Government will decide on the replacement of savings not implemented in local government finances, for example by prescribing minimum fee limits for municipalities' social and healthcare services or by deciding on other general government savings or revenue increases, such as increasing the lower limit of the real estate tax. Additional savings will also be directed at development cooperation, basic transport infrastructure maintenance and sickness allowances. Taking into account the above-mentioned changes the net impact of the decided expenditure measures and fee income increases on general government finances will be, approximately EUR 3.8 billion at the 2019 level, and including measures whose impact is as yet unspecified, EUR 4 billion. The effects have been presented in relation to the last General Government Fiscal Plan of the previous parliamentary term, the so-called technical General Government Fiscal Plan prepared in spring 2015.

The revenue estimates of the spending limits period have taken into account the tax criteria changes decided on in the Prime Minister Sipilä's Government Programme. The Government Programme's tax

policy aims to boost growth, entrepreneurship and employment. The Government Programme contains both tax-tightening and tax-easing measures. In accordance with the Government Programme, annual adjustments corresponding to rising earnings or inflation will be made in earned income taxation. Taxation of low and medium incomes will be eased by increasing the earned income credit. A number of excise duties will be increased in order to balance general government finances. Taxation on cars will be eased gradually during the spending limits period. In accordance with the Government Programme, the municipalities will be compensated for the tax revenue impact of changes made by the Government to tax criteria. Real estate tax will be raised gradually during the parliamentary term. Taxation changes are discussed in more detail in terms of central government finances in Chapter 5.4 and in terms of local government finances in Chapter 6.2.

Due to growing pension and unemployment expenditure, there has been upward pressure on social security contributions. In connection with the 2017 pension reform agreement, the labour market organisations agreed that the earnings-related pension contribution will be increased by 0.4 percentage points in 2017, after which the fee will be frozen at the 24.4% level for 2017–2019. The unemployment insurance contribution, on the other hand, was increased by one percentage point at the beginning of this year, with the increase shared between employer and the employee. It is assumed that the increase will remain in effect for the time being.

The figures presented in the General Government Fiscal Plan reflect measures that have been decided and their estimated financial effects. Planned measures are not included. Of the municipalities' own measures, the known consolidation measures for 2016 are included. Measures possibly planned by the municipalities for 2017–2020 are not included, however.

In addition to the above-mentioned measures, the Government aims through its reform programme to reduce municipalities' duties and obligations by EUR 1 billion in terms of savings effects in a time span extending beyond the parliamentary term. These effects have not yet been included in the figures of the General Government Fiscal Plan. Moreover, the effects of the healthcare, social welfare and regional government reform package have not been included in the figures of the General Government Fiscal Plan.

The effects of the social contract aimed at improving competitiveness are still unspecified. These measures, as well as the conditional consolidation measures totalling EUR 1.5 billion listed in the Government Programme, have not yet been included in the figures of the General Government Fiscal Plan.

The total impact of decisions on revenue and expenditure, cumulative, EUR billion

	2016	2017	2018	2019	2020
Decisions lowering central government appropriations	-0.9	-1.4	-1.7	-1.9	-2.0
Decisions increasing central government appropriations	0.2	0.4	0.5	0.5	0.5
Estimated impact of index freezes and replacement savings	-0.1	-0.5	-0.8	-1.3	-1.3
One-off additional investments for key projects, net (fixed-term expenditure increases and total EUR 330 million cancellation of City Rail Loop)	0.3	0.5	0.5	0.0	0.0
Compensation to municipalities in central government transfers for tax revenue changes	0.3	0.3	0.3	0.3	0.4

	2016	2017	2018	2019	2020
Decisions increasing central government tax revenue	-0.2	-0.6	-0.8	-1.2	-1.3
Decisions lowering central government tax revenues (excl. Index of Wage and Salary Earnings/Consumer Price Index adjustments)	0.3	0.6	1.1	1.1	1.2
Other decisions increasing central government revenue	-0.1	-0.1	-0.1	-0.1	-0.1
One-off revenue-related measures (funding of key projects)	0.0	0.0	-0.2	0.0	0.0
Impact on central government balance, net	-0.2	-0.8	-1.0	-2.4	-2.3
Government measures increasing local government revenue	-0.2	-0.2	-0.2	-0.2	-0.2
Net impact of central government measures on local government tax revenue	0.2	0.2	0.2	0.2	0.1
Compensation to municipalities in central government transfers for tax revenue changes	-0.3	-0.3	-0.3	-0.3	-0.4
Impact of other central government measures on local government finances	-0.1	-0.4	-0.3	-0.3	-0.4
Increases of municipalities' tax percentages	0.0	0.0	0.0	0.0	0.0
Impact on local government balance, net	-0.4	-0.7	-0.6	-0.6	-0.9
Increases of social security contributions and other measures	-0.8	-1.0	-1.2	-1.3	-1.3
Impact on general government balance, net	-1.4	-2.5	-3.0	-4.5	-4.8
In ratio to GDP	-0.7%	-1.2%	-1.4%	-2.0%	-2.1%

8.2. Measures directed at general government expenditure

The table below presents the annual (net) change in general government expenditure in 2016–2020 from measures decided by Prime Minister Sipilä's Government. In addition, the table includes the joint effect of measures of previous governments. The measures presented in the table are, in practice, central government finance measures, as there is considerable uncertainty in evaluating local government consolidation measures, and information on the latest measures is not yet available.

The largest savings of Prime Minister Sipilä's Government are directed at transfers of expenditure to households. The savings are scheduled most intensely in the early part of the period. When the measures of previous Governments are included, the intensity of savings is greatest in 2017.

The figures presented in the General Government Fiscal Plan reflect the measures decided within it and their estimated financial effects. Planned measures are not included. In other words, only measures that have been concretised to the extent that their financial impact can be assessed have been taken into account in the General Government Fiscal Plan.

Measures affecting general government expenditure, annual change, net, EUR billion

	2016	2017	2018	2019	2020
Consumption expenditure	-0.3	-0.2	-0.1	-0.2	-0.1
Transfers of expenditure to business and industry	-0.1	-0.1	-0.1	-0.1	0.0
Transfers of expenditure to households	-0.1	-0.6	-0.4	-0.3	0.0

	2016	2017	2018	2019	2020
Other transfers of expenditure	-0.4	-0.2	-0.1	-0.1	0.0
Real investment	0.0	-0.1	0.0	-0.1	0.0
Other expenditure	0.0	0.0	0.0	0.0	0.0
Total	-0.9	-1.2	-0.7	-0.8	-0.1
Discretionary measures of the previous parliamentary term	0.1	-0.2	0.3	0.2	-

8.3. Measures directed at general government revenue

The table below presents the annual (net) change in general government revenue in 2016–2020 from measures decided by the Government. By net is meant the combined impact of measures that increase and decrease revenue. The table also takes into account changes in taxation decided in the previous parliamentary term.

The Sipilä Government's changes relating to taxation are scheduled for the most part in the early years of the parliamentary term. In 2016 the most significant impact on general government revenue is due to increasing the earned income credit, by which taxation on labour will be eased particularly with respect to low and middle incomes. The measure is expected to reduce general government revenue by EUR 450 million in 2016.

The figures presented in the General Government Fiscal Plan reflect the measures decided within it and their estimated financial effects. Planned measures are not included. Thus tax cuts that may possibly be implemented in response to the social contract are not included in the figures.

Measures affecting general government revenue, annual change, net, EUR billion

	2016	2017	2018	2019	2020
Taxes on earned income	-0.5	-0.3	-0.1	-0.2	-0.3
Taxes on capital income	0.1	0.0	0.0	0.0	0.0
Corporate taxes	0.1	0.1	0.0	0.0	0.0
Other direct taxes	0.0	0.0	-0.1	0.0	0.0
VAT	0.0	-0.1	-0.2	0.0	0.0
Other indirect taxes	0.2	0.3	0.1	0.1	0.0
Social security contributions from employers	0.2	0.0	0.0	0.1	0.0
Social security contributions from the insured	0.4	0.1	0.1	0.0	0.0
Total	0.6	-0.1	-0.3	0.0	-0.3

9. Estimate of general government revenue and expenditure

Central government according to the national accounts, EUR billion

	2015*	2016**	2017**	2018**	2019**	2020**
Direct taxes	13.0	13.1	13.5	13.9	14.5	14.9
Taxes on production and imports	29.8	30.4	30.7	31.1	31.9	32.5
Social security contributions	0.0	0.0	0.0	0.0	0.0	0.0
Taxes and social security contributions, total	43.4	44.3	45.0	45.8	47.2	48.3
Other revenue	9.2	8.8	8.9	9.1	9.0	9.1
of which interest income	0.4	0.3	0.3	0.4	0.4	0.4
Total revenue	52.6	53.1	53.9	54.9	56.2	57.4

	2015*	2016**	2017**	2018**	2019**	2020**
Consumption expenditure	13.6	13.9	14.0	13.9	14.0	14.1
Subsidies and other transfers to general government	38.2	38.1	38.3	38.6	38.7	39.3
Interest expenditure	2.4	2.3	2.2	2.2	2.3	2.5
Capital expenditure	4.8	5.0	4.9	5.0	5.2	5.0
Total expenditure	59.0	59.3	59.4	59.7	60.2	60.9
Net lending (+) / net borrowing (-)	-6.3	-6.2	-5.5	-4.8	-4.0	-3.5

Local government according to the national accounts, EUR billion

	2015*	2016**	2017**	2018**	2019**	2020**
Taxes and social security contributions	21.9	21.7	22.1	22.7	23.4	24.1
of which municipal income tax	18.6	18.8	19.1	19.5	20.1	20.7
corporate tax	1.7	1.3	1.3	1.4	1.4	1.5
real estate tax	1.6	1.7	1.7	1.8	1.9	1.9
Other revenue	18.4	19.0	18.9	19.2	19.3	19.7
of which interest income	0.3	0.3	0.3	0.3	0.3	0.3
of which transfers from central government	13.7	14.3	13.9	14.1	14.0	14.2
Total revenue	40.2	40.8	40.9	41.9	42.7	43.8
Consumption expenditure	33.7	34.1	34.7	35.7	36.7	37.8
of which compensation of employees	21.7	21.7	21.7	22.0	22.3	22.8
Income transfers	3.3	3.4	2.7	2.7	2.7	2.8
of which social security benefits and allowances	1.3	1.4	0.7	0.7	0.7	0.7
subsidies and other transfers	1.8	1.8	1.8	1.8	1.8	1.9
interest expenditure	0.2	0.2	0.2	0.2	0.2	0.3
Capital expenditure	4.6	4.7	4.8	4.9	4.9	5.0
Total expenditure	41.6	42.1	42.2	43.3	44.4	45.6
Net lending (+) / net borrowing (-)	-1.4	-1.4	-1.3	-1.4	-1.7	-1.8

Social security funds according to the national accounts, EUR billion

	2015*	2016**	2017**	2018**	2019**	2020**
Investment income	3.5	3.6	3.9	4.4	4.9	5.4
Social security contributions	27.0	28.0	28.4	28.9	29.6	30.3
of which paid by employers	18.3	18.8	19.0	19.3	19.7	20.2
of which paid by the insured	8.7	9.2	9.4	9.7	9.9	10.1
Income and capital transfers from general government	14.3	14.1	14.7	14.8	14.9	15.1
Other revenue	0.6	0.6	0.6	0.6	0.6	0.7
Total revenue	45.3	46.2	47.7	48.7	50.0	51.5
Consumption expenditure	3.7	3.5	3.5	3.6	3.7	4.0
Social security benefits and allowances	35.9	37.0	38.5	39.3	40.3	41.7
Other expenditure	3.7	3.4	3.5	3.6	3.6	3.8
Total expenditure	43.3	44.0	45.4	46.4	47.7	49.4

	2015*	2016**	2017**	2018**	2019**	2020**
Net lending (+) / net borrowing (-)	2.0	2.2	2.3	2.3	2.4	2.1
Pension providers	2.9	2.6	2.6	2.2	2.0	1.9
Other social security funds	-0.8	-0.4	-0.3	0.1	0.3	0.2

General government fiscal forecast with unchanged policies

Revenue and expenditure with unchanged policies

	2015 level, EUR billion	2015	2016	2017	2018	2019	2020
		% GDP					
Total revenue with unchanged policies	115.1	55.5	55.3	55.2	55.1	55.1	54.9
Total expenditure with unchanged policies	120.8	58.3	58.6	58.6	58.3	58.2	57.8

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APPENDIX 1 Forecasts and assumptions used in the calculation

The expenditure and revenue estimates of the General Government Fiscal Plan as well as the price and cost adjustments are based on the independent forecast of the Ministry of Finance's Economics Department, given below.

	2015	2016	2017	2018	2019	2020
GDP, change in volume	0.5	0.9	1.2	1.2	1.1	1.1
GDP, change in price	0.4	0.7	1.1	1.4	1.8	2.0
GNI, value, EUR million	209 410	212 977	217 972	223 875	230 346	237 282
Consumer Price Index, change %	-0.2	0.3	1.3	1.5	1.7	1.8
Index of Wage and Salary Earnings, change %	1.2	1.2	1.0	1.2	1.6	2.0
Building Cost Index, change %	0.5	0.5	1.5	1.7	2.0	2.0
Basic Price Index for Domestic Supply, change %	-3.2	-0.7	1.2	1.5	1.8	2.0
Unemployment rate, %	9.4	9.3	9.0	8.7	8.4	8.1
Wage bill, change %	0.8	1.5	1.4	1.5	1.9	2.3
Short-term interest rate, 3 months, %	0.0	-0.2	-0.1	0.1	0.4	0.8
Long-term interest rate, 10 years, %	0.7	0.6	1.1	1.6	2.2	2.8
TyEL Index	2519	2519	2531	2560	2597	2641
National Pension Index (KEL)	1637	1631	1631	1631	1631	1659
Price index of basic public services, forecast	0.5	1.0	0.9	1.3	1.6	2.0
Change in cost level used in Budget Proposal (Index of Central Government Transfers to Local Government)	0.6	0.0	0.0	0.0	0.0	2.0
— includes index adjustment	-0.6	-0.7	0.0	0.0	0.0	0.0
University Index	0.2	0.7	1.1	1.3	1.7	2.0
YLE Index	0.7	0.9	1.1	1.3	1.6	1.9
Unemployment insurance contributions						
— employer, average	2.33	2.85	2.85	2.85	2.85	2.85
— employee	0.65	1.15	1.15	1.15	1.15	1.15
TyEL contribution	24.00	24.00	24.40	24.40	24.40	24.40
— employer	18.00	18.00	18.15	18.15	18.15	18.15
— employee aged 53 yrs and under	5.70	5.70	5.95	5.95	5.95	5.95
— employee over 53 yrs	7.20	7.20	7.45	7.45	7.45	7.45
— wage coefficient	1.36	1.37	1.39	1.40	1.42	1.44
Health insurance contributions of the insured						
— employees' daily allowance contribution	0.78	0.82	0.72	0.76	0.76	0.75
— wage earners' and entrepreneurs' medical care contribution	1.32	1.30	1.25	1.27	1.28	1.27
— pensioners' medical care contribution	1.49	1.47	1.42	1.44	1.45	1.44

	2015	2016	2017	2018	2019	2020
Central government employer contributions	22.19	19.94	19.62	19.69	20.91	21.04
— national pension contribution						
— health insurance contribution	2.08	2.12	2.02	2.06	2.06	2.05
— pension contribution (under Central Government Employees' Pensions Act)	20.11	17.82	17.60	17.63	18.85	18.99
Local government employer contributions	29.45	29.77	29.42	29.46	29.46	29.45
— national pension contribution						
— health insurance contribution	2.08	2.12	2.02	2.06	2.06	2.05
— other social insurance contributions	0.70	0.70	0.70	0.70	0.70	0.70
— unemployment insurance contribution	3.02	3.74	3.74	3.74	3.74	3.74
— pension contribution (under Local Government Employees' Pensions Act)	23.65	23.21	22.96	22.96	22.96	22.96

APPENDIX 2 Price- and cost-level adjustments under the central government spending limits

Structural changes

As a result of structural changes made in the 2015 fourth supplementary budget, the supplement to the 2016 Budget Proposal, the 2016 supplementary budget proposal and this spending limits decision, the level of the spending limits for 2017 will be approximately EUR 449 million higher compared with the autumn 2015 spending limits decision. Many expenditure ceiling adjustments are due to a change in timing of project or procurement payments or to taking into account a transfer to gross/net budgeting in the expenditure ceiling.

The table below presents a more detailed description of structural changes that took place after the previous spending limits decision and their impact on the expenditure ceiling of the parliamentary term.

Item	Subject	2016	2017	2018	2019
SB4 2015					
32.50.64	Structural Fund Programme, changes in timing of payments	14.0			
32.60.40	Offshore wind power project, change in timing		10.0		
32.60.41	Investment support for LNG terminals, changes in timing	8.9	3.5	6.6	
Budget 2016					
26.10.21	KEJO project, re-budgeting	5.9			
28.70.20	Productivity projects, re-budgeting	17.0			
32.01.21	Client information project, re-budgeting	0.5			
32.20.42	Maritime industry operating environment, re-budgeting of development grants	2.7			
32.30.51	Increase corresponding to funding sought from European Globalisation Fund	5.1			
33.10.54	Housing allowance expenditure outside spending limits falling due to cancellation of pension recipient's housing allowance reform	205.5	513.0	543.0	574.0
SBP1 2016					
several	Financing of one-off expenditures in 2015, from unused spending limits reserve	86.8			
35.10.52	National park project as part of Finland's 100th anniversary celebrations, change in timing	2.0	-1.8	-0.2	
GGFP 2017–2020					
23.10.88	Discontinuation of sales commission netting. Corresponding revenue in item 13.03.01.		4.0	4.0	4.0
30.20.43	Rural Development Programme, change in timing.		44.3	44.3	44.3
31.20.41	Promoting road traffic safety activity, system change. Corresponding revenue in item 11.19.05.		8.4	8.4	8.4
31.50.01	Procurement of high-performance computer, change in timing.		2.0	-2.0	

Item	Subject	2016	2017	2018	2019
32.30.51	Expansion of activation work of unemployment benefits. Fixed-term transfer to unemployment security expenditure outside the spending limits, to item 33.20.52.		-151.0	-143.0	
32.50.64	Structural Fund Programme, changes in timing of payments	-14.0	14.0		
32.50.64	Forecasting of performance reserve in Structural Fund Programme, change in timing.		5.1	18.5	13.1
32.60.40	Offshore wind power project, change in timing		-6.6	6.6	
33.20.52	Abolition of expense compensation for independent education. Criterion change in expenditure outside spending limits.			10.0	10.0
33.40.53	In pensions payable for the time of child care and studying, a shift to the advance payment procedure typical in other pensions. This change of timing will increase expenditure on a one-off basis in 2017.		4.2		
Total		334.5	449.0	496.1	653.8

Price- and cost-level adjustments

The central government spending limits for 2017–2020 are expressed in cost and price levels for 2017. Some of the expenditure, such as development aid expenditure and national financing contributions corresponding to EU Structural Fund contributions, are estimated at current prices, in which case they include an estimate of the impact on the appropriation of the rise in prices in the spending limits period. In other respects, the expenditure level will be revised annually according to the estimated rise costs and prices.

Price- and cost-level adjustments compared with the previous spending limits decision total EUR 207 million for 2017, taking into account the impact of transferring to the 2017 price and cost level. The adjustment takes into account the following savings decisions directed earlier at index-linked expenditure. The index linking of the child allowance and financial aid for students has been abolished, the index increases of central government transfers for providing basic public services and for universities and universities of applied sciences have been frozen in 2016–2019 and the index increases based on the National Pension Index and the Consumer Price/Cost-of-Living Index have been frozen in 2016–2019. Furthermore, the index increase for the Finnish Broadcasting Company's funding will not be made.

Adjustments to 2017 price and cost levels compared with the 28 September 2015 spending limits decision, EUR million

Spending limits expenditure according to classification of economic nature	Index used in calculation	Adjustment to appropriation and spending limits level		Adjustment to spending limits level
		Statutory index adjustment	Contractual adjustment	Other cost adjustments
15-17 Pensions	Employee Pension Index (TyEL)	21.6		
18-19 Defence materiel acquisitions	Predictive increase 1.5%		7.1 ¹	
01-14 Wages and social security contributions	Agreement increases		-	

Spending limits expenditure according to classification of economic nature	Index used in calculation	Adjustment to appropriation and spending limits level		Adjustment to spending limits level
		Statutory index adjustment	Contractual adjustment	Other cost adjustments
Transport infrastructure expenditure	Building Cost Index (RKI)			24.7
01-14, 20-28 Other operating expenses and consumption	Consumer Price Index (KHI)			26.7
30-39 Imputed central government aid to municipalities and joint municipal authorities	Index of Central Government Transfers to Local Government (VOS)	-		
30-39 Other central government aid to municipalities and joint municipal authorities	Index of Central Government Transfers to Local Government (VOS)			21.1
40-49 Central government aid to trade and industry	Consumer Price Index (KHI)			36.4
50-59 Central government aid to households and non-profit-making organisations indexed on a statutory basis		4.3		
50-59 Non-indexed central government aid to households	National Pension Index (KEL)			5.0
50 Central government funding for universities and universities of applied sciences	University Index		-	
50-59 Other central government aid to households and non-profit-making organisations	Consumer Price Index (KHI)			19.9
60 Transfers to off-budget central government funds	Consumer Price Index (KHI)/YLE Index	-		
60 Transfers to Social Insurance Institution of Finland	National Pension Index (KEL)		-	
60 Central government transfer for expenditure arising from the Sickness Insurance Act	National Pension Index (KEL) / Consumer Price Index (KHI)	14.7		
61-65 Central government funding contributions corresponding to EU Structural Fund contributions and other domestic transfers	Included in programme spending limits			
66-68 Transfers abroad	At current prices			
69 Transfers to the EU	EU's GDP Price Index	17.0		
70-79 Real investments	Building Cost Index (RKI)			1.3
90-99 Other expenditure	Consumer Price Index (KHI)			0.4

Spending limits expenditure according to classification of economic nature	Index used in calculation	Adjustment to appropriation and spending limits level		Adjustment to spending limits level
		Statutory index adjustment	Contractual adjustment	Other cost adjustments
Supplementary budget provision and unallocated reserve	Consumer Price Index (KHI)			3.9
Total in 2017		57.7	7.1	141.9

¹⁾ A predictive 1.5% price- and cost-level adjustment will be made to appropriation levels (excl. personnel expenses) for defence forces operating expenditure and defence materiel procurement. This adjustment will be revised later to correspond with the rise in prices indicated by the cost-of-living index in terms of defence forces operating expenditure and military crisis management equipment and administrative expenditure as well as the rise of the DK subindex of the industrial producer price index for defence materiel procurement.

APPENDIX 3 Changes in the forecasts for general government finances compared with the previous General Government Fiscal Plan

Factors affecting general government budgetary position, according to national accounts, % GDP ¹

	2016	2017	2018	2019
General government balance, autumn 2015	-2.8	-2.4	-1.9	-1.4
Central government:				
Impact of revised statistical basis on revenue and expenditure estimates	0.0	0.0	0.0	0.0
Impact of revised macroeconomic forecast on revenue and expenditure estimates	-0.1	-0.1	-0.1	-0.2
Impact of discretionary measures on revenue and expenditure estimates	0.0	0.1	0.1	0.1
Impact of other factors	0.0	0.0	0.1	0.2
Local government:				
Impact of revised statistical basis on revenue and expenditure estimates	0.2	0.2	0.2	0.2
Impact of revised macroeconomic forecast on revenue and expenditure estimates	-0.1	-0.1	-0.1	-0.1
Impact of discretionary measures on revenue and expenditure estimates	0.1	0.1	0.2	0.2
Impact of other factors	0.0	0.0	0.0	0.0
Earnings-related pension funds:				
Impact of revised statistical basis on revenue and expenditure estimates	0.3	0.3	0.3	0.3
Impact of revised macroeconomic forecast on revenue and expenditure estimates	-0.2	-0.2	-0.4	-0.5
Impact of discretionary measures on revenue and expenditure estimates	0.0	0.0	0.0	0.0
Impact of other factors	0.1	0.0	0.0	0.0
Other social security funds:				
Impact of revised statistical basis on revenue and expenditure estimates	0.1	0.1	0.1	0.1
Impact of revised macroeconomic forecast on revenue and expenditure estimates	0.0	-0.1	-0.1	-0.1
Impact of discretionary measures on revenue and expenditure estimates	0.0	-0.1	0.0	0.0
Impact of other factors	0.0	0.0	0.0	0.0
General government balance, spring 2016	-2.5	-2.1	-1.8	-1.4

¹⁾ Due to rounding, the figures do not necessarily add up to one.

APPENDIX 4 Stability Programme

Stability Programme

The General Government Fiscal Plan is also Finland's Stability Programme, and it meets the EU's requirement for a medium-term fiscal plan (Regulation (EU) No. 473/2013 of the European Parliament and of the Council).

The independent forecast of the Economics Department of the Ministry of Finance serves as the basis of the tables. As negotiations on the Competitiveness Pact are still in progress, the effects of the Pact could not be taken into account in the Ministry of Finance's forecast or the Stability Programme tables. As negotiations progress, the effects of the Competitiveness Pact, and, if necessary, supplementary measures aimed at ensuring that the public finance-enhancing effects of the Government's measures are implemented on the scale set as a target in the Government Programme, can be assessed and taken into account in the Stability Programme tables.

Setting the Medium-Term Objective

The Medium-Term Objective (MTO) for the structural balance, -0.5% in ratio to GDP, remains unchanged. This is the minimum level to which Finland has committed to in the Fiscal Compact.

The Government aims to achieve the MTO at the latest in 2019. A key role will be played by the Competitiveness Pact and, if necessary, supplementary measures aimed at ensuring that the public finance-enhancing effects of the Government's measures are implemented on the scale set as a target in the Government Programme. In addition, reforms directed at the management of public finances, particularly the healthcare, social welfare and regional government reform package will improve the state of public finances. As these have not yet been confirmed in detail, the path leading to the achievement of the MTO cannot currently be presented.

Assessment of compliance with the requirements of the preventive arm of the Stability and Growth Pact

Finland is subject to the requirements of the preventive arm of the Stability and Growth Pact.

This year, Finland is required, in accordance with the country-specific recommendations approved by the Council in July 2015, to make a structural adjustment towards the Medium-Term Objective of 0.1% in ratio to GDP, and in 2016 an adjustment of 0.5% in ratio to GDP. From 2017 onwards the adjustment requirement will most likely rise to 0.6% in ratio to GDP per year and will remain there until the MTO has been achieved.

The achievement of the Medium-Term Objective or progress towards it are assessed on the basis of the structural balance and the expenditure benchmark.

The structural balance improved in 2015 by just over 0.1% in ratio to GDP, which means that the required adjustment has been achieved. The cumulative deviation may be disregarded owing to the negative growth in 2014. The expenditure benchmark was met in 2015 and cumulatively over 2014–2015. Therefore Finland complied with the requirements of the preventive arm in 2015.

In 2016 the structural balance will deteriorate by around 0.1% in ratio to GDP, and therefore the deviation from the adjustment will be around 0.6% in ratio to GDP. Taking into account the increased refugee-related expenditure (just over 0.2% in ratio to GDP) could mean, however, that the deviation

will not be significant. The expenditure benchmark will be met in 2016 and cumulatively over 2015–2016. The structural balance and expenditure benchmark, therefore, will possibly give differing pictures of compliance with the requirements of the preventive arm. This means that an overall assessment will be made of the requirements of the preventive arm. The expenditure benchmark would appear to act in a more stable way than the change in the structural balance in conditions of slow growth, low inflation and low interest rates, and would therefore in this economic situation be more reliable than the change in structural balance an indicator of fiscal policy stance. The deviation from the adjustment towards the Medium-Term Objective is therefore not significant according to the current overall assessment. The assessment will be revised, however, as more data is received, so the realisation of a significant deviation cannot yet be fully ruled out.

The 2017 assessment is hindered, as the effects of the Competitiveness Pact cannot yet at this stage, while the negotiations are still on-going, be evaluated.

Government's assessment of progress towards the Medium-Term Objective

The Government agrees with the above assessment of progress towards the Medium-Term Objective. According to the assessment, Finland has made progress towards the MTO in 2015 in the manner required in the country-specific recommendations. In 2016, the deviation from the requirements of the preventive arm should also not be significant, particularly taking into account the increased costs relating to asylum seekers. Risks and uncertainties are associated with the assessment, however, so the possibility of a significant deviation cannot be ruled out.

Pursuant of Section 3.1 of the FIPO Act (869/2012), the Government will initiate the measures it deems necessary to correct budgetary stability and sustainability if the structural balance of the general government, in the Government's assessment, deviates significantly in a manner that jeopardises the achievement of the Medium-Term Objective.

Assessment of compliance with deficit and debt criteria

The general government deficit exceeded the EU Treaty's 3% reference value in 2014, but the excess was small, temporary and exceptional, which means that the deficit criterion was met. In 2015 the deficit was again below 3% in ratio to GDP and it will remain there, according to the Ministry of Finance forecast.

Although debt exceeded the 60% reference value last year, the Ministry of Finance's assessment is that the debt criterion will still be met. This is based on an assessment of the cyclically-adjusted debt still remaining below the 60% reference value in 2015 (58.2% in ratio to GDP). In addition, the assessment of fulfilment of the debt criterion is supported by compliance with the preventive arm of the Stability and Growth Pact. Nevertheless, the final assessment of whether the debt criterion is met will be made by the Commission.

Assessment of progress on the 2015 country-specific recommendations

The country-specific recommendation on public finances given to Finland in summer 2015 was to achieve a fiscal adjustment of at least 0.1% in ratio to GDP towards the medium-term budgetary objective in 2015 and of 0.5% in ratio to GDP in 2016; continue efforts to reduce the fiscal sustainability gap and strengthen conditions for growth. As stated above, in 2015 and 2016 Finland has complied with the consolidation requirements of the preventive arm of the Stability and Growth Pact in the manner required in the country-specific recommendations.

The Government has continued measures to bridge the fiscal sustainability gap and strengthen conditions for growth. The Government aims to strengthen conditions for employment and economic growth through taxation as well as through measures supporting economic competitiveness and productivity growth. Moderate wage settlements, the introduction of an export industry-driven model in wage formation and reforms to increase local agreement in the labour market are a key part of this package. The objective has been that in this way new growth and employment would be created such that the budgetary position would improve by EUR 1–1½ billion in the medium term.

Among the key long-term measures are cutting public sector costs by reducing municipalities' statutory duties and obligations guiding their implementation and by utilising digitalisation as well as the healthcare, social welfare and regional government reform package. The reforms are in the preparatory stage and are proceeding according to the planned schedule. With these measures, the Government aims to slow public expenditure growth by approximately EUR 4 billion in the long term.

In addition, Parliament has approved the pension reform initiated by the previous Government. The reform will come into force at the beginning 2017 and will strengthen public finances in the long term.

Progress made in the other country-specific recommendations given to Finland has been discussed in the National Reform Programme (EU2020 programme).

Table 1a. Macroeconomic prospects

	2015 EUR billion	2015	2016	2017	2018	2019	2020
1. Real GDP	187.4	0.5	0.9	1.2	1.2	1.1	1.1
2. GDP at current prices	207.2	1.0	1.6	2.3	2.6	2.9	3.0
Components of real GDP							
3. Private final expenditure	115.6	1.4	1.0	0.8	0.9	0.8	0.9
4. Government final consumption	50.9	-0.9	-0.1	0.0	0.0	0.2	0.3
5. Gross fixed final consumption	8.3	-1.1	5.2	3.3	3.0	2.8	2.0
6. Changes in inventories and net acquisition of valuables (% of GDP)	-1.4	-0.7	-1.2	-1.5	-1.8	-1.8	-1.8
7. Exports of goods and services	77.3	0.6	1.3	2.9	3.6	3.4	3.4
8. Imports of goods and services	76.6	-0.4	2.6	3.0	3.5	3.4	3.4
Imputed impact in GDP growth, % points							
9. Final domestic demand	208.6	0.4	1.6	1.2	1.2	1.1	1.0
10. Change in inventories and net acquisition of valuables	-1.4	-0.2	-0.2	0.0	0.0	0.0	0.0
11. External balance of goods and services	0.7	0.4	-0.5	0.0	0.1	0.0	0.0

Table 1b. Development of price indices

	2015	2016	2017	2018	2019	2020
1. GDP deflator	0.4	0.7	1.1	1.4	1.8	2.0
2. Private consumption deflator	0.2	0.1	1.1	1.4	1.6	1.7
3. Harmonised Index of Consumer Prices	-0.2	0.1	1.1	1.4	1.6	1.7
4. Public consumption deflator	1.1	1.4	1.6	1.9	2.1	2.2
5. Investment deflator	0.9	1.6	2.2	2.3	2.0	2.0
6. Export price deflator	-1.0	-0.4	1.1	1.3	1.5	1.5
7. Import price deflator	-3.2	-1.2	1.2	1.4	1.4	1.4

Table 1c. Labour market developments

	2015	2015	2016	2017	2018	2019	2020
	level						
1. Employment, 1,000 persons	2 437	-0.4	0.3	0.4	0.4	0.3	0.3
2. Employment, 1,000 hours worked	4 096	-0.1	0.4	0.4	0.4	0.3	0.3
3. Unemployment rate (%)	252	9.4	9.3	9.0	8.7	8.4	8.1
4. Labour productivity, persons	76.9	1.0	0.6	0.8	0.8	0.8	0.8
5. Labour productivity, hours worked	45.8	0.7	0.5	0.8	0.9	0.8	0.8
6. Compensation of employees	82.9	0.8	1.5	1.4	1.5	1.9	2.3
7. Compensation per employee	34.0	1.3	1.2	1.0	1.1	1.6	2.0

Table 1d. Sectoral balances, % GDP

	2015	2016	2017	2018	2019	2020
1. Finland's net lending/borrowing vis-à-vis the rest of the world	0.2	0.1	0.2	0.3	0.3	0.3
of which:						
— Balance of goods and services	0.3	-0.2	-0.1	-0.2	-0.1	-0.1
— Balance of primary incomes and transfers	-0.2	0.2	0.3	0.4	0.4	0.4
— Capital account	0.1	0.1	0.1	0.1	0.1	0.1
2. Net lending/borrowing of the private sector	2.6	2.4	2.1	1.9	1.6	1.5
3. Net lending/borrowing of general government	-2.7	-2.6	-2.3	-1.9	-1.6	-1.5
4. Statistical discrepancy	0.3	0.3	0.3	0.3	0.3	0.3

Table 2a. General government prospects, % GDP

	2015	2015	2016	2017	2018	2019	2020
	EUR million						
Net lending (+) / net borrowing (-) by subsector (EDP B.9)							
1. General government	-5 696	-2.7	-2.5	-2.1	-1.8	-1.4	-1.3
2. Central government	-6 338	-3.1	-2.9	-2.6	-2.2	-1.7	-1.5
3. -							
4. Local government	-1 385	-0.7	-0.7	-0.6	-0.6	-0.7	-0.8
5. Social security funds	2 027	1.0	1.1	1.1	1.0	1.0	0.9
General government (S13)							
6. Total revenue	115 067	55.5	55.6	55.5	55.3	55.3	55.0
7. Total expenditure target	120 763	58.3	58.2	57.6	57.0	56.7	56.4
8. Net lending	-5 696	-2.7	-2.5	-2.1	-1.8	-1.4	-1.3
9. Interest expenditure	2 521	1.2	1.2	1.1	1.1	1.2	1.2
10. Primary balance	-3 165	-1.5	-1.4	-1.0	-0.6	-0.3	-0.1
11. One-off and other temporary measures	0	0.0	0.0	0.0	0.0	0.0	0.0
Revenue categories							
12. Tax revenue (12=12a+12b+12c)	65 268	31.5	31.3	31.2	31.0	31.0	30.9
12a. Taxes on production and imports	29 830	14.4	14.4	14.3	14.1	14.0	13.9
12b. Current taxes on income	34 807	16.8	16.6	16.5	16.6	16.6	16.6
12c. Taxes on capital income	631	0.3	0.3	0.3	0.3	0.3	0.3

	2015	2015	2016	2017	2018	2019	2020
	EUR						
	million						
13. Social security contributions	26 996	13.0	13.3	13.2	13.1	13.0	12.9
14. Property income	6 453	3.1	3.1	3.2	3.4	3.5	3.6
15. Other (15=16-12-13-14)	16 350	7.9	8.0	7.9	7.8	7.8	7.6
16. = 6. Total revenue	115 067	55.5	55.6	55.5	55.3	55.3	55.0
of which: Tax burden (D2+D.5+D.61+D.91-D.995)	92 435	44.6	44.7	44.4	44.2	44.1	43.9
Expenditure categories							
17. Compensation of employees + intermediate consumption	52 909	25.5	25.5	25.3	25.0	24.9	24.7
17a. Compensation of employees (i.e. wages + employer's social security contributions)	29 046	14.0	13.8	13.6	13.3	13.0	12.8
17b. Intermediate consumption	23 863	11.5	11.7	11.7	11.8	11.8	11.9
18. Social transfers (18=18a+18b)	47 439	22.9	23.1	23.0	22.9	22.8	22.8
of which unemployment benefits	5 202	2.7	2.7	2.6	2.4	2.2	2.2
18a. Social transfers in kind	5 846	2.8	2.8	2.7	2.8	2.8	2.8
18b. Monetary social benefits	41 593	20.1	20.3	20.2	20.1	20.0	20.1
19. = 9. Interest expenditure	2 521	1.2	1.2	1.1	1.1	1.2	1.2
20. Subsidies	2 834	1.4	1.3	1.2	1.2	1.1	1.1
21. Gross fixed capital formation	8 325	4.0	4.1	4.1	4.1	4.1	3.9
22. Capital transfers	902	0.4	0.4	0.3	0.3	0.3	0.3
23. Other expenditure (23 = 24 -17-18-19-20-21)	5 833	2.8	2.7	2.5	2.4	2.3	2.3
24. = 7. Total expenditure target	120 763	58.3	58.2	57.6	57.0	56.7	56.4
of which: Public consumption	50 915	24.6	24.5	24.2	24.1	23.9	23.8

Table 2b. Revenue and expenditure with unchanged policies, % GDP

	2015	2015	2016	2017	2018	2019	2020
	EUR						
	million						
1. Total revenue with unchanged policies	115 067	55.5	55.3	55.2	55.1	55.1	54.9
2. Total expenditure with unchanged policies	120 763	58.3	58.6	58.6	58.3	58.2	57.8

Table 2c. Amounts to be excluded from the expenditure benchmark, % GDP

	2015	2015	2016	2017	2018	2019	2020
	EUR						
	million						
1. Expenditure on EU programmes fully matched by EU funds revenue	874	0.5	0.5	0.5	0.5	0.5	0.5
2. Cyclical unemployment benefit expenditure	906	0.4	0.4	0.3	0.2	0.1	0.0
3. Effect of discretionary revenue measures	629	0.3	0.3	0.0	-0.1	0.0	-0.1
4. Revenue increases mandated by law	50	0.0	0.0	0.0	0.0	0.0	0.0

Table 3. General government expenditure broken down by main components, % GDP

	COFOG code	2014	2020
1. General public services	1	8.3	7.4

	COFOG code	2014	2020
2. Defence	2	1.4	1.4
3. Public order and safety	3	1.3	1.3
4. Economic affairs	4	4.8	4.4
5. Environmental protection	5	0.3	0.2
6. Housing and community amenities	6	0.4	0.4
7. Health	7	8.3	8.2
8. Recreation, culture and religion	8	1.4	1.3
9. Education	9	6.4	6.0
10. Social protection	10	25.4	25.9
11. Total expenditure (=item 7=23 in Table 2)	Tot.	58.1	56.4

Table 4. Development of general government debt, % GDP

	2015	2016	2017	2018	2019	2020
1. Gross debt, % GDP	63.1	65.0	66.7	67.4	67.4	67.2
2. Change in the gross debt ratio	3.8	1.9	1.7	0.7	0.0	-0.2
Contributions to changes in gross debt, % points.						
3. Primary balance	-1.5	-1.4	-1.0	-0.6	-0.3	-0.1
4. Interest expenditure	1.2	1.2	1.1	1.1	1.2	1.2
5. Stock-flow adjustment	1.0	-0.6	-0.4	-1.1	-1.4	-1.5
of which:						
— Differences between cash and accruals	0.0	0.0	0.0	0.0	0.0	0.0
— Net accumulation of financial assets	1.4	1.3	1.2	1.0	0.9	0.8
— of which: Privatisation proceeds	-0.6	-0.4	-0.2	-0.2	-0.2	-0.2
— Other (incl. impact of GDP growth)	-0.4	-1.9	-1.6	-2.0	-2.3	-2.3
Implicit interest rate on debt (= embedded interest payments per the previous year's level of debt * 100)	2.1	1.9	1.8	1.7	1.8	1.9
Other relevant variables						
6. Liquid financial assets (AF1, AF2, AF3, AF5)	90.5	-	-	-	-	-
7. Net financial debt (7=1-6)	-27.4	-	-	-	-	-
8. Central government debt amortisation (existing bonds) since the end of the previous year	7.3	-	-	-	-	-
9. Percentage of debt denominated in foreign currency	0	-	-	-	-	-
10. Average maturity of central government debt	6.0	-	-	-	-	-

Table 5. Cyclical impact on the general government balance, % GDP

	2015	2016	2017	2018	2019	2020
1. Real GDP, % change	0.5	0.9	1.2	1.2	1.1	1.1
2. General government net lending	-2.7	-2.5	-2.1	-1.8	-1.4	-1.3
3. Interest expenditure	1.2	1.2	1.1	1.1	1.2	1.2
4. One-off and other temporary measures	0.0	0.0	0.0	0.0	0.0	0.0
5. Potential GDP, % change	0.0	0.3	0.5	0.7	0.8	0.7
contributions:						
— labour	-0.1	0.0	0.0	0.0	0.0	-0.2
— capital	0.1	0.3	0.3	0.4	0.4	0.5
— total factor productivity	0.0	0.1	0.2	0.3	0.3	0.4
6. Output gap	-2.5	-1.9	-1.2	-0.7	-0.4	0.0
7. Cyclical component of financial balance	-1.4	-1.1	-0.7	-0.4	-0.2	0.0

	2015	2016	2017	2018	2019	2020
8. Cyclically-adjusted balance (2-7)	-1.3	-1.5	-1.4	-1.4	-1.2	-1.3
9. Cyclically-adjusted primary balance (8+3)	-0.1	-0.3	-0.3	-0.3	-0.1	-0.1
10. Structural balance (8-4)	-1.3	-1.5	-1.4	-1.4	-1.2	-1.3

Table 6. Divergence from previous Stability Programme

	2015	2016	2017	2018	2019
GDP growth (%)					
SP September 2015	0.2	1.3	1.4	1.3	1.2
SP April 2016	0.5	0.9	1.2	1.2	1.1
Difference, % points	0.3	-0.4	-0.2	0.0	-0.1
General government balance, % GDP					
SP September 2015	-3.4	-2.8	-2.3	-1.8	-1.3
SP April 2016	-2.7	-2.5	-2.1	-1.8	-1.4
Difference, % points	0.6	0.2	0.2	0.1	-0.1
General government gross debt, % GDP					
SP September 2015	62.6	64.4	65.7	66.4	66.7
SP April 2016	63.1	65.0	66.7	67.4	67.4
Difference, % points	0.5	0.6	1.0	1.0	0.8

Table 7a. Sustainability estimate in autumn 2015 and spring 2016, % GDP

	Autumn 2015	Spring 2016
Debt servicing costs	0.9	0.9
Primary balance	0.2	0.2
Property income	1.2	1.0
Age-related expenditure	1.0	1.1
Sustainability gap (S2)	3.3	3.2

Table 7b. General government finances 2015–2060, % GDP

	2015	2020	2030	2040	2050	2060	2060– 2015 change
Total expenditure	58.3	56.4	60.3	61.2	62.7	66.0	7.7
of Age-related and unemployment expenditure	30.0	30.5	31.6	31.3	31.0	31.8	1.7
Pensions	13.7	14.1	14.5	13.1	12.3	12.7	-1.0
Earnings-related pensions	12.4	13.0	13.5	12.2	11.4	11.7	-0.7
National pensions	1.2	1.1	1.0	1.0	1.0	1.0	-0.2
Health	5.9	6.1	6.5	6.8	7.0	7.2	1.3
Long-term care	2.2	2.3	2.9	3.6	3.9	4.0	1.8
Education	5.7	5.7	5.9	5.9	5.9	5.9	0.3
Unemployment	2.5	2.2	1.9	1.9	1.9	1.9	-0.6
Interest expenditure	1.2	1.1	3.9	5.0	6.9	9.4	8.3
Total revenue	55.5	55.0	56.4	55.3	54.9	54.7	-0.8
of which Property income	3.1	3.6	4.9	3.9	3.5	3.3	0.2
Net lending ¹	-2.7	-1.3	-3.9	-5.8	-7.7	-11.3	-8.5
of transfer to pension funds	1.4	0.8	0.4	0.9	1.5	1.1	-0.3

	2015	2020	2030	2040	2050	2060	2060– 2015 change
General government debt	63.1	67.2	79.5	103.8	142.4	194.9	131.8
Central government assets	127.1	128.9	110.6	91.5	85.5	82.4	-44.7
of which pension fund assets	85.8	87.6	76.1	63.0	61.5	61.4	-24.4
		Assump- tions		%			
		2020	2030	2040	2050	2060	
Growth of labour productivity		0.8	1.4	1.5	1.5	1.5	
GDP growth		1.1	1.4	1.8	1.6	1.5	
Labour shares							
Men (15-64 years old)		77.0	77.5	77.3	77.5	77.7	
Women (15-64 years old)		75.1	74.9	75.3	75.9	76.2	
All (15-64 years old)		76.1	76.2	76.3	76.7	77.0	
Unemployment rate		8.1	6.9	6.8	7.0	7.3	
Old age dependency ratio %		36.9	43.4	44.6	46.9	50.7	
Inflation		1.8	2.0	2.0	2.0	2.0	
Real interest rate		1.0	3.0	3.0	3.0	3.0	
Real return on TyEL funds		1.8	3.5	3.5	3.5	3.5	
Net immigration		17 000	17 000	17 000	17 000	17 000	
Birth rate		1.70	1.70	1.70	1.70	1.70	

Source: Ministry of Social Affairs and Health,
Ministry of Finance

¹⁾ From 2020, cyclically-adjusted balance

Table 7c. Contingent liabilities, % of GDP

	2015	2016
Central government guarantees	21.5	-
of which: linked to financial sector	1.9	-

Table 8. Basic assumptions¹

	2015	2016	2017	2018
3-month Euribor	0.0	-0.2	-0.1	0.1
Long-term interest rate (10-year bonds)	0.7	0.6	1.1	1.6
USD/EUR exchange rate	1.1	1.1	1.1	1.0
Nominal effective exchange rate	-3.0	0.5	0.0	0.0
World GDP growth (excluding the EU)	3.2	3.6	3.8	3.8
EU-28 GDP growth	1.9	1.9	2.0	2.0
Growth of relevant foreign markets	2.3	2.8	3.3	3.7
World trade growth	2.8	3.0	4.2	5.0
Oil prices (Brent, USD/barrel)	53.0	37.0	41.0	45.0

¹⁾ No specific underlying assumptions were defined for the medium-term computations. Instead, they are based on general assessments of developments in the operating environment.

Table 9. Impact of increased immigration on general government budgetary position

	2014	2015	2016
	EUR million		
1. Reception costs of asylum seekers ¹	81	183	459
2. Transportation costs (included in item 1)			
3. Healthcare costs (included in item 1)			
4. Administrative costs		6	24
5. Contributions to Turkey fund			8
6. Other costs and measures ²	191	193	317
7. Impact on budgetary position	272	381	808

¹⁾ Reception centre operating expenditure, reception allowance

²⁾ Includes education and integration costs as well as social transfers

Table 10. Impact of increased immigration on general government budgetary position

	2014	2015	2016
	EUR million		
1. Compensation of employees (D.1)	70	111	260
2. Intermediate consumption (P.2)	192	250	371
3. Social transfers (D.62, D.63)	10	20	177
4. Subsidies (D.3.)			
5. Gross fixed capital formation (P.51)			
6. Capital transfers (D.9)			
7. Other expenditure			
8. Impact on budgetary position	272	381	808
9. Compensations from the EU		8	
10. Impact on budgetary position excl. EU compensation	272	373	808
in ratio to GDP	0.1	0.2	0.4

Table 11. Further information

	2014	2015	2016
Number of arrived asylum seekers	3 651	32 476	
Number of asylum seekers receiving a favourable decision	1 346	1 879	

Economic development risks and their impact on public finances

The baseline scenario of the Stability Programme is based, in terms of 2016–2018, on the Ministry of Finance economic forecast of April 2016. The years 2019 and 2020 have been taken into account in the scenario based on, among other things, the growth estimate for potential output. In addition to the economic forecast, the baseline scenario's general government budgetary position is based on the Government Programme of Prime Minister Jyrki Katainen's Government, the Decision on Spending Limits for 2017–2020, adopted by the Government in April 2016, and the 2016 Budget. According to the baseline scenario, Finland's economy will grow on average by only 1.1% in 2016–2020.

The forecast's *international risks* relate to the restructuring and the slowing growth of the Chinese economy as well as to Russia's weak economic situation. Uncertainty in the financial markets is also

likely to continue. The overall assessment of the consequences of an atypical monetary policy is difficult. *Domestic risks* relate to the development of the real economy and the labour market. Finland's competitiveness is still weaker than competitor countries and loss of market shares is continuing. Economic development in line with the baseline scenario will not substantially improve the state of general government finances in Finland.

The figures below present the impact on the general government budgetary position, debt and unemployment of slower-than-baseline and faster-than-baseline economic growth. The calculations are based on the assumption that annual output growth deviates by one percentage point in either direction from the baseline scenario in the period under examination.

In the slower growth scenario, total output would remain roughly unchanged in 2016–2020 and the unemployment rate would rise to around 9½%. The general government deficit at the end of the programme period would be over 4% and the debt-to-GDP ratio would rise to 77%. This would increase significantly the need to consolidate public finances.

Faster growth than the baseline scenario of one percentage point would be sufficient to set the general government debt ratio on a downward path in the programme period. The general government budgetary position would improve into surplus. The unemployment rate would fall fairly rapidly. The materialisation of economic growth more favourable than the baseline scenario will require a significant recovery of the international economy as well as higher demand than anticipated for Finnish export products.

The overall impact of the *low level of interest rates* on Finland's general government budgetary position has been to increase the deficit. The exceptionally low level of interest rates means that general government interest expenditure has remained fairly low, i.e. just over 1% in ratio to GDP. On the other hand, the interest income received by earnings-related pension funds included in general government finances has declined significantly such that the impact of the decline in interest income on the general government budgetary position has been greater than the impact of falling interest expenditure. By a rough estimate, a rise in the level of interest rates by one percentage point would increase general government property income by approximately EUR 1 billion while at the same time general government interest expenditure would grow by approximately EUR ½ billion.

Table. Sensitivity analysis

Baseline scenario	2015	2016	2017	2018	2019	2020
GDP, change, %	0.5	0.9	1.2	1.2	1.1	1.1
Unemployment rate, %	9.4	9.3	9.0	8.7	8.4	8.1
Budgetary position, % of GDP	-2.7	-2.5	-2.1	-1.8	-1.4	-1.3
Public debt, % GDP	63.1	65.0	66.7	67.4	67.4	67.2
Slow growth scenario	2015	2016	2017	2018	2019	2020
GDP, change, %	0.5	-0.1	0.2	0.2	0.1	0.1
Unemployment rate, %	9.4	9.6	9.7	9.7	9.7	9.7
Budgetary position, % of GDP	-2.7	-3.1	-3.3	-3.5	-3.8	-4.3
Public debt, % GDP	63.1	66.1	69.2	71.8	74.1	76.6
Growth in 2016–2020 1 %-point slower than in the baseline scenario						
Fast growth scenario	2015	2016	2017	2018	2019	2020
GDP, change, %	0.5	1.9	2.2	2.2	2.1	2.1

Baseline scenario	2015	2016	2017	2018	2019	2020
Unemployment rate, %	9.4	9.0	8.4	7.8	7.2	6.5
Budgetary position, % of GDP	-2.7	-2.0	-0.9	0.0	0.9	1.6
Public debt, % GDP	63.1	64.0	64.2	63.1	61.0	58.2
Growth in 2016–2020 1 %-point faster than in the baseline scenario						

Comparison with Commission's latest forecast

The following table compares the forecast of Finland's Ministry of Finance with the Commission's winter forecast. Overall, the differences are quite small with respect to the key variables. The biggest differences result from the fact the Statistics Finland's data for 2015 proved to be better than expected compared with the Commission's winter forecast or the Ministry of Finance's December forecast. This applies particularly to GDP volume and to the general government budgetary position, which was also reflected in the level of the structural balance. GDP price development in 2015 was clearly lower than estimated in the forecasts, which is also reflected in the price forecasts for 2016 and 2017. Statistics Finland's balance and debt figures for 2015 were delivered to Eurostat on 31 March.

Table. Comparison with Commission's previous forecast

	Commission's winter forecast, February 2016				Ministry of Finance, April 2016			
	2014	2015	2016	2017	2014	2015	2016	2017
GDP, change, %	-0.4	0.0	0.5	0.9	-0.7	0.5	0.9	1.2
Unemployment rate, %	8.7	9.5	9.4	9.3	8.7	9.4	9.3	9.0
GDP deflator, change, %	1.6	1.2	0.9	1.7	1.7	0.4	0.7	1.1
General government budgetary position, % GDP	-3.3	-3.2	-2.8	-2.5	-3.2	-2.7	-2.5	-2.1
Structural balance, % of GDP	-1.9	-1.8	-1.8	-1.8	-1.5	-1.3	-1.5	-1.4
General government debt, % GDP	59.3	62.7	65.0	66.2	59.3	63.1	65.0	66.7