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GENERAL GOVERNMENT FISCAL PLAN 2021–2024

On 16 March 2020, the Government has announced, in cooperation with the President of the Republic, that there is a state of emergency in the country, as referred to in section 3 paragraphs 3 and 5 of the Emergency Powers Act. The exceptional circumstances referred to in the EU Stability and Growth Pact also prevail. Therefore, the General Government Fiscal Plan only presents a medium-term economic projection for general government finances based on the independent forecast and does not include the Stability Programme, which will be submitted separately by the end of April in a more concise form than usual, as agreed by the European Commission and Member States. The forecast only takes into account measures already decided and specified and does not anticipate future policy measures. This General Government Fiscal Plan does not represent Government targets or plans and does not contain measures planned to achieve targets. The General Government Fiscal Plan is not this time the National Medium-term General Government Fiscal Plan referred to in the Directive on requirements for budgetary frameworks (EU) 85/2011. A Stability Programme in its standard format, containing multiannual targets for general government finances and the Government's assessment of progress towards the Medium-Term Objective (MTO) is prepared, once the economic situation becomes normalised.

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 for local government expenditure set by central government measures:

1. Economic challenges and the economic policy line

The aim of the economic policy of Prime Minister Marin's Government Programme is to increase wellbeing and prosperity. This means ecologically and socially sustainable economic growth, high employment and sustainable public finances. In the Government Programme, the Government set as its key economic policy objectives:

— given normal global and related domestic economic circumstances, the employment rate will be raised to 75% and the number of people in employment will increase by a minimum of 60,000 by the end of 2023

— given normal global economic circumstances, Finland’s general government finances will be in balance in 2023

— the Government’s decisions will decrease inequality and narrow the income gaps

— the Government’s decisions will put Finland on a path towards achieving carbon neutrality by 2035.

In Finland and internationally, the economic outlook has deteriorated very rapidly during the early part of the year. The outbreak of coronavirus (COVID-19) has led to a downturn in the international economy, production disruptions and a sharp decline in demand. Finland’s gross domestic product is expected to contract strongly in 2020. Employment will weaken and both unemployment and redundancies will rapidly increase.

On 16 March 2020, the Government has stated, in cooperation with the President of the Republic, that Finland is in a state of emergency due to the coronavirus pandemic. On 17 March 2020, the Government submitted to Parliament the first decrees implementing the Emergency Powers Act. The Government has decided, among other things, to restrict border traffic and public gatherings, suspend contact teaching in schools and close down educational premises for all but the youngest children. Restaurants have also been temporarily closed to prevent the spread of coronavirus, and movement into and out of the Region of Uusimaa has been restricted. The public have also been strongly advised to avoid close contact whenever possible.

Economic policy will be used to mitigate adverse effects on production and demand. The sectors most affected will be supported with targeted measures. Automatic stabilisers, i.e. reduced tax revenues and rising unemployment expenditure, will also support demand in the downturn. In addition, during 2020 the Government will outline measures aimed at mitigating the damage caused by coronavirus to Finland’s economy and employment. For a third supplementary budget proposal, to be submitted in May, the Government is preparing targeted, timely and fixed-term stimulus measures, which will be continued as required by the economic situation.

Alongside the stimulus measures, it will also be necessary to decide on structural measures to return Finland after the crisis to a path of sustainable growth, high employment and sustainable public finances. The Government Programme includes many sets of measures aimed at enhancing sustainability, such as measures to improve employment and economic productivity, the health and social services reform, and measures to strengthen public sector productivity. Preparation of these sets of measures will continue.

The Government is preparing a sustainability roadmap, which will determine the potential of various measures to reduce the sustainability gap. The autumn 2020 budget session will outline an economic policy package and identify measures that will strengthen the sustainability of public finances and employment, taking into account the changes in the economic environment. The Government is committed to ensuring that the burden caused by the crisis is shared in a socially and economically just and ecologically sustainable way and fairly between the generations.

Measures to improve employment will play a key role in increasing wellbeing and balancing general government finances. The Ministry of Finance considers that without measures to improve employment, the employment rate will remain below 72% in 2023.

Population aging is not just a challenge looming over the future. Rapid growth of social and healthcare expenditure is already straining local government finances and is adversely affecting the provision of basic public services in many municipalities and joint municipal authorities. The social welfare and healthcare system must therefore be restructured, and it is important that the reform of health and social services be adopted and implemented to support the sustainability of general government finances.

Productivity growth in health and social services and other public administration will be reinforced by organisational and technological measures. Efficiency will be improved in public procurement and premises management. Preventive measures in competence, health and social policy in particular will be used to curb growth in costs.

Economic policy can only indirectly influence general productivity development. The Government aims to strengthen productivity by, among other things, supporting investment through accelerated depreciation of movable fixed assets in 2020–2023 and increasing investment in education, research, development and innovation, and in infrastructure.

The Government aims through its decisions to decrease inequality and monitor the impact of its measures on income distribution.

The Government is committed to acting a way that results in Finland being carbon-neutral in 2035 and carbon-negative quickly thereafter. Amidst the acute challenges posed by coronavirus, the Government is still looking ahead and several sets of measures are being prepared with the aim of finding by summer 2021 new emission reduction measures and accelerating existing measures. For the effectiveness of climate policy, and due to pressures on general government finances, measures must be effective and cost-efficient. At the same time, care must be taken to ensure that they do not give rise to unreasonable effects on the different population groups. Achieving carbon neutrality also requires additional investment in low-emission technologies and solutions. Chapter 5.7 examines the package of measures to promote carbon neutrality included in the General Government Fiscal Plan.

Fiscal policy line

Prime Minister Marin's Government will implement an active and responsible fiscal policy that is scaled as required by economic conditions. The Government has decided on comprehensive measures to safeguard jobs and livelihoods and to ease the financial pressure on businesses facing difficulties caused by the coronavirus pandemic. The expenditure and revenue decisions made by the Government are clearly supportive of economic growth in 2020.

The Government will ensure adequate funding for healthcare to meet the growth in expenditure caused by coronavirus. Operating conditions for businesses will be supported by, among other things, increasing grants made to businesses via Business Finland, the Centres for Economic Development, Transport and the Environment (ELY Centres) and the municipalities, by raising Finnvera's domestic financing authorisations from the present EUR 4.2 billion to a maximum of EUR 12 billion, easing tax payment arrangements and extending by three months the payment period for earnings-related pension contributions. In addition, the State Pension Fund's investments in commercial paper will be increased at most to EUR 1 billion.

In accordance with a proposal of the labour market organisations, unemployment security will be strengthened temporarily by abolishing the waiting period before a person is eligible for unemployment security, expanding the right to unemployment allowance to all entrepreneurs, shortening the notice period for the cooperation procedure and lay-offs, and extending the right to make lay-offs to fixed-term employment relationships. The earnings-related pension contribution will be reduced temporarily for the period 1 May 2020–31 December 2020, utilising the earnings-related pension system's EMU buffer and increasing it again gradually during 2022–2025.

In addition to above-mentioned decisions already made, the Government is preparing for the May 2020 supplementary budget proposal measures to support a rapid economic recovery. In the same context, it is intended to decide on measures to support local government finances in the manner outlined in the connection with the General Government Fiscal Plan.

In addition, in accordance with the Government Programme, the Government will increase permanent general government expenditure by approximately EUR 1.4 billion at the level of 2023 than in the spring 2019 technical General Government Fiscal Plan. Investments will be allocated to, among other things, social security as well as health and social services, early childhood education, education and research, environmental protection and climate policy measures.

The permanent additional expenditure will be covered mainly by discretionary permanent additional revenue and reallocations. The aim is also to promote climate goals through taxation decisions. The Government will strengthen the tax base and increase indirect taxes. To compensate for changes in indirect taxes, the earned income taxation of those on low and middle incomes will be eased at the beginning of 2020. In the autumn 2020 budget session, the Government will outline the implementation of the sustainable taxation roadmap. In the same context, it will decide on the first stage of the energy tax reform.

A total of approximately EUR 1.4 billion for 2020–2022 was allocated to future-oriented investments in the October 2019 General Government Fiscal Plan and the 2020 Budget. In accordance with the Government Programme, these measures will be funded for the most part through property income so that they do not lead to an increase in the debt burden in 2023. In the current market situation, however, it is not appropriate to sell shares this year, and it is therefore justified to postpone sales previously assumed for 2020 until 2021–2022.

The central government spending limits include a mechanism that, if necessary, allows an increase in one-off expenditure of up to EUR 1 billion (a maximum of EUR 500 million per year) in the event of exceptional economic situation. This 'exceptional situation mechanism' may be used if predefined criteria are fulfilled. The Ministerial Committee on Economic Policy will decide on the fulfilment of the definition and a recommendation to the Government on the use of the exceptional situation mechanism, based on preparations by the Economics Department of the Ministry of Finance as well as a situation assessment by the Bank of Finland and economic research institutes. The activation of the exceptional situation mechanism will be launched. In the current year, there is no need to use the mechanism, as given that Finland is in a state of emergency and the Emergency Powers Act is in force, the central government spending limits do not restrict targeted and temporary measures in 2020.

Alongside an active fiscal policy, economic growth will be stabilised by so-called automatic stabilisers, namely an automatic increase in general government expenditure and a reduction in tax revenues in an economic downturn. The Government will continuously monitor the economic situation and the achievement of the employment policy targets, and will react as required by the economic situation. The Government is committed to reviewing the measures in the Government Programme should their implementation jeopardise the achievement of the targets set for general government finances.

2. Objectives and rules steering the management of general government finances

The purpose of the General Government Fiscal Plan is to support decision-making relating to general government finances as well as compliance with the medium-term objective set for the general government structural budgetary position. The General Government Fiscal Plan contains sections relating to central government finances, local government finances, statutory earning-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.

Exceptional circumstances

On 20 March 2020, the European Commission published a communication[1] in which the general escape clause[2] of the Stability and Growth Pact was activated based on the severe economic downturn caused by the coronavirus outbreak throughout the EU and the need for a sufficiently large fiscal response. In their joint statement[3] on 23 March 2020, the Member States supported the activation of the clause. Based on the general escape clause, Member States may be permitted to depart from the adjustment path towards the medium-term budgetary objective due to an unusual event beyond the Member State's control and which has a major impact on the general government budgetary position or in a severe economic downturn for the euro area or the EU as a whole, provided that this does not endanger fiscal sustainability in the medium term.

Domestic legislation (Fiscal Policy Act 869/2012[4] and the Decree on the General Government Fiscal Plan 120/2014) refers to exceptional circumstances[5] pursuant to Article 3(3b) of the Fiscal Compact[6], which correspond to the above-mentioned definition according to the Stability and Growth Pact. The activation of the escape clause for the EU as a whole means that exceptional circumstances under the Stability and Growth Pact also prevail in Finland.

Economic forecasts are now subject to exceptionally high uncertainty, which is also reflected in the assessment of the budgetary outlook. For the time being, it is also uncertain whether the measures now planned and the resources allocated will be sufficient to manage the situation. Consequently, general government budgetary targets cannot be set nor their achievement assessed on a reliable basis.

Due to this exceptional situation, it is not appropriate to prepare the Stability Programme in its standard form containing multiannual targets for general government finances and the Government's assessment of progress towards the Medium-Term Objective (MTO), until the economic situation becomes

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[1] http://ec.europa.eu/info/files/communication-commission-council-activation-general-escape-clause-stability-and-growth-pact_en

[2] Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) 1466/97, and Articles 3(5) and 5(2) of Regulation (EC).

[3] http://www.consilium.europa.eu/en/press/press-releases/2020/03/23/statement-of-eu-ministers-of-finance-on-the-stability-and-growth-pact-in-light-of-the-covid-19-crisis/

[4] The Act on the Implementation of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (EMU) and provisions of a legislative nature as well as requirements concerning multi-annual budgetary frameworks.

[5] Article 3(3b) of the Fiscal Compact 3 defines as follows: " 'Exceptional circumstances' refers to the case of an unusual event outside the control of the Contracting Party concerned which has a major impact on the financial position of the general government or to periods of severe economic downturn as set out in the revised Stability and Growth Pact, provided that the temporary deviation of the Contracting Party concerned does not endanger fiscal sustainability in the medium-term." Article 2(2) of the corrective arm of the Stability and Growth Pact (Regulation 1467/97) refers to severe economic downturn as follows: "The Commission and the Council, when assessing and deciding upon the existence of an excessive deficit in accordance with Article 126(3) to (6) of the Treaty on the Functioning of the European Union (TFEU), may consider an excess over the reference value resulting from a severe economic downturn as exceptional in the sense of the second indent of Article 126(2)(a) if the excess over the reference value results from a negative annual GDP volume growth rate or from an accumulated loss of output during a protracted period of very low annual GDP volume growth relative to its potential."

[6] Treaty on Stability, Coordination and Governance in the Economic and Monetary Union

normalised. The standard-format Stability Programme will be prepared later meeting also the EU's requirement for a National Medium-term Fiscal Plan.

It has been agreed between the Commission and the Member States that the Stability Programme required by law to be submitted by the end of April will be more concise in content than normal. The time horizon of the Stability Programme will be significantly shorter than normal and will not set general government budgetary targets for the medium-term.This General Government Fiscal Plan only presents a medium-term economic projection for general government finances based on the independent forecast and does not this time include the Stability Programme.

Medium-Term Objective

Pursuant to section 2 of the Fiscal Policy Act (869/2012), on 7 October 2019 the Government set a Medium-Term Objective (MTO) of -0.5% in ratio to GDP for the structural budgetary balance of general government finances. This is the minimum level to which Finland has committed to in the Fiscal Compact. The requirements relating to the MTO will be outlined and its achievement assessed later in the Stability Programme, which will also present the Government's assessment under the Fiscal Policy Act of progress towards the achievement of the MTO.

Other fiscal policy targets

Pursuant to section 3 of the Government Decree on the General Government Fiscal Plan (120/2014), the General Government Fiscal Plan shall set multiannual budgetary targets for debt and expenditure as a ratio to gross domestic product (GDP) at market prices for the whole of general government finances as well as separately for each sub-sector of general government. The budgetary targets shall be set such that they shall, taking into account the Ministry of Finance forecast, result at least in the achievement of the target set for the structural balance of general government. It is possible to deviate from this if exceptional circumstances according to Article 3(3b) of the Fiscal Compact prevail in Finland. As stated above, the activation of the general escape clause of the Stability and Growth Pact means that exceptional circumstances are prevailing in the EU as a whole, including Finland. The situation is therefore clearly more severe than the problems of an individual Member State. It has been agreed between the Commission and the Member States that the exceptional situation and the high uncertainty associated with it will be taken into account in the Stability Programmes to be submitted in April. Domestic legislation on fiscal policy target setting may be interpreted accordingly. It is not sensible to set multiannual targets for general government finances until there is a stronger understanding of the fundamentals. This General Government Fiscal Plan does not, therefore, set multiannual targets for general government finances.

Central Government Spending Limits

On 16 March 2020, the Government has stated, in cooperation with the President of the Republic, that Finland is in a state of emergency due to the coronavirus pandemic. On 17 March 2020, the Government submitted to Parliament the first decrees implementing the Emergency Powers Act. In this situation, the central government spending limits do not restrict 2020, to which temporary and targeted measures to combat the health and economic effects of coronavirus will be directed. The Government is, however, committed to the central government spending limits system and to the parliamentary term spending limits set in the General Government Fiscal Plan of 7 October 2019. The spending limits will again be adhered to from 2021. Measures in the Government Programme and others will be implemented insofar as this is possible within the framework of the spending limits.

In the exceptional situation, the Government is preparing a proposal to increase Finnvera's domestic financing authorisations to EUR 12 billion. As a result, the estimate of budget item 32.40.47 for loss compensation expenditure has been significantly increased. In addition, the SME support-granting authorisations financed from items 32.20.40 and 32.30.42 have been raised significantly in the first supplementary budget and the second supplementary budget proposal. As a result of the high uncertainty of the situation and Emergency Powers Act implemented due to the prevailing exceptional circumstances, it has been decided to classify the share of loss compensation expenditure related to the increase of authorisations as outside the spending limits as a deliberate exception to the government's spending limits.

The purpose of the expenditure benchmark is to ensure a responsible, long-term central government spending policy that promotes economic stability. 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 addition, the central government finances spending limits include a mechanism that allows an increase in one-off expenditure of up to EUR 1 billion (a maximum of EUR 500 million per year) in the event of exceptional economic conditions. This 'exceptional situation mechanism' may be used if predefined criteria are fulfilled.

The central government spending limits are discussed in Chapter 5.

Limit on local government expenditure set 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 in local government finances resulting from central government measures. The limit on local government expenditure set in the October 2019 General Government Fiscal Plan will be exceeded, mainly due to an increase in the cost estimates for measures decided.

In accordance with current legislation, a central government transfer covering 100% of the costs will be allocated to municipalities' new or extended duties and obligations. Exceeding the expenditure limit will not therefore weaken the budgetary position of local government, as the central government will bear the full responsibility for new duties and obligations in central government transfers to local government. In exceptional circumstances, there are also no budgetary targets in effect for the different sectors of general government finances.

The limit on local government expenditure set by central government measures and the impact of central government measures on local government finances are discussed in Chapter 6.

3. Economic fundamentals

In accordance with Article 4 of Regulation 473/2013, the General Government Fiscal Plan is based on independent macroeconomic and fiscal forecasts produced by the Economics Department of the Ministry of Finance. This Chapter discusses the macroeconomic and public finance outlook based on the independent forecast. For a more detailed forecast, see the Ministry of Finance's Economic Survey.

3.1. Economic outlook

Economic outlook for 2020–2022

The coronavirus pandemic has caused a global disruption that will have an adverse impact on economic activity everywhere. This is primarily a supply shock emanating from China through global production chains, but also a large negative demand shock. Decisions restricting the free movement and assembly of people will have the effect of contracting the economy significantly.

The negative effects on the economy will be greater the more intensely and widely coronavirus spreads, the more people fall ill and the more extensive and prolonged containment measures are taken to prevent the virus from spreading. Estimates of the duration of the coronavirus disruption are changing daily and make the assessment of the situation exceptionally uncertain. The forecast assumes that the measures limiting economic activity will last for three months.

In 2020, Finland's GDP is expected to contract by 5.5%. The volume of foreign trade will sharply decline. Private consumption and investment will fall particularly strongly this year. It is assumed that the impact of coronavirus will fade quickly and the economy will recover rapidly in the latter part of 2020.

The number of people in employment will decline by 2% in 2020 and employment rate will fall to 71%. Driven by the fall in employment, the number of unemployed people will increase significantly in 2020 and the unemployment rate will rise to 8%. If the constraints aimed at tackling the pandemic prove to be short-lived, the rise in unemployment may also remain modest.

GDP is expected to grow by 1.3% in 2021 and 2022. Export growth will be restored, driven by external demand, and growth in private consumption will normalise. Private investment will recover less well because major forest industry projects are being postponed and residential construction investments are continuing to decline. GDP growth in 2022 will be supported most by the end of the decline in residential construction investment. The projected acceleration in economic growth and the deceleration in nominal wage growth will gradually begin to improve demand for labour in 2021 and 2022. The employment rate would rise to 72% in 2022 as the working age population continues to decline.

Medium-term outlook

Economic growth is expected to slow to less than 1% in 2023–2024. The economic restructuring and demographic changes that have been under way for years will also affect the longer-term growth outlook of the economy.

The contraction of the working age population will reduce labour input in the next few years. Another factor constraining labour input is high structural unemployment.

Total factor productivity growth has been a key source of economic growth in recent decades, but its development will continue to be weak by historical standards. There have been both cyclical and structural factors underlying the weaker growth. The output of high-productivity sectors has declined significantly, and services have become more predominant in the overall structure of the economy.

The total factor productivity growth trend is expected to remain slightly below ½% in the medium term, whereas annual growth exceeded 2% on average 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 investment rate had risen to a higher level before this year's crisis, but it is now expected to decline and slow down growth in capital stock and the potential growth of the economy.

Table 1. Trends in the national economy

	2018	2019	2020	2021	2022	2023	2024
GDP value, EUR billion	233.6	240.1	229.4	236.6	244.2	251.2	258.0
GDP, change in volume, %	1.6	1.0	-5.5	1.3	1.3	1.0	0.8
Unemployment rate, %	7.4	6.7	8.0	8.1	7.9	7.8	7.8
Employment rate, %	71.7	72.5	71.2	71.3	71.7	71.8	71.8
Consumer Price Index, change %	1.1	1.0	0.7	1.3	1.5	1.5	1.6
Long-term interest rate, 10 years, %	0.7	0.1	0.1	0.3	0.6	0.9	1.1

3.2. Outlook for general government finances

The coronavirus situation, the containment measures taken to mitigate it, and the temporary but sharp deterioration in the state of the economy will result in a rapid increase in the general government deficit and debt. The measures taken to minimise the harm caused by coronavirus and to alleviate the financial situation of businesses will weaken general government finances. The general government deficit will increase in 2020 by nearly EUR 14 billion in 2020 to EUR 16.6 billion, i.e. 7.2% in ratio to GDP.

Although it is assumed that the economic disruption will be short-lived, this exceptional downturn will leave a deep imprint on general government finances. Economic growth in the next few years will be insufficient to balance the general government budgetary position, and general government finances will remain significantly in deficit.

General government finances will also be further weakened by structural problems. Population ageing will automatically increase public spending and adversely impact the growth potential of the economy and thereby tax revenue growth. There is a long-term sustainability problem in general government finances. General government finances will face the future expenditure pressures caused by population ageing from an even weaker starting position.

The general government deficit will grow significantly in 2020. Cyclical fluctuations will be reflected most clearly in central government finances, due to the high cyclical sensitivity of tax revenue. Central government finances will also bear the greatest share of the costs of the support measures decided due to the coronavirus. From next year, the central government deficit will start to decline as tax revenues increase and support measures end.

Local government finances have tightened in recent years. The current year, too, will also be very difficult for local government finances, due to the economic downturn and the increase in expenditure caused by the coronavirus situation. The budgetary position of local government finances will also be burdened by an increase in the need for and expenditure on social and healthcare services due to population ageing.

The earnings-related pension funds, which are part of the social security funds, have always been clearly in surplus to date. In 2020, however, the surplus of earnings-related pension funds will temporarily disappear completely as the earnings-related pension contribution is temporarily reduced and the deteriorating employment situation cuts contribution income. In addition, pension expenditure will continue to grow rapidly and low interest rates will slow down growth of earnings-related pension funds' property income. Other social security funds will turn to deficit as significant lay-offs, rising unemployment and the temporary extension of unemployment security increase benefit expenditure.

General government debt in ratio to GDP has declined modestly in recent years. In the current year, the debt ratio will start to increase sharply and will rise by almost 10 percentage points to close to 70%. The sharp increase in the debt ratio will be due to a contraction in GDP and, a large increase in local government and, in particular, central government deficits. By 2024, the debt ratio threatens to approach 80%.

The risks to public finances are closely linked to general economic development. There is considerable uncertainty about the duration of the coronavirus situation and how well the economy will recover once the pandemic subsides. The more rapidly and strongly the economy recovers, the smaller the damage to general government finances will be. If, on the other hand, the coronavirus situation and the resulting containment measures prove to be more prolonged than expected, the contraction in tax revenue will be greater than projected and unemployment expenditure will increase faster than projected. In addition, general government contingent liabilities and a significant increase in guarantees, in particular, pose a risk to general government finances. Guarantee authorisations will also be increased this year as part of support measures for businesses. A major triggering of liabilities would increase public spending and further exacerbate the increase in the debt ratio.

Table 2. Key figures for general government finances according to national accounts, % GDP

	2018	2019	2020	2021	2022	2023	2024
Taxes and social security contributions	42.4	42.1	42.1	43.6	42.8	42.8	42.8
General government expenditure	53.4	53.3	59.8	57.9	57.2	56.9	56.8
General government net lending	-0.9	-1.1	-7.2	-4.0	-4.1	-3.8	-3.7
— Central government	-1.2	-1.2	-5.5	-2.7	-3.0	-2.8	-2.6
— Local government	-0.9	-1.2	-1.5	-1.7	-1.6	-1.5	-1.6
— Earnings-related pension funds	1.0	0.9	0.0	0.3	0.4	0.5	0.5
— Other social security funds	0.3	0.3	-0.3	0.0	-0.1	-0.1	0.0
Primary balance	-0.7	-1.0	-7.2	-4.2	-4.3	-3.9	-3.8
Structural balance	-1.8	-2.4	-5.2	-2.7	-3.5	-3.5	-3.7
General government gross debt	59.6	59.4	69.1	71.5	73.8	76.3	78.7
Central government debt[1]	44.9	44.3	51.9	53.2	54.5	56.1	57.5

[1)] The Ministry of Finance Economics Department's estimate of central government debt differs from the estimate based on the budget due to, among other things, updated revenue forecasts.

Compliance with fiscal policy rules and objectives

In its Government Programme, Prime Minister Marin's Government set as an objective that, given normal global economic circumstances, general government finances will be in balance in 2023 and the general government debt-to-GDP ratio will decline. According to the Ministry of Finance's forecast, general government finances will be in deficit in 2023 and the debt ratio will increase. The spread of the coronavirus, however, has created exceptional circumstances for the global economy, the euro area and the Finnish economy, due to which the international economy cannot be considered to be in a normal situation.

As outlined in Chapter 2, due to exceptional circumstances, this General Government Fiscal Plan does not set budgetary position targets for the sectors of general government finances. Consequently, the achievement of the targets also cannot be assessed.

General government budgetary position and debt, broken down into the budgetary position and debt of core sector units and units outside the core sectors

The general government budgetary position will be significantly in deficit in 2020. The central government core sector, on-budget finances, will particularly weaken. The central government will also remain deeply in deficit in 2021–2024. The local government core sector, the municipalities and joint municipal authorities, will also be significantly in deficit in the coming years. The social security funds will sink into deficit in 2020 and thereafter will be slightly in surplus. The combined deficit of units outside the core sectors will be approximately 0.4% in ratio to GDP.

General government consolidated EDP debt in ratio to GDP will increase rapidly in 2020. The debt ratio of core sectors will increase sharply in 2020 and thereafter more slowly but still quickly. Most of the debt is central government on-budget debt. The municipalities and joint municipal authorities also have a significant amount of debt. Of the units outside the core sectors, indebtedness mainly affects real-estate companies and a few other units. The debt carried by units outside the core sectors will grow slowly by an amount corresponding to the deficit produced by these units annually. For a list of units in general government subsectors, see Statistics Finland's website[7].

Table 3. General government budgetary position and debt in ratio to GDP, broken down into core sectors and units outside the core sectors

	2018	2019	2020	2021	2022	2023	2024
General government, total							
Budgetary position in ratio to GDP	-0.9	-1.1	-7.2	-4.0	-4.1	-3.8	-3.7
Debt in ratio to GDP	59.6	59.4	69.1	71.5	73.8	76.3	78.7
Core sectors, total							
Budgetary position in ratio to GDP	-0.6	-0.7	-6.8	-3.6	-3.8	-3.4	-3.4
Debt in ratio to GDP	57.4	57.0	66.3	68.3	70.3	72.5	74.7
Units outside cores sectors, total							
Budgetary position in ratio to GDP	-0.3	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
Debt in ratio to GDP	2.3	2.3	2.8	3.2	3.5	3.7	4.0

3.3. Economic restructuring, population ageing and fiscal sustainability

Over the past decade, Finland's economy has been affected by industrial restructuring, which has weakened potential for economic growth. GDP did not exceed the level preceding the 2008 financial crisis until 2018, and productivity growth is still weak. In addition to the weak economic outlook, growth in the coming years will be constrained by the declining number of the working-age population. In addition to the long recession, the rapid growth in the number of pensioners has contributed to the weak state of general government finances. The increase in pension expenditure, among other things, explains why, despite the economic upswing of recent years, general government finances have been unable to climb into surplus.

The retirement of the baby boomers is only a beginning to the demographic challenges that Finland faces in the coming decades. In ten years, the dependency ratio has deteriorated from approximately 50

[7] https://www.tilastokeskus.fi/meta/luokitukset/_linkki/soveltamisp.html

dependants (under 15 and over 65 years of age) to approximately 60 dependants per 100 people of working age. According to population forecasts, the deterioration of the dependency ratio will continue for at least the next 50 years; in 2070, it is projected that there will be over 80 dependants per 100 people of working age in Finland.

In public finances, a substantial sustainability gap prevails, i.e. general government revenue will not be sufficient to cover expenditure in the long term. The imbalance between revenue and expenditure arises from the medium- and long-term outlook. The sudden deterioration of the economy caused by coronavirus situation and the increase in public expenditure will increase the deficit and debt ratio in the medium term. In the longer term, the sustainability of public finances will be undermined, in particular, by population ageing. The growth in the number of elderly people will give rise to higher pension, healthcare and long-term care expenditure. At the same time, the working-age population, which finances welfare services and social security with its taxes, will shrink. With the present total tax rate, it will therefore not be possible to fund growing expenditure. If public finances are not strengthened, the permanent imbalance of revenue and expenditure, i.e. the sustainability gap, will result in an unmanageable growth of indebtedness.

The Ministry of Finance estimates the sustainability gap to be significant in the current situation. Public finances will accordingly have to be permanently adjusted, the revenue base of public finances strengthened, for example through measures the improve employment, or future expenditure pressures curbed with structural reforms in order to balance in revenue and expenditure in the long-term.

4. Government liabilities and risks

Government liabilities can be divided into direct liabilities and contingent liabilities whereby, for example, a liability to pay arises through a government guarantee. Government financial liabilities and associated risks may emanate from decentralised sources within central government on-budget accounting, central government funds and unincorporated state-owned enterprises. The central government may also be subject to implicit liabilities for securing the continuity of certain functions of society, even though there is no law or agreement legally binding government to such liability. In times of crisis, an implicit central government liability may materialise within the municipalities, state-owned companies or the financial markets, for example.

The table shows a summary of central government assets and nominal values of certain specifiable liabilities. Assessing the risks related to liabilities unambiguously is difficult, and therefore the nominal values of liabilities have been used in this examination in the interests of clarity. Data on central government real and financial assets are based on financial accounting. Regarding 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.

In central government financial assets, values of corporate shareholdings may fluctuate significantly due to economic conditions. In 2007–2019, the central government has received dividend income of between EUR 1.1 and 1.9 billion from its shareholdings annually. In 2019, the central government’s dividend income was approximately EUR 1.4 billion.

Table 4. Summary of government liabilities and assets, EUR billion

	2013	2014	2015	2016	2017	2018	2019
Assets							
Central government real assets	57.0	57.5	56.7	56.8	57.7	58.0	
% GDP	*27.9*	*27.8*	*26.8*	*26.1*	*25.5*	*24.7*	
Central government financial assets[1]	65.1	67.6	69.6	70.5	71.0	73.3	81.8
% GDP	*31.9*	*32.7*	*32.9*	*32.4*	*31.4*	*31.3*	*34.0*[2]
— of which							
Central government liquid assets	4.6	3.1	4.4	3.1	3.0	2.1	2.3
Solidium	8.2	7.6	6.8	7.8	8.6	6.8	7.5
Other shareholdings in listed companies	9.5	10.9	10.2	11.5	15.2	15.5	19.0
National Housing Fund receivables	6.9	6.4	5.9	5.2	4.6	4.2	3.7
Liabilities							
Central government debt	89.7	95.1	99.8	102.3	105.8	105.0	106.4
% GDP	*43.9*	*46.0*	*47.2*	*47.0*	*46.8*	*44.8*	*44.2*[2]
Municipal debt	14.9	16.8	18.0	19.0	19.2	20.1	23.5
% GDP	*7.3*	*8.1*	*8.5*	*8.7*	*8.5*	*8.6*	*9.8*[2]
Central government guarantees[3]	35.0	39.2	44.2	46.1	52.3	56.6	60.2
% GDP	*17.1*	*18.9*	*20.9*	*21.2*	*23.2*	*24.1*	*25.0*[2]
— Finnvera	14.6	17.5	22.6	22.6	27.7	30.3	32.6
— Student loans	1.6	1.8	2.0	2.3	2.7	3.4	4.0
— EFSF	6.2	6.6	6.2	6.3	7.0	7.0	7.0
— Bank of Finland	0.7	0.6	0.5	0.6	0.4	0.5	0.6
— Government funds	11.2	11.8	12.3	13.2	13.8	14.6	15.5
— Other	0.8	0.9	0.6	1.1	0.6	0.8	0.5
Capital liabilities	17.1	17.2	17.8	18.0	17.9	17.9	17.9
% GDP	*8.4*	*8.3*	*8.4*	*8.3*	*7.9*	*7.6*	*7.4*[2]
Other liabilities	117.8	132.9	130.8	129.5	128.3	127.6	130.8
% GDP	*57.7*	*64.2*	*61.9*	*59.5*	*56.8*	*54.4*	*54.3*[2]
— Budget accounting[4]	115.4	130.4	128.3	126.9	125.5	124.7	128.0
— Off-budget entities	0.6	0.7	0.9	1.2	1.6	1.7	1.7
— State enterprises	1.8	1.8	1.6	1.4	1.2	1.2	1.1

1) Time series has been updated due to statistical change.

2) Preliminary data

3) For more detailed information on government guarantees, see Appendix 12 to the central government final annual accounts.

4) Includes pension liabilities. Pension liabilities at the end of 2019 were EUR 92.7 billion.

The largest subareas of central government liabilities are central government debt, pension liabilities and central government guarantees. Pension liabilities amounted to EUR 92.7 billion at the end of 2019. The largest growth over the last 10 years has been in the amount of government debt and government guarantees. Central government debt has increased from EUR 54 billion in 2008 to EUR 106.4 billion in 2019. Central government guarantees have increased from EUR 23.2 billion in 2010 to EUR 60.2 billion at the end of 2019.

Guarantees issued by Finnvera and central government funds have seen particularly high increases. Of the EUR 15.5 billion in guarantees issued by funds, the majority – EUR 15.3 billion at the end of 2019 – consists of guarantees issued via the National Housing Fund. The growth in Finnvera guarantees has focused on export credit guarantees and Finnvera's acquisition of funds. At the end of 2019, export credit guarantees totalled EUR 21 billion, of which drawn guarantees amounted to EUR 11.3 billion. In export financing, it is typical for guarantee liabilities to be concentrated in certain sectors and large exposures of single clients. In the growth of the National Housing Fund's guarantees, particularly prominent is financing for government-guaranteed rental and right-of-occupancy housing, to which guarantees totalling EUR 13.3 billion had been allocated at the end of 2019. Guarantees allocated to housing loans of private individuals totalled EUR 2.0 billion at the end of 2019. In the financing of rental and right-of-occupancy housing, a key risk relates to government-subsidised and government-guaranteed properties located in areas of declining population, where occupancy rates and property values are falling. In addition to guarantee liabilities, a significant proportion of government-guaranteed housing financing includes government interest subsidies, which, when interest rates rise, increase the central government's payment obligation.

On an international scale, Finland's public sector guarantee liabilities 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 general government guarantees-to-GDP ratio was the highest among the EU Member States in 2018. Finland also has the highest level of central government guarantees in the EU countries, and the fastest growth of central government guarantees in the EU area in 2013–2018 was recorded in Finland.

Contingent liabilities also include capital liabilities totalling approximately EUR 17.9 billion payable on demand to international financial institutions. Most of the capital liabilities since 2012 have consisted of a capital liability of EUR 11.1 billion relating to the European Stability Mechanism (ESM).

Finland's total liabilities arising from financial assistance paid and capitalisation of stability mechanisms in 2010–2018 due to the euro area financial crisis were approximately EUR 10.2 billion at the end of 2019. These liabilities consisted of the capital paid to the ESM, guarantees arising from stability mechanism financial assistance loans, and a bilateral loan granted to Greece. Of total liabilities, European Financial Stability Facility (EFSF) guarantees account for EUR 7.0 billion and the capital contribution paid to the ESM accounts for EUR 1.4 billion.

Risks related to public sector activities are linked in many ways 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 guarantees and other public sector liabilities are correlated. In normal business cycle conditions, typically only some of the risks are realised, but in the event of a more extensive external shock the risks to central government finances may be considerable.

Costs arising from the realisation of central government liabilities may impose a significant burden on the economy. This highlights the importance of careful assessment and management of the risks associated with binding financial decisions of central government and the management and monitoring of liabilities.

Central government financial liabilities and associated risks are discussed in more detail in the Overview of Central Government Risks and Liabilities, published by the Ministry of Finance.

The above analysis does not cover the effects of the coronavirus situation. In the exceptional crisis, the central government will have to implement various support measures for different parts of society and the economy, the extent and duration of which cannot be fully assessed at this stage. As a result of the coronavirus situation, there will be significant growth pressures on central government debt and guarantee liabilities.

5. Central government finances

5.1. Central government spending limits

The spending limits for the parliamentary term 2020–2023 were confirmed in the Government's first spending limits decision on 7 October 2019. The central government spending limits 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. The spending limits system is based on ex ante examination, i.e. it restricts the level of expenditure budgeted in the State budget.

The purpose of the expenditure benchmark is to limit the total amount of expenditure incurred by the taxpayer and to ensure a responsible, long-term central government spending policy that promotes economic stability.

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, such as unemployment security expenditure, pay security, housing allowance and social assistance expenditure, is not included in the central government spending limits. Expenditure effects generated by changes in the criteria for these items are included within the spending limits, however. 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 include central government off-budget funds nor other off-budget central government accounts.

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 reserve to be allocated later. If the level of expenditure falls below that specified in the spending limits after supplementary budgets, the difference may be used for one-off expenditure in the following year without reference to the spending limits.

On 16 March 2020, the Government has stated, in cooperation with the President of the Republic, that Finland is in a state of emergency due to the coronavirus pandemic. On 17 March 2020, the Government submitted to Parliament the first decrees implementing the Emergency Powers Act. In this situation, the central government spending limits do not impose restrictions on 2020. The Government is, however, committed to the central government spending limits system and to the parliamentary term spending limits set in the General Government Fiscal Plan of 7 October 2019. The spending limits will again be adhered to from 2021. The Government will also begin the activation of the exceptional situation mechanism, as described in the Government Programme.

Parliamentary term spending limits for 2021–2023 (at 2021 prices), EUR million

	2021	2022	2023
Spending limits decision 7 October 2019	50 329	49 915	48 706
Price- and cost-level adjustments	558	551	539
Structural adjustments	17	4	10
Adjusted parliamentary term expenditure ceiling (incl. supplementary budget provision)	50 903	50 471	49 254

In the exceptional situation, the Government is preparing a proposal to increase Finnvera's domestic financing authorisations to EUR 12 billion. As a result, the estimate of budget item 32.40.47 for loss compensation expenditure has been significantly increased. In addition, the SME support-granting authorisations financed from items 32.20.40 and 32.30.42 have been raised significantly in the first supplementary budget and the second supplementary budget proposal. As a result of the high uncertainty of the situation and Emergency Powers Act implemented due to the prevailing exceptional circumstances, it has been decided to classify the share of expenditure related to the increase of authorisations as a deliberate exception outside the government's spending limits. The coming months (and years) will show what the actual amount of expenditure will be.

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

Development of on-budget expenditure in 2021–2024

On-budget expenditure in 2021 is expected to be EUR 61.0 billion, which is EUR 1.4 billion less than that budgeted for 2020 (incl. the second supplementary budget proposal). The level of expenditure will decrease, even though expenditure for 2021 includes EUR 1.5 billion of fighter aircraft procurement costs, which will begin to be reflected in central government expenditure to a significant extent in 2021.

Expenditure in the budget economy will remain close to EUR 61 billion in the framework period (at 2021 price and cost levels). Nominally, on-budget expenditure is expected to grow in the spending limits period by an average of approximately 1.5% per year.

Compared with the autumn 2019 spending limits decision, administrative branch expenditure in 2021–2023 will rise on average by approximately EUR 1.6 billion per year. Of the changes, approximately EUR 0.4 billion per year will be due to index adjustments. Cyclical expenditure will increase significantly in all years compared with the spending limits decision, for example by EUR 1.1 billion in 2021.

Expenditure outside the spending limits

Expenditure outside the spending limits is expected to be approximately EUR 11.4 billion in 2021, which is approximately EUR 1.1 billion less than that budgeted for 2020 (incl. the second supplementary budget). Cyclical expenditure will decrease by approximately EUR 0.5 billion. Value-added tax expenditure will grow by approximately EUR 0.4 billion, due to the VAT expenditure associated with the Defence Forces' fighter aircraft procurement. The comparison between 2020 and 2021 is significantly affected by the compensation to municipalities in 2020 for the delay in tax revenue arising from changes to tax payment arrangements. The amount of compensation will be approximately EUR 0.5 billion. A corresponding reduction will take place for 2021, in which case the proportion outside the spending limits of tax compensation payable to municipalities will turn negative for 2021.

In 2022–2024, expenditure outside the spending limits will remain overall at approximately EUR 11.7 billion.

Compared with last autumn's spending limits decision, expenditure outside the spending limits will increase by EUR 1.0–1.2 billion in 2021–2023. The main reason is an increase in cyclical expenditure. In addition, expenditure outside the spending limits will reflect loss compensation arising from raising Finnvera's domestic financing authorisations as well as expenditure increases from raising the SME support-granting authorisations of Business Finland and the ELY Centres. The above are classified in an item entitled exceptional situation effects.

Expenditure outside the spending limits, EUR billion

	2021	2022	2023	2024
Cyclical expenditure	5.3	5.1	5.1	4.8
Compensation to municipalities for tax criteria changes	-	0.6	0.8	0.9
Expenditure corresponding to EU revenue	1.1	1.1	1.1	1.1
Expenditure corresponding to proceeds from profits on gambling activities	1.0	0.9	0.9	0.9
Interest expenditure	0.7	0.7	0.8	1.0
Financial investment expenditure	0.4	0.4	0.3	0.3
Technical pass-through items	0.3	0.3	0.4	0.4
VAT appropriations	1.7	1.7	1.7	1.5
Transfer to State Television and Radio Fund	0.5	0.5	0.5	0.5
Exceptional situation effects	0.4	0.2	0.2	0.1
Total	**11.4**	**11.7**	**11.7**	**11.7**

Price and cost-level adjustments and structural changes

The Government Programme states that in addition to structural adjustments, the overall spending limits level will be revised to reflect changes in price levels. For a more detailed description of price- and cost-level adjustments as well as structural adjustments, see Appendix 2.

Table 5. Central government spending limits by administrative branch and estimate of expenditure outside the spending limits in 2021–2024, EUR million at 2020 prices and costs

	2021	2022	2023	2024
23. Prime Minister's Office	196	194	193	195
Estimate of expenditure outside spending limits	25	25	25	25
Total	**221**	**219**	**218**	**220**
24. Ministry for Foreign Affairs	1 131	1 153	1 189	1 221
Estimate of expenditure outside spending limits	153	154	154	154
Total	**1 284**	**1 306**	**1 343**	**1 375**
25. Ministry of Justice	924	917	928	966
Estimate of expenditure outside spending limits	50	50	51	52
Total	**974**	**967**	**978**	**1 017**
26. Ministry of the Interior	1 406	1 365	1 347	1 356
Estimate of expenditure outside spending limits	120	145	144	144
Total	**1 525**	**1 510**	**1 490**	**1 500**

27. Ministry of Defence	4 277	4 296	4 283	3 787
Estimate of expenditure outside spending limits	747	750	749	628
Total	**5 024**	**5 047**	**5 032**	**4 415**
28. Ministry of Finance	18 120	18 065	18 354	18 613
Estimate of expenditure outside spending limits	326	1 065	1 236	1 373
Total	**18 446**	**19 130**	**19 589**	**19 987**
29. Ministry of Education and Culture	6 378	6 439	6 349	6 353
Estimate of expenditure outside spending limits	594	640	573	573
Total	**6 971**	**7 079**	**6 922**	**6 926**
30. Ministry of Agriculture and Forestry	1 658	1 622	1 593	1 618
Estimate of expenditure outside spending limits	954	941	936	962
Total	**2 612**	**2 563**	**2 529**	**2 580**
31. Ministry of Transport and Communications	2 399	2 381	2 240	2 241
Estimate of expenditure outside spending limits	985	996	1 041	972
Total	**3 384**	**3 378**	**3 281**	**3 213**
32. Ministry of Economic Affairs and Employment	2 444	2 229	2 204	2 182
Estimate of expenditure outside spending limits	939	685	577	592
Total	**3 383**	**2 914**	**2 781**	**2 774**
33. Ministry of Social Affairs and Health	10 264	10 223	9 993	10 014
Estimate of expenditure outside spending limits	5 724	5 516	5 438	5 191
Total	**15 987**	**15 739**	**15 430**	**15 205**
35. Ministry of the Environment	288	197	196	199
Estimate of expenditure outside spending limits	9	9	9	9
Total	**297**	**206**	**205**	**209**
36. Interest on central government debt	-	-	-	-
Estimate of expenditure outside spending limits	741	701	801	976
Total	**741**	**701**	**801**	**976**
Administrative branch spending limits, total[1]	**49 619**	**49 223**	**49 019**	**48 903**
Estimate of expenditure outside spending limits, total	11 374	11 688	11 747	11 666
Main titles, total	**60 994**	**60 911**	**60 766**	**60 570**
Parliamentary term expenditure ceiling	**50 903**	**50 471**	**49 254**	**-**
— Administrative branch spending limits, total[1]	49 619	49 223	49 019	48 903
— Supplementary budget provision	300	300	100	-
— Unallocated reserve	159	117	135	-
— Provision for future-oriented investments[2]	824	830	-	-

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

2) The spending limits provision for future-oriented investments has been reduced by EUR 16 million for 2021 and EUR 20 million for 2022 to partly finance an increase in practical nurse education.

5.3. Definitions of policy in budget finances 2021–2024

Increases in appropriations due to the coronavirus situation

Due to the coronavirus situation, the Government has allocated significant appropriations in the 2020 supplementary budgets to, among other things, ease the financial situation of businesses. The measures will also have ripple effects for the spending limits period. In addition to discretionary increases in appropriations, cyclical expenditure (e.g. unemployment security, housing allowance, basic social assistance) is expected to increase sharply as a result of deteriorating economic development.

In the administrative branch of the Ministry of Economic Affairs and Employment, appropriations totalling EUR 475 million, aimed at easing the financial situation of businesses, will be allocated in 2021, decreasing to EUR 142 million in 2024. A significant impact on spending limits period appropriations will arise from the Government's proposal to increase Finnvera's domestic financing authorisations to EUR 12 billion. As a result, the estimate of budget item 32.40.47 for loss compensation expenditure has been significantly increased. The increases in loss compensation paid by central government are estimated to be as follows: EUR 155 million in 2021, EUR 161 million in 2022, EUR 155 million in 2023 and EUR 142 million in 2024. The raising of authorisations in 2020 for loans granted via Business Finland for research and innovation activity will increase the appropriation level by EUR 120 million in 2021 and EUR 30 million in 2022. Due to the raising of Business Finland's grant authorisations, the appropriation level will rise by EUR 120 million in 2021.

Chapter 8 examines the effects of measures related to the coronavirus situation in more detail at the level of general government finances overall.

Minimum staffing level for care personnel under the Act for Elderly Care and Services

The General Government Fiscal Plan includes the effects on appropriations of the Government proposal on the minimum staffing level for care personnel under the Act for Elderly Care and Services. To cover the financial effects of the proposal, central government transfers to local government will be increased, on top of the EUR 70 million already included in the October 2019 spending limits decision, by EUR 137.7 million at the 2023 level and by EUR 195.5 million at the 2024 level. To boost practical nurse education, a fixed-term increase totalling EUR 116.5 million is allocated for 2021–2024. In addition, an increase of EUR 0.5–0.8 million per year related to the RAI system is allocated to the Finnish Institute for Health and Welfare (THL). Additional costs arising from the proposal on the minimum staffing level for care personnel will be funded through a number of savings, of which the largest include cutting pharmaceutical service costs by EUR 60 million from 2023 and reducing private medical care compensation. In addition, savings from health and social services totalling EUR 40 million will be sought from 2023 through digitalisation and enhancing the efficiency of purchased services and competitive tendering.

Employment measures

The General Government Fiscal Plan includes some appropriation increases aimed at improving employment. A sum of EUR 0.34 million will be allocated to Centres for Economic Development, Transport and the Environment (ELY Centres) and EUR 2 million to public employment and business services in 2021 and 2022 for the employment of people returning to work after extended periods of family leave.

An additional appropriation will be allocated in 2021 and 2022 to the operating expenditure of Employment and Economic Development Offices (TE Offices) for local government trials on boosting employment. After this, a total of approximately EUR 4 million has been earmarked for the trials in 2021–2022.

In cooperation with early childhood education and basic education, development of the continuous learning and skills as well as the improvement of literacy and basic skills of people returning to work from family leave will be allocated EUR 2 million per year, which is intended to be targeted particularly at immigrant parents.

Combating the shadow economy

In accordance with the Government Programme, measures to combat the shadow economy will be expanded and accelerated to reduce the tax deficit. A total of EUR 11.6 million will be allocated in 2021–2023 within the Action Plan against the Shadow Economy and Economic Crime. In addition, a forward provision totalling EUR 2.4 million is made in 2021–2023 for additional measures to combat the shadow economy.

Appropriations for combating the shadow economy by administrative branch, EUR 1,000

Administrative branch	2021	2022	2023
Ministry of Justice	462	402	66
Ministry of the Interior	550	475	
Ministry of Finance	1 210	2 435	2 190
Ministry of Agriculture and Forestry	150	150	
Ministry of Economic Affairs and Employment	887	1 453	912
Ministry of Social Affairs and Health	70	70	70
Total	3 329	4 985	3 238

Central government collective agreement

On 31 March 2020, the parties involved signed a collective agreement for central government public servants and employees for the period 2020–2022. This spending limits decision does not yet include the effects of the agreement on on-budget expenditure.

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 average approximately EUR 219 million per year in 2021–2024.

In the planning period, approximately EUR 128 million per year is allocated to the operating expenditure appropriations of the Prime Minister's Office.

Prime Minister's Office pays the Government ICT Centre Valtori for the government terminal device and user support services (Valtti service) it provides. An increase in the costs of the service will result in a need to raise prices, for which additional funding of approximately EUR 1.5 million per year is allocated.

A sum of EUR 0.48 million per year in the spending limits period is allocated for the 'Finland in Russia 1917–1953' research project, to be implemented in 2020–2025.

To harmonise Foreign Service information security solutions (incl. an international data transfer solution) in the government, EUR 0.73 million is allocated for 2021 and 2024.

Ministry for Foreign Affairs

Appropriations in the main title of the Ministry for Foreign Affairs will be EUR 1.3–1.4 billion per year in the spending limits period.

The objectives of Finland's foreign and security policy are strengthening Finland's international position, safeguarding its independence and territorial integrity, improving the security and wellbeing of Finland and its people, and ensuring that Finnish society functions efficiently. The activities of the Foreign Service rely on a comprehensive network of diplomatic missions abroad. In 2021–2022, the network of diplomatic missions will be strengthened with three new diplomatic missions, as previously decided. In the spending limits period, the Foreign Service's handling of immigration issues will be strengthened both in the ministry and the diplomatic missions, with aim of facilitating, in particular, immigration of international talent and accelerating processing times for work-based residence permits. Special attention will be paid to further improving information security, including secure transmission of information and ensuring sufficient numbers of information security personnel. An increase of EUR 2 million in 2021 and an increase of EUR 0.9 million in 2022 is allocated for the renovation of the academic institution Villa Lante.

The Government's long-term goal is to allocate, in line with the UN commitments, 0.7% of GNI for development cooperation work and 0.2% of GNI for aid to least developed countries. The level of appropriations for actual development cooperation is EUR 802 million in 2024. In the spending limits period, the average level of development cooperation appropriations will be approximately 0.45% of GNI. A total of approximately EUR 130 million per year is allocated to development cooperation financial investments.

The appropriations for crisis management take into account the policy outlines of the Government Programme, the Government Report on Finnish Foreign and Security Policy (2016), the National Strategy for Civilian Crisis Management (2014) and the Peace Mediation Action Programme (2011). In the spending limits period, the military crisis management appropriations will be EUR 53 million per year in the main title of the Ministry for Foreign Affairs. The civilian crisis management appropriations will rise to EUR 19.6 million in 2023, which have been scaled to a level of 150 specialists, in line with the Government Programme. An annual sum of EUR 2.0 million is allocated to peace mediation, as previous outlined.

Participating in regional cooperation is an important way for Finland to promote stability, security, sustainable development and economic cooperation opportunities in the Baltic Sea, Barents and Arctic Region. The objective is also to promote the channelling of international funding to projects important for Finland. An appropriation of EUR 2.4–3.0 million per year is allocated to Baltic Sea, Barents and Arctic Region cooperation.

Ministry of Justice

The appropriations of the main title of the Ministry of Justice will total EUR 974 million in 2021 and EUR 1,017 million in 2024. The level of appropriations for 2021–2023 will be on average approximately EUR 20 million higher than in the previous spending limits decision.

An annual increase of EUR 2.3 million is allocated to additional expenditure arising to the administrative courts from the growth in residence permit cases.

To safeguard the determination of criminal liability, the resources of courts of law, legal aid and public guardianship districts, the Consumer Disputes Board, the Finnish Prosecution Service and the Criminal Sanctions Agency will be increased by a total of EUR 3.5 million in 2024.

An annual general increase of EUR 2.5 million per year from 2021 will be made to the operating expenditure of the Finnish Prosecution Service.

The transfer of remand prisoners to the Criminal Sanctions Agency will require an increase in remand prisoner premises. It is intended to build a 160-place additional building in connection with Vantaa Prison, for which an additional appropriation of EUR 13.1 million will be allocated to the Criminal Sanctions Agency in 2024.

An additional appropriation of EUR 3.2 million in 2021 and EUR 2.9 million in 2022 is allocated for the upgrading of prison surveillance technology.

An annual additional appropriation of EUR 0.4 million is allocated to organisations promoting prevention of intimate partner violence.

Ministry of the Interior

The appropriation level of the main title of the Ministry of the Interior will be approximately EUR 1.5 billion per year.

The objective is a safe and secure Finland built on the rule of law, strengthening a sense of security, and ensuring the operational capacity of the security authorities. The Government will safeguard the implementation of fundamental and human rights and tackle violations of people’s rights. In the administrative branch of the Ministry of the Interior, particular attention will be paid to improving the safety and security of people, preparing for new security threats, and fostering a sense of security. An annual additional appropriation of EUR 0.3 million is allocated to the prevention of radicalisation.

To further develop Finland’s crisis management policy, a comprehensive document will be drawn up setting out the objectives for crisis management across parliamentary terms. The aim will be to improve effectiveness and the careful planning of resource use. For civilian crisis management, see also the administrative branch policy outline of Ministry for Foreign Affairs.

Cooperation will be continued between the Police, Customs and the Border Guard (PCB cooperation). Administrative cooperation between the security authorities will be developed and deepened.

For the implementation of the renewed version of the Schengen Information System, SIS II, a one-off additional funding of EUR 0.30 million will be allocated to the Border Guard for 2021 to adapt the national information systems to the changes in the SIS Legislation. A sum of EUR 1.67 million in 2021 is allocated to the Police for corresponding system change and maintenance expenditure, and also, on a preliminary basis at this stage, a sum of EUR 1.82 million per year from 2022.

In their activities, the Police will aim, in particular, to reduce offences against physical integrity and life or health, particularly offences against children and intimate partner violence. Radicalisation will be prevented through cooperation between authorities and organisations. The Action Plan against the Shadow Economy and Economic Crime will be continued and its funding increased, and the capacity of the Police in financial investigations will be boosted. Prevention and investigation of online crime will be reinforced. A team will be established for detecting and investigating human trafficking offences. Community policing, control of heavy-vehicle traffic and resources for preventive work will be strengthened. The number of police officers will be increased to 7,500 person-years by 2023, funding for which has been increased in previous spending limits decisions. One-off additional funding of EUR 10 million will be allocated in 2021 to the Police operating expenditure item for vehicles and corresponding procurement expenditure in order to safeguard the performance capacity of the Police.

The effective and appropriate application of the new intelligence legislation will be ensured. In the spending limits period, the Finnish Security Intelligence Service will gain access to new information systems to support its activities. Additional funding of EUR 9.5 million from 2024 will be allocated to rental expenditure of new premises of the Finnish Security Intelligence Service.

The capacity of the Border Guard will be developed in a changing environment, and its operating expenditure will rise during the spending limits period in accordance with previous spending limits decisions, in addition to which EUR 10 million will be allocated on a one-off basis in both 2021 and 2022 for operating expenditure to increase operating capacity and EUR 2.5 million in 2021 and EUR 2.4 million in 2022 for premises security.

In accordance with the Government Programme, the operations and capacity of the Emergency Response Centre Administration will be secured. Additional funding has been allocated to the Emergency Response Centre Administration in the previous spending limits decision. To safeguard the quality and needs-based activities of Emergency Services College education and RDI operations, EUR 2.4 million will be allocated in 2021 and 2022.

The number of quota refugees is estimated at 850–1,050 per year, taking into account the number of asylum seekers. Applications for asylum will be processed without undue delay in an individual procedure that guarantees legal protection. The aim will be to process applications within six months. Processing of residence permits for work-based immigration in the Finnish Immigration Service will be enhanced and increases of EUR 8.0 million in 2021 and EUR 2.25 million in 2022 will be made for this. Funding will be allocated to a unit to replace the Helsinki Detention Centre.

EUR 4 million in 2021 and EUR 1 million in 2022 will be allocated for the further development of the UMA electronic case management system.

In the new seven-year EU funding period 2021–2027, internal security and immigration funding will be included in the main title of the Ministry of the Interior separately from the funds of the previous funding period.

Ministry of Defence

The appropriation level of the main title of the Ministry of Defence will be EUR 5.0 billion in 2021–2023 and it will fall to EUR 4.4 billion in 2024. The change is due to the planned annual shares of funding for the Defence Forces' multirole fighter aircraft project (HX). Spending limit appropriations include HX project funding of EUR 1.5 billion per year in 2021–2023 and EUR 1.0 billion in 2024.

Finland will secure a credible national defence and ensure that sufficient resources are available. Defence capability safeguards Finland's independence and territorial integrity, and is underpinned by emergency preparedness and resilience scaled to the operating environment. The primary goal is to form a preventive threshold for the use of military force against Finland and for any threatening to use military force. The scaling of resources for defence will be in line with the Defence Policy Report of 2017.

In the spending limits period, projects for the main weapon systems of sea and air defence will be implemented in which the Navy's ageing combat vessel fleet and the performance capability of the Air

Force's Hornet fighter fleet will be replaced. Spending limit appropriations include estimated funding of the HX project, totalling EUR 5.5 billion, and expenditure of the Squadron 2020 project, totalling EUR 771 million.

Approximately EUR 61 million per year will be allocated to expenditure on military crisis management equipment. Military crisis management personnel expenditure will be funded from the main title of the Ministry for Foreign Affairs.

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

Ministry of Finance

The annual appropriation level of the main title of the Ministry of Finance will grow from EUR 18.4 billion in 2021 to EUR 20 billion in 2024. The appropriation level will be raised by an increase in appropriations supporting municipalities by EUR 1.4 billion from 2021 to 2024.

A total of EUR 12.8 million in 2021 and 2022 is allocated to the Tax Administration for the transfer of car tax and excise duty tasks and for an change to the real-estate tax valuation reform.

In accordance with the Government Programme, mining activities will be removed from the scope of the tax rebate for energy-intensive companies, and the energy tax rebate for energy-intensive companies will be abolished over a transition period in connection with the reduction of category II electricity tax. A technical assumption is that these measures will take place in 2021 and 2022, as a consequence of which energy tax rebates are expected to decline by EUR 119 million in 2022 and by EUR 230 million in 2023.

An annual increase of EUR 1.8 million is allocated to Customs operating expenditure to enhance crime prevention, and an annual increase of EUR 1.17 million to additional expenditure resulting from the use of the TUVE government security network.

A total of EUR 12 million in 2021–2023 is allocated to additional funding requirements for the renewal of the central government's shared finance and HR systems.

The level of Senate Properties' investment authorisation will be outlined in connection with the preparation of the 2021 budget proposal.

The appropriation level for pensions and compensation in the main title of the Ministry of Finance will be EUR 5.2–5.3 million in the years of the spending limits period.

Under the Act on the Autonomy of Åland, the central government pays to the region an equalisation sum, which is determined as a share of central government revenue. Parliament has approved the Government's proposal (320/2018) to amend the Act on the Autonomy of Åland. The related Government proposal to increase the basis for equalisation to 0.47% has been submitted to Parliament. This will increase the equalisation sum paid by central government by EUR 4–7 million per year during the spending limits period.

Assessing the development of Finland's EU contribution is adversely impacted by the ongoing negotiations on the EU's financial framework. The contribution is projected to rise to nearly EUR 2.6

billion at the end of the spending limits period. Due to the updating of assumptions on the development of contribution bases as well as the determination of other so-called own funds, the estimate of contributions has been reduced in the early years of the spending limits period compared with the previous spending limits decision.

Support for municipalities

The central government transfer to local government for basic public services in 2021 will be EUR 7.3 billion and will rise during the spending limits period to EUR 7.8 billion. An adjustment of the division of costs between central and local government will decrease the central government transfer for basic public services by around EUR 13.5 million. Central government compensation to municipalities for tax revenue losses arising from tax criteria changes will be EUR 1.9 billion in 2021 and it will rise by the end of the spending limits period to EUR 2.9 billion.

Already decided extensions of municipalities' duties and therefore items increasing the central government transfer for basic public services in the spending limits period include raising the upper age limit for child welfare, bringing forward the study of the first foreign language, and extending the right to care and reducing the group size in early childhood education.

In connection with the 2020 budget, compensation for municipalities' tax revenue losses for 2010–2019 were transferred from the item central government transfer to local government for basic public services to its own item. The compensation transferred totalled EUR 1,967 million.

Due to the coronavirus situation, municipalities will be compensated for delays to municipal income tax, corporate tax and real estate tax revenue arising temporarily from changes to tax payment arrangements. The appropriation was increased by EUR 547 million in 2020 for compensation payable for tax revenue losses. A corresponding reduction will be made to compensation for municipalities' tax revenue losses in 2021. The measure will balance the accrual of municipalities' tax revenue during the temporary payment arrangement for taxation. In addition, a EUR 35 million increase in local income tax revenue will be allocated in 2020 due to temporary compensation for people who are off work without pay due to the coronavirus situation. This increase will remain in local government finances.

EUR 10 million per year in 2021–2023 will be allocated to the incentive scheme for digitalisation in municipalities. The incentive scheme is funded by a transfer from the central government transfer to local government for basic public services. The transfer will not be made in 2024.

The Government has initiated the preparation of a health and social services reform, taking into account the preparations made in previous parliamentary terms and constitutional constraints. The reform will transfer the responsibility for organising health and social services to autonomous regions (counties) that are larger than municipalities. The responsibility for organising rescue services will also be transferred to the counties. The effects of the reform will be taken into account in the General Government Fiscal Plan at the stage when a Government proposal on the reform has been submitted to Parliament.

The Government proposal on a minimum staffing level of 0.7 for care personnel under the Act for Elderly Care and Services has been submitted to Parliament and the related funding has been taken into account in the item central government transfers to local government. This matter is discussed in more detail in Chapters 5.3 and 6.2.

Issues related to basic public services organised by the municipalities and their funding are addressed as a whole in Chapter 6.

Ministry of Education and Culture

The appropriation level of the main title of the Ministry of Education and Culture will average EUR 6.9 billion during the spending limits period.

The minimum school leaving age will be raised to 18 years and at the same time upper secondary education will be made cost-free. Allocations of EUR 22 million in 2021, EUR 65 million in 2022, EUR 107 million in 2023 and EUR 129 million in 2024 will be made to extend compulsory education and for free provision of upper secondary education. Strengthening of pupil and student welfare services and implementing the quality and equality programme in basic education and early childhood education will be continued in the spending limits period in line with earlier decisions.

The implementation of the reform of vocational education and training will be continued. To meet the change in minimum staffing level for care personnel, EUR 27 million in 2021, EUR 43 million in 2022, EUR 30 million in 2023 and EUR 16.5 million in 2024 will be allocated to the education and training of new practical nurses.

A sum of EUR 0.2 million is allocated in the spending limits period to safeguarding the operation of the Sámi Education Institute and increasing the amount of Sámi language training. EUR 1.4 million is allocated in 2021 for exhibition preparations related to furnishing and extending the renovation of the Sámi Museum Siida.

A grant authorisation of EUR 10 million is allocated on a one-off basis in 2021 to the Academy of Finland for compiling climate change research and increasing the effectiveness of research. Based on a donation of the Finnish Innovation Fund Sitra, universities will be capitalised with EUR 33 million in 2020 and EUR 67 million in 2022. The capitalisation will be implemented on the basis of universities' research effectiveness and acquisition of funds. The extensive utilisation and openness of research materials, research results and expertise will be promoted. The programme to develop data-driven research will be continued. EUR 1.5 million per year will be allocated to the National Archives of Finland in 2021–2023 for the digitisation of documents in order to avoid new paper archive facilities.

Financial aid for students will be used to enable equal conditions for studying, and systematic and full-time studies as well as shortening of the duration of studying will be promoted.

The system of central government transfers for the performing arts will be reformed and additional funding of EUR 3 million allocated to the reform. EUR 0.15 million annually in 2021–2023 and EUR 0.35 million in 2024 will be allocated to preparation of the National Museum's operating model and exhibition programme. EUR 0.8 million will be allocated in 2022 to substitute premises for the National Opera and Ballet.

Proceeds from gambling activities allocated to the promotion of sport and physical education, science, art and youth work are expected to decline in the spending limits period compared with the previous spending limits decision. The implementation of the Report on Sports Policy will be carried out in line with the previous spending limits decision. In accordance with earlier decisions, an annual increase of EUR 2 million is allocated to support young people's workshop activities.

As an employment promotion measure, EUR 2 million will be allocated annually in the spending limits period to improving the literacy and basic skills of people returning to work from family leave. EUR 10 million will be transferred in 2023 and 2024 from the administrative branch of the Ministry of Economic Affairs and Employment to the administrative branch of the Ministry of Education and Culture for fast-acting continuous learning measures related to meeting the shortage of experts.

Ministry of Agriculture and Forestry

Annual appropriations of the main title of the Ministry of Agriculture and Forestry will be approximately EUR 2.6 billion in the spending limits period.

In accordance with the Government Programme, investments will be made during the spending limits period particularly in climate policy measures of the land-use sector, climate-resilient food policy, safeguarding biodiversity, water management, flood protection and reducing loading of waterways.

The climate measures of the land-use sector will strengthen carbon sinks and storage as well as adaptation to climate change in the short and long term. The measures will be implemented in three packages: climate-resilient agriculture, climate-resilient forestry and land-use change measures. In addition, the effectiveness of the measures will be increased through a land-use sector research, information and development programme as well as through developing the land-use sector bioresource information.

The EU's Common Agricultural and Rural Policy will be reformed in the funding period starting in 2021. The Ministry of Agriculture and Forestry is preparing a CAP plan based on Finland's national needs that includes a proposal on the support scheme package for the coming funding period. The proposal will be prepared taking into account the objectives of the EU's Common Agricultural and Rural Policy, the priorities of the Government Programme, and the most efficient and appropriate allocation of available funding. No decisions have yet been made on the level of EU and national funding for the new funding period 2021–2027, as a result of which the appropriation levels for 2021–2024 have been estimated as being similar to the first four years of the current programming period. Direct subsidies fully funded by the EU will continue at the 2020 levels throughout the spending limits period. Contributions to the Rural Development Programme for Mainland Finland and the Operational Programme of the European Maritime and Fisheries Fund for 2014–2020 are scheduled during the spending limits period. Their funding will be included in the spending limits of the administrative branch in accordance with the progress of the programmes. The funding of agriculture investments and the content of the support scheme from 2022 will be decided in the CAP plan and in connection with the appropriation decisions of the upcoming funding period.

The implementation of the spatial data report will be continued and the Residential and Commercial Property Information System further developed. During the spending limits period, strategic development projects will focus on digital services.

Ministry of Transport and Communications

The appropriations of the main title of the Ministry of Transport and Communications will average approximately EUR 3.3 billion per year in the spending limits period.

In infrastructure maintenance, priority will be given to measures required to ensure the daily functioning of the transport network as well as halting and reducing the growth of the repair debt. The appropriation level for basic transport infrastructure maintenance will average by approximately EUR 1.3 billion per year in the spending limits period.

Maintenance and development of the transport network will be enhanced by, among other things, better utilisation of information, using new methods of surveying the condition of the network, and the full introduction of information modelling. Transport network planning will be developed by taking into account the impacts of digitalisation and automation on the transport system and traffic volumes of the future.

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 will be created for digital services in transport and communications, 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.

Utilisation of digitalisation will be promoted by streamlining and reforming regulation, and by creating a framework for developing and automating transport services.

A sum of EUR 20 million per year will be allocated from public passenger transport support to climate policy measures.

An additional EUR 1.25 million will be allocated in 2022 to archipelago and ferry traffic purchases, which will enable the repair of ferry traffic quays that began in 2020 to continue.

The Finnish Meteorological Institute will be allocated EUR 0.75 million in 2021–2022 and EUR 0.25 million in 2023–2024 for the development of the international Sodankylä Satellite Ground Station.

The transfer to the State Television and Radio Fund will be EUR 543.3 million per year in the spending limits period.

Ministry of Economic Affairs and Employment

The appropriation level of the main title of Ministry of Employment and the Economy will total EUR 3.4 billion in 2021. The main title appropriations will decrease to EUR 2.8 billion at the end of the spending limits period.

Administrative appropriations will be EUR 792 million in 2021, from which they will decline in the spending limits period to EUR 756 million. The decline will be due mainly to the removal of one-off increases.

A general increase of EUR 1 million for 2021–2022 has been made for the operating expenditure of the Finnish Safety and Chemicals Agency to secure its activities. The operating expenditure of the ELY Centres will be increased by EUR 2.1 million in 2021, EUR 2.8 million in 2022, EUR 1.3 million in 2023 and EUR 0.6 million in 2024. The increase is mainly due to activities related to integrating immigrants and promoting labour migration, the employment package for people returning to work from extended family leave, fixed-term additional tasks arising from the change of financial period (CAP27) and monitoring of agricultural subsidies. A centralised advisory service will be established to the introduction EU and international funding instruments.

The operational expenditure of the TE Offices will be increased by EUR 3.8 million in 2021–2022, of which EUR 1.1 million will be allocated to local government trials to boost employment, EUR 2.5 million to strengthening Ohjaamo low-threshold activities, and EUR 0.2 million to implementing the Kohti apprenticeship model.

The operating expenditure of the Finnish Competition and Consumer Authority will be increased by EUR 0.24 million from 2022 to enhance cartel supervision.

Appropriations allocated to renewal and low-carbon solutions will decline in the spending limits period from EUR 1,171 million to EUR 846 million. The decline will result from the removal of business funding payments added due to the coronavirus situation and of one-off increases in accordance with the Government Programme. Of the one-off EUR 800 million added to Business Finland's authorisation for research, development and innovation in the first supplementary budget and second supplementary budget proposal for 2020 due to the coronavirus situation, it is expected that payments amounting EUR 120 million in 2021 will be made in the spending limits period. Business Finland's grant authorisations will grow in the spending limits period from EUR 328 million to EUR 341 million. It is expected that the one-off EUR 300 million increase in Business Finland's authorisation to grant loans due to the coronavirus situation, which was proposed in the second supplementary budget proposal for 2020, will increase the appropriation requirement by EUR 120 million in 2021 and EUR 30 million in 2022. Business Finland's loan authorisations will be just under EUR 147 million per year.

Central government transfers for the activities of VTT Technical Research Centre of Finland have been increased by EUR 12 million for 2021, EUR 7 million for 2022 and EUR 2 million from 2023 onwards to ensure participation in the EU's new Horizon Europe framework programme.

Employment and entrepreneurship appropriations will decrease in the spending limits period from EUR 937 million to EUR 686 million. The decrease in the appropriation level is explained mainly by the cessation in 2021 of temporary compensation support for the indirect costs of emissions trading. In addition, the appropriation level will be lowered in the spending limits period by a reduction in payments of business funding added due to the coronavirus pandemic. It is expected that the total EUR 400 million authorisation added to business development grants in the first supplementary budget and second supplementary budget for 2020 will still result in payments amounting EUR 80 million in 2021 and EUR 45 million in 2022 during the spending limits period. The appropriation for public employment and business services will be EUR 276–299 million per year in the spending limits period. Savings amounting to EUR 3.4 million in 2021 and EUR 1.9 million in 2022–2024 on items to be transferred in line with Government Programme, and which had previously been allocated to the administrative branch operating expenditure items, have been allocated to the appropriation. From 2023, EUR 10 million per year of the appropriation will be transferred to the continuous learning package in the administrative branch of the Ministry of Education and Culture.

The intention is to increase Finnvera's domestic financing authorisations due to the coronavirus situation to EUR 12 billion. As a result of this, the estimate of loss compensation expenditure has been increased in the spending limits period by EUR 155 million in 2021, EUR 161 million in 2022, EUR 155 million in 2023 and EUR 142 million in 2024.

Approximately EUR 10 million will be allocated in 2021 and 2022 to the integration and employment promotion of immigrants. In 2023, the appropriation will decrease to EUR 4 million when fixed-term EUR 3 million increases allocated to immigrant counselling and advice points and the expansion of municipalities' multidisciplinary centres of expertise come to an end.

EUR 176 million in 2021, EUR 180 million in 2022, EUR 178 million in 2023 and EUR 174 million in 2024 will be allocated to central government compensation for integration. The appropriation level includes an increase related to the raising of the age limit for the aftercare of unaccompanied minors (EUR 2.6 million in 2021, EUR 5 million per year from 2022).

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 15.4 billion in the spending limits period. The appropriation level is affected by cyclical factors (e.g. unemployment rate), changes in demographic structure and the ending of the Government Programme's one-off future-oriented investments up to 2022. Compared with the previous spending limits decision, the appropriation level has increased significantly due a rise in cyclical expenditure.

Preparation and coordination work for the International Gender Equality Prize was transferred from the Prime Minister's Office to the Ministry of Social Affairs and Health from 2020. In connection with this, a transfer of the EUR 0.15 million from 2021 as well as EUR 0.5 million in 2021 and 2023 for the prize, awarded every other year, has been taken into account.

The implementation of the Healthcare Growth Strategy will be supported by securing the development in the spending limits period of national centres of excellence (National Genome Centre, National Comprehensive Cancer Centre, Neuro Centre, National Pharmaceutical Development Centre and biobank activities). Total funding of EUR 5 million has been allocated to the centres of excellence in 2021–2022.

A total of EUR 12 million is proposed during the spending limits period for the implementation of the pharmaceutical service road map, of which EUR 5 million is allocated for 2021, EUR 4 million for 2022, EUR 1 million for 2023 and EUR 2 million for 2024.

The unemployment security benefit cuts associated with the activation model were abolished in 2020 and the cost effect have been taken into account for the spending limits period 2021–2024. The cost impact of raising the lower age limit of the right to additional days in wage earners' unemployment security has been adjusted.

To secure specialist medical training in occupational healthcare, the general increase of EUR 1 million in central government compensation will be continued from 2023.

The activities of the Finnish Student Health Service will be expanded also to cover students of the universities of applied sciences from 2021. In accordance with a previous spending limits decision, a central government financial contribution of EUR 65.8 million is allocated to financing the activities.

Approximately EUR 28 million per year will be allocated to the funding of the Helicopter Medical Emergency Service. In addition, a EUR 8.8 million increase from 2022 for the operating expenditure of two new bases has been taken into account.

Approximately EUR 470 million per year will be allocated to the Social Insurance Institution of Finland (Kela). This takes into account, as an increase, essential additional investments in information security and, as a decrease, the impact of the removal of unemployment security benefit cuts associated with the activation model.

The level of the front-line veterans' rehabilitation appropriation has been set such that the level of the annual appropriation available for rehabilitation will secure for veterans the provision of services to the elderly. Due to a reduction in the number of veterans, the appropriation requirement will fall from EUR 246.5 million at the beginning of the spending limits period to EUR 112.9 million at the end of the spending limits period. The appropriations take into account a reform that entered into force on 1 November 2019 whereby all war veterans receive the same services provided at home as disabled war veterans.

From 1 April 2020, front-veteran's supplements will be increased from EUR 50.19 to EUR 125 per month. The increase also applies also to front-veteran's supplements paid abroad. The cost effect of the increase in 2021 is EUR 4.6 million and at the end of the spending limits period EUR 1.7 million.

A general increase of EUR 0.15 million from 2021 will be made to fund the arrangement of mediation in criminal proceedings.

An appropriation totalling EUR 13 million in 2021–2022 has been allocated for the development of services for children and families and for the continuation of the Children and Families change programme.

An appropriation totalling EUR 252.7 million in 2021–2022 has been allocated to the development of health and social services. Development projects will focus on:

— Securing access to basic-level services through, for example, shorter maximum waiting times for access to care, and coordinating the client's path between social services and health services
— Improving the care and nursing of older people by developing informal care and home care, and preparing a cross-sectoral programme on ageing.

The appropriation for shelters will rise to EUR 24.6 million by 2022. The additional appropriation will be used to increase the capacity of the shelter network.

Legislation on provision of relief services will be reformed from 2022, and EUR 6 million per year from the entry into force of the changes has been allocated previously to expenditure increases arising from the changes. A sum of EUR 2 million has been allocated in 2021 for the reform of the relief services system administered by Farmers' Social Insurance Institution of Finland (Mela).

Due to Veikkaus Oy's revised revenue estimates, the appropriation level for grants payable to organisations and foundations will decline in the spending limits period from EUR 360 million to EUR 340 million.

For more comprehensive information on basic public services organised by the municipalities and their funding, see Chapter 6 Local government finances. The appropriation effects of the Government proposal on the minimum staffing level for care personnel under the Act for Elderly Care and Services are discussed in Chapter 5.3.

Ministry of the Environment

The overall level of the appropriations of the main title of the Ministry of the Environment will decrease during the spending limits period from EUR 292 million to EUR 208 million. The decrease is due, in particular, to the ending of partly one-off appropriations allocated to nature conservation. In addition to budget appropriations, appropriations from the National Housing Fund and the Oil Protection Fund, which are off-budget funds, are also used in the administrative branch for the Ministry of the Environment.

Forward provision will be made to allocate up to EUR 15 million per year to public utility grants related to land use, housing and transport (MAL) agreements and up to EUR 30 million per year to start-up grants intended for state-subsidised housing construction. The aforementioned grants will be made provided that new MAL agreements are entered into. Investment grants for special groups amounting to EUR 90 million per year will be made from the National Housing Fund to support the improvement of housing supply for the most vulnerable groups. Older people's ability to live at home, building inspections and the retro-fitting of lifts will be supported in the spending limits period with repair grants, to which will be allocated EUR 33.5 million in 2021, EUR 36.5 million in 2022 and EUR 21.95 million in 2023 and 2024. From 2024, the repair grants will be financed entirely from the budget. A total of EUR 1.7 million per year will be allocated to architectural heritage grants in the spending limits period.

The uburban development programme will be financed with a total of EUR 16 million in 2021–2022 from the National Housing Fund. EUR 80 million will be allocated in 2021–2022 to an energy grant scheme for housing corporations. A maximum of EUR 20 million in 2021–2022 will be allocated to supporting the renovation state-subsidised ARA housing to be more suitable for older people.

In accordance with an earlier decision, a total of EUR 2.7 million in 2021–2023 will be allocated in the Ministry of the Environment for implementing a strategic circular economy promotion programme to be prepared. This appropriation is intended to cover development work and projects aimed at promoting the circular economy. An additional appropriation of EUR 4 million will be allocated in 2021 to municipalities' and regions' climate work and projects. An annual increase of EUR 0.4 million is allocated to grants for organisations, increasing their overall level to EUR 2.13 million.

In the protection of the Baltic Sea and inland waters, the implementation of the waterways and marine management action programmes as well as the nutrient recycling programme will be continued and resources again directed at reducing loading of nutrients and harmful substances and protecting groundwaters. A total of EUR 39 million will be allocated in 2021–2023 to implementing the waterways protection enhancement programme, launched in 2019. Additional funding of EUR 1 million is allocated in 2021 for site studies and risk assessments of extractive waste in old mining areas.

According to the Government Programme, Finland will achieve the goals of the UN Convention on Biological Diversity, i.e. to halt the loss of biodiversity. As a result, funding for nature conservation will be increased during the parliamentary term. Appropriations have already been increased for nature conservation in accordance with the previous spending limits decision. The increase in appropriations in the administrative branch of the Ministry of the Environment will vary, due to one-off increases, from approximately EUR 100 million to EUR 43 million.

5.3.2. Central government joint information system projects and administration

Key information system projects

In the spending limits, approximately EUR 43 million has been allocated in 2021–2022 and approximately EUR 15 million in 2023–2024 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 the Ministry of Agriculture and Forestry's digital forest management recommendations and the upgrading of forest calculation software, the renewal of Valvira's alcohol trade register, the Government Transfer Activities' development and digitalisation project, the Legal Register Centre's information system for the authorities, the ERP and document management system of administrative and special courts of law, the Prosecution Service and general courts of law, and the upgrading of the Digital and Population Data Services Agency's population information system. The planned funding will 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. Furthermore, in those projects where an opinion of the Ministry of Finance under the Act on Information Management in Public Administration (906/2019) and the Government Decree (1301/2019) is required, the opinion must not contain statements preventing the advance of the project or significantly slowing its advance. The Ministry of Finance will conclude a cooperation agreement with respect to projects receiving funding with each relevant ministry. The Ministry of Finance requires, as a rule, that the central government's joint Project Portfolio be used in the monitoring of projects.

The Government Programme's digitalisation projects, such as the development of digital identity and an electronic identification solution, will be continued in the spending limits period. In addition, a total of approximately EUR 28 million for 2023–2024 has been allocated in the spending limits for the development and phased introduction of a new communications service solution to replace the government agency radio network VIRVE.

Financial and HR administration

The productivity of central government financial and HR administration will be improved by continuing the voluntary centralisation of tasks in the Government Shared Services Centre for Finance and HR (Palkeet Centre) and by developing operating practices and central government's shared financial and HR administration information system. 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 services provided by Palkeet Centre.

Financial and HR administration operating practices will be enhanced by taking into use new services and by automating existing Palkeet Centre services. Development and automation of production processes will be continued by, among other things, expanding the use of robotic process automation. The benefits of the Handi solution, which has been introduced in all central government agencies and institutions, will be realised by enhancing the ordering and invoicing process. The Ministry of Finance and Palkeet Centre will cooperate in a project developing the central government HR administration. The aim of the project is to boost the efficiency of HR functions by 304 person-years by 2029. Palkeet Centre will further develop the accessibility and functionality of the Kieku information system, which will be updated in accordance with the system architecture development plan prepared in 2020.

Developing central government procurement

The national public procurement strategy prepared in the Procurement Finland programme will drive the development of central government procurement. Development measures will be directed more extensively to cover all public sector procurement. Led by the Ministry of Finance in cooperation with key actors and Hansel Oy, the goals set out in the strategy will be implemented in central government procurement.

Central government premises investments

In central government premises, the objective is zero tolerance of indoor air problems. Senate Properties' investments will focus particularly on those related to indoor air conditions. Joint use of premises and, for example, the central government carbon-neutrality objective will be supported by updating the central government's real estate and premises strategies. Senate Properties' absorption-principle rental system will be extended in the spending limits period to the agency level, so that costs and rents arising from agencies' premises correspond better to each other than at present.

The programme aimed at improving the efficiency of central government premises use, decided on in an earlier parliamentary term, will be continued according to plan until 2029 with a target total cost saving of EUR 150 million.

Impact of digitalisation and productivity on central government operating expenditure

Through digitalisation of central government activities and improved productivity, all operating costs of the central government will be reduced by 0.5% annually from 2020. This figure will be based on each administrative branch's operating expenditure, from which expenditure on premises would be deducted (a target of 0.3% applies to the administrative branches of the Ministry of Justice, the Ministry of the Interior and the Ministry of Defence as well as the operating expenditure of Customs). The reduction in central government operating expenditure will increase from EUR 18 million in 2020 to EUR 73 million in 2022. The reductions will not be continued after 2023.

5.4. On-budget revenue

Actual on-budget revenue, as well as tax revenue, is expected to grow by an average of approximately 1½% per year in 2020–2024. Tax revenue accounts for approximately 85% of actual on-budget revenue. In 2021, on-budget revenue is expected to be EUR 54.1 billion. Central government on-budget revenue estimates are based on an assessment of the medium-term development of the economy. Economic growth is forecast to turn negative in 2020 due to the coronavirus pandemic and the resulting shock to both Finland and the world economy. Central government tax revenue will also decline in 2020 as a result of significant measures to support businesses, of which the largest is temporarily facilitating payment arrangements on more favourable terms. The economy will recover during 2021 and 2022, however, at which time delayed tax revenue is expected to accrue to the budget retroactively. The tax criteria changes announced in the Government Programme have been taken into account in the revenue estimates for the period of 2020-2024.

Tax criteria changes

The tax criteria changes presented in the Prime Minister Marin's Government Programme have been taken into account in the tax revenue forecasts. One objective of tax policy is to secure Finland's tax base and the funding of the welfare state. The tax base will be strengthened and indirect taxes, in particular, will be increased during the parliamentary term. As part of the tax reform for sustainable development, emissions steering in energy production will be increased during the parliamentary term by abolishing the energy tax rebate mechanism for energy-intensive industries and reducing category II electricity tax to the minimum rate allowed by the European Union. In addition, taxation of fuels for mobile machinery and heating will be increased by EUR 100 million and taxation of transport fuels by EUR 250 million during the parliamentary term. Energy tax revenue will be increased by the phasing out of tax expenditure for paraffinic diesel during the parliamentary term. In spring 2020, the Government has refined certain energy tax decisions outlined earlier. These decisions have not been included in the General Government Fiscal Plan figures, however. To compensate for increases in indirect taxes, the earned income taxation of low and medium income earners was eased by approximately EUR 200 million in 2020. In addition to tax criteria changes included in the Government Programme, to encourage investment in machinery and equipment the depreciation allowance related to them was doubled for the period 2020–2023.

Some of the tax criteria changes will enter into force gradually during the parliamentary term. The most significant tax-increasing measures will affect indirect taxes. Tax revenue in the spending limits period will also be affected by certain decisions made in the previous parliamentary term. In accordance with the Government Programme, the municipalities will be compensated for the tax revenue impact of changes to tax criteria made by the Government.

The table below presents an estimate of the impact of tax criteria changes on central government tax revenue on an annual basis. The impact of tax criteria changes on cash-based tax revenues of each year depends on the precise timing of the changes and the magnitude of the time delay in tax accrual. The impact of tax criteria changes on the cash accrual of central government revenue will therefore be smaller than the annual level estimate in the year of entry into force.

Table 6. Annual impact on central government tax revenue of the main tax criteria changes, EUR million

	2021	2022	2023	2024
Index adjustment of earned income taxation	-225	-207	-216	-225
Phasing out of deductibility of mortgage interest payments	8	8	8	
Tax concession for personnel share issues	-4	-8	-12	
Increase in tax on tobacco tax	50	50	50	
Increase in tax on alcohol (technical assumption)	50			
Increase in electricity tax for mines to category I (technical assumption)	22			
Increase in tax on heating fuels (technical assumption)	33	33	33	
Elimination of tax expenditure for paraffinic diesel (technical assumption)	70		50	
Elimination of tax exemption of low-value products imported from outside the EU	40			
Raising of lower limit for value-added tax to EUR 15,000	-20			
Heat pumps and data centres generating heat for district heating networks to category II electricity tax (technical assumption)	-7			
Lowering of category II electricity tax as part of arrangement where tax rebates for energy-intensive companies will be abolished (technical assumption)	-111	-111		
Accelerated depreciation of movable fixed assets	-24	6	16	283

Development of tax revenue 2020–2024

During the spending limits period, tax revenue will be affected in 2020 by the significant economic downturn due to the coronavirus situation and related business support measures. With the contraction in GDP, tax revenues in 2020 will be clearly lower than in the previous year, in addition to which tax receipts will be reduced by taxpayers' opportunity to access payment arrangements on temporarily more favourable terms. This is estimated to delay EUR 1.4 billion of taxpayers' combined tax revenue for 2020, of which the impact on central government tax revenue will be nearly EUR 0.8 billion. Most of the delayed taxes will be recovered during 2021. The number of taxpayers accessing the payment arrangement is very difficult to forecast, however.

The **earned and capital income tax base** is expected to contract slightly in 2020 and to grow from 2021 by an average of approximately 2.6% per year in the spending limits period. Earned income is expected to grow very slightly in 2020 and capital income is expected to decline. Wage income will decline in 2020 and unemployment benefits will grow. Pension income will grow in the spending limits period more quickly than wage income as the number of those of pensionable age grows and the pension system matures. The tax criteria changes presented in Prime Minister Marin's Government Programme have been taken into account in the earned and capital income tax revenue estimate. The tax revenue estimate for 2024 includes, as a technical assumption, an index adjustment of earned income tax criteria. The payment arrangement relief is expected to reduce central government tax receipts by EUR 77 million in 2020 and to increase receipts to the same extent in 2021.

Corporate tax revenue as a whole is expected to decline by 13.5% in 2020 and to grow from 2021 mainly in line with the operating surplus according to national accounts, on average by 4.3% per year. The payment arrangement relief is expected to reduce central government tax receipts by EUR 94 million in 2020 and to increase receipts to the same extent in 2021. At the end of the spending limits period, tax revenue will be increased by the ending of the temporary accelerated depreciation of movable assets that will be in effect in 2020–2023. The impact of the amendment based on the ATAD II Directive on the taxation of cross-border reverse hybrid entities, which will come into force in 2022, is estimated at this stage to be limited. Corporate tax revenue is sensitive to business cycles. Changes in economic growth and corporate earnings may lead to an accumulation of significant changes.

Value-added tax (VAT) revenue is projected to grow in 2020–2024 by an average of 2.2% per year. VAT revenue will decrease by an estimated 7.0% in 2020 and will increase in turn by 13.2% in 2021. Thereafter, tax revenue development will be steadier. The VAT revenue forecast is mainly based on estimates of growth in household consumption expenditure. Tax revenue will be reduced slightly by the possible raising of the lower limit for VAT liability from the beginning of 2021. Tax revenue will be increased slightly, on the other hand, by the abolition from the beginning of 2021 of the tax exemption for products valued at less than EUR 22 imported from outside the EU. The payment arrangement relief due to the coronavirus situation is expected to reduce central government tax receipts by EUR 571 million in 2020 and to increase receipts to the same extent in 2021.

Overall, revenue from **excise duties** is projected to grow in 2020–2024 by an average of around 0.2% per year. Tax revenue will be reduced in 2020 by the emergency situation and in 2021 by the change made to the due date of tax payment. Revenue from excise duties will rise in the spending limits mainly due to increases in tobacco tax, alcoholic beverage tax and energy taxes. The rate of growth of revenue from excise duties will be dampened by the lowering of category II electricity tax as part of an arrangement where tax rebates for energy-intensive companies will be abolished as well as the growing use of more lightly taxed biofuels through the biofuels distribution obligation.

Car tax revenue is projected to fall by an average 5.1% per year. Due to a decline in private consumption, new passenger car sales will decrease by an estimated 12% in 2020. In the spending limits period, the number of new passenger cars sold is projected to recover such that at the end of the review period 107,000 new cars will be sold. An expected decrease in the carbon dioxide emissions ratings of cars will contribute to the reduction in car tax revenue. The amount of car tax depends on the general retail sales value of a car in the Finnish market as well as on a car's carbon dioxide emissions rating, so reducing the emissions rating lowers the tax percentage of new cars.

The **motor vehicle tax** consists of a basic tax, levied on the basis of carbon dioxide emissions, and a propelling force tax, levied for cars, vans and trucks that use some other fuel than petrol**.** Motor vehicle tax revenue is expected to grow by an average of around 1.1% per year.

Other on-budget revenue

At the end of the spending limits period, miscellaneous revenue is expected to be at nearly the present level. Proceeds from gambling activities will decline during the review period by approximately EUR 130 million, due to, among other things, measures to reduce harm related to gambling. Revenue received from the EU for rural development will be reduced at the beginning of the spending limits period by timing factors related to the ending of aid programme period. The dividend income estimate for each year is slightly more than EUR 1 billion, which is, on average, approximately EUR 200 million less than the actual figure for current parliamentary term. The central government borrowing requirement will be reduced by proceeds made available from sales of shares in 2021–2024. Proceeds from sales of shares will include, in addition to an annual EUR 400 million, sales related to financing of future-oriented investments. Sales totalling EUR 1.3 billion will be required to finance future-oriented investments, and these will take place in 2021–2022.

Table 7. Ministry of Finance estimate of ordinary on-budget revenue in 2020–2024, EUR billion

	2020 budgeted	2021	2022	2023	2024	2020—2024 average annual change, %
Total tax revenue	42.3	46.2	46.4	47.6	48.7	1.6
— taxes on earned and capital income	9.6	10.0	10.3	10.6	10.9	2.0
— corporate tax	2.9	4.2	3.7	3.8	4.0	2.3
— value-added tax	17.7	20.0	20.0	20.6	21.0	2.2
— excise duties	7.3	7.0	7.5	7.5	7.5	0.8
— other tax revenue	4.8	5.0	5.0	5.2	5.3	1.3
Miscellaneous revenue	5.9	5.6	5.7	5.8	5.9	-0.6
Interest earned, income from share sales and profit recognised as income	1.5	2.4	2.4	1.7	1.7	3.0
— Dividend income and proceeds from sales of shares	1.1	2.1	2.1	1.4	1.4	7.2
Total revenue[1]	49.7	54.3	54.6	55.2	56.4	1.3

[1)] Including repayment of loans granted by central government.

5.5. Central government on-budget balance and debt

The central government on-budget deficit is projected to be approximately EUR 6.7 billion in 2021. The deficit will decrease by EUR 6 billion from 2020. In 2021, expenditure caused by the coronavirus situation will decline and tax revenue will recover. On the other hand, the balance for 2021 will be weakened compared with 2020 by the fact that fighter aircraft procurement expenditure will begin to be reflected in on-budget finances from 2021. At the end of the spending limits period, the deficit is expected to be approximately EUR 7.4 billion.

Compared with the autumn 2019 General Government Fiscal Plan, the on-budget balance will deteriorate in the spending limits period by roughly between EUR 2.5 billion and just under EUR 4 billion per year.

Central government debt is assumed to grow to approximately EUR 126 billion in 2021. The central government debt-to-GDP ratio will rise throughout the spending limits period. Central government debt is expected to be approximately EUR 148 billion in 2024, which is approximately 57½% in ratio to GDP.

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

Table 8. Ministry of Finance estimate of on-budget balance in 2020–2024, EUR billion, at current prices

	B+SBP2 2020	2021	2022	2023	2024
On-budget revenue estimate, total[1]	49.7	54.3	54.6	55.2	56.4
On-budget expenditure estimate, total, at current prices[2]	62.4	61.0	61.9	62.9	63.8

	B+SBP2 2020	2021	2022	2023	2024
On-budget balance estimate	-12.7	-6.7	-7.3	-7.6	-7.4
Central government debt-to-GDP ratio, %	52	53	54½	56	57½

[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 external to budget finances (excl. the State Pension Fund, which is placed under the earnings-related pension fund sector in the national accounts) as well as the universities, university real estate companies, Aalto Holding Oy, Business Finland Oy, Business Finland Venture Capital Oy, Gasonia Oy, Governia Oy, Hansel Oy, HAUS Finnish Institute of Public Management Ltd, Hetli Oy, Itla Children's Foundation, Leijona Catering Oy, the Finnish National Gallery, the Counties' Service Centre for Facilities and Real Estate Management Maakuntien tilakeskus Oy, Senate Properties, Solidium Oy, Sotedigi Oy, Suomi Malmijalostus Oy, Finnish Industry Investment Ltd, State Business Development Company Vake Oy, Vimana Oy, Tapio Oy, VTT Technical Research Centre of Finland Ltd, the Finnish Institute of Occupational Health and the Finnish Broadcasting Company Yle.

The central government funds are the National Housing 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.

Central government transfers to VTT's activities will amount to just over EUR 94 million in the spending limits period 2021–2024.

Overall funding of universities comprises appropriations allocated to universities in the budget and supplementary funding, which includes income from paid services, donations and sponsoring.

Since 2013, central government funding of the Finnish Broadcasting Company Yle has been based on a transfer of appropriations covered by the public broadcasting tax to the State Television and Radio Fund, which passes them on to YLE. In a report completed in 2016, a parliamentary working group proposed that no index adjustment be made in 2017–2019. An index adjustment was carried out in 2019, however, and thereafter the index adjustment provision will be adhered to as set out in the Act on the State Television and Radio Fund. The appropriation, which is outside the spending limits, will amount to approximately EUR 543 million in the spending limits period 2021—2024.

The investment company Solidium Oy is a limited company wholly owned by the central government whose task is to strengthen and stabilise Finnish ownership in companies of national importance. The company's equity portfolio consists of 13 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 2019, revenue recognised by Solidium totalling EUR 338 million was remitted to the central government. At the beginning of last year, Solidium Oy's investment yield began to rise, and the yield for the full year was 14.9%. At the end of 2019, the value of Solidium Oy's holdings was EUR 8.2 billion.

Founded in 2016, the State Business Development Company Vake Oy is a central government special assignment company whose task is to ensure that capital invested by the central government in companies is actively circulated and also to create value in the companies it owns. Vimana Oy, a service centre for the counties, was established in 2017 to produce and provide digitalisation and ICT services to the counties. Sotedigi Oy is a central government special assignment company founded in 2017 which develops national client and patient information system solutions as well as other new digital solutions for healthcare and social welfare. SoteDigi Oy and Vimana Oy merged to create a national company in February 2020.

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. The department's responsibilities also include preparing general policy on state holdings and ownership steering practices and coordinating ministerial cooperation on ownership steering.

Off-budget funds

Pension contributions collected by the State Pension Fund form one of the most significant revenue items of the funds. Other tax-like revenue includes, for example, strategic stockpile fees levied on fuel as well as Financial Stability Fund contributions collected from banks. Tax-like revenue and fees will decline at the end of the Crisis Resolution Fund included in the Financial Stability Fund reaches the target level set for it in 2024, as a result of which the stability contributions charged from banks will be abolished.

Transfers to the central government budget relate mainly to financing pension expenditure. Of pensions paid, 40% are covered by revenue remitted from the State Pension Fund. Most of the loans granted by funds and income received from their repayment relate to the activities of the National Nuclear Waste Management Fund. Those with a duty to dispose of waste have the right to receive loans against securing collateral for a fixed period. The National Housing Fund has no longer granted new loans since 2007, as a result of which the decrease in repayments of loans granted by the Fund has continued. As part of the Government's one-off and temporary future-oriented investments, resources of the National Housing Fund will be allocated to, among other things, new suburban development programme, an energy aid scheme for housing companies, and measures to improve opportunities for older people to remain at home longer. Without financial transactions, the budgetary position of off-budget funds would remain slightly in deficit in the medium term.

Table 9. Central government off-budget funds, EUR million

	2019	2020	2021	2022	2023	2024
Taxes and tax-like revenue, total	418	420	416	422	423	198
Miscellaneous revenue	161	186	97	97	100	100
Pension contributions	1 457	1 484	1 497	1 518	1 539	1 579
Interest earned and profit recognised as income	387	399	378	377	373	393
Transfers from budget	522	623	598	533	533	533
Revenue excluding financial transactions	2 946	3 111	2 985	2 947	2 967	2 802
Repayments of loans granted	1 877	1 884	2 351	2 258	2 206	2 005
Total revenue	**4 823**	**4 995**	**5 336**	**5 205**	**5 173**	**4 807**
Consumption expenditure	126	332	130	131	132	134
Current transfers	1 040	1 118	1 037	1 035	1 013	735

	2019	2020	2021	2022	2023	2024
Interest expenditure	2	1	1	1	1	1
Transfers to budget	1 909	1 946	1 977	1 984	1 992	1 992
Other expenditure	21	20	10	8	7	5
Expenditure excluding financial transactions	3 098	3 416	3 155	3 158	3 146	2 866
Loans granted and other financial investments	1 478	1 957	1 893	1 884	1 895	1 915
Total expenditure	**4 577**	**5 374**	**5 048**	**5 042**	**5 041**	**4 781**
Net financial surplus or deficit	**246**	**-378**	**288**	**163**	**133**	**26**

State-owned enterprises

Metsähallitus is a state-owned enterprise whose task is to use, manage and protect the unbuilt land and water assets directly owned by the state. Metsähallitus engages in business operations and attends to statutory public administrative duties funded out of the State budget. Metsähallitus engages in forestry and other market-based business operations through the subsidiaries it owns. The forestry operations of Metsähallitus have been incorporated into a wholly state-owned company Metsähallitus Forestry Ltd. Metsähallitus remits amounts recognised as revenue to the central government from rights of use compensation and dividends. It manages approximately 12.5 million hectares of state-owned land and water areas, with a balance sheet value of approximately EUR 3.8 billion. Of this, the core capital subject to the yield requirement is approximately EUR 2.6 billion. In 2019, the turnover of the Metsähallitus Group was EUR 362.8 million and the annual surplus was EUR 128.8 million. According to the 2020 Budget, Metsähallitus will remit to the central government EUR 138.9 million. By the end of the spending limits period, the recognised revenue received from Metsähallitus is projected to decline to EUR 120 million annually.

Senate Properties is a state-owned enterprise whose task is to provide work environment solutions in keeping with the goals of the Government Premises Strategy for its customers and to improve central government organisations' performance. Senate Properties' business is based on developing work environments and real estate assets, letting premises and providing premises services for its customers. Senate Properties may also provide services to organisations whose activities are funded mainly with appropriations included in the State budget. Senate Properties operates according to commercial principles. Its assets are owned by the Finnish State and subject to the state-owned enterprise's ownership steering. Senate Properties does not perform public administration tasks or duties as an authority.

Property sales will amount in total to EUR 460 million in 2020–2024. In 2019, Senate Properties recognised EUR 35 million as revenue, and this will remain at the same level in 2020–2024. Income from letting activity will be adversely affected by a EUR 30 million rent reduction to be implemented from the beginning of 2020. The level of revenue recognition also takes into account investment growth related to the renovation of properties in poor condition in terms of interior air. The company's equity ratio will decrease to 60% at the end of the planning period.

5.7. Sustainable development

The global 2030 Agenda for Sustainable Development sets common goals for sustainable development for all UN member states. Agenda 2030 strives for sustainable development in terms of the economy, human wellbeing and the environment.

The aim of Prime Minister Marin's Government Programme "Inclusive and Competent Finland" aims to transform Finland into a socially, economically and ecologically sustainable society by 2030.

A carbon-neutral Finland in the General Government Fiscal Plan 2021–2024

The General Government Fiscal Plan includes appropriations that can be considered to promote the Government Programme's carbon neutrality targets. The appropriations will promote, among other things, the wellbeing of the environment and nature as well as biodiversity by acquiring nature reserves and through development cooperation appropriations. The aim is to reduce emissions by, for example, supporting renewable energy and promoting public transport. Research, development and innovation projects will promote bioeconomy solutions and develop Finland towards a low-carbon society. EU greening support, environmental compensation and promotion of organic production have a significant role in developing agriculture in an environmentally sustainable direction. The appropriations are allocated, in particular, to the administrative branches of the Ministry of Economic Affairs and Employment, the Ministry of Agriculture and Forestry, the Ministry of Transport and Communications, the Ministry of the Environment and the Ministry for Foreign Affairs.

A breakdown of strategic themes according to the Government Programme has been used in classifying the appropriations in the General Government Fiscal Plan that promote carbon neutrality.

In the General Government Fiscal Plan, the goals relating to carbon-neutrality will be promoted with approximately EUR 2.0 billion in 2021, declining to approximately EUR 1.7 billion in 2024. The 2021 appropriations level will be increased by grants for the Western Metro and certain other fixed-term rail projects. In addition, increases in line with the Government Programme are also skewed toward the beginning of the spending limits, with the temporary future-oriented investments ending in 2022. Of the strategic themes according to the Government Programme, the themes Carbon-neutral Finland that protects biodiversity and Measures promoting the sustainable development of agriculture are clearly the largest.

Compared with the previous General Government Fiscal Plan, some timing and volume changes with regard to appropriations promoting carbon-neutrality have taken place; on the other hand, no significant discretionary changes have been made in respect of this expenditure.

Climate Fund

The Government has decided to establish a Climate Fund, based on the State Business Development Company Vake Oy. Its activities focus on, among other things, combating climate change. Preparation of the matter is under way.

Table 10. A carbon-neutral Finland, key measures in 2021–2024 (EUR million)

	2021	2022	2023	2024
3.1 Carbon-neutral Finland that protects biodiversity	580	510	475	439
3.2 Globally influential Finland	277	284	294	303
3.4 Dynamic and thriving Finland	238	220	223	223
3.4.1 Transport network development and maintenance	214	124	106	106
3.4.2 Measures promoting sustainable development of agriculture	709	677	637	676
Total	**2 019**	**1 815**	**1 734**	**1 747**

Taxes

There are a number of taxes that may be considered as promoting the goals of carbon-neutrality. These include, in particular, energy taxes, motor vehicle tax, car tax, excise duty on certain beverage packagings and waste tax. Although these may as a whole be considered to be taxes in accordance with sustainable development objectives, they may also include individual tax structures that are both in accordance with and contrary to the objectives.

In accordance with the Government Programme, a tax reform for sustainable development will be prepared in 2020–2023, aimed at promoting movement towards carbon neutrality. The tax reform for sustainable development will consist of a reform of energy taxation, a reform of transport taxation, promotion of the circular economy by tax means, and a study of emissions-based consumption taxation.

It has been decided to strengthen emissions steering in energy production by abolishing the energy tax rebate mechanism for energy-intensive industries and reducing category II electricity tax to the minimum rate allowed by the European Union. The tax expenditure for combined heat and power production will be reduced and the tax level will be raised in heating fuels so that tax revenue grows by a total of EUR 100 million during the parliamentary term. In addition, the aim is to shift heat pumps and data centres that produce heat for the district heating network to category II electricity tax in order to promote electrification.

It has been already decided as part of promoting the Government's climate targets to increase transport fuel taxes by EUR 250 million. The change will enter into force in August 2020. As part of the cutting of business subsidies included in the Government Programme, it has been already decided to phase out the tax expenditure for paraffinic diesel amounting EUR 120 million, as the graduated system of fuel taxation based on the quality of the fuel is no longer justified due to the modernisation of the vehicle stock. With regard to business subsidies, further work will be aimed at a significant cut in subsidies that are harmful in their effects on the environment and climate.

Environmentally harmful subsidies

Environmentally harmful subsidies refer to subsidies that result in an increase in the utilisation of natural resources and the environmental burden in the subsidised enterprise or the subsidised sector. Environmentally harmful subsidies may have positive effects in terms of other policy objectives.

In connection with the 2020 budget proposal, based on earlier reports the total amount of environmentally harmful subsidies was estimated to be approximately EUR 3.6 billion[8] (see Chapter 6 of the rationale of the 2020 budget proposal).

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 other policy lines of Prime Minister Marin's Government relating to local government finances and 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 the Local

[8] The total includes both appropriations and tax subsidies, which are not mutually comparable. The total is given only to illustrate the scale. Approximately 1/3 of the total consists of appropriations.

Government Finance Programme, which is prepared separately in connection with the General Government Fiscal Plan.

6.1. Local government finance policies

The Government Decree on the General Government Fiscal Plan (120/2014) requires that the General Government Fiscal Plan set a maximum monetary limit consistent with the local government budgetary target for the change in local government operating expenditure arising from central government measures. In its first General Government Fiscal Plan in autumn 2019, the Government service as a target that the local government deficit can be at most ½% in ratio to GDP in 2023.

As stated in Chapter 2, the activation of the general escape clause of the Stability and Growth Pact means that exceptional circumstances are prevailing in the EU as a whole, including Finland. It is not sensible to set budgetary position targets for general government until there is a stronger understanding of the fundamentals. This also applies to the budgetary position target for local government, which is not set in the General Government Fiscal Plan.

In accordance with the Government Programme, any measures that will result in an increase or decrease in the number of duties or obligations for municipalities and any changes in the tax criteria that will affect local government finances will be compensated in net terms with a 100% modification of the central government transfers and/or the corresponding fixed appropriation, or by removing other tasks or obligations.

Limit on local government expenditure set by central government measures

The limit for local government expenditure set by central government measures only includes discretionary measures impacting operating expenditure. The setting of the limit for local government expenditure in autumn 2019 took into account measures related to the duties and obligations of municipalities included in the General Government Fiscal Plan for 2020–2023 and the budget proposal for 2020. The Government decided that its measures will have the net effect in 2023 of increasing local government operating expenditure by a maximum of EUR 520 million compared with the spring 2019 technical General Government Fiscal Plan.

The limit for local government expenditure set in the autumn was scaled according to the information available at the time in question. The cost estimate for amendment to the Act for Elderly Care and Services on the minimum staffing level for care personnel has, however, changed very significantly during the preparation of the relevant Government proposal. In other respects, too, there is uncertainty associated with the package of duties and obligations for municipalities included in the limit for local government expenditure. The effects on local government finances of the coronavirus situation and the introduction of the Emergency Powers Act are not yet known. Moreover, the possible further financing of future-oriented investments and their effects on municipalities are not yet known, and no provision for them has been made in the limit for local government expenditure set by central government measures.

Taking the above into account, the limit for local government expenditure set in autumn 2019 will be exceeded. The table below gives the current information on the effects on local government finances included with the scope of the limit for local government expenditure. The information will be further updated in connection with the preparation of the budget proposal for 2021.

A key factor is that, in accordance with current legislation, a central government transfer covering 100% of the costs will be allocated to municipalities' new or extended duties and obligations. The joint impact on local government finances of Government measures included in the limit for local government expenditure set by central government measures is estimated to be nearly neutral. Although the Government measures increase local government expenditure, the central government transfers and grants relating to them will grow by nearly as much. Exceeding the expenditure limit will not therefore weaken the budgetary position of local government, as the central government will bear the full financing responsibility for new or extended duties and obligations in central government transfers to local government.

Table 11. Expenditure increases directed at local government finances by central government measures in 2020–2024, EUR million

	2020	2021	2022	2023	2024
Original calculation	430	510	600	520	-
Updated estimate	417	534	611	552	619

Other central government measures impacting local government finances

The municipalities will be compensated for changes made to tax criteria.

The reform of client fees in healthcare and social welfare will reduce fee income by EUR 45 million. An increase corresponding to this will be made in the central government transfer to local government for basic public services.

In addition to the economic cycle, the imbalance between local government revenues and expenditures is also due to structural challenges posed by population ageing. The Government has launched a reform of healthcare and social welfare. In the reform, the intention is transfer from municipalities to counties the organisation of health and social services as well as rescue services. This will reduce the expenditure pressure on local government finances as a result of population ageing, but it will not remove the need for other structural reforms that increase productivity and efficiency. When the coronavirus crisis recedes, securing the long-term sustainability of local government finances will become even more important.

Municipalities have wide-ranging autonomy, and the balancing of local government finances cannot be ensured by central government measures alone. Therefore, the municipalities also have great responsibility for balancing local government finances, for example by implementing structural reforms and improving productivity.

6.2. Central government measures impacting local government finances

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

Central government transfers to local government for basic public services will increase to EUR 7.3 billion in 2021 and will rise to EUR 7.8 billion during the spending limits period. Central government compensation to municipalities for tax revenue losses arising from tax criteria changes will be EUR 1.9 billion in 2021 and it will rise by the end of the spending limits period to EUR 2.9 billion.

Municipalities will be compensated for deferments of municipal income tax, corporate tax and real estate tax revenue resulting from changes in tax payment arrangements by increasing the appropriation for compensation payable for tax revenue losses by EUR 547 million in 2020. A corresponding reduction will be made in local government appropriations in 2021. The measure will balance the accrual of municipalities' tax revenue during the temporary payment arrangement for taxation.

In 2021, the index adjustment to the central government transfer to local government for basic public services will be approximately EUR 166 million, and of the index adjustment to the central government transfer for education and culture approximately EUR 16 million will be directed to local government. The revision of the division of costs between central and local government will reduce the central government transfer to local government for basic public services by EUR 13.5 million and will increase the share of the central government transfer for education and culture directed to local government by approximately EUR 6 million.

EUR 10 million will be allocated to discretionary merger support for municipalities that are facing, or about to face, a crisis. This appropriation is a transfer from the item central government transfer to local government for basic public services.

EUR 10 million per year in 2021–2023 will be allocated to the incentive scheme for digitalisation in municipalities. The incentive scheme is funded by a transfer from the central government transfer to local government for basic public services. The transfer will not be made in 2024.

The Act on Healthcare for Students in Higher Education enters into force at the beginning of 2021. Students of universities of applied sciences will accordingly also be covered by services of the Finnish Student Health Service (YTHS) and responsibility for financing services will be removed from the municipalities. In connection with the reform, the central government transfer to local government for basic public services will be reduced by approximately EUR 32 million.

In accordance with the Government Programme, the Government has initiated the preparation of a health and social services reform, taking into account the preparations made in previous parliamentary terms and constitutional constraints. The reform will transfer the responsibility for organising health and social services to autonomous regions (counties) that are larger than municipalities. The responsibility for organising rescue services will also be transferred to the counties. The effects of the reform will be taken into account in the General Government Fiscal Plan at the stage when a Government proposal on the reform has been submitted to Parliament.

In accordance with the Government Programme, the Act for Elderly Care and Services will be amended so the staffing level for care personnel must be a minimum of 0.7 per patient in units providing 24-hour care. In addition, a harmonised assessment and monitoring system for assessing and determining the service needs of older people is also provided for. The Act is intended to enter into force on 1 August 2020 with regard to staffing levels, while allowing on certain conditions a transitional period to 1 April 2023. In connection with the amendment to the Act, the spending limits included EUR 70 million per year from 2023 onwards in the autumn 2019 General Government Fiscal Plan. For the implementation of the amendment, central government transfers to local government will be increased by EUR 35 million in 2021–2022 and, in addition to the EUR 70 million already outlined, EUR 137.7 million in 2023 and EUR 195.8 million in 2024. The increase is due to more detailed calculations made in connection with the preparation of the Government proposal.

For new and extended duties, the central government transfer percentage in accordance with the Act on Central Government Transfers to Local Government for Basic Public Services is 100.

Raising the minimum staffing level for care personnel will also result in an increase in the numbers of students in practical nurse education. The increase will raise central government transfers and assistance for vocational education and training by EUR 27 million in 2021, EUR 43 million in 2022, EUR 30 million in 2023 and EUR 16.5 million in 2024. Of these, EUR 20 million in 2021, EUR 31.8 million in 2022, EUR 22.2 million in 2023 and EUR 12.2 million in 2024 is expected to be allocated to local government finances.

Savings measures will be undertaken to cover the costs of raising the minimum staffing level for care personnel under the Act for Elderly Care and Services. From 2023, the central government transfer to local government for basic public services will be reduced by EUR 20 million related to savings obtained through utilisation of digitalisation and by EUR 20 million from enhancing the efficiency of purchased services and competitive tendering. In addition, funding for the implementation of the statutory care guarantee will be reduced by EUR 5 million compared with the funding allocated to this in the October General Government Fiscal Plan. A saving made in health insurance compensation will increase demand for services in the public sphere and this will taken into account in the central government transfer for basic public services from 2023.

In cooperation with early childhood education and basic education, EUR 2 million per year in 2021–2024 will be allocated to improving the literacy and basic skills of people returning to work from family leave and EUR 10 million in 2023–2024 to other continuous learning measures. Of these, EUR 1.4 million in 2021–2022 and EUR 4.2 million in 2023–2024 is expected to be allocated to local government finances.

The extension of compulsory education will increase central government transfers to local government by EUR 22 million in 2024 compared with the 2023 level. The central government transfers will therefore amount to EUR 22 million in 2021, EUR 65 million in 2022, EUR 107 million in 2023 and EUR 129 million in 2024.

Increases of EUR 0.75 million in 2021–2022, raising the level to EUR 3 million, will be made for the activities of social sector centres of expertise.

For refugees who have come to Finland as minors, the age limit for aftercare will be raised from 21 years to 25 years. As a result of the change, an increase of EUR 2.6 million in 2021 and EUR 5 million per year from 2022 will be allocated to this.

To finance local and regional climate projects, it is proposed that EUR 1.5 million in 2022–2024 be distributed, mainly as grants to municipalities. Grants amounting to EUR 0.3 million per year will be made in 2021–2022 in a housing programme for the elderly. In addition, EUR 3.5 million will be allocated in 2021 to accelerating the climate work of municipalities and regions.

In accordance with the Government Programme, climate-based general increase amounting to EUR 20 million per year from 2020 will be provided for public transport subsidies and purchases. It has been decided to use the appropriation such that EUR 7 million is allocated directly to large urban areas through land use, housing and transport (MAL) agreements to be outlined in more detail at a later date. The remaining EUR 13 million will be allocated such that the Finnish Communications Regulatory Authority will launch a state aid application process for climate-based public transport subsidies, in which applications for support can be made by large urban areas, medium-sized urban areas and Centres for Economic Development, Transport and the Environment.

Table 12. Central government transfers to municipalities and joint municipal authorities, EUR million, spending limits period at 2021 prices

	2019	2020	2021	2022	2023	2024
Imputed central government transfers	**9 656**	**8 108**	**8 392**	**8 494**	**8 834**	**8 931**
Ministry of Finance, central government transfer for basic public services[1]	8 729	7 074	7 340	7 380	7 701	7 789
Ministry of Education and Culture[2]	928	1 034	1 052	1 114	1 132	1 142

	2019	2020	2021	2022	2023	2024
— of which joint municipal authorities	978	1 041	1 023	1 034	1 028	1 021
Central government compensation to municipalities for tax revenue losses arising from tax criteria changes		**2 816**	**1 860**	**2 580**	**2 731**	**2 857**
Other central government transfers by administrative branch, total	**1 003**	**1 390**	**1 357**	**1 300**	**1 045**	**1 026**
Ministry of Justice	20	0	0	0	11	32
Ministry of the Interior	5	5	5	5	5	5
Ministry of Finance	43	110	90	90	20	10
Ministry of Education and Culture	215	242	243	240	207	207
Ministry of Agriculture and Forestry	6	6	6	6	6	6
Ministry of Transport and Communication	60	93	80	78	78	78
Ministry of Economic Affairs and Employment	219	196	198	201	188	184
Ministry of Social Affairs and Health	405	650	644	598	472	445
Ministry of the Environment	30	88	92	83	58	58
Central government transfers, total	**10 659**	**12 314**	**11 609**	**12 374**	**12 610**	**12 814**

[1)] Tax compensation payable to the municipalities will be transferred from 2020 to a dedicated item 28.90.35. Previously, tax compensations have been included in the item central government transfers for basic public services.

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

Tax criteria changes

	2021	2022	2023	2024
Index adjustment of earned income taxation	-163	-150	-156	-163

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

This chapter describes the development outlook for local government finances as a whole (incl. the Åland Islands) in 2021–2024, based on a pressure projection for local government finances. The economic projection of local government finances for 2021–2024 is a pressure projection that, in 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 the municipalities' and joint municipal authorities' own consolidation measures or the municipalities' tax percentage changes for 2021–2024. Although the years of the spending limits period are a subject of special interest, the chapter also discusses the current year, because the extent of the effects of the coronavirus pandemic and the related uncertainty are also reflected in the years of the spending limits period.

The Government is preparing for the May supplementary budget proposal a local government support aid package amounting to at least EUR 1 billion. In addition, the Government has promised, as the impact assessments of the coronavirus crisis becomes clearer, to supplement if necessary the set of measures directed at municipalities in the August 2020 budget session. In the present course of developments, these future Government measures are not yet envisaged.

The deterioration of local government finances continued in 2019. Local government expenditure grew significantly faster than revenue. According to preliminary financial statements, cash flow from operations and investments in Finland's local government finances as a whole will be EUR 2.3 billion negative. The local government loan stock grew by EUR 2.5 billion to EUR 21.9 billion, a historical high.

Based on information from municipalities' and joint municipal authorities' budget and systematic data collection, local government expenditure development in 2020 was expected to be moderate. According to a savings survey published by KT Local Government Employers, municipalities and joint municipal authorities prepared to adjust their activities by approximately EUR 360 million in the current year. The situation was complicated by the coronavirus crisis, however, as the pandemic and the resulting emergency arrangements will increase local government expenditure and reduce revenue. The projection assumes that the measures restricting economic activity will last for three months. Its effects will be greater the more intensely and widely the virus spreads, the more people fall ill and the more extensive and prolonged the containment measures are to prevent the virus from spreading. Local government finances, and also the national economy as whole, will be exceptionally difficult to forecast this year and next, because assessments of the effects of coronavirus are changing daily and make situation assessment highly uncertain.

In 2020, operating expenditure growth is expected to continue at an annual rate of approximately 4%. Expenditure will also be increased by growth in healthcare and social welfare expenditure due to population ageing, expenditure increases to expand local government activities in accordance with Prime Minister Marin's Government Programme, and additional costs arising from the coronavirus situation. The role of the local government sector in managing the crisis is significant. The coronavirus situation will result in immediate expenditure increases for healthcare and social welfare as well as in rescue services expenditure, but the pandemic will also have numerous indirect effects. On the other hand, there will also be savings in some activities, as some local government sector employees will be laid off for the duration of the crisis. Due to the coronavirus situation, an additional increase of EUR 300 million has been taken into account in operating expenditure. In addition, only approximately EUR 150 million instead of EUR 360 million has been included in the projection for municipalities' own consolidation measures. The cost level of the local government sector is expected to rise by 1.7% in 2020.

Personnel expenses form the largest cost item in local government finances, and therefore local government sector wage settlements will have considerable significance for the development of local government finances. The collective agreements for local government public servants and employees expired at the end of March, but a negotiated settlement has not yet been reached. Negotiations will continue with the help of the National Conciliator. The earnings development of the local government sector has therefore been assumed to follow the general earnings development of the labour market. Earnings development in 2020 will deviate from general earnings development, as the restoration of the public sector holiday bonus cut will increase local government earnings more than the labour market in general.

The coronavirus situation will cause uncertainty in the investment environment. Due to interruption of value chains, the availability of investment goods is disrupted, which reduces investment. In Finland, construction investments may also be adversely effected by measures restricting the movement of labour. The uncertain outlook may lead to the postponement of some local government investments or prevent them from materialising.

Restrictive measures launched due to the coronavirus pandemic will reduce the local government operating revenue. The loss of fee and sales revenue is expected to be approximately EUR 200 million. In this respect, there might be a downside risk in the forecast due to a reduction in non-urgent care. Overall, operating revenue will decline slightly from last year. The local government operating margin will deteriorate by approximately 5.74% as a consequence of growing operating expenditure and falling operating revenue.

More than half of local government revenue consists of tax revenue. A rapid deterioration of economic conditions will reduce tax revenue strongly. Tax revenue for the current year will also be reduced by delays resulting from the tax payment deferral arrangement, which will shift municipalities' tax revenue amounting to approximately EUR 550 million from this year to next. Municipalities will be compensated via government discretionary transfers for the timing disruption of tax revenue caused by payment reliefs. In 2020 central government transfers to local government for basic public services will increase significantly due to, among other things, index adjustments, a reduction of the cut in central government transfers related to the Competitiveness Pact, and new and extended duties under the Government Programme. The change in central government transfers does not, however, mean a strengthening of local government finances; a significant part of the growth in central government transfers corresponds to a either a reduction in other revenue or growth in costs.

In 2020, local government expenditure will grow significantly more quickly than revenue and local government cash flow for operations and investments will be EUR 3.3 billion negative.

Local government expenditure in the spending limits period

Growth of local government operating expenditure will slow to 2.4% in 2021, when the additional investments required to manage the coronavirus pandemic are discontinued. There is a risk, however, that care queues in healthcare will shift from the current year to next year, in particular. In 2022–2024, operating expenditure will grow on average by 3.1% per year. Operating expenditure will be increased by growth in the need for services due to population ageing as well as the extension of municipalities' duties. Impact assessments of the costs of key measures in the Government Programme affecting local government finances, i.e. raising the staffing level of care personnel in services and extending the age of compulsory education, have been revised upwards since last autumn. The price index for basic public services, which describes the development of local government costs, will increase on average by 2.2% in the years of the spending limits period. The development of local government prices will be significantly affected by local government sector wage settlements, which have been assumed in the forecast to follow the general earnings development of the labour market.

Local government investments are at a fairly high level relative to their historical development. The number of construction permits granted for various buildings in the care and education sector has grown, so startups are expected to increase. The deterioration of economic conditions and the bleak outlook for local government finances, on the other hand, may delay and halt final investment decisions as greater emphasis is placed on the need to prioritise investments. In the projection, investment is assumed to remain at a fairly high level, but the intensity of hospital construction is expected to gradually decline in the later years of the review period. Local government investment pressures are also expected to remain significant in the future, however, as the construction projects under way are multiannual. In addition, investment pressures will be maintained by, among other things, the age of the building stock and population migration.

Local government revenue in the spending limits period

Local government operating revenue is expected to grow by 3.0% in 2021. The disruptions caused by the coronavirus situation to fee and sales revenue will disappear, but healthcare and social welfare client fees reform will reduce fee income by approximately EUR 45 million. An increase corresponding to this will be made in the central government transfer to local government for basic public services. Operating revenue will grow in 2022–2024 on average by 1.9% per year.

The growth of local government tax revenue will accelerate significantly next year as the economy normalises. Tax revenue growth will also be accelerated by this year's payment arrangements, which will shift taxes from 2020 to the following year. This will not improve local government finances, however, because a corresponding proportion amounting to approximately EUR 570 million will be reduced from discretionary government transfers.

Local government expenditure will grow faster then revenue in the spending limits period. In addition to economic conditions, local government finances will be burdened by structural problems. Population ageing will increase growth in health and social services and weaken tax revenue development. According to the pressure projection, local government cash flow from operations and investments will be EUR 2.8–3.4 billion in the negative during the spending limits period. In addition, the local government loan stock will continue to grow rapidly.

Table 13. Development of local government finances up to 2024 according to local government accounts, EUR billion, at current prices

	2019	2020	2021	2022	2023	2024
Profit/loss itemisation						
1. Operating margin	-29.8	-31.5	-32.2	-33.3	-34.4	-35.7
2. Tax revenue	23.0	22.4	24.5	24.4	25.1	25.8
3. Central government transfers, operational finances	8.7	10.3	9.6	10.5	10.9	11.3
4. Financial income and expenses, net	0.3	0.4	0.3	0.2	0.1	0.0
5. Annual margin	2.2	1.5	2.2	1.8	1.8	1.4
6. Depreciation and amortisation	-2.9	-3.0	-3.1	-3.2	-3.3	-3.4
7. Extraordinary items, net	0.4	0.1	0.1	0.1	0.1	0.1
8. Profit/loss for the financial period	-0.3	-1.3	-0.8	-1.2	-1.4	-1.8
Funding						
9. Annual margin	2.2	1.5	2.2	1.8	1.8	1.4
10. Extraordinary items	0.4	0.1	0.1	0.1	0.1	0.1
11. Current income adjustments	-0.7	-0.6	-0.6	-0.6	-0.6	-0.6
12. Internal financing, net	1.9	1.0	1.7	1.3	1.3	0.9
13. Investment in fixed assets	-5.3	-5.5	-5.7	-5.6	-5.5	-5.5
14. Funding contributions and sales gains	1.2	1.2	1.1	1.1	1.1	1.1
15. Investments, net	-4.1	-4.3	-4.5	-4.4	-4.3	-4.3
16. Financial balance (internal financing - investment)	-2.3	-3.3	-2.8	-3.1	-3.1	-3.4
17. Loan stock	21.9	25.5	28.7	32.1	35.4	39.2
18. Cash	6.3	6.8	7.3	7.8	8.3	8.8
19. Net debt (loan stock - cash assets)	15.6	18.7	21.2	24.2	27.1	30.3

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, under which pensions are generally determined by the same criteria, however. The funding of pension expenditure varies by pension act, as a result of which the financing criteria of the earnings-related pension sector cannot be described by a single rule. The financing criteria can be examined, however, by looking at the most significant pension acts separately. Finland's earnings-related pension system is partly funded, as some of the financing of pensions comes from prefunded pension assets and the income from them. Pensions are financed, however, mainly by annual pension contributions from employees and employers. In addition, part of the pensions of central government employees and entrepreneurs, agricultural entrepreneurs and seafarers is financed from the central government budget. Employees' pension contributions are the same under all pension acts. Pensions accrue under all pension acts in more or less the same way from earnings during entire working careers. Starting old-age pensions are reduced by a life expectancy coefficient that takes the increase in life expectancy into account. Pensions paid out are increased annually by the Earnings-related Pension Index, in which inflation has an 80% weight and change of earnings level a 20% weight.

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 TyEL system's funding rate, i.e. the ratio of pension assets to pension liability, was approximately 30.6% at the end of 2017 (based on a 2.5% real discount rate up to 2028 and 3.5% from 2029). The labour market organisations have agreed on the TyEL system's EMU buffer. As the target for the EMU buffer has been agreed an amount corresponding to 2.5% of the annual private sector wage bill. The idea of the buffer is, under certain conditions, to enable a temporary reduction in earnings-related pension contributions during weak economic conditions. When applying the buffer, a later increase in earnings-related pension contributions must be correspondingly agreed, allowing the buffer to return to its former level. It has been decided to activate the reduction allowed by the buffer in 2020, when the employer's contribution will be reduced by 2.6% from the beginning of June at the latest. The contribution will be correspondingly increased in 2022–2025, so that the buffer can accrue to its former level.

The pension expenditure of entrepreneurs (approximately 9% of those insured), agricultural entrepreneurs and seafarers is financed from contributions and the portion exceeding this from the central government budget.

Just over 20% of those insured are covered under the local government pensions system. In the local government pension system, the aim is to set pension contributions at a level ensuring that the pension system is on a sustainable foundation and the level of pension contributions will remain stable in the future.

Employees ensured under the state employee's pension system (approximately 6% of those insured) and central government employers pay their pension contributions into the State Pension Fund. Funds are transferred annually from the State Pension Fund to the central government budget to cover state employees' pension expenditure. The transferred amount is currently 40% of the expenditure arising from central government pensions, because the remainder of the 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 is increasing pension expenditure, which has been reflected in a reduction in the surplus. Due to prefunding, however, the property income of the pension funds is substantial, so they 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 an average of just over 3% in ratio to GDP in the first decade of the 2000s to 0.9% in ratio to GDP in 2019. In the national accounts, private sector earnings-related pension funds are also included in general government finances and their assets in general government finance assets.

The surplus of the earnings-related pension sector is projected to decrease to close to balance in 2020 as a consequence of the decline of the wage bill caused by the coronavirus crisis and the fixed-term lowering of pension contributions. The sector's property income will also decline due to the collapse of the financial markets. In the coming years, the sector's surplus will improve as the fixed-term contribution reduction ends and the economy recovers. In 2022–2025, the employer's earnings-related pension contribution will be increased to compensate for the reduction in 2020.

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 units handling the earnings-related unemployment insurance system. Kela's activities are financed statutorily by the health insurance contributions of the insured and employers as well as by public sector contributions. The central government's share of Kela's funding in 2018 was approximately 77%, while insurance contributions accounted for approximately 18% and municipalities for approximately 5%. In 2019 the costs of Kela's benefit funds totalled approximately EUR 15.4 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 Employment Fund and unemployment benefit societies. Earnings-related unemployment expenditure is financed from unemployment insurance contributions collected from employees and employers (approximately 55%), central government contributions (approximately 40%) and the membership fees of unemployment benefit societies (approximately 5%). In 2019, the benefits paid by unemployment benefit societies totalled approximately EUR 1.5 billion. The Employment Fund has a cyclical buffer whose net debt or net assets must be at most an amount corresponding to annual expenditure arising from an unemployment rate of 6%.

The financial position of other social security funds will turn to deficit in 2020 due to the rapid growth of unemployment expenditure caused by the coronavirus crisis. The sector will remain in deficit in the next few years. The sector will be nearly 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 by at most 0.4% in ratio to GDP annually.

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

Chapter 5–7 addresses separately each subsector of general government finances. Chapter 8 aims to provide a concise review of the Government's discretionary measures and their impact on general government finances as a whole. The chapter 8 review does not take into account so-called financial transactions.

8.1. Extent and timing of measures

The following table summarises the cumulative impact on general government finances of the decisions affecting revenue and expenditure of Prime Minister Marin's Government in 2019–2024. Measures weakening the general government balance are presented with a minus sign and strengthening measures with a plus sign. The impacts have been presented in relation to the final General Government Fiscal Plan of the previous parliamentary term, i.e. the so-called technical General Government Fiscal Plan adopted on 4 April 2019. In addition to the discretionary measures taken into account in the table, the Government aims to increase the employment rate and the number of people in employment through reforms that strengthen employment. In addition, productivity measures targeting general government finances will be implemented.

Measures related to the coronavirus situation

In the first supplementary budgets for 2020, the Government has introduced many fixed-term and targeted measures to combat the impact of the coronavirus pandemic on human health and the economy. In terms of central government on-budget appropriations, this means discretionary investments totalling approximately EUR 4.1 billion in 2020–2024. However, of the budget appropriations, the capital funding of Finnish Industry Investment Ltd and loans for research and innovation activity are not included in the figures of the table below, because neither of them will impact the central government budgetary position according to the national accounts. The easing of tax payments will weaken central government finances by approximately EUR 1.4 billion in 2020, because the central government will compensate the municipalities for tax revenue losses, and will correspondingly strengthen central government finances in 2021. The temporary arrangements related to self-employed people's social security benefits and businesses' social security contributions will also leave social security funds in a weaker financial position. There follows more detailed information about the decisions made.

The Government has decided on measures to support businesses through grants, guarantees and easing of tax payments and social security contributions. The aim of the support measures for businesses is to improve the business environment and thus reduce the long-term effects on growth and employment of the downturn triggered by the coronavirus situation.

To alleviate the financial situation of businesses, a total of EUR 1.45 billion of grant authorisations for direct subsidies has been added in the supplementary budget to the appropriations of the administrative branch of the Ministry of Economic Affairs and Employment. In addition, the intention is to increase Finnvera's domestic financing authorisations from the present EUR 4.2 billion to a maximum of EUR 12 billion. At the same time, the share of compensation paid by the central government to Finnvera for credit and guarantee losses would be raised from 50% to 80%. The estimated increase in guarantee loss compensation will be reflected in on-budget expenditure as increase expenditure in the spending limits period.

The interest rate for late payments calculated for taxes included in tax payment arrangements will be temporarily reduced from 7% to 4%. At the same time, the Tax Administration will ease the terms of the payment arrangement procedure. The aim of the tax payment arrangements is to mitigate payment difficulties faced by businesses as a consequence of the coronavirus outbreak and the restrictive measures implemented to protect the population. It should be noted that the effects of this measure are not reflected in the table presented below, because the table follows recognition practices according to the national accounts[9].

The municipalities will be compensated in 2020 by approximately EUR 0.5 million for delays to tax revenue arising from changes to the tax pay arrangements. A corresponding decrease in compensation to municipalities will be made in 2021. In the table below, the measure is included in compensation for changes in tax criteria.

The private sector earnings-related pension contribution will be reduced in accordance with a proposal of social partners from 1 May–31 December 2020. The funding will be covered from the earnings-related pension system's EMU buffer. The buffer will accumulate again by increasing the earnings-related pension contribution for 2022–2025. In addition, in 2020 there will be an opportunity to defer earnings-related pension contributions by three months within the year.

[9] In the national accounts, late payments are adjusted on an accrual basis as general government revenue for the year in which the payment obligation arises.

The coronavirus situation also increases the need for healthcare and particularly specialised medical care. In addition, the Government has allocated for 2020 additional appropriations in care equipment, protective equipment, testing and vaccine research. Funding for vaccine research will be increased permanently by EUR 1.5 million.

Measures have also been decided on which do not affect the figures shown in the table. These measures include increasing the investments of the Bank of Finland and the State Pension Fund in commercial paper, a state guarantee for Finnair's financial needs, a state guarantee to shipping companies for critical security of supply freight transport, lowering the capital requirements of credit institutions, and rental discounts facilitated by Senate Properties and Metsähallitus for their private tenants.

Government's permanent additional expenditure

The Government decisions included in the autumn 2019 General Government Fiscal Plan have increased permanent general government expenditure by approximately EUR 1.4 billion at the level of 2023 compared with the spring 2019 technical General Government Fiscal Plan. Permanent new expenditure is allocated to, among other things, strengthening competence and social justice and to climate policy measures.

A small part of the additional expenditure will be financed such that central government on-budget expenditure and revenue are reallocated, for example, by lowering the level of certain deferrable appropriations.

A Government proposal on the minimum staffing level for care personnel under the Act for Elderly Care and Services has been submitted to Parliament. To cover the financial effects of the proposal, central government transfers to local government will be increased, on top of the EUR 70 million funding already included in the October General Government Fiscal Plan, by EUR 195.5 million at the 2024 level, in addition to which additional funding will be allocated on a fixed-term basis to practical nurse education. The above-mentioned additional costs will be funded by a number of different savings. (see Chapter 5.3 for more detail)

In addition to decisions on the staffing level for care personnel, the Government has allocated in the spending limits period 2021–2024 new, partly fixed-term and partly permanent, additional expenditure. (see Chapter 5.3.1 for more detail)

Fixed-term future-oriented investments in 2020–2022

A total of approximately EUR 1.4 billion for 2020–2022 was allocated to future-oriented investments in the October 2019 General Government Fiscal Plan and the 2020 Budget. In addition, investments totalling over EUR 200 million will be allocated from the National Housing Fund in 2020–2022. In accordance with the Government Programme, the intention is to finance future-oriented investments mainly through property income so that they do not lead to an increase in the debt burden in 2023.

Tax criteria changes

Prime Minister Marin's Government Programme pays particular attention to pressures for change due to technological advances and climate change. Technological advances include robotisation, digitalisation, the platform economy and artificial intelligence. The aim is to secure Finland's tax base in an internationalising and digitalising economy. In addition, the Government Programme seeks to promote employment and encourage entrepreneurship.

The tax base will be strengthened by phasing out during the parliamentary term the right to deduct interest on home loans. The domestic work credit was also reduced in 2020. Earned income taxation of people on low and middle incomes was eased from the beginning of 2020 and the solidarity tax, originally decreed to be temporary, was continued until 2023.

Emissions steering in energy production and use will be increased by abolishing during the parliamentary term the energy tax rebate mechanism for energy-intensive industries and by reducing the category II electricity tax to the minimum rate allowed by the European Union. Taxation of fuels for mobile machinery and heating fuels will be increased gradually by EUR 100 million during the parliamentary term. Taxation of transport fuels will be increased by EUR 250 million during 2020. Energy tax revenue will be increased by EUR 120 million on an annual basis by the phasing out of tax expenditure for paraffinic diesel during the parliamentary term. Health will be promoted by increasing excise duties on tobacco, alcohol and soft drinks by a total of EUR 275 million.

In accordance with the Government Programme, the municipalities will be compensated for the tax revenue impact of changes made to tax criteria. Taxation changes are discussed in more detail in terms of central government finances in chapter 5.4, in terms of local government finances in chapter 6.2 and in terms of general government finances in chapter 8.3.

Social security contributions

A decline in unemployment expenditure enabled a lowering of the unemployment insurance contribution in 2018–2020. In addition, the temporary reductions in health insurance contributions agreed in the Competitiveness Pact expired at the end of 2019. The unemployment insurance contribution will remain unchanged from 2020.

Improving public sector productivity

In the preparation of the Government Programme, it was estimated that the general government balance could be improved through public sector productivity measures by just under EUR 300 million by the end of the parliamentary term. Achieving this target will require significant measures to improve productivity in all administrative branches and cross-administratively. Such measures will be targeted at, for example, public sector premises issues, procurement, ICT utilisation and, alongside other objectives, measures to develop local government activities and structures.

Productivity measures will be funded mainly from Ministry of Finance item 28.70.05 (Health, social and rescue services development support and steering as well as promotion of public sector productivity). On 16 January 2020, the Government submitted a decree on discretionary government transfers for improving operational efficiency, reforming health and social services as well as rescue services, which concerns transfers granted to municipalities and joint municipal authorities from the item in question. Based on the decree, the realisation of the social and economic effectiveness of funded projects and the overall significance of each project will be particularly assessed in the granting of transfers.

In addition, the Government will continue productivity-promotion measures already launched in the previous parliamentary term, such as developing digitalisation and productivity in central government activities, the central government premises efficiency improvement programme, and the incentive scheme for digitalisation in municipalities. These are explained in more detail in Chapter 5.3.2.

Table 14. Total impact on general government finances of decisions on revenue and expenditure, cumulative, EUR billion

	2019	2020	2021	2022	2023	2024
Decisions lowering central government appropriations	0.0	0.1	0.1	0.2	0.3	0.1
Decisions increasing central government appropriations	-0.4	-1.0	-1.7	-1.5	-1.7	-1.7
Future-oriented investments (incl. National Housing Fund)	0.0	-0.8	-0.5	-0.3	0.0	0.0
Increases in appropriations due to the coronavirus situation	0.0	-2.8	-0.4	-0.2	-0.2	-0.1
Compensation to municipalities for tax criteria changes	0.0	-0.7	0.5	-0.1	-0.1	-0.1
Decisions increasing central government tax revenue	0.0	0.3	0.7	0.8	1.0	1.2
Decisions lowering central government tax revenue (excl. Index of Wage and Salary Earnings/Consumer Price Index adjustments)	0.0	-0.1	-0.3	-0.5	-0.5	-0.5
Other decisions increasing central government revenue	0.0	0.0	0.0	0.0	0.0	0.0
Impact on central government budgetary position, net	**-0.4**	**-5.0**	**-1.6**	**-1.6**	**-1.1**	**-0.9**
Government measures increasing local government revenue	0.2	0.2	0.3	0.4	0.6	0.7
Government measures increasing local government expenditure	0.0	-0.2	-0.3	-0.4	-0.6	-0.6
Net impact of future-oriented investments on local government finances	0.0	0.0	0.0	0.0	0.0	0.0
Net impact of central government measures on local government tax revenue (excl. Index of Wage and Salary Earnings/Consumer Price Index adjustments)	0.0	-0.7	0.5	-0.1	-0.1	-0.1
Compensation to municipalities for tax criteria changes	0.0	0.7	-0.5	0.1	0.1	0.1
Impact of other central government measures on local government finances[1]	0.0	0.0	0.0	0.0	0.0	0.0
Increases of municipalities' tax percentages	0.0	0.1	0.1	0.1	0.1	0.1
Impact on local government budgetary position, net	**0.2**	**0.1**	**0.1**	**0.1**	**0.2**	**0.2**
Changes in social security contributions (incl. temporary lowering of TyEL contribution)	-0.5	-1.4	-0.1	0.0	0.0	0.0
Changes in expenditure	0.0	0.0	0.0	0.0	0.0	0.0
Impact on social security funds' balance, net	**-0.5**	**-1.4**	**-0.1**	**0.0**	**0.0**	**0.0**

Impact on general government balance, net	**-0.7**	**-6.4**	**-1.6**	**-1.6**	**-0.9**	**-0.7**
In ratio to GDP	-0.3 %	-2.8 %	-0.7 %	-0.6 %	-0.4 %	-0.3 %

1) Does not include impacts on local government finances of transport projects co-funded by central and local government.

8.2. Measures directed at general government expenditure

The table below presents the annual net change in general government expenditure in 2019–2024 from measures decided by Prime Minister Marin's Government.1) The review does not contain so-called financial investment expenditure, which in turn is not included in general government figures in reviews according to the national accounts.

General government expenditure will grow significantly in 2020, driven by the Government's permanent additional expenditure, one-off future-oriented investments and measures related to the coronavirus situation. Expenditure on transfers to households will increase in 2020, in particular, through benefit improvements decided by the Government and fixed-term benefit changes related to the coronavirus situation. Expenditure on transfers to business and industry will increase temporarily in 2020, when aid is paid to businesses due to the coronavirus situation, but will decline from 2022, due to changes in the energy tax rebate scheme. Real investment also takes into account increases allocated to basic transport infrastructure maintenance – both additional investments decided by the Government as well as the general increase proposed by the parliamentary working group that had already been taken into account in the technical General Government Fiscal Plan from 2022.

In addition, the table includes the joint impact of previous governments' measures, which mainly reflects the expenditure savings of Prime Minister Sipilä's Government for 2019.

Table 15. Measures affecting general government expenditure, annual change, net, EUR billion

	2019	2020	2021	2022	2023	2024
Consumption expenditure	0.1	1.4	-0.6	-0.1	0.1	0.0
Expenditure on transfers to business and industry	0.0	1.5	-1.0	-0.3	-0.2	0.0
Expenditure on transfers to households	0.0	0.7	-0.4	0.0	-0.1	0.0
Other transfers	0.0	0.5	-0.2	-0.1	-0.1	0.0
Real investment[1]	0.1	0.2	0.0	0.1	-0.1	0.0
Other expenditure	0.0	0.2	-0.2	0.0	0.0	0.0
Total	**0.2**	**4.6**	**-2.4**	**-0.3**	**-0.4**	**0.0**
Discretionary measures of the previous parliamentary term	-0.5	0.0	0.0	0.0	0.0	0.0

1) Does not include impacts on local government finances of transport projects co-funded by central and local government.

1) In the table, measures that increase general government expenditure, i.e. weaken the balance, are presented with a plus sign.

8.3. Measures directed at general government revenue

The table below presents information on the timing of discretionary measures affecting general government revenue in 2020–2024, as annual net changes. Net change refers to the combined impact of measures that increase and decrease revenue. The table also takes into account changes in taxation criteria decided in the previous parliamentary term, index adjustments made to earned income tax criteria, and one-off factors affecting changes in the timing of taxation.

In addition to tax criteria changes, the table presents the estimated impact on tax revenue of payment arrangements related to the coronavirus situation. The situation of businesses in payment difficulties due to the coronavirus epidemic will be eased by making changes to tax payment arrangements and lowering the interest rate on late payment of taxes. If 10% of taxes were affected by the payment arrangements, this would defer tax receipts for 2020 of approximately EUR 1.4 billion to the following year. In addition, revenue would be increased by late-payment interest. The payment arrangements could be used with regard to withholding taxes payable from earned income, corporate tax, value-added tax, insurance premium tax, real-estate tax, employer's health insurance contribution, excise duties, car tax and motor vehicle tax. For excise duties, car tax and motor vehicle tax, the effects are likely to be minor. A large proportion of excise duties are received from large companies, which usually pay excise duties on time and which are not among the parties more likely to encounter payment difficulties.

Changes related to taxation decided by Prime Minister Marin's Government will be distributed over the entire parliamentary term. Tightening of indirect taxation will increase tax revenue, but annual index adjustments made to earned income will, on the other hand, reduce tax revenue. The figures presented in the General Government Fiscal Plan reflect the measures on which decisions have been made and their estimated financial effects. Planned measures are not included.

Table 16. Measures affecting general government revenue, annual change, net, EUR billion

	2020	2021	2022	2023	2024
Taxes on earned income	-0.5	-0.4	-0.4	-0.4	-0.4
Taxes on capital income	0.0	0.0	0.0	0.0	0.0
Corporate taxes	-0.1	-0.1	0.0	0.0	0.3
Other direct taxes	0.0	0.0	0.0	0.0	0.0
VAT	0.0	0.0	0.0	0.0	0.0
Other indirect taxes	0.2	0.3	-0.1	0.0	0.0
Social security contributions from employers	-1.1	1.2	0.2	0.0	0.0
Social security contributions from the insured	0.2	0.1	-0.1	0.0	0.0
Payment arrangements related to tax payment deferral	-1.4	1.4	0.0	0.0	0.0
Total	-2.7	2.5	-0.4	-0.4	-0.1

9. Estimate of general government revenue and expenditure

Table 17. Central government according to the national accounts, EUR billion

	2019*	2020**	2021**	2022**	2023**	2024**
Direct taxes	15.2	13.6	15.3	15.0	15.7	16.3
Taxes on production and imports	33.6	32.3	34.0	34.6	35.4	36.0
Social security contributions	0.0	0.0	0.0	0.0	0.0	0.0
Taxes and social security contributions, total2)	49.5	46.6	50.1	50.4	51.9	53.2
Other revenue 3)	9.6	9.4	9.2	9.3	9.3	9.3
of which interest income	0.3	0.3	0.3	0.3	0.2	0.3
Total revenue	59.1	56.0	59.3	59.7	61.2	62.6
Consumption expenditure	14.7	16.3	15.6	15.9	16.1	16.4
Subsidies and other transfers	40.9	45.5	43.3	44.4	45.4	46.3
to general government	28.6	32.0	30.9	32.1	32.7	33.5
Interest expenditure	1.9	1.6	1.5	1.4	1.5	1.7

	2019*	2020**	2021**	2022**	2023**	2024**
Capital expenditure 4)	4.4	5.1	5.1	5.1	5.0	5.0
Total expenditure	61.9	68.5	65.6	66.9	68.1	69.1
Net lending (+) / net borrowing (-)	-2.8	-12.5	-6.3	-7.2	-6.9	-6.8

Table 18. Local government according to the national accounts, EUR billion

	2019*	2020**	2021**	2022**	2023**	2024**
Taxes and social security contributions	23.2	23.0	24.1	24.4	25.2	25.9
of which municipal income tax	19.4	19.7	20.2	20.8	21.5	22.1
corporate tax	1.9	1.4	2.0	1.7	1.8	1.8
real estate tax	1.9	1.9	1.9	1.9	1.9	2.0
Other revenue 2)	19.6	21.7	21.2	22.4	23.2	24.0
of which interest income	0.3	0.3	0.3	0.3	0.3	0.3
of which transfers from central government	14.3	16.1	15.6	16.6	17.2	17.7
Total revenue	42.7	44.6	45.3	46.9	48.4	49.8
Consumption expenditure	37.0	39.0	39.9	41.3	42.7	44.3
of which compensation of employees	21.9	22.5	23.1	23.7	24.3	24.9
Income transfers	2.7	2.8	2.9	3.0	3.2	3.4
of which social security benefits and allowances	0.8	0.8	0.8	0.8	0.8	0.9
subsidies and other transfers	1.9	1.9	2.0	2.0	2.0	2.1
interest expenditure	0.1	0.1	0.1	0.2	0.3	0.4
Capital expenditure 3)	6.0	6.3	6.5	6.3	6.2	6.2
Total expenditure	45.7	48.1	49.3	50.7	52.1	53.9
Net lending (+) / net borrowing (-)	-2.9	-3.5	-4.0	-3.8	-3.7	-4.1

Table 19. Earnings-related pension funds

	2019*	2020**	2021**	2022**	2023**	2024**
Investment income	4.0	3.9	3.8	4.2	4.9	5.3
Social security contributions	22.8	21.4	23.0	23.9	24.5	25.1
of which paid by employers	15.5	13.8	15.3	15.9	16.3	16.7
of which paid by the insured	7.3	7.5	7.7	7.9	8.1	8.3
Income and capital transfers from general government	2.4	2.7	2.6	2.7	2.8	2.8
Other revenue	0.4	0.4	0.5	0.5	0.5	0.5
Total revenue	29.6	28.4	29.9	31.3	32.6	33.7
Consumption expenditure	0.7	0.7	0.7	0.7	0.8	0.8
Social security benefits and allowances	24.5	25.4	26.2	27.1	28.2	29.2
Other expenditure	2.1	2.3	2.3	2.4	2.4	2.4
Total expenditure	27.4	28.4	29.2	30.2	31.3	32.3
Net lending (+) / net borrowing (-)	2.2	0.0	0.7	1.0	1.2	1.4

Table 20. Other social security funds

	2019*	2020**	2021**	2022**	2023**	2024**
Investment income	0.0	0.0	0.0	0.1	0.1	0.1
Social security contributions	5.4	5.5	6.0	5.9	6.1	6.3
of which paid by employers	2.0	2.2	2.4	2.4	2.5	2.5
of which paid by the insured	3.5	3.3	3.5	3.5	3.6	3.7
Income and capital transfers from general government	13.3	14.8	14.2	14.3	14.3	14.5
Other revenue	0.0	0.0	0.0	0.0	0.0	0.0
Total revenue	18.8	20.4	20.3	20.5	20.4	20.8
Consumption expenditure	3.1	3.2	3.4	3.5	3.5	3.6
Social security benefits and allowances	13.9	16.4	15.6	15.7	15.8	16.0
Other expenditure	1.1	1.3	1.3	1.3	1.3	1.3
Total expenditure	18.1	21.0	20.3	20.5	20.6	21.0
Net lending (+) / net borrowing (-)	0.7	-0.6	0.0	-0.2	-0.1	-0.1

General government fiscal forecast under unchanged policies

Table 21. Revenue and expenditure under unchanged policies

	2019*	2019*	2020**	2021**	2022**	2023**	2024**
	level, EUR billion			% GDP			
Total revenue under unchanged policies	125.2	52.2	52.5	53.8	53.1	53.1	53.1
Total expenditure under unchanged policies	128.0	53.3	59.8	57.9	57.2	56.9	56.8

Minister of Finance	Katri Kulmuni

Director General of the Budget Department	Sami Yläoutinen

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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-level adjustments are based on the independent forecast of the Ministry of Finance's Economics Department given below.

	2018	2018	2020	2021	2022	2023	2024
GDP, change in volume, %	1.6	1.0	-5.5	1.3	1.3	1.0	0.8
GDP, change in price	1.8	1.8	1.2	1.8	1.9	1.9	1.9
GDP, value, EUR million	233 619	240 078	229 391	236 639	244 197	251 226	258 047
GNI, value, EUR million	234 439	239 535	228 848	236 096	243 654	250 683	257 504
Consumer Price Index, change %	1.1	1.0	0.7	1.3	1.5	1.5	1.6
Index of Wage and Salary Earnings, change %	1.7	2.4	1.9	2.5	2.3	2.4	2.5
Building Cost Index, change %	2.2	1.0	1.4	1.9	2.0	2.2	2.3
Basic Price Index for Domestic Supply, change %	4.7	1.0	1.3	1.9	2.1	2.2	2.2
Unemployment rate, %	7.4	6.7	8.0	8.1	7.9	7.8	7.8
Wage bill, change %	4.6	3.1	-2.0	2.7	2.8	2.5	2.5
Short-term interest rate, 3 months, %	-0.3	-0.4	-0.4	-0.3	-0.1	0.3	0.6
Long-term interest rate, 10 years, %	0.7	0.1	0.1	0.3	0.6	0.9	1.1
TyEL Index	2548	2585	2617	2640	2682	2727	2773
National Pension Index (KEL)	1617	1617	1633	1643	1666	1691	1716
Price index of basic public services, forecast	1.4	1.4	1.4	2.3	2.1	2.2	2.3
Change in cost level used in Budget Proposal (Index of Central Government Transfers to Local Government)	0.0	0.0	2.4	2.3	2.1	2.2	2.3
— index adjustment	0.0	0.0					
Index of Central Government Transfers to Local Government without freezing in 2016—2019	0.6	1.3	2.4	2.3	2.1	2.2	2.3
University index (forecast used in budgeting)	2.0	1.9	1.6	2.2	2.1	2.2	2.3
Vocational education and training index	2.3	1.9	1.6	2.2	2.1	2.2	2.3
YLE Index	1.5	1.9	1.5	2.1	2.0	2.1	2.2
Unemployment insurance contributions							
— employer, average	1.91	1.50	1.26	1.26	1.26	1.26	1.26
— employee	1.90	1.50	1.25	1.25	1.25	1.25	1.25
TyEL contribution	24.4	24.4	22.9	24.4	24.8	24.8	24.8
— employer[1]	17.8	17.4	15.4	17.0	17.3	17.3	17.3

	2018	2018	2020	2021	2022	2023	2024
— employee aged 53 yrs and under	6.35	6.75	7.15	7.15	7.15	7.15	7.15
— employee over 53 yrs	7.85	8.25	8.65	8.65	8.65	8.65	8.65
— wage coefficient	1.391	1.417	1.446	1.470	1.503	1.535	1.569
Health insurance contributions of the insured							
— employees' daily allowance contribution	1.53	1.54	1.18	1.33	1.22	1.23	1.24
— wage earners' and entrepreneurs' medical care contribution	0.00	0.00	0.68	0.64	0.63	0.63	0.62
— pensioners' medical care contribution	1.53	1.61	1.65	1.61	1.60	1.60	1.59
Central government employer contributions	17.8	17.9	18.0	18.2	18.1	18.1	18.1
— health insurance contribution	0.86	0.77	1.34	1.49	1.38	1.39	1.40
— pension contribution (under Central Government Employees' Pensions Act [VaEL])	16.95	17.10	16.70	16.70	16.70	16.70	16.70
Local government employer contributions	25.7	24.6	24.4	24.6	24.5	24.5	24.5
— health insurance contribution	0.86	0.77	1.34	1.49	1.38	1.39	1.40
— other social insurance contributions	0.7	0.7	0.7	0.7	0.7	0.7	0.7
— unemployment insurance contribution	2.49	1.96	1.63	1.63	1.63	1.63	1.63
— pension contribution (under Local Government Employees' Pensions Act [KuEL])	21.6	21.2	20.8	20.8	20.8	20.8	20.8

[1)] The 2020 contribution is an average contribution, assuming a reduction of 2.6 percentage points from the beginning of June. The contribution will be increased accordingly in 2022–2025

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

Structural changes

As a result of structural changes made in the fourth supplementary budget for 2019, the 2020 Budget supplement and these spending limits, the level of the spending limits for 2021 will increase by EUR 17 million compared with the spending limits decision of 7 October 2019.

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.

Structural changes in the spending limits, EUR million

Item	Matter	2020	2021	2022	2023
SBP 4 2019					
32.50.64	Timing change in Finland's Structural Fund Programme payments		2.7	5.5	5.5
BP 2020, supplement					
25.01.20	Timing change in so-called WinCapita compensation payments	20.0			
24.30.66	Joint development cooperation projects. Pass-through item, corresponding revenue in item 12.24.99.	2.8			
32.20.46	Item transfers, appropriation neutrally, from deferrable appropriation to authorisation procedure. Due to this, a spending limits correction is made related to projects already budgeted.	13.5	9.0	5.0	1.0
32.30.42	Timing change in launch of regional capital investment activity	8.4			
GGFP 2021–2024					
28.90.30	Timing change. Adjustment, between years, of funding related to the minimum staffing level for care personnel under the Act for Elderly Care and Services.		5.0	-5.0	
29.40.89	Capitalisation of universities corresponding to Sitra's donation. Pass-through item, corresponding revenue in item 12.29.99. Item 29.40.89 is a financial investment item whose expenditure is, as a rule, outside the spending limits. The said pass-through item is for this reason outside the spending limits, and therefore a spending limits correction need not be made for it.				
32.30.64	Timing change in Finland's Structural Fund Programme payments			10.0	26.2
33.20.50	Adjustment of funding contributions to raising the lower age limit of the right to additional days in unemployment security			-11.5	-23.0
Total		44.6	16.7	4.0	9.7

Price- and cost-level adjustments

The central government spending limits for 2021–2024 are expressed in price and cost levels for 2021. 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 in costs and prices.

Price- and cost-level adjustments compared with the previous spending limits decision total EUR 563 million for 2021, taking into account the impact of transferring to the 2021 price and cost level.

Adjustments to 2021 price and cost levels compared with the spending limits decision of 7 October 2019, EUR million

		Adjustment of appropriation and spending limits level		Adjustment to spending limits level
Spending limits expenditure according to classification of economic nature	Index used in calculation	Statutory index adjustment	Contractual adjustment	Other cost adjustments to spending limits expenditure
15-17 Pensions	Employee Pension Index (TyEL)	42.5		
18-19 Defence materiel acquisitions	Predictive increase 1.5%		22.9 [1]	
01-14 Wages and social security contributions	Increases under agreements			
Transport infrastructure expenditure	Building Cost Index (RKI)			35.5
01-14, 20-28 Other operating expenses and consumption	Consumer Price Index (KHI)			45.7
30-39 Imputed central government aid to municipalities and joint municipal authorities etc.	Index of Central Government Transfers to Local Government (VOS)	186.6		
30-39 Other central government aid to municipalities and joint municipal authorities	Index of Central Government Transfers to Local Government (VOS)			24.4
30 Central government funding for vocational education and training	Vocational education and training index	19.5		
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	National Pension Index (KEL), Employee Pension Index (TyEL), Consumer Price Index (KHI)	17.9		
51-52 Central government funding to Evangelical Lutheran Church and grant to Orthodox Church	Consumer Price Index (KHI)	1.5		

Spending limits expenditure according to classification of economic nature	Index used in calculation	Adjustment of appropriation and spending limits level Statutory index adjustment	 Contractual adjustment	Adjustment to spending limits level Other cost adjustments to spending limits expenditure
50-59 Non-indexed central government aid to households	National Pension Index (KEL)			10.5
50 Central government funding for universities and universities of applied sciences	University Index	55.2		
50-59 Other central government aid to households and non-profit-making organisations	Consumer Price Index (KHI)			16.1
60 Transfers to off-budget central government funds	Consumer Price Index (KHI)			5.7
60 Transfers to Social Insurance Institution of Finland	National Pension Index (KEL)	23.1		
60 Central government transfer for expenditure arising from the Health Insurance Act	National Pension Index (KEL)	1.2		10.9
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 GDP Price Index			
70-79 Real investments	Building Cost Index (RKI)			0.6
90-99 Other expenditure	Consumer Price Index (KHI)			1.0
Supplementary budget provision and unallocated reserve	Consumer Price Index (KHI)			5.8
Total in 2021		347.5	22.9	192.6

[1] A predictive 1.5% price- and cost-level adjustment will be made to appropriation levels (excl. payroll expenditure) for the Defence Forces' operating expenditure, defence materiel procurement and military crisis management equipment and administration expenditure. This adjustment will be revised later to correspond with the rise in prices (annual average index change) indicated by the Consumer Price Index in terms of the Defence Forces' operating expenditure and military crisis management equipment and administrative expenditure as well as the rise (months total/annual change) of the C28 sub-index (Manufacturing of other machinery and equipment) of the Industrial Producer Price Index for defence materiel procurement. The actual index expenditure of the Squadron 2020 project will be adjusted later in accordance with actual expenditure.

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]

	2020	2021	2022	2023
General government balance, autumn 2019	-1.4	-1.5	-1.5	.1.4
Central government:				
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	-2.0	-1.3	-1.4	-1.4
Impact of discretionary measures on revenue and expenditure estimates	-1.7	-0.2	-0.1	-0.1
Impact of other factors	0.0	0.0	0.0	0.0
Local 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	-1.0	-0.7	-0.7	-0.6
Impact of discretionary measures on revenue and expenditure estimates	0.4	-0.1	0.1	0.1
Impact of other factors	0.1	0.3	0.2	0.3
Earnings-related pension 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	-0.5	-0.6	-0.6	-0.5
Impact of discretionary measures on revenue and expenditure estimates	-0.5	0.0	0.1	0.1
Impact of other factors	0.1	0.1	0.3	0.2
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	-0.4	-0.3	-0.3	-0.3
Impact of discretionary measures on revenue and expenditure estimates	0.0	0.1	0.1	0.1
Impact of other factors	-0.1	0.0	0.0	0.0
General government balance, spring 2020	-7.2	-4.0	-4.1	-3.8

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

APPENDIX 4 Economic development risks and their impact on public finances

The baseline scenario of the General Government Fiscal Plan is based, with respect to 2020–2022, on the spring 2020 independent economic outlook forecast of the Economics Department of the Ministry of Finance. The years 2023 and 2024 have been taken into account in the scenario based on, among other things, the growth estimate for potential output. In addition to the economic outlook forecast, the baseline scenario's general government budgetary position is based on the Government Programme of Prime Minister Marin's Government, the General Government Fiscal Plan for 2021–2023 adopted by the Government in September 2019 and the General Government Fiscal Plan for 2021–2024 adopted by the Government in April 2020 as well as the State budget for 2020.

The coronavirus pandemic will have an adverse impact on economic activity everywhere. Its negative effects on the economy will also be greater the more intensely and widely the virus spreads, the more people fall ill and, particularly, the more extensive and prolonged the containment measures are taken to prevent the virus from spreading. High uncertainty is associated with estimates of the duration of the disruption. The baseline scenario assumes that the measures restricting economic activity will last for three months. Economic development in accordance with the baseline scenario is described in more detail in Chapter 3.1.

The figures in the table below show the impact on unemployment and on the general government budgetary position and debt of economic growth that is either slower or faster than the baseline. The calculations assume that economic restrictions will last for 1 month longer or shorter. Measured by growth in annual output, growth in 2020 will deviate by two percentage points in either direction from the baseline scenario.

In the slower growth scenario, GDP growth would be more sluggish in 2020–2021. The unemployment rate would end up at 8.3%. This would further reduce the tax revenue collected by general government and increase unemployment-related expenditure. The general government deficit would be over 8% and the debt-to-GDP ratio would be over 70% in 2020. In 2024, the general government debt ratio would be 85%.

Faster growth than the baseline scenario of two percentage points would be insufficient to reverse the direction of the economy. If the restrictions aimed at combating the pandemic would prove to be of slightly shorter duration, the increase in unemployment be a little more moderate. Even so, the general government budgetary position would remain deeply in deficit and the debt ratio would still grow significantly.

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. only 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, and 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 initially by over EUR 0.5 billion. By 2024, interest expenditure would grow by approximately EUR 1 billion more than the baseline scenario. The general government deficit would improve initially by approximately EUR 0.7 billion, but the improvement effect would decrease as to nearly zero as interest expenditure grows in the following years. The property income of the earnings-related pension funds would grow by approximately EUR 0.6 million and of the other general government entities by approximately EUR 0.4 billion. General government debt would increase compared with the baseline scenario, because the surplus of the earnings-related pension funds would not cover the weakened budgetary position of the other general government entities.

The calculation assumes with respect to interest income that the change in the level of interest rates would only impact the income of interest-bearing assets directly and the breakdown of investments would not change. Changes in the general level of interest rates may also impact the income of non-interest-bearing asset items. In that case, the budgetary balance would be better than the calculation as the level of interest rates rises. The level of interest rates may also affect investment decisions, in which case, if interest rates were to fall for example, there would be a shift to investments that generate higher income.

Sensitivity analysis

Baseline scenario	2019	2020	2021	2022	2023	2024
GDP, change, %	1.0	-5.5	1.3	1.3	1.0	0.8
Unemployment rate, %	6.7	8.0	8.1	7.9	7.8	7.8
Budgetary position, % GDP	-1.1	-7.2	-4.0	-4.1	-3.8	-3.7
Public debt, % GDP	59.4	69.1	71.5	73.8	76.3	78.7
Slow growth						
GDP, change, %	1.0	-7.5	1.0	1.3	1.0	0.8
Unemployment rate, %	6.7	8.3	8.3	8.2	8.1	8.1
Budgetary position, % GDP	-1.1	-8.2	-5.2	-5.3	-5.0	-4.9
Public debt, % GDP	59.4	71.2	74.7	77.8	81.2	84.5
Fast growth						
GDP, change, %	1.0	-3.5	1.5	1.2	1.0	0.8
Unemployment rate, %	6.7	7.8	7.8	7.6	7.5	7.5
Budgetary position, % GDP	-1.1	-6.2	-2.9	-3.1	-2.7	-2.6
Public debt, % GDP	59.4	67.0	68.4	69.9	71.7	73.3
Change in interest expenditure, if level of interest rates rises 1 pp, % GDP		0.1	0.2	0.3	0.3	0.4
Change in interest income, if level of interest rates rises 1 pp, % GDP		0.4	0.4	0.4	0.4	0.4
Change deficit, if level of interest rates rises 1 pp, % GDP		0.3	0.2	0.1	0.1	0.0
Change in borrowing requirement, if level of interest rates rises 1 pp, % GDP		-0.1	0.0	0.1	0.2	0.2

APPENDIX 5 Comparison with Commission's latest forecast

The table below compares the forecast of Finland's Ministry of Finance with the Commission's winter forecast with regard to GDP change and inflation. Other forecasts are compared with the Commission's autumn forecast. In contract with the Commission's winter forecast, the Ministry of Finance forecast includes estimates of the impact on the economy of the coronavirus pandemic.

Comparison with the Commission's previous forecast

	Commission's forecast				Ministry of Finance's forecast			
	2019	2020	2021	2022	2019	2020	2021	2022
GDP, change, %[1]	1.6	1.5	1		1	-5.5	1.3	1.3
Consumer Price Index, change %[1]	1.1	1.4	1.5		1	0.7	1.3	1.5
Unemployment rate, %[2]	6.7	6.5	6.4		6.7	8	8.1	7.9
General government balance, % GDP[2]	-1.1	-1.4	-1.6		-1.1	-7.2	-4.0	-4.1
Structural balance, % GDP[2]	-1.4	-1.6	-1.6		-2.4	-5.2	-2.7	-3.5
General government debt, % GDP[2]	59.2	59.3	59.8		59.4	69.1	71.5	73.8

1) Commission's winter forecast, February 2020

2) Commission's autumn forecast November 2019