



MINISTRY OF FINANCE

Budget review 2020

Review on central government budget,
January 2020

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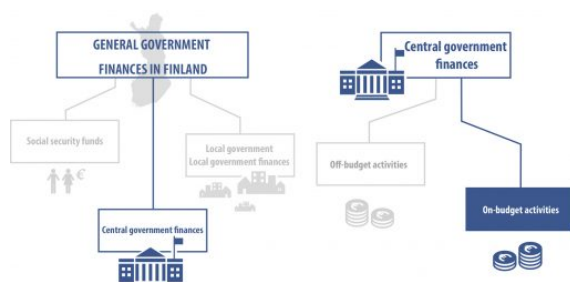
Economic Policy

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1 Introduction

General government finances in Finland consist of central government, local government and social security funds. Central government finances include the central government budget economy i.e. the on-budget activities and off-budget activities (the off-budget activities are discussed in chapter 9 “Extra-budgetary central government finances” of the general strategy and outlook of the budget proposal). The position of central government on-budget activities in central government finances and general government finances is illustrated by Diagram 1. This publication is mainly concerned with the central government on-budget activities. The review focuses on budget 2020, which was adopted by Parliament in December 2019. The purpose is to provide a concise description of the main themes of the central government budget with the help of diagrams and tables as well as to guide the reader to explore the themes in more detail via Internet links. The background materials for budgeting include the independent economic forecasts produced by the Economics Department at the Ministry of Finance, which are presented in the Economic Survey.



Source: tutkibudjetti.fi (translation)
Diagram 1. Central government finances as part of the general government finances and the on-budget activities as part of the central government finances

In Finland, the Parliament has the prime decision-making authority on the use of central government resources. The Parliament pri-

marily exercises its power in two ways: by enacting laws and approving budgets. The majority of the content of the budget is bound by law and, indeed, laws are often amended before making decisions on the budget. The Parliament approves the budget for the following budget year before the end of the previous budget year.

The central government budget is a plan concerned with the central government's finances and financial management prepared on the basis of the General Government Fiscal Plan published in the spring as well as the Programme of Prime Minister Marin's Government. In practice, the central government budget evaluates the extent and allocation of central government revenue and expenditure for the following year. The Government negotiates on the budget proposal in the budget session.

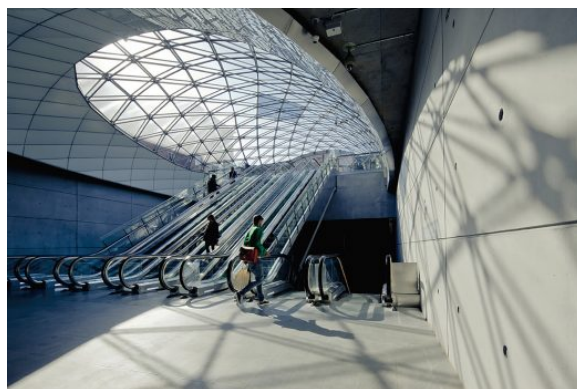
The Government Programme defines the Government's main economic policies, which serve as the basis for preparing the budget. At the beginning of the parliamentary term, the Government also decides on the spending limits for the parliamentary term, i.e. the central government's expenditure ceiling, and the rules for the spending limits procedure. At the same time, the spending limits set the outline for the entire expenditure during the four-year parliamentary term. The spending limits' allocation for each administrative branch is reviewed within the parliamentary term spending limits in April as part of the General Government Fiscal Plan, and updates the spending limits to correspond to changes to the level of costs, prices and spending limit expenditure structure. For more in-

formation, see <https://vm.fi/en/central-government-spending-limits>.

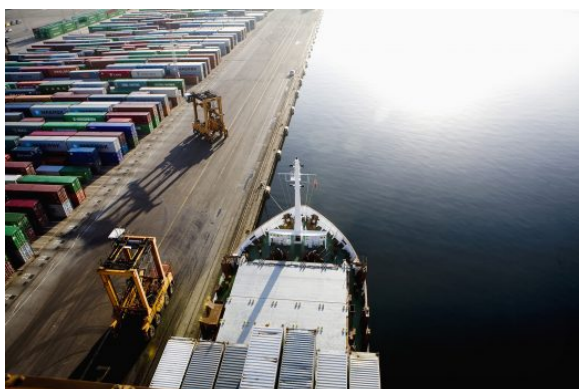
The final sum of the budget proposal for 2020 is EUR 57.7 billion. Most of the appropriations will be spent on social security. Revenue will be primarily collected in taxes based on turnover, such as value-added tax, and income taxes, including earned income and capital income tax. The central government on-budget deficit is predicted to amount to EUR 2.2 billion and central government debt is expected to rise to approximately EUR 109 billion.

The following chapter includes an overview of the economic outlook in the areas of real economy and general government finances. Chapter 3 is concerned with the Government's economic policy goals and their imp-

lementation. Chapter 4 examines the future-oriented investments planned by the Government. Chapter 5 includes revenue and expenditure estimates, deficit and debt in the central government budget proposal. Local government finances are also discussed from the viewpoint of the on-budget activities. Chapter 6 includes a summary of the review.



2 Economic outlook



The economic review of the Ministry of Finance deals with the economic outlook at the national and international level as well as economic policy and general government finance.

Real economy

Economic growth will be sustained by domestic demand over the coming years, as the outlook for foreign trade is relatively poor; growth will slow down to 1.0% in 2020, however. The prospects in the export markets will level out, and while growth in exports is slowing down, it will remain at the average level of recent years. Private consumption will continue to grow at a steady rate. The increase in households' disposable income will be maintained by higher earnings and a consistently high employment rate. A drop in private investments is anticipated in 2020, especially in housing construction. The significance of public consumption and investments for GDP growth will be highlighted, especially in 2020, as a result of the measures set down in the Government Programme.

The number of employed persons will increase, and the employment rate will go up to 73.6% by 2022. A situation where unem-

ployment is falling to the levels experienced during the cyclical peak before the financial crisis will tighten the labour market, which in turn will create more pressure for wage increases. It is expected that rising earnings will gradually have a wider impact on inflation.

Table 1. Trends in the national economy 2017–2020
December 2019 forecast

	2017*	2018*	2018**	2020**
GDP at market prices (EUR bn)	225.8	234.5	242.4	249.4
GDP, change in volume (%)	3.1	1.7	1.6	1.0
Unemployment rate (%)	8.6	7.4	6.7	6.5
Employment rate (%)	69.6	71.7	72.6	73.1
Consumer price index, change (%)	0.7	1.1	1.1	1.3
Interest rate (10 year bonds) (%)	0.5	0.7	0.1	-0.1

* Advance information
** Forecast

General government finances

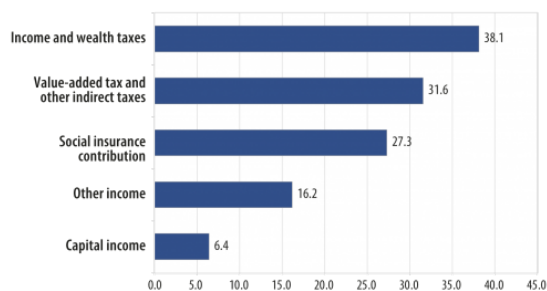
The steady growth of the Finnish economy over the past few years has improved the state of general government finances. As the upturn is slowing down, general government deficit will no longer improve at the same rate. The deficit will start growing in 2019 and the trend will continue over the following few years. Even though the Finnish economy will grow more or less at its potential rate, expenditure is increasing faster than revenue. There is a structural imbalance between expenditure and revenue in general government finances.

The economic upturn has contributed to concealing the structural problems that affect Finland's general government finances. Ageing of the population has already increased pension expenditure and it will also push up care and nursing expenditure in the coming years. The sustainability gap in general gov-

ernment finances remains unsolved. While the debt-to-GDP ratio has fallen below the 60% limit for a short time, it will start growing again in 2020.

Expenditure in the next few years will be boosted by the permanent and one-off spending increases planned by Prime Minister Marin’s Government. However, the tax increases introduced by the Government will mitigate the impact of higher spending.

The risks affecting general government finances are closely connected to overall economic developments. If economic growth turns out to be slower than projected, the rise in tax revenue will remain weaker than predicted and expenditure items such as cyclical unemployment spending will increase faster than expected.



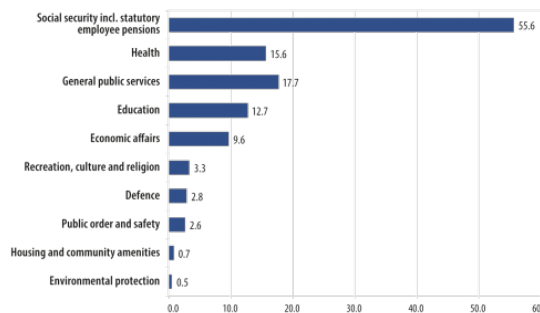
Source: Statistics Finland
Diagram 2. General government revenue in 2017, EUR bn

Most of general government expenditure consists of expenditure on social security benefits, as shown in Diagram 3. This expenditure includes pensions, unemployment benefits, benefits aimed at families as well as housing allowance, allowances during illness and allowances preventing social exclusion.

Table 2. Key figures measured in terms of national accounting in ratio to GDP, percent
December 2019 forecast

% of GDP	2017*	2018*	2019**	2020**
Taxes and social security contributions	43.0	42.3	41.8	42.0
General government expenditure	53.7	53.1	52.7	53.0
General government net lending	-0.7	-0.8	-1.0	-1.4
- central government	-1.8	-1.2	-0.9	-1.4
- local government	-0.2	-0.9	-1.2	-0.9
- employment pension schemes	1.0	1.0	0.9	0.8
- other social security funds	0.3	0.3	0.2	0.1
General government debt	60.9	59.0	58.5	58.8
Central government debt ¹⁾	46.8	44.8	43.9	43.6

* Advance information
** Forecast
1) The estimate of central government debt by the Economics Department of the Ministry of Finance differs from that estimated based on the budget, for instance, due to updated revenue forecasts



Source: Statistics Finland, National Accounts
Diagram 3. General government expenditure by function (COFOG) in 2017, EUR bn

In addition to economic cycles, the structures of general government finances are also reflected on the revenue contributions to general government and the allocation of expenditure. Diagram 2 illustrates that the majority of general government revenue was collected as income or wealth tax, and as indirect tax, in 2017.

Table 3 illustrates the average extent of the costs resulting from education and culture as well as social welfare and health care services. The table reveals, for example, that the costs per student of vocational education and training were the highest compared with other forms of education in 2017.

Table 3. Average expenses of selected public services in 2017

	EUR	
Education and culture		
Basic education	8,941.0	/pupil/year
Upper secondary education	7,669.0	/student/year
Initial vocational education	10,545.0	/student/year
Polytechnic education	8,021.0	/student/year
University education	8,460.0	/student/year
Public libraries	3.7	/loan
Social services		
Children's day care ¹⁾	86.4	/day
Old people's homes ²⁾	170.0	/day
Health care services		
Basic health care		
- Visit to health centre ³⁾	77.8	/visit
- Ward treatment	308.0	/day
- Dental care	109.8	/visit
Special medical treatment		
- Somatic specialised medical treatment ⁴⁾	1,661.6	/day

1) Includes part-time and full-time day care financed by municipalities. The number of days of care has been weighted in terms of part-time and full-time day care, with a weighting factor of 0.6 used for days of part-time day care and a weighting factor of 1 for days of full-time day care.

2) Based on the costs of the six largest 'kuusikko' municipalities.

3) Includes all visits, incl. e.g. child welfare clinic and physiotherapy. The average cost of a visit to a doctor in basic health care is EUR 90/visit.

4) Includes inpatient care and day surgery

Sources: National Board of Education, National Institute for Health and Welfare, Finnish Public Libraries Statistics and Statistics Finland

3 Government economic policy

Prime Minister Sanna Marin's Government has determined its economic policy in its Government Programme (<https://valtioneuvosto.fi/en/marin/government-programme>). The Government's economic policy aims at increasing well-being, which refers to ecologically and socially sustainable economic growth, a high employment rate, and sustainable general government finances.

The following key economic policy objectives have been determined for the government term:

- The employment rate will be raised to 75 per cent 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 reduce inequality and narrow income gaps
- The Government's decisions will put Finland on a path towards achieving carbon neutrality by 2035

The Government's permanent additional expenditure based on decisions will be primarily covered by permanent additional revenue based on decisions. By decisions of the Government, permanent expenditure at the level of 2023 will be EUR 1.4 billion higher than in the Technical General Government Fiscal Plan of spring 2019. A spending increase of around EUR 1.1 billion is expected in 2020. Permanent new expenditure will be allocated

to targets such as strengthening competence and social justice, and to climate policy measures.

The permanent additional expenditure will be primarily covered by permanent additional revenue based on decisions as well as the reallocation of resources. As indicated in the Government Programme, the funding base of the welfare state will be strengthened through taxation by around EUR 0.7 billion. A small share of the additional expenditure will be financed by reallocating on-budget expenditure and revenue, for instance, by lowering the level of certain deferrable appropriations. Achieving the Government objective for 75-per-cent employment would enhance general government finances to an extent that would enable allocating a part of the increased resources to the additional expenditure. Attaining this goal requires measures that support the supply of and demand for labour and alleviate the labour market mismatch. This higher employment rate is the most important individual element in the revenue base of the Government Programme. The Government also implements productivity measures targeting general government finances.

Finland's general government fiscal targets are also governed by EU regulations, most significant of which is the Stability and Growth Pact, which requires that Member States maintain structural balance in general government finances and avoid excessive debt. Under EU legislation, general government deficit may not exceed 3% and general government debt may not exceed 60%

of gross domestic product. A medium-term objective (MTO) is also set for general government's structural budget position and assessed with the aid of two pillars, the structural balance and the expenditure benchmark. The medium-term objective for structural budget position adopted by the Government in autumn 2019 will remain unchanged at -0.5% of gross domestic product. Other objectives for general government finances, including subsector targets, will be set out so that they are in line with the goal of reaching a balance in Finland's general government finances by 2023.

Table 4 describes the objectives and rules that guide Finland's fiscal policy, and compares them with the forecast by the Ministry of Finance. The majority of the fiscal policy objectives of Prime Minister Marin's Government cannot be achieved without introducing new measures for improving employment and general government finances during the government term. According to an independent projection by the Ministry of Finance, the general government deficit will grow to around 1.5 per cent in ratio to GDP in the early 2020s. Central and local government will be unable to reach the nominal budgetary

targets that have been set for them. The surplus of the employment pension institutions will also fall below the one-per-cent surplus target set for them. By contrast, other social security funds will stay in balance according to the set goal.

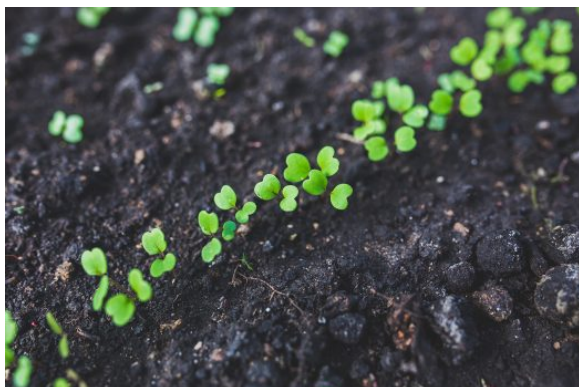
Table 4. Objectives and rules steering Finland's fiscal policy

Public finance sector	Variable	Target for 2023: % of GDP	Estimate for 2023: % of GDP
Government's budgetary targets for the parliamentary term			
General Government	Net lending	0.0 %	-1.2 %
Central government	Net lending	no less than -0.5 %	-0.9 %
Local government sector	Net lending	no less than -0.5 %	-1.1 %
Social security funds			
- Earnings-related pension funds	Net lending	approximately 1.0 %	0.7 %
- Other social security funds	Net lending	approximately 0.0 %	0.1 %
General government finances	Debt	debt-to-GDP ratio decreases	61.2 %
EU rules			
General government finances	Net lending	no less than -3.0 %	-1.2 %
	Debt*	60 %	61.6 %
	Medium-term budgetary objective (MTO) for structural budgetary position**	-0.5 %	-1.3 %

* The interpretation of the EU's debt rule also takes into account e.g. the speed of debt reduction in the past and the future.
 ** Under the Stability and Growth Pact, EU Member States are obliged to set a medium-term budgetary objective (MTO) for the structural deficit of general government finances. The structural deficit of 0.5 % in ratio to GDP has been set as Finland's MTO. The achievement of the objective is assessed with the help of the structural balance and the expenditure benchmark. More information in the General Government Fiscal plan for years 2020–2023 in appendix 5 Finland's Stability Program.



4 Future-oriented investments



During the parliamentary term, Prime Minister Marin's Government will implement a one-off programme of future-oriented investment that supports the attainment of the Government Programme's objectives and long-term sustainability of general government finances. Under the programme, a total of at most EUR 3 billion can be allocated to one-off investments and experiments with societal significance during the current parliamentary term. The measures are non-recurrent and they will not increase central government expenditure in 2023.

In connection with the budget for 2020 and the 2020–2023 General Government Fiscal Plan, the Government has decided to allocate a total of EU 1.4 billion to one-off future-oriented investments, of which EUR 0.75 billion will be budgeted for 2020. In 2020, significant investments will be made in hiring teachers and instructors in vocational education and training, amounting to EUR 80 million, an action plan for quality and equality in basic education, amounting to EUR 60 million, and compensatory allowances for permanent natural handicaps and Business Finland aids for a company-led R&D&I package. In 2020, additional inputs of almost

EUR 50 million from the National Housing Fund will be allocated to such purposes as energy grants for housing companies, to support retrofitting of lifts and launching the suburban development programme, and to grants for refurbishing government-subsidised homes for the needs of older persons.

In accordance with the Government Programme, the measures will be primarily funded through property income in a manner ensuring that the Government's future-oriented investment programme will not diminish the central government on-budget deficit or increase central government debt. Nevertheless, the future-oriented investments will undermine the general government budgetary position related to national accounting. The budget for 2020 includes EUR 726 million in property income for the purpose of financing the future-oriented investments.

Table 5 presents the supplementary appropriations related to future-oriented investments divided by the strategic themes of the Government Programme. The General Government Fiscal Plan 2020–2023 included allocating a spending limits reserve for 2021 and 2022 to the final phase of the future-oriented investment programme, amounting to around EUR 1.7 billion. The Government will make decisions on the implementation of the programme in its autumn 2020 budget session as part of the review of employment measures and spending increases agreed in the Government Programme.

Table 5. Future investments by strategic themes of the government programme as decided in the General Government Fiscal Plan for 2020–2023

	2020	2021	2022
Carbon neutral Finland that protects biodiversity	119.7	134.7	18.0
Globally influential Finland	14.4	10.3	0.0
Safe and secure Finland built on the rule of law	24.3	9.8	3.0
Dynamic and thriving Finland	327.1	96.5	1.1
Finland built on trust and labour market equality	24.5	21.6	7.2
Fair, equal and inclusive Finland	35.1	36.4	26.0
Finland that promotes competence, education, culture and innovation	205.4	130.0	120.0
Total	750.4	439.3	175.3

5 Central government budget 2020



Central government revenue and expenditure are examined in the general strategy and outlook of the budget proposal in chapters 4 and 5 as well as in the detailed rationale (www.budjetti.vm.fi). The revenue estimates are presented by department and the appropriation estimates by administrative branch.

5.1 Revenue, expenditure, deficit and debt

Revenue

In 2020, central government on-budget revenue (excluding net borrowing) is estimated to be approximately EUR 55.5 billion, with tax revenue accounting for approximately 86%, i.e. EUR 47 billion. Tax revenue is estimated to grow by 2.6% in 2020 compared to the 2019 budget.

Diagram 4 exclusively examines the development of tax revenue between 2006 and 2020. As a result of the levelling off of the economic upturn starting in 2016, the growth

in tax revenue is also slowing down. However, the revenue from individual tax types has been developing well in different ways. Value-added tax is the central government's largest single source of revenue. Value-added tax revenue is primarily determined by the development of private consumption, which has been relatively steadily growing in recent years.

Corporate tax revenue depends on companies' profitability, which is characterised by considerable cyclical variations. In the long term, the corporate tax revenue has been partly reduced by the fact that the corporate tax rate has been reduced as a result of tax competition when the goal has been to ensure keeping Finland as a competitive investment target. Energy tax revenue will develop relatively moderately despite the increasingly intense taxation. The slow growth of the energy tax income is explained by a moderate development of tax bases, for instance fuel and energy consumption.

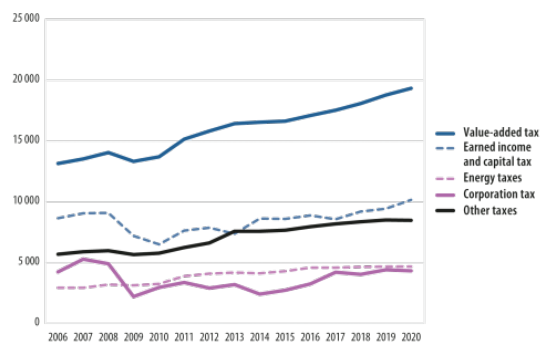


Diagram 4. State tax revenue by type 2006–2020, EUR million

Expenditure

The appropriations of the budget proposal amount to EUR 57.7 billion, which is approximately EUR 2.2 billion more than in the actual 2019 budget.

Taking price increases and structural changes into account, the appropriations will go up by around 2.2% compared to the actual budget for 2019. In particular, expenditure will be increased by the additional expenditure and one-off future-oriented investments in Prime Minister Marin's Government Programme. Certain issues known as automatic factors, such as an increase in age-related central government expenses, full index adjustments, and compensation to municipalities for revenue losses arising from changes in tax criteria, will also be apparent as an increase in expenditure compared to 2019. On the other hand, the good employment situation will continue to reduce unemployment security expenditure.

According to the new interest rate forecast, debt interest payments will be significantly lower in 2020 than in the budget for 2019.

The allocation of appropriations, i.e. central government expenditure, to different purposes depends on political decisions, economic structures and economic cycles. In 2020, a significant share of the appropriations in the central government budget will be allocated to social security (20%). Despite higher expenditure on pensions than in the previous year, the total expenditure on social security will decline by around one per cent in 2020. This development is influenced by a decrease in unemployment-related expenses and the fact that the central government's

share of expenditure related to the Health Insurance Act will be reduced in 2020. Diagram 5 illustrates the allocations of central government appropriations in the budget for 2020. The increases allocated to promoting business and industry, healthcare and education have the greatest impact on increasing the total expenditure.

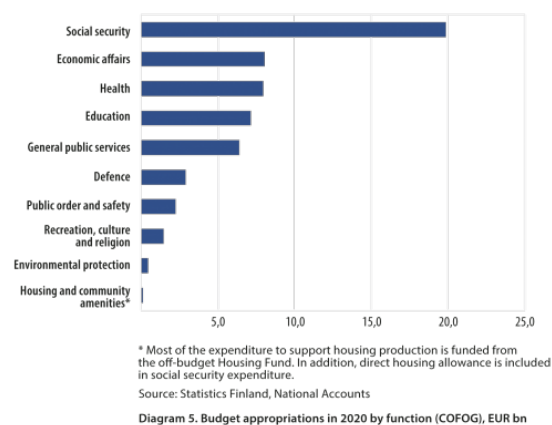


Diagram 5. Budget appropriations in 2020 by function (COFOG), EUR bn

Part of the revenue in the central government budget is received from the European Union, while Finland also pays contributions to the EU. At central government level, Finland is projected to contribute approximately EUR 2.15 billion to the EU budget and the European Development Fund in 2020. Finland's contributions will be EUR 12 million higher than the figure budgeted for 2019. Finland is expected to receive approximately EUR 1.2 billion in revenue from the EU budget, which is EUR 25 million more than the projected figure for 2019. The relationship between EU revenue and expenditure in central government finances is illustrated in Table 6. The key goals of the EU's budget for 2020 include supporting the competitiveness of the European economy as well as increasing solidarity and improving safety in EU and non-EU states. Negotiations on the EU's multi-annual financial framework (for 2021–2027) continued during Finland's Presidency of the

Council of the EU in the last six months of 2019. However, the decision was postponed to 2020. The starting point for both the EU Budget 2020 and the future financial framework is that the United Kingdom will participate in financing the EU budget until the end of 2020 despite the country's withdrawal from the EU, and continue doing so after this date as the country's budget commitments related to the current funding period (2014–2020) will not be incurred until the following funding period (2021–2027).

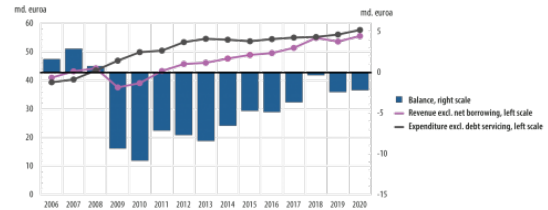


Diagram 6. Central government budget revenue, expenditure, and balance 2006–2020, EUR billion

Table 6. Flow of payments between Finland and the EU 2018–2020, EUR million

Central government expenditure	Final accounts 2018	Budget 2019	Budget 2020
On-budget finances			
VAT payment	292	301	316
GNI payment	1,425	1,619	1,624
Finland's share of the UK budgetary rebate	123	149	147
EU PAYMENTS TOTAL	1,839	2,069	2,087
European Development Fund	68	74	68
Total	1,907	2,143	2,155
Central government revenue	Final accounts 2018	Budget 2019	Budget 2020
On-budget finances			
Agricultural support	525	537	537
Rural development support	346	340	370
Subsidies from structural funds and cohesion funds	189	200	190
Customs duties and other levies	35	37	38
Other revenue	41	41	45
Off-budget finances			
Intervention Fund of Agriculture	0	0	0
Fund for Agricultural Development	0	0	0
Total	1,136	1,154	1,180
Customs duties, agricultural payments and sugar payments collected on behalf of the EU	173	184	189

Debt

At the end of 2020, central government debt, including debt of off-budget entities, is expected to be approximately EUR 109 billion, which is approximately 44% in ratio to GDP. (This figure takes into account the reduction in borrowing in 2019 which, according to the State Treasury's estimate, was approx. EUR 1 billion less than anticipated.) The central government debt interest payments are estimated to amount to EUR 870 billion, which is approximately EUR 300 million less than in the actual 2019 budget. Diagram 7 shows that the debt-to-GDP ratio has been reducing in recent years even though, in euro terms, the increase in debt has been continuing.

Deficit

The central government budget for 2020 shows a deficit of approximately EUR 2.2 billion, which will be covered by increased borrowing. In national accounting terms, the central government deficit for 2020 is expected to be approximately 1.4% in ratio to GDP. Central government on-budget activities have shown a deficit since 2009. The situation is illustrated in Diagram 6.

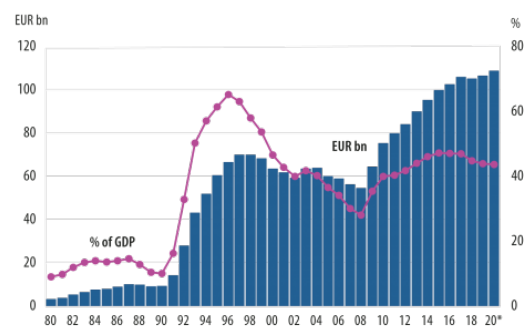


Diagram 7. Central Government Debt 1980–2020

5.2 Excerpts from tax and appropriation decisions in budget 2020

TAX CRITERIA CHANGE

One of the objectives of the tax policy of Prime Minister Marin's Government has been to ensure the financial basis for the welfare state in the digital and rapidly developing global economy. A more comprehensive tax base will be introduced to enable low tax rates and equal taxation that promote business activities, employment, growth and well-being. The solutions sought in taxation promote the Government's climate targets in the most economically efficient manner, accelerate the transition from fossil fuels, and simultaneously meet the criteria for social justice.

In accordance with the Government Programme, the higher taxes will be primarily focused on excise duty. The aim is to finance some of the permanent spending increases envisaged in the Government Programme and at the same time to encourage citizens to adopt healthier and more environmentally friendly consumption habits. To promote healthier lifestyles, excise duties on tobacco products, alcohol and soft drinks will be raised during the Government term. Compensation for higher consumption taxation will be in the form of lower income taxes in low-income and middle-income brackets.

In line with the Government Programme, the taxes on transport fuels will be raised in 2020, resulting in an estimated increase in annual tax revenue by EUR 250 million. To promote health, taxes on tobacco products (+ EUR 50 million) and soft drinks (EUR +25 million) will be raised. The taxation of earned income will be subject to an index adjustment, which will reduce the annual central government tax

revenue by EUR 275 million. The aim of the index adjustment is to avoid an increase in the tax burden as a result of a progressive tax system and higher income level. The Government will also moderately reduce the taxes on low and middle incomes. The purpose of this measure is to compensate on the effects of higher indirect taxes. The income tax base will be intensified by limiting the scope of the domestic help credit and restricting the right to a mortgage interest relief. The solidarity tax, which was originally in effect for a fixed period, will remain effective, resulting in an annual tax revenue growth of EUR 109 million. The entitlement to make depreciations on new investments will be doubled on a temporary basis, reducing the central government's tax revenue by EUR 207 million annually.



GENERAL PUBLIC SERVICES

In 2020, EUR 1.5 million will be allocated to the Healthy Premises 2028 action plan, the purpose of which is making public buildings healthier and providing more efficient treatment and rehabilitation for those suffering from symptoms caused by poor quality indoor air.

Approximately EUR 36 million will be allocated to support the activities of political par-

ties, or EUR 6 million more than in 2019.

The salary appropriations for Ministers, State Secretaries and Special Advisers will be increased by a total of EUR 5 million compared to the actual budget for 2019. This is due to an increase in the number of Ministers, State Secretaries and Special Advisers, adjustments to the remuneration criteria, and elimination of the spending cuts affecting the remuneration paid to the ministers of the previous Government. The ministries' operating expenditure will also be increased by a total of approx. EUR 1.6 million due to the higher number of political State Secretaries and Special Advisers.

FOREIGN AFFAIRS ADMINISTRATION

A EUR 1 million increase will be allocated for the Foreign Affairs Administration for the purpose of expanding Finland's network of diplomatic missions.

Slightly over EUR 1 billion will be allocated for international development cooperation. In 2020, the level of development cooperation appropriations is expected to be approximately 0.41% in ratio to the gross national income.

An appropriation of EUR 2.5 million will be allocated to mediation in 2020.

DEFENCE

The Defence Forces' appropriations for the purposes of increasing the number of personnel and tasks, recruiting contractual personnel, increasing the number of refresher training exercises, and introducing a new operat-

ing model for voluntary defence training will be increased by a total of EUR 5.8 million.

Costs will be incurred from the full replacement of the Finnish Hornet fighter jet fleet capability already at the preparation stage before a final purchase decision is made, and EUR 10 million will be allocated towards this expenditure in 2020. The proposed appropriation for defence materiel purchases is EUR 779 million, including a EUR 206 million funding contribution to the Squadron 2020 project.

A total of EUR 113 million will be allocated to military crisis management expenditure, EUR 3 million more than in the actual 2019 budget. EUR 16.6 million will be allocated to civilian crisis management.

PUBLIC ORDER AND SAFETY

A total of approx. EUR 820 million will be allocated to the Police and the Finnish Security Intelligence Service. These appropriations will be used to launch measures aiming at increasing police officer person-years to 7,500, or the level determined in the Government Programme, by the year 2023.

A total of approx. EUR 268 million will be allocated to the Finnish Border Guard. The budget takes note of the objective recorded in the Government Programme of safeguarding the performance of border security and securing the number of border guards by increasing the appropriations for the Finnish Border Guard's operating expenditure by EUR 1.3 million in 2020. Additionally, the appropriation for the Finnish Border Guard includes an increase of approx. EUR 11 million as a response to the EU's border security requirements and a growth in external border traffic at the Rovaniemi Airport as well as

to provide for the expenditure on the standing corps of the European Border and Coast Guard Agency. A decision was made to allocate EUR 15 million to the Border Guard's investment in improving the technical surveillance of the maritime and land borders.

To support the performance of actors involved in preventing and investigating criminal offences and to maintain criminal liability, additional funding amounting to EUR 5.2 million will be allocated to the prosecution service, courts, legal aid, and the Criminal Sanctions Agency. A one-off increase of EUR 2 million will also be allocated to centralising evidence collection to the District Courts. A one-off increase totalling EUR 2.3 million will be allocated to the Supreme Administrative Court and other courts due to an increase in the number of residence permit issues. Additional funding will also be made available for the Ministry of Justice's administrative branch for such purposes as the prevention of crime and domestic violence.

In accordance with the Government Programme, the refugee quota will be subject to an annual increase of one hundred person to 850 persons in total. As a result, the appropriations will be increased by a total of EUR 0.9 million in 2020. A further increase of EUR 2.32 million will be allocated to improving and accelerating integration. EUR 10 million will be allocated to the Finnish Immigration Service to secure adequate decision-making resources, especially in the context of work-based immigration. A total of EUR 3.5 million will additionally be allocated to dealing with the backlog of asylum applications. An increase of EUR 2 million will be allocated to the Finnish Immigration Service's ICT expenditure.

ISSUES RELATED TO BUSINESS AND INDUSTRY

In an effort to increase the use of the pay subsidy scheme in companies, an additional EUR 10 million will be allocated to public labour services. The pay subsidy scheme will be improved and its use will be expanded in partnership with labour market organisations to avoid jeopardising work performed under collective agreements or distorting competition.

A total of EUR 12.6 million will be allocated to promoting the integration and employment of immigrants. For instance, the appropriation will be used to finance the expansion of the municipalities' multiprofessional centre of expertise activities as well as guidance and advice desks.

Business Finland's grant authorisation for research, development and innovation activities will be EUR 328 million. Business Finland's grant-based funding will also be increased by EUR 88 million, of which EUR 55 million will be earmarked for supporting company-led research, development and innovation.

An increase of EUR 0.6 million will be made in the Ministry of Economic Affairs and Employment's operating expenditure for the establishment of a centre of excellence on impact investment.

EUR 20 million will be allocated to supporting sustainable growth and vitality in the regions, agreement-based cooperation, and regional development projects. EUR 6 million will be allocated to continued payment of regional transport subsidies.

As part of the Government's future-oriented investments, EUR 23 million will be allocated to a fixed-term circular economy investment

and innovation subsidy project in 2020.

The energy aid authority will be increased by EUR 30 million to support investments aiming at phasing out coal. EUR 5 million will be allocated to implementing the national biogas programme.

An authorisation of EUR 33.9 million for new ship projects will be granted under the umbrella of innovation support for ship building.

EUR 2.1 billion will be allocated to transport networks, of which EUR 1.4 will go towards basic transport infrastructure maintenance. The appropriations for basic transport infrastructure maintenance include a permanent increase of EUR 300 million set down in the Government Programme aiming to ensure that an increase in the maintenance backlog can be avoided and the existing maintenance backlog eliminated. Nearly EUR 500 million will be allocated to development projects. A new project will be launched to electrify the rail section between Hanko and Hyvinkää. Planning for the deepening of Ajos fairway in Kemi and improving of the rail sections between Tampere and Jyväskylä as well as Seinäjoki and Vaasa will also be started. As a one-off future-oriented investment, EUR 12 million will be allocated to removing dangerous level crossings and EUR 10 million to promoting walking and cycling in central government projects; EUR 14.5 million will be allocated to municipalities for similar projects in the form of discretionary government transfers. EUR 20 million will be allocated to grants for private roads. Cycling to school and cycling tourism will also be supported by modest increases in appropriations.

There will be an increase of EUR 1.25 million in the appropriations for making purchases for and developing archipelago and ferry traffic in order to repair docks. In line with the

Government Programme, a general increase amounting to EUR 20 million will be allocated to public transport for measures based on climate criteria.

EUR 2 million will be added to the subsidies for airports and airfields outside Finavia's network.

Appropriations for agriculture and the food economy will be increased by EUR 33 million compared to the previous year's budget due to one-off increases in agri-environmental payments and compensatory allowances for permanent natural handicaps, among other things. A one-off transfer of around EUR 90 million is also proposed in the Development Fund for Agriculture and Forestry (Makera).

An increase of EUR 1.8 million will be allocated to advice aiming to improve the profitability of agriculture.

The Natural Resources Institute Finland's operating expenditure will be increased by a total of almost EUR 1.7 million for such purposes as an agricultural census, monitoring of food losses, carbon dioxide studies of peatlands and the implementation of the National Emission Ceilings Directive in Finland.

The largest permanent increases to appropriations under the Government Programme include those proposed for climate policy in the land use sector and safeguarding the funding for commitments to organic farming.



ENVIRONMENTAL PROTECTION AND CONSERVATION

The funding for nature conservation in the administrative branches of the Ministry of the Environment and the Ministry of Agriculture and Forestry will be increased by EUR 103 million in total.

The implementation of the Forest Biodiversity Programme for Southern Finland (METSO) will continue. An action programme for improving habitat biodiversity will be launched. The funding of the public administrative tasks of Metsähallitus will be improved in the area of nature conservation duties.

A total of EUR 2 million is reserved for the implementation of a prepared strategic programme for promoting the circular economy in the operating expenditure of the Ministry of the Environment and the Ministry of Agriculture and Forestry.

The operations of the Finnish Climate Change Panel will be strengthened by an annual increase in appropriations of EUR 0.45 million.

A grant of EUR 3 million will be allocated to the City of Lahti for expenditure related to the European Green Capital 2021 theme year.

HOUSING AND COMMUNITY SERVICES

Around EUR 202 million in assets from the National Housing Fund will be used for paying housing service grants and interest subsidies.

EUR 5 million from the National Housing Fund will be used to finance the suburban development programme. EUR 20 million will be allocated to energy grants for housing companies. EUR 5 million will be used to refurbish the housing stock to meet the needs of older people. To adjust the government-subsidised housing stock, the maximum amounts of both demolition grants and ARAVA loan forgiveness will be increased by EUR 5 million in areas with declining population.

The amount of built heritage maintenance grants will be increased to EUR 1.7 million.

HEALTHCARE

A total of EUR 10 million will be allocated to developing the services for children and families and the continuation of the Programme to address child and family services in 2020.

To promote the investigation and prevention of sexual offences against children, the implementation of the Children's Advocacy Center operating model will be continued. An appropriation of EUR 0.3 million will be allocated to the establishment of SERI Support Centres for victims of sexual assault.

As part of the development of research and innovation activities in healthcare, an appro-

priation of EUR 5.2 million will be allocated to launching the activities of a new permit authority managing data use in social welfare and healthcare.

The National vaccination programme will be developed by expanding the TBE vaccination and also extending the HPV vaccines to boys. EUR 2 million will be allocated for this purpose.

EUR 97.4 million will be allocated to the development projects of social welfare and healthcare services set out in the Government Programme. Their aims include improving the availability of services in a front-loaded manner. The development projects will focus on safeguarding access to primary services, improving the care and nursing of older people, and preparing a national, cross-administrative mental health strategy and child strategy.

The appropriation for treating mothers with substances abuse problems will be increased by EUR 1.7 million in 2020. EUR 2 million will be allocated to developing end-of-life care and palliative care in 2020.

In 2021, the services of the Finnish Student Health Service will be expanded to polytechnic students, and preparatory measures associated with this plan will be supported with the amount of EUR 1.4 million in 2020.

RECREATION AND CULTURE

To maintain funding at the 2019 levels, the amount allocated to expenditure on science and central government transfers to museums, theatres and orchestras as well as to sport and youth services in municipalities will be increased by a total of EUR 5.4 million.

EUR 5 million will be allocated to reform-

ing the system of central government transfers to museums and performing arts. An additional amount of EUR 1 million will be allocated to renewing the system of central government transfers for performing arts. As set out in the Government Programme, the subsidies granted to culture will be increased by a total of EUR 5.1 million. EUR 1.4 million will be allocated to increasing the level of artist grants.

A EUR 20 million one-off investment will be made in the renovation of the National Theatre.

The appropriations for promoting physical activity and high-performance sports will be increased by EUR 4.8 million.

EUR 6 million will be allocated to expanding the Schools on the Move programme to different age groups, and EUR 2 million to building sports facilities.

Support for developing workshop activities for young people will be increased by EUR 2 million, and support for developing a national digital system by EUR 1.2 million.

Central government transfers to NGOs will be increased by EUR 1.2 million.

EDUCATION

EUR 60 million will be allocated to improving quality and equality in basic education, and EUR 25 million to developing quality and equality in early childhood education and care. Additionally, the appropriation for developing the teaching of Finnish or Swedish as a second language (s2), training early childhood education and care personnel and supporting pupils with an immigrant background in transition phases of education will be increased by EUR 1 million.

EUR 5 million will be allocated to promoting opportunities for recreational activities available free of charge provided in connection with the school day.

Around EUR 1.4 million will be allocated to the Ministry of Education and Culture's administrative branch for measures to improve literacy, the most essential one of which is drawing up a national literacy strategy. The appropriation for teacher's in-service training will also be increased by EUR 0.5 million, especially in the areas of climate issues and sustainable development as well as sexuality and gender equality education.

An increase of EUR 7.5 million will be made in central government transfers towards the unit cost funding of general upper secondary education. This will increase the funding by a total of EUR 18 million, taking the municipalities' funding share into account.

Implementation of the vocational education and training reform will continue. EUR 2.5 million will be allocated to increasing and developing the training of workplace instructors, and EUR 0.5 million to supporting the vocational education and training of athletes.

EUR 80 million will be allocated to hiring vocational education teachers and instructors as well as for support measures of teaching and guidance.

In 2020, EUR 40 million will be allocated to the capitalisation of universities and EUR 20 million to the capitalisation of polytechnics.

The appropriation for promoting life-wide learning at liberal adult education institutions will be increased by EUR 7.5 million. From the Ministry of Economic Affairs and Employment's administrative branch, EUR 20 million will be transferred to rapid-action measures aiming to respond to lack of experts

in certain sectors.

Additional inputs will also be made in building up immigrants' competence in order to improve their preconditions for finding employment as well as in measures supporting immigrants' access to higher education.

Finland prepares to host one supercomputer of the European High-Performance Computing Joint Undertaking (EuroHPC). In the period 2019–2026, Finland's funding contribution will amount to at most EUR 50 million. EUR 10 million of the Academy of Finland's authorisation will be channelled to this purpose in 2020.

In accordance with the Government Programme, the family provider increment linked to study grants will be increased by EUR 25 to EUR 100 a month from 1 January 2020. This will increase the expenditure on study grants by EUR 3 million. The study grant will also be tied to the national pension index as of 1 August 2020.



SOCIAL SECURITY incl. earnings-related pensions

EUR 0.5 million will be allocated to the Ministry of Social Affairs and Health's Equality and Equal Pay Programme. This appropri-

ation will be allocated to the preparation of an extensive equality programme used to coordinate measures that aim at accomplishing an equal society in various areas.

Starting at the beginning of 2020, the child benefit for the fourth and fifth child and the single-parent supplement to child benefit will be increased by EUR 10. The maintenance allowance will be increased by EUR 7. A total of EUR 37 million has been reserved for these reforms.

The resources of the Social Insurance Institution of Finland will be strengthened by a EUR 38.8 million increase. In addition, EUR 1.4 million will be allocated to improving information security.

The appropriation for unemployment security will be EUR 2.2 billion, or EUR 135 billion less than in the actual budget for 2019. The reduction is mainly due to the drop in the unemployment rate. Funding pay-subsidised work with unemployment benefit appropriations and employment appropriations will be continued in 2020. Youth employment will be supported. A total of EUR 10 million will be allocated to a work ability programme for people with partial work ability. EUR 1 million will be allocated to a development programme of working life and well-being at work.

The discontinuation of the system of reductions in unemployment security under the activation model and the increase of the lower age limit for additional days of the unemployment allowance to 62 will reduce the central government's expenditure by an estimated total of EUR 9.3 million.

Basic social security (minimum-rate rehabilitation allowance, sickness and parental allowances and unemployment daily allowance) will be subject to a EUR 20 increase, whose

cost effect for the central government will amount to some EUR 40 million.

The pensions of people receiving a small pension will be increased. The net impact of these measures on general government finances will be EUR 183 million. To alleviate farms' liquidity issues, the temporary reduction in the interest rate of insurance payments to the Farmers' Social Insurance Institute will be continued in 2020.

EUR 1.2 million will be granted to support food aid activities.

A total of EUR 3 million will be allocated to supporting the development of shelters for victims of domestic violence.

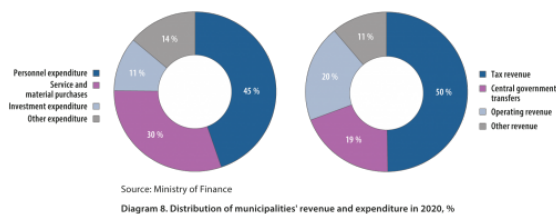
Under a legislative amendment, services provided for war veterans at home have been free of charge since 1 November 2019. To ensure sufficient funding for these services, a total appropriation of EUR 180 million will be allocated to this purpose in 2020. A supplementary appropriation of EUR 4.7 million will also be allocated to increasing the front veteran's supplement from EUR 50 to 125. This increase will take effect on 1 April 2020.

5.3 Local government finances

The central government funds the operations of municipalities with central government transfers and discretionary government transfers provided through the government aid system. As part of their self-government, the municipalities mainly manage their expenditure and revenue autonomously; on the other hand, the central government also influences them by legislation. The local government finances programme and Chapter 8 of the general rationale of the budget describe the state of local government finances

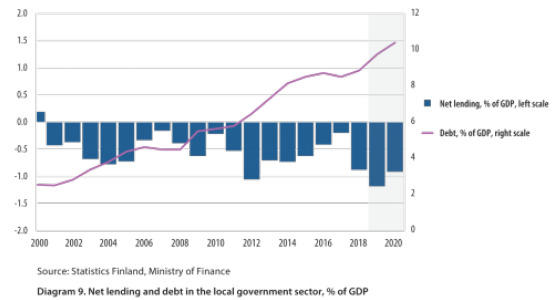
and the impact of central government measures on local government finances in further detail.

In 2020, the municipalities' revenue is expected to consist of tax revenue (50%), operating income (20%), central government transfers (19%) and other revenue (11%). It is estimated that 45% of the municipalities' expenditure will be allocated to wages and salaries, 30% to procurement of services and materials, 11% to investments, and 14% to other expenditure. The distribution of municipalities' revenue and expenditure is illustrated in Diagram 8.



According to the Government's budgetary targets for local government finances, local government net lending (as per the National Accounts) may not exceed 0.5 per cent in ratio to GDP in 2023. In the Ministry of Finance's projection, local government deficit will be 1.1% in ratio to GDP in 2023. In order to attain the targeted budgetary position, local government adjustment would be required by means of the municipalities' own adjustment measures and productivity measures supported by the central government as well as employment measures that increase economic growth and thus also tax revenue.

The development of the deficit and debt is illustrated in Diagram 9 and this topic is discussed in more detail in Chapter 2.3 of the December 2019 Economic Survey of the Ministry of Finance.



Central government measures affect the municipalities' revenue and expenditure. Central government measures will have the net impact of strengthening local government finances by approximately EUR 0.3 billion in 2020. Compared to the 2019 level, central government transfers will be increased by a reduction in the cuts affecting these transfers under the Competitiveness Pact (EUR 286 million), a review of cost sharing between the central and local government (EUR 124 million) as well as an index increase (2.4%), which will increase the central government transfers by around EUR 198 million. Changes in factors on which calculations of the central government transfers are based, including population or morbidity, will increase the transfers by slightly over EUR 18 million.

In accordance with the Government Programme, the proposed new or expanded tasks include the expansion of the subjective right to early childhood education and care, reduction of group sizes in early childhood education and care, support for diversity in families and life situations, and transforming Vaasa Central Hospital into a hospital providing extensive 24-hour care services. Other measures to be implemented include raising the maximum age limit for aftercare services in child welfare from 21 to 25 years, and starting the instruction of the A1 language earlier in basic education, on which a decision has

been made earlier. Overall, the central government transfers to local government will be raised by approximately EUR 36 million in connection with the increase in the municipalities' tasks.

Other significant changes in government transfers and grants are related to the reform of the social welfare and health care system, for which EUR 90 million will be allocated for 2020. This includes the statutory minimum staffing level (0.7) for care personnel in units providing 24-hour care, the sufficiency of home care resources and the development of informal care, the national mental health strategy, and safeguarding the availability of primary services.

EUR 60 million will be allocated to improv-

ing quality and equality in basic education, and EUR 25 million to developing quality and equality in early childhood education and care. EUR 80 million will be allocated to hiring vocational education teachers and instructors as well as for support measures of teaching and guidance.

In connection with MAL agreements, EUR 15 million is allocated to municipal infrastructure grants and EUR 30 million to MAL start-up grants.

The impact of central government measures on municipalities has been analysed in more detail in Chapter 8.3 of the general strategy and outlook of the budget and in Chapter 2.2 of the local government finances programme.

6 Summary

This publication contains a review on the budget for 2020.

The economic policy of Prime Minister Marin's Government has the objective of increasing well-being. This means ecologically and socially sustainable economic growth, high employment and sustainable public finances. The objective of the Government is that, given normal global economic circumstances, Finland's general government finances will be in balance in 2023. This objective is supported by the Government's goal of increasing the employment rate to 75 per cent.

The Government Programme of Prime Minister Marin's Government contains permanent increases in general government expenditure amounting to around EUR 1.4 billion at the level of 2023 compared to the technical General Government Fiscal Plan of spring 2019. The permanent additional Government expenditure will be primarily covered by discretionary permanent additional revenue as well as reallocation of resources. The solutions concerning taxation also aim at promoting the set climate targets. During the parliamentary term, the Government will implement a one-off programme of future-oriented investment that will support the attainment of the Government Programme's objectives and long-term sustainability of general government finances.

Economic growth is projected to slow down to 1.0 per cent in 2020. The number of employed people is expected to grow and unemployment rate to drop. The economic upturn affecting Finland's national economy in the

latter years of the past decade has improved the state of general government finances. The recent economic slowdown has halted the improvement in general government budgetary position, however. Additionally, the front-loaded permanent and temporary expenditure increases decided by the Government will increase the deficit from 2020 on. The steady growth of the Finnish economy over the past few years has improved the state of general government finances. Due to population ageing, however, there is a considerable sustainability gap, i.e. an imbalance between revenue and expenditure, in general government finances in the long term.

The appropriations in the budget for 2020 amount to EUR 57.7 billion. The central government's on-budget deficit is predicted to amount to approximately EUR 2.2 billion, and central government debt is expected to rise to approximately EUR 109 billion. The budget for 2020 includes amounts set out in the Government Programme for increasing small pensions and developing social welfare and healthcare services, for early childhood education and care, education and research, as well as funding allocated to nature conservation. In accordance with the Government Programme, taxes on transport fuels will be raised in 2020. The basis for the taxation of earned income will be subject to an index adjustment, and the taxes on low and middle incomes will be moderately cut in an effort to compensate for the effects of higher indirect taxes.

The budget for 2020 will also be updated on the www.tutkibudjettia.fi website, which al-

lows the budget to be examined visually from different perspectives.



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