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OF FINANCE

Budget review 2022

Review on central government budget proposal,
September 2021

Economic Policy

Publications of the Ministry of Finance – 2021:57

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Review on central government
budget proposal, September 2021

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Budget review 2022**Review on central government budget proposal, September 2021**

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Abstract

This publication examines the budget proposal for 2022, which will be submitted to Parliament in September. The aim is to provide a concise description of the central themes of the 2022 Budget. The budget proposal is based on an independent economic forecast produced by the Economics Department at the Ministry of Finance, which is presented in the Economic Survey.

Economic recovery from the coronavirus pandemic has been faster than expected in 2021. The economic recovery will continue in the autumn, especially in the sectors that are still subject to restrictions. As a result, economic growth will remain strong during the second half of 2021 and early 2022. Growth in employment has significantly accelerated in the first half of the year.

The coronavirus pandemic increased the general government deficit to a high level in 2020. General government finances were weakened by an economic downturn and the support measures prompted by the pandemic. The rapid economic growth after the downturn will improve public finances in 2021, but the general government deficit will remain high. Economic growth and a sharp reduction in the support measures prompted by the COVID-19 situation will also strengthen general government finances in 2022. However, general government finances will still remain in deficit after a short period of economic upturn.

The appropriations in the budget proposal for 2022 amount to EUR 64.8 billion. The central government on-budget deficit is predicted to amount to approximately EUR 6.9 billion and central government debt is expected to rise to approximately EUR 146 billion. Compared to the actual 2021 budget, the expenditure will decrease by EUR 1.5 billion, particularly as a result of a decline in expenditure related to the coronavirus outbreak. Meanwhile, the expenditure will be increased by statutory and contractual index increases, the transition costs resulting from the reform of healthcare and social welfare and rescue services, payments to the European Union and a change in the timing of the funding for the wellbeing services counties.

Diagrams 3 and 7 (pages 13 and 26) were updated on 12 October 2021.

Keywords economic policy, central government budget proposal, budget, budgeting, central government finances

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Budjettikatsaus 2022

Katsaus valtion talousarvioesitykseen, syyskuu 2021

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Tiivistelmä

Tässä julkaisussa tarkastellaan vuoden 2022 talousarvioesitystä, joka annetaan eduskunnalle syyskuussa. Tarkoituksena on tarjota tiivis kuvaus valtion budjetin keskeisistä teemoista vuonna 2022. Talousarvioesitys pohjautuu valtiovarainministeriön kansantalousosaston riippumattomaan talousennusteeseen, joka esitellään Taloudellisessa katsauksessa.

Talouden toipuminen koronaviruspandemiasta on ollut ennakoitua nopeampaa vuonna 2021. Talouden elpyminen jatkuu syksyllä etenkin niillä toimialoilla, joita rajoitukset vielä tällä hetkellä koskevat. Sen seurauksena talouskasvu pysyy edelleen vahvana loppuvuonna 2021 ja vuoden 2022 alkupuolella. Työllisyyden kasvu on vuoden ensimmäisellä puoliskolla nopeutunut merkittävästi.

Koronaviruspandemia kasvatti julkisen talouden alijäämän suureksi vuonna 2020. Julkista taloutta heikensivät talouden taantuma sekä monet pandemian vuoksi toteutetut tukitoimet. Taantumien jälkeinen ripeä talouskasvu kohentaa julkista taloutta vuonna 2021, mutta julkisen talouden alijäämä pysyy suurena. Talouskasvu ja koronavirustilanteen vuoksi päätettyjen tukitoimien voimakas vähentyminen vahvistavat julkista taloutta vielä vuonna 2022. Julkinen talous jää kuitenkin ripeän suhdannepyrähdyksen jälkeen yhä alijäämäiseksi.

Vuoden 2022 talousarvioesityksen määrärahat ovat 64,8 mrd. euroa. Valtion budjettitalouden alijäämäksi ennakoitaan noin 6,9 mrd. euroa ja valtionvelan odotetaan nousevan noin 146 mrd. euroon. Menotaso laskee vuoden 2021 varsinaiseen talousarvioon verrattuna 1,5 mrd. eurolla erityisesti koronavirustilanteeseen liittyvien menojen laskun myötä. Vastaavasti menotaso nostavat laki- ja sopimusperusteiset indeksikorotukset, sosiaali- ja terveydenhuollon sekä pelastustoimen uudistuksen muutuskustannukset, maksut Euroopan unionille sekä hyvinvointialueiden rahoituksen ajoitusmuutos.

Kuviot 3 ja 7 (sivut 13 ja 26) on päivitetty 12.10.2021.

Asiasanat talouspolitiikka, valtion talousarvioesitys, budjetointi, budjetti, valtiontalous

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Referat

I denna publikation granskas budgetpropositionen för 2022, som lämnas till riksdagen i september. Avsikten är att ge en kort beskrivning av centrala teman i statsbudgeten 2022. Budgetpropositionen baserar sig på en oberoende ekonomisk prognos från finansministeriets ekonomiska avdelning, och den presenteras i den Ekonomiska översikten.

Ekonomi har återhämtat sig från coronaviruspandemin snabbare än förväntat 2021. Den ekonomiska återhämtningen fortsätter på hösten i synnerhet inom de branscher som ännu för närvarande omfattas av begränsningar. Till följd av det kommer den ekonomiska tillväxten att vara fortsatt stark i slutet av 2021 och början av 2022. Sysselsättningen har ökat betydligt snabbare under årets första hälft.

Coronaviruspandemin bidrog till ett stort underskott i den offentliga ekonomin 2020. De offentliga finanserna försvagades av den ekonomiska recessionen och av de många stödåtgärder som vidtog på grund av pandemin. Den snabba ekonomiska tillväxten efter recessionen förbättrar de offentliga finanserna 2021, men underskottet i de offentliga finanserna förblir stort. Den ekonomiska tillväxten och den kraftiga nedgången i stödåtgärder som slagits fast till följd av coronavirussituationen stärker den offentliga ekonomin ännu 2022. Efter den snabba konjunkturuppgången uppvisar de offentliga finanserna dock fortfarande ett underskott.

Anslagen i budgetpropositionen för 2022 är 64,8 miljarder euro. Statens budgetekonomi beräknas uppvisa ett underskott på cirka 6,9 miljarder euro och statsskulden beräknas stiga till cirka 146 miljarder euro. Utgiftsnivån sjunker med 1,5 miljarder euro jämfört med den ordinarie budgeten för 2021 särskilt i och med att utgifterna som hänför sig till coronavirussituationen minskar. På motsvarande sätt höjs utgiftsnivån av lagstadgade och avtalsbaserade indexförhöjningar, ändringskostnaderna för reformen av social- och hälsovården och räddningsväsendet, avgifter till Europeiska unionen och den ändrade tidsmässiga fördelningen av finansieringen för välfärdsområdena.

Figurer 3 och 7 (sidorna 13 och 26) har uppdaterats 12.10.2021.

Nyckelord finanspolitiken, ekonomisk politik, budgetpropositionen, budgetering, statsfinanser

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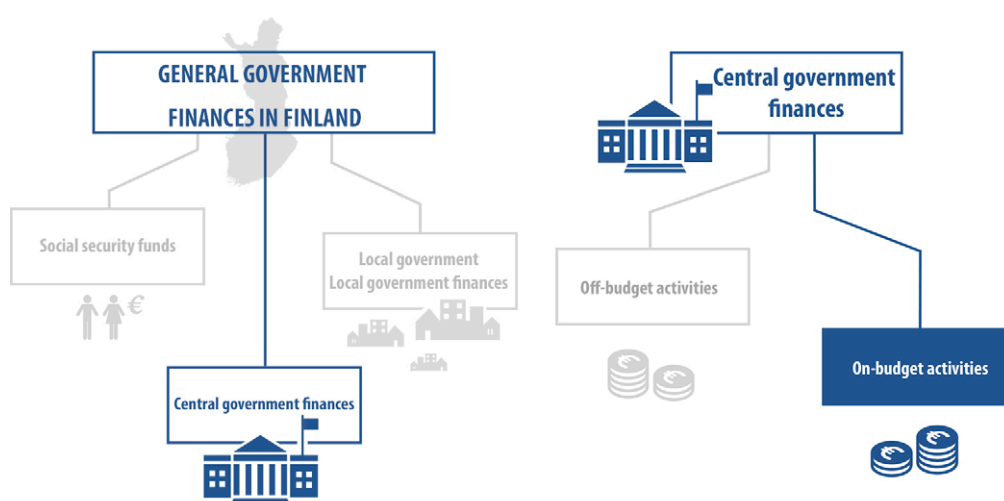
Contents

1	Introduction	7
2	Economic outlook	9
2.1	Real economy.....	9
2.2	General government finances.....	10
3	The Government's economic policy approach	14
4	Central government budget proposal 2022	21
4.1	Revenue, expenditure, deficit and debt.....	21
4.2	Excerpts from tax and appropriation decisions in budget proposal 2022.....	27
4.3	Local government finances.....	39
4.4	Finland's Recovery and Resilience Plan in the 2022 budget proposal.....	42
5	Piloting child-oriented budgeting	46
6	Summary	50

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 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 central government on-budget activities. The Government's budget proposal for 2022, which will be submitted to Parliament in September, is the topic of examination. Its 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 budget proposal is based on an independent economic forecast produced by the Economics Department at the Ministry of Finance, which is presented in the Economic Survey.

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



In Finland, Parliament has the highest decision-making authority on the use of central government resources. Parliament primarily 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. Parliament approves the budget for the following budget year before the end of the previous one.

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 allocations for each administrative branch made within the spending limits are reviewed by the Government in April as part of the General Government Fiscal Plan, and the spending limits are updated to correspond to changes in the level of costs, prices and spending limit expenditure structure. For more information, see <https://vm.fi/en/central-government-spending-limits>.

The final sum of the budget proposal for 2022 is EUR 64.8 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 6.9 billion and central government debt is expected to rise to approximately EUR 146 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 attainment. Chapter 4 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 5 is concerned with child-oriented budgeting piloted in the 2022 budget proposal and Chapter 6 gives a summary of the review.

2 Economic outlook

2.1 Real economy

Economic recovery from the coronavirus pandemic has been faster than expected in 2021. The economic recovery will continue in the autumn, especially in the sectors that are still subject to restrictions. As a result, economic growth will remain strong during the second half of 2021 and early 2022.

The Ministry of Finance projects the gross domestic product (GDP) to grow by 2.9% in 2022. Total exports will reach pre-crisis levels in early 2022. Rapid growth is expected in foreign trade in services as a result of the lifting of restrictions and a decrease in uncertainty. The private investment to GDP ratio will increase to nearly 20 per cent. Funding from the Recovery and Resilience Facility of the EU (RRF) will boost investments in research and development, for instance. Private consumption will continue to grow as household savings are spent on consumption.

Growth in employment has significantly accelerated in the first half of 2021. The demand for labour is sustained by economic growth and in the short term, it can be met by the large number of unemployed persons and the government measures to increase the supply of labour. Economic recovery will boost the number of employed persons, especially in the service sectors.

Table 1. Trends in the national economy 2019–2022

September 2021 forecast	2019*	2020*	2021**	2022**
GDP at market prices (EUR bn)	240.1	236.2	248.9	260.9
GDP, change in volume (%)	1.3	-2.9	3.3	2.9
Unemployment rate (%)	6.7	7.7	7.8	6.8
Employment rate (%)	71.6	70.7	72.4	73.6
Consumer price index, change (%)	1.0	0.3	1.8	1.6
Interest rate (10 year bonds) (%)	0.1	-0.2	-0.1	-0.1

* Advance information

** Forecast

2.2 General government finances

The coronavirus pandemic increased the general government deficit to a high level in 2020. General government finances were weakened by an economic downturn and the support measures prompted by the pandemic. The rapid economic growth after the downturn will improve public finances in 2021, but the general government deficit will remain high. Economic growth and a sharp reduction in the support measures prompted by the COVID-19 situation will also strengthen general government finances in 2022. However, general government finances will still remain in deficit after a short period of economic upturn. Thus, the structural imbalance between general government expenditure and revenue will persist.

In 2020, general government debt-to-GDP ratio reached a level that is ten percentage points higher than before the crisis, at which point it was 59.5%. Growth in the debt-to-GDP ratio will slow down in 2022, but will then accelerate again, reaching just over 73 per cent by the middle of the decade. The general government debt-to-GDP ratio will remain at a significantly higher level than at the end of the 2010s.

Central government has borne most of the expenses of the support measures prompted by the COVID-19 outbreak. In fact, central government is the general government sector with the highest deficit. The active fiscal policy pursued by central government helped stimulate the economy in 2020 and it will also maintain the level of economic activity in 2021. Driven by economic growth and the end of the support measures, central government deficit will continue to decrease in 2022.

Local government budgetary position turned into a slight surplus in 2020. This was mainly the result of the extensive central government support measures. In 2021 and 2022, local government budgetary position will again be in deficit. In 2023, the structure of Finland's general government will change as the responsibility for health and social services and rescue services will be transferred from municipalities to wellbeing services counties. This will ease the structural spending pressures facing municipalities resulting from the ageing population.

In 2020, the surplus of employment pension institutions decreased significantly due to the temporary reduction in pension contributions, and a fall in contribution and property income. Due to the end of the temporary reduction in contributions and strong growth in contributions accompanying a rise in employment, the financial position of employment pension institutions will return to its pre-crisis levels. The surpluses will, however, remain fairly moderate in the coming years as pension expenditure continues to grow and very low interest rates slow down growth in the institutions' property income.

The surplus of the other social security funds turned into a deficit in 2020. Their financial position was weakened by extensive lay-offs, higher unemployment and temporary extensions in unemployment security. Increase in unemployment insurance contributions in 2021 and 2022 will ease the situation of the other social security funds. Unemployment will also decrease as of 2022, which will strengthen other social security funds.

The most important risks affecting general government finances are still related to overall economic developments. New coronavirus mutations may postpone the economic recovery and weaken general government finances if economic growth slows down and pandemic-related expenditure increases again.

General government contingent liabilities and especially the rapid rise in guarantees will pose a risk for general government finances. Concentration of the guarantee liabilities in a small number of sectors and companies is increasing the risks arising from the liabilities. Guarantee authorisations were also increased in 2020 as part of the measures introduced to support companies, even though this has so far not accelerated the growth in guarantees. Extensive realisation of the liabilities would lead to higher public spending and speed up the increase in the debt-to-GDP ratio.

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

September 2021 forecast, % of GDP	2019	2020*	2021**	2022**
Taxes and social security contributions	42.2	42.1	43.2	42.1
General government expenditure	53.2	57.3	56.8	54.3
General government net lending	-0.9	-5.4	-3.9	-2.4
• central government	-1.1	-5.5	-4.2	-2.8
• local government	-1.2	0.0	-0.4	-0.7
• employment pension schemes	1.1	0.2	0.8	0.9
• other social security funds	0.3	-0.1	-0.1	0.1
General government debt	59.5	69.5	71.2	71.3
Central government debt ¹⁾	44.3	52.9	55.1	55.3

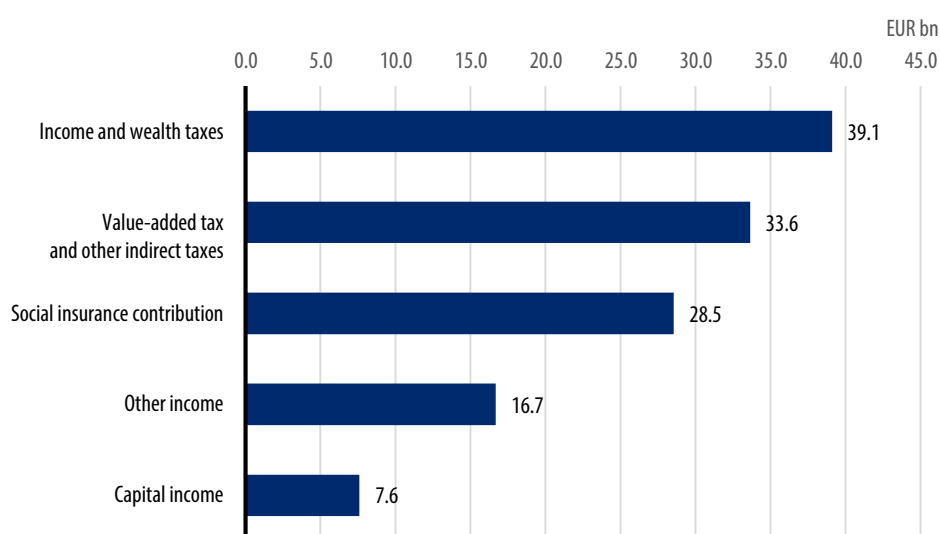
* Advance information

** 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

In addition to economic cycles, the structures of general government finances are also reflected in the accrual of general government revenue and the allocation of expenditure. Diagram 2 illustrates how the majority of general government revenue was collected as income or wealth tax, and as indirect tax, in 2019.

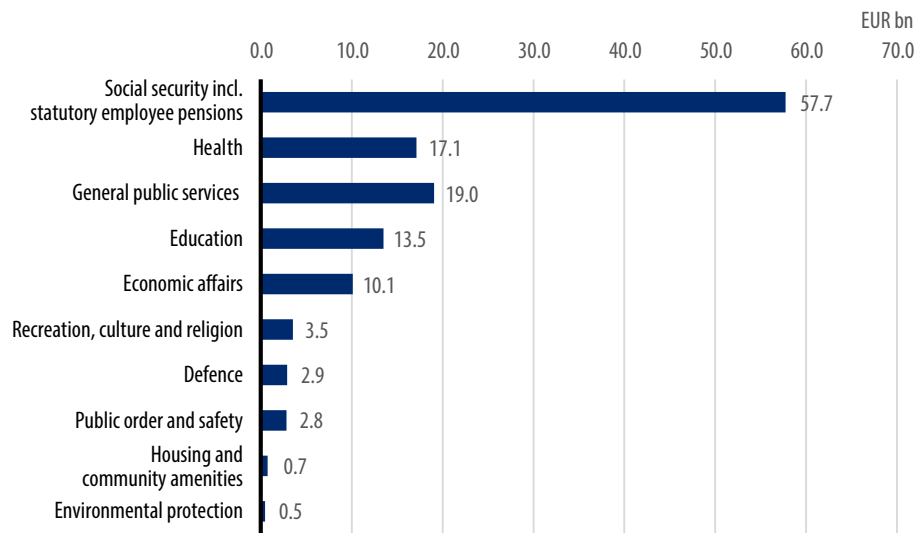
Diagram 2. General government revenue in 2019, EUR bn. Source: Statistics Finland



Most of the general government expenditure is comprised of social security benefit expenditure 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.

Diagram 3. General government expenditure by function (COFOG) in 2019, EUR bn.

Sources: Statistics Finland, National Accounts



3 The Government's economic policy approach

Prime Minister Marin's Government is implementing an active and responsible fiscal policy that is scaled to the economic outlook. Fiscal policy was highly expansionary during the recession. The Government decided on extensive measures to safeguard jobs and people's livelihoods and to facilitate the financial situation of companies as they faced difficulties caused by the coronavirus situation.

Measures taken under the government programme (permanent additional investments and so-called future-oriented investments), the introduction of the so-called state of emergency mechanism for the period 2021–2022, an increase in the level of central government spending limits decided by the Government in the mid-term review and the implementation of Finland's Sustainable Growth Programme will also maintain economic activity during the second half of the parliamentary term.

The fiscal policy line is structured in such a way that central government expenditure line will gradually descend towards the end of the parliamentary term from an exceptionally high level in the period 2020–2021, and will continue on this path after the parliamentary term is over. In its mid-term policy review in spring 2021, the Government decided to increase the spending limits for the years 2022 and 2023, as well as the spending limits reserve introduced in 2021 used for one-off expenditure needs arising from the coronavirus situation that are obligatory for fiscal policy purposes. On the other hand, a decision was made to permanently reallocate spending limits expenditure by EUR 370 million as of 2023.

Fiscal policy objectives and rules

The Government's aim is to achieve a reversal in the upward trend in the general government debt-to-GDP ratio in the mid-2020s.

EU legislation sets a 3-per-cent reference value for the general government deficit and a 60-per-cent reference value for the debt-to-GDP ratio. Moreover, in accordance with EU and domestic legislation, a medium-term objective is set for general government structural balance.

In autumn 2019, the Government set the medium-term objective for general government structural budgetary balance at -0.5 per cent in relation to GDP. This is the minimum level to which Finland has committed to in the Fiscal Compact. The General Government Fiscal Plan also set multiannual targets for total general government budgetary position, expenditure and debt consistent with the achievement of the medium-term objective and the goal set for fiscal balance in the government programme.

On 20 March 2020, the European Commission published a communication whose purpose was to activate the general escape clause of the Stability and Growth Pact as a result of the severe economic recession caused by the coronavirus situation across the EU and the need to respond to this with an adequately proportioned public investment. In their joint opinion published on 23 March 2020, the Member States gave their support to the activation of the clause. The general escape clause allows the Member States to temporarily derogate from the consolidation path towards the medium-term budgetary objective, provided that this does not jeopardise the medium-term sustainability of public finances.

On 3 March 2021, the Commission published a Communication entitled “One year since the outbreak of COVID-19: fiscal policy response”, in which the Commission explained the circumstances under which it could propose to terminate the validity of the general escape clause. According to the Commission, the key quantitative criterion for assessing the continued application of the general escape clause is the level of economic activity in the EU or euro area compared to pre-crisis levels. According to the Spring 2021 Economic Forecast of the European Commission, economic activity is set to return to pre-crisis levels in the last quarter of 2021 in the EU and in the first quarter of 2022 in the euro area. Based on this forecast, the conditions for the validity of the general escape clause 2022 and for its expiry in 2023 are met. Country-specific situations will be taken into account after the expiry of the clause.

Central government spending limits

The Government is committed to the central government spending limits system, which restricts the level of expenditure budgeted in the State budget. The expenditure rule ensures a responsible, long-term central government spending policy that promotes economic stability. Measures included in the Government Programme and other measures will be implemented insofar as this is possible within the framework of the spending limits.

In its mid-term policy review in spring 2021, the Government noted that, due to issues such as changes in the coronavirus situation, the overall picture of Finland’s economy and fiscal policy needs is significantly different from the situation in autumn 2019 when the spending limits were set for the parliamentary term. With regard to the spending limits

for the parliamentary term, the Government was faced with a situation in which there is not enough room for manoeuvre within the limits for taking into account unforeseen changes in expenditure and the implementation of all reforms deemed necessary by the Government. As a result, in its mid-term policy review, the Government decided to increase the spending limits for the years 2022 and 2023. The spending limits were increased by EUR 900 million for the year 2022 and by EUR 500 million for 2023. In connection with the third supplementary budget for 2021, the reserve set aside for one-off expenditure prompted by the coronavirus situation was also increased by EUR 1.35 billion to EUR 1.85 billion.

Under the state of emergency mechanism set out in the spending limits based on the government programme and used in 2021 and 2022, a total of EUR 500 million was allocated to one-off expenditure each year. According to a Government decision, all COVID-19-related direct costs incurred from so-called health security measures (such as expenditure arising from testing and vaccination) will be outside the spending limits in the period 2021–2023.

Fiscal policy measures and general government sustainability roadmap

In accordance with the sustainability roadmap, key measures for strengthening general government finances are:

- increasing employment and reducing unemployment
- reinforcing the framework for economic growth
- increasing the productivity of public administration and measures supporting cost-effectiveness
- health and social services reform.

The Government will monitor the progress of the measures set for the economy in the sustainability roadmap and prepare decisions on the sets of measures for the spring 2022 government discussion on spending limits. The progress of this preparation will be monitored under the leadership of the chairpersons of cabinet groups in 2021 and in early 2022.

If the structural reforms under preparation and those aiming to accelerate growth fail to sufficiently strengthen general government finances as intended, the Government is committed to taking new measures or also resorting to measures that have a quick impact on public revenue and expenditure.

Already before the mid-term review of spring 2021, the Government decided on structural measures to strengthen employment, which, according to the Ministry of Finance, will increase the number of employed people by around 31,000 to 33,000 by 2029. The most

significant individual measures include the expansion of compulsory education, phasing out additional days of unemployment security, and the Nordic labour market service model, the reduction in early childhood education and care fees, local government pilot projects to boost employment, the reform of wage subsidies and measures to strengthen the employment of persons with partial work ability. When assessed at the 2029 level, the measures to promote employment would strengthen general government finances by approximately EUR 300 million, when the costs of employment measures are also taken into account.

In the mid-term review of spring 2021, the Government also decided on measures aiming at between 40,000 and 44,500 additional employed persons. The most important measures include the transfer of employment and economic development services to municipalities and a funding model created in connection with the transfer, which encourages municipalities to develop their activities to promote employment, an extension of the work ability programme and the reform of wage subsidies, and the reform of the system of continuous learning. According to a preliminary estimate of the Ministry of Finance, the measures will strengthen general government finances by some EUR 150 million.

The Government is also committed to making decisions on employment measures by the end of the government term, which will strengthen general government finances by EUR 110 million. A decision on the above measures will be made by 15 February 2022.

In addition, in the budget session of autumn 2021, the Government decided on measures with an immediate impact to improve the availability of skilled labour and the related labour market matching. For instance, work-related immigration will be streamlined and an exempt amount is proposed to be added to the conscript's allowance. Certain other areas are also investigated, including a fixed-term increase in the income limit for student financial aid for 2022.

The prerequisites for economic growth will be strengthened by introducing permanent and temporary economic, fiscal, business and growth policy measures (permanent and one-off future-oriented investments under the government programme). In addition, temporary measures have been decided to mitigate the effects of the coronavirus outbreak. Through these means, the Government has aimed to prevent a long-term negative impact on the growth potential of the economy caused by the economic downturn resulting from the coronavirus pandemic.

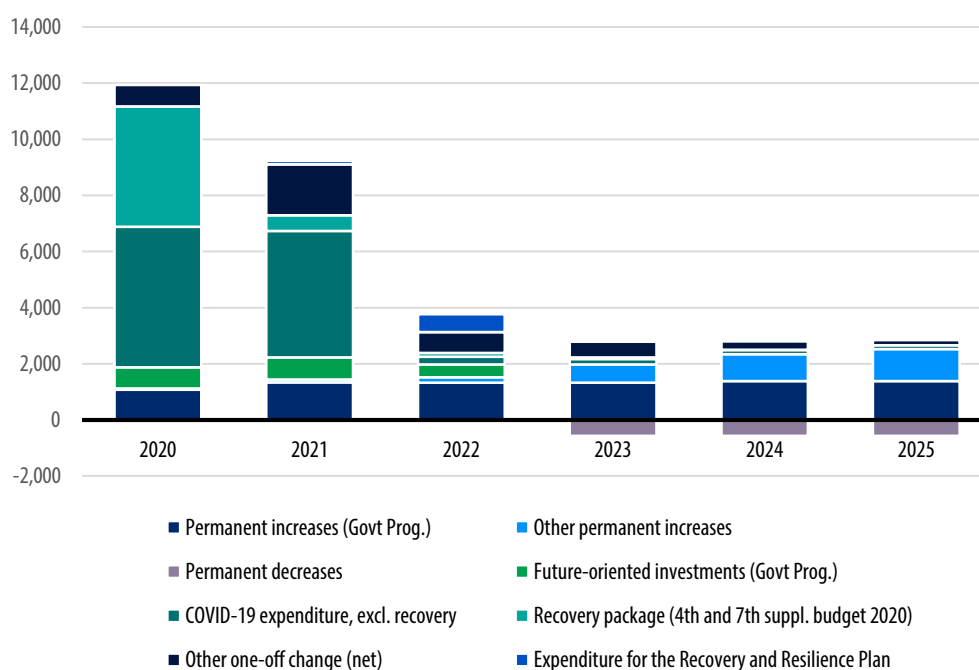
Permanently strengthening general government finances through measures supporting economic growth requires better economic performance than currently. Through its measures, the Government aims to secure long-term R&D funding, strengthen Finland

as an investment environment, increase the investment capacity of companies and strengthen domestic ownership, and to ensure the availability of skilled workforce by accelerating work-based immigration. The implementation of these measures will be monitored in particular by the Ministerial Working Group on Sustainable Growth.

The Government's objective is to increase Finland's research and development expenditure to 4 per cent in relation to GDP by 2030 and to increase work-related immigration cumulatively by at least 50,000 people by 2030. Finland's Sustainable Growth Programme, financed with the EU's one-off recovery instrument, particularly its Recovery and Resilience Facility, lays the foundation for the growth measures.

The objective of the measures included in the economic sustainability roadmap to improve the productivity and cost-effectiveness of public administration is to create preconditions for the strategic development of the cost-effectiveness of the public sector as a whole. The aim is to develop social welfare and health care service processes even before the responsibility for organising social welfare and health care services will be transferred to wellbeing services counties as a result of the health and social services reform in 2023. Efforts will also be made to improve the space management and procurement services of municipalities and central government and by taking advantage of digitalisation. The Ministerial Working Group on Health and Social Services and the political management group for public governance reform are responsible for the preparation of the measures.

Diagram 4. Government's discretionary increases and decreases in appropriations since the spring 2019 technical General Government Fiscal Plan, EUR million



In 2022, the Government's discretionary spending increases totalled at approximately EUR 3.7 billion compared to the technical General Government Fiscal Plan of spring 2019, as illustrated by Diagram 4. The chart also shows the expenditure of Finland's Recovery and Resilience Plan, which is financed by revenue from the EU's Recovery and Resilience Facility. Without these, the discretionary spending increases amount to EUR 3.1 billion in 2022. Discretionary expenditure related to the coronavirus outbreak allocated to 2022 amount to around EUR 0.4 billion, which is significantly less than in 2021. Around EUR 5 billion in expenditure related to the coronavirus pandemic has been budgeted for 2021.

The permanent spending increases in accordance with the government programme amount to some EUR 1.3 billion at 2022 levels compared to the spring 2019 technical General Government Fiscal Plan. Investments are allocated to areas such as social security and health and social services, early childhood education and care, education and research, and environmental protection and climate policy measures.

During the parliamentary term, a one-off future-oriented investment programme will be implemented, which will no longer increase general government expenditure in 2023. EUR 466 million has been allocated to 2022 related to this programme. Slightly over EUR 80 million in additional investments from the national housing fund will also be allocated

in 2022. The future-oriented investment programme will end in 2022. The sales of shares related to the financing of future-oriented investments are expected to take place in 2021 and 2022. Allocating the reserve initially intended for future-oriented investments to other purposes than those listed in the government programme has also been considered reasonable from a structural and stabilisation policy perspective. To the extent that this is the case, expenditure will not be financed by property income.

4 Central government budget proposal 2022

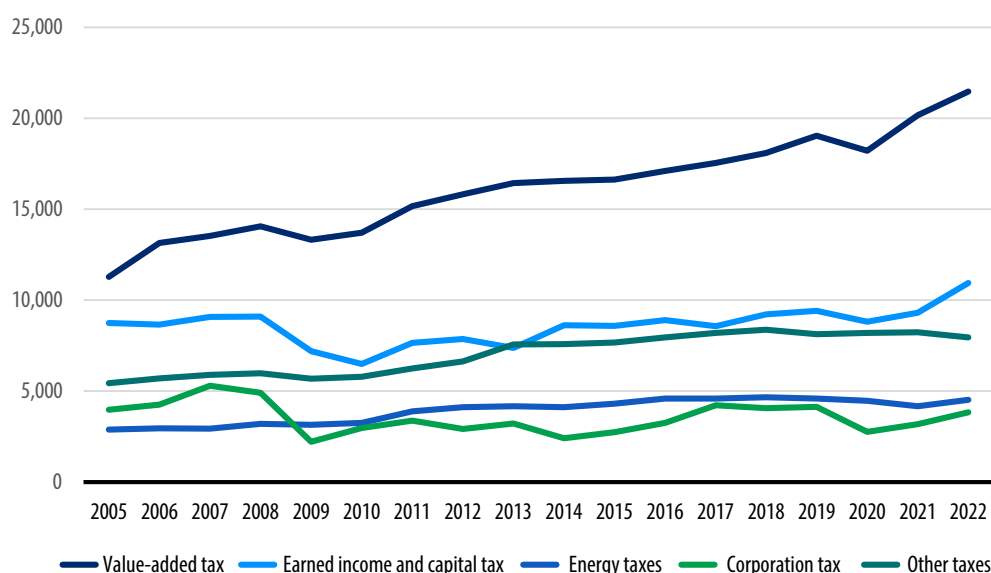
Central government revenue and expenditure are examined in the general strategy and outlook of the budget proposal in Chapters 4 and 5 as well as in the detailed rationale ([available only in Finnish and Swedish](#)). The revenue estimates are presented by department and the appropriation estimates by administrative branch.

4.1 Revenue, expenditure, deficit and debt

Revenue

On-budget revenue for 2021, excluding net borrowing, is estimated at around EUR 57.9 billion. Taxes and tax-like payments account for approximately EUR 48.7 billion (84 %). Central government tax revenue is expected to increase by about 8%, or EUR 3.7 billion, in 2022 compared to the revenue budgeted for 2021 (including supplementary budgets). Compared to the actual 2021 budget, the tax revenue is expected to grow by around 9%, or EUR 3.8 billion.

Diagram 5 shows the development of central government tax revenue for key tax types in the period 2005—2022. Tax revenue growth has been moderate in recent years. In 2020, tax revenue decreased significantly due to the economic impact of the coronavirus pandemic, but took an upward turn once economic activity recovered in 2021. Part of the tax revenue for 2020 and 2021 will be paid in 2021 and 2022 as a result of temporarily easing the terms of tax payment arrangements. The impact of the payment arrangements will increase the central government's tax revenue for 2022 by an estimated EUR 0.3 billion. The vast majority of this impact results from the payment arrangements related to the value-added tax. Value-added tax is the central government's largest single source of revenue. Value-added tax revenue is largely determined by the development of private consumption. Corporate tax revenue depends on companies' profitability, which is characterised by considerable cyclical variations. In the long term, corporate tax revenue has been partly reduced by the fact that the corporate tax rate has been lowered as a result of tax competition in order to ensure that Finland remains a competitive investment target. Energy tax revenue is relatively slow to develop, which is explained by the moderate development of tax bases such as fuel and electricity consumption. While energy taxes have been subject to increases during the period under review, the tax burden has been reduced by the shift in consumption to energy products that are taxed at lower tax levels.

Diagram 5. State tax revenue by type 2005–2022, EUR million

Expenditure

The appropriations of the budget proposal amount to EUR 64.8 billion, which is approximately EUR 0.5 billion less than in the actual 2021 budget. The total appropriations amount to EUR 3.3 billion less than what was budgeted for 2021, including supplementary budgets. The 2021 supplementary budgets have allocated significant additional appropriations to managing the coronavirus situation and stimulating the economy. Taking into account price rises and structural changes in the budget proposal, the appropriations for administrative branches will decline by around EUR 1.5 billion, or 2 per cent, from the actual 2021 budget.

A decline in total appropriations in 2022 compared to the actual 2021 budget is explained by expenditure outside the spending limits, which will decrease by around EUR 2 billion. Correspondingly, expenditure within the spending limits will increase by around EUR 1.6 billion compared to the actual 2021 budget. There is particularly a decline in expenditure outside the spending limits related to health security during the coronavirus outbreak (EUR -1.7 billion) and fiscal investments (EUR -0.6 billion).

Meanwhile, about EUR 0.9 billion of the 2023 funding for wellbeing services counties will already be paid in December 2022, which is the main reason for the higher expenditure compared to the actual 2021 budget. Spending in 2022 will also be increased by index increases with a statutory and contractual basis (EUR 0.6 billion), change costs arising from

the health, social services and rescue services reform (EUR 0.2 billion) and the increase in the appropriations paid to the European Union (EUR 0.2 billion).

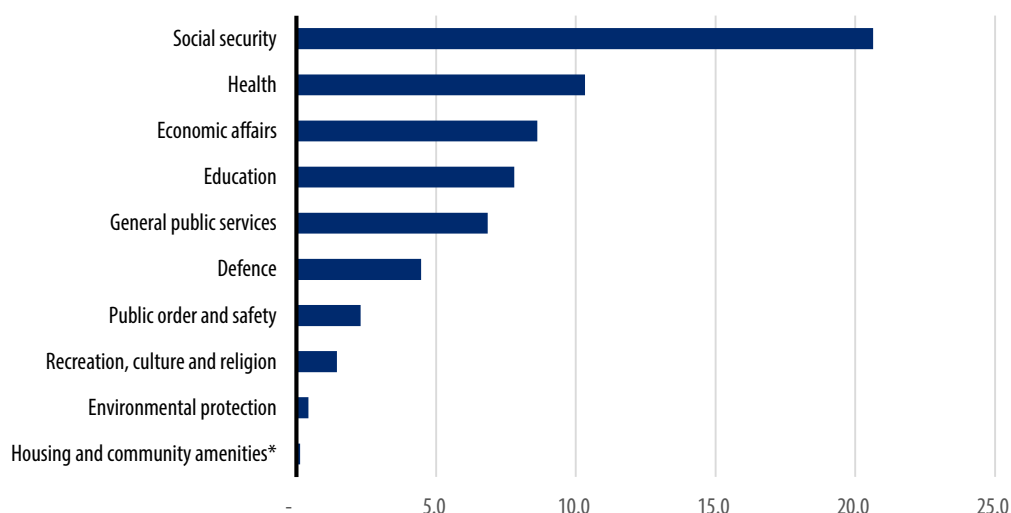
The allocation of appropriations, i.e. central government expenditure, to different purposes depends on political decisions, economic structures and economic cycles. Compared to the actual 2021 budget, the total on-budget central government expenditure will decrease by 0.7%. However, appropriations have been increased for certain groups.

An examination of the expenditure divided into groups based on the Classification of the Functions of Government (COFOG) reveals that the biggest factors explaining the decrease are the appropriations allocated to promoting social security and business.

In the context of business, the most significant factors explaining this decrease are the Government's decision to cut the energy tax subsidy and the one-off capital injection to Suomen Malminjalostus Oy allocated to the previous year. The general economic situation has improved, which is also reflected in the decrease in total social security expenditure. The decrease in social security expenditure is explained in particular by decreasing unemployment security expenditure. Of social security expenditure, pension and housing allowance expenditure has continued to increase compared to the previous year. Despite the increase in central government debt, interest payments have decreased, which partly explains the decline in total expenditure related to public administration.

The biggest single increase in the on-budget activities is an investment in education, with a 5% increase in expenditure. The increase is explained, among other things, by the extension of the age of compulsory education. Defence expenditure is increased by slightly under two per cent by expenditure related to defence materiel and fighter aircraft procurement.

An examination by task categories shows that healthcare expenditure will grow by half per cent. The expenditure on government grant costs due to the coronavirus situation in social welfare and healthcare (including investments in testing technology and other testing and tracing) has significantly decreased compared to the previous year. On the other hand, expenditure is increased by the transition costs related to the health and social services reform and the costs related to launching the activities, including the fact that half of the instalment of the central government transfer to local government of January 2023 will be paid to the wellbeing services counties already in December 2022. As a result, expenditure in this area will remain nearly unchanged compared to the previous year.

Diagram 6. Budget appropriations in 2022 by function (COFOG), EUR bn

* Most of the expenditure to support housing production is funded from the off-budget Housing Fund. In addition, direct housing allowance is included in social security expenditure.

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 2.7 billion to the EU budget and the European Development Fund in 2022. Finland's contributions will be EUR 165 million higher than the figure budgeted for 2021. Finland is expected to receive approximately EUR 1.2 billion in revenue from the EU budget, which is EUR 36 million less than the projected figure for 2021. The relationship between EU revenue and expenditure in central government finances is illustrated in Table 3.

Table 3. Flow of payments between Finland and the EU 2020–2022, EUR million

CENTRAL GOVERNMENT EXPENDITURE	Final accounts 2020	Budget 2021	Budget proposal 2022
On-budget finances			
VAT payment	306	319	294
Plastic payment			69
GNI payment	1,815	2,106	2,242
Finland's share of the UK budgetary rebate	155		
EU PAYMENTS TOTAL	2,276	2,425	2,605
European Development Fund	71	62	47
TOTAL	2,347	2,487	2,652
CENTRAL GOVERNMENT REVENUE	Final accounts 2020	Budget 2021	Budget proposal 2022
On-budget finances			
Agricultural support	530	537	530
Rural development support	302	420	370
Subsidies from structural funds and cohesion funds	210	200	220
Customs duties and other levies	35	42	48
Other revenue	54	51	46
Off-budget finances	1,131	1,250	1,214
Intervention Fund of Agriculture	0.4	0.1	0.1
Fund for Agricultural Development	0.0	0.0	0.0
TOTAL	1,131	1,250	1,214
Customs duties, agricultural payments and sugar payments collected on behalf of the EU	174	180	192

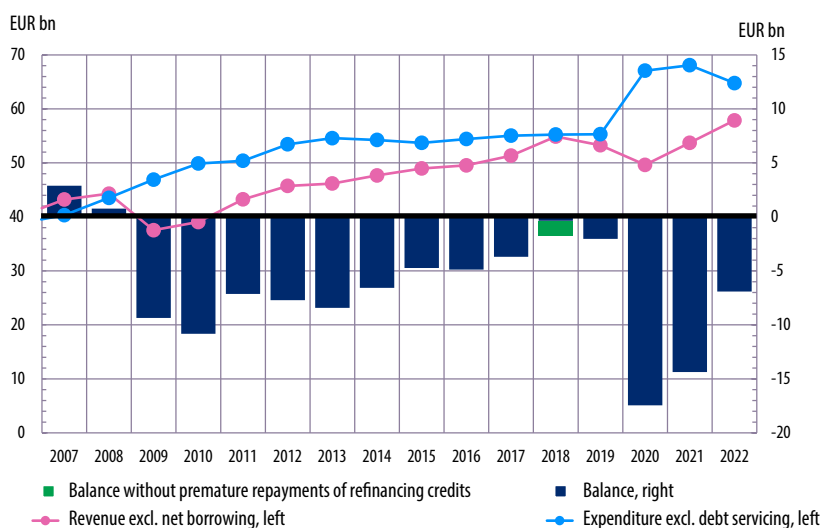
The year 2022 is the second year of the EU Multiannual Financial Framework period 2021–2027. As a national ratification round on the new EU financial system, i.e. the system of own resources, was completed in all Member States by the end of May 2021, the new system of own resources entered into force in June 2021. The impacts of the new system

on membership fees will be taken into account retroactively from the beginning of 2021. The Commission will propose new sources of Union funding, i.e. new own resources in autumn 2021. The proposals would concern auctioning revenues from the EU Emissions Trading System, a digital tax and revenue from the carbon border mechanism. The aim of new own resources is to alleviate future pressures on national membership fees resulting from the repayment of funds borrowed under the Recovery and Resilience Facility. According to the timetable set out in the EU Interinstitutional Agreement in November 2020, new own resources may enter into force from the beginning of 2023. However, the new own resources will require a unanimous decision by the Member States and ratification by the national decision-making bodies.

Deficit

The central government budget proposal for 2022 shows a deficit of approximately EUR 6.9 billion, which will be covered by increased borrowing. Without the impact of the payment of the 2023 funding for the wellbeing services counties in December 2022, the deficit would be around EUR 0.9 billion lower. In national accounting terms, the central government deficit for 2022 is expected to be approximately 2.8 % in ratio to GDP. Central government on-budget activities have shown a deficit since 2009. In 2020 and 2021, the on-budget deficit will be significantly increased by costs related to the coronavirus outbreak, the deterioration of tax revenue and measures aimed at economic recovery. The situation is illustrated in Diagram 7.

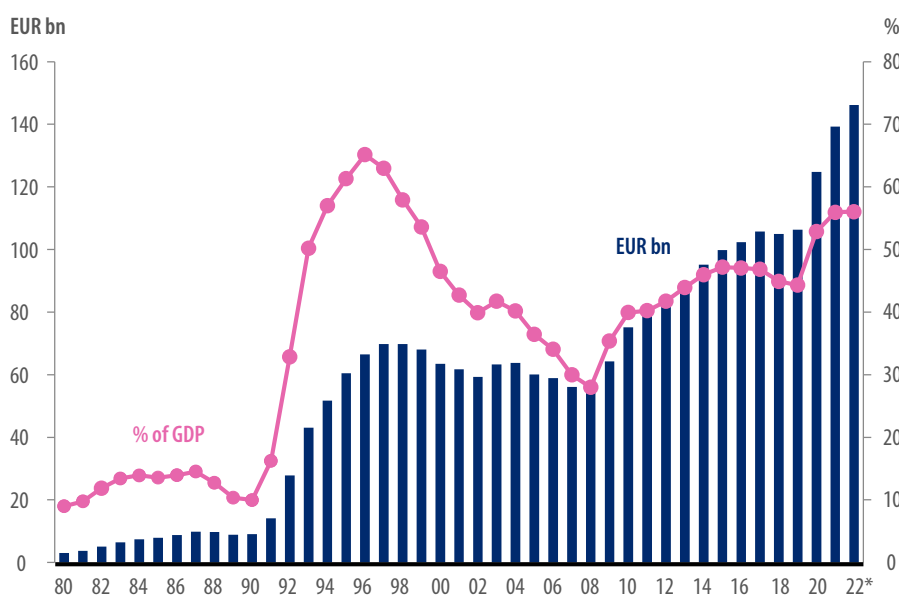
Diagram 7. Central government budget revenue, expenditure, and balance 2007–2022, EUR billion



Debt

At the end of 2022, central government debt, including the debt of off-budget entities, is expected to be approximately EUR 146 billion, which is approximately 56% in ratio to GDP. Diagram 8 shows that the central government debt-to-GDP ratio has taken a sharp upward turn since 2020.

Diagram 8. Central Government Debt 1980–2022



4.2 Excerpts from tax and appropriation decisions in budget proposal 2022

Tax criteria changes

In accordance with the government programme, the earned income tax criteria will be subject to an index adjustment at all income levels, which will reduce the annual central government tax revenue by EUR 295 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. Tax revenue will also be reduced a reduction in the taxation value of low-emission company cars and a fixed-term increase in the domestic help credit for phasing out oil heating and for domestic, care and nursing work, and the continued reduction of lottery tax totalling at around EUR 132 million per year. Tax revenue will also be reduced by the waiving of restrictions to deduction for interest expenses in public infrastructure projects

and by the additional 150 per cent reduction in research cooperation related to research and development in the period 2022–2027. Tax revenue will be increased by a reform of the deduction for interest expenses rule and the reform of the provision on transfer pricing adjustment.

In accordance with the government programme, the measures that tighten taxation are mainly concerned with excise duties. 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.

The phasing out of the tax expenditure for paraffinic diesel and tax refunds for energy-intensive companies will continue. The tax expenditure for peat will be increased by extending the limit for the tax-free use of peat to all plants and increasing it to 10,000 MWh. In addition, heat pumps and data centres producing heat for the district heating network and electric boilers will be transferred to the lower electricity tax category II. In addition, the recycling industry will be transferred to the lower electricity tax category II. A tax is imposed on the use of biogas in transport. The tobacco tax will be increased in total by EUR 100 million in 2022 and 2023. Fully electric cars will be made exempt from the car tax while, correspondingly, the basic tax share of the vehicle tax on full electric cars will be increased. Halving the fairway due will continue, which will reduce tax revenues by EUR 37 million in 2022.

The changes in the tax criteria will reduce central government's annual tax revenue by approximately EUR 0.3 billion. In accordance with the government programme, the municipalities will be compensated for the tax revenue impact of changes made by the Government to tax criteria on a net basis.

General public services (including foreign service)

A reduction of EUR 353 million from the actual 2021 budget is proposed for the operating expenditure of the Prime Minister's Office's main title of expenditure. This reduction is mainly due to the removal of a EUR 350 million appropriation granted for the capital injection to Finavia Oyj in 2021.

An increase of EUR 0.3 million is proposed for the Government's joint translation and language services.

An increase of EUR 0.46 million is proposed to promote the Sámi truth and reconciliation process.

A total of EUR 1.3 billion is proposed for international development cooperation. In 2022, the level of development cooperation appropriations is expected to be approximately 0.49% in ratio to GNP. EUR 10 million is proposed for raising Finnfund's capital and EUR 130 million for fiscal investments in development cooperation.

An appropriation of EUR 2.2 million will be allocated the activities of a new data permit authority managing data use in social welfare and healthcare, which was launched in 2020.

A total of EUR 620 million is proposed for the operating costs of the Finnish Tax Administration and the Finnish Customs. The expenditure includes EUR 28 million in operating expenditure of the national income register, which also includes expenditure on the construction of a positive credit register. The operating expenditure of the Finnish Customs includes EUR 20 million for the complete modernisation of the customs clearance system and EUR 750,000 for the prevention of money laundering as part of the recovery and resilience plan. In addition, EUR 28 million is proposed for tax refunds, interest payments related to taxation and car tax export refund.

Budget Authority amounting to EUR 390.5 million is proposed for the research projects of the Academy of Finland, including the Budget Authority of EUR 40.5 million in accordance with the Recovery and Resilience Plan.

The first county elections will be held in 2022. The total costs of the elections will be EUR 11.9 million. An addition of EUR 7.8 million is proposed for the conduct of the elections.

Defence

Appropriations of around EUR 5.1 billion are proposed to the administrative branch of the Ministry of Defence, which is EUR 221 million more than in the actual 2021 budget. Approximately EUR 144 million of this increase is due to value added taxes related to the procurement of multirole fighters. For other parts, expenditure in the administrative branch is mainly increased by pay reviews and other cost and price level adjustments, as well as by changes in the timing of expenditure for the procurement authorities concerning defence materiel included in the third supplementary budget for 2021.

The expenditure is reduced by, among other things, the change in the annual share of the Squadron 2020 procurement, the elimination of a food subsidy paid to conscripts during the coronavirus pandemic and the removal of contractual military personnel and other fixed-term personnel hired as a stimulus measure.

Around EUR 1.96 billion is proposed for the operational expenditure of the Finnish Defence Forces, with a decrease of EUR 9 million compared to the actual 2021 budget.

The procurement authorities newly and previously granted to the Defence Forces in accordance with the 2022 budget proposal will result in expenditure amounting to a total of EUR 2.37 billion in 2022 and a total of EUR 9.46 billion in the years succeeding the budget year (including HX and Squadron 2020).

Public order and safety

Appropriations of around EUR 301 million are proposed to the courts of law, which is around EUR 6 million less than in the actual 2021 budget. The former includes the centralisation of the evidence to district courts and the planning and construction costs of a video recording system required for the recording of evidence for court proceedings, for which EUR 2.74 million is proposed.

Appropriations amounting to around EUR 54.7 million are proposed to the National Prosecution Authority, which is approximately EUR 1 million less than in the actual 2021 budget.

An increase of EUR 2 million is proposed in the operating appropriations of the Criminal Sanctions Agency, which will be used to reduce the need to work alone of prison guards and invest in taking the special needs of female prisoners into account better than at present.

EUR 856 million is proposed to the police force. As a decision previously made in accordance with the government programme, appropriations will be increased by EUR 2.5 million from 2021 to reach the target level set for the person-years of police officers (7,500). In addition, EUR 10.6 million is proposed for maintaining the target number of person-years and for continuing the work of the anti-human trafficking unit. EUR 1.2 million (15 person-years) is proposed as additional resources needed by the police to prevent crimes against critical sectors.

A total of EUR 280 million is proposed to the Finnish Border Guard. The budget proposal suggests an increase of around EUR 1.37 million in the rental costs of premises and EUR 0.4 million for the national implementation of the EU's interoperability regulations.

A total of EUR 87.5 million is proposed for the operating costs of the rescue services and the Emergency Response Centre Agency. The proposal takes into account the return of DigiFinland Oy capital and the costs of developing and maintaining the emergency response centre information system.

EUR 160.4 million is proposed to immigration administration. An increase of EUR 5.5 million is proposed to the Finnish Immigration Service to secure personnel resources and promote work-related immigration. EUR 1 million is proposed for 2022 to speed

up the processing of the residence permits of special experts, growth entrepreneurs and employees. EUR 0.2 million is proposed for the transfer of alien's passports and travel documents to a preliminary study related to the case management system for immigration matters (UMA).

Business and industry issues

A budget authority of EUR 572.5 million is proposed for Business Finland to support research, development and innovation activities, with an increase of EUR 236.1 million compared to the actual 2021 budget. This increase is caused by the implementation of the Recovery and Resilience Plan. An increase of EUR 9.5 million is proposed for the extension of the audio-visual production subsidy in 2022. This incentive aims to attract foreign production companies to carry out their productions in Finland and to particularly promote internationally funded projects.

An addition of EUR 15 million is proposed for an innovation subsidy for shipbuilding.

As part of the Government's so-called future-oriented investments, an additional EUR 0.5 million is proposed for tasks related to granting an audio-visual production incentive.

A total of around EUR 2.7 million will be allocated to the establishment of the Work in Finland structure to promote labour migration for the operating expenditure of TE Offices and Business Finland as well as to the development of digitalisation.

An increase of EUR 2.9 million is proposed for the operating expenditure of the ELY Centres. The increase is mainly due to the supervision of water supply plants as part of critical sectors, additional tasks related to the monitoring and reporting of producer responsibility resulting from an amendment to the Waste Act and additional resources for the change in the funding period as well as the implementation of the Recovery and Resilience Plan.

An appropriation of EUR 285 million is proposed for public employment and business services, totalling at EUR 9 million more than in the actual budget for 2021. EUR 4 million is proposed for a pilot project involving a subsidy encouraging SMEs in recruitment; EUR 3 million is proposed for further increasing the pay subsidy. An increase of EUR 70 million is proposed for the operating expenses of TE Offices in the implementation of the Nordic labour market service model. This funding is part of the implementation of the Recovery and Resilience Plan.

It is proposed that a new special task company be set up to promote the employment of persons with partial work ability. The company will hire people with partial work ability for

longer term employment relationships. The aim of the company is that some employees will eventually be employed by another employer on the open labour market. EUR 10 million is proposed for the company's share capital, which will be financed through the Recovery and Resilience Plan. A EUR 10 million appropriation is proposed for discretionary government grants for the employment of persons with partial work ability to promote the transition of those with partial work ability to the labour market.

A discretionary government grant of around EUR 3.19 million is proposed for the municipalities for the purpose of strengthening multidisciplinary cooperation in the Ohjaamo service points. The grant will be financed through the Recovery and Resilience Plan.

An appropriation of EUR 87 million is proposed for a new item for an electrification subsidy for energy-intensive industry. The electrification subsidy for energy-intensive industry is used to encourage carbon neutral production and the electrification of energy-intensive companies while taking cost-competitiveness into account. The aid intensity of the electrification subsidy is 25% and the maximum amount of the subsidy is EUR 150 million per year.

EUR 8.5 million is proposed for integration and the promotion of labour migration.

EUR 154 million is proposed for specified government transfers on integration, totalling at EUR 17 million less than in the actual 2021 budget. The transfers will be reduced by EUR 22 million due to a decrease in the number of asylum seekers who have received a residence permit. On the other hand, an increase totalling at EUR 2.2 million is proposed due to an increase in the refugee quota from 850 persons to 1,050 persons in 2021 and 2022. In addition, an increase of EUR 2.4 million is proposed for the compensations for persons evacuated from Afghanistan.

Rural development appropriations will increase by EUR 69.1 million, totalling at EUR 491.2 million. Rural development goals are supported, for example, through rural business subsidies, research and development projects and rural advisory services. A key instrument is the Rural Development Programme for Mainland Finland 2014–2020, whose implementation will continue in 2022.

Approximately EUR 2 billion is proposed for transport networks, of which basic infrastructure maintenance will account for EUR 1.37 billion. EUR 664 million is proposed to the development of the transport network, including new transport infrastructure projects, this sum will cover life cycle projects, purchase of land and water areas required for the new transport infrastructure, infrastructure subsidies for transport routes and private road subsidies as well as grants for promoting walking and cycling. As part of the

measures of the roadmap for fossil-free transport, an appropriation of EUR 4 million will be allocated to promoting walking and cycling.

A total of EUR 807 million is proposed for transport and communications services, of which EUR 89 million is proposed for improving the competitiveness of vessels used in maritime transport, EUR 20.2 million for subsidies to transport and communications services and EUR 20.4 million for the purchase and development of island and ferry traffic. EUR 105.7 million is proposed to the purchase and development of public passenger transport, which will include a general increase of EUR 20 million for climate-based measures in accordance with the government programme and an increase of EUR 3 million in line with the roadmap for fossil-free transport to aid public transport in large and medium-sized urban areas.

Environmental protection and conservation

While the appropriations proposed for nature conservation will decrease by EUR 36 million compared to the 2021 budget, there is a total increase of EUR 76.3 million in 2022 compared to the beginning of the government term, including both permanent and non-recurring items.

As part of the increases in nature conservation funding, the implementation of the Helmi habitats programme and the Forest Biodiversity Programme for Southern Finland (METSO) will continue. Around EUR 46 million is proposed to be spent on the Helmi programme, including the protection of marshlands. The Nature Conservation Act will be reformed and ecological compensation will be investigated.

The programme for improving water protection will be continued by supporting the implementation of efficient and cost-effective water and marine management measures in cooperation between different administrative sectors, the private sector, expert institutions, the municipal sector and non-governmental organisations, for which an appropriation of EUR 12 million is proposed.

EUR 0.75 million is reserved for the activities of the Finnish Climate Change Panel under the Climate Change Act.

Measures are taken to make the circular economy the foundation of Finland's economy. EUR 4.5 million is proposed for the implementation of the programme to promote a circular economy in the administrative branch of the Ministry of the Environment. In addition, an appropriation of EUR 0.2 is proposed for the maintenance of the Materiaalitori data platform for waste and side streams serving the circular economy and the waste sector.

EUR 0.7 million is proposed for the promotion of natural resources and the bioeconomy for the development and studies of feed additives that reduce emissions from domestic animal feeding, and an increase of EUR 1.0 million for a pilot programme for nutrient recycling.

An increase of EUR 1.0 million is proposed for the Natural Resources Institute Finland's operating expenditure for funding research investments and EUR 1.14 million for research on reducing the emissions from peat fields

Housing and communities

In 2020, an agreement was reached in negotiations on the framework agreements on land use, housing and transport (MAL) between central government and four regions (Helsinki, Turku, Tampere and Oulu regions). The MAL agreements will be promoted by means of municipal technology grants, for which an appropriation of EUR 25 million is proposed, and fixed-term start-up grants for state-subsidised housing production, for which a total of EUR 39 million is proposed.

In addition to subsidised loans, investment grants amounting to EUR 90 million are proposed as support for the construction and renovation of housing for special groups. The grants will be primarily allocated to promoting housing production for the most disadvantaged groups. EUR 40 million is proposed for the energy grants for residential buildings. A total of EUR 36.5 million is proposed for renovation grants, which are mainly aimed at supporting the retrofitting of lifts and repairs of housing for older people and people with disabilities; EUR 0.85 of the sum would be spent on grants related to an operational programme on the housing of older people.

A total of EUR 3.9 million will be allocated to the development and expansion of housing advisory services from the Budget and the National Housing Fund. EUR 3 million will be reserved for a national digital register and information platform on the built environment.

Healthcare

The appropriations proposed for social welfare and healthcare organised by municipalities amount to EUR 541.7 million, with is around EUR 1.47 billion less than in the previous year. This reduction is mostly due to one-off compensations of EUR 1.7 billion allocated to the social welfare and health care service system in the 2021 to respond to the coronavirus outbreak.

Funding of EUR 65.8 million is proposed for student healthcare implemented by the Finnish Student Health Service.

EUR 25 million is proposed as central government funding for university-level research in healthcare and social work. The proposed central government reimbursement for social welfare and healthcare units for the provision of specialisation training for social welfare and healthcare personnel is EUR 96 million.

A total of EUR 133 million is proposed for the development of the social welfare and healthcare service structure, or EUR 5 million more than in the actual 2021 budget.

A discretionary government transfer of EUR 33 million is proposed to be granted to FinnHEMS Oy for the production of air ambulance and medical helicopter operations. The increase of EUR 5.17 million in the appropriation is due to the reorganisation of flight operations.

A EUR 4 million appropriation is proposed for the preparation of a medicines roadmap.

Recreation and culture

The central government transfers system for performing arts will be reformed, and additional funding of EUR 8.5 million will be proposed for the reform as of 2022 in addition to the previously implemented increases in accordance with previous decisions. As part of the Government's future-oriented investments, EUR 7.5 million will be allocated to a capital injection for a fund to support creative industries and cultural activities.

A total of EUR 0.6 million is proposed for project preparation and planning, and the preparation and launching of the activities of a museum of architecture and design in 2022.

The level of artist grants will be increased in accordance with the government programme in that, as of 2022, additional funding of EUR 0.4 million is proposed in addition to an earlier increase of EUR 1.4 million.

EUR 1 million is proposed for establishing an exhibition fee model. In addition, an increase of EUR 4 million is proposed as compensation for reproduction for private use.

Around EUR 141 million is proposed to the appropriations for sports services which is approximately EUR 20 million less than in the actual 2021 budget. The promotion of physical activity and top athletics will continue in 2022 in accordance with the government programme and the implementation of the report on sport policy.

In line with previous decisions, EUR 14.5 million is proposed for leisure activities for children and young people in 2022. This is known as the Finnish model, which adds more

recreational activities to children's and young people's school days with the intention that the activities are selected based on pupils' wishes.

Education

Around EUR 885 million is proposed to general education and early childhood education and care, which is approximately EUR 43 million less than in the actual 2021 budget.

In 2022, EUR 60 million is proposed for the action plan for quality and equality in basic education and a total of EUR 80 million for the action plan for quality and equality in early childhood education and care, taking into account the EUR 30 million increase related to the government's future-oriented investments.

The implementation of the extension of compulsory education and free upper secondary education is continued. EUR 65 million is proposed for the reform in 2022. The strengthening of pupil and student welfare services will continue. As part of the Government's future-oriented investments, EUR 10 million is proposed for the action plan for quality and accessibility in general upper secondary education in 2022.

Implementation of the vocational education and training reform will continue. As part of the Government's future-oriented investments, additional funding of EUR 70 million is proposed for hiring teachers and guidance counsellors in 2022.

EUR 5 million is proposed for a pilot concerning the renewal of the apprenticeship training compensation in 2022.

In order to respond to a change in the minimum nurse staffing level, it is proposed that, in 2022, EUR 43 million be allocated to the training of new practical nurses in accordance with a previously made decision.

EUR 3.4 billion is proposed for higher education and research, with an increase of EUR 87 million compared to the actual 2021 budget. Based on a donation by Sitra, universities will be subject to a capital injection amounting to EUR 67 million in 2022. The capital injection will be carried out on the basis of university fundraising.

EUR 700 million is proposed for student financial aid, or EUR 56 million more than in the 2021 budget. This increase is especially due to an increase in the expenditure on student loan compensation.

In accordance with an amendment to the Act on Financial Aid for Students, the prolongation of the coronavirus situation will be taken into account in the terms and

conditions of student loan compensation and student loan tax deductions for loan recipients who have graduated from higher education. As a result of this flexibility, student loan compensation expenditure is expected to increase by approximately EUR 10 million in 2022.

Social security (including earnings-related pensions)

Appropriations of around EUR 4.5 billion are proposed to the equalisation of family and housing costs, basic social assistance and certain services, which is EUR 9.8 million more than in the actual 2021 budget. This increase is due to estimated spending needs and increases in the operating costs of the Social Insurance Institution of Finland.

A total of EUR 490.5 million is proposed for the operating expenses of the Social Insurance Institution of Finland, or EUR 9.2 million more compared to the actual 2021 budget.

Appropriations of around EUR 2.6 billion are proposed to unemployment security, which is EUR 0.3 billion less than in the actual 2021 budget. This reduction is due to an estimated decrease in the number of unemployed and laid-off persons.

With regard to employment security, account has been taken of the introduction of the Nordic labour market service model on 1 May 2022. This would involve scaling the unemployment security sanctions related to job seeking and services and introducing a notification system. This would mean that a jobseeker failing to fulfil his or her job-seeking obligation again would be subject to a period of five days without unemployment benefits. If the person continued to fail to meet the job-seeking obligation, a 10-day period without the benefits would be imposed. The model is expected to increase unemployment security expenditure by EUR 16.7 million in the year in which the system enters into force and by EUR 25.0 million as of 2023. The model is expected to strengthen employment by between 9,500 and 10,000 employees. In the context of unemployment security, EUR 1.5 million has also been taken into account as the cost effect of labour market training leading to a higher education degree.

A proposal by the Ministry of Education and Culture to increase the number of admissions in higher education and practical nursing education is taken into account in connection with the general housing allowance, resulting in an increase in the costs related to general housing allowance by EUR 24.2 million.

EUR 5.0 billion is proposed for pensions, nearly the same amount as in the actual 2021 budget.

A survivors' pension reform is expected to enter into force in early 2022. Under the reform, the right of a child to the pension is proposed to be extended by 2 years, which would mean that the child's right to the pension would end as the child reaches the age of 20. It is proposed that the right to a widow's pension be limited to 10 years or at least until the youngest of those entitled to a child's pension reaches the age of 18. In addition, it is proposed that the widow's pension be also paid to a cohabiting partner who has an underaged child with the deceased. The reform would increase government expenditure by EUR 0.3 million in the year of entry into force and by EUR 1.0 million at the end of the spending limits period.

The family leave reform is set to take effect on 1 August 2022. The aim of the reform is to improve parental equality and the non-discrimination and equality of children and parents living in different family types and diverse families through harmonious provisions on parental allowance. The family leave reform is expected to increase central government expenditure by EUR 1.0 million during the year when it takes effect and by around EUR 9 million as of 2023.

EUR 36.6 million is proposed for the development and implementation of national information management in social welfare and healthcare, including an increase of EUR 6.2 million.

The funding for shelter activities is EUR 24.55 million. EUR 1.5 million has been reserved for urgent social services for illegal residents.

It is proposed that the fixed-term legislative amendments that have enabled the compensation of coronavirus laboratory investigation and vaccine from health insurance be continued until 30 June 2022. This is estimated to increase health insurance costs by a total of EUR 5.9 million. The central government's share of the expenditure amounts to approximately EUR 4 million.

An addition of EUR 0.2 million is proposed for the exempt amount to the conscript's allowance.

Compensation for the decline of gambling revenue

The revenue of Veikkaus Oy for promoting sports and physical education, science, art and youth work amounts to EUR 359.3 million, which includes a reduction in the lottery tax (EUR 42.4 million). Moreover, a total of EUR 2.25 million of non-distributed proceeds will be entered as revenue. The decrease in revenue from gambling activities will be compensated to the administrative branch of the Ministry of Education and Culture by a total of EUR 131.4 million with budgetary funds that impact spending limits in 2022.

EUR 332.7 million is proposed for grants to organisations and foundations to promote health and social wellbeing. The reduction of EUR 29.7 million is due to the reduction in Veikkaus' return estimate. The appropriation has taken into account the impact of reducing the lottery tax amounting to EUR 34.4 million, the reversal of the non-distributed proceeds in the balance sheet amounting to EUR 50 million, and a so-called budget-funded compensation of EUR 58.5 million.

Reform of healthcare, social services and rescue services

The legislation on the reform of healthcare, social services and rescue services was adopted by Parliament in summer 2021 and will enter into force in stages. The act implementing the reform used to establish wellbeing services counties entered into force on 1 July 2021. The tasks of the health and social services and rescue services will be transferred from municipalities to wellbeing services counties on 1 January 2023.

Based on the Act on the Funding of the Wellbeing Services Counties (617/2021), half of the instalment of January 2023 will be paid to the counties already in December 2022. This share amounts to around EUR 0.9 billion and it is proposed that it be taken into consideration in the 2022 budget. The expenditure for 2023 will be reduced by a corresponding amount.

The reform involves significant transition costs, some of which will be taken into account in the 2022 budget proposal.

The biggest transition costs include funding for the ICT transition costs amounting EUR 175.3 million and the funding related to the preparation of the wellbeing services counties and the health and social services reform in the HUS Group EUR 47.1 million. In addition, around EUR 7.8 million is proposed for funding allocated to the county elections. In addition to the above, the budget proposal also contains several smaller proposals concerning the transition costs and other needs of municipalities, different agencies and other institutions related to the health and social services reform, totalling at EUR 11 million.

4.3 Local government finances

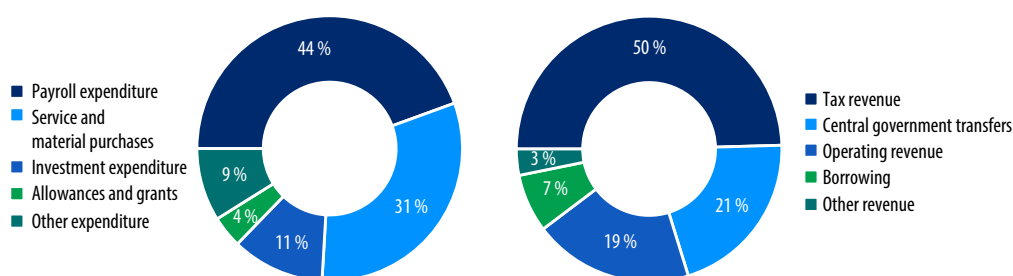
The central government funds the operations of municipalities with central government transfers and discretionary government transfers provided through the government aid system. The central government cannot influence the expenditure in municipalities directly; this is governed by legislation enacted by the Parliament and the municipalities' own decisions. The local government finances programme and Chapter 9 of the general

rationale of the budget proposal describe the state of local government finances and the impact of central government measures on local government finances in further detail.

In 2022, the municipalities' revenue is expected to consist of tax revenue (50%), operating income (19%), central government transfers (21%) and other revenue (10%; including borrowing). It is estimated that 44 % of the municipalities' expenditure will be allocated to wages and salaries, 31 % to procurement of services and materials, 11% to investments, and 9 % to other expenditure. The distribution of municipalities' revenue and expenditure is illustrated in Diagram 9.

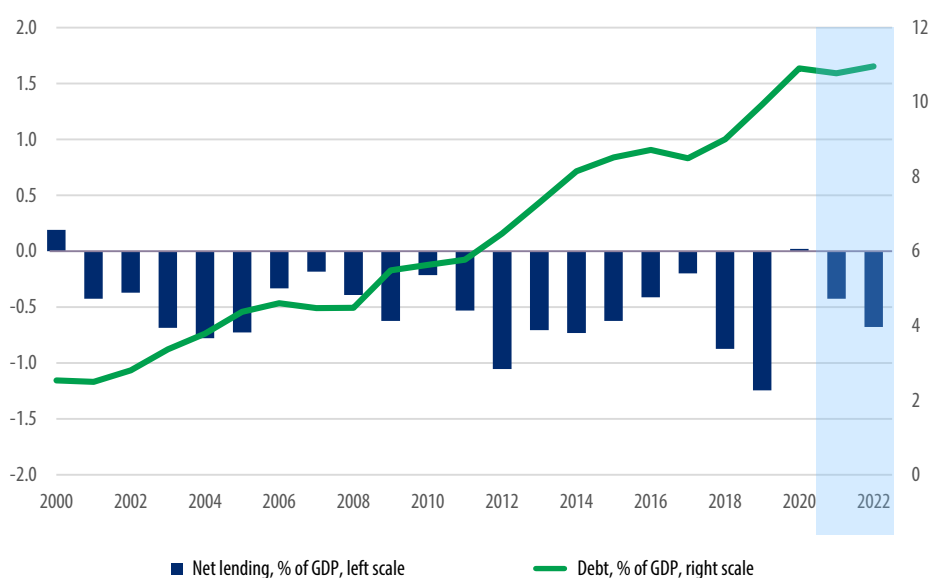
The Ministry of Finance projection takes into account the measures affecting local government finances included in the General Government Fiscal Plan and the budget proposal for 2022.

Diagram 9. Distribution of municipalities' revenue and expenditure in 2022, %. Source: Ministry of Finance



The development of the deficit and debt is illustrated in Diagram 10. The diagram shows that local government net lending is projected to be between -0.7 % of the GDP in 2022 and debt around 11.0 % of the GDP. These are described in more detail in chapter 2.3 of the Ministry of Finance's Economic Survey for autumn 2021.

Diagram 10. Net lending and debt in the local government sector, % of GDP. Sources: Statistics Finland, Ministry of Finance



Central government measures affect the municipalities' revenue and expenditure. The net impact of central government measures will weaken local government finances in 2022.

Central government transfers to municipalities will total at around EUR 13.0 billion, which is approximately EUR 1 billion less than in the actual 2021 budget. The reduction is mainly due to the fact that no fixed-term coronavirus-related support equivalent to those employed in 2021 has been budgeted for 2022. Imputed central government transfers total at EUR 9.1 billion, which is EUR 0.3 billion more than in the actual 2021 budget.

In 2022, slightly less than EUR 8 billion is proposed for central government transfers for the provision of basic municipal services. Compared to the actual budget for 2021, central government transfers will increase by around EUR 285 million. However, in making comparisons with the previous year, it should be noted that a one-off increase of EUR 300 million was made in central government transfers to local government for basic public services in 2021 due to the coronavirus situation, and this will be eliminated in 2022. In 2022, the index increase amounts to around EUR 188 million. The changes in the number of inhabitants and calculation factors increase the central government transfers to local government by around EUR 54 million.

The level of central government transfers will be increased by previously decided new and expanding tasks of municipalities, such as the Act on the Care Services for Older Persons

(EUR 43.7 million), the reform on client charges in healthcare and social welfare (EUR 28.0 million), an extension of the after-care services of child welfare (EUR 12 million), an extension of the screening programme (EUR 10 million) and the staffing of child welfare services (EUR 4.8 million). In total, the changes in tasks will increase central government transfers to local government by approximately EUR 107 million in 2022.

It is proposed that EUR 10 million of the central government transfers to local government for basic public services be transferred to municipal merger grants.

The central government reimbursement to municipalities for tax revenue losses caused by changes in tax criteria amounts to around EUR 2.7 billion in 2022.

Central government has made a discretionary decision to increase local government expenditure by a total of EUR 1.2 billion at the 2022 level from the beginning of the parliamentary term. The decisions have increased municipal revenue by around EUR 1.5 billion at the 2022 level. For new and expanding tasks, municipalities receive full central government transfers (100%).

4.4 Finland's Recovery and Resilience Plan in the 2022 budget proposal

Finland submitted its national Recovery and Resilience Plan to the Commission on 27 May 2021. Finland's Recovery and Resilience Plan is the national plan for making use of the funding from the EU's Recovery and Resilience Facility (RRF). The Commission is assessing Finland's Programme, and its implementing decision is expected to be adopted by the Council of the EU in October 2021.

Finland's Recovery and Resilience Plan is part of the Sustainable Growth Programme for Finland, which supports ecologically, socially and economically sustainable growth in line with the objectives set in the government programme. The nationally determined key priorities of the Programme are reducing greenhouse gases, increasing productivity, raising the employment rate, accelerating access to care and promoting equality.

The Recovery and Resilience Plan includes 4 so-called pillars:

- Pillar 1: Green transition supports structural change in the economy and a carbon-neutral welfare society
- Pillar 2: Using digitalisation and the data economy to strengthen productivity and make services available to all

- Pillar 3: Increasing employment rate and competence levels to boost sustainable growth
- Pillar 4: Enhancing the availability of social welfare and healthcare services and increasing cost-effectiveness

Revenue in the budget proposal related to the Recovery and Resilience Plan and appropriations in different administrative branches

The third supplementary budget for 2021 took into account the first investments made under the Recovery and Resilience Plan. The 2022 budget proposal proposes further allocations of EUR 1.2 billion (appropriations and Budget Authority in total) to implement the Recovery and Resilience Plan. Additional appropriations allocated for 2022 would amount to around EUR 634 million. The disbursements from the EU to the Government of Finland will be based on the progress of the national plan and the achievement of the interim goals and targets set out in it.

The central government budget includes revenue from the EU. A variety of miscellaneous revenues amounting to around EUR 1.57 billion are expected to be received from the EU. The increase in this EU revenue is largely explained by the fact that it includes payments made under the EU Recovery and Resilience Facility, estimated to total at EUR 355 million. The national plans are evaluated by the Commission and adopted by the Council of the EU. The payments are based on the progress made in national plans and when it has been verified that the objectives set out in the plans have been implemented as described in the plan. The estimated revenue related to the Recovery and Resilience Facility is based on the Commission's proposal on the payments to be expected.

Under the main title of expenditure of the Ministry for Foreign Affairs, it is proposed that a total of EUR 6.1 million from the Recovery and Resilience Plan be used to fund long-term visa information system solutions and the Virtual Finland service platform.

Under the main title of expenditure of the Ministry of the Interior, EUR 1.3 million is proposed for police appropriations from expenditure financed from RRF revenue for an investment package for safeguarding the monitoring and enforcement of the fight against money laundering. In addition, EUR 7.8 million is proposed for Finnish Immigration Service appropriations from expenditure financed from RRF revenue for the development of a digital infrastructure supporting the immigration of skilled labour.

Under the main title of expenditure of the Ministry of Finance, it is proposed that EUR 1.5 million in funding from the Recovery and Resilience Plan be allocated to permit authority expenditure related to the recovery of low-carbon hydrogen and carbon dioxide.

Funding from the Plan will also be allocated for safeguarding the effective monitoring and implementation of the prevention of money laundering.

The main title of expenditure of the Ministry of Education and Culture includes a total of EUR 100 million in Recovery and Resilience Plan funding, of which EUR 40.5 million falls under the Budget Authority of the Academy of Finland. It is proposed that EUR 29.9 million of the Recovery and Resilience Plan funding be allocated to the development of a service system for continuous learning service and a related digitalisation programme, EUR 15 million to new first-year admissions in higher education institutions and EUR 14 million for the development of production and operating models in the cultural and creative sectors.

Under the main title of expenditure of the Ministry of Agriculture and Forestry, a total of EUR 9 million in funding from the Recovery and Resilience Plan is allocated to two different projects: measures in the land use sector are used to develop climate-sustainable forest management and processing methods that safeguard biodiversity, and a water competence growth and export programme supports growth and export projects in the water sector, promoting the achievement of the sustainable development goals. In addition, it is proposed that EUR 1 million be allocated to funding the second-phase development project of the Residential and Commercial Property Information System, which will be used to expand the data content of the system. The project will also be used to implement the country-specific recommendations issued by the EU to Finland on the establishment of a positive credit register.

Under the main title of expenditure of the Ministry of Transport and Communications, it is proposed that EUR 4 million in funding from the Recovery and Resilience Plan be allocated to the development and verification phase of the Digirail project. National funding is also allocated to the project. In addition, EUR 15 million is proposed for funding the quality and availability of communication networks, EUR 1.5 million for the development of an ecosystem for heavy-duty electric transport, and EUR 2.5 million for purchasing and conversion subsidies as well as EUR 3 million for research investments and training activities related to cyber security.

In connection with the implementation of the Recovery and Resilience Plan, a total of EUR 315 million in appropriations and EUR 692 million in Budget Authority will be allocated to the administrative branch of the Ministry of Economic Affairs and Employment. The Budget Authority for energy subsidies will be increased by EUR 453 million from the Recovery and Resilience Plan funding allocated to investments related to the energy infrastructure, new energy technology, low-carbon hydrogen and the electrification of industry. EUR 83 million of the funding will be allocated to the implementation of the Nordic labour market service model, EUR 3.25 million to strengthening multidisciplinary cooperation in the Ohjaamo service points, and EUR 10 million to a capital injection to a

limited liability company promoting the employment of persons with partial work ability. The Budget Authority for supporting research, development and innovation activities will be increased by EUR 234 million. Funding is also proposed for the creative sectors and the tourism sector from the Recovery and Resilience Plan revenue.

Under the main title of expenditure of the Ministry of Social Affairs and Health, EUR 125 million in funding from the Recovery and Resilience Plan is proposed to be allocated to reducing the care, rehabilitation and service backlog in social welfare and healthcare, and for accelerating access to care. In addition, EUR 9 million will be allocated to the services supporting work ability and the measures used to strengthen mental health and work ability.

In the administrative branch of the Ministry of the Environment, a total of EUR 13 million from the Recovery and Resilience Plan is proposed for funding the gypsum treatment of fields and a nutrient recycling project. The funding of grants amounting to a total of EUR 10 million is proposed for housing companies and workplace properties for the expansion of an electric vehicle charging infrastructure. Aid granted to detached houses and municipalities for phasing out oil will be continued, and a total of EUR 33.9 million is proposed for this purpose. According to the proposal, the low-carbon construction programme would be promoted by EUR 3 million in 2022.

5 Piloting child-oriented budgeting

Based on an entry in Prime Minister Sanna Marin's Government Programme, the Government is committed to assessing the impacts of decisions on children, and promoting child-oriented budgeting and the inclusion of young people¹.

A working group considered the possibilities for developing child-oriented budgeting

The Prime Minister's Office set up a working group on child-oriented budgeting for the period between 28 December 2020 and 31 May 2021. In line with its task, the working group prepared a proposal on how the child-oriented budgeting section of the National Child Strategy will be implemented in central government budget proposals. During its term of office, the working group organised four hearings in which it consulted stakeholders, such as the National Audit Office, the Ombudsman for Children, the Parliament's Audit Committee, the Finance Committee and the Committee for the Future, the Association of Finnish Local and Regional Authorities, and NGOs.

The working group drafted a total of four proposals related to the promotion and development of child-oriented budgeting, one of which concerned the implementation of a pilot project on child-oriented budgeting in the 2022 budget proposal². The working group on child-oriented budgeting made different limitations and policies related to identifying, classifying and presenting appropriations targeted at children to make sure that the standardisation of child-oriented budgeting and its future establishment can be implemented in a way that ensures optimal comparability and repeatability, and is also feasible from a required resources perspective.

1 An inclusive and competent Finland – a socially, economically and ecologically sustainable society Government publications 2019:31. https://julkaisut.valtioneuvosto.fi/bitstream/handle/10024/161931/VN_2019_31.pdf?sequence=1&isAllowed=y

2 Piloting and standardisation of child-oriented budgeting – Working group report on developing child-oriented budgeting in central government Budgets and in local government and the wellbeing services counties. Ministry of Finance publications 2021:29 or 2021:44. Available in Finnish <http://urn.fi/URN:ISBN:978-952-367-688-6> or Swedish <http://urn.fi/URN:ISBN:978-952-367-502-5>

The working group determined that the analysis will take into account expenditure directly targeting children (benefits and services) and expenditure (e.g. grants) resulting from funding activities aimed at children. This means that the review of expenditure on child-related budgeting takes into account the (statutory and discretionary) expenditure directly aimed at and allocated to children under the age of 18, as well as expenditure clearly targeted at families with children under the age of 18. For certain services, such as upper secondary education, the share of the age group of children in the target group of the services has been taken into account.

According to the working group's policies, the review does not take into account the administrative expenditure of central government, i.e. the appropriations for the operating expenditure of agencies, ministries, the institutions operating under the ministries. In addition, the review focuses on central government expenditure, not all general government expenditure. The proposal made by the working group does not take into account the costs of development projects from which the age groups of children could be distinguished in terms of numbers, but in which the review in euros calculated based on this analysis would not be directly targeted at the age groups of children but, instead, be a purely calculated estimate. The proposal also does not include a review of the municipalities' contribution income. As regards certain benefit expenditure (such as housing allowance), the proposal includes the share of families with children, as it is not possible to distinguish the age groups of children from housing allowance data.

The purpose of the limitations made by the working group was to specifically focus on children and families with children in the examination. According to the working group's assessment, this makes the review more appropriate and enables that the solutions contribute to ensuring the appropriate interpretation and comparability of child-oriented budgeting, as different purely computational items are not taken into account in the examination. As a result, the review will not be extended to different types of expenditure indirectly allocated to the age group of children, as such expenditure estimates do not effectively describe the cost decisions or changes affecting children, and the calculated review would not allow making conclusions related to the level of appropriations concerning the age group of children. The approach chosen now makes it easier to compare the services and benefits targeted at the age group of children over time and also makes sense from the perspective of the need for resources required by the work.

Examination of the budget proposal from the perspective of the age group of children

The piloting concerning child-oriented budgeting in the 2022 central government budget proposal is based on the above proposal by the working group and the related limitations and policies. In line with the working group's proposal, a summary review on child budgeting is included in the rationale of the proposal. The summary review includes

a section on the appropriations from different administrative branches affecting the age group of children and an examination concerning taxation. The level of examination in the pilot and the criteria of the appropriations under review have been determined in a manner that ensures that the content is consistent between the main titles of expenditure, allowing for making comparisons between different years. This definition work has also paid attention to ensuring that the review can be further developed based on the pilot as necessary, and that the basic solutions can be fine-tuned without compromising the comparability between different years.

In the 2022 central government budget proposal, nearly all of the appropriations directly affecting the age group of children and services aimed at families are appropriations for education and teaching, and social welfare and healthcare services. Of the appropriations included in the budget proposal, some of the central government transfers for basic public services are also directly targeted at children or families with children. As a result, the pilot also describes the imputed share of the central government transfers for basic public services targeting children aged under 18 included in the main title of expenditure of the Ministry of Finance. Some of the funding for culture and art, outreach youth work and youth work shop activities, and youth work, sports and physical activity organisations also target the age group of children. Compensation paid to municipalities for receiving refugees and promoting integration include costs related to promoting the integration of children. The financing of benefits is primarily concerned with revenue transfers related to social security.

In the 2022 central government budget proposal, appropriations directly allocated to children or families with children amount to around EUR 7 billion, taking into account the statutory and discretionary measures of different main titles of expenditure. Of these appropriations, slightly less than EUR 2.7 billion is estimated to be central government transfers for basic public services targeting the age group of children. The total central government transfers for basic public services amount to around EUR 8.0 billion in 2022. In 2022, the share of the age groups under the age of 18 in the calculated central government transfers will therefore be around 33.3 per cent.

In addition to the level of appropriations concerning the age group of children and related changes, separate funding has been allocated to priority areas that affect the age group of children. The most important of these is funding targeted at strengthening equal opportunities and supporting people in a vulnerable position. While the key goal of the appropriations for the age group of children is to promote equal opportunities in general, the budget proposal particularly includes projects in line with the government programme and statutory reforms influenced by appropriations pursuing goals that promote equal opportunities. The separate funding for the measures mentioned in the

2022 budget proposal is approximately EUR 378 million. This funding is included in the review of appropriations described above (around EUR 7 billion).

In Finland's tax system, elements that support children and families with children mainly include tax subsidies for families with children. No structures particularly discriminating against children or families with children have been observed in the tax system. According to the Tax Administration's personal income tax rate statistics, in 2019, minors paid about EUR 16.4 million in income taxes, which was less than 0.1 per cent of all income taxes paid by individual customers. Around 60 per cent of the income tax paid by minors was capital income tax. Under the Income Tax Act, a child who has not reached the age of 17 before the beginning of the tax year is considered a minor. According to an estimate by the Ministry of Finance, in 2019, families with children paid about 34.4 per cent of income taxes. The 2022 budget proposal does not propose any changes to taxes with a direct impact on children or families with children. The tax changes in the budget proposal include, among other things, a proposal to increase the household allowance for household, care and nursing work, which also supports families with children.

6 Summary

This publication examines the budget proposal for 2022.

The economic policy of Prime Minister Marin's Government has the objective of increasing wellbeing. This means ecologically and socially sustainable economic growth, high employment and sustainable public finances. The crisis caused by the coronavirus created a need to specify the objectives set in the government programme concerning general government and the development of employment. In its mid-term review in spring 2021, the Government set a goal for its economic sustainability roadmap to achieve a reversal in the upward trend in the general government debt-to-GDP ratio in the mid-2020s, raise the employment rate to 75 per cent by the mid-2020s, and increase the number of employees by 80,000 persons with the Government's measures to promote employment by the end of the decade.

The decline of the pandemic is not expected to slow down the economic recovery, even if the opening of society was slower than previously estimated. The rapid economic growth after the downturn will improve public finances in 2021, but the general government deficit will remain high. Economic growth and a sharp reduction in the support measures prompted by the pandemic will also strengthen general government finances in 2022. However, general government finances will still remain in deficit after a short period of economic upturn. Thus, the structural imbalance between general government expenditure and revenue will persist.

Economic recovery from the coronavirus pandemic has been rapid since spring this year and as a result, GDP growth will accelerate to 3.3% in 2021. The economic recovery will continue in the autumn, also in the sectors that are still subject to restrictions. Strong economic growth will continue for the rest of the year and early 2022, as a result of which GDP is expected to grow by a further 2.9% in 2022.

Growth in employment has significantly accelerated in the first half of 2021. The demand for labour is sustained by economic growth and in the short term, it can be met by the large number of unemployed persons and the government measures to increase the supply of labour. Economic recovery will boost the number of employed persons, especially in the service sectors. It is projected that the employment rate will grow to 73.6 per cent in 2022.

During the government term, the Government will carry out employment measures that strengthen the economy with an aim to achieve the employment impacts of 80,000 additional employed persons. Decisions on measures to promote employment have been made in 2021, and the Government is also committed to making decisions on the employment measures by the end of the government term, which will strengthen general government finances by EUR 110 million. A decision on the above measures will be made by 15 February 2022.

The appropriations in the budget proposal for 2022 amount to EUR 64.8 billion. The central government on-budget deficit is predicted to amount to approximately EUR 6.9 billion and central government debt is expected to rise to approximately EUR 146 billion. Compared to the actual 2021 budget, the expenditure will decrease by EUR 0.5 billion, particularly as a result of a decline in expenditure related to the coronavirus outbreak. Meanwhile, the expenditure will be increased by statutory and contractual index increases, the transition costs resulting from the reform of healthcare and social welfare and rescue services, payments to the European Union and a change in the timing of the funding for the wellbeing services counties. The budget proposal for 2022 will also be updated on the www.tutkibudjettia.fi website which allows the budget to be examined visually from different perspectives.



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