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OF FINANCE

Budget review 2023

Review on central government budget, January 2023

Economic Policy

Publications of the Ministry of Finance – 2023:3

Budget review 2023

Review on central government budget,
January 2023

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Abstract			
<p>This publication examines the 2023 Budget, which was adopted by Parliament in December. The aim is to provide a concise description of the central themes of the 2023 Budget. The budget is based on an independent economic forecast produced by the Economics Department at the Ministry of Finance, which is presented in the Economic Survey.</p> <p>This economic outlook is affected by Russia's invasion of Ukraine, the energy crisis and accelerating inflation. The economy turned to a decline in the latter part of 2022 due to the erosion of household purchasing power, very high uncertainty regarding the future investment environment and the slowing of the international economy.</p> <p>The appropriations in the budget for 2023 amount to EUR 81.3 billion. The central government on-budget deficit is predicted to amount to approximately EUR 8.3 billion. Compared to the actual 2022 budget, the expenditure will increase by EUR 16.4 billion, particularly due to the reform of healthcare and social welfare services.</p>			
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Tiivistelmä

Tässä julkaisussa tarkastellaan vuoden 2023 talousarviota, jonka eduskunta hyväksyi joulukuussa. Tarkoituksena on tarjota tiivis kuvaus valtion budjetin keskeisistä teemoista vuonna 2023. Talousarvio pohjautuu valtiovarainministeriön kansantalousosaston riippumattomaan talousennusteeseen, joka esitellään Taloudellisessa katsauksessa.

Talousnäkymiin vaikuttavat Venäjän hyökkäyssota Ukrainassa, energiakriisi ja inflaation kiihtyminen. Kotitalouksien ostovoiman heikentyminen, erittäin suuri epävarmuus tulevasta investointiympäristöstä ja kansainvälisen talouden hiipuminen käänisivät talouden laskuun loppuvuonna 2022.

Vuoden 2023 talousarvion määrärahat ovat 81,3 mrd. euroa. Valtion budjettitalouden alijäämäksi ennakoidaan noin 8,3 mrd. euroa. Menotaso nousee vuoden 2022 varsinaiseen talousarvioon verrattuna 16,4 mrd. eurolla erityisesti sosiaali- ja terveydenhuollon uudistuksesta johtuen.

Asiasanat	talouspolitiikka, valtion talousarvio, budjetointi, valtiontalous, budjettikatsaus, budjetti
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Budgetöversikt 2023

Översikt över statsbudgeten, januari 2023

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<p>I denna publikation granskas statsbudgeten för 2023, som riksdagen godkände i december. Avsikten är att ge en kort beskrivning av centrala teman i statsbudgeten 2023. Statsbudgeten baserar sig på en oberoende ekonomisk prognos från finansministeriets ekonomiska avdelning, och den presenteras i den ekonomiska översikten.</p> <p>De ekonomiska utsikterna påverkas av Rysslands anfallskrig mot Ukraina, energikrisen och den tilltagande inflationen. Den försämrade köpkraften i hushållen, den mycket stora osäkerheten om den framtida investeringsmiljön och den internationella ekonomins tillbakagång har lett till ekonomisk nedgång under slutet av 2022.</p> <p>Anslagen i statsbudgeten för 2023 uppgår till 81,3 miljarder euro. Statens budgetekonomi beräknas uppvisa ett underskott på cirka 8,3 miljarder euro. Utgiftsnivån stiger med 16,4 miljarder euro jämfört med den ordinarie budgeten 2022 i synnerhet med anledning av social- och hälsovårdsreformen.</p>			
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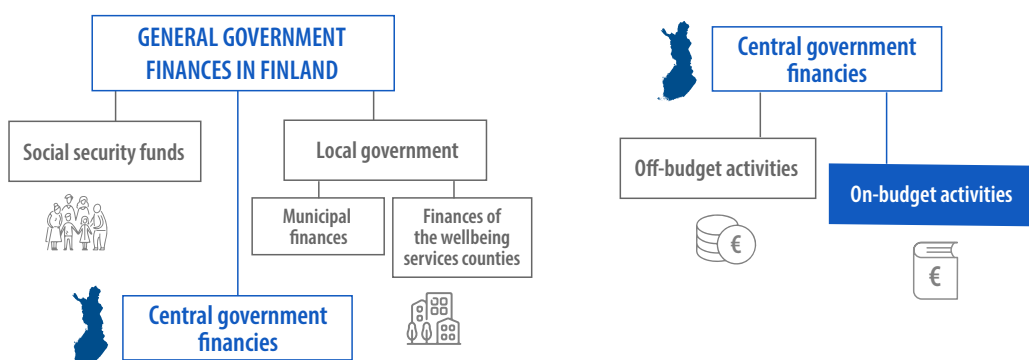
Contents

1	Introduction	7
2	Economic outlook	9
2.1	The real economy.....	9
2.2	General government finances.....	10
3	The Government's approach to economic policy	14
4	Central government budget 2023	17
4.1	Revenue, expenditure, deficit and debt.....	17
4.2	Excerpts from tax and appropriation decisions in the 2023 Budget.....	23
4.3	Municipal finances	38
4.4	Finances of the wellbeing services counties	40
4.5	Finland's Recovery and Resilience Plan in the 2023 Budget	42
5	Summary	46

1 Introduction

General government finances in Finland cover central government, local government (municipalities and wellbeing services counties) and social security funds. Central government finances include the central government budget economy, i.e. on-budget and off-budget activities. The position of central government on-budget activities in central government finances and general government finances is illustrated in Diagram 1. This publication is mainly concerned with central government on-budget activities. The Government's budget for 2023, which was approved by Parliament in December, is the topic of examination. The purpose is to provide a concise description of the main themes of the central government budget with the help of diagrams and tables, and to guide the reader through the themes in more detail via internet links. The budget 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.



In Finland, Parliament is the highest decision-making authority for the use of central government resources. Parliament mainly exercises its powers 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 budget decisions are taken. Parliament approves the budget for the following budget year before the end of the previous one.

In practice, the central government budget assesses the size and allocation of central government revenue and expenditure for the following year. The budget is prepared with reference to the General Government Fiscal Plan published in the spring and Prime Minister Marin's Government Programme. The Government Programme defines the Government's main economic policies. 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. The allocations for each administrative branch made within the spending limits are reviewed by the Government annually in April as part of the General Government Fiscal Plan, and the spending limits are updated to correspond to changes in costs, prices and the spending limit expenditure structure. For more information, see <http://vm.fi/en/central-government-spending-limits>.

The total for the budget for 2023 is EUR 81.3 billion. Most of the appropriations will be used for healthcare and social security. Revenue will mainly come from taxes based on turnover, such as value-added tax, and income taxes, including earned income and capital gains tax. The central government on-budget deficit is predicted to amount to approximately EUR 8.3 billion and central government debt is expected to rise to around EUR 156 billion.

The following chapter gives an overview of the economic outlook for the real economy and general government finances. Chapter 3 is concerned with the Government's economic policy goals and their attainment. Chapter 4 deals with revenue and expenditure estimates, the deficit and debt in the central government budget. Chapter 4 also highlights key appropriations in various administrative branches. The finances of municipalities and wellbeing services counties are also discussed from the perspective of central government on-budget activities. Chapter 5 provides a summary of the review.

2 Economic outlook

2.1 The real economy

The economy continued its recovery from the COVID-19 pandemic in 2022. The economy turned to a decline in the latter part of 2022 due to the erosion of household purchasing power, very high uncertainty regarding the future investment environment and the slowing of the international economy.

According to the Ministry of Finance's latest forecast, published on 20 December 2022, Finland's gross domestic product (GDP) will contract by 0.2% in 2023. The high price level and weakening employment will continue to slow the growth of household purchasing power in 2023. Private consumption will decline as the savings ratio increases. Global economic growth will weaken, which will curb domestic investment. Export growth in 2023 will lag behind the growth rate of the world market, as companies will not yet fully find other markets to replace exports to Russia. Weak growth in the euro area will restrict the development of exports in particular.

Total output will contract and the demand for labour will decline, leading to a slight contraction in the number of employed people in 2023. Employment turning to a decline will increase unemployment, particularly in secondary production, and the unemployment rate is projected to increase slightly in 2023 compared to 2022. Inflation peaked in the latter part of 2022 and will remain high in the early part of 2023. Inflation will slow to an average of 4.0% in 2023. In particular, based on the development of market prices, electricity prices are projected to remain high until the early part of 2023. Energy prices are, however, expected to decline moderately starting from the second half of 2023.

Table 1. Trends in the national economy 2020–2023

December 2022 forecast	2020*	2021*	2022**	2023**
GDP at market prices (EUR bn)	238,0	251,4	274,3	283,4
GDP, change in volume (%)	-2,2	3,0	1,9	-0,2
Unemployment rate (%)	7,7	7,7	6,8	7,0
Employment rate (%)	70,7	72,3	74,2	73,9
Consumer price index, change (%)	0,3	2,2	7,0	4,0
Interest rate (10 year bonds) (%)	-0,2	-0,1	1,7	2,9

* Advance information

** Forecast

2.2 General government finances

The general government deficit was reduced in 2022 by the strong growth of the economy and employment. Tax revenue grew substantially, while expenditures arising from the management of the COVID-19 pandemic were lower than in the previous years. The economy will not grow in 2023, and the general government budgetary position will start to decline. The many preparatory measures taken in response to Russia's invasion of Ukraine will also widen the deficit. Economic growth will be subdued in the next few years, and the imbalance between general government revenue and expenditure will remain large.

Supported by strong nominal GDP growth, general government debt in ratio to GDP has decreased over the past couple of years. From 2023 onwards, the general government debt ratio will begin to increase again, starting from a level that is already quite high. The debt ratio will be kept on an upward trajectory by substantial deficits in central government and local government, and rapidly rising debt servicing costs.

The structure of Finland's general government will change at the beginning of 2023 when the responsibility for the organisation of health, social and rescue services is transferred from municipalities to wellbeing services counties. This will alleviate the municipalities' structural expenditure pressures due to population ageing but, even so, local government finances will remain in deficit in the pressure projection. Municipal investment expenditure will be kept high by the ageing building stock, migration and infrastructure construction. Initially, the wellbeing services counties will be in deficit. The deficit is due, among other things, to the high level of investments and the growth of personnel expenses.

The central government deficit will remain large from 2023 onwards due to factors including preparedness measures. Central government debt servicing costs will increase while slow economic growth will dampen the growth of tax revenue. The surplus of earnings-related pension funds will stabilise at approximately 1.5% in the next few years. Pension expenditure will continue to increase but, at the same time, higher interest rates increase the pension funds' property income. The financial position of other social security funds will be strengthened during the outlook period by the improvement of the employment situation, and social security funds will be in a slight surplus.

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

December 2022 forecast, % of GDP	2020*	2021*	2022**	2023**
Taxes and social security contributions	41,8	43,0	42,0	41,2
General government expenditure	57,2	55,5	52,6	53,9
General government net lending	-5,6	-2,7	-0,8	-2,3
• central government	-5,6	-3,3	-1,8	-3,1
• local government	0,0	-0,2	-0,4	-0,4
• wellbeing services counties				-0,4
• employment pension schemes	0,1	0,9	1,4	1,4
• other social security funds	-0,1	-0,1	-0,1	0,1
General government debt	74,8	72,4	71,7	73,4
Central government debt ¹⁾	52,4	51,2	51,6	52,9

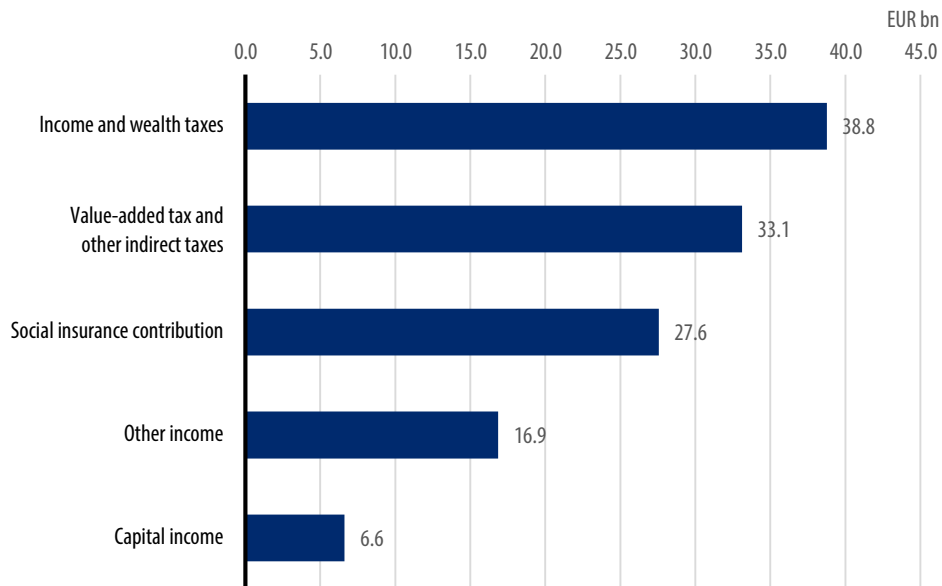
* Advance information

** 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 2020.

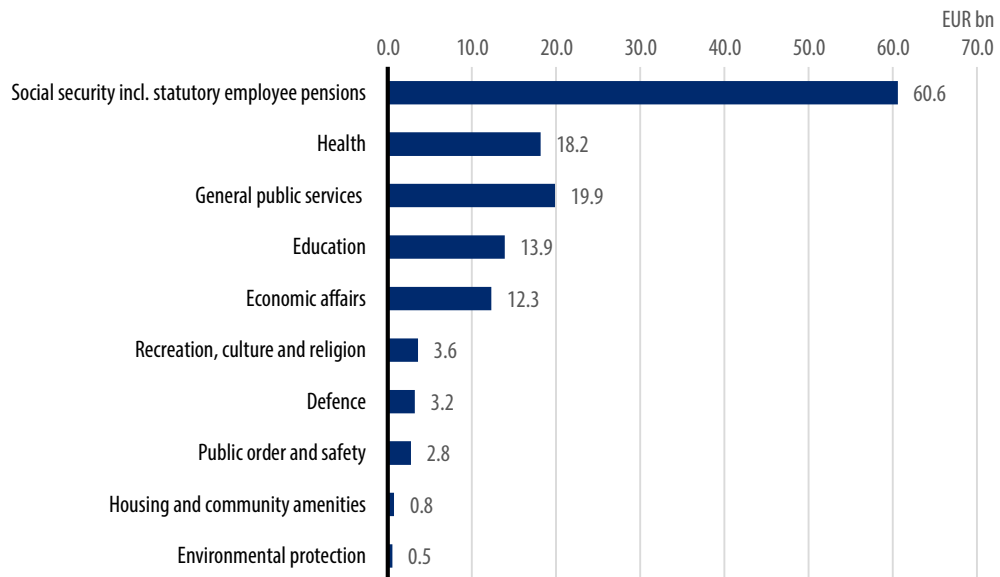
Diagram 2. General government revenue in 2020, EUR bn. Source: Statistics Finland



Most of the government expenditure is comprised of social security benefits paid out, as shown in Diagram 3. This expenditure includes pensions, unemployment benefit, family allowances and benefits, housing allowances, sickness benefits and support to prevent social exclusion.

Diagram 3. General government expenditure by function (COFOG) in 2020, EUR bn.

Source: Statistics Finland, National Accounts



3 The Government's approach to economic policy

The economic policy of Prime Minister Marin's Government Programme aims to increase wellbeing. This means ecologically and socially sustainable economic growth, high employment and sustainable public finances.

The Government's objectives are to raise the employment rate to 75% by the mid-2020s, increase the number of people in employment by 80,000 through the Government's employment-related measures by the end of the decade, and achieve a reversal in the upward trend in the general government debt-to-GDP ratio in the mid-2020s. The Government's decisions will decrease inequality, narrow income gaps and put Finland on a path towards achieving carbon neutrality by 2035.

The Government implements active and responsible fiscal policy that is scaled to the economic outlook. Fiscal policy was highly expansionary during the recession caused by the COVID-19 pandemic. After the recovery from the COVID-19 crisis, the outlook of the world economy has darkened due to Russia's invasion of Ukraine, rapid inflation and the energy crisis. The budget includes measures allocated to 2023 to support the purchasing power of citizens in response to the exceptionally rapid rise in consumer prices, as well as measures aimed at mitigating the impacts of high electricity prices.

The impacts of Russia's invasion of Ukraine extend to general government finances in Finland through the slowing of economic growth and the preparedness measures necessitated by the changes in the security environment. An escape clause pertaining to the spending limits was adopted in spring 2022 due to the change in the security environment. It covers essential increases in spending that are directly related to the changed circumstances and concern areas such as national defence, border security, cyber security and the security of supply. Expenditure increases of approximately EUR 2.3 billion are allocated for 2023 under the escape clause.

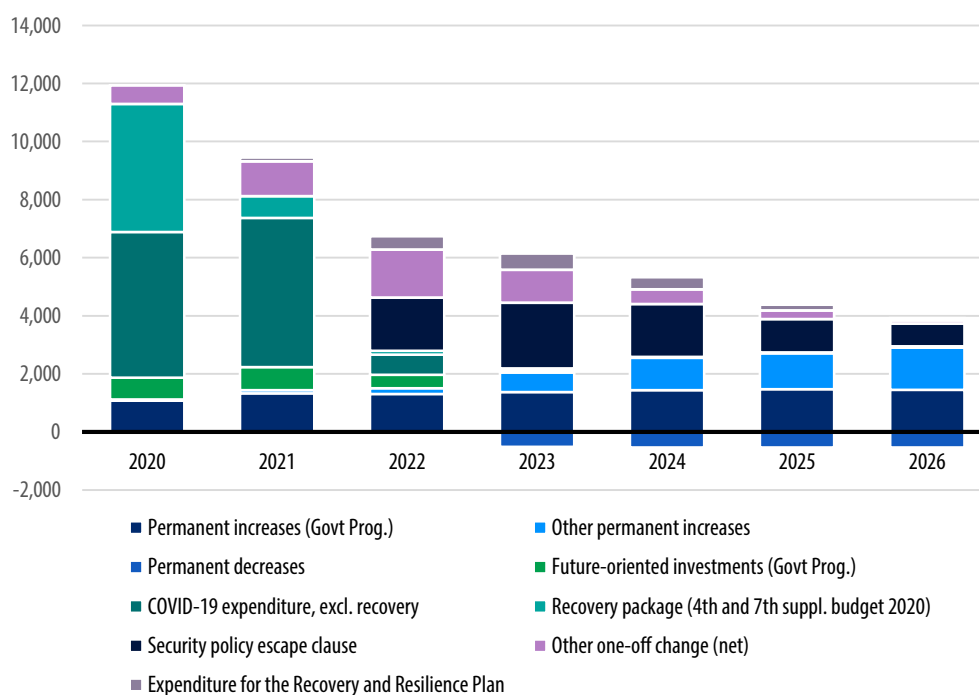
The Sustainable Growth Programme for Finland supports growth that is ecologically, socially and economically sustainable. The programme's financial resources will remain high in 2023 and include about EUR 561 million in expenditure from the EU's Recovery and Resilience Plan.

The budget also takes into account the permanent expenditure increases outlined in the Government Programme (approximately EUR 1.4 billion at the 2023 level) and the central government's additional spending on research and development activities as decided on in connection with the General Government Fiscal Plan 2023–2026. In addition, an R&D tax incentive based on an extra deduction will be introduced effective from 2023 to support R&D investment. Assessed in terms of structural balance, the Government's fiscal policy will be expansionary in 2023.

The Government is committed to the central government spending limits system, which restricts the level of expenditure set out in the State budget. The expenditure rule ensures a responsible, long-term central government spending policy that promotes economic stability. The measures under the Government Programme and any others are implemented insofar as this is possible within the framework of the spending limits.

The parliamentary term's spending limits for the period 2020–2023 were decided as part of the Government's first General Government Fiscal Plan on 7 October 2019. The overall picture of Finland's economy and fiscal policy needs changed significantly in the first half of the parliamentary term compared to the situation in autumn 2019 due to factors including the COVID-19 pandemic. Departures from the original spending limits decision were decided on, among other occasions, as part of the mid-term policy review, at which time the Government decided to increase the spending limits for the parliamentary term. The spending limits for 2022 were increased by EUR 900 million and the spending limits for 2023 by EUR 500 million. The need to increase spending limits for 2023 were reduced by the decision to permanently reallocate spending limit expenditure by EUR 370 million starting from 2023.

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



In 2023, the Government's discretionary spending increases will total approximately EUR 5.6 billion compared to the technical General Government Fiscal Plan of spring 2019, as illustrated by Diagram 4. The diagram 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 5.1 billion in 2023. Appropriations related to Russia's invasion of Ukraine will amount to approximately EUR 2.3 billion in 2023 (more information is provided under Preparedness in chapter 4.2 Excerpts from tax and appropriation decisions in the 2023 budget).

The permanent spending increases in accordance with the Government Programme amount to some EUR 1.4 billion at 2023 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.

4 Central government budget 2023

Central government revenue and expenditure are examined in the detailed rationale of the budget (budjetti.vm.fi, available only in Finnish and Swedish). The revenue estimates are presented by department and the appropriation estimates by main title of expenditure.

4.1 Revenue, expenditure, deficit and debt

Revenue

On-budget revenue for 2023, excluding net borrowing, is estimated to amount to EUR 73.0 billion. Taxes and tax-like payments account for approximately EUR 64.4 billion (88%). Central government tax revenue is expected to increase by about 32%, or EUR 15.8 billion, in 2023 compared to the actual 2022 budget. Of the change, an estimated EUR 12.9 billion is due to the health and social services reform, as a significant amount of earned income tax and corporate tax revenue will be transferred to central government in connection with the reform.

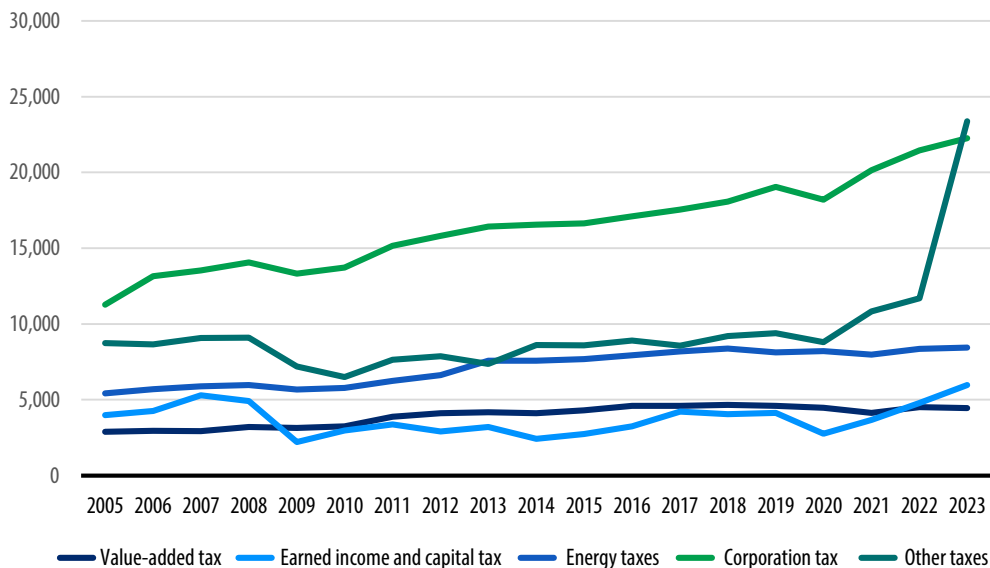
Diagram 5 shows the development of central government tax revenue for key tax types in the period 2005–2023. Tax revenue has grown substantially since 2020 as the economy has begun to recover from the difficulties created by the COVID-19 pandemic. The reform of healthcare, social services and rescue services that will enter into effect in 2023 will result in a significant increase in central government tax revenue (approximately EUR 14.5 billion per year) as the responsibility for organising healthcare, social services and rescue services is transferred from municipalities to the wellbeing services counties and the responsibility for funding the services is transferred from municipalities to central government.

Due to the health and social services reform, income taxes will constitute the central government's largest single source of revenue starting from 2023. Value-added tax will remain a significant source of revenue for the central government. 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. Central government tax revenue by type 2005–2023, EUR million



Expenditure

The appropriations of the budget amount to approximately EUR 81.3 billion, which is EUR 16.4 billion more than in the actual 2022 budget. The reform of health and social services will increase the level of full-year on-budget expenditure by approximately EUR 14 billion. This figure does not, however, take into account the fact that approximately EUR 1.9 billion of the 2023 funding of the wellbeing services counties will be paid before the turn of the year, in December 2022. In addition, the 2022 Budget did not include the measures decided upon in response to Russia's invasion of Ukraine, which amount to approximately EUR 1.8 billion in 2022 and approximately EUR 2.3 billion in 2023.

Taking the aforementioned factors into account, expenditure growth in 2023 will amount to approximately EUR 3 billion compared to the actual 2022 budget. The expenditure level for 2023 will be increased by statutory and contractual index increases, among other

things. Furthermore, interest expenditure on central government debt is projected to grow by approximately EUR 1 billion compared to the 2022 budget due to the general increase in interest rates. At the same time, on-budget expenditure will decrease in 2023, among other things because expenditure related to the COVID-19 pandemic will diminish and because many of the temporary spending increases decided by the Government (including future-oriented investments) will come to an end.

Taking into account the change in the price level and the structural changes arising from the reform of healthcare and social services, the appropriations for the administrative branches (all expenditure excluding interest expenses) will increase by approximately 0.5% compared to the actual 2022 budget. Compared to the budgeted expenditure for 2022 (including supplementary budgets 1–4), the expenditure in this review nevertheless decreases by over 3.5%, as the second supplementary budget for 2022 included a decision on measures amounting to approximately EUR 2 billion due to Russia's invasion of Ukraine.

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 2022 budget, the total on-budget central government expenditure will increase by 25%.

An examination of the expenditure divided into groups based on the Classification of the Functions of Government (COFOG) reveals that the most significant factor behind the growth of expenditure is the reform of healthcare, social and rescue services, which accounts for just under 16 percentage points of the growth in total expenditure. Excluding the effect of the health and social services reform, expenditure growth would amount to approximately 9 percentage points.

The change in Finland's security environment is reflected particularly in the operating expenses of the Finnish Defence Forces and expenditure related to the procurement of armaments. The appropriations for the Finnish Defence Forces will increase by 18%, which represents approximately 1.2 percentage points of the growth in total expenditure.

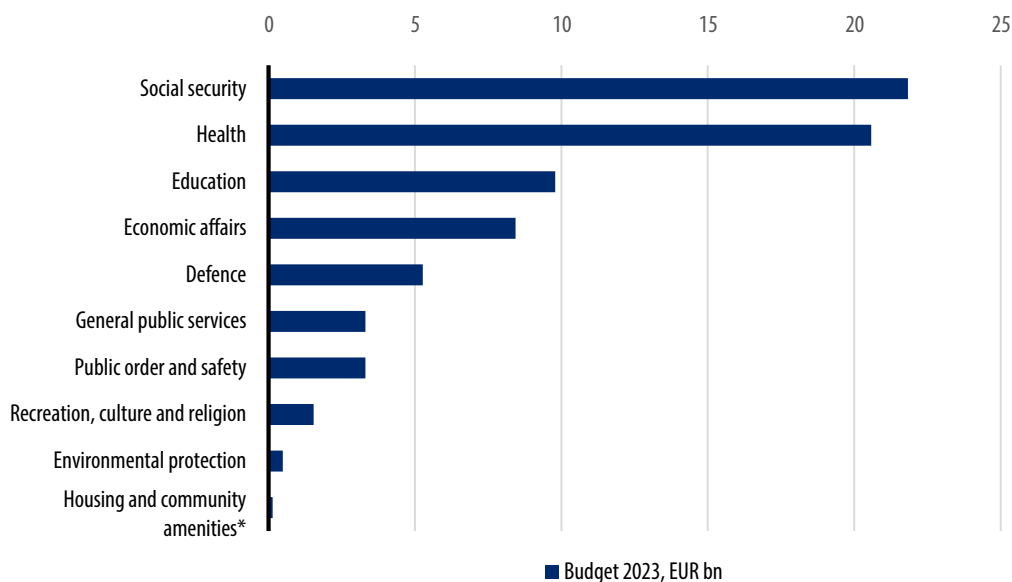
Social security expenditure will increase by 5.4% in spite of the good employment situation being reflected in a decline in employment-related expenditure. Expenditure is increased by cost-of-living index increases related to pensions and the growth of appropriations related to refugees and asylum seekers entering Finland from Ukraine due to Russia's war of aggression.

In the 2023 Budget, debt servicing costs on the central government's loans will increase by approximately EUR 1 billion compared to the actual 2022 budget. Expenditure related

to the servicing of general government debt increase total on-budget expenditure by approximately 1.5 percentage points.

With regard to expenditure related to the promotion of business and industry, the decrease is particularly attributable to the discontinuation of various support measures related to the COVID-19 pandemic.

Diagram 6. Appropriations in the budget proposal for 2023 by function (COFOG), EUR billion



* 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 the central government level, Finland is projected to contribute approximately EUR 2.5 billion to the EU budget and the European Development Fund in 2023. Finland's contributions will be EUR 125 million lower than the figure budgeted for 2022. Finland is expected to receive approximately EUR 1.8 billion in revenue from the EU budget, which is approximately EUR 190 million more than the projected figure for 2022. 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 2021–2023, EUR million

CENTRAL GOVERNMENT EXPENDITURE	Final accounts 2021	Budget 2022	Budget 2023
On-budget finances			
VAT payment	286	294	304
Plastic payment	69	69	60
GNI payment	2,221	2,242	2,134
EU PAYMENTS TOTAL	2,576	2,605	2,498
European Development Fund	57	47	29
Total	2,633	2,652	2,527
On-budget finances			
Agricultural support	524	530	531
Rural development support	425	370	340
Subsidies from structural funds and cohesion funds	200	220	257
Customs duties and other levies	48	48	50
Revenues from the recovery and resilience facility	271	355	521
Other revenue	37	46	59
Off-budget finances	1,131	1,521	1,568
Intervention Fund of Agriculture	0.0	0.1	0.1
Fund for Agricultural Development	0.0	0.0	0.0
Total	1,505	1,569	1,759
Customs duties, agricultural payments and sugar payments collected on behalf of the EU	205	205	214

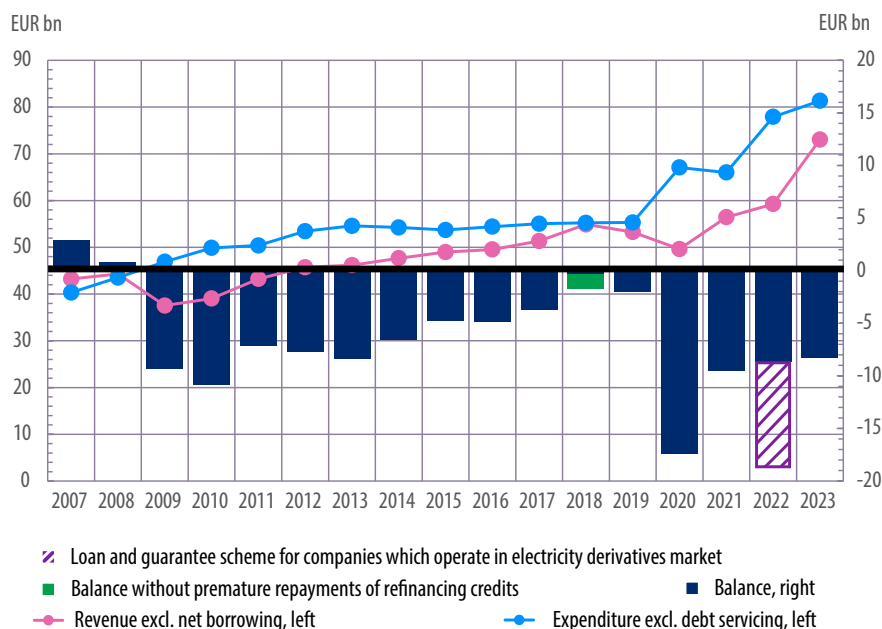
The year 2023 is the third year of the EU Multiannual Financial Framework period 2021–2027. The Commission proposed new sources of Union funding, i.e. new own resources, in December 2021. The proposals concerned auctioning revenues from the EU Emissions Trading System, revenue from the carbon border mechanism and a national market share

of the reallocated residual profits of multinational companies. The aim of the new own resources is primarily to alleviate future pressures on national membership fees resulting from the repayment of funds borrowed under the Recovery and Resilience Facility. However, the entry into force of the new own resources is subject to a unanimous decision by the Member States and ratification by the national decision-making bodies.

Deficit

The balance of central government on-budget activities will decline by approximately EUR 1 billion compared to the actual 2022 budget. The 2023 Budget is approximately EUR 8.3 billion in deficit, which will be covered by increased borrowing. Central government on-budget activities have shown a deficit since 2009. In 2020 and 2021, the on-budget deficit was significantly increased by costs related to the COVID-19 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 2008–2023, EUR billion

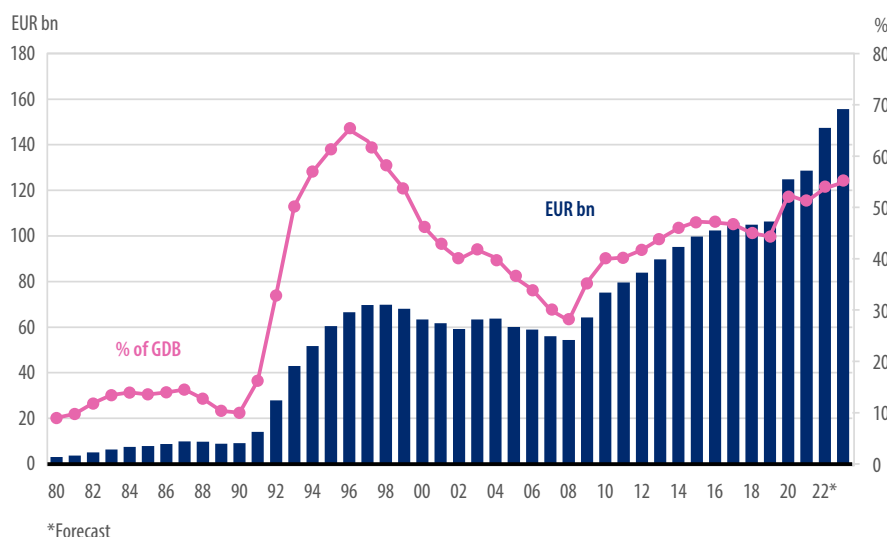


Debt

At the end of 2023, central government debt (including the debt of off-budget entities) is expected to amount to approximately EUR 156 billion, which is about 55% of GDP.

Following the third supplementary budget of 2022, the debt estimate increased by EUR 10 billion due to preparation for significant loan granting needs, but there is considerable uncertainty with regard to the number of loans granted by the central government to electricity companies and their subsequent repayment. Interest expenses on central government debt are estimated to be approximately EUR 1.5 billion, which is about EUR 1 billion more than in the actual 2022 budget. Diagram 8 illustrates the trend of central government debt.

Diagram 8. Central government debt 1980–2023



4.2 Excerpts from tax and appropriation decisions in the 2023 Budget

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 637 million. The aim of the index adjustment is to avoid an increase in the tax burden as a result of a progressive tax system and higher income level.

The most significant tax criteria change affecting tax revenue in 2023 is the health and social services reform. As part of the reform, the responsibility for organising healthcare, social services and rescue services will be transferred from municipalities to the wellbeing

services counties and the responsibility for funding the services will be transferred from municipalities to central government. Municipal revenue will be decreased in line with the transferred expenses by reducing central government transfers to municipalities, central government compensation for tax revenue losses, the municipal share of corporate tax revenue and municipal income tax. The central government's share of corporate tax revenue will increase and the central government's taxation of earned income will be increased to offset the reduction in municipal income tax. In total, municipal tax revenue will be reduced by approximately EUR 14.8 billion and the central government's tax revenue will be increased by approximately EUR 14.5 billion. The central government's taxation of earned income will be reduced by about EUR 0.37 billion so that earned income taxation will not increase due to the tax reforms associated with the reform of health, social and rescue services. The disability deduction in central government taxation will be discontinued in connection with the tax reforms associated with the reform of health, social and rescue services.

The value-added tax rate for electricity will be reduced to 10% from December 2022 to April 2023, which will reduce the central government's tax revenue by an estimated EUR 290 million. The value-added tax rate for passenger transport services will also be reduced, to 0%, from January 2023 to April 2023, which will reduce the central government's tax revenue by EUR 60 million. In addition, a fixed-term tax credit for electricity costs, linked to the tax credit for household expenses, will be implemented. This will reduce annual tax revenue by EUR 245 million.

The gradual increase in the earned income deduction for people aged 60 or over will reduce central government tax revenue by an estimated EUR 73 million. The lowering of the deductible for commuting expenses paid by those returning from family leave will reduce central government tax revenue by an estimated EUR 3 million. The fixed-term increase to the travel expenses deduction will be extended, which will reduce central government tax revenue by an estimated EUR 17 million. In response to a report by the Finance Committee, an R&D tax incentive based on an extra deduction will be introduced. This will reduce the central government's annual tax revenue by approximately EUR 80 million. Furthermore, municipalities' share of corporate tax revenue will be increased to compensate for the reduction in early childhood education and care fees and the increase in the private childcare allowance, which will reduce annual tax revenue by an estimated EUR 100 million.

The tax deduction for interest paid on housing loans will be eliminated entirely. The taxation of profits derived from indirect real estate investments will be expanded. The rules governing the limitation of interest deductions will be reformed.

In 2023, tax subsidies for paraffinic diesel will be eliminated, waste tax will be increased, tax subsidies for heating biogas will be reduced, the gradual elimination of excise duty

refunds to energy-intensive companies will continue, and the semiannual increases to excise duties on tobacco will also continue. These measures are estimated to increase tax revenue by a net total amount of approximately EUR 116 million. In addition, the halving of fairway dues and the fixed-term reduction to lottery tax will continue.

General public services (including the foreign service)

Appropriations of EUR 145 million are allocated for the operating expenditure of the Prime Minister's Office, representing an increase of EUR 12 million compared to 2022. The increase is due to, among other things, the post-renovation rent of the Government Banquet Hall Smolna (EUR 2.1 million) and the cyber security package (EUR 4.7 million). An increase of EUR 3.8 million is allocated for the harmonisation of the Government's basic information technology.

Appropriations totalling EUR 1.2 billion are allocated for international development cooperation. Development cooperation appropriations are estimated to amount to approximately 0.41% of gross national income in 2023. EUR 10 million is allocated to increasing the capital of Finnfund, and approximately EUR 130 million to financial investments in development cooperation.

To support the implementation of the Government Programme, appropriations totalling approximately EUR 2.7 million are allocated for the reform of legislation governing sexual offences, approximately EUR 0.8 million in total for enhancing the implementation of restraining orders, and approximately EUR 1.1 million in total for the expedited processing of crimes against minors.

An increase of EUR 12 million is allocated for safeguarding the administration of justice, divided between different authorities in the administrative branch of the Ministry of Justice. An appropriation of EUR 3 million is allocated for shortening the proceedings for environmental, land use and construction cases in the administrative courts. An appropriation of EUR 2.5 million is allocated to courts of law in relation to the wellbeing services counties starting their operations.

An appropriation of approximately EUR 1.5 million is allocated to the Criminal Sanctions Agency to cover resource needs related to the prohibition of smoking in the indoor areas of closed prisons. An appropriation of approximately EUR 1.1 million is allocated to National Enforcement Authority Finland for the implementation of sanctions arising from Russia's invasion of Ukraine.

An increase of EUR 8.5 million is allocated to conducting elections. Both parliamentary elections and elections to the Sámi Parliament will be held in 2023. Approximately

EUR 3.3 million is allocated to reforming the Election Information System as part of the cyber security package.

A total of EUR 627 million is allocated for the operating expenditure of the Tax Administration and Customs. This expenditure includes EUR 37 million allocated to the operating expenses of the National Incomes Register and the development of the positive credit information register, and a one-off allocation of approximately EUR 1.7 million for the Tax Administration's implementation projects concerning mineral mining tax and solidarity tax on energy companies. The operating expenditure of Customs also includes EUR 14 million allocated to the comprehensive reform of customs clearance systems.

A total of EUR 128 million is allocated to statistical services, government economic research and register management. This amount includes EUR 53 million for the operating expenses of Statistics Finland, EUR 4.4 million for the operating expenses of the VATT Institute for Economic Research and EUR 63 million for the operating expenses of the Digital and Population Data Services Agency. An appropriation of EUR 8 million is allocated to expenditure related to electronic identification.

Defence

Appropriations of EUR 6.1 billion are allocated to the administrative branch of the Ministry of Defence, which is EUR 1.0 billion more than in the actual 2022 budget. Of this increase, EUR 753 million is due to the changes in Finland's security environment.

Appropriations of EUR 1,585 million are allocated to the procurement of armaments, which is EUR 765 million more than in the actual 2022 budget. In addition to the changes in the security environment, the appropriations take into account price level adjustments and changes in the timing of expenditure.

An appropriation of EUR 1.4 billion is allocated to the procurement of multirole fighters, of which approximately EUR 1.0 billion is the planned payment share of the HX 2021 order authorisation, EUR 99.6 is a predictive cost-level adjustment in preparation for future index expenditure, EUR 18.7 million is a purchasing power adjustment and EUR 271.2 million is preparation for potential exchange rate losses in the HX project.

Finland's NATO membership

The unavoidable and certain costs arising from Finland's observer membership of NATO and the process of applying for full NATO membership, which cannot be covered by existing appropriations, total approximately EUR 42 million. In addition, EUR 15 million has been allocated to the administrative branch of the Ministry of Finance for expenses

arising from NATO membership for which the preparations are yet to be completed. An appropriation is allocated to prepare for information management and information system costs arising from NATO membership, the costs of changes to operating premises due to security requirements, and other unanticipated and unavoidable expenses arising from NATO membership.

Finland's contributions to the common funding of NATO total EUR 27.4 million. Finland's contributions are divided into three separate budgets: the civil budget, the military budget and the NATO Security Investment Programme.

EUR 1.7 million is allocated to the Prime Minister's Office for the Government's shared tasks and services related to NATO.

An increase of approximately EUR 1.6 million is allocated to the Foreign Service for the purpose of NATO-related duties in the network of diplomatic missions, corresponding to 10 person-years. An appropriation of EUR 4.5 million is allocated to relocating the Mission of Finland to NATO to NATO headquarters.

An appropriation of EUR 1.2 million is allocated to the Finnish Border Guard for expenditure arising from joining NATO.

It is proposed that, at this stage of the membership process, the human resources of the Defence Forces be increased by EUR 2.46 million, corresponding to 22 new positions. An increase of EUR 1.85 million is also allocated to the appropriations for the Ministry of Defence. These funds would be used to establish 16 new positions, 11 of which would be related to needs arising from NATO membership.

Public order and safety

Appropriations totalling approximately EUR 924 million are allocated to the Police, which includes the previously decided EUR 8 million increase aimed at achieving the target of 7,500 person-years for the Police, as well as an appropriation of EUR 9 million in accordance with the spending limits decision made in the spring, and an increase of approximately EUR 40 million, to maintain the operational level of the Police. The increases are allocated to maintaining the operations of the Police, implementing Government proposals, operating premises expenses and ICT expenses.

Appropriations totalling EUR 630 million are allocated to the Finnish Border Guard, which is EUR 350 million more than in the actual 2022 budget. The increases are primarily related to resource increases in border security and preparedness. An appropriation of EUR 139

million is allocated to the Finnish Border Guard for the construction costs of the Priority 1 phase of the eastern border barrier fence.

Appropriations totalling EUR 101 million are allocated for the operating expenses of rescue services, Emergency Services Academy Finland and the Emergency Response Centre Agency. An increase of EUR 2.35 million is allocated to the Emergency Response Centre Agency for the modernisation of the emergency messaging system.

An appropriation of EUR 59.8 million is allocated to the rescEU strategic reserves project, which is part of the EU's rescue services mechanism. The accumulation of strategic reserves under the project involves the procurement of protective equipment and therapeutic agents for use by the EU in the event of chemical, biological, radiological and nuclear accidents. The project, which will continue until 2026, is funded by the European Commission except for value-added tax expenditure.

Business and industry issues

The implementation of Finland's CAP plan 2023–2027 as part of the implementation of the EU's common agricultural policy will begin in 2023. Rural development appropriations will decrease by EUR 30.3 million to EUR 444.7 million. The change is mainly due to changes in appropriations under support and compensation systems at the beginning of new support programme periods. Appropriations for agriculture and food production will decrease by EUR 31.4 million to EUR 1.79 billion compared to the previous year's actual budget, which is mainly due to changes related to the timing of the funding of support programmes and the beginning of new support programme periods.

Appropriations of approximately EUR 1.92 billion are allocated for transport and communication networks, with basic transport infrastructure management representing EUR 1.3 billion of that total. In basic transport infrastructure management, priority will be given to measures required to ensure the daily functioning of the transport network as well as halting the growth of the repair debt. An increase of EUR 50 million to the appropriations for basic transport infrastructure management is allocated due to the rise in costs. An appropriation of EUR 31.1 million is allocated to the project to improve the Karelian railway. As part of the agreement on land use, housing and transport between the City of Helsinki and the central government, a budget authorisation of EUR 105 million is allocated to the Vihdintie light rail construction project.

Appropriations totalling EUR 609 million are allocated to the development of the transport infrastructure network, comprises ongoing transport infrastructure projects including life cycle projects (EUR 523 million), the acquisition of land and water areas necessary for new transport infrastructure (EUR 35 million), transport infrastructure construction grants

and private road grants (EUR 48 million) and grants to promote walking and cycling (EUR 3.75 million). The Poikkimaantie road project in Oulu will start as a new project that is conditional on Stora Enso's decision on a major investment.

Appropriations totalling EUR 830 million are allocated to transport and communication services. Of that total, EUR 89 million will be allocated to improving the competitiveness of vessels engaged in maritime transport, EUR 28.1 million to grants for transport and communication services, and EUR 17.9 million to procurement and development activities related to archipelago and commuter vessel traffic. An appropriation of EUR 101.7 million is allocated to procurement and development activities related to public passenger traffic.

EUR 2.1 million will be transferred to the operating expenses of the Employment and Economic Development (TE) Offices for expenditure arising from the continuation of municipal employment pilot projects. In addition, EUR 2.5 million is allocated to making ONNI activities permanent.

A budget authorisation of EUR 470 million is allocated to Business Finland to support research, development and innovation activities. This includes an increase of EUR 9.5 million to extend the audiovisual production subsidy in 2023. This incentive aims to attract foreign production companies to carry out their productions in Finland and to promote internationally funded projects, in particular.

EUR 150 million is allocated to aid for the electrification of energy intensive industry. This electrification aid compensates the indirect costs caused to the price of electricity from emissions trading in sectors where the risk of carbon leakage is significant.

An appropriation of EUR 100 million is rebudgeted for increasing the equity of the Climate Fund. An appropriation of EUR 90 million is allocated to capital funding for Business Finland Venture Capital Oy for the purpose of direct equity investments that include state aid and are related to industrial policy and economic policy.

EUR 7 million is allocated to capital funding for Työkanava Oy, which includes expanding its operations to Eastern Finland, and EUR 10 million is allocated to promoting the labour market participation of people with partial work capacity. The company recruits people with partial work capacity for longer-term employment relationships.

EUR 22 million is allocated to promoting employment and extending working careers among people over 55 years of age through transition security training.

A total of EUR 3.5 million is allocated to continuing the activities of guidance and counselling services for migrants and the multidisciplinary centres of expertise in municipalities. An

increase of EUR 4.8 million is allocated to the operating expenses of Employment and Economic Development (TE) Offices, and an increase of EUR 21.5 million is allocated to integration training, to ensure the provision of services for Ukrainian jobseekers.

The refugee quota for 2023 is 1,050 persons. An increase totalling EUR 4.7 million is allocated to central government compensation for the promotion of integration in relation to increasing the refugee quota for 2022 to 1,500 persons and increasing the refugee quota for 2023 to 1,050 persons.

Environmental protection and conservation

An increase of EUR 13.9 million is allocated to the operating expenditure of Centres for Economic Development, Transport and the Environment (ELY Centres). The increase is related to a number of new responsibilities, such as the implementation of the Climate Act and the Drinking Water Directive, monitoring required by the CAP27 reform, tasks due to the reform of the Nature Conservation Act and the processing of grants to encourage the relinquishment of oil and gas heating in single-family houses. Resources for environmental permit procedures will also be increased as part of enhancing permit procedures related to the green transition.

The condition of the network of nature conservation areas will be improved by continuing the implementation of the Forest Biodiversity Programme for Southern Finland (METSO) and the Helmi Habitats Programme. The implementation of the national commitments required by the EU's biodiversity strategy will begin. The strategy and action plan for the conservation and sustainable use of biodiversity in Finland will be implemented. The increase in budget appropriations for nature conservation during the government term is EUR 108 million per year on average.

The programme to enhance the effectiveness of water protection will be continued by supporting the implementation of effective and cost-efficient waterways and marine management measures through multilateral cooperation, for which an appropriation of EUR 24 million is allocated.

Appropriations of EUR 32 million are allocated to support for nutrient recycling with the particular aim of improving Finland's self-sufficiency with regard to nutrients and energy. In addition, EUR 4 million is allocated to promote nutrient recycling by means of biogas production. The Climate Act obligates municipalities to draft a climate plan, and appropriations of EUR 2.6 million are allocated to supporting the drafting of the plans.

Housing and communities

To increase state-subsidised rental housing production, fixed-term start-up grants totalling at most EUR 39 million are allocated to the municipalities that are part of the land use, housing and transport (MAL) agreement. In the MAL agreement areas, housing production will also be promoted by public utility grants, with appropriations of at most EUR 25 million allocated to these grants. Interest subsidy authorisations totalling EUR 1,950 million are allocated to state-subsidised social housing production. A majority of state-subsidised housing production will be allocated to the largest growth centres, particularly the Helsinki region. Appropriations totalling at most EUR 120 million are allocated to investment grants for improving the housing supply for the most vulnerable groups.

A total of EUR 69.1 million in energy grants will be allocated from the National Housing Fund to promote energy efficiency and the transition to low-temperature district heating. An increase of approximately EUR 30 million is allocated to authorisations to grant funds for improving the energy efficiency of residential buildings.

Appropriations of EUR 45.6 million are allocated to relinquishing oil and gas heating in single-family houses, and appropriations of EUR 10 million are allocated to supporting EV charging infrastructure in residential buildings and workplaces. EUR 10.9 million is granted to municipalities for phasing out oil heating.

Appropriations of EUR 4.3 million are allocated to expanding housing counselling, with EUR 4 million of that amount allocated to grants.

Healthcare

The finances of the wellbeing services counties are discussed in section 4.4.

Funding of EUR 67.5 million is allocated to student healthcare implemented by the Finnish Student Health Service. The level indicated in the subsection will be increased by EUR 0.7 million on the basis of the entry into force of the care guarantee on 1 September 2023, and by EUR 1 million for the payment of discretionary government grants related to improving mental health services for supporting the wellbeing of students in higher education.

A discretionary government transfer of EUR 36.6 million is allocated to FinnHEMS Oy for the production of air ambulance and medical helicopter operations. The increase of EUR 3.64 million in the appropriation is due to the reorganisation of flight operations and the implementation of new bases.

Appropriations of slightly under EUR 78.5 million are allocated to promoting health and functional ability, which represents an increase of EUR 40 million compared to the actual budget for 2022. The following changes are made with regard to the procurement of vaccinations: EUR 35.0 million for the additional procurement of COVID-19 vaccinations and EUR 6 million for influenza vaccinations. An increase of EUR 5.3 million is allocated to the central government's share of expenditure arising from the Health Insurance Act due to the continuation of temporary COVID-19 exceptions in 2023 with regard to COVID-19 research and vaccination.

Appropriations of EUR 373.6 million are allocated to grants for communities and foundations to promote health and social wellbeing, which represents an increase of EUR 11.2 million compared to the actual budget for 2022. In the administrative branch of the Ministry of Social Affairs and Health, EUR 50 million of the compensation for 2023 will be implemented by releasing unallocated proceeds, and EUR 64.25 million by means of compensation through budgetary funding.

An appropriation of EUR 0.84 million is allocated to establishing a National Child Strategy function.

Ensuring the availability of healthcare and social welfare personnel

Appropriations totalling EUR 2 million are allocated to the programme to ensure the availability and sufficiency of healthcare and social welfare personnel.

An increase of approximately EUR 10.8 million is allocated to care assistant training funded by the Service Centre for Continuous learning and Employment (Jotpa). The aim is to use this appropriation to train 1,500 new care assistants in 2023–2025. An increase of EUR 7.8 million is allocated to labour market training funded by central government transfers with a view to training 1,000 new care assistants in 2023–2025.

An increase of EUR 5.5 million is also allocated to the operating expenses of the Service Centre for Continuous Learning and Employment to be used for education and training targeted at Ukrainians.

EUR 12 million is allocated to traineeship compensation connected to Bachelor's degrees in healthcare and social welfare. In future, compensation would be paid to traineeship organisers from state funds based on imputed criteria, whereas previously it was paid by universities of applied sciences.

Recreation and culture

In line with earlier decisions, EUR 14.5 million is allocated to recreational activities for children and young people. The Finnish model of recreational activities brings more recreational activities to school days for children and young people. The activities are selected based on the wishes expressed by the students.

Appropriations of EUR 609.5 million are allocated to arts and culture, which is EUR 4.5 million more than in the actual 2022 budget.

The proceeds of Veikkaus Ltd for sports and physical education, science, art and youth work amount to EUR 404.4 million, which includes the impact of the reduction in lottery tax (EUR 42.4 million). Moreover, a total of EUR 2 million in non-distributed proceeds will be entered as revenue, and the reduction in proceeds will be compensated by EUR 147.5 million.

An appropriation of EUR 4.3 million is allocated to the renovation of Turku Cathedral. EUR 600,000 is allocated to project preparation, planning and the preparation and start-up of operations of the Museum of Architecture and Design, and EUR 2 million is allocated to the capitalisation of the foundation for the Museum of Architecture and Design.

EUR 155 million is allocated to appropriations for sports and physical activities, which is EUR 2 million less than in the actual 2022 budget. Physical activity and elite sports will continue to be promoted in 2023 as outlined in the Government Programme and in the implementation of the Report on Sports Policy.

Appropriations of approximately EUR 78 million are allocated to youth work, which is EUR 3.7 million less than in the actual 2022 budget.

Education

Appropriations of EUR 924 million are allocated to general education and early childhood education and care, which is approximately EUR 38 million more than in the actual 2022 budget.

The implementation of the extension of compulsory education and free upper secondary education will continue, with EUR 102 million being allocated to the reform for 2023. From 2023 onwards, a permanent sum of EUR 50 million is allocated to strengthening the financing base of vocational education and training. To respond to the changes in the staffing level for nurses, EUR 30 million is allocated to the training of new practical nurses in accordance with a previous decision, and EUR 5 million is allocated to a trial to restructure the training compensation for apprenticeship training.

A budget authorisation of EUR 427.5 million is allocated to the research projects of the Academy of Finland, including a budget authorisation of EUR 4.75 million in accordance with the EU's Recovery and Resilience Plan. As part of the package of central government investments in R&D, an increase of EUR 56.5 million in the budget authorisation for research projects by the Academy of Finland is allocated from 2023 onwards. An increase of EUR 5 million is allocated from 2023 onwards to boosting the R&D activities of universities of applied sciences. The number of student places in the most popular disciplines will be increased in the universities located in eastern Finland. In addition, research infrastructure will be strengthened, for example by increasing funding for research and development activities. A total of EUR 10 million is allocated to the packages mentioned above.

EUR 751 million is allocated to student financial aid, which is EUR 48 million more than in the actual 2022 budget. The thresholds for student income will be raised by 50% from the level of 2021, effective from 1 January 2023.

An appropriation of EUR 6.3 million is allocated to additional student places for teachers in early childhood education and care. This funding will increase student places by 300 on a one-off basis.

The Government has decided to increase the amount of B1 language studies in basic education by one weekly lesson per year. EUR 1 million is allocated to curriculum development efforts in 2023.

Social security (including earnings-related pensions)

Appropriations of around EUR 4.6 billion are allocated to the equalisation of family and housing costs, basic social assistance and certain services, which is EUR 155 million more than in the actual 2022 budget. This increase is mainly due to a change in the estimated spending need for housing allowance and increases in the operating costs of the Social Insurance Institution of Finland.

The clarification of the reconciliation of part-time studies with unemployment benefits, as decided by the Government, and allowing job-seekers to study and develop their competencies more broadly than before without the risk of losing their unemployment benefits, will increase the central government's share of unemployment security expenditure by EUR 5 million in 2023.

EUR 2.3 billion is allocated to health insurance, which is EUR 124 million more than in the actual 2022 budget. The increase is due to changes in the health insurance needs assessment. The appropriations allocated to health insurance take into account EUR

1 million in government remuneration for the costs of urgent care for undocumented migrants.

Appropriations totalling EUR 10.6 billion are allocated for pensions paid by the central government in the administrative branches of the Ministry of Finance and the Ministry of Social Affairs and Health. Pension expenditure is approximately EUR 0.4 billion higher than in the actual 2022 budget.

Changes are proposed to the review and verification of entrepreneurs' earnings-related pension income from 2023 onwards. The proposed changes aim to ensure that earned income is not set at too low a level in relation to the value of the entrepreneur's labour input. The amount of earned income under the Self-Employed Persons Pensions Act would be defined more accurately than now, and by way of obligating pension institutions to regularly review the earned income under the Act as regards the insurances in force. It is estimated that the increase in income from insurance contributions would amount to about 6%, which would reduce the central government's share of entrepreneurs' pension expenditure by EUR 16.3 million in 2023.

Preparedness

A total of approximately EUR 2.3 billion in appropriations for 2023 are allocated to expenditure arising from Russia's invasion of Ukraine, similarly to 2022. The Government decided on most of these appropriations already in April 2022 in connection with the General Government Fiscal Plan, making an exception to the spending limits for them. The expenditure under the escape clause will be covered as expenditure outside the spending limits.

Finland's security environment has changed as a result of Russia's invasion of Ukraine, which requires measures to strengthen defence capabilities. Based on this, appropriations totalling approximately EUR 788 million (excluding value-added tax expenses) are allocated to the administrative branch of the Ministry of Defence. Of these appropriations, approximately EUR 129 million are allocated to the operating expenditure of the Finnish Defence Forces, and approximately EUR 656 million are allocated to the procurement of armaments. The increase in resources includes the cancellation of cost savings of EUR 35 million previously decided on in spring 2021 with regard to the administrative branch of the Ministry of Defence.

EUR 48 million is allocated to the Border Guard for developing resilience and key capabilities, EUR 163 million for the procurement of new surveillance aircraft, and EUR 139 million for the Finnish Border Guard for the construction costs of the Priority 1 phase of the eastern border barrier fence.

Approximately EUR 59 million is allocated to the improvement of cyber security preparedness. The proposals are allocated to several administrative branches and numerous government agencies.

An appropriation of approximately EUR 241 million is allocated to the package concerning security of supply, energy self-sufficiency and clean technologies. These measures include energy investments by rural companies (biogas), support for the agricultural use of wetlands, hydrogen projects, energy aid schemes, financial support for housing companies to provide charging infrastructure for electric cars, and subsidies for phasing out oil and gas heating in residential buildings to switch to other forms of heating. Subsidies for private roads, in turn, aim to ensure the availability of domestic wood. In addition, the package includes EUR 225 million in budget authorisations for 2023 with respect to energy aid schemes, hydrogen projects and the National Battery Strategy. These authorisations will have an impact on appropriations for several years.

Approximately EUR 15 million is allocated for 2023 for the impacts on appropriations of the measures taken in 2022 due to rising energy prices. This concerns the impact on student financial aid of the additional index increase applied on 1 August 2022, as well as fixed-term adjustments to reimbursements for travel expenses payable from health insurance due to the increase in fuel prices.

A total of 45,000 applications for temporary protection had been submitted in Finland by 28 November 2022. Appropriations of approximately EUR 818 million are allocated to immigration expenses under the escape clause. Appropriations are allocated to areas including reception expenditure, financial support paid to customers, the operating expenses of the Finnish Immigration Service, integration reimbursements and basic education, preparatory education and early childhood education and care. In addition, appropriations are allocated to, among other things, integration training, benefit expenditure and, to the Ministry of Justice, expenditure related to the legal protection of asylum seekers and family reunification. There is considerable uncertainty involved in the aforementioned expenses. The need for appropriations will depend, among other things, on the number of arrivals and whether they find employment. Another factor is the number of beneficiaries of temporary protection who will apply for, and be granted, a municipality of residence when that becomes possible. The need for appropriations is based on an estimate according to which 48,000 applications for temporary protection would be submitted in 2022, with a further 30,000 applications submitted in 2023. The estimate will be updated as necessary.

Appropriations of EUR 30 million are allocated to support for Ukraine, of which EUR 10 million will be covered by existing appropriations in the administrative branch of

the Ministry for Foreign Affairs. In addition, EUR 5 million is allocated to civil material assistance for Ukraine.

Measures to support purchasing power

The budget includes several measures to support citizens' purchasing power in response to the exceptionally rapid rise in consumer prices. Early childhood education and care fees will be reduced permanently effective from 1 March 2023. The change will reduce the fee income of municipalities by EUR 70 million. In addition, the private childcare allowance will be increased by EUR 100. The effects of both measures on municipalities will be compensated by increasing the apportioned share of corporation tax revenue.

The child increase in unemployment security will be raised by 20% and the basic social assistance for children under 18 years of age be raised by 10% for 2023. An increase of EUR 10 per month is allocated to the family provider increment to the study grant and EUR 5 per month to the single-parent increment to the child benefit for 2023. Approximately EUR 49 million is reserved for these measures. No index increase will be made to the annual maximum limit on out-of-pocket prescription costs in 2023, which will increase central government expenditure by approximately EUR 8.7 million.

Value-added tax on passenger transport will be reduced to zero between January and April 2023. This will reduce the value-added tax revenue of the central government by an estimated EUR 60 million.

Mitigating the impact of high electricity prices

To mitigate the impact of high electricity prices, the value-added tax rate on electricity will be lowered to 10% for the period from December to April. This will decrease the value-added tax revenue of the central government by an estimated EUR 209 million. In addition, a fixed-term tax credit linked to the tax credit for household expenses will be implemented as an income tax measure. The estimated effect of this measure on tax revenue (all tax recipients) is EUR 245 million. It is proposed that the increased price of electricity be compensated by separate fixed-term financial support for households that cannot take advantage of the electricity deduction in taxation. Funding of EUR 85 million is allocated to the financial support for electricity. Additional funding of EUR 6 million to the Social Insurance Institution of Finland is also proposed for the purpose of implementing the financial support for electricity.

Amendments will also be made to the expenditure norm of the heating category for the general housing allowance and to the expenditure norm of the maintenance category for single-family houses. The expenditure norm of the heating category for the housing

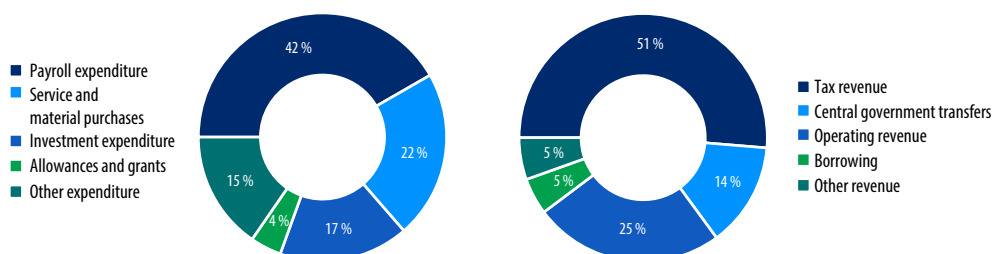
allowance for pensioners will be raised as of 1 January 2023 under existing legislation. The increase that the rising energy prices is expected to generate is estimated at 57 percent. The expenditure norm of the heating category for the general housing allowance and the expenditure norm of the maintenance category for single-family houses will be raised by a corresponding percentage as of 1 January 2023. The additional costs for 2023 are estimated at approximately EUR 6.3 million.

4.3 Municipal 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 municipal finances programme¹ and Chapter 10 of the general rationale of the budget proposal describe the state of municipal finances and the impact of central government measures on municipal finances in further detail.

In 2023, municipalities' revenue is expected to consist of their own tax revenue (51%), operating income (25%), central government transfers (14%) and other revenue (10%; including borrowing). It is estimated that 42% of the municipalities' expenditure will be allocated to wages and salaries, 22% to procurement of services and materials, 17% to investments, 4% to grants and 15% to other expenditure. The distribution of municipalities' revenue and expenditure is illustrated in Diagram 9.

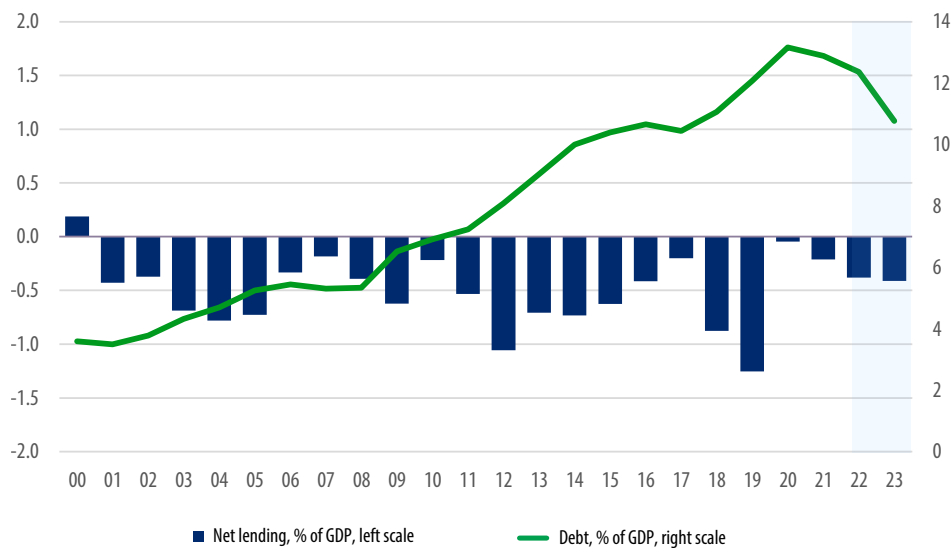
Diagram 9. Distribution of municipalities' revenue and expenditure in 2023, %. Source: Ministry of Finance



1 <http://urn.fi/URN:ISBN:978-952-367-232-1>

The development of the deficit and debt is illustrated in Diagram 10. The diagram shows that net lending in the municipal sector is projected to be -0.4% of GDP in 2023 and debt around 10.8% of GDP. These are described in more detail in chapter 2.3 of the Ministry of Finance's Economic Survey for December 2022.

Diagram 10. Net lending and debt in the municipal sector, % of GDP. Source: Statistics Finland, Ministry of Finance



Central government transfers and grants to municipalities will be approximately EUR 5.4 billion in 2023. Of that total, imputed central government transfers will be EUR 4.0 billion, compensation for municipalities' tax losses EUR 0.9 billion and other central government aid EUR 0.5 billion. Central government transfers and grants to municipalities will be reduced substantially, by a net amount of approximately EUR 7.6 billion. Some 70% of the central government transfers to municipalities for basic public services and compensation for tax revenue losses will be transferred to funding for the wellbeing services counties, and discretionary government transfers in the administrative branch of the Ministry of Social Affairs and Health will be primarily allocated to the wellbeing services counties going forward. At the same time, central government transfers to municipalities in the administrative branch of the Ministry of Education and Culture will increase slightly. The index increase for 2023 will increase central government transfers for basic public services by EUR 89 million and central government transfers to municipalities in the administrative branch of the Ministry of Education and Culture by EUR 29 million.

Changes in municipalities' tasks and obligations are taken into account in determining the amount of central government transfers. New measures in 2023 include the model for engaged school community work (EUR 3.3 million) and monitoring tasks related to the Drinking Water Directive. As part of the reallocations decided on by the Government, the level of central government transfers for basic public services will be reduced permanently by EUR 33 million in 2023.

Additional funding is allocated for the costs of early childhood education and care and basic education for persons in temporary protection.

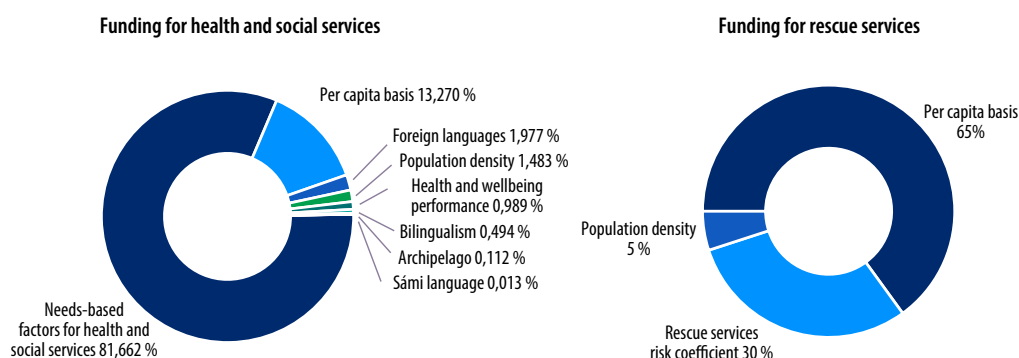
The net effect of the central government's measures on municipal finances is close to neutral compared to the actual 2022 budget. The increases in tasks and obligations in accordance with the Government Programme have mostly been carried out in the preceding years, and some of the fixed-term increases to discretionary government grants will expire at the end of 2022. The central government's discretionary measures will increase municipal expenditure by a total of approximately EUR 700 million at the 2023 level, calculated from the beginning of the parliamentary term. At the same time, the decisions will increase municipal revenue by a total of EUR 600 million at the 2023 level. Some of the measures decided on for 2023 are fixed-term measures related to helping persons arriving from Ukraine, among other things.

4.4 Finances of the wellbeing services counties

The transfer of the responsibility for organising healthcare, social and rescue services and the related changes pertaining to the funding system will enter into effect on 1 January 2023. The universal funding of the wellbeing services counties will total approximately EUR 22.5 billion in 2023. The wellbeing services counties will finance their activities mainly with central government funding and they have no right to levy taxes. The determination of central government funding for the wellbeing services counties is illustrated in Diagram 11.

Diagram 11. Criteria for determining the funding of the wellbeing services counties, %.

Source: Ministry of Finance.



Pursuant to section 37 of the Act on the Funding of Wellbeing Services Counties (617/2021), half of the January instalment of the wellbeing services counties' funding for 2023, amounting to approximately EUR 1.9 billion, was paid in December 2022. The transfers to be paid in 2023 will total approximately EUR 20.6 billion.

The funding of the wellbeing services counties will primarily consist of transfers made from the central government transfers to municipalities for basic public services (approx. EUR 5.36 billion) and compensation for municipalities' tax losses (approx. EUR 1.94 billion) and an increase corresponding to the increase in central government tax revenue and corporate tax resulting from tax criteria changes associated with the reform. The transfer of funding from municipal tax revenue will amount to approximately EUR 13.93 billion, of which the share of municipal taxes is approximately EUR 13.11 billion and corporate tax approximately EUR 0.82 billion at the 2022 level.

The index increase to the funding of the wellbeing services counties in 2023 will be 3.52% (approximately EUR 756 million). The cost estimate of the increase in the need for health and social services is approximately EUR 253 million for 2023. The estimate of the increase in the need for health and social services takes into account the separate 0.2 percentage point increase stipulated by the Act on the Funding of Wellbeing Services Counties due to transition costs, among other things.

Statutory reforms and changes in responsibilities, such as the gradual tightening of the seven-day care guarantee in basic healthcare, the tightening of the minimum staffing requirement for care personnel and the development of informal care will have an effect of approximately EUR 250 million on the funding of the wellbeing services counties in 2023.

Discretionary government grants totalling approximately EUR 464 million will be allocated to the wellbeing services counties in 2023. The most significant single grant package (EUR 110 million) is related to measures under Finland's Sustainable Growth Programme, of which approximately EUR 100 million is allocated to the wellbeing services counties². Another significant package, totalling EUR 108 million, is central government compensation for healthcare and social welfare units for the professional specialist education of healthcare and social welfare personnel. In addition, EUR 340,000 is allocated to piloting child budgeting in the wellbeing services counties.

In addition to the statutory funding of the wellbeing services counties, individual wellbeing services counties must receive funding from the central government to secure health, social and rescue services in circumstances where operations are jeopardised by the inadequate level of funding. A separate estimated appropriation item will be established in the budget for the purpose of potential additional funding for the wellbeing services counties.

4.5 Finland's Recovery and Resilience Plan in the 2023 Budget

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.

To make use of funding from the EU's Recovery and Resilience Facility (RRF), Finland submitted its national Recovery and Resilience Plan (RRP) to the European Commission on 27 May 2021. The RRP is part of the Sustainable Growth Programme for Finland. The Commission issued its assessment of Finland's plan on 14 October 2021 and the implementing decision was approved by the Council of the EU in October 2021. In the plan submitted by Finland, the total amount of the investment proposals was EUR 2.084 billion, in addition to which a EUR 10 million increase was submitted to the Commission later for monitoring and audit costs in connection with the plan.

² https://stm.fi/-/hyvinvointialueille-valtionavustusta-sote-palveluiden-saatavuuden-ja-jatkuvuuden-lisaamiseen?language=en_US

Finland's final amount of funding under the EU's Recovery and Resilience Facility was announced in June 2022. Finland's funding decreased to approximately EUR 1.823 billion due to the Finnish economy performing better than previously projected. In June 2022, the Ministerial Working Group on Sustainable Growth in Finland outlined how Finland's Recovery and Resilience Plan will be updated to reflect the final amount of funding Finland will receive, with the 50% share for the green transition and the 20% share for the digital transformation maintained.

The Finnish Government will approve the updated Recovery and Resilience Plan. The European Commission will then assess the updated plan and, finally, the Council of the EU will approve it. Payments from the EU to the State of Finland will be based on the progress of the national plan and the achievement of the goals and milestones defined in the plan.

Funding under the Recovery and Resilience Plan will be allocated primarily to 2022 and 2023. The budget for 2023 includes EUR 561 million in expenditure included in the Recovery and Resilience Plan. The revenue estimate for funding received from the EU is EUR 391 million in 2023.

The Recovery and Resilience Plan includes four 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 the employment rate and competence levels to boost sustainable growth
- **Pillar 4:** The availability of health and social services will be improved and their cost-effectiveness will be increased.

Appropriations related to the Recovery and Resilience Plan in different administrative branches

EUR 1.0 million is allocated to the administrative branch of the Ministry for Foreign Affairs for funding the Virtual Finland service platform.

EUR 3.8 million is allocated to the administrative branch of the Ministry of the Interior for the investment package concerning the development of digital infrastructure that utilises world-class automation to support the immigration of experts.

In the administrative branch of the Ministry of Finance, EUR 1.5 million is allocated to the expenditure of the permit authorities as part of investments in new energy technology,

EUR 1.5 million is allocated to the State Treasury's operating expenses with regard to the supervision and monitoring of the

Recovery and Resilience Plan, and EUR 1.5 million is allocated to expenditure arising from research and development projects related to work ability.

In the administrative branch of the Ministry of Education and Culture, EUR 1.0 million is allocated to the development of a service system for continuous learning and the related digitalisation programme, and EUR 12.35 million is allocated to the reform of continuous learning. A total of EUR 26 million is allocated to the Academy of Finland with regard to national and local infrastructure and boosting key areas and strengthening expertise, and EUR 4.75 million is allocated to the Academy of Finland in research grant authorisations for 2023. In addition, EUR 9 million is allocated to the development of production and operating models for the cultural and creative sectors.

In the administrative branch of the Ministry of Agriculture and Forestry, EUR 2 million is allocated to the development of the Residential and Commercial Property Information System, EUR 1.5 million is allocated to the water competence growth and export programme, and EUR 3 million is allocated to climate-sustainable measures in the land use sector.

In the administrative branch of the Ministry of Transport and Communications, EUR 6 million is allocated to the development and verification phase of the Digirail project. In addition, national funding of EUR 6 million is allocated to the project. Approximately EUR 17 million is allocated to improving the quality and availability of communication networks.

Appropriations of EUR 331 million and a budget authorisation of EUR 51 million are allocated to the administrative branch of the Ministry of Economic Affairs and Employment in relation to the implementation of the EU's Recovery and Resilience Plan. A budget authorisation of EUR 283 million is allocated for energy subsidies, of which EUR 30 million is EU Recovery and Resilience Plan funding allocated to investments in new energy technology. An authorisation of EUR 470 million is allocated to Business Finland to support research, development and innovation, of which EUR 20.82 million is earmarked for the implementation of the EU's Recovery and Resilience Plan, including allocations to support the creative sectors and a support programme to address climate challenges in the real estate and construction sector.

In addition, EUR 2 million is allocated to the administrative branch of the Ministry of Economic Affairs and Employment to be used for capital funding for Työkanava Oy, with a further EUR 7 million allocated to a digitalisation project related to the Nordic employment service model. Furthermore, funding is granted to several agencies in the

administrative branch of the Ministry of Economic Affairs and Employment to support the preparation and effective implementation of various investments under the plan.

In the administrative branch of the Ministry of Social Affairs and Health, EUR 110 million is allocated to clearing the backlog in treatment, rehabilitation and services in healthcare and social welfare and speeding up access to care. In addition, EUR 8 million of RRP funding is allocated to services for supporting work ability and measures aimed at strengthening mental health and work ability.

In the administrative branch of the Ministry of the Environment, EUR 5 million is allocated to the gypsum treatment of arable land, EUR 1 million to nutrient recycling and EUR 2 million to a low-carbon built environment programme.

5 Summary

This publication examines the budget for 2023.

The economic policy of Prime Minister Marin's Government Programme aims to increase wellbeing. This means ecologically and socially sustainable economic growth, high employment and sustainable public finances. The Government's objectives are to raise the employment rate to 75% by the mid-2020s, increase the number of people in employment by 80,000 through the Government's employment-related measures by the end of the decade, and achieve a reversal in the upward trend in the general government debt-to-GDP ratio in the mid-2020s. The Government's decisions will decrease inequality, narrow income gaps and put Finland on a path towards achieving carbon neutrality by 2035.

The Government implements active and responsible fiscal policy that is scaled to the economic outlook. After the recovery from the COVID-19 crisis, the outlook of the world economy has darkened due to Russia's invasion of Ukraine, rapid inflation and the energy crisis. The budget includes measures allocated to 2023 to support the purchasing power of citizens in response to the exceptionally rapid rise in consumer prices, as well as measures aimed at mitigating the impacts of high electricity prices.

The impacts of Russia's invasion of Ukraine extend to general government finances in Finland also through the preparedness measures necessitated by the changes in the security environment. Additional expenditures of approximately EUR 2.3 billion will be allocated to these measures under an escape clause in 2023.

The appropriations in the budget for 2023 amount to EUR 81.3 billion. The central government on-budget deficit is predicted to amount to approximately EUR 8.3 billion and central government debt is expected to rise to around EUR 156 billion. Compared to the actual 2022 budget, the expenditure will increase by EUR 16.4 billion, particularly due to the reform of healthcare and social welfare services. The budget for 2023 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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