

Budget review 2024

Review on central government
budget proposal, October 2023

Economic Policy

PUBLICATIONS OF THE MINISTRY OF FINANCE – 2023:74



MINISTRY
OF FINANCE

Budget review 2024

Review on central government
budget proposal, October 2023

Publication distribution

**Institutional Repository
for the Government
of Finland Valto**

julkaisut.valtioneuvosto.fi

Ministry of Finance
CC BY-NC-ND 4.0

ISBN pdf: 978-952-367-471-4
ISSN pdf: 1797-9714

Layout: Government Administration Department, Publications

Helsinki 2023 Finland

Budget review 2024

Review on central government budget proposal, October 2023

Publications of the Ministry of Finance 2023:74		Subject	Economic Policy
Publisher	Ministry of Finance		
Group author	Ministry of Finance		
Language	English	Pages	34
Abstract			
<p>This publication examines the budget proposal for 2024, which was submitted to Parliament in October 2023. The aim is to provide a concise description of the central themes of the 2024 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.</p> <p>Prime Minister Orpo's Government commits to permanently strengthening general government finances during the parliamentary term through a set of actions that will strengthen general government finances by a net amount of EUR 6 billion at the level of 2027. General government expenditure will be adjusted by decisions of the Government by a net amount of approximately EUR 4 billion. In addition, the Government has outlined structural policy measures aimed at strengthening general government finances by approximately EUR 2 billion at the level of 2027. The expenditure-related policies outlined in the Government Programme will generate net savings of approximately EUR 0.8 billion in central government on-budget activities in 2024.</p> <p>The appropriations in the budget proposal for 2024 amount to EUR 87.9 billion. The central government on-budget deficit is projected to amount to approximately EUR 11.5 billion. Compared to the actual 2023 budget, the expenditure will increase by EUR 6.5 billion. The most significant factors contributing to the increase in appropriations include legislative and agreement-based index adjustments in 2024, interest expenditure and changes in the central government funding of the wellbeing services counties.</p>			
Keywords	economic policy, budget proposal, central government finances, budget review, budget, budget economy		
ISBN PDF	978-952-367-471-4	ISSN PDF	1797-9714
URN address	https://urn.fi/URN:ISBN:978-952-367-471-4		

Budjettikatsaus 2024

Katsaus valtion talousarvioesitykseen, lokakuu 2023

Valtiovarainministeriön julkaisuja 2023:74		Teema	Talouspolitiikka
Julkaisija	Valtiovarainministeriö		
Yhteisötekijä	Valtiovarainministeriö		
Kieli	englanti	Sivumäärä	34
Tiivistelmä			
<p>Tässä julkaisussa tarkastellaan vuoden 2024 talousarvioesitystä, joka annettiin eduskunnalle lokakuussa 2023. Tarkoituksena on tarjota tiivis kuvaus valtion budjetin keskeisistä teemoista vuonna 2024. Talousarvioesitys pohjautuu valtiovarainministeriön kansantalousosaston riippumattomaan talousennusteeseen, joka esitellään Taloudellisessa katsauksessa.</p> <p>Pääministeri Orpon hallitus sitoutuu vaalikauden aikana vahvistamaan julkista taloutta pysyvästi toimenpidekokonaisuudella, joka vahvistaa julkista taloutta nettomääräisesti 6 mrd. euroa vuoden 2027 tasolla. Julkisen talouden menoja sopeutetaan hallituksen päätöksiin nettomääräisesti noin 4 mrd. euroa, minkä lisäksi hallitus on linjannut rakennepoliittisista toimista, joilla tavoitellaan julkisen talouden vahvistumista noin 2 mrd. eurolla vuoden 2027 tasolla. Hallitusohjelman menolinjaukset tuottavat nettomääräisesti noin 0,8 mrd. euron säästövaikutuksen valtion budjettitalouteen vuonna 2024.</p> <p>Vuoden 2024 talousarvioesityksen määrärahat ovat 87,9 mrd. euroa. Valtion budjettitalouden alijäämäksi ennakoidaan noin 11,5 mrd. euroa. Menotaso nousee vuoden 2023 varsinaiseen talousarvioon nähden 6,5 mrd. euroa. Määrärahatason kasvua selittävät suurimpina tekijöinä mm. vuoden 2024 lakisääteiset ja sopimusperusteiset indeksitarkistukset, korkomenot sekä muutokset hyvinvointialueiden valtion rahoituksessa.</p>			
Asiasanat	talouspolitiikka, valtion talousarvioesitys, valtiontalous, budjettikatsaus, budjetti, budjettitalous		
ISBN PDF	978-952-367-471-4	ISSN PDF	1797-9714
Julkaisun osoite	https://urn.fi/URN:ISBN:978-952-367-471-4		

Budgetöversikt 2024

Översikt över budgetpropositionen, oktober 2023

Finansministeriets publikationer 2023:74		Tema	Finanspolitiken
Utgivare	Finansministeriet		
Utarbetad av	Finansministeriet		
Språk	engelska	Sidantal	34
Referat			
<p>I denna publikation granskas budgetpropositionen för 2024, som lämnas till riksdagen i oktober 2023. Avsikten är att ge en kort beskrivning av centrala teman i statsbudgeten 2024. Budgetpropositionen baserar sig på oberoende ekonomiska prognoser från finansministeriets ekonomiska avdelning, och de presenteras i den ekonomiska översikten.</p> <p>I syfte att nå målet för de offentliga finanserna åtar sig statsminister Orpos regering att under valperioden genomföra permanenta åtgärder som stärker de offentliga finanserna med ett nettobelopp på 6 miljarder euro på 2027 års nivå. Utgifterna inom de offentliga finanserna anpassas genom regeringens beslut med ett nettobelopp på cirka 4 miljarder euro, och dessutom har regeringen kommit med riktlinjer för strukturpolitiska åtgärder som syftar till att stärka de offentliga finanserna med cirka 2 miljarder euro på 2027 års nivå. Utgiftsjusteringsarna enligt regeringsprogrammet resulterar i nettobesparingar på cirka 0,8 miljarder euro för statens budgetekonomi 2024.</p> <p>Anslagen i budgetpropositionen för 2024 uppgår till 87,9 miljarder euro. Underskottet i statens budgetekonomi beräknas uppgå till cirka 11,5 miljarder euro. Jämfört med den ordinarie budgeten för 2023 stiger utgiftsnivån med 6,5 miljarder euro. Den ökade anslagsnivån beror främst bland annat på lagstadgade och avtalsbaserade indexjusteringar 2024, ränteutgifter och förändringar i statsfinansieringen av välfärdsområdena.</p>			
Nyckelord	finanspolitik, budgetproposition, statsfinanser, budgetöversikt, budget, budgetekonomi		
ISBN PDF	978-952-367-471-4	ISSN PDF	1797-9714
URN-adress	https://urn.fi/URN:ISBN:978-952-367-471-4		

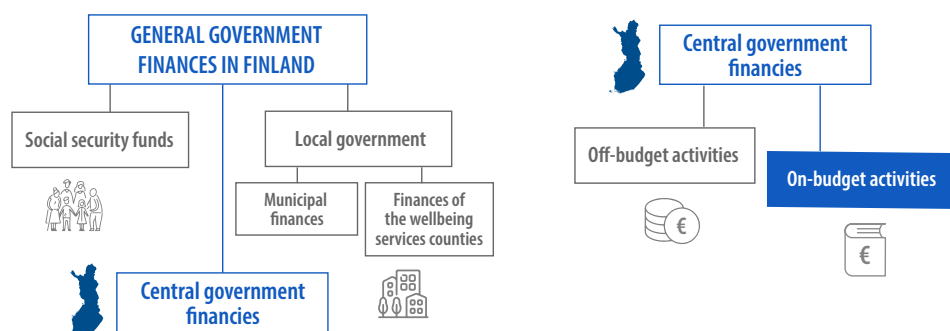
Contents

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	13
4	Central government budget proposal 2024	15
4.1	Revenue, expenditure, balance and debt.....	15
4.2	Excerpts from tax and appropriation decisions for 2024.....	22
4.3	Finances of the wellbeing services counties	29
4.4	Municipal finances	31
5	Summary	34

1 Introduction

General government finances in Finland cover central government finances, 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 proposal for 2024, which was submitted to Parliament in October, 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 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.



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 Government negotiates the budget proposal in the budget session. The budget proposal is prepared with reference to the General Government Fiscal Plan and Prime Minister Orpo'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 final sum of the budget proposal for 2024 is EUR 87.9 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 projected to amount to approximately EUR 11.5 billion and central government debt is expected to rise to around EUR 163 billion.

2 Economic outlook

2.1 The real economy

The increase in prices and interest rates has reduced household consumption and private investment. The Finnish economy will not grow in 2023 compared to the previous year. However, inflation is slowing quickly and, in 2024, the increase in prices will be slower than the increase in household incomes. The upward trend in interest rates has also levelled off. Household purchasing power will improve, which will boost private consumption next year. GDP growth of approximately 1.2% is projected for 2024.

Economic growth will still be dampened in 2024 by the difficult situation in the construction sector. The investment outlook is otherwise bright, with the large number of wind power investment plans being particularly significant. Global economic growth will be weak in 2023, but it will also pick up in 2024 as inflation slows down, and this will increase Finnish exports.

The employment rate will dip in 2023 due to weak economic growth, and unemployment will increase. Employment will, however, turn to growth in 2024. In 2024, the employment rate (ages 15–64) is projected to be 73.8% and the unemployment rate 7.2%.

Table 1. Trends in the national economy 2021–2024

October 2023 forecast	2021	2022	2023*	2024*
GDP at market prices (EUR bn)	250.9	268.7	281.6	291.1
GDP, change in volume (%)	3.2	1.6	0.0	1.2
Unemployment rate (%)	7.7	6.8	7.1	7.2
Employment rate (%)	72.3	73.8	73.8	73.8
Consumer price index, change (%)	2.2	7.1	6.2	2.2
Interest rate (10 year bonds) (%)	-0.1	1.7	3.1	3.2

* Forecast

2.2 General government finances

The general government budgetary position in Finland will weaken significantly in 2023 compared to 2022. Economic growth has stalled, and many previously decided measures and the inflation-driven growth in expenditure will increase the deficit in 2023. The state of general government finances will weaken in the next few years in spite of the measures decided on by the Government to strengthen general government finances. Economic growth will accelerate towards the end of the parliamentary term compared to the next few years and, at the same time, the adjustment measures will have an effect, which will lead to the general government budgetary position starting to improve. In spite of this, general government finances will remain in substantial deficit.

The general government debt ratio has risen to a historically high level due to structural reasons as well as the various crises in the early years of this decade. In spite of the adjustment measures, the debt ratio will gradually increase during the parliamentary term. The impact of the adjustment measures will be partly dampened by rising interest rate expenses. General government finances will remain in a structural deficit in the longer term, which means that there is a sustainability gap in general government finances.

More information on the economic outlook is available in [the Economic Survey](#) published by the Ministry of Finance.

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

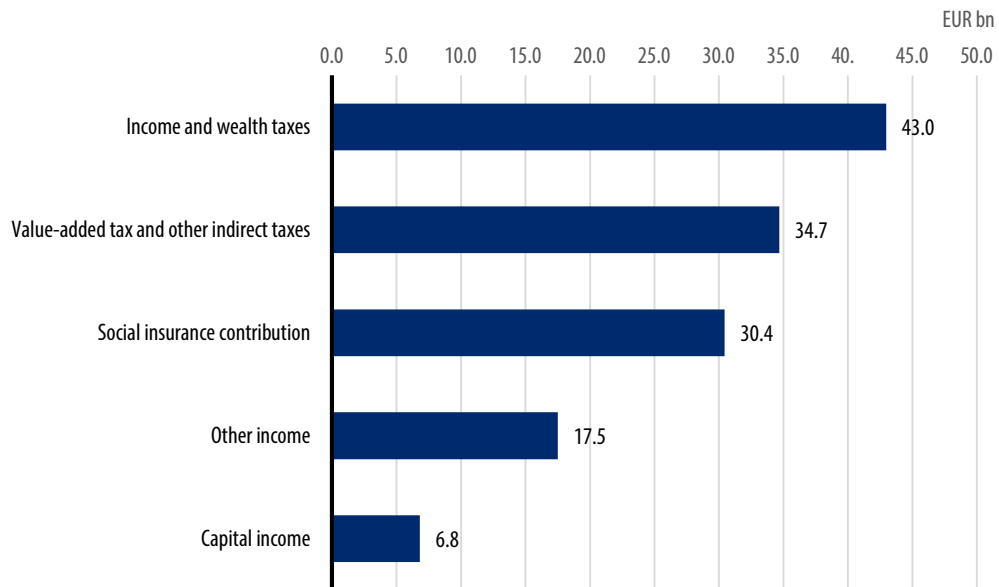
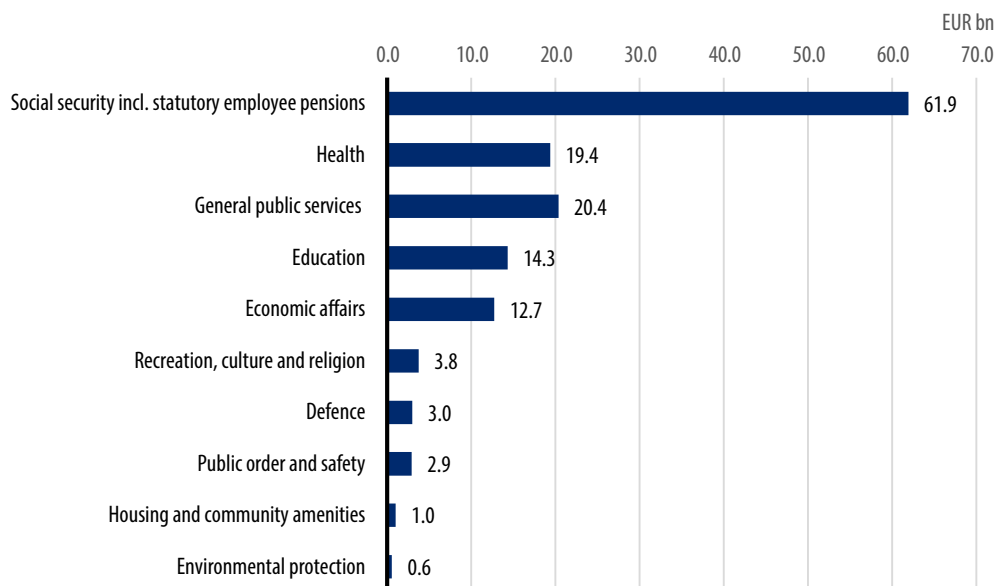
October 2023 forecast, % of GDP	2021	2022*	2023**	2024**
Taxes and social security contributions	43.1	42.9	41.7	40.8
General government expenditure	55.7	53.4	54.7	54.7
General government net lending	-2.9	-0.8	-2.4	-3.2
• central government	-3.2	-1.6	-3.3	-3.4
• local government	-0.3	-0.2	-0.1	-0.2
• wellbeing services counties			-0.4	-0.5
• employment pension schemes	0.7	0.9	1.0	1.0
• other social security funds	-0.1	0.1	0.4	-0.1
General government debt	72.5	72.9	74.2	76.8
Central government deb ¹⁾	51.3	52.7	54.3	56.4

* 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 2021. 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 2. General government revenue in 2021. Source: Statistics Finland**Diagram 3.** General government expenditures by COFOG category in 2021.
Source: Statistics Finland

3 The Government's approach to economic policy

The objective of Prime Minister Orpo's Government is to improve the standard of living of Finns, turn the Finnish economy on to a sustainable growth path and reverse the trend of indebtedness, which jeopardises wellbeing.

In its Government Programme, the Government set the following key objectives for economic and fiscal policy:

- The general government debt ratio will be stabilised and thereafter put on a lasting downward path, viewed over more than one parliamentary term. The long-term objective is to reach Nordic levels of economic growth and debt-to-GDP ratio.
- The budgetary position of general government finances will improve so that the general government deficit will be a maximum of -1% in ratio to GDP during the parliamentary term, i.e. by 2027.
- The goal is to increase the number of employed people by 100,000 through employment and growth measures. In the longer term, the aim is to raise the employment rate to 80%.
- The Government's employment and growth measures, together with direct adjustment measures, will create the conditions for balanced general government finances in 2030.

Prime Minister Orpo's Government commits to permanently strengthening general government finances during the parliamentary term through a set of actions that will strengthen general government finances by a net amount of EUR 6 billion at the level of 2027. General government finances are considered as a whole to avoid partial optimisation between sub-sectors (central government, municipalities, wellbeing services counties, social security funds).

General government expenditure will be adjusted by decisions of the Government by a net amount of approximately EUR 4 billion at the level of 2027. As part of the adjustment measures, the Government has outlined structural policy measures aimed at strengthening general government finances by approximately EUR 2 billion at the level of 2027. The Government will actively monitor the implementation of the set of measures within government budget and spending limits sessions and react with corrective measures should the set of measures threaten to fall short of the targeted level of EUR 6 billion. The Government also takes a serious view towards the risks to general government finances associated with guarantee liabilities.

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 spending limits for the parliamentary term 2024–2027 are established in [the General Government Fiscal Plan](#).

The Government's taxation policy will seek to boost the purchasing power of households, improve incentives for working, and strengthen conditions for economic growth. The Government's taxation policy will encourage work and self-employment, and support domestic ownership. The Government will avoid discretionary measures that increase the overall tax rate.

The measures included in the 2024 budget proposal to achieve the fiscal policy objectives are described briefly in Chapter 4.2.

4 Central government budget proposal 2024

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 main title of expenditure.

4.1 Revenue, expenditure, balance and debt

Revenue

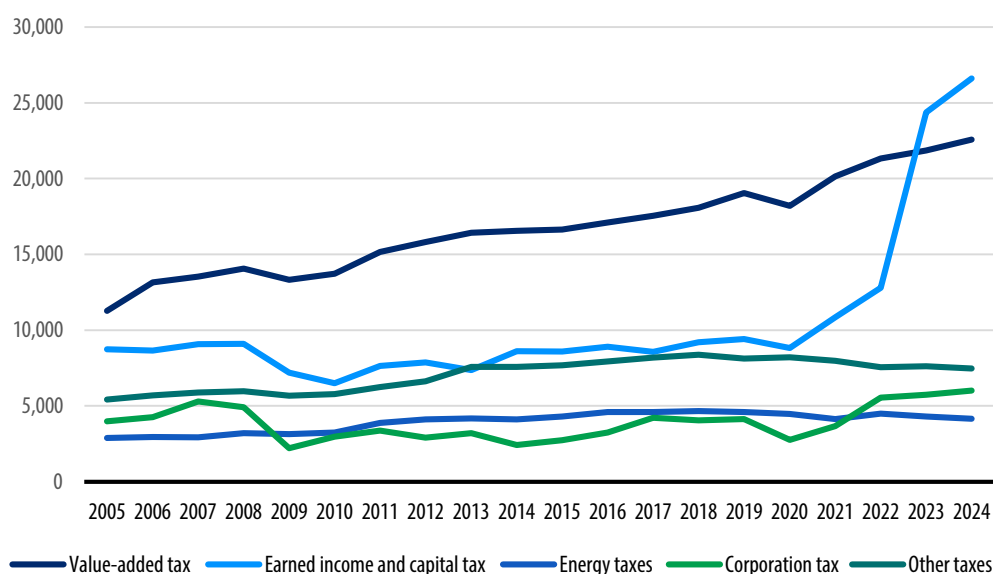
On-budget revenue for 2024, excluding net borrowing, is estimated at around EUR 76.3 billion. Taxes and tax-like revenue account for approximately EUR 66.8 billion (87%). Central government tax revenue is expected to increase by about 3.7%, or EUR 2.4 billion, in 2024 compared to the actual 2023 budget. On-budget revenue, excluding net borrowing, is estimated to increase by 4.5%, or EUR 3.3 billion, in 2024.

Diagram 4 shows the development of central government tax revenue for key tax types in the period 2005–2024. 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 took effect in 2023 resulted in a significant increase in central government tax revenue as the responsibility for organising healthcare, social services and rescue services was transferred from municipalities to the wellbeing services counties and the responsibility for funding the services was transferred from municipalities to central government.

Due to the health and social services reform, income taxes have constituted 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 4. State tax revenue by type 2005–2024, EUR million



Expenditure

The appropriations of the budget proposal amount to EUR 87.9 billion, which is EUR 6.5 billion, or 8%, more than in the actual 2023 budget. The factors contributing to the increase in appropriations relative to 2023 include legislative and agreement-based index adjustments in 2024 (EUR 1.7 billion) and changes in the central government funding of the wellbeing services counties. The appropriations allocated to the wellbeing services counties for 2024 are EUR 3.4 billion higher than in the actual 2023 budget, in addition to which a statutory index adjustment will be carried out. One reason for the increase in the funding of the wellbeing services counties is that EUR 1.9 billion of the funding for 2023 was paid before the turn of the year in December 2022, which reduced the comparison figure for 2023.

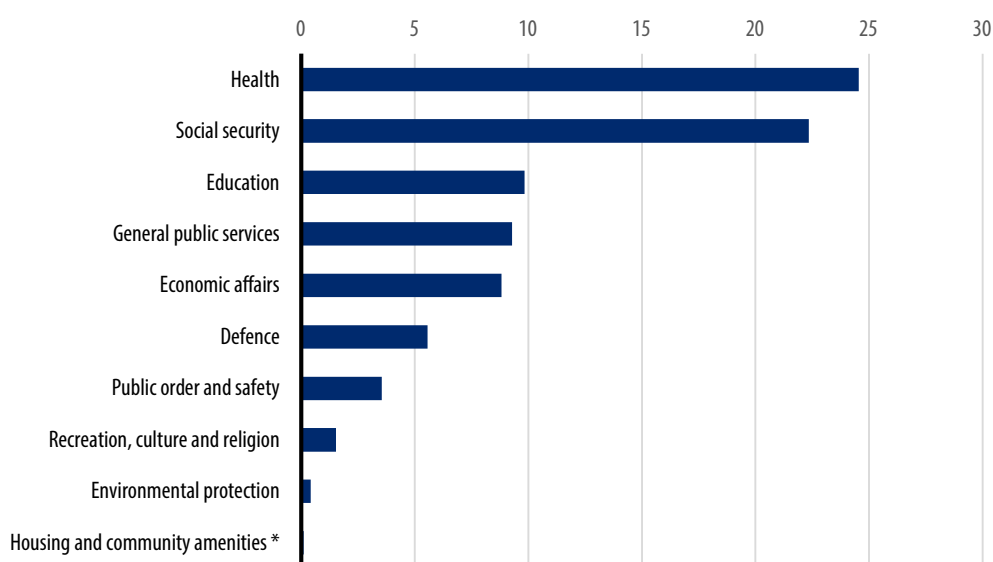
Another significant factor contributing to the rise in total expenditure is the increase in the debt servicing costs of the central government's loans. Debt servicing costs will double from the actual 2023 budget, which represents an increase of approximately EUR 1.6 billion. Expenditure related to the servicing of general government debt will increase total on-budget expenditure by approximately 2 percentage points. Excluding changes

in prices and taking into account the share of the funding of the wellbeing services counties that was paid in 2022, the appropriations of the administrative branches (i.e. all expenditure except interest expenditure) will increase by approximately 1.7% compared to the actual 2023 budget.

The on-budget appropriations for 2024 are also increased by additional investments in R&D activities and the permanent expenditure increases outlined in Prime Minister Orpo's Government Programme for basic education, support for families with children, and the resources of the Police and the Finnish Defence Forces, for example. At the same time, expenditures are reduced by the reforms and expenditure savings envisaged in the Government Programme.

As described above, the allocation of appropriations, i.e. central government expenditure, to different purposes depends on political decisions, economic structures and economic cycles. The most significant shares of the appropriations in the central government budget proposal for 2024 are allocated to healthcare (28%) and social security (25%). Diagram 5 illustrates the use of central government appropriations in 2024 in accordance with the Government's proposal.

Diagram 5. Budget appropriations in 2024 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 the central government level, Finland is projected to contribute approximately EUR 2.4 billion to the EU budget, the European Peace Facility and the European Development Fund in 2024. Finland's contributions will be EUR 390 million higher than the figure budgeted for 2023. Finland is expected to receive approximately EUR 2.1 billion in revenue from the EU budget, which is approximately EUR 470 million more than the projected figure for 2023. 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 2022–2024, EUR million

CENTRAL GOVERNMENT EXPENDITURE	Final accounts 2022	Budget 2023*	Budget proposal 2024
On-budget finances			
VAT payment	297	326	335
Plastic payment	60	89	88
GNI payment	2 015	1 523	1 863
EU PAYMENTS TOTAL	2 372	1 938	2 286
European Peace Facility	10	13	51
European Development Fund	42	29	31
TOTAL	2 424	1 980	2 368
CENTRAL GOVERNMENT REVENUE	Final accounts 2022	Budget 2023*	Budget proposal 2024
On-budget finances			
Agricultural support	526	531	533
Rural development support	460	340	340
Subsidies from structural funds and cohesion funds	210	257	240
Customs duties and other levies	74	50	56
Revenues from the recovery and resilience facility		362	745
Other revenue	49	59	155
Off-budget finances			
Intervention Fund of Agriculture	0,1	0,1	0,1
Fund for Agricultural Development	0,0	0,0	0,0
TOTAL	1 319	1 600	2 069
Customs duties, agricultural payments and sugar payments collected on behalf of the EU	205	214	222

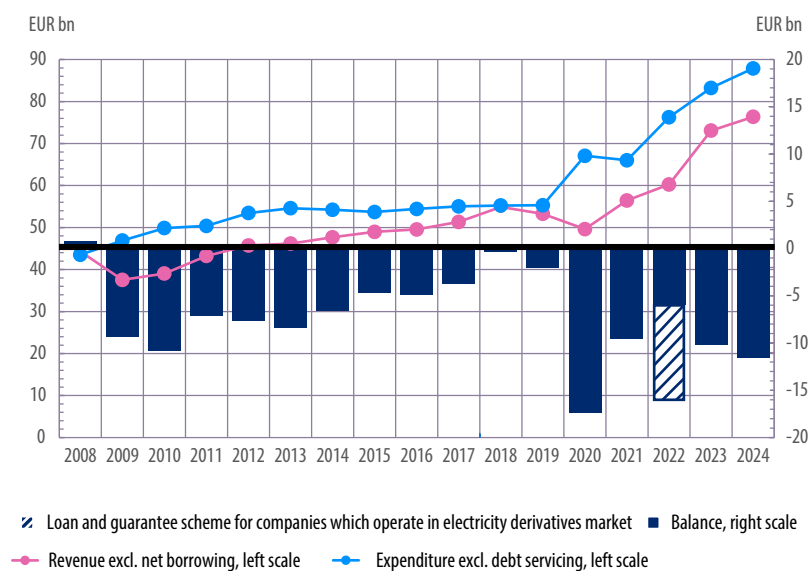
* incl. supplementary budgets

The year 2024 is the fourth year of the EU Multiannual Financial Framework period 2021–2027. The Commission has issued proposals for the EU budget's new funding sources, i.e. own resources. The proposals have concerned auctioning revenues from the EU Emissions Trading System, revenue from the carbon border mechanism, a national market share of the reallocated residual profits of multinational companies, and a statistical own resource based on the profits of companies and financial institutions. 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, and the could potentially be introduced as early as during the Union's current multiannual financial framework period. However, the new own resources require a unanimous decision by the Member States and ratification by the national decision-making bodies.

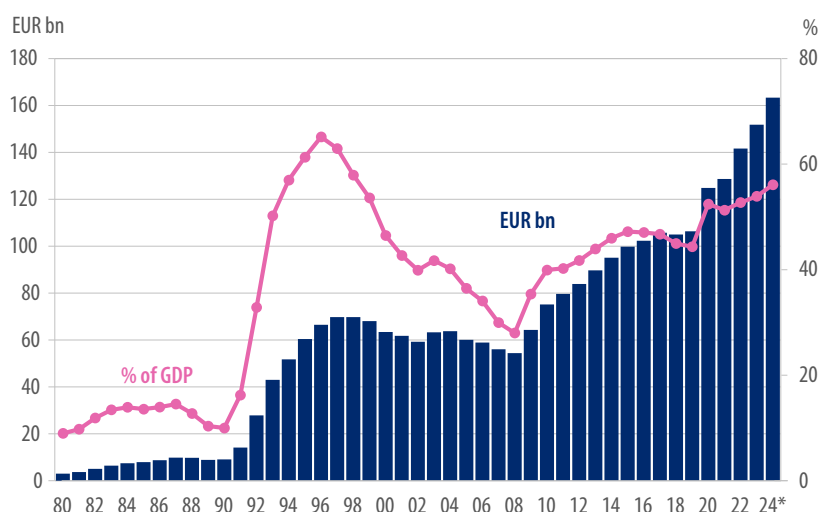
Balance and debt in central government finances

The budget proposal for 2024 is EUR 11.5 billion in deficit, which will be covered with additional borrowing. The balance of central government on-budget activities will decline by approximately EUR 3.2 billion compared to the actual 2023 budget. If the comparison is based on all of the items budgeted for 2023, which means taking into account the second supplementary budget proposal for 2023, the balance will decline by EUR 1.4 billion. In terms of the national accounts, the central government deficit is projected to be 3.4% of GDP in 2024.

Central government on-budget activities have been in deficit since 2009. The balance of on-budget activities is illustrated in Diagram 6.

Diagram 6. Central government budget revenue, expenditure, and balance 2008–2024, EUR billion

At the end of 2024, central government debt is expected to amount to approximately EUR 163 billion, which is about 56% of GDP. Interest expenses on central government debt are estimated to be EUR 3.2 billion, which is EUR 0.8 billion more than in the actual 2023 budget (including the supplementary budget proposals). Diagram 7 illustrates the trend of central government debt.

Diagram 7. Central Government Debt 1980–2024

* Forecast

4.2 Excerpts from tax and appropriation decisions for 2024

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 annual central government tax revenue by EUR 545 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. In 2024, the scale of the index adjustment will be modified so that a share equivalent to the 0.2 percentage point reduction in unemployment insurance contributions will be directed to the central government so that savings allocated to the Employment Fund are used to reverse the rising trend of central government debt. This will increase central government tax revenue by EUR 138 million.

Taxes on earned income and capital gains will be subject to tax criteria changes in 2024. Some of these changes will increase tax revenue, while others will decrease tax revenue. Increasing the earned income deduction will reduce central government tax revenue by an estimated EUR 97 million, increasing the deposit cap on equity savings accounts will reduce central government tax revenue by an estimated EUR 5 million, and increasing the equalisation provision for agriculture will reduce central government tax revenue by an estimated EUR 9 million. In addition, the scope of application of the tax credit for

household expenses will be expanded and the temporary increase to the tax credit for household expenses will be extended, which will reduce central government tax revenue by an estimated EUR 42 million.

Central government tax revenue will be increased by continuing the temporary increase in the highest income bracket in the central government income tax scale, increasing the commuting expenses deduction threshold, harmonising the tax treatment of rental income, and reallocating the age-based increased earned income tax credit. These tax criteria changes, which increase tax revenue, will have a combined effect of EUR 118 million on central government tax revenue.

Amendments to alcohol taxation will increase the tax on wines and spirits and reduce the tax on beer. These changes are projected to increase central government tax revenue by a total of approximately EUR 15 million. Nicotine pouches will be brought within the scope of tobacco taxation, which is projected to increase central government tax revenue by an estimated EUR 50 million.

In addition, a reduction in fuel taxes to compensate for the rising trend in the distribution obligation will reduce tax revenue by an estimated EUR 168 million. Reducing the basic motor vehicle tax will reduce central government tax revenue by an estimated EUR 50 million. While the reduction in basic motor vehicle tax will enter into force from the beginning of 2025, the revenue effect of the tax cut will be partly realised already in 2024.

Savings and increases envisaged in the Government Programme

The Government aims to adjust central government finances by a net amount of EUR 4 billion at the 2027 level. The related measures are described in Annex B to the Government Programme. The set of measures includes savings as well as expenditure increases and measures that will increase revenue. The budget proposal takes into account the savings and expenditure increases outlined in the Government Programme to the extent that they affect central government on-budget activities. The measures will reduce central government on-budget expenditures by a net amount of approximately EUR 0.8 billion in 2024.

The following information box illustrates the savings and expenditure increases envisaged in the Government Programme. Index-linked entities include the freezing of index increases and index increases being implemented only partially. Index increases to benefits linked to the national pension index and the consumer price index will be frozen for the period 2024–2027, excluding social assistance, pensions, front-line veterans' supplements, disability benefits, the annual maximum limit on out-of-pocket costs for medicines, and child maintenance allowance. A saving corresponding to an

increase of one percentage point will be made in 2024–2027 to the index increase to central government transfer to local government for basic public services, as will central government funding for the Evangelical Lutheran Church and subsidies for religious activities.

Decreases and increases in central government on-budget appropriations (net) in 2024, as envisaged in the Government Programme, EUR million

Education, training and skills	9
Health and social services	-141
Social security and benefits	-212
Index-linked entities	-195
Agriculture, forestry, environment	-19
Business and industry, transport and housing	-203
National defence, public security, migration and development cooperation	-20
Administration	-10
Total	-792

The following are excerpts from the savings and increases in appropriations outlined in Annex B to the Government Programme.

Education, training and skills

- Promoting equality in early childhood education and care, pre-primary education and basic education, an increase of EUR 50 million
- Subsidies of the Ministry of Education and Culture, a decrease of EUR 10 million

Health and social services

- Rehabilitation and rehabilitation services for children and young people with neuropsychological disorders will be improved through Kela's discretionary rehabilitation under a fixed-term programme, an increase of EUR 16.75 million.
- The entry into force of the minimum staffing level (0.7) for care personnel will be postponed to 1 January 2028, a decrease of EUR 89 million.

- The age limit in child welfare after-care will be lowered to 23 years, a decrease of EUR 12 million.

Social security and benefits

- A number of social security reforms will be made that reduce the need for appropriations. Taking housing allowance and social assistance expenditure into account, these reforms will reduce expenditures in the main title of the Ministry of Social Affairs and Health by a net amount of approximately EUR 234 million. As a saving measure, index increases to benefits linked to the national pension index and the consumer price index will be frozen for the duration of the parliamentary term, excluding social assistance, pensions, front-line veterans' supplements, disability benefits, child maintenance allowance and the annual maximum limit on out-of-pocket costs for medicines. Unemployment security and general housing allowance will also be subject to reforms. The job alternation leave system and adult education benefit will be discontinued effective from 1 August 2024. In social assistance, the amount of housing costs that qualify for assistance will be clarified.
- The incomes of families with children will be improved by raising the child benefit for children under three years of age, increasing the single parent increment for child benefits and increasing the child benefit for families with many children.

Agriculture, forestry, environment

- Support for ensuring sustainable wood production, a decrease of EUR 12.7 million
- Abolishing support for the afforestation of wastelands, a decrease of EUR 4.3 million
- Agriculture development projects, an increase of EUR 4 million

Business and industry, transport and housing

- Reducing the level of funding for new transport infrastructure projects, a decrease of EUR 100 million
- Reducing employment appropriations, a decrease of EUR 41 million
- Archipelago Sea Programme and water protection, an increase of EUR 6 million

National defence, public security, migration and development cooperation

- A decrease totalling EUR 118 million will be made to the appropriation for official development assistance (ODA), of which EUR 38 million will be transferred to the new Humanitarian assistance to Ukraine item A total of EUR 58 million will be allocated to the Humanitarian assistance to Ukraine item
- Reducing the reception allowance to the minimum permitted by the Constitution and the Reception Directive, a decrease of EUR 13.4 million
- Increasing the number of police officers to the level of 8,000 person-years by the end of the parliamentary term, an increase of EUR 17.5 million
- Shortening the processing times of asylum applications by increasing automation, an increase of EUR 21 million

Administration

- Terminating the funding of the Government's analysis, assessment and research activities (VNTEAS), a decrease of EUR 9.3 million

Investments

The Government Programme includes a EUR 4 billion package of one-off investments that will be financed through central government property income and by liquidating the over-capitalisations of state-owned unlisted companies and making disbursements from the Housing Fund of Finland without jeopardising the Fund's current level of operations. Expenditures that are in accordance with the investment programme will be included in budget proposals and taken into account in General Government Fiscal Plans within the limits enabled by confirmed revenues.

The budget proposal includes a total of EUR 690 million in increases in appropriations and authorisations according to the investment programme. Appropriations allocated to 2024 amount to EUR 349 million of that total. The budget proposal for 2024 includes a disbursement of EUR 500 million from the Housing Fund of Finland to finance the investment programme. In addition, the Neste shares to be transferred to the State from the Climate Fund will generate additional tax revenue of approximately EUR 120 million, which will count towards the revenue of the investment programme.

Under the investment programme, an increase of EUR 250 million will be allocated in 2024 to basic transport infrastructure management and reducing the repair backlog. The budget proposal also includes authorisations of EUR 347 million for transport development projects, which will create a need for appropriations of EUR 15.5 million in 2024. The authorisation for the project to increase capacity between Helsinki and

Riihimäki will be raised by EUR 110 million. The following new projects will be started: Tampere passenger railway yard project (EUR 163 million), planning of the electrification of the Tornio–Kolari railway (EUR 7.5 million), Pietarsaari port road (main road 68 between Edsevö and Pietarsaari, EUR 7.5 million), national road 4 north of Leivonmäki, Joutsa project (EUR 14 million), national road 4 Oravasaari grade-separated interchange, Jyväskylä project (EUR 7 million) and national road 9 at Lievestuore (EUR 30 million). Authorisations totalling EUR 8 million are allocated to the Suupohja railway and Savonrata railway planning projects. The development projects will create a need for additional appropriations of EUR 228.5 million for the period 2025–2027 and EUR 102 million for the next parliamentary term.

In the main title of the Ministry of Social Affairs and Health, a total of EUR 81.3 million will be allocated to the investment programme in 2024. Of this, EUR 65.3 million would be used for increasing Kela reimbursements for appointments with doctors, EUR 4 million for the digitalisation programme in healthcare and social services, EUR 2 million for the national health and wellbeing programme, EUR 3.5 million for the Good Work Programme, and EUR 6.5 million for supporting the functional ability of the elderly, coping at home and informal caregivers.

Under the Clean Energy Finland key project, an authorisation of EUR 10 million will be allocated to promoting the charging and refuelling infrastructure for public transport electricity and gas. EUR 1.5 million will be allocated in 2024 to strengthening the guidance of the wellbeing services counties. EUR 0.45 million will be allocated to planning the demolition of dams on the Palokki rapids.

The budget proposal also includes EUR 463 million in expenditures included in Finland's Recovery and Resilience Plan (RRP) and EUR 35 million in expenditures related to the RePowerEU programme. The EU's amended Regulation on the REPowerEU Plan entered into force in February 2023. RePowerEU is part of the Recovery and Resilience Facility, and its aim is to end the EU's dependence on Russian fossil fuels and fast forward the green transition. The decision has been made to allocate the RePowerEU funds to speeding up environmental permit procedures in a manner compatible with the regional government reform, R&D and pilot projects relating to clean energy and material flows, and investments in the clean transition.

Research and development activities

New legislation on the central government's funding of research and development activities in 2024–2030 entered into force at the beginning of 2023. Under the legislation, the total amount of authorisations and appropriations for research and development activities will increase to 1.2% of GDP by 2030. Based on the Ministry of Finance's most

recent economic forecast, the central government's funding of research and development activities would need to amount to approximately EUR 4.3 billion in 2030. This corresponds to an increase of roughly EUR 2 billion to the total amount of R&D funding in the 2023 budget. This means that R&D funding in the central government's budget would need to be increased annually by approximately EUR 280 million, using 2023 as the baseline.

Pursuant to the new legislation on R&D funding, the central government's funding of R&D activities would amount to EUR 2.6 billion in 2024. Based on previous decisions, the central government's R&D funding for 2024 is estimated to be approximately EUR 2.4 billion. To reach the legally stipulated amount of funding, R&D funding has been increased by a total of EUR 264 million in the budget proposal for 2024. Additional funding is allocated particularly to a researcher training pilot, supporting the R&D activities of enterprises, the research project authorisations of the Academy of Finland, and national matching funds for EU projects.

More information on the central government funding of R&D activities and the related legislation is provided in Chapter 5.3 of the general rationale of the budget proposal.

Other excerpts

In the administrative branch of the Ministry of Defence, appropriations are increased for the procurement of defence materiel to replace materiel that has been delivered to Ukraine, for example. An authorisation of EUR 1.355 billion has been previously allocated to the Finnish Defence Forces for this purpose, of which EUR 259 million is allocated to 2024. The budget proposal also includes two new order authorisations for the administrative branch of the Ministry of Defence for the purpose of defence materiel procurement, for example. The authorisations will be used, for instance, to develop the performance of the logistics system, as well as the Navy's mine sweeping capability and underwater surveillance.

To cover costs arising from NATO membership, appropriations are allocated to the administrative branch of the Ministry of Defence and the Prime Minister's Office, for example.

An increase of EUR 23 million is allocated to the administrative branch of the Ministry of Justice for conducting elections. A presidential election and European Parliament election will be conducted in 2024.

Over EUR 2 billion is allocated for transport and communication networks, with basic transport infrastructure management representing EUR 1.5 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 backlog and reducing it.

In addition to the previously mentioned increases the Finnish Immigration Service will be allocated appropriations for making international protection temporary and reducing the duration of permits, prolonging and enabling administrative detention, ex-post monitoring of work-related permits and increasing automation. The refugee quota will be reduced to 500 persons in accordance with the Government Programme.

EUR 384 million is allocated to central government compensation for the promotion of integration, which is EUR 97 million more than in the actual 2023 budget. The need for appropriations is increased by beneficiaries of temporary protection transitioning to being residents of municipalities, as this will entail paying integration compensation to the municipalities in question.

4.3 Finances of the wellbeing services counties

The wellbeing services counties will finance their activities mainly with central government funding and they have no right to levy taxes. The universal funding of the wellbeing services counties in the central government's budget proposal is approximately EUR 24.7 billion in 2024. This represents an increase of about EUR 4 billion compared to 2023. One reason for the increase is that EUR 1.9 billion of the funding for 2023 was paid before the turn of the year in December 2022, which reduced the comparison figure for 2023. The funding of the wellbeing services counties is also increased by legally stipulated increases related to cost and service levels totalling EUR 0.9 billion.

Pursuant to the Act on the Funding of Wellbeing Services Counties, central government funding for the wellbeing services counties will be adjusted from 2024 onwards to correspond to the final costs transferred from municipalities to the wellbeing services counties in connection with the reform of healthcare and social services. In connection with this, the revenues transferred from municipalities will be adjusted to correspond to the taxes levied in 2022 in accordance with the completed tax records. Based on the final financial statements information of municipalities, the net expenditures of the healthcare, social welfare and rescue services transferred from municipalities amounted to approximately EUR 21.9 billion, which is about EUR 669 million more than estimated in connection with the actual 2023 budget. The adjustment of the transferred costs, taking into account the increases based on service needs and index increases, will increase

the funding base of the wellbeing services counties by approximately EUR 700 million. The estimate of the tax revenues transferred from municipalities in connection with the reform of healthcare and social welfare services has, in turn, increased by approximately EUR 509 million compared to the estimate applied in connection with the 2023 budget. The difference between the transferred expenditures and revenues will be balanced out through central government transfers to local government for basic public services starting from 2024. The transfer from central government transfers to local government for basic public services to the funding of the wellbeing services counties will increase by EUR 160 million starting from 2024.

The transfer calculation on the revenues and expenditures transferred from municipalities to the wellbeing services counties will be completed within 2023. The funding of the wellbeing services counties and the central government transfers to local government for basic public services will subsequently be adjusted to correspond to the final transfer calculation.

In connection with this, the funding of the wellbeing services counties for 2023 will be retrospectively adjusted to correspond to the final transferred expenditures and revenues. When considering the index adjustment for 2023 and the effect of the estimate of the growth in the need for services, the one-time compensation will amount to approximately EUR 700 million, of which EUR 150 million has been paid to the wellbeing services counties in advance in the first supplementary budget for 2023. The remainder of the adjustment, amounting to approximately EUR 550 million, will be paid to the wellbeing services counties in January 2024.

The index adjustment to the funding of the wellbeing services counties in 2024 will be 2.53%. Taking the cost base adjustment into account, the effect of the index adjustment will be approximately EUR 618 million. The cost estimate of the increase in the need for health and social services is approximately EUR 292 million for 2024.

In 2024, changes in tasks and obligations will increase the funding of the wellbeing services counties by a net amount of approximately EUR 5 million. Previously decided changes in tasks will increase funding by approximately EUR 110 million. Measures included in the Government Programme (postponing the entry into force of the minimum staffing requirement of 0.7 for care personnel to 1 January 2028, keeping the maximum waiting time for access to treatment at 14 days and lowering the age limit in child welfare after-care to 23 years) will reduce the funding of the wellbeing services counties by approximately EUR 105 million.

Discretionary government grants totalling an estimated EUR 370 million will be allocated to the wellbeing services counties in 2024. The most significant single grant package (EUR 108 million) is related to central government compensation for healthcare and social welfare units for the professional specialist education of healthcare and social welfare personnel. Another significant package, totalling EUR 41 million, is related to measures under Finland's Sustainable Growth Programme. Central government funding for university-level research in healthcare and social work amounts to EUR 35 million.

An estimated appropriation of EUR 1 million is allocated to potential additional funding needs of the wellbeing services counties.

4.4 Municipal finances

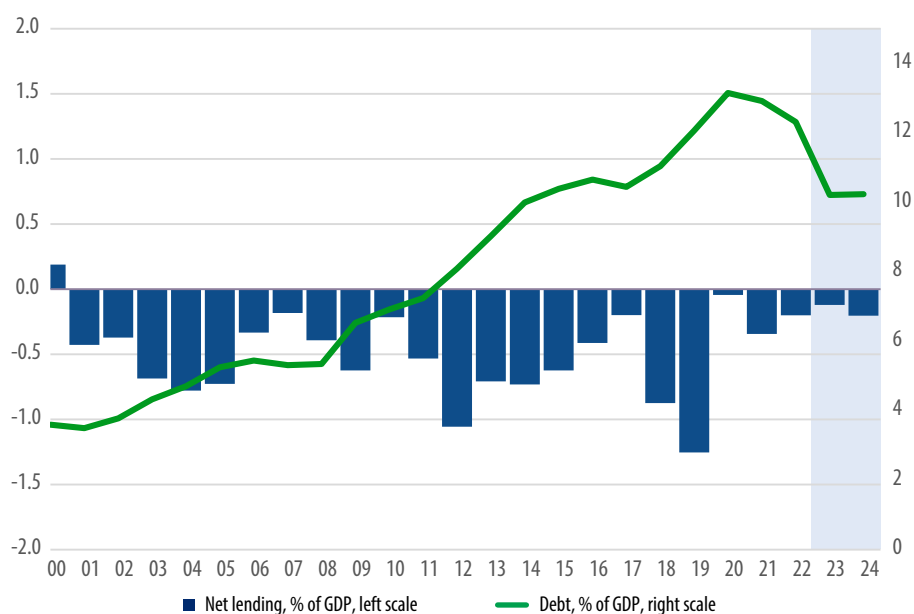
The central government has limited opportunities to steer the finances and operations of municipalities, as municipalities have strong self-government protected by the Constitution and extensive rights to levy taxes. The general principles of municipal administration and the duties of municipalities are governed by law. The funding principle is also an integral part of the constitutional protection of municipal self-government. According to the funding principle, when legally assigning duties to municipalities, it is necessary to ensure that municipalities have a de facto capacity to perform their duties.

Following the reform of healthcare and social services, the duties of municipalities are largely focused on education-related duties, including early childhood education and care, pre-primary and basic education, and secondary education. Municipalities are also responsible for land use planning in their respective areas, for example. The central government funds the operations of municipalities with central government transfers and discretionary government transfers. In addition, municipalities fund their operations by tax revenue and other revenue generated by their operations. In 2024, tax revenue will represent a majority of the revenues in the municipal sector. Operating revenue and central government transfers are other significant sources of revenue. Personnel costs constitute the largest expenditure item in the municipal sector.

The development of the budgetary position and debt in the municipal sector¹ is illustrated in Diagram 8. The diagram shows that, in 2024, the municipal sector's net lending is projected to be -0.2% of GDP and debt approximately 10.2% of GDP. The outlook for the municipal sector is discussed in more detail in Chapter 2.3 of the Ministry of Finance's [Economic Survey for autumn 2023](#).

Diagram 8. Net lending and debt in the municipal administration, % of GDP.

Source: Statistics Finland, Ministry of Finance



Central government transfers and grants to municipalities in the central government budget proposal amount to approximately EUR 5.1 billion in 2024. Of that total, imputed central government transfers will be EUR 3.7 billion, compensation for municipalities' tax losses EUR 0.9 billion and other central government aid EUR 0.6 billion. Central government transfers and grants to municipalities will be reduced by approximately EUR 0.3 billion compared to 2023. The change is mainly due to the adjustment of revenues and expenditures transferred from municipalities to the wellbeing services counties in

¹ In the forecast of the Economics Department of the Ministry of Finance, Helsinki's healthcare, social welfare and rescue services are included in the wellbeing services counties subsector, which means that they are not included in the figures for the municipal sector.

connection with the reform of healthcare, social welfare and rescue services, and taking that adjustment into account in central government transfers to local government for basic public services from 2024 onwards (see Chapter 4.3 for more information).

The index increase to central government transfers for basic public services will increase central government transfers by EUR 53 million. However, the index increase will be lower than that by EUR 24 million due to a saving corresponding to an increase of one percentage point being applied to the index increase in accordance with the Government Programme. The Ministry of Education and Culture's central government transfers and the funding of vocational education and training will be subject to full index increases, amounting to approximately EUR 30 million.

Changes in municipalities' tasks and obligations are taken into account in determining the amount of central government transfers. Examples of new and expanded tasks in 2024 include the model for engaged school community work and adding one weekly lesson per year to the second compulsory language (B1 language).

The reduction in the index increase and changes in tasks are taken into account in the central government transfer percentage for basic public services provided by municipalities, which will fall from 22.09% to 21.92%.

The combined effect of the central government's measures on municipal finances will be slightly strengthening in 2024 compared to the actual 2023 budget. Full central government transfers are allocated to the new and expanded tasks of municipalities, and municipalities will be compensated for the tax criteria changes decided on by the central government. In addition, the positive effect on municipal finances of the Government's decision to increase the lower limit of ground area real estate tax will be greater than the negative effect of the index increase saving applied to central government transfers for basic public services. The freezing of index increases and other savings to social security benefits will directly reduce the expenditures of municipalities, but they will simultaneously increase the need for social assistance and reduce tax revenue. In the longer term, the measures are expected to increase employment, which would increase tax revenue for municipalities.

The municipal finances programme 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.

5 Summary

This publication examines the budget proposal for 2024.

The objective of Prime Minister Orpo's Government is to improve the standard of living of Finns, turn the Finnish economy on to a sustainable growth path and reverse the trend of indebtedness, which jeopardises wellbeing. The Government commits to permanently strengthening general government finances during the parliamentary term through a set of actions that will strengthen general government finances by a net amount of EUR 6 billion at the level of 2027. 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 general government debt ratio has risen to a high level due to structural reasons as well as the various crises in the early years of this decade. In spite of the adjustment measures, the debt ratio will gradually increase during the parliamentary term. The impact of the adjustment measures will be partly dampened by rising interest rate expenses. General government finances will remain in a structural deficit in the longer term, which means that there is a sustainability gap in general government finances.

The appropriations in the budget proposal for 2024 amount to EUR 87.9 billion. The central government on-budget deficit is projected to amount to approximately EUR 11.5 billion and central government debt is expected to rise to around EUR 163 billion. Expenditures will increase by EUR 6.5 billion compared to the actual 2023 budget, which is mainly attributable to legislative and agreement-based index adjustments in 2024, interest expenditure and changes in the central government funding of the wellbeing services counties. The on-budget appropriations for 2024 are also increased by additional investments in R&D activities and the permanent expenditure increases outlined in Prime Minister Orpo's Government Programme for basic education, support for families with children, and the resources of the Police and the Finnish Defence Forces, for example. At the same time, expenditures are reduced by the reforms and savings envisaged in the Government Programme. The budget proposal for 2024 will also be updated on the www.tutkibudjettia.fi website which allows the budget to be examined visually from different perspectives.



MINISTRY
OF FINANCE

MINISTRY OF FINANCE

Snellmaninkatu 1 A
PO BOX 28, 00023 GOVERNMENT
Tel. +358 295 160 01
financeministry.fi

ISSN 1797-9714 (pdf)
ISBN 978-952-367-471-4 (pdf)

October 2023