MINISTRY OF FINANCE

Budget review 2018

January 2018

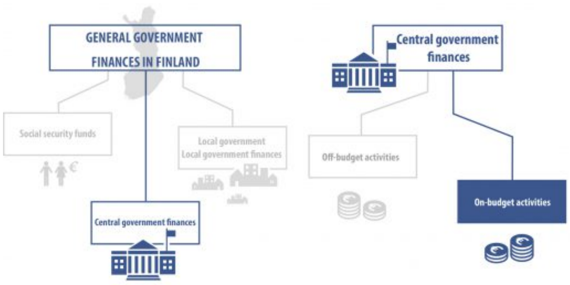
Ministry of Finance publications – 2c/2018

Economic Policy

Table of Contents

1 Introduction

General government finances in Finland consists of central government, local government and social security funds. Central government finances include the central government budget economy i.e. the on-budget activities and off-budget activities (the off-budget activities are discussed in chapter 8 "Extra-budgetary central government finances" of the budget). The position of central government on-budget activities in central government finances and general government finances is illustrated by Diagram 1. This publication is mainly concerned with the central government on-budget activities. The central government budget for 2018, which was approved by Parliament in December 2017, is the topic of examination. The purpose is to provide a concise description of the main themes of the budget with the help of diagrams and tables as well as to guide the reader to explore the themes in more detail via Internet links. The background materials for budgeting include the independent economic forecasts produced by the Economics Department at the Ministry of Finance, which are presented in the Economic Survey.



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

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

In Finland, the Parliament has the prime decision-making authority on the use of central government resources. The Parliament primarily exercises its power in two ways: by enacting laws and approving budgets. The majority of the content of the budget is bound by law and, indeed, laws are often amended before making decisions on the budget. The Parliament approves the budget for the following budget year before the end of the previous budget year.

The Government Programme defines the Government's main economic policies, which serve as the basis for preparing the budget. At the beginning of the parliamentary term, the Government also decides on the spending limits for the parliamentary term, i.e. the central government's expenditure ceiling, and the rules for the spending limits procedure. At the same time, the spending limits set the outline for the entire expenditure during the four-year parliamentary term. The spending limits' allocation for each administrative branch is reviewed within the parliamentary term spending limits in April as part of the General Government Fiscal Plan, and updates the spending limits to correspond to changes to the level of costs, prices and spending limit expenditure structure. For more information, see http://vm.fi/en/central-government-spending-limits[1].

The final sum of the budget for 2018 is EUR 55.8 billion. Most of the appropriations will be spent on social security, and business and industry. Revenue will be primarily collected in taxes based on turnover, such as value-added tax, and income taxes, including earned income and capital income tax. The central government on-budget deficit is predicted to amount to EUR 3.1 billion and central government debt is expected to rise to approximately EUR 109 billion.

The following chapter includes an overview of the economic outlook in the areas of real economy and general government finances. Chapter 3 is concerned with the Government's economic policy goals and their implementation. Chapter 4 includes revenue and expenditure estimates, deficit and debt in the budget. Local government and regional finances are also discussed from the viewpoint of the on-budget activities. Chapter 5 includes a summary of the review.

2 Economic outlook

Table 1. Trends in the national economy 2015–2018, December 2017 forecast

	2015*	2016*	2017**	2018**
GDP at market prices (EUR bn)	210	216	225	234
GDP, change in volume (%)	0.0	1.9	3.1	2.4
Unemployment rate (%)	9.4	8.8	8.6	8.1
Employment rate (%)	68.1	68.7	69.4	70.3
Consumer price index, change (%)	-0.2	0.4	0.8	1.4
Interest rate (10 year bonds) (%)	0.7	0.4	0.6	0.9

* Advance information
** Forecast

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

Real economy

The growth in the Finnish economy will slow to 2.4% in 2018. The favourable signs that the upswing will continue have grown stronger, and the growth will be underpinned especially by domestic demand and foreign trade. Supporting the growth in private consumption will be a rise in the earnings level and an increase in employment. However, growth in the real disposable income of households will slow as inflation gathers pace to 1.4%, which will curb the rise in private consumption. Investment will increase and the growth in housing construction will continue at a brisk pace. GDP growth will maintain the demand for labour, and employment growth will pick up further. The unemployment rate is predicted to edge downwards to 8.1%, while the employment rate is expected to rise to 70.3% in 2018. Key forecast figures for 2015–2018 have been compiled in Table 1.

General government finances

Table 2 presents key indicators for general government finances for 2015–2018. The table reveals that the deficit of general government finances has been gradually reducing. General government finances have been strengthened by the consolidation measures imposed by the Government as well as the economic growth that has begun. Regardless of the economic upturn, general government finances will remain in deficit in 2018. The favourable trend in the economy cannot by itself eliminate the structural imbalance in the general government finances, as the revenues are not sufficient to cover expenditure. Moreover, the changing age structure of the population has begun to increase the level of pension expenditure in particular.

The public debt-to-GDP ratio began to decrease in 2016, and the rapid growth in GDP will further reduce the debt ratio. When GDP growth starts to slow while the rise in age-related expenditure continues in the coming decade, there is a risk that the debt ratio will begin to rise again.

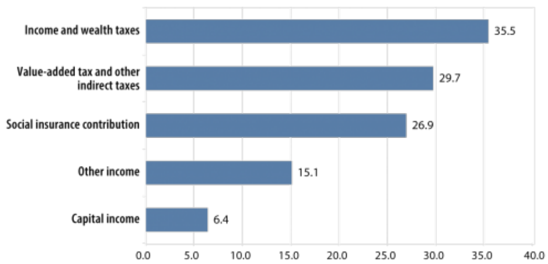
Table 2. Key figures measured in terms of national accounting in ratio to GDP, percent, General government finances, December 2017 forecast

	2015*	2016*	2017**	2018**
Taxes and social security contributions, % of GDP	44.0	44.1	43.1	42.1
General government expenditure, % of GDP	56.9	55.8	53.9	52.8
Net lending, % of GDP	-2.7	-1.7	-1.2	-1.3
- central government	-3.0	-2.7	-2.3	-2.1
- local government	-0.6	-0.4	-0.1	-0.2
- employment pension schemes	1.3	1.1	0.9	0.8
- other social security funds	-0.4	0.2	0.3	0.1
General government debt, % of GDP	63.6	63.1	61.1	60.2
Central government debt, % of GDP[1]	47.6	47.5	47.1	46.7

* 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

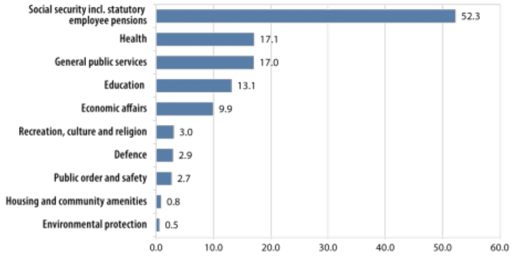
In addition to economic cycles, the structures of general government finances are also reflected on the revenue contributions to general government and the allocation of expenditure. Diagram 2 illustrates that the majority of general government revenue was collected as income or wealth tax, and as indirect tax, in 2015.



Source: Statistics Finland

Diagram 2. General government revenue in 2015, EUR bn

Most of the general government expenditure is comprised of social security benefit expenditure as illustrated by Diagram 3. This expenditure includes pensions, unemployment benefits, benefits aimed at families as well as housing allowance during illness and allowances preventing social exclusion.



Source: Statistics Finland, National Accounts

Diagram 3. General government expenditure by function (COFOG) in 2015, EUR bn

Table 3 illustrates the average extent of the costs resulting from education and culture as well as social welfare and health care services. For example, the table reveals that the costs per student of vocational education and training for general government finances were the highest compared to other forms of education in 2015.

Table 3. Average expenses of selected public services in 2015

	EUR	
Education and culture		
basic education	8,955.0	/pupil
upper secondary education	7,749.0	/student
initial vocational education	11,503.0	/student
polytechnic education	7,788.0	/student
university education	9,344.0	/student
public libraries	3.6	/loan
Social services		
children's day care[1]	59.1	/day
old people's homes	152.2	/day
Health care services		
Basic health care		
- visit to health centre	83.6	/visit
- ward treatment	254.9	/day
- dental care	85.8	/visit
Special medical treatment		
- somatic specialised medical treatment[2]	1,065.2	/day

1) Includes part-time and full-time day care financed by municipalities. Days of part-time care are also included in the days of care. The costs for 2015 have been calculated using the price index of the costs of 2014 and the general government expenditure.
2) Includes inpatient care and day surgery

Sources: National Board of Education, Ministry of Education and Culture, National Institute for Health and Welfare, Sotkanet.fi, Finnish Public Libraries Statistics and Statistics Finland

3 Government economic policy

Prime Minister Sipilä's Government determines its economic policy in the Government Programme (http://valtioneuvosto.fi/en/sipila/government-programme). The Government's objective is to raise Finland's economy on to a path of sustainable growth and rising employment, and to secure the funding of public services and social security. The objective is to bring living on debt to an end in 2021, increase the employment rate to 72% and the number of people in employment by 110,000.

The Government aims to cover the EUR 10 billion sustainability gap through actions instantly enhancing the general government finances, measures supporting growth and employment, and reforms strengthening general government finances. T he i mmediate consolidation measures in accordance with the Government Programme have been recorded in the central government spending limits and are included in the budget for 2018. The budget also includes new measures for promoting employment in addition to the previously determined actions. The Government supports employment, e.g. by removing incentive traps, continuing the development of employment services and unemployment security as well as ensuring that taxation on earned income will not be increased. The focus of taxation will be shifted from taxing labour and entrepreneurship towards environmentally and health motivated taxation.

In addition to the debt target, the Government has set targets for the general government budgetary position related, on one hand, to the budgetary position of central government, local government and the social security funds during the parliamentary term and, on the other hand, to the combined structural budgetary position of general government in the medium term. Table 4 describes these objectives and rules that guide Finland's fiscal policy, and compares them with the forecast by the Ministry of Finance. The table illustrates that we are yet far from the goal when it comes to central government finances. Social security funds are close to their target and it appears that the objective set for the financial standing of the local government will be met.

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

Public finance sector	Variable	Target for 2019: % GDP	Forecast for 2018: % of GDP
Government's budgetary targets for the parliamentary term			
Central government	Deficit	no more than 0.5 %	-2.1 %
Local government sector	Deficit	no more than 0.5 %	-0.2 %
Social security funds			
- Earnings-related pension funds	Surplus	approximately 1.0 %	0.8 %
- Other social security funds	Financial standing	approximately 0.0 %	0.1 %
General government finances	Debt	debt-to-GDP ratio in 2019 < in 2018	60.2 %
EU rules			
General government finances	Deficit	3.00 %	-1.3 %
	Debt*	60 %	60.2 %
	Medium-term budgetary objective (MTO) for structural budgetary position**/***	-0.50 %	

* The interpretation of the EU's debt rule also takes into account e.g. the speed of debt reduction in the past and the future.

** Under the Stability and Growth Pact, EU Member States are obligated to set a medium-term budgetary objective (MTO) for the structural deficit of general government finances. The structural deficit of 0.5% in ratio to GDP has been set as Finland's MTO. The Government aims to reach the MTO in 2019. More information in chapter 3 on the general rationale of the budget.

*** The estimate of the structural deficit for 2018 will be updated in the spring of 2018.

Finland's general government fiscal targets are also governed by EU regulations, most significant of which is the Stability and Growth Pact, which requires that Member States maintain structural balance in general government finances and avoid excessive debt.

4 Budget 2018

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

4.1 Revenue, expenditure, deficit and debt

Revenue

In 2018, central government on-budget revenue (excluding net borrowing) is estimated to be approximately EUR 52.7 billion, with tax revenue accounting for approximately 83%, i.e. EUR 44.0 billion. Tax revenue is estimated to grow by 4.4% in 2018. Diagram 4 examines only the development of tax revenue between 2004 and 2018. The diagram demonstrates that, during the previous decade, the focus of central government taxation has been shifting increasingly towards indirect taxes and that e.g. certain excise taxes and energy taxation have been increased on several occasions. On the other hand, the impacts of tax criteria changes on the tax revenue have been dampened by the modestly developed tax base.

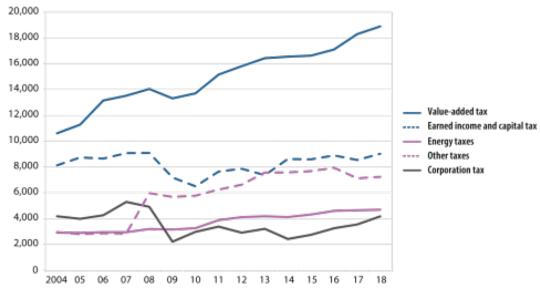


Diagram 4. State tax revenue by type 2004–2018, EUR million

Expenditure

The allocation of appropriations, i.e. central government expenditure, to different purposes depends on political decisions, economic structures and economic cycles. In 2018, a significant share of the appropriations of the central government budget will be allocated to social security (36%). Diagram 5 illustrates where Finland will allocate its appropriations in 2018.

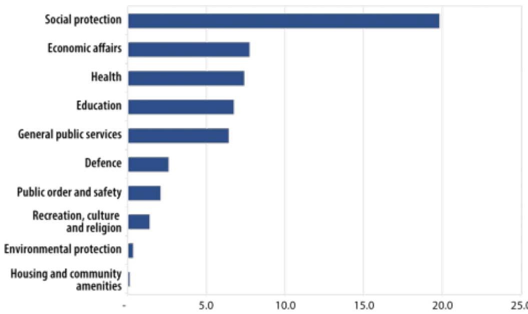


Diagram 5. Budget appropriations in 2018 by function (COFOG), EUR bn

Compared to the previous budget, there will be expenditure growth of around 0.6% in 2018. Among the largest expenditure items, based on the expenditure categories presented in Diagrams 5 and 6, there will be an increase in the expenditure on social protection, defence, health care and public order and security. Despite the decrease in unemployment-related expenses, social security expenditure will grow by almost 2%, which is also illustrated by Diagram 6. Factors contributing to this development include the expansion of the general housing allowance as well as the continuation of rapid growth in costs resulting from the Health Insurance Act and pension expenditure. The transferral of students to within the scope of the general housing allowance will reduce expenditure on education and transfer it to expenditure on social security in the context of this review. The reduction of health insurance contributions by employers in connection with the Competitiveness Pact will raise central government expenditure arising from the Health Insurance Act. The growth in health care expenditure can be explained by the increase in resources related to the preparation and implementation of the health, social services and regional government reform, which in this category is technically defined as part of health care expenditure.

The sharpest increase among the expenditure categories presented in Diagram 6 is in the smallest category, namely expenditure on housing and community amenities. However, the Diagrams show only the expenditure of the budget. 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. This means that the budget expenditure on housing and community amenities is only 0.2% of the total expenditure. More significant factors reducing the total expenditure include the decline in resources allocated to the promotion of business and industry despite the fact that more funds are spent on, for example, the development and maintenance of transport infrastructure compared to the previous year.

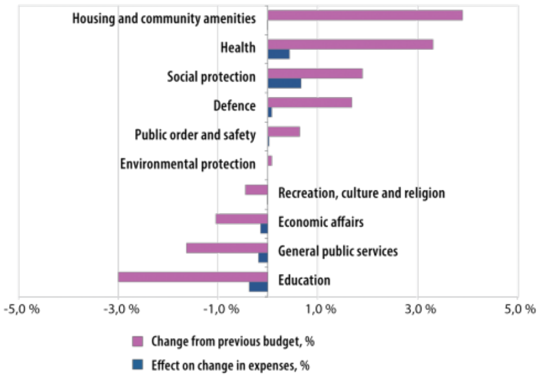


Diagram 6. The percentage change in appropriations by function and effect on the percentage change in expenditure

Part of the revenue in the central government budget are obtained from the European Union, while, on the other hand, Finland also makes contributions to the EU. At central government level, Finland is expected to contribute around EUR 1.9 billion to the EU budget and the European Development Fund in 2018. Finland's contributions will be EUR 19 million less than the contributions in the 2017 Budget. Finland is expected to receive approximately EUR 1.2 billion from the EU budget, which is EUR 98 million less than the projected figure for 2017. The relationship between EU revenue and expenditure in the central government finances is illustrated in Table 5. In accordance with the budget of the EU for 2018, EU funding will be allocated to addressing challenges related to migration and the situation with refugees, improving the security of the citizens of EU Member States, and additional contributions related to strategic investments and sustainable growth.

Table 5. Flow of payments between Finland and the EU 2016–2018, EUR million

Central government expenditure	Final accounts 2016	Budget 2017	Budget 2018
On-budget finances			
VAT payment	280	285	285
GNI payment	1,309	1,488	1,457
Finland's share of the UK budgetary rebate	129	130	139
EU PAYMENTS TOTAL	1,717	1,903	1,881
European Development Fund	53	54	57
Total	1,770	1,957	1,938
Central government revenue	**Final accounts 2016**	**Budget 2017**	**Budget 2018**
On-budget finances			
Agricultural support	538	545	537
Rural development support	397	310	320
Subsidies from structural funds and cohesion funds	137	170	230
Customs duties and other levies	39	31	36
Other revenue	71	24	55
Off-budget finances			
Intervention Fund of Agriculture	0	0	0
Fund for Agricultural Development	0	0	0
Total	1,183	1,080	1,178
Customs duties, agricultural payments and sugar payments collected on behalf of the EU	124	124	144

Deficit

The budget for 2018 shows a deficit of approximately EUR 3.1 billion, which will be covered by increased borrowing. The deficit will decrease compared with the figure budgeted for 2017 (taking into account already approved supplementary budgets). In national accounting terms, the central government deficit for 2018 is expected to be approximately 2.1% in ratio to GDP. Central government on-budget activities have shown a deficit since 2009. The situation is illustrated in Diagram 7.

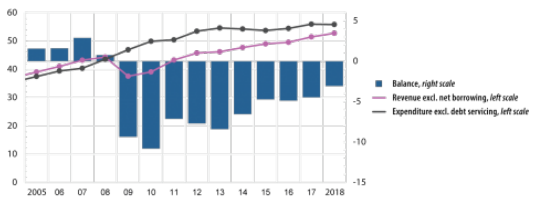


Diagram 7. Central government budget revenue, expenditure, and balance 2005–2018, EUR billion

Debt

At the end of 2018, central government debt (including debt of off-budget entities) is expected to be approximately EUR 109 billion, which is approximately 46% in ratio to GDP. Diagram 8 illustrates that central government debt has more or less doubled during the previous ten years.

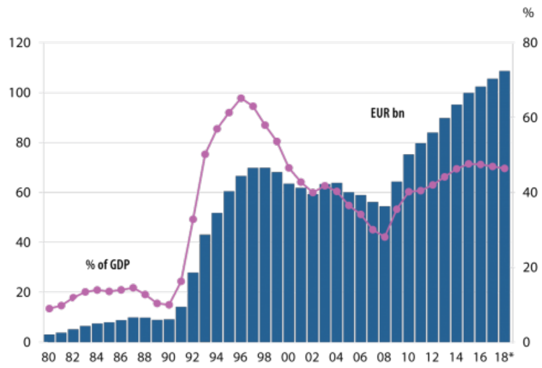


Diagram 8. Central Government Debt 1980–2018

4.2 Excerpts from tax and allocation decisions in budget for 2018

TAX CRITERIA CHANGE

In 2018, the Government will continue to reduce taxation to compensate on the increase in wage and salary earners' contributions. Taxation of labour will be reduced by EUR 300 million. Earned income tax criteria will also be alleviated to correspond with the change in the consumer price index in 2018. The validity of the fixed-term reduction of the minimum level of the solidarity tax will be continued. The fixed-term child deduction will expire at the end of 2017. The reduction in the deductible proportion of mortgage interest will be continued in accordance with the Government Programme. The structure of the public broadcasting tax will be changed based on a proposal by a parliamentary working party so that those on the lowest incomes will be exempt from the tax.

The tax on alcohol will be raised by EU 100 million. The energy taxes on transport fuels and heating and power plant fuel are raised by EUR 45 million net.

The tobacco tax will continue to be raised in stages in 2018 and 2019. In 2018, the tax will be raised by EUR 68 million. Vehicle taxation will be reduced in total by some EUR 182 million in years 2016–2019. The suspension of the rail goods transport tax and the halving of fairway dues will be continued until the end of 2018.

The central government will compensate municipalities for the detrimental impact on local government finances of the reduction of early childhood education and care costs by increasing central government transfers to municipalities for basic public services by EUR 25 million and by raising the municipalities' proportion of corporation tax revenue by EUR 60 million.

GENERAL PUBLIC SERVICES

EUR 6.8 million is allocated to the Prime Minister's Office in 2018 for costs incurred as a result of the forthcoming Presidency of the Council of the European Union. Finland will hold the Presidency of the Council of the European Union from 1 July to 31 December 2019.

EUR 0.6 million is allocated for the arrangements for the year of remembrance of the Finnish Civil War 1918 and the preparations and coordination of the centenary of the flag of Finland (29 May 2018). The Finland 100 project will be utilised in preparing and carrying out the celebrations.

EUR 1 million is allocated for the development of electronic service channels for financial and debt counselling in 2018.

For the preparation of the health, social services and regional government reform, an appropriation of EUR 181 million is allocated for the launch of county government, establishment of service centres, and support for ICT changes. EUR 100 million is allocated for the implementation of the freedom of choice pilots of the health and social services reform in 2018. For more information, see 4.3.2.

An additional EUR 15.9 million for election expenditure is allocated for the preparations to the county elections in October 2018.

DEFENCE

An additional EUR 50 million is allocated for the operating costs of the Finnish Defence Forces for the purpose of improving preparedness required by changes in the security environment and EUR 2 million for hiring contractual military personnel.

EUR 13.5 million more is allocated to military crisis management compared to the actual budget for 2017. The addition is primarily due to the continuation of the training operation in Iraq and Finland's participation in the Lebanon operation with a larger force than previously determined.

PUBLIC ORDER AND SAFETY

An increase of EUR 52.5 million is allocated for police appropriations for purposes such as safeguarding operations, increasing equipment and gear, enhancing operative performance and capacity to prevent cybercrimes, more effective asylum-seeker returns and preventive work against terrorism. The police are also granted additional funds of EUR 0.47 million for purposes such as surveillance of the street trade in drugs, surveillance of foreigners for the purpose of locating missing persons, and to safeguard and develop the school-related police work of police departments.

An additional EUR 9.2 million is allocated for the Finnish Security Intelligence Service for the purpose of enhancing capacity due to new threats and changes in the operating environment.

An increase of approximately EUR 14 million is proposed to the Border Guard appropriations for purposes such as improving internal security, equipment procurement and checks performed at external borders, for instance due to the increase in external border traffic at Helsinki Airport.

An additional EUR 0.4 million is allocated to the Emergency Response Centre Administration to address its staffing shortfall. An additional appropriation of EUR 0.3 million is allocated to the Emergency Services College for increasing the education volume for emergency response centre operators.

An increase of EUR 0.4 million is allocated for improving the operating conditions of the prosecution service in preventing terrorist crimes and implementing criminal justice.

An additional EUR 0.4 million is allocated to the Criminal Sanctions Agency for the purpose of preventing violent radicalisation and activities by fundamentalist movements in prisons.

To enable faster processing of appeals on asylum decisions and getting rid of long waiting times for the processing of the appeals, an additional EUR 1.49 million is allocated for the supreme administrative court and an additional EUR 2.2 million for other courts of law. Additional funding of approximately EUR 0.5 million is granted for legal aid for asylum seekers.

It is estimated that in 2018 there will be 4,000 asylum-seekers. Immigration-related expenditure is expected to decrease by approximately EUR 150 million overall, in comparison with the actual budget for 2017.

ISSUES RELATED TO BUSINESS AND INDUSTRY

An additional EUR 25 million is allocated for the employment services for the implementation of an activation model for unemployment security.

An additional EUR 5 million is allocated for the Ohjaamo one-stop guidance activities related to the Youth Guarantee and EUR 3 million for constructing psychosocial support services for young people in connection to the Ohjaamo service points.

Business Finland, which will begin its operations at the beginning of 2018, will join the services related to innovation funding, export, investments and tourism promotion of Tekes and Finpro under one roof.

A new capital loan of EUR 30 million is allocated for industrial renewal and the development of company-driven business ecosystems. Capital loans will be granted for growth-oriented business start-ups whose impact is in the form of a broad-based increase in the potential for using innovations and as business renewals.

An addition of EUR 20 million is made in authorisation for energy subsidies. The appropriation reserved for renewable energy production subsidies will increase by EUR 40.7 million. A Government proposal on banning the use of black coal in energy recovery will be prepared in 2018. Additional appropriation totalling EUR 7 million is allocated for circular economy investments, developing growth ecosystems and promoting innovative procurement.

EUR 5 million is allocated for the payment of regional transport subsidy.

EUR 8 million is allocated for the renewal of the vehicle stock and the promotion of low-emission traffic through the continuation of the scrapping incentive programme. An additional annual allocation of EUR 6 million is granted to support the acquisition of vehicles that operate solely on electricity and the conversion of gas and flexfuel vehicles. The construction of a recharging and distribution network, the process of electrification for logistics in built-up areas and public passenger transport in urban regions will also be supported.

The appropriation for rural development is to increase by approximately EUR 43 million primarily due to the progress of the implementation of the Rural Development Programme as well as the appropriation reserved for interest subsidy expenditure.

In total, EUR 8 million in additional funding is allocated for the implementation of the Tourism 4.0 key project. The purpose is to allocate funding to tourism marketing, improvement of digital competence in travel companies and development of the availability of services around the year. In addition, an increase of EUR 0.9 million is allocated for developing nature services.

Approximately EUR 33 million in appropriations is reserved in 2018 for new transport infrastructure projects, including the Ring Road I at Laajalahti, the Vuosaari and Kokkola fairways, the feeder traffic arrangements on the Western Metro extension, the Kirri-Tikkakoski section of main road 4 and the Hailuoto fixed link. A further EUR 2 million will be spent on improving level crossings and EUR 11.8 million on basic transport infrastructure management, in addition to the key project funding.

ENVIRONMENTAL PROTECTION

An additional appropriation of EUR 8 million is allocated for the protection of old forests (Forest Biodiversity Programme for Southern Finland, METSO).

EUR 2 million is allocated to wood construction.

An increase of EUR 0.85 million is allocated for reviving migratory and endangered fish stocks (fish passages).

EDUCATION

Early childhood education and care fees will be reduced by EUR 70 million beginning on 1 January 2018. In 2018–2019, an extensive pilot project will be launched on free early childhood education and care for five-year-olds. EUR 5 million of funding is allocated for the project.

An additional appropriation of EUR 25 million is allocated for enhancing equality in comprehensive schools. EUR 5 million is allocated for strengthening the instruction in natural sciences and mathematics.

Additional funding of EUR 15 million is allocated for the implementation of the reform of vocational education and training. The provision of vocational training will be increased by 1,000 student-years in order to ease youth unemployment and to address skills needs. The increase in appropriations allocated for this is EUR 9.4 million.

Students transferred to within the scope of the general housing allowance on 1 August 2017.

A parent supplement will be introduced to the financial aid for students taking care of a child under 18 years of age. This will result in a need for additional appropriation of EUR 10 million.

SOCIAL SECURITY INCL. EARNINGSRELATED PENSIONS

Due to the growing volume of pension expenditure and related index adjustments, an addition of EUR 117 million is allocated for the pensions and compensation paid for by the central government.

It is expected that unemployment benefit expenditure will decline by EUR 153 million, e.g. as the unemployment rate is projected to fall. The activation model for unemployment security is expected to reduce the expenditure on unemployment security by EUR 9.5 million in 2018. On the other hand, the Unemployment Security Act will be amended so that people on unemployment security will be able to launch business activities. The intention is also to make it easier to use unemployment security for short-term studying. Additional appropriations of EUR 10 million and EUR 3.5 million are allocated for these purposes.

An increase of approximately EUR 14 million is allocated for pay subsidies in 2018. Young people will also be directed from the Employment and Economic Development Offices to services offered by, for instance, private service providers. Service providers will be paid on a results basis, which means payment will be based on the extent to which young people progress towards training or work. The target for this performance-based procurement is set at 10,000 young people below the age of 30, which will bring the estimated costs to EUR 15 million.

EUR 8 million a year is allocated for raising minimum allowances, i.e. sickness allowance, parental allowance, rehabilitation allowance and special care allowance.

An appropriation of EUR 9.5 million is allocated for raising the amount of the single-parent supplement of the child benefit. EUR 1.7 million is allocated for the purpose of raising maternity grant.

Adjusting housing costs based on the cost-of-living index instead of the rent index has been taken into account in the housing allowance. Maximum housing costs will also be frozen. These reforms will reduce housing allowance expenditure by around EUR 24 million next year. At the same time, basic subsistence expenditure will increase by EUR 10 million.

EUR 18 million is allocated for increasing the guarantee pension and EUR 10 million is allocated for increasing the basic rate of the care allowance for pensioners in 2018.

An additional appropriation of EUR 4 million is allocated to ensure the availability of shelter places.

Next year, it is proposed that new central government compensation for municipalities be introduced for the urgent social welfare costs of individuals living in the country illegally. An appropriation of around EUR 5.3 million is reserved for this purpose.

EUR 1 million will be allocated for the prevention of economic problems of people living in rental housing.

4.3 Local government finances and the regional government reform

The central government funds the operations of municipalities with central government transfers and discretionary government transfers provided through the government aid system. Central government cannot directly influence t he e xpenditure i n municipalities; instead, this is governed by legislation set by the Parliament and the decisions made by the municipalities. The local government finances programme and chapter 7 of the general rationale of the budget describe the state of local government finances and the impact of central government measures on local government finances in further detail.

4.3.1 Local government finances: revenue, expenditure and financial standing

In 2018, the revenue of municipalities is expected to comprise of tax revenue (53%), operating income (22%), central government transfers (20%) and other revenue (4%). It is estimated that 48% of municipalities' expenditure will be allocated to wages and salary, 33% to procurement of services and materials, 11% to investments and 8% to other expenditure. Distribution of municipalities' revenue and expenditure is illustrated in DIagram 9.

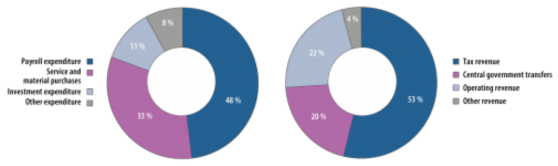
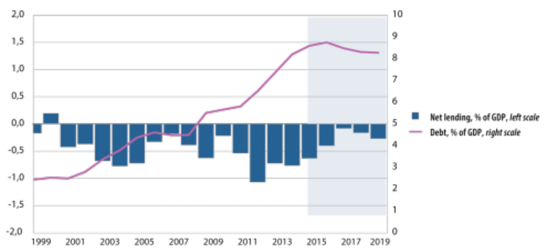


Diagram 9. Distribution of municipalities' revenue and expenditure in 2018, %

Based on the Government's budgetary targets for local government finances, local government net lending (on a National Accounts basis) may not exceed -0.5% in ratio to GDP in 2019. Based on current forecasts, this goal will be reached in 2019. In 2018, the deficit of the local government sector is estimated to be -0.2% relative to GDP and debt is projected to stand at 8.3%. The development of deficit and debt is illustrated in diagram 10. More information on this issue is available in chapter 2.3 of the winter 2017 Economic Survey of the Ministry of Finance.



Source: Statistics Finland, Ministry of Finance

Diagram 10. Net lending and debt in the local government sector, % of GDP

Central government measures affect the revenue and expenditure of municipalities. The net impact of the central government measures will weaken local government by around EUR 45.6 million in 2018. The weakening is due above all to statutory adjustment to the division of costs between the central government and municipalities. The impacts are transferred to municipalities as changes to the tasks, operations and funding of the municipalities decided by the Parliament. The adjustment to the division of costs between central government and municipalities as well as the centralisation of specialised medical care are the most significant measures. The impact of central government measures on municipalities has been analysed in further detail in chapter 7.3 of the general rationale of the budget and chapter 4.2 of the local government finances programme.

4.3.2 Health, social services and regional government reform

The preparation of the health, social services and regional government reform will continue in 2018. The aim is to establish counties beginning on 1 June 2018, at which point the temporary county government will begin its work. The first county council elections will be held in October 2018 and the county councils will begin their operations at the latest in January 2019. The responsibility for the provision of social welfare and health care services and management of the duties of other administrative branches will be transferred to the counties beginning in 2020.

Approximately EUR 181 million in central government budget financing is reserved for the preparations for the implementation of the reform in 2018. The financing will cover the costs of advance preparations and the temporary government, planning and implementation of national information systems, and establishment of the counties' joint service centres. The financing will be used to realise regional and national change management as well as the preparations of the implementation required by the reform also in the Government.

5 Summary

This publication examines the central government budget for 2018.

The main objectives of the Government include bridging the sustainability gap in general government finances and increasing the employment rate. The goal is to bring living on debt to an end in 2021. The Government Programme includes different consolidation measures. The focus of taxation will be shifted from taxing labour and entrepreneurship towards environmentally and health motivated taxation.

The economy is expected to grow further in 2018. The unemployment rate is projected to decline and the employment rate to increase. Nevertheless, the employment situation will recover moderately and there will be a considerable sustainability gap, i.e. an imbalance between revenue and expenditure, in general government finances in the long term due to the ageing of the population.

The total sum of the budget for 2018 exceeds EUR 55.8 billion. The central government on-budget deficit is predicted to amount to approximately EUR 3.1 billion and central government debt is expected to rise to approximately EUR 109 billion.

The budget for 2018 includes investments in, for instance, the support for employment, preparation of the health, social services and regional government reform, freedom of choice pilots in health services, the police and defence as well as the promotion of business and industry. It is expected that unemployment benefit expenditure will decline as a result of the improving employment situation.

The budget for 2018 will also be updated on the www.tutkibudjettia.fi website which allows examining the budget visually from different viewpoints.

6 Inquiries

Budget Department
Director General
Hannu Mäkinen,
tel. +358 2955 30330

Deputy Head of Budget Department
Juha Majanen,
tel. +358 2955 30247

Ministry of Finance

Snellmaninkatu 1 A
PO BOX 28, 00023 GOVERNMENT
Tel. +358 9 295 160 01
Fax +358 9 160 33123

Budget review 2018 – January 2018
ISSN 1797-9714 (zine)
ISBN 978-952-251-925-2 (zine)
Ministry of Finance publications 2c/2018

7 Reading instructions and printable version

The budget review is a Mobile Zine HTML-5-based publication also suitable for mobile devices. This digital publication is readable on all devices regardless of their operating system or screen size (computers, tablets, smartphones and TV receivers with a web browser). The content of the publication is automatically scaled to the currently active screen size. You can enlarge pictures and diagrams to full screen size by clicking them.

When reading the publication on your computer, you can easily move from one page to another using the keyboard arrow keys, and on a touch-screen device by swiping the screen to the right or left.

Feedback

How did you like our web publication?
Please share your opinion with us at
Julkaisutuotanto@vnk.fi.