



MINISTRY
OF FINANCE

Budget review 2022

Review on central government budget, January 2022

Economic Policy

Publications of the Ministry of Finance – 2022:3

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Abstract

The publication examines the 2022 Budget, which was adopted by Parliament in December. The aim is to provide a concise description of the central themes of the 2022 Budget. The budget is based on an independent economic forecast produced by the Economics Department at the Ministry of Finance, which is presented in the Economic Survey.

In 2021, the gross domestic product (GDP) is expected to grow by 3.4 per cent. Due to the acceleration of the coronavirus pandemic and related restrictive measures, this growth will remain slower than previously estimated at the turn of the year, but GDP will continue to grow by 3.0% in 2022. Economic recovery will continue and growth will accelerate in 2022, especially in those sectors where production has not yet returned to its pre-pandemic level, such as accommodation and catering services.

The general government deficit, which was increased substantially as a result of the coronavirus situation, will rapidly decline in the next few years. The rapid economic growth and the end of the support measures prompted by the coronavirus pandemic will strengthen general government finances. However, general government finances will still remain in deficit after a short period of economic upturn. There is a structural imbalance between expenditure and revenue in general government finances.

The appropriations in the budget for 2022 amount to EUR 64.9 billion. The central government on-budget deficit is predicted to amount to EUR 7 billion. Compared to the actual 2021 budget, the expenditure will decrease by EUR 0.3 billion, particularly as a result of a decline in expenditure related to the coronavirus outbreak. Meanwhile, the expenditure will be increased by statutory and contractual index increases, the transition costs resulting from the reform of healthcare and social welfare and rescue services, payments to the European Union and a change in the timing of the funding for the wellbeing services counties.

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

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Budjettikatsaus 2022

Katsaus valtion talousarvioon, tammikuu 2022

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Julkaisija	Valtiovarainministeriö		
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Tiivistelmä

Tässä julkaisussa tarkastellaan vuoden 2022 talousarviota, jonka eduskunta hyväksyi joulukuussa. Tarkoituksena on tarjota tiivis kuvaus valtion budjetin keskeisistä teemoista vuonna 2022. Talousarvio pohjautuu valtiovarainministeriön kansantalousosaston riippumattomaan talousennusteeseen, joka esitellään Taloudellisessa katsauksessa.

Vuonna 2021 bruttokansantuotteen (BKT) arvioidaan kasvavan 3,4 prosenttia. Koronaviruspandemian kiihtymisen ja rajoitustoimien vuoksi kasvu jää vuodenvaihteessa aiemmin arvioitua hitaammaksi, mutta BKT kasvaa edelleen 3,0 prosenttia vuonna 2022. Talouden elpyminen jatkuu ja kasvu kiihtyy vuonna 2022 varsinkin niillä toimialoilla, joilla tuotanto ei ole vielä saavuttanut pandemiaa edeltävää tasoaan, kuten esimerkiksi majoitus- ja ravitsemustoiminnassa.

Koronavirustilanteen myötä isoksi kasvanut julkisen talouden alijäämä pienenee vauhdikkaasti lähivuosina. Ripeä talouskasvu ja koronaviruspandemian vuoksi päätettyjen tukitoimien vähentyminen vahvistavat julkista taloutta. Julkinen talous jää kuitenkin ripeän suhdannepyrähdyksen jälkeen yhä alijäämäiseksi. Julkisessa taloudessa vallitsee rakenteellinen menojen ja tulojen välinen epätasapaino.

Vuoden 2022 talousarvion määrärahat ovat 64,9 mrd. euroa. Valtion budjettitalouden alijäämäksi ennakoitaan noin 7 mrd. euroa. Menotaso laskee vuoden 2021 varsinaiseen talousarvioon verrattuna 0,3 mrd. eurolla erityisesti koronavirustilanteeseen liittyvien menojen laskun myötä. Vastaavasti menotaso nostavat laki- ja sopimusperusteiset indeksikorotukset, sosiaali- ja terveydenhuollon sekä pelastustoimen uudistuksen muutuskustannukset, maksut Euroopan unionille sekä hyvinvointialueiden rahoituksen ajoitusmuutos.

Asiasanat talouspolitiikka, valtion talousarvio, budjetti, budjetointi, valtiontalous

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Referat

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

År 2021 beräknas bruttonationalprodukten (BNP) öka med 3,4 procent. På grund av den accelererade coronaviruspandemin och restriktionerna blir tillväxten vid årsskiftet långsammare än beräknat, men BNP fortsätter att öka med 3 procent 2022. Den ekonomiska återhämtningen fortsätter och tillväxten ökar 2022 framför allt inom de branscher där produktionen ännu inte nått upp till nivån före pandemin, till exempel inom hotell- och restaurangverksamheten.

Underskottet i de offentliga finanserna, som blivit stort till följd av coronavirusläget, minskar snabbt under de närmaste åren. De offentliga finanserna stärks till följd av den snabba ekonomiska tillväxten och det faktum att de stödåtgärder som det beslutats om på grund av coronaviruspandemin minskar. Efter den snabba konjunkturuppgången uppvisar de offentliga finanserna dock fortfarande ett underskott. Inom de offentliga finanserna råder en strukturell obalans mellan utgifter och inkomster.

Anslagen i budgeten för 2022 uppgår till 64,9 miljarder euro. Statens budgetekonomi beräknas uppvisa ett underskott på cirka 7 miljarder euro. Utgiftsnivån sjunker med 0,3 miljarder euro jämfört med den ordinarie budgeten för 2021 framför allt därför att de utgifter som hänförs sig till coronavirusläget minskar. På motsvarande sätt höjs utgiftsnivån av lagstadgade och avtalsbaserade indexhöjningar, ändringskostnaderna för reformen av social- och hälsovården och räddningsväsendet, avgifter till Europeiska unionen och den ändrade tidsmässiga förändringen av finansieringen för välfärdsområdena.

Nyckelord ekonomisk politik, statsbudgeten, budgeten, budgetering, statsfinanserna

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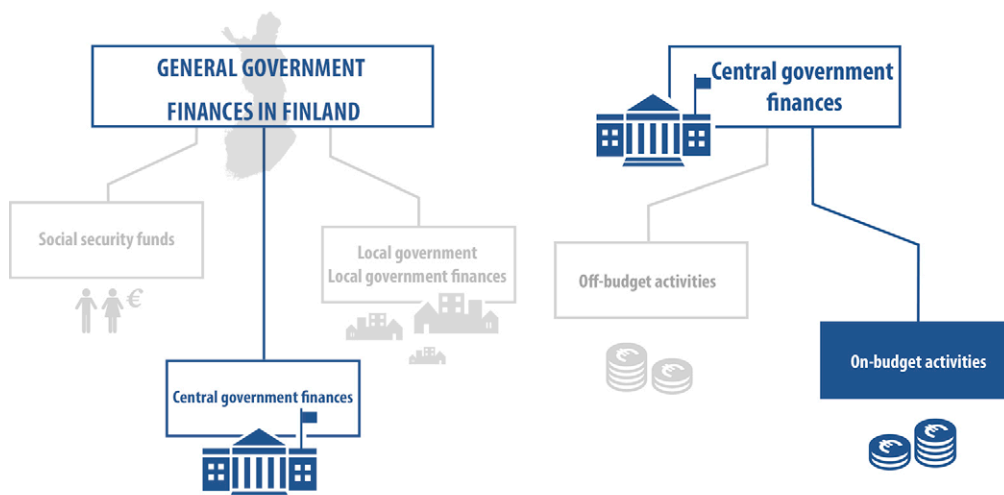
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1 Introduction

General government finances in Finland cover central government, local government and social security funds. Central government finances include the central government budget economy, i.e. on-budget and off-budget activities. The position of central government on-budget activities in central government finances and general government finances is illustrated in Diagram 1. This publication is mainly concerned with central government on-budget activities. The Government's budget for 2022, which was approved by Parliament in December, is the topic of examination. Its purpose is to provide a concise description of the main themes of the central government budget with the help of diagrams and tables, and to guide the reader through the themes in more detail via internet links. The budget is based on an independent economic forecast produced by the Economics Department at the Ministry of Finance, which is presented in the Economic Survey.

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



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.

The central government budget is a plan of the central government's finances and financial management, prepared with reference to the General Government Fiscal Plan published in the spring and Prime Minister Marin's Government Programme. 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 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 determine the approach to all expenditure during the four-year parliamentary term. The allocations for each administrative branch made within the spending limits are reviewed by the Government in April as part of the General Government Fiscal Plan, and the spending limits are updated to correspond to changes in costs, prices and the spending limit expenditure structure. For more information, see <https://vm.fi/en/central-government-spending-limits>.

The total for the budget for 2022 is EUR 64.9 billion. Most of the appropriations will be used for social security. Revenue will mainly come from taxes based on turnover, such as value-added tax, and income taxes, including earned income and capital gains tax. The central government on-budget deficit is predicted to amount to EUR 7 billion and the budgeted central government debt is expected to rise to around EUR 136 billion.

The following chapter gives an overview of the economic outlook for the real economy and general government finances. Chapter 3 is concerned with the Government's economic policy goals and their attainment. Chapter 4 deals with revenue and expenditure estimates, the deficit and debt in the central government budget. Local government finances are also discussed from the viewpoint of on-budget activities. Chapter 5 relates to child-oriented budgeting as piloted in the 2022 budget and chapter 6 gives a summary of the survey.

2 Economic outlook

The Ministry of Finance Economic Survey deals with the national and global economic outlook, economic policy and general government finances.

2.1 The real economy

Gross Domestic Product (GDP) is expected to have grown by 3.4% in 2021. Because the COVID-19 pandemic has spread so rapidly and containment measures have had to be introduced, growth at the turn of the year will be slower than predicted earlier, but GDP will continue to grow by 3% in 2022. Economic recovery will continue and growth will accelerate in 2022, especially in those sectors where production has not yet reached its pre-pandemic levels, such as in hotel and catering.

High levels of household savings and the positive mood of consumers have paved the way for rapid growth in private consumption. Private consumption will continue to increase in 2022 and there will also be rapid growth in private investment. Funding from the Recovery and Resilience Facility of the EU (RRF) will boost private investment, and the assumption is that investment linked to research and development will benefit from this in particular. The prospects for investment in Finnish industry are also good. In 2022, the increase in exports will continue to be robust on account of growth in the world economy. A recovery in the export of services will also serve to speed up the increase in exports.

Economic growth will maintain the demand for labour, which it will also be possible to meet in the short term because the unemployment figure is still high and the Government is taking steps to increase the labour supply. The employment rate is predicted to rise in 2022 by 1.5% and to reach a level of 74% by the year 2024.

Inflation will rise rapidly to 2.6% with the increase in consumer prices in 2022. This is due to the cost of energy, which will keep inflation at that rate around the turn of the year, although there will be a gradual decrease in 2022. It is assumed that the rise in inflation will be temporary. In Finland, inflation will slow down to 1.8% in the period 2023–2024.

The outlook for growth in the world economy will be overshadowed by the prolongation of the pandemic, disruptions in supply chains and rapidly accelerating inflation.

Disruptions in the supply chains and the rise in the cost of energy partly account for the fast rise in consumer prices. Inflation pressures are predicted to ease generally in 2022.

Table 1. Trends in the national economy 2019–2022

December 2021 forecast	2019*	2020*	2021**	2022**
GDP at market prices (EUR bn)	240.1	236.2	248.6	262.4
GDP, change in volume (%)	1.3	-2.9	3.4	3.0
Unemployment rate (%)	6.7	7.7	7.6	6.7
Employment rate (%)	71.6	70.7	72.4	73.5
Consumer price index, change (%)	1.0	0.3	2.2	2.6
Interest rate (10 year bonds) (%)	0.1	-0.2	-0.1	0.0

* Advance information

** Forecast

2.2 General government finances

The general government deficit that increased so much with the COVID-19 pandemic will decrease speedily in the next few years. Brisk economic growth and a reduction in the support measures prompted by the COVID-19 situation will strengthen general government finances. However, general government finances will remain in deficit after a short upturn in the economy. The structural imbalance between general government expenditure and revenue will persist.

The COVID-19 pandemic meant that the general government debt-to-GDP ratio has risen to a level that is ten percentage points higher than before the crisis. The rise in the debt-to-GDP ratio will level off this year, start to dip and continue to decline next year. A strong increase in GDP would have a favourable impact on the debt-to-GDP ratio. Public debt also takes account of an updated estimate for the financing of the HX project. Owing to that update, there will be a lower than expected borrowing need in 2021 and 2022. The mid-term debt-to-GDP ratio will see an increase again. The general government debt-to-GDP ratio will remain at a significantly higher level than before the pandemic, which will heighten the risk to public finances.

Central government has borne most of the expenses incurred in the support measures prompted by the COVID-19 outbreak. In fact, central government is the general

government sector with the highest deficit. Driven by economic growth and the end of support measures, the central government deficit will fall in 2022.

The local government budgetary position will once again see a deficit following a temporary period of balance of payments equilibrium. In 2023 the structure of Finland's government will change, as the responsibility for health and social services and rescue services will be transferred from the municipalities (local authorities) to the wellbeing services counties. This will ease the structural spending pressures facing municipalities resulting from the ageing population. The wellbeing services counties will commence operations in deficit. This slight deficit will be due to the considerable investment made.

As a result of the strong growth in contributions accompanying a rise in employment, the financial position of employment pension institutions will improve. The improvement will also be the result of the rise of contributions in the private sector, which will compensate for their reduction in 2020. The surplus will, however, remain fairly moderate in the coming years as pension expenditure continues to grow and very low interest rates slow down growth in the institutions' property income. A reduction in unemployment will help ease the situation that other social security funds find themselves in.

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

December 2021 forecast, % of GDP	2019	2020*	2021**	2022**
Taxes and social security contributions	42.2	42.1	43.5	42.0
General government expenditure	53.2	57.3	55.9	53.7
General government net lending	-0.9	-5.5	-2.8	-2.1
• central government	-1.1	-5.5	-3.3	-2.5
• local government	-1.2	0.0	-0.2	-0.7
• employment pension schemes	1.1	0.1	0.8	1.0
• other social security funds	0.3	-0.1	0.0	0.1
General government debt	59.5	69.5	67.7	67.1
Central government debt ¹⁾	44.3	52.9	51.8	51.3

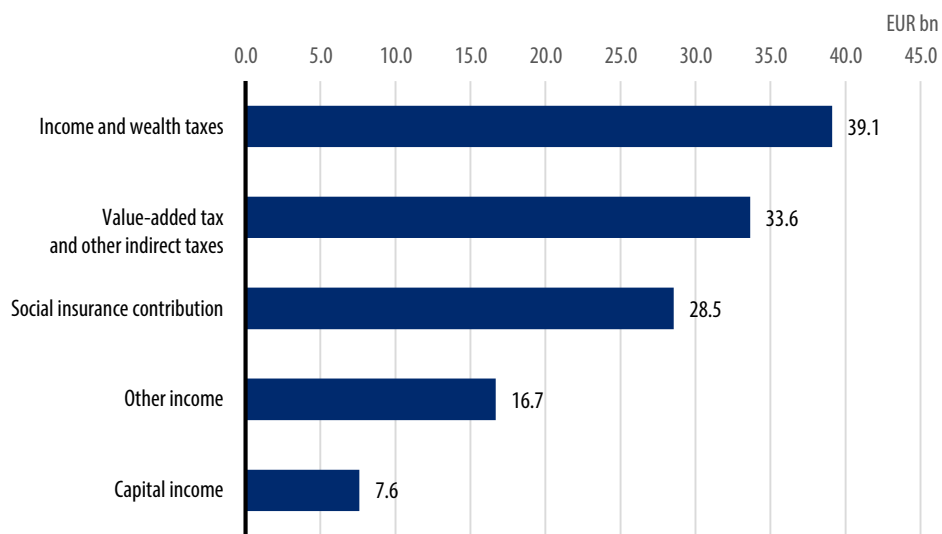
* Advance information

** Forecast

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

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

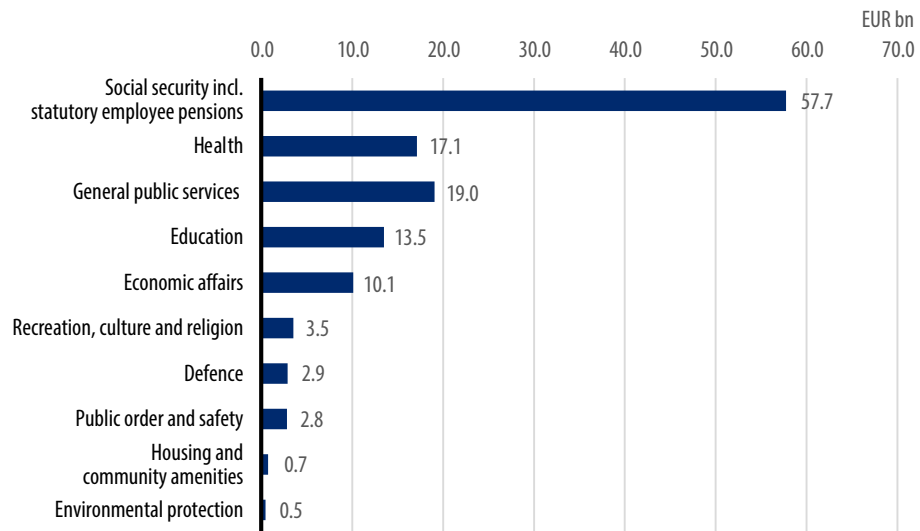
Diagram 2. General government revenue in 2019, EUR bn. Source: Statistics Finland



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

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

Source: Statistics Finland, National Accounts



3 The Government's approach to economic policy

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

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

The fiscal policy approach is structured in such a way that the central government expenditure path will see a gradual decline towards the end of the parliamentary term from an exceptionally high level in the period 2020–2021, continuing to fall even after the parliamentary term is over. In its mid-term policy review in spring 2021, the Government decided to increase the spending limits for 2022 and 2023, and the reserve introduced in 2021 used to meet one-off expenditure needs and the expenses necessary for fiscal policy purposes arising from the COVID-19 situation. On the other hand, a decision was made to reallocate spending limits expenditure permanently to the tune of EUR 370 million as of 2023.

Fiscal policy objectives and rules

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

EU legislation sets a 3% reference value for the general government deficit and a 60% reference value for the debt-to-GDP ratio. In addition, in accordance with EU and Finnish legislation, a medium-term objective is set for the general government structural balance.

In autumn 2019, the Government set the medium-term target for the general government structural budgetary balance at -0.5% in relation to GDP. This is the minimum

level to which Finland has committed to in the Fiscal Compact. The General Government Fiscal Plan also set multiannual targets for the total general government budgetary position, expenditure and debt consistent with the achievement of the medium-term target and the goal set for fiscal balance in the government programme.

On 20 March 2020, the European Commission published a communication whose purpose was to activate the general escape clause of the Stability and Growth Pact as a result of the severe economic recession caused by the COVID-19 situation across the EU and the need to respond to this with adequate public investment. In their joint opinion published on 23 March 2020, the Member States expressed their support for the activation of the clause. The general escape clause allows the Member States temporarily to depart from the adjustment path towards the medium-term budgetary objective, provided that this does not endanger fiscal sustainability in the medium term.

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

Central government spending limits

The Government is committed to the central government spending limits system, which restricts the level of expenditure 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.

In its mid-term policy review in spring 2021, the Government noted that, due to issues such as changes in the COVID-19 situation, the overall picture of Finland's economy and fiscal policy needs was significantly different from what it had been in autumn 2019, when the spending limits were set for the parliamentary term. With regard to these spending limits, the Government was faced with a situation in which there was not enough room for manoeuvre within the limits as regards unforeseen changes in expenditure and the implementation of all the reforms deemed necessary by the Government. As a result,

in its mid-term policy review, the Government decided to increase the spending limits for 2022 and 2023. They were increased by EUR 900 million for the year 2022 and by EUR 500 million for 2023. In the third supplementary budget for 2021, the reserve set aside for one-off expenditure prompted by the COVID-19 situation was also increased by EUR 1.35 billion to EUR 1.85 billion.

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

Fiscal policy measures and the general government sustainability roadmap

According to the sustainability roadmap, the key measures for strengthening general government finances are:

- increased employment and reduced unemployment
- reinforcing the framework for economic growth
- increased productivity in public administration and measures to boost cost-effectiveness
- reforms in health and social services.

The Government will monitor the progress of the measures put in place for the economy in the sustainability roadmap and draft decisions on the packages of measures for the spring 2022 government discussion on spending limits. The progress of this preparatory work will be monitored under the leadership of the chairpersons of cabinet groups in 2021 and in early 2022.

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

Even before the mid-term review of spring 2021, the Government had decided on structural measures to strengthen employment, which, according to the Ministry of Finance, will increase the number of employed people by around 31 000 to 33 000 by 2029. The main single measures include the extension of compulsory education, phasing out the additional days of unemployment security and the Nordic labour market service model, a reduction in early childhood education fees, local government pilot projects

to boost employment, a reform of wage subsidies and measures to strengthen the employment of persons with partial work ability. When assessed at the 2029 level, the measures to promote employment would strengthen general government finances by approximately EUR 300 million, when the costs of employment measures are also taken into account.

In the mid-term review of spring 2021, the Government also decided on measures to increase the number of employed persons by between 40 000 and 44 500. The main measures include the transfer of employment and economic development services to the municipalities and a funding model created in connection with the transfer, which would encourage the municipalities to do more to promote employment, prompt an extension of the work ability programme and the reform of wage subsidies, and inspire a reform of the system of continuous learning. According to a preliminary estimate undertaken by the Ministry of Finance, the measures will strengthen general government finances by some EUR 150 million.

The Government has also pledged to take decisions on employment measures by the end of the government term, which would strengthen general government finances by EUR 110 million. A decision on this package will be made by 15 February 2022.

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

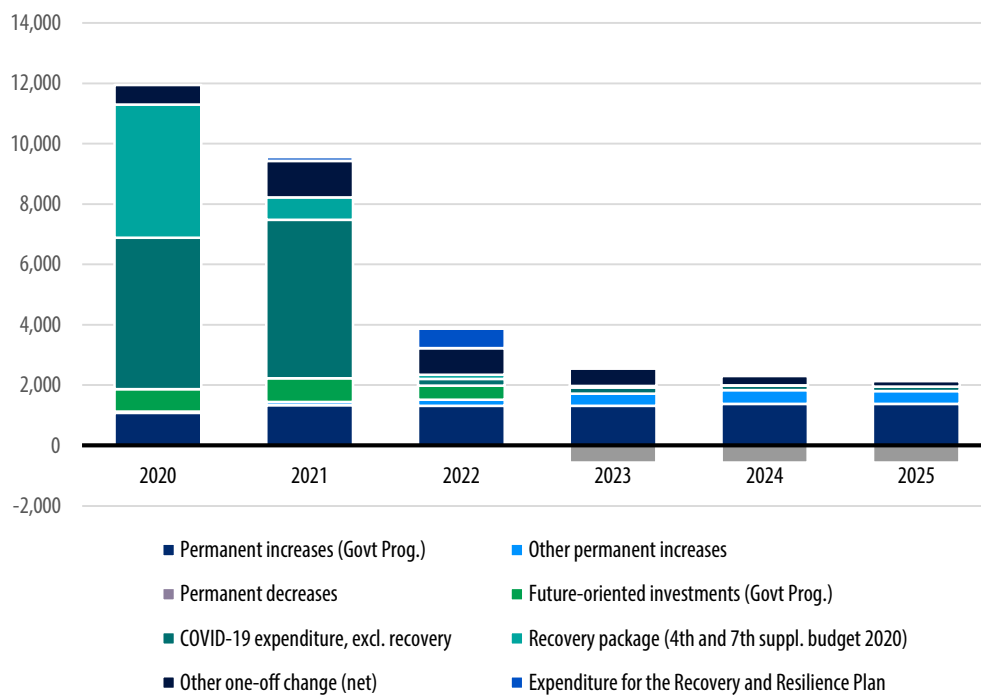
The prerequisites for economic growth will be strengthened by introducing permanent and temporary economic, fiscal, business and growth policy measures (permanent and one-off future-oriented investments under the government programme). In addition, temporary measures have been decided to mitigate the effects of the COVID-19 outbreak. In this way the Government has endeavoured to prevent a long-term negative impact on the economy's growth potential caused by the economic downturn resulting from the COVID-19 pandemic.

The permanent strengthening of general government finances through measures supporting economic growth will require better economic performance than currently. Through its measures, the Government aims to secure long-term R&D funding, make Finland a stronger investment environment, make it easier for companies to invest, strengthen domestic ownership, and ensure the availability of a skilled workforce by stepping up work-based immigration. The implementation of these measures will be monitored in particular by the Ministerial Working Group on Sustainable Growth.

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

The aim of the measures contained in the economic sustainability roadmap to improve the productivity and cost-effectiveness of public administration is to allow the strategic progress in the cost-effectiveness of the public sector as a whole. The goal is to develop social welfare and health care service processes even before the responsibility for organising social welfare and health care services is transferred to the wellbeing services counties as a result of the health and social services reform in 2023. Efforts will also be made to boost the productivity and cost-effectiveness of public administration by improving the space management and procurement services of the municipalities and central government and through the exploitation of digitalisation. The Ministerial Working Group on Health and Social Services and the political management group for public governance reform will be responsible for preparing the measures.

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



In 2022, the Government's discretionary spending increases totalled approximately EUR 3.8 billion compared to the technical General Government Fiscal Plan of spring 2019, as shown in Diagram 4. The diagram also shows the expenditure under Finland's Recovery and Resilience Plan, which is financed by the revenue from the EU's Recovery and Resilience Facility. Without these, the discretionary spending increases amount to EUR 3.2 billion in 2022. Discretionary COVID-related expenditure for 2022 amounts to around EUR 0.4 billion, which is considerably less than in 2021. Around EUR 6 billion in expenditure related to the COVID-19 pandemic was budgeted for 2021.

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

During the parliamentary term, a one-off future-oriented investment programme will be implemented, which will not increase general government expenditure any more in 2023. EUR 466 million has been allocated for 2022 under this programme. Slightly over EUR 80 million in additional investments from the national housing fund will also be allocated in 2022. The future-oriented investment programme will end in 2022. The sales of shares related to the financing of future-oriented investments are expected to take place in 2021 and 2022. Allocating the reserve initially intended for future-oriented investments for purposes other than those listed in the government programme has also been considered reasonable from a structural and stabilisation policy perspective. To the extent that this is the case, expenditure will not be financed by property income.

4 Central government budget 2022

Central government revenue and expenditure are examined in the general budget proposal strategy and outlook in chapters 4 and 5 and in the detailed rationale (available only in Finnish and Swedish). The revenue estimates are dealt with by department and the appropriation estimates by administrative branch.

4.1 Revenue, expenditure, deficit and debt

Revenue

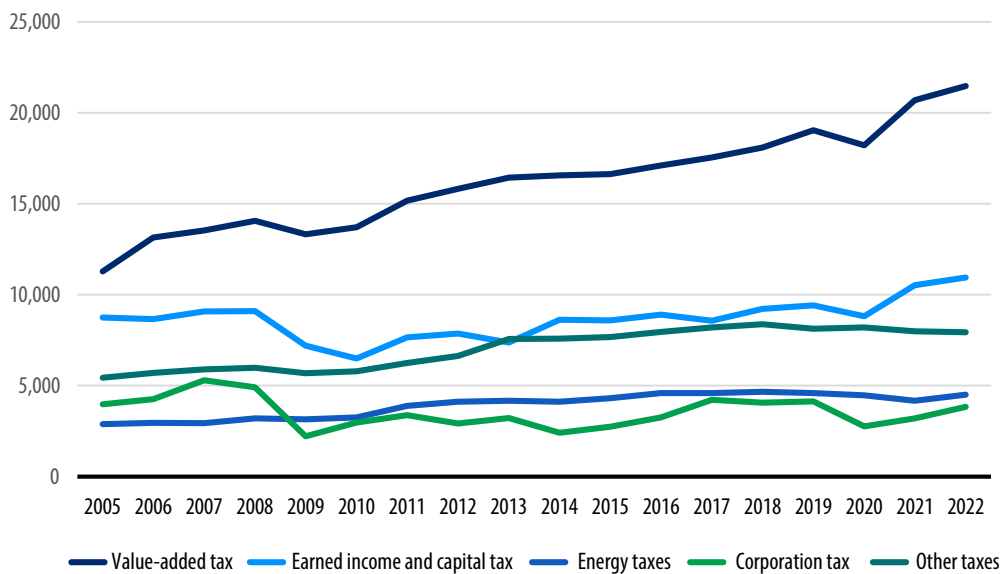
On-budget revenue for 2022, excluding net borrowing, is estimated at around EUR 57.9 billion. Taxes and parafiscal charges account for approximately EUR 48.7 billion (84%). Central government tax revenue is expected to increase by about 4.5%, or EUR 2.1 billion, in 2022 compared to that in the 2021 budget (including supplementary budgets). Compared to the actual 2021 budget, tax revenue is expected to grow by around 7.7%, or EUR 3.5 billion.

Diagram 5 shows the trend in central government tax revenue for key types of tax in the period 2005–2022. Tax revenue growth has been moderate in recent years. In 2020, tax revenue decreased significantly due to the economic impact of the COVID-19 pandemic, but took an upward turn once economic activity recovered in 2021. Part of the tax revenue for 2020 and 2021 will not be paid until 2021 and 2022 respectively as a result of the temporary easing of tax payment arrangements. The impact of the payment arrangements will serve to increase the central government's tax revenue for 2022 by an estimated EUR 0.3 billion. Most of this relates to the payment arrangements for VAT. Value-added tax is the central government's largest single source of revenue. VAT revenue largely relies on the trend in private consumption. Corporate tax revenue depends on companies' profitability, and that is subject to dramatic business cycle fluctuations. During the pandemic, the municipalities' share of corporate tax revenue increased temporarily. In 2022 corporate taxation payable to the State will see an increase due to the better profitability of companies and an increase in the State's share.

The trend in energy tax revenue is relatively subdued, which is explained by the restrained trend in tax bases in such areas 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 subject to lower rates of tax.

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



Expenditure

Budget appropriations total EUR 64.9 billion, which is approximately EUR 0.3 billion less than in the actual budget for 2021. Total appropriations amount to EUR 2.9 billion less than what was budgeted for 2021, including supplementary budgets. The 2021 supplementary budgets allocated significant additional appropriations to management of the COVID-19 situation and stimulating the economy. Taking into account price rises, appropriations for administrative branches will decline by around EUR 1.7 billion, or 2.5%, compared to the actual 2021 budget.

The decline in total appropriations for 2022 compared to the actual 2021 budget is explained by expenditure outside the spending limits, which will decrease by around EUR 2 billion. Correspondingly, expenditure within the spending limits will increase by around EUR 1.7 billion compared to the actual 2021 budget. The decline in expenditure outside the spending limits relates in particular to health security during the COVID-19 outbreak (EUR -1.6 billion) and fiscal investments (EUR -0.6 billion).

Meanwhile, about EUR 0.9 billion of the 2023 funding for the wellbeing services counties is due to be paid in December 2022, which is the main reason for the higher expenditure

compared to the actual 2021 budget. Spending in 2022 will also be increased by statutory and contractual index increases (EUR 0.6 billion), the transition costs resulting from reforms in healthcare, social welfare and the rescue services, (EUR 0.2 billion) and an increase in payments to the European Union (EUR 0.2 billion).

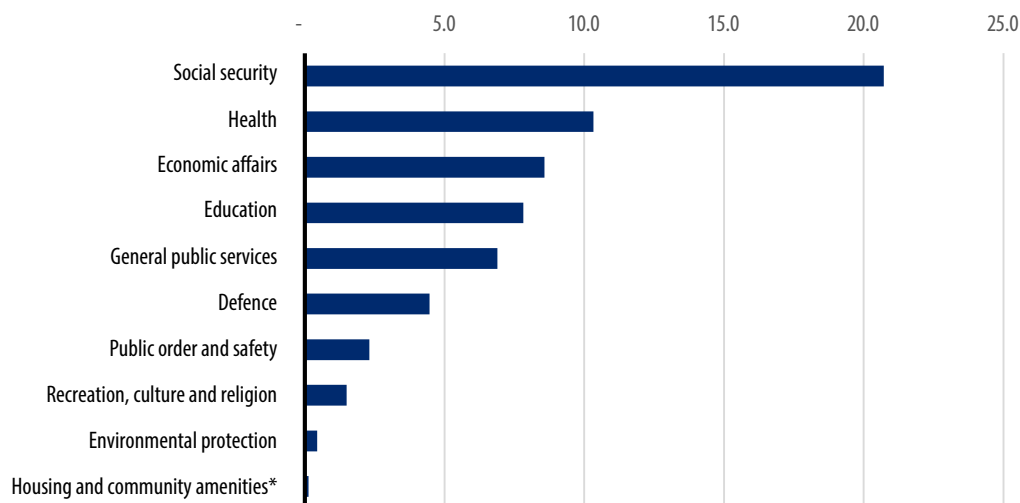
The allocation of appropriations, i.e. central government expenditure, for different purposes depends on political decisions, economic structures and economic cycles. Compared to the actual 2021 budget, total on-budget central government expenditure will decrease by slightly less than 0.5%. However, appropriations have been increased for certain groups.

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

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

The biggest single on-budget increase is the investment in education, which sees a rise of just over 5%. The increase is partly explained by the extension of compulsory education. Defence expenditure rises by slightly less than 2%, which relates to armaments and fighter aircraft procurement.

An examination by task categories indicates that healthcare expenditure will grow by 0,4%. The expenditure related to government grant costs due to the COVID-19 situation in social welfare and healthcare (including investments in testing technology and other testing and tracing) has significantly decreased compared to the previous year. On the other hand, expenditure will be increased by the transition costs related to the health and social services reform and the costs related to introducing the new arrangement, given the fact also that half of the central government funding for January 2023 will actually be paid to the wellbeing services counties in December 2022. As a result, expenditure in this area will remain virtually unchanged compared to the previous year.

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

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

Part of the revenue in the central government budget is received from the European Union, while Finland also pays contributions to the EU. At central government level, Finland is expected to contribute approximately EUR 2.7 billion to the EU budget and the European Development Fund in 2022. Finland's contributions will be EUR 165 million higher than the figure budgeted for 2021. Finland is expected to receive approximately EUR 1.6 billion in revenue from the EU budget, EUR 355 million of which will come from the Recovery and Resilience Facility. How EU revenue and expenditure compare in central government finances is illustrated in Table 3.

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

CENTRAL GOVERNMENT EXPENDITURE	Final accounts 2020	Budget 2021	Budget 2022
On-budget finances			
VAT payment	306	319	294
Plastic payment			69
GNI payment	1,815	2,106	2,242
Finland's share of the UK budgetary rebate	155		
EU PAYMENTS TOTAL	2,276	2,425	2,605
European Development Fund	71	62	47
Total	2,347	2,487	2,652
CENTRAL GOVERNMENT EXPENDITURE			
	Final accounts 2020	Budget 2021	Budget 2022
On-budget finances			
Agricultural support	530	537	530
Rural development support	302	420	370
Subsidies from structural funds and cohesion funds	210	200	220
Customs duties and other levies	35	42	48
Grants from Recovery and Resilience Facility (RRF)		271	355
Other revenue	54	51	46
Off-budget finances	1,131	1,521	1,568
Intervention Fund of Agriculture	0.4	0.1	0.1
Fund for Agricultural Development	0.0	0.0	0.0
Total	1,131	1,521	1,569
Customs duties, agricultural payments and sugar payments collected on behalf of the EU	174	180	192

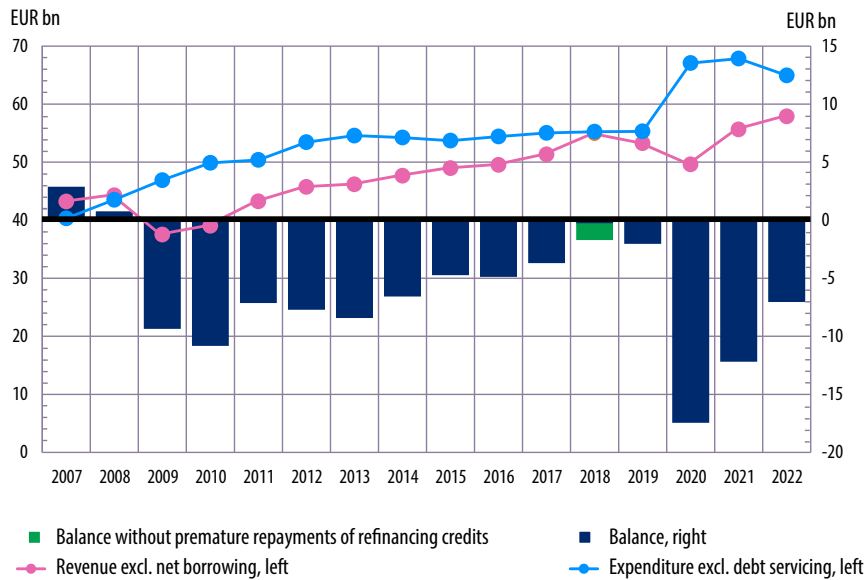
The year 2022 is the second year of the EU Multiannual Financial Framework for the period 2021–2027. Ratification of the new EU financial system, i.e. the system of own resources, at national level was completed in all Member States by the end of May 2021,

and, consequently, the new system of own resources took effect in June 2021. The impact of the new system on Member State contributions will be taken into account retroactively from the beginning of 2021. The Commission proposed additional new sources of Union funding, i.e. new own resources, on 22 December 2021. The proposals concern revenue from the EU Emissions Trading System, the new Carbon Border Adjustment Mechanism, and a national contribution relating to a share of the profits of large multinational companies to be allocated to the EU Member States. The aim of the new own resources arrangement is to alleviate future pressures on membership fees resulting from the repayment of funds borrowed under the Recovery and Resilience Facility. According to the timetable in the EU Interinstitutional Agreement in November 2020, new own resources may enter into force from the beginning of 2023. However, the new own resources arrangement will require a unanimous decision from the Member States and ratification by the national decision-making bodies.

Deficit

The central government budget for 2022 shows a deficit of approximately EUR 7 billion, which will be covered by increased borrowing. Without the impact of the payment of the 2023 funding for the wellbeing services counties in December 2022, the deficit would be around EUR 0.9 billion lower. In national accounting terms, the central government deficit for 2022 is expected to be approximately 2.5% in relation to GDP. Central government budgets have shown a deficit since 2009. In 2020 and 2021, the on-budget deficit was significantly increased by costs related to the COVID-19 outbreak, the decline in tax revenue and measures aimed at economic recovery. The situation is illustrated in Diagram 7.

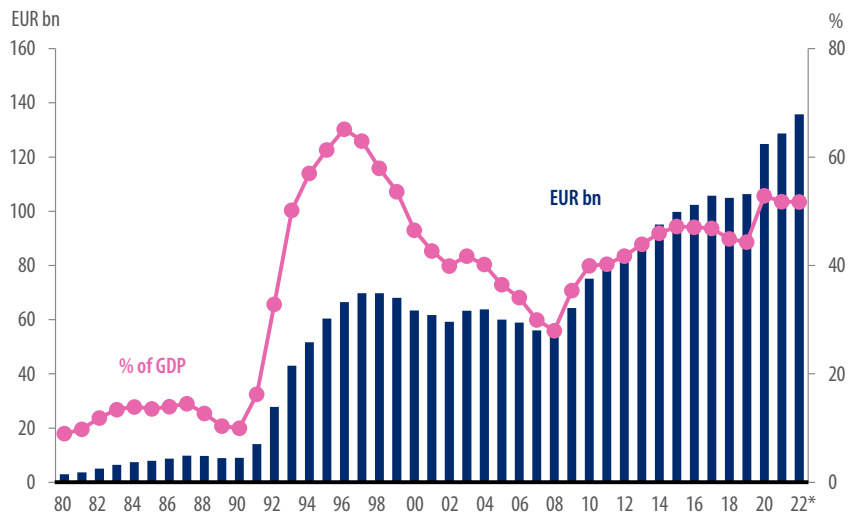
Diagram 7. Central government budget revenue, expenditure, and balance 2007–2022, EUR billion



Debt

At the end of 2022, budgeted central government debt, including the debt of off-budget entities, is expected to be approximately EUR 136 billion, which is approximately 52% in ratio to GDP. Diagram 8 shows that the central government debt-to-GDP ratio took a sharp upward in 2020.

Diagram 8. Central Government Debt 1980–2022



4.2 Extracts from tax and appropriation decisions related to the 2022 budget

Changes to the tax base

Under the government programme, the earned income tax base will be subject to an index adjustment at all income levels, which will reduce annual central government tax revenue by EUR 295 million. The aim of the index adjustment is to avoid an increase in the tax burden as a result of a progressive tax system and higher income levels. Tax revenue will also fall owing to the reduction in the taxable value of low-emission company cars, a fixed-term increase in the domestic help credit for phasing out oil heating and for domestic, care and nursing work, and the continued reduction in lottery tax totalling around EUR 113 million per year. Tax revenue will also be reduced by the waiving of interest deduction restrictions in public infrastructure projects and by the additional 150% reduction in collaborative research related to research and development in the period 2022–2027. Tax revenue will be increased on account of the revision of the interest deduction restriction rule and the reform of the transfer pricing adjustment provision.

Under the government programme, the measures that increase the tax burden mainly relate to excise duties. The aim is to finance some of the permanent spending increases envisaged in the government programme and at the same time to encourage citizens to adopt healthier and more environmentally friendly consumption habits.

Tax relief on paraffinic diesel and tax refunds for energy-intensive companies will continue to be phased out. Tax relief on peat will increase with the extension of the tax-free use of peat to cover all installations and by increasing the threshold to 10,000 MWh. In addition, heat pumps and data centres producing heat for the district heating network and electric boilers will now be in the lower electricity tax category II. In addition, the recycling industry will be in the lower electricity tax category II. The use of biogas in transport will be taxed. Tobacco tax will rise by EUR 117 million in 2022 and 2023 in total. Fully electric cars will be tax-free when purchased, but the basic road tax on fully electric cars will be increased. Halving the fairway dues in shipping will continue, which will reduce tax revenues by EUR 37 million in 2022.

The changes in the tax base will mean a reduction in the central government's annual tax revenues of approximately EUR 0.3 billion. Under the government programme, the municipalities will be compensated for the tax revenue impact of the changes made by the Government to the tax basis.

General public administration (including the Finnish Foreign Service)

There will be a reduction of EUR 353 million in the actual 2021 budget in the appropriations under the main title of the Prime Minister's Office. This reduction is mainly due to the removal of a EUR 350 million appropriation from the budget for the capital injection in respect of Finavia Oyj in 2021.

An extra EUR 0.3 million will be available for the Government's joint translation and language services.

An extra EUR 0.46 million will be available for the promotion of the Sámi truth and reconciliation process.

A total of EUR 1.3 billion will be available for international development cooperation. In 2022, development cooperation appropriations are expected to be approximately 0.48% in relation to gross national income. EUR 10 million will be available for increasing Finnfund's capital and EUR 130 million for fiscal investments in development cooperation.

An additional EUR 2.1 million has been made available for Finland's financial support for the Office of the High Commissioner for Human Rights under the Ministry for Foreign Affairs budget Article 'Certain Membership Fees and Contributions'. Finland will be a member of the UN Human Rights Council in the period 2022–2024.

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

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

Just short of EUR 59 million in funding will be made available to the Digital and Population Data Services Agency (DVV). The sum includes expenditure for various projects, such as the 'Strengthening the Legal Protection of Citizens through Digitalisation Development Programme' subprojects and the objective of expediting the registration of aliens.

A total of EUR 390.5 million has been authorised for the research projects of the Academy of Finland, which includes EUR 40.5 million under the recovery and resilience plan.

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

Defence

Appropriations of around EUR 5.1 billion have been made available to the administrative branch of the Ministry of Defence, which is EUR 221 million more than in the actual 2021 budget. Approximately EUR 144 million of this increase is accounted for by the VAT relating to the procurement of multirole fighters. In other respects, expenditure in the administrative branch will mainly be increased by pay reviews and other cost and price level adjustments, and by changes to when the expenditure falls due for the authorised procurement of armaments included in the third supplementary budget for 2021.

Expenditure will be reduced by, for example, the change in the annual share of Squadron 2020 procurement, the scrapping of the food subsidy paid to conscripts during the COVID-19 pandemic, and the removal of contractual military personnel and other fixed-term personnel hired as a stimulus measure.

Around EUR 1.96 billion is to be made available for the operational expenditure of the Finnish Defence Forces, EUR 8.34 million less than in the actual 2021 budget.

The procurement authorisations newly and previously granted to the Defence Forces in accordance with the 2022 budget will mean expenditure amounting to a total of EUR 2.37 billion in 2022 and a total of EUR 9.46 billion in the years following the budget year (to include HX and Squadron 2020).

Public order and safety

The Ministry of Justice is to receive EUR 300,000 for the reform of the Emergency Powers Act and EUR 250,000 for the implementation of the wellbeing services counties initiative. EUR 925,000 in productivity funding is to be made available for the judicial administration's access management development project. EUR 1.7 million in productivity funding is to be made available to the Legal Register Centre for a project to reform the system of fines and penalty charges. In addition, there will be EUR 44,000 to cover the additional expenditure incurred by the Centre as a result of the increase in the number of penalty payments.

A total of EUR 2.55 million will be available for shortening the duration of proceedings in courts of law. There will be EUR 2.74 million made available for restricting the presentation of evidence to district courts and for the planning and construction costs of a video recording system for recording evidence in court proceedings. EUR 500,000 will go towards the operating expenses of the legal aid and public guardianship districts and the Consumer Disputes Board to cover the loss of income as a result of the COVID-19 pandemic. There will be an extra EUR 10 million made available for the fees payable to private legal advisors as a result of the increase in the number of court cases due to the pandemic and in the amounts of compensation that have increased accordingly.

The National Prosecution Authority is to receive EUR 450,000 in order to shorten the time it takes for consideration of charges and the duration of proceedings in the hearing of criminal cases.

There will be an additional EUR 2 million in operating appropriations for the Criminal Sanctions Agency, which will mean that it will be less likely that prison guards would need to work alone. The money would also be used to take better account of the needs of female prisoners than at present. In addition, EUR 4.7 million will be made available for open prisons to clear the backlog of cases that has built up during the pandemic as regards short prison sentences and default prisoners.

The police are to receive EUR 862 million. Following a decision previously made under the government programme, appropriations will be increased by EUR 2.5 million from 2021 to reach the target set to reflect the years of service of police officers (7,500). In addition, EUR 10.6 million will be available to keep to the target for number of years served and to continue the work of the human trafficking unit. EUR 1.2 million (15 person-years) will be paid to meet the need of the police for additional resources to prevent crimes in critical sectors. EUR 6.85 million will be available for the continued development of KEJO, a multi-agency system used by the police, rescue services, social and health care services, the Defence Forces, Finnish Customs and the Border Guard.

A total of EUR 280 million will be available for the Finnish Border Guard. There will be an allocation of around EUR 1.37 million to cover facility rent rises.

A total of EUR 91.8 million will be made available for the operating costs of the rescue services and the Emergency Response Centre Agency. The appropriation covers the return of DigiFinland Oy capital and the costs of developing and maintaining the emergency response centre information system. EUR 1.95 million has been made available for more training for rescue personnel.

EUR 161.7 million is set aside for the immigration administration. The Finnish Immigration Service will receive an additional EUR 5.5 million to safeguard the availability of human resources and to encourage work-related immigration. EUR 1 million will be available in 2022 to fast-track the processing of the residence permits of experts, growth entrepreneurs and employees. EUR 0.2 million will be made available for the referral of the passports and travel documents of aliens for a preliminary study related to the case management system for immigration matters (UMA). EUR 1.3 million in additional funding compared with 2021 will be available to raise the number of quota refugees to 1,500 a year.

Business and industry

EUR 572.5 million is to go to Business Finland to support research, development and innovation activities, an increase of EUR 236.1 million compared to the actual 2021 budget. The increase is mainly the result of the implementation of the recovery and resilience plan. There will be an increase of EUR 9.5 million in the appropriation for the continuation of the audio-visual production subsidy in 2022. The incentive aims to attract foreign production companies to Finland and, in particular, to promote internationally funded projects.

EUR 15 million has been authorised for an innovation grant for shipbuilding.

Included in the Government's future-oriented investments scheme, an additional EUR 0.5 million is available for Business Finland for work related to granting an audio-visual production incentive.

A total of around EUR 2.7 million will be allocated to the operating expenditure of TE Offices (offering employment services) and Business Finland to promote labour migration for the creation of the Work in Finland structure and to the development of digitalisation.

There will be an increase of EUR 2.9 million to fund the operating expenditure of the Centres for Economic Development, Transport and the Environment. The increase is mainly accounted for by the supervision of water supply plants as a critical sector, the additional work involved in monitoring and reporting producer responsibility resulting from an amendment to the Waste Act, the additional resources required for the change in the funding period, and the implementation of the Recovery and Resilience Plan.

EUR 285 million will be made available for public employment and business services, which is EUR 9 million more than in the actual budget for 2021. EUR 4 million will go to a pilot project for a recruitment subsidy for SMEs. EUR 3 million will be available for a further increase in the wage subsidy. An increase of EUR 70 million is available for the operating expenses of the TE Offices in the implementation of the Nordic labour market service model. This funding represents part of the implementation of the Recovery and Resilience Plan.

A discretionary government grant of around EUR 3.2 million has been made available to the municipalities for the purpose of strengthening multidisciplinary cooperation in the Ohjaamo service points. The grant will be financed through the Recovery and Resilience Plan.

EUR 8.5 million has been set aside for integration and the promotion of labour migration.

EUR 157 million is being made available for government payments related to integration, which is EUR 14 million less than in the actual 2021 budget. The payments will be reduced by EUR 22 million due to the fall in the number of asylum seekers who have received a residence permit. On the other hand, an increase totalling EUR 4.7 million will be available for payments due to the rise in the refugee quota from 1,050 to 1,500 persons in 2021 and 2022 respectively. In addition, an increase of EUR 2.4 million will be allocated to contribute to payments related to those evacuated from Afghanistan.

Rural development appropriations will increase by EUR 53 million to EUR 475 million. Rural development targets will rely, for example, on rural business subsidies, research and development projects, and rural advisory services. A key instrument is the Rural Development Programme for Mainland Finland 2014–2020, whose implementation will continue in 2022.

Approximately EUR 2 billion is to be made available for transport networks, of which basic transport infrastructure maintenance will account for EUR 1.38 billion. EUR 672 million is available for the development of the transport network, including new transport infrastructure projects related to life cycle projects, the purchase of land and waterways required for the new transport infrastructure, infrastructure subsidies for transport routes, private road subsidies and grants to promote walking and cycling. The measures included in the roadmap for fossil-free transport are to benefit from an appropriation of EUR 6.5 million to encourage walking and cycling.

A total of EUR 808 million is available for transport and communications services, of which EUR 89 million will go towards improving the competitiveness of vessels used in maritime transport, EUR 20.7 million will be for subsidies for transport and communications services and EUR 20.4 million will be for the purchase and development of island and ferry traffic. EUR 105.7 million is available for the purchase and development of public passenger transport, which will include a general increase of EUR 20 million for climate action under the government programme and an increase of EUR 3 million in line with the roadmap for fossil-free transport in financial assistance for public transport in large and medium-sized urban areas.

A total of EUR 2.6 million has been set aside for Finland's participation in the EURO QCI (European Quantum Communication Infrastructure) project.

Environmental protection and conservation

The appropriations for nature conservation in the administrative branches of the Ministry of the Environment and Ministry of Agriculture and Forestry will see a fall in the budget compared to the EUR 34 million in the 2021 budget, but there will be a total increase of EUR 87.2 million in 2022 under the government programme compared to the beginning of the government term, including both recurring and non-recurring items.

Increases in nature conservation funding will extend to the continuation of the implementation of the Helmi habitats programme and the Forest Biodiversity Programme for Southern Finland (METSU). A total of EUR 46 million will be allocated to the Helmi programme, which extends to the protection of marshlands. The Nature Conservation Act will be reformed and ecological compensation will be looked into.

The programme for improving water protection is to continue through support for the implementation of efficient and cost-effective water and marine management measures in a collaboration between different administrative branches, the private sector, expert institutions, the municipal sector and non-governmental organisations, for which an appropriation of EUR 12 million is to be allocated.

EUR 0.75 million will be set aside for the work of the Finnish Climate Change Panel under the Climate Change Act.

Steps are being taken to make the circular economy the foundation of Finland's economy. EUR 4.5 million will be made available for the implementation of the programme to promote a circular economy in the administrative branch of the Ministry of the Environment. In addition, an appropriation of EUR 0.2 million will be allocated to the maintenance of the Materiaalitori data platform for waste and effluent serving the circular economy and the waste sector.

EUR 0.7 million will be available for the promotion of natural resources and the bioeconomy for the development and studies of feed additives that reduce emissions from livestock, and there is to be an increase of EUR 1.0 million for a pilot programme for nutrient recycling.

An increase of EUR 1.0 million is to go towards the Natural Resources Institute Finland's operating expenditure for funding research investment and EUR 1.14 million will be available for research into reducing the emissions from peatlands.

Housing and communities

In 2020, an agreement was reached in negotiations about the framework agreements on land use, housing and transport (MAL) between central government and four sub-regions (Helsinki, Turku, Tampere and Oulu). In June 2021, following talks, an agreement was also reached with three more sub-regions (Jyväskylä, Kuopio and Lahti). The MAL agreements will be promoted by means of municipal technology grants, for which an appropriation of EUR 25 million is to be allocated, and fixed-term start-up grants for state-subsidised housing production, for which a total of EUR 39 million is to be made available.

In addition to subsidised loans, investment grants amounting to EUR 90 million are to be allocated to the construction and renovation of housing for special groups. The grants will be primarily allocated to promoting housing production for the most vulnerable. EUR 40 million will be available for energy grants for residential buildings. A total of EUR 36.5 million will be set aside for renovation grants, mainly for the retrofitting of lifts and the repairs of housing for older people and people with disabilities. EUR 0.85 million of the sum will be spent on grants related to an operational programme for the housing of older people.

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

Healthcare

Appropriations proposed for social welfare and healthcare organised by the municipalities will amount to EUR 539.8 million, which is around EUR 1.47 billion less than in the previous year. This reduction is mostly the result of payments of EUR 1.7 billion allocated to the social welfare and health care service system in 2021 to respond to the COVID-19 outbreak.

Funding worth EUR 65.8 million will be available for student healthcare provided by the Finnish Student Health Service.

EUR 25 million will be available for central government funding for university-level research in healthcare and social work. The central government reimbursement for social welfare and healthcare units for the provision of specialist training for social welfare and healthcare personnel will be EUR 96 million.

A total of EUR 132.4 million is now available for the development of the social welfare and healthcare service structure, which is EUR 4 million more than in the actual 2021 budget.

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

There is to be a EUR 4 million appropriation the preparation of a medicines roadmap.

Recreation and culture

The central government transfers system for the performing arts is being reformed, and additional funding of EUR 8.5 million will be allocated to that reform as of 2022 in addition to the increases previously decided on. Representing a portion of the Government's future-oriented investments, EUR 7.5 million will be allocated to a capital injection for a fund to support creative industries and culture.

An appropriation worth around EUR 5.1 million will be added to the payment for the renovation of the small stage at the Finnish National Theatre, delayed for legal reasons.

A total of EUR 0.6 million will be made available for project preparation and planning and the launch of a museum of architecture and design in 2022.

Grants for artists will be increased under the government programme as of 2022, with funding worth EUR 0.4 million in addition to an earlier increase of EUR 1.4 million.

EUR 1 million will be set aside for an exhibition fee model. In addition, an increase of EUR 4 million will be available as compensation for private copying.

Around EUR 153 million is available in appropriations for sports services, which is approximately EUR 2.6 million less than in the actual 2021 budget. The promotion of physical fitness and top-level athletics will continue under the government programme and with reference to the report on sports policy.

In line with previous decisions, EUR 14.5 million is available for leisure activities for children and young people. This 'Finnish model' entails the addition of more recreational activities for children and young people at school, the purpose being to match activities with what the pupils are keen on.

Education

Around EUR 886 million will be available for education, including early childhood education, which is approximately EUR 44 million more than in the actual 2021 budget.

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

The extension of compulsory education and free upper secondary education is to continue to be implemented. EUR 65 million is available for the reform in 2022. Improvements to pupil and student welfare services will continue. Representing a portion of the Government's future-oriented investments, EUR 10 million will be available for the action plan for quality and accessibility in upper secondary education in 2022.

Implementation of the vocational education and training reform will continue. Representing a portion of the Government's future-oriented investments, additional funding of EUR 70 million is earmarked for the recruitment of teachers, tutors and instructors in 2022.

There will be EUR 5 million available for a pilot scheme connected with the reform of apprenticeship training payments in 2022.

In response to a change in the minimum nurse staffing level, in 2022 EUR 43 million is to be allocated to the training of new nurses, in line with a previous decision.

EUR 3.5 billion is available for higher education and research, an increase of EUR 94 million compared to the actual 2021 budget. Due to the donation by Sitra, universities will receive a capital injection amounting to EUR 67 million in 2022. The capital injection will be possible as a result of university fundraising.

EUR 703 million is available for student financial aid, or EUR 60 million more than in the 2021 budget. The increase is mainly the result of a rise in the expenditure connected with student loan refunds. An additional EUR 3.4 million will be available for student financial aid owing to the temporary rise in student income thresholds.

In accordance with an amendment to the Act on Financial Aid for Students, the prolongation of the COVID-19 situation will be taken into account in the terms and conditions of student loan refunds and student loan tax deductions for borrowers who have graduated. This flexibility arrangement means that student loan refund expenditure is expected to increase by approximately EUR 10 million in 2022.

Social security (including earnings-related pensions)

Appropriations worth EUR 4.5 billion are available for to the equalisation of family and housing costs, basic social assistance and certain services, which is EUR 9.9 million more

than in the actual 2021 budget. This increase is the result of the changes to the estimated spending needs and increases in the operating costs of the Social Insurance Institution of Finland (Kela).

A total of EUR 490.5 million is to go towards the operating expenses of the Social Insurance Institution of Finland, EUR 9.2 million more than in the actual 2021 budget.

Appropriations of around EUR 2.6 billion are allocated to unemployment security, which is EUR 0.3 billion less than in the actual 2021 budget. The reduction is due to an estimated decrease in the number of those unemployed or laid off.

Employment security benefit will take account of the adoption of the Nordic labour market service model on 1 May 2022. This will involve grading the unemployment security penalties related to jobseeking and services and introducing a warning notification. A jobseeker failing twice to fulfil his or her job-seeking obligation would not receive unemployment benefit. If the person again failed to meet the job-seeking obligation, a 10-day period without benefits would be imposed. The model is expected to increase the cost of unemployment security by EUR 16.7 million in the year in which the system takes effect and by EUR 25.0 million as of 2023. The model is also expected to boost employment and create between 9,500 and 10,000 new jobs. Unemployment security includes EUR 1.5 million set aside to cover the cost of training for those hoping to gain a higher education qualification.

EUR 5.0 billion is to be allocated to pensions. This is virtually the same figure as in the actual 2021 budget.

A survivors' pension reform will take effect in early 2022. Under the reform, the right of a child to the pension is to be extended by 2 years, ending at the age of 20. The right to a widow's pension will be limited to 10 years or until the youngest of those entitled to a child's pension reaches the age of 18. In addition, the widow's pension will also be paid to a cohabiting partner who has had an underage child with the deceased. The reform would increase government expenditure by EUR 0.3 million in the year in which it takes effect and by EUR 1.0 million at the end of the spending limits period.

The family leave reform will take effect on 1 August 2022. The aim of the reform is to improve parental equality and non-discrimination and equality with regard to children and parents living in different family structures and in different families by means of harmonious provisions on parental allowances. The family leave reform will increase central government expenditure by EUR 1.0 million in the year in which it takes effect and by around EUR 9 million as of 2023.

EUR 41.5 million is to be available for the development and implementation of national information management in social welfare and healthcare, which includes an increase of EUR 11 million.

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

The temporary legislative amendments that have made it possible to pay for the COVID-19 laboratory research and vaccines out of health insurance will continue until 30 June 2022. This is estimated to increase health insurance costs by a total of EUR 5.9 million. The central government's share of the expenditure amounts to approximately EUR 4 million.

An additional EUR 0.2 million is set aside for the exempt amount in the conscript's allowance.

Compensation for the fall in the revenue from gambling

Around EUR 404 million will be available to compensate the relevant beneficiaries for the fall in the revenue from gambling. This will come from an increase in budget funding, a continued reduction in lottery tax, and additional revenue from the retained earnings fund of the administrative branch of the Ministry of Social Affairs and Health.

The revenue from gambling will be used for promoting sports and physical education, science, art and youth work and will amount to EUR 370 million. The appropriation takes account of the reduction in lottery tax (worth around EUR 50.8 million) and EUR 2.25 million in retained earnings recorded as revenue. In addition, approximately EUR 164 million will be paid in 'budget-funded' compensation for the fall in revenue for the same purpose.

The administrative branch of the Ministry of Agriculture and Forestry will benefit from the reduction in lottery tax to the tune of around EUR 0.6 million and receive approximately EUR 2.5 million in additional 'budget funded' compensation.

EUR 362.4 million is set aside for grants to organisations and foundations to promote health and social wellbeing. The appropriation takes account of the reduction in lottery tax of EUR 41.2 million, the release of the retained earnings in the balance sheet amounting to EUR 61.7 million, and 'budget funded compensation' totalling EUR 69.7 million.

Reform of healthcare, social services and rescue services

The legislation on the reform of healthcare, social services and rescue services was adopted by Parliament in summer 2021 and will enter into force in stages. The implementing act whereby the wellbeing services counties were established entered into force on 1 July

2021. The functions of the health and social services and rescue services will be transferred from the municipalities to the wellbeing services counties on 1 January 2023.

Under the Act on the Funding of the Wellbeing Services Counties (617/2021), half of the instalment for January 2023 will be paid to the counties as early as December 2022. This portion is around EUR 0.9 billion and it is accounted for in the 2022 budget. The expenditure for 2023 will be reduced by a corresponding amount.

The reform entails significant transition costs, some of which are taken into account in the 2022 budget. The biggest transition costs are the funding for the ICT transition costs amounting to EUR 175.3 million and the funding for the reform of the wellbeing services counties and the health and social services of the HUS (Helsinki University Hospital) Group totalling EUR 47.1 million. In addition, around EUR 7.8 million is earmarked for the county elections. The budget also contains several smaller appropriations to meet transition costs and the other needs of the municipalities, various agencies and other institutions affected by the health and social services reform, totalling approximately EUR 11 million.

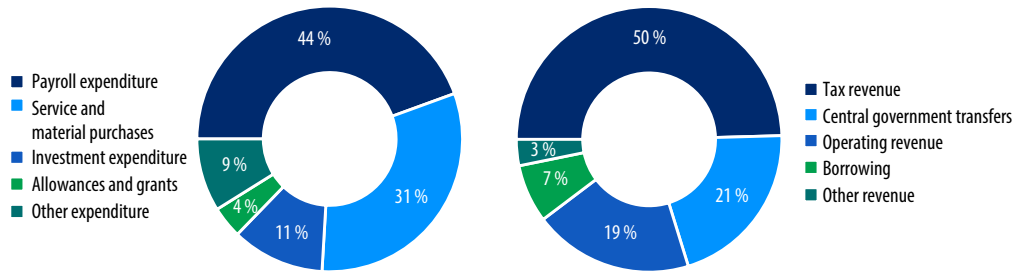
4.3 Local government finances

Central government funds the operations of the municipalities through central government transfers and discretionary government transfers provided through the government aid system. Central government cannot influence directly how the municipalities spend money; this is based on legislation enacted by Parliament and the decisions that the municipalities take themselves. The local government finances programme and chapter 9 of the general rationale for the budget proposal describe in greater detail the state of local government finances and the impact of central government measures on local government finances.

In 2022, the municipalities are predicted to receive revenue consisting of tax revenue (50%), operating revenue (19%), central government transfers (21%) and other revenue (10%: including borrowing). It is estimated that 44% of the municipalities' expenditure will relate to payroll, 31% to the procurement of services and materials, 11% to investments, and 9% to other expenses. The distribution of the municipalities' revenue and expenditure is illustrated in Diagram 9. The data are based on the expected trend in local government finances in the autumn of 2022.

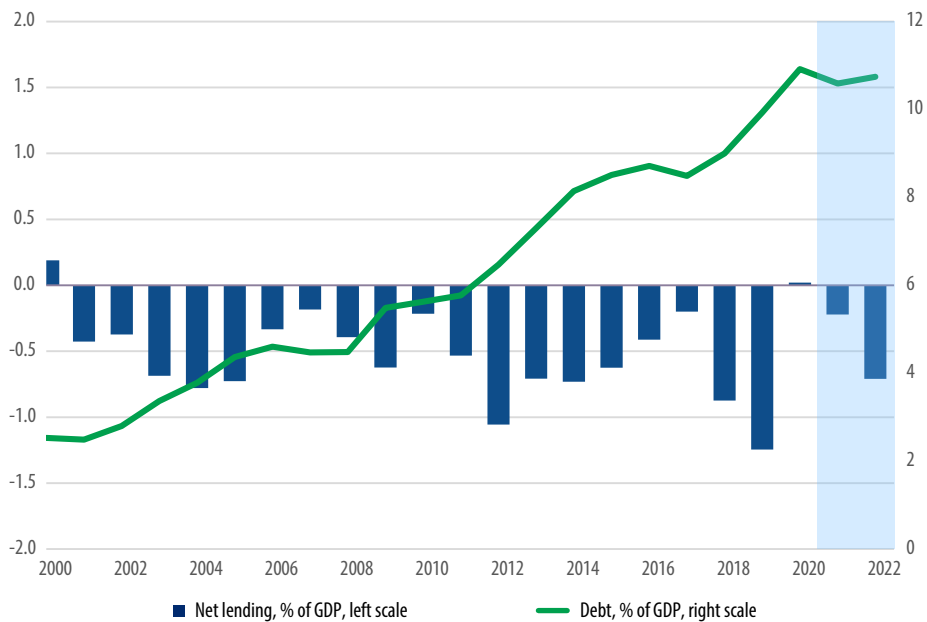
The Ministry of Finance projection for local government finances takes account of the measures affecting these finances included in the General Government Fiscal Plan and the central government budget for 2022.

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



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

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



Central government measures have an impact on the municipalities' revenue and expenditure. They will affect government finances adversely in net terms in 2022.

Central government transfers to municipalities will total around EUR 13.0 billion, which is approximately EUR 1 billion less than in the actual 2021 budget. The reduction is mainly due to the fact that no fixed-term COVID-19-related support equivalent to that employed in 2021 has been budgeted for 2022. Central government transfers total EUR 9.1 billion, which is EUR 0.3 billion more than in the actual 2021 budget.

In 2022, slightly less than EUR 8 billion will be for central government transfers for the provision of basic municipal services. Compared to the actual budget for 2021, central government transfers will increase by around EUR 285 million. However, in making comparisons with the previous year, it should be noted that a one-off increase of EUR 300 million was granted in central government transfers to local government for basic public services in 2021 due to the COVID-19 situation, although this will go in 2022. In 2022, the index increase amounts to around EUR 188 million. Changes in population figures and actuarial factors will increase central government transfers to local government by around EUR 53 million.

Central government transfers will be increased by the new and expanding functions of municipalities decided previously, resulting from such matters as the amendment to the Act on the Care Services for Older Persons (EUR 43.7 million), the reform of the Act on client charges in healthcare and social welfare (EUR 28.0 million), an extension of after-care services in child welfare (EUR 12 million), an extension to the screening programme (EUR 10 million) and the staffing of child welfare services (EUR 4.8 million). In total, changes in functions will push up the sum for central government transfers to local government by approximately EUR 107 million in 2022.

A total of EUR 10 million in central government transfers to local government for basic public services will now be transferred to municipal merger grants.

The central government reimbursement to municipalities for tax revenue losses caused by changes in the tax base will be around EUR 2.7 billion in 2022.

Central government has made a discretionary decision to increase local government expenditure by around EUR 1.2 billion in 2022 from the beginning of the parliamentary term. The decisions on the municipalities' revenue have resulted in an increase of about EUR 1.5 billion for 2022. For new and extending functions, the municipalities will receive full central government transfers (100%).

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

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

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

The Recovery and Resilience Plan consists of four pillars:

- Pillar 1: A green transition supporting structural adjustment of the economy and underpinning a carbon-neutral welfare society
- Pillar 2: Digitalisation and the data economy strengthening productivity and making services available to all
- Pillar 3: Raising the employment rate and skills levels to accelerate sustainable growth
- Pillar 4: Improving access to health and social services and enhancing better cost-effectiveness

Revenue and appropriations connected with the Recovery and Resilience Plan in different administrative branches

The third supplementary budget for 2021 took into account the first investments made under the Recovery and Resilience Plan. The 2022 budget proposes further allocations of EUR 1.2 billion (appropriations and Budget Authority in total) to implement the Recovery and Resilience Plan. Additional appropriations allocated for 2022 will amount to around EUR 637 million. The disbursements from the EU to the Government of Finland will be based on the progress of the national plan and the achievement of the interim goals and targets set out in it.

The central government budget includes revenue from the EU. Miscellaneous revenue amounting to around EUR 1.57 billion is expected from the EU. The increase in this EU revenue is largely explained by the fact that it includes payments made under the EU Recovery and Resilience Facility, estimated to total EUR 355 million. The national plans are evaluated by the Commission and adopted by the Council of the EU. The disbursements

are based on the progress made in national plans and paid when it has been verified that the objectives set out in the plans have been implemented as described in the plan. The estimated revenue related to the Recovery and Resilience Facility is based on the Commission's proposal regarding assumptions about payments.

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

Under the main title of expenditure of the Ministry of the Interior, EUR 1.3 million from the Recovery and Resilience Plan is to be used for police appropriations for an investment package for ensuing and monitoring enforcement of the fight against money laundering. In addition, EUR 7.8 million is to be used for Finnish Immigration Service appropriations for the development of a digital infrastructure to support the immigration of skilled labour.

Under the main title of expenditure of the Ministry of Finance, EUR 13.9 million in funding from the Recovery and Resilience Plan will go towards to permit authority expenditure for the recovery of low-carbon hydrogen and carbon dioxide. Funding from the Plan will also be available, for example, to ensure that the prevention of money laundering is monitored and carried out effectively.

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

Under the main title of expenditure of the Ministry of Agriculture and Forestry, a total of EUR 9.5 million in funding from the Recovery and Resilience Plan will be used for appropriations for natural resource finances in two different projects: measures in the land use sector to develop climate-sustainable forest management and processing methods that safeguard biodiversity, and a water competence growth and export programme supporting growth and export projects in the water sector and promoting the achievement of sustainable development goals. In addition, EUR 1 million will be available for the funding of the second-phase development project linked to the Residential and Commercial Property Information System, which will be used to expand the data content of the system. The project will also help implement the country-specific recommendations made by the EU to Finland regarding the establishment of a positive credit register.

Under the main title of expenditure of the Ministry of Transport and Communications, EUR 4 million in funding from the Recovery and Resilience Plan is to be allocated to the development and verification phase of the Digirail project. National funding is also allocated to the project. In addition, EUR 15 million is set aside for improving the quality and availability of communication networks, EUR 1.5 million for the development of an ecosystem for heavy goods electric transport, EUR 2.5 million for procurement and conversion subsidies, and EUR 3 million for research investment and training in cyber security.

The implementation of the Recovery and Resilience Plan will extend to EUR 305 million in appropriations and EUR 692 million under the Budget Authority being made available to the administrative branch of the Ministry of Economic Affairs and Employment. The Budget Authority for energy subsidies will be increased by EUR 453 million from the Recovery and Resilience Plan funding, allocated to investments related to the energy infrastructure, new energy technology, low-carbon hydrogen and the electrification of industry. EUR 83 million of the funding will be allocated to the implementation of the Nordic labour market service model and EUR 3.25 million to strengthening multidisciplinary cooperation in the Ohjaamo service points. The Budget Authority for aiding research, development and innovation activities will be increased by EUR 234 million. Funding is also available for the creative sectors and travel and tourism out of Recovery and Resilience Plan revenue.

Under the main title of expenditure of the Ministry of Social Affairs and Health, EUR 125 million in funding from the Recovery and Resilience Plan is to be allocated to reducing the care, rehabilitation and service backlog in social welfare and healthcare, and for accelerating access to care. In addition, EUR 7.5 million will be allocated to the services supporting work ability and measures to promote mental health and work ability.

In the administrative branch of the Ministry of the Environment, a total of EUR 13 million from the Recovery and Resilience Plan is set aside to help fund the gypsum treatment of fields and a nutrient recycling project. Grants amounting to EUR 10 million will be available for housing companies and workplace properties for the expansion of an electric vehicle charging infrastructure. Aid granted to detached houses/maisonettes and municipalities for phasing out oil will be continued, and a total of EUR 33.9 million is available for this purpose. The low-carbon construction programme will be promoted through financial assistance worth EUR 3 million in 2022.

5 Piloting child-oriented budgeting

According to an entry in Prime Minister Sanna Marin's Government Programme, the Government pledges to assess the impacts of decisions on children and promote child-oriented budgeting and the inclusion of children and young people¹.

A working group considered the potential for developing a system of child-oriented budgeting

The Prime Minister's Office set up a working group on child-oriented budgeting for the period 28 December 2020–31 May 2021. The working group duly drew up a proposal for how the child-oriented budgeting section of the National Child Strategy should be implemented in the central government budget. During its term of office, the working group convened four meetings, at which it consulted stakeholders, such as the National Audit Office, the Ombudsman for Children, the Parliament's Audit Committee, the Finance Committee, the Committee for the Future, the Association of Finnish Local and Regional Authorities and NGOs.

The working group drafted a total of four proposals for the promotion and development of child-oriented budgeting, one of which concerned the implementation of a pilot project on child-oriented budgeting in the 2022 budget². The working group on child-oriented budgeting introduced various restrictions and policies related to identifying, classifying and presenting appropriations for children to ensure that the piloting of child-oriented budgeting and its future establishment can be carried out in a way that ensures optimal comparability and repeatability, and is also feasible in terms of the resources required.

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

2 Piloting and standardisation of child-oriented budgeting – Working group report on developing child-oriented budgeting in central government Budgets and in local government and the wellbeing services counties. Ministry of Finance publications 2021:29 or 2021:44. Available in Finnish at https://julkaisut.valtioneuvosto.fi/bitstream/handle/10024/163352/VM_2021_29.pdf?sequence=1&isAllowed=y

The working group ruled that the analysis would take into account expenditure directly earmarked for children (benefits and services) and expenditure resulting from funding activities where the target group was children (e.g. grants). This meant that the review of expenditure on child-related budgeting took into account the (statutory and discretionary) expenditure directly earmarked for, and allocated to, children under the age of 18, as well as expenditure clearly intended for families with children under the age of 18. For certain services, such as upper secondary education, the extent to which the age group for children is accounted for in the target group for the services has been taken into account.

The working group proposes that the review should not take into account the administrative expenditure of central government, i.e. appropriations to cover the operating expenditure of agencies, ministries, and the institutions that report to them. In addition, the review focuses on central government expenditure, and not all general government expenditure. The proposal put forward by the working group ignores the costs of development projects from which the age groups of children could be distinguished in terms of numbers, but in which the examination estimated in terms of its costs and based on this analysis would not be directly targeted at the age groups of children but, instead, be a mere estimate. The working group's proposal does not include an examination of the municipalities' income from charges either. As regards certain expenditure connected with benefits (such as the housing allowance), the proposal includes the share of families with children, as it is not possible to distinguish the age groups of children from housing allowance data.

The purpose of the restrictions imposed by the working group was to focus specifically on children and families with children in the examination. The working group concludes that this makes the review more relevant and ensures that the solutions guarantee the appropriate interpretation and comparability of child-oriented budgeting, as different purely computational items are not taken into account in the examination. As a result, the review will not be extended to different types of expenditure indirectly allocated to the age group of children, as such expenditure estimates do not effectively reflect the cost decisions or changes affecting children, and the computational review would not allow conclusions to be reached regarding the level of appropriations for the age group of children. The approach now adopted makes it easier to compare the services and benefits targeted at the age group of children over time and also makes sense from the perspective of the need for resources required for the work.

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

The piloting arrangement for child-oriented budgeting in the 2022 central government budget is based on the proposal by the working group referred to and its associated restrictions and policies. In line with the working group's proposal, a summarised review

on child budgeting is included in the rationale for the proposal. The summarised review includes a section on the appropriations from different administrative branches for the age group of children and an examination of the taxation situation. The extent of the examination of the pilot and the criteria for the appropriations examined have been determined in a manner that ensures that the content is consistent among the main titles of expenditure and that comparisons can be made between the different years. The approach also takes account of the potential for the further development of the review based on the pilot as and when necessary and for fine-tuning the basic solutions in such a way that the different years can continue to be compared successfully.

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

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

In addition to the appropriations for the age group of children and related changes, separate funding has been allocated to priority areas that affect the age group of children. The most important of these is funding targeted at strengthening equal opportunities and support for vulnerable people. While the main purpose of the appropriations for the age group of children is to promote equal opportunities in general, the budget particularly covers projects in line with the government programme and budget-related statutory reforms pursuing goals that promote equal opportunities. The separate funding for the measures mentioned in the 2022 budget is approximately EUR 378 million. This funding is included in the review of appropriations described above (around EUR 7 billion).

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

6 Summary

This publication examines the budget for 2022.

The economic policy of Prime Minister Marin's Government aims to boost wellbeing. This entails ecologically and socially sustainable economic growth, high employment and sustainable public finances. The crisis caused by COVID-19 created a need to specify targets in the government programme for public finances and improved employment. In its mid-term review in spring 2021, the Government set as its goal in its economic sustainability roadmap to achieve a reversal in the upward trend in the general government debt-to-GDP ratio in the mid-2020s, raise the employment rate to 75% by the mid-2020s, and create 80 000 more jobs through Government measures to promote employment by the end of the decade.

The general government deficit that increased so much with the COVID-19 pandemic will decrease speedily in the next few years. Brisk economic growth and a reduction in the support measures prompted by the COVID-19 situation will strengthen general government finances. However, general government finances will remain in deficit after a short upturn in the economy. The structural imbalance between general government expenditure and revenue will persist.

The COVID-19 pandemic meant that the general government debt-to-GDP ratio has risen to a level that is ten percentage points higher than before the crisis. The rise in the debt-to-GDP ratio will level off this year, start to dip and continue to decline in 2022. The mid-term debt-to-GDP ratio will see an increase again. The general government debt-to-GDP ratio will remain at a significantly higher level than before the pandemic, which will heighten the risk to public finances.

Gross Domestic Product (GDP) is expected to have grown by 3.4% in 2021. Because the COVID-19 pandemic has spread so rapidly and containment measures have had to be introduced, growth at the turn of the year will be slower than predicted earlier, but GDP will continue to grow by 3% in 2022. Economic recovery will continue and growth will accelerate in 2022, especially in those sectors where production has not yet reached its pre-pandemic levels, such as in hotel and catering.

Economic growth will maintain the demand for labour, which it will also be possible to meet in the short term because the unemployment figure is still high and the Government is taking steps to increase the labour supply. The employment rate is predicted to rise in 2022 by 1.5% and to reach a level of 74% by the year 2024. During the government term, the Government will implement employment measures that strengthen the economy with the aiming of creating 80 000 new jobs. Decisions on measures to promote employment were taken in 2021, and the Government has also pledged to take decisions on employment measures by the end of the government term, which would strengthen general government finances by EUR 110 million. A decision on the above measures will be made by 15 February 2022.

Appropriations in the budget for 2022 amount to EUR 64.9 billion. The central government on-budget deficit is predicted to be approximately EUR 7 billion. Compared to the actual 2021 budget, expenditure will decrease by EUR 0.3 billion, reflecting in particular the fall in expenditure related to the COVID-19 outbreak. Meanwhile, expenditure will be increased by statutory and contractual index increases, the transition costs resulting from reforms in healthcare, social welfare and the rescue services, payments to the European Union and a change in the timing of funding for the wellbeing services counties.

The 2022 budget will also be updated on the www.tutkibudjettia.fi website, where it may be viewed from various perspectives.



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