MINISTRY
OF FINANCE

General government fiscal plan for 2024–2027

Economic Policy

Publications of the Ministry of Finance – 2023:28

Publications of the Ministry of Finance 2023:28

General government fiscal plan for 2024–2027

Ministry of Finance Helsinki 2023

Publication distribution

Institutional Repository for the Government of Finland Valto

julkaisut.valtioneuvosto.fi

Publication sale

Online bookstore of the Finnish Government

vnjulkaisumyynti.fi

Ministry of Finance

ISBN pdf: 978-952-367-226-0
ISSN pdf: 1797-9714

Layout: Government Administration Department, Publications

Helsinki 2023 Finland

Description sheet
23 March 2023

General government fiscal plan for 2024–2027

Publications of the Ministry of Finance 2023:28		**Subject**	Economic Policy
Publisher	Ministry of Finance		
Group author	Ministry of Finance		
Language	English	**Pages**	155

Abstract

The purpose of the General Government Fiscal Plan is to support decision-making related to general government finances as well as compliance with the Medium-Term Objective set for the structural budgetary position of general government finances. The plan contains sections related to central government finances, wellbeing services county finances, local government finances, statutory earnings-related pension funds and other social security funds. The Government prepares the General Government Fiscal Plan for the parliamentary term and revises it annually for the following four years by the end of April.

The General Government Fiscal Plan also includes Finland's Stability Programme, and it meets the EU's requirement for a medium-term fiscal plan. The General Government Fiscal Plan for 2024–2027 does not propose any new policy definitions. It is based on current legislation and takes into account the impact of the decisions previously made by Prime Minister Marin's Government on the expenditure and revenue levels in the coming years. This General Government Fiscal Plan does not set any budgetary position targets. The first General Government Fiscal Plan of the Government to be appointed after the parliamentary election in spring 2023 will be drawn up in autumn 2023, and this will include a Stability Programme.

The General Government Fiscal Plan also includes the central government spending limits decision, but it does not specify a parliamentary term expenditure ceiling.

Keywords	economic policy, general government fiscal plans, stability programmes, spending limits decisions		
ISBN PDF	978-952-367-226-0	**ISSN PDF**	1797-9714
URN address	https://urn.fi/URN:ISBN:978-952-367-226-0		

Kuvailulehti
23.3.2023

Julkisen talouden suunnitelma vuosille 2024–2027

Valtiovarainministeriön julkaisuja 2023:28		**Teema**	Talouspolitiikka
Julkaisija	Valtiovarainministeriö		
Yhteisötekijä	Valtiovarainministeriö		
Kieli	ruotsi	**Sivumäärä**	155

Tiivistelmä

Julkisen talouden suunnitelman tarkoituksena on tukea julkista taloutta koskevaa päätöksentekoa sekä julkisen talouden rakenteelliselle rahoitusasemalle asetetun keskipitkän aikavälin tavoitteen noudattamista. Suunnitelma sisältää valtion, hyvinvointialueiden ja kuntien taloutta sekä lakisääteisiä työeläkelaitoksia ja muita sosiaaliturvarahastoja koskevat osat. Valtioneuvosto laatii julkisen talouden suunnitelman vaalikaudeksi ja tarkistaa sen vuosittain seuraavaksi neljäksi vuodeksi huhtikuun loppuun mennessä. Julkisen talouden suunnitelma sisältää samalla Suomen vakausohjelman sekä vastaa EU:n vaatimukseen keskipitkän aikavälin budjettisuunnitelmasta.

Julkisen talouden suunnitelma vuosille 2024–2027 ei sisällä uusia poliittisia linjauksia, vaan se pohjautuu nykylainsäädäntöön ja siinä on otettu huomioon pääministeri Marinin hallituksen aiemmin tekemien päätösten vaikutukset tulevien vuosien meno- ja tulotasoon. Julkisen talouden suunnitelmassa ei aseteta rahoitusasematavoitteita. Kevään 2023 eduskuntavaalien jälkeen muodostettavan uuden hallituksen ensimmäinen julkisen talouden suunnitelma laaditaan syksyllä 2023 ja se pitää lisäksi sisällään vakausohjelman.

Julkisen talouden suunnitelma sisältää myös valtiontalouden kehyspäätöksen, mutta se ei sisällä ns. vaalikauden kehystasoa.

Asiasanat talouspolitiikka, julkisen talouden suunnitelmat, vakausohjelmat, kehyspäätökset

ISBN PDF 978-952-367-226-0 **ISSN PDF** 1797-9714

Julkaisun osoite https://urn.fi/URN:ISBN:978-952-367-226-0

Presentationsblad
23.3.2023

Plan för de offentliga finanserna för 2024–2027

Finansministeriets publikationer 2023:28		**Tema**	Finanspolitiken
Utgivare	Finansministeriet		
Utarbetad av	Finansministeriet		
Språk	engelska	**Sidantal**	155

Referat

Syftet med planen för de offentliga finanserna är att stödja det beslutsfattande som gäller den offentliga ekonomin samt iakttagandet av det medelfristiga målet för det strukturella saldot i de offentliga finanserna. I planen ingår delar som gäller statsfinanserna, välfärdsområdenas och kommunernas ekonomi samt lagstadgade arbetspensionsanstalter och övriga socialskyddsfonder. Statsrådet gör upp en plan för de offentliga finanserna för valperioden och justerar årligen före utgången av april planen för de följande fyra åren. Planen för de offentliga finanserna innehåller Finlands stabilitetsprogram samtidigt som den uppfyller EU:s krav på en budgetplan på medellång sikt.

Planen för de offentliga finanserna för 2024–2027 innehåller inga nya politiska riktlinjer, utan grundar sig på den gällande lagstiftningen. I planen beaktas konsekvenserna av de beslut som statsminister Marins regering tidigare fattat för utgifts- och inkomstnivån under de kommande åren. I planen för de offentliga finanserna uppställs inga mål för det strukturella saldot. Den första planen för de offentliga finanserna för den nya regering som bildas efter riksdagsvalet våren 2023 utarbetas hösten 2023 och innehåller också stabilitetsprogrammet.

I planen för de offentliga finanserna ingår även rambeslutet för statsfinanserna, men den innehåller inte den s.k. ramnivån för valperioden.

Nyckelord	finanspolitiken, planer för de offentliga finanserna, stabilitetsprogram, ekonomisk politik, rambeslut		
ISBN PDF	978-952-367-226-0	**ISSN PDF**	1797-9714
URN-adress	https://urn.fi/URN:ISBN:978-952-367-226-0		

Contents

General government fiscal plan 2024–2027 9

Summary 10

1 Economic challenges and the economic policy line 15

2 Objectives and rules steering the management of general government finances 19

3 Economic fundamentals 22
3.1 Economic outlook 22
Economic outlook for 2023–2025 22
Medium-term outlook 22
3.2 Outlook for general government finances 23
Compliance with fiscal policy rules and objectives 26
General government budgetary position and debt, broken down into the budgetary position and debt of core sector units and units outside the core sectors 27
3.3 Sustainability of public finances 28
Sustainability of general government finances in alternative scenarios 29

4 Government liabilities and risks 31

5 Central government finances 36
5.1 Central government spending limits 36
5.2 Development of on-budget expenditure and the spending limits 36
Development of on-budget expenditure in 2024–2027 36
Expenditure outside the spending limits 37
Price and cost level adjustments and structural changes 38
5.3 Definitions of policy in budget finances 2024–2027 40
Research and development funding 40
Impact of Finland's NATO membership on appropriations 42
Proceeds from profits on gaming activities 42
Employment and economic development services reform 43
Appropriation impacts of the Security Policy Escape Clause 43
Recovery and Resilience Plan investments during the spending limits period 45
New central government collective agreement 46
5.3.1 Policy outlines for the administrative branches 46
Prime Minister's Office 46
Administrative branch of the Ministry for Foreign Affairs 46
Administrative branch of the Ministry of Justice 48
Administrative branch of the Ministry of the Interior 49
Administrative branch of the Ministry of Defence 51

Administrative branch of the Ministry of Finance 52
Administrative branch of the Ministry of Education and Culture 53
Administrative branch of the Ministry of Agriculture and Forestry 55
Administrative branch of the Ministry of Transport and Communications 56
Administrative branch of the Ministry of Employment and the Economy 57
Administrative branch of the Ministry of Social Affairs and Health 59
Administrative branch of the Ministry of the Environment 61
5.3.2 Administration and IT projects 63
Financial and HR administration 63
Developing central government procurement 64
Central government premises investments 64
Coordinating services and premises project package 65
IT system projects 65
5.4 On-budget revenue 66
Tax criteria changes 66
Development of tax revenue 2024–2027 67
Other on-budget revenue 69
5.5 Central government on-budget balance and debt 70
Central government on-budget balance and debt 70
5.6 Off-budget central government finances 71
Central government in the national accounts 71
Off-budget funds 73
State-owned enterprises 74
5.7 Sustainable development 75
Appropriations promoting carbon neutrality and the green transition in the General Government Fiscal Plan 2024–2027 75
Taxes 77

6 Finances of the wellbeing services counties 78
6.1 Financing of the wellbeing services counties and central government measures . 78
Central government funding for the wellbeing services counties 78
New and expanded duties affecting the operations and funding of the wellbeing services counties... 81
Central government transfers and other compensations paid to wellbeing services counties 83
Certain services fully compensated by the central government 84
Modification and preparation costs 85
6.2 Borrowing capacity of the wellbeing services counties 85
Regulation of borrowing by the wellbeing services counties 85
Borrowing capacity of the wellbeing services counties in 2024 86
6.3 Loan and financing agreement responsibilities of the wellbeing services counties 87
6.4 Estimate of revenue and expenditure of the wellbeing services counties 89
Estimation of sufficiency of wellbeing services counties funding 91

7 Municipal finances 95
7.1 Municipal finance policies 95
7.2 Central government measures impacting municipal finances 96
7.3 Estimate of municipal finances: expenditure, revenue and balance 100
Municipal financesexpenditure in the spending limits period 100
Municipal finances revenue in the spending limits period 101
Municipal finances balance in the spending limits period 101

8 Earnings-related pension funds and other social security funds 103
Other social security funds 105

9 Summary of measures at the level of general government finances 106
9.1 Extent and timing of measures 106
Measures related to the coronavirus situation 106
Government's permanent additional expenditure 107
Fixed-term future-oriented investments in 2020–2022 108
Changes decided on due to the war of aggression launched by Russia 108
Wellbeing services counties 109
Tax criteria changes 109
Municipal finances 110
Social security contributions 111
Improving public sector productivity and cost-effectiveness 111
9.2 Measures directed at general government expenditure 114
9.3 Measures directed at general government revenue 115

10 Estimate of general government revenue and expenditure 117
General government fiscal forecast under unchanged policies 121

APPENDIX 1 Forecasts and assumptions used in the calculation 123

APPENDIX 2 Price and cost level adjustments under the central government spending limits 126

APPENDIX 3 Changes in the forecasts for general government finances compared with the previous General Government Fiscal Plan 130

APPENDIX 4 Economic development risks and their impact on public finances 132

APPENDIX 5 Comparison with Commission's latest forecast 135

APPENDIX 6 Stability Programme 136
Tables 1–3 145
Tables 4–9 151

GENERAL GOVERNMENT FISCAL PLAN 2024–2027

In accordance with Article 4 of Regulation 473/13, the General Government Fiscal Plan is based on independent macroeconomic and fiscal forecasts produced by the Economics Department of the Ministry of Finance. The General Government Fiscal Plan also includes Finland's Stability Programme, prepared with the assumption of unchanged policies, and it meets the EU's requirement for a medium-term fiscal plan. Specific information related to the Stability Programme prepared with the assumption of unchanged policies is presented in Appendix 6.

The General Government Fiscal Plan for 2024–2027 does not propose any new policy definitions. It is based on current legislation and takes into account the impact of the decisions previously made by Prime Minister Marin's Government on the expenditure and revenue levels in the coming years. This General Government Fiscal Plan does not set any budgetary position targets[1].

The first General Government Fiscal Plan of the Government to be appointed after the parliamentary election in spring 2023 will be drawn up in autumn 2023, and this will include both a Stability Programme and a Draft Budgetary Plan for 2024.

The Government has today, following preparatory consideration of the matter in the Ministerial Finance Committee and pursuant to section 2 of the Decree on the General Government Fiscal Plan (120/2014), section 1 of the Budget Decree (1243/1992) and the Government's decision issued on 24 April 2003 on the principles of formulating central government spending limits proposals, budget proposals and operating and financial plans, issued the following General Government Fiscal Plan and the Decision on Central Government Spending Limits included within it:

1 Under the Government Decree on the General Government Fiscal Plan (120/2014), the obligation to set a budgetary position goal for general government as a whole and for each of its component areas and the obligation to present the itemised measured required to attain those budgetary position goals, including the estimated financial impact of those measures, may be deviated from in the last General Government Fiscal Plan of a parliamentary term. However, an estimate of the budgetary position of general government as a whole and of each of its component areas over the following four years must be given in the last General Government Fiscal Plan of a parliamentary term.

Summary

Economic challenges and the economic policy line

Finland's external environment has undergone historical upheavals during the current parliamentary term, as the world economy was hit first by the coronavirus pandemic and, immediately after it had receded, Russia's invasion of Ukraine. Thus, Finland's economy has met with two significant external crises that have had an impact on general government finances both indirectly through the real economy and directly through crisis containment measures.

There is also a sustainability gap in general government finances due to the ageing of the population, and this has to date not been resolved. In the long term, general government revenue will not be sufficient to cover expenditure. Stabilising general government finances and securing sustainable debt require a programme of proportions commensurate with the problem, spanning two parliamentary terms.

The aim of the economic policy of Prime Minister Marin's Government Programme has been to increase wellbeing and prosperity. This means ecologically and socially sustainable economic growth, high employment and sustainable general government finances. The Government has pursued an active fiscal policy under the shadow of back-to-back crises. In 2020, significant support packages were introduced for businesses and households alongside other coronavirus-motivated measures; the impact of these receded gradually. With Russia's war of aggression against Ukraine, the Government launched substantial preparedness measures in 2022 along with support measures for households for 2022–2023 due to rising energy costs. On the whole, fiscal policy was strongly stimulative in 2020. This stimulative approach was toned down in 2021–2022 and increased moderately again in 2023. With no new measures adopted, fiscal policy will remain stimulative in the spending limits period.

The next Government will present the fiscal policy embodied in its Government Programme in concrete terms in its first General Government Fiscal Plan in autumn 2023.

For more details see chapter 1: Economic challenges and the economic policy line, and chapter 9: Summary of measures at the level of general government finances.

Objectives and rules steering the management of general government finances

The General Government Fiscal Plan 2024–2027 contains no new policy outlines. The present General Government Fiscal Plan is of a technical nature, and its Stability Programme assumes unchanged policies; it sets no goals for the coming years, and its evaluations of previous years are based on the existing EU regulatory framework. The EU fiscal policy framework is currently under development.

This technical General Government Fiscal Plan lays the groundwork for discretionary action in the next parliamentary term. The Government to be appointed after the parliamentary election in spring 2023 will set budgetary position goals and other goals and rules governing the management of general government finances.

Thus, the spending limits decision for 2024–2027 contained in the Plan does not specify a parliamentary term expenditure ceiling. The expenditure ceiling and the rules for the spending limits system for the parliamentary term 2024–2027 will be decided by the Government to be appointed after the parliamentary election.

For more details see chapter 2: Objectives and rules steering the management of general government finances.

Economic fundamentals

Finland's GDP is expected to decrease by 0.2% in 2023. Private consumption will decline, as the rapid rise of prices and interest rates erode the real disposable income of households. In 2024, inflation will slow down and income growth will pick up. GDP will recover, with 1.3% and 1.6% growth in 2024 and 2025, respectively. Employment will decline slightly in 2023 but will improve again as of 2024. By 2025, the employment rate will rise to 74.2%. In 2026 and 2027, GDP growth is expected to be c. 1.5% per year.

The budgetary position of general government finances, which improved in 2021–2022, will begin to decline as of 2023. Foreseeable growth in the next few years will not be sufficient to correct the imbalance between revenue and expenditure in general government finances, and the deficit will remain large. The deficit in general government finances is estimated to be c. 2.5% to 3% during the spending limits period. The debt ratio will continue to grow after a momentary reversal and is estimated to exceed 80% after the middle of the decade.

For more details see chapter 3: Economic fundamentals.

Government liabilities and risks

The largest component areas of central government liabilities are central government debt, pension liabilities and central government guarantees. Pension liabilities amounted to EUR 97 billion at the end of 2022. The largest growth over the last 10 years has been in the amount of central government debt and central government guarantees. Outstanding central government debt stood at EUR 141.6 billion as at the end of 2022, while the outstanding portfolio of central government guarantees was EUR 68.5 billion.

For more details see chapter 4: Government liabilities and risks.

Central government finances

The spending limits decision for 2024–2027 does not specify a parliamentary term expenditure ceiling. The expenditure ceiling and the rules for the spending limits system for the parliamentary term 2024–2027 will be decided by the Government to be appointed after the parliamentary election in April 2023.

On-budget expenditure in 2024 is expected to be c. EUR 88.3 billion, which is c. EUR 4.8 billion more than that budgeted for 2023 (incl. the first supplementary budget). In the spending limits period, on-budget expenditure is expected to be EUR 88.2 billion at the 2024 price level on average. Compared with the spending limits decision adopted last spring, expenditure between 2024 and 2026 will increase by EUR 8.0 billion per year on average. This expenditure growth is explained inter alia by several index adjustment factors (EUR 3.0 billion), estimated interest rate increases (EUR 2.3 billion on average) and a spending limits provision set as a contingency for annual ex-post revisions of the financing system of the wellbeing services counties. Expenditure under the Security Policy Escape Clause has also been increased by c. EUR 0.6–0.9 billion per year for 2024–2026 compared to the previous spending limits decision.

On-budget revenue (excluding net borrowing) in 2024 is expected to be c. EUR 76.7 billion, which is EUR 3.7 billion more than that budgeted for 2023 (incl. the first supplementary budget). On-budget revenue is expected to grow by an average of c. 2.4% per year in the spending limits period. In 2027, on-budget revenue is expected to be EUR 82.6 billion.

The budget deficit is estimated at EUR 11.7 billion per year on average in the spending limits period.

For more details see chapter 5: Central government finances.

Finances of the wellbeing services counties

The universal funding of the wellbeing services counties will total c. EUR 24.8 billion at the 2024 level, of which c. EUR 444 million comprises a non-recurring compensation paid in 2024 that will be recognised as revenue by the wellbeing services counties in 2023. Compared to the previous General Government Fiscal Plan, the level of funding for wellbeing services counties will increase by c. EUR 2.1 billion in 2024. The increase is explained by the updating of the expenditure transferred to the wellbeing services counties from budget data to preliminary financial statement data, increase of price level (index adjustment), anticipated growth in service needs, funding for new and expanded duties, and the adding of the university hospital increment to imputed funding as of 2024.

Some reforms concerning the wellbeing services counties decided on previously by Prime Minister Marin's Government will enter into force or expand stagewise after 2023. In 2024, the new or expanded duties of the wellbeing services counties (the most important of which is the care guarantee in primary healthcare) will increase their funding by c. EUR 129 million on a net basis (i.e. including reductions) compared to 2023. In 2027, when all the discretionary changes adopted in the current parliamentary term have entered into force in full, the net cost impact of all new and expanded duties specified between 2019 and 2023 on the finances of the wellbeing services counties will be c. EUR 630 million.

For more details see chapter 6: Finances of the wellbeing services counties.

Municipal finances

Central government transfers and grants to municipal finances will be c. EUR 5.4 billion in 2024. Imputed central government transfers will be EUR 3.9 billion, compensation for municipalities' tax losses EUR 0.9 billion and other central government grants EUR 0.6 billion. At the 2027 level, central government transfers and grants will be c. EUR 6.2 billion, of which EUR 4.9 billion comprises imputed central government transfers. Central government transfers to municipalities in 2025 will grow particularly because the responsibility for employment services will be transferred to municipalities and the municipalities contribution to financing unemployment security will increase. On the other hand, central government transfers will be reduced by the expiry of fixed-term additions specified in the Government Programme and by revision of the revenue and expenditure transferred from municipalities to the wellbeing services counties in the health, social and rescue services reform.

The combined effect of central government measures on municipal finances will be close to neutral during the spending limits period. Some discretionary measures decided by Prime Minister Marin's Government will affect municipalities, and those will be covered by full central government financing.

For more details see chapter 7: Municipal finances.

Earnings-related pension funds and other social security funds

Due to the prefunding of pensions, the earnings-related pension sector has been significantly in surplus historically. Demographic change is increasing pension expenditure, which has been reflected in a reduction in the surplus. Due to prefunding, however, the property income of the pension funds is substantial, so they will nominally not have to sell off assets even if pension expenditure exceeds contributions. Overall, the surplus of the earnings-related pension funds has declined from an average of just over 3% of GDP in the first decade of the 2000s to 0.9% of GDP in 2022.

The operations of other social security funds are financed statutorily by the social security contributions of the insured and employers as well as by public sector contributions. The budgetary position of other social security funds is in balance in the long term but may vary slightly on an annual basis, with the buffer funds providing flexibility. The imbalance has been no more than 0.4% of GDP throughout the 2000s.

For more details see chapter 8: Earnings-related pension funds and other social security funds.

1 Economic challenges and the economic policy line

Economic challenges and the economic policy line

Finland's external environment has undergone historical upheavals during the current parliamentary term, as the world economy was hit first by the coronavirus pandemic and, immediately after it had receded, Russia's invasion of Ukraine. Thus, Finland's economy has met with two significant external crises that have had an impact on general government finances both indirectly through the real economy and directly through crisis containment measures.

The aim of the economic policy of Prime Minister Marin's Government Programme has been to increase wellbeing and prosperity. This means ecologically and socially sustainable economic growth, high employment and sustainable general government finances. In the Government Programme, the Government set as its key economic policy objectives:

- given normal global and related domestic economic circumstances, the employment rate will be raised to 75% and the number of people in employment will increase by a minimum of 60,000 by the end of 2023
- given normal global economic circumstances, Finland's general government finances will be in balance in 2023
- the Government's decisions will decrease inequality and narrow the income gaps
- the Government's decisions will put Finland on a path towards achieving carbon neutrality by 2035.

The coronavirus crisis created a need to specify further the objectives of the Government Programme related to general government finances and employment development. In spring 2021, in its economic sustainability roadmap, the Government set as objectives:

- to achieve a reversal in the upward trend of the public debt ratio in the mid-2020s
- to raise the employment rate to 75% in the middle of decade and through the Government's employment measures to increase the number of people in employment by 80,000 by the end of the decade.

Estimating attainment of the employment goal is complicated by the statistics reform carried out during the parliamentary term. According to the spring 2023 projection of the Ministry of Finance, the employment rate according to the new measurement method may only reach 74.2% by the middle of the decade. According to the old method, however, this figure would be c. 75%.

In total, the Government has to date decided on measures to boost employment that, estimated at the 2029 level, will strengthen public finances by c. EUR 500 million, taking into account the costs arising from the measures and the savings from the strengthening of employment. The most significant sets of measures are abolishing the additional days in unemployment security, the Nordic employment service model, the funding reform related to the transfer of employment and economic development services to municipalities and the extension of compulsory education. These measures will increase the number of employed persons by a total of c. 45,000 by the end of the decade.

Despite exceptional upheavals, Finland's general government finances have grown stronger in the past few years. Employment has increased and unemployment has decreased at a rapid rate. Employment will continue to grow and unemployment to fall during the spending limits period. However, moderate employment growth combined with slow economic growth is not enough to correct the imbalance in general government finances over the spending limits period; the deficit in public finances will begin to grow again in 2023, being estimated at 2.6% of GDP. Substantial deficits and slow economic growth will also be reflected in the public debt ratio, which after a brief plateau is again showing a growth trend.

There is a sustainability gap in general government finances due to the ageing of the population, and this has to date not been resolved. In the long term, general government revenue will not be sufficient to cover expenditure. The growth in the number of older people will increase healthcare and long-term care expenditure in particular. Also, the decrease of the working-age population will erode the growth potential of the national economy and thereby the financing of public welfare services and benefits. Productivity growth will remain slow in the future. In this spending limits period, the focus should be on strengthening general government finances. Stabilising general government finances and securing sustainable debt require a programme of proportions commensurate with the problem, spanning two parliamentary terms. No measure should be ruled out, since creating a package of a sufficient order of magnitude requires a critical appraisal of public expenditure, structures and revenue, not forgetting growth-inducing measures.

Objective: carbon-neutrality in 2035

According to the Government Programme, Finland will be carbon neutral in 2035 and carbon negative soon thereafter. This goal is enshrined in the revised Climate Change Act.

Finland has made good progress in emission reductions in the emissions trading sector and the burden-sharing sector. Moreover, as estimated in the Annual Climate Report of 2022, the planned emissions reduction measures are sufficient for attaining our goals.

By contrast, there are issues with carbon sink developments in the land use sector. According to the most recent data compiled in 2022, the net carbon sink in the land use sector has been significantly smaller than previously estimated in recent years. The main reasons for this change in the carbon sink evaluation are the slowing of forest growth and increased felling. Because of the reduced net carbon sink, Finland's net emissions as a whole have scarcely decreased at all since 2005, and reaching the goal of carbon neutrality in 2035 will be more difficult than anticipated. With this decline in the situation in the land use sector, Prime Minister Marin's Government agreed on further action to reinforce carbon sinks in late 2022 and at the beginning of 2023. An investigation on further action in the land use sector was also launched at the beginning of 2023.

For the effectiveness of climate policy, and due to pressures on general government finances, measures must be effective and cost-efficient. At the same time, care must be taken to ensure that they do not give rise to unreasonable implications for different population groups. Achieving carbon neutrality also requires additional investment in low-emission technologies and solutions.

Section 5.7 examines the package of measures to promote carbon neutrality and the green transition included in the General Government Fiscal Plan.

Fiscal policy line

Prime Minister Marin's Government has pursued an active fiscal policy under the shadow of back-to-back crises. In 2020, significant support packages were introduced for businesses and households alongside other coronavirus-motivated measures; the impact of these receded gradually. Comprehensive measures were undertaken to safeguard jobs and livelihoods and to ease the financial pressure on businesses facing difficulties caused by the pandemic.

Russia's war of aggression against Ukraine had an impact on the Finnish economy, but this has been less severe than feared. The Government launched substantial preparedness measures in 2022 along with support measures for households for 2022–2023 due to rising energy costs. The economy grew by more than 2% in 2022; the employment rate rose and the unemployment rate fell. On the other hand, inflation rose above 7%. Compared to the previous year, general government finances grew stronger despite the crisis and preparedness needs of 2022 and various support measures to compensate for things such as energy price rises. These measures will be discussed in section 5.3.

However, economic growth slowed down in the second half of 2022, and this halted employment growth. Inflation will slow down but will remain higher than usual in 2023. The slowdown in economic growth projected for the spending limits period will weaken tax revenue growth in the medium term. At the same time, high inflation has caused expenditure pressures, e.g. through index adjustments. Interest expenditure has also grown very rapidly.

On the whole, fiscal policy was strongly stimulative in 2020. This stimulative approach was toned down in 2021–2022 and increased moderately again in 2023. With no new measures adopted, fiscal policy will remain stimulative in the spending limits period.

The next Government will present the fiscal policy embodied in its Government Programme in concrete terms in its first General Government Fiscal Plan in autumn 2023.

2 Objectives and rules steering the management of general government finances

The purpose of the General Government Fiscal Plan is to support decision-making related to general government finances as well as compliance with the Medium-Term Objective (MTO) set for the general government structural budgetary position. The plan contains sections related to central government finances, wellbeing services county finances, municipal finances, statutory earnings-related pension funds and other social security funds. The Government prepares the General Government Fiscal Plan for the parliamentary term and revises it annually for the following four years by the end of April.

The General Government Fiscal Plan 2024–2027 is a 'technical plan' and contains no new policy outlines. It is based on current legislation and takes into account the impact of the decisions previously made by Prime Minister Marin's Government on the expenditure and revenue levels in the coming years. This technical General Government Fiscal Plan lays the groundwork for discretionary action in the next parliamentary term, which will be decided on in the first General Government Fiscal Plan of the new Government in autumn 2023. The new Government will also set budgetary position goals at that time.

The present General Government Fiscal Plan is of a technical nature, and its Stability Programme assumes unchanged policies; it sets no goals for the coming years, and its evaluations of previous years are based on the existing EU regulatory framework. The EU fiscal policy framework is undergoing development; the Council adopted conclusions outlining this work on 14 March 2023.[2] After the amendments to the EU fiscal policy framework have been confirmed, needs to amend national fiscal policy legislation will be assessed. In July 2023, the Council will adopt the next country-specific recommendations that may impose framework conditions on the fiscal policy goalsetting of the new Government. On 8 March 2023, the Commission released a Communication on fiscal policy steering for 2024.[3]

2 https://www.consilium.europa.eu/en/press/press-releases/2023/03/14/economic-governance-framework-council-agrees-its-orientations-for-a-reform/

3 https://economy-finance.ec.europa.eu/system/files/2023-03/COM_2023_141_1_EN_ACT_part1_v4.pdf

Medium-Term Objective

The Government confirms the validity of the Medium-Term Objective of -0.5% of GDP for the structural budgetary balance of general government finances, set in autumn 2019 pursuant to section 2 of the Fiscal Policy Act (869/2012). This is the minimum level to which Finland has committed in the Fiscal Compact.[4] The requirements related to the MTO are described and its achievement is assessed in the Stability Programme (see Appendix 6), which also presents the Government's assessment under the Fiscal Policy Act of progress towards the MTO.

Exceptional circumstances

The General Escape Clause of the Stability and Growth Pact activated in March 2020 will remain in force until the end of 2023, which was also noted in the Commission Communication of 8 March 2023. The General Escape Clause, as well as unusual events encountered by individual countries, permits Member States to temporarily depart from the adjustment path towards the MTO, provided that this does not endanger fiscal sustainability in the medium term.

The Government to be appointed after the parliamentary election this spring is expected to address measures for improving the structural funding position of general government finances, considering the requirements enshrined in the Fiscal Policy Act.

Central government spending limits

The current spending limits system for central government finances, created to ensure responsible long-term expenditure policies promoting economic stability, has been in use since 2003. About 85% of central government budget expenditure at the 2023 level is governed by ceilings set in the spending limits procedure. Expenditure that changes according to cyclical conditions and automatic stabilisers, central government debt interest expenditure and financial investments have been classified outside the central government spending limits.

4 The Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, as well as the Act on requirements related to multiannual budgetary frameworks, which came into force on 1 January 2013.

The spending limits decision for 2024–2027 does not specify a parliamentary term expenditure ceiling. The expenditure ceiling and the rules for the spending limits system for the parliamentary term 2024–2027 will be decided by the Government to be appointed after the parliamentary election in April 2023. Thus, only a general overview of trends in central government expenditure included in the spending limits decision is presented in this General Government Fiscal Plan, specifically in chapter 5.

3 Economic fundamentals

In accordance with Article 4 of Regulation 473/2013, the General Government Fiscal Plan is based on independent macroeconomic and fiscal forecasts produced by the Economics Department of the Ministry of Finance. This chapter discusses the macroeconomic and public finance outlook based on the independent forecast. For a more detailed forecast, see the Ministry of Finance's Economic Survey.

3.1 Economic outlook

Economic outlook for 2023–2025

Finland's gross national product (GDP) took a slight downturn in the second half of 2022, and the first half of 2023 is also expected to be a period of poor economic growth. Households are reducing their consumption because of high inflation and rising interest rates, and GDP will decrease by 0.2% in 2023. With inflation slowing down and pay rises implemented, purchasing power will begin to grow again during 2023. The national economy will also grow again in 2024 (1.3%) and 2025 (1.6%). However, the national economy will not return to its previous growth track, since Russia's war of aggression against Ukraine will have longer-term impacts on the economy.

There is a great deal of uncertainty in this projection. Developments may occur in Russia's war of aggression against Ukraine that will have significant and fast-spreading economic impacts. Rising interest rates and prices have curbed consumption and the housing market considerably, and this may have greater negative impacts than assumed in the projection. Rapidly rising interest rates have also increased uncertainty on the financial market.

Medium-term outlook

Economic growth will slow as the economy approaches its normal capacity following past disruptions. Economic growth is expected to be c. 1.5% in 2025 and 2026. The economic restructuring and demographic changes that have been under way for years will also affect the longer-term growth outlook of the economy.

The contraction of the working age population will reduce labour input. The overall impact of labour input will start to reduce output after the middle of the decade, as the increase in the participation rate and the decline in structural unemployment fade.

Total factor productivity growth has been a key source of economic growth in recent decades, but its development will continue to be weak by historical standards. There have been both cyclical and structural factors underlying the weaker growth. The output of high-productivity sectors has declined significantly, and services have become more predominant in the overall structure of the economy.

Total factor productivity is expected to grow by just under 1% in the medium term, whereas annual growth exceeded 2% on average in the early 2000s. Productivity growth will, however, be slightly faster than the 2010s average.

In addition to labour input and total factor productivity, long-term production conditions for the economy will be influenced by the capital stock. The effect of the capital stock on output growth will be c. 0.5% per year.

Table 2. Trends in the national economy

	2021	2022	2023	2024	2025	2026	2027
GDP, EUR billion	250.6	266.7	277.1	286.9	298.1	309.6	321.2
GDP, change in volume, %	3.0	2.1	-0.2	1.3	1.6	1.6	1.5
Unemployment rate, %	7.7	6.8	7.0	6.8	6.6	6.4	6.3
Employment rate, %	72.3	73.8	73.6	73.8	74.2	74.6	74.9
Consumer Price Index, change %	2.2	7.1	5.5	2.5	1.6	2.0	2.0
Long-term interest rate, 10 years, %	-0.1	1.7	3.3	3.4	3.2	3.2	3.2

3.2 Outlook for general government finances

The general government deficit decreased in 2022, standing at 0.8% of GDP, or c. EUR 2.2 billion. The deficit decrease was due inter alia to growth in tax revenue and social security contributions. Also, expenditure specifically targeted to manage the coronavirus pandemic decreased. However, this strengthening of general government finances is only temporary.

The national economy will not grow in 2023, and the budgetary position of general government finances will begin to decline. Many discretionary measures will also have a weakening effect on general government finances. The most significant of these have to do with preparedness measures undertaken because of Russia's war of aggression against Ukraine. Beyond cyclical fluctuations, population ageing is having a detrimental structural impact on general government finances. Foreseeable economic growth in the next few years will not be sufficient to correct the imbalance between revenue and expenditure in general government finances, and the deficit will remain large. The current parliamentary term ends in 2023, and the projection for general government finances for the period 2024–2027 was prepared on an assumption of unchanged policies. In other words, the projection does not consider any action that may be taken by the new Government. Decisions taken by the new Government may swing general government finances in either direction.

Public debt ratio has begun to grow again after a brief respite. The substantial combined deficit of central and local government and rapidly rising debt management costs will keep Finland's debt ratio on an upward trend for the foreseeable future. In the medium term, the debt ratio is expected to exceed 80%.

The most important factor underlying the profound deficit in public finances is the central government deficit, which will remain substantial from 2023 inter alia due to several acute and temporary measures. Additional resources have been allocated inter alia to internal and external security and to expediting the green transition. Central government expenditure is also being increased by R&D investments consistent with the new Act on Research and Development Funding. Interest payable on government debt is now considerably greater than has been the case in previous years. Slow economic growth translates into slow growth of tax revenue.

In 2023, the structure of Finland's public sector changed as responsibility for the organisation of health, social and rescue services was transferred from municipalities to the wellbeing services counties. In the pressure projection, municipal administration continues to show a deficit. Local authorities' investment expenditure will remain high due to the ageing building stock, migration and infrastructure construction. The wellbeing services counties started operating with a deficit. The deficit is due to large-scale investments and personnel costs, among other things.

The surplus declared by earnings-related pension funds will be just under 1.5% in the next few years. Pension expenditure will grow, but rising interest rates have a positive impact on the property income of earnings-related pension funds. The financial position of other social security funds will be strengthened during the projection period by the easing of the unemployment situation, and the social security funds will remain slightly in surplus.

General government finances involve both short-term and long-term risks. The short-term risks are closely linked to economic trends. The impact of the geopolitical situation on economic growth is reflected in general government finances both through general economic trends and in the preparedness measures that need to be taken.

In the long-term, a high level of debt constitutes a risk for general government finances. A reduction in the debt ratio is not foreseeable. Rapid accrual of debt combined with high interest rates has already raised interest costs on existing debt. The debt-increasing impact of interest costs will be exacerbated in the medium term, and no relief is in sight. General government contingent liabilities and a significant increase in guarantees, in particular, pose a risk to general government finances. The concentration of guarantee liabilities in certain sectors and businesses increases the risks associated with guarantee liabilities. A major triggering of liabilities would increase public spending and further accelerate growth in the debt ratio. General government contingent liabilities are discussed in chapter 4.

Table 3. Key figures for general government finances according to national accounts, % of GDP

	2021	2022	2023	2024	2025	2026	2027
Taxes and social security contributions	43.1	43.1	42.6	42.4	42.1	41.7	41.5
General government expenditure	55.8	53.4	55.4	55.5	55.7	55.0	54.6
General government net lending	-2.7	-0.8	-2.6	-2.6	-3.1	-2.9	-2.9
– Central government	-3.2	-1.6	-3.4	-3.4	-4.1	-4.0	-4.0
– Municipal administration	-0.3	-0.3	-0.2	-0.1	-0.2	-0.2	-0.2
– Wellbeing services counties			-0.4	-0.5	-0.5	-0.5	-0.4
– Earnings-related pension funds	0.9	0.9	1.1	1.3	1.4	1.5	1.5
– Other social security funds	-0.1	0.2	0.3	0.1	0.2	0.3	0.2
Primary balance	-2.2	-0.3	-1.7	-1.3	-1.8	-1.5	-1.3
Structural balance	-2.1	-0.5	-1.6	-1.7	-2.6	-2.6	-2.9
General government gross debt	72.6	73.0	74.4	76.9	79.0	80.7	82.4
Central government debt[1]	51.4	53.1	54.5	56.7	58.5	59.9	61.5

1) The estimate of central government debt produced by the Economics Department of the Ministry of Finance differs from the budget-based estimate due to updated revenue estimates, etc.

Compliance with fiscal policy rules and objectives

In its Government Programme, Prime Minister Marin's Government set as a goal that, given normal global economic circumstances, Finland's general government finances will be in balance in 2023. In spring 2021, due to the crisis caused by the coronavirus pandemic, the goal for general government finances was revised in the sustainability roadmap: growth of the debt ratio in general government finances was to be halted by the mid-2020s. Debt ratio growth did halt momentarily thanks to the robust economic and employment development in 2021 that reinforced general government finances. As economic growth slowed down towards the end of the parliamentary term, the debt ratio has begun to grow again with the increasing of the central government and local government deficits and of interest costs, and no easing of this increase is in sight.

The multiannual targets set by Prime Minister Marin's Government for itself in the previous General Government Fiscal Plan for the nominal budgetary position of general government and for general government debt and expenditure in ratio to GDP will not be achieved, according to the independent forecast prepared by the Ministry of Finance (see Stability Programme Table A in Appendix 6). The decline in the nominal budgetary position in 2023 is due to a number of temporary additional expenditure items, a large percentage of which are for improving external security. The budgetary position is also undermined by increased expenditure due to index adjustments, the expenditure of the wellbeing services counties, rising prices and increasing interest costs.

Many of the sectoral targets set for 2023 will be met. The budgetary position of municipal administration will exceed its target, showing a deficit of 0.2% (the target being a deficit of c. 0.5%). The budgetary position of the wellbeing services counties shows a deficit and thus deviates from the target (the target being to be nearly in balance). The earnings-related pension funds are expected to exceed slightly the targeted 1% surplus and the other social security funds will be slightly in surplus and therefore close to balance in line with the target. The central government deficit will exceed its target for 2023 by more than one percentage point (the target being -2.25%).

General government debt relative to GDP will grow throughout the forecast period and, according to the long-term estimate based on the forecast, also throughout the 2020s. It is estimated that general government finances will be compliant with the deficit criterion in the Stability and Growth Pact at the end of the parliamentary term in 2023 but not with the debt criterion. Compliance with the deficit and debt criteria of the Stability and Growth Pact as well as progress towards the MTO set for the structural budgetary balance is assessed in the Stability Programme (Appendix 6).

The purpose of the General Government Fiscal Plan is to support compliance with the Medium-Term Objective (MTO) set for the general government structural budgetary position. According to the Ministry of Finance forecast, this target will not be met (see Table 3).

General government budgetary position and debt, broken down into the budgetary position and debt of core sector units and units outside the core sectors

The general government budgetary position improved in 2022 but will decline significantly in the next few years. The central government core sector, on-budget finances, will the most in deficit. The central government will also remain deeply in deficit going forward. The local government core sector (municipal authorities, joint municipal authorities and wellbeing services counties) were fiscally balanced in 2022 but will start showing a deficit going forward. The fiscal position of the social security funds will improve in the next few years, and the sector will be slightly in surplus thereafter. The combined deficit of units outside the core sectors will be c. 0.5% of GDP in the current year and c. 0.3% thereafter.

General government consolidated EDP debt as a percentage of GDP will grow across the entire projection period. Most of the debt is central government on-budget debt. The municipalities and joint municipal authorities also have a significant amount of debt. Of the units outside the core sectors, the debt burden is mainly borne by real-estate companies and a few other units. The debt carried by units outside the core sectors will grow slowly by an amount corresponding to the deficit produced by these units annually. For a list of units in the general government subsectors, see the Statistics Finland website.

Table 4. General government budgetary position and debt relative to GDP, broken down into core sectors and units outside the core sectors (%)

	2021	2022	2023	2024	2025	2026	2027
General government total							
Budgetary position relative to GDP	-2.7	-0.8	-2.6	-2.6	-3.1	-2.9	-2.9
Debt relative to GDP	72.6	73.0	74.4	76.9	79.0	80.7	82.4
Core sectors, total							
Budgetary position relative to GDP	-2.5	-0.3	-2.2	-2.2	-2.8	-2.6	-2.6
Debt relative to GDP	70.5	70.5	71.6	73.8	75.7	77.2	78.6
Units outside core sectors, total							
Budgetary position relative to GDP	-0.2	-0.5	-0.4	-0.4	-0.3	-0.3	-0.3
Debt relative to GDP	2.1	2.5	2.8	3.1	3.3	3.5	3.7

3.3 Sustainability of public finances

Finland's economic growth has been slow since the financial crisis of 2008. The economy has suffered particularly from a structural shift in industry, which has hindered economic recovery from the recession following the financial crisis. Productivity growth has been slow due to a low level of investments. Economic growth is estimated to remain slow in the coming decades.

General government debt is increasing due to slow economic growth and recent crises, and as well as the ageing of the population. The increase in pension expenditure, among other things, explains the fact that general government finances were not able reach a surplus during the favourable economic conditions prior to the covid-19 pandemic. Ageing of the population will continue to weigh on general government finances in the coming years. Ageing of the population increases goernment expenditure while simultaneously decreasing the revenue base of general government finances. The growth in the number of older people will increase healthcare and long-term care expenditure in particular. The simultaneous shrinking of the working-age population will stunt economic growth and thus reduce general government revenue.

Finland's population is ageing rapidly, as young age cohorts are smaller than older ones due to a declining birth rate, and people generally living longer now than before. Rapid ageing of the population will continue over the next few decades unless the birth rate goes up or immigration increases substantially. Since 2010, the dependency ratio has deteriorated from c. 50 dependants (under 15 and over 65 years of age) to over 60 dependants per 100 people of working age. The dependency ratio is expected to continue to decline. According to the population projections of Statistics Finland published in 2021, there will be more than 80 dependants per 100 people of working age in Finland in 2070.

In public finances, a substantial sustainability gap prevails, i.e. general government revenue will not be sufficient to cover expenditure in the long term. Without effective measures to slow expenditure growth or expand the revenue base, the current overall tax rate will not be sufficient to finance expenditure in the future. A permanent imbalance between general government revenue and expenditure therefore threatens to result in an uncontrollable increase in the debt ratio in the long term. To avoid this, general government finances should be strengthened e.g. through structural reforms that improve employment and economic growth, without increasing government expenditure.

The Ministry of Finance estimates the sustainability gap to be c. 3% of GDP, i.e. c. EUR 9 billion at the 2027 level. There is significant uncertainty associated within the sustainability gap estimate, and it is sensitive to the assumptions used about future development. Notwithstanding the uncertainty, the calculation offers a coherent way of examining the challenges facing general government finances and the means to overcome them.

The sustainability gap calculations estimate how the ageing of the population will affect the outlook in general government finances in the coming decades. In addition to the ageing of the population, there are many other factors putting pressure on general government finances, due, inter alia, to prepare rations related to the new more uncertain security environment, climate change and renovation and repair needs of public infrastructure; however, these factors are not included in the sustainability gap analysis.

Sustainability of general government finances in alternative scenarios

The sustainability gap analysis allows examination of the long-term sustainability of general government finances in various scenarios where the variables used progress along various alternative paths compared to the baseline scenario. The key assumption for the following estimates is that any measures undertaken to increase employment or productivity will be cost-neutral, i.e. the measures themselves will not place an additional burden on general government finances. Measures requiring significant public funding may actually undermine general government finances even if they enhance the growth potential of the national economy in general. The sustainability gap calculation also does not indicate what would be a sensible way of stabilising the debt ratio of general government finances or the appropriate timetable for it. The calculation does not consider the adverse impacts of adjustment measures or potential benefits of structural reforms for economic growth.

The decline in the working-age population weakens the growth potential of the national economy and thereby weakens the sustainability of general government finances. The decline of the working-age population may, under certain conditions, be compensated with increased immigration. Assuming that the employment rate and wage levels of immigrants would be similar to those of the general population, an annual increase of 7,500 persons in net immigration would narrow the sustainability gap by c. 0.4 percentage points. This would require such immigration to be largely labour immigration, meaning that it would not increase direct costs in general government finances. The amount of tax revenue accrued from immigrants relative to benefits paid and services provided in the long term is crucial for the sustainability of general government finances.

A higher percentage of people of working age in the total population would have a beneficial effect on general government finances. Higher employment means greater total production and thereby greater tax revenue. At the same time, a lower unemployment rate means less public expenditure related to unemployment. A permanent increase of one percentage point in the employment rate would narrow the sustainability gap by c. 0.25 percentage points.

Improved productivity translates directly into increased tax revenue, but productivity growth also means higher government expenditure. This is because, in the long term, productivity growth will raise real income in all sectors by an equal amount, and therefore labour costs in the public sector will also increase. In the sustainability gap calculation, the productivity of work is estimated to grow by an average of 1.5% per year in the long term. Even a substantial permanent increase in this productivity trend – 0.5 percentage points – would only narrow the sustainability gap by 0.3 percentage points.

By comparison, productivity growth in public health and social services would have a major impact on the sustainability of general government finances. The challenge in the sustainability of general government finances has to do with the projected growth in the demand for health and social services. A permanent productivity improvement in public health and social services amounting to e.g. 0.5 percentage points per year ahead of other sectors would significantly curb the growth of government expenditure in the long term and narrow the sustainability gap by c. 1.9 percentage points.

4 Government liabilities and risks

Government liabilities can be divided into direct liabilities and contingent liabilities whereby, for example, a liability to pay arises through a government guarantee. Government financial liabilities and associated risks may emanate from decentralised sources within central government on-budget accounting, central government funds and unincorporated state-owned enterprises. The central government may also be subject to implicit liabilities for securing the continuity of certain functions of society, even though there is no law or agreement legally binding the government to such liability. Assessing the risks related to liabilities unambiguously is difficult, and therefore the nominal values of liabilities have been used in this examination in the interests of clarity. Data on central government real and financial assets are based on financial accounting. Regarding financial assets, the table also shows certain key publicly quoted shareholdings. In addition to these, the central government owns either in full or in part several other companies, which are valued on the basis of book value.

In central government financial assets, values of corporate shareholdings may fluctuate significantly due to economic conditions. In 2010–2021, the central government has received annual dividend income between EUR 0.8 and 2.0 billion from its shareholdings. In 2022, the central government's dividend income was c. EUR 1.36 billion.

Table 5. Summary of government liabilities and risks, EUR billion

	2015	2016	2017	2018	2019	2020	2021	2022
Assets								
Central government real assets	56.7	56.8	57.9	58.7	59.4	58.6	61.1	
% of GDP	26.8	26.1	25.6	25.1	24.8	24.6	24.4	
Central government financial assets[1]	75.6	76.8	77.5	80.4	89.1	106.8	101.7	
% of GDP	35.8	35.3	34.2	34.4	37.1	44.9	40.6	
– of which								
Central government liquid assets	4.4	3.1	3	2.1	2.3	7.6	4.8	3.7
Solidium Oy	6.8	7.8	8.6	6.8	7.5	7.6	9.0	7.9
Other shareholdings in listed companies	10.2	11.5	15.2	15.5	19	26	25	19.7
National Housing Fund receivables	5.9	5.2	4.6	4.2	3.7	3.2	2.8	2.4
Responsibilities								
Central government debt	99.8	102.3	105.8	105	106.4	124.8	128.7	141.6
% of GDP	47.2	47	46.8	44.9	44.3	52.4	51.4	53.1[2]
Municipal debt	18	19	19.2	21.0	23.8	25.8	26.1	
% of GDP	8.5	8.7	8.5	9.0	9.9	10.8	10.3	
Central government securities and guarantees[3]	44.2	46.1	52.3	56.6	60.2	61.7	64.2	68.5
% of GDP	20.9	21.2	23.1	24.2	25.1	25.9	25.4	25.7[2)]
– Finnvera	22.6	22.6	27.7	30.3	32.6	31.6	32.1	35.1
– Student loans	2	2.3	2.7	3.4	4	4.5	5	5.5
– EFSF	6.2	6.3	7	7	7	6.8	6.6	6.7
– Bank of Finland	0.5	0.6	0.4	0.5	0.6	0.6	0.8	0.8
– Government funds	12.3	13.2	13.8	14.6	15.5	16.5	17.7	18.6
– COVID-19 support measures[4]						1	1.4	1.4
– Other	0.6	1.1	0.6	0.8	0.5	0.7	0.7	0.5
Capital liabilities	17.8	18	17.9	17.9	17.9	18.2	19.4	19.4
% of GDP	8.4	8.3	7.9	7.6	7.4	7.7	7.7	7.3[2)]
Other liabilities	130.8	129.5	128.3	127.6	130	132.9	134.3	157.2
% of GDP	61.9	59.5	56.8	54.4	54.1	55.9	53.6	58.9[2)]
– On-budget accounting[5]	128.3	126.9	125.5	124.7	127.2	131.6	131.5	153.8
– Off-budget entities	0.9	1.2	1.6	1.7	1.7	1.8	2	2.4
– State enterprises	1.6	1.4	1.2	1.2	1.1	0.9	0.8	1.0

1) Time series updated to correspond to changed statistics compilation.

2) Preliminary information

3) Government guarantees are presented in more detail in Appendix 12 of the central government final annual accounts.

4) Includes guarantees for shipping companies critical for security of supply, for Finnair and for loans from the EU's SURE instrument and the EIB's COVID-19 Guarantee Fund, and also the Covid-19 vaccine guarantee.

5) Includes pension liabilities. Pension liabilities at the end of 2022 were EUR 97.0 billion.

The largest component areas of central government liabilities are central government debt, pension liabilities and central government guarantees. Pension liabilities amounted to EUR 97 billion at the end of 2022. The greatest growth in the past 10 years has been in the amount of the central government debt and of central government securities and guarantees; central government debt stood at EUR 141.6 billion and the current central government security and guarantee portfolio at EUR 68.5 billion as at the end of 2022.

The stock of guarantees issued by Finnvera and central government funds, in particular, has been rising for a long time now. The growth in Finnvera guarantees has focused on export guarantees and Finnvera's acquisition of funds. At the end of 2022, export guarantees totalled EUR 21.8 billion, of which drawn down guarantees amounted to EUR 14.1 billion. In export financing, it is typical for guarantee liabilities to be concentrated in certain sectors and large exposures of single clients.

Of the EUR 18.6 billion portfolio of guarantees issued by funds, the majority (EUR 18.4 billion) consists of guarantees issued via the National Housing Fund. In the growth of the National Housing Fund's guarantees, particularly prominent is financing for government-guaranteed rental and right-of-occupancy housing, to which guarantees totalling EUR 16.6 billion had been allocated at the end of 2022. Guarantees allocated to housing loans of private individuals totalled EUR 1.8 billion at the end of 2022. In the financing of rental and right-of-occupancy housing, a key risk relates to government-subsidised and government-guaranteed properties located in areas of declining population, where occupancy rates and property values are falling. In addition to guarantee liabilities, a significant proportion of government-guaranteed housing financing includes central government interest subsidies, which, as the result of a significant rise in interest rates, involves the risk of an increase in the central government's payment obligation. In 2022, interest subsidy costs in housing financing were only c. EUR 1.7 million, but the projection simulation shows that if the interest rate on the loan portfolio were to increase to 5%, the annual cost would be c. EUR 285 million. This estimate is further augmented by the increase in the volume of the portfolio of interest-subsidy loans, which has been on the order of c. EUR 1 billion in recent years.

Security and guarantee liabilities granted because of the coronavirus pandemic and because of Russia's war of aggression against Ukraine remain in force into the spending limits period.

Monitoring of guarantee fees collected, guarantee compensation paid out and recovered funds received has been introduced for central government guarantee liabilities. In 2022, EUR 17.8 million was collected in guarantee fees and EUR 79 million was paid out in guarantee compensations. Recovered payments amounted to EUR 37.5 million, meaning that net guarantee expenditure in 2022 was EUR 23.7 million. This figure includes both on-budget finances and off-budget funds. Items in Finnvera accounts are no longer included insofar as they are not liabilities for on-budget finances.

Table. Guarantee fees, guarantee compensations and recovered payments in on-budget finances and off-budget funds 2020–2022, EUR million

	2020	2021	2022
Guarantee fees	18.1	25.3	17.8
Guarantee compensations paid	51.2	77.2	79.0
Recovery	27.7	33.4	37.5
Expenditure, net	5.3	18.6	23.7

If the rules on collecting guarantee fees remain unchanged, the guarantee fee revenue trend depends principally on new guarantees granted, because a guarantee fee is principally collected as a non-recurring payment when the guarantee is drawn down. Guarantee fees are not collected at all for a significant percentage of new guarantees. The trend in the number of guarantee compensations depends on how the guarantee portfolio develops and on risk trends among opposite parties. General economic trends and external shocks also have an impact on the risk of guarantee compensations being actualised, because typically at economically weak times a higher than normal volume of guarantee losses is seen.

In connection with the coronavirus pandemic, the European Union has adopted a decision on the recovery facility and its financing as part of a new Own Resources Decision. Borrowing under the recovery facility would increase the European Union's liabilities by a total of EUR 750 billion (expressed at 2018 prices). Of this, Finland's imputed share is estimated to be c. EUR 13 billion. Finland's payments, to be realised after 2027, relate to the recovery facility's support in the form of grants, of which Finland's share is estimated to total EUR 6.6 billion.

Contingent liabilities also include capital liabilities payable on demand to international financial institutions, which totalled c. EUR 19.4 billion at the end of 2022. Most of the capital liabilities since 2012 have consisted of a capital liability of EUR 11.1 billion related to the European Stability Mechanism (ESM).

The loan and financial liabilities transferred from municipal administration to the wellbeing services counties from the beginning of 2023 are discussed in Chapter 6.

Risks related to public sector activities are linked in many ways to general economic development. In an exceptionally difficult economic situation, the fiscal position may weaken due to a number of different factors simultaneously. Risks related to macroeconomic development, public debt, public sector holdings, granted guarantees and other public sector liabilities are correlated. In normal business cycle conditions, typically only some of the risks are realised, but in the event of a more extensive external shock the risks to central government finances may be considerable. The exceptional situation caused by the coronavirus pandemic extensively impacted society as a whole, and the related support measures rapidly increased both central government debt and guarantee liabilities. Russia's war of aggression and consequent changes on the energy market have also required extraordinary financial input from the central government, in the form of both internal support measures and additional investments in national defence and security. In crisis situations, the risk of the realisation of outstanding guarantee liabilities also generally increases. Tax revenues also typically decline in conditions of poor economic development or crises.

A significant acceleration of inflation and rising interest rates emerged as a new threat to government finances in 2022. Rising interest rates mean higher interest costs payable on central government debt. The interest costs on central government debt were EUR 0.8 billion in 2022 and are estimated to rise to EUR 2.6 billion in 2023. Interest costs are expected to continue rising in the following years. (See also section 5.5.) A general rise in interest rates also means an increase in central government support for interest-subsidy loans and possibly an increase in risks for government-guaranteed loans. In addition to all of the above, the development of the liability items portfolio also has a bearing on central government risk. Elevated interest rates bring increased pressure to limit borrowing and the volume of contingent liabilities.

Costs arising from the realisation of central government liabilities may impose a significant burden on the economy. This highlights the importance of careful assessment and management of the risks associated with binding financial decisions of central government and the management and monitoring of liabilities. Long-term preparations must be made for surprising shocks to the economy as a whole, so that in economic upswings central government liabilities can be reduced, providing room for manoeuvre for measures in crisis situations.

Central government financial liabilities and associated risks are discussed in more detail in the Overview of Central Government Risks and Liabilities, published by the Ministry of Finance.

5 Central government finances

5.1 Central government spending limits

The central government spending limits system is based on a real, binding overall expenditure ceiling set for the duration of the parliamentary term, to which only the required price and cost level adjustments and structural corrections are made. The spending limits system is based on ex ante examination, i.e. it restricts the level of expenditure budgeted in the State budget. The spending limits decision for 2024–2027 does not specify a parliamentary term expenditure ceiling. The expenditure ceiling and the rules for the spending limits system for the parliamentary term 2024–2027 will be decided by the Government to be appointed after the parliamentary election in April 2023. Thus, only a general overview of expenditure trends in on-budget finances included in the spending limits decision is presented in this General Government Fiscal Plan.

The total expenditure outlined in the spending limits decision includes what are known as spending limits provisions for additional funding as per the Act on Research and Development Funding and for ex-post revision of the funding of the wellbeing services counties, etc. These spending limits provisions are earmarked specifically for those purposes.

The Security Policy Escape Clause adopted in spring 2022 was also in use during the parliamentary term now ending. The Escape Clause was taken into account for 2022 and 2023 as a structural adjustment of the spending limits level, i.e. the parliamentary term expenditure ceiling was increased accordingly, the expenditure in question thus being covered by funds outside the spending limits. Some of the expenditure covered by the Security Policy Escape Clause extends into the spending limits period 2024–2027 and is included in the overall expenditure in this spending limits decision.

5.2 Development of on-budget expenditure and the spending limits

Development of on-budget expenditure in 2024–2027

On-budget expenditure in 2024 is expected to be c. EUR 88.3 billion, which is c. EUR 4.8 billion more than that budgeted for 2023 (incl. the first supplementary budget). The increase in appropriations compared to 2023 is explained mainly by statutory and agreement-based index adjustments in 2024 (EUR 2.1 billion) and by changes in central government funding for the wellbeing services counties. In 2024, the wellbeing services counties will be allocated EUR 2.8 billion more in funding than was budgeted for 2023 (incl. the first supplementary budget), and a statutory index adjustment will be performed as well.[5] The appropriations level in on-budget finances for 2024–2027 is also boosted by the spending limits provisions made for the spending limits period, as discussed in section 5.1.

In the spending limits period, on-budget expenditure is expected to be EUR 88.2 billion at the 2024 price level on average. In 2027, on-budget expenditure is expected to be EUR 88.4 billion at the 2024 level.

Compared with the spending limits decision adopted in spring 2022, expenditure between 2024 and 2026 will increase by EUR 8.0 billion per year on average. This expenditure growth is explained inter alia by several index adjustment factors (EUR 3.0 billion), estimated interest rate increases (EUR 2.3 billion on average) and a spending limits provision set as a contingency for annual ex-post revisions of the financing system of the wellbeing services counties. Expenditure under the Security Policy Escape Clause has also been increased by c. EUR 0.6–0.9 billion per year for 2024–2026 compared to the previous spending limits decision.

Expenditure outside the spending limits

Some on-budget expenditure falls outside the spending limits. In the current parliamentary term, the following were classified as outside the spending limits: cyclical expenditure, interest expenditure on central government debt, and expenditure where the central government acts as a technical intermediary for an external funding contribution. Expenditure outside the spending limits is expected to be c. EUR 13.4 billion in 2024, which is EUR 0.3 billion more than budgeted for 2023 (incl. the first supplementary budget).

The total of expenditure outside the spending limits is EUR 13.2 billion per year on average in the spending limits period. Interest costs on central government debt are estimated at EUR 3.4 billion per year in 2024–2026 and EUR 3.8 billion in 2027. Expenditure financed with revenue from the EU RRF will decrease gradually in the early years of the spending limits period, expiring in 2026.

5 Wellbeing services counties were paid EUR 1.9 billion out of the 2023 funding in December 2022; this reduces the comparative figure for 2023. On the other hand, the appropriations for 2023 include EUR 350 million in non-recurring items.

With the employment and economic development services (TE services) reform entering into force at the beginning of 2025, a total of c. EUR 440 million will be transferred from the main title of the Ministry of Social Affairs and Health to central government transfers to municipal finances for basic public services. In the table below, this expenditure is still included under cyclical expenditure.

Table. Expenditure outside the spending limits, EUR billion at the 2024 price and cost levels (2023 at current prices)

	2023 B+SBs	2024	2025	2026	2027
Cyclical expenditure	4.9	4.8	4.8	4.8	4.8
Compensation to municipalities for tax criteria changes	0.3	0.3	0.3	0.3	0.4
Expenditure corresponding to EU revenue	1.4	1.4	1.4	1.2	1.3
Interest expenditure	2.6	3.4	3.4	3.4	3.8
Financial investment expenditure	0.5	0.3	0.3	0.3	0.3
Technical pass-through items	0.3	0.4	0.4	0.4	0.4
VAT appropriations	2.0	1.7	1.7	1.6	1.6
Transfer to State Television and Radio Fund	0.6	0.6	0.6	0.6	0.6
Expenditure financed by EU RFF funds	0.6	0.4	0.2	0.1	0.0
Total	**13.2**	**13.4**	**13.2**	**12.8**	**13.2**

Price and cost level adjustments and structural changes

Price and cost level adjustments will increase overall expenditure within the spending limits for 2024–2027 by c. EUR 1.8 billion compared with the spending limits decision of spring 2022, taking into account the impact of migrating to the 2024 price and cost level. If index adjustments made to expenditure outside the spending limits are included, the combined increase will be c. EUR 2.1 billion per year. Also, the wage agreement for central government employees will increase expenditure by EUR 243 million at the 2024 level.

The expenditure level includes the updated impact of migrating to the 2023 price and cost level compared with the spending limits decision of spring 2022 and the final university index and university of applied sciences index for 2021. These add c. EUR 0.9 billion to the expenditure level compared with the previous spending limits decision.

Only statutory and agreement-based price adjustments were taken into account in the 2024 price and cost level adjustment. The price and cost level revisions made to the spending limits level will be specified in more detail in preparing the new General Government Fiscal Plan to be prepared after the parliamentary election and the 2024 central government budget proposal.

No structural amendments (e.g. timing changes or pass-through items) will be made to the spending limits, because as yet no parliamentary term expenditure ceiling has been set for the 2024–2027 period. Also, no unallocated reserve or supplementary budget reserve has been defined for the spending limits period. These will be decided by the next Government appointed after the parliamentary election in spring 2023.

For a more detailed description of price and cost level adjustments, see Appendix 2.

Table 6. Central government spending limits by administrative branch and estimate of expenditure outside the spending limits in 2024–2027, EUR million at 2024 prices and costs

	2024	2025	2026	2027
23. Prime Minister's Office	219	213	212	212
Estimate of expenditure outside spending limits	25	25	25	25
Total	**243**	**237**	**237**	**237**
24. Ministry for Foreign Affairs	1,240	1,260	1,301	1,349
Estimate of expenditure outside spending limits	154	154	154	154
Total	**1,394**	**1,414**	**1,455**	**1,503**
25. Ministry of Justice	1,144	1,118	1,129	1,139
Estimate of expenditure outside spending limits	52	52	52	52
Total	**1,196**	**1,170**	**1,180**	**1,191**
26. Ministry of the Interior	2,035	1,877	1,624	1,629
Estimate of expenditure outside spending limits	325	221	189	243
Total	**2,359**	**2,098**	**1,813**	**1,873**
27. Ministry of Defence	5,283	5,365	4,948	4,940
Estimate of expenditure outside spending limits	696	730	670	664
Total	**5,979**	**6,095**	**5,618**	**5,604**
28. Ministry of Finance	38,160	39,424	40,227	40,998
Estimate of expenditure outside spending limits	817	869	926	1 012
Total	**38,977**	**40,293**	**41,152**	**42,010**
29. Ministry of Education and Culture	7,683	7,650	7,679	7,629
Estimate of expenditure outside spending limits	70	53	42	34
Total	**7,753**	**7,703**	**7,721**	**7,663**
30. Ministry of Agriculture and Forestry	1,701	1,699	1,672	1,708
Estimate of expenditure outside spending limits	951	950	931	960
Total	**2,651**	**2,648**	**2,603**	**2,668**

	2024	2025	2026	2027
31. Ministry of Transport and Communications	2,328	2,309	2,310	2,336
Estimate of expenditure outside spending limits	1,050	1,062	1,061	1,032
Total	**3,378**	**3,372**	**3,372**	**3,368**
32. Ministry of Economic Affairs and Employment	3,385	2,813	2,538	1,947
Estimate of expenditure outside spending limits	971	748	526	465
Total	**4,356**	**3,561**	**3,064**	**2,412**
33. Ministry of Social Affairs and Health	11,277	11,350	11,356	11,277
Estimate of expenditure outside spending limits	4,882	4,430	4,346	4 ,331
Total	**16,160**	**15,780**	**15,702**	**15,607**
35. Ministry of the Environment	216	224	236	233
Estimate of expenditure outside spending limits	12	12	12	12
Total	**228**	**237**	**249**	**245**
36. Interest on central government debt	-	-	-	-
Estimate of expenditure outside spending limits	3,393	3,447	3,426	3,842
Total	**3,393**	**3,447**	**3,426**	**3,842**
Administrative branch spending limits, total[1]	**74,840**	**75,473**	**75,382**	**75,541**
Estimate of expenditure outside spending limits, total	13,411	12,768	12,370	12,837
Main titles, total	**88,252**	**88,241**	**87,753**	**88,379**

1) Main titles 21 and 22 are included in the total.

5.3 Definitions of policy in budget finances 2024–2027

Research and development funding

The Act on Research and Development Funding in 2024–2030 entered into force at the start of 2023. Under this Act, the total amount of authorisations and appropriations for R&D in the central government budget will increase by 2030 to 1.2% of GDP. According to the most recent economic forecast by the Ministry of Finance, this means that central government R&D funding should total c. EUR 4.2 billion in 2030, an increase of c. EUR 1.9 billion to the total R&D funding in the 2023 central government budget. In other words, R&D funding in the central government budget should be increased by c. EUR 270 million year on year. This estimate is based on the current price estimate of GDP for 2030, which is EUR 350 billion. Under the Act, the increase in R&D funding for the period 2024–2027 will be updated in autumn 2023 according to the most recent economic forecast when preparing the 2024 central government budget.

Statistics Finland anticipates that central government R&D funding will come to EUR 2.4 billion in the 2023 budget. The total of R&D funding allocated to the various administrative branches by previous decisions is estimated at EUR 2.4 billion in 2024, EUR 2.4 billion in 2025, EUR 2.4 billion in 2026 and EUR 2.5 billion in 2027. Out of this, c. 60%–62% will be allocated to the administrative branch of the Ministry of Education and Culture and c. 27%–28% to the administrative branch of the Ministry of Economic Affairs and Employment.

Under the Act on Research and Development Funding and according to the most recent economic forecast, central government R&D funding should be EUR 2.6 billion in the 2024 budget (EUR +0.3 billion), EUR 2.9 billion in 2025 (EUR +0.5 billion), EUR 3.2 billion in 2026 (EUR +0.7 billion) and EUR 3.4 billion in 2027 (EUR +1.0 billion).

Table. R&D funding in each year in the spending limits period as per the Act on Research and Development Funding (*Ministry of Finance calculations)

	2023 (R&D advance)	2024*	2025*	2026*	2027*
EUR billion	2.35	2.62	2.89	3.16	3.43
change from previous year (EUR billion)		0.27	0.27	0.27	0.27

The additional funding specified in the Act on Research and Development Funding is not allocated by administrative branch or by budget item in the present General Government Fiscal Plan, but there is a spending limits provision in place to allow for additional funding: EUR 150 million in 2024, EUR 300 million in 2025, EUR 500 million in 2026 and EUR 700 million in 2027. The spending limits provision is lower than the increase in R&D funding required in the Act, because the increase concerns available R&D funding (authorisations and appropriations), while the provision only considers the appropriation needs that will arise with delayed effect through authorisations. The allocation of R&D funding will be outlined at a later stage in the context of future budgets and General Government Fiscal Plans, at which time the impact of the measures on authorisations and appropriations will also be reviewed.

Tax revenue estimates include the R&D deduction currently in force (2021–2027) and the additional deductions for R&D that entered into force in 2023.

Impact of Finland's NATO membership on appropriations

Finland has applied for membership of the North Atlantic Treaty Organisation (NATO) and is currently an observer member. Although there is uncertainty about the timetable of the ratification process, the assumption is that NATO membership will be achieved. The spending limits decision allows for various inevitable resource needs in various administrative sectors that cannot be met out of existing appropriations. NATO membership will cause costs inter alia in membership contributions to the NATO civilian and military budgets, appointments of personnel to NATO command structures, command system development and deployment, and additional national duties.

The costs of these will be specified as preparations progress, and particular attention should be paid going forward to how these costs could be met by reallocating existing appropriations.

Additional resources due to NATO membership will be allocated to the administrative branches of the Ministry for Foreign Affairs, the Ministry of Defence, the Ministry of the Interior, the Ministry of Transport and Communications, the Prime Minister's Office and the Ministry of Finance. NATO-related additional expenditure across the spending limits period will be EUR 50–65 million per year.

Proceeds from profits on gaming activities

The financial dependency of gaming-financed appropriations on the profits of Veikkaus Oy will cease as of at the start of 2024, when the amendment to the Lotteries Act (1047/2001) enters into force. A new funding model has been outlined in parliamentary cooperation for the functions previously funded out of the profits of Veikkaus Oy. In this model, these functions will be funded out of central government universal funding within the spending limits.

The total level of funding allocated to grant activities in the administrative branches of the Ministry of Education and Culture, the Ministry of Agriculture and Forestry and the Ministry of Social Affairs and Health for 2024 will be EUR 990 million; this is based on the 10-year real average of government grant funding in 2013–2022, plus funding allocated to war veterans in 2022. In 2025–2027, the annual reduction in funding for veterans has been taken into account in determining the overall level of funding.

In the administrative branch of the Ministry of Social Affairs and Health, the appropriations also include disbursement of undistributed winnings from the Slot Machine Association in 2024–2026.

Employment and economic development services reform

As of 1 January 2025, responsibility for providing public-sector employment services will be transferred from the Employment and Economic Development Offices to municipalities. The responsibility for providing employment services will be a new duty for municipal finances, and its expenditure will be fully covered with central government transfers. As of 2025, a total of c. EUR 490 million per year will be transferred from the main title of the Ministry of Economic Affairs and Employment to the central government grants to municipalities for basic public services. Moreover, c. EUR 440 million will be transferred from the main title of the Ministry of Social Affairs and health to the central government grants to municipal finances for basic public services; c. EUR 265 million of this constitutes compensation for municipalities being given additional funding responsibilities for unemployment benefits.

An appropriation increase of c. EUR 14 million in 2024 and c. EUR 2.5 million in each of the subsequent years will be allocated to the costs of the employment and economic development services reform. A preliminary spending limits provision of EUR 34 million will also be made as a preparation for the costs of change incurred by municipalities. The need for these appropriations will be further specified in budget preparation.

Appropriation impacts of the Security Policy Escape Clause

The Security Policy Escape Clause adopted in spring 2022 was in use during the parliamentary term now ending. The Escape Clause was taken into account for 2022 and 2023 as a structural adjustment of the spending limits level, i.e. the parliamentary term expenditure ceiling was increased accordingly, the expenditure in question thus being covered by funds outside the spending limits. There is no parliamentary term expenditure ceiling for the spending limits period 2024–2027 and therefore no Escape Clause, but the table below describes expenditure resulting from the Escape Clause for the spending limits period as well, estimating this expenditure by applying the same criteria as for 2022 and 2023.

Table. Security Policy Escape Clause, on-budget appropriations within the spending limits 2022–2027, EUR million

	2022	2023	2024	2025	2026	2027
Cybersecurity	38.3	58.6	57.5	50.1	40.3	37.5
Border security and national defence	695.4	1,137.8	745.1	581.5	419.0	469.0
Immigration complex	343.4	818.1	896.2	888.8	707.4	353.4
Energy self-sufficiency and the green transition	167.5	231.4	150.1	124.1	49.0	4.0
Security of supply	293.1	10.0				
Compensation for rising energy prices	168.8	430.2				
Aid to Ukraine	114.8	72.7	276.8	240.0	170.0	153.0
Other expenditure	8.4	1.1				
Total	**1,829.7**	**2,759.9**	**2,125.7**	**1,884.5**	**1,385.8**	**1,016.9**

A combined EUR 11.0 billion in expenditure arising from the Security Policy Escape Clause has been budgeted for 2022 and 2023 and allocated to the spending limits period 2024–2027. It is estimated that just over EUR 0.2 billion of this will become permanent expenditure, while the rest is in fixed-term appropriations.

Appropriations are allocated to cybersecurity across multiple administrative branches. Border security and national defence include a general increase in the operating expenditure of the Defence Forces, an additional appropriation for defence materiel procurement and an appropriation for building and maintaining the barrier at the eastern border.

During the war of aggression against Ukraine that Russia launched in February 2022, a total of 52,066 applications for temporary protection have been filed in Finland (as at 13 March 2023). About EUR 4 billion is reserved for the estimated additional costs of immigration for the period 2022–2027. This is to cover reception costs, preparatory education, early childhood education and care, benefits and integration training. Integration compensations are the largest single item, however. Persons under temporary protection who have a registered domicile became eligible for benefits provided by the central government as per the Integration Act as of 1 March 2023.

The packages for security of supply and for energy self-sufficiency and the green transition include agricultural subsidies, increases to the authorisation for energy subsidies and grants for replacing oil-fired heating in residential building.

The energy price rise compensation package includes an electricity rebate paid retroactively (supplementary budget 2023) and an additional increment to the National Pension Index made on 1 August 2022. The Government has also decided on measures that have to do with securing the purchasing power of households in a time of unusually high inflation and unusually high energy and electricity prices, as these do not fall within the scope of the escape clause. These measures include the extra child allowance paid in December 2022 (supplementary budget IV 2022) and temporary assistance with electricity costs (amendment to budget proposal 2023).

Aid for Ukraine includes civilian materials and aid for acute humanitarian needs and reconstruction, and also compensation paid for material supplied to Ukraine.

Recovery and Resilience Plan investments during the spending limits period

Finland's final allocation under the EU Recovery and Resiliency Plan was announced in June 2022. Finland's allocation decreased to EUR 1.823 billion, because Finland's economy had developed more favourably than expected. The Ministerial Working Group on Sustainable Growth in Finland outlined in June how Finland's Recovery and Resilience Plan will be updated to reflect this change. The Government adopted Finland's updated Recovery and Resilience Plan on 26 January 2023, and the EU Economic and Financial Affairs Council approved it on 14 March 2023. The Recovery and Resilience Plan is part of the Sustainable Growth Programme for Finland, which will boost reforms and investments.

About EUR 1.1 billion in funding under the Recovery and Resilience Plan has already been allocated between 2021 and 2023. Implementation of the Recovery and Resilience Plan investments will continue during the spending limits period, ending in 2026. The General Government Fiscal Plan includes EUR 427 million in 2024, EUR 231 million in 2025 and EUR 56 million in 2026 of expenditure included in Finland's updated National Recovery and Resilience Plan. Estimated revenue from the EU with regard to payments is EUR 312 million annually in 2024–2025 and EUR 305 million in 2026.

New central government collective agreement

A negotiated outcome on a central government collective agreement for the period 2023–2025 was reached on 22 February 2023. The agreement was approved on 23 February 2023. The appropriation increase resulting from the new agreement is EUR 243 million in 2024 and EUR 260 million per year as of 2025. This is included in the General Government Fiscal Plan.

5.3.1 Policy outlines for the administrative branches

Prime Minister's Office

The annual appropriations of the main title of the Prime Minister's Office will average EUR 239 million in the spending limits period. The operating expenditure appropriations of the Prime Minister's Office will average c. EUR 154 million in 2024 and EUR 148 million in the years 2025 to 2027.

In accordance with the Government's premises plan, the intention is to carry out renovation and new construction projects on Government premises in the Government Palace block and neighbouring blocks between 2023 and 2028. The resulting increase in rent expenditure will be actualised later, as the construction project is completed. The modernisation of the Government premises between 2024 and 2027 will generate inevitable costs from planning, relocation and furniture procurement; these have been allowed for in the overall expenditure. These costs will mainly arise towards the end of the construction project.

Funding will be allocated to the Prime Minister's Office inter alia for upgrading ICT investments and costs, preparing for a changing cybersecurity environment and the cost impact of NATO membership.

Administrative branch of the Ministry for Foreign Affairs

The annual appropriations of the main title of the Ministry of Foreign Affairs will be EUR 1.4–1.5 billion in the spending limits period. At the end of the spending limits period, the breakdown of appropriations will be as follows: foreign affairs administration 18%; crisis management 5%; development cooperation 68%; and other costs 8%.

The objectives of Finland's foreign and security policy are strengthening Finland's international position, safeguarding its independence and territorial integrity, improving the security and wellbeing of Finland and its people, and ensuring that Finnish society functions efficiently.

An annual appropriation of EUR 258–254 million is allocated to the operating expenditure of the Ministry for Foreign Affairs. This appropriation allows for the impact of inflation on the costs of maintaining foreign missions and includes an additional annual resource of EUR 2.3–2.1 million compared to the previous spending limits decision, allocated to foreign affairs administration because of Finland's forthcoming NATO membership.

Finland holds the Presidency of Council of the Baltic Sea States (CBSS) in 2023–2024, the Chair of the OSCE in 2025 and the Presidency of the Nordic Council of Ministers in 2026. In addition, Finland is a member of the UN Human Rights Council from 2022 to 2024 and is a candidate for a seat on the UN Security Council for the term 2029–2030. A total of EUR 18.9 million has been earmarked to cover expenditure related to the OSCE Chairmanship in 2024–2026.

The appropriations for crisis management take into account the Government Report on Finnish Foreign and Security Policy (2020), the National Strategy for Civilian Crisis Management (2014) and the Peace Mediation Action Programme (2011). Military crisis management appropriations in the spending limits period will be EUR 53 million per year in the main title of the Ministry for Foreign Affairs. The operations in which Finland is participating are covered in the appropriations. Civilian crisis management appropriations will be c. EUR 19 million per year in the spending limits period, allowing for c. 150 experts. A total of EUR 3.9 million is allocated to peace mediation, of which EUR 2.1 million transferred from the budget item for actual development cooperation.

About EUR 3.0 million per year is allocated to cooperation in the Baltic Sea, Barents and Arctic Region in 2024–2027. The purpose of the regional cooperation is to promote safety and wellbeing in Finland and neighbouring countries, improve the state of the environment, reduce emissions harmful to the atmosphere, promote human health and foster economic opportunities.

Principal new decisions and changes

The longer-term goal of development cooperation is to increase development funding to 0.7% of GNI in line with UN targets. Development cooperation appropriations stand at 0.42% of GNI in the spending limits period, and this is assumed to be the level in 2027. The level of appropriations for actual development cooperation will rise to c. EUR 0.9 billion in 2027.

A decision was taken in March 2023 to increase the financial ceiling of the European Peace Facility by EUR 2 billion; Finland's contribution to this, EUR 40.1 million, is recognised in the budget under 'Membership fees and financing contributions' for 2024, with additional funding of EUR 35 million allocated to this item. Moreover, EUR 70 million has been reserved in the overall spending limits expenditure to the potential increase in Finland's contribution due to further expansion of the EPF in 2025.

Administrative branch of the Ministry of Justice

The annual appropriations in the main title of the Ministry of Justice are about EUR 1.2 billion per annum in the spending limits period, of which EUR 4 to 48 million is for election costs, depending on which election is held in each year. Appropriation increases for the growing duties in administration of justice during the current electoral term have been taken into account in setting the level of appropriations, along with partial general increases for increased rents on premises and ICT costs. The appropriations in this main title mostly consist of operating costs of administration of justice (80% on average in the spending limits period). The breakdown of appropriations in the main title of the Ministry of Justice in the spending limits period is as follows: courts and legal aid 45%; enforcement of sentences 24%; the Ministry and administration 15%; payment default entries, enforcement and bankruptcy oversight 9%; prosecutors 5%; and election costs 2%.

The vision here is to achieve a transparent, active and safe society where everyone can feel included and where everyone can trust that their rights will be respected.

Particular attention will be given to reducing offences against physical integrity and life or health, particularly offences against children and intimate partner violence. An additional c. EUR 2.3 million per year will be allocated to the administrative branch of the Ministry of Justice as of 2024 for expediting the processing of offences against children. This is divided between the courts (c. EUR 1.3 million) and the Prosecution Service (c. EUR 1.0 million).

An increase of c. EUR 2.7 million will be allocated to the Criminal Sanctions Agency for the purpose of banning smoking indoors in closed prisons.

Appropriations will be allocated in the spending limits period to the administrative branch of the Ministry of Justice for courthouse projects in Pori, Vantaa and Jyväskylä from 2025. The permanent increase in appropriations because of new premises as of 2027 will be c. EUR 3.2 million.

The legislation on restraining orders will be revised to better safeguard the rights of the victim. With this reform, the number of applications for restraining orders, the number of restraining orders imposed by courts and the number of criminal cases involving a breach of a restraining order will grow. A permanent appropriation increase of c. EUR 1.5 million will be allocated to the administrative branch of the Ministry of Justice for the enhancement of restraining orders as of 2024.

Principal new decisions and changes

Additional funding of EUR 30 million in 2024, EUR 40 million in 2025, EUR 55 million in 2026 and EUR 50 million as of 2027 will be allocated to the administrative branch of the Ministry of Justice to safeguard resources for the administration of justice, to expedite processing times and to ensure the safe enforcement of criminal sanctions.

The effective and safe enforcement of criminal sanctions requires a sufficient number of trained and competent personnel in prisons and community-based sanctions offices. An appropriation increase of c. EUR 1.0 million will be allocated to the Criminal Sanctions Agency for the purpose of increasing student numbers in degree programmes in the criminal sanctions field.

Administrative branch of the Ministry of the Interior

The appropriation level in the main title of the Ministry of the Interior will be c. EUR 2.4 billion at the beginning of the spending limits period, decreasing to c. EUR 1.9 billion in 2027. The appropriation level at the beginning of the spending limits period is high due to major projects of the Border Guard (the barrier at the eastern border, offshore patrol vessels) and preparedness to cover the costs of receiving refugees from Ukraine. At the end of the spending limits period, the breakdown of appropriations in this main title will be as follows: administration 15%; police 53%; Border Guard 17%; rescue services and emergency response centres 5%; and immigration costs 9%.

The spending limit of the administrative branch of the Ministry of the Interior has been increased because of inevitable funding needs. These needs arise from the inadequacy of funding in the administrative branch relative to safeguarding the current level of operations, the non-recurring nature of appropriation increases allocated, major and unavoidable investment and development needs, the massive premises repair deficit and new legislative obligations with permanent financial impact.

For the police force, measures to curb increases in expenditure and to balance the budget will continue. However, focus will be kept on what the level of appropriation is that will be necessary for securing the level of performance and services that is needed.

Funding for maintaining the information systems of the Finnish Security Intelligence Service will be safeguarded with a general increase of EUR 1.8 million to their operating appropriation; also, planning and preparation for new premises will continue, and this project will be completed. The increase in rent costs due to the new premises, EUR 2.5 million per year, has been taken into account.

As per previous decisions, procurement of two new offshore patrol vessels for the Border Guard and building a barrier at the eastern border will continue during the spending limits period. A total of EUR 233 million will be allocated to building the barrier at the eastern border in 2024 and 2025. Added to appropriations allocated earlier, the funding for the barrier totals EUR 378 million. Also the maintenance costs arising from these investments have been taken into account. The scope and performance of Border Guard operations will be calibrated according to developments in the operating environment. In keeping with the increase in permanent border and coast guard personnel in Europe, the number of border guards will be increased, and an annual appropriation increase of EUR 1.3 million will be allocated to this.

The operations of emergency response centres will be safeguarded during the spending limits period with an appropriation increase of EUR 2 million to keep the number of ERC operators at a sufficient level. The fixed-term appropriation allocated to training at the Emergency Services College will be extended.

The Finnish Immigration Service will continue to leverage automation for permit processing. An additional appropriation will be allocated to safeguard human resources so as to respond to an increasing number of applications, including the additional workload in processing the applications for temporary protection from persons fleeing Russia's war of aggression against Ukraine. The appropriation increase based on the updated immigration prognosis, allocated to the reception of refugees and asylum seekers and to the benefits paid to reception clients, will be c. EUR 101 million in 2024 and EUR 77 million in 2025.

Principal new decisions and changes

The appropriation level for the police will be increased so that their scope of operations can be maintained through the spending limits period, allowing for the additional resources required because of legislative amendments. Permanent appropriation increases will be allocated to cover ICT and premises costs, for new duties required because of legislative amendments and to safeguard the current scope of operations (including rent on the premises in Oulu and Tampere). With these increases, annual appropriations for the police at the end of the spending limits period will be c. EUR 930 million.[6]

6 Of this, c. EUR 37 million will go towards pay upgrades.

Administrative branch of the Ministry of Defence

The appropriation level of the administrative branch of the Ministry of Defence will be EUR 6.0 billion in 2024, decreasing by EUR 375 million to EUR 5.6 billion in 2027. This change is mainly due to annual variations in the funding for the F-35A fighter aircraft system and in defence material procurements.

A general increase in appropriations consistent with the change in the security environment has been allocated to the operating expenditure and defence materiel procurements of the Defence Forces. Appropriations within the spending limits for the spending limits period include EUR 5.8 billion in funding for the fighter aircraft project and EUR 464 million in funding for the Squadron 2020 project. In the spending limits period, projects for the main weapon systems of sea and air defence will be implemented, involving replacement of the Navy's ageing combat vessel fleet and the performance capability of the Air Force's Hornet fighter fleet. During the spending limits period, more than 43% on average of the annual expenditure in the administrative branch of the Ministry of Defence will go towards procurement of defence materiel and the F-35A fighter aircraft system.

Military crisis management equipment and administrative expenditure will remain at its current level in the spending limits period, adjusted for cost increases, i.e. at c. EUR 65 million per annum. Currently active operations will continue with the exception of Afghanistan, the personnel complement being just over 400. The major operations are those in Lebanon, Iraq and Kosovo.

According to established practice, cost level adjustments will be made annually to the Defence Forces' operating expenditure appropriations (excluding personnel expenditure) and to defence materiel procurement and military crisis management equipment and administration expenditure appropriations (excluding personnel expenditure). In addition, purchasing power corrections will be made to the uncommitted part of the order authorisation as well as to other available deferrable appropriations for the multirole fighter aircraft procurement.

Principal new decisions and changes

In order to safeguard her security, Finland has applied for membership of the North Atlantic Treaty Organisation and is currently an observer member. Coordination of Finland's defence with overall NATO defence has begun, and this will continue in stages once membership has entered into force. Membership costs are being allowed for in terms for instance of Finland's contribution to the NATO military budget (EUR 16.6 million), participation in the NATO security investment programme (EUR 2.4 million) and the DIANA initiative (EUR 0.5 million). Moreover, the command system upgrades and additional required personnel investments in the administrative branch required because of NATO membership will increase overall annual expenditure by c. EUR 40 million towards the end of the spending limits period.

Administrative branch of the Ministry of Finance

The annual appropriation level of the main title of the Ministry of Finance will grow during the spending limits period from c. EUR 40 billion to c. EUR 42 billion. A major portion of expenditure in this main title consists of appropriations for the new wellbeing services counties (EUR 24.7 billion at the 2024 level) and central government grants to municipalities for basic public services (EUR 2.7 billion at the 2024 level). The activities and finances of the wellbeing services counties are discussed as a whole in chapter 6. Finances of the wellbeing services counties. For more comprehensive information on basic public services organised by the municipalities and their funding, see chapter 7. Municipal finances.

The annual operating expenses of the Tax Administration will be EUR 420 million. An appropriation of EUR 154 million will be allocated in 2024–2027 for the implementation and operation of a positive credit information register and for the operation of the National Incomes Register. An annual c. EUR 190 million will be allocated to the operating expenditure of Customs. The comprehensive reform of customs clearance systems is scheduled to be completed during the spending limits period, and the ending of investment funding will reduce operating expenditure at the end of the spending limits period.

An annual c. EUR 34 million will be allocated to the operating expenditure of the State Treasury. This includes additional expenditure for automatic decision-making totalling EUR 9.4 million over the spending limits period. A provision has been made for appropriation for improving readiness in the central government compensation and benefits function during the spending limits period. The annual operating expenditure of Statistics Finland during the spending limits period will be c. EUR 54 million. A total of EUR 1.9 million will be allocated to the data room pilot of Statistics Finland and the Government Institute for Economic Research (VATT) in 2024–2025. An annual c. EUR 57 million will be allocated to the operating expenditure of the Digital and Population Data Services Agency. The legal protection programme of the Agency will be funded with a productivity project appropriation totalling EUR 8.1 million in 2024–2025. A further EUR 2 million per year will be allocated to certificate maintenance in the digital identity reform.

An overview of the centralised funding allocated to key information system and information management projects along with other productivity projects in the administrative branches is discussed in subsection 5.3.2.

The annual appropriations for pensions and compensation in the main title of the Ministry of Finance will be EUR 6.0 billion, of which EUR 40 million for compensations. The State Pension Fund and revenue recognised therefrom in the central government budget are discussed in section 5.6.

Finland's EU membership contribution is expected to rise from c. EUR 2.6 billion at the beginning of the spending limits period to more than EUR 2.8 billion in 2027. There is uncertainty as to the amount of Finland's EU membership contribution: The European Commission will issue its proposal for revising the Multiannual Financial Framework in the first half of 2023 (interim report). There are pressures for expanding the MFF inter alia because of ongoing crises (such as Russia's war of aggression against Ukraine), interest costs on the RFF and EU administrative costs.

Principal new decisions and changes

An appropriation increase of EUR 82.6 million is proposed for the spending limits period for expanding and safeguarding the operations of the positive credit information register and the National Income Register.

Administrative branch of the Ministry of Education and Culture

The annual appropriation level of the main title of the Ministry of Education and Culture will be c. EUR 7.7 billion on average during the spending limits period. At the end of the spending limits period, the breakdown of appropriations in this main title will be as follows: administration c. EUR 300 million; early childhood education and care, preschool and basic education c. EUR 750 million; secondary education c. EUR 1.4 billion; university education and research c. EUR 3.6 billion; financial aid to students c. EUR 800 million; arts and culture c. EUR 600 million; sport and exercise c. EUR 150 million; and youth work c. EUR 75 million.

Expenditure in functions currently funded with revenue from gaming will be converted into central government universal budget funding as of 2024. The required changes in the item structure within the main title of the Ministry of Education and Culture are included in the General Government Fiscal Plan.

An annual EUR 15 million in permanent funding will be allocated to the support model for early childhood education and care. The operating model for enhancing school engagement will be made permanent as of 1 August 2023, and EUR 8 million in funding will be allocated to it.

EUR 129 million per year from 2024 will be earmarked for the extension of compulsory education and the implementation of free upper secondary education. The strengthening of student welfare services will be continued.

EUR 5 million will be allocated to a pilot for the reform of training compensation in apprenticeships in 2024. To meet the change in minimum staffing level for care personnel, EUR 16.5 million will be allocated to the education and training of new practical nurses in 2024.

Funding under the Sustainable Growth Programme for Finland from the main title of the Ministry of Education and Culture will be allocated in 2024–2026 to the Academy of Finland's research authorisation for implementing local and national infrastructures, to R&D activity supporting the green transition and to boosting key sectors and strengthening competence, to reforming lifelong learning and implementing the lifelong learning digitalisation programme, and to structural support for culture and arts for the purpose of developing production and operating models for services. Implementation of the Report on Sports Policy will also continue during the spending limits period.

There is a high uncertainty associated with the expenditure allocated to helping Ukrainian refugees. The appropriation requirement depends inter alia on the number of arrivals and their age and need for services. EUR 48 million will be allocated for preparatory education for Ukrainian refugees in 2024. In addition, EUR 2.5 million per year will be allocated to Finnish and Swedish language education, and EUR 4 million in 2024 and EUR 3 million in 2025 for integration training. Children arriving from Ukraine do not automatically acquire a subjective right to early childhood education and care in Finland.

Principal new decisions and changes

In order to secure the operating potential of the Ministry of Education and Culture and of the agencies in its administrative branch, and in order to improve the effectiveness of the cultural administration, the Ministry is launching implementation of the proposals in the branch-wide project. Adjusting administrative expenditure in the administrative branch to the forthcoming level of appropriations also requires a reorganisation of the agency structure.

As of 1 August 2024, 1 weekly hour per year of B1 language teaching will be added to the language curriculum in comprehensive school, and the corresponding funding, EUR 4.1 million in 2024 and an annual EUR 9.9 million from 2025, will be added to the central government transfers to municipalities for basic public services. The Ministry of Education and Culture will allocate an appropriation of EUR 1 million for curriculum preparation in 2024.

Allowance has been made for non-recurrent additional funding of EUR 1.3 million for the inauguration of the new building of the National Repository Library in 2025.

The central government is prepared to fund the Architecture and Design Museum project with EUR 58 million in 2024–2027.

Administrative branch of the Ministry of Agriculture and Forestry

Annual appropriations of the main title of the Ministry of Agriculture and Forestry will average c. EUR 2.6 billion in the spending limits period. The breakdown of this is as follows: rural development 18%; agriculture and food economy 67%; natural resources economy 8%; and other expenditure 7%. The majority (91%) of the appropriations for rural development and for the agriculture and food economy have to do with the implementation of Finland's CAP Strategic Plan for 2023–2027, adopted at the beginning of 2023. The main tasks of Finland's CAP Strategic Plan are to ensure active food production, promote climate and environment smart agriculture, and strengthen the viability of a countryside that is capable of renewing itself. In the spending limits decision, EU and national appropriations are allocated in accordance with the projected progress of the funding plan and payouts in the CAP Strategic Plan.

The purpose of measures funded with rural development appropriations is to leverage the potential of rural areas and to improve their viability in sustainable ways. Rural development goals will be supported inter alia with business subsidies, R&D projects and advisory services for farms. An additional EUR 25 million will be allocated to interest subsidies for rural livelihoods because of rising interest rates. The annual appropriation for rural development in the spending limits period will be c. EUR 485 million on average.

Appropriations for the agriculture and food economy are intended to ensure supply security in a food system with overall sustainability, to improve sustainable and competitive growth in the bioeconomy and in food-based businesses and to responsibly secure the health, wellbeing and safety of humans, animals and plants. The annual appropriation for the agriculture and food economy in the spending limits period will be c. EUR 1,756 million on average.

The purpose of the national resources economy is to ensure the sustainable management and use of renewable natural resources and related risk management. Appropriations allocated to fisheries, game, forestry and water economy and to general natural resource use create potential for competitive business operations based on sustainable use of natural resources, while coordinating the needs of the use of natural resources on the one hand and their protection on the other and fostering wellbeing through recreational enjoyment of the natural environment. An increase of EUR 1.3 million due to the raise to the game management fee has been taken into account. The annual appropriations for the natural resources economy in the spending limits period will be c. EUR 196 million on average.

Annual appropriations for managing the public administration duties of Metsähallitus will be c. EUR 7 million on average.

Reliable and widely accessible nature, geographical, property and apartment information facilitate new business and secure ownership. Annual appropriations for surveying and for recording housing shares in the spending limits period are c. EUR 46 million on average.

RDI activities and advisory services in the administrative branch are networked and proactively support decision-making and the competitiveness and effectiveness of businesses. The annual appropriations for administration and research in the spending limits period will be c. EUR 140 million on average.

An appropriation increase of EUR 0.5 million per year will be allocated to specialist veterinarian education and training.

Principal new decisions and changes

The spending limits period will include a development project in domestic animal research, and for this purpose an appropriation increase will be allocated to Natural Resources Institute Finland to cover increased rent costs: EUR 0.5 million in 2024 and EUR 1 million in 2025–2027.

Administrative branch of the Ministry of Transport and Communications

The annual appropriations of the main title of the Ministry of Transport and Communications will be c. EUR 3.4 billion on average in the spending limits period. The breakdown of this is as follows: administration 20%; transport and communications networks 56%; and transport and communications services 25%.

In transport infrastructure maintenance, priority will be given to measures required to ensure the daily functioning of the transport network as well as halting and reducing the growth of the repair debt. Maintenance and development of the transport network will be enhanced inter alia by better utilisation of information, using new methods of surveying the condition of the network, and the full introduction of information modelling. Transport network planning will be developed in accordance with the Transport 12 plan by considering the impacts of digitalisation and automation on the transport system and traffic volumes of the future.

The administrative branch of the Ministry of Transport and Communications serves society by facilitating an operating environment for new digital services. An effective market environment will be created for digital services in transport and communications, such that new business opportunities and exports arise and the range of services grows. New services and earnings logic, transport automation and changing customer needs require new kinds of flexible online services.

EUR 1.285 billion per year will be allocated to basic transport infrastructure maintenance.

The transfer to the State Television and Radio Fund will be EUR 595.4 million per year in the spending limits period.

Principal new decisions and changes

A transfer of EUR 2.5 million from the operating expenditure of the Transport and Communications Agency (Traficom) is noted under the operating expenditure of the Ministry. Allowance has been made for an annual increase of EUR 1.4 million due to a raising of the membership fees in international organisations of the Finnish Meteorological Institute.

The level of annual appropriations for investments in the transport network during the spending limits period (items 31.10.77, 31.10.78 and 31.10.79) has been set at a combined EUR 522 million, which is consistent with the average of appropriations allocated between 2012 and 2023. This provides some leeway within the spending limits period for projects unidentified as of yet: EUR 131 million in 2024, EUR 242 million in 2025, EUR 321 million in 2026 and EUR 402 million in 2027.

EUR 2.5 million in 2024 and EUR 2.0 million in both 2025 and 2026 will be allocated to commuter vessel berthing facility repairs.

Administrative branch of the Ministry of Employment and the Economy

The appropriations of the main title of the Ministry of Economic Affairs and Employment will total EUR 4.4 billion in 2024, decreasing over the spending limits period to EUR 2.4 billion in 2027. This change is due to the termination of funding under the Recovery and Resilience Plan. At the end of the spending limits period, the breakdown of the main title will be as follows: administration 27%; renewal and low carbon 31%; employment and entrepreneurship 17%; special funding for businesses 7%; and integration and international expertise 18%.

Administration appropriations will decrease in the spending limits period from EUR 960 million to EUR 655 million. The appropriations for renewal and low carbon will be EUR 1,584 million in 2024, decreasing to EUR 752 in 2027. The need for funding will decrease not only because of the termination of the Recovery and Resilience Plan but also because of the expiry of the electrification subsidy for energy-intensive industries in 2026 and the reduction in renewable energy production subsidies as wind power capacity is removed from the coverage of the subsidies. The annual RDI authorisation will be EUR 379 million. The annual energy subsidy authorisation will be EUR 28.1 million in the spending limits period. The estimated appropriation level for the renewable energy production subsidy will be c. EUR 309 million in 2024, decreasing by EUR 146 million during the spending limits period due to withdrawn wind power capacity.

Appropriations for employment and entrepreneurship will decrease from EUR 1,024 million to EUR 403 million, partly because of the employment services reform. As of 1 January 2025, responsibility for providing public-sector employment services will be transferred from the Employment and Economic Development Offices to municipalities. The responsibility for providing employment services will be a new duty for municipalities, and its expenditure will be fully covered with central government transfers. As of 2025, a total of c. EUR 490 million per year will be transferred from the main title of the Ministry to the central government grants to municipalities for basic public services. The reform will also cause appropriations to be transferred between budget items. An appropriation increase of c. EUR 14 million in 2024 and c. EUR 2.5 million in each of the subsequent years will be allocated to the costs of the employment and economic development services reform. Additionally, annual funding in EU Structural Fund programmes will decrease by degrees during the spending limits period, from EUR 646 million in 2024 to EUR 332 million in 2027, as funding from the Just Transition Fund decreases.

Appropriations for special financing for businesses will total EUR 187 million in 2024 and EUR 172 million in 2027. These mainly consist of interest subsidies and protective expenditure, and loss compensation paid out by Finnvera. Loss compensation paid out by Finnvera will be EUR 66 million per year on average.

Annual appropriations for integration and international expertise will be EUR 714 million on average between 2024 and 2026. At the end of the spending limits period, in 2027, the appropriations will be EUR 430 million. The appropriations level for 2024–2026 is EUR 511 million higher on average than in the previous spending limits decision. The funding need has increased because of the eligibility of persons under temporary protection for the benefits provided under the Integration Act as of 1 March 2023. There is significant uncertainty concerning the estimated need for funding, because the underlying assumptions include not only the number of people applying for temporary protection but also the number of those people who will apply for a registered domicile when that becomes possible, principally after one year of residence in Finland. In 2022, 47,302 applications for temporary protection were filed in Finland. As input for determining appropriations, it has been estimated that 30,000 such applications will be filed in 2023 and 10,000 in 2024. These estimates are updated on a regular basis. It has further been assumed that 2/3 of these persons will apply for a registered domicile. The sum of integration compensations is also augmented by the raising of the refugee quota to 1,050 in 2023, which will have a cost impact of EUR 1.1 to 2.2 million on an annual basis.

Principal new decisions and changes

The operating expenditure of the Centres for Economic Development, Transport and the Environment will be increased permanently by EUR 0.225 million per year as of 2024 for processing exemption permits for dealing with barnacle goose.

The operating expenditure of the Finnish Patent and Registration Office will be increased by EUR 2.3 million in 2024, EUR 4.2 million in 2025 and EUR 0.5 million in 2026. Of this, EUR 2.0 million is due to the foundation register system upgrade and EUR 5.0 million is due to the Virre information system upgrade.

The operating expenditure of the Energy Authority will be increased by EUR 0.92 million in 2024 and 2025 and by EUR 0.32 million on a permanent basis from 2026. This change was motivated by amended EU legislation, specifically the REDIII Directive, the Energy Efficiency Directive proposals and the Emissions Trading Directive reform.

Administrative branch of the Ministry of Social Affairs and Health

The appropriation level of the main title of the Ministry of Social Affairs and Health will be c. EUR 16.2 billion at the beginning of the spending limits period, decreasing to c. EUR 15.6 billion at the end of the spending limits period. The appropriation level will increase compared with the previous spending limits decision by c. EUR 580 million at the beginning of the spending limits period and c. EUR 165 million at the end of the spending limits period. The appropriation level is affected inter alia by the economic outlook in the macroeconomic forecast of the Ministry of Finance, assumptions about future immigration, discretionary changes made by Parliament (e.g. appropriation transfers related to the employment and economic development services reform) and the impacts of development measures mainly entering into force in 2023 across the spending limits period.

Of the appropriations in this main title, c. 98% are transfer costs and c. 2% are consumption costs, mainly operating expenditure of agencies in the administrative branch. Estimated appropriation items account for c. 93%.

As of 2025, responsibility for providing employment services will be transferred to municipalities. Municipalities liability for unemployment benefits will be expanded from labour market support to include basic daily allowance and the basic amount of earnings-related daily allowance as of 100 days of receiving unemployment benefit, growing as unemployment continues. In keeping with this reform, a total of c. EUR 440 million will be transferred to central government transfers to municipalities for basic public services as of 2025.

A general increase of EUR 2.7 million to central government expenditure for health insurance has been noted as the impact of the rehabilitation allowance benefit and partial sickness daily allowance reforms that entered into force in 2023.

The services provided by the wellbeing services counties and related funding, and the central government transfers paid to wellbeing services counties and other compensation are discussed in chapter 6. Finances of the wellbeing services counties.

EUR 1 million per year will be allocated to the Social Insurance Institution (KELA) for steering and oversight of the prescribing of biopharmaceuticals.

The statutory staff-client ratio in 24-hour care units (0.7) will be funded out of health insurance by enacting several permanent cuts that will total c. EUR 49 million per year by 2026.

EUR 12 million per year will be allocated in central government transfers to cover job training included the specialisation training of health and social services professionals in degrees completed at universities of applied sciences.

Funding will be allocated from the EU's Recovery and Resilience Plan to reduce the care, rehabilitation and service backlog in health and social services and to expedite access to care: EUR 38 million in 2024 and EUR 30 million in 2025. In addition, RRP funding of EUR 5 million in 2024 will be allocated for work ability support services as well as measures to strengthen mental health and work ability.

EUR 500,000 annually will be allocated to the National Child Strategy.

About EUR 409 million will be allocated to support for organisations and foundations for promoting health and social wellbeing in 2024–2026, including annually nearly EUR 26 million in undistributed winnings disbursed from the Slot Machine Association. The proposed support for 2027 is c. EUR 383 million. As of 2024, profits from the national lottery (Veikkaus Oy) will be paid into a single central government budget item.

Principal new decisions and changes

A general increase has been noted in vaccine expenditure, of which EUR 4 million per year is due to an increase in the dose price for seasonal influenza vaccines and EUR 3.8 million across the spending limits period is due to expanding pneumococcus vaccinations in risk groups 1 and 2.

About EUR 1.7 million per year will be allocated to FinnHEMS Oy to cover increasing costs caused by inflation.

For implementing a comprehensive reform of information management legislation in health and social services (Kanta Services), EUR 10.3 million will be allocated across the spending limits period. Also, additional funding of EUR 9.8 million across the spending limits period will be allocated to the Finnish Institute for Health and Welfare (THL) because of this reform. Further additional funding of EUR 10 million in all will be allocated for securing the discharging of the statutory duties of THL.

An annual appropriation increase of EUR 300,000 will be allocated in 2024–2025 to the Radiation and Nuclear Safety Authority for preparing for the introduction of small modular reactors (SMR).

Administrative branch of the Ministry of the Environment

The overall level of the appropriations of the main title of the Ministry of the Environment will be EUR 228 million in 2024 and EUR 245 million per year in 2027. At the end of the spending limits period, the breakdown of appropriations will be as follows: environmental and nature protection measures 51%; measures related to housing and construction 19%; and operating costs 30%. Alongside central government on-budget appropriations, the administrative branch of the Ministry of the Environment includes the National Housing Fund and the Oil Pollution Compensation Fund, which are funds outside the State budget. The aforementioned funds are not included in the above percentages. The Oil Pollution Compensation Fund will be wound down in 2024, and the off-budget Environmental Damage Fund will start up in 2025.

Nature protection appropriations will be directed in particular to the implementation of the METSO and Helmi programmes and to the objectives of the EU's biodiversity strategy. Broadly speaking, c. EUR 90–91 million per year in appropriations in the administrative branch of the Ministry of the Environment will be allocated to nature conservation during the spending limits period. In protecting the Baltic Sea and other waterways, implementation of the waterway and marine management action plans will continue, and EUR 11.7 million per year will be allocated to waterway protection in the spending limits period.

EUR 1.8–2.4 million per year will be allocated in the spending limits period to prevention and clean-up of environmental damage, of which c. EUR 1.6 million per year will be used to prevent environmental damage at the Hitura mine. EUR 5.8 million per year will be allocated in the spending limits period to various areas of environmental expenditure, such as environmental research, environment restoration and the development of environmental duties and the circular economy. About EUR 1.3 million per year will be allocated to the work of the Climate Change Panel and to climate projects.

EUR 27–29 million per year will be allocated to the Finnish Environment Institute. Within the administrative branch of the Ministry of the Environment, EUR 2.1 million per year will be allocated to grants for organisations and EUR 2.2 million per year will be allocated to international cooperation expenditure.

EUR 5.9 million per year will be allocated in the spending limits period to the operating costs of the Housing Finance and Development Centre of Finland. EUR 12–15 million per year will be allocated to repair grants. EUR 1.7 million per year will be available for maintaining architectural heritage.

Various subsidies for housing construction will be granted out of the National Housing Fund during the spending limits period. Authorisation for approving interest-subsidised loans and the ceiling for various guarantees will be decided on in the budget proposal. No funding is budgeted in the spending limits period for public utility services grants or startup grants related to land use, housing and transport (MAL) agreements. Investment grants for special groups amounting to EUR 90 million per year will be used to support the improvement of housing supply for the most vulnerable groups. Housing companies in financial difficulties may be granted assistance out of an annual appropriation of EUR 2.6 million. The authorisation for remissions related to demolition and remissions related to exemption from restrictions totals EUR 8 million per year, while the demolition subsidy authorisation totals EUR 5 million. EUR 0.7 million per year will be allocated to R&D by the Housing Finance and Development Centre of Finland.

Appropriations in this administrative branch will be augmented in this spending limits period particularly by the national contribution to the InvestEU loan guarantee programme, a total of EUR 45.7 million between 2025 and 2027.

About EUR 2.8 million per year will be allocated to implementation of the Climate Change Act. EUR 4.3 million per year will be allocated to improving housing counselling. EUR 4 million per year will be allocated in transitional funding to the digitalisation of land use and construction for municipalities and regional councils between 2024 and 2026.

Principal new decisions and changes

EUR 3 million per year will be allocated to the Environmental Damage Fund, which will start up in 2025, for oil recovery equipment investments as of 2025. Transferring secondary environmental liabilities to an off-budget fund will result in annual savings of EUR 0.5 million in the central government budget.

A total of EUR 4.25 million in additional appropriations will be allocated to the environmental information management development project between 2024 and 2026. About EUR 6.6 million in productivity funding will be allocated to the information system package for the public administration duties of Metsähallitus across the spending limits period. Furthermore, the digitalisation of environmental permit and oversight procedures will be fostered through productivity funding totalling c. EUR 3.1 million between 2024 and 2026.

5.3.2 Administration and IT projects

Financial and HR administration

The productivity of central government financial and HR administration will be improved by continuing the centralisation of tasks in the Government Shared Services Centre for Finance and HR (Palkeet Centre) and by developing operating practices and central government's shared financial and HR administration information systems.

The central government accounting will be revised, and extended final central government accounts will be prepared as outlined in the VALTIKE project. The goal is for the first extended final central government accounts to be prepared for 2025. During the spending limits period, a significant and necessary technology renewal (SAP system) of the Kieku information system will be implemented, including HR information systems, by 2027. The central government spending limits and budget IT system will also be upgraded during the spending limits period. Between 2024 and 2027, the statutory Hilma notification service for public procurements will be improved, with particular reference to basic-level tendering functions, the user experience of procurement units and tenderers and facilitating leveraging of data.

Agencies and the Palkeet Centre will continue goal-oriented development of central government HR administration. The aim is to boost the efficiency of central government HR functions by 304 person-years from the 2018 level by 2029. Palkeet will further develop the accessibility and functionality of the Kieku information system in preparation for an upgrade in accordance with the Palkeet development roadmap.

Developing central government procurement

The productivity and effectiveness of public procurement will be improved by supporting and monitoring progress with the goals set for the public sector as a whole. The Procurement Finland programme has prepared a National Public Procurement Strategy, which drives procurement development. Development measures cover all public sector procurement. The objectives of the public procurement strategy also apply to the new wellbeing services counties. The wellbeing services counties will be supported in building and developing their procurement functions, particularly from the perspective of knowledge-based management and development of effectiveness, providing data to support the strategic management of procurement. The Procurement Finland also fosters improvements in competence and procurement productivity in municipal finances. Hansel Oy, Valtori and Senate Properties include the goals of the national public procurement strategy in centralised procurement and framework arrangements.

The implementation of the public procurement strategy is regularly measured with strategic effectiveness indicators and new development activities are steered on the basis of it. For Finland's public procurement there is an up-to-date situation status and national information architecture that supports the analysis and development of the effectiveness of procurement at the national level. Joint networks of the public and private sectors support the exploitation of the potential and opportunities of public procurement and the sharing of best practices.

Central government premises investments

The goal of the premises strategy is that the premises support productive activity. Development of the premises promotes efficient work and services and improves cost efficiency. The increase in teleworking and multi-location work is affecting the use of premises and the need for premises. Utilisation rate measurements indicate that central government office premises are occupied by c. 25% of personnel on average. By the end of the decade, the goal is extensive sharing of premises, where personnel of different agencies can work in the same premises. Sharing will also be increased within the public sector, particularly at shared customer service points.

The programme aimed at improving the efficiency of central government premises use, decided on in an earlier parliamentary term, will be continued according to plan until 2029 with a target total cost saving of EUR 150 million. In line with the premises strategy, the goal is also to reduce premises costs where possible. In the spending limits period, the level of premises investments will be increased, moreover, by a number of large renovation and new construction projects, such as construction required by the procurement of new multirole fighter aircraft and premises projects for the security authorities.

The safety and operating reliability of government-owned properties and properties used by government authorities will be boosted so as to ensure continuity of critical operations of key central government authorities even in case of disruption or in extraordinary circumstances. Significant repairs and reinforcements will be carried out in the spending limits period to ensure supply of electricity, heat and water and to secure communications in critical government premises. The resulting investment costs will total an estimated EUR 265 million by 2027. The rent costs to be incurred by agencies and institutions, estimated at EUR 22.5 million, are covered in item 28.01.20 Implementation of central government real estate strategy and ownership steering in the administrative branch. The level of the investment authorisation of Senate Group will be outlined in connection with the preparation of budget proposals.

Coordinating services and premises project package

The central government's regional presence, the services and premises network reform, multi-location working and the premises strategy will be promoted as a single strategic project package. The purpose of the reform is to gain a more flexible arrangement of service provision corresponding to actual customer needs in terms of time and place, and strengthening opportunities for flexible and multi-location working, for example by increasing shared premises intended for teleworking in different parts of Finland. EUR 800,000 has been granted in productivity funding for the services and premises network reform for 2024. The reform will be carried out by 2030, with the aim of achieving annual savings of EUR 50 million.

IT system projects

Projects and policies funded separately in each administrative branch are also discussed in section 5.3.1 and entities related to the wellbeing services counties in Chapter 6.

Also, c. EUR 32 million per year has been allocated for the period 2024–2027 for key IT system and information management projects as well as other productivity projects in the administrative branches. Funding for projects has been committed through cooperation agreements as follows: c. EUR 23.1 in 2024, c. EUR 9.2 million in 2025, c. EUR 2.5 million in 2026 and c. EUR 1.0 million in 2027. Funding available for new projects is EUR 8.9 million in 2024, EUR 22.6 million in 2025, EUR 29.3 million in 2026 and EUR 30.8 million in 2027.

Currently, the principal IT system projects for the spending limits period are: the development and digitalisation project for central government grants; the project to strengthen the legal protection of citizens through digitalisation of the Digital and Population Data Services Agency; the ARVO project to enhance the public administration duties of Metsähallitus; the project to improve productivity through digitalisation development for environmental permit and oversight procedures of the Ministry of the Environment; the Government's basic IT harmonisation project; and the cloud and application service development project of the judicial administration.

The planned funding will be incorporated into annual budgets provided that the project plans are sufficiently detailed with respect to costs arising and costs saved, project feasibility, and funding of a continuous service. Furthermore, in those projects where an opinion of the Ministry of Finance under the Act on Information Management in Public Administration (906/2019) and the Government Decree (1301/2019) is required, the opinion must not contain statements preventing the advance of the project or significantly slowing its advance. The Ministry of Finance will conclude a cooperation agreement with respect to projects receiving funding with each relevant ministry. The Ministry of Finance requires, as a rule, that the central government's joint Project Portfolio be used in the monitoring of projects.

In addition, a total of c. EUR 74 million in 2024–2027 has been allocated in the spending limits for the development and phased introduction of a new communications service solution to replace the present government agency radio network VIRVE as well as EUR 8 million per year in 2024–2027 for electronic identification.

5.4 On-budget revenue

In 2024, on-budget revenue is expected to be EUR 76.7 billion. The share of actual on-budget revenue coming from tax revenue will be 90% on average across the spending limits period. At the end of the spending limits period, tax revenue is expected to total EUR 74.3 billion. The tax revenue estimate is based on the medium-term assessment of macroeconomic development according to the estimate made by the Ministry of Finance in March.

Tax criteria changes

The tax changes announced in the Government Programme revenue have been taken into account in the tax revenue estimates. The Government has also enacted tax criteria beyond the Government Programme; some of the fixed-term changes will expire during the spending limits period. Moreover, the tax revenue projections for the spending limits period include, as a technical assumption, an index adjustment of earned income taxation.

As a new tax criterion, the General Government Fiscal Plan now includes a mining tax that will enter into force in 2024 and yield tax revenue for the first time in 2025. A broader tax base for the waste tax will enter into force in 2027.

The table below presents an estimate of the impact of the key tax criteria changes on central government tax revenue on an annual basis. The impact of tax criteria changes on cash-based tax revenues of each year depends on the precise timing of the changes and the magnitude of the time delay in tax accrual. The impact of tax criteria changes on the cash accrual of central government revenue will therefore be smaller than the annual level estimate in the year of entry into force. In accordance with the Government Programme, municipalities will be compensated for the net tax revenue impact of changes made by the Government to tax criteria.

Table 7. Annual impact on central government tax revenue of the main tax criteria changes, EUR million

	2024	2025	2026	2027
Index adjustment of earned income taxation	-745	-608	-588	-588
Abolition of solidarity tax	-115			
Fixed-term increase to the tax credit for household expenses	-7			
Ending of accelerated depreciation of movable fixed assets (2020– 2025)			250	
Beginning of application of extra additional deduction for R&D	-24			
Expiry of lottery tax reduction	73			
Mining tax	10			
Broader tax base for waste tax				7

Development of tax revenue 2024–2027

The **earned and capital income tax** base is expected to grow by an average of c. 3.4% in the spending limits period, slowing slightly towards its end. Wage income is estimated to grow by 4.1% in 2024 and thereafter by an average of 3.5% per year. Pension income is estimated to grow by 5.6% in 2024 and thereafter by an average of 3.4%, slowing towards the end of the spending limits period. Capital income is expected to decrease slightly (-1.1%) in 2024 and thereafter to grow by an average of 2.7% per year. There is a certain degree of uncertainty in the tax base projection, particularly in respect of capital income. There is also uncertainty in respect of revenue from tax at source and the accrual timeline. In keeping with the Government Programme of Prime Minister Marin's Government, the fixed-term 'solidarity tax' will expire in 2024. The double depreciation entitlement for machinery and equipment will expire in 2026, thus slightly increasing revenue from income and capital gains taxation. The tax revenue estimates for 2024–2027 include, as a technical assumption, an index adjustment of earned income tax criteria. Central government income tax revenue increased substantially in 2023, as municipalities tax revenue was transferred to the central government in the health and social services reform.

Corporate tax revenue as a whole is expected to increase in 2022–2025, on average by 4.5% per year. The corporate tax revenue projection is based on trends in the operating surplus according to national accounts. Corporate tax revenue during the spending limits period will also be increased inter alia by the expiry of the double depreciation entitlement for machinery and equipment in 2026. The extra additional deduction for R&D will enter into force in 2024. The provisions of the proposed directive to introduce a global minimum level of taxation for large corporate groups are expected to somewhat increase tax revenues over the spending limits period. There is as yet no estimate of the magnitude of its impact.

Value-added tax (VAT) revenue is projected to grow on average by 3.5% in 2024–2027. The growth forecast is mainly based on estimates of the development of household consumption expenditure. VAT revenue is projected to grow by around 2.3% per year on average during the spending limits period.

Overall, revenue from **excise duties** is projected to decrease by an average of 3.3% per year in 2024–2027. The decrease is explained particularly by the decrease in energy tax revenues, which will be 4.7% per year on average. Revenues from excise duties will be reduced by a decrease in taxable consumption and, in the case of energy taxation also by, for example, an increase in the proportion of more lightly taxed biofuels.

Car tax revenue is projected to decrease by an average of 18.7% per year. The reduction in car tax revenue will be mainly due to the expected growth in the spending limits period of the share of sales accounted for by electric vehicles. The amount of car tax depends on the general retail sales value of the car as well as on the car's carbon dioxide emissions rating, so an increase in the share of sales accounted for by low-emission vehicles lowers the average car tax.

The **motor vehicle tax** consists of a basic tax, levied on the basis of carbon dioxide emissions, and a propelling force tax, levied for cars, vans and lorries that use some other fuel than petrol. Motor vehicle tax revenue is expected to decrease by an average of 2.7% per year, mainly due to a fall in the average carbon dioxide emissions rating of the vehicle stock.

Lottery tax revenue accrues mainly from lotteries organised by the monopoly operator. With the expiry of the reduction in the lottery tax rate, which was in force from 2021 to 2023, lottery tax revenue is projected to increase by c. EUR 70 million in 2024 and is expected to be EUR 151 million per year on average between 2024 and 2027.

Other on-budget revenue

The largest single item of miscellaneous revenue received by central government is transfers from the State Pension Fund to finance pension expenditure. During the spending limits period, the share of pension expenditure financed by the transfers will increase from the current 40% in 2023 to 44% in 2023, once the funding target set for the fund has been reached.

Miscellaneous revenue includes revenue received from the EU. The estimated revenue from the EU RRF in 2024–2026 is EUR 0.3 billion per year on average, which is c. EUR 0.1 billion less than estimated in the previous spending limits decision; this is due to Finland's economic development being more favourable than expected.

In all, the central government's miscellaneous revenue in 2024–2027 will be EUR 6.0 billion per year on average, or EUR 0.5 billion less than in the previous spending limits decision. The key factor in this calculation is that, unlike before, the revenue from gaming is in an item on its own as part of property income, i.e. main title 13, whose projected revenue is correspondingly greater. Gaming revenue is estimated at EUR 0.7 billion per year across the spending limits period.

For 2023, budgeted property income includes dividends, returns of capital and proceeds from sales of property, amounting to c. EUR 1.8 billion. Of this, dividends are projected to account for c. EUR 1.1 billion. Budgeted property income includes proceeds from sales of property amounting to c. EUR 0.6 billion in 2023. Sales of property relate to the financing of future-oriented investments implemented earlier. Implementation of sales is affected by the prevailing market situation. Dividend revenue is estimated at EUR 1.1 billion per year in 2024–2027.

Table 8. Ministry of Finance estimate of ordinary on-budget revenue in 2023–2027, EUR billion

	2023	2024	2025	2026	2027	2024–2027
	budgeted					average annual change, %
Total tax revenue	64.4	68.4	70.1	72.2	74.3	3.7
– taxes on earned and capital income	23.9	26.7	27.7	28.9	29.9	5.8
– corporate tax	6	6.2	6.5	6.9	7.4	5.1
– VAT	22.2	22.9	23.7	24.5	25.5	3.5
– excise duties	7.4	7	6.8	6.6	6.5	-3.3
– other tax revenue	4.9	5.6	5.4	5.3	5.0	0.8
Miscellaneous revenue	6.6	5.9	6.0	6.1	6.0	-2.2
Interest earned, income from share sales and profit recognised as income	1.9	2.2	2.2	2.2	2.2	3.9
– Dividend income and proceeds from sales of shares	1.6	1.8	1.8	1.8	1.8	3.1
Total revenue[1]	**73.0**	**76.7**	**78.5**	**80.6**	**82.6**	**3.1**

[1)] Includes repayment of loans granted by central government.

5.5 Central government on-budget balance and debt

Central government on-budget balance and debt

The central government on-budget deficit in 2024 is expected to be EUR 11.6 billion, which is EUR 1.2 billion more than that budgeted for 2023 (incl. the first supplementary budget). In the spending limits period, the deficit will peak in 2027, when it will be an estimated EUR 12.0 billion.

In 2024–2027, the on-budget deficit will average EUR 11.7 billion per year, whereas annual deficit in the previous spending limits decision was, on average, EUR 7.2 billion. The annual deficit is considerably greater than in the previous spending limits decision even though the revenue estimates for the years 2024 to 2026 have risen by an average of EUR 2.2 billion per year.

The most important single factor underlying expenditure growth is the universal rise in interest rates as fiscal policies have been tightened to curb inflation. Universal interest rate changes are reflected in debt management costs with a delay; these costs will be EUR 2.3 billion greater per year on average between 2024 and 2026 than in the previous spending limits decision. Interest costs have not been this high since the early 2000s. Interest costs on central government debt are estimated at EUR 3.4 billion per year in 2024–2026 and EUR 3.8 billion in 2027. Debt management costs will increase during the spending limits period not only because of fluctuating interest rates but also because of the growing deficit and hence the growing need for borrowing.

Central government debt is projected to be c. EUR 164 billion at the end of 2024, or c. 57% of GDP. Central government debt is expected to grow by EUR 11.7 billion per year (6.9% per year) during the spending limits period. At the end of 2027, central government debt is projected to be c. EUR 199 billion, or c. 62% of GDP.

Table 9. Ministry of Finance estimate of on-budget balance in 2023–2027, EUR billion, at current prices

	B+SB 2023	2024	2025	2026	2027
On-budget revenue estimate, total[1]	73.0	76.7	78.5	80.6	82.6
On-budget expenditure estimate, total, at current prices[2]	83.5	88.3	90.3	91.9	94.6
On-budget balance estimate	-10.4	-11.6	-11.8	-11.3	-12.0
Central government debt-to-GDP ratio, %	55	57	59	60½	62

1) Includes repayment of loans granted by central government.

2) Expenditure converted into current prices using the Ministry of Finance central government expenditure price index projection, which provides a rough estimate of price trends over the spending limits period.

5.6 Off-budget central government finances

Central government in the national accounts

In the national accounts, the central government sector includes, alongside central government on-budget finances, the central government funds that are external to budget finances (excluding the State Pension Fund, which is placed under the earningsrelated pension fund sector in the national accounts) as well as the universities, university real estate companies, Business Finland Ltd, Business Finland Venture Capital Ltd, DigiFinland Ltd, Finlogic Ltd, Finnhems Ltd, Fintraffic Meriliikenteenohjaus Ltd, Fintraffic Raide Oy, Fintraffic Tie Ltd, Gasonia Ltd, Governia Ltd, Hansel Oy, HAUS Finnish Institute of Public Management Ltd, Ilmastorahasto Ltd, Itla Children's Foundation, Finnish National Gallery, Leijona Catering Ltd, Liikenteenohjausyhtiö Fintraffic Ltd, the Counties' Service Centre for Facilities and Real Estate Management, Senate Properties, Solidium Ltd, Finnish Minerals Group, Finnish Industry Investment Ltd, Finnish Rail Ltd, Tapio Oy, VTT Technical Research Centre of Finland Ltd, Turku One Hour Train Ltd, Finnish Institute of Occupational Health, Finnish Broadcasting Company Yle and Finnish Student Health Service FSHS.

In the national accounts, the central government has ten off-budget funds. The central government funds are the National Housing Fund, the Development Fund of Agriculture and Forestry, the National Nuclear Waste Management Fund, the National Emergency Supply Fund, the State Guarantee Fund, the Financial Stability Fund, the State Television and Radio Fund, the Agricultural Intervention Fund, the Fire Protection Fund and the Oil Protection Fund. At New Year 2025, the new Environmental Damages Fund will go live, and the Oil Protection Fund will be abolished.

Overall funding of universities comprises appropriations allocated to universities in the budget and supplementary funding, which includes income from paid services, donations and sponsoring.

Central government funding of the Finnish Broadcasting Company Yle is based on a transfer of appropriations covered by the public broadcasting tax to the State Television and Radio Fund, which passes them on to YLE. The appropriation level is c. EUR 568 million in the spending limits period 2024–2027.

The investment company Solidium Oy is a limited company wholly owned by the central government whose task is to strengthen and stabilise Finnish ownership in companies of national importance. The company's equity portfolio consists of 12 listed companies in which Solidium has a minority interest. Solidium's Board of Directors makes investment decisions independently on the basis of analyses and proposals prepared by management. Solidium's return on shareholdings was -9% in the calendar year 2022. Solidium distributed to the Finnish state a dividend of EUR 307 million for financial year 2021–2022 and a capital refund amounting to EUR 133 million. At the end of 2022, the value of Solidium Oy's holdings was c. EUR 7.4 billion.

In other respects, state ownership policy is the responsibility of the Government Ownership Steering Department of the Prime Minister's Office, in which the ownership steering of companies operating on a commercial basis is centralised. The department's responsibilities also include preparing general policy on state holdings and ownership steering practices and coordinating ministerial cooperation on ownership steering.

Off-budget funds

The deficit of off-budget funds is expected to be c. EUR 600 million per year on average in the spending limits period, and excluding financial transactions the deficit will be c. EUR 900 million per year on average. This deficit is due particularly to increasing payouts from the State Pension Fund into the central government budget and increasing interest subsidy expenditure paid out of the State Housing Fund. A smaller deficit is recognised by the National Emergency Supply Fund, the State Guarantee Fund and the Development Fund of Agriculture and Forestry, on the strength of their liquid assets. The other funds are basically balanced or showing a slight surplus.

Most of the loans granted by funds and income received from their repayment relate to the activities of the National Nuclear Waste Management Fund. Those with a duty to dispose of waste have the right to receive loans against securing collateral for a fixed period. The National Housing Fund has no longer granted new loans since 2007, as a result of which the decrease in repayments of loans granted by the Fund has continued.

Pension contributions collected by the State Pension Fund form one of the most significant revenue items of the funds. Other tax-like revenue includes, for example, strategic stockpile fees levied on fuel as well as Financial Stability Fund contributions collected from banks. Tax-like income and fees will decline from 2023 to 2025 by an estimated total EUR 450 million, when the Resolution Fund and the Deposit Guarantee Fund included in the Financial Stability Fund reach the target levels set for them, after which banks will no longer be charged contributions to the fund.

Transfers to the central government budget relate mainly to financing pension expenditure. Of pensions paid up to 2023, 40% are covered by revenue remitted from the State Pension Fund. From 2024, revenue remitted will gradually increase by one percentage point per year until it is 45% as of 2028. At the 2027 level, increasing the remittance percentage from 40% to 44% represents an increase in the budget transfer of c. EUR 200 million.

Pursuant to an act enacted in late 2022, the new Environmental Damages Fund will replace the Oil Protection Fund as of 2025. The purpose of this reform is to ensure that operators will be collectively liable for funding the cleanup of environmental damage in a case where the actual party causing the damage is insolvent, bankrupt or unknown.

In the State Guarantee Fund's proactive funding calculation, provision has been made for 2023–2025 to cover any loss-making separate result that may arise from Finnvera's export guarantee and special financing activities. The riskiness of Finnvera's state-guaranteed export guarantee and special guarantee stock increased as a result of the coronavirus pandemic.

Table 10. Central government off-budget funds, EUR million

	2022	2023	2024	2025	2026	2027
Taxes and tax-like revenue, total	514	522	202	68	63	62
Miscellaneous revenue	251	107	78	76	77	80
Pension contributions	1,608	1,613	1,625	1,642	1,640	1,674
Interest earned and profit recognised as income	423	417	414	464	514	514
Transfers from budget	605	580	596	599	599	599
Revenue excluding financial transactions	3,402	3,240	2,914	2,849	2,893	2,929
Repayments of loans granted	1,965	1,701	1,923	1,905	1,888	1,859
Total revenue	5,367	4,940	4,837	4,754	4,781	4,788
Consumption expenditure	186	291	260	217	215	212
Current transfers	1,172	1,381	1,129	1,192	1,174	1,064
Interest expenditure	16	16	16	17	17	17
Transfers to budget	1,983	2,119	2,286	2,352	2,428	2,485
Other expenditure	14	23	20	20	20	20
Expenditure excluding financial transactions	3,372	3,831	3,711	3,797	3,854	3,799
Loans granted and other financial investments	1,705	1,594	1,600	1,596	1,599	1,581
Total expenditure	5,077	5,425	5,311	5,393	5,453	5,380
Net financial surplus or deficit	290	-485	-474	-640	-672	-592

State-owned enterprises

Metsähallitus is a state-owned enterprise whose task is to use, manage and protect the unbuilt land and water assets directly owned by the state. Metsähallitus engages in business operations and attends to statutory public administrative duties funded out of the State budget. Metsähallitus engages in forestry and other market-based business operations through the subsidiaries it owns. The forestry operations of Metsähallitus have been incorporated into a wholly state-owned company, Metsähallitus Forestry Ltd. Metsähallitus annually remits amounts recognised as revenue to the central government in the form of rights of use compensation and dividends. It manages c. 12.6 million hectares of state-owned land and water areas, with a balance sheet value of c. EUR 3.9 billion. Of this, the core capital subject to the yield requirement is c. EUR 2.6 billion.

Metsähallitus remittances to the central government budget have been around EUR 114 million per year during the current ownership policy period. The new ownership policy for the period 2024–2027 will be drawn up in autumn 2023.

Senate Group consists of Senate Properties and Defence Properties, the latter having begun operations at New Year 2021. Senate Group's task is to provide work environment solutions in keeping with the goals of the Government Premises Strategy for its customers and to improve central government organisations' performance. Senate Group's business is based on developing work environments and real estate assets, letting premises and providing premises services for its customers. Services may also be provided to organisations whose activities are funded mainly with appropriations included in the State budget. The level of the investment authorisation of Senate Group will be outlined in connection with the preparation of budget proposals. Senate Group operates according to commercial principles. The Group's recognised revenue remitted to the central government budget will be EUR 36–40 million per year in 2024–2027. Profits from the Group's rental operations are estimated to grow from EUR 16 million to EUR 28 million within that period. The objective is for property sales to reach EUR 100 million per year in 2024–2027.

5.7 Sustainable development

The global 2030 Agenda for Sustainable Development sets common goals for sustainable development for all UN member states. Agenda 2030 strives for sustainable development in terms of the economy, human wellbeing and the environment.

Finland's revised Climate Change Act was designed to ensure that Finland will be carbon-neutral in 2035 at the latest.

Appropriations promoting carbon neutrality and the green transition in the General Government Fiscal Plan 2024–2027

The General Government Fiscal Plan includes appropriations that can be considered to promote carbon neutrality and the green transition. The appropriations will promote, among other things, the wellbeing of the environment and nature as well as biodiversity by acquiring nature reserves and through development cooperation. The aim is to reduce emissions inter alia by supporting renewable energy and promoting public transport.

Research, development and innovation projects will promote bioeconomy solutions and develop Finland towards a low-carbon society. EU greening support, environmental compensation and promotion of organic production have a significant role in developing agriculture in an environmentally sustainable direction. The appropriations are allocated, for the most part, to the administrative branches of the Ministry of Economic Affairs and Employment, the Ministry of Agriculture and Forestry, the Ministry of Transport and Communications, the Ministry of the Environment and the Ministry for Foreign Affairs.

To clarify the distribution of appropriations geared towards carbon neutrality in the General Government Fiscal Plan, these expenditure items have been grouped into thematic categories relevant for the green transition.

In the General Government Fiscal Plan, the goals related to carbon neutrality will be promoted with a total of c. EUR 2.1 billion in 2024, decreasing to c. EUR 1.8 billion in 2027.

The level of appropriations in 2024 will be increased significantly by funding in accordance with Finland's Recovery and Resilience Plan, which expires in 2026. About half of Finland's maximum allocation (EUR 1.82 billion) will be allocated to the green transition. With regard to the green transition, appropriation increases in the spending limits period will be allocated inter alia to investments for clean energy production, low-emission innovations and construction industry environmental solutions.

In addition, the level of appropriations for 2024 will be increased by the decisions taken on the basis of the guidelines of the Ministerial Working Group on Preparedness in spring 2022, regarding a set of measures to strengthen energy self-sufficiency and security of supply, which aims to accelerate significantly withdrawal from fossil energy and support the introduction of new technologies.

In addition to a decrease in RRP funding and a decrease in funding outlined by the Ministerial Working Group of Preparedness, a reduction in the production subsidy for renewable energy, among other things, will contribute to lowering the level of appropriations promoting carbon neutrality in the spending limits period.

Table 11. Appropriations promoting carbon neutrality and the green transition in the General Government Fiscal Plan 2024–2027 (EUR million)

	2024	2025	2026	2027
Biodiversity, water protection and environmental protection	109.0	112.1	111.9	111.3
Renewable energy and energy efficiency	739.6	535.4	341.7	241.7
The global dimension	392.6	386.1	435.2	432.9
R&D	307.3	266.5	243.3	236.3
Transport	247.4	219.3	212.0	179.7
Agriculture, forestry and the land use sector	327.5	675.9	610.5	568.5
Total	**2,123**	**2,195**	**1,955**	**1,770**

Taxes

There are a number of taxes that may be considered as promoting the goals of carbon neutrality, specifically energy taxes, motor vehicle tax, car tax, excise duty on certain beverage packagings and waste tax. Although on the whole these may be considered to be taxes in accordance with carbon neutrality objectives, they may also include individual tax structures that are contrary to the objectives.

The General Government Fiscal Plan includes a continuation in 2024–2025 of the gradual elimination of tax refunds for energy-intensive companies, this being an energy tax reform incentivising carbon neutrality. Further ongoing fixed-term tax measures include a raised household expenses tax credit for work to abandon oil-fired heating in 2024–2027 and reduced taxable values for company cars with zero or low emissions 2024–2025.

Environmental incentives through taxation are discussed in detail in chapter 6 of the general strategy and outlook of the 2023 budget proposal.

6 Finances of the wellbeing services counties

6.1 Financing of the wellbeing services counties and central government measures

Central government funding for the wellbeing services counties

The finances of the wellbeing services counties, the impact of central government measures and the central government financing of the wellbeing services counties are addressed as a whole in the General Government Fiscal Plan. Consideration of the finances of the wellbeing services counties will also include the City of Helsinki with regard to health, social and rescue services.

Table 12. Funding of the wellbeing services counties, certain government grants and central government transfers to wellbeing services counties, EUR million, spending limits years at 2024 price level

	Budget 2023[1]	2024	2025	2026	2027
Central government universal funding[2]					
Ministry of Finance	22,650.2	24,753.6	24,606.9	24,890.4	25,163.2
Additional funding under the Act on Research and Development Funding[3]	1.0	1.0	1.0	1.0	1.0
Certain services fully compensated by the central government					
Ministry of the Interior	10.0	8.0	5.0	2.0	2.0
Ministry of Economic Affairs and Employment	133.7	317.3	456.1	415.9	238.5
Ministry of Social Affairs and Health	124.0	83.5	64.0	50.0	50.0
Central government transfers and other compensations					
Ministry of Justice	0.2	0.2	0.2	0.2	0.2
Ministry of the Interior	4.0	4.0	4.0	4.0	4.0
Ministry of Finance	350.0	109.0	9.0	9.0	9.0
Ministry of Economic Affairs and Employment	10.4	11.0	1.6	1.6	1.6

	Budget 2023[1]	2024	2025	2026	2027
Ministry of Social Affairs and Health	342.3	260.3	224.3	191.5	191.5
Ministry of the Environment	0.3	0.0	3.0	3.0	3.0
Grand total	23,626.1	25,547.9	25,375.1	25,568.6	25,664.0

1) Combined from the current budget.

2) Includes new and expanded duties entering into force during the spending limits period and additions to the funding model, such as the university hospital supplement and compensation pursuant to section 35a of the Act on the Funding of Wellbeing Services Counties. The funding for 2023 includes EUR 150 million in non-recurring items. It also includes EUR 5.6 million under the Act on Services for Persons with Disabilities according to the supplementary budget for 2023 approved by Parliament. The funding for 2024 includes a non-recurring compensation of EUR 444 million, which the wellbeing services counties will recognise as income in 2023.

3) EUR million on estimated appropriation item 28.89.32; the need for additional funding will be assessed on a case-by-case basis.

The wellbeing services counties will finance their activities mainly with central government universal funding and have no right to levy taxes. In addition to central government universal funding, the wellbeing services counties will receive central government transfers, customer fees and other operating income as well as financial income.

Under the Act on Funding of Wellbeing Services Counties, the nationwide funding for wellbeing services counties in 2023 is derived from the costs of health, social and rescue services entered by municipalities in their budgets for 2022. The Act further specifies that the amount of central government funding is to be revised on the basis of service-specific financial statements from municipalities for 2022 in respect of the costs of duties transferred from municipalities to wellbeing services counties. Thus, the basis for the funding of wellbeing services counties in 2024 will be the revised combined nationwide funding for 2023. Further under the Act, a non-recurring addition to or deduction from the funding of wellbeing services counties will be made in 2024 if the amount of central government funding granted to a wellbeing services county in 2023 was higher or lower than the sum obtained by using financial statement data for 2022 in calculating the funding for 2023.

The net costs of health, social and rescue services transferred from municipalities to wellbeing services counties were c. EUR 21.8 billion in 2022 according to municipalities' financial statements – EUR 567 million more than estimated in preparing the previous General Government Fiscal Plan. This adjustment will be included in the funding estimate for 2024. Adding the index adjustment for 2023 and the estimated increase in service needs, the total adjustment comes to c. EUR 594 million. Also, an ex-post non-recurring compensation will be paid to correct the wellbeing services counties' funding for 2023 to match the actual net costs of the health, social and rescue services transferred from municipalities. Of this, EUR 150 million will be paid in 2023 and EUR 444 million in 2024.

The revenue and expenditure transferred from municipalities to wellbeing services counties are discussed in detail in chapter 7. Municipal finances. The calculations will be finally revised when preparing the 2024 budget to correspond with the municipalities' financial statements for 2022 and levied tax revenue according to the completed tax assessment for 2022.

Nationwide, the universal central government funding of the wellbeing services counties will total c. EUR 24.8 billion in 2024, of which EUR 444 million comprises the aforementioned non-recurring compensation. Compared to the previous General Government Fiscal Plan, the level of funding for wellbeing services counties will increase by c. EUR 2.1 billion in 2024. The increase is explained by the updating of the expenditure transferred to the wellbeing services counties from budget data to preliminary financial statement data (index adjustment), anticipated growth in service needs, funding for new and expanded duties, and the adding of the university hospital increment to imputed funding as of 2024.

The funding for wellbeing services counties incorporates the growth in service needs as per the social security expenditure projection model (SOME) between 2024 and 2027, in accordance with the Act on the Funding of Wellbeing Services Counties. The growth in the need for services is estimated to increase funding in the spending limits period by c. EUR 275.2 million in 2024, c. EUR 242.6 million in 2025, c. EUR 235.5 million in 2026 and c. EUR 243.6 million in 2027. The index adjustment for 2024 of the funding for the wellbeing services counties will be 3.31%, and it will increase the amount of funding by EUR 773.8 million.

Including the university hospital supplement in the funding of wellbeing services counties as of 2024 will have an impact on the level of funding nationwide, through both imputed funding and transition equalisation payments. Imputed funding will increase by the amount of the university hospital supplement in 2024 (EUR 130.6 million), but including this in transition equalisation payments will decrease the combined transition equalisation payments by EUR 100.6 million. The funding of wellbeing services counties will further be impacted as of 2025 by the transitional period ceiling of EUR -50 per resident and the corresponding transitional period differentiation. Net funding will be allocated to these funding legislation amendments as follows: EUR 30 million in 2024, EUR 58.5 million in 2025, EUR 93.2 million in 2026 and EUR 122 million in 2027.

As with the 2023 budget, the spending limits include an annual appropriation of EUR 1 million for additional funding for wellbeing services counties. This item will technically enable the handling of any additional financing needs that may arise during the year.

In the nationwide pressure projection for the wellbeing services counties given in section 6.4, no assumptions are made regarding consolidation measures undertaken by the wellbeing services counties themselves. However, the wellbeing services counties will basically be required to adapt their expenditure structures to the framework determined by central government funding. As a result of the wage agreements reached for municipal finances and the wellbeing services counties, the expenditure of the wellbeing services counties will increase more quickly in the next few years than their funding. This will increase the need for consolidation.

By law, the central government universal funding for wellbeing services counties will be revised on an ex-post basis with a delay of two years to reflect actual costs nationwide. The first ex-post revision will be carried out and applied to funding for 2025, based on actual data for 2023. Funding for 2023 was based on municipalities' budgets, which came to EUR 0.6 billion less than the subsequent financial statement estimates. Also, costs are rising more rapidly than was anticipated in autumn 2022. Wellbeing services counties have less scope to adjust their finances in their first year of operations than they will have in the following years. It may therefore be estimated that the ex-post revision to be carried out in 2025 will increase funding for the wellbeing services counties. It is assumed that consolidation and renewal measures undertaken by the wellbeing services counties themselves from 2024 onwards will curb expenditure increases. A spending limits provision has been set aside for technical corrections to the funding of wellbeing services counties and for coping with cost pressures such as ex-post revisions. This provision is not available to cover any other costs. The provision increases towards the end of the spending limits period, being EUR 430 million per year on average.

New and expanded duties affecting the operations and funding of the wellbeing services counties

Completely new discretionary measures will be executed in the wellbeing services counties in the spending limits period along with reforms which were decided on previously and which will enter into force or expand by stages after 2023. The funding of wellbeing services counties is also impacted by reforms that entered into force before the responsibility for providing health and social services was transferred in 2023. The costs of the following reforms as given below are incorporated into the General Government Fiscal Plan:

– The greatest change compared with the previous General Government Fiscal Plan has to do with care guarantee legislation (EUR +81 million at the 2027 level).

– Funding for wellbeing services counties will be increased inter alia for delivering on the care guarantee in primary health care: EUR 113.4 million in 2024, EUR 128.2 million in 2025 and EUR 126 million from 2026.
– Amendments to the Act on the Oversight of Health and Social Services will reduce the funding of wellbeing services counties by EUR 1.7 million in 2024 but will increase it by EUR 0.9 million in 2025 and EUR 13 million from 2026.
– Amendments contained in the Act on Patient Ombudsmen and Social Affairs Ombudsmen will increase the funding of wellbeing services counties by EUR 1.4 million in 2024 and EUR 1.1 million from 2025.
– Moreover, the impact of the new Act on Services for Disabled Persons enacted by Parliament in spring 2023 is also incorporated in the funding of wellbeing services counties, increasing said funding by EUR 25.2 million in 2024, EUR 32.4 million in 2025, EUR 35.5 million in 2026 and EUR 35.9 million from 2027. A spending limits provision is also set as a contingency for additional costs caused by the reform of the Act on Services for Disabled Persons. Here, the appropriation allocated to implementation of the Act is meant to be revised in the first General Government Fiscal Plan of the next Government and in preparations for the 2024 central government budget.
– As of 2024, the funding for wellbeing services counties also incorporates the decisions in the 2023 central government budget concerning official assistance by the police in child welfare and emergency social services being free of charge and concerning the nationwide application of social lending.
– The funding further incorporates the upgraded impact assessment for the second phase of reforming the Act on Elderly Care and Services (which addresses resource sufficiency in home care and development of informal care) in respect of care alarm services, which entered into force at New Year 2023.

In 2024, the new or expanded duties of the wellbeing services counties will increase their funding by c. EUR 129 million on a net basis (i.e. including reductions) compared to 2023. In 2027, when all the discretionary changes adopted in the current parliamentary term have entered into force in full, the net cost impact of all new and expanded duties specified between 2019 and 2023 on the finances of the wellbeing services counties will be c. EUR 630[7] million. Because of these reforms, personnel needs in health and social services will grow; according to impact assessments of Government proposals, the imputed increase required is about 9,000 employees by the end of the decade.

7 Not including the spending limits provision related to the Act on Services for Disabled Persons.

Central government transfers and other compensations paid to wellbeing services counties

With regard to the main title of the Ministry of Social Affairs and Health, discretionary government grants totalling EUR 260.3 million will be transferred to the wellbeing services counties in 2024. The grants will gradually decrease by the end of the spending limits period, at which time they will total EUR 191.5 million. The most important individual grant package concerns central government compensations to health and social services units for specialisation training for health and social services personnel, EUR 108 million in all, including compensations payable to cover the costs of the job training included in health and social services degree programmes at universities of applied sciences (EUR 12 million). Another important grant package comprises the funding related to Pillar 4 of the Sustainable Growth Programme for Finland. The total funding for this Pillar in the programme period, 2021–2025, is c. EUR 350 million. Out of this, wellbeing services counties will receive c. EUR 38 million in 2024 and EUR 30 million in 2025. The aim of the measures is, among other things, to dismantle the backlog in treatment, rehabilitation and services in healthcare and social welfare caused by the coronavirus pandemic, promote faster access to care, promote the implementation of the health and social services reform, strengthen prevention and early identification of problems, and reinforce the knowledge base supporting cost-effectiveness and effectiveness-based guidance, and adopt digital solutions. In addition, the Ministry of Social Affairs and Health is responsible for preparing certain aspects of Pillar 3, out of which an estimated EUR 3 million will be allocated to the wellbeing services counties in 2024. The aim of the Pillar 3 investments is to accelerate the increase in the employment rate.

Wage subsidies are at this time being granted out of central government funds to both municipalities and wellbeing services counties, but as of 2025 municipalities will be responsible for payouts of wage subsidies to wellbeing services counties as well. In the main titles of the Ministry of Economic Affairs and Employment and the Ministry of Social Affairs and Health, an estimated total of EUR 35 million in grants related to wage subsidies will be transferred to the wellbeing services counties in 2024, after which these payments by the central government will be discontinued.

The Act on the Fire Protection Fund (306/2023), which falls within the administrative branch of the Ministry of the Interior, was amended so that as of the beginning of 2023 the Fund may award general and special grants to NGOs and similar organisations in the rescue services sector along with special grants to municipalities, wellbeing services counties and contract fire departments. Grants are no longer awarded from the Fund to regional rescue services, because those were disbanded when the wellbeing services counties began operations. Discretionary grants totalling c. EUR 4 million per year are disbursed from the Fund to wellbeing services counties.

Now that the rescue services have been taken over by the wellbeing services counties, rescue services will no longer be paid compensation out of the Oil Pollution Compensation Fund for maintaining pollution response readiness. The Oil Pollution Compensation Fund will, however, compensate the wellbeing services counties' rescue services for costs incurred in oil spill prevention and response in situations where the costs cannot be recovered from the party responsible for the spill. Compensation paid out of the Fund have typically amounted to c. EUR 3 million per year. The Oil Pollution Compensation Fund will be wound down in 2025 as the Environmental Damage Fund starts up. Wellbeing services counties and the City of Helsinki may apply for discretionary grants to cover part of the cost of procuring equipment for combating environmental damage. As of 2025, c. EUR 3 million per year will be awarded in grants out of the Environmental Damage Fund.

The wellbeing services counties of Lapland and South Savo may each maintain two 24-hour joint emergency clinics at their hospitals for the time being if warranted by the service needs of the population and if maintaining more than one unit does not compromise compliance with the statutory requirements for operations of wellbeing services counties. The central government will, within the confines of the budget, compensate the wellbeing services counties of Lapland and South Savo for the extra costs incurred by maintaining two 24-hour joint emergency clinics, provided that they can prove that they incur more costs in maintaining two 24-hour joint emergency clinics than they would by housing the same functions in a single unit. EUR 9 million per year will be allocated for this purpose across the spending limits period.

Certain services fully compensated by the central government

The central government pays wellbeing services counties statutory separate compensation for certain health and social services. These include compensation for urgent care for persons without a registered domicile, compensation paid by the Defence Forces for services provided by wellbeing services counties and compensation for certain health and social services and rehabilitation for prisoners. The monetarily largest compensation packages are described below.

Compensation for services promoting integration will be paid to the wellbeing services counties as follows: EUR 317 million in 2024, EUR 456 million in 2025, EUR 416 million in 2026 and EUR 239 million in 2027. The increase in this appropriation is the result of persons under temporary protection who have a registered domicile becoming eligible for benefits provided by the central government as per the Integration Act as of 1 March 2023.

About EUR 81.5 million per year at the beginning of the spending limits period and c. EUR 48 million at its end will be allocated to services for combat veterans and war and military invalids that are subsidised by the central government (e.g. services provided at home).

The services provided for in the Reception Act are principally organised by the reception centres themselves. However, some services are outsourced from private and public service providers; for instance, certain health and social services are provided by wellbeing services counties. The Finnish Immigration Service compensates wellbeing services counties for the costs incurred by providing these services. Compensations paid for reception services provided by wellbeing services counties are estimated to total c. EUR 8 million per year at the beginning of the spending limits period, decreasing to c. EUR 2 million at its end. This estimate is uncertain, as it depends on trends in the number of persons applying for international protection, etc.

Modification and preparation costs

EUR 350 million was allocated in the 2023 supplementary budget to change and preparation costs of the wellbeing services counties. This appropriation will be used to award central government grants to wellbeing services counties, the City of Helsinki and the HUS Group for temporary costs incurred in transferring responsibilities and for consolidating and improving operations. Compensating modification and preparation costs allows statutory funding to be more precisely allocated to the actual arranging and providing of services during the spending limits period 2024–2027. Also, EUR 100 million will be allocated in 2024 to vital, non-recurring ICT modification costs necessitated by the reform, for paying on-budget costs of the authorisation granted and used in 2022.

6.2 Borrowing capacity of the wellbeing services counties

Regulation of borrowing by the wellbeing services counties

The wellbeing services counties must prepare an annual investment plan for investments to be launched during the next four financial years and for the agreements corresponding to the investments. In addition to a traditional investment made on the balance sheet, it is also possible to finance means of production through various leasing models, such as real estate leases and cooperation models, such as life cycle models. Funding for investments and equivalent agreements is described in the investment plan.

The Government decides for a wellbeing services county an imputed debt service capacity based the capacity raise long-term loans to fund investments (borrowing capacity), pursuant to section 15 of the Act on Wellbeing Services Counties. In addition to long-term loans, investments can be financed with internal financing, accumulated cash assets and income from the disposal of fixed assets. The calculation of borrowing capacity is based on the annual margin according to the budget of the wellbeing services county, which can be adjusted with financial monitoring data. A wellbeing service county's investment plan must not conflict with its borrowing capacity.

The marginal conditions of general government finances are taken into account in the financing, investments and the borrowing capacity of the wellbeing services counties. The Government's decision on the borrowing capacity is based on the General Government Fiscal Plan and the imputed borrowing capacity of the wellbeing services county. If the budgetary position of general government finances, central government finances or the wellbeing services county deteriorates significantly and exceptionally, the borrowing capacity of the wellbeing services county may be set lower than the imputed borrowing capacity.

The Government will decide on changing the borrowing capacity if the investment is necessary for the continuity of the provision of services within the organisation responsibility of the wellbeing services county or for securing services required by law, and the investment requirement cannot be covered in any other way. A decision on changing the borrowing capacity may be made on the application of the wellbeing services county or on the initiative of the Ministry of Finance, the Ministry of Social Affairs and Health or the Ministry of the Interior. A working group must be appointed for the preparation of changing the borrowing capacity. Its task is to assess the criteria for changing the borrowing capacity, the borrowing capacity needed and the terms and conditions to be imposed on the wellbeing services county. The assessment is based on an overall assessment based on information on the finances and activities of the wellbeing services county.

Borrowing capacity of the wellbeing services counties in 2024

The wellbeing services counties, the City of Helsinki and the HUS Group have submitted proposals for their first investment plans – in accordance with the Act on the Wellbeing Services Counties – to the Ministry of Finance, the Ministry of Social Affairs and Health and the Ministry of the Interior. The first investment plans cover the financial years 2023–2026 and the financial years 2024–2027.

In summer 2022, the Government made a decision on borrowing capacities for the wellbeing services counties and for the HUS Group in 2023. Three wellbeing services counties and the HUS Group applied for an adjustment to their borrowing capacities, and the Government made a decision on these changes in autumn 2022. Following these changes, the combined borrowing capacities for 2023 stood at EUR 5.5 billion. Of this, EUR 4.8 billion will be used for projects already in progress or being launched in 2023. EUR 0.7 billion of the borrowing capacities approved for 2023 will remain unused.

It is estimated that EUR 2.1 billion of the borrowing capacities will be spent in 2023. Long-term loans taken out under the 2023 borrowing capacities will continue to be withdrawn in subsequent years in cases where an investment project financed with a long-term loan continues beyond 2023. This will ensure the continuation of projects already in progress. Long-term loans will be taken out or agreements equivalent to investments concluded under the 2023 borrowing capacities in 2024 or later to a total of EUR 2.7 billion.

The loan portfolio of the wellbeing services counties and the HUS Group is anticipated to stand at EUR 5.8 billion at the beginning of 2024. This will include loans assigned to the wellbeing services counties. The borrowing capacities for 2024 will be calculated on the basis of the annual margin in the 2023 budgets and anticipated lending as at the beginning of 2024; the Government will decide on these in spring 2023. Because annual margins in the budgets are slight, the imputed borrowing capacities of the wellbeing services counties and of the HUS Group for 2024 will remain small, and several wellbeing services counties would not have a borrowing capacity at all. What this would mean in practice that only few new investment projects could be launched in 2024, or else such projects would need to be financed in some other way than taking out loans. Any changes to be made to the borrowing capacities will be decided later in 2023.

6.3 Loan and financing agreement responsibilities of the wellbeing services counties

On 1 January 2023, the current hospital districts and special care districts for individuals with intellectual disability, and their assets, debts and commitments, will be transferred to the wellbeing services counties. The movable property, agreements and responsibilities of the municipalities related to the organisation of health, social and rescue services were also transferred to the wellbeing services counties.

For financial institutions, the reassignment of loans and financing agreements to the wellbeing services counties resulted in new debtors taking on these liabilities. In an order issued in January 2022, the Financial Supervisory Authority classified receivables from the wellbeing services counties as belonging to the same zero risk category as receivables from the central government, municipalities and joint municipal authorities.

Loan and other financing agreement liabilities of the wellbeing services counties are significant in monetary terms. At the time of the reassignment, the liability portfolio of loans and financing agreements held by the wellbeing services counties stood at c. EUR 5 billion. The loan and financing liabilities of the wellbeing services counties are estimated to be c. EUR 5.8 billion at the start of the spending limits period and c. EUR 12 billion at its end. These liabilities include bonds, credit facilities, municipal paper, leasing agreements and derivative contracts related to financing agreements. In addition, the wellbeing services counties have guarantee liabilities related to the financing agreements. Not only are the financial liabilities of the wellbeing services counties growing, but rapidly rising interest rates are causing a significant additional burden to their finances and will have an indirect impact on central government as far as managing the wellbeing services counties' funding framework is concerned.

In accordance with the policy adopted by the Ministerial Committee on Economic Policy on 1 March 2022, the central government has not provided government guarantees for the loans and financial liabilities transferred to the wellbeing services counties. Guarantees will basically also not be provided for new loans taken out by the wellbeing services counties after the transition. The funding of the wellbeing services counties will be based on central government funding and borrowing within the statutory framework as well as customer fees, other operating income and financial income. Ultimately, the central government must safeguard the availability of basic public services for which the wellbeing services counties are responsible.

The central government does not have explicit responsibility for the loans and financial liabilities of the wellbeing services counties, nor will these liabilities will be entered into Annex 12 Guarantee liabilities of the central government financial statements. The central government may be considered to have the ultimate implicit responsibility for safeguarding the services of the wellbeing services counties and accordingly also for the funding of the wellbeing services counties in accordance with statutory principles. Pursuant to section 3 of the Bankruptcy Act, the wellbeing services counties cannot be declared bankrupt, so in the event of possible payment difficulties, the discharging of the counties' loan liabilities will be secured, taking into account inter alia the statutory evaluation procedure.

6.4 Estimate of revenue and expenditure of the wellbeing services counties

This section contains a projection of the financial development of the wellbeing services counties. The projection was prepared by the Economics Department of the Ministry of Finance. It is a big picture illustration covering all wellbeing services counties (including the health, social and rescue services of the City of Helsinki) and joint authorities for health and wellbeing. The projection is a pressure projection and contains a great deal of uncertainty: it assumes expenditure to grow in accordance with growth in service needs, changes in duties and price fluctuations and does not consider any savings or efficiency measures undertaken by the wellbeing services counties themselves. Potential ex-post revision of funding is allowed for in central government funding to the amount of the spending limits provision set in the General Government Fiscal Plan, even though the expenditure trend in the projection indicates that the revision might need to be greater than that.

In the pressure projection, the annual margin and financial performance will decline at the beginning of the projection period and then level out and remain negative. Due to the high level of investments, the cash flow from operations and investments is negative and the wellbeing services counties will become further indebted. Their expenditure will be driven up and their budgetary position thus weakened by rapid increases in prices and particularly in personnel costs. The personnel cost estimate is based on wage agreements concluded, including a five-year wage structure programme and a three-year wage harmonisation programme. Income levels in the wellbeing services counties will grow at a higher rate than general income levels, to the projection of which the advance revision of the funding of the wellbeing services counties is linked. This will weaken their funding balance unless they can implement equivalent further efficiencies. However, because of ex-post revision, the annual margin and financial performance of the wellbeing services counties will be stabilised from 2026 onwards.

Expenditure of the wellbeing services counties consists mainly of the costs of providing services, i.e. personnel costs and expenditure on the purchase of goods and services. The operating margin of the wellbeing services counties is estimated to deteriorate by nearly 6% per year on average. In the first years of operation, resources will be used to some extent for temporary transition costs, and as these costs decrease, expenditure growth will slow down. Expenditure is also augmented by changes in duties, such as stricter requirements in the minimum staffing level for care personnel, the reform of the Act on Services for Disabled Persons and the care guarantee in primary health care. The investment costs of the wellbeing services counties are estimated to be c. EUR 1.1 billion per year at the start of the projection period.

The operating income of the wellbeing services counties will grow more slowly than expenditure, as the amount of central government grants and other revenue is expected to decrease, because of projects with a focus on 2023 and 2024. However, as central government grants decrease, the associated expenditure will also decrease. The central government's universal funding (including allowance for ex-post revision in 2025–2027) will be growing at an average annual rate of c. 5.5%.

It is estimated that c. EUR 5 billion in loans and liabilities were transferred to the wellbeing services counties at the beginning of 2023. The amount of debt will increase to c. EUR 12 billion by 2027.

As the projection is a pressure projection, it involves multiple risks. Expenditure may be driven up by prices rising more rapidly than anticipated or by wellbeing services counties engaging in a bidding war for personnel. On the other hand, expenditure may prove to be lower than projected if the wellbeing services counties are able to find savings and boost efficiency. Basically, the wellbeing services counties are expected to adapt their expenditure trends to the framework defined by central government funding. This is made apparent in the provisions on the finances of the wellbeing services counties with regard for instance to the period within which a deficit must be covered. Personnel shortage may also limit expenditure growth, at least in the short term.

Table 13. Estimate of revenue and expenditure of the wellbeing services counties 2023–2027, EUR billion

	2023	2024	2025	2026	2027
Operating expenses	27.8	29.3	30.8	32.1	33.2
change, %		5.4 %	5.2 %	4.0 %	3.5 %
Operating income	4.8	4.7	4.6	4.7	4.6
change, %		-2.2 %	-2.0 %	1.0 %	-1.0 %
Operating margin	-23.0	-24.6	-26.2	-27.4	-28.6
change, %		7.0 %	6.6 %	4.6 %	4.3 %
Central government funding	23.1	24.4	25.7	27.0	28.3
of which by ex-post revision			0.3	0.6	0.9
Financial income and expenses	-0.1	-0.1	-0.2	-0.2	-0.3
Annual margin	0.0	-0.3	-0.7	-0.6	-0.6
Depreciation	0.4	0.4	0.4	0.4	0.5
Extraordinary items	-	-	-	-	-
Result for the financial year	-0.3	-0.7	-1.1	-1.1	-1.0
Internal financing, adjustment items	-	-	-	-	-
Investment in fixed assets	1.1	1.1	1.0	0.9	0.9
Funding contributions and income from sales	-	-	-	-	-
Cash flow from operations and investments	-1.1	-1.4	-1.7	-1.5	-1.4
Loan portfolio	6.2	7.5	9.2	10.7	12.1

Estimation of sufficiency of wellbeing services counties funding

Under section 12 of the Act on the Wellbeing Services Counties (611/2021), the sufficiency of funding of the wellbeing services counties must be assessed in the General Government Fiscal Plan vis-à-vis the discharging of their duties, both jointly and severally (financing principle). However, at the present time in March 2023, when the wellbeing services counties have only just begun their operations, it is difficult to make a reliable estimate of future expenditure trends, specifically of how they will manage to curb expenditure growth with measures undertaken by themselves. Therefore there are no adequate grounds for analysing the wellbeing services counties separately in this General Government Fiscal Plan, and the estimation of sufficiency of funding is confined to a nationwide analysis. This estimate of the sufficiency of wellbeing services counties funding will be augmented in the General Government Fiscal Plan to be drawn up in autumn 2023 and later, once more data are available on operations and finances.

The costs of health, social and rescue services make up a significant percentage of expenditure in general government finances. Thus, how wellbeing services counties manage their finances and how efficiently they provide their services will have a major impact on the overall sustainability of general government finances. Continuous monitoring of operations and finances helps lay the groundwork for efficiency and effectiveness. Monitoring also allows anticipation of any funding shortfalls.

The above estimation of trends in the economy of the wellbeing services counties shows that without adaptation of the cost structure, expenditure will grow at a faster rate across the spending limits period than the central government funding provided to them. This imbalance between expenditure and funding is explained above all by the fact that, as a result of wage agreements concluded in the municipal sector and for the wellbeing services counties (including wage harmonisation), the income levels of wellbeing services counties employees will outperform the Index of Wage and Salary Earnings, which is the index used to determine index adjustments to the universal funding for the wellbeing services counties. Basically, the wellbeing services counties are expected to adapt their expenditure to central government funding. This translates into moderate wage rises consistent with the general pay increase in future agreement periods and measures to secure availability of personnel and thus to reduce wage pressures.

The pressure projection leads to the conclusion that all wellbeing services counties must invest in revitalisation of their operations to bring their costs into line with central government funding and to ensure that expenditure growth in the long term will be sustainable. This analysis may be considered consistent with the nature of the funding model. Personnel shortage is an incentive for revitalising operating procedures and structures and for striving for increased efficiency. The wellbeing services counties have incorporated cost-curbing measures in their financial plans, and many of them are preparing renewal and productivity programmes. On the other hand, there are considerable differences between them in terms of their initial situation and personnel availability, and this may have a bearing on their potential for adjustments. Measures to improve cost-effectiveness and productivity will be particularly important in wellbeing services counties whose transferred costs are greater than their imputed funding at the 2022 level or whose investments result in substantial depreciation. Adaptation to imputed funding is being eased in the funding model with a gradual transition equalisation.

Ultimately, the central government will secure sufficient funding for providing the services needed, through ex-post revision and potential additional discretionary funding. In the nationwide analysis, statutory ex-post revision is considered only in part, up to the amount of the spending limits provision (see section 6.1). If the collective actual expenditure of the wellbeing services counties exceeds the central government funding provided, then the imputed funding will be revised two years later to cover the actual expenditure in full, as per the Act on the Funding of Wellbeing Services Counties.

Under the Act, a wellbeing services county is entitled to additional funding from the central government if the funding would otherwise be so inadequate as to jeopardise the providing of the constitutionally required sufficient level of health, social and rescue services. Conditions may be attached to additional funding, requiring more efficient service production or adjustment of operations. Wellbeing services counties also have a statutory right to take out short-term loans as necessary.

The regulatory framework for the funding, financial management and investments of wellbeing services counties guides them towards more productive and effective ways of providing their services and ensures that their finances will remain on a sustainable path. Funding for the wellbeing services counties is imputed and universal and thus not cost-based. If any wellbeing services county manages to provide its services for less than it receives in funding, it is allowed to retain the surplus. It may accumulate a reserve fund or use the surplus to finance investments. Ex-post revision of funding will be carried out at the national level and will thus only marginally cut into the benefits accumulated by wellbeing services counties who have improved their efficiency.

Under the Act on Wellbeing Services Counties, a wellbeing services county must draw up its financial plan so that it will be balanced or show a surplus no later than at the end of the second year after the budget year. Any deficit in the balance sheet of a wellbeing services county must be covered within no more than two years from the beginning of the year following the year in which that financial statement was confirmed. For instance, any deficit accumulated in or after 2023 must be covered no later than in the final accounts for 2026. Long-term loans may be taken out to finance investments only within the confines of the borrowing capacity. A statutory evaluation procedure may be launched on the basis of financial criteria (including not covering a deficit within the specified time) or if the capacity of a wellbeing services county to provide health and social services is obviously impaired on a non-temporary basis.

Wellbeing services counties have less autonomy than municipalities. However, the central government cannot directly intervene for instance in how a wellbeing services county organises its services or in how its service network is set up, except in the exceptional cases specifically provided for by law (additional funding, evaluation procedure, change in borrowing capacity). Thus, wellbeing services counties themselves are responsible for anticipatory balancing of their finances so that the imputed funding allocated by the central government will be sufficient to cover their costs.

7 Municipal finances

The part of the General Government Fiscal Plan relating to municipal finances includes policy outlines relating to municipal finances and municipal duties. It also includes an examination of the impact of central government measures on municipal finances and the medium-term development prospects for municipal finances in municipal accounting terms. The examination of municipal finances presented here is supplemented by a Municipal Finances Programme prepared separately as part of the General Government Fiscal Plan.

7.1 Municipal finance policies

Under the Act on Central Government Transfers to Municipalities for Basic Public Services, a central government transfer covering 100% of the costs will be allocated to new or extended duties and obligations. In order to receive full coverage, the impacts of any such new or extended duties and obligations on the municipal economy must be realistically assessed. Because large numbers of municipal finances employees are retiring and the availability of labour varies greatly by sector, attention must be paid to the personnel impacts of any changes in duties and obligations.

In a major change, the municipal finances economy is no longer burdened with growth pressures in age-related expenditure, as the responsibility for providing health and social services has been transferred to the wellbeing services counties. On the other hand, adjustment measures may be harder to devise now that the duties of municipalities have been substantially reduced. Municipalities are also widely diverse in terms of their finances and other factors. Municipalities have wide-ranging autonomy, so their own productivity-enhancing reforms and measures to strengthen economic vitality are also highly significant. Therefore, the central government cannot through its own measures alone ensure the achievement of the municipal administration budgetary position target.

7.2 Central government measures impacting municipal finances

Central government transfers and grants to municipal finances will be c. EUR 5.4 billion in 2024 (Table 14). Imputed central government transfers will be EUR 3.9 billion, compensation for municipalities' tax losses EUR 0.9 billion and other central government grants EUR 0.6 billion. At the end of the spending limits period in 2027, central government transfers and grants will total c. EUR 6.2 billion, of which imputed central government transfers will constitute EUR 4.9 billion. Central government transfers to municipalities in the spending limits period will grow particularly in 2025 because the responsibility for employment services will be transferred to municipalities and the municipal contribution to financing unemployment security will increase. On the other hand, central government transfers will be reduced by the expiry of fixed-term additions specified in the Government Programme and by revision of the revenue and expenditure transferred from municipalities to the wellbeing services counties in the health, social and rescue services reform.

The central government transfer to municipalities for basic public services will be EUR 2.7 billion in 2024. This is c. EUR 75 million less than in the 2023 budget, because of adjustments made to the health, social and rescue services reform. The central government transfer will increase again at the end of the spending limits period in 2027, to EUR 3.7 billion. This is because of the employment services reform that will enter into force in 2025. As part of this reform, a total of EUR 930 million in appropriations for the providing of employment services and for unemployment security will be transferred from the administrative branches of the Ministry of Economic Affairs and Employment and of the Ministry of Social Affairs and Health to the central government transfer to municipalities for basic public service. The transfers associated with this reform will be further specified as preparations for the reform proceed and will be finally confirmed in the preparation of the central government budget for 2025. A preliminary spending limits provision of EUR 34 million will also be made as a preparation for the costs of change incurred by municipalities. The need for these appropriations will be further specified in budget preparations.

The development of basic public services will continue in 2024 as decided previously. An additional weekly lesson per year will be added for B1 language teaching in grades 7 to 9. This change will enter into force on 1 August 2024. Because of this change, the central government transfer will be increased by c. EUR 4 million in 2024 and by c. EUR 10 million as of 2025. An amendment of the Act on Basic Education concerning engaged school community work is also considered in the central government transfer with an addition of EUR 8 million as of 2024. Funding required for implementing the Drinking Water Directive and the equality and non-discrimination plans in early childhood education and care is also included in the central government transfer.

The index increase in 2024 (3.0%) will increase the central government transfer by EUR 72 million. The revision of the division of costs between the central government and municipalities will not be taken into account in 2024 because, according to a transitional provision made in the Act on Central Government Transfers to Municipalities for Basic Public Services in connection with the health and social services reform, the next revision of the division of costs will not be done until the 2025 central government budget.

The central government transfer to municipalities for basic public services is reduced by the revision of the revenue and expenditure transferred from municipalities to wellbeing services counties in the health and social services reform based on financial statement data from municipalities for 2022. The difference between revenue and expenditure thus transferred will be taken into account in the central government transfer to municipalities for basic public services as of 2024. If, in nationwide analysis, the revenue transferred from municipalities is less than the expenditure transferred, then a corresponding reduction will be made to the central government transfer to municipalities for basic public services. If, on the other hand, more revenue than expenditure was transferred, then a corresponding increase will be made to the central government transfer.

According to the financial statements of municipalities, the net costs of health, social and rescue services transferred from municipalities to wellbeing services counties were EUR 567 million higher than estimated in preparing the 2023 central government budget. A new estimate shows that the expenditure transferred from municipalities to wellbeing service counties amounts to c. EUR 21.8 billion at the 2022 level. The tax projection of the Ministry of Finance shows that the municipal tax revenue and corporate tax revenue transferred from municipalities to central government exceeded the estimates in the 2023 central government budget by EUR 373 million and EUR 96 million, respectively. The total revenue transferred from municipalities to wellbeing services counties is to be c. EUR 21.7 billion.

Because of the above revised difference between revenue and expenditure transferred, a permanent reduction of EUR 97 million has been made to the central government transfer to municipalities for basic public services as of 2024. The difference recorded in 2023 will be considered by making a fixed-term annual reduction of EUR 48.5 million for 2024 and 2025.

The figures on the revenue and expenditure transferred from municipalities to wellbeing services counties presented in this General Government Fiscal Plan are based on estimates and the tax projection and are therefore preliminary figures. These will be revised when preparing the 2024 budget to correspond with the municipalities' financial statements for 2022 and data according to the completed tax assessment for the tax year 2022.

Compensation for municipalities' tax revenue losses will be EUR 864 million in 2024 and EUR 955 million in 2027. The amount of compensation will be EUR 30 million more in 2024 than specified in the previous General Government Fiscal Plan. This is due to new tax criteria changes adopted in the preparation of the 2023 central government budget and related compensations. The tax revenue estimate for the spending limits period includes a technical assumption, an index adjustment to the income tax criteria, which will reduce municipal tax revenue by an estimated EUR 35 million per year. According to established practice, a technical assumption has also been made concerning compensation for changes in tax criteria that have an impact on municipalities' tax revenue.

The estimate of central government transfers granted to municipalities from administrative branch of the Ministry of Education and Culture and of funding for vocational education and training is c. EUR 1.2 billion per year in 2024–2027. The index increase in 2024 (3.0%) will increase the central government transfer to municipalities and joint municipal authorities by an estimated EUR 23.7 million. Out of the index adjustment in funding for vocational education and training in 2024 (3.4%), an estimated EUR 22.8 million will be allocated to municipalities and joint municipal authorities. A revision of the division of costs between centralgovernment and municipalities will also not be carried out in the administrative branch of the Ministry of Education and Culture in 2024.

In accordance with earlier decisions, EUR 129 million per year from 2024 will be earmarked for the extension of compulsory education and the implementation of free upper secondary education. EUR 48 million will be allocated for preparatory education for Ukrainian refugees in 2024. In addition, EUR 2.5 million per year will be allocated to Finnish and Swedish language education and EUR 4 million in 2024 and EUR 3 million in 2025 for integration training.

Persons under temporary protection who have a registered domicile became eligible for benefits as per the Integration Act as of 1 March 2023. Because of this, additional funding is estimated for integration measures in the spending limits period: EUR 120 million in 2024, EUR 167 million in 2025, EUR 145 million in 2026 and EUR 59 million in 2027. There is significant uncertainty concerning this estimate, because the underlying assumptions include not only the number of people applying for temporary protection but also the number of those people who will apply for a registered domicile when that becomes possible, principally after one year of residence in Finland.

The new Construction Act and Act on the Built Environment Information System require changes in information management on the part of municipalities and regional councils; these will be compensated for with a transition grant. EUR 4 million per year will be allocated to this between 2024 and 2026.

Table 14. Central government transfers and grants to the operational finances of municipalities and joint municipal authorities, EUR million, spending limits period at 2024 prices1

	2022	2023 budget	2024	2025	2026	2027
Imputed central government transfers	**9,150**	**4,001**	**3,895**	**4,778**	**4,837**	**4,850**
Ministry of Finance	7,987	2,752	2,677	3,621	3,682	3,694
Ministry of Education and Culture	1,163	1,249	1,218	1,157	1,156	1,156
- of which joint municipal authorities	1,070	1,095	1,108	1,096	1,096	1,096
Central government compensation to municipalities for tax revenue losses arising from tax criteria changes	**2,750**	**851**	**864**	**902**	**921**	**955**
Discretionary government grants:	**2,116**	**576**	**601**	**519**	**496**	**417**
Ministry of Justice	11	11	32	0	0	12
Ministry of Finance	30	11	11	11	11	11
Ministry of Education and Culture	391	254	185	182	182	182
Ministry of Agriculture and Forestry	0	4	4	4	4	4
Ministry of Transport and Communication	85	44	44	44	44	44
Ministry of Economic Affairs and Employment	208	135	236	239	219	134
Ministry of Social Affairs and Health	1354	69	71	22	21	20
Ministry of the Environment	37	47	17	17	13	9
Total central government grants	**14,016**	**5,427**	**5,360**	**6,199**	**6,254**	**6,222**

1) The municipalities' share of central government transfers and grants under the Ministry of Education and Culture is imputed.

The combined effect of central government measures on municipal finances will be close to neutral during the spending limits period. Only certain discretionary measures decided by Prime Minister Marin's Government for municipalities will be covered by full central government financing in the spending limits period.

7.3 Estimate of municipal finances: expenditure, revenue and balance

Municipal finances expenditure in the spending limits period

According to the pressure projection, municipal finances operating expenditure will increase in 2024–2027, mainly because of rising prices, except for 2025, when municipalities will be transferred responsibility for providing employment services. At this time, municipalities' liability for financing unemployment benefits will be expanded. The price index for basic public services, which describes the development of municipal finances costs, will increase on average by 3.3% per year. Agreement-based pay rises in municipal finances will increase labour costs by 2.99% in 2024. The cost impact of agreement-based pay rises will be mitigated by the fact that the non-recurring payments made to employees in 2023 will not be paid in 2024. From 2025 to 2027, incomes in municipal sector is expected to improve at a somewhat higher rate than on the labour market in general because of the local government pay programme. Consumer price trends are expected to stabilise at 2% on average across the spending limits period.

At the present time, the principal duties of the municipalities have to do with providing the education services and early childhood education and care services required by children and adolescents. The combined service need for education (including early childhood education and care) decreases across the spending limits period in the pressure projection because of the declining birth rate and smaller age cohorts. The decline in service needs has been somewhat moderated in the trend projection, as is customary, because many small municipalities have only limited potential for adjustments in their school network. The number of children attending early childhood educaiton and care is also affected by employment trends and by the participation rate in early childhood education and care, which has been trending upward in recent years.

Employment and economic development services will be transferred to municipalities in 2025. This will expand the scope of municipal finances duties and will increase municipal finances expenditure by c. EUR 840 million. With this reform, c. 4,000 person-years will be added to local administration personnel, and as a result there will be an increase in personnel costs in 2025. Procurements will also increase following this reform. The liability of municipalities for financing unemployment benefits will be expanded, and this will show as an uptick in benefit expenditure in 2025.

Investments are expected to return to their normal growth path during the spending limits period. Municipalities will continue to have significant investment needs because of the ageing building stock, migration, the green transition, etc.

Municipal finances revenue in the spending limits period

In the pressure projection, operating income will grow on average by just under 1% per year in 2024–2027. Tax revenues will decrease by 3.0% in 2024, due to the fact that the impact of the health and social services reform will be reflected in the municipalities' tax revenues with a delay, as the tax year's taxes accrue over a number of calendar years. Thereafter, the tax revenue trend will stabilise at an average annual growth rate of 3.6% in 2025–2027.

In the years analysed, growth of central government transfers to municipalities will remain very moderate except in 2025, at which time the responsibilities for employment and economic development services and for financing unemployment benefits transferred to municipalities will be accounted for in the central government grants. The actual figures for revenue and expenditure transferred from municipalities to wellbeing services counties will be calculated on the basis of final financial statement and tax assessment data for 2022. This revision will be considered as of 2024, and preliminary estimates show that there will be a need for an annual increase of EUR 97 million to the transfers. The transfer calculation will be further specified in the preparation of the central government budget.

Municipal finances balance in the spending limits period

Cash flow from operations and investments in municipal finances will remain negative in 2024–2027, and the imbalance between revenue and expenditure will grow slightly year on year. In the pressure projection, the annual margin will be sufficient to cover depreciation in all of the years under review. The annual margin would seem to be just about equal to net investments. The imbalance between revenue and expenditure highlights the importance of proactive service needs planning and means testing for investments. Because there are significant differences in demographic trends between municipalities, the challenges faced by and potential solutions available to the various municipalities are very different.

In 2023, an estimated EUR 5.1 billion was removed from municipalities loans through the health and social services reform. The rate of growth of the municipal finances loan portfolio will slow significantly compared with the average growth rate of the last decade. The municipal finances loan portfolio will grow to EUR 20.4 billion at the end of the period under review. Rising interest rates will eventually translate into additional costs and further challenges for municipal finances.

Table 16. Development of municipal finances up to 2027 according to municipal accounts, EUR billion, at current prices

	2022	2023	2024	2025	2026	2027
Result itemisation						
1. Operating margin	-33.8	-13.2	-13.5	-14.8	-15.4	-15.9
2. Tax revenue	26.9	14.4	14.0	14.4	15.0	15.6
3. Central government transfers, operational finances	10.8	3.7	3.6	4.6	4.8	4.9
4. Financial income and expenses, net	0.3	0.1	0.0	0.0	0.1	0.1
5. Annual margin	4.2	5.1	4.2	4.3	4.5	4.6
6. Depreciation	-3.2	-2.9	-3.0	-3.1	-3.2	-3.3
7. Extraordinary items, net	0.2	0.2	0.2	0.2	0.2	0.2
8. Result for the financial year	1.2	2.3	1.3	1.3	1.4	1.4
Funding						
9. Annual margin	4.2	5.1	4.2	4.3	4.5	4.6
10. Extraordinary items	0.2	0.2	0.2	0.2	0.2	0.2
11. Internal financing, adjustment items	-1.0	-0.7	-0.7	-0.7	-0.7	-0.7
12. Internal financing, net	3.4	4.6	3.6	3.7	3.9	4.0
13. Investment in fixed assets	-5.9	-4.9	-5.0	-5.2	-5.4	-5.6
14. Funding contributions and income from sales	2.1	1.0	1.0	1.0	1.0	1.0
15. Investments, net	-3.8	-3.9	-4.0	-4.2	-4.4	-4.6
16. Financial balance (internal financing investment)	-0.5	0.6	-0.4	-0.5	-0.5	-0.6
17. Loan portfolio	24.6	18.8	19.1	19.5	19.9	20.4
18. Cash	8.8	8.5	8.5	8.4	8.4	8.4
19. Net debt (loan portfolio - cash)	15.8	10.3	10.6	11.1	11.5	12.0

8 Earnings-related pension funds and other social security funds

Earnings-related pension system

Finland's earnings-related pension system is governed by a number of separate pension acts, albeit under them pensions are generally determined by the same criteria. The funding of pension expenditure varies by pension act, as a result of which the financing criteria of the earnings-related pension sector cannot be described with a single rule. The financing criteria may, however, be examined by looking at the most significant pension acts separately. Finland's earnings-related pension system is partly fund-based, as some of the financing of pensions comes from prefunded pension assets and their capital gains. However, for the most part pensions are financed by annual pension contributions from employees and employers. In addition, the pensions of central government employees and entrepreneurs, agricultural entrepreneurs and seafarers are partly funded out of the central government budget. Employees' pension contributions are the same under all pension acts. Pensions accrue under all pension acts in more or less the same way from earnings over a person's entire working career. Starting old-age pensions are reduced by a life expectancy coefficient that takes the increase in life expectancy into account. Pensions paid out are increased annually according to the Earnings-related Pension Index, in which inflation has an 80% weight and change of earnings level a 20% weight.

The private sector Employees' Pensions Act (TyEL) covers nearly two thirds of the labour force. Part of the earnings-related pension contributions under TyEL are prefunded individually, while the rest goes to financing current pensions in a pay-as-you-go system. Pension contributions must be at a level that guarantees the payment of existing pensions and the funding required by law. The funding rate in the TyEL system, i.e. the ratio of pension assets to pension liability, was c. 35.4% at the end of 2021 (based on a 2.5% real discount rate up to 2031 and 3.5% from 2032). The labour market organisations have agreed on what is known as the EMU buffer in the TyEL system. An amount corresponding to 2.5% of the annual private sector wage bill has been agreed as the target for the EMU buffer. The purpose of the buffer is, under certain conditions, to enable a temporary reduction in earnings-related pension contributions during weak economic conditions. When applying the buffer, a subsequent increase in earnings-related pension contributions must be correspondingly agreed, allowing the buffer to be restored to its former level. The reduction allowed by the buffer was applied in 2020 to reduce employer contributions. These were correspondingly increased for 2022–2025, so that the buffer will be restored to its former level.

The pension expenditure of entrepreneurs (c. 9% of those insured), agricultural entrepreneurs and seafarers is financed with contributions and, to the extent to which the expenditure exceeds this, out of the central government budget.

Over 20% of those insured are covered under the local government pension system. In the local government pension system, the aim is to set pension contributions at a level ensuring that the pension system is on a sustainable foundation and that the level of pension contributions will remain stable in the future.

Employees insured under the state employee's pension system (c. 6% of those insured) and central government employers pay their pension contributions into the State Pension Fund. Assets are transferred annually from the State Pension Fund to the central government budget to cover state employees' pension expenditure. The transferred amount is currently 40% of the expenditure arising from central government pensions, and the remainder of the pension expenditure is covered directly out of the central government budget. From 2024, revenue remitted will increase by one percentage point per year until it is 45% from 2028.

Due to the prefunding of pensions, the earnings-related pension sector has been significantly in surplus historically. Demographic change is increasing pension expenditure, which has been reflected in a reduction in the surplus. Due to prefunding, however, the property income of the pension funds is substantial, so they will nominally not have to sell off assets even if pension expenditure exceeds contributions. Overall, the surplus of the earnings-related pension funds has declined from an average of just over 3% of GDP in the first decade of the 2000s to 0.9% of GDP in 2022. In the national accounts, private sector earnings-related pension funds are also included in general government finances and their assets in general government finance assets.

In 2022, the surplus of the earnings-related pensions sector was c. 0.9% of GDP. Contributions revenue increased substantially. Property income was at the previous year's level. In 2022–2025, the employer's earnings-related pension contributions will be higher in order to compensate for the reduction in 2020. The financial position of the earnings-related pensions sector will improve as property income increases, even though benefit expenditure is growing rapidly, fuelled by index increases.

Other social security funds

Other social security funds include other public sector entities with social security duties, such as the Social Insurance Institution of Finland (Kela) and units managing the earnings-related unemployment insurance system. Kela's activities are financed statutorily by the health insurance contributions of the insured and employers as well as by public sector contributions. The central government's share of Kela's funding in 2021 was c. 72%, while insurance contributions accounted for c. 22% and local authorities for c. 5%. In 2022, Kela expenditure totalled c. EUR 16.9 billion. Kela benefit funds are the National Pension Insurance Fund, the National Health Insurance Fund and the General Fund for Social Security.

The earnings-related unemployment insurance system is managed by the Employment Fund and unemployment funds. Earnings-related unemployment expenditure is financed with unemployment insurance contributions collected from employees and employers (c. 55%), central government contributions (c. 40%) and the membership fees of unemployment funds (c. 5%). In 2022, unemployment funds paid out a total of EUR 2.5 billion in benefits. The Employment Fund has a cyclical buffer whose net debt or net assets must be no higher than an amount corresponding to annual expenditure arising from an unemployment rate of 6%.

The financial position of other social security funds improved in 2022 to a slight surplus. The sector will be slightly in surplus in the following years, but the financial balance may vary slightly on an annual basis, with the buffer funds providing flexibility. In the 2000s, the other social security funds have deviated from breaking even by at most 0.4% of GDP annually.

9 Summary of measures at the level of general government finances

Chapters 5–8 above address each subsector of general government finances separately. Chapter 9 aims to provide a concise review of the Government's discretionary measures and their impact on general government finances as a whole. The analysis in chapter 9 excludes what are known as financial transactions

9.1 Extent and timing of measures

The following table summarises the cumulative impact on general government finances in 2019–2027 of the decisions affecting revenue and expenditure of Prime Minister Marin's Government. Measures weakening the general government balance are presented with a minus sign and strengthening measures with a plus sign. The impacts have been presented in relation to the final General Government Fiscal Plan of the previous parliamentary term, i.e. the so-called technical General Government Fiscal Plan adopted on 4 April 2019. In addition to the discretionary measures taken into account in the table, the Government has aimed to increase the employment rate and the number of people in employment through reforms that strengthen employment. In addition, measures improving general government productivity and cost-effectiveness have been implemented.

Measures related to the coronavirus situation

During the coronavirus pandemic, general government expenditure grew particularly because of business subsidies; extensions to unemployment security and social benefits; and investments in health and social services resources and procurement of supplies. The central government compensated component sectors of the public economy for these measures and other coronavirus-related losses – particularly municipalities and hospital districts that incurred extra costs and revenue losses in health and social services. Also, the TyEL contributions payable by businesses were temporarily reduced in 2020; this is being recouped between 2022 and 2025. This is included under social security contributions in the table below.

The central government provided support for local government because of the coronavirus pandemic between 2020 and 2022 in the form of central government transfers, an increase to the corporate tax revenue apportionment and grants. Support for local government compared to its financial losses has not been evaluated for all years, but in the Local Government Finance Programme 2022–2025 it was estimated that central government payouts exceeded the costs and revenue losses incurred by local government because of the coronavirus pandemic by c. EUR 1.1 billion in 2020. In all, it is a safe estimate that coronavirus support significantly reinforced local government finances, beyond merely compensating for financial losses in 2020–2022.

A total of c. EUR 16.6 billion in discretionary investments for the years 2020 to 2027 has been allocated in respect of the coronavirus pandemic in the central government budget. This includes measures constituting stimulus spending. Of budget appropriations, financial investments are not, as a rule, include in the figures of the table below, because they mainly do not affect the central government budgetary position according to the national accounts.

Government’s permanent additional expenditure

Permanent additional expenditure in accordance with the Government Programme will be c. EUR 1.4 billion at the 2023 and 2024 level compared with the technical General Government Fiscal Plan of spring 2019. After 2024, this will be rounded off at EUR 1.5 billion. Permanent new expenditure will be allocated to strengthening competence and social justice and to climate policy measures.

A small part of the additional expenditure consistent with the Government Programme has been financed such that central government on-budget expenditure and revenue have been reallocated e.g. by lowering the level of certain deferrable appropriations. Savings on deferrable appropriations were achieved at the beginning of the parliamentary term, decreasing appropriations by EUR 50 million per year in 2020–2022 and by EUR 48.5 million per year as of 2023.

Permanent additional expenditure other than the above-mentioned increases in accordance with the Government Programme amount to c. EUR 0.7 billion per year at the 2023 level. This includes additional funding for attaining minimum staffing level of long-term care personnel, expenditure for employment measures, reinforcing the funding base for vocational education and training and the R&D expenditure package adopted at the parliamentary level. At the 2027 level, permanent additional expenditure other than increases in accordance with the Government Programme total c. EUR 2.1 billion, mainly because the R&D package will grow in significance over the years. Some of the additional expenditure under the Security Policy Escape Clause, prompted by Russia's war of aggression against Ukraine, must be regarded as permanent. However, this is not included in the aforementioned totals; it is discussed in a separate subsection below.

A total of EUR 370 million of permanent savings as of 2023 was decided on in the General Government Fiscal Plan of spring 2021. Subsequently, it was decided to implement this decision partly by lowering the expenditure ceiling; ultimately, EUR 313 million in the 2023 budget was cut from expenditure items.

Fixed-term future-oriented investments in 2020–2022

The Government allocated a total of c. EUR 2.0 billion to non-recurring future-oriented investments in 2020–2022. Of the package, c. EUR 0.7 billion has been allocated to the Ministry of Education and Culture for education and training measures, etc. The second largest appropriation, EUR 0.4 billion, has been allocated to the Ministry of Economic Affairs and Employment for support for renewal and low carbon, etc. In addition, investments totalling over EUR 200 million have been allocated from the National Housing Fund in 2020–2022. In accordance with the Government Programme, the intention is to finance future-oriented investments mainly through property income (additional dividends, sales). However, it proved necessary to postpone this additional revenue in part because of the weak market situation caused by the coronavirus pandemic, etc., and it has been budgeted for 2023 instead.

Changes decided on due to the war of aggression launched by Russia

Russia's war of aggression against Ukraine has had impacts on Finland's general government finances in many ways, including the preparedness and measures to ensure security of supply caused by the change in the security environment. The escape clause adopted in spring 2022 because of the change in the security environment covers vital additional expenditure immediately resulting from this situation in national defence, border security, cybersecurity and security of supply, plus help for Ukrainians both in Finland and in the form of aid sent to Ukraine. A combined EUR 11.0 billion in expenditure arising from the Security Policy Escape Clause has been budgeted for 2022 and 2023 and allocated to the spending limits period 2024–2027. It is estimated that just over EUR 0.2 billion of this will become permanent expenditure, while the rest is in fixed-term appropriations. (See section 5.3 for more detail)

Wellbeing services counties

The responsibilities for organising health, social and rescue services were transferred to the wellbeing services counties at the beginning of 2023. The Government's expenditure and revenue decisions related to the tasks of the wellbeing services counties (including new and expanded duties, other statutory measures, central government transfers and grants to be transferred to the wellbeing services counties and a fixed-term increase of 0.2% made for the estimate for the need for services pursuant to section 36 of the Act of the Funding of the Wellbeing Services Counties) are included in the section on the finances of the wellbeing services counties in the table below. New and expanded duties, for instance, will increase the expenditure of wellbeing services counties by c. EUR 630 million per year from 2026 according to Government proposals, once all the discretionary changes decided in the current parliamentary term have entered into force. EUR 350 million was allocated in the first supplementary budget of 2023 to change and preparation costs of the wellbeing services counties. Also, EUR 100 million will be allocated in 2024 to ICT modification costs, for paying on-budget costs of the authorisation granted and used in 2022.

The activities and finances of the wellbeing services counties are discussed as a whole in chapter 6. Finances of the wellbeing services counties.

Tax criteria changes

Securing Finland's tax base in an internationalising and digitalising economy is a goal entered in the Government Programme of Prime Minister Marin's Government. Another goal is to promote employment and encourage entrepreneurship.

During the parliamentary term, taxation will be increased by measures mainly directed at indirect taxes on, for example, tobacco, alcoholic beverages, soft drinks and transport, machinery and heating fuels. As part of phased elimination of the tax rebate system for energy-intensive companies, electricity tax has been reduced to the EU minimum for category II.

Annual index adjustments have been made to earned income tax criteria so that taxation does not increase as the general level of earnings rises. With the establishment of the wellbeing services counties, local government tax revenue was transferred to central government in 2023 as municipal tasks were reduced. In connection with the transfer of tax revenue, taxation of earned income was reduced by EUR 300 million per year so that the reform does not lead to higher taxes for any income group.

Taxation will be used to promote R&D activities and investment. R&D is being supported by the additional research cooperation deduction in force from 2021 to 2027. Investment will be encouraged through the temporary accelerated depreciation of movable fixed assets. The mining mineral tax will be introduced in 2024. A temporary windfall tax on electricity and the fossil fuel industry is in place during 2023. Consumers will be compensated for rising energy prices in 2023 with a reduction in VAT on electricity, a fixed-term electricity deduction and a fixed-term increase to the travel expenses deduction. A graduated increased earned income tax credit for the elderly was introduced in 2023.

In accordance with the Government Programme, the municipalities will be compensated for the tax revenue impact of changes made to tax criteria. Taxation changes are discussed in more detail in terms of central government finances in section 5.4, in terms of municipal finances in section 7.2 and in terms of general government finances in section 9.3.

Municipal finances

Central government funding has been allocated to fully cover the costs of new duties and obligations imposed on municipalities during the parliamentary term. Changes in the duties of health and social services are retained under local government in the analysis up until 2022, at which time they will be transferred to the wellbeing services counties. Tax revenue losses arising from tax criteria changes have been compensated to municipalities by the central government on a net basis. Also, as noted above, during the coronavirus pandemic the central government actually overpaid local government for costs incurred, which can be seen in the summary in Table 17. Municipalities are estimated to incur costs for persons under temporary protection in the spending limits period, particularly relating to integration. The central government will compensate municipalities for these costs.

The most significant single event affecting municipal finances in the spending limits period 2024–2027 will be the transfer to municipalities of the responsibility for providing employment and economic development services in 2025. At the same time, the liability of municipalities for funding unemployment security will be increased. These measures will increase municipal revenue and expenditure by c. EUR 0.9 billion in 2025.

Municipal finances are discussed as a whole in chapter 7. Municipal finances.

Social security contributions

Some changes have been made to social security contributions. In 2020, the employer employment pension contribution was reduced, and to balance this the same contribution was increased for the period 2022–2025. In 2026, the contributions will decrease to 24.4% on average.

Unemployment insurance contributions were reduced by 0.5 percentage points to 2.5% in 2020 but increased by 0.3 and 0.2 percentage points in the following years, to 3% currently. This is expected to remain the same until 2027.

The local government unemployment insurance contribution decreased by 0.5 percentage points in 2023 and will remain the same thereafter. The employer contribution will increase in 2026, however, and the employee contribution will decrease correspondingly.

The KELA employer's earned income insurance contribution will increase to 1.53% in 2023, decrease to 1.30% in 2024 and then increase again to 1.4%.

Improving public sector productivity and cost-effectiveness

In the preparation of the Government Programme in 2019, it was estimated that the general government balance could be improved through public sector productivity measures by just under EUR 300 million by the end of the parliamentary term. It was not possible to assign a monetary value to the balance-promoting impact of productivity measures, so these are not included in the table.

In addition, the Government continued productivity-promotion measures launched in the previous parliamentary term, such as developing digitalisation and productivity in central government operations and the central government premises efficiency improvement programme. These are explained in more detail in subsection 5.3.2.

Table 17. Total impact on general government finances of decisions on revenue and expenditure, cumulative, EUR billion

	2019	2020	2021	2022	2023	2024	2025	2026	2027
Decisions decreasing central government appropriations	0.0	0.1	0.1	0.2	0.6	0.5	0.5	0.5	0.5
Decisions increasing central government appropriations	-0.4	-1.3	-2.4	-2.9	-3.8	-3.4	-3.5	-3.5	-3.7
Future fund investments (including National Housing Fund)	0.0	-0.8	-0.9	-0.6	0.0	0.0	0.0	0.0	0.0
Appropriation increases due to the coronavirus pandemic	0.0	-8.4	-4.9	-0.9	-0.2	0.0	-0.1	0.0	0.0
Appropriations increases under the escape clause (Russia's invasion of Ukraine)				-1.8	-2.7	-2.1	-1.8	-1.4	-1.0
Compensation to municipalities for tax criteria changes	0.0	-0.1	-0.1	-0.2	-0.1	0.0	0.0	0.0	0.0
Decisions increasing central government tax revenue	0.0	0.5	1.0	1.2	1.8	1.7	1.5	1.8	1.6
Decisions decreasing central government tax revenue (excluding Index of Wage and Salary Earnings / Consumer Price Index adjustment of earned income taxation)	0.0	-0.8	-1.2	-0.8	-1.5	-1.1	-0.9	-0.9	-0.9
Other decisions increasing central government revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net impact on the budgetary position of central government finances	**-0.4**	**-10.8**	**-8.4**	**-5.8**	**-5.8**	**-4.5**	**-4.4**	**-3.5**	**-3.6**

	2019	2020	2021	2022	2023	2024	2025	2026	2027
Government measures increasing wellbeing services counties revenue					0.9	1.1	1.2	1.2	1.0
Government measures increasing wellbeing services counties expenditure					-0.9	-1.1	-1.2	-1.2	-1.0
Net impact on the budgetary position of the wellbeing services counties					**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Government measures increasing local government revenue	0.2	2.6	1.0	0.6	0.7	0.5	1.4	1.4	1.3
Government measures increasing local government expenditure	0.0	-0.9	-0.7	-0.6	-0.8	-0.5	-1.5	-1.4	-1.3
Future fund investments impact on local government finances (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net impact of central government measures on local government tax revenue (excluding Index of Wage and Salary Earnings / Consumer Price Index adjustment of earned income taxation)	0.0	-0.1	-0.1	-0.2	-0.1	0.0	0.0	0.0	0.0
Compensation to municipalities for tax criteria changes	0.0	0.1	0.1	0.2	0.1	0.0	0.0	0.0	0.0
Impact of other central government measures on local government finances[1]	0.0	0.5	0.6	0.0	0.1	0.1	0.1	0.1	0.1
Increases of municipalities’ tax percentages	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Impact on local government budgetary position, net	**0.2**	**2.2**	**1.0**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**

	2019	2020	2021	2022	2023	2024	2025	2026	2027
Changes to social security contributions (incl. temporary reduction of TyEL contributions)	-0.5	-1.0	1.2	-0.1	0.1	-0.2	0.0	0.0	0.0
Changes in expenditure	0.0	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Impact in social security funds' budgetary position, net	**-0.5**	**-0.3**	**1.2**	**-0.1**	**0.1**	**-0.3**	**0.0**	**0.0**	**0.0**
Impact on general government budgetary position, net	**-0.7**	**-8.9**	**-6.2**	**-5.7**	**-5.5**	**-4.6**	**-4.2**	**-3.4**	**-3.4**
as % of total production	-0.3%	-3.7%	-2.5%	-2.2%	-2.0%	-1.6%	-1.4%	-1.1%	-1.1%

1) Does not include impacts on local government finances of transport projects co-funded by central and local government.

9.2 Measures directed at general government expenditure

The table below presents the annual net change in general government expenditure in 2019–2027 from measures decided by Prime Minister Marin's Government. The review does not contain so-called financial investment expenditure, which in turn is not included in general government expenditure in reviews according to the national accounts.

General government expenditure grew significantly in 2020, mainly due to coronavirus-related measures, but also as a result of permanent additional expenditure and non-recurring future-oriented investments. Correspondingly, expenditure decreased in 2021 and 2022 from the exceptionally high level of 2020.

Expenditure on transfers to households increased in 2020 through benefit improvements decided by the Government and fixed-term benefit changes related to the coronavirus situation. Expenditure on transfers to business and industry increased, particularly in 2020, when aid was paid to businesses due to the coronavirus situation, but will decline from 2022, due to a change related to the energy tax rebate scheme. Other transfers will increase at the end of the spending limits period due to the R&D funding package. Real investment also takes into account increases allocated to basic transport infrastructure maintenance – both additional investments decided by the Government and the general increase proposed by the parliamentary working group that had already been taken into account in the 2019 technical General Government Fiscal Plan from 2022.

Table 18. Measures affecting general government expenditure, annual change, net, EUR billion

	2019	2020	2021	2022	2023	2024	2025	2026	2027
Consumption expenditure	0.1	2.4	1.1	-0.4	0.2	-0.4	-0.2	-0.2	-0.3
Transfers of expenditure to business and industry	0.0	2.8	-1.6	-0.3	-0.1	-0.4	0.0	-0.2	0.0
Transfers of expenditure to households	0.0	1.3	-0.6	0.0	-0.1	-0.2	0.0	0.0	0.0
Other transfers of expenditure	0.0	1.1	-0.2	-0.1	-0.2	0.1	0.2	0.2	0.2
Real investment[1]	0.1	0.5	0.0	-0.1	0.2	-0.1	0.0	-0.2	0.1
Other expenditure	0.0	0.2	0.5	-0.8	0.0	0.0	0.0	0.0	0.0
Total	**0.2**	**8.4**	**-0.8**	**-1.6**	**0.1**	**-1.1**	**-0.1**	**-0.5**	**-0.1**
Discretionary measures in the previous parliamentary term	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

1) Does not include impacts on local government finances of transport projects co-funded by central and local government.

9.3 Measures directed at general government revenue

The table below presents information on the timing of discretionary measures affecting general government revenue in 2021–2027, as annual net changes. Net change refers to the combined impact of measures that increase and decrease revenue. The table also takes into account changes in taxation criteria decided in the previous parliamentary term, index adjustments made to earned income taxation, and non-recurring factors affecting changes in the timing of taxation.

Earned income tax will be reduced by annual index adjustment and by the abolition of the solidarity tax from the beginning of 2024. Corporate tax receipts will be increased at the end of the spending limits period by the ending of fixed-term accelerated depreciation of movable fixed assets.

In addition to tax criteria changes, the table presents the estimated impact on tax revenue of payment arrangements related to the coronavirus situation. The situation of businesses in payment difficulties due to the coronavirus epidemic was eased by making temporary changes to tax payment arrangements and lowering the interest rate on late payment of taxes. As a result of this measure, an estimated nearly EUR 0.7 billion of tax revenue will be transferred from 2020 and 2021 to 2021–2023. Most of the deferral of tax payment concerns VAT.

Changes related to taxation decided by Prime Minister Marin's Government will be spread over the entire parliamentary term. Tightening of indirect taxation will increase tax revenue, but annual index adjustments made to earned income will, on the other hand, reduce tax revenue. The figures presented in the General Government Fiscal Plan reflect the measures on which decisions have been made and their estimated financial effects.

Table 19. Measures affecting general government revenue, annual change, net, EUR billion

	2019	2020	2021	2022	2023	2024	2025	2026	2027
Taxes on earned income	-0.4	-0.5	-0.4	-0.7	-1.4	-0.9	-0.6	-0.6	-0.6
Taxes on capital income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Corporate taxes	0.0	-0.2	0.0	0.1	-0.1	0.1	0.0	0.3	0.0
Other direct taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
VAT	0.0	0.0	0.0	0.0	-0.3	0.0	0.0	0.0	0.0
Other indirect taxes	0.0	0.3	0.0	-0.1	0.5	0.0	0.0	0.0	0.0
Social security contributions from employers	-0.4	-1.0	1.2	-0.1	0.1	-0.2	0.0	0.0	0.0
Social security contributions from the insured	0.1	0.1	0.1	-0.3	0.2	-0.3	0.2	-0.4	0.0
Payment arrangements related to tax payment deferral	0.0	-0.8	0.2	0.3	0.2	0.0	0.0	0.0	0.0
Total	**-0.7**	**-2.0**	**1.1**	**-0.8**	**-0.8**	**-1.3**	**-0.4**	**-0.6**	**-0.6**

10 Estimate of general government revenue and expenditure

Table 20. Central government according to the national accounts, EUR billion

	2022*	2023**	2024**	2025**	2026**	2027**
Direct taxes	19.1	33.6	35.0	36.0	37.4	38.7
Taxes on production and imports	36.2	36.6	37.2	37.9	38.7	39.8
Social security contributions	0.0	0.0	0.0	0.0	0.0	0.0
Taxes and social security contributions, total[1]	56.3	71.3	73.3	75.0	77.3	79.6
Revenue from sales and fees	4.3	4.4	4.5	4.5	4.6	4.6
Property income	2.0	1.7	1.8	1.9	1.9	1.9
Other revenue	3.7	4.1	4.1	4.1	4.0	4.0
Total revenue	66.3	81.5	83.7	85.6	87.8	90.2
Compensation of employees and intermediate consumption	16.7	18.3	18.4	18.7	19.2	19.7
Property expenditure	1.3	1.9	3.0	3.4	3.8	4.5
Subsidies	2.6	2.2	2.2	2.2	2.3	2.3
Social security benefits and allowances	4.9	5.4	5.6	5.5	5.6	5.7
Other income transfers	39.2	55.8	57.2	59.4	61.3	62.9
to other general government bodies	33.1	49.5	51.1	53.4	55.2	56.8
Gross fixed capital formation	4.4	5.7	5.8	7.5	7.3	7.1
Other expenditure	1.6	1.5	1.0	1.0	0.8	0.8
Total expenditure	**70.6**	**90.9**	**93.3**	**97.7**	**100.2**	**103.1**
Consumption expenditure	17.4	19.2	19.4	19.7	20.5	21.3
Net lending (+) / net borrowing (-)	-4.3	-9.4	-9.6	-12.1	-12.4	-12.9

1) Includes gift tax and inheritance tax

Table 21. Municipal administration according to the national accounts, EUR billion

	2022*	2023**	2024**	2025**	2026**	2027**
Taxes and social security contributions	26.6	13.0	14.0	14.5	15.0	15.6
of which municipal income tax	21.8	8.8	9.8	10.1	10.6	11.0
corporate tax	2.8	2.1	1.9	2.0	2.1	2.2
real estate tax	2.0	2.2	2.2	2.3	2.4	2.4
Revenue from sales and fees	11.6	9.1	9.3	9.3	9.4	9.5
Income transfers from central government	18.3	8.1	8.1	9.1	9.3	9.4
Other revenue	1.7	1.6	1.7	1.8	1.8	1.8
Total revenue	**58.2**	**31.9**	**33.1**	**34.6**	**35.5**	**36.4**
Compensation of employees and intermediate consumption	45.0	24.2	24.7	25.5	26.2	26.8
Social assistance and benefits in kind	5.9	0.8	0.8	1.1	1.1	1.2
Other income transfers	1.8	1.6	1.6	2.1	2.1	2.1
Property expenditure	0.2	0.3	0.5	0.5	0.4	0.4
Gross fixed capital formation	6.3	5.6	5.8	6.1	6.3	6.5
Other expenditure	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1
Total expenditure	**59.0**	**32.4**	**33.5**	**35.1**	**36.0**	**37.0**
Consumption expenditure	43.3	20.6	21.2	22.4	23.2	24.1
Net lending (+) / net borrowing (-)	-0.8	-0.5	-0.4	-0.5	-0.5	-0.6

Table 22. Wellbeing services counties

	2022*	2023**	2024**	2025**	2026**	2027**
Revenue from sales and fees		3.6	3.8	3.9	4.0	4.1
Central government funding		25.8	26.9	28.0	29.3	30.4
Other revenue		0.2	0.2	0.2	0.2	0.2
Total revenue		**29.6**	**30.8**	**32.1**	**33.5**	**34.7**
Compensation of employees and intermediate consumption		23.5	24.8	26.1	27.2	28.1
Social benefits and benefits in kind		5.6	5.8	6.1	6.4	6.6
Investments		1.4	1.3	1.3	1.1	1.1
Property expenditure		0.1	0.1	0.2	0.2	0.3
Other expenditure		0.1	0.1	0.1	0.1	0.1
Total expenditure		**30.6**	**32.1**	**33.7**	**35.0**	**36.1**
Consumption expenditure		25.0	26.5	28.0	29.2	30.3
Net lending (+) / net borrowing (-)		-1.0	-1.3	-1.6	-1.5	-1.4

Table 23. Earnings-related pension funds

	2022*	2023**	2024**	2025**	2026**	2027**
Property income	3.8	5.6	7.0	7.7	8.6	9.1
Social security contributions	25.6	26.6	27.7	28.6	29.2	30.2
of which paid by employers	17.3	17.9	18.7	19.3	20.0	20.7
of which paid by the insured	8.3	8.7	9.0	9.3	9.2	9.5
Income and capital transfers from general government	2.6	2.8	3.0	3.2	3.3	3.5
Other revenue	0.8	0.8	0.9	0.9	0.9	0.9
Total revenue	32.9	35.8	38.6	40.4	42.0	43.7
Compensation of employees and intermediate consumption	1.1	1.1	1.1	1.2	1.2	1.2
Social security benefits and allowances	26.9	29.3	31.0	32.3	33.3	34.5
Other expenditure	2.4	2.5	2.6	2.8	2.9	3.0
Total expenditure	30.4	32.9	34.8	36.2	37.4	38.8
Consumption expenditure	0.5	0.5	0.5	0.5	0.5	0.6
Net lending (+) / net borrowing (-)	2.5	3.0	3.8	4.2	4.6	4.9

Table 24. Other social security funds

	2022*	2023**	2024**	2025**	2026**	2027**
Property income	0.0	0.1	0.1	0.1	0.1	0.1
Social security contributions	6.4	7.1	6.8	7.4	7.6	7.8
of which paid by employers	2.7	3.0	2.9	3.1	3.3	3.3
of which paid by the insured	3.7	4.0	3.9	4.2	4.4	4.5
Income and capital transfers from general government	13.6	14.2	14.5	14.8	15.0	15.2
Other revenue	0.1	0.1	0.1	0.1	0.1	0.1
Total revenue	20.1	21.4	21.4	22.3	22.8	23.2
Compensation of employees and intermediate consumption	0.8	0.9	0.9	0.9	0.9	0.9
Social security benefits and allowances	17.8	18.5	19.1	19.5	19.8	20.1
Other expenditure	1.1	1.2	1.2	1.3	1.3	1.4
Total expenditure	19.7	20.5	21.2	21.7	22.0	22.4
Consumption expenditure	3.63	3.62	3.73	3.86	3.99	4.11
Net lending (+) / net borrowing (-)	0.4	0.9	0.3	0.6	0.8	0.7

General government fiscal forecast under unchanged policies

Table 25. Revenue and expenditure under unchanged policies

	2022*	2022*	2023**	2024**	2025**	2026**	2027**
	level, EUR billion	% of GDP					
Total revenue under unchanged policies	140.2	52.6	52.8	53.0	52.6	52.1	51.7
Total expenditure under unchanged policies	142.4	53.4	55.4	55.5	55.7	55.0	54.6

Minister of Finance
Annika Saarikko

Director General of the Budget Department
Mika Niemelä

APPENDIX 1	Forecasts and assumptions used in the calculation
APPENDIX 2	Price and cost level adjustments under the central government spending limits
APPENDIX 3	Changes in the forecasts for general government finances compared with the previous General Government Fiscal Plan
APPENDIX 4	Economic development risks and their impact on public finances
APPENDIX 5	Comparison with the Commission's latest forecast
APPENDIX 6	Stability Programme
DISTRIBUTION	Central Office of Parliament
	Office of the President of the Republic
	Ministries
FOR INFORMATION:	Finance Committee Secretariat
	Accounts Office of Parliament
	National Audit Office of Finland

APPENDIX 1 Forecasts and assumptions used in the calculation

The expenditure and revenue estimates of the General Government Fiscal Plan as well as the price and cost level adjustments are based on the independent forecast of the Ministry of Finance's Economics Department given below.

Table. Forecasts and assumptions used

	2021	2022	2023	2024	2025	2026	2027
GDP, change in volume, %	3.0	2.1	-0.2	1.3	1.6	1.6	1.5
GDP, change in price	2.2	4.2	4.2	2.2	2.2	2.2	2.2
GDP value, EUR million	250,594	266,679	277,122	286,911	298,148	309,604	321,170
GNI value, EUR million	254,526	266,331	278,147	287,936	299,173	310,629	322,195
Consumer Price Index, change %	2.2	7.1	5.5	2.5	1.6	2.0	2.0
Index of Wage and Salary Earnings, change %	2.4	2.5	4.6	3.8	3.1	3.0	3.0
Building Cost Index, change %	5.5	8.2	3.9	2.5	2.2	2.4	2.4
Basic Price Index for Domestic Supply, change %	10.1	20.3	2.6	2.9	2.3	2.5	2.5
Unemployment rate, %	7.7	6.8	7.0	6.8	6.6	6.4	6.3
Wage bill, change %	5.5	6.4	4.2	4.1	3.5	3.5	3.4
Short-term interest rate, 3 months, %	-0.5	0.3	3.5	3.6	2.6	2.0	2.0
Long-term interest rate, 10 years, %	-0.1	1.7	3.3	3.4	3.2	3.2	3.2
TyEL Index	2631	2691	2874	3013	3094	3155	3225
National Pension Index (KEL)	1639	1674	1805	1888	1937	1970	2009
Price index of basic public services, forecast	2.4	3.7	5.0	3.0	2.9	3.6	3.5

	2021	2022	2023	2024	2025	2026	2027
Change in cost level used in Budget Proposal (Index of Central Government Transfers to Local Government)	2.4	2.5	3.8	3.0	2.9	3.6	3.5
– index adjustment		0.0					
Index of Central Government Transfers to Local Government without freezing in 2016–2019	2.4	2.5	3.8	3.0	2.9	3.6	3.5
University Index (forecast used in budgeting)	3.5	6.1	4.5	3.4	2.7	2.7	2.7
Vocational education and training index	4.2	7.3	4.3	3.4	2.7	2.7	2.7
YLE Index	2.4	4.0	4.9	3.4	2.6	2.7	2.7
HVA Index				3.31	2.70	2.88	2.69
Unemployment insurance contributions							
– employer, on average	1.43	1.51	1.54	1.54	1.54	1.54	1.54
– employee	1.40	1.50	1.50	1.50	1.50	1.50	1.50
TyEL contribution	24.4	24.9	24.8	24.8	24.8	24.4	24.4
– employer	16.9	17.4	17.4	17.4	17.4	17.3	17.3
– employee aged 53 or under	7.15	7.15	7.15	7.15	7.15	7.15	7.15
– employee aged over 53	8.65	8.65	8.65	8.65	8.65	7.15	7.15
– wage coefficient	1,465	1,501	1,558	1,645	1,694	1,740	1,789
Health insurance contributions of the insured							
– employees' daily allowance contribution	1.36	1.18	1.36	1.15	1.27	1.27	1.25
– employees' and entrepreneurs' medical care contribution	0.68	0.53	0.60	0.58	0.59	0.59	0.58
– pensioners' medical care contribution	1.65	1.50	1.57	1.55	1.56	1.56	1.55

	2021	2022	2023	2024	2025	2026	2027
Central government employer contributions	18.2	18.5	18.6	18.4	18.5	18.7	18.7
– health insurance contribution	1.53	1.34	1.53	1.30	1.42	1.43	1.40
– pension contribution (under Central Government Employees' Pensions Act)	16.68	17.12	17.11	17.11	17.11	17.25	17.25
Local government employer contributions	24.7	24.3	24.0	23.8	23.9	24.3	24.3
– health insurance contribution	1.53	1.34	1.53	1.30	1.42	1.43	1.40
– other social insurance contributions	0.7	0.7	0.7	0.7	0.7	0.7	0.7
– unemployment insurance contribution	1.83	1.97	1.91	1.91	1.91	1.91	1.91
– pension contribution (under Local Government Employees' Pensions Act)	20.6	20.3	19.8	19.8	19.8	20.3	20.3

APPENDIX 2 Price and cost level adjustments under the central government spending limits

Price and cost level adjustments

The central government spending limits for 2024–2027 are expressed in cost and price levels for 2024. Some of the expenditure, such as development aid expenditure and national financing contributions corresponding to EU Structural Fund contributions, is estimated at current prices, in which case it includes an estimate of the impact on the appropriation of the rise in prices in the spending limits period. In other respects, the expenditure level will be revised annually according to the estimated rise in costs and prices.

Price and cost level adjustments compared with the previous spending limits decision total EUR 2,066 million for 2024, taking into account the impact of converting to the 2024 price and cost level. The figure includes the impact of the central government wage agreement (EUR 243 million in 2024).

Table. Adjustments to 2024 price and cost levels compared with the spending limits decision of 13 April 2022, EUR million

		Adjustment to appropriation and expenditure ceiling		Adjustment to expenditure ceiling
Spending limits expenditure classified by economic nature	**Index used for calculation**	**Statutory index adjustment**	**Agreement-based price adjustment**	**Cost adjustment of other spending limits expenditure**
15–17 Pensions	Employment pension index (TyEL)	258.2		
18-19 Defence materiel acquisitions	Predictive increase 1.5%		234.4[1]	
01–14 Wages as well as social security and pension contributions	Agreement increases		243.3	
Transport infrastructure expenditure	Building Cost Index (RKI)			
01–14, 20–28 Other operating expenses and consumption	Consumer Price Index (KHI)			
30–39 Other central government aid to municipalities and joint municipal authorities	Index of Central Government Transfers to Local Government (VOS)	104.5		
31 Funding of the wellbeing services counties	Wellbeing Services Counties Index (HVA)	793.7		
30–39 Other central government aid to municipalities and joint municipal authorities	Index of Central Government Transfers to Local Government (VOS)			
30 Central government funding for vocational education and training	Vocational education and training index	34.0		
40–9 Central government grants to trade and industry	Consumer Price Index (KHI)			

		Adjustment to appropriation and expenditure ceiling		Adjustment to expenditure ceiling
Spending limits expenditure classified by economic nature	Index used for calculation	Statutory index adjustment	Agreement-based price adjustment	Cost adjustment of other spending limits expenditure
50–59 Central government aid to households and non-profit-making organisations indexed on a statutory basis	National Pension Index (KEL), Employee Pension Index (TyEL), Consumer Price Index (KHI)	111.4		
51–52 Central government funding for the Evangelical-Lutheran Church of Finland and grant to the Orthodox Church of Finland	Consumer Price Index (KHI)	3.1		
50–59 Non-indexed central government aid to households	National Pension Index (KEL)			
50 Central government funding for universities and universities of applied sciences	University Index	92.2		
50–59 Other central government aid to households and non-profitmaking organisations	Consumer Price Index (KHI)			
60 Transfers to off-budget funds	Consumer Price Index (KHI)			
60 Transfers to the Social Insurance Institution of Finland	National Pension Index (KEL)	178.3		
60 Transfers to the Social Insurance Institution of Finland	National Pension Index (KEL)	13.1		
61–65 Central government funding corresponding to EU Structural Fund contributions and other domestic transfers	Included in programme spending limits			

		Adjustment to appropriation and expenditure ceiling		Adjustment to expenditure ceiling
Spending limits expenditure classified by economic nature	**Index used for calculation**	**Statutory index adjustment**	**Agreement-based price adjustment**	**Cost adjustment of other spending limits expenditure**
66-68 Transfers abroad	At current prices			
69 Transfers to the EU	EU GDP Deflator index			
70–79 Real investments	Building Cost Index (RKI)			
90–99 Other expenditure	Consumer Price Index (KHI)			
Supplementary budget reserve and unallocated reserve	Consumer Price Index (KHI)			
Total in 2024		1,588.6	477.7	

1) A predictive 1.5% price and cost level adjustment will be made to the appropriation levels for the Defence Forces' operating expenditure (excl. payroll expenditure), defence materiel procurement, multirole fighter procurement, military crisis management equipment and administration expenditure. A predictive 1.5% cost level adjustment will be made to the uncommitted portion of the 2021 order authorisation for multirole fighter aircraft. A purchasing power adjustment of 1.5% will be made to the unused portion of other funding for the acquisition of multirole fighters, which will be subsequently revised according to actual figures with a combination of indices (Building Cost Index 70% and Producer Price Index for Services 30%). The index expenditure of the Squadron 2020 project will be adjusted later in accordance with actual figures of the indices specified in agreements. The indices for the multirole fighters will be processed in accordance with the Government's procurement decision. The level of other appropriations will be revised later to correspond with the change in prices (annual average index change) indicated by the Consumer Price Index in terms of the Defence Forces' operating expenditure and military crisis management equipment and administrative expenditure as well as the change (months total / annual change) of the C28 sub-index (Manufacturing of other machinery and equipment) of the Industrial Producer Price Index for defence materiel procurement.

APPENDIX 3 Changes in the forecasts for general government finances compared with the previous General Government Fiscal Plan

Table. Factors affecting general government budgetary position, according to national accounts, % of GDP[1]

	2023	2024	2025	2026
General government balance, spring 2022	-1.7	-1.4	-1.8	-1.8
Central government:				
Impact of revised statistical basis on revenue and expenditure estimates	1.2	1.2	1.2	1.2
Impact of revised macroeconomic forecast on revenue and expenditure estimates	-0.6	-0.6	-0.5	-0.4
Impact of discretionary measures on revenue and expenditure estimates	-0.5	-0.4	-0.5	-0.4
Impact of other factors[1]	-1.2	-1.3	-1.7	-1.9
Local government:				
Impact of revised statistical basis on revenue and expenditure estimates	0.3	0.3	0.3	0.3
Impact of revised macroeconomic forecast on revenue and expenditure estimates	-0.2	-0.2	-0.2	-0.1
Impact of discretionary measures on revenue and expenditure estimates	0.1	0.0	0.0	0.0
Impact of other factors	0.0	-0.1	-0.2	-0.1
Earnings-related pension funds:				
Impact of revised statistical basis on revenue and expenditure estimates	-0.2	-0.2	-0.2	-0.2
Impact of revised macroeconomic forecast on revenue and expenditure estimates	0.1	0.0	0.0	0.0
Impact of discretionary measures on revenue and expenditure estimates	0.0	0.0	0.0	0.0
Impact of other factors	0.1	0.4	0.5	0.6

	2023	2024	2025	2026
Other social security funds:				
Impact of revised statistical basis on revenue and expenditure estimates	0.1	0.1	0.1	0.1
Impact of revised macroeconomic forecast on revenue and expenditure estimates	-0.1	-0.2	-0.1	-0.1
Impact of discretionary measures on revenue and expenditure estimates	0.0	-0.1	0.0	0.0
Impact of other factors	0.0	0.0	0.0	0.0
General government budgetary position, spring 2023	-2.6	-2.6	-3.1	-2.9

1) Due to rounding, the figures do not necessarily add up to one.

APPENDIX 4 Economic development risks and their impact on public finances

The baseline scenario of the General Government Fiscal Plan is based, with respect to 2023–2025, on the April 2023 independent economic outlook forecast of the Economics Department of the Ministry of Finance. The years 2026 and 2027 have been taken into account in the scenario based on, among other things, the growth estimate for potential output. In addition to the economic outlook forecast, the baseline scenario's general government budgetary position is based on the Government Programme of Prime Minister Marin's Government, the General Government Fiscal Plan for 2021–2023 adopted by the Government in September 2019, the General Government Fiscal Plan for 2021–2024 adopted by the Government in April 2020, the General Government Fiscal Plan for 2022–2025 adopted by the Government in April 2021, the General Government Fiscal Plan for 2023–2026 as well as the 2020, 2021 and 2022 State budgets and supplementary budgets.

According to the baseline scenario, Finland's economy will grow on average by 1.2% per year in 2023– 2027. The international risks of the forecast are down-side. Developments may occur in Russia's war of aggression against Ukraine that will have significant and fast-spreading economic impacts. Rapidly rising interest rates have caused problems and heightened uncertainty on the financial markets.

Domestic risks are related to the international situation. There is also uncertainty regarding the housing market and consumer behaviour. Rising prices and interest rates have hit household finances hard. On the housing market and in consumer consumption, the dip may be deeper and more prolonged than assumed in the projection. On the other hand, the assumption made of how consumption will recover as inflation recedes is quite moderate.

The uncertain outlook for the investment environment may result in investments being postponed or their implementation prevented. There is a positive risk associated with green investment projects in the energy sector if independence from Russian fossil fuels is sought to a faster schedule. Russia's war of aggression against Ukraine is the most significant risk factor in the projection. There are other major geopolitical risks, such as increased tension between China and the West and tensions in the trade of strategic products. Other significant risks can be found on the financial markets, on the housing market and in the consumer behaviour of households as prices and interest rates have increased substantially.

The figures in the table below show the impact on unemployment and on the general government budgetary position and debt of economic growth that is either slower or faster than the baseline. The calculations are simplified and based on the assumption that annual output growth will deviate by one percentage point in either direction from the baseline scenario in the outlook period.

In the slower growth scenario, GDP growth would be more sluggish in 2023–2027. The unemployment rate would increase by one percentage point compared with the baseline scenario. The general government deficit would be deep throughout the outlook period and the debt ratio would grow to over 80%. General government finances would be more vulnerable than before to various negative shocks.

Faster growth than the baseline scenario would be sufficient to set the general government debt ratio on to a slightly downward path in the programme period. The general government budgetary position would still show a deficit, however. The unemployment rate would fall fairly rapidly. A precondition for more favourable economic growth than in the baseline scenario is buoyant activity in the international economy as well as higher than anticipated economic growth in the industrialised countries.

The impact of the low level of interest rates on Finland's general government budgetary position is to both increase and reduce the deficit. General government interest costs have been very low in recent years but have now increased sharply. On the other hand, the interest income received by earnings-related pension funds included in general government finances is also expected to grow. The property income of the earnings-related pension funds also depends on the allocation of their holdings.

As a rough estimate, a rise in the level of interest rates by one percentage point would increase general government interest expenditure by c. EUR 0.7 billion in 2023, and by 2027 interest expenditure would increase by just over EUR 1.5 billion. A rise in interest rates would correspondingly increase the interest income of the earnings-related pension funds as well as the municipalities and central government. The general government debt ratio would increase, however, as the surplus produced by the earnings-related pension providers cannot be used to cover deficits in other sectors.

Table. Sensitivity analysis

Baseline scenario	2022	2023	2024	2025	2026	2027
GDP, change, %	2.1	-0.2	1.3	1.6	1.6	1.5
Unemployment rate, %	6.8	7.0	6.8	6.6	6.4	6.3
Budgetary position, % of GDP	-0.8	-2.6	-2.6	-3.1	-2.9	-2.9
Public debt, % of GDP	73.0	74.4	76.9	79.0	80.7	82.4
Slow growth						
GDP, change, %	2.1	-1.2	0.3	0.6	0.6	0.5
Unemployment rate, %	6.8	7.6	7.6	7.5	7.3	7.2
Budgetary position, % of GDP	-0.8	-3.1	-3.6	-4.7	-5.0	-5.6
Public debt, % of GDP	73.0	75.5	79.5	83.6	87.7	92.1
Rapid growth						
GDP, change, %	2.1	0.8	2.3	2.6	2.6	2.5
Unemployment rate, %	6.8	6.6	6.2	5.6	5.1	4.6
Budgetary position, % of GDP	-0.8	-2.1	-1.5	-1.6	-0.8	-0.3
Public debt, % of GDP	73.0	73.3	74.3	74.6	74.0	73.0
Change in interest costs if interest rate level rises by 1 percentage point, % of GDP		0.3	0.4	0.4	0.5	0.5
Change in interest revenue if interest rate level rises by 1 percentage point, % of GDP		0.5	0.5	0.5	0.5	0.4
Change in deficit if interest rate level rises by 1 percentage point, % of GDP		0.2	0.1	0.0	0.0	-0.1
Change in borrowing requirement if interest rate level rises by 1 percentage point, % of GDP		0.0	0.1	0.2	0.2	0.3

APPENDIX 5 Comparison with Commission's latest forecast

The table below compares the forecast of Finland's Ministry of Finance with the Commission's interim winter forecast with regard to GDP change and inflation. Other forecasts are compared with the Commission's autumn forecast.

Table. Comparison with the previous Commission forecast

	Commission forecast			Ministry of Finance forecast		
	2022	2023	2024	2022	2023	2024
GDP, change, %[1]	2.0	0.2	1.4	2.1	-0.2	1.3
Consumer Price Index, change %[1]	7.2	4.2	2	7.1	5.5	2.5
Unemployment rate, %[2]	7.0	7.2	6.9	6.8	7.0	6.8
General government budgetary position, % of GDP[2]	-1.4	-2.3	-2.3	-0.8	-2.6	-2.6
Structural balance, % of GDP[2]	-1.1	-1.5	-1.6	-0.5	-1.6	-1.7
General government debt, % of GDP[2]	70.7	72	73.3	73.0	74.4	76.9

1) Commission winter forecast, February 2023

2) Commission autumn forecast, November 2022

APPENDIX 6 Stability Programme

Finland's Stability Programme forms part of Finland's General Government Fiscal Plan. The General Government Fiscal Plan meets the EU's requirement for a medium-term fiscal plan (Regulation (EU) No. 473/2013 of the European Parliament and of the Council).

A parliamentary election will be held in Finland in spring 2023. Because of this, the Stability Programme was drawn up with 'no policy change' assumptions; in other words, it only contains measures decided upon by Prime Minister Marin's Government. The next Government will adopt its Stability Programme as part of its General Government Fiscal Plan in autumn 2023.

The data in the Stability Programme tables[8] are actual data for the year 2022[9]. For the period 2023–2026, an independent economic outlook forecast prepared by the Economics Department of the Ministry of Finance is presented.

Fiscal policy objectives

Exceptional circumstances

In March 2023, the Commission affirmed[10] that the General Escape Clause adopted for the Stability and Growth Pact in March 2020 would expire at the end of 2023, as the EU has recovered from the significant economic downturn caused by the pandemic. The General Escape Clause, as well as unusual events encountered by individual countries, permits Member States to temporarily depart from the adjustment path towards the MTO, provided that this does not endanger fiscal sustainability in the medium term.

8 Under Article 4(4) of Regulation 473/2013, "national medium-term fiscal plans and draft budgets shall be based on independent macroeconomic forecasts, and shall indicate whether the budgetary forecasts have been produced or endorsed by an independent body", whereas under Article 3(2a) of Regulation 1466/97, "the stability programme shall be based on the most likely macrofiscal scenario or on a more prudent scenario".

9 Data are based on the national accounts published by Statistics Finland on 15 March 2023.

10 https://ec.europa.eu/commission/presscorner/detail/en/ip_23_1410

Medium-Term Objective

As stated in chapter 2, the Government confirms that the Medium-Term Objective (MTO) remains -0.5% in ratio to GDP for the structural budgetary position of the general government, as set in the autumn 2019 Stability Programme. This is the minimum level to which Finland has committed in the Fiscal Compact.[11] Medium-Term Objectives must be reviewed every three years.

Other fiscal policy targets

The present General Government Fiscal Plan is of a technical nature, and its Stability Programme assumes unchanged policies; it sets no goals for the coming years, and its evaluations of previous years are based on the currently valid EU regulatory framework. The EU fiscal policy framework is undergoing development; the Council adopted conclusions outlining this work on 14 March 2023.[12] After the amendments to the EU fiscal policy framework have been confirmed, needs to amend national fiscal policy legislation will be assessed. In July 2023, the Council will adopt the next country-specific recommendations that may impose framework conditions on the fiscal policy goalsetting of the next Government. On 8 March 2023, the Commission released a Communication on fiscal policy guidance for 2024.[13]

Measures by Marin’s Government to achieve the fiscal policy targets

Fiscal policy has been strongly stimulative in recent years. During the pandemic, the Government decided on comprehensive measures to safeguard jobs and livelihoods and to ease the financial pressure on businesses facing difficulties caused by the pandemic. The effects of Russia’s war of aggression launched in February 2022 also extend to Finland’s general government finances. The Government responded to these acute expenditure pressures to a large extent in its supplementary budget proposals, but in some respects the impact of preparedness will extend to the General Government Fiscal Plan for 2024–2027. The Government launched substantial preparedness measures in 2022 along with support measures for households for 2022–2023 due to rising energy costs.

11 The Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, as well as the Act on requirements related to multiannual budgetary frameworks, which came into force on 1 January 2013.

12 https://www.consilium.europa.eu/en/press/press-releases/2023/03/14/economic-governance-framework-council-agrees-its-orientations-for-a-reform/

13 Communication from the Commission to the Council: Fiscal policy guidance for 2024, https://economy-finance.ec.europa.eu/system/files/2023-03/COM_2023_141_1_EN_ACT_part1_v4.pdf

In evaluating attainment of previously set goals, we may note that the key factors in attaining these goals are the fiscal policy stimulus measures adopted during the pandemic and the employment-reinforcing measures that helped progress towards the 75% employment rate goal set in the Government Programme and the addition of at least 60,000 persons to the employed workforce by the end of 2023. The coronavirus crisis created a need to specify further the objectives of the Government Programme related to general government finances and employment development. In its economic sustainability roadmap in spring 2021, the Government set the goal to halt the growth of the general government debt ratio by the middle of the 2020s, to raise the employment rate to 75% by the middle of decade and to increase the number of employed persons by 80,000 through the Government's employment measures by the end of the decade.

According to the spring 2023 projection of the Ministry of Finance, the employment rate according to the new measurement method would be 74.2% at the middle of the decade. According to the old method, however, this figure would be c. 75%. In total, the Government has to date decided on measures to boost employment that, estimated at the 2029 level, will strengthen public finances by c. EUR 500 million, taking into account the costs arising from the measures and the savings from the strengthening of employment.

In the last couple of years, Finland's general government finances have grown stronger despite exceptional circumstances and the measures undertaken because of, inter alia, rising energy prices and preparedness. The Government to be appointed after the general election this spring is expected to address measures for strengthening general government finances.

Compliance with the Treaty deficit and debt criteria

In its Communication on fiscal policy guidance for 2024 published on 8 March 2023, the European Commission noted that it would not open new Excessive Deficit Procedures in 2023 because of persistently high uncertainty for the macroeconomic and budgetary outlook. The Commission noted that it would re-evaluate the situation in spring 2024 and possibly at that time open Excessive Deficit Procedures based on data on actual deficit criteria violations.

However, the Commission will assess compliance with the deficit and debt criteria in accordance with Article 126(3) of the TFEU in spring 2023.

According to the Communication, all Member States should set goals for their general government finances such that their deficit will not exceed the 3% GDP deficit reference value in 2023 or that their deficit will attain the 3% value in the course of the Stability and Convergence Programmes and will credibly remain under 3% in the medium term, assuming unchanged policies. The Commission notes that Member States which, according to the Commission's Communication published in November,[14] have substantial or moderate public debt challenges should set fiscal targets that ensure plausible and continuous debt reduction or that debt is kept at prudent levels in the medium term.

According to the Treaty, the deficit criterion is considered to be complied with, notwithstanding a breach of the 3% reference value, if the deficit in ratio to GDP has decreased significantly and continuously to a level close to the reference value or if the excess over the reference value is exceptional, temporary and minor.

Finland's general government deficit was 0.8% of GDP in 2022. According to an independent forecast and assuming no policy change, the deficit will be 2.6% of GDP in 2023 and will remain at that level in 2024. In 2025–2026, the deficit will grow slightly according to the independent forecast and will be 3.0% of GDP on average. According to the Ministry of Finance's assessment, Finland is in compliance with the deficit criterion.

The Treaty debt criterion is considered to be met, despite the 60% reference value being exceeded, if the debt ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace.

Public debt has remained above the 60% reference value, being 73.0% of GDP in 2022. According to the independent forecast prepared by the Economics Department of the Ministry of Finance, public debt will increase to 74.4% of GDP in 2023 and will continue rising, to 76.9% of GDP in 2024 and 80.7% of GDP in 2026.[15]

On 23 May 2022, the European Commission published reports on 18 Member States pursuant to Article 126(3) of the TFEU.[16] The Commission concluded that 17 Member States had violated the deficit criterion (all of the countries in the Article 126(3) report except Finland) and that 5 Member States had violated the debt criterion (Belgium, Italy, France, Finland and Hungary).

14 https://economy-finance.ec.europa.eu/system/files/2022-11/com_2022_583_1_en.pdf

15 Because the way in which statistics are compiled was changed in summer 2022, the level revision made to general government debt was 5.9 percentage points in 2021.

16 https://ec.europa.eu/info/sites/default/files/economy-finance/com_2022_85_1_en_act_en.pdf

Compliance with the preventive arm of the Stability and Growth Pact and other fiscal policy recommendations

Finland remains in the preventive arm of the Stability and Growth Pact and is subject to the requirements of the preventive arm that relate to progress towards the MTO. The achievement of the MTO or progress towards it are assessed with the aid of two pillars, the structural balance and the expenditure benchmark, appraising them in relation to the requirements specified in the country-specific recommendations.

Taking into account the validity of the General Escape Clause of the Stability and Growth Pact in 2020–2023 and the Council's fiscal policy recommendations in 2020–2022 (which did not contain any numerical fiscal policy recommendations in terms of the structural balance or the expenditure benchmark), the Ministry of Finance's assessment concludes that it is not meaningful to examine the structural balance or the expenditure benchmark in 2022 or in 2023 or on a cumulative basis in 2021–2022 or 2022–2023 in this context. It is also worth noting that assessing the structural balance is subject to uncertainties in conditions of major economic change, where the assessment of the output gap is difficult and any appraisal of the economic situation will likely be revised in future forecasts.

The Commission did not make any Country-Specific Recommendations in spring 2021. Instead, fiscal policy recommendations were made in the assessment of the Stability Programme. These recommendations, adopted by the Council in June 2021, instructed Finland to take the following actions:

1. in 2022, maintain a supportive fiscal stance, including the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment;
2. when economic conditions allow, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term; at the same time, enhance investment to boost growth potential;
3. pay particular attention to the composition of public finances, both on the revenue and expenditure sides of the budget, and to the quality of budgetary measures, to ensure a sustainable and inclusive recovery. Prioritise sustainable and growth-enhancing investment, notably supporting the green and digital transition. Give priority to fiscal structural reforms that will help provide financing for public policy priorities and contribute to the long-term sustainability of public finances, including by strengthening the coverage, adequacy, and sustainability of health and social protection systems for all.

According to the Ministry of Finance's assessment, in 2022 Finland complied with the recommendations adopted for it by the Council in June 2021, maintaining a supportive fiscal stance. We may also note that

- Support measures put in place during the pandemic have been scaled back. Finland also allocated a significant part of its Recovery and Resilience Plan to promote the twin transition. The Government launched substantial preparedness measures in 2022 along with support measures for households due to rising energy costs.
- The general government deficit exceeded the 3% reference value in 2020, but recovered significantly to below the reference value in 2021, and the effects of the pandemic on longterm indebtedness and sustainability remained moderate.
- Parliament enacted the key pieces of legislation for the health, social and rescue services reform, and the President of the Republic signed them on 29 June 2021. On 1 January 2023, responsibility for the organisation of health, social and rescue services was transferred from municipalities to the 21 wellbeing services counties. The new county councils began their work on 1 March 2022. The key objectives of the health and social services reform are: to secure equal and high-quality health, social and rescue services for all residents; to improve availability of and access to services; to reduce health and wellbeing inequalities; to secure the availability of skilled labour; to respond to the challenges posed by ageing and the declining birth rate; and to curb expenditure growth.

In the country-specific recommendations on general government finances adopted by the European Council in July 2022, Finland was instructed to take the following action in 2022–2023: "ensure that the growth of nationally-financed current expenditure is in line with an overall neutral policy stance, taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Stand ready to adjust current spending to the evolving situation. Expand public investment for the green and digital transition and for energy security, including by making use of the RRF, RePowerEU and other EU funds. For the period beyond 2023, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions."

According to the Ministry of Finance's assessment, Finland is in compliance with the recommendation for 2023 in 2023. We may also note that

- Based on the independent forecast of the Ministry of Finance and assuming no policy change, fiscal policy will be slightly stimulative due to measures, inter alia, to improve preparedness and to targeted and temporary measures for supporting households and businesses because of rising energy prices, etc. Persons fleeing the war in Ukraine have been provided with targeted aid; these measures are estimated to have an impact on the deficit in general government finances amounting to EUR 0.6 billion in 2022 and EUR 0.8 billion in 2023.
- According to the Government Programme, Finland will be carbon neutral in 2035 and carbon negative soon thereafter. The present Government has decided on significant measures for the green transition as part of the Sustainable Growth Programme for Finland as well as within the spending limits exceptions outlined after the launch of Russia's war of aggression.
- In order to strengthen energy self-sufficiency and security of supply, a set of measures has been decided with the aim of significantly accelerating the withdrawal from fossil energy and supporting the introduction of new technologies. The General Government Fiscal Plan includes increases for licensing and other administrative procedures and for digitalisation in order to accelerate green transition investments. A significant percentage of the RRP will be allocated to the promotion of the twin transition, even though Finland's final allocation has decreased.
- The Government has undertaken support measures due to rising energy prices; the cost impact of these is estimated at c. 0.2% of GDP in 2022 and 0.5% of GDP in 2023. The energy price support measures are temporary in nature. In addition to these measures to alleviate rising energy prices, the Government has decided on measures to secure the energy supply and to expedite energy investments, etc.[17]

17 According to a statement released by the eurogroup in July, the focus in implementing structural reforms and in supporting investments geared towards the green and digital transition should continue to be in energy support measures. Member States' energy support measures should be temporary in nature and targeted at the most vulnerable groups while including incentives for the energy transition. The statement released by the eurogroup in October concerning high energy prices stresses cost-effective, temporary and targeted measures and the importance of investments intended to reduce energy consumption and to increase energy efficiency. The statement released by the eurogroup in December concerning Member States' preliminary budgets for 2023 stresses the importance of rendering energy support measures more efficient, better coordinated and cost-effective.

– According to the independent forecast of the Ministry of Finance, the general government deficit will remain clearly under the 3% reference value for the duration of the forecast horizon, or will only exceed that reference value momentarily.

In July 2023, the Council will adopt the next country-specific recommendations that may impose framework conditions on the fiscal policy goalsetting of the new Government.

Government's assessment of progress towards the Medium-Term Objective

The Government concurs with the above assessment of progress towards the MTO. Finland has complied with the Country-Specific Recommendation on general government finances in 2022. Pursuant of section 3, subsection 1 of the Fiscal Policy Act (869/2012), the Government will initiate the measures it deems necessary to correct budgetary stability and sustainability if the structural balance of the general government, in the Government's assessment, deviates significantly in a manner that jeopardises the achievement of the MTO. The Government will assess this in connection with the monitoring and overall assessment of the state of public finances or as the European Union draws attention to this matter in its statement on Finland's Stability Programme.

Assessment of progress on the Country-Specific Recommendations of 2022

According to the Country-Specific Recommendations adopted in summer 2022, Finland should take the following action:

1. In 2023, ensure that the growth of nationally-financed current expenditure is in line with an overall neutral policy stance, taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Stand ready to adjust current spending to the evolving situation. Expand public investment for the green and digital transition and for energy security, including by making use of the RRF, RePowerEU and other EU funds. For the period beyond 2023, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions. Present policy proposals for the social security reform, aiming to increase the efficiency of the system of social benefits, improving incentives to work, and also supporting long-term sustainability of public finances.
2. Proceed with the implementation of its recovery and resilience plan, in line with the milestones and targets included in the Council Implementing Decision of 29 October 2021. Proceed with the implementation of the agreed 2021–2027 cohesion policy programme for Finland, and swiftly finalise the negotiations with the Commission of the 2021-2027 cohesion policy programming documents for the Åland Islands and the Just Transition Fund with a view to starting their implementation.

3. Reduce overall reliance on and diversify imports of fossil fuels by accelerating the deployment of renewables, including by further streamlining permitting procedures, and boost investment in the decarbonisation of industry and electrification transport. Develop energy infrastructure to increase security of supply.

Progress in the fiscal policy recommendation adopted in 2022 has been assessed above. Progress made in the other country-specific recommendations given to Finland has been discussed in the National Reform Programme (EU2020 programme).

Comparison with other forecasts, and sensitivity analysis

For a comparison between the targets set by the Government and the Commission's latest public finance forecast, see the table below and the sensitivity analysis in Appendix 4 to the General Government Fiscal Plan. The Commission's most recent GDP and inflation figures are from February 2023 and the public finance figures from November 2022. Unlike the Commission's winter forecast, the Ministry of Finance had access to fresh preliminary data from 2022.

Tables 1–3

Table A. General government structural balance, net lending, expenditure and gross debt. Target scenario and Ministry of Finance spring forecast, relative to GDP.

	2022	2023	2024	2025	2026
Structural balance					
– objective			-1.7	-2.6	-2.6
– forecast	-0.5	-1.6	-1.7	-2.6	-2.6
General government net lending					
– objective			-2.6	-3.1	-2.9
– forecast	-0.8	-2.6	-2.6	-3.1	-2.9
General government gross debt					
– objective			76.9	79.0	80.7
– forecast	73.0	74.4	76.9	79.0	80.7
General government expenditure					
– objective			55.5	55.7	55.0
– forecast	53.4	55.4	55.5	55.7	55.0

Table B. Comparison with the Commission's previous forecast

	Commission forecast			Ministry of Finance forecast		
	2022	2023	2024	2022	2023	2024
GDP, change, %[1]	2.0	0.2	1.4	2.1	-0.2	1.3
Consumer Price Index, change %[1]	7.2	4.2	2	7.1	5.5	2.5
Unemployment rate, %[2]	7.0	7.2	6.9	6.8	7.0	6.8
General government budgetary position, % of GDP[2]	-1.4	-2.3	-2.3	-0.8	-2.6	-2.6
Structural balance, % of GDP[2]	-1.1	-1.5	-1.6	-0.5	-1.6	-1.7
General government debt, % of GDP[2]	70.7	72	73.3	73.0	74.4	76.9

1) Commission winter forecast, February 2023

2) Commission autumn forecast, November 2022

Table 1a. Macroeconomic prospects

	2022	2022	2023	2024	2025	2026
	EUR billion	Annual change				
1. Real GDP	235.8	2.1	-0.2	1.3	1.6	1.6
2. GDP at current prices	266.7	6.4	3.9	3.5	3.9	3.8
Components of real GDP						
3. Private consumption expenditure	123.9	2.1	-0.6	1.4	2.0	2.0
4. General government consumption expenditure	58.6	2.9	1.3	0.2	0.6	0.6
5. Capital formation	54.9	5.0	-0.6	0.2	2.5	1.7
6. Changes in inventories and net acquisition of valuables (% of GDP)	0.0	0.0	0.0	0.0	0.0	0.0
7. Exports of goods and services	91.1	1.7	1.2	3.9	3.8	3.5
8. Imports of goods and services	97.1	7.5	-1.5	2.8	4.1	3.5
Imputed impact on GDP growth						
9. Domestic end product demand	244.2	3.0	-0.1	0.8	1.8	1.6
10. Change in inventories and net acquisition of valuables	0.0	1.4	-1.3	0.0	0.0	0.0
11. External balance of goods and services	-6.0	-2.3	1.2	0.4	-0.2	0.0

Table 1b. Development of price indices

	2022	2023	2024	2025	2026
	Annual change				
1. GDP deflator	4.2	4.1	2.2	2.3	2.2
2. Private consumption deflator	5.5	4.2	2.1	1.8	2.0
3. Harmonised Index of Consumer Prices	7.2	4.0	1.9	2.0	2.0
4. Public consumption deflator	2.1	4.9	3.3	3.7	3.5
5. Investment deflator	5.9	3.4	0.8	1.9	2.0
6. Export price deflator	18.7	-2.3	-0.4	1.7	1.9
7. Import price deflator	19.5	-2.7	-0.5	1.8	2.1

Table 1c. Labour market developments

	2022	2022	2023	2024	2025	2026
	level					
1. Employment, 1,000 persons	2 619	2.5	-0.4	0.3	0.4	0.5
2. Employment, 1,000 working hours	427	0.6	-0.5	0.2	0.3	0.5
3. Unemployment rate (%)	190	6.8	7.0	6.8	6.6	6.4
4. Labour productivity, persons	90.0	-0.4	0.2	1.0	1.1	1.1
5. Labour productivity, hours worked	551.8	1.4	0.3	1.1	1.3	1.1
6. Compensation of employees	125.2	6.3	4.5	3.9	3.6	3.5
7. Compensation of employees per employee	47.8	3.7	5.0	3.6	3.1	3.0

Table 1d. Sectoral balances, % of GDP

	2022	2023	2024	2025	2026
1. Finland's net lending/borrowing vis-à-vis the rest of the world	-3.8	-1.7	-1.2	-1.3	-1.4
of which:					
– Balance of goods and services	-2.8	-1.2	-0.7	-0.9	-1.0
– Factor income and transfer balance	-1.1	-0.5	-0.5	-0.5	-0.5
– Capital transfers, net	0.1	0.0	0.0	0.0	0.0
2. Private sector net lending	-3.7	0.2	0.7	1.2	0.9
3. Public sector net lending	-0.8	-2.6	-2.6	-3.1	-2.9
4. Statistical discrepancy	-0.7	-0.7	-0.7	-0.6	-0.6

Table 2a. General government prospects

	2022	2022	2023	2024	2025	2026
	EUR million			% of GDP		
Net lending by subsector (EDP B.9)						
1. General government total	-2,189	-0.8	-2.6	-2.6	-3.1	-2.9
2. Central government	-4,335	-1.6	-3.4	-3.4	-4.1	-4.0
3. Regional government						
4. Local government	-758	-0.3	-0.5	-0.6	-0.7	-0.6
5. Social security funds	2,908	1.1	1.4	1.4	1.6	1.7
General government (S13)						
6. Total revenue	140,223	52.6	52.8	53.0	52.6	52.1
7. Total expenditure	142,413	53.4	55.4	55.5	55.7	55.0
8. Net lending	-2,189	-0.8	-2.6	-2.6	-3.1	-2.9
9. Interest expenditure	1,462	0.5	0.8	1.3	1.3	1.4
10. Primary balance	-727	-0.3	-1.7	-1.3	-1.8	-1.5
11. Non-recurring measures	0	0.0	0.0	0.0	0.0	0.0
Revenue categories						
12. Tax revenue (12=12a+12b+12c)	82,856	31.1	30.4	30.4	30.0	29.8
12a. Taxes on production and imports	36,230	13.6	13.2	13.0	12.7	12.5
12b. Income tax	45,725	17.1	16.8	17.1	16.9	16.9
12c. Taxes on capital income	901	0.3	0.4	0.4	0.4	0.4
13. Social security contributions	20,033	12.0	12.1	12.0	12.1	11.9
14. Property income	7,156	2.7	3.2	3.6	3.8	3.9
15. Other revenue (15=16-12-13-14)	30,178	6.8	7.1	6.9	6.7	6.5
16. = 6. Total revenue	140,223	52.6	52.8	53.0	52.6	52.1
of which: Tax burden (D2+D.5+D.61+D.91-D.995)	103,186	43.3	42.8	42.6	42.3	41.9

	2022	2022	2023	2024	2025	2026
	EUR million			% of GDP		
Expenditure categories						
17. Compensation of employees + intermediate consumption	63,568	23.8	24.5	24.4	24.2	24.1
17a. Compensation of employees (i.e. wages + employer's social security contributions)	32,937	12.4	12.5	12.4	12.5	12.5
17b. Intermediate consumption	30,631	11.5	12.0	12.0	11.8	11.6
18. Social transfers (18=18a+18b)	55,475	20.8	21.5	21.7	21.6	21.4
of which unemployment benefits	4,080	1.5	1.6	1.5	1.5	1.4
18a. Social transfers in kind	8,392	3.1	3.2	3.2	3.2	3.2
18b. Monetary social benefits	47,083	17.7	18.3	18.5	18.4	18.1
19. = 9. Interest expenditure	1,462	0.5	0.8	1.3	1.3	1.4
20. Subsidies	2,973	1.1	0.9	0.9	0.9	0.9
21. Gross fixed capital formation	10,981	4.1	4.5	4.5	5.0	4.7
22. Capital transfers	1,238	0.5	0.4	0.3	0.2	0.2
23. Other expenditure (23 = 24-17-18-19-20-21)	6,716	2.5	2.6	2.5	2.4	2.3
24. = 7. Total expenditure	142,413	53.4	55.4	55.5	55.7	55.0
of which: Public consumption	64,844	24.3	24.9	24.9	25.0	25.0

Table 2b. Revenue and expenditure with unchanged policies, % of GDP

	2022	2022	2023	2024	2025	2026
	EUR million					
1. Total revenue under unchanged policies	140,223	52.6	52.8	53.0	52.6	52.1
2. Total expenditure under unchanged policies	142,413	53.4	55.4	55.5	55.7	55.0

Table 2c. Amounts to be excluded from the expenditure benchmark, % of GDP

	2022	2022	2023	2024	2025	2026
	EUR million					
1. Expenditure on EU programmes fully matched by EU funds revenue	733	0.3	0.4	0.3	0.2	0.1
1.a of which investments fully matched by EU funds revenue	97	0.0	0.0	0.0	0.0	0.0
2. Cyclical unemployment benefit expenditure	236	0.1	0.2	0.2	0.1	0.1
3. Effect of discretionary revenue measures	-310	-0.1	-0.2	0.0	0.1	0.0
4. Expenditure funded with earmarked revenue	78	0.0	0.0	0.0	0.0	0.0

Tables 4–9

Table 4. Development of general government debt, % of GDP

	2022	2023	2024	2025	2026
1. Gross debt, % of GDP	73.0	74.4	76.9	79.0	80.7
2. Change in the gross debt ratio, % points	0.4	1.4	2.5	2.1	1.7
Contributions to changes in gross debt, % points					
3. Primary balance	0.3	1.7	1.3	1.8	1.5
4. Interest expenditure	0.5	0.8	1.3	1.3	1.4
5. Stock-flow adjustment items	-0.4	-1.2	-0.1	-1.0	-1.2
of which:					
– Differences between cash-based and accrual-based statistics	1.3	0.3	0.7	0.1	0.0
– Net acquisition of financial assets	2.8	0.9	1.3	1.4	1.5
– of which: privatisation proceeds	0.0	-0.2	0.0	0.0	0.0
– Other (incl. impacts of GDP growth)	-4.5	-2.4	-2.1	-2.5	-2.7
Implicit interest rate on debt (= embedded interest payments per the previous year's level of debt * 100)	0.8	1.2	1.8	1.8	1.9
Other relevant variables					
6. Liquid financial assets (AF1, AF2, AF3, AF5)					
7. Net financial liability (7=1-6)					
8. Central government write-offs (existing bonds)	13.8				
9. Shares of foreign currency denominated loans	0				
10. Average maturity of government debts	7.4				

Table 5. Cyclical impact on the general government balance, % of GDP

	2022	2023	2024	2025	2026
1. Real GDP, % change	2.1	-0.2	1.3	1.6	1.6
2. General government financial balance	-0.8	-2.6	-2.6	-3.1	-2.9
3. Interest expenditure	0.5	0.8	1.3	1.3	1.4
4. Non-recurring measures	0.0	0.0	0.0	0.0	0.0
non-recurring measures affecting general government revenue					
non-recurring measures affecting general government expenditure					
5. Potential GDP, change %	1.4	1.0	1.0	1.1	1.1
contributions:					
– labour input	0.4	0.0	0.0	0.0	-0.1
– invested capital	0.5	0.5	0.5	0.5	0.5
– total factor productivity	0.5	0.5	0.5	0.6	0.6
6. Production gap	-0.5	-1.7	-1.5	-0.9	-0.5
7. Financial balance cyclical component	-0.3	-1.0	-0.9	-0.5	-0.3
8. Cyclically-adjusted balance (2-7)	-0.5	-1.6	-1.7	-2.6	-2.6
9. Cyclically-adjusted primary balance (8+3)	0.0	-0.7	-0.4	-1.3	-1.2
10. Structural balance (8-4)	-0.5	-1.6	-1.7	-2.6	-2.6

Table 6. Divergence from previous Stability Programme

	2022	2023	2024	2025	2026
GDP growth (%)					
SP-2022	1.5	1.7	1.5	1.3	
VO-2023	2.1	-0.2	1.3	1.6	1.6
Difference, % points	0.6	-1.9	-0.2	0.3	
General government balance, % of GDP					
SP-2022	-2.2	-1.7	-1.4	-1.8	
SP-2023	-0.8	-2.6	-2.6	-3.1	-2.9
Difference, % points*	1.4	-0.9	-1.2	-1.3	
General government gross debt, % of GDP					
SP-2022	66.2	66.9	68.0	69.1	
SP-2023	73.0	74.4	76.9	79.0	80.7
Difference, % points*	6.8	7.5	8.9	9.9	

Table 7. Long-term sustainability of general government finances, % of GDP

	2007	2010	2020	2030	2040	2050	2060
Total expenditure	46.6	53.9	57.2	55.0	57.6	60.1	63.9
Of which: age-related expenditure			31.2	29.5	29.4	29.1	29.9
Total revenue	51.7	51.4	51.6	52.4	53.4	54.6	56.6

Table 7a. Contingent liabilities, % of GDP

	2022	2023
Central government guarantees	25.3	
of which: linked to financial sector	4.3	

Table 8. Underlying assumptions for the projection[1]

	2022	2023	2024	2025
3-month EURIBOR	0.3	3.5	3.6	2.6
Long-term interest rate (10 years)	1.7	3.3	3.4	3.2
USD/EUR exchange rate	1.1	1.1	1.1	1.1
Nominal effective exchange rate	-4.0	3.3	0.0	
World GDP growth (excluding the EU)	3.1	3.0	3.3	
EU-28 GDP growth	3.5	0.8	1.6	
GDP growth of relevant foreign markets	4.0	2.8	4.0	4.2
World trade growth	3.9	3.0	4.5	4.6
Oil prices (USD/barrel)	98.7	83.0	78.5	74.9

1) No specific underlying assumptions were defined for the medium-term computations. Instead, they are based on general assessments of developments in the operating environment.

Table 9. Impact of the Recovery and Resilience Facility (RRF) on Stability Programme forecasts – grants

	2021	2022	2023	2024	2025	2026
Expenditure financed by RRF grants (% of GDP)						
RRF grants included in revenue forecasts	0.01	0.07	0.25	0.18	0.11	0.04
RRF grant payment from the EU	0.11	0.09	0.14	0.11	0.10	0.10
Expenditure financed by RRF grants (% of GDP)						
Employee compensations D.1	0.00	0.02	0.05	0.03	0.01	0.00
Intermediate consumption P.2	0.00	0.02	0.05	0.03	0.01	0.00
Social security contributions D.62 + D.632						
Interest expenditure D.41						
Subsidies D.3.	0.00	0.02	0.04	0.02	0.01	0.00
Other income transfers D.7						
TOTAL EXPENDITURE	0.01	0.07	0.25	0.18	0.11	0.04
Gross fixed capital formation P.51g	0.02	0.06	0.03	0.02	0.01	0.00
Capital transfers D.9	0.02	0.06	0.03	0.02	0.01	0.00
Investments and capital transfers, total	0.04	0.12	0.07	0.04	0.01	0.00
Other expenditure financed by RRF grants (% of GDP)[1]						
Lost tax revenues						
Other measures affecting revenue						
Financial transactions						

[1)] Expenditure that has no effect on national accounts expenditure.

MINISTRY
OF FINANCE

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

ISSN 1797-9714 (pdf)
ISBN 978-952-367-226-0 (pdf)

March 2023