MINISTRY
OF FINANCE

Economic Survey
Spring 2023

Economic Prospects

Publications of the Ministry of Finance – 2023:25

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Economic Survey

Spring 2023

Economics Department

Ministry of Finance, Helsinki 2023

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Abstract

Finland's GDP is projected to contract by 0.2% in 2023. Private consumption will decline as rapidly rising prices and interest rates reduce the real disposable income of households. Inflation will slow and income growth will accelerate in 2024. Consequently, GDP growth will recover to 1.3% and 1.6% respectively in 2024 and 2025. The employment situation will decline slightly in 2023, only to improve again starting from 2024. The employment rate is projected to rise to 74.2% by 2025. GDP growth in 2026–2027 is projected to be faster than the potential economic growth rate at approximately 1.5% per year.

The general government deficit has improved considerably, driven by fast nominal growth and the growth of employment. The deficit will begin to grow anew in 2023 as the growth of tax revenue slows and general government expenditure increases quickly. The widening deficits and slowing nominal growth will see the general government debt ratio increase throughout the outlook period. The debt ratio will be kept on an upward trajectory in the near future by substantial deficits in central government and local government, higher debt servicing costs and slow economic growth.

Keywords economic prospects, public finance, economic development, spending limits negotiations.

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Taloudellinen katsaus, kevät 2023

Valtiovarainministeriön julkaisuja 2023:25		**Teema**	Talousnäkymät
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Yhteisötekijä	Kansantalousosasto		
Kieli	Englanti	**Sivumäärä**	110

Tiivistelmä

BKT:n arvioidaan supistuvan Suomessa 0,2 prosenttia vuonna 2023. Yksityinen kulutus vähenee, kun hintojen ja korkojen nopea nousu heikentää kotitalouksien reaalisia käytettävissä olevia tuloja. Inflaatio hidastuu ja tulojen kasvu nopeutuu vuonna 2024. BKT:n kasvu toipuukin 1,3 ja 1,6 prosentin kasvuun vuosina 2024 ja 2025. Vuonna 2023 työllisyystilanne heikkenee lievästi, mutta paranee uudelleen vuodesta 2024 ja työllisyysaste nousee 74,2 prosenttiin vuoteen 2025 mennessä. Vuosina 2026–2027 BKT:n kasvun arvioidaan olevan talouden potentiaalista kasvua nopeampaa, noin 1,5 prosenttia vuosittain.

Julkisyhteisöjen rahoitusasema on kohentunut reippaasti nopean nimelliskasvun ja työllisyyden kasvun vetämänä. Alijäämä alkaa kasvaa uudelleen vuonna 2023, kun verotulojen kasvu hiipuu ja samaan aikaan julkiset menot kasvavat nopeasti. Kasvavien alijäämien ja hidastuvan nimelliskasvun myötä julkinen velkasuhde kasvaa läpi koko ennustejakson. Valtionhallinnon ja paikallishallinnon mittavat alijäämät, kohonneet velanhoitokustannukset ja hidas talouskasvu pitävät velkasuhteen nousevalla uralla lähitulevaisuudessa.

Asiasanat talousnäkymät, julkinen talous, taloudellinen kehitys, kehysneuvottelut.

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Ekonomisk översikt, våren 2023

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Referat

Bruttonationalprodukten beräknas minska med 0,2 procent 2023. Den privata konsumtionen minskar eftersom den snabba prisstegringen och räntehöjningen har lett till att hushållens disponibla realin-komster är mindre. Inflationen blir långsammare och inkomsterna växer snabbare 2024. BNP-tillväxten återhämtar sig med 1,3 procent 2024 och med 1,6 procent 2025. Under 2023 försämras sysselsättningsgraden något, men den förbättras igen under 2024 och stiger till 74,2 procent 2025. BNP-tillväxten 2026–2027 förutses vara snabbare än den potentiella ekonomiska tillväxten, cirka 1,5 procent per år.

Saldot för de offentliga samfunden har visat ett rejält uppsving tack vare den snabba nominella till-växten och den ökade sysselsättningen. Underskottet börjar åter växa 2023 i och med att skattein-täkternas tillväxt avtar samtidigt som de offentliga utgifterna växer snabbt. På grund av att under-skottet växer och den nominella tillväxten blir långsammare växer den offentliga skuldkvoten under hela prognosperioden. De stora underskotten i statsförvaltningen och lokalförvaltningen, de höjda kostnaderna för skuldhantering och den långsamma ekonomiska tillväxten gör att skuldkvoten fort-sätter stiga under de närmaste åren.

Nyckelord	ekonomiska utsikter, offentlig ekonomi, ekonomisk utveckling, ramförhandlingar.		
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SYMBOLS AND CONVENTIONS USED

-	nil
0	less than half the final digit shown
..	not available
.	not pertinent
**	forecast
CPB	CPB Netherlands Bureau for Economic Policy Analysis
HWWI	Hamburgisches WeltWirtschafts Institut
IMF	International Monetary Fund
MEAE	Ministry of Economic Affairs and Employment
MoF	Ministry of Finance
MSAH	Ministry of Social Affairs and Health

Each of the figures presented in the tables has been rounded separately.

ECONOMIC SURVEY SPRING 2023

This Economic Survey offers projections of economic developments in 2023–2025. In addition to short-term prospects, it includes a medium-term economic outlook extending to 2027.

The forecast and trend projections in the survey are prepared independently by the Ministry of Finance Economics Department based on the Act on the implementation of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union and on multi-annual budgetary frameworks (869/2012).

The forecasts are based on quarterly national accounts data published by Statistics Finland in February 2023 and on other public statistical sources available by 16 March 2023.

Helsinki March 2023

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Preface

The winds of winter appear to have cooled down the European economy to a lesser extent than previously anticipated.

The pressures in the European energy markets have turned out to be less intense than expected. The feared energy shortages have not materialised, and energy prices have returned to the level seen before Russia's invasion of Ukraine.

As the fear of an energy crisis has eased, the economic outlook in Europe has improved.

At the same time, however, concerns have increased with regard to the period of high inflation becoming prolonged and price increases becoming more widespread. Data on the tightness of the labour market maintains the fear of a wage-price spiral. Thus far, however, wages have increased less than prices on average.

The European Central Bank has indicated it will raise interest rates to prevent inflation expectations from becoming de-anchored - based on its price stability mandate.

Interest rates rising faster than previously anticipated – and to higher levels – reduce overall demand and hinder economic growth. This is particularly true for countries such as Finland, where changes in market interest rates quickly lead to changes in the interest paid on loans by households and businesses.

The rise in interest rates reduces household purchasing power in Finland this year, offsetting the favourable impact that Europe's strengthened economic outlook has on the Finnish economy.

The Finnish economy drifted into recession in late 2022. The Ministry of Finance expects stagnant growth in the first months of 2023, but the recession is projected to be moderate and short-lived. The economy will return to growth during the year.

Of course, this may change if the unease that has broken out in the financial markets threatens to escalate into a broader problem.

In any case, there is no similar relief on the horizon for general government finances as there is in the real economy. The outlook is disquieting.

Rapid inflation increases the prices of public procurement as well as the wages and benefits paid out by the public sector. Higher interest rates increase debt servicing costs. It appears that the wellbeing services counties' first years of operation will require more funding than previously anticipated.

The general government fiscal plan drawn up as the starting point for the upcoming new term of government projects a central government budget deficit of EUR 11–12 billion per year in 2024–2027. Including the deficits of the municipal sector and the wellbeing services counties, the combined deficit of the sectors will come to approximately EUR 14–15 billion.

The deficit will lead to more debt and, when the cost of debt rises, the deficits will widen further, creating a vicious spiral. Debt will start to increase at an accelerating rate relative to the economy's capacity to generate income, which determines the ability to finance the debt. The problems in the management of general government finances are escalating.

The outlook review by the officials of the Ministry of Finance called for a general government finances stabilisation programme that would cover two parliamentary terms. Curbing the increase in general government debt and stabilising the ratio of debt to total output to roughly 70% as Finland moves into the 2030s would require the scale of the stabilisation programme to be at least EUR 9 billion.

Reducing the deficits is contingent on expenditures rising slower and income growing faster than the current projections indicate.

To follow up on the outlook review by the officials, the Ministry of Finance has published an expenditure and structural review of general government finances, listing measures that can be used to mitigate the growth of expenditure or strengthen the economy’s capacity to generate income.

The Ministry of Finance has also published a tax survey, listing measures for collecting more tax revenue from the income generated by the economy for use in general government finances without excessively hindering the economy’s capacity to generate income.

Putting together a set of actions to stabilise general government finances is largely a question of scale.

Ambitious targets call for ambitious measures, whether they concern direct action that reduces expenditure and increases income, or indirect action that strengthens the economy’s capacity to generate income. Strengthening general government finances by billions of euros cannot be achieved merely by fine-tuning expenditure, taxes or the structures of the economy.

The economy’s capacity to generate income is facing a global transformation due to the mitigation of climate change and biodiversity loss and the creation and deployment of new technology. This transformation will reshape production and income generation, simultaneously opening more new opportunities in the global economy than there have been for several decades.

These opportunities hold the key to achieving the new growth that Finland needs to strengthen the revenue base of general government finances. The government can support this new growth through measures that strengthen employment and competence as well as the renewal and mobility of resources in society.

Promoting the structural transformation of the economy, strengthening the capacity to generate income and stabilising general government finances are crucial issues for the Finnish economy and our welfare state.

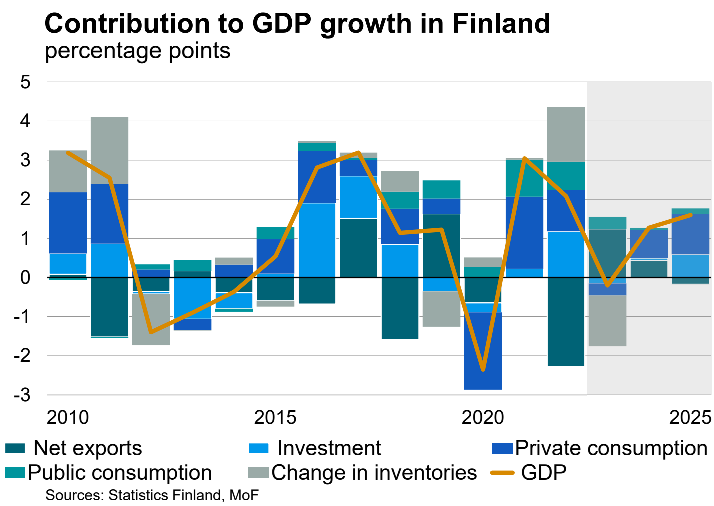
It is around these priorities that we need to build a sustainable vision for general government finances and long-term economic policy that supports that vision.

Summary

Economic outlook for the period 2023–2025

Finland's gross domestic product (GDP) turned to a slight decline in the second half of 2022. Weak economic development is expected to continue through the early part of the new year. In 2023, households will reduce their consumption expenditure due to high inflation and rising interest rates, and GDP will contract by 0.2%. With inflation slowing and wages increasing, purchasing power will turn to growth in 2023. The Finnish economy is projected to grow by 1.3% in 2024 and 1.6% in 2025. Nevertheless, the economy will not return to its previously projected path of growth, as Russia's war of aggression has longer-term impacts on the economy.

There is considerable uncertainty involved in the forecast. Russia's war of aggression in Ukraine may take turns that have significant and rapidly spreading impacts on the economy. Rising interest rates and prices have substantially reduced consumption and the volume of housing transactions, which may have greater negative impacts than what the forecast assumes. The rapid rise of interest rates have created problems in the financial markets and increased uncertainty.



Rising interest rates cast a shadow over improvements to the economic outlook

The expectations of global economic growth have improved as energy prices have fallen and the lifting of China's COVID-19 restrictions went more smoothly than anticipated. At the same time, however, inflation has not slowed as much as expected, and central banks have hiked their reference rates frequently.

Rising interest rates have a negative impact on economic growth. This is reflected particularly in the housing market and the construction sector. Housing prices have fallen and residential construction has declined in many countries, including Finland. There is also insufficient preparedness for such a rapid rise in interest rates, which has been reflected in certain banks facing problems, for example. The contagion of these problems would have a highly negative impact on the economy.

Nevertheless, inflation is still expected to slow in 2023 as the prices of food and goods turn to a decline, tracking the prices of energy and raw materials. The easing of global production bottlenecks and the substantial decline in transport costs will bring prices down. Inflation is also slowed by the rapid rise in interest rates and the subsequent decline in demand. Nonetheless, prices will remain above the pre-crisis level and there is still upward pressure on prices, particularly in the case of services.

Global economic growth is accelerating

The growth outlook in Europe has been improved primarily by the fact that the anticipated energy shortages did not materialise, and the price of energy has fallen considerably. Growth in the euro area came to a halt in the fourth quarter of 2022 but, as consumer purchasing power improves, the economy will return to growth in 2023. Growth of approximately 0.5% is projected for the full year. The euro area economy will grow while the Finnish economy contracts slightly because the growth of the euro area exceeded Finland's growth in 2022, the impact of rising interest rates will be felt sooner in the Finnish economy due to floating rate loans, and because financial support related to the energy crisis is mostly higher in the other euro area countries than in Finland.

Economic growth in the United States has remained stronger than in the euro area. The US labour market is very tight, which has increased wages. Interest rates have also risen more than in the euro area, and further interest rate hikes are expected. While this will slow economic growth in the United States, the projected US growth rate of 1.2% in 2023 will still exceed that of the euro area.

The reopening of the Chinese economy accelerates the growth of the world economy as a whole, although economic growth in China is projected to be lower than before at an average of 4.5% in 2023 and 2024. Global economic growth will accelerate to approximately 3% by 2024.

Finnish exports will benefit from global market demand

The accelerating growth of global trade will help Finnish exports turn to growth in 2023, and the rate of growth will increase in 2024. Finland's price competitiveness is good, as the recently negotiated wage increases are not higher than in the reference countries. Moreover, energy prices in Finland increased less than in the euro area on average, and the expectations concerning the price and availability of energy support the price competitiveness of Finnish production.

Although export growth is projected to be weak in 2023, net exports (exports minus imports) will have a fairly significant positive impact on economic growth. This will be due to a decline in imports, as imports to Finland were at an exceptionally high level last year. This was partly reflected in a considerable increase in inventories. The opposite will be true in 2023. Imports will decline and the change in inventories will have a negative effect on growth.

Construction activity is reduced by uncertainty and rising interest rates

Activity in the housing market has declined suddenly after the upward trend that followed the COVID-19 crisis. Rising interest rates have reduced transaction volumes and pushed housing prices downward throughout the country. This decrease is also reflected in construction, with permits and housing starts already showing a clear decline in 2022. Construction investments will decrease substantially in 2023 and 2024. Nevertheless, there is demand for housing, as immigration has increased considerably, and so has migration within the country. Indeed, the decline in construction will be temporary, even if the highs in construction activity seen in the past few years will not be repeated.

In other respects, the investment outlook is brighter, although uncertainty is slowing investment decisions. The green transition and the technology transformation are increasing investments, partly with the help of public financial support. Public funding and the newly introduced R&D tax deduction also contribute to the continued growth of investments in intangible assets. Public investment will grow in the next few years, particularly due to defence procurement.

Employment will dip from its record-high level

Employment growth has remained strong, and employment is at a record-high level. However, the declining economic situation is also reflected in the labour market. The number of vacancies has already decreased substantially, although it still remains high. Employment will turn to a delayed decline, with the number of employed people projected to decrease by approximately 0.5% in 2023. However, companies want to retain their skilled workers, and the reduction in the need for labour will mainly be achieved through pension arrangements and temporary layoffs.

As employment declines, unemployment will increase. The unemployment rate is projected to rise to 7% in 2023. Unemployment will increase particularly in the construction industry. From 2024 onwards, however, the employment situation will improve as demand turns to growth. The employment rate will rise to 74.2% by 2025. The unemployment rate will take a downward turn and fall to 6.6% in 2025.

Declining real incomes reduce consumption

Rising prices and interest rates have weakened the financial situation of households. Real purchasing power declined last year, and with it, household consumption turned to a decline in the latter part of last year. The brunt of the effect of rising interest rates will only become evident in 2023, and consumption will continue to decline through the early part of the year. The increase in interest rates has a fairly large impact on people with housing loans, particularly as household debt has risen to over 130% of disposable income.

However, the situation of households is expected to improve in 2023. Inflation will slow, while wages and social benefits will increase considerably more than usual. The real purchasing power of households will increase in 2023, which will turn consumption to growth in 2024 at the latest. This is already reflected in consumers' expectations. Their expectations concerning their own financial situation have improved substantially.

The economy will grow at a rate of approximately 1.5% in the medium term

After the outlook period, GDP growth is projected to be approximately 1.6% in 2026 and about 1.5% in 2027. These figures are still higher than the growth of potential output, which is estimated at approximately 1.1% per year between 2023 and 2027. The medium-term forecast is based on projections of potential output and the difference between projected output and potential output in 2025.

The effect of labour input on the growth of potential output is minor, while the growth of the capital stock increases the growth of potential output by approximately 0.5% per year. Total factor productivity growth is estimated to increase potential output growth by approximately 0.6% per year. This is a low figure, as the average growth in the early 2000s was over 2% per year. The labour market is expected to remain positive and the employment rate is projected to rise to 74.9% in 2027.

The improvement in general government finances will be temporary

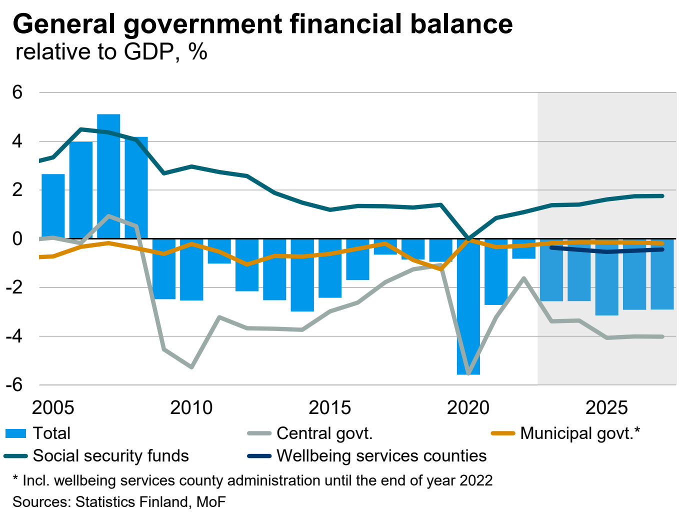
The general government deficit saw a further contraction in 2022 and came in at 0.8% of GDP, which corresponds to the pre-pandemic level. The balancing of general government finances was promoted by the strong growth of tax revenue and the cessation of a number of discretionary measures.

The improvement in general government finances will be temporary. The economy will not grow in 2023, employment will decrease, interest rates have risen, and inflation is starting to have an impact on general government expenditure. Due to all of these factors, the general government deficit will start to increase. In addition, general government finances are weakened by several discretionary measures, the most significant of which are the many preparatory measures taken in response to Russia’s war of aggression. Irrespective of economic cycles, general government finances are also structurally weakened by the ageing of the population.

The general government deficit in 2023 will be 2.6% of GDP, and it will then increase gradually to approximately 3.1% of GDP in 2025. The deficit will narrow slightly in the medium term and amount to approximately 2.9% of GDP in 2027. Among the subsectors, the largest deficit is in central government, where the deficit will be 3.4% of GDP in 2023 and 4.0% of GDP in 2027. The wellbeing services counties are also starting their operations in deficit, and that is not projected to change during the outlook period. The deficit in municipal finances is projected to remain moderate throughout the outlook period, and social security funds will be in surplus by a significant margin.

Having decreased temporarily, the general government debt ratio will begin to grow quickly again this year. The debt ratio will be kept on an upward trajectory far into the future by substantial deficits in central government and local government, and rapidly rising debt servicing costs. The debt ratio is projected to exceed 80% in the medium term. In the longer term, general government finances will be in structural deficit, and general government finances have a large sustainability gap that amounts to approximately 3.0% of GDP.

The current parliamentary term will end in 2023, and the projection of general government finances is based on the assumption of unchanged policy, meaning that no predictions have been made concerning any actions potentially taken by the next government. The set of measures taken by the next government may have a significant impact on the deficit and debt.



The forecast involves significant uncertainties

The forecast is based on the assumption that the sanctions and the impact of Russia's war of aggression on economic relations will remain at the current level. The war will have a negative impact on the economy throughout the outlook period, but the impact will be mitigated by the economy adapting to the new circumstances.

The war represents a significant risk factor in the forecast. Other significant geopolitical risks include the growing tensions between China and the West, as well as tensions in trade for strategic products. There are also significant risks associated with the financial markets, housing markets and household consumption behaviour due to the sharp rise in interest rates and prices.

It is very much a possibility that developments in the war in Ukraine or Russia's internal developments will give rise to new negative impacts on the world economy and the Finnish economy. Should this occur, the development of economic growth and employment would be weaker than projected. On the other hand, an end to the war and the start of reconstruction would have significant positive effects on the economy.

The increasing tensions between China and the West also constitute a significant risk. This may lead to increased barriers to trade, an escalation of technological competition, growing geopolitical uncertainty and disruptions to global supply chains. This would have a negative impact on the growth of the global economy as a whole. China is also an important export market for Finland and the source of many critical raw materials and products.

The exceptionally rapid rise of interest rates is another factor that creates uncertainty with regard to economic development. The financial markets and the banking sector had grown accustomed to very low interest rates. Rising interest rates have a negative impact on the balance sheet value of all banks, at least in the short term. This should not be a problem for healthy banks, as rising interest rates also increase their income. For banks that are in difficulties for other reasons, however, the shrinking balance sheets may be too much to handle. Rising interest rates can also cause problems to the customers of banks. Indeed, it is a real possibility that we will see the emergence of more problems internationally in the banking sector and the broader financial markets.

There is also uncertainty associated with the housing markets and consumer behaviour. Rising prices and interest rates have created a fairly large dent in household finances. The decline in consumption and in the housing market may be deeper and longer-lived than what the forecast assumes. At the same time, the assumption concerning the recovery of consumption in response to slowing inflation is quite moderate. It is possible, particularly if uncertainty were to diminish, for household consumption to grow faster in 2024 and 2025. This would also make GDP growth faster than projected.

The risks of general government finances are closely linked to the risks of the real economy: economic growth, unemployment, inflation and interest rates are the most relevant factors. The geopolitical situation is also directly reflected in general government finances through the aforementioned channels, as the situation requires precautionary measures.

In the longer term, high debt presents a risk to general government finances. No reduction to the debt ratio is in sight. The rapid growth of debt, paired with high interest rates, has already increased interest expenses. The significant increase in interest expenses will intensify in the medium term, and there is no relief on the horizon. The recent events in the banking sector do not provide any reason to change this assessment.

The uncertainty of the economic forecast can be illustrated with confidence intervals based on previous forecasting errors and built around the forecast. The confidence intervals describe the interval in which the actual figures have landed in previous forecasts with a probability of 80%. However, these confidence intervals only reflect the normal uncertainty involved in forecasts, and they do not take into account the special risk factors present in each instance of forecasting.

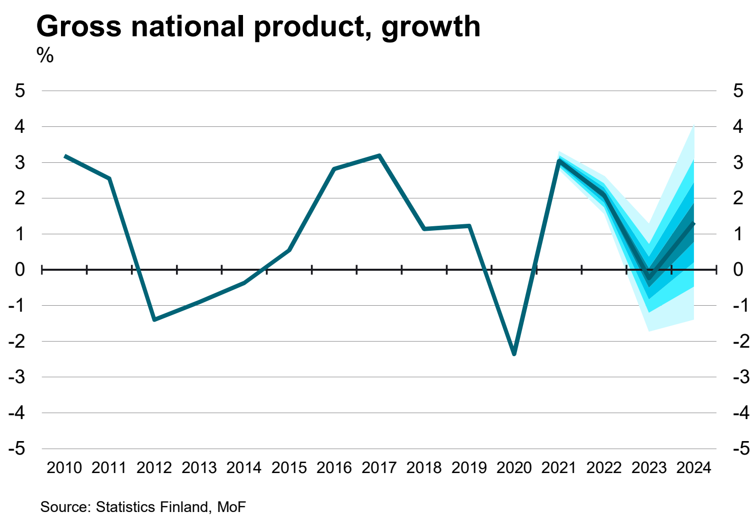


Table 1. Key forecast figures

	2021	2020	2021	2022	2023**	2024**	2025**
	EUR bn	change in volume, %					
GDP at market prices	251	-2.4	3.0	2.1	-0.2	1.3	1.6
Imports	99	-6.2	6.0	7.5	-1.5	2.8	4.1
Total supply	**349**	**-3.4**	**3.8**	**3.6**	**-0.6**	**1.8**	**2.4**
Exports	99	-7.8	6.0	1.7	1.2	3.9	3.8
Consumption	190	-2.3	3.7	2.3	0.0	1.0	1.5
private	128	-3.8	3.6	2.1	-0.6	1.4	2.0
public	62	1.2	3.9	2.9	1.3	0.2	0.6
Investment	59	-1.0	0.9	5.0	-0.6	0.2	2.5
private	49	-3.3	4.1	6.1	-2.6	-0.1	0.2
public	10	9.3	-11.8	-0.0	9.5	1.6	12.1
Total demand	**349**	**-3.4**	**3.8**	**4.0**	**-0.6**	**1.7**	**2.3**
domestic demand	250	-1.7	3.0	4.9	-1.4	0.8	1.7

Table 2. Other key forecast figures

	2020	2021	2022	2023**	2024**	2025**
GDP, EUR bn	238	251	267	277	287	298
Services, change in volume, %	-2.9	4.3	2.8	1.7	1.2	1.0
Industry, change in volume, %	-1.5	2.0	2.5	-1.5	0.9	1.8
Labour productivity, change, %	0.2	0.9	1.8	1.0	1.0	1.1
Employed labour force, change, %	-1.5	2.4	2.5	-0.4	0.3	0.4
Employment rate, %	70.7	72.3	73.8	73.6	73.8	74.2
Unemployment rate, %	7.7	7.7	6.8	7.0	6.8	6.6
Consumer price index, change, %	0.3	2.2	7.1	5.5	2.5	1.6
Index of wage and salary earnings, change, %	1.9	2.4	2.4	4.6	3.8	3.1
Current account, EUR bn	1.3	1.2	-10.3	-4.9	-3.5	-4.2
Current account, relative to GDP, %	0.6	0.5	-3.9	-1.8	-1.2	-1.4
Short-term interest rates (3-month Euribor), %	-0.4	-0.5	0.3	3.5	3.6	2.6
Long-term interest rates (10-year govt. bonds), %	-0.2	-0.1	1.7	3.3	3.4	3.2
General government expenditure, relative to GDP, %	57.2	55.8	53.4	55.4	55.5	55.7
Tax ratio, relative to GDP, %	41.8	43.1	43.1	42.6	42.4	42.1
General government net lending, relative to GDP, %	-5.6	-2.7	-0.8	-2.6	-2.6	-3.1
Central government net lending, relative to GDP, %	-5.5	-3.2	-1.6	-3.4	-3.4	-4.1
General government gross debt, relative to GDP, %	74.7	72.6	73.0	74.4	76.9	79.0
Central government debt, relative to GDP, %	52.4	51.4	53.1	54.5	56.7	58.5

1 Economic outlook

1.1 International economy

1.1.1 Global economy

The outlook of the world economy remains uncertain in spite of brightening slightly during the first months of the year. The economic outlook improved after the turn of the year, particularly in Europe, although high inflation is having a negative impact on economic growth. The feared energy shortages did not materialise during the winter. In the United States, inflation has been slowing since the late summer of 2022. The growth outlook has improved due to the reopening of the Chinese economy after a 180-degree turn in the country's COVID-19 policy. At the same time, the continued uncertainty caused by Russia's war of aggression is casting a shadow over the outlook of the world economy. Geopolitical tensions, such as China–US relations and the convergence between Russia and many emerging countries, are creating uncertainty. The world economy is projected to grow by 2.4% in 2023, and growth is expected to accelerate to 3% in 2024.

The economic outlook in the United States is dominated by a very tight labour market and low unemployment. The dynamism of the economy feeds expectations of continued tight monetary policy by the Federal Reserve, which, for its part, dampens the prospects of economic growth. Consumer confidence has improved, but the expectations of future development remain pessimistic. The depreciation of the US dollar relative to the euro is reflected in the recovery of new export orders. Total output will grow by 1.2% this year, and growth will accelerate to 2.3% next year.

China's economic outlook has improved after the confusion created by the reversal in COVID-19 policy at the end of last year. Consumer confidence has increased and the outlook for services, in particular, has improved after the prolonged subdued period caused by the pandemic-related restrictions. There are still significant risks in the economy, particularly the difficult situation in the real estate market and the related local government debt. The Chinese economy is projected to grow by 4.4% in 2023, and growth is expected to accelerate to 4.6% in 2024.

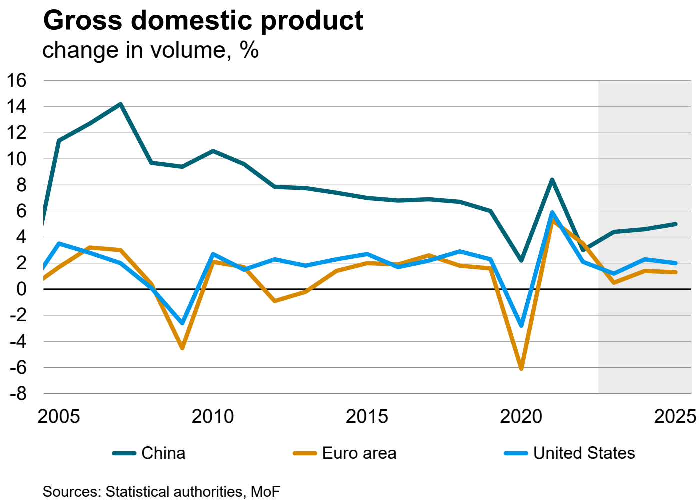
The sharp depreciation of the Japanese yen against other major currencies supports the otherwise subdued growth prospects of the Japanese economy. The outlook is weakened by labour shortages caused by the ageing of the population and low immigration. Uncertainty pertaining to central bank policy and yield curve control have particularly caused unease in the financial markets. Interest on central government debt has been subject to upward pressure in particular. The economy will grow by 1.3% this year and by 1.2% next year.

The turbulence in the energy markets dampened economic growth in the euro area in 2022. In the fourth quarter, the economy did not grow at all compared to the preceding quarter. At the same time, however, the feared energy shortages did not materialise during the winter, and the situation in the energy markets has settled down over the past couple of months. Purchasing managers' indices suggest an improvement in the outlook for services, in particular, but high inflation is restricting the growth of private consumption. The fiscal policy measures taken to dampen the effects of inflation are expected to be focused on the expenditure side. Economic growth will be low this year at 0.5%, but growth will recover to 1.4% next year as inflation pressures ease and private consumption improves.

The outlook of the UK economy is overshadowed by continued high inflation and general uncertainty. Real investment has only recently returned to the level seen at the time of the Brexit referendum in summer 2016. The withdrawal from the EU has a negative impact especially on many export companies. At the same time, the credibility of economic policy has improved thanks to the measures taken by the current government. Total output will contract by 0.5% this year. Growth is projected to then recover to 1% in 2024.

In Sweden, the economic outlook is subdued and characterised by general uncertainty. Total output contracted fairly significantly in the final quarter of 2022. Leading indicators suggest a rather difficult outlook for the near term. At the same time, exports are supported by the weak krona. Total output will contract by 0.5% this year. The economy will return to growth of 1% in 2024 as inflation slows and real incomes recover.

Russia's economic outlook is dominated by the uncertainty caused by the war of aggression against Ukraine. The Russian economy is hampered by the crude oil import ban imposed by the EU in December and the ban on the import of oil products, which entered into effect in February. The federal deficit has widened considerably as oil and gas revenues have contracted while war-related expenditure and social expenditure – particularly directed at poorer regions – have increased significantly. There are severe labour shortages in certain industrial sectors. There are signs of sanctions being circumvented through parallel imports. Total output is projected to contract by 2.5% in 2023 and by 0.5% in 2024.

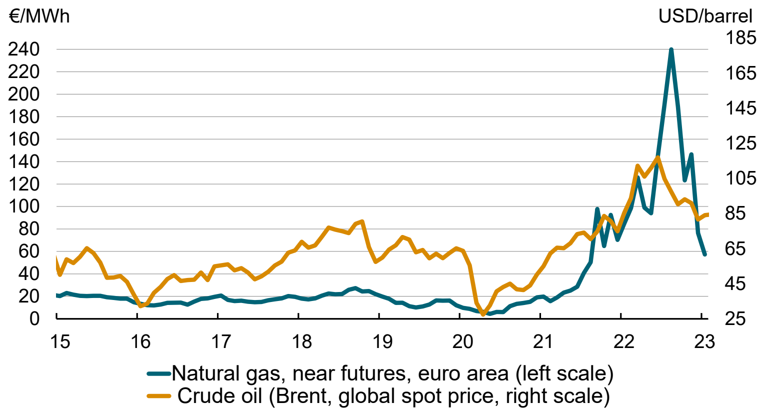


The global financial markets have been turbulent during spring 2023 due to the uncertain situation of the banking sector. Otherwise the big picture is dominated by the inflation outlook and expectations of the future direction of central bank policy. The rapid rise in interest rates has dampened stock market performance. The development of the main stock indices has been subdued for over a year now. Interest rates on sovereign bonds in the euro area have risen, particularly after the start of Russia's war of aggression. At the same time, the gap between the interest rates of the sovereign bonds of other countries and Germany has narrowed slightly since the fourth quarter of 2022. The significant changes in expectations concerning inflation and interest rates have increased uncertainty in the markets.

The rise in consumer prices levelled off in the United States in the late summer and in the euro area starting from autumn 2022. However, core inflation continues to accelerate in the euro area. Continued inflationary pressures are increasing the markets' expectations concerning the ultimate level of the central banks' key interest rates and, consequently, market interest rates. At the same time, however, the prevailing view is that the risk of a price-wage spiral in key economies is low.

Energy prices have fallen, particularly in Europe. The feared energy shortages did not materialise during the winter. Natural gas and electricity futures indicate that the markets are settling down. The development of the price of crude oil has been moderate for a good while now. Industrial raw material prices appear to have settled at a level that is higher than in the previous years. This reflects the growth in the demand for certain raw materials that is driven by the structural transformation of industry.

Raw material prices



Sources: Intercontinental Exchange (ICE), Macrobond

1.1.2 World trade

Due to the uncertainty in Europe and the changes in China's COVID-19 policy, the development of world trade was modest in the latter part of 2022. This led to a substantial negative carry-over effect for this year. At the same time, bottlenecks in various markets have eased and freight costs have decreased. After subdued growth of 3% this year, the growth of world trade will accelerate to 4.5% next year, driven by the recovery of the global economy. Geopolitical tensions have led to many countries primarily trading with countries they are on amicable terms with. This may limit the growth of world trade as a whole.

Sources: CPB Netherlands Bureau for Economic Policy Analysis, Statistics Finland, MoF

1.1.3 Risks

Risks associated with the outlook of the global economy are still skewed to the downside. The situation of the banking sector may worsen. If Russia's war of aggression were to develop in an undesirable direction, the expectations of an economic recovery in Europe would be dampened. There is also a risk of energy prices rising anew in winter 2024. The potential escalation of tensions between China and the United States would weaken the outlook for world trade and the global economy.

The positive risks include inflation slowing faster than expected due to cost pressures easing in the key economies. This could lead to a stronger-than-anticipated economic recovery. If Russia's war of aggression were to end this year, consumer confidence would improve and Ukraine's reconstruction would support the recovery of demand, particularly in Europe.

Table 3. Gross domestic product

	2020	2021	2022	2023**	2024**	2025**
	change in volume, %					
World (PPP)	-3.0	6.5	3.0	2.4	3.0	3.0
Euro area	-6.3	5.5	3.4	0.5	1.4	1.3
EU	-6.0	5.2	3.2	0.4	1.4	1.3
Germany	-4.1	2.6	1.9	0.1	1.3	1.3
France	-7.9	6.8	2.6	0.4	1.5	1.2
Sweden	-2.3	4.8	2.4	-0.5	1.0	1.5
United Kingdom	-11.0	7.6	4.1	-0.5	1.0	1.0
United States	-2.8	6.1	2.1	1.2	2.3	2.0
Japan	-4.3	2.3	1.0	1.3	1.2	0.6
China	2.2	8.4	3.0	4.4	4.6	5.0
India[1]	-6.8	9.5	6.8	6.3	5.9	6.0
Russia	-2.7	5.6	-2.1	-2.5	-0.5	0.0

[1] Fiscal year

Sources: Statistical authorities, MoF

Table 4. Background assumptions

	2020	2021	2022	2023**	2024**	2025**
World trade growth, %	-5.0	10.8	3.9	3.0	4.5	4.6
USD/EUR	1.14	1.18	1.05	1.07	1.07	1.08
Industrial raw material price index, EA, € (2015=100)	100.0	140.1	154.6	139.3	137.8	134.5
Crude oil (Brent), $/barrel	43.4	70.7	98.7	83.0	78.5	74.9
3-month Euribor, %	-0.4	-0.5	0.3	3.5	3.6	2.6
Government bonds (10-year), %	-0.2	-0.1	1.7	3.3	3.4	3.2
Export market share (2010=100)[1]	97.0	92.8	90.7	88.5	88.2	88.0
Import prices, %	-4.9	9.7	19.5	-2.7	-0.5	1.8

[1] Ratio of export growth to world trade growth

Sources: CPB, Macrobond, HWWI, Statistics Finland, MoF

1.2 Foreign trade

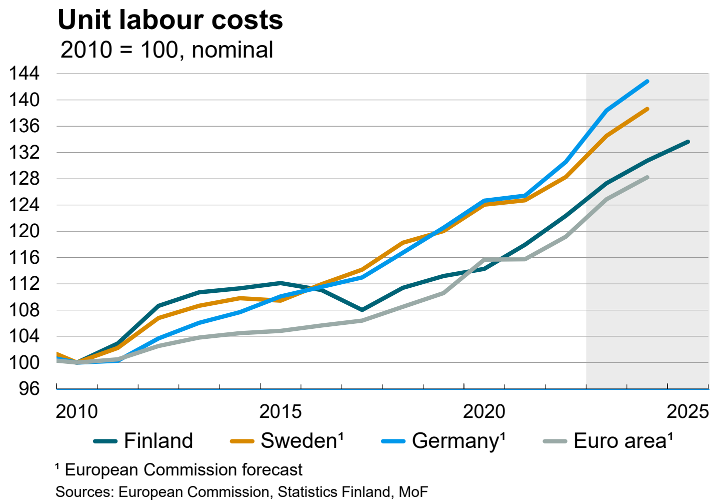
1.2.1 Exports and imports

Import growth in 2022 exceeded expectations and came to 7.5%. The post-pandemic recovery of consumption boosted imports particularly in the early part of the year. Foreign travel by Finns grew quickly, increasing imports of services. The strong growth of imports also reflected the trend of companies preparing for uncertainties related to logistics. Exports also grew in 2022, but only by 1.7%. Export growth was lower than import growth, although some companies that previously engaged in trade with Russia were able to find other markets to partially replace Russia.

The development of foreign trade in 2023 is anticipated to be weaker than in the previous year. However, the world economy is expected to pick up starting from the latter part of 2023, and Finland's key export markets will be part of that growth to a good extent. In addition, the Chinese market has reopened quickly, which improves the export outlook for Finland. Finland's price competitiveness will remain good throughout the outlook period, as wages are not expected to rise faster than in the competing countries, and energy costs are competitive compared to other countries.

Table 5. Foreign trade

	2020	2021	2022	2023**	2024**	2025**
	change in volume, %					
Exports of goods and services	-7.8	6.0	1.7	1.2	3.9	3.8
Imports of goods and services	-6.2	6.0	7.5	-1.5	2.8	4.1
	change in price, %					
Exports of goods and services	-3.4	9.8	18.7	-2.3	-0.4	1.7
Imports of goods and services	-4.9	9.7	19.5	-2.7	-0.5	1.8



In the latter part of 2023, Finnish exports will benefit from the growth of the global economy and international trade, albeit slowly. Exports will grow by 1.2% in 2023, which will be below the growth of export demand. However, the export of goods will grow in line with export demand in the subsequent years, and the growth of service exports will also accelerate. In 2024, export growth will reach 3.9%, with further growth of 3.8% projected for 2025.

Imports were particularly strong in 2022, which was partly due to companies taking precautionary measures in response to the exceptional circumstances. This trend is not anticipated to continue in 2023. Instead, the expectation is that companies will seek to reduce their inventories during the outlook period as the global production bottlenecks and logistics problems abate. Furthermore, the impact of rising interest rates on consumer purchasing power will become more evident in 2023. Imports will decrease by 1.5% in 2023, compared to the previous year. However, imports will be supported by public investment, such as defence procurement, as well as the gradual recovery of consumption and production towards the end of the outlook period. Export growth is projected to be 2.8% in 2024 and 4.1% in 2025.

1.2.2 Prices and current account

Import and export prices increased sharply in 2022, which was attributable to strong growth in prices in the foreign trade of goods. The rapid rise in prices was driven by the higher prices of energy products, but the prices of many other products increased as well. The fastest quarterly growth in prices took place in the first half of the year, and the rate of price increases levelled off towards the end of 2022.

There are various factors at play with regard to the development of prices during the outlook period, with some of them having an increasing effect and others a decreasing effect. The import prices of energy products have decreased in early 2023, and this trend is anticipated to continue towards the end of the outlook period. The easing of global production bottlenecks and logistics problems will also push the prices of imported goods downward. At the same time, however, inflation has remained above the expected levels in the euro area in early 2023, and prices have increased considerably in the first months of the year. Moreover, wages have risen in Finland's key export and import markets and in the Finnish job market, and this is expected to continue throughout the outlook period.

The import and export prices of goods are projected to decrease in 2023, driven particularly by the anticipated decline in energy prices. Import prices will decrease by 2.7% and export prices by 2.3% in 2023. While prices will turn to an increase in 2024, the annual change in prices will still be negative at -0.5% for imports and -0.4% for exports. Prices will then continue to increase towards the end of 2025.

The current account showed a deficit of EUR 10.3 billion in 2022, which was considerably higher than previously projected. The deficit was attributable to trade in goods and services, as well as primary income and income transfers. Net exports will be positive in 2023 due to moderate export growth and the contraction of imports. This will reduce the trade deficit for goods and services and have a positive effect on the current account. During the outlook period, the current account deficit will decrease to EUR 4.9 billion in 2023 and EUR 3.5 billion in 2024, but the current account will remain in deficit towards the end of the outlook period.

The current account to GDP ratio is projected to be -1.8% in 2023 and -1.2% in 2024.

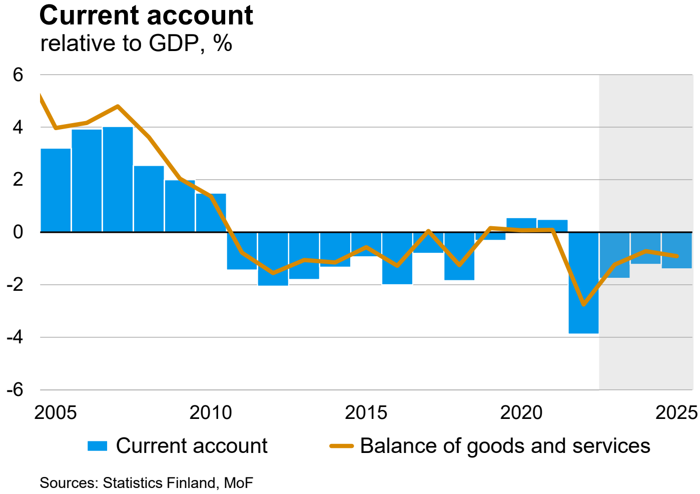


Table 6. Current account

	2020	2021	2022	2023**	2024**	2025**
	EUR bn					
Balance of goods and services	0.2	0.2	-7.3	-3.4	-2.1	-2.7
Factor incomes and income transfers, net	1.1	1.0	-3.0	-1.5	-1.5	-1.5
Current account	1.3	1.2	-10.3	-4.9	-3.5	-4.2
Current account, relative to GDP, %	0.6	0.5	-3.9	-1.8	-1.2	-1.4

1.3 Domestic demand

1.3.1 Private consumption

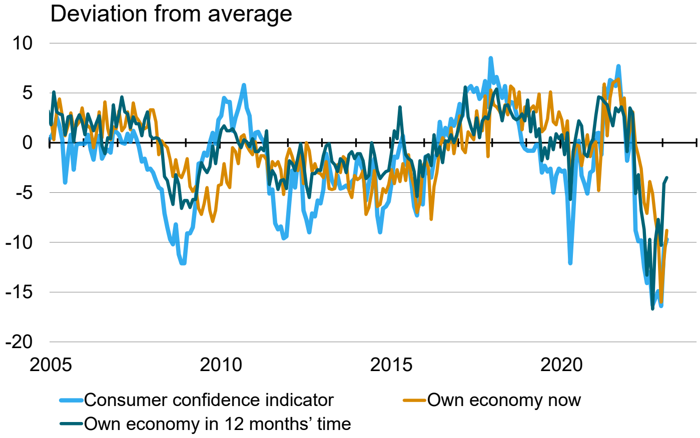
Private consumption increased by 2.1% last year. Growth was driven by service consumption, which increased by almost 6%. At the same time, consumption declined substantially for durables as well as non-durables, such as energy and food.

The rapid rise in consumer prices reduced household purchasing power last year. While the rate of price increases will slow substantially this year, price levels remain high relative to the disposable income of households. As the housing loans of households are mainly linked to the 12-month Euribor rate, the brunt of the effect of higher interest rates will be borne by households this year.

Total private consumption will decrease by 0.6% in 2023 as the high price level and rising interest rates slow the growth of real household incomes. The growth of the sum of wages and salaries will also slow slightly this year as the employment situation becomes weaker, although wage and salary earnings will increase substantially. With the savings ratio having turned negative last year, it also does not support the growth of consumption.

In 2024, private consumption will turn to growth of 1.4% as real wages increase and the rise in interest rates levels off.

Consumer confidence



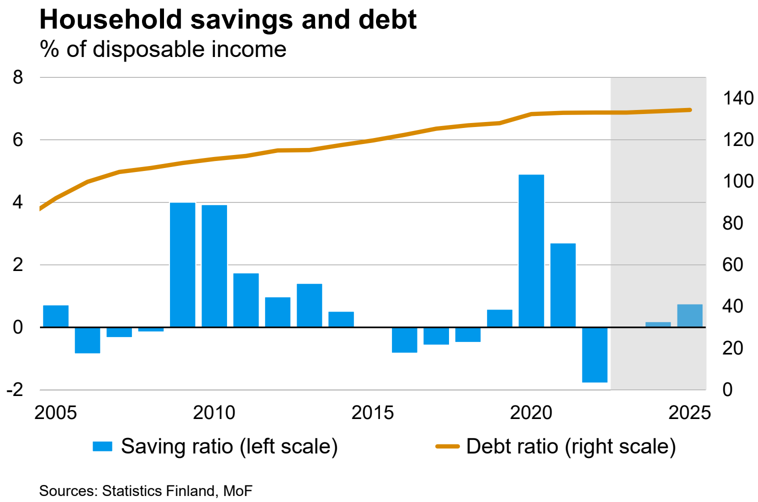
Sources: Statistics Finland

The consumer confidence indicator finally took a turn for the better in January–February. Consumers' assessment of the current state of their own financial situation after 12 months reached a positive figure, which means that over half of the respondents expect their financial situation to be better next winter. It seems that energy prices rising less than expected during the winter has brightened the outlook for consumers.

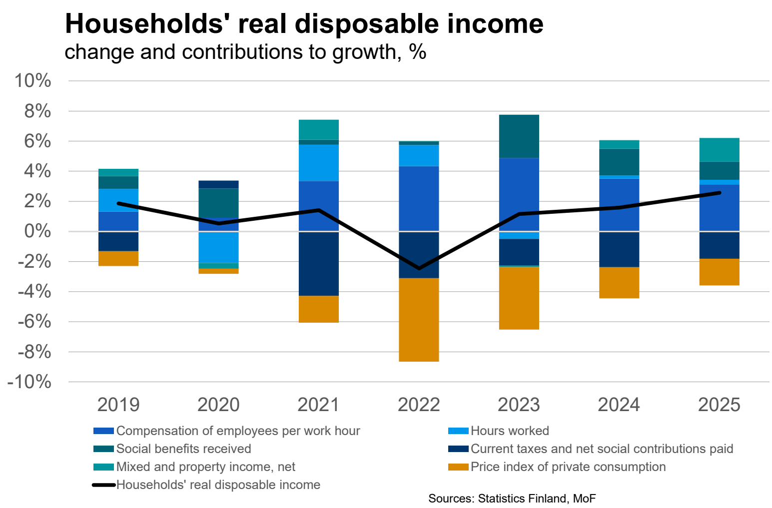
Consumption of durables declined by nearly 10% in 2022. In the retail sector, Christmas sales were even weaker than anticipated. First registrations of cars remained at a very low level in January. Based on consumer confidence surveys, purchasing intentions concerning durables were still very negative in February, although they had improved from the lows seen in December. The prolonged downward trend in durables consumption will level off in 2023, but consumption for the year is still projected to show a slight contraction. In 2024, durables consumption will turn to growth as household purchasing power improves.

Non-durables consumption decreased by 3.6% in 2022, marking the largest drop in the time series data of the national accounts dating back to 1975. Households have reacted to the exceptionally sharp rise in the prices of energy, fuel and food by reducing their consumption of electricity and other non-durables. Due to the high price level and negative carry-over effect, non-durables consumption will also decrease substantially in 2023. With the prices of energy and food levelling off, non-durables consumption will turn to growth in 2024.

Service consumption grew by nearly 6% in 2022 as international travel and the consumption of restaurant services recovered from the impacts of COVID-19. However, the growth of consumption stopped in the fourth quarter. The outlook for services is negatively affected by weakening household purchasing power and inflation starting to increasingly affect the prices of services. Service consumption is not projected to grow much at all in 2023. When purchasing power turns to growth in 2024, service consumption will begin to recover again.



The household savings ratio turned negative by a clear margin last year as consumption increased faster than disposable income. The savings ratio is projected to turn positive again during the outlook period when the rise in wage and salary earnings first matches and ultimately exceeds the rate of increase of consumer prices. The increase in the household debt ratio is expected to level off this year as interest rates rise and the demand for housing loans declines.



[1] The contribution of taxes and social security contributions paid as well as the price of private consumption are shown with negative sign, as any increase in these items reduces the real disposable income of households.

Real disposable income, which measures the combined purchasing power of households, declined by over 2% in 2022, as the exceptionally rapid increase in consumer prices fully ate up the increase in disposable income.

Households' real disposable income is projected to rebound this year as inflation slows, average earnings rise and social benefits increase substantially due to cost-of-living index increases. The increase in the price of private consumption is projected to slow to just over 4% in 2023 and approximately 2% in 2024.

Table 7. Consumption

	2021	2020	2021	2022	2023**	2024**	2025**
	share, %	change in volume, %					
Private consumption	100.0	-3.8	3.6	2.1	-0.6	1.4	2.0
Households	95.9	-3.9	3.9	2.1	-0.6	1.4	2.0
Durables	8.0	2.4	3.1	-9.9	-1.5	3.0	6.0
Semi-durables	7.5	-9.4	12.0	1.7	0.9	1.6	2.7
Non-durable goods	28.9	2.4	3.8	-3.6	-2.4	1.2	1.8
Services	51.4	-6.7	2.9	5.9	0.3	1.2	1.4
Consumption by non-profit institutions	4.1	0.5	-2.7	1.8	0.0	1.3	2.0
Public consumption		1.2	3.9	2.9	1.3	0.2	0.6
Total		**-2.3**	**3.7**	**2.3**	**0.0**	**1.0**	**1.5**
Households´ disposable income		0.9	3.2	3.0	5.4	3.7	4.4
Private consumption deflator		0.3	1.8	5.5	4.2	2.1	1.8
Households´ real disposable income		0.5	1.4	-2.5	1.2	1.6	2.6
		%					
Consumption in relation to GDP (at current prices)		75.4	75.8	76.2	76.5	76.5	76.6
Household savings ratio		4.9	2.7	-1.8	0.0	0.2	0.8
Household debt ratio[1]		132.4	133.0	133.1	133.1	133.7	134.4

[1] Household debt at end-year in relation to disposable income

1.3.2 Public consumption

According to preliminary information on the national accounts, the growth rate of public consumption slowed to 2.9% in 2022. However, it should be noted that the previous year's growth rate was record-high. The factors behind the slowing of growth included the decline in additional expenditure associated with COVID-19.

Public consumption growth is projected to continue to slow in 2023. Many once-off additional expenditure items will come to an end at the conclusion of the government term. At the same time, however, a large number of appropriations were pushed back from last year to this year. Consumption growth will also be maintained by the increase in age-related expenditure, the transition costs arising from the start-up and organisation of the wellbeing services counties' operations, and the rise in preparedness costs and immigration-related expenses caused by Russia's war of aggression. Public consumption growth will continue to slow in 2024 due to factors including the front-loaded nature of consumption expenditure financed with the Recovery and Resilience Facility and a decline in transition costs arising from the start-up and organisation of the wellbeing services counties. Consumption growth is projected to accelerate slightly in 2025. One example of the factors accelerating growth is the projected increase in integration expenses. It should be noted that decisions by the new government may significantly influence the development of general government spending.

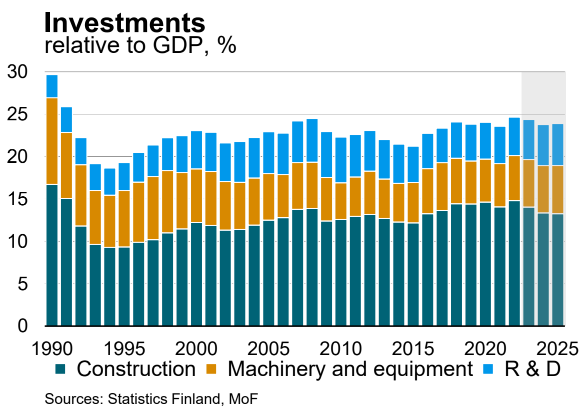
The value of general government spending will be increased during the outlook period particularly by the rapidly rising prices. The increased inflation is yet to fully affect the cost of general government spending due to long-term outsourcing agreements, for example. The impact of rising prices on general government finances is partially delayed. In addition, personnel costs in general government finances are rising quickly due to wage increases that are substantially larger than in previous years. The agreements signed concerning public sector employees include not only negotiated increases that are in line with the general wage increases across the economy but also a separate pay programme for the municipal and wellbeing sector and, for the wellbeing services counties, a wage harmonisation agreement for 2023–2026.

1.3.3 Private investment

Economic uncertainty reduces private investment during the outlook period. Construction accounts for approximately half of total investment, and the slowing of residential construction was clearly evident in the latter part of 2022. From 2021 to spring 2022, housing starts were higher than average. The decline that began thereafter will gradually be reflected in the number of completed residential buildings. The decrease in construction activity will be evident in investment all the way until 2024 before a turn to new growth is seen.

The investment outlook for Finnish industry was still positive at the beginning of the year, and the investment environment can be characterised as stable. However, investment projects may be delayed or suspended due to uncertainty regarding interest rates and inflation. However, the economic outlook in Finland and in the global economy does not suggest that this situation will be permanent. Financing from the EU's Recovery and Resilience Facility (RRF) has a positive impact also on private investment during the outlook period, particularly in the field of energy technology.

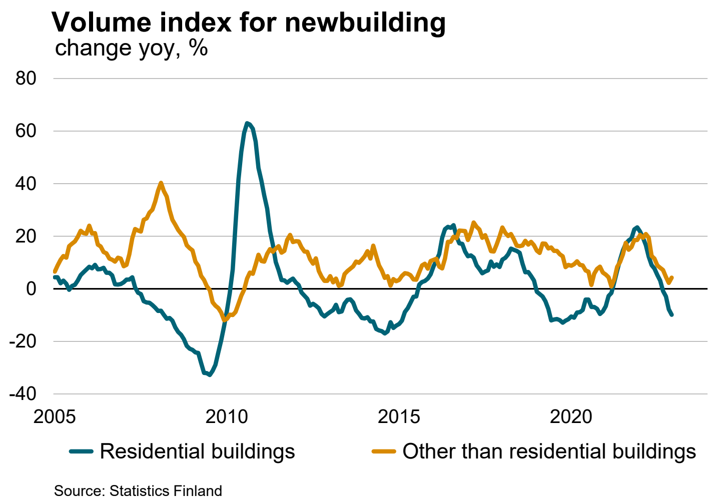
Private investment is projected to decline by 2.6% in 2023 and decrease by a further 0.1% in 2024. Investment is expected to turn to growth in 2025. Over the entire outlook period, private investment will grow at an average rate of 1%. The ratio of fixed asset investments to GDP will remain at 23%. The ratio of private investment to GDP is approximately 19%.



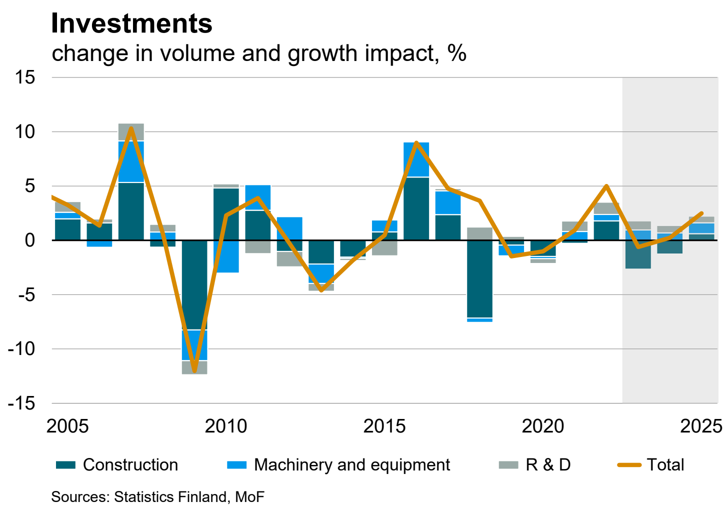
Investments in residential construction will turn to a clear decline in 2023. In 2022, residential investments grew by 7%. The sharp decline in the demand for housing loans in early 2023 has created uncertainty in the housing market. The uncertainty stems not only from the past and projected development of interest rates but also the other rising costs related to housing. The risk of dwellings being left unsold could lead to an even sharper decline in housing starts due to construction companies electing not to proceed with previously planned projects.

Repair construction is maintaining investment, but its growth is also slowing. The potential in repair construction lies particularly in energy solutions, but the economic situation is hindering the implementation of projects.

Housing construction investments will decline in 2023 and 2024, with a return to growth expected in 2025. The rate of decline is projected to be -6.0% in 2023 and -4.0% in 2024. Although the forecast of housing construction includes a risk of an even sharper decline, residential construction still has continuous potential. The need for housing production is maintained by both urbanisation and immigration. Towards the end of the outlook period, the number of housing starts will decline to a level that is closer to the long-term average



Non-residential building construction investments have been declining slightly for the past three years. Non-residential building construction investments include industrial properties, warehouses and commercial properties. The expectations concerning facilities construction are, however, more positive compared to residential construction, and a turn to growth is expected to take place in 2024. Investment projects in facilities construction are affected by the prevailing uncertainty and weak growth outlook of the economy. Non-residential building construction investments are projected to decrease by 2% this year and turn to growth of approximately 0.5% in 2025. Civil engineering will decline in step with other construction.



Private machinery and equipment investments are dampened in 2023 by the decline in demand, which has led to the underutilisation of production capacity. At the same time, investment growth is supported by the green transition, which will drive investments in energy production, in particular, in the coming years. Nevertheless, the level of activity in energy investments will be somewhat slower in 2023 compared to the record-breaking pace seen in 2022. Energy investments will reduce the price of clean energy in Finland in the coming years, which will also support the growth of production-related investments. The green transition also accelerates the replacement of old, polluting technology with new technology, and this will increase investments in machinery and equipment.

R&D investments increased by approximately 6% annually in 2021 and 2022. They will continue to grow during the outlook period, albeit at a slower rate. This growth is required by the target of increasing Finland's R&D spending to 4% of GDP by 2030. In practice, growth is supported by the tax deduction for R&D expenditure that entered into effect at the beginning of 2023, as well as financial support and loans under the EU's Recovery and Resilience Facility. In addition, companies have incentives to increase their R&D as the technological transformation changes production methods...

Table 8. Fixed investment by type of capital asset

	2021	2020	2021	2022	2023**	2024**	2025**
	share, %	change in volume, %					
Buildings	50.7	-2.4	-0.4	3.0	-4.4	-2.2	1.1
Residential buildings	29.6	-3.2	2.8	7.0	-6.0	-4.0	1.0
Non-residential buildings	21.1	-1.5	-4.7	-2.6	-2.0	0.5	1.2
Civil engineering construction	8.9	10.7	-7.5	18.4	-4.0	-3.0	1.0
Machinery and equipment	21.6	-1.0	3.9	2.8	5.0	3.5	5.0
R&D-investments[1]	18.8	-2.5	5.8	6.5	5.0	4.0	3.5
Total	**100.0**	**-1.0**	**0.9**	**5.0**	**-0.6**	**0.2**	**2.5**
Private	82.3	-3.3	4.1	6.1	-2.6	-0.1	0.2
Public	17.7	9.3	-11.8	-0.0	9.5	1.6	12.1
		%					
Investment to GDP ratio (at current prices)							
Fixed investment		24.0	23.6	24.7	24.4	23.8	23.9
Private		19.2	19.4	20.5	19.9	19.3	18.9
Public		4.8	4.2	4.1	4.5	4.5	5.0

[1] Includes cultivated assets and intellectual property products

1.3.4 Public investment

Public investment has been high in recent years, accounting for more than 4% of GDP. The ratio of investment to GDP will increase further in the coming years, particularly as a result of the Finnish Government's decisions to strengthen defence capabilities and border control. In Finland, the ratio of public investment to GDP is higher than in the EU countries on average.

Last year, public investment was increased by R&D investments and infrastructure projects, among other factors. The EU's Recovery and Recovery Facility (RRF) will increase financing for investments promoting the green transition and digitalisation.

In 2023, public investment is projected to grow substantially from the previous year due to the strengthening of cyber security, border control and national defence. Construction of the eastern border barrier fence is one large project that will start next year. A decision has also been made on increasing the level of spending on the procurement of defence materiel. RRF investment funding will also increase slightly from the previous year, while the additional spending on transport infrastructure investments decided on by the Government will decline. The number of investment projects in healthcare and social welfare services remains high.

In 2024, public investment will grow slightly. Defence expenditure remains high, and new legislation on R&D funding that was approved at the beginning of 2023 will considerably increase the central government's R&D spending from 2024 to 2030. The target is to increase R&D expenditure, together with the private sector, to 4% of GDP by 2030. In local government, investment pressure will continue due to population migration and the repair backlog of the building stock.

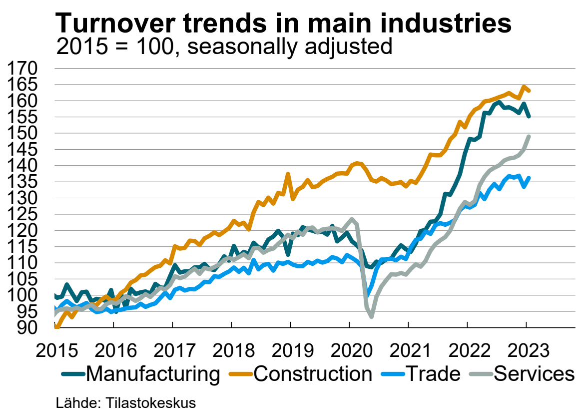
The first deliveries of the Finnish Air Force's multirole fighter aircraft are expected towards the end of the outlook period, in 2025. This will substantially increase public investment compared to the previous level. R&D investments are projected to continue to grow.

1.4 Domestic procuction

1.4.1 Total output

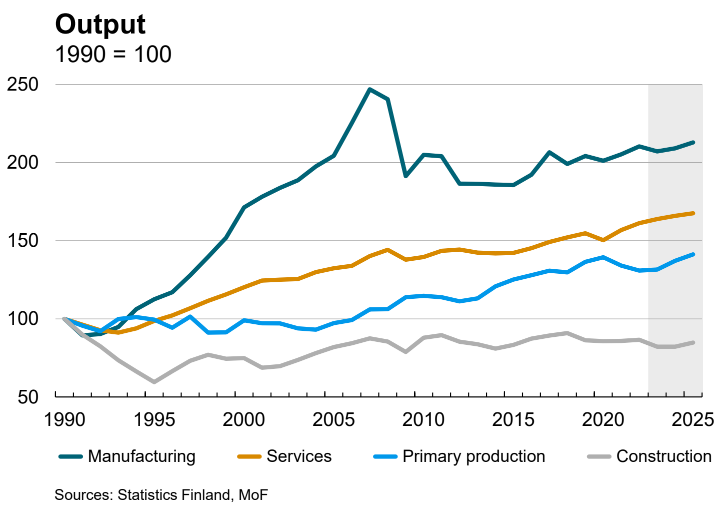
Production growth remained positive in the first two quarters of 2022. In the second half of the year, production levels declined in almost all industries. Production continued to grow in certain service industries, and the full-year growth of value added was over 2%. The slowing of production has started particularly from consumer demand, which has been reflected in the trade, financial and insurance services sectors, as well as construction. There have also been demand-related challenges in the industrial sectors. The rapid post-pandemic growth of turnover in the industrial sectors has slowed since autumn 2022.

Prices have risen quickly in all industrial sectors – particularly in the chemical industry, but also in the forest industry and the energy supply industry. The rise in prices has also spread to the transport and trade sectors. Inflation has become more broad-based, which is reflected in the prices of energy and raw materials. Whether the rise in prices is reflected in the profitability of companies depends on their industry, cost structure and competitive situation. The exceptions among the sectors are construction and certain services, such as the real estate industry and the information and communications industry, where industry-specific prices have decreased. Uncertainty over future market developments increases as prices change significantly. The rapid rise in prices that began in 2021 leads to more variation in profitability between companies.



GDP growth in 2022 is projected to be 2.1%. Production growth has been the highest in the electrotechnical industry (9.5%), the metal industry (7.7%) and, in services, in the information and communications industry (7.3%), and in professional, scientific and technical activities and administrative and support services (7.6%). The last-mentioned category comprises a wide range of services, including forwarding services and functions outsourced by companies. The sectors that are expected to see the largest contractions are agriculture (-2.4%) and trade (-7.2%).

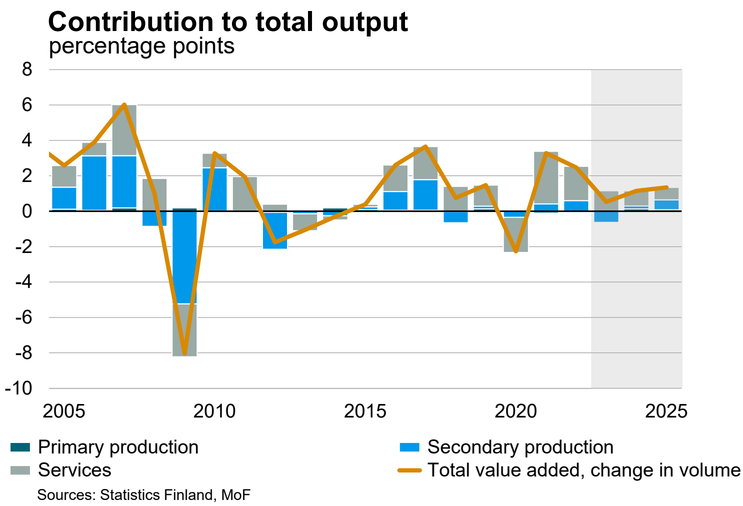
Output growth will slow in 2023 and output will remain at the current level. GDP growth is projected to be negative at -0.2%. Uncertainty in Europe continues, which particularly affects energy-intensive industries such as the chemical sector and energy supply. In the export industry, the outlook in terms of the price level is stabilising, and if a competitive advantage is achieved in raw material prices, the profitability of companies is secured. The most negative outlook for 2023 is seen in the trade sector and, in particular, the construction industry. This is also reflected in the transport industry, as well as financial services and insurance.



The growth of industry and construction has slowed relative to earlier expectations. The projected growth rates for 2023 are -1.5% for industry and -5.1% for construction. In primary production, the high consumption of wood, in particular, helps maintain the level of agricultural output in positive territory. In services, the stable outlook and improving purchasing power maintain consumption to the extent that the full-year growth rate is projected to be 1.7%.

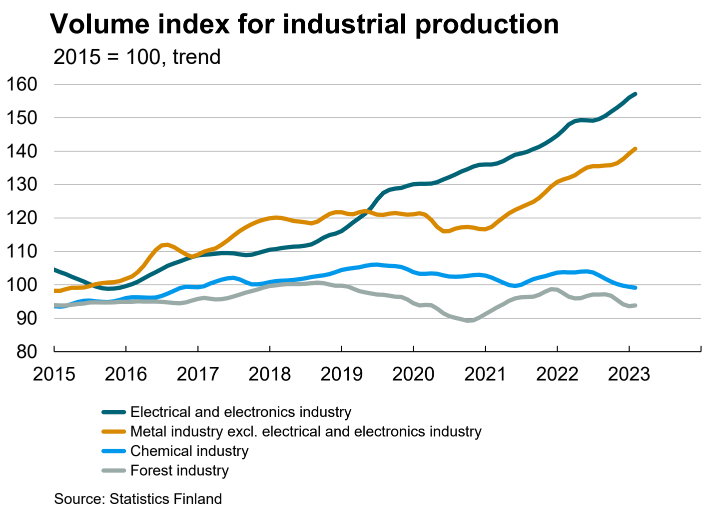
In 2024, economic growth is projected to recover slowly, reaching a rate of approximately 1.2%. Manufacturing will recover faster than other sectors, supported by the recovery of export markets. Service production will recover as consumer confidence returns, and business services will recover in the wake of other industries. Output growth in forestry is expected to accelerate the recovery of primary production. The resumption of growth in construction may be delayed until 2025 due to the excessive supply of housing.

In 2025, economic growth is projected to reach the growth potential, which will increase economic growth to a slight degree. Productivity growth is expected to improve in the coming years.



1.4.2 Secondary production

The declining economic cycle has been reflected in the order books of manufacturing enterprises. The rate of growth in the number of orders has been decreasing since the second half of 2021 and, although there were positive signs of a recovery in the number of orders in the latter part of 2022, the overall level of industrial output is projected to decline this year. The expectations in manufacturing are also indicative of the future level of production. In terms of the expectations, the situation was at its most positive in the second quarter of 2021, with expectations declining continuously since that time. The decrease in demand has also been reflected in significant growth in inventories. According to the Confederation of Finnish Industries, the higher inventories may also be due to preparations for the diversification of supply chains.



Forest industry output suffered from strikes and the closure of a production plant in 2022. In 2023, output is projected to grow slightly due to increased production capacity. The main export market for the forest industry is Europe, and Germany in particular. Prices are high, which is accelerating the downward trend in the demand, especially for paper products. Prices are expected to remain high in most product categories. The profitability of the forest industry is projected to remain favourable thanks to growth in productivity, in spite of end product prices declining and costs remaining higher than previously.

Output in the chemical industry varies substantially from one year to the next. Production volumes in the industry as a whole have declined during the past few years. Export prices, however, have increased significantly. The higher energy prices affect the chemical industry due to its energy-intensive nature, and Russia's war of aggression has a large impact on the industry. The economic expectations in the industry are negative for this year and next.

In the electrical and electronics industry, new orders and order books have developed favourably this year, and turnover has increased from the previous year. Particularly in the latter part of 2022, the industry was reported to have achieved clear positive growth in production. The industry's growth is projected to remain moderate.

The situation has remained stable this year in the metal industry, including metal refining and the machinery and metal products industry. Nevertheless, there are major differences between the metal refining subsector and the manufacture of metal products, including machinery, equipment and vehicles. In metal refining, the price of energy and electricity is a key driver of production costs, while in metal products, the development of raw material prices has a considerable impact on manufacturing costs and competitiveness.

The Business Tendency Survey for industry indicates a rapid decline in expectations in the second half of 2022. However, the expectations also predict a turn for the BEtter in spring 2023.

The economic outlook of manufacturing is characterised by uncertainty over export demand, which has been highlighted in surveys. The development of the export markets depends largely on their investment climate and confidence. Capacity-related limitations have also been highlighted. Although the expectations indicate that the export outlook will improve in 2023, a slight decline in output (-0.6%) is projected for manufacturing. There will, however, be differences between the subsectors. A number of industrial investments will be completed during the outlook period, which will be reflected in increased output in the future.

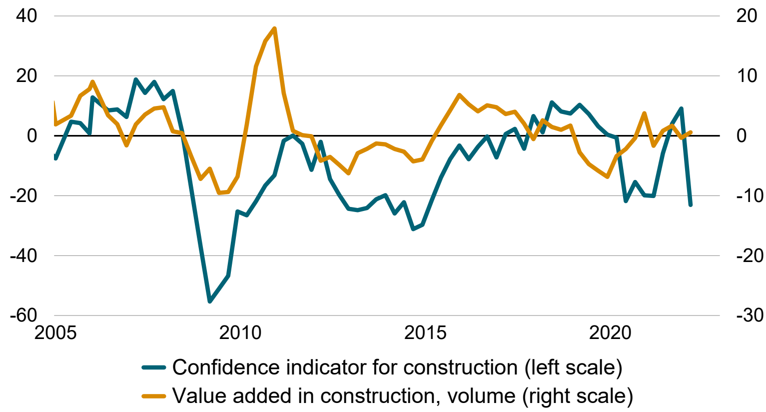
Construction

The year 2022 got off to a promising start in housing construction, but a change in the transaction volume for old dwellings quickly altered the economic outlook during the year. By the end of the year, the number of housing starts had declined by nearly 20% year-on-year. Construction started on approximately 38,000 dwellings in 2022.

The number of housing starts was projected to decrease to approximately 32,000 in 2023, and the outlook has only declined further during the first months of the year.

Construction confidence and output

seasonally adjusted balance and change yoy, %



Sources: Statistics Finland, European Commission

The weakened outlook has also influenced the trend in building permits. In October–December 2022, the cubic volume of building permits declined by over one-third compared to the previous year. In the construction of apartment buildings, the full-year cubic volume decreased by 20% year-on-year in terms of both housing starts and building permits issued. Still, the number of completed apartments in 2022 was approximately 16% higher than in 2021.

Repair construction accounts for around half and new construction work for the other half of residential construction. Repair construction is projected to develop favourably this year and next, but the high prices of renovations and the financial difficulties of housing companies may slow the rate of growth. Repair construction is projected to grow by an average of 1% each year over the outlook period.

Construction output is projected to decline by -5.1% this year and to remain flat in 2024. The views concerning a turnaround in output are highly uncertain, and the expectations for this year have deteriorated rapidly. The recovery of output needs to be monitored until the autumn, when the production of new housing can still begin, although that would mainly be reflected in next year's production figures. Construction output is projected to recover by 2025.

1.4.3 Services

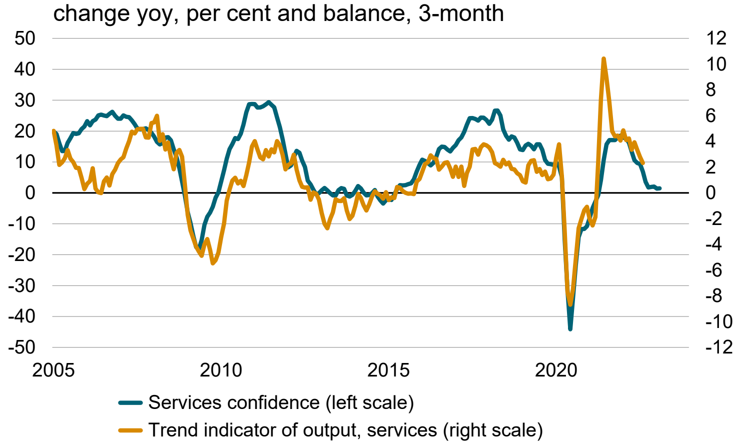
The trend in service production in 2022 was positive in most service sectors, including information and communications. The service sectors that saw contraction in production were trade, financial services and insurance. The expected recovery of the tourism and restaurant sector slowed towards the end of the year, but production for the full year was higher than in the previous year. In the transport and warehousing industry, production decreased in 2022 due to declining trade and consumer demand.

According to the Business Tendency Survey, the service sectors expect sales to continue to decline, but a turn for the positive is projected to take place within six months. Demand has also declined in service industries, which adds to the previous factors constraining growth, namely production bottlenecks and the lack of skilled labour. Growth has remained stable in the information and communication services sector. In the transport sector, growth is constrained by rising costs.

Growth in service production in 2025 is projected to be positive, reflecting the recovery of consumer purchasing power.

Service confidence and output

change yoy, per cent and balance, 3-month



Sources: Statistics Finland, European Commission

Table 9. Production by industry

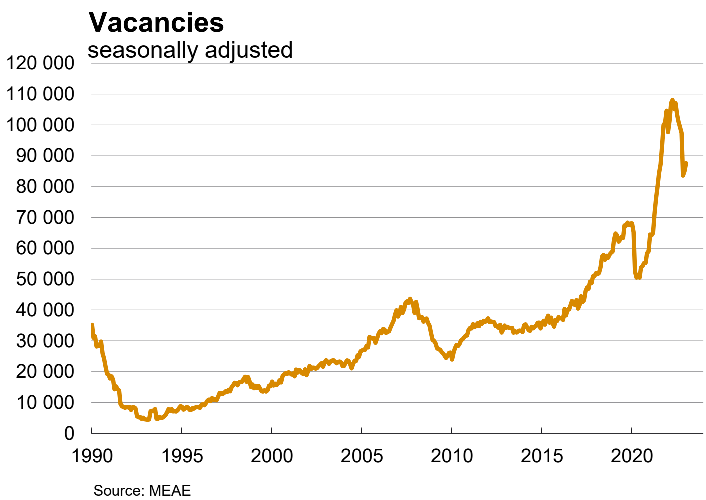
	2021	2020	2021	2022	2023**	2024**	2025**
	share, %[1]	change in volume, %					
Industry	20.7	-1.5	2.0	2.5	-1.5	0.9	1.8
Construction	7.1	-0.6	0.1	0.9	-5.1	-0.0	3.2
Agriculture and forestry	2.7	2.2	-3.8	-2.4	0.5	4.3	3.0
Industry and construction	27.8	-1.2	1.5	2.1	-2.3	0.6	2.0
Services	69.6	-2.9	4.3	2.8	1.7	1.2	1.0
Total production at basic prices	**100.0**	**-2.3**	**3.3**	**2.5**	**0.5**	**1.2**	**1.4**
GDP at market prices		-2.4	3.0	2.1	-0.2	1.3	1.6
Labour productivity in the whole economy		0.2	0.9	1.8	1.0	1.0	1.1

[1] Share of total value added at current prices

1.5 Labour force

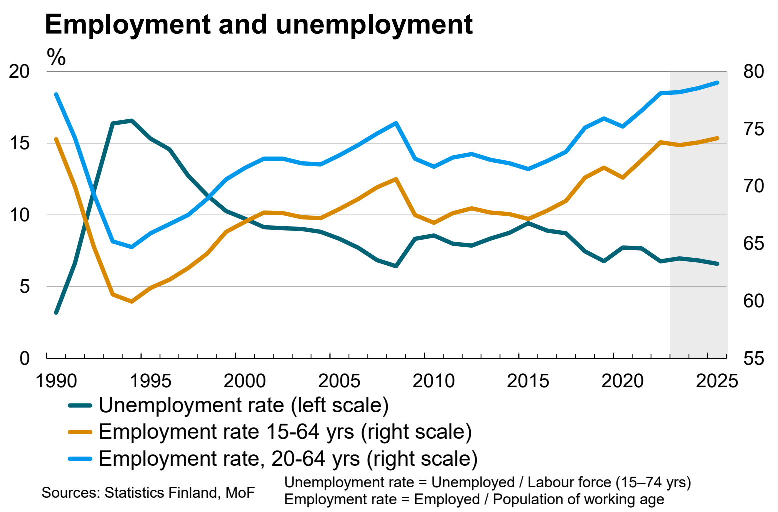
Employment is very high. The number of employed people has continued to show very strong growth for two years, which saw the employment rate for the 15–64 age group rise to 73.8% last year. This is the highest level on record during the current form of the Labour Force Survey. The employment rate has not been this high since 1990. The number of employed people increased by 56,000 last year. The increase in the participation rate was even more significant, as the increase in employment was driven by the higher growth of people returning to the labour market rather than a decrease in unemployment. The growth was mainly due to people employed in the private sector. The number of employed persons was higher among both full-time and part-time employees. Consequently, the increase in work performed, i.e. number of hours worked, was only less than half of the increase seen in the number of employed people, i.e. 0.9%. This meant that the average number of hours worked declined for the fifth consecutive year. Of the main industries, employment increased in industry and the service sectors, with the exception of financial services and insurance. The number of people employed in primary production and construction decreased. The number of employed people continued to increase in January 2023, but unemployment simultaneously increased for the second consecutive month.

The labour market is on the brink of a transformation. While the number of employed persons has continued to grow and there is a very large number of job vacancies – also in relation to the number of unemployed jobseekers – unemployment has simultaneously turned to growth. Consequently, there is a lot of labour in the labour market, as the demand for labour has drawn new people into working life.



Labour market mismatches are still substantially worse than in the previous years, and competence gaps are weakening the conditions for economic growth. Business sector surveys show that it is challenging for companies to find the employees they need, particularly due to shortages of experience, special competence and education and training. According to the Ministry of Economic Affairs and Employment, the labour shortages in certain industries are attributable to low average earnings. The problem of labour market mismatches is partly due to the increase in atypical employment relationships in certain industries where there is demand for full-time work, but no supply. There is also excess supply in certain professions, particularly in the creative fields. According to the surveys, the challenges faced by companies with regard to the recruitment of skilled workers were still more frequent than average in the final months of last year, although the challenges did ease slightly during the year.

Total output is projected to contract slightly in 2023, and labour demand is projected to decline, leading to a contraction of approximately 0.5% in the number of employed people. Demand will decline particularly in the transport sector, construction industry, information and communications services, trade and forestry. The significant shortage of competent workers motivates companies to hold on to their employees, as the recession is expected to be short-lived, and it is likely that employers will elect to use temporary lay-offs and other labour flexibility solutions instead of dismissals. Economic recovery will increase the number of employed persons in 2024 and 2025, especially in the service sectors. The employment rate will exceed 74% in 2025, partly due to the contraction of the size of the working-age population.



Strong employment growth led to a substantial decrease in unemployment in 2022, although unemployment did not decline as much as it does on average in conditions of similarly strong employment. Unemployment among men contracted nearly twice as much as unemployment among women, particularly in the 20–34 age group. Unemployment among the elderly increased for both men and women.

The recession is expected to increase unemployment in 2023. The contraction of construction activity, in particular, will increase unemployment in secondary production. If, as assumed by the forecast, labour market mismatches and region-specific and occupation-specific availability of labour do not become an obstacle to the functioning of the labour market, the unemployment rate will fall to approximately 6.5% in 2025. This is still around one half of one percentage point above the level of structural unemployment in Finland estimated using the EU's common methodology.

Table 10. Labour market

	2020	2021	2022	2023**	2024**	2025**
	annual average, 1,000 persons					
Population of working age (15–74 yrs)	4133	4123	4120	4108	4098	4091
change	5	-10	-4	-12	-10	-7
Population of working age (15–64 yrs)	3421	3417	3421	3418	3417	3416
change	-7	-3	4	-3	-1	-1
Employed (15–74 yrs)	2495	2555	2619	2608	2616	2627
of which 15–64 yrs	2420	2470	2526	2515	2523	2534
Unemployed (15–74 yrs)	209	212	190	195	192	186
	%					
Employment rate (15–64 yrs)	70.7	72.3	73.8	73.6	73.8	74.2
Unemployment rate (15–74 yrs)	7.7	7.7	6.8	7.0	6.8	6.6
	1,000 persons per annum					
Immigration, net	18	23	35	35	35	35

1.6 Incomes, costs and prices

1.6.1 Wages and salaries

The rate of increase in nominal wages accelerated slightly in 2022 and was 2.5%, compared to 2.4% last year. The acceleration was due to slightly higher negotiated wages, as wage drifts remained unchanged. The rise in negotiated wages accelerated slightly in the private sector and slowed in the municipal sector. Among the sectors, the rate of increase in earnings in secondary production was as high as in the previous year, while in certain services, the rate of increase accelerated, particularly in the real estate sector, in accommodation and restaurant services, and in financial and insurance services. Real wages fell by just over 4%, as inflation significantly exceeded the rate of increase in nominal earnings for the first time in five years.

Many new two-year collective agreements have been signed in the private sector and the public sector in 2023. The negotiated increases this year have been generally around 4.5% at the annual level, making them substantially higher than in the previous year and the highest in 14 years. The negotiated increases in the municipal and wellbeing sector exceed that level, as the agreements include costs associated with the wage structure programme and wage harmonisation. This makes the local government sector the pay leader of this round of negotiations. Wage drifts are projected to be on average around one percentage point. This would mean an increase of approximately 4.5% in nominal earnings in 2023.

Next year, the annual effect of the negotiated increases in the private sector and in central government will be approximately 1.5%, as the one-off payments made this year will no longer be included in the agreements. In the local government sector, the increases will be substantially higher next year as well. Furthermore, due to the shortage of labour, wage drifts are projected to be higher than average, exceeding one percentage point. This would mean an increase of nearly 4% in nominal earnings in 2024.

As there are not yet many collective agreements in effect for 2025, the projected increase in earnings is linked to the predicted subdued growth in productivity. On the other hand, economic growth and the resulting rise in employment as well as labour shortages in some sectors are expected to keep wage drifts high. Nominal earnings are projected to increase by approximately 4% in 2025.

The sum of wages and salaries increased by 6.4% in 2022. The sum of wages and salaries was increased by higher earnings and higher employment. The rise in the sum of wages and salaries was the fastest in the private service industries, particularly those that were previously hit hard by COVID-19, and those that serve the business sector. In secondary production, the development of the sum of wages and salaries was slower than average. In addition to nominal earnings, the sum of wages and salaries is also affected by employment trends. With employment contracting, the sum of wages and salaries is projected to increase by slightly over 4% in 2023, as it is assumed that the rate of increase in nominal earnings will accelerate significantly. In the coming years, the rate of earnings growth is projected to slow while employment growth will accelerate, which would mean that the sum of wages and salaries will increase by approximately 4% in 2024 and by about 3.5% in 2025.

Table 11. Index of wage and salary earnings and labour costs per unit of output

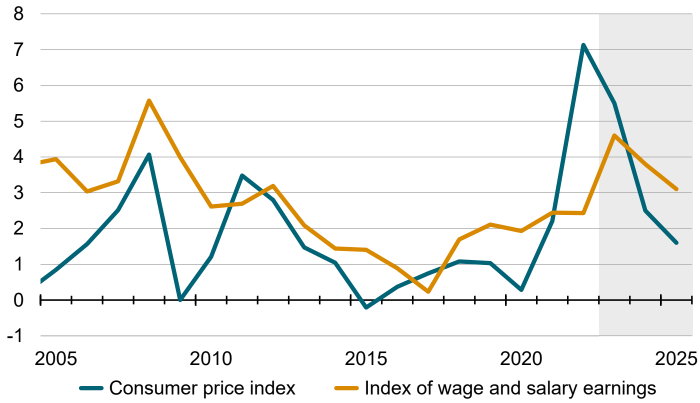
	2020	2021	2022	2023**	2024**	2025**
	change, %					
Index of negotiated wage rates	1.3	1.8	1.8	3.9	2.8	2.1
Wage drift, etc.	0.7	0.7	0.6	0.7	1.0	1.0
Index of wage and salary earnings	**1.9**	**2.4**	**2.4**	**4.6**	**3.8**	**3.1**
Real earnings[1]	1.6	0.2	-4.7	-0.9	1.3	1.5
Sum of wages and salaries	-0.3	5.5	6.4	4.2	4.1	3.5
Average earnings[2]	1.8	3.0	4.9	4.7	3.9	3.2
Labour costs per unit of output whole economy[3]	1.0	3.2	3.7	4.1	2.7	2.2

1 The index of wage and salary earnings divided by the consumer price index.

2 Computed by dividing the national wage bill by the number of hours worked by wage and salary earners. The figures are affected by structural changes in the economy.

3 Compensation of employees divided by gross value added in volume at basic prices.

Consumer price index and index of wage and salary earnings
change yoy, %

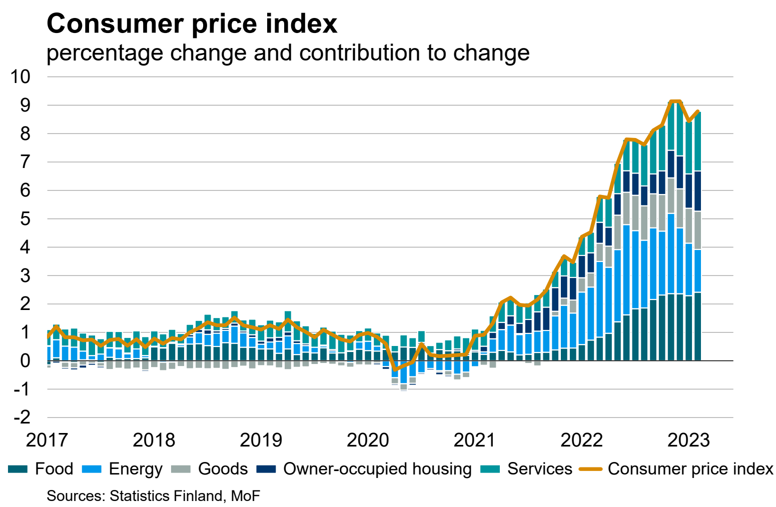


Sources: Statistics Finland, MoF

1.6.2 Consumer prices

Inflation accelerated to 9.1% in November–December and was 7.1% on average for the full year 2022. The increase in prices in 2022 was primarily the result of rising energy prices, but the prices of nearly all goods rose quickly towards the end of the year.

Inflation slowed slightly in the first months of 2023 but remains very high and broad-based. The slowing of inflation is driven by the decline in energy prices. The prices of other items continue to rise quickly, which means that core inflation is accelerating further. The most significant items that are currently accelerating price inflation are food and services.



Energy prices will continue to decrease this year. Crude oil prices passed their peak in summer 2022, and the market price of electricity has fallen significantly from the level seen in late 2022. The annual changes in fuel prices turn negative in the early part of the year. The decrease in electricity prices will have a delayed effect on consumer prices, as many consumers have an electricity contract that is fixed-term or valid indefinitely. The prices of electricity contracts that are valid indefinitely will decrease during the spring. Based on the development of market prices, the price of electricity is projected to rise again next winter, but the increase is expected to be much more moderate than last autumn. Looking at the annual changes in prices, the impact of electricity on the consumer price index will consequently turn neutral, or even negative, in late 2023. In 2024 and 2025, the market price of electricity is expected to be lower than in 2022 and 2023, but higher than in 2020.

Food prices have continued to increase. Increased costs have pushed producer prices higher, which has been ultimately reflected in consumer prices. However, the increase in producer prices has levelled off in both agriculture and industry, and the rise in food prices is, consequently, expected to slow this year. The rate of increase in the price of processed food products is expected to slow to a lesser extent than for unprocessed food products, where prices are even projected to decrease slightly in the latter part of the year.

Contrary to expectations, the increase in the prices of goods has yet to slow, in spite of demand declining, production bottlenecks being relieved and transport costs falling. Nevertheless, the rise in prices is projected to gradually slow this year due to those factors. The increase in the price of energy and raw materials is also reflected in the prices of services. The increase in prices was also accelerated last year by high demand. Rising wages and other costs are increasingly reflected in the prices of services, which will maintain inflation in the coming years.

The rising costs of owner-occupied housing will be reflected in the national consumer price index during the outlook period. Although the other cost items of owner-occupied housing will have a diminishing effect on the index, the effect of the rising interest rates on housing loans will grow significantly. The impact of the increased interest rates will be realised in earnest for many households only this year, as the average interest rate on housing loans was just over 2% in January. The effect of the interest rates on consumer credit on the consumer price index will also increase. Owner-occupied housing and interest on consumer credit are not included in the basket of the harmonised index of consumer prices, which is why the national consumer price index will be higher than the harmonised index this year and next.

In 2023, inflation is projected to slow to an average of 5.5% as measured by the national consumer price index. However, inflation will be much higher than that in the early part of the year, and slower towards the end of the year. High prices and rising interest rates will reduce demand, and price pressures will gradually ease. Decreasing energy and raw material prices, and the normalisation of production chains, will lead to the rise in the prices of food and goods slowing in 2023

However, prices will still be above the pre-energy crisis level. At the same time, the rising interest rates on housing loans will still burden households in 2023, which means that the impact of the costs of owner-occupied housing on the consumer price index will also be at its highest in 2023.

Inflation will slow to 2.5% in 2024 and further to 1.6% in 2025. This means that inflation will slow substantially during the outlook period, but it will still be higher than in recent years. The increase in service prices will be the most significant factor sustaining inflation in the coming years. Moreover, the underlying assumption is that prices will be subject to upward pressure in the coming years due to halting globalisation, improving the resilience of production chains, preventing climate change, the impacts of climate change, and trade disputes.

Table 12. Price indices

	2020	2021	2022	2023**	2024**	2025**
	change, %					
Export prices[1]	-3.4	9.8	18.7	-2.3	-0.4	1.7
Import prices[1]	-4.9	9.7	19.5	-2.7	-0.5	1.8
Consumer price index	0.3	2.2	7.1	5.5	2.5	1.6
Harmonised index of consumer prices	0.4	2.1	7.2	4.0	1.9	2.0
Basic price index for domestic supply, including taxes	-3.3	10.1	20.3	2.6	2.9	2.3
Building cost index	-0.2	5.4	8.2	3.9	2.5	2.2

[1] As calculated in the National Accounts

1.7 Medium-term outlook 2026–2027

The medium-term projection is based on an estimate of potential output growth, which is considered to determine the medium-term and long-term growth potential of the Finnish economy.[1] Potential output refers to the economy's long-term growth path or a sustainable level of output that ensures stable inflation, which is achievable when economic capacity is in normal use. During the period 2023–2027, potential output is projected to grow by approximately 1.1% per year on average.

The development of potential output depends on the development of labour input, the capital stock and total factor productivity. The effect of the change in labour input on the growth of potential output will be minor until 2025, after which labour input will stop growing and it will begin to reduce potential output. The weak growth contribution of labour input is due to the negative development of hours worked. In addition to labour input, the production conditions of the economy are influenced by capital stock. Growth in capital stock will boost potential output growth by about 0.5% each year between 2023 and 2027.

Total factor productivity is the third source of potential output growth. It has shown slightly higher growth in recent years than in the early 2010s. However, productivity growth remains weak compared to the early 2000s. Structural changes in the Finnish economy are one factor explaining the weaker growth. The output of high-productivity sectors has declined and services have become more predominant in the overall structure of the economy. Slow productivity growth has also been common in other developed economies. Annual total factor productivity is expected to grow by around 0.6% on average in 2023–2027, down from an annual average of more than 2% in the early 2000s.

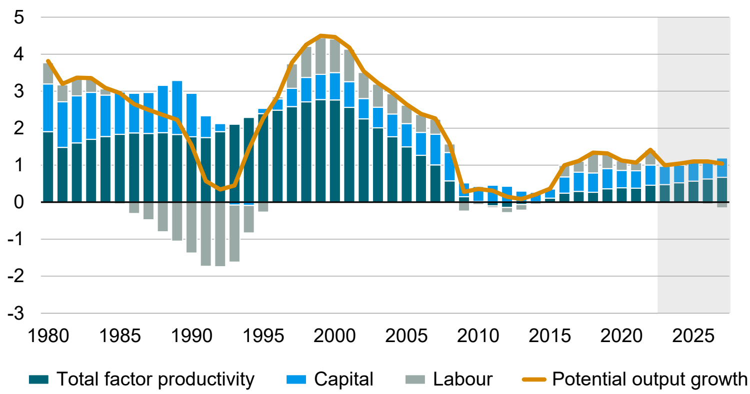
1 In this projection, economic growth for years t+3 and t+4 is estimated so that the output gap will close by year t+4. The output gap indicates the difference between the economy's actual output and potential output at a given point in time. However, during exceptional economic cycles, deviations from this basic assumption can be made if no credible results can be produced by adhering to the rule. In that case, depending on the situation, the output gap might be positive or negative in year t+4. In its assessments of potential output and the output gap, the Ministry of Finance uses the production function method jointly developed by the European Commission and EU Member States, in which potential output growth is divided into projections of potential labour input, capital and total factor productivity. Potential output and output gap are latent variables, the assessment of which involves uncertainties, particularly during a strong economic cycle and under conditions of rapid changes in the production structure.

Economic output is projected to grow moderately over the medium term. GDP growth is projected to be approximately 1.6% in 2026 and about 1.5% in 2027. GDP growth will be supported particularly by the growth of private consumption and private investment, which are expected to recover due to a decline in market interest rates. The Finnish economy is projected to still remain below its normal capacity in 2026. However, economic output will approach the estimated potential output level and the output gap will be closed in 2027.

The positive trend in the labour market is expected to continue in the medium term. The employment rate (15–64 age group) is projected to increase moderately in 2026 and 2027. The employment rate in 2027 is projected to be 74.9%. The unemployment rate is expected to decline and amount to 6.3% in 2027.

The rise in consumer prices is projected to level off in the medium term. In 2026 and 2027, the annual change in consumer prices is projected to be 2%, which is in line with the European Central Bank's inflation target.

Contributions to potential output growth
according to EU method, %



Sources: Statistics Finland, MoF

Table 13. Key forecast figures for the medium term

	2021	2022	2023**	2024**	2025**	2026**	2027**
GDP at market prices, change in volume, %	3,0	2,1	-0,2	1,3	1,6	1,6	1,5
GDP, EUR bn	251	267	277	287	298	310	321
Consumer price index, change, %	2,2	7,1	5,5	2,5	1,6	2,0	2,0
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
General government net lending, relative to GDP, %	-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 finances[1]	-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
Social security funds	0,8	1,1	1,4	1,4	1,6	1,7	1,8
Structural balance, relative to GDP, %	-2,1	-0,5	-1,6	-1,7	-2,6	-2,6	-2,9
General government gross debt, relative to GDP, %	72,6	73,0	74,4	76,9	79,0	80,7	82,4
Central government debt, relative to GDP, %	51,4	53,1	54,5	56,7	58,5	59,9	61,5
Output gap, % of potential output[2]	-1,1	-0,5	-1,7	-1,5	-0,9	-0,5	0,0

[1] Local government until 2022

[2] Estimated according the method developed jointly by the EU Commission and Member States

2 General government finances

2.1 General government

The general government deficit decreased in 2022. The deficit was 0.8% of GDP, or approximately EUR 2.2 billion. The reduction in the deficit was attributable to, for example, higher tax revenue and the increased accrual of social security contributions. In addition, expenditure allocated to the management of the COVID-19 pandemic contracted in particular.

The improvement in general government finances will be temporary. The economy will not grow in 2023, and the general government budgetary position will start to decline. General government finances are also weakened by a number of discretionary measures, the most significant of which concern the numerous preparedness measures taken in response to Russia's war of aggression. Irrespective of economic cycles, general government finances are structurally weakened by the ageing of the population.

The projected economic growth in the next few years will not be sufficient to rectify the imbalance between revenues and expenditure in general government finances, and the deficit will remain large. The current parliamentary term will end in 2023, and the projection of general government finances in 2024–2027 is based on the assumption of unchanged policy. This means that the forecast does not include potential actions taken by the new government. Decisions made by the new government may move general government finances in either direction.

Having decreased temporarily, the ratio of public debt to GDP will begin to grow again. The debt ratio will be kept on an upward trajectory far into the future by substantial deficits in central government and local government, and rapidly rising debt servicing costs. The debt ratio is projected to exceed 80% in the medium term. In the longer term, general government finances will be in structural deficit, and general government finances therefore have a large sustainability gap.

The most significant factor in the deep deficit in general government finances is the central government deficit, which will remain large from 2023 onwards due to a number of measures that are current and temporary by nature. Additional resources have been allocated to internal security, external security and accelerating the green transition. Central government expenditure is also increased by R&D investments pursuant to the legislation concerning the funding of R&D activities. Interest expenditure on central government debt is considerably higher than the customary level seen in past years. At the same time, slow economic growth will dampen the growth of tax revenue.

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

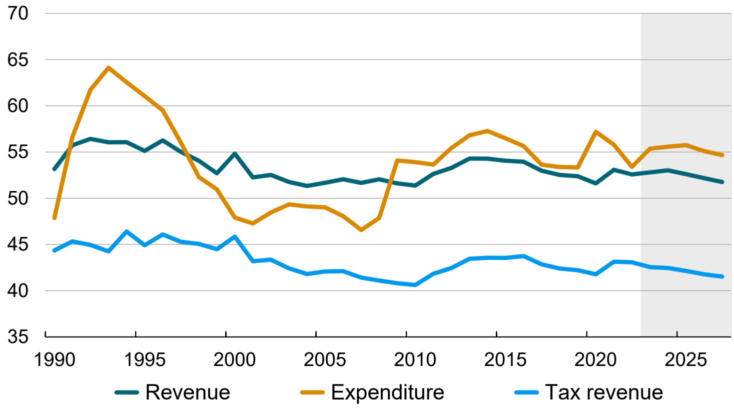
The surplus of earnings-related pension funds will stabilise at approximately 1.5% in the next few years. Pension expenditure will increase but, at the same time, higher interest rates increase the growth of pension funds' property income. The financial position of other social security funds will be strengthened during the outlook period by the improvement of the employment situation, and social security funds will be in a slight surplus.

There are both short-term and longer-term risks associated with general government finances. The short-term risks are largely linked to the development of the economy. The impacts of the geopolitical situation on economic growth are also reflected in general government finances through general economic development and through the preparations required by the situation.

In the longer term, high debt presents a risk to general government finances. No reduction to the debt ratio is in sight. The rapid growth of debt, paired with high interest rates, has already increased interest expenses. The debt-increasing effect of interest expenses will intensify in the medium term, and there is no relief on the horizon.

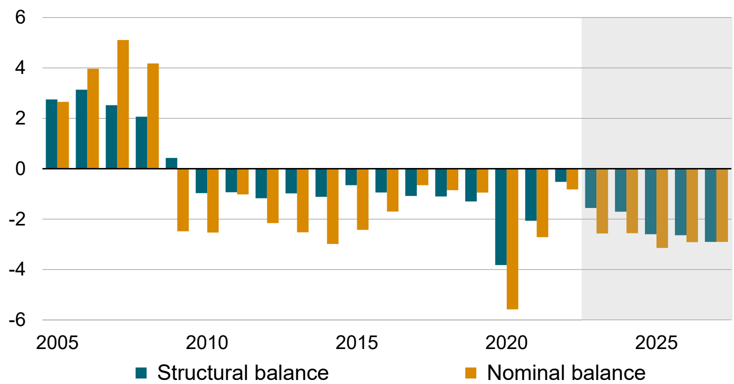
General government contingent liabilities and especially the rapid rise in guarantees will pose a risk for general government finances. The concentration of the guarantee liabilities in a small number of sectors and enterprises increases the risks associated with the liabilities. Extensive realisation of the liabilities would lead to higher public spending and speed up the increase in the debt-to-GDP ratio.[1]

General government revenue, tax revenue and expenditure
relative to GDP, %



Sources: Statistics Finland, MoF

General government nominal and structural balance
relative to GDP, %



Based on the European Commission's production function approach

Sources: Statistics Finland, MoF

1 Contingent liabilities in general government finances are described in more detail in, for example, the Ministry of Finance publication "Overview of central government risks and liabilities, Autumn 2022" (in Finnish)

Table 14. General government finances[1]

	2020	2021	2022	2023**	2024**	2025**
	EUR billion					
Current taxes	38.0	42.1	45.7	46.7	48.9	50.4
Taxes on production and imports	33.1	34.7	36.2	36.6	37.2	37.9
Social security contributions	27.6	30.5	32.0	33.7	34.5	36.0
Taxes and contributions, total[2]	99.4	108.1	114.9	118.0	121.7	125.5
Property income	6.7	7.4	7.2	8.7	10.4	11.3
Sales and fee income	15.8	16.5	16.8	18.0	18.4	18.7
Other revenue	1.0	1.1	1.4	1.6	1.4	1.3
Total revenue	**122.8**	**133.0**	**140.2**	**146.4**	**152.0**	**156.7**
Compensation of employees and intermediate consumption	57.3	61.0	63.6	68.0	70.0	72.3
Subsidies	4.4	4.0	3.0	2.6	2.7	2.7
Social security benefits and allowances	53.9	54.8	55.5	59.5	62.3	64.5
Other current transfers	6.6	6.8	6.8	7.0	6.8	6.9
Property expenditure	1.7	1.3	1.5	2.3	3.6	4.0
Gross capital formation	11.7	10.6	10.9	12.6	13.0	14.8
Other expenditure	0.6	1.3	1.3	1.4	0.9	0.9
Total expenditure	**136.1**	**139.8**	**142.4**	**153.5**	**159.3**	**166.1**
Consumption expenditure	57.7	61.7	64.8	68.9	71.4	74.4
Net lending (+) / net borrowing (-)	-13.3	-6.8	-2.2	-7.1	-7.3	-9.4
Central government	-13.2	-8.1	-4.3	-9.4	-9.6	-12.1
Municipal finances[3]	-0.1	-0.9	-0.8	-0.5	-0.4	-0.5
Wellbeing services counties				-1.0	-1.3	-1.6
Employment pension schemes	0.3	2.3	2.5	3.0	3.8	4.2
Other social security funds	-0.3	-0.1	0.4	0.9	0.3	0.6
Primary balance[4]	-11.6	-5.5	-0.7	-4.8	-3.7	-5.4

[1] As calculated in the National Accounts

[2] Incl. capital taxes

[3] Local government until 2022

[4] Net lending excluding gross interest expenses

Table 15. Main economic indicators in general government

	2020	2021	2022	2023**	2024**	2025**
	relative to GDP, %					
Taxes and social security contributions	41.8	43.1	43.1	42.6	42.4	42.1
General government expenditure	57.2	55.8	53.4	55.4	55.5	55.7
Net lending	-5.6	-2.7	-0.8	-2.6	-2.6	-3.1
Central government	-5.5	-3.2	-1.6	-3.4	-3.4	-4.1
Municipal finances[1]	-0.0	-0.3	-0.3	-0.2	-0.1	-0.2
Wellbeing services counties				-0.4	-0.5	-0.5
Employment pension institutions	0.1	0.9	0.9	1.1	1.3	1.4
Other social security funds	-0.1	-0.1	0.2	0.3	0.1	0.2
Primary balance[2]	-4.9	-2.2	-0.3	-1.7	-1.3	-1.8
General government debt	74.7	72.6	73.0	74.4	76.9	79.0
Central government debt	52.4	51.4	53.1	54.5	56.7	58.5
General government employment, 1,000 persons	661	694	702	701	701	699
Central government	144	146	149	149	149	145
Municipal finances[1]	505	535	540	290	287	288
Wellbeing services counties				249	252	253
Social security funds	13	13	13	13	13	13

[1] Local government until the end of 2022.

[2] Net lending excluding gross interest expenses

Table 16. Fiscal balance and debt ratios in some EU economies

	2021	2022**	2023**	2021	2022**	2023**
	Fiscal balance			Debt		
	relative to GDP, %					
*Finland	-2.7	-0.8	-2.6	72.6	73.0	74.4
Finland	-2.7	-1.4	-2.3	72.4	70.7	72.0
United Kingdom	-8.0	-6.4	-4.4	105.6	103.0	101.1
Sweden	-0.1	0.2	0.2	36.3	32.1	29.4
Denmark	3.6	1.8	0.5	36.6	33.7	32.8
Ireland	-1.7	0.2	0.8	55.4	44.7	41.2
Spain	-6.9	-4.6	-4.3	118.3	114.0	112.5
The Neatherlands	-2.6	-1.1	-4.0	52.4	50.3	52.4
Luxembourg	0.8	-0.1	-1.7	24.5	24.3	26.0
Portugal	-2.9	-1.9	-1.1	125.5	115.9	109.1
Austria	-5.9	-3.4	-2.8	82.3	78.5	76.6
Germany	-3.7	-2.3	-3.1	68.6	67.4	66.3
France	-6.5	-5.0	-5.3	112.8	111.7	110.8
Belgium	-5.6	-5.2	-5.8	109.2	106.2	107.9
Italy	-7.2	-5.1	-3.6	150.3	144.6	143.6
Greece	-7.5	-4.1	-1.8	194.5	171.1	161.9

Sources: EU Commission Autumn Forecast 2022; *Finland: Ministry of Finance, Spring 2023

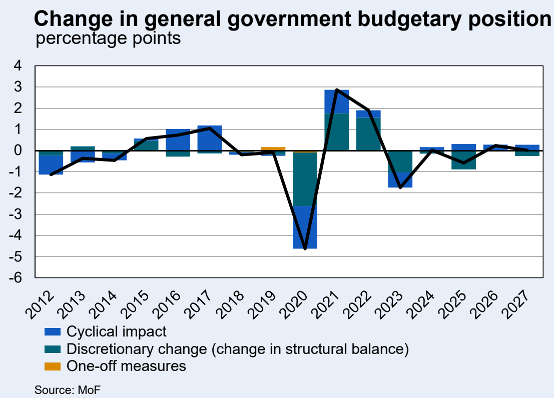
Fiscal stance

The fiscal stance can be examined in terms of the change in the structural balance[1]. It expresses the general government deficit adjusted for the impact of the economic cycle.

The change in the structural balance is indicative of the impact of discretionary fiscal policy. If the structural balance improves, economic policy can be considered to have been tightening, which means it has strengthened general government finances. On the other hand, if the structural balance has declined, economic policy has been expansionary, which means it has weakened general government finances. However, this method of assessment also involves some uncertainties[2].

Figure 1 shows the estimated impact of discretionary fiscal policy (green columns) and the economic cycle (blue columns) on the annual change in the general government budgetary position.

Figure 1. Development of the structural balance 2005–2027



1 Structural balance has been used particularly in EU-related contexts to monitor the fiscal policy stance of the Member States. In this indicator, the impacts of cyclical, one-off and temporary factors are eliminated from the general government budgetary balance after which the yearly change in the budgetary position can be attributed to discretionary fiscal policy.

2 The real-time assessment of the economic cycle is based on the current estimate of the potential growth of the economy in the medium term. Accurate statistics and data on the economic cycle only become available over time. When assessments of the economic cycle and the output gap change, assessments of the structural balance and fiscal policy stance may also change. The changes can concern not only the present moment and the future but also the past. The uncertainty involved in calculating potential output and the structural balance is emphasised during sharp fluctuations in the economic cycle.

General government finances have been in a structural imbalance for a long time now. The ageing of the population continuously increases general government expenditures and thereby automatically weakens the structural balance.

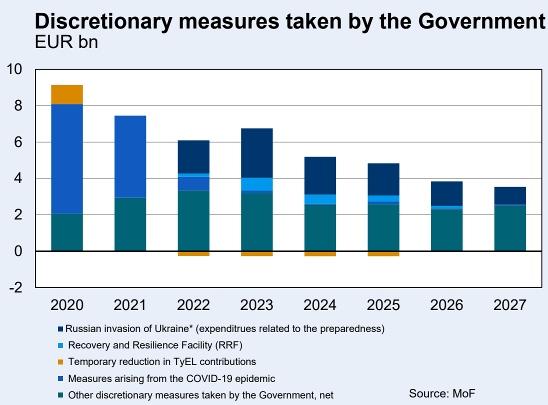
During the current parliamentary term, the structural deficit widened significantly due to the extensive measures taken in 2020 in response to COVID-19 and other expenditure increases in the Government Programme. It is estimated that, in 2020, approximately half of the substantial decline in the general government budgetary position was due to the economic cycle, and half was due to discretionary fiscal policy.

The structural deficit was then significantly narrowed in 2021 and 2022 due to factors including the decrease in the temporary measures related to the management of the COVID-19 pandemic. The economic cycle has also supported the improvement of general government finances in 2021 and 2022.

Beginning from 2023, the structural deficit will start to grow again due to factors including the increase in preparedness-related expenditure, and the economic cycle does not support the improvement of general government finances.

The fiscal policy stance can also be evaluated by adding up individual decisions. The figure below illustrates the cumulative size of the measures introduced by the Government that impact general government revenue and expenditure each budget year. The Technical General Government Fiscal Plan of spring 2019 is used as the baseline.

Figure 2. Discretionary measures taken by the Government



The permanent spending increases in accordance with the Government Programme[3] total approximately EUR 1.4 billion at the 2023 level and will remain at the same level in 2027. Permanent spending increases other than those outlined in the Government Programme amount to approximately EUR 0.7 billion at the 2023 level. At the 2027 level, permanent expenditure increases other than those outlined in the Government Programme will reach approximately EUR 2 billion. This is particularly due to the growing significance of R&D investments over the years.

The Government allocated a total of approximately EUR 2.0 billion to one-off future-oriented investments for the years 2020–2022. The net amount of other one-off or temporary expenditure increases, also including one-off cost savings, is approximately EUR 5 billion for the period 2020–2027. If the figures also took into account financial investments (capitalisation and lending), the sum would increase to some degree. The most significant items include the compensation of the decline in revenue from gambling before the parliament reached a decision on the matter, transition costs related to the reform of social, health and rescue services, the training of new practical nurses to meet the staffing level requirement of 0.7, and various increases to the operating expenses of administrative branches.

There have also been cost cuts in general government finances. At the beginning of the parliamentary term, a cost cut concerning deferrable appropriations was carried out, which reduced appropriations by EUR 50 million in the years 2020–2023. The General Government Fiscal Plan of spring 2021 included permanent savings of EUR 370 million effective from 2023. It was subsequently decided that this would be partly achieved by lowering the level of spending limits, which meant that cost savings were allocated to expenditure items in the total amount of EUR 313 million (the situation in the 2023 Budget).

During the COVID-19 pandemic, general government expenditure was increased particularly by financial support for companies, the expansion of unemployment security and social benefits, and spending on healthcare and social welfare resources and the procurement of supplies. The central government also paid compensation for these measures and other losses caused by COVID-19 to the other subsectors of general government finances, particularly to municipalities and hospital districts, which were affected by the situation in the form of additional health and social services costs and losses of revenue. In addition, the TyEL pension contributions paid by companies were

3 Permanent expenditure increases outlined in the Government Programme refer to the measures specified in Annex 1 and Annex 11 to the Government Programme. Examples of the measures are provided in the Government Programme.

temporarily reduced in 2020. These reductions will be compensated for by contributions collected between 2022 and 2025.

The impacts of Russia's invasion of Ukraine have extended not only to the general economic development but also general government finances in Finland through the preparedness measures necessitated by the changes in the security environment and the need to support the security of supply. An exception clause pertaining to the central government spending limits was adopted in spring 2022 due to the change in the security environment. It covers essential increases in spending that are directly related to the changed circumstances and concern areas such as national defence, border security, cyber security and the security of supply, as well as assistance to the people of Ukraine, both in Finland and in the form of aid sent to Ukraine.

Expenditure increases totalling approximately EUR 9 billion have been budgeted for 2022–2027 under the exception clause. It is estimated that slightly over EUR 0.4 billion of these expenditure increases will become part of the permanent expenditure level, with the other increases being temporary. The Government has also supported purchasing power due to high inflation and energy prices, with part of these measures falling under the exception clause.

2.1.1 General government debt

Last year, the general government debt ratio rose to 73% of GDP. The total amount of debt increased by EUR 12.8 billion, reaching EUR 194.8 billion. The debt ratio will continue to rise this year due to the increasing deficit, and the high growth of the debt ratio is projected to continue throughout the outlook period. In 2027, the debt ratio will be over 82%.

Central government debt grew by EUR 11.5 billion last year. Central government on-budget debt increased by EUR 12.8 billion and amounted to EUR 141.7 billion. Local government debt grew by EUR 0.1 billion. The debt of social security funds grew by EUR 1.2 billion due to increased liabilities associated with the derivatives of earnings-related pension funds.

In the next few years, the debt ratio will increase due to the wide primary deficit in central and local government finances as well as rapidly rising interest expenditure. Factors affecting the change in the debt ratio are itemised below (Table 17). At the same time, economic growth will reduce the debt ratio. Other factors illustrate the expenditure and revenue that do not impact the deficit recognised in the national accounts, but do influence borrowing. In 2022, the increase in the debt ratio exceeded the amount of the deficit. The main reason was the increase in collateral related to debt management, which increased the need for borrowing and simultaneously increased central government assets by approximately EUR 5 billion. Differences in timing between certain expenditures and borrowing also increased borrowing in 2023. For example, the first instalment of the wellbeing services counties' funding (EUR 1.9 billion) will be recognised as an expense in 2023 in spite of having already been paid in 2022. The ARA interest subsidy loan portfolio, which is also included in general government debt, grew by EUR 0.8 billion and is projected to grow by slightly over EUR 1 billion per year going forward. The financing of the fighter aircraft project will increase the need for borrowing annually, but its impact on the deficit will not be seen until the estimated commencement of the deliveries in 2025. The surplus of earnings-related pension funds does not affect general government debt, as the surplus is prefunded to finance future pensions.

Table 17 shows that the effect of interest expenditure on the debt ratio increases throughout the outlook period. At the same time, the change in GDP will also have an increasing effect in terms of reducing the debt ratio. However, GDP growth is not sufficient to turn the debt ratio to a decline, as the sectors that accumulate general government debt are, on the whole, too deeply in deficit. As the interest expenditure arising from debt that has already been accumulated cannot be significantly influenced, halting the growth of the debt ratio is contingent on improving primary balances. Turning the debt ratio to a decline requires a considerable improvement in primary balances.

In addition to on-budget debt, a number of other items are also included in general government debt. For example, central government debt includes the debts of a number of off-budget units and companies, interest rate subsidy loans granted for rental and right-of-occupancy dwellings as well as the collateral on the derivative contracts used in the management of the central government debt portfolio. Local government debt also includes the debt of many municipality-owned companies and an amount of debt corresponding to the interest rate subsidy loans related to municipality-owned rental housing companies. The debt of the social security funds comprises the debts of the Employment Fund and the cash collateral on the derivatives of pension providers.

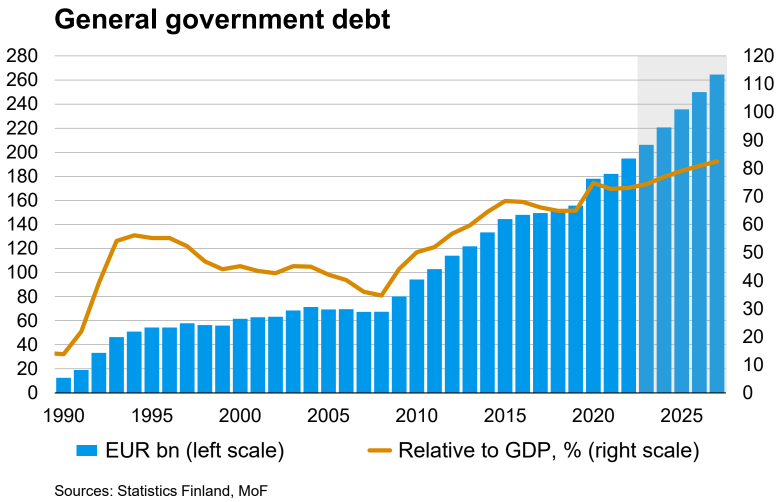


Table 17. Change in general government debt ratio and related factors

	2021	2022	2023**	2024**	2025**	2026**	2027**
Debt ratio, relative to GDP, %	72.6	73.0	74.4	76.9	79.0	80.7	82.4
Change in debt ratio	-2.1	0.4	1.4	2.5	2.1	1.7	1.6
Factors impacting change in debt ratio							
Primary budgetary position (excluding employment pension funds)	3.1	1.2	2.8	2.6	3.2	3.0	2.8
Interest expenditure	0.5	0.5	0.8	1.3	1.3	1.4	1.6
Other factors[1]	-2.0	3.1	0.5	1.2	0.5	0.3	0.1
Change in GDP	-3.7	-4.4	-2.8	-2.5	-2.9	-2.9	-2.9
Surplus of employment pension funds	0.9	0.9	1.1	1.3	1.4	1.5	1.5

[1] Includes privatization proceeds, lending and factors related to the valuation and timing of revenue and expenditure.
Plus indicates increasing effect on debt ratio, minus a lowering effect on debt ratio.

The long-term development of the general government debt ratio

The general government debt ratio will continue to increase in the longer term. According to the Ministry of Finance's spring 2023 macroeconomic forecast and long-term calculations, there is an imbalance between longer-term expenditure and revenue of approximately EUR 9 billion in general government finances.

The general government debt ratio will be slightly over 80% in the medium term, meaning the end of the next parliamentary term. In the pressure projection, the general government debt ratio will exceed 100% in the mid-2030s. The ageing of the population and rising debt servicing costs will increase the debt ratio, with economic growth simultaneously remaining subdued.

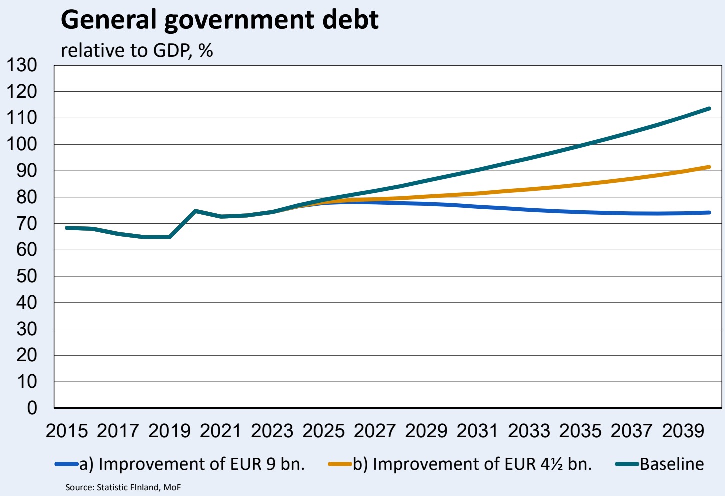
The debt ratio pressure projection from 2027 onwards has been carried out using the assumptions and methods used in sustainability gap calculations. From 2028 onwards, the change in the combined primary balance of central government finances, municipal finances and wellbeing services county finances will be largely determined by the increase in age-linked expenditure, calculated in accordance with the social expenditure analysis model developed by the Ministry of Social Affairs and Health. The projection takes into account the fact that the surplus or deficit of earnings-related pension funds will not affect borrowing in general government finances.

In the longer-term projection, GDP – which represents the revenue base for general government finances – is expected to grow at its potential rate. In other words, views of economic cycles are not incorporated into the projection. Annual GDP growth will be modest in the longer term, averaging less than 1.5% between 2026 and 2040. Inflation is projected to be 2% in the long term.

The debt servicing costs in general government finances were very low for a long time. However, the recent sharp rise in interest rates has increased the interest expenses in general government finances, and interest expenses are continuing to grow. The effective interest rate on general government debt, as expressed by the ratio of interest expenditure to debt, will rise to 3% in the early 2030s and to 4% in the 2040s. At present, the effective interest rate on general government debt is 1.1%, and it is projected to be 2% in 2027.

The post-2027 baseline is the trajectory of unchanged policy, meaning it only takes into account the expenses arising from the ageing of the population and the financing of the Finnish Defence Forces' fighter aircraft project. Other expenditure and savings will be incorporated into the projection as they become known with sufficient accuracy.

Figure 1. General government debt ratio, baseline and scenarios, % of GDP



Scenario A represents the extent to which general government finances would be improved according to the contribution by the officials of the Ministry of Finance[1] . If general government finances were to be improved on a front-loaded basis by approximately EUR 9 billion, the general government debt ratio would turn to a downward trajectory and stabilise at slightly over 70% in the 2030s. In the scenario, general government finances would be slightly in deficit in the latter part of the next parliamentary term, but the debt ratio would start to decrease. In the scenario, general government finances are projected to improve by EUR 6 billion in the upcoming parliamentary term and by EUR 3 billion in the following parliamentary term.

In scenario B, general government finances would be improved by a total of EUR 4.5 billion during the next parliamentary term. The debt ratio would remain at above 80% and continue to grow, albeit at a slower rate than in the baseline projection. General government finances would be in deficit in the latter part of the next parliamentary term.

The baseline projection of the debt ratio includes both positive and negative risks. Examples of the positive risks include the economy growing faster than projected[2], or health and social welfare expenditures rising slower than

1 Contribution by the officials of the Ministry of Finance http://urn.fi/URN:ISBN:978-952-367-205-5

2 In the longer term, this means accelerating potential output growth

projected. The negative risks include the faster-than-projected increase of interest expenses, economic crises or other crises and the subsequent increases in general government expenditure, which could lead to larger deficits and, consequently, higher debt.

The scenarios are based on the assumption that the measures to improve general government finances would be direct measures. If part of the strengthening of general government finances can be achieved through structural reforms that promote economic growth, their overall impact on the development of the debt ratio will be more favourable. However, structural reforms may involve costs in the short term, and there are risks associated with the realisation of the reforms. Moreover, the scenarios assume that the strengthening of general government finances will be implemented in the sectors of general government finances that accumulate general government debt, namely central government and local government.

The scenarios show that curbing the growth of the general government debt ratio would require that general government finances be strengthened on a large scale.

2.2 Central government

Since last year, Russia's invasion of Ukraine has increased spending on national defence, immigration and the security of supply. Central government expenditures are also increased by growing interest expenses, as well as the financial support for electricity paid in 2022 and 2023. At the same time, expenditure has been reduced by the contraction of support expenses arising from the COVID-19 pandemic. In addition, good employment growth and fast nominal economic growth have led to strong growth in tax revenue. At the end of the outlook period, investments by the central government will increase substantially due to the deliveries of F35 multirole fighter aircraft.

The deficit in 2022 was significantly narrowed by a reduction in costs related to COVID-19 and the favourable development of tax revenue. Expenditure increases were allocated to, among other things, national defence, reception of refugees, safeguarding security of supply, and cost support for companies in the tourism, restaurant and event sectors. In addition, the EU's Recovery and Resilience Facility (RRF) increases expenditure, particularly in the period 2022–2023, with the related financing continuing until 2026. In the first stage, RRF spending increases will be covered from the current transfers granted by the EU. Finland will have to pay its RRF financing contribution in 2028–2058.

The funding of the Defence Forces will be further increased for 2023, and expenditure related to immigration is expected to remain at a higher level than in previous years. Investments will also be increased by the start of construction on the eastern border barrier fence. The various forms of financial support for electricity increase central government expenditure and reduce revenue. Expenditure growth will be slowed by the elimination of spending prompted by the COVID-19 pandemic and the end of the future-oriented investments agreed upon in the early stages of the government term. In 2023, the central government's RRF spending will exceed EUR 400 million. As economic growth slows, the increase in tax revenue will decelerate. In 2023, the deficit will increase substantially from the previous year and amount to approximately EUR 9.4 billion, or 3.3% of GDP.

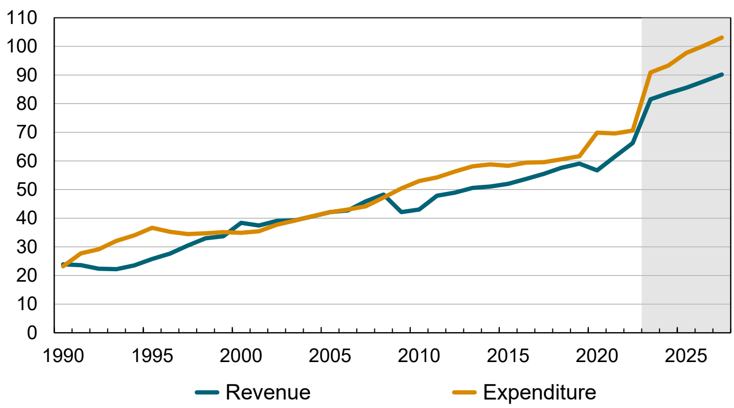
In 2024, the deficit is projected to remain high in spite of accelerating economic growth. The new legislation on R&D funding will considerably increase the central government's R&D spending from 2024 to 2030. The target is to increase R&D

expenditure, together with the private sector, to 4% of GDP by 2030. Expenditure in 2024 will also be increased by the significant growth of interest expenses.

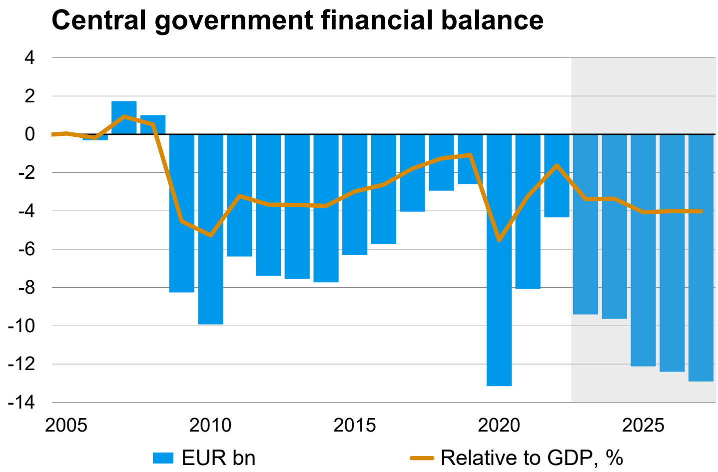
In the medium-term outlook for 2025–2027, the deficits are projected to be larger than they are at present. From 2025, investment expenditure will be increased by the expenditure on the Defence Forces' F35 fighter project as well as additional funding for R&D activities and increases related to border control in 2025–2026. At the end of the outlook period, investments will also be increased by the procurement of Navy vessels. In 2025, the responsibility for organising employment and economic development services (TE services) will be transferred from the central government to municipalities. This is a cost-neutral reform for the central government, as the costs incurred due to the responsibility for organising the services will be compensated for by increased income transfers to municipalities.

The central government's interest expenditure will quickly rise to a higher level than before. In 2022, interest expenses according to the accounts amounted to approximately EUR 1.3 billion, and they are expected to rise to over EUR 4.5 billion in 2027.

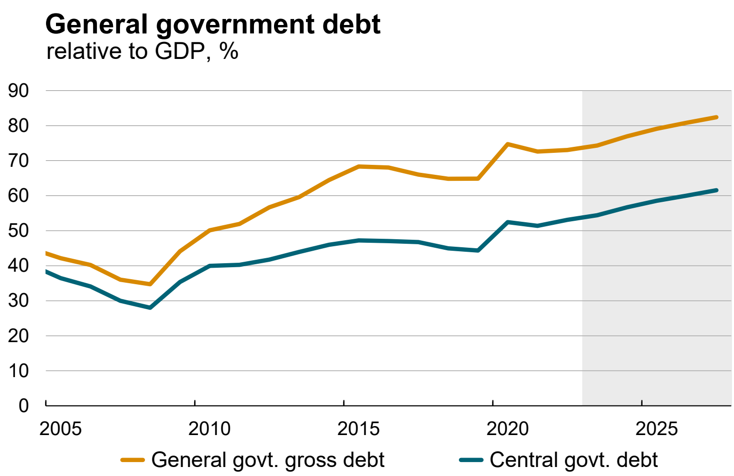
Central government revenue and expenditure
EUR bn



Sources: Statistics Finland, MoF



Sources: Statistics Finland, MoF



Sources: Statistics Finland, MoF

Table 18. Central government[1]

	2020	2021	2022	2023**	2024**	2025**
	EUR billion					
Current taxes	13.4	16.3	19.1	33.6	35.0	36.0
Taxes on production and imports	33.1	34.7	36.2	36.6	37.2	37.9
Social security contributions	0.0	0.0	0.0	0.0	0.0	0.0
Taxes and social security contributions, total[2]	47.3	51.8	56.3	71.3	73.3	75.0
Sales and fee income	4.3	4.3	4.3	4.4	4.5	4.5
Property income	1.8	2.0	2.0	1.7	1.8	1.9
Other revenue	3.3	3.4	3.7	4.1	4.1	4.1
Total revenue	**56.7**	**61.5**	**66.3**	**81.5**	**83.7**	**85.6**
Compensation of employees and intermediate consumption	14.8	15.6	16.7	18.3	18.4	18.7
Property expenditure	1.6	1.2	1.3	1.9	3.0	3.4
Subsidies	3.9	3.5	2.6	2.2	2.2	2.2
Social security benefits and allowances	4.7	4.8	4.9	5.4	5.6	5.5
Other current transfers	39.1	38.7	39.2	55.8	57.2	59.4
to general government	33.2	32.6	33.1	49.5	51.1	53.4
Gross capital formation	4.7	4.1	4.4	5.7	5.8	7.5
Other expenditure	0.9	1.7	1.6	1.5	1.0	1.0
Total expenditure	**69.9**	**69.6**	**70.6**	**90.9**	**93.3**	**97.7**
Consumption expenditure	15.1	16.0	17.4	19.2	19.4	19.7
Net lending (+) / net borrowing (-)	**-13.2**	**-8.1**	**-4.3**	**-9.4**	**-9.6**	**-12.1**
Primary balance[3]	-11.6	-6.9	-3.0	-7.5	-6.6	-8.7

[1] As calculated in the National Accounts
[2] Includes gift and inheritance taxes
[3] Net lending excluding gross interest expenses

Table 19. Forecasts for certain revenue and demand items impacting taxable income and the tax base

	2023**	2024**	2025**	2026**	2027/2023**
				change, % per year	annual change, %
Taxable earned income and capital income	3.5	3.8	3.4	3.2	3.2
Wage and salary earnings and other income	4.2	4.1	3.5	3.5	3.6
Pensions and other social security benefits	7.5	5.1	3.4	2.9	3.6
Capital income	-9.2	-1.0	2.7	2.7	-0.7
Index of wage and salary earnings	4.6	3.8	3.1	3.0	3.0
Operating surplus	2.1	2.2	5.5	3.9	5.3
Value of household taxable consumption expenditure	3.2	3.0	3.5	4.0	3.4
VAT base	4.6	2.3	3.4	3.6	3.6
Petrol consumption	-1.7	-3.9	-4.8	-5.7	-3.9
Diesel consumption	-1.0	-0.9	-2.7	-3.4	-1.9
Electricity consumption	-3.1	3.0	0.6	0.7	0.8
Duty-paid alcohol consumption	-2.5	-1.1	-1.2	-1.2	-0.8
New passenger cars, pcs.	90000	105000	111000	118000	109105
proportion of BEV's, %	27%	39%	50%	60%	
Used passenger cars, pcs.	40000	41000	44000	44000	
proportion of BEV's, %	28%	35%	41%	48%	
Consumer price index	5.5	2.5	1.6	2.0	3.1

Table 20. Impact of change in selected tax base items on tax revenue

Tax category	Tax base	Change	Change in tax revenue, EUR million
Taxes on earned income	Wage and salary earnings	1%	470, of which central govt. 139 and local govt. 221
	Pension incomes	1%	146, of which central govt. 38 and local govt. 94
Capital income tax	Investment income	1%	48
Corporate tax	Operating surplus	1%	55, of which central govt. 36 and local govt. 19
VAT	Value of private consumption	1%	140
Car tax	Sales of new cars	thousands	3
Energy tax	Electricity consumption[1]	1%	9
	Petrol consumption	1%	12
	Diesel consumption	1%	15
Duty on alcoholic beverages	Alcohol consumption	1%	15
Duty on cigarettes	Cigarette consumption	1%	10

[1] Excl. manufacturing industries, datacenters and greenhouses

Table 21. Central government on-budget revenue

	2022	2023**	2024**	2025**	2026**	2027**	2027/2023**
	provisional financial accounts	budget incl. supplementary budget					annual change, %
	EUR billion						
Total tax revenue estimates	51.7	64.4	68.4	70.1	72.2	74.3	7.9
Income and wealth taxes	19.2	31.0	35.0	36.0	37.5	38.8	16.9
Taxes based on turnover	22.4	23.4	24.0	24.8	25.7	26.7	3.6
Excise duties	7.3	7.4	7.0	6.8	6.6	6.5	-2.4
Other taxes	2.7	2.6	2.5	2.4	2.4	2.3	-3.0
Miscellaneous revenue	6.7	6.6	5.9	6.0	6.1	6.0	-2.2
Interest income and profit entered as income	1.6	1.9	2.2	2.2	2.2	2.2	6.4
Total revenue estimates	**60.3**	**73.1**	**76.7**	**78.5**	**80.6**	**82.6**	**6.8**

Table 22. Impact of discretionary tax measures on general government tax revenue

	2022	2023**	2024**	2025**	2026**	2027**
	EUR million					
Earned income taxes	-633	-1379	-869	-663	-565	-628
Average increase in municipal tax rate	0	0	0	0	0	0
Investment income tax	0	-3	1	5	0	0
Corporate tax	33	14	7	28	201	82
Other direct taxes	-107	400	0	0	0	0
Value-added tax	-21	-350	1	0	0	0
Energy taxes	178	64	24	8	15	0
Other indirect taxes	62	62	44	-0	0	0
Social security contributions	-338	285	-512	161	-379	-16

On-budget accounts and national accounts

Central government on-budget entities showed a deficit of EUR 16 billion in 2022. According to preliminary information on the national accounts, the central government deficit was EUR 4.3 billion, or around EUR 11.7 billion lower. The difference between the figures reveals that no direct conclusions on the central government budgetary position recognised in the national accounts can be made on the basis of the central government budgetary position.

The difference in 2022 between the national accounts and the Budget is again explained by an increase in deferrable appropriations. They are entered in the on-budget deficit for the budget year but in the national accounts only when the money is spent. The total of deferrable appropriations carried over from 2022 to the following years was record-high at approximately EUR 9.3 billion. This increase is attributable to the appropriation of EUR 10 billion for loans to companies operating in the electricity markets, which was included in the third supplementary budget but not used at all in 2022. The other differences, in turn, weakened the accounts in relation to the Budget.

This year, the budget balance will be close to the budgetary position in the national accounts. There are many underlying items that have varying effects. For example, the share of the funding of the wellbeing services counties for January 2023, which was paid in 2022, is not recognised as an expense in the accounts until 2023. This has a negative impact on the budgetary position in the national accounts. On the other hand, the budgetary balance will be improved by planned share disposals, which in turn do not affect revenue recognised in the national accounts. The funding of the fighter aircraft project has a negative effect on the budget in 2023 but, in the national accounts, expenses associated with the project will not be recognised until the deliveries begin in 2025. Moreover, interest expenses in the national accounts in 2023–2025 will be lower than the interest expenses in the on-budget accounts because the national accounts do not include the impact of interest rate swaps on interest expenses.

In 2024, the on-budget deficit will be weaker than the deficit in the national accounts, mainly due to the timing differences associated with the fighter aircraft project. In 2025, the deficit in the national accounts will weaken relative to the on-budget accounts as expenditures begin to be recognised in relation to the fighter aircraft project.

Budget deficit and central government borrowing

It is not always possible to make conclusions about the central government borrowing requirement on the basis of the on-budget deficit. Central government on-budget debt increased by approximately EUR 12.7 billion in 2022. On the basis of the on-budget deficit, central government should have borrowed a total of EUR 16 billion, which means that the borrowing was EUR 3.4 billion lower than the on-budget deficit would have required. Disregarding the appropriation of EUR 10 billion for loans to electricity companies, the on-budget deficit would have been approximately EUR 6 billion, which means that the borrowing was EUR 6.6 billion higher than that amount, and EUR 8.4 billion higher than the deficit recognised in the national accounts would have required.

Generally speaking, there are several reasons for the difference between the deficit and the movement in debt. In 2022, the most significant individual reason was related to the growth in collateral necessary for the management of debt, which increased borrowing by approximately EUR 5 billion. Collateral is used to hedge the credit risk associated with interest rate swaps. The collateral that is put up is returned to the central government when the interest swaps mature. Other reasons for the difference include, for example, deferrable appropriations and changes in the cash reserves of central government funds.

On the differences between on-budget and national accounts

There are several reasons for the difference between the central government budgetary position and the central government budgetary position recognised in the national accounts. The most important of them is that in the national accounts, the central government sector is larger than on-budget entities, which basically comprise central government agencies. In the national accounts, the central government sector comprises on-budget entities, government funds (except for the State Pension Fund), universities and their real estate companies as well as Senate Properties. The decisions on the classification of public sector units are regularly reviewed. All central government and general government units are listed on the website of Statistics Finland. In addition to classification, differences also arise because the criteria for recognising expenditure in the national accounts and in on-budget entities differ from each other. The national accounts are accrual based, whereas on-budget activities are based partly on the cash-basis principle. Due to the different recognition principles, deferrable appropriations in the Budget in particular result in differences between on-budget and national accounts expenditure. Deferrable appropriations are multi-year appropriations that are entered in the Budget for one year only. In the national accounts, deferrable appropriations are recognised on accrual basis according to their year of use in the same way as other expenditure. The net effect of deferrable appropriations can vary substantially from year to year. Additionally, in the national accounts, taxes, subsidies and EU contributions are translated into accrual-based items by means of timing adjustments. The differences arising from the timing adjustments can only be determined afterwards.

Such financial investments as loans granted and repaid by the state and sales and acquisitions of shares that in the national accounts are primarily treated as financial transactions are also included as revenue and expenditure in the on-budget budgetary position. Financial transactions do not have any effect on the central government budgetary position recognised in the national accounts. Also recorded as financial transactions are derivatives, which the State Treasury has successfully used to achieve significant reductions in interest expenditure from the Budget. EU countries report to Eurostat twice a year on the differences between the central government's on-budget activities and the figures in the national accounts, in connection with reporting on deficit and debt. The difference over the past years between the budgetary position shown in the financial statements of the central government – and the other subsectors of general government finances – and net lending in the national accounts should be explained as well as possible. The reporting also addresses debt dynamics, meaning the consistency between net lending in general government finances and the change in general government debt.

Table 23. On-budget balance and central government net lending[1]

	2021	2022	2023**	2024**	2025**
	EUR billion				
On-budget surplus (+) / deficit (-)	-9.6	-16.0	-9.3	-11.6	-11.8
Privatization proceeds (net proceeds from equity sales)	-0.5	0.8	-0.2	0.2	0.2
Financial investment, net	-0.2	-0.3	0.7	0.7	0.4
Revenue surplus in off-budget units	-0.5	-0.5	-0.6	-0.7	-0.7
Cash / accrual basis adjustment	0.3	0.5	3.4	1.5	0.4
Other adjustment items[2]	2.4	11.2	-3.4	0.3	-0.5
Central government net lending (+) / borrowing (-)	-8.1	-4.3	-9.4	-9.6	-12.1

[1] In National Accounts terms.

[2] Incl. debt cancellations, profit on reinvested foreign direct investments, impact of the difference in the recording of deferrable budgetary appropriations, superdividends

Central government on-budget activities 2024–2027

In 2024, on-budget expenditure is projected to be EUR 88.3 billion, which is EUR 4.8 billion higher than the budgeted figure for 2023 (including the first supplementary budget). The growth in appropriations compared to 2023 is primarily due to legislative and contract based index adjustments for 2024 (EUR 2.1 billion) and changes to the central government funding of the wellbeing services counties. In 2024, the funding allocated to the wellbeing services counties will be EUR 2.8 billion higher than the budgeted figure (including the first supplementary budget) for 2023.[1] In addition, a legally stipulated index adjustment will be carried out.

The on-budget appropriations for 2024–2027 will also be increased by the spending limits provisions for the budget planning period in relation to additional funding pursuant to the legislation on the funding of R&D activities and the possible retrospective reviews of wellbeing services counties funding. In addition, interest expenses on central government debt are projected to be EUR 3.4 billion per year in 2024–2026 and EUR 3.8 billion in 2027. In addition to being affected by changes in interest rates, debt servicing costs during the budget planning period will be increased by the widening deficit and the subsequent need for increased borrowing. Interest expenses have not been at this high a level since the beginning of the 2000s.

On-budget expenditure during the budget planning period is projected to be EUR 88.2 billion on average at the 2024 price level. In 2027, on-budget expenditure is projected to be EUR 88.4 billion (at the 2024 price level).

In 2024–2027, GDP growth will be nearly 4% per year on average. Tax revenue will grow by an average of nearly 3% per year over the same period. The development of tax bases is largely determined by general economic activity. However, the tax bases for excise taxes will show weaker development, which is why tax revenue as a whole will grow at a slower rate than the GDP.

The central government on-budget deficit is projected to be EUR 11.6 billion in 2024, which is EUR 1.2 billion higher than the figure budgeted for 2023 (including the first supplementary budget). During the budget planning period, the deficit will be at its widest in 2027, when it is projected to be EUR 12.0 billion (expenditure at current prices will reach EUR 94.6 billion, while revenue will be EUR 82.6 billion).

1 Of the 2023 funding of the wellbeing services counties, EUR 1.9 billion was paid in December 2022, which reduces the comparison figure for 2023. At the same time, however, the funding for 2023 includes EUR 350 million in one-off funding.

On-budget revenue and expenditure, EUR billion 2023–2027

	2023	2024	2025	2026	2027
Revenue	73.0	76.7	78.5	80.6	82.6
Expenditure[1]	83.5	88.3	90.3	91.9	94.6
Balance	-10.4	-11.6	-11.8	-11.3	-12.0

1 The expenditure for the period 2025–2027 has been converted into nominally priced spending using the central government expenditure price index projection.

Observations relative to the previous General Government Fiscal Plan

Compared to last year's General Government Fiscal Plan, the projected central government deficit for 2024–2026 has increased by an average of approximately EUR 4.4 billion. The expenditure estimate for 2024–2026 has increased by an average of EUR 6.6 billion compared to the previous General Government Fiscal Plan. However, the estimate of accumulated tax revenue has improved significantly for the outlook period as a whole, by approximately EUR 2.2 billion on average.

The most significant individual factor behind the increase in expenditure is the rise in the general interest rate level as monetary policy has been tightened to curb inflation. The changes in the general interest rate level affect debt servicing costs at a delay. In 2024–2026, debt servicing costs will be on average EUR 2.3 billion higher than in the previous General Government Fiscal Plan.

The increase in expenditure is also attributable to the changes to the funding of the wellbeing services counties and their new tasks, and spending limits provisions to prepare for potential annual retrospective reviews of funding due to the funding system for the wellbeing services counties. Expenditure is also increased by a several factors related to index adjustments and expenditure under the security policy exception clause.

The higher-than-expected tax revenue observed in 2022 have increased the estimate of tax revenue by an average of EUR 1.8 billion per year in 2024–2026 compared to the previous General Government Fiscal Plan. In particular, the estimated tax revenue for earned income and capital gains tax (EUR 0.9 billion), value-added tax (EUR 0.4 billion) and corporate income tax have increased significantly. Moreover, the tax revenue estimate for tax at source on interest income has increased by EUR 0.5 billion due to the significant year-on-year change in the interest rate environment. At the same time, the weaker outlook of housing transactions and other property transactions have reduced the estimate of transfer tax revenue by EUR 0.4 billion. The tax revenue estimates for excise duties have also decreased slightly.

The Government's most significant tax policy decisions had already been taken into account in the previous General Government Fiscal Plan. The temporary windfall tax on the electricity sector and the fossil fuel sector, which was introduced after the plan published last spring, will lead to a slight tightening of taxation in 2024. In 2025 and 2026, discretionary measures will reduce the central government's taxation slightly, as the compensation to municipalities for the reduction in early childhood education fees reduces the central government's tax revenue, for example.

The revenue estimate concerning interest, dividends and the sale of shares has increased by EUR 0.9 billion compared to the previous General Government Fiscal Plan. However, EUR 0.7 billion of that amount is explained by revenue from gambling being budgeted as part of income from dividends and the sale of shares, which reduces the accrual of miscellaneous revenue to a corresponding degree. The accrual of other income from interest, dividends and the sale of shares is projected to be EUR 0.2 billion higher on average compared to the General Government Fiscal Plan published a year ago. This is due to the estimate of dividend income being increased by EUR 0.1 billion to correspond more accurately with the projected accrual of dividend income. The central government is also projected to accrue EUR 0.1 billion more in interest income from deposits of cash reserves, among other things.

The central government's miscellaneous income is projected to be EUR 0.2 billion higher on average than in the General Government Fiscal Plan published a year ago, if the aforementioned reclassification of revenue from gambling is not taken into account. This is mainly due to two reasons. Firstly, the budgetary transfer from the State Pension Fund will increase when pension expenditure rises due to index increases. Secondly, revenue from emissions trading is expected to grow due to the projected market price of emission allowances being higher than before.

Factors affecting changes in on-budget balance compared with the General Government Fiscal Plan of spring 2022, EUR billion

	2024	2025	2026
Estimated balance, General Government Fiscal Plan of spring 2022	**-7.6**	**-7.1**	**-6.7**
Revision of expenditure estimate	**-6.4**	**-6.8**	**-6.7**
Change in debt interest payment estimate	-2.2	-2.3	-2.3
Changes to the funding of the wellbeing services counties, and new tasks	-1.3	-0.9	-1.0
Preparations for the retrospective reviews of the funding of the wellbeing services counties, and related cost pressures	-0.1	-0.4	-0.7
Index adjustments arising from factors such as high inflation in 2023	-0.9	-0.9	-0.9
Pay adjustments for alignment with the central government's negotiated outcome	-0.2	-0.3	-0.3
Beneficiaries of temporary protection coming within the scope of integration benefits (estimate of the impact)	-0.4	-0.6	-0.5
Compensation for material support delivered to Ukraine (first supplementary budget of 2023)	-0.2	-0.2	-0.2
The eastern border barrier and specifying the offshore patrol boat authorisation	-0.2	-0.2	0.0
Preparations for additional funding in accordance with the legislation concerning R&D funding (change from last spring)	-0.1	-0.2	-0.2
Value-added tax expenditure	0.0	0.1	0.1
Other changes in expenditure (net), including more accurate index adjustments	-0.9	-0.9	-0.8
Revision of revenue estimate	**2.4**	**2.0**	**2.2**
Tax criteria changes (net)	0.2	-0.2	-0.2
Changes to estimates of interest, dividend and sales of shares income	0.2	0.2	0.2
Changes to the estimate of miscellaneous revenue	0.3	0.2	0.2
Other factors affecting projected revenue (including accrual data and new economic forecast)	1.7	1.8	2.0
Total change	**-4.0**	**-4.7**	**-4.6**
Balance projection, General Government Fiscal Plan of spring 2023	**-11.6**	**-11.8**	**-11.3**

2.3 Municipal administration

The local government deficit remained at 0.3% of GDP in 2022. Municipalities accumulated a good amount of revenue in spite of the end of the increased corporate tax apportionment and higher central government transfers to local government related to COVID-19 support measures. Growth in consumption expenditure was sustained in 2022 not only by the increase in the need for services but also by the reduction of the service and care backlog and the expansion of municipalities' duties in accordance with the Government Programme. Additional expenditure also arose from the immigration of Ukrainians fleeing Russia's war of aggression. Local government investments turned to a decline in 2021 after 15 years of growth. Preliminary data suggests that the contraction of investment continued last year, although the rate of decline was more moderate than in the previous year.

From the beginning of 2023, health, social and rescue services duties were transferred to wellbeing services counties and the corresponding financing to central government[1] . Municipal revenue and expenditure were nearly halved as a result of the reform. At present, the duties included in municipal administration (local government excluding wellbeing services counties) are heavily focused on the provision of the general education and early childhood education services required by children and young people, the combined need for which is declining due to the fall in the birth rate throughout the 2010s. In the projection, the decline in the need for services has been slightly dampened as usual, as there are limited opportunities for adjustments to the school network in small municipalities. The number of children in early childhood education is influenced by demographic trends as well as the development of the employment rate and the participation rate of early childhood education, which has trended upwards in recent years.

In addition to being influenced by the elimination of healthcare, social welfare and rescue services and the reduced service needs in education, the contraction of consumption expenditure will be accelerated in 2023 by the end of many of the Government's once-off measures at the conclusion of the parliamentary term. At

1 In the forecast, Helsinki's health, social and rescue services have been included in the wellbeing services counties subsector.

the same time, it is projected that expenditure needed to help the people fleeing the war in Ukraine will increase slightly due to the growing need for early childhood education services, education services that prepare children for basic education, and integration services. However, the main factor in increasing the value of consumption in municipal administration is the price of consumption expenditure, which continues to grow. The price of consumption is affected particularly by the pay increases negotiated in the municipal sector. The negotiated increases and the related one-off items will accelerate the growth of labour costs in municipal administration by 4.85% in 2023 and by 2.99% in 2024. The increase in wages in the municipal sector exceeds the general level of wage increases due to a development programme pertaining to pay structures and remuneration systems. Although the negotiated agreements ensure industrial peace in the municipal sector for the next two years, the declining size of the working-age population and labour availability problems will present challenges also to the municipal sector, where the rate of retirement on old-age pension is high. This may make it increasingly challenging for many municipalities to produce basic services at reasonable cost.

In 2025, municipal administration will see the second significant structural reform in a short period of time when the responsibility for employment and economic development services is transferred to municipalities, and municipalities' responsibility for funding unemployment benefits will be expanded to cover not only the labour market subsidy but also basic and earnings-related unemployment allowance. This reform will increase expenditures in municipal administration by approximately EUR 840 million at the 2025 level, but central government transfers to municipalities will be increased in accordance with the transferred expenditures. The reforms will increase the number of personnel in the municipal sector by approximately 4,000 person-years, which will be reflected in strong growth in personnel expenses in 2025. Following the reforms, trends in employment will have an even greater impact on municipal administration than before.

Investment pressures in municipal administration are projected to remain high in the future due to factors such as the age of the building stock, population migration, and the green transition required to address climate change. The uncertain outlook of the investment environment may, however, postpone investments or prevent their implementation. Indeed, building permits and starts for public teaching facilities and assembly buildings have turned to a decline.

Investments are expected to return to the normal growth trajectory after 2023, and their share of GDP has been kept unchanged in the pressure projection in the final years of the outlook period.

Municipal tax revenue projections have been adjusted upward throughout the outlook period, but expenditures still exceed income in municipal administration in the pressure projection. The deficit in municipal administration will stabilise at approximately 0.2% of GDP. Municipal administration has extensive debt that will grow slightly as deficits widen. However, the stabilisation of the deficits will be reflected in a decrease in debt ratio.

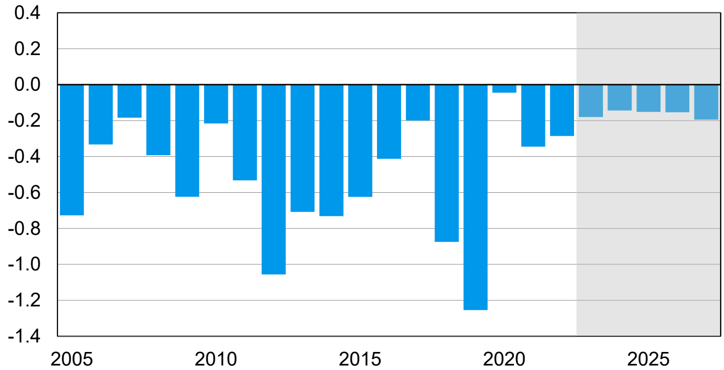
Table 24. Municipal administration[1]

	2020	2021	2022	2023**	2024**	2025**
	EUR billion					
Taxes and social security contributions. total	24.6	25.8	26.6	13.0	14.0	14.5
of which municipal tax	20.5	20.8	21.8	8.8	9.8	10.1
corporate tax	2.2	3.0	2.8	2.1	1.9	2.0
real estate tax	2.0	2.0	2.0	2.2	2.2	2.3
Sales and fee income	10.7	11.4	11.6	9.1	9.3	9.3
Transfers from the central government	17.7	17.6	18.3	8.1	8.1	9.1
Other revenue	1.7	1.7	1.7	1.6	1.7	1.8
Total revenue	**54.6**	**56.5**	**58.2**	**31.9**	**33.1**	**34.6**
Compensation of employees and intermediate consumption	40.7	43.5	45.0	24.2	24.7	25.5
Social assistance and benefits in kind	5.3	5.6	5.9	0.8	0.8	1.1
Other current transfers	1.9	1.9	1.8	1.6	1.6	2.1
Property expenditure	0.1	0.1	0.2	0.3	0.5	0.5
Gross capital formation	7.0	6.4	6.3	5.6	5.8	6.1
Other expenditure	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1
Total expenditure	**54.7**	**57.4**	**59.0**	**32.4**	**33.5**	**35.1**
Consumption expenditure	**38.8**	**41.6**	**43.3**	**20.6**	**21.2**	**22.4**
Net lending (+) / net borrowing (-)	**-0.1**	**-0.9**	**-0.8**	**-0.5**	**-0.4**	**-0.5**
Primary balance[2]	0.0	-0.7	-0.6	-0.2	0.0	-0.0

[1] As calculated in the National Accounts excl. Helsinki's social welfare and health care services and rescue services

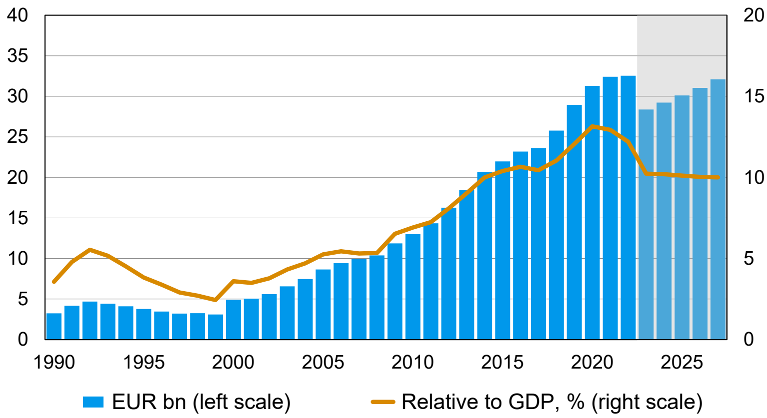
[2] Net lending excluding gross interest expenses

Municipal government financial balance
relative to GDP, %



Incl. wellbeing services county administration until the end of year 2022
Sources: Statistics Finland, MoF

Municipal government debt



Incl. wellbeing services county administration until the end of year 2022
Sources: Statistics Finland, MoF

Differences between municipal accounting and national accounts

The closest municipal accounting equivalent to the national accounts concept of net lending is the cash flow from operations and investments. The two accounting systems define sector boundaries differently, and the same goes for the timing of concepts and entries. The reasons for the differences between the cash flow from operations and investments in municipal accounting and net lending in the national accounts are examined in the table below.

The most important conceptual difference stems from sector definitions. Municipal accounting is concerned with municipalities, joint municipal authorities and their commercial institutions, and excludes municipal operations conducted by an independent legal entity, for example in the form of a limited liability company. The definition of the municipal administration sector in the national accounts, on the other hand, does include enterprises owned by municipalities, mainly treating them as units serving their parent entity. The cash flow from operations and investments in municipal finances was improved by the corporatisation of Helsinki City Transport. Most of that impact was seen in the cash flow from operations and investments in 2022.

The municipal administration sector is understood in the national accounts to comprise the non-market operations of municipal and joint municipal authorities, which are primarily financed from tax revenues and compulsory payments. Public corporations that primarily finance their operations through sales revenue from other sectors, such as water, waste and energy management, and port activities, are therefore classified in the national accounts in the corporations sector, outside the municipal administration sector.

The concept of an investment expenditure differs in municipal accounting and national accounts. Acquisitions and sales of shares and equities are recorded in the national accounts as financial transactions and not under municipal administration investment expenditure. Municipal accounting, on the other hand, record share acquisitions as investments in fixed assets. There are also differences in the concepts of property expenditure and incomes. In the national accounts, changes in the value of assets and liabilities are not included in income or expenditure, so the other financing revenue and costs of municipalities and joint municipal authorities (excluding dividends and interest) are not included in the national accounts definition of net lending.

There are also differences in the timing of entries in municipal accounting and in the national accounts. In municipal finances' accounts, tax revenue describes the amount of tax collected during the calendar year. In the national accounts, tax revenue for the year in question is based on the tax authorities' accounts of tax remittance from February through to the end of January the following year. This is intended to take into account the timing difference between advance tax payments and remittance to government. The difference in timing between municipal accounting and national accounts in 2023 is due to the transfer of health and social services and rescue services to wellbeing services counties. Local government revenue will be reduced at the national level to an extent equalling the financing responsibility removed from municipalities. The tax revenue accrued by municipalities in 2023 will still be partly affected by municipal income tax and corporation tax revenue received being based on the higher tax rates and higher tax apportionment of previous years. This tax tail of more than EUR 1 billion, which is shown in municipal accounting in 2023, is not shown in the national accounts due to a timing adjustment.

Table 25. Financial position in municipal accounting and municipal administration net lending

	2021	2022	2023**	2024**	2025**
					EUR billion
Cash flow from municipalities' and joint municipal authorities' operations and investments	**-0.5**	**-0.6**	**0.6**	**-0.4**	**-0.5**
Other than municipalities' and joint municipal authorities' net lending effect[1]	0.0	-0.9	-0.1	-0.1	-0.1
Effect of municipalities' and joint municipal authorities' operations outside the municipal administration sector	0.0	0.1	-0.1	-0.0	0.0
Acquisitions and sales of shares	0.1	0.3	0.0	0.0	0.0
Differences in concepts of property expenditure and income	-0.2	0.1	-0.0	-0.0	-0.0
Timing differences	0.1	-0.5	-1.5	-0.2	-0.1
Other differences[2]	-0.5	0.7	0.6	0.3	0.2
Municipal administration net lending (+) / borrowing (-)	**-0.9**	**-0.8**	**-0.5**	**-0.4**	**-0.5**

[1] Corporations classified under municipal administration but not included in statistics on municipal finances as well as Government of Åland, Association of Finnish Local and Regional Authorities, Local Government Employers and Municipal Guarantee Board.

[2] E.g. differences in capital transfers and investment grants.

2.4 Wellbeing services counties

The wellbeing services counties started their actual operations at the beginning of 2023. Starting from that time, they are treated as a separate subsector in the projection for general government finances. In the projection, the wellbeing services counties comprise the activities of the new wellbeing services counties, the Hospital District of Helsinki and Uusimaa (HUS), and the health, social and rescue services of the City of Helsinki.

Initially, the wellbeing services counties will be slightly in deficit. The deficit will be approximately 0.4% of GDP and is initially mainly due to the high level of health and social services investments, which will decrease slightly in the subsequent years. However, the budgetary position of the sector will be weakened by costs – particularly personnel expenditure – rising faster than the general level of earnings. In 2024–2027, the deficit in the sector will be approximately 0.5% of GDP.

Most of the financing for the wellbeing services counties will come from central government. Central government funding increases in accordance with the growth of service needs, the price level, and changes to the responsibilities of the wellbeing services counties. The preliminary increase of the wellbeing services counties' central government funding for next year is linked to the increase in general level of wage and salary earnings, but the pay increases agreed upon for the following years in the wellbeing services counties substantially exceed the projected rise in the general level of wage and salary earnings, which will weaken the wellbeing services counties' budgetary position annually. The projection takes into account the preparations for the retrospective review of the wellbeing services counties' funding in amounts corresponding to the spending limits provision presented in the General Government Fiscal Plan (approximately EUR 0.3–0.8 billion in 2025–2026).

Expenditure trends of the wellbeing services counties are based on estimated increases in service needs and anticipated price trends. The projected expenditures do not include measures aimed at increasing the efficiency of the wellbeing services counties' operations, or savings. The investment projection is based on the wellbeing services counties' budgets and investment plans. The cost of providing health and social services accounts for most of the expenditure of the wellbeing services counties. Personnel expenses and costs of purchasing goods and services will account for EUR 28.4 billion of the total expenditure in 2023. The wellbeing services counties' debt will increase at an amount corresponding to the annual deficit, and their debt will rise to approximately EUR 12 billion.

The forecast for the wellbeing services counties is a pressure projection by nature and it involves a number of risks. The wellbeing services counties' expenditures may be increased by, for example, prices rising faster than anticipated, or wage competition for personnel between the wellbeing services counties. The expenditures may also turn out to be lower than the pressure projection if the wellbeing services counties are able to carry out cost cuts and efficiency improvement measures. It is also possible that personnel shortages will limit the increase in the wellbeing services counties' expenditures, at least in the short term. The start of the operations of the wellbeing services counties also involves various uncertainties; for example, concerning the extent to which the wellbeing services counties are able to adjust to the regulations concerning the management of their finances and the requirement to keep their finances in balance. Pursuant to the Act on the Funding of Wellbeing Services Counties, the wellbeing services counties have the opportunity to receive additional funding from the central government if such additional funding is essential for the provision of basic services. Additional funding may involve conditions set by the Government regarding the operations of the wellbeing services counties.

Table 26. Welfare services counties[1]

	2023**	2024**	2025**
	EUR billion		
Sales and fee income	3.6	3.8	3.9
Transfers from the central government	25.8	26.9	28.0
Other revenue	0.2	0.2	0.2
Total revenue	**29.6**	**30.8**	**32.1**
Compensation of employees and intermediate consumption	23.5	24.8	26.1
Social assistance and benefits in kind	5.6	5.8	6.1
Property expenditure	0.1	0.1	0.2
Gross capital formation	1.4	1.3	1.3
Other expenditure	0.1	0.1	0.1
Total expenditure	**30.6**	**32.1**	**33.7**
Consumption expenditure	25.0	26.5	28.0
Net lending / borrowing	-1.0	-1.3	-1.6
Primary balance[2]	-0.9	-1.2	-1.4

[1] As calculated in the National Accounts incl. Helsinki's social welfare and health care services and rescue services

[2] Net lending excluding gross interest expenses

Table 27. Local government (Municipal finances + Welfare services counties)[1]

	2020	2021	2022	2023**	2024**	2025**
	EUR billion					
Sales and fee income	10.7	11.4	11.6	12.7	13.0	13.2
Taxes and social security contributions, total	24.6	25.8	26.6	13.0	14.0	14.5
Transfers from the central government	17.7	17.6	18.3	33.9	35.0	37.1
Other transfers	0.2	0.2	0.2	0.2	0.2	0.3
Other revenue	1.5	1.5	1.5	1.6	1.7	1.7
Total revenue	**54.6**	**56.5**	**58.2**	**61.5**	**63.9**	**66.7**
Compensation of employees and intermediate consumption	40.7	43.5	45.0	47.7	49.5	51.6
Social assistance and benefits in kind	5.3	5.6	5.9	6.3	6.7	7.2
Other current transfers	1.9	1.9	1.8	1.7	1.7	2.1
Property expenditure	0.1	0.1	0.2	0.4	0.6	0.6
Gross capital formation	7.0	6.4	6.3	6.9	7.2	7.3
Other expenditure	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1
Total expenditure	**54.7**	**57.4**	**59.0**	**63.0**	**65.6**	**68.8**
Consumption expenditure	**38.8**	**41.6**	**43.3**	**45.6**	**47.7**	**50.3**
Net lending (+) / net borrowing (-)	-0.1	-0.9	-0.8	-1.5	-1.7	-2.1
Primary balance[2]	0.0	-0.7	-0.6	-1.1	-1.1	-1.4
Index of welfare services counties, change, %				3.5	3.3	2.7
Index of wage and salary earnings of welfare services counties, change, %				6.0	4.7	6.6

[1] As calculated in the National Accounts

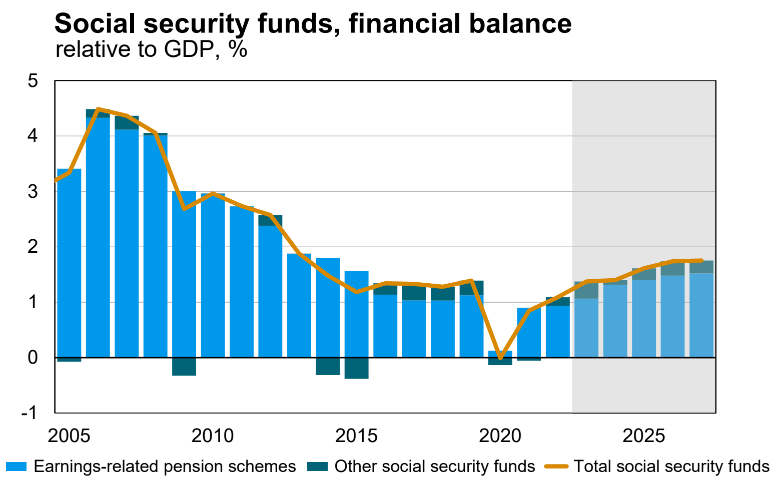
[2] Net lending excluding gross interest expenses.

2.5 Social security funds

2.5.1 Employment pension schemes

Last year, the surplus of employment pension schemes was 0.9% of GDP. The sector's surplus will increase slightly this year. Earnings-related pension expenditure is growing quickly due to significant index increases, but their fee income and property income are also projected to develop favourably. The rapidly increased interest rates are projected to increase the interest income and fund revenue of earnings-related pension assets. According to preliminary information, earnings-related pension assets declined by 6 % last year, having grown rapidly in 2021.

In the coming years, the sector's budgetary position will improve gradually and amount to approximately 1.5% of GDP. Property income will continue to grow, and pension expenditure will increase further in 2024 due to a substantial index adjustment, with slower growth projected thereafter. The temporary increase to the pension contributions of employers, which compensates for the reduction in contributions in 2020, will end in 2025.



Sources: Statistics Finland, MoF

Table 28. Finances of social security funds[1]

	2020	2021	2022	2023**	2024**	2025**
	EUR billion					
Property income	3.5	4.0	3.8	5.6	7.1	7.8
Social security contributions	27.6	30.4	32.0	33.7	34.5	36.0
of which contibutions paid by employers	16.7	18.9	20.0	21.0	21.6	22.5
contributions paid by insured	10.8	11.5	12.0	12.7	12.9	13.5
Transfer from general government	17.2	16.8	16.2	17.0	17.5	18.0
Other revenue	0.9	0.8	0.9	0.9	0.9	0.9
Total revenue	**49.2**	**52.0**	**53.0**	**57.2**	**60.0**	**62.7**
Compensation of employees and intermediate consumption	1.7	1.9	1.9	2.0	2.0	2.1
Social benefits and social benefits in kind	43.8	44.4	44.7	47.7	50.1	51.8
Other expenditure	3.6	3.6	3.5	3.7	3.9	4.1
Total expenditure	**49.2**	**49.9**	**50.1**	**53.4**	**56.0**	**57.9**
Consumption expenditure	3.8	4.1	4.1	4.1	4.3	4.4
Net lending (+) / net borrowing (-)	-0.0	2.1	2.9	3.8	4.0	4.8
Earnings-related pension schemes	0.3	2.3	2.5	3.0	3.8	4.2
Other social security funds	-0.3	-0.1	0.4	0.9	0.3	0.6
Primary balance[2]	-0.0	2.1	2.9	3.8	4.0	4.8

[1] As calculated in the National Accounts

[2] Net lending excluding gross interest expenses

2.5.2 Other social security funds

The other social security funds are the Social Insurance Institution of Finland, which is primarily responsible for basic security, and the Employment Fund, which is responsible for earnings-related unemployment security. Other social security funds were in surplus at 0.2% of GDP last year. This year, the sector's surplus will be approximately 0.3% of GDP.

The surplus in the sector is projected to decrease temporarily in 2024 when social security contributions received by Kela are temporarily reduced in relation to the fluctuation in Kela's surpluses. The sector will remain in surplus of approximately 0.2% in the subsequent years. The Employment Fund's cyclical buffer will nevertheless start to grow and, towards the end of the outlook period, there will be pressure to reduce contributions due to the upper boundary of the cyclical buffer being approached.

Table 29. Social security contributions rates and pension indices

	2020	2021	2022	2023**	2024**	2025**
Social insurance contributions[1]						
Employers						
Sickness insurance	1.34	1.53	1.34	1.53	1.30	1.42
Unemployment insurance	1.26	1.43	1.51	1.54	1.54	1.54
Earnings-related pension insurance	15.23	16.93	17.38	17.37	17.37	17.37
Local government pension insurance	20.78	20.60	20.34	19.84	19.84	19.84
Employees						
Sickness insurance	1.18	1.36	1.18	1.36	1.15	1.27
Unemployment insurance	1.25	1.40	1.50	1.50	1.50	1.50
Earnings-related pension insurance	7.47	7.47	7.47	7.47	7.47	7.47
Benefit recipients						
Sickness insurance	1.65	1.65	1.50	1.57	1.55	1.56
Pension indices						
Earnings-related index (over 65)	2617	2631	2691	2874	3013	3094
National pension index	1633	1639	1674	1805	1888	1937

[1] Annual averages. The contributions of employers and the unemployment and employment pension contributions of beneficiaries as percentages of wages and salaries. The figures are weighted averages.

2.6 Long-term sustainability of general government finances

The ageing of the population has already increased pension expenditure over the past 10 years and is creating major pressures on the long-term sustainability of Finland's general government finances. An increase in the ageing population is the main factor increasing the health and long-term care expenditure in the coming decades, and the current total tax rate will be inadequate to finance these increases in the future. At the same time, the working-age population, which pays the taxes needed to finance the public services and social security, is shrinking.

There is a long-term imbalance, i.e., a sustainability gap between general government revenue and expenditure. The sustainability gap calculation shows how much general government finances should be consolidated in the near future in order to ensure that the finances are in balance in the long-term. In other words, after the adjustment, there would no longer be any need to increase the tax rate, cut spending, introduce structural reforms consolidating general government finances or increase general government debt. However, the sustainability gap calculation does not address the question of how the general government debt ratio should be stabilised or set the timetable for this process. Furthermore, the harmful impacts of the adjustment or positive impacts of structural reforms on economic growth are not taken into account.[1]

The purpose of the sustainability gap calculations is to estimate how the ageing of the population is impacting the outlook for general government finances in the coming decades. In addition to the ageing of the population, there are also many other pressures on general government finances, which arise from such issues as preparations for the new, weaker security environment, climate change and the

1 As the sustainability gap (S2 indicator) does not take into account the potential adverse effects of direct adjustment measures on economic growth, it should not be used as the sole instrument to assess the required adjustment. There are other methods that can be used to take into account more effectively the unfavourable growth impact of direct adjustment measures. Technically, the results given by the S2 indicator correspond to a situation in which the fiscal policy coefficient would be zero (the adjustment measures do not slow down economic growth). It is generally assumed that direct adjustment measures will slow down economic growth. At the same time, however, many of the structural reforms do not have such adverse effects and they can also strengthen the basis for economic growth.

need to overhaul and repair public infrastructure, but which are not included in the assessment of the sustainability gap.

The Ministry of Finance estimates that the sustainability gap will be approximately 3% of GDP (some EUR 9 billion) at the 2027 level. The estimated level of the sustainability gap has remained more or less unchanged since last autumn. The findings can be interpreted so that the ageing of the population poses a significant challenge to the sustainability of general government finances. The projected growth of the general government debt ratio also increases the risks to general government finances.[2]

In the sustainability gap calculation, general government debt is not expected to settle at any specific level. Thus, the debt balance produced by the calculation may also be relatively high or low, depending on the level of the debt ratio at the time of the calculation and the estimated impact of the ageing of the population on public spending trends in the coming decades. It would therefore also be worth examining other ways of looking at the debt sustainability of general government finances. These methods include the reviews presented in the Ministry of Finance report on the sustainability of Finland's public finances.

The Ministry of Finance estimate of the long-term sustainability of general government finances is based on the methods and calculation principles jointly agreed in the European Union Working Group on Ageing Populations and Sustainability (AWG). The sustainability gap calculation is a pressure calculation, not the most probable future scenario. The calculation is based on the assumption of unchanged policy, which means that it projects trends under current legislation and practices to the future with the help of population projections, spending decompositions by age groups, and estimates of long-term economic growth trends. Only the decisions whose impacts on general government finances can be estimated with sufficient accuracy are considered in the sustainability gap estimate. The methods used in the sustainability gap calculations are detailed on the Ministry of Finance website.[3]

2 https://julkaisut.valtioneuvosto.fi/handle/10024/162357

3 https://vm.fi/en/descriptions-of-methods

The aim is to establish a sustainability gap estimate that is based on assumptions that are as realistic as possible. As any indicator, the estimate changes slightly as the data and forecasts used are updated. The table below presents key calculation assumptions used in the sustainability gap calculation and examines the sensitivity of the calculation to changes in the assumptions. The results of these sensitivity assessments are presented in more detail in the last chapter of the description of sustainability gap calculation methods referred to above. The sustainability gap calculation and its sensitivity assessments provide a useful and logical way to analyse the size of the challenge arising from the ageing of the population and how this challenge can be addressed.

Table 30. General government finances

	2022	2025**	2030**	2040**	2050**	2060**	2070**	2070/2019**
							relative to GDP, %	change, %
Total expenditure	53.4	55.7	56.7	59.2	61.7	65.5	70.3	16.9
of which age-related and unemployment expenditure	29.0	29.6	29.5	29.4	29.1	29.9	31.1	2.1
Pensions	12.8	13.4	13.3	12.5	12.0	12.5	13.1	0.3
Earnings-related pensions	11.9	12.5	12.4	11.7	11.2	11.5	12.0	0.1
National pensions	0.9	0.9	0.9	0.8	0.8	1.0	1.1	0.2
Health care	6.3	6.3	6.4	6.7	6.8	7.0	7.3	1.0
Long-term care	2.8	2.9	3.1	3.7	4.0	4.2	4.6	1.8
Education	5.5	5.4	5.1	4.8	4.7	4.7	4.5	-1.0
Unemployment	1.6	1.6	1.5	1.6	1.6	1.6	1.6	0.0
Interest expenditure	0.5	1.3	2.4	5.0	7.8	10.8	14.4	13.9
Total revenue	52.6	52.6	53.3	54.3	55.5	57.5	59.7	7.1
of which: property income	2.5	3.6	4.3	5.5	6.8	8.7	10.8	8.3
of which: tax revenue from pensions	2.7	2.8	2.8	2.6	2.5	2.6	2.7	0.0
Net lending[1]	-0.8	-3.1	-3.4	-4.9	-6.2	-8.0	-10.6	-9.8
of which: transfer to pension funds	0.9	1.4	1.7	3.4	5.5	7.1	8.7	7.8
General government debt	73.0	75.9	86.0	134.5	199.1	276.1	365.3	292.3
General government assets, consolidated	157.9	157.9	157.4	164.5	186.7	218.9	255.8	97.9
Pension funds' financial assets, consolidated	101.5	101.5	103.2	116.0	142.2	176.8	215.1	113.6

[1] Cyclically-adjusted net lending as of 2030

Table 31. Underlying assumptions

	Assumptions, %					
	2025**	2030**	2040**	2050**	2060**	2070**
Labour productivity growth	1.5	1.3	1.5	1.5	1.5	1.5
Real GDP growth	1.6	1.2	1.5	1.3	1.2	1.3
Participation rate						
Males (15–64)	80.0	78.3	79.1	79.2	79.5	80.1
Females (15–64)	79.2	79.2	81.3	82.6	82.9	83.2
Total (15–64)	79.6	78.7	80.1	80.8	81.1	81.6
Unemployment rate	6.6	6.3	6.4	6.5	6.5	6.6
Old-age dependency ratio[1]	39.9	42.9	45.1	48.6	54.1	59.2
Inflation	1.6	2.0	2.0	2.0	2.0	2.0
Real interest rate	0.1	0.9	1.8	2.0	2.0	2.0
Real return of pension assets	2.8	3.2	3.5	3.5	3.5	3.5

[1] Number of individuals aged 65 and over per 100 people aged 15–64

Sources: Statistics Finland, MoF

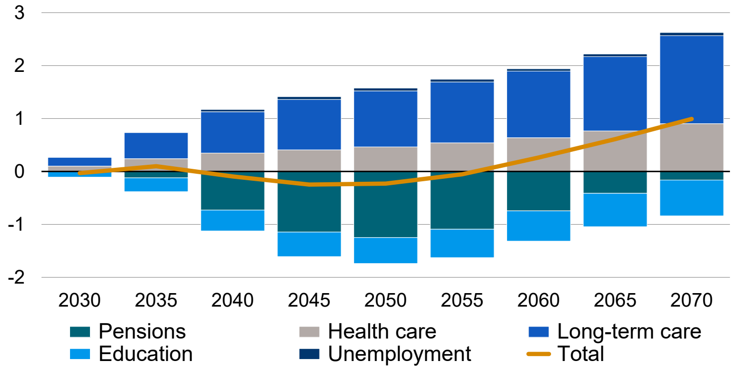
Table 32. Impact of various factors on the sustainability gap

<table>
<tr><th></th><th>Baseline scenario (fall 2022)</th><th>Change</th><th>Impact on sustainability gap, pp.[1]</th></tr>
<tr><td>Growth in general productivity (and real earnings) in 2026-2070</td><td>on average 1.5%</td><td>+0.5 pp.</td><td>-0.3</td></tr>
<tr><td>Employment rate (15-64 yrs) in 2026-2070</td><td>74.5% in 2026 and 76.5% in 2070</td><td>+1.0 pp.</td><td>-0.2</td></tr>
<tr><td>Annual productivity growth of public health and social services in 2026-2070</td><td>0%</td><td>+0.5 pp.</td><td>-1.7</td></tr>
<tr><td>General government structural primary balance[2] / GDP in 2026</td><td>-1.10%</td><td>+1.0 pp.</td><td>-1.0</td></tr>
<tr><td>Total fertility rate</td><td>1.45</td><td>+0.25 (= 1.70)</td><td>approx. 0.0</td></tr>
<tr><td>Annual net immigration (impact if employment rate remains unchanged)</td><td>15000.0</td><td>+7.500 (= 22.500)</td><td>-0.3</td></tr>
<tr><td>Life expectancy at the age of 50 (33.7 years in 2021)</td><td>Will be increased by approximately 7 years by 2070</td><td>-1.4 years (= 5.4 years)</td><td>-0.6</td></tr>
<tr><td rowspan="2">Postponement of the need for health and social services as life expectancy increases</td><td rowspan="2">Will be postponed by half of the life expectancy increase (people aged over 50)</td><td>Will be postponed at the rate of life expectancy increase</td><td>-1.1</td></tr>
<tr><td>No postponement as life expectancy increases</td><td>1.1</td></tr>
<tr><td>Inflation (change in GDP deflator and consumer prices) in 2026-2070</td><td>2%</td><td>-0.5 pp.</td><td>approx. 0.0</td></tr>
<tr><td>Real interest rate on central and local government debt (+ impact on the discount rates of the two sectors)</td><td rowspan="3">Real interest rate on central and local government debt and interest income 2%. real rate of return on central and local government's investments in shares 4% and real rate of return on employment pension schemes' investments 3.5% (from 2040s onwards)</td><td>-0.5 pp.</td><td>-0.2</td></tr>
<tr><td>Real interest rate on central and local government debt and impact on the real rate of return on central and local government and employment pension schemes' investments in bonds (+ impact on all sectors' discount rates)</td><td>-0.5 pp.</td><td>0.1</td></tr>
<tr><td>Real interest rate on central and local government debt and real rate of return on all general government investments (+ impact on all sectors' discount rates)</td><td>-0.5 pp.</td><td>0.7</td></tr>
</table>

[1] The calculations are based on autumn 2022 MoF sustainability gap calculations.

[2] Deficit excl. interest payments

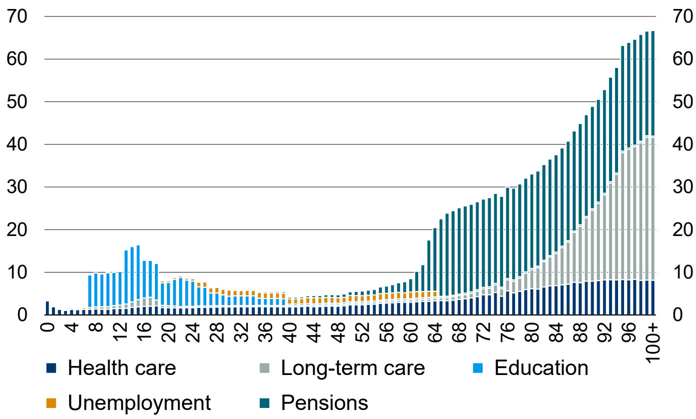
Change in age-related expenditure
from year 2027, relative to GDP, %



The figure is compiled using the model developed by the Ministry of Social Affairs and Health for social expenditure analysis

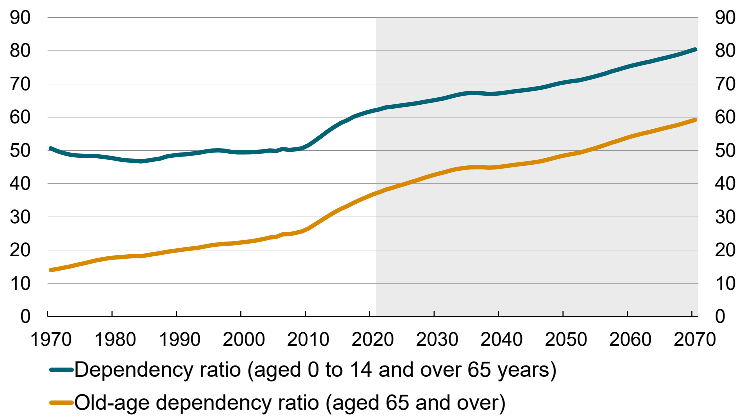
Source: MoF

Age-related expenditure by age category in 2019
thousand EUR per capita, average



Source: SOME model developed by the Ministry of Social Affairs and Health, MoF

Dependency ratio
persons per hundred persons of working age



Source: Statistics Finland, MoF

Supplementary statistics

1. Outturn data and forecasts used in budget process for 2018-2022
2. National balance of supply and demand
3. Financial balance of the Finnish economy

Appendix table 1. Outturn data and forecasts used in budget process for 2018-2022

	Years 2017-2021		Average forecast accuracy	
	Forecast averages, % ch.	Outcome averages, % ch.	Forecast under-/over-estimation[1], pp.	Magnitude of forecast accuracy[2], pp.
GDP (volume)	1.9	1.0	0.9	1.4
GDP (value)	3.7	3.4	0.3	2.0
Private consumption (value)	3.7	2.8	0.9	2.5
Current account, relative to GDP, %	-0.6	-0.9	0.3	2.0
Inflation	1.4	2.3	-0.9	1.7
Wage bill	3.2	3.7	-0.5	2.2
Unemployment rate	7.3	7.2	0.1	0.7
Central government debt, relative to GDP, %	49.6	49.3	0.2	3.9
Central government net lending, relative to GDP, %	-2.1	-2.5	0.5	1.7
General government net lending, relative to GDP, %	-1.9	-2.0	0.1	2.1

Forecasts are compared with March/June preliminary national accounts data.

Averages for the past five years are calculated on the basis of spring and autumn forecasts concerning the budget year.

[1] Over- or underestimation is indicated by average forecast accuracy.

[2] The average of absolute accuracy values indicates the average magnitude of forecast accuracy, regardless of the direction of deviation.

Appendix table 2. National balance of supply and demand, EUR million

	Current prices					
	2020	2021	2022	2023**	2024**	2025**
GDP at market prices	240 097	250 594	266 679	277 122	286 911	298 148
Imports of goods and services	85 006	98 889	127 056	121 846	124 656	132 158
Total supply	**323 044**	**349 483**	**393 735**	**398 967**	**411 568**	**430 306**
Exports of goods and services	85 188	99 114	119 716	118 430	122 594	129 449
Consumption	179 481	190 062	203 149	212 110	219 576	228 252
private	121 754	128 380	138 305	143 193	148 211	153 850
public	57 727	61 682	64 844	68 917	71 364	74 402
Investment	57 231	59 109	65 746	67 560	68 237	71 248
private	45 720	48 640	54 765	55 019	55 321	56 472
public	11 511	10 469	10 981	12 545	12 926	14 781
Total demand	**323 044**	**349 486**	**395 666**	**400 898**	**413 499**	**432 237**
	At reference year 2015 prices; not additive					
	2020	2021	2022	2023**	2024**	2025**
GDP at market prices	224 192	231 022	235 836	235 353	238 347	242 150
Imports of goods and services	85 180	90 318	97 094	95 676	98 391	102 443
Total supply	**309 363**	**321 218**	**332 837**	**330 807**	**336 596**	**344 539**
Exports of goods and services	84 510	89 582	91 121	92 229	95 866	99 499
Consumption	171 942	178 302	182 486	182 493	184 345	187 176
private	117 172	121 389	123 906	123 166	124 891	127 383
public	54 793	56 936	58 596	59 349	59 477	59 822
Investment	51 789	52 274	54 889	54 554	54 683	56 041
private	41 112	42 815	45 420	44 222	44 189	44 295
public	10 704	9 441	9 440	10 337	10 502	11 773
Total demand	**309 359**	**321 089**	**333 939**	**331 912**	**337 693**	**345 625**

Appendix table 3. Financial balance of the Finnish economy

	2017	2018	2019	2020	2021
	relative to GDP, %				
Gross investment	23.3	24.1	23.8	24.2	23.4
households and non-profit institutions	6.9	7.1	7.0	7.0	7.1
non-financial corporations and financial and insurance corporations	12.4	12.6	12.4	12.2	12.1
general government	4.1	4.3	4.4	4.9	4.1
Gross saving[1]	23.3	23.5	23.8	25.2	25.9
households and non-profit institutions	3.6	3.9	4.7	7.2	4.9
non-financial corporations and financial and insurance corporations	16.3	16.2	15.7	18.7	19.4
general government	3.3	3.4	3.4	-0.7	1.6
Financial surplus	-0.7	-1.8	-0.2	0.8	0.8
households and non-profit institutions	-3.5	-3.3	-2.5	0.0	-2.4
non-financial corporations and financial and insurance corporations	3.4	2.4	3.2	6.2	6.6
general government	-0.7	-0.9	-0.9	-5.5	-2.6
Statistical discrepancy	0.0	-0.0	0.0	-0.1	0.8

[1] Incl. capital transfers (net)

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