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**Assessment of the 2011 national reform programme and stability programme for
FINLAND**

Accompanying the document

Recommendation for a

COUNCIL RECOMMENDATION

**on the National Reform Programme 2011 of Finland and delivering a Council Opinion
on the updated stability programme of Finland, 2011-2014**

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1. INTRODUCTION

The Finnish economy had not accumulated major macroeconomic vulnerabilities over the past decade and, therefore, emerged relatively unscathed from the global economic crisis. The government took relatively strong measures to stimulate the economy during the economic crisis and continued to implement its longer-term policy strategy. Given that a new government is yet to be formed after the elections in April 2011, the National Reform Programme (NRP) and the Stability Programme (SP) do not contain at this stage any major new policy initiatives. The new Government is expected to announce a more detailed reform programme after taking office.

2. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

2.1 RECENT ECONOMIC DEVELOPMENTS

At the trough of the global economic crisis, Finland experienced the steepest fall in GDP among the euro area countries, reflecting the reliance of the Finnish economy on the export performance of its main industries. In 2009, GDP contracted by 8.2%, driven by an exceptionally steep fall in exports (20% fall in volume) and related adverse confidence effects on investment. The current account surplus was driven down from over 5% of GDP prior to the crisis to about 3% of GDP in 2010. Nevertheless, the economy maintained solid fundamentals and was well positioned for a rebound, with GDP expanding by 3.1% in 2010, sustained by both domestic demand and a rebound in exports. Apart from a limited setback, the domestic market remained relatively buoyant throughout the crisis and the labour market losses were contained. The financial sector has remained resilient. The unemployment rate increased by only about 2 percentage points, from 6.4% in 2008, to 8.4% in 2010. Before the economic crisis, the surplus in public finances averaged 3.5% of GDP (2004-2007), reflecting the efforts of successive governments to accumulate savings to prefund the imminent rise in pension costs. Finland emerged from the economic crisis with a general government deficit of 2.5% of GDP in 2010 and debt of 48.4% of GDP.

In recent years, Finnish consumer price inflation has slightly exceeded the euro area average and it is projected to do so also over 2011-2012. In 2011, inflation is forecast to peak at 3.5 %, largely driven by energy prices and to a lesser extent by food prices. The effect of global energy price increases appears stronger in Finland due to the higher energy intensity of the economy and some unexpected supply disruptions which boosted electricity prices in Finland in the short term. Also, energy taxes were increased in 2011, projected to add slightly less than 0.5 pp. to headline inflation. Once the base effects from the elevated energy prices fade in 2012, inflation should fall back to rates slightly above 2%.

2.2 OUTLOOK

Looking ahead, the economy is forecast by the Commission services to maintain solid momentum, growing by 3.7% in 2011 and 2.6% in 2012, well above the euro area average. Growth is projected to be driven by both the export industries and strong domestic demand, lending support for recovery in the labour market and in public finances. By 2012, unemployment is expected to decline to nearly 7% of the labour and the public finances to improve to a deficit of 0.5 % of GDP. The reduction of the current account surplus over the global economic crisis did not reflect only the cyclical downturn of exports but also some more permanent structural factors- buoyant domestic demand driving up imports, some loss in

external competitiveness due to relatively rapid growth in unit labour costs and structural changes in some major industry branches. The Commission services spring forecast therefore projects the current account surplus to remain at roughly the 2010 level, at below 3% of GDP in 2011-12.

The main short term risk factor for Finland's economic prospects is the global economic- and trade outlook since the Finnish economy has traditionally been highly dependent on external demand. Adverse developments in the exporting industries would also have a significant and immediate impact on the domestic sectors, notably by affecting consumer and corporate confidence.

The adverse effect from the crisis on the growth potential was relatively limited. However, in the medium term, the currently relatively strong GDP growth is forecast to abate to rates closer to its economic growth potential, which is suppressed by the adverse demographic trends. Finland is one of the first Member States to be strongly affected by population ageing. Reflecting the retirement of a large baby-boom generation, demographic projections show that the working age population is set to decline by about 140,000 people in 2010-2020, representing over 5% of the current labour force. Beyond 2020, this demographic shift will level off. The decline in the labour force will inevitably reduce the economy's growth potential, having adverse effects on the labour market and public finances. It is estimated that the growth potential would gradually decline from the previous decade average of 2.5 % to 1.5 % in the medium term. The increase in costs related to population ageing will be relatively high in the long term. In Finland, ageing-related costs are projected to increase by 5.9 % from 2010 to 2060, compared with 4.6% in the EU on average¹.

3. MONITORING, PROCEDURAL ISSUES AND GOVERNANCE

Finland has broadly ensured consistency between its National Reform Programme (NRP) and Stability Programme update. The two documents outline the fiscal consolidation efforts on the one hand and key structural reforms and reforms underpinning macro-economic stabilisation on the other. However, the NRP is vague on the completion deadlines of the specific measures, and it does in most cases not provide any roadmaps for monitoring the implementation. The NRP does not include estimations of likely budgetary costs of the measures, which together with the lack of prioritisation of reforms may endanger their implementation under strict fiscal policy. As regards the national consultation processes, the NRP explicitly mentions one action on the implementation of partnership, the Government and labour market organisations' Programme for Sustainable Economic Growth and Employment, which supported the preparations.

In the NRP, Finland sets its national targets in the field of employment, R&D, education, energy and climate change and poverty reduction for 2020. These ambitious targets set up the more long-term development trajectory for the necessary modernisation of the Finnish economy and put imminent reform priorities in a broader context. The NRP states that the new Government that takes office after the general election in April will publish more detailed programme once the autumn spending limits decision has been submitted to the Finnish Parliament. Commitments and actions taken by Finland under the Euro plus pact will be communicated after the new government has taken office.

¹ Public Finances in EMU 2010, European Commission, European Economy 4/2010

Table 1 - Finnish Europe 2020 targets

Europe 2020 targets	Current situation in Finland	Finnish Europe 2020 target in the NRP
R&D investment (% of GDP)	almost 4 % (2009)	4 %
Employment rate (%)	73.0 % (2010)	78 %
Early school leaving (%)	9.9 % (2009)	8 %
Tertiary education attainment (%)	45.9 % (2009)	42 % (narrow national definition)
Reduction of number of people in or at risk of poverty or exclusion	886,000 (2009)	- 150,000
Energy efficiency – reduction of energy consumption in MToe ²		Reduction in energy consumption 4.21 MToe
Reduction in greenhouse gas emission reduction targets (compared to 2005 levels) (from sources not covered by the Emissions Trading System)	-1% ³	-16 % ⁴
Renewable energy (% of total energy use)	31% (2008)	38%

4. POLICY CHALLENGES, AGENDA AND ASSESSMENT

4.1 CHALLENGES

The adverse demographic shifts related to population ageing will bring about major medium- and long-term challenges, notably for the sustainability of public finances and the labour market. Population ageing will lead to a significant rise in demand for ageing-related services, which are mostly provided by local governments in Finland. Various studies have found that productivity development of public services has been poor over the past years. The Finnish authorities have already implemented several reforms to redesign public service structures and boost productivity at both the central and local government level. Their implementation has been gradual, especially on the local government level, where their impact will take several years to materialise. The relatively large investments in information technology in the public sector have not yet shown up in productivity improvements, implying that structural and managerial changes need to accompany investments. Overall, there is still room for additional measures to achieve productivity gains and cost savings in public service provision.

The utilisation of the labour resource represents a further significant priority in order to counterbalance the decline in labour supply. The large age cohorts currently exiting to retirement reduce significantly the number of people in the working age, intensifying tensions in the labour market. Participation in the labour market could especially be enhanced among the youth, who currently enter the labour market relatively late, and by increasing the effective retirement age. Also, regional and skills mismatches between labour demand and supply are evident, reflected in a relatively high structural unemployment rate and indicating a source of unused labour reserves.

² Estimated by the European Commission. Mtoe = Million tonnes of oil equivalent.

³ This quantity corresponds to the 2005-2008 evolution of the emissions not covered by the EU Emissions Trading System. As the scope of the Emissions Trading System evolved between 2005 and 2008, these emissions are estimated on the basis of the main relevant UNFCCC source categories (as opposed to the difference between total emissions and EU ETS verified emissions).

⁴ The national emissions limitation target defined in Decision 2009/406/EC (or "Effort Sharing Decision") concerns the emissions not covered by the EU Emissions Trading System. It is expressed as the minimum relative decrease (if negative) or the maximum relative increase (if positive) compared to 2005 levels.

The relatively high openness of the Finnish economy and its concentrated industry and export structure increase vulnerability to global and sector-specific shocks. The adjustment capacity of the economy is crucial in maintaining the growth potential of the economy in the face of structural changes. The increased inter-dependence of the globalised economies puts further pressure on adjustment mechanisms. Even though the Finnish economy has shown overall good adjustment capacity in the past, some rigidities are apparent, mainly related to the labour market and the efficiency shortcomings of the domestic market, as reflected in relatively high price levels. Retail prices in Finland are among the highest in the EU, possibly pointing to limited competition in the retail and wholesale trade. Strengthening competition, particularly in the services sector, has become increasingly relevant for boosting productivity and enhancing potential economic growth. Currently the R&D intensity in the service sector is relatively low, since 59% of companies have no innovation activity.⁵ More competition may also stimulate innovation in the service sector with impact on productivity growth.

4.2 ASSESSMENT OF THE POLICY AGENDA

4.2.1 *Macroeconomic policies*

Public finances

The Finnish Stability Programme update of 2011 foresees GDP to grow by 3.6% in 2011 and 2.7% in 2012, driven especially by domestic demand and to a lesser extent supported by net exports. The Commission services' spring forecast, extending until 2012, projects a similar GDP growth pattern for 2011-2012. The most notable differences between the two projections relate to the Commission services forecasting higher inflation for 2011 (but somewhat lower for 2012), and lower employment growth than expected in the stability programme (see Annex Table I). This does, however, not lead to any major deviations in tax base projections. Overall, the growth scenario and the tax bases underlying the programme can be assessed as plausible when compared with the Commission services' forecast extending until 2012.

The medium-term GDP growth scenario of the programme projects growth of about 2% over 2013-2015, which is slightly above the estimated growth potential of about 1.5 %. This projection assumes a full closure of the output gap over 2013-2015. As a legacy of the rapid decline in economic output over the economic crisis in 2009, the output gap is estimated to be currently exceptionally large in Finland. In 2011, the output gap is estimated to still amount to about 3% of GDP, as recalculated by Commission services based on the information in the programme, following the commonly agreed methodology. The forecast rapid closure of the output gap implies that the cyclical conditions are expected to improve continuously over the programme period.⁶ Overall, while the method used in the programme for estimating medium-term growth is plausible, taking account of the large uncertainties in computing potential growth and the output gap, the resulting medium-term GDP projection might be subject to some downside risks.

⁵ Research and Innovation Council of Finland, Research and Innovation Policy Guidelines 2011-2015.

⁶ The relatively significant difference between the recalculated output gap in the programme and the one estimated in the Commission services' forecast for 2011-2012 is explained by the Commission services estimating the Finnish growth potential to be slightly higher due to a stronger total factor productivity (TFP) growth assumption. The slight differences in the potential growth estimate accumulate over years to a more significant difference in the output gap estimate for 2012.

The previous stability programme update published in February 2010 targeted a general government deficit of 3.6% in 2010. The actual outcome turned out significantly better, at a deficit of 2.5% of GDP. This is primarily explained by the stronger-than-expected economic growth boosting tax revenues (notably VAT and income tax), while expenditure growth remained overall contained. Whereas the previous stability programme update targeted a general government deficit of 3.0% of GDP for 2011, the Commission services' spring forecast projects a deficit of 1% of GDP and the latest stability programme update projects a deficit of 0.9% of GDP. This is mainly due to the better-than-expected fiscal outcome of the previous year carrying over to 2011 and to a lesser extent by an upward revision to revenue growth and a small downward revision of expenditure growth projections, reflecting the improvement in economic conditions. Since the publication of the previous stability programme update, the government has decided to raise several taxes (notably energy and some product taxes, and pension insurance contribution rates), worth on the aggregate more than 0.5 % of GDP in 2011. The current stability programme update does not include any possible fiscal measures of the new government taking office after the mid-April elections

The Stability programme identifies the long-term sustainability of public finances as the main challenge for fiscal policy. Finland's medium-term objective (MTO) of a structural surplus of 0.5% of GDP remains unchanged from the the previous 2009 programme update. Similarly to the projections in the previous stability programme update, the MTO will not be achieved at the end of the programme period.

As illustrated in Table II in the Annex, the programme envisages notable budgetary consolidation only in 2011, when the headline general government fiscal position is projected to improve by 1.5 pps. on account of some rise in revenues and expenditures growing slower than nominal GDP. This is also reflected in a 0.5 pps. improvement in the structural balance estimate, recovering to a more favourable level than the MTO. In 2012, the headline general government deficit is set to improve only marginally.⁷ The previous stability programme update foresaw a somewhat more substantial budgetary consolidation, with the headline deficit improving by about 0.5 % of GDP in 2012, driven by expenditure restraint relative to GDP growth. The current programme update projects that over the period 2012-2015, both the revenue and expenditure shares of GDP remain broadly flat. As a result, the headline deficit also stays stable at about 1% of GDP. Expenditure is set to grow faster than the medium term potential GDP growth, therefore exceeding the medium-term benchmark for expenditure growth. When assessed against the projected rate of medium-term potential output growth and considering the lack of revenue-side consolidation measures in the current programme update, the medium-term expenditure projections do not seem to ensure an appropriate adjustment path towards the MTO. While the structural balance is estimated to be in positive territory, climbing even above the MTO target in 2011, it turns negative in the medium term. The apparent decline in the structural balance estimate results from the lack of improvement in the headline general government deficit in spite of the expected favourable economic conditions closing the currently large output gap. Fiscal policy is in effect planned to be expansionary over 2012-2015. It appears that the current programme update does not envisage utilising the forecast improvement in economic conditions for budgetary consolidation in the medium term. The programme states that the government that takes office after the April 2011 elections will determine the economic and fiscal policies for the next parliamentary term.

Overall, the risks to the budgetary targets appear balanced. The projections underlying the programme are broadly in line with the Commission services' forecast. The most notable risk

⁷ The recalculated programme's structural balance estimate even declines to below the MTO in 2012.

factor stems from the global macroeconomic environment, which has traditionally had a strong impact on the export-reliant Finnish economy.

Box 1. Main measures

The stability programme includes some discretionary fiscal consolidation measures for the years 2010-2011, and to a lesser degree for 2012, based on decisions already taken by the previous government. The programme projections do not rely on any major structural measures with a significant budgetary impact. The stability programme states that VAT, energy and some product taxes were increased in 2010 and 2011, but does not explicitly give their budgetary impact. However, the previously published Ministry of Finance forecast details their impact to amount to 0.5% of GDP in 2011 and a delayed impact of 0.1% of GDP in 2012. Additionally, the government, in cooperation with social partners, has already decided to increase pension insurance contribution rates, which among other factors are estimated to improve the general government balance by 0.2% of GDP in 2011 and 0.3% in 2012. Regarding expenditures, some temporary measures to boost public investment during the economic crisis will gradually expire over 2010-2011, but their budgetary impact is relatively limited.

Main budgetary measures (in % of GDP)

Revenue	Expenditure
2011	
<ul style="list-style-type: none"> • VAT, energy and product taxes (0.5%) • Social contributions (0.2%) 	<ul style="list-style-type: none"> • Expiry of stimulus-related investment programmes (-0.1%)
2012	
<ul style="list-style-type: none"> • Social contributions (0.3%) • Delayed impact from energy tax rises from the previous year (0.1%) 	<ul style="list-style-type: none"> • n.a.
2013	
<ul style="list-style-type: none"> • n.a. 	<ul style="list-style-type: none"> • n.a.
2014	
<ul style="list-style-type: none"> • n.a. 	<ul style="list-style-type: none"> • n.a.
2015	
<ul style="list-style-type: none"> • n.a. 	<ul style="list-style-type: none"> • n.a.

Note: The budgetary impact in the table is the impact reported in the economic forecast underlying the programme, i.e. by the national authorities. A positive sign implies that revenue / expenditure increases as a consequence of this measure.

The stability programme update projects the debt ratio to continue to increase continuously from 48.4% of GDP in 2010 to 56.2% of GDP by 2015. This is largely driven by the central government's deficit. Local government borrowing has traditionally been more moderate, given that the major cyclically-sensitive budgetary items are included in the central government sector and that local governments typically offset expenditure pressures by raising municipal taxes and benefiting from higher central government transfers. The social security funds continue to show a surplus, reflecting the accumulation of assets to pension schemes, which is however not recorded in the general government gross debt.⁸ The increase in general government debt is therefore larger than the general government deficit would

⁸ Under the assumption that these assets are invested outside the general government sector.

suggest. However, in net terms, the general government sector pension funds' assets even exceed debt. The consolidated market value of the pension fund assets amounted to 77% of GDP at the end of 2010. In Table III in the Annex, the stock-flow adjustment largely corresponds to the accumulation of these financial assets.

Finland is at medium risk with regard to the long-term sustainability of public finances. The long-term cost of ageing is above the EU average. The current budgetary position compounds the cost of ageing. Extrapolating the current fiscal position, debt would fall to 41% of GDP by 2020 (see Annex, Table IV). However, based on the programme scenario, whereby the structural primary balance is set to decline from the present level, public debt would rise to over 60% of GDP by 2020. The accumulated pension fund assets reduce the sustainability risks to some extent. Ensuring sufficient primary surpluses over the medium-term would improve the sustainability of public finances.

Financial sector

Neither the national authorities nor the Commission consider the financial sector to be a bottleneck for the Finnish economy. The Finnish financial sector has remained prudent, contributing to the overall macro-financial stability of the economy. The global financial crisis had a limited impact on the financial sector, as Finnish banks had very little exposure to toxic assets and the quality of domestic credit remained high. The deterioration of banks' asset quality was contained (the ratio of non-performing loans was 0.8% in end-2010), partly reflecting orderly repayments of housing loans, which constitute a major share in total bank lending (45%). Bank lending to the non-financial corporate sector is more limited, as companies traditionally borrow directly from capital markets.

The Finnish financial sector is highly integrated in the Nordic financial system and strongly concentrated, with four main banking groups (incl. one domestic) accounting for more than 90% of the sector's total assets. The high degree of internationalisation highlights the importance of an effective functioning of domestic financial supervision. The banks' financing model relying mainly on wholesale funding (including within financial groups), rather than on deposits, may point to some vulnerabilities. Nevertheless, the risks are broadly contained, as stress tests indicate strong capital buffers of the banks.

Over the past decade, the growth of the real-estate market was relatively contained. Real-estate prices rose at an average rate of slightly below 5% over 2000-2010, which exceeds personal income growth, but is well below the average price increases in the euro area. The household debt-to-income ratio has climbed to above 100% in 2010, which is comparable to the euro area average, but is expected to grow further in Finland over the medium term. After a brief dip in 2009, housing construction and real-estate prices rebounded rapidly to above the pre-crisis levels, driven by a relatively strong financial position of households, some regional housing shortages and stimulus measures to boost housing construction during the economic crisis. These trends contrast with the real-estate market corrections in most other EU Member States. However, risks related to excessive growth in house prices have decreased recently to some extent as house price increases have moderated in the last months of 2010 and in early 2011. Given that over 90% of the housing loans are with variable interest rates, Finnish households are relatively exposed to increases in base-interest rates.

4.2.2 Labour market reform and job opportunities

Successive Finnish governments have defined as a strategic aim to boost labour supply and thereby alleviate the effects of the demographic shift on the labour market. Accordingly, the NRP sets a comparatively ambitious employment rate target of 78%. The trend in employment rate has been positive and according to the Ministry of Finance, the Finnish employment rate is projected to reach 76.1 % in 2015. Nevertheless, the employment target of 78 % is demanding. At the peak of the last economic upturn in 2008, the employment rate of 20-64 year-olds reached 75.8 %, dropping to 73.5 % in 2009. The main measures in the NRP to reach the employment target are: directing education to meet demand for labour, increasing the occupational and regional mobility of labour, lengthening working careers, improving conditions for employment, improving the quality of working life. These issues are also covered in the Government and labour market organisations' Programme for Sustainable Economic Growth and Employment of October 2010 that supported the preparations for the NRP.

Increasing incentives to work

The Finnish pension system was reformed in 2005 and pension benefits were linked to a life-expectancy coefficient in 2009 (statutory pension age is not linked to life-expectancy). Early retirement schemes have been reduced: the unemployment pension was abolished as of 2010 and the latest reform in 2011 raised the age-limit of part-time pension from 58 to 60 and lowered the old-age pension accrual earned during part-time pension. There is still room to further scale down access to early retirement schemes to enhance employment among the elderly. As to the adequacy of pensions, a minimum guarantee pension was introduced in March 2011. To a certain extent, Finnish measures to raise the retirement age and to reduce the gap between the real and statutory age have been successful. After a drop in 2009, the effective retirement age is rising (national data: from 59.8 in 2009 to 60.4 in 2010). Fewer people go on disability pension and the employment rate of people over 55 is increasing.

In view of the demographic change, raising further the employment rate and effective retirement age of older workers is crucial. The statutory pension age is set as a range from 63 to 68 years, with incentives built into the system to promote longer working life. The strength of the incentives to stay in the labour market until the upper limit of the pension age bracket plays a role in determining the effective retirement age. The current statutory retirement age range could over time turn out to be low given the rapidly rising life expectancy. Shifting the range upwards and linking it to life expectancy would be helpful in view of both increasing labour supply and ensuring the adequacy of old-age pensions. Employment rates of older workers and the effective exit age are low by Nordic standards. The difference is particularly notable in the age group of 55-59 years old where in 2009 the employment rate was 71.4% for Finland, 78.5% for Denmark and 80.3% for Sweden. Disability is very often the cause of early retirement. According to data from the Finnish Centre for Pensions, about 30% of those who retired in 2009 went on disability pension at an average age of 52.2 years. Increasing the effective retirement age requires measures that take into account the quality of working life, such as the well-being and health of employees. This is important in particular in view of the high number of people on disability pensions. Various work-life development programmes have been running since the 1990s and since 2009, there have been over 150 projects and almost 40 research projects on developing working life. The impact of these initiatives merits assessment and reinforcement where needed. While the evolution of statutory pension age limits, in line with life expectancy, would be important for longer working careers over time,

limiting early exit from the labour market would appear the most effective way of increasing the effective retirement age over the next few years.

The Government and labour market organisations agreed in 2009 to raise the effective retirement age by a minimum of three years from the 2008 level by 2025. Tripartite working groups were established in 2009 and 2010 to identify means to increase the effective retirement age. The first group emphasised improving well-being at work and reducing disability pensions. The second group focused on a sufficient level of earnings-related pensions in circumstances where life-expectancy coefficients results in lower-than-projected level of benefits, on the sustainability of earnings-related pension schemes through developing pension insurance contributions, and on raising the average effective retirement age. These measures to increase the effective retirement age still need to be put in practice.

Against the backdrop of the overall positive labour market trends, it needs to be noted that long-term unemployment started to rise in 2009, after having fallen considerably in 2005–2008. At the end of March 2011, the number of long-term unemployed amounted to 57 400, up by 12 400 on the previous year. Many of the long-term unemployed are currently in the age group of 55–64 year-olds. Due to retirement, the greatest increase in unemployment will be among 45–54 year-olds. Although the long-term unemployment rate is below the EU average in Finland (2.0 % v. 3.8 % in 2010), the issue should be looked at both in the context of securing future labour supply and social inclusion as long-term unemployment is an important factor increasing the risk of poverty and social exclusion. Finland expanded active labour market policy measures efficiently during the crisis to counter the rise of youth unemployment. In the same vein, Finland could reinforce ALMP measures to reverse the negative trend in long-term unemployment.

The NRP acknowledges the increase of long-term unemployment and emphasises the need to encourage the unemployed to participate in measures that support employment. However, instead of a comprehensive strategy, the NRP lists various measures such as directing education to meet demand of labour, increasing occupational and regional mobility of labour, lengthening working careers, improving conditions for employment, improving the quality of working life, developing intermediate labour markets, parental leaves, outreach youth work, well-being at work, etc. The Ministry of Employment and the Economy published in April 2011 a set of guidelines - "From Managing Long-term Unemployment to Securing Labour Supply" - with more concrete proposals for the next Government Programme.

Youth unemployment, a major concern at the beginning of 2010, eased considerably during the year and has continued to improve in 2011. Nevertheless, even taking into account the improvement and the fact that statistics may be exaggerating the problem (Finnish unemployment numbers also include full-time students who are looking for a part-time job on the side of their studies) youth unemployment remains high and above the EU average (21.4 % v. 20.9 % in 2010). To counteract the demographic changes, a fast transition from education and training to work is crucial. Currently, young people enter the labour market relatively late in Finland.

Education

Finland's target for education and training for 2020 is to raise the proportion of the 30–34 year-olds having completed tertiary education to 42 % and to lower the proportion of early school leavers among 18–24 year-olds to maximum 8 %. According to EU's Labour Force

Survey, 45.8% of the 30-34 years olds have a tertiary attainment which is above the EU average. The share of early school-leavers (9.9 % in 2009) is below the EU27 average (14.4 %). The Finnish education and training system is performing generally very well. However, adapting education and training to meet the labour market needs remains a continuous challenge.

Balancing security and flexibility

Tax and benefit systems play a role in employment, considering the overall generous welfare system of Finland combined with relatively high taxes on income. The issue of dismantling the “incentive traps” was addressed in a report by a special reform group (so called SATA-committee) in January 2009. The tax rate on low wage earners has decreased constantly from 80 % in 2001 to 74 % in 2008, reaching close to the EU average.

Full utilisation of the flexicurity concept could help Finland cope better with the structural changes in skills requirements and the demographic challenge. A tripartite Flexicurity Project was started by the Minister of Labour in 2007 and has been extended till the end of May 2011. Three working groups are to make suggestions on enhancing job-to-job transitions, new initiatives in labour market regulation and on the quality of working life. In addition, Finland introduced in 2005 "Change Security", a co-operation model between the employer, the employee and the employment offices. The goal is to enhance proactive job-to-job transition in redundancy situations. The measure has been well received by all stakeholders and it has given a positive role for the Public Employment Services in helping to deal with cases of large-scale redundancies.

Combating poverty and promoting social inclusion

The share of people at risk of poverty and social exclusion (16.9% of the population in 2009 according to the Council criteria) remained stable between 2005 and 2008 and decreased only slightly between 2008 and 2009. However, the risk of relative poverty after social transfers has been increasing throughout the 2000s and was at 13.8 % in 2009. Unemployment is an important cause of poverty. Poverty risk is also high for single parent households, one-person households of female pensioners and under 35-year-olds, households with low work intensity, among migrants and self-employed entrepreneurs.⁹ After identifying the vulnerable groups, positive mechanisms need to be fostered to overcoming the risks of social exclusion, including a service structure supporting these mechanisms, which has been mentioned in the NRP as a key to tackling social cohesion.

4.2.3 Growth-enhancing structural measures

Increasing the growth potential of the Finnish economy would benefit from (i) improving productivity and competition in the services sector, including raising public sector productivity by fully exploiting the benefits of ICT, and (ii) enhancing opportunities for the development of new innovative growth-oriented firms and industries aiming at international markets. Additionally, possible gains from energy efficiency are not yet fully exploited.

⁹ Statistics Finland (2011). Tulonjakotilasto 2009 [Income distribution statistics 2009].

Competition in the service sector

The Finnish aggregate price level is the third highest in the EU, only behind Denmark and Ireland. The relatively high price level in Finland can indicate deficiencies in the competitive environment of the domestic market, which may discourage effective resource allocation, resulting in contained productivity growth in non-tradable sectors and weaker potential growth. Part of the price level difference can also be explained by geographical factors, such as the country's remote location, sparse population density and its climate that is less suited for agriculture.¹⁰ However, also some policy-relevant factors might contribute to the relatively high consumer price level. Existing business structures are occasionally highly concentrated, particularly in food industry, wholesale and retail trade, which might weaken competitive pressures. Competition in the retail trade continues to be partly hindered by regulations, despite some recent loosening.

Regarding the legislative framework, Finland has implemented the Services Directive on time. The Finnish Point of Single Contact (which eases business entry) is operational since end 2009.¹¹ The authorities have also suggested measures related to removing barriers restricting competition, developing the resources and operating potential of the national competition authority, and enhancing competitive tendering in public procurement. The adoption of a new competition law in March 2011 and its implications are however not mentioned in the NRP. Considering the degree of market concentration and higher price level compared to EU, there is still scope for improvement, particularly in enhancing entry to the service sector. It would be important that barriers to entering and exiting markets by foreign and domestic enterprises are as low as possible and that the agreement practices and degree of concentration in the food chain are regularly monitored.¹² In this context, the Finnish Competition Authority's forthcoming report on the Finnish food sector is of interest.

Growth-oriented enterprises, research and innovation

In Finland, the production and exports structure has traditionally been highly concentrated, with a large dependency of the economy on a limited number of sectors (e.g. ICT, pulp and paper, machinery and equipment). The globalisation-driven restructuring of the dominating industries has further increased the need for promoting start-ups and high-growth companies in a wider range of sectors. The number of growth-oriented enterprises is low in EU comparison, and some deficiencies exist in the conditions for entrepreneurship. For example, entrepreneurship culture is not supporting high-growth ventures, risk taking and learning from failure. Additionally, a relatively small part of enterprises is active in regular innovative activities, considering the overall high public research and development (R&D) inputs. The share of the largest ICT firm Nokia accounts for nearly 50% of business R&D expenditure, i.e. above 1% of GDP, while the economy's total R&D investment together with public funding has amounted to close to 4% of GDP. Some Finnish industry sectors, particularly firms in ICT, forest-based industries and mechanical engineering have already achieved the international productivity front. This implies that further growth also requires more experimentation in research and innovation (R&I). The internationalisation of the R&I system remains a challenge. The main structural problem regarding internationalisation is the low

¹⁰ see Ministry of Employment and the Economy funded report by Etna, Discussion papers No 1209, 01/02/2010, http://www.etna.fi/files/2421_Dp1209.pdf .

¹¹ <http://www.yrityssuomi.fi/default.aspx?lang=&PresLanId=2/>

¹² see Ministry of Employment and the Economy funded report by Etna, Discussion papers No 1209, 01/02/2010, http://www.etna.fi/files/2421_Dp1209.pdf . http://www.tem.fi/index.phtml?101881_m=98108&s=4265

share of foreign experts, researchers and students compared to most western European countries. This lack of foreign human capital together with relatively few foreign direct investments and R&I activities poses a challenge in efforts to develop globally competitive innovation environments.

The national policy measures regarding improving the business environment and modernising the industrial base broadly address the identified weaknesses. The authorities have started several initiatives for boosting high-growth innovative enterprises, while their presentation in the NRP is vague. As regards the improvement of conditions for entrepreneurship, the speedy implementation of the recently updated Small Business Act would be highly important. Improving attitudes towards entrepreneurship and risk-taking and promoting SMEs' access to public procurement (implementation of the 'European Code of Best Practices') is of particular importance.

Finland has shown steady commitment to a holistic development of its R&I system and is one of the EU innovation leaders. Finland has reached an R&D intensity of about 4% of GDP in 2009 and is targeting to maintain the level at a minimum of 4% up to 2020— an ambitious aim in the global perspective. The ongoing restructuring in the ICT sector may result in lower business R&D intensity figures already in 2012. These structural changes and the new government programme are expected to speed up the planned and ongoing major reforms. The measures include a new strategy for Finnish Funding agency for Research and Innovation (Tekes), a higher education funding system reform and a proposal to introduce an R&D tax incentive to enhance SMEs' innovative activities. Nevertheless, there is scope for further streamlining the national innovation support system and developing framework conditions for a competitive innovation environment, attracting more foreign human capital and investments. The current schemes for supporting open innovation and user-driven innovation projects are still at an initial phase. Regarding the use of EU structural funds, further developing smart specialisation and wider R&I co-operation, especially within the Baltic Sea Region, offers interesting possibilities.

Energy and climate change

Finland's energy consumption per capita is almost twice the EU27 average, which can be explained in particular by the concentration of its industrial structure in energy-intensive sectors. Implementing energy efficiency policies and measures would also help address commodity price shocks. Finland has set a primary energy saving target of 49 terawatt hours. Finland plans to tighten energy efficiency regulations for new buildings from the beginning of 2012 by around 20%. In addition to addressing new buildings, further steps to trigger the energetic refurbishments of existing buildings would help. The mid-term review of the National Climate and Energy Strategy by the end of 2011 is an occasion to check if the financing available for energy efficiency needs to be realigned or stepped up.

Finland has committed to reach a target of 38% of renewable energy sources in final energy consumption by 2020. The currently proposed actions listed in the National Renewable Energy Action Plan for developing more renewable energy sources may not be sufficient for reaching this target. Due to the high reliance on biomass, increasing domestic wood biomass mobilisation could be considered.

Finland participates actively in the Baltic Energy Market Interconnection Plan (BEMIP). It would be important to ensure its full integration into the European energy market, in

particular through completing the electricity interconnection with Estonia. It would be useful to also diversify natural gas supply with a LNG terminal or a pipeline interconnection with the Baltic States (Baltconnector).

In spite of the influence of the economic crisis, the trend in greenhouse gas emissions does not appear in line with the 2020 national target defined at the European level (-16% compared to 2005 levels). This means that additional emissions reduction measures and/or the use of flexibility mechanisms may be needed, especially in the road transportation sector given its weight in the national emissions and its current trend.

5. SUMMARY

Finland has emerged from the economic crisis with a comparatively strong structural position in public finances. However, in spite of economic conditions forecast to remain favourable in the medium term, the Stability Programme update does not plan for any further fiscal consolidation over 2013-2015 (the stability programme, dated from April 2011, does not include any possible fiscal measures of the government taking office after the mid-April elections). As a result, without any further measures, the structural balance is set to weaken and Finland is projected to fall below its MTO in the medium term. Crucially, Finland is facing a relatively strong and immediate impact from population ageing, which will lead to cost pressures related to ageing-related services and adverse trends in the labour market. Overall, Finland appears to be at medium risk with regard to the long-term sustainability of public finances.

Despite improvements over the last decade, employment rates of older workers and the effective exit age are low by Nordic standards. In view of the demographic change, an increase in the employment rate of older workers would be important for public finances as well as for employment and for the adequacy of pensions. Increasing the effective retirement age would require measures on a broad front, also taking into account the quality of working life, including the well-being and health of employees. Furthermore, the current statutory retirement age range seems low given the rapidly rising life expectancy. The current increase in long-term unemployment is also of concern. Although this is recognised by the Finnish authorities as a pressing issue, so far, no comprehensive strategy has been designed to combat it.

Strengthening competition, particularly in the services sector, is relevant in Finland for boosting productivity and enhancing potential economic growth. Competition in the retail trade continues to be partly hindered by regulations, despite some recent loosening. It would be important that barriers to entering and exiting the market by foreign and domestic enterprises are lowered and that the competition environment is regularly monitored.

Statistical Annex

Table I. Macro economic indicators

	1995-1999	2000-2004	2005-2008	2009	2010	2011	2012
Core indicators							
GDP growth rate	4,5	3,1	3,4	-8,2	3,1	3,7	2,6
Output gap 1	0,6	1,4	3,0	-6,5	-5,3	-3,5	-2,7
HICP (annual % change)	1,1	1,8	1,9	1,6	1,7	3,6	2,2
Domestic demand (annual % change) 2	4,3	2,9	3,0	-6,0	2,4	3,1	2,3
Unemployment rate (% of labour force) 3	12,9	9,2	7,4	8,2	8,4	7,9	7,4
Gross fixed capital formation (% of GDP)	18,6	19,4	20,7	19,5	18,5	19,1	19,6
Gross national saving (% of GDP)	23,5	27,2	25,9	20,6	21,8	22,1	22,7
General Government (% of GDP)							
Net lending (+) or net borrowing (-)	-1,6	4,1	4,0	-2,6	-2,5	-1,0	-0,7
Gross debt	52,3	43,4	37,7	43,8	48,4	50,6	52,2
Net financial assets	17,3	35,9	63,3	62,7	n.a	n.a	n.a
Total revenue	54,9	53,1	52,9	53,4	52,3	52,8	52,9
Total expenditure	56,5	49,0	48,9	56,0	54,8	53,7	53,5
<i>of which: Interest</i>	3,8	2,2	1,5	1,2	1,1	1,2	1,4
Corporations (% of GDP)							
Net lending (+) or net borrowing (-)	6,4	5,0	3,3	4,8	5,3	5,0	5,2
Net financial assets; non-financial corporations	-148,5	-166,9	-144,5	-122,8	n.a	n.a	n.a
Net financial assets; financial corporations	2,5	3,2	2,2	0,2	n.a	n.a	n.a
Gross capital formation	10,8	11,0	12,3	8,8	9,5	10,1	10,7
Gross operating surplus	25,2	26,6	25,6	20,9	23,0	24,1	24,6
Households and NPISH (% of GDP)							
Net lending (+) or net borrowing (-)	-0,3	-1,8	-3,3	0,4	0,4	-1,5	-2,0
Net financial assets	53,2	67,1	63,2	58,6	n.a	n.a	n.a
Gross wages and salaries	38,5	38,4	39,1	42,3	40,9	40,0	39,6
Net property income	3,5	4,5	4,1	4,1	4,1	3,7	3,6
Current transfers received	23,3	20,1	19,5	22,5	22,2	21,6	21,5
Gross saving	5,2	4,7	4,2	7,1	7,1	5,5	5,1
Rest of the world (% of GDP)							
Net lending (+) or net borrowing (-)	4,5	7,3	3,9	2,3	2,9	2,6	2,6
Net financial assets	76,2	61,2	16,4	2,8	n.a	n.a	n.a
Net exports of goods and services	7,8	8,2	4,5	2,3	2,8	2,8	2,9
Net primary income from the rest of the world	-2,3	-0,1	0,5	1,9	1,4	0,7	0,7
Net capital transactions	0,1	0,1	0,1	0,1	0,1	0,1	0,1
Tradable sector	45,5	45,0	42,4	37,7	39,2	n.a	n.a
Non tradable sector	41,2	42,1	44,7	49,2	47,8	n.a	n.a
<i>of which: Building and construction sector</i>	4,8	5,2	6,0	6,1	5,8	n.a	n.a
Real effective exchange rate (index, 2000=100)	113,0	104,2	109,0	117,9	112,4	111,8	112,3
Terms of trade goods and services (index, 2000=100)	106,1	100,4	91,9	89,7	88,4	87,0	86,7
Market performance of exports (index, 2000=100)	91,3	99,0	100,4	97,9	92,7	94,6	94,4
Notes:							
1 The output gap constitutes the gap between the actual and potential gross domestic product at 2000 market prices.							
2 The indicator on domestic demand includes stocks.							
3 Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed. The unemployment rate covers the age group 15-74.							
Source:							
<i>Commission services' spring 2011 forecast</i>							

Table II. Comparison of macroeconomic developments and forecasts

	2010		2011		2012		2013	2014	2015
	COM	SP	COM	SP	COM	SP	SP	SP	SP
Real GDP (% change)	3.1	3.1	3.7	3.6	2.6	2.7	2.4	2.1	1.9
Private consumption (% change)	2.6	2.6	2.3	2.1	2.0	1.8	2.3	2.3	2.2
Gross fixed capital formation (% change)	0.8	0.8	6.6	7.2	4.5	4.7	2.9	2.6	2.2
Exports of goods and services (% change)	5.1	5.1	8.5	7.8	5.5	5.5	4.3	4.5	4.5
Imports of goods and services (% change)	2.6	2.6	7.2	6.7	5.1	4.7	3.9	3.5	3.5
<i>Contributions to real GDP growth:</i>									
- Final domestic demand	1.7	1.7	2.7	2.7	2.1	2.0	2.0	1.8	1.7
- Change in inventories	0.7	0.5	0.3	0.3	0.2	0.3	0.1	-0.3	-0.4
- Net exports	1.0	1.0	0.7	0.6	0.3	0.5	0.3	0.6	0.6
Output gap ¹	-5.3	-4.9	-3.5	-2.9	-2.7	-1.7	-0.7	0.0	0.6
Employment (% change)	-0.4	-0.4	0.9	1.7	0.7	0.9	0.6	0.1	0.0
Unemployment rate (%)	8.4	8.4	7.9	7.6	7.4	7.2	6.9	6.5	6.3
Labour productivity (% change)	3.5	3.5	2.7	1.8	1.9	1.8	1.8	2.0	1.9
HICP inflation (%)	1.7	1.7	3.6	3.0	2.2	2.4	2.0	2.0	2.0
GDP deflator (% change)	2.1	2.1	2.5	2.7	2.4	2.4	2.1	2.1	2.1
Comp. of employees (per head, % change)	2.0	2.3	2.8	2.7	3.4	3.2	3.4	3.7	3.7
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	2.9	3.2	2.6	2.3	2.6	2.2	2.0	2.0	2.0
<u>Note:</u>									
¹ In percent of potential GDP, with potential GDP growth according to the programme as recalculated by Commission services.									
<u>Source :</u>									
Commission services' spring 2011 forecasts (COM); Stability programme (SP).									

Table III. Composition of the budgetary adjustment

(% of GDP)	2010	2011		2012		2013	2014	2015	Change: 2010-2015
	COM	COM	SP	COM	SP	SP	SP	SP	SP
Revenue	52.3	52.8	52.9	52.9	52.8	52.6	52.5	52.4	0.1
<i>of which:</i>									
- Taxes on production and imports	13.4	13.8	13.7	13.8	13.6	13.4	13.3	13.2	-0.2
- Current taxes on income, wealth, etc.	15.9	16.1	16.2	16.1	16.1	16.0	16.0	16.0	0.1
- Social contributions	12.6	12.5	12.4	12.6	12.5	12.6	12.7	12.7	0.1
- Other (residual)	10.5	10.4	10.6	10.4	10.6	10.6	10.5	10.5	0.0
Expenditure	54.8	53.7	53.8	53.5	53.5	53.6	53.4	53.4	-1.4
<i>of which:</i>									
- Primary expenditure	53.7	52.6	52.4	52.2	52.0	51.9	51.6	51.5	-2.2
<i>of which:</i>									
Compensation of employees	14.4	13.9	13.8	13.6	13.5	13.3	13.2	13.1	-1.3
Intermediate consumption	11.0	10.9	10.9	10.9	10.8	10.8	10.8	10.9	-0.1
Social payments	20.8	20.3	20.2	20.3	20.3	20.3	20.3	20.3	-0.5
Subsidies	1.5	1.5	1.5	1.5	1.5	1.4	1.4	1.4	-0.1
Gross fixed capital formation	2.7	2.6	2.6	2.5	2.5	2.5	2.4	2.4	-0.3
Other (residual)	3.4	3.3	3.4	3.4	3.5	3.5	3.5	3.4	0.0
- Interest expenditure	1.1	1.2	1.4	1.4	1.5	1.7	1.8	1.9	0.8
General government balance (GGB)	-2.5	-1.0	-0.9	-0.7	-0.7	-0.9	-0.9	-0.9	1.6
Primary balance	-1.4	0.2	0.5	0.7	0.8	0.8	0.9	1.0	2.4
One-off and other temporary measures	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
GGB excl. one-offs	-2.4	-1.0	-0.9	-0.7	-0.7	-0.9	-0.9	-0.9	1.5
Output gap ²	-5.3	-3.5	-2.9	-2.7	-1.7	-0.7	0.0	0.6	5.9
Cyclically-adjusted balance ²	0.2	0.8	0.6	0.7	0.1	-0.6	-0.9	-1.2	-1.4
Structural balance³	0.3	0.8	0.6	0.7	0.1	-0.6	-0.9	-1.2	-1.5
<i>Change in structural balance</i>		0.5	0.3	-0.1	-0.4	-0.7	-0.4	-0.3	
Structural primary balance ³	1.4	2.0	2.0	2.1	1.6	1.1	0.9	0.7	-0.7
<i>Change in structural primary balance</i>		0.6	0.6	0.0	-0.3	-0.5	-0.3	-0.2	
Notes:									
¹ On a no-policy-change basis.									
² Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by Commission services on the basis of the information in the programme.									
³ Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.									
Source:									
Stability programme (SP); Commission services' spring 2011 forecasts (COM); Commission services' calculations									

Table IV. Debt dynamics

(% of GDP)	average 2005-09	2010	2011		2012		2013	2014	2015
			COM	SP	COM	SP	SP	SP	SP
Gross debt ratio¹	38.9	48.4	50.6	50.1	52.2	51.3	53.0	54.6	56.2
Change in the ratio	-0.1	4.6	2.2	1.7	1.6	1.2	1.7	1.6	1.6
<i>Contributions²:</i>									
1. Primary balance	-4.1	1.4	-0.2	-0.5	-0.7	-0.8	-0.8	-0.9	-1.0
2. "Snow-ball" effect	0.4	-1.1	-1.7	-1.5	-1.1	-0.9	-0.5	-0.4	-0.2
<i>Of which:</i>									
Interest expenditure	1.4	1.1	1.2	1.4	1.4	1.5	1.7	1.8	1.9
Growth effect	-0.4	-1.3	-1.7	-1.6	-1.2	-1.3	-1.2	-1.1	-1.0
Inflation effect	-0.5	-0.9	-1.1	-1.2	-1.2	-1.2	-1.0	-1.1	-1.1
3. Stock-flow adjustment	3.6	4.3	4.1	3.7	3.4	3.0	3.0	2.9	2.8
<i>Of which:</i>									
Cash/accruals diff.	-0.5	1.1							
Acc. financial assets	4.2	3.4							
<i>Privatisation</i>	-0.5	-0.2							
Val. effect & residual	-0.1	-0.1							
Notes:									
¹ End of period.									
² The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.									
<i>Source:</i>									
Stability programme (SP); Commission services' spring 2011 forecasts (COM); Commission services' calculations.									

Table V. Long-term sustainability

Finland	Baseline scenario (2010)			Programme scenario		
	S1	S2		S1	S2	
Value	2.7	4.1		3.9	5.0	
<i>of which:</i>						
Initial budgetary position (IBP)	0.0	0.6		0.9	1.4	
Debt requirement in 2060 (DR)	-0.3	-		-0.1	-	
Long-term change in the primary balance (LTC)	3.0	3.5		3.0	3.5	
	2010	2015	2020	2010	2015	2020
Debt as % of GDP	48.4	39.6	40.6	48.4	56.2	62.3

Note: The 'baseline' scenario (2010) depicts the sustainability gap under the assumption that the 2010 budgetary position remains unchanged over the medium-term (until the end of the period covered by the programme). The 'programme' scenario depicts the sustainability gap under the assumption that the budgetary plans of the programme are fully implemented.

Figure: Medium term debt projections

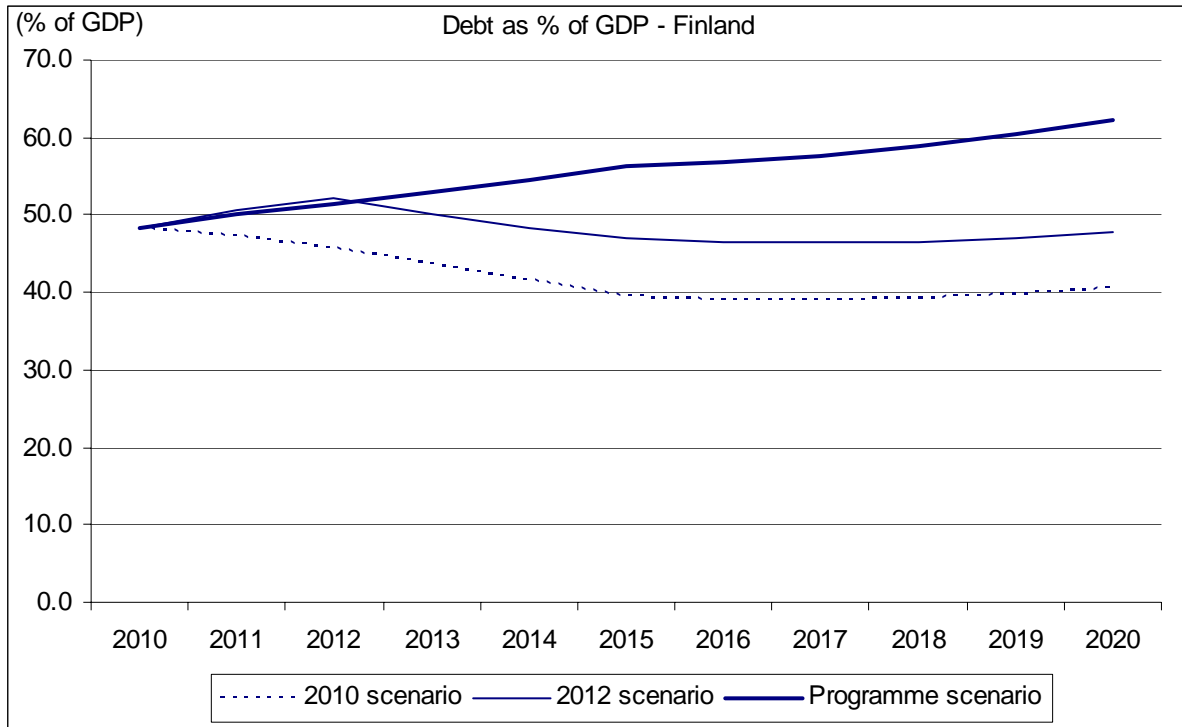


Table VI: Financial market indicators

	2006	2007	2008	2009	2010
Total assets of the banking sector (% of GDP)	156.1	161.7	188.9	228.7	250.5
Share of assets of the five largest banks (% of total assets)	82.3	81.2	82.8	82.6	...
Foreign ownership of banking system (% of total assets)	56.5	65.3	69.5	67.1	...
Financial soundness indicators:					
- non-performing loans (% of total loans)	0.3	0.3	0.5	0.7	0.6
- capital adequacy ratio (%) ¹⁾	15.1	15.1	13.6	14.5	14.5
- profitability - return on equity (%) ²⁾	14.4	19.1	13.4	10.7	13.7
Private credit growth (annual % change)	11.6	11.9	13.3	5.0	3.3
Residential property prices (y-o-y % change)	6.4	5.5	0.6	-0.3	8.7
Exposure to countries receiving/repaying official financial assistance (% of GDP) ³⁾
Private debt (% of GDP)	87.0	88.7	94.0	104.7	104.3
Gross external debt (% of GDP)					
- Public	34.0	30.1	30.6	37.0	41.6
- Private	39.5	42.8	54.2	50.5	49.7
Long term interest rates spread versus Bund (basis points)*	2.1	7.7	30.6	51.6	26.7
Credit default swap spreads for sovereign securities (5-year)*	28.7	38.3	29.5
Notes:					
¹⁾ The capital adequacy ratio is defined as total capital divided by risk weighed assets.					
²⁾ Net income to equity ratio.					
³⁾ Covered countries are IE, EL, PT, RO, LV and HU.					
* Measured in basis points.					
Source:					
Bank for International Settlements and Eurostat (exposure to macro-financially vulnerable countries), IMF (financial soundness indicators), Commission services (long-term interest rates), World Bank (gross external debt), Eurostat (residential property prices) and ECB (all other indicators).					

Table VII: Labour market and social indicators.

Labour market indicators	2005	2006	2007	2008	2009	2010
Employment rate (% of population aged 20 - 64)	73.0	73.9	74.8	75.8	73.5	73.0
Employment growth (% change from previous year)	1.4	1.8	2.2	1.6	-2.7	-0.4
Employment rate of women (% of female population aged 20 - 64)	70.8	71.5	72.5	73.1	72.4	71.5
Employment rate of men (% of male population aged 20 - 64)	75.1	76.3	77.2	78.4	74.7	74.5
Employment rate of older workers (% of population aged 55 - 64)	52.7	54.5	55.0	56.5	55.5	56.2
Part-time employment (% of total employment)	13.7	14.0	14.1	13.3	14.0	14.6
Fixed term employment (% of employees with a fixed term contract)	16.5	16.4	15.9	15.0	14.6	15.5
Unemployment rate ¹ (% of labour force)	8.4	7.7	6.9	6.4	8.2	8.4
Long-term unemployment ² (% of labour force)	2.2	1.9	1.6	1.2	1.4	2.0
Youth unemployment rate (% of youth labour force aged 15-24)	20.1	18.7	16.5	16.5	21.5	21.4
Youth NEET ³ rate (% of population aged 15-24)	7.8	7.7	7.0	7.8	9.9	:
Early leavers from education and training (% of pop. 18-24 with at most lower sec. educ. and not in further education or training)	10.3	9.7	9.1	9.8	9.9	:
Tertiary educational attainment (% of population 30-34 having successfully completed tertiary education)	43.7	46.2	47.3	45.7	45.9	:
Labour productivity per person employed (annual % change)	1.5	2.5	3.1	-0.6	-5.6	3.5
Hours worked per person employed (annual % change)	-0.4	-0.4	-0.1	-0.1	-1.8	1.4
Labour productivity per hour worked (annual % change; constant prices)	2.0	2.9	3.2	-0.5	-3.9	2.0
Compensation per employee (annual % change; constant prices)	3.3	2.0	0.6	3.2	0.7	-0.2
Nominal unit labour cost growth (annual % change)	2.2	0.3	0.5	5.8	7.8	-1.5
Real unit labour cost growth (annual % change)	1.7	-0.5	-2.4	3.9	6.8	-3.5
Notes:						
¹ According to ILO definition, age group 15-74)						
² Share of persons in the labour force who have been unemployed for at least 12 months.						
³ NEET are persons that are neither in employment nor in any education or training.						
Sources:						
Comission services (EU Labour Force Survey and European National Accounts)						

Table VII: Labour market and social indicators - continued

Expenditure on social protection benefits (% of GDP)	2004	2005	2006	2007	2008
Sickness/Health care	6.58	6.69	6.70	6.48	6.83
Invalidity	3.40	3.35	3.24	3.10	3.22
Old age and survivors	9.54	9.64	9.68	9.46	9.69
Family/Children	2.97	3.00	2.96	2.86	2.96
Unemployment	2.53	2.40	2.19	1.91	1.81
Housing and Social exclusion n.e.c.	0.82	0.80	0.83	0.79	0.99
Total	25.8	25.9	25.6	24.6	25.5
of which: Means tested benefits	1.38	1.31	1.23	1.10	1.07
Social inclusion indicators	2005	2006	2007	2008	2009
Risk-of-poverty or exclusion ¹ (% of total population)	17.2	17.2	17.4	17.4	16.9
Risk-of-poverty or exclusion of children (% of people aged 0-17)	15.1	13.9	15.1	15.1	14.0
Risk-of-poverty or exclusion of elderly (% of people aged 65+)	20.0	23.2	23.1	23.8	23.1
At-Risk-of-Poverty rate ² (% of total population)	11.7	12.6	13.0	13.6	13.8
Value of relative poverty threshold (single HH per year) - in PPS	8484	8904	9144	9948	10368
Severe Material Deprivation ³ (% of total population)	3.8	3.3	3.6	3.5	2.8
Share of people living in low work intensity households ⁴ (% of people aged 0-59 not student)	9.8	8.9	8.7	7.3	8.2
In-work at-risk-of poverty rate (% of persons employed)	3.7	4.5	5.0	5.1	3.7
Notes:					
¹ People at-risk-of poverty or social exclusion (ARPE): individuals who are at-risk-of poverty (AROP) and/or suffering from severe material deprivation (SMD) and/or living in household with zero or very low work intensity (LWI).					
² At-risk-of poverty rate: share of people with an equivalised disposable income below 60% of the national equivalised median income.					
³ Share of people who experience at least 4 out of 9 deprivations: people cannot afford to i) pay their rent or utility bills, ii) keep their home adequately warm, iii) face unexpected expenses, iv) eat meat, fish, or a protein equivalent every second day, v) enjoy a week of holiday away from home once a year, vi) have a car, vii) have a washing machine, viii) have a colour tv, or ix) have a telephone					
⁴ People living in households with very low work intensity: Share of people aged 0-59 living in households where the adults work less than 20% of their total work-time potential during the previous 12 months.					
Sources:					
For expenditure for social protection benefits ESSPROS; for social inclusion EU-SILC.					

Table VIII: Product market performance and policy indicators

Performance indicators	2001-2005	2006	2007	2008	2009	2010
Labour productivity ¹ total economy (annual growth in %)	1.5	2.4	3.8	-0.8	-6.1	3.4
Labour productivity ¹ in manufacturing (annual growth in %)	5.2	11.8	9.3	0.9	-10.9	10.2
Labour productivity ¹ in electricity, gas, water (annual growth in %)	5.6	-5.3	8.3	-7.6	-3.5	n.a.
Labour productivity ¹ in the construction sector (annual growth in %)	0.8	-1.2	-3.1	-3.6	-0.5	5.8
Patent intensity in manufacturing ² (patents of the EPO divided by gross value added of the sector)	4.2	3.4	0.8	n.a.	n.a.	n.a.
Policy indicators	2001-2005	2006	2007	2008	2009	2010
Enforcing contracts ³ (days)	n.a.	235	235	235	375	375
Time to start a business ³ (days)	n.a.	14	14	14	14	14
R&D expenditure (% of GDP)	3.4	3.5	3.5	3.7	4.0	3.9
Tertiary educational attainment (% of 30-34 years old population)	42.3	46.2	47.3	45.7	45.9	n.a.
Total public expenditure on education (% of GDP)	6.3	6.2	5.9	6.1	n.a.	n.a.
	2003	2005	2006	2008	2009	2010
Product market regulation ⁴ , Overall (Index; 0=not regulated; 6=most regulated)	1.3	n.a.	n.a.	1.2	n.a.	n.a.
Product market regulation ⁴ , Retail (Index; 0=not regulated; 6=most regulated)	3.1	n.a.	n.a.	3.1	n.a.	n.a.
Product market regulation ⁴ , Network Industries ⁶ (Index; 0=not regulated; 6=most regulated)	2.4	2.3	2.3	2.2*	n.a.	n.a.
Notes:						
¹ Labour productivity is defined as gross value added (in constant prices) divided by the number of persons employed.						
² Patent data refer to applications designated to the European Patent Office (EPO). They are counted according to the year in which they were filed at the EPO. They are broken down according to the inventor's place of residence, using fractional counting if multiple inventors or IPC classes are provided to avoid double counting.						
³ The methodologies, including the assumptions, of this indicator is presented in detail at the website http://www.doingbusiness.org/methodology .						
⁴ The methodologies of the Product market regulation indicators are presented in detail at the website http://www.oecd.org/document/1/0,3746,en_2649_34323_2367297_1_1_1_1,00.html . The latest available product market regulation indicators refer to 2003 and 2008, except for Network Industries.						
⁶ Aggregate ETCR.						
*figure for 2007.						
Source :						
Commission services, World Bank Doing Business (for enforcing contracts and time to start a business) and OECD (for the product market regulation indicators).						

