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From: Jani Pitkaniemi, Counsellor, Permanent Representation of Finland to the European Union

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To: Carsten Pillath, Director-General, DGG-Economic Affairs and Competitiveness General Secretariat of the Council of the European Union

Subject: Finland's Stability Programme 2014

Delegations will find attached the sixth part of Finland's Stability Programme for 2014.

Adjustments to price and cost level

The central government spending limits for 2015–2018 are expressed in cost and price levels for 2015. Some of the expenditure in the spending limits, such as development aid expenditure and national financing contributions corresponding to EU Structural Fund contributions, have been included in the spending limits decision at current prices, including an estimate of the impact on the appropriation of the rise in price level in the spending limits period. In other respects, the spending limits expenditure level will be revised annually according to the estimated rise in cost and price levels. The parliamentary term spending limits are transferred to the price level of the following year always in connection with the decision on spending limits, and the price- and cost-level adjustment made is determined according to the latest forecast data in connection with the preparation of the budget proposal.

The size of the price adjustment varies annually, according to the development of price and cost levels. The price- and cost-level adjustments for 2015 presented in the following table are based on the Ministry of Finance price development forecasts that were available in the Government spending limits negotiations on 24–25 March 2014.

Price and cost-level adjustments compared with the previous spending limits decision (spring 2013) are a total of EUR 185 million, when the price- and cost-level adjustments made in connection with the preparation of the 2014 Budget as well as the impact of moving to the 2015 price and cost level (including decisions not to make index increases to child allowances and defence materiel procurement, to increase KEL- and TyEL-linked expenditure by 0.4 per cent instead of the index, and to halve the index increases for universities and universities of applied sciences adjustments) have been taken into account.

The adjustments take into account both statutory and contractual price adjustments, which are made to both the spending limits level and appropriations, as well as price adjustments to other spending limits expenditure, which are made to the overall level of spending limits and on a discretionary basis to appropriations.

Adjustment of spending limits to 2015 price and cost level, EUR million

Spending limits expenditure according to classification of economic nature	Index used in calculation	Adjustment to appropriation and spending limits level		Adjustment to spending limits level
		Statutory index adjustment	Contractual adjustment	Other cost adjustments
15-17 Pensions	Employee Pension Index (TyEL)	17.7 ¹		
18-19 Defence materiel acquisitions	Predictive increase 1.5%		17.3 ²	
01-14 Wages and social security contributions	Agreement increases		-	
Transport infrastructure expenditure	Building Cost Index (RKI)			24.5
01-14, 20-28 Other operating expenses and consumption	Consumer Price Index (KHI)			13.4
30-39 Imputed central government aid to municipalities and joint municipal authorities	Index of Central Government Transfers to Local Government (VOS)	56.8		

Spending limits expenditure according to classification of economic nature	Index used in calculation	Adjustment to appropriation and spending limits level		Adjustment to spending limits level
		Statutory index adjustment	Contractual adjustment	Other cost adjustments
30-39 Other central government aid to municipalities and joint municipal authorities	Index of Central Government Transfers to Local Government (VOS)			5.0
40-49 Central government aid to trade and industry	Consumer Price Index (KHI)			42.4
50-59 Central government aid to households and non-profit-making organisations indexed on a statutory basis	National Pension Index (KEL)	7.9 ¹³		
50-59 Non-indexed central government aid to households	National Pension Index (KEL)			23.9
50 Central government funding for universities and universities of applied sciences	University Index	16.6 ⁴		
50-59 Other central government aid to households and non-profit-making organisations	Consumer Price Index (KHI)			10.3
60 Transfers to off-budget central government funds	Consumer Price Index (KHI)			0.5
60 Transfers to Social Insurance Institution of Finland	National Pension Index (KEL)	15.1 ¹		
60 Central government transfer for expenditure arising from the Sickness Insurance Act	KEL / Consumer Price Index (KHI)	0.6 ¹		17.8
61-65 Central government funding contributions corresponding to EU Structural Fund contributions and other domestic transfers	Included in programme spending limits			
66-68 Transfers abroad	At current prices			
69 Transfers to the EU	EU's GDP Price Index	32.0		
70-79 Real investments	Building Cost Index (RKI)			0.9
90-99 Other expenditure	Consumer Price Index (KHI)			0.6
Supplementary budget provision and unallocated reserve	Consumer Price Index (KHI)			5.6
Total in 2015		146.6	17.3	145.1

¹ Takes account of the fact that expenditure linked to TyEL and KEL indexes will be increased in 2015 by 0.4 per cent instead of index.

² A predictive 1.5% price- and cost-level adjustment will be made to appropriation levels (excl. personnel expenses) for defence forces operating expenditure and defence materiel procurement. This adjustment will be revised later to correspond with the rise in price level indicated by the cost-of-living index in terms of defence forces operating expenditure and military crisis management equipment and administrative expenditure as well as the rise of the DK sub index of the industrial producer price index fleet in terms of defence materiel procurement. In 2015 the index increase for defence materiel adjustments will not be made, however, for savings reasons.

³ Takes account of the fact that index increases for child allowance adjustments for 2013–2015 will be frozen (2015 impact around EUR 24 million).

⁴ Takes into account the fact that index increases for universities and universities of applied sciences will be halved in 2015 (impact around EUR 17 million).

APPENDIX 3: General government revenue and expenditure by sector

Central government¹

	2013*	2014**	2015**	2016**	2017**	2018**
Current taxes	6.2	6.0	6.1	6.4	6.6	6.8
Taxes on production and imports	14.8	15.1	15.2	15.1	14.9	14.8
Social security contributions	0.0	0.0	0.0	0.0	0.0	0.0
Taxes and social security contributions, total	21.4	21.4	21.6	21.8	21.9	21.9
Other revenue	3.4	3.4	3.4	3.2	3.2	3.3
of which interest receipts	0.2	0.2	0.2	0.2	0.3	0.3
Total revenue	24.8	24.8	25.0	25.0	25.1	25.2
Consumption expenditure	7.1	7.1	7.0	6.9	6.7	6.6
Subsidies and other transfers	19.1	18.9	18.1	17.8	17.4	17.1
to general government	12.8	12.7	12.1	11.9	11.7	11.4
Interest expenditure	1.2	1.3	1.3	1.4	1.5	1.5
Capital expenditure	1.0	1.1	1.1	1.0	1.0	1.0
Total expenditure	28.5	28.3	27.5	27.0	26.5	26.2
Net lending (+) / net borrowing (-)	-3.7	-3.5	-2.4	-2.0	-1.4	-1.0

¹ As calculated in the national accounts

Local government¹

	2013*	2014**	2015**	2016**	2017**	2018**
Taxes and social security contributions	10.7	10.7	10.7	10.6	10.7	10.7
Other revenue	8.9	8.8	8.4	8.3	8.2	8.0
of which interest receipts	0.1	0.1	0.1	0.2	0.2	0.2
of which transfers from central government	6.9	6.7	6.3	6.3	6.2	6.1
Total revenue	19.7	19.5	19.2	18.9	18.8	18.7
Consumption expenditure	16.7	16.7	16.6	16.5	16.4	16.3
of which employee compensation	10.8	10.6	10.4	10.2	10.1	9.9
Income transfers	1.6	1.6	1.7	1.7	1.7	1.7
of which social security benefits and allowances	0.7	0.7	0.7	0.6	0.3	0.3
subsidies and other transfers	0.8	0.8	0.9	0.9	1.1	1.1
interest expenditure	0.1	0.1	0.1	0.2	0.3	0.3
Capital expenditure	2.1	2.0	2.0	1.8	1.8	1.8
Total expenditure	20.4	20.3	20.3	20.1	19.9	19.8
Net lending (+) / net borrowing (-)	-0.8	-0.9	-1.1	-1.1	-1.1	-1.1

¹ As calculated in the national accounts

Social security funds¹

	2013*	2014**	2015**	2016**	2017**	2018**
Investment income	1.9	2.1	2.3	2.5	2.7	2.8
Social security contributions	13.4	13.6	13.6	13.7	13.6	13.6
of which payment paid by employers	9.3	9.3	9.3	9.2	9.2	9.1
contributions paid by the insured	4.1	4.3	4.4	4.4	4.5	4.5
Income and capital transfers from general government	6.7	6.7	6.5	6.4	6.5	6.3
Other revenue	0.3	0.3	0.3	0.3	0.3	0.3
Total revenue	22.3	22.7	22.7	22.8	23.1	23.0
Consumption expenditure	1.8	1.9	1.8	1.8	1.8	1.8
Social security benefits and allowances	16.8	17.2	17.1	17.2	17.6	17.6
Other expenditure	1.5	1.7	1.6	1.5	1.5	1.5
Total expenditure	20.1	20.7	20.6	20.5	20.9	20.9
Net lending (+) / net borrowing (-)	2.1	2.0	2.1	2.3	2.2	2.1
Earnings-related pension funds	2.1	2.1	2.2	2.3	2.2	2.1
Other social security funds	0.0	-0.1	-0.1	0.0	0.0	0.0

¹ As calculated in the national accounts

APPENDIX 4: Changes compared with previous spring fiscal forecast

Factors affecting general government fiscal balance, according to national accounts, % GDP

	2014	2015	2016	2017
General government fiscal balance, spring 2013	-1.7	-1.2	-1.0	-0.9
CENTRAL GOVERNMENT:				
Impact of revised statistical basis on revenue and expenditure estimates	-0.2	-0.2	-0.2	-0.2
Impact of revised macroeconomic forecast on revenue and expenditure estimates	-0.3	-0.4	-0.4	-0.4
Impact of discretionary measures on revenue and expenditure estimates	-0.1	0.7	0.7	0.8
Change in interest expenditure estimate	-0.1	-0.1	-0.1	-0.1
Impact of other factors	-0.2	-0.2	-0.1	0.0
LOCAL GOVERNMENT:				
Impact of revised statistical basis on revenue and expenditure estimates	0.2	0.2	0.2	0.2
Impact of revised macroeconomic forecast on revenue and expenditure estimates	-0.1	-0.1	-0.1	-0.1
Impact of discretionary measures on revenue and expenditure estimates	0.3	0.3	0.3	0.3
Impact of other factors	-0.2	-0.4	-0.3	-0.3
EARNINGS-RELATED PENSION FUNDS:				
Impact of revised statistical basis on revenue and expenditure estimates	-0.1	-0.1	-0.1	-0.1
Impact of revised macroeconomic forecast on revenue and expenditure estimates	-0.1	-0.1	0.0	-0.1
Impact of discretionary measures on revenue and expenditure estimates	0.0	0.2	0.2	0.2
Impact of other factors	0.0	0.0	0.0	0.1
OTHER SOCIAL SECURITY FUNDS:				
Impact of revised statistical basis on revenue and expenditure estimates	0.0	0.0	0.0	0.0
Impact of revised macroeconomic forecast on revenue and expenditure estimates	-0.1	-0.1	-0.1	-0.1
Impact of discretionary measures on revenue and expenditure estimates	0.0	0.0	0.0	0.0
Impact of other factors	0.0	0.1	0.1	0.2
General government fiscal balance, spring 2014	-2.4	-1.4	-0.9	-0.3

APPENDIX 5: Sensitivity analysis and comparison with previous year's programme

5.1 Sensitivity analysis

The baseline scenario of the Stability Programme is based, in terms of 2014–2016, on the Ministry of Finance economic forecast of March 2014. The years 2017 and 2018 have been taken into account in the scenario based on, among other things, the growth estimate for potential output. The baseline scenario's general government budgetary position is based on, in addition to the economic forecast, the Government Programme of Prime Minister Jyrki Katainen's Government, the Spending Limits Decision for 2013–2016 approved by the Government in April 2012, the 2013 Central Government Budget, the Spending Limits Decision for 2014–2017, approved by the Government in March 2013, the 2014 Central Government Budget, and the Spending Limits Decision for 2015–2018, approved by the Government in March 2014. According to the baseline scenario, the Finnish economy will grow by 0.5 per cent in 2014, and thereafter by an average of 1.5 per cent per year in 2015–2018.

Despite the recent positive trend in the global economy and the improved outlook in the domestic economy, the risks associated with the forecast are still predominantly to the downside. In the euro area, the recovery of households from the debt and financial crisis might take longer than predicted, as the structural reforms designed to boost competitiveness have been a case of too little, too late. There is also uncertainty about the state of the banking sector, which may be weaker than previously estimated. In the United States, the sense of uncertainty is heightened by political tensions. Any disruptions in the United States will be widely reflected in the global economy. On the other hand, the improved net real investment position in the private sector may push demand onto a stronger than predicted growth track.

Failure to resolve the crisis in Ukraine would add to uncertainty and possibly increase the outflow of capital from Russia, reduce investment rates, weaken the rouble and drive the Russian economy into recession, which would have a negative impact of the Finnish economy. In the global economy, one upside risk to the forecast is the possibility of developing countries returning to growth sooner than predicted.

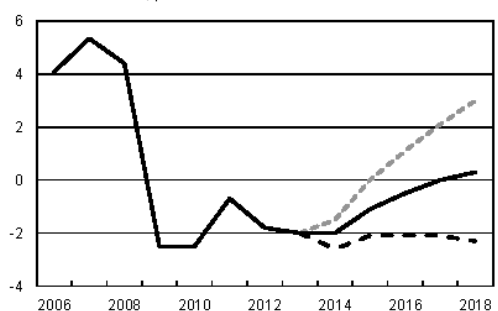
Domestically the main risks come from how quickly and how strongly the real economy reacts to the improvement in the global economic situation. At the moment, it seems that economic growth in Finland, at least in the short term, will be lower than in competitor countries. Structural policy measures will not yet have any growth effect in the short and medium term. If the credibility of the economic policy pursued is compromised in an environment of already weak economic growth, that could well lead to an accelerating downward cycle. Market-driven growth grounded in the real economy is also the key to achieving a true and sustainable improvement in public finances. The most critical factors with respect to open sector competitiveness are competitive input prices and the ready availability of inputs. Some of these factors are beyond the control of domestic economic policy. Others would require changes that have a genuine impact on the incentives of economic agents, both consumers and businesses.

The general government budgetary position has been in deficit for a long time now. The budgetary position will not be corrected in the programme period through economic growth alone. Population ageing will exert pressure on public finances and should negative risks materialise releasing this pressure would become more difficult. The euro crisis has recently been showing some signs of easing. The euro area debt crisis has increased Finland's public debt, however. Bilateral loans, capitalisation of the ESM, and state guarantees for the EFSF's acquisition of funds are raising the level of Finland's public debt. It can be considered a risk that, if various liabilities are realised, Finland's public debt might rise to a higher level.

The figures below present the impact on the general government budgetary position, debt and unemployment of slower-than-baseline and faster-than-baseline economic growth. The calculations are based on the assumption that, in the period under examination, annual output growth deviates by one percentage point in either direction from the baseline scenario.

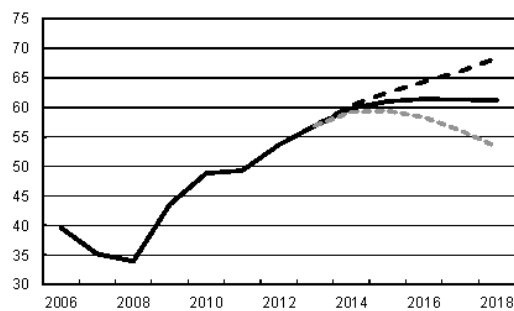
In the faster growth scenario, the general government budgetary position would move into surplus and the public debt ratio would begin to decline significantly and would be less than 60 per cent at the end of the programme period. Unemployment would also begin to fall significantly. On the other hand, in the lower growth scenario the general government deficit and debt would take a very worrying path. This would increase significantly the need to adjust public finances.

General government net lending
in ratio to GDP, per cent



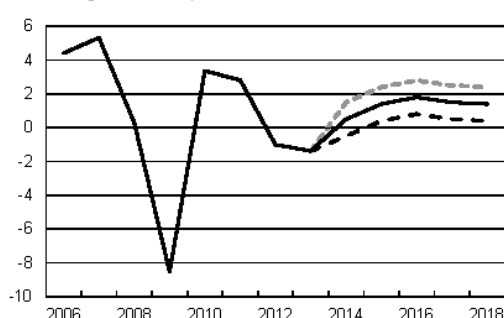
— Fast growth scenario — Baseline scenario — Slow growth scenario
Source: Statistics Finland, MoF

General government gross debt
in ratio to GDP, per cent



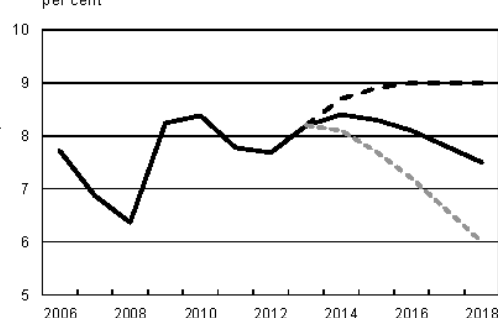
— Slow growth scenario — Baseline scenario — Fast growth scenario
Source: Statistics Finland, MoF

GDP
change in volume, per cent



— Fast growth scenario — Baseline scenario — Slow growth scenario
Source: Statistics Finland, MoF

Unemployment rate
per cent



— Slow growth scenario — Baseline scenario — Fast growth scenario
Source: Statistics Finland, MoF

5.2 Comparison with last year's programme

In 2013 economic growth proved to be weaker than previously forecast (see Appendix 6, Table 6). The pick-up in the economy expected towards the end of the year was delayed and the economy contracted further in the final quarter. There was therefore a significant negative carry-over from last year into the current year. The growth forecast for the current year has accordingly weakened compared with last year's estimate. The medium-term growth outlook has also deteriorated slightly. Prolonged recession has adversely affected the development of potential output, on which the medium-term growth estimate is based.

Due to the deeper than expected recession, employment also weakened in 2013 more than forecast in the previous Stability Programme. As a result of the weaker growth outlook for the current and coming year, the recovery of the labour market recovery has been delayed. The unemployment rate is expected to rise further in the current year and in 2017 to still be slightly higher than last year's estimate.

Weaker than expected development of the economy will adversely affect the general government budgetary position in relation to GDP, particularly in 2014—2015. General government gross debt will also therefore remain at a higher level than estimated in the previous Stability Programme. On the other hand, the direct adjustment measures agreed by the Government will strengthen general government finances during the programme period. On 25 March 2014, the Government decided on a significant new package of measures, which is expected to reduce central government expenditure and increase revenue by around EUR 2.3 billion, i.e. around one percentage point of GDP at the 2018 level. The adjustment measures will be implemented mainly in 2015. The general government budgetary position relative to GDP will therefore strengthen in the programme period faster than estimated in the previous Stability Programme.

APPENDIX 6: Tables

Table 1a. Macroeconomic prospects

	2013	2013	2014	2015	2016	2017	2018
	EUR bn	change, %					
1. Real GDP	157.6	-1.4	0.5	1.4	1.8	1.5	1.4
2. Nominal GDP	193.4	0.6	2.1	2.8	3.3	3.3	3.3
Components of real GDP							
3. Private consumption expenditure	109.4	-0.8	0.0	0.3	1.1	1.5	1.5
4. Government consumption expenditure	49.7	0.8	0.3	0.4	0.7	0.5	0.6
5. Gross fixed capital formation	36.6	-4.4	-3.1	3.6	3.2	2.0	1.9
6. Changes in inventories (% of GDP)	-0.3	-0.2	-0.5	-0.2	-0.2	-0.2	-0.2
7. Exports of goods and services	77.6	0.3	3.5	4.1	4.8	4.5	4.5
8. Imports of goods and services	77.8	-1.8	2.1	3.3	3.9	4.2	4.4
Contributions to real GDP growth, % points							
9. Final domestic demand	195.8	-1.2	-0.5	0.9	1.4	1.3	1.3
10. Changes in inventories	-0.3	-1.1	0.4	0.1	0.0	-0.1	-0.1
11. External balance of goods and services	-0.2	0.9	0.6	0.3	0.4	0.2	0.1

Table 1b. Price developments

	2013	2014	2015	2016	2017	2018
	change, %					
1. GDP deflator	2.0	1.6	1.4	1.5	1.8	1.9
2. Private consumption deflator	1.7	1.7	1.3	1.3	1.8	1.8
3. HICP	2.3	2.2	1.8	2.0	2.0	2.0
4. Public consumption deflator	2.1	1.5	1.5	1.6	1.9	2.1
5. Investment deflator	1.5	1.4	1.6	1.9	2.1	2.1
6. Export price deflator	-0.9	0.2	0.4	0.5	1.0	1.2
7. Import price deflator	-1.0	0.7	0.7	0.6	1.2	1.4

Table 1c. Labour market developments

	2013 level	2013	2014	2015	2016	2017	2018
	change, %						
1. Employment, 1.000 persons	2 457	-1.1	-0.3	0.4	0.7	0.4	0.4
2. Employment, 1.000 hours worked	4 225	-1.9	0.3	0.8	0.7	0.4	0.4
3. Unemployment rate (%)	207	8.2	8.4	8.3	8.1	7.8	7.5
4. Labour productivity, persons	64.3	-0.3	0.8	1.0	1.1	1.0	1.0
5. Labour productivity, hours worked	37.8	0.5	0.2	0.5	0.5	1.0	1.0
6. Compensation of employees	81.0	1.0	1.3	1.8	2.5	2.2	2.4
7. Compensation per employee	32.6	2.1	1.6	1.4	1.8	1.8	2.0

Table 1d. Sectoral balances

	2013	2014	2015	2016	2017	2018
	% of GDP					
1. Net lending/borrowing vis-à-vis the rest of the world	-0.7	-0.3	-0.1	0.3	0.7	0.8
of which:						
- Balance on goods and services	-0.1	0.3	0.4	0.7	0.8	0.8
- Balance of primary incomes and transfers	-0.7	-0.7	-0.6	-0.5	-0.2	0.0
- Capital account	0.1	0.1	0.1	0.1	0.1	0.1
2. Net lending/borrowing of the private sector	1.6	2.1	2.1	2.1	2.0	2.0
3. Net lending/borrowing of general government	-2.0	-2.1	-1.8	-1.4	-0.9	-0.8
4. Statistical discrepancy	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4

Table 2a. General government budgetary prospects

	2013	2013	2014	2015	2016	2017	2018
	EUR million	% of GDP					
Net lending by sub-sector (EDP B.9)							
1. General government	-3 891	-2.0	-2.0	-1.1	-0.5	0.0	0.3
2. Central government	-6 539	-3.4	-3.2	-2.1	-1.7	-1.1	-0.7
3. -							
4. Local government	-1 480	-0.8	-0.9	-1.1	-1.1	-1.1	-1.1
5. Social security funds	4 128	2.1	2.0	2.1	2.3	2.2	2.1
General Government (S13)							
6. Total revenue	108 327	56.0	56.4	56.8	57.0	57.3	57.4
7. Total expenditure	112 218	58.0	58.4	57.9	57.6	57.3	57.2
8. Net lending/borrowing	-3 891	-2.0	-2.0	-1.1	-0.5	0.0	0.3
9. Interest expenditure	1 840	1.0	1.0	1.1	1.2	1.4	1.5
10. Primary balance	-2 719	-1.1	-1.0	0.0	0.7	1.4	1.8
11. One-off and other temporary measures	0	0.0	0.1	0.1	0.0	0.0	0.0
Selected components of revenue							
12. Tax revenue (12=12a+12b+12c)	62 054	32.1	32.1	32.3	32.4	32.5	32.6
12a. Taxes on production and imports	28 713	14.8	15.1	15.2	15.1	14.9	14.8
12b. Taxes on income	32 695	16.9	16.7	16.8	17.0	17.3	17.5
12c. Capital taxes	646	0.3	0.3	0.3	0.4	0.4	0.4
13. Social security contributions	25 947	13.4	13.6	13.6	13.7	13.6	13.6
14. Property income	7 083	3.7	3.8	4.0	4.1	4.3	4.5
15. Other income (15=16-12-13-14)	13 243	6.8	6.9	6.9	6.8	6.8	6.7
16= 6. Total revenue	108 327	56.0	56.4	56.8	57.0	57.3	57.4
of which:							
Tax burden (D2+D.5+D.61+D.91-D.995)	88 452	45.7	45.9	46.2	46.4	46.4	46.4
Selected components of expenditure							
17. Compensation of employees + intermediate consumption	51 949	26.9	26.7	26.5	26.2	25.9	25.7
17a. Compensation of employees	28 425	14.7	14.4	14.1	13.8	13.6	13.4
17b. Intermediate consumption	23 524	12.2	12.3	12.3	12.4	12.3	12.3
18.. Social transfers (18=18a+18b)	43 685	22.6	23.1	23.0	23.1	23.2	23.3
of which: Unemployment benefits	4 154	2.1	2.3	2.2	2.1	2.0	1.9
18a. Social transfers in kind	5 491	2.8	2.9	2.9	3.0	3.0	3.1
18b. Social transfers other than in kind	38 194	19.7	20.2	20.0	20.1	20.1	20.2
19= 9. Interest expenditure	1 840	1.0	1.0	1.1	1.2	1.4	1.5
20. Subsidies	2 702	1.4	1.4	1.4	1.3	1.2	1.2
21. Gross fixed capital formation	4 361	2.8	2.8	2.7	2.6	2.5	2.4
22. Capital transfers	656	0.3	0.3	0.3	0.3	0.3	0.3
23. Other expenditure (23 = 24 -17-18-19-20-21)	7 025	3.1	3.0	3.0	2.9	2.8	2.8
24= 7. Total expenditure	112 218	58.0	58.4	57.9	57.6	57.3	57.2
of which: Government consumption	49 725	25.7	25.6	25.4	25.2	24.9	24.7

Table 2b. No-policy change projections

	2013	2013	2014	2015	2016	2017	2018
	EUR million	% of GDP					
1. Total revenue at unchanged policies	106 872	55.0	55.0	54.9	54.9	55.1	55.2
2. Total expenditure at unchanged policies	112 679	57.8	58.4	58.8	58.4	58.2	58.2

Table 2c. Amounts to be excluded from the revenue benchmark

	2013	2013	2014	2015	2016	2017	2018
	EUR million	% of GDP					
1. Expenditure on EU programmes fully matched by EU funds revenue	1 209	0.6	0.5	0.6	0.6	0.5	0.5
2. Cyclical unemployment benefit expenditure	584	0.3	0.3	0.3	0.2	0.1	0.0
3. Effect of discretionary revenue measures	1 456	0.8	0.4	0.6	0.2	0.1	0.0
4. Revenue increases mandated by law	440	0.2	0.0	0.0	0.0	0.0	0.0

Table 3. General government expenditure by function

	COFOG-	2012	2018
	code	% of GDP	
1. General public services	1	7.0	6.7
2. Defence	2	1.6	1.6
3. Public order and safety	3	1.5	1.4
4. Economic affairs	4	4.9	4.5
5. Environmental protection	5	0.3	0.2
6. Housing and community amenities	6	0.5	0.4
7. Health	7	8.2	8.7
8. Recreation, culture and religion	8	1.3	1.2
9. Education	9	6.3	6.4
10. Social protection	10	24.8	26.5
11. Total expenditure (= item 7=24 in Table 2)	TE	56.3	57.6

Table 4. General government debt developments

	2013	2014	2015	2016	2017	2018
	% of GDP					
1. Gross debt	56.9	59.8	61.0	61.4	61.3	61.2
2. Change in gross debt ratio	3.3	2.8	1.2	0.4	-0.1	-0.1
Contributions to changes in gross debt						
3. Primary balance	-1.1	-1.0	0.0	0.7	1.4	1.8
4. Interest expenditure	1.0	1.0	1.1	1.2	1.4	1.5
5. Stock-flow adjustment	1.3	0.8	0.2	-0.2	-0.1	0.2
of which:						
- Differences between cash and accruals	0.1	0.0	0.0	0.0	0.0	0.0
- Net accumulation of financial assets	2.1	2.1	2.2	2.3	2.2	2.1
- of which: privatisation proceeds	0.0	-0.2	-0.3	-0.2	-0.2	-0.2
- Valuation effects (incl. GDP growth contribution)	-0.9	-1.4	-2.0	-2.4	-2.3	-1.9
p.m. Implicit interest rate on debt	2.4	2.4	2.4	2.6	2.9	3.0
Other relevant variables						
6. Liquid financial assets	84.4	-	-	-	-	-
7. Net financial debt (7=1-6)	-27.5	-	-	-	-	-
8. Debt amortization (existing central government bonds)	7.4	-	-	-	-	-
9. Percentage of debt denominated in foreign currency	0	-	-	-	-	-
10. Average maturity of central government bonds (years)	6.1	-	-	-	-	-

Table 5. Cyclical developments

	2013	2014	2015	2016	2017	2018
	% of GDP					
1. Real GDP growth (%)	-1.4	0.5	1.5	1.8	1.5	1.4
2. Net lending of general government	-2.0	-2.0	-1.1	-0.5	0.0	0.3
3. Interest expenditure	1.0	1.0	1.1	1.2	1.4	1.5
4. One-off and other temporary measures	0.0	0.1	0.1	0.0	0.0	0.0
5. Potential GDP growth (%)	0.2	0.2	0.6	0.6	0.9	1.1
contributions:						
- labour	-0.1	0.0	0.2	0.0	0.2	0.2
- capital	0.3	0.2	0.3	0.3	0.4	0.4
- total factor productivity	-0.1	0.0	0.1	0.2	0.4	0.4
6. Output gap	-3.0	-2.7	-2.0	-0.8	-0.3	0.0
7. Cyclical budgetary component	-1.6	-1.4	-1.1	-0.4	-0.1	0.0
8. Cyclically-adjusted balance (2-7)	-0.4	-0.6	0.0	-0.1	0.1	0.3
9. Cyclically-adjusted primary balance (8+3)	0.5	0.4	1.0	1.1	1.6	1.8
10. Structural balance (8-4)	-0.4	-0.7	-0.1	-0.1	0.1	0.3

Table 6. Divergence from previous programme

	2013	2014	2015	2016	2017	2018
Real GDP growth (%)						
SP-2013	0.4	1.6	2.1	1.7	1.6	-
SP-2014	-1.4	0.5	1.4	1.8	1.5	1.4
Difference, %-points	-1.8	-1.1	-0.7	0.1	-0.2	-
General government net lending (% of GDP)						
SP-2013	-1.9	-1.3	-0.9	-0.7	-0.5	-
SP-2014	-2.0	-2.0	-1.1	-0.5	0.0	0.3
Difference, %-points	-0.1	-0.8	-0.2	0.1	0.5	-
General government gross debt (% of GDP)						
SP-2013	56.3	57.3	57.5	57.0	56.5	-
SP-2014	56.9	59.8	61.0	61.4	61.3	61.2
Difference, %-points	0.6	2.4	3.5	4.3	4.8	-

SP-2013: Stability programme update 2013, April 2013

SP-2014: Stability programme 2014, April 2014

Table 7a. Sustainability estimate in 2012 and 2013

	2013	2014
Debt servicing expenditure	0.8	0.9
Primary balance	-0.8	-1.8
Property income	1.8	1.7
Age-related expenditure	2.5	2.2
S2 sustainability gap	4.2	3.0

Table 7b: Long-term sustainability of public finances (2010—2060), % of GDP

	2012	2018	2030	2040	2060	2060-2012 change
	% of GDP					
Total expenditure	56.7	57.5	59.6	59.7	59.9	3.2
of which a age-related and unemployment expenditure	28.4	30.4	32.5	32.6	32.8	4.4
Pensions	12.7	14.2	15.0	14.0	13.4	0.7
Earnings-related pensions	11.3	13.0	13.8	12.9	12.4	1.1
Other pensions	1.3	1.2	1.1	1.1	0.9	-0.4
Health care	6.0	6.3	6.8	7.1	7.4	1.4
Long-term care	2.1	2.3	3.0	3.8	4.3	2.2
Education	5.9	5.9	6.1	6.1	6.1	0.2
Unemployment	1.8	1.7	1.6	1.7	1.6	-0.2
Interest expenditure	1.4	1.8	3.8	5.1	9.7	8.3
Total revenue	54.5	57.4	57.8	56.9	56.4	1.9
of which: property income	3.7	4.5	4.8	4.0	3.5	-0.2
Net lending^{*)}	-2.2	0.0	-3.9	-6.0	-11.4	-9.2
of which: transfer to pension funds	2.5	2.0	0.5	0.8	1.1	-1.4
Gross debt	53.6	61.2	78.1	104.3	199.3	145.7
Gross assets	123.8	135.0	122.6	106.4	97.3	-26.5
of which Pension funds assets	77.5	89.0	85.0	74.5	72.3	-5.2

^{*)} Cyclically adjusted balance as of 2018

Source: Ministry of Social Affairs and Health, Ministry of Finance.

	Assumptions, %			
	2018	2030	2040	2060
Labour productivity growth	1.0	1.4	1.4	1.4
Real GDP growth	1.4	1.4	1.6	1.5
Participation rate				
males (20-64)	76.6	78.4	78.5	78.6
females (20-64)	75.6	74.6	75.1	75.6
total (20-64)	75.9	76.6	76.7	77.0
Unemployment rate	7.6	7.0	7.0	7.0
Population aged over 65 % of total population	35	44	45	50
Inflation	1.8	2.0	2.0	2.0
Real interest rate	1.0	3.0	3.0	3.0
Real return of pension funds, %	2.0	3.5	3.5	3.5
Net immigration, persons	17000	17000	17000	17000
Fertility	1.84	1.84	1.84	1.84

Source: Ministry of Social Affairs and Health, Statistics Finland, Ministry of Finance.

Table 7c. Contingent liabilities

	2013	2014
	% of GDP	
Central government guarantees	17.1	-
of which: linked to the financial sector	0.6	-

Table 8. Basic assumptions*

	2013	2014	2015	2016
3-month EURIBOR	0.2	0.3	0.5	1.3
Long-term interest rate (10-year government bonds)	1.9	2.3	2.9	3.5
USD/EUR exchange rate	1.3	1.3	1.3	1.3
Nominal effective exchange rate	3.1	2.0	0.0	0.0
World GDP growth (excl. The EU)	3.5	4.0	4.3	4.3
EU-27 GDP growth	0.1	1.5	2.0	1.4
GDP growth of relevant foreign markets	1.2	2.5	4.2	4.5
World trade growth	2.7	3.6	5.2	5.7
Oil prices, (Brent, USD/barrel)	108.9	106.0	103.0	100.0

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



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