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Subject: Finland's Stability Programme 2014

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

3 Economic fundamentals

This chapter and Appendix 1 provide a summary of the Ministry of Finance's macroeconomic forecast, on which the General Government Fiscal Plan is based. The Ministry of Finance's macroeconomic forecast is prepared independently in the Ministry's Economics Department. The economic outlook is comprehensively described in the Ministry of Finance's Economic Survey. The Central Government Spending Limits Decision for 2015—2018 (Chapter 5) and the section relating to local government finances (Chapter 6) are based on a forecast prepared in the Economics Department and which was available in the Government negotiations of 24–25 March 2014.

3.1 Economic outlook and general government finances 2015—2018

Economic outlook

World economic growth is slowly returning. Above all, the economies of the USA and the UK are recovering, but economic activity is also strengthening in Germany and Sweden. Economic conditions are being improved by industrialised countries' very light monetary policy and by lighter fiscal policy adjustment than in previous years. Nevertheless, in many industrialised countries private consumption and particularly investment are still at a low level or even contracting. Political uncertainty, which continues to be high, is hampering investment, particularly in Europe. In many emerging economies, growth will be slower than customary in the coming years.

The improvement of the international economy will also lead in time to a recovery in Finland's economy. The recovery in economic growth is expected to be export-led. Domestic demand will fall further in the current year, but in 2015—2016 it will have a more significant role in boosting economic growth. In 2014 Finland's GDP is projected to grow by only 0.5 per cent. In 2015 growth is expected to be 1.4 per cent and to become more broadly based. In 2016 economic growth is expected to be 1.8 per cent.

Subdued domestic economic development will reduce price pressures, and no great cost burden from import prices will be reflected in consumer prices. This year, the inflation rate will average 1.5 per cent and next year 1.7 per cent. Inflation is expected to accelerate to 1.9 per cent in 2016. In the labour market, the situation remains weak. The unemployment rate is projected to remain in the next few years above 8 per cent, despite the fact that mac-

roeconomic activity will pick up. Development of employment will be weakened by labour market compatibility problems, which will remain significant. In the current year, the number of people in employment is expected to decline slightly and the unemployment rate to rise to 8.4 per cent of the labour force. The forecast indicates that the employment situation will not begin to improve until 2015. Growth of the number of people in employment will remain modest, however, at 0.4 per cent, due to improving profitability and the industrial dominance of growth. The unemployment rate will fall only slightly. The improvement in employment will remain slow in 2016, when the number of people in employment will grow by 0.7 per cent, and unemployment rate will fall to 8.1 per cent.

Outlook for general government finances

The weak economic conditions have also been reflected in general government finances, which have long been in deficit. The general government budgetary position is expected to gradually balance towards the end of the forecast period. Although economic growth will accelerate momentarily and adjustment measures will take effect, growth in public spending arising from population ageing will impose pressures on the general government budgetary position. General government debt will rise above 60 per cent of GDP, but the debt ratio will level off gently during the spending limits period.

The general government medium-term budgetary objective was achieved in 2013 and the structural balance (EDP) will be stronger than the medium-term objective from 2015 onwards.

The central government budgetary position will remain clearly in deficit in the next few years, even though the deficit will decline towards the end of the spending limits period. The adjustment measures decided by the Government will reduce the central government deficit. Central government debt to GDP is expected to start to fall in the spending limits period.

Growth in demand for social and health care services as a result of population ageing as well as cutbacks in central government transfers will exert pressure on local government finances. In 2013 the deficit in local government finances was around one per cent of GDP, and it is not expected to decline in the medium term without new measures. Of the subsectors of general government finances, only the financial position of pension providers will be in surplus in the medium term. In the coming years, pressures will be directed at the financial position of pension providers due to growth of pension expenditure. Other social security funds are expected to remain close to balance.

The tax ratio, namely the taxes and social insurance contributions collected by general government relative to GDP, rose last year to 45.5 per cent. The tax ratio was increased by a number of changes to tax criteria. In 2015 the tax ratio will be increased further by, among other things, new changes to tax criteria. Thereafter, the tax ratio is expected to stabilise. The expenditure ratio, namely general government expenditure relative to GDP, was over 58 per cent in 2013. The expenditure ratio will remain at a historically very high level also in the medium term.

Key figures for general government finances according to National Accounts, % GDP

	2012	2013	2014	2015	2016	2017	2018
Taxes and social security contributions	44.0	45.5	45.7	46.0	46.1	46.2	46.2
General government expenditure	56.7	58.4	58.8	58.2	57.9	57.5	57.5
General government net lending	-2.4	-2.4	-2.4	-1.4	-0.9	-0.3	0.0
— Central government	-3.8	-3.7	-3.5	-2.4	-2.0	-1.4	-1.0
— Local Government	-1.1	-0.8	-0.9	-1.1	-1.1	-1.1	-1.1
— Earnings-related pension funds	2.5	2.1	2.1	2.2	2.3	2.2	2.1
— Other social security funds	0.2	0.0	0.1	-0.1	0.0	0.0	0.0
Primary balance	-0.8	-1.1	-1.0	0.0	0.7	1.4	1.8
Structural balance	-1.4	-0.8	-0.9	-0.4	-0.4	-0.2	0.0
Structural balance (EDP)	-1.0	-0.4	-0.7	-0.1	-0.1	0.1	0.3
General government gross debt	53.6	56.9	59.8	61.0	61.4	61.3	61.2
Central government debt	43.6	46.4	48.7	49.3	49.2	48.8	48.3

General government fiscal forecast with unchanged policy

Revenue and expenditure with unchanged policy represent the general government finances baseline scenario before new decisions made by the Government on 24–25 March 2014.

Revenue and expenditure with unchanged policy

	2013 level	2013	2014	2015 % of GDP	2016	2017	2018
Total revenue with unchanged policy	108 327	56.0	56.3	56.5	56.6	56.8	57.0
Total expenditure with unchanged policy	112 218	58.0	58.5	58.5	58.1	57.9	57.9

3.2 Economic restructuring, population ageing and fiscal sustainability in the long term

General government finances are not on a sustainable basis in the long term, even though normalisation of economic conditions and the decided adjustment measures will balance general government finances in the medium term. Demographic change is beginning to be reflected in growth of age-related public expenditure and in a contraction of the working age population. The pressure exerted by population ageing on public finances will continue to be strong for the next two decades.

The Ministry of Finance calculates the effects of population ageing on public spending using the SOME model, developed by the Ministry of Social Affairs and Health. The model can be used to estimate the development of expenditure up to 2060. As source data are used Statistics Finland's 2012 population forecast, age-group distributions of social and health care expenditure, and an assessment of macroeconomic development in the long term.

Pension expenditure is expected to grow by over 2 percentage points to nearly 15 per cent of GDP by 2030, when the number of people over 65 years old in the population is projected to grow by more than 400,000. Expenditure of health care and long-term care will also rise, both by one percentage point of GDP by 2030. Unemployment and education expenditure is expected to remain close to the present level throughout the review period. Age-related expenditure is projected to grow by a total of more than 3 percentage points of GDP by 2030.

Pension expenditure is expected to contract moderately after 2030, as the life expectancy coefficient cuts pensions in accordance with increasing lifespan. Growth of health care and long-term care expenditure, however, is expected to continue through the entire review period as the population structure ages, even though it is assumed that the improving state of health of the elderly will reduce the need for age group-standardised care. Age-related expenditure will grow by 4.4 percentage points of GDP in 2012—2060.

Age-related expenditure can be used to estimate the need to adjust general government finances in the long term, i.e. the so-called sustainability gap. The Ministry of Finance's estimate of the size of the general government finances sustainability gap is 3 per cent of GDP in 2018. Of the sustainability gap, 0.9 percentage points arises from future interest expenditure on current debt and 2.2 percentage points from growth of age-related expenditure. Maintaining the property income of the earnings-related pension system, central government and local government close to its present level relative to GDP will increase the sustainability gap by 1.7 percentage point. The primary budgetary surplus of general government finances, on the other hand, will reduce the sustainability gap by 1.8 percentage points.

The sustainability gap calculation does not take into account the favourable effects on growth, employment and public finances of the measures included in the Structural Policy Programme. Information on the measures is not sufficiently precise to make a reliable impact assessment. The calculation is based on current legislation and on measures already decided.

The sustainability calculation is in nature a scenario calculation, in which development according to current rules is projected to the future with the aid of population forecasts, age group-specific expenditure shares and long-term assessments of economic development. The further forward in time one goes, the greater the uncertainty connected with the calculation. The calculation is therefore sensitive to the assumptions used.

4 Key measures to balance general government finances

4.1 Measures directed at general government expenditure

Government has decided on new adjustment measures for 2015—2018. New expenditure adjustment measures relate particularly to 2015: an additional adjustment of around EUR 1 billion at the 2015 level, rising to around EUR 1.4 billion in 2018. The savings are directed broadly at different types of expenditure and at different administrative branches.

On the other hand, the Government also decided on additional investments to support growth, which will increase central government expenditure by around EUR 300 million in 2015.

Under the Government Structural Policy Programme, the goal is to reduce municipalities' duties and obligations such that local government operating expenditure is reduced by EUR 1 billion by 2017. The impact of savings is also reflected in central government finances through central government transfers.

The above-mentioned items are discussed in more detail in Section 5.3.

4.2 Measures directed at general government revenue

The Government will also implement fiscal adjustment measures in taxation. The adjustment measures cover the entire spending limits period, but the emphasis of the measures is on the first year of the spending limits period. Tax policy measures also include tax reductions, by which the Government aims to support emerging economic growth and the purchasing power of people on the lowest incomes. In the Government spending limits discussion, the Government decided on tax adjustments totalling around EUR 1 billion net at the 2018 level.

The measures that increase general government tax revenue were selected such that they would as little as possible adversely affect employment and the economic activity of businesses. For this reason, taxation was also lightened in a targeted manner. Tax increases will be made in indirect taxes, particularly in taxation of commodities harmful to the environment and health. Taxation will be lightened at the lowest income levels, safeguarding the purchasing power of those on the lowest incomes and boosting financial incentives to par-

ticipate in the labour market. On the other hand, taxation of earned income will be tightened at the higher earnings levels and in this way the progressivity of earned income taxation will be increased. Similarly, taxation will be increased by increasing the progressivity of capital income tax and the inheritance and gift tax.

To increase tax revenue, tax deductions in income taxation were cut. In addition to tightenings made earlier by the Government, the right to deduct interest paid on home loans will be further limited by five percentage points per year in the spending limits period. The measure will increase tax revenue and will help reduce non-neutrality between ownership and rental housing. The right to deduct expenses for travel between home and workplace will also be reduced by increasing the co-payment portion.

As structural policy measures on the taxation side, measures relating to energy taxation will be implemented by reducing some tax subsidies and by increasing environmentally-based taxes. Energy tax subsidies for mining activity will be abolished and the tax-free status of liquefied petroleum gas discontinued. The car tax reductions on taxis (excluding specially equipped taxis) and on cars imported as removal goods will be abolished. The carbon dioxide tax on heating, power plant and working machine fuels and also the electricity tax will be increased. On the other hand, the 2015 tax increase on peat, decided earlier, will be cancelled.

With respect to indirect taxes, increases will be made in excise duties of tobacco products, and the motor vehicle tax for cars and vans will also be increased. In addition, the waste tax will be increased.

The real-estate tax will be increased by raising the lower and upper limits of tax rates of the general real-estate tax and the real-estate tax for permanent residential buildings. The tax percentage increases will give municipalities the opportunity to increase real-estate tax rates themselves, while for some municipalities the increases will mean a compulsory raising of tax rates. The central government transfer for basic public services will be correspondingly reduced.

In line with an earlier decision, the Government will support local government finances in 2015 with a fixed-term five percentage point increase in the corporate income tax apportionment. The Government has compensated municipalities in full for the effects of tax criteria changes impacting corporate income tax revenue. For example, the reduction of the corporate income tax rate will not reduce municipalities' corporate income tax revenue, because the municipalities' share of the tax revenue was correspondingly increased. The municipalities will be able to benefit in full from any positive tax revenue effects generated by lowering the tax rate.

Tax criteria changes made to earned income and real-estate taxation will not affect municipalities' revenue development, because central government transfers will be adjusted to correspond with the tax revenue effects. A monetary sum corresponding to the increase in social and health care customer fees will also be deducted from central government transfers to municipalities. The additional tax revenue obtained from the increase in the waste tax will not be transferred to the municipalities.

The Government has already prepared a detailed programme for 2012—2015 to combat the shadow economy (see Enhanced Action Programme on the Shadow Economy and

Financial Crime). The measures are aimed at reducing opportunities to engage in criminal activity, increasing the probability of being apprehended and improving the authorities' reaction preparedness in uncovering the shadow economy. At the same time, legal business activity and healthy competition will be supported. The programme also aims to increase tax revenue.

4.3 Structural policy measures

On 29 August 2013, the Government decided on a Structural Policy Programme and set the objectives for it. On 29 November 2013, the Government specified the details of the programme and decided on its implementation. Government has further decided to supplement its earlier decisions and to steer the implementation ⁴ of the programme as part of the General Government Fiscal Plan.

The goal of the Structural Policy Programme is to remove the sustainability gap. Economic growth and structural reforms supporting growth are the key to sustainable public finances. The removal of the general government sustainability gap will require both economic growth and the implementation of the Structural Policy Programme in its entirety in a manner set by the Government as a target.

The programme includes key elements for the reform of economic structures in a manner that supports economic growth and the sustainability of public finances. In the programme, the goal of closing the entire sustainability gap is divided into subgoals relating to 1) local government finances, 2) improving the productivity of public services provision, 3) working careers and supply of labour, 4) structural unemployment and 5) the output potential of the whole economy.

Measures aimed at balancing local government finances consist of reducing municipalities' duties, municipalities' own measures to reduce expenditure and improve operational productivity, increases in fees and taxes, and a new steering system for local government finances. These measures should strengthen the budgetary position of local government finances by EUR 2 billion at the 2017 level and reduce the sustainability gap by one percentage point.

The growth target for the productivity of public service provision includes the assumption that, as a result of reform of the social and health care service structure and a more efficient division of labour, the net increase in personnel required in the provision of public services would remain at 1,000 people per year instead of the previously estimated 3,000 people. This would mean growth of productivity of one half of one per cent per year in public services provision, which would reduce the sustainability gap by 1.4 percentage points.

With respect to working careers and supply of work, the aim is to extend working careers by two years with the aid of pension reform and through other measures directed at the start of working careers and breaks in working careers. Social partners have committed to

⁴ Government decision on implementing the Structural Policy Programme as part of the General Government Fiscal Plan (in Finnish)
<http://valtioneuvosto.fi/tiedostot/julkinen/kehysneuvottelut-2014/paatos/fi.pdf>

finding a negotiated solution on pension reform that will increase the average retirement age at least to 62.4 years by 2025 and reduce the general government sustainability gap by just over 1 percentage point. Overall, the aim of measures directed at working careers and the supply of work is to reduce the sustainability gap by 1.4 percentage points.

The programme aims to reduce structural unemployment by one percentage point, which would reduce the sustainability gap by 0.3 percentage points. Measures will be directed at the activation and rapid employment of the unemployed and at increasing incentives to work.

The programme aims to increase the output potential of the economy by 1½ per cent, which would reduce the sustainability gap by 0.6 percentage points. The output potential of the whole economy and re-allocation of resources will be strengthened by promoting healthy competition, securing Finland's status as an investment location, enhancing the functioning of the commodity and housing markets, and reducing regulation of business. Other measures, together with the labour market settlement agreed in autumn 2013 that will improve cost-competitiveness, will create an opportunity for faster than anticipated growth in the long term.

The preparation and implementation of the programme have advanced in accordance with check marks set by the Government. The Government will monitor the implementation of the Structural Policy Programme in the summer 2014 budget discussion and will decide, if necessary, on additional measures to ensure that the programme is implemented in the manner decided by the Government in August 2013. If measures call for an increase in appropriations, the increases will be implemented through re-allocations within the framework of the central government spending limits.

Section 5.3 examines in more detail the measures of the Structural Policy Programme and the taking of them into account in the Central Government Spending Limits Decision and the Basic Public Services Programme.

4.4 Summary of adjustment measures decided during the current parliamentary term

Government Programme outlined adjustment measures rising to EUR 2.5 billion at the 2015 level. These measures were specified in more detail in the Government's first spending limits decision. Following a deterioration in the economic outlook, it has become clear that new adjustment measures are needed. New measures were decided on in spring 2012, in spring 2013 and now again in the spring 2014 spending limits decision.

Overall, the Government has decided on measures that will strengthen central government finances by 2.8 per cent of GDP in 2015, with the point of comparison being the final spending limits decision of the last parliamentary term. This is a net estimate of the current parliamentary term's discretionary measures, including both expenditure cuts and tax increases as well as additional expenditure and tax reductions. On the general government level, the adjustment measures are greater than at the central government level, which is due to increases in social security contributions.

In the years following the current parliamentary term, adjustment measures will continue to have an impact, due, for example, to the gradual entry into effect or phasing of measures as well as the ending of fixed-term measures. At the 2018 level, the adjustment measures will strengthen central government finances by around 3 per cent of GDP.

Magnitude of adjustment measures, EUR billion

	2012	2013	2014	2015	2016	2017	2018
Measures affecting central government tax revenue	0.0	1.4	1.3	2.2	2.7	2.7	2.7
Central government appropriation savings	0.0	0.4	0.9	3.2	3.3	3.6	3.8
Revenue assumed from combating the shadow economy	0.0	0.1	0.2	0.3	0.3	0.3	0.3
Central government adjustment, total	0.0	1.9	2.4	5.7	6.3	6.6	6.8

5 Central Government Spending Limits Decision 2015—2018

To ensure a prudent, long-term spending policy that promotes economic stability, the Government is committed to a spending limits procedure for central government finances. The current spending limits decision is based on the spending limits for the parliamentary term decided by the Government on 27 March 2013 (supplemented on 8 April 2013), which is revised for 2015—2018.

The appropriation and revenue estimates of the spending limits decision as well as price- and cost-level adjustments of the spending limits are based on a forecast prepared in the Economics Department and which was available in the Government negotiations on 24–25 March 2014. New decisions, relating particularly to taxation, made in the negotiations have been taken into account in the latest forecast, which is presented in Chapter 2 and in Appendix 1. The altered calculation bases will be taken into account in appropriation and revenue estimates and in price- and cost-level adjustments of the spending limits in summer 2014 in connection with the preparation of the 2015 budget proposal.

5.1 Central government spending limits rule

The central government spending limits system is based on the real, binding overall framework set for the duration of the parliamentary term, to which only the required price- and cost-level adjustments and structural corrections are made. The spending limits system is based on *ex ante* examination, i.e. it restricts the level of expenditure budgeted in the central government budget.

The spending limits procedure sets a maximum amount for around 80 per cent of on-budget expenditure. Expenditure that changes according to cyclical conditions and automatic stabilisers, such as unemployment security expenditure, pay security, housing allowance and the central government contribution to social assistance expenditure, remains outside the central government spending limits. However, expenditure effects generated by changes in the criteria for these items are included within the spending limits. In addition, interest payable on central government debt, value-added tax expenditure, financial investment expenditure and expenditure corresponding to technically transmitted payments, for example, also remain outside the spending limits. The spending limits, moreover, do not cover central government off-budget funds.

The spending limits also cover supplementary budgets, for which a certain portion of the spending limits, the so-called supplementary budget provision, has been reserved. In the annual spending limits decisions, spending frameworks are given to the administrative branches, but only the overall framework for the parliamentary term, namely the spending ceiling, is binding. Reallocations can be made between administrative branches. Alongside the supplementary budget provision, there remains between the parliamentary term spending limits and administrative branch-specific frameworks an unallocated provision to be allocated later.

If annual proceeds from the sale of shares exceed EUR 400 million, a maximum of EUR 150 million of the excess can be used for one-off infrastructure and skills investments to support sustainable growth. Proceeds accruing to central government from the auction of emissions allowances can be used without reference to the spending limits for one-off expenditure on climate measures and development cooperation.

If the level of expenditure falls below that specified in the spending limits after supplementary budgets, the difference, to a maximum of EUR 200 million, may be used for one-off expenditure in the following year without reference to the spending limits.

5.2 Central government spending limits

In the first spending limits decision of the parliamentary term, dated 5 October 2011, the Government agreed on additional investments and savings that would reduce the level of spending limits expenditure by a total of around EUR 1.2 billion in 2015 compared with the March 2011 spending limits decision. In the spring 2012 spending limits decision for 2013–2016, the Government implemented additional adjustment measures that lowered the level of spending limits expenditure by around a further EUR 1.2 billion at the 2015 level. As a result, the overall and annual spending limits levels of the parliamentary term were revised downwards by an amount equivalent to the additional expenditure cuts (excluding index-freeze savings, which reduce the price adjustment). The spring 2013 spending limits decision for 2014–2017 implemented additional adjustment measures and the 2015 spending limits level was reduced by EUR 450 million. Spending limits can be revised downwards, but not upwards, during the parliamentary term without this undermining the credibility of the spending limits system.

In the spending limits decision for 2015–2018, the Government implements new expenditure savings. The decisions will lower the level of 2015 spending limits expenditure by around EUR 810 million, of which savings relating to index increases amount to around EUR 120 million, reducing the spending limits price adjustment. The overall spending limits level of the parliamentary term will therefore be lowered by EUR 690 million for 2015.

The 2015 unallocated provision is at this stage technically negative, i.e. EUR -65.8 million. This is due to the fact that the Government has decided to cover its growth package with income from the sale of shares, of which a maximum of EUR 150 million from the portion exceeding EUR 400 million can, according to the Government Programme, be included on top of the spending limits. Of the increase in spending limits expenditure

caused by the growth package, EUR 150 million will be covered by income from the sale of shares still to be recognised in 2014 in accordance with the above-mentioned spending limits rule. When the recognition of income from the sale of shares takes place, the negative provision presented now will actually correspond to a positive unallocated provision of around EUR 84 million.

Price and cost-level adjustments, and structural changes

The parliamentary term spending limits level is adjusted annually to reflect structural changes in the spending limits as well as changes in price levels.

The 2015—2018 spending limits decision is prepared at 2015 prices. Estimates of statutorily index-linked expenditure should be increased by a total of around EUR 290 million in line with index change forecasts. However, the following are taken into account in the 2015 index increase:

- the freezing of the child allowance index increase decided for the parliamentary term (saving around EUR 24 million in 2015)
- as a new savings measure, the raising of appropriations statutorily linked to the indices for national pensions (KEL) and employees' pensions (TyEl) by 0.4 per cent instead of by the indices (saving in spending limits expenditure around EUR 106 million in 2015)
- halving of the index increase for the funding of the activities of universities and universities of applied (saving around EUR 17 million in 2015).

Statutory index adjustments will therefore total EUR 147 million in 2015. The overall level of the parliamentary term spending limits is adjusted accordingly.

The overall spending limits level is also adjusted to reflect contractual index increases in the Defence Forces of around EUR 17 million. With respect to defence materiel, an index increase will not be made in 2015 (saving around EUR 6 million).

In addition, spending limits expenditure that does not come under statutory or contractual indexation rules is adjusted to 2015 price and cost levels according to the weighting structure of the relevant type of expenditure, i.e. each expenditure item is adjusted using the most appropriate index forecast (total adjustment EUR 145 million). The price- and cost-level adjustments for 2015 are examined in more detail in Appendix 2.

In addition, the 2015 spending limits level will be adjusted to reflect structural changes made to the spending limits. All structural adjustments to the spending limits are presented in Appendix 2.

Revised parliamentary term spending limits for 2015 (at 2015 prices), EUR million

	2015
Revised parliamentary term spending limits 27 March 2013, at 2014 prices	42 259
Reduction of overall spending limits as part of adjustment measures	-690
Price- and cost-level adjustments made in connection with the 2014 Budget	-124
Price- and cost-level adjustment of transfers to 2015 price level	309
2014—2015 structural changes	130
Revised parliamentary term spending limits	41 884

Development of spending limits expenditure 2015—2018

The level of spending limits expenditure in 2015 amounts to around EUR 41.7 billion, which is around EUR 650 million less than budgeted for 2014. By the end of the spending limits period, spending limits expenditure will fall to around EUR 41.4 billion. Compared with the spring 2013 spending limits decision, spending limits expenditure for 2015—2017 will be on average around EUR 0.3 billion per year lower. The reduction of spending limits expenditure is explained by additional savings decided on by the Government. On the other hand, a change in price level increases expenditure, in addition to which certain needs estimates (e.g. EU payments) have been adjusted to higher figures than estimated in the previous spending limits decision.

Overall, administrative branch expenditure will fall in real terms during the spending limits period 2015—2018 by an average of just over 1 per cent per year when structural changes have been taken into account. Nominally, administrative branch expenditure is expected to grow on average by around ½ per cent per year. When all expenditure is taken into account (including debt interest expenditure), the expenditure level will fall in real terms on average by around ½ per cent per year. Nominally, expenditure will grow by an average of just under 1 per cent per year.

Expenditure outside the spending limits

Expenditure outside the spending limits is expected to be around EUR 11.7 billion in 2015, which is just under EUR 100 million more than expenditure outside the spending limits budgeted for 2014. Unemployment security expenditure will rise from the 2014 level, even though the transfer of labour market support funding and activation responsibility to the municipalities from 2015 will reduce central government unemployment security expenditure. Interest expenditure on central government debt will also rise compared with 2014.

Expenditure outside the spending limits will vary annually during the spending limits period 2015—2018 from around EUR 11.3 billion (in 2016) to around EUR 11.9 billion (in 2018). Interest expenditure on central government will rise during the spending limits period from around EUR 1.9 billion in 2015 to around EUR 2.9 billion in 2018. The increase is explained by an anticipated rise in interest rates during the spending limits period and by growth of the debt portfolio arising from the development of the central government

deficit. On the other hand, financial investment expenditure will decline during the spending limits period, as the growth package targeted at the early years of the spending limits period is removed from appropriations and export refinancing appropriations are, in practice, removed from central government on-budget finances after 2015. Annual revenue from the bank tax is estimated at around EUR 133 million. The corresponding deferrable appropriation is assumed to be an expenditure item outside the spending limits.

Compared with the previous, spring 2013 spending limits decision, expenditure outside the spending limits is now annually on average around EUR 280 million higher. For example, cyclical unemployment security, housing allowance and similar expenditure is annually around EUR 250–310 million higher. This is due both to a deterioration of the cyclical economic forecast and Government-decided changes to the criteria for unemployment security and the housing allowance (with respect to these the spending limits have been reduced accordingly). On the other hand, compensation to municipalities for tax revenue changes is clearly on a lower level than the previous spending limits decision, due to new tax criteria changes and revised calculations.

Central government spending limits by administrative branch and estimate of expenditure outside the spending limits in 2015—2018, EUR million at 2015 price and cost levels

	2015	2016	2017	2018
23. Prime Minister's Office	83	89	88	86
Estimate of expenditure outside spending limits	6	6	6	6
Total	88	95	94	92
24. Ministry for Foreign Affairs	1 135	1 146	1 156	1 184
Estimate of expenditure outside spending limits	26	27	27	27
Total	1 162	1 172	1 183	1 211
25. Ministry of Justice	846	835	829	852
Estimate of expenditure outside spending limits	57	57	57	57
Total	902	892	886	909
26. Ministry of the Interior	1 147	1 152	1 148	1 140
Estimate of expenditure outside spending limits	72	74	71	71
Total	1 219	1 226	1 219	1 211
27. Ministry of Defence	2 355	2 387	2 335	2 338
Estimate of expenditure outside spending limits	332	335	323	324
Total	2 687	2 722	2 658	2 662
28. Ministry of Finance	15 188	15 488	15 293	15 334
Estimate of expenditure outside spending limits	1 699	1 735	1 747	1 760
Total	16 887	17 223	17 041	17 094
29. Ministry of Education and Culture	6 083	6 134	6 022	6 008
Estimate of expenditure outside spending limits	684	562	565	567
Total	6 767	6 696	6 587	6 574
30. Ministry of Agriculture and Forestry	1 725	1 620	1 641	1 645
Estimate of expenditure outside spending limits	951	868	888	893
Total	2 677	2 488	2 529	2 537
31. Ministry of Transport and Communications	1 966	1 827	1 771	1 768
Estimate of expenditure outside spending limits	874	909	871	869
Total	2 840	2 736	2 642	2 637
32. Ministry of Employment and the Economy	2 285	2 022	2 089	2 100
Estimate of expenditure outside spending limits	1 007	437	490	417
Total	3 292	2 458	2 578	2 516
33. Ministry of Social Affairs and Health	8 552	8 587	8 594	8 628
Estimate of expenditure outside spending limits	4 099	4 102	4 083	4 021
Total	12 651	12 689	12 677	12 649
35. Ministry of the Environment	216	193	190	189
Estimate of expenditure outside spending limits	12	12	12	12
Total	227	205	201	201
36. Interest on central government debt	-	-	-	-
Estimate of expenditure outside spending limits	1 869	2 120	2 458	2 851
Total	1 869	2 120	2 458	2 851
Administrative branch spending limits, total¹	41 750	41 645	41 310	41 397
Estimate of expenditure outside spending limits, total	11 704	11 260	11 614	11 886
Main titles, total	53 454	52 905	52 924	53 283
Parliamentary term spending limits	41 884			
— Administrative branch spending limits, total ¹	41 750			
— Supplementary budget provision	200			
— Unallocated reserve	-66			

¹ Main titles 21 and 22 are included in the total