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COVER NOTE

From:	Secretary-General of the European Commission, signed by Mr Jordi AYET PUIGARNAU, Director
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To:	Mr Uwe CORSEPIUS, Secretary-General of the Council of the European Union
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Subject:	COMMISSION OPINION of 15.11.2013 on the Draft Budgetary Plan of FINLAND

Delegations will find attached document C(2013) 8012 final.

This document is aimed for discussion in the **Eurogroup.**

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EUROPEAN
COMMISSION

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COMMISSION OPINION

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on the Draft Budgetary Plan of FINLAND

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GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 sets out provisions for enhanced monitoring of budgetary policies in the euro area for ensuring that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact (SGP) and the European Semester for economic policy coordination.

2. Article 6 of Regulation (EU) No 473/2013 requires Member States to submit annually to the Commission and to the Eurogroup a Draft Budgetary Plan presenting by 15 October the main aspects of the budgetary situation of the general government and its subsectors for the forthcoming year.

CONSIDERATIONS CONCERNING FINLAND

3. On the basis of the Draft Budgetary Plan for 2014 submitted on 15 October by Finland, the Commission has adopted the following opinion in accordance with Article 7 of the Regulation (EU) No 473/2013.

4. Finland is subject to the preventive arm of the SGP and should preserve a sound fiscal position which ensures compliance with the Medium-Term Objective.

5. The Draft Budgetary Plan forecasts GDP to decline by 0.5% in 2013, while according to the Commission 2013 Autumn Forecast the decline is projected to be 0.6% of GDP. This is a significant revision compared to the 2013 Stability Programme, where a 0.4% growth was forecast for 2013. For 2014, 1.2% GDP growth is forecast in the Draft Budgetary Plan. This is 0.4% less than the scenario in the Stability Programme. In the Commission 2013 Autumn Forecast, economic growth is projected to be 0.6% in 2014.

6. Regulation (EU) No 473/2013 requires that the Draft Budgetary Plan should be based on independently endorsed or produced macroeconomic forecasts. The current Draft Budgetary Plan is based on the forecast by the Ministry of Finance. Based on the information available to the Commission at this stage, the national authorities consider that the forecast is independent and it is stated that the regulatory changes to formally guarantee the independence of the Economics Department are being prepared.

7. The Draft Budgetary Plan foresees a higher (-2.2% of GDP) general government deficit compared with the projections made in the Stability Programme (-1.9%) for 2013. For 2014, the Draft Budgetary Plan projects an improvement of the general government balance to -1.9% of GDP. This is lower than the target in the Stability Programme (-1.3%). These changes are attributable to lower growth forecasts resulting from a decline in private consumption, investment and exports and

revisions of 2012 GDP data published only after the adoption of the Stability Programme.

8. The Commission 2013 Autumn Forecast also estimates the deficit to reach -2.2% of GDP. According to this forecast, the general government balance is expected to be -2.3% in 2014. The difference stems mainly from the Commission's lower growth forecast for 2013 and 2014 due to a projected smaler recovery in private consumption and exports and resulting lower revenues, but also from the differences in the expenditure forecast, as higher government intermediate consumption and social expenditures are forecast.

9. According to the Draft Budgetary Plan, the general government gross debt ratio would grow from 53.6% in 2012 to 58.3% in 2013 and to 60.7% in 2014, breaching the Treaty threshold. According to the Commission 2013 Autumn forecast, the debt would reach 58.4% of GDP in 2013, 61.0% in 2014 and continue rising thereafter. The stock-flow adjustment has a large effect on the changes in general government debt, driven by net accumulation of financial assets by the social security funds.

10. The Draft Budgetary Plan does not include any new measures for 2014, it is based on the decisions taken in April 2013 that were already taken into account in the Stability Programme.

11. Finland's structural balance has been calculated by the Commission, based on the data in the Draft Budgetary Plan, to be -0.7% of GDP in 2012. For 2013, the plan foresees that the structural balance improves to -0.5%, meeting the Medium-Term Objective. For 2014, the structural balance improves marginally further. According to the Draft Budgetary Plan, Finland would be in compliance with the expenditure benchmark in 2013 but deviate slightly in 2014. According to the Commission 2013 Autumn Forecast, Finland would not meet the Medium-Term Objective in 2013 and would further deviate in 2014, while the expenditure benchmark would not be met either. Thus according to the Commission forecast there is a risk for a significant deviation from the MTO or the adjustment path in 2014.

12. The Draft Budgetary Plan refers to the broad structural reform programme adopted by the government in August 2013, addressing country-specific recommendations. The programme recognizes the severity of the long-term fiscal sustainability challenges, highlighted also in the CSRs. The programme emphasises the role of aging-related expenditures (pensions, healthcare and long-term care) as the risk factors endangering the long-term sustainability. The government is planning to further improve local government finances and to increase the efficiency of public sector services. The programme also includes measures targeting the labour market and to improve competition and competitiveness, addressing the relevant CSRs. The measures in the structural reform programme address the country-specific fiscal recommendation but the details of the programme need to be further developed.

13. Overall, based on the Commission 2013 Autumn Forecasts, the Commission is of the opinion that there is a risk that the Draft Budgetary Plan sent on 15 October will not fulfil the requirements of the SGP, in particular those of the preventive arm, since the Commission forecast points to a non-compliance with respect to the adjustment path towards the MTO in 2014. The Commission is also of the opinion that Finland has made some progress with regard to the structural part of the fiscal recommendations

issued by the Council in the context of the European Semester. Also, according to the plan, Finland's general government gross debt will be over the 60% Treaty threshold in 2014 and continue rising thereafter. The Commission invites the authorities to take the necessary measures within the national budgetary process to ensure that the 2014 budget will be fully compliant with the SGP and notably to address the risks identified by the Commission in its assessment of the Draft Budgetary Plan. Moreover, it invites the authorities to make further progress towards implementation of the fiscal recommendation under the European Semester. The Commission has prepared a report under Art. 126(3) to the Economic and Financial Committee to examine whether the debt position merits the launch of an EDP.

Done at Brussels, 15.11.2013

For the Commission
Olli REHN
Vice-President