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To:	Mr Uwe CORSEPIUS, Secretary-General of the Council of the European Union
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Recommendation for a

COUNCIL RECOMMENDATION

on the 2015 National Reform Programme of Finland

and delivering a Council opinion on the 2015 Stability Programme of Finland

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Recommendation for a

COUNCIL RECOMMENDATION

on the 2015 National Reform Programme of Finland

and delivering a Council opinion on the 2015 Stability Programme of Finland

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 121(2) and 148(4) thereof,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1], and in particular Article 5(2) thereof,

Having regard to Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances[2], and in particular Article 6(1) thereof,

Having regard to the recommendation of the European Commission[3],

Having regard to the resolutions of the European Parliament[4],

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) On 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for growth and jobs, *Europe 2020,* based on enhanced coordination of economic policies. The strategy focuses on the key areas where

1 OJ L 209, 2.8.1997, p. 1.
2 OJ L 306, 23.11.2011, p. 25.
3 COM(2015) 275.
4 P8_TA(2015)0067, P8_TA(2015)0068, P8_TA(2015)0069.

action is needed to boost Europe's potential for sustainable growth and competitiveness.

(2) On 13 July 2010, the Council, on the basis of the Commission's proposals, adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and on 21 October 2010 it adopted a decision on guidelines for the employment policies of the Member States. Together these form the 'integrated guidelines' which Member States were invited to take into account in their national economic and employment policies.

(3) On 8 July 2014, the Council adopted a recommendation on Finland's National Reform Programme for 2014 and delivered its opinion on Finland's updated Stability Programme for 2014. On 28 November 2014, in line with Regulation (EU) No 473/2013[5], the Commission presented its opinion on Finland's draft budgetary plan for 2015[6].

(4) On 28 November 2014, the Commission adopted the Annual Growth Survey[7], marking the start of the 2015 European Semester of economic policy coordination. On the same day, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the Alert Mechanism Report[8], in which it identified Finland as one of the Member States for which an in-depth review would be carried out.

(5) On 18 December 2014, the European Council endorsed the priorities for boosting investment, accelerating structural reforms and pursuing responsible growth-friendly fiscal consolidation.

(6) On 26 February 2015, the Commission published its 2015 country report for Finland[9]. This assessed Finland's progress in addressing the country-specific recommendations adopted on 8 July 2014. The country report also includes the results of the in-depth review under Article 5 of Regulation (EU) No 1176/2011. The Commission's analysis leads it to conclude that Finland is experiencing macroeconomic imbalances which require policy action and monitoring. In particular, risks relating to weak export performance in a context of industrial restructuring deserve attention. While the decline in export market shares and electronic industry has largely come to an end, investment remains low and potential growth has declined. Private-sector debt has stabilised and does not appear to be a source of immediate concern, but its relatively high level calls for close monitoring.

(7) On 2 April 2015, Finland submitted its 2015 National Reform Programme and its 2015 Stability Programme. To take account of their interlinkages, the two programmes have been assessed at the same time.

(8) Finland is currently in the [corrective] arm of the Stability and Growth Pact, following the adoption by the Council of a decision in accordance with article 125(6) TFEU on [XX]. In the 2015 Stability Programme, which is based on a no-policy-change assumption and covers the period 2014-2019, the headline deficit, which has

5 OJ L 140, 27.5.2013, p. 11.
6 C(2014) 8815 final.
7 COM(2014) 902.
8 COM(2014) 904.
9 SWD(2015) 45 final of 26.2.2015.

been increased to 3.2% of GDP in 2014 and thereby exceeded the reference value of 3% of GDP, is projected to further deteriorate to 3.4% of GDP in 2015, Before gradually declining to 3.1% in 2017 and further to 2.5% of GDP in 2019. According to the 2015 Stability Programme the government debt-to-GDP ratio is expected to increase over the programme's forecast horizon and to reach 67.8% by 2019. The medium-term objective - a structural deficit of 0.5% of GDP - is not reached by the end of the programme period. The macroeconomic scenario underpinning these budgetary projections is plausible. Based on the Commission's 2015 spring forecast, Finland's general government deficit is forecast at 3.3% of GDP in 2015 and 3.2% of GDP in 2016, while the debt-to-GDP ratio is forecast to increase to 64.4% of GDP by 2016. The Commission has published on 13 May 2015 a report in accordance with art 126(3) of the Treaty concluding that deficit and debt criteria were not considered to be complied with. The Stability Programme does ensure that the excessive deficit is corrected in a timely and durable manner by 201X. Therefore, further measures will be needed. Based on its assessment of the Stability Programme and taking into account the Commission's 2015 spring forecast, the Council is of the opinion that there is a risk that Finland will not comply with the provisions of the Stability and Growth Pact. Although Finland has made some progress in implementing administrative reforms, the efficiency of the Finnish public sector could be improved further, particularly in areas that face cost pressures in the future from ageing. Social partners reached agreement on the content of the pension reform in autumn 2014, but this has yet to be adopted. Increasing the participation of older workers in the labour force is crucial in view of the fiscal sustainability gap and the planned increase of the statutory retirement age. Early exits from the labour market are mainly due to disability or on the basis of extended unemployment benefits for older workers. The Government’s bill on the reform of social and healthcare services was presented to parliament in December 2014, but no solution was found to balance the administrative model of large municipal coalitions with the autonomy of single municipalities guaranteed by the Constitution before the parliamentary elections in April 2015, and the bill lapsed. Finnish municipalities are relatively small but carry out quite extensive tasks as compared with those in other European countries. The reform of municipal structures is proceeding with some delay and the municipalities are conducting studies on the benefits of mergers. According to the 2015 National Reform Programme, a new legislative proposal may be submitted to parliament by the end of 2016.

(9) In view of ageing and the shrinking working-age population, it is important that the labour market has access to the full potential workforce. Finland has made some progress on this and taken several measures, including a better organisation of wage subsidies, with a particular focus on the elderly, and of the public employment service. The unemployment rate was 8.7 % in 2014 and is on the rise, particularly among young people and older workers. The moderate wage agreement of 2013 supports the restoration of cost and export competitiveness through lower growth in unit labour costs.

(10) Finland has made some progress in boosting its capacity to deliver innovative products. The Government is implementing a comprehensive reform of research institutes and funding. Policy programmes for clean technology, biotechnology and digitisation are promising but relatively small-scale. Although investment in R&D is among the highest in the EU, Finland still faces challenges in converting this into successful export products and services. The Government has sought to make

support systems for businesses simpler and more efficient, increase financing for start-ups and promote their internationalisation. Nevertheless, investment in Finland has remained low, export difficulties have continued and employment has fallen. Efforts are also needed to enhance competition in product and service markets, especially in the retail sector, which remains highly concentrated.

(11) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Finland's economic policy and published it in the 2015 country report. It has also assessed the Stability Programme and the National Reform Programme and the follow-up given to the recommendations addressed to Finland in previous years. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Finland but also their compliance with EU rules and guidance, given the need to strengthen the overall economic governance of the European Union by providing EU-level input into future national decisions. The recommendations under the European Semester are reflected in recommendations 1 to 4 below.

(12) In the light of this assessment, the Council has examined Finland's Stability Programme, and its opinion[10] is reflected in particular in recommendation 1 below.

(13) In the light of the Commission's in-depth review and this assessment, the Council has examined the National Reform Programme and the Stability Programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendations 2 and 3 below.

(14) In the context of the European Semester the Commission has also carried out an analysis of the economic policy of the euro area as a whole. On the basis of this analysis, the Council has issued specific recommendations for the Member States whose currency is the euro. Finland should also ensure the full and timely implementation of these recommendations,

HEREBY RECOMMENDS that Finland take action in 2015 and 2016 to:

1. Ensure that the excessive deficit is brought below 3% of GDP in a timely and durable manner by [XX] in line with Finland's obligations under Article 126 TFEU. Continue efforts to reduce the fiscal sustainability gap and strengthen conditions for growth.

2. Adopt the agreed pension reform and gradually eliminate early exit pathways. Ensure effective design and implementation of the administrative reforms concerning municipal structure and social and healthcare services, with a view to increasing productivity and cost-effectiveness in the provision of public services, while ensuring their quality.

3. Pursue efforts to improve the employability of young people, older workers and the long-term unemployed, focusing particularly on developing job-relevant skills. Ensure, in consultation with the social partners and in accordance with national practices, that wages evolve in line with productivity.

4. Take measures to open the retail sector to effective competition.

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[10] Under Article 5(2) of Council Regulation (EC) No 1466/97.

Done at Brussels,

For the Council
The President