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| From: | General Secretariat of the Council |
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| Subject: | COUNCIL RECOMMENDATION on the 2023 National Reform Programme of Finland and delivering a Council opinion on the 2023 Stability Programme of Finland |

Delegations will find attached the above-mentioned draft Council Recommendation, as discussed by the Council and European Council, based on the Commission Recommendation COM(2023) 626 final.

**COUNCIL RECOMMENDATION**

**of …**

**on the 2023 National Reform Programme of Finland and delivering a Council opinion on the 2023 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 Article 121(2) and Article 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 the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

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:

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[1] OJ L 209, 2.8.1997, p. 1.

(1) Regulation (EU) 2021/241 of the European Parliament and of the Council[2], which established the Recovery and Resilience Facility ('the Facility'), entered into force on 19 February 2021. The Facility provides financial support to the Member States for the implementation of reforms and investment, entailing a fiscal impulse financed by the Union. In line with the priorities of the European Semester, the Facility contributes to economic and inclusive recovery and to the implementation of sustainable and growth-enhancing reforms and investments, in particular reforms and investments to promote the green and digital transitions and to make the Member States' economies more resilient. It also helps strengthen public finances and boost growth and job creation in the medium and long term, improve territorial cohesion within the Union and support the continued implementation of the European Pillar of Social Rights. The maximum financial contribution per Member State under the Facility was updated on 30 June 2022 in accordance with Article 11(2) of Regulation (EU) 2021/241.

[2] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

(2) On 22 November 2022, the Commission adopted the 2023 Annual Sustainable Growth Survey, marking the start of the 2023 European Semester for economic policy coordination. On 23 March 2023, the European Council endorsed the priorities of the 2023 Annual Sustainable Growth Survey, which are centred around the four dimensions of competitive sustainability. On 22 November 2022, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council[3], the Commission also adopted the 2023 Alert Mechanism Report, in which it did not identify Finland as one of the Member States that may be affected or may be at risk of being affected by imbalances. As such, an in-depth review would not be needed. On the same date, the Commission also adopted an opinion on Finland's 2023 draft budgetary plan. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area and a proposal for the 2023 Joint Employment Report, which analyses the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights. The Council adopted the Recommendation on the economic policy of the euro area[4] ('2023 Recommendation on the euro area') on 16 May 2023 and the Joint Employment Report on 13 March 2023.

(3) While the Union's economies are showing remarkable resilience, the geopolitical context continues to have a negative impact. As the Union stands firmly with Ukraine, the Union's economic and social policy agenda is focused on reducing the negative impact of energy shocks on both vulnerable households and firms in the short term, and on keeping up efforts to deliver on the green and digital transitions, support sustainable and inclusive growth, safeguard macroeconomic stability and increase resilience in the medium term. It also focuses heavily on increasing the Union's competitiveness and productivity.

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3 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 (OJ L 306, 23.11.2011, p. 25).

4 Council Recommendation of 16 May 2023 on the economic policy of the euro area (OJ C 180, 23.5.2023, p. 1).

(4) On 1 February 2023, the Commission issued a communication entitled 'A Green Deal Industrial Plan for the Net-Zero Age'('the Green Deal Industrial Plan'). The aim of the Green Deal Industrial Plan is to boost the competitiveness of the Union's net-zero industry and support the fast transition to climate neutrality. It complements ongoing efforts under the European Green Deal and REPowerEU. It also aims to provide a more supportive environment for scaling up the Union's manufacturing capacity for the net-zero technologies and products required to meet the Union's ambitious climate targets, and to ensure access to relevant critical raw materials, including by diversifying sourcing, properly exploiting geological resources in Member States and maximising the recycling of raw materials. The Green Deal Industrial Plan is based on four pillars: a predictable and simplified regulatory environment, faster access to finance, the enhancement of skills, and open trade for resilient supply chains. On 16 March 2023, the Commission issued a further communication entitled 'Long-term competitiveness of the EU: looking beyond 2030', structured along nine mutually reinforcing drivers with the objective of working towards a growth-enhancing regulatory framework. It sets policy priorities aimed at actively ensuring structural improvements, well-focused investment and regulatory measures for the long-term competitiveness of the Union and its Member States. The recommendations below help address those priorities.

(5) In 2023, the European Semester for economic policy coordination continues to evolve in line with the implementation of the Facility. The full implementation of the recovery and resilience plans remains essential for delivering the policy priorities under the European Semester, as the plans address all or a significant subset of the relevant country-specific recommendations issued in recent years. The 2019, 2020 and 2022 country-specific recommendations remain equally relevant for the recovery and resilience plans revised, updated or amended in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241.

(6) Regulation (EU) 2023/435 of the European Parliament and of the Council[5] (the 'REPowerEU Regulation'), which was adopted on 27 February 2023 aims to rapidly phase out the Union's dependence on Russian fossil-fuel imports. This will contribute to energy security and the diversification of the Union's energy supply, while increasing the uptake of renewables, energy storage capacities and energy efficiency. The REPowerEU Regulation enables Member States to add a new REPowerEU chapter to their national recovery and resilience plans in order to finance key reforms and investments that will help achieve the REPowerEU objectives. Those reforms and investments will also help boost the competitiveness of the Union's net-zero industry as outlined in the Green Deal Industrial Plan and address the energy-related country-specific recommendations issued to the Member States in 2022 and, where applicable, in 2023. The REPowerEU Regulation introduces a new category of non-repayable financial support, made available to Member States in order to finance new energy-related reforms and investments under their recovery and resilience plans.

[5] Regulation (EU) 2023/435 of the European Parliament and of the Council of 27 February 2023 amending Regulation (EU) 2021/241 as regards REPowerEU chapters in recovery and resilience plans and amending Regulations (EU) No 1303/2013, (EU) 2021/1060 and (EU) 2021/1755, and Directive 2003/87/EC (OJ L 63, 28.2.2023, p. 1).

(7) On 8 March 2023, the Commission adopted a communication providing fiscal policy guidance for 2024 ('the communication of 8 March 2023'). It aims to support the preparation of Member States' stability and convergence programmes and thereby strengthen policy coordination. The Commission recalled that the general escape clause of the Stability and Growth Pact will be deactivated at the end of 2023. It called for fiscal policies in 2023–2024 that ensure medium-term debt sustainability and raise potential growth in a sustainable manner and invited Member States to set out in their 2023 stability and convergence programmes how their fiscal plans will ensure that the Treaty reference value of 3 % of gross domestic product (GDP) is adhered to and ensure plausible and continuous debt reduction, or for debt to be kept at prudent levels, in the medium term. The Commission also invited Member States to phase out national fiscal measures introduced to protect households and firms from the energy price shock, starting with the least targeted ones. It indicated that, if support measures needed to be extended because of renewed energy price pressures, Member States should better target such measures at vulnerable households and firms. The Commission stated that the fiscal recommendations would be quantified and differentiated. Moreover, as proposed in its communication of 9 November 2022 on orientations for a reform of the EU economic governance framework, the fiscal recommendations would be formulated on the basis of net primary expenditure. It recommended that all Member States continue to protect nationally financed investment and ensure the effective use of the Facility and other Union funds, in particular in light of the green and digital transitions and resilience objectives. The Commission indicated that it will propose to the Council to open deficit-based excessive-deficit procedures in spring 2024 on the basis of the outturn data for 2023, in line with existing legal provisions.

(8) On 26 April 2023, the Commission presented legislative proposals to implement a comprehensive reform of the Union's economic governance rules. The central objective of the proposals is to strengthen public debt sustainability and promote sustainable and inclusive growth in all Member States through reforms and investments. In its proposals, the Commission aims to improve national ownership, simplify the framework and move towards a greater medium-term focus, in combination with effective and more coherent enforcement. According to the Council conclusions of 14 March 2023 on orientations for a reform of the EU economic governance framework, the objective is to conclude the legislative work in 2023.

(9) On 27 May 2021, Finland submitted its national recovery and resilience plan to the Commission, in accordance with Article 18(1) of Regulation (EU) 2021/241. Pursuant to Article 19 of Regulation (EU) 2021/241, the Commission assessed the relevance, effectiveness, efficiency and coherence of the recovery and resilience plan, in accordance with the assessment guidelines set out in Annex V to that Regulation. On 29 October 2021, the Council adopted its Implementing Decision on the approval of the assessment of the recovery and resilience plan for Finland[6]. The release of instalments is conditional on the adoption of a decision by the Commission, in accordance with Article 24(5) of Regulation (EU) 2021/241, stating that Finland has satisfactorily fulfilled the relevant milestones and targets set out in the Council Implementing Decision. Satisfactory fulfilment presupposes that the achievement of preceding milestones and targets has not been reversed.

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6 ST 12524/2021; ST 12524/2021 ADD 1.

(10) On 23 March 2023, Finland submitted its 2023 National Reform Programme and Stability Programme, in line with Article 4(1) of Regulation (EC) No 1466/97. To take account of their interlinkages, the two programmes have been assessed together. In accordance with Article 27 of Regulation (EU) 2021/241, the 2023 National Reform Programme also reflects Finland's biannual reporting on the progress made in achieving its recovery and resilience plan.

(11) On 24 May 2023, the Commission published the 2023 country report for Finland. It assessed Finland's progress in addressing the relevant country-specific recommendations adopted by the Council between 2019 and 2022, and took stock of Finland's implementation of the recovery and resilience plan. On the basis of that analysis, the country report identified gaps with regard to those challenges that are not addressed or only partially addressed by the recovery and resilience plan, as well as new and emerging challenges. It also assessed Finland's progress in implementing the European Pillar of Social Rights and in achieving the Union headline targets on employment, skills and poverty reduction, as well as progress in achieving the  United Nations Sustainable Development Goals.

(12) According to data validated by Eurostat, Finland's general government deficit decreased from 2,8 % of GDP in 2021 to 0,9 % in 2022, while general government debt rose from 72,6 % of GDP at the end of 2021 to 73,0 % at the end of 2022. On 24 May 2023, the Commission issued a report under Article 126(3) of the Treaty. That report discussed the budgetary situation of Finland, as its general government debt in 2022 exceeded the 60 %-of-GDP Treaty reference value and did not respect the debt reduction benchmark. The report concluded that the debt criterion was not fulfilled. In line with the communication of 8 March 2023, the Commission did not propose to open new excessive deficit procedures in spring 2023. The Commission subsequently stated that it would propose to the Council to open deficit-based excessive deficit procedures in spring 2024, on the basis of the outturn data for 2023. Finland should take account of this in the execution of its 2023 budget and in preparing its draft budgetary plan for 2024.

(13) The general government balance has been impacted by the fiscal policy measures taken to mitigate the economic and social impact of the increase in energy prices. In 2022, such fiscal policy revenue-decreasing measures included a temporary increase of deductible commuting expenses and an increase in household tax deductions on heating system renovations, while such fiscal policy expenditure-increasing measures included an index increase in social benefits and the payment of additional child benefits, aiming to improve the purchasing power of low-income households and address the inflation-induced costs. The Commission estimates the net budgetary cost of those measures at 0,1 % of GDP in 2022. The general government balance has also been impacted by the budgetary cost of offering temporary protection to displaced persons from Ukraine, which is estimated at 0,1 % of GDP in 2022. At the same time, the estimated cost of temporary emergency measures related to the COVID-19 crisis dropped to 0,2 % of GDP in 2022, from 2,0 % in 2021.

(14) On 18 June 2021, the Council recommended that in 2022 Finland[7] maintain a supportive fiscal stance, including from the impulse provided by the Facility, and preserve nationally financed investment.

[7] Council Recommendation of 18 June 2021 delivering a Council opinion on the 2021 Stability Programme of Finland (OJ C 304, 29.7.2021, p. 126).

(15) According to the Commission estimates, the fiscal stance[8] in 2022 was broadly neutral, at -0,1 % of GDP, as recommended by the Council. As recommended by the Council, Finland continued to support the recovery with investments to be financed by the Facility. Expenditure financed by grants under the Facility and other Union funds amounted to 0,3 % of GDP in 2022 (0,2 % of GDP in 2021). Nationally financed investment provided a neutral contribution of 0,0 percentage points to the fiscal stance[9]. Finland therefore preserved nationally financed investment, as recommended by the Council. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) provided a broadly neutral contribution of 0,1 percentage points to the fiscal stance. Finland therefore kept the growth in nationally financed current expenditure sufficiently under control.

(16) The macroeconomic scenario underpinning the budgetary projections in the 2023 Stability Programme is in line with the Commission's 2023 spring forecast for both 2023 and 2024. The government projects real GDP to slightly contract by 0,2 % in 2023 and then to grow by 1,3 % in 2024. By comparison, the Commission's 2023 spring forecast projects a positive real GDP growth of 0,2 % in 2023 and 1,4 % in 2024. Both sets of forecasts project net exports to be the main growth driver in 2023, while in 2024 a more broad-based improvement in economic performance is anticipated as domestic demand is set to recover as well.

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8 The fiscal stance is measured as the change in primary expenditure (net of discretionary revenue measures), excluding temporary emergency measures related to the COVID-19 crisis but including expenditure financed by non-repayable support (grants) from the Facility and other Union funds, relative to medium-term potential growth. For more details see Box 1 in the Fiscal Statistical Tables.

9 Other nationally financed capital expenditure provided an expansionary contribution of 0,2 percentage points of GDP.

(17) In its 2023 Stability Programme, the government expects that the general government deficit will increase to 2,6 % of GDP in 2023. The increase in 2023 mainly reflects the indexation of social benefits, central government funding to local authorities, higher interest expenses, as well as additional defence spending and investments related to research and development (R&D). According to the 2023 Stability Programme, the general government debt-to-GDP ratio is expected to increase from 73,0 % at the end of 2022 to 74,4 % at the end of 2023. The Commission's 2023 spring forecast projects a government deficit of 2,6 % of GDP for 2023. This is in line with the deficit projected in the 2023 Stability Programme. The Commission's 2023 spring forecast projects a lower general government debt-to-GDP ratio of 73,9 % at the end of 2023. The difference is due to a slightly higher deflator assumed by the Commission's 2023 spring forecast.

(18) The general government balance in 2023 is expected to continue to be impacted by the fiscal measures taken to mitigate the economic and social impact of the increase in energy prices. They consist of measures extended from 2022 (in particular: additional temporary increases of deductible commuting expenses and household tax deductions on heating system renovations) and new measures such as temporary reimbursements on electricity bills and tax credits on electricity, as well as a temporary reduction of the value added tax (VAT) rate on electricity and passenger transport. The cost of those measures is partly offset by taxes on windfall profits of energy suppliers, namely a temporary profit tax for electricity companies. The net budgetary cost of the support measures is projected in the Commission's 2023 spring forecast at 0,3 % of GDP in 2023[10]. Most measures in 2023 do not appear to be targeted at the most vulnerable households or firms, and do not fully preserve the price signal to reduce energy demand and increase energy efficiency. As a result, the amount of targeted support measures, to be taken into account in the assessment of compliance with the Council Recommendation of 12 July 2022[11], is estimated in the Commission's 2023 spring forecast at 0,1 % of GDP in 2023 (compared to 0,0 % of GDP in 2022). The budgetary cost of temporary protection offered to displaced persons from Ukraine is projected to increase by 0,2 percentage points of GDP compared to 2022.

10 The figure represents the level of annual budgetary cost of those measures, including current revenue and expenditure as well as – where relevant – capital expenditure measures.

11 Council Recommendation of 12 July 2022 on the National Reform Programme of Finland and delivering a Council opinion on the 2022 Stability Programme of Finland (OJ C 334, 1.9.2022, p. 213).

(19) In its Recommendation of 12 July 2022, the Council recommended that Finland take action to ensure in 2023 that the growth of nationally financed primary current expenditure is in line with an overall neutral policy stance[12], taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Finland should stand ready to adjust current spending to the evolving situation. Finland was also recommended to expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Facility and other Union funds.

[12] Based on the Commission's spring 2023 forecast, potential output growth of Finland, which is used to measure the fiscal stance, in the medium-term (10-year average), is estimated at 5,6 % in nominal terms.

(20) In 2023, the fiscal stance is projected in the Commission's 2023 spring forecast to be expansionary (-1,0 % of GDP), in a context of high inflation. This follows a broadly neutral in 2022 (-0,1 % of GDP). The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 is projected to provide an expansionary contribution of 0,6 % of GDP to the fiscal stance. This includes the broadly stable costs of the targeted support measures to households and firms most vulnerable to energy price hikes. This also includes the higher cost of offering temporary protection to displaced persons from Ukraine (increased by 0,2 % of GDP). The expansionary contribution of nationally financed net primary current expenditure is therefore only partly due to the targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. The expansionary growth in nationally financed primary current expenditure (net of discretionary revenue measures) is also driven by the indexation of social benefits, central government funding to local authorities, as well as additional defence spending and R&D-related investments. In sum, the projected growth of nationally financed primary current expenditure is not in line with the Council Recommendation of 12 July 2022. Expenditure financed by grants under the Facility and other Union funds amounted to 0,4 % of GDP in 2023, while nationally financed investment provided an expansionary contribution to the fiscal stance of 0,4 percentage points[13]. Therefore, Finland plans to finance additional investment through the Facility and it is projected to preserve nationally financed investment. It plans to finance public investment for the green and digital transitions, and for energy security, such as subsidies for the replacement of fossil oil boilers and electric vehicle charging points, and electricity networks, and the Digirail project aiming to renew the train control system, the Virtual Finland portal to facilitate labour-based immigration and the real-time economy (RTE) project aiming to digitise business transactions, which are partly funded by the Facility and other Union funds.

13 Other nationally financed capital expenditure is projected to provide a neutral contribution of 0,0 percentage points of GDP.

(21) According to the 2023 Stability Programme the general government deficit is expected to remain at 2,6 % of GDP in 2024. Tax revenue growth is expected to slow down while interest expenses are expected to be higher. According to the 2023 Stability Programme the general government debt-to-GDP ratio is expected to increase to 76,9 % at the end of 2024. On the basis of the policy measures known at the cut-off date of the forecast, the Commission's 2023 spring forecast projects a government deficit of 2,6 % of GDP in 2024. This is in line with the deficit projected in the 2023 Stability Programme. The Commission's 2023 spring forecast projects a lower general government debt-to-GDP ratio of 76,2 % at the end of 2024.

(22) The 2023 Stability Programme envisages the phasing-out of all of the energy support measures in 2024. The Commission currently assumes full phasing-out of energy support measures in 2024. This is based on the assumption of no renewed energy price increases.

(23) Regulation (EC) No 1466/97 calls for an annual improvement in the structural budget balance toward the medium-term budgetary objective, with 0,5 % of GDP as a benchmark[14]. Taking into account fiscal sustainability considerations, an improvement in the structural balance of at least 0,3 % of GDP for 2024 would be appropriate, according to the Commission. To ensure such an improvement, and in accordance with the Commission's methodology, the growth in net nationally financed primary expenditure[15] in 2024 should not exceed 2,2 %, as reflected in this Recommendation. At the same time, the remaining energy support measures (currently estimated by the Commission at 0,3 % of GDP in 2023) should be phased out, if energy-market developments so permit and starting with the least targeted measures, and the related savings should be used to reduce the government deficit. According to the Commission's 2023 spring forecast, the growth in net nationally-financed primary current expenditure in 2023 is not in line with the Council Recommendation of 12 July 2022. If this is confirmed, lower growth in net primary expenditure in 2024 would be appropriate.

(24) Assuming unchanged policies, the Commission's 2023 spring forecast projects net nationally financed primary expenditure to grow at 2,8 % in 2024, which is above the recommended growth rate.

(25) According to the 2023 Stability Programme, government investment is expected to remain at 4,5 % of GDP in 2023 and 2024. This reflects nationally financed investment and investment financed by the Union, namely through the Facility. The 2023 Stability Programme refers to reforms and investments that are expected to contribute to fiscal sustainability and sustainable and inclusive growth. Those reforms and investments include the health and social services reform, which is also part of the recovery and resilience plan, although estimates on future savings to be derived from the reform are still uncertain.

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[14] Article 5 of Regulation (EC) No 1466/97 also requires an adjustment of more than 0,5 % of GDP for Member States with a government debt exceeding 60 % of GDP, or with more pronounced debt sustainability risks.

[15] Net primary expenditure is defined as nationally financed expenditure net of discretionary revenue measures and excluding interest expenditure and cyclical unemployment expenditure.

(26) The 2023 Stability Programme outlines a medium-term fiscal path until 2027. According to the 2023 Stability Programme, the general government deficit is expected to increase to 3,1 % of GDP in 2025 and to subsequently slightly decline to 2,9 % by 2026. Therefore, the general government deficit is planned to be below 3 % of GDP in 2026. According to the 2023 Stability Programme, the general government debt-to-GDP ratio is expected to increase from 76,9 % at the end of 2024 to 80,7 % by the end of 2026.

(27) Finland has an effective and inclusive social welfare system with a high level of social protection, but it is complex and includes some incentive traps. In 2020, a dedicated parliamentary committee was tasked with designing a reform of the social security system by 2027. In January 2022, the committee published the results of its problem mapping work and, in March 2023, it presented its interim report, which contained 31 proposals for studies, legislative drafting and development projects for future governments. The next steps would include initiating legislative work for streamlining the social welfare system and for increasing incentives to work, while preserving social protection and raising the employment rate. The continuation of the work to reform the social security system is important for supporting the long-term sustainability of public finances.

(28) In accordance with Article 19(3), point (b), of Regulation (EU) 2021/241 and criterion 2.2 of Annex V to that Regulation, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments to be implemented by 2026. The implementation of Finland's recovery and resilience plan is underway. Still, the operational arrangements between the Commission and Finland have not yet been signed. This step is necessary for the submission of the first payment request under the recovery and resilience plan and to allow Finland to catch up with the agreed payment request schedule. Finland submitted an amendment of its recovery and resilience plan in January 2023, which was approved by the Council on 14 March 2023. This amendment was done in the context of the update of the maximum financial contribution available for Member States from the Facility and consisted in reducing funding proportionally across the four pillars of the plan. To cater for the funding under REPowerEU chapter, another amendment to the recovery and resilience plan is planned in 2023. The swift inclusion of the new REPowerEU chapter in the recovery and resilience plan will allow additional reforms and investments to be financed in support of Finland's strategic objectives in the field of energy and the green transition. The systematic and effective involvement of local and regional authorities, social partners and other relevant stakeholders remains important for the successful implementation of the recovery and resilience plan, as well as other economic and employment policies going beyond that plan, in order to ensure broad ownership of the overall policy agenda.

(29) The Commission approved all Finland's cohesion policy programming documents in 2022. Proceeding with the swift implementation of the cohesion policy programmes in complementarity and synergy with the recovery and resilience plan, including the REPowerEU chapter, is key to achieving the green and digital transition, increasing economic and social resilience, and achieving balanced territorial development in Finland.

(30) Beyond the economic and social challenges addressed by the recovery and resilience plan and cohesion policy programmes, Finland faces a number of additional challenges related to skills shortages, education and training policies, energy policy and the green transition.

(31) While the Finnish labour market performed strongly in 2022, the number of open vacancies has increased rapidly, reflecting skills mismatches and labour shortages across different sectors, in particular services, construction, information and communication technologies, education, healthcare and social care. The supply of skilled labour is constrained by the relatively low number of higher education graduates in the study fields that are most in demand in the labour market, as well as a relatively low level of labour immigration. At the same time, tertiary educational attainment for people aged 25 to 34 is below the Union average. Labour and skills shortages pose challenges to Finland's competitiveness and long-term growth, and will be further aggravated by population ageing, relatively low regional labour mobility and the increased demand for new skills in the context of the green and digital transitions.

(32) Finland's new Climate Act entered into force on 1 July 2022, anchoring in national law Finland's objective to become the first fossil-free welfare society by 2035, as well as setting climate targets for 2030, 2040 and 2050. However, the Finnish economy is still among the most energy-intensive in the Union. Energy, industry, transport and buildings are the main sectors that will need to contribute to major reductions in greenhouse gas emissions.
In 2021, renewable energy sources made up a significant part of Finland's energy mix, reaching 43 %, followed by oil at 24 %, nuclear at 17 % and coal at 9 %. Russia remains an important source of nuclear fuel. Finland's consumption of natural gas dropped by 56 % in the period between August 2022 and March 2023, compared to the average gas consumption over the same period in the preceding five years, beyond the 15 % reduction target. Finland could keep pursuing efforts to temporarily reduce gas demand until 31 March 2024 in accordance with Council Regulation (EU) 2022/1369[16].

(33) Challenges to achieve long-term climate objectives include a significant private and public investment gap in the main emitting sectors as well as delays in the deployment of renewable energy investment, caused by a backlog of environmental permit applications in need of processing. Further streamlining of permitting procedures is needed to clear the backlog of pending energy projects and facilitate additional priority investment.

(34) High energy prices and ambitious climate targets require faster and higher investment in decarbonisation. Despite faster-than-anticipated growth in electric vehicle sales, the necessary investment in the further roll-out, particularly the electrification of heavy-duty vehicles, is unlikely to happen on market terms due to the long distances and sparsely populated areas that characterise Finland. Approximately 40 % of the rail network is still not electrified.

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16 Council Regulation (EU) 2022/1369 of 5 August 2022 on coordinated demand-reduction measures for gas (OJ L 206, 8.8.2022, p. 1).

(35) To improve security of supply, Finland's national transmission of electricity could be strengthened. Renewable energy is increasingly produced far from the centres of consumption. While Finland has acted decisively to reduce its dependence on Russian imports of oil, coal and gas, one of the two nuclear power plants in Finland remains entirely dependent on Russian fuel. Strong interconnections between Finland and neighbouring countries are needed to ensure a well-functioning electricity market in the whole region and increase the projected contribution of renewable energy to the energy mix.

(36) Labour and skills shortages in sectors and occupations key for the green transition, including manufacturing, deployment and maintenance of net-zero technologies, are creating bottlenecks in the transition to a net-zero economy. In 2022, labour shortages were reported in Finland for 37 occupations that require specific skills or knowledge for the green transition, including insulation workers, civil engineers, and plumbers and pipe fitters. High-quality education and training systems that respond to changing labour market needs and targeted upskilling and reskilling measures are key to reducing skills shortages and promoting labour inclusion and reallocation. To unlock untapped labour supply, these measures need to be accessible, in particular for individuals and in sectors and regions most affected by the green transition.

(37) In the light of the Commission's assessment, the Council has examined the 2023 Stability Programme and its opinion[17] is reflected in recommendation (1).

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

(38) In view of the close interlinkages between the economies of euro-area Member States and their collective contribution to the functioning of the economic and monetary union, the Council recommended that the euro-area Member States take action, including through their recovery and resilience plans, to (i) preserve debt sustainability and refrain from broad-based support to aggregate demand in 2023, better target fiscal measures taken to mitigate the impact of high energy prices and reflect on appropriate ways to wind down support as energy price pressures diminish; (ii) sustain a high level of public investment and promote private investments to support the green and digital transition; (iii) support wage developments that mitigate the loss in purchasing power while limiting second-round effects on inflation, further improve active labour-market policies and address skills shortages; (iv) improve the business environment and ensure that energy support to companies is cost-effective, temporary and targeted to viable firms and that it maintains incentives for the green transition; and (v) preserve macro-financial stability and monitor risks while continuing to work on completing the banking union. For Finland, recommendations (1), (2), (3) and (4) contribute to the implementation of the first, second, and third recommendations set out in the 2023 Recommendation on the euro area,

HEREBY RECOMMENDS that Finland take action in 2023 and 2024 to:

1. Wind down the emergency energy support measures in force, using the related savings to reduce the government deficit, as soon as possible in 2023 and 2024. Should renewed energy price increases necessitate new or continued support measures, ensure that such support measures are targeted at protecting vulnerable households and firms, are fiscally affordable, and preserve incentives for energy savings.

   Ensure prudent fiscal policy, in particular by limiting the nominal increase in nationally financed net primary expenditure in 2024 to not more than 2,2 %[18].

   Preserve nationally financed public investment and ensure the effective absorption of grants under the Facility and of other Union funds, in particular to foster the green and digital transitions.

   For the period beyond 2024, continue to pursue a medium-term fiscal strategy of gradual and sustainable consolidation, combined with investments and reforms conducive to higher sustainable growth, in order to achieve a prudent medium-term fiscal position.

   Pursue the reform of the social security system in order to increase the efficiency of the social benefits system, which would improve incentives to work and also support the long-term sustainability of public finances.

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[18] Which is estimated to correspond to an annual improvement in the structural budget balance of at least 0,3 % of GDP for 2024, as described in recital 23.

2. Proceed with the steady implementation of its revised recovery and resilience plan and swiftly finalise the REPowerEU chapter with a view to rapidly starting the implementation thereof. Proceed with the swift implementation of cohesion policy programmes, in close complementarity and synergy with the recovery and resilience plan.

3. Address labour and skills shortages by reskilling and upskilling the workforce and widening the higher education offer, in particular for the study fields most in demand in the labour market.

4. Reduce overall reliance on fossil fuels by accelerating the deployment of renewables, including by further speeding up permitting procedures, and boost public and private investment in the decarbonisation of industry and transport, including through electrification. Develop energy infrastructure to increase security of supply by strengthening the transmission of electricity. Step up policy efforts aimed at the provision and acquisition of skills and competences needed for the green transition.

Done at Brussels,

*For the Council*
*The President*