Council of the European Union

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NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
No. prev. doc.:	11718/24
Subject:	COUNCIL RECOMMENDATION on economic, budgetary, employment and structural policies of Finland

Delegations will find attached the above-mentioned draft Council Recommendation, as approved by the Council and revised by legal-linguistic experts, based on the Commission Recommendation COM(2024) 626 final.

COUNCIL RECOMMENDATION

of …

on economic, budgetary, employment and structural policies 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 Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97[1], and in particular Article 3(3) 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,

[1] OJ L 2024/1263, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj.

Whereas:

(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 investments, entailing a fiscal impulse financed by the Union. In line with the priorities of the European Semester for economic policy coordination, the Facility helps achieve the economic and social recovery and implement sustainable reforms and investments, in particular reforms and investments, to promote the green and digital transitions and 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.

(2) Regulation (EU) 2023/435 of the European Parliament and of the Council[3] ('the REPowerEU Regulation'), which was adopted on 27 February 2023, aims to phase out the Union's dependence on Russian fossil-fuel imports. This would help achieve energy security and diversify the Union's energy supply, while increasing the uptake of renewables, energy storage capacities and energy efficiency. Finland added a new REPowerEU chapter to its national recovery and resilience plan in order to finance key reforms and investments that will help achieve the REPowerEU objectives.

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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, ELI: http://data.europa.eu/eli/reg/2021/241/oj).

3 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, ELI: http://data.europa.eu/eli/reg/2023/435/oj).

(3) On 16 March 2023, the Commission issued a communication entitled 'Long-term competitiveness of the EU: looking beyond 2030', in order to inform policy decisions and create the framework conditions for increasing growth. The communication frames competitiveness in terms of nine mutually reinforcing drivers. Among those drivers, access to private capital, research and innovation, education and skills, and a functioning single market emerge as paramount policy priorities for reform and investment to address current productivity challenges as well as to build up the long-term competitiveness of the Union and its Member States. On 14 February 2024, the Commission issued a communication entitled ‘The 2024 Annual Single Market and Competitiveness Report’. That communication details the competitive strengths and challenges of the European single market, tracking yearly developments according to the nine competitiveness drivers identified.

(4) On 21 November 2023, the Commission adopted the 2024 Annual Sustainable Growth Survey, marking the start of the 2024 European Semester. On 22 March 2024, the European Council endorsed the priorities of the 2024 Annual Sustainable Growth Survey, which are centred around the four dimensions of competitive sustainability. On 21 November 2023, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council[4], the Commission also adopted the 2024 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 and for which an in-depth review would be needed. On the same date, the Commission adopted an opinion on the 2024 draft budgetary plan of Finland. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area and a proposal for the 2024 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[5] (‘the 2024 Recommendation on the euro area’) on 12 April 2024 and the Joint Employment Report on 11 March 2024.

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4 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, ELI: http://data.europa.eu/eli/reg/2011/1176/oj).

5 Council Recommendation of 12 April 2024 on the economic policy of the euro area (OJ C, C/2024/2807, 23.4.2024, ELI: http://data.europa.eu/eli/C/2024/2807/oj).

(5) On 30 April 2024, the Union's new economic governance framework entered into force. The framework includes the new Regulation (EU) 2024/1263 on the effective coordination of economic policies and multilateral budgetary surveillance, the amended Council Regulation (EC) No 1467/97[6] on speeding up and clarifying the implementation of the excessive deficit procedure and the amended Council Directive 2011/85/EU[7] on requirements for the budgetary frameworks of Member States. The objectives of the new economic governance framework are to promote sound and sustainable public finances, sustainable and inclusive growth and resilience through reforms and investments, and prevent excessive government deficits. The new economic governance framework also promotes national ownership and has a greater medium-term focus, combined with more effective and coherent enforcement. Each Member State has to submit to the Council and to the Commission a national medium-term fiscal-structural plan. A national medium-term fiscal-structural plan contains the fiscal, reform and investment commitments of a Member State, covering a planning horizon of 4 or 5 years, depending on the regular length of the national legislative term. The net expenditure[8] path in the national medium-term fiscal-structural plans has to comply with the requirements of Regulation (EU) 2024/1263, including the requirements to put or keep general government debt on a plausibly downward path by the end of the adjustment period, or for it to remain at prudent levels below 60 % of gross domestic product (GDP), and to bring and/or maintain the general government deficit below the 3-%-of-GDP Treaty reference value over the medium term. Where a Member State commits to a relevant set of reforms and investments in accordance with the criteria set out in Regulation (EU) 2024/1263, the adjustment period can be extended by up to 3 years. For the purpose of supporting the preparation of those national medium-term fiscal-structural plans, on 21 June 2024, the Commission published guidance on the information to be provided by Member

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6 Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, p. 6, ELI: http://data.europa.eu/eli/reg/1997/1467/oj).

7 Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States (OJ L 306, 23.11.2011, p. 41, ELI: http://data.europa.eu/eli/dir/2011/85/oj).

8 Net expenditure as defined in Article 2, point (2), of Regulation (EU) 2024/1263 : ‘net expenditure’ means government expenditure net of (i) interest expenditure, (ii) discretionary revenue measures, (iii) expenditure on programmes of the Union fully matched by revenue from Union funds, (iv) national expenditure on co-financing of programmes funded by the Union, (v) cyclical elements of unemployment benefit expenditure, and (vi) one-offs and other temporary measures.

States in their national medium-term fiscal-structural plans and in their annual progress reports. In accordance with Articles 5 and 36 of Regulation (EU) 2024/1263, the Commission transmitted to the Member States reference trajectories and technical information, where applicable. Member States have to submit their national medium-term fiscal-structural plans by 20 September 2024, unless the Member State and the Commission agree to extend the deadline by a reasonable period of time. In accordance with their national legal frameworks, Member States may debate their draft medium-term plans with their national parliaments, may ask the independent fiscal institutions to issue an opinion, and may conduct a consultation of social partners and other national stakeholders.

(6) In 2024, the European Semester 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 help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations issued in recent years. The 2019, 2020, 2022 and 2023 country-specific recommendations remain equally relevant for the recovery and resilience plans which have been revised, updated or amended in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241.

(7) 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[9], which was amended on 14 March 2023 pursuant to Article 18(2) of Regulation (EU) 2021/241 to update the maximum financial contribution for non-repayable financial support[10], as well as on 8 December 2023 to include the REPowerEU chapter[11]. 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.

(8) On 25 April 2024, Finland submitted its 2024 National Reform Programme and its 2024 Stability Programme, in line with Article 4(1) of Council Regulation (EC) No 1466/97[12]. In accordance with Article 27 of Regulation (EU) 2021/241, the 2024 National Reform Programme also reflects Finland's biannual reporting on the progress made in achieving its recovery and resilience plan.

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[9] ST 12524/21; ST 12524/21 ADD 1.

[10] Council Implementing Decision of 14 March 2023 amending the Council Implementing Decision of 29 October 2021 on the approval of the assessment of the recovery and resilience plan for Finland (ST 6991/23 INIT; ST 6991/23 ADD 1).

[11] Council Implementing Decision of 8 December 2023 amending the Implementing Decision of 29 October 2021 on the approval of the assessment of the recovery and resilience plan for Finland (ST 15836/23; ST 15836/23 ADD 1).

[12] 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 (OJ L 209, 2.8.1997, p. 1, ELI: http://data.europa.eu/eli/reg/1997/1466/oj).

(9) On 19 June 2024, the Commission published the 2024 country report for Finland. It assessed Finland's progress in addressing the relevant country-specific recommendations adopted by the Council between 2019 and 2023 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.

(10) According to data validated by Eurostat Finland's general government deficit increased from 0,4 % of GDP in 2022 to 2,7 % in 2023, while the general government debt rose from 73,5 % of GDP at the end of 2022 to 75,8 % at the end of 2023. As announced in the Commission's communication of 8 March 2023 entitled 'Fiscal policy guidance for 2024', the Commission is taking the first step for the opening of deficit-based excessive deficit procedures, in line with existing legal provisions. On 19 June 2024, the Commission issued a report under Article 126(3) of the Treaty. That report assessed the budgetary situation of Finland, as its planned general government deficit in 2024 exceeds the 3 %-of-GDP Treaty reference value. The report concluded that in light of that assessment, and after considering the opinion of the Economic and Financial Committee formulated pursuant to Article 126(4) of the Treaty, the Commission did not intend to propose to open an excessive deficit procedure for Finland in July 2024.

(11) On 12 July 2022, the Council recommended[13] that Finland take action to ensure in 2023 that the growth of nationally financed primary current expenditure is in line with an overall neutral fiscal policy stance[14] taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Finland was recommended to 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. In 2023, according to the Commission estimates, the fiscal stance[15] was expansionary, by 0,9 % of GDP, in a context of high inflation. The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 provided an expansionary contribution to the fiscal stance of 0,8 % of GDP. This includes the 0,2 %-of-GDP increase in the cost of offering temporary protection to displaced persons from Ukraine. The expansionary contribution of nationally financed net primary current expenditure in 2023 was therefore only partly due to people fleeing Ukraine. The expansionary growth in nationally financed primary current expenditure (net of discretionary revenue measures) was also driven by the continued and rapid rise in prices and costs – especially those of purchased services and personnel expenses in local government, as well as the rise in preparedness-related expenses that were taken in response to Russia's war of aggression against Ukraine. In sum, the growth of nationally financed primary current expenditure in 2023 was 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. Nationally financed investment amounted to 4,0 % of GDP in 2023, representing a decrease of 0,2 percentage

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13 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).

14 According to the Commission's 2024 spring forecast, the medium-term (10-year average) potential output growth of Finland in 2023 is estimated at 2,7 % in nominal terms, based on the 10-year average real potential growth rate and the 2023 GDP deflator.

15 The fiscal stance is defined as a measure of the annual change in the underlying budgetary position of the general government. It aims to assess the economic impulse stemming from fiscal policies, both those that are nationally financed and those that are financed by the Union budget. The fiscal stance is measured as the difference between (i) the medium-term potential growth and (ii) the change in primary expenditure net of discretionary revenue measures (and excluding temporary emergency measures related to the COVID-19 crisis) and including expenditure financed by non-repayable support (grants) under the Facility and other Union funds. A negative sign of the indicator indicates an expansionary fiscal policy, whereas a positive sign of the indicator indicates a contractionary fiscal policy.

points as compared to 2022. Finland financed additional investment through the Facility and other Union funds. Finland financed public investment for the green and digital transitions and for energy security, such as renewable energy infrastructure and low-emission hydrogen. That public investment is partly funded by the Facility and other Union funds.

(12) In the 2024 Stability Programme, the macroeconomic scenario underpinning the budgetary projections projects real GDP growth at 0 % in 2024 and 1,6 % in 2025, while projecting inflation measured by the harmonised index of consumer prices (HICP) at 1,3 % in 2024 and 1,9 % in 2025. The general government deficit is expected to increase to 3,4 % of GDP in 2024 and decline to 2,7 % of GDP in 2025, while the general government debt-to-GDP ratio is set to increase to 80,8 % by the end of 2024 and 82,3 % by the end of 2025. After 2025, the general government deficit is projected to decrease to 1,9 % of GDP in 2026. Therefore, the general government deficit is planned to go below the 3%-of-GDP Treaty reference value in 2025. In turn, after 2025, the general government debt ratio is projected to increase gradually to 82,4 % in 2026.

(13) The Commission's 2024 spring forecast projects real GDP to grow by 0,0 % in 2024 and 1,4 % in 2025, and inflation measured by HICP to stand at 1,4 % in 2024 and 2,1 % in 2025.

(14) The Commission's 2024 spring forecast projects a government deficit of 3,4 % of GDP in 2024, while the general government debt-to-GDP ratio is set to increase to 80,5 % by the end of 2024. The increase in the deficit in 2024 mainly reflects slow growth on the revenue side, in both taxes and social security contributions, and also reflects increases in expenditure, especially on social benefits and wages. According to the Commission's estimates, the fiscal stance is projected to be expansionary by 0,7 % of GDP in 2024.

(15) Expenditure amounting to 0,2 % of GDP is expected to be financed by non-repayable support ("grants") under the Facility in 2024, compared to 0,1 % of GDP in 2023, according to the Commission's 2024 spring forecast. Expenditure financed by grants under the Facility will enable high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance or debt of Finland.

(16) On 14 July 2023, the Council recommended[16] that Finland ensure a prudent fiscal policy, in particular by limiting the nominal increase in nationally financed net primary expenditure[17] in 2024 to not more than 2,2 %. When executing their 2023 budgets and preparing their draft budgetary plans for 2024, Member States were invited to take into account that the Commission would propose to the Council the opening of deficit-based excessive deficit procedures on the basis of the outturn data for 2023. According to the Commission's 2024 spring Forecast, Finland's net nationally financed primary expenditure is projected to increase by 4,0 % in 2024, which is above the recommended maximum growth rate. This excess spending over the recommended maximum growth rate in net nationally financed primary expenditure corresponds to 0,9 % of GDP in 2024. There is a risk that this will not be in line with what was recommended by the Council.

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16 Council Recommendation of 14 July 2023 on the 2023 National Reform Programme of Finland and delivering a Council opinion on the 2023 Stability Programme of Finland, (OJ C 312, 1.9.2023, p. 243).

17 Net primary expenditure is defined as nationally financed expenditure net of (i) discretionary revenue measures, (ii) interest expenditure, (iii) cyclical unemployment expenditure, and (iv) one-offs and other temporary measures.

(17) Moreover, the Council recommended that Finland take action to 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. The Council further recommended that, if renewed energy price increases necessitate new or continued support measures, Finland ensure that such support measures are targeted at protecting vulnerable households and firms, are fiscally affordable, and preserve incentives for energy savings. According to the Commission's 2024 spring forecast, the net budgetary cost[18] of emergency energy support measures is estimated at 0,2 % of GDP in 2023 and projected at 0,0 % of GDP in 2024 and 2025. If the related savings were used to reduce the government deficit, as recommended by the Council, those projections would imply a fiscal adjustment of 0,2 % of GDP in 2024, whereas net nationally financed primary expenditure[19] provides an expansionary contribution to the fiscal stance of 0,7 % of GDP in that year. The emergency energy support measures have been wound down in 2023 and 2024. This is in line with what was recommended by the Council. However, the related savings are not projected to be fully used to reduce the government deficit. There is a risk that this willnot be in line with the Council recommendation.

(18) In addition, the Council also recommended that Finland 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. According to the Commission's 2024 spring forecast, nationally financed public investment is projected to increase from 4,0 % of GDP in 2023 to 4,1 % of GDP in 2024. This is in line with what was recommended by the Council. In turn, public expenditure financed from revenues from Union funds, including grants under the Facility, is expected to remain stable at 0,4 % of GDP in 2024.

18 The figure represents the level of the annual budgetary cost of those measures, including revenue and expenditure and, where applicable, net of the revenue from taxes on windfall profits of energy suppliers.

19 This contribution is measured as the change in general government primary expenditure, net of (i) the incremental budgetary impact of discretionary revenue measures, (ii) one-offs, (iii) cyclical unemployment expenditure and (iv) expenditure financed by non-repayable support (grants) under the Facility and other Union funds, relative to the medium-term (10-year) average potential nominal GDP growth rate, expressed as a ratio to nominal GDP.

(19) On the basis of the policy measures known at the cut-off date of the forecast and on a no-policy-change assumption, the Commission's 2024 spring forecast projects a government deficit of 2,8 % of GDP in 2025. The decrease in the deficit in 2025 mainly reflects the rise in the general VAT rate, as well as cuts in expenditures. The general government debt-to-GDP ratio is set to increase to 82,4 % by the end of 2025, on the back of slower economic growth and rising interest expenditure.

(20) Although Finland has an effective and inclusive social welfare system with a high level of social protection, that system is complex and may create disincentives to work. In 2020, a dedicated parliamentary committee was tasked with designing a reform of the social security system by 2027. In March 2023, the committee presented its interim report, which contained 31 proposals for studies, draft legislation and development projects for future governments. The reform aims to streamline the social welfare system and increase incentives to work, while preserving effective and inclusive social protection and raising the employment rate. The reform of the social security system is expected to help improve the long-term sustainability of public finances.

(21) 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. Those reforms and investments are expected to help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations. Within this tight timeframe, proceeding swiftly with the effective implementation of the recovery and resilience plan, including the REPowerEU chapter, is essential to boost Finland's long-term competitiveness through the green and digital transitions, while ensuring social fairness. To deliver on the commitments of the recovery and resilience plan by August 2026, it is essential for Finland to continue the implementation of reforms and investments by addressing relevant challenges. In particular, it is important to ensure the timely submission of the second and third payment requests. The systematic involvement of local and regional authorities, social partners, civil society and other relevant stakeholders remains essential in order to ensure broad ownership for the successful implementation of the recovery and resilience plan.

(22) As part of the mid-term review of the cohesion policy funds, in accordance with Article 18 of Regulation (EU) 2021/1060 of the European Parliament and of the Council[20], Finland is required to review each programme supported by the European Regional Development Fund (ERDF), the European Social Fund Plus (ESF+), the Cohesion Fund and the Just Transition Fund (JTF) by March 2025, taking into account, among other things, the challenges identified in the 2024 country-specific recommendations, as well as its national energy and climate plan. That review forms the basis for the definitive allocation of the Union funding included in each programme. Finland has made progress in implementing cohesion policy programmes and the European Pillar of Social Rights, but challenges remain. In particular, there are still disparities between the capital region and the rest of Finland in terms of GDP per capita and labour productivity. Accelerating the implementation of cohesion policy programmes is crucial. The priorities agreed in the cohesion policy programmes are still relevant, in particular for the northern region, which is sparsely populated, and eastern region. Particular attention should also be given to strengthening research and development and innovation, digitalisation, and the competitiveness of small to medium-sized enterprises, accelerating the green and just transitions. In addition, a focus should remain on addressing labour and skills shortages, strengthening social inclusion and active labour market participation, particularly for vulnerable groups, and supporting social innovation measures and improving child protection services. Finland could also make use of the Strategic Technologies for Europe Platform, established by Regulation (EU) 2024/795 of the European Parliament and of the Council[21], to support the transformation of industry, for instance in the areas of artificial intelligence, cybersecurity and robotics, energy and resource efficiency, and medical technologies that are vital for health security.

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[20] Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021 laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund and financial rules for those and for the Asylum, Migration and Integration Fund, the Internal Security Fund and the Instrument for Financial Support for Border Management and Visa Policy (OJ L 231, 30.6.2021, p. 159, ELI: http://data.europa.eu/eli/reg/2021/1060/oj).

[21] Regulation (EU) 2024/795 of the European Parliament and of the Council of 29 February 2024 establishing the Strategic Technologies for Europe Platform (STEP), and amending Directive 2003/87/EC and Regulations (EU) 2021/1058, (EU) 2021/1056, (EU) 2021/1057, (EU) No 1303/2013, (EU) No 223/2014, (EU) 2021/1060, (EU) 2021/523, (EU) 2021/695, (EU) 2021/697 and (EU) 2021/241 (OJ L, 2024/795, 29.2.2024, ELI: *http://data.europa.eu/eli/reg/2024/795/oj).*

(23) Beyond the economic and social challenges addressed by the recovery and resilience plan and other Union funds, Finland faces several additional challenges related to labour and skills shortages, and the implementation of the reform of social and healthcare services.

(24) Employment remained above 78 % in 2023, while unemployment increased from 6,8 % in 2022 to 7,2 % in 2023, and structural unemployment still persisted. Skills mismatches, i.e. the inability to fill vacant positions with workers possessing the skills demanded by employers, pose challenges, in particular in education, healthcare and social care. Moreover, labour shortages in fields relevant to the green transition risk limiting progress towards Finland's climate target of carbon neutrality by 2035. Labour and skills shortages also threaten Finland's competitiveness and long-term growth, and are further aggravated by population ageing.

(25) The share of people in Finland reporting unmet needs for medical care is high. The ongoing reform of public health and social services aims to ensure more equal access to services while containing the rising costs of service delivery. The administrative reform has been completed, but the different wellbeing services counties are in varying stages of preparedness in terms of reorganising and optimising their service delivery.

(26) 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, in 2024 the Council recommended that euro-area Member States take action, including through their recovery and resilience plans, to implement the 2024 Recommendation on the euro area. For Finland, recommendations (1), (2) and (3) help implement the first, second, third and fourth recommendations set out in the 2024 Recommendation on the euro area.

HEREBY RECOMMENDS that Finland take action in 2024 and 2025 to:

1. Submit the medium-term fiscal-structural plan in a timely manner. In line with the requirements of the reformed Stability and Growth Pact, limit the growth in net expenditure[22] in 2025 to a rate consistent with, inter alia, putting the general government debt on a plausibly downward trajectory over the medium term and reducing the general government deficit below the 3%-of-GDP Treaty reference value. Pursue the reform of the social security system in order to increase the efficiency of the social benefits system, with a view to improving incentives to work and supporting the long-term sustainability of public finances.

2. Address relevant challenges to allow for the continued, swift and effective implementation of the recovery and resilience plan, including the REPowerEU chapter, ensuring the completion of reforms and investments by August 2026. Accelerate the implementation of cohesion policy programmes. In the context of the mid-term review of those programmes, continue focusing on the agreed priorities, while considering the opportunities provided by the Strategic Technologies for Europe Platform initiative to improve competitiveness.

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. Ensure that the reform of social and healthcare services improves access to, and the delivery of, services and tackles inefficiencies.

Done at Brussels,

For the Council

The President

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[22] According to Article 2, point (2) of Regulation (EU) 2024/1263, 'net expenditure' means government expenditure net of interest expenditure, discretionary revenue measures, expenditure on programmes of the Union fully matched by revenue from Union funds, national expenditure on co-financing of programmes funded by the Union, cyclical elements of unemployment benefit expenditure, and one-offs and other temporary measures.