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Recommendation for a

COUNCIL RECOMMENDATION

endorsing the national medium-term fiscal-structural plan of Finland

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Recommendation for a

COUNCIL RECOMMENDATION

endorsing the national medium-term fiscal-structural plan 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 thereof,

Having regard to Regulation (EU) 2024/1263, and in particular Article 17 thereof,

Having regard to the recommendation from the Commission,

Whereas:

GENERAL CONSIDERATIONS

(1) A reformed EU economic governance framework entered into force on 30 April 2024. Regulation (EU) 2024/1263 of the European Parliament and of the Council on the effective coordination of economic policies and on multilateral budgetary surveillance[1], together with the amended Regulation (EC) No 1467/97 on the implementation of the excessive deficit procedure[2], and the amended Council Directive 2011/85/EU on the budgetary frameworks of Member States[3] are the core elements of the reformed EU economic governance framework. The framework aims at ensuring public debt sustainability and sustainable and inclusive growth through reforms and investments. It promotes national ownership and has a medium-term focus, combined with an effective and coherent enforcement of the rules.

(2) The national medium-term fiscal-structural plans that Member States submit to the Council and to the Commission, , are at the centre of the new economic governance framework. The plans are to deliver on two objectives: i) ensuring that, by the end of the adjustment period, general government debt is on a plausibly downward trajectory, or stays at prudent levels, and that the government deficit is brought and maintained below the reference value of 3% of GDP over the medium term, and ii) ensuring the delivery of reforms and investments responding to the main challenges identified in the context of the European Semester and addressing the common priorities of the EU.

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

2 Council Regulation (EU) 2024/1264 of 29 April 2024 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L, 2024/1264, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1264/oj).

3 Council Directive (EU) 2024/1265 of 29 April 2024 amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States (OJ L, 2024/1265, 30.4.2024, ELI: http://data.europa.eu/eli/dir/2024/1265/oj).

To that end, each plan is to present a medium-term commitment to a net expenditure[4] path, which effectively establishes a budgetary constraint for the duration of the plan, covering four or five years (depending on the regular term of legislature in a Member State). In addition, the plan is to explain how the Member State will ensure the delivery of reforms and investments responding to the main challenges identified in the context of the European Semester, in particular in the country-specific recommendations (including those pertaining to the macroeconomic imbalances procedure (MIP), if applicable), and how the the Member State will address the common priorities of the Union. The period for fiscal adjustment covers a period of four years, which may be extended by up to three years if the Member State commits to delivering a set of relevant reforms and investments that satisfies the criteria set out in Regulation (EU) 2024/1263.

(3) Following the submission of the plan, the Commission is to assess whether it complies with the requirements of Regulation (EU) 2024/1263.

(4) Upon a recommendation from the Commission, the Council is to then adopt a recommendation to set the net expenditure path of the Member State concerned and, where applicable, endorse the set of reform and investment commitments underpinning an extension of the fiscal adjustment period.

CONSIDERATIONS CONCERNING THE NATIONAL MEDIUM-TERM FISCAL-STRUCTURAL PLAN OF FINLAND

(5) On 10 October 2024, Finland submitted its national medium-term fiscal-structural plan to the Council and to the Commission. The submission took place following an extension of the deadline set out in Article 36 of Regulation (EU) 2024/1263, as agreed with the Commission.

Process prior to the submission of the plan

(6) On 21 June 2024, the Commission sent, according to Article 9 of Regulation (EU) 2024/1263, the reference trajectory[5] to Finland. The Commission published the reference trajectory on 10 October 2024[6]. The reference trajectory is risk-based and ensures that, by the end of the fiscal adjustment period and in the absence of further budgetary measures beyond the adjustment period, general government debt is on a plausibly downward trajectory or stays at prudent levels over the medium term, and the general government deficit is brought below 3% of GDP over the adjustment

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4 Net expenditure as defined in Article 2 of Regulation (EU) 2024/1263, namely government expenditure net of (i) interest expenditure, (ii) discretionary revenue measures, (iii) expenditure on Union programmes 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.

5 Prior guidance transmitted to the Member States and Economic and Financial Committee includes trajectories without and with an extension of the adjustment period (covering 4 and 7 years, respectively). It also includes the main initial conditions and underlying assumptions used in the Commission's medium-term government debt projection framework. The reference trajectory was calculated on the basis of the methodology described in the Commission's *Debt Sustainability Monitor 2023* (https://economy-finance.ec.europa.eu/publications/debt-sustainability-monitor-2023_en). It is based on the European Commission Spring 2024 Forecast and its medium-term extension up to 2033, and long-term GDP growth and ageing costs are in line with the joint Commission-Council *2024 Ageing Report* (https://economy-finance.ec.europa.eu/publications/2024-ageing-report-economic-and-budgetary-projections-eu-member-states-2022-2070_en).

6 https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/national-medium-term-fiscal-structural-plans_en#finland

period and maintained below that reference value over the medium term. The medium term is defined as the ten-year period after the end of the adjustment period. In accordance with Articles 7 and 8 of Regulation (EU) 2024/1263, the reference trajectory is also consistent with the debt sustainability safeguard and deficit resilience safeguard. The reference trajectory of Finland sets out that, based on the Commission's assumptions and assuming a 7-year adjustment period, net expenditure should not grow by more than the values provided in Table 1. This corresponds to average net expenditure growth of 1.5% over the adjustment period (2025-2031) and of 1.5% over the period covered by the plan (2025-2028).

Table 1: Reference trajectory provided by the Commission to Finland on 21 June 2024

	2025	2026	2027	2028	2029	2030	2031	Average 2025-2028	Average 2025-2031
Maximum net expenditure growth (annual, %)	1.4	1.5	1.4	1.5	1.5	1.6	1.7	1.5	1.5

Source: Commission's calculations.

(7) In line with Article 12 of Regulation (EU) 2024/1263, Finland and the Commission engaged in a technical dialogue from June to September 2024. The dialogue centred on the net expenditure path envisaged by Finland and its underlying assumptions, the envisaged set of reform and investment commitments to underpin an extension of the adjustment period including reforms and investments (such as the comprehensive reform of social security and single benefit model and the comprehensive reform of social assistance), as well as the envisaged delivery of reforms and investments responding to the main challenges identified in the context of the European Semester and the common priorities of the Union in fair green and digital transition, social and economic resilience, energy security and the build-up of defence capabilities.

(8) In October 2024, in line with Article 11(3) and 36(1), point (c), of Regulation (EU) 2024/1263, according to the information provided by Finland in its plan, Finland engaged in a consultation process with civil society and Finland's Economic Council. According to the information provided by Finland in its plan, the plan was discussed by the Economic Council on 2 October 2024. Civil society was invited to an open hearing on 3 October 2024.

(9) The plan was presented to the national parliament on 2 October 2024.

Other related processes

(10) On 10 October 2024, Finland submitted its Draft Budgetary Plan for the year 2025. The Commission adopted an opinion on this Draft Budgetary Plan on [26 November 2024][7].

(11) On 21 October 2024, the Council addressed to Finland a series of country-specific recommendations (CSRs) in the context of the European Semester[8].

SUMMARY OF THE PLAN AND THE COMMISSION'S ASSESSMENT THEREOF

[7] Commission Opinion on the Draft Budgetary Plan of Finland, 26.11.2024, (2024)9054 final.

[8] Council Recommendation on economic, budgetary, employment and structural policies of Finland, not yet published.

(12) In line with Article 16 of Regulation (EU) 2024/1263, the Commission assessed the plan as follows:

Context: macroeconomic and fiscal situation and outlook

(13) Economic activity in Finland declined by 1.2% in 2023, as increases in consumer prices and interest rates weighed on consumption and investment, notably in the construction sector. According to the European Commission Autumn 2024 Forecast, the economy is expected to decline by 0.3% in 2024, as a result of stagnating consumption and declining investment in the first half of the year. In 2025, real GDP is set to increase by 1.5%, as private consumption and investment are set to recover thanks to real wage increases and lower financing costs, while export growth is projected to bounce back in line with increasing foreign demand. In 2026, real GDP is expected to increase by 1.6%, as the broad-based recovery is projected to continue. Over the forecast horizon (i.e., 2024-2026), potential GDP in Finland is expected to increase by 0.6% on average each year from 2024 until 2026, driven by capital accumulation and increases in total factor productivity. The unemployment rate stood at 7.2% in 2023 and is projected by the Commission to amount to 8.2% in 2024, 7.9% in 2025 and 7.5% in 2026. Inflation (GDP deflator) is projected to decrease from 3.9% in 2023 to 1.4% in 2024, and to reach 2.1% in 2025 and 1.9% in 2026.

(14) Regarding fiscal developments, in 2023 Finland’s general government deficit amounted to 3.0% of GDP. According to the European Commission Autumn 2024 Forecast, it is set to reach 3.7% of GDP in 2024 and to decline to 3.0% of GDP in 2025 and, on a no-policy change basis, to 2.5% in 2026. The European Commission Autumn 2024 Forecast includes Finland’s draft budget for 2025 that the government proposed to the national parliament in September. General government debt was 77.1% of GDP at end-2023. According to the European Commission Autumn 2024 Forecast, the debt ratio is expected to increase to 82.6% of GDP at end-2024. It is projected to increase further to 84.7% of GDP at end-2025 and 85.3% at end-2026. The fiscal forecast by the Commission does not consider the policy commitments in the medium-term plans as such until they are underpinned by credibly announced and sufficiently specified concrete policy measures.

Net expenditure path and main macroeconomic assumptions in the plan

(15) Finland’s national medium-term fiscal-structural plan covers the period 2025-2028 and presents a fiscal adjustment over seven years.

(16) The plan contains the information required by Article 13 of Regulation (EU) 2024/1263.

(17) The plan commits to the net expenditure path indicated in Table 2, corresponding to average net expenditure growth of 2.2% over the years 2025-2028. In addition, Finland commits to a set of reforms and investments with the view to extending the adjustment period to 7 years (2025-2031), over which the average net expenditure growth is planned to be 2.4%. The average net expenditure growth reported in the plan over the adjustment period (2025-2031) is higher than the reference trajectory transmitted by the Commission on 21 June 2024. The plan assumes a smoothed potential GDP growth of 0.9% for each year of the adjustment period. In addition, the plan expects the growth rate of the GDP deflator to increase from 1.7% in 2024 to 2.1% in 2025 and gradually further to 2.4% by the end of the adjustment period.

Table 2: Net expenditure path and main assumptions in Finland's plan

						Extension of the adjustment period				
	2024	2025	2026	2027	2028	2029	2030	2031	Average over the period of validity of the plan 2025-2028	Average over the adjustment period 2025 – 2031
Net expenditure growth (annual, %)	3.7	1.6	1.9	2.6	2.6	2.8	2.8	2.9	2.2	2.4
Net expenditure growth (cumulative, from base year 2023, %)	3.7	5.3	7.4	10.1	13.0	16.1	19.4	22.8	n.a.	n.a.
Potential GDP growth (%)	1.1	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Inflation (GDP deflator growth) (%)	1.7	2.1	2.2	2.2	2.3	2.3	2.4	2.4	2.2	2.3

Source: Medium-term fiscal-structural plan of Finland and Commission's calculations.

Implications of the plan's net expenditure commitments for general government debt

(18) If the net expenditure path committed to in the plan and the underlying assumptions materialise, general government debt would, according to the plan, decrease from 81.7% in 2024 to 78.2% of GDP at the end of the adjustment period in 2031, as per the following table. After the adjustment, over the medium term (i.e. until 2041), the debt ratio is expected to decline further according to the plan, dropping below 60% of GDP in 2039 and reaching 52.7% in 2041.

Table 3: General government debt and balance developments in Finland's plan

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2041
Government debt (% of GDP)	76.6	81.7	83.2	83.9	83.6	82.9	81.4	79.7	78.2	52.7
Government balance (% of GDP)	-2.9	-3.7	-2.9	-2.0	-1.4	-0.9	-0.4	0.0	0.3	1.6

Source: Medium-term fiscal-structural plan of Finland.

Thus, according to the plan, general government debt would be brought below the Treaty reference value of 60% of GDP over the medium term. This is plausible as, based on the plan's assumptions, debt would be projected to stand below 60% of GDP by 2041 under all deterministic stress tests of the Commission's Debt Sustainability Analysis. Therefore, based on the plan's policy commitments and macroeconomic assumptions, the net expenditure path put forward in the plan is consistent with the requirement for debt as set out in Articles 6, point (a), and 16(2) of Regulation (EU) 2024/1263.

Implications of the plan's net expenditure commitments for the general government balance

(19) Based on the plan's net expenditure path and assumptions, the general government deficit would fall below 3% of GDP in the first year of the adjustment period (i.e. 2025) and continue to decline afterward, turning into a surplus in 2031. Thus, according to the plan, the general government balance would not exceed the 3% of GDP reference value at the end of the adjustment period (2031). In addition, in the ten years following the adjustment period (i.e. until 2041), the government deficit would not exceed 3% of GDP. Therefore, based on the plan's policy commitments and macroeconomic assumptions, the net expenditure path put forward in the plan is consistent with the requirement for the deficit as set out in Articles 6, point (b), and 16(2) of Regulation (EU) 2024/1263.

Time profile of the fiscal adjustment

(20) The time profile of the fiscal adjustment, measured as the change in the structural primary balance, as described in the plan, is frontloaded, compared to the linear path referred to as a rule under Article 6, point (c), of Regulation (EU) 2024/1263. This is due to larger fiscal consolidation taking place in 2025, and to the recording in the national accounts of defence procurement in 2025 and 2027 which leads to further deviations from the linear profile. As a result, the fiscal adjustment over the first four years of the plan is more than proportional to the total adjustment effort. Therefore, based on the plan's policy commitments and macroeconomic assumptions, the net expenditure path put forward in the plan is consistent with the no-backloading principle set out in Article 6, point (c), of Regulation (EU) 2024/1263.

Table 4: Structural primary balance developments in Finland's plan

	2023	2024	2025	2026	2027	2028	2029	2030	2031
Structural primary balance (% of GDP)	-0.34	-0.37	0.44	1.10	1.42	1.78	2.06	2.34	2.62
Change in structural primary balance (pps.)	n.a.	-0.04	0.82	0.66	0.32	0.36	0.28	0.28	0.28

Source: Medium-term fiscal-structural plan of Finland

Consistency of the plan with the deficit resilience safeguard

(21) If the plan's assumptions and commitments materialise, the structural deficit would remain below 1.5% of GDP throughout the adjustment period. Therefore, based on the plan's policy commitments and macroeconomic assumptions, the common resilience margin referred to in Article 8(1) of Regulation (EU) 2024/1263 will continue to be respected, and therefore the additional improvement in the structural primary balance referred to in Article 8(2) of Regulation (EU) 2024/1263 is not required.

Consistency of the plan with the debt sustainability safeguard

(22) In accordance with Article 7 of Regulation (EU) 2024/1263, as general government debt will be between 60% and 90% of GDP over the adjustment period according to the plan, the debt ratio is required to decline by at least 0.5 percentage points on average per year until it falls below 60%. This average decline is calculated over the period 2024-2031 and amounts to 0.5 percentage points in the plan. Therefore, based on the plan's policy commitments and macroeconomic assumptions, the net expenditure path put forward in the plan is consistent with the debt sustainability safeguard.

Macroeconomic assumptions of the plan

(23) The plan is based on a set of assumptions which differs from the Commission's assumptions transmitted to Finland on 21 June 2024. In particular, the plan uses different assumptions for the initial position in 2024, potential GDP growth and stock-flow adjustments. Moreover, the fiscal adjustment is frontloaded. A careful assessment of these differences in assumptions is necessary, especially as the average net expenditure growth in the plan is higher than in the reference trajectory. The differences in assumptions with the most significant impact on average net expenditure growth are listed below, together with an assessment of each difference in assumptions considered in isolation.

- The plan uses smoothed potential output growth over the period 2024-2041. Compared with the Commission's assumptions, this increases potential growth over the adjustment period and therefore contributes to higher average net expenditure growth. This occurs both through a direct effect and because higher GDP growth entails a faster decline in the debt-to-GDP ratio, requiring a lower fiscal adjustment to fulfil the debt sustainability safeguard. The possibility to use alternative potential growth assumptions is in line with

Article 36, paragraph (1) , point (f), of Regulation (EU) 2024/1263, provided that cumulative growth over the projection horizon (i.e. up to 2041) is broadly in line with the Commission's assumptions, which is the case in the plan. Consequently, this assumption is deemed to be duly justified.

- The plan presents a frontloaded fiscal adjustment. Compared with the Commission's assumption of a linear adjustment, this leads to a more rapid decline in debt and reduces interest expenditure. This contributes to higher average net expenditure growth over the adjustment period in the plan than according to the Commission's assumptions. Frontloading the fiscal adjustment is in line with Article 6(c) of Regulation (EU) 2024/1263. Consequently, this assumption is deemed to be duly justified.
- The plan assumes lower stock-flow adjustments from 2025 to 2030, at 1.3% of GDP on average, compared with 1.6% of GDP in the Commission's assumptions. This contributes to higher average net expenditure growth over the adjustment period in the plan than according to the Commission's assumptions. This reflects the financing and delivery of security and defence equipment as well as investments financed by the proceed of sales of public assets. Consequently, this assumption is deemed to be duly justified.

The remaining difference in assumption relates to the revised initial position in 2024 and corresponds to a slightly smaller structural primary deficit than expected in spring. This does not have a significant impact on average net expenditure growth compared to the Commission's assumptions. Overall, the difference between the net expenditure path in the plan and the reference trajectory is explained by differences in assumptions that are duly justified, in line with Article 13(b) of Regulation (EU) 2024/1263. Overall, all the differences in assumptions taken together lead to an average net expenditure growth in the plan that is higher than the reference trajectory. The Commission will take into account the above assessment of the plan's assumptions in future assessments of compliance with the net expenditure path.

Fiscal strategy of the plan

(24) According to the indicative fiscal strategy in the plan, the commitments on net expenditure will be delivered through both expenditure restraint and discretionary revenue increases. The government is implementing two packages of measures that are estimated to have a fiscal yield of EUR 9 billion (3.8% of GDP). They are broadly divided into 3.5 billion (1.5% of GDP) of higher revenues (i.e. direct revenues from an increased VAT rate and indirect revenues from increased income tax and social contributions due to higher employment caused by other measures) and 5.5 billion (2.3% of GDP) from lower expenditure (i.e. savings coming from the wellbeing service counties, reduction in social benefits, and reduction in other expenditure). Most policy measures pertaining to these two consolidation packages are already adopted, others are to be confirmed or adjusted and quantified in the annual budgets. Several measures both on the revenue and expenditure side with a sizeable impact in 2025 have already been adopted. At the same time, there are risks to the implementation of the indicative fiscal strategy in the plan, which stem from the possibility of lower-than-expected savings realised by measures targeting wellbeing service counties and lower than expected employment effects of the government's labour market reforms. In addition, the Draft Budgetary Plan 2024 for 2025 specifies

the policy measures through which the net expenditure commitment for 2025 will be achieved[9].

Set of reform and investment commitments in the plan to underpin an extension of the fiscal adjustment period

(25) In the plan, Finland commits to a set of reforms and investments, aiming to improve potential growth and fiscal sustainability, to underpin an extension of the fiscal adjustment period from 4 to 7 years. The set of reforms and investments is composed of a number of commitments from the recovery and resilience plan (RRP); one commitment from the RRP with additional specifications to contain budgetary overruns; as well as two new reforms. This includes the following measures :

- Introduction of the Nordic model of employment services. The reform overhauls the functioning of employment services in Finland, by increasing the resources available to employment services, improving the support offered to jobseekers and tightening job seeking obligations for the unemployed registered to the employment services. The information system supporting the employment services is being modernised in order to improve the job seeking process. The reform is a commitment under the RRP (P3C1R1), and the main target was to conduct 2 million interviews between January 2023 and March 2024. According to the plan, it is estimated that the measure could increase employment by around 9,500-10,000 workers, starting in 2025.
- Removal of additional days of unemployment allowance. The reform gradually abolishes additional days of unemployment allowance that people beyond a certain age threshold could request after the regular period of unemployment benefit expired. The minimum age required to access additional days of unemployment benefits is to rise by one year/age group from the birth of 1963 onwards and the possibility of an additional day is to be abolished completely for those born in 1965 and thereafter. The reform is a commitment under the RRP (P3C1R2) to be implemented by Q2 2023. The additional days of unemployment benefits are to be phased out by 2029. According to the plan, it is estimated that the measure could increase employment by around 9,100 workers, starting in 2025.
- Implementation of the national health and social services reform in support of advancing the statutory care guarantee. The reform consisted of the legislation on establishing 21 wellbeing services counties, which from 1 January 2023 onwards are responsible for organising health care, social welfare, and rescue services. In addition, the municipality of Helsinki organises these services. Furthermore, the joint authority for Helsinki and Uusimaa, the so-called HUS Group, is responsible for organising specialised medical care in the Uusimaa region. The reform is a commitment under the RRP (P4C1R1).
- Introducing digital innovation in social and healthcare. The reform aims at increasing the share of population (aged 20 years and above) using healthcare and social welfare e-services from 26% (2020 baseline) to 35%. New digital

[9] See Commission Opinion on the Draft Budgetary Plan of Finland, 26.11.2024, (2024)9054 final.

services are to be rolled out to achieve the target. The reform is a commitment under the RRP (P4C1I4) and is expected to be completed by the end of 2025.

- Investments in research, development and innovations as well as the clean transition. This measure includes several investments in clean technologies included in the RRP (P1C1I2, P1C2I1, P1C2I3, P3C3I1, P1C1I1).
- Renewing the statutory duties and administrative procedures of the wellbeing services counties. In view of significant deficits incurred by wellbeing services counties, the government is including in the plan further measures to correct the situation and ensure a sound financial management. Examples of such measures include the adjustment of minimum staffing levels in residential care for older people, adjusting client fees, the rationalisation of premises use, the enhancement of competition in public procurement, and the introduction of digital service channels, among others. Based on the Government Programme and the General Government Fiscal Plan (2025-2028), the government estimates that these new adjustments could bring around EUR 1.56 billion in savings by 2028. This includes both statutory measures as well as wellbeing services counties' own consolidation measures. These measures represent an additional specification of the commitment under the RRP described above (P4C1R1).
- Comprehensive reform of social assistance. The aim of the reform is to reinforce the role of social assistance as a last-resort and short-term form of benefit, by correcting flaws in the sanction system that allowed social assistance to fully compensate for lost unemployment benefits when beneficiaries do not comply with job-seeking obligations. The government estimates that the reform could lead to halving the number of people in need of social assistance and could bring EUR 100 million in fiscal savings each year. Following stakeholders consultations, the government proposal is expected to be shared with Parliament in autumn 2025 and to enter into force in the second quarter of 2026.
- Comprehensive reform of social security and the introduction of a single benefit model. One aspect of the reform is to simplify social security by allowing to access different benefits through one administrative application. Following stakeholders consultations, the reform is expected to be shared with Parliament in autumn 2025 and to enter into force in the second quarter of 2026.

(26) The measures underpinning an extension of the adjustment period that are part of the RRP (including the additional specification to renew the statutory duties and administrative procedures of the wellbeing services counties) are in line with Article 14(3) of Regulation (EU) 2024/1263 as they are sufficiently detailed, front-loaded, time-bound and verifiable. The two measures on the comprehensive reform of social assistance and the comprehensive reform of social security and the introduction of a single benefit model have yet to be legislated, therefore at the present stage they are not detailed. The plan provides an indicative timeline for their adoption and qualitative target indicators to monitor their implementation.

(27) The RRP commitments underpinning the extension contain significant reforms and investments aimed at improving fiscal sustainability and enhancing the growth potential of the economy. In addition, Finland commits to continuing the reform effort over the period covered by the medium-term fiscal-structural plan and maintaining the

nationally financed investment levels realised over the period covered by the RRP (see below, Table 5). The commitments will be monitored throughout the implementation of the plan. Accordingly, commitments under the RRP can be taken into account for the extension of the adjustment period as provided by Article 36(1), point (d), of Regulation (EU) 2024/1263.

(28) The set of reforms and investments underpinning the extension is expected to improve the growth and resilience potential of Finland's economy in a sustainable manner, as required by Article 14(2), point (a), of Regulation (EU) 2024/1263. The measures are expected to improve the functioning of the labour market, support innovation, improve access to healthcare and social welfare, and modernise social security, thus improving the growth and resilience potential of the Finnish economy. The labour market reforms put forward are expected to support the unemployed in finding a job and to increase activity rates among older workers. The plan estimates that the two measures could create around 20,000 jobs in 2025-2029. The investments in R&D contained in the RRP are expected to improve both the growth potential as well as the resilience of Finland, by increasing productivity (the plan estimates conservatively that a 1% increase in R&D investment increases productivity by 0.02%), crowding-in private investment, and supporting the green transition and the decarbonisation of the energy system. According to the Finnish government, the establishment of the wellbeing service counties and the development of e-health services are expected to improve access to healthcare, which is especially important as unmet needs for medical care are above the EU average and Finland is a quickly ageing society. The reforms to introduce the single benefit model and the reform of social assistance are meant to optimise social policy, reduce administrative costs, make social security fairer, and increase incentives to work, thus supporting employment. The effects on social cohesion would need to be monitored. Moreover, the employment impacts of the labour market reform, or the productivity increase following investments in R&D still need to materialise. In addition, the wellbeing service counties are facing several difficulties in their first years of operations, and the government put forward in the plan additional specifications to one RRP commitment to renew the statutory duties and administrative procedures of the wellbeing services counties in order to curb their deficit. Overall, the assumptions regarding the growth impact of the reforms and investments underpinning the extension, taken together, appear plausible, but a careful monitoring of future developments and exact impact is needed. This also calls for meaningful stakeholder consultations, including social partners and relevant civil society organisations, and an assessment of the distributional and cumulative effects of the measures.

(29) The set of reforms and investments underpinning the extension is expected to support fiscal sustainability as required by Article 14(2), point (b), of Regulation (EU) 2024/1263. These measures are complementary to the fiscal consolidation packages already enacted, as mentioned above when presenting the fiscal strategy. The main direct effect of these additional measures is expected from implementing measures to reduce the deficit of the wellbeing service counties, which amounted to EUR 1.4 billion in 2023, by renewing the statutory duties and administrative procedures of the wellbeing services counties. More specifically, the government is enacting measures to reduce the expenditure of the wellbeing service counties by EUR 685 million in 2025-2028, while the wellbeing service counties themselves aim to implement measures to reduce their expenses by EUR 874 million by 2028. Moreover, the government expects to achieve EUR 100 million in yearly savings from the reform of social assistance. Other direct savings may originate from the lower administrative cost per

benefit application derived from the adoption of the single benefit model, and from the lower payments related to the removal of additional days of unemployment allowance. The indirect fiscal savings are mainly linked to the expected positive employment impact of the labour market reforms (i.e. the introduction of the Nordic model of employment services and the removal of additional days of unemployment allowances), which would increase potential growth and generate tax revenues. The comprehensive reform of social security and the single benefit model and the comprehensive reform of social assistance may also have an employment impact by increasing incentives to work, and thus an indirect positive fiscal impact. While the realised savings from the measures could be lower than expected, the fiscal savings stemming from the additional RRP specification of renewing the statutory duties and administrative procedures of the wellbeing services counties are likely to be non-negligible, given the magnitude of the savings estimates (i.e. EUR 1.6 billion). Overall, the realisation of indirect saving hinges crucially on the employment impact of the labour market reforms.

(30) The set of reforms and investments underpinning the extension adresses the common priorities of the EU as required by Article 14(2), point (c) of Regulation (EU) 2024/1263. The social security and labour market reforms contribute to social resilience in particular by complying with principles of the European Pillar of Social Rights such as active support to employment, social protection and unemployment benefits. The RRP investments on R&D for the green transitions are expected to increase innovation in low carbon technology and energy infrastructure, therefore contributing to a fair green transition and to ensuring energy security. The introduction of digital innovation in social and healthcare contributes to a fair digital transition by increasing the digitalisation of public services. The other common priority of the EU, namely the build-up of defence capabilities, is not addressed by the set of reforms and investments underpinning an extension.

(31) The set of reforms and investments underpinning the extension addresses the relevant[10] CSRs issued as part of European Semester as required by Article 14(2), point (d) of Regulation (EU) 2024/1263. In particular, the set of reforms and investments underpinning the extension addresses the following CSRs aimed at:

- active labour market policies, incentives to work & labour market participation (CSRs issued in 2019 and 2020), through the introduction of the Nordic model of employment services and the removal of additional days of unemployment benefits;
- healthcare, long-term care and budgetary framework and fiscal governance (CSRs issued in 2019 and 2020), through the reform of the wellbeing service counties and the introduction of digital innovation in healthcare;
- renewable energy, energy infrastructure & networks, energy efficiency, research and innovation, regional development & local public services and business environment (incl. SME policies) (CSRs issued in 2019, 2020, 2022 and 2023) through the different RRP investments in energy technologies and

[10] CSRs considered 'relevant' are recommendations: i) adopted by the Council from 2019 onwards, ii) for which the Member State has not yet made 'full' or 'substantial' progress in addressing them and are not outdated (assessed as 'Not Assessed / No Input to Add '), as assessed in the latest European Semester surveillance exercise (available in CeSaR (europa.eu)), iii) not linked to purely fiscal SGP-related and iv) not covering the same challenge but in a rephrased manner.

infrastructures, low-carbon hydrogen and carbon dioxide capture and utilisation, recycle of key materials and other RDI funding;

- poverty, social inclusion and social protection (CSR issued in 2024) through the reform of social security and the single benefit model and of social assistance.

(32) The plan ensures that the planned overall level of nationally financed public investment realised on average over the period covered by the RRP is maintained, as required by Article 14(4) of Regulation (EU) 2024/1263.

Table 5: Nationally financed public investment in the plan (% of GDP)

Average level over the period covered by the RRP (2022 to 2026) ([11])	T+1	T+2	T+3	T+4	Average over the duration of the plan
4.4	4.7	4.5	4.6	4.4	4.6

Source: Medium-term fiscal-structural plan of Finland

(33) Finally, the set of reform and investment commitments underpinning an extension can be regarded as consistent with the commitments in the RRP and the Partnership Agreement agreed under the Multiannual Financial Framework as required by Article 14(4)) of Regulation (EU) 2024/1263. The introduction of the single benefit model and the reform of the social assistance do not contradict commitments in the RRP, while the other measures stem directly from commitments taken under the RRP.

(34) In conclusion, the set of reforms and investments underpinning the extension of the adjustment period is assessed as fulfilling, taken altogether, the criteria in Article 14 of Regulation (EU) 2024/1263. As a result, the adjustment period can be extended from 4 to 7 years, as put forward in the plan.

Other reform and investment intentions in the plan responding to the main challenges identified in the context of the European Semester and addressing the common priorities of the Union

(35) Besides the set of reforms and investments underpinning an extension of the adjustment period, the plan describes policy intentions concerning other reforms and investments to respond to the main challenges identified in the context of the European Semester, especially the CSRs, and to address the common priorities of the EU. The plan includes ten reforms and investments.

(36) Concerning the common priority of a fair green and digital transition, including the climate objectives set out in Regulation (EU) 2021/1119, the plan includes a reform to increase spending in R&D to 4% of GDP by 2030, with one-third of the funding coming from public sources, which would translate an increase of around EUR 280 million per year until 2030. The additional public R&D fundings will be allocated to the support of corporate R&D, to cooperation between businesses and researchers, to funding of research projects and to research infrastructures, among other items. The measure addresses the 2019 and 2020 CSRs related to research and innovation and is

[11] It is assumed and accepted that the two periods will overlap. The requirement to maintain the level of investment is intended to apply to the years after the end of the lifetime of the Recovery and Resilience Facility.

consistent with Finland’s Digital Compass and the country’s National Digital Decade Strategic Roadmap.

(37) Concerning the common priority of social and economic resilience, including the European Pillar of Social Rights, the plan includes measures to reduce benefits creating disincentives to work (e.g. changes to unemployment benefits expected to increase employment by 40,000 workers during the government term, and index cuts in social security benefits expected to increase employment by 18,600 workers in the same period), measures to mitigate skills shortages (e.g. increases in both funding and available spots in fields experiencing labour shortages such as medicine), and measures to improve access to healthcare and reduce waiting lists (e.g. by increasing the funding for reimbursement of private healthcare expenditure). The measures address the 2019, 2020, 2022 and 2023 CSRs related to active labour market policies, incentives to work & labour market participation, healthcare, and education.

(38) Concerning the common priority of energy security, the plan does not include other reforms and investments.

(39) Concerning the common priority of defence capabilities, the plan does not include other reforms and investments.

(40) The plan does not describe other reforms and investments to address the CSRs (for which no substantial progress has been made according to the Commission’s assessment) on skills, vocational education and training and adult learning, transport, long-term care, anti-money laundering (CSRs issued in 2019, 2020 and 2023).

(41) The plan provides information on the consistency and, where appropriate, complementarity, with the cohesion policy funds and Finland’s RRP. The plan makes an appropriate reference to Finland’s 2024 National Reform Programme 2024, which describes synergies and complementarity with cohesion policy and RRP.

(42) The plan provides an overview of the public investment needs of Finland related to the common priorities of the EU. In relation to the fair green and digital transition, the plan highlights the need for investments in clean energy to reduce the dependency from fossil fuels, and in disruptive technologies such as artificial intelligence to further strengthen the green transition. In relation to social and economic resilience, the plan highlights the need for investment related to increasing educational attainment and continuous learning. In relation to energy security, the plan highlights the need for investment aimed at reducing the dependence of the EU on third countries. In relation to building up defence capabilities, the plan highlights the need for investments to strengthen Finland’s defence capabilities, in alignment with NATO commitments.

Conclusion of the Commission’s assessment

(43) Overall, the Commission is of the view that Finland’s plan fulfils the requirements of Regulation (EU) 2024/1263.

OVERALL CONCLUSION

(44) In accordance with Article 17 of Regulation (EU) 2024/1263, the net expenditure path as set in the plan should be recommended by the Council to Finland and the set of reforms and investments underpinning the extension of the adjustment period to 7 years should be endorsed.

HEREBY RECOMMENDS that Finland

(1) Ensure that net expenditure growth does not exceed the maxima established in Annex I to this Recommendation.

(2) Implement the set of reforms and investments that underpins the extension of the fiscal adjustment period to 7 years, as established in Annex II to this Recommendation, by the indicated deadlines.

In addition, the Council invites Finland to ensure the delivery of other reforms and investments responding to the main challenges identified in the context of the European Semester, in particular in the CSRs, and addressing the common priorities of the Union.

ANNEX I

Maximum growth rates of net expenditure

(annual and cumulative growth rates, in nominal terms)

Finland

Years		2025	2026	2027	2028
Growth rates (%)	Annual	1.6	1.9	2.6	2.6
	Cumulative (*)	5.3	7.4	10.1	13.0

(*) The cumulative growth rates are calculated by reference to the base year of 2023.

ANNEX II

Set of reforms and investments that underpins an extension of the adjustment period to 7 years

Finland

	Main objective	Description and timing of key steps[12]	Monitoring indicator(s)
Introduction of the Nordic model of employment services (Existing RRP measure: Reference in Finland's RRP - P3C1R1)	The objective of the measure is to reform the public employment services process.	1. By Q2 2022: Entry into force of the Act on Public Employment and Business Services regulating the Nordic model of employment services for the jobseeker's service process, as referenced in Milestone 77 2. By Q4 2023: Increase in the annual number of job search interviews conducted in line with the Nordic model of employment services, from	Satisfactory fulfilment of relevant RRP milestones and targets 77, 78, 79

[12] The timing of RRP measures is indicative and corresponds to commitments in the relevant Council Implementing Decision.

		783,070 to 2,000,000,as referenced in Target 78 3. By Q4 2023: All five digital functionalities required by the Nordic employment service model are integrated into the public employment services' (TE-PES) information system and are operational, as referenced in Milestone 79	
Removal of additional days of unemployment allowance (Existing RRP measure: Reference in Finland's RRP - P3C1R2)	The objective of the reform is to foster employment by removing disincentives to work for older people and attenuating a targeting of redundancies on older employees	1. By Q2 2023: Entry into force of amendments to the Unemployment Security Act concerning the phasing out of additional days of unemployment security, as referenced in Milestone 80.	Satisfactory fulfilment of the relevant RRP milestone 80
Preparation of the social welfare and health care reform in support of implementing the care guarantee (Existing RRP measure: Reference in Finland's RRP - P4C1R1)	As part of the preparation of the social and healthcare reform, the objective of this measure is to improve the accessibility of health and social services by promoting the implementation of the care guarantee.	1. By Q3 2021: Entry into force of the initial legal framework establishing welfare areas (wellbeing services counties) and reforming the social and health care and rescue services, as referenced in Milestone 133. 2. By Q1 2023: Entry into force of the additional legal framework completing the establishment of welfare areas (wellbeing services counties) and the reform of the social and health care and rescue services. as referenced in Milestone 134 3. By Q2 2023: Operationalisation	Satisfactory fulfilment of the relevant RRP milestones 133 and 134

		of regional welfare areas (wellbeing services counties) with the capacity to take responsibility for organising social, health and rescue services as referenced in Milestone 134	
Introducing digital innovation in social and healthcare (Existing RRP measure: Reference in Finland's RRP - P4C1I4)	The objective of this investment is to deliver digital solutions to support the development of social and healthcare services and promote the implementation of the care guarantee.	1. By Q4 2025: Increase of the share of population using social welfare and health care e-services from 26% (2020 baseline) to 35% as referenced in Milestone 139	Satisfactory fulfilment of the relevant RRP milestone 139
Investments in new energy technologies (Existing RRP measure: Reference in Finland's RRP - P1C1I2)	Contribute to Finland's goal to achieve carbon neutrality by 2035 by stimulating the introduction of new clean technologies for energy production and use.	1. By Q4 2021: Publication of the first call for applications for investments in new energy technologies as referenced in Milestone 6 2. By Q4 2023: Award of all grants for energy technology investments as referenced in Milestone 7 3. By Q2 2026: Completion of at least 4 supported projects as referenced in Target 8	Satisfactory fulfilment of the relevant RRP milestones and targets 6,7 and 8
Low-carbon hydrogen and carbon capture and utilisation (Existing RRP measure: Reference in Finland's RRP - P1C2I1)	The investment aims to promote the development of the production and storage of clean hydrogen on a commercial scale.	1. By Q4 2021: Publication of the first national call for applications for the production and utilisation of low-emission hydrogen as well as carbon dioxide capture and utilisation as referenced in Milestone M16 2. By Q4 2025: Implementing Agreement 3. By Q2 2026: Ministry has	Satisfactory fulfilment of the relevant RRP milestones and targets 16, 17, 18, 18bis.

		completed the investment as referenced in Milestone 17 4. By Q2 2026: Legal agreements signed with final beneficiaries as referenced in Target 18 5. By Q2 2026: Transfer of EUR 127 000 000 to Business Finlandas referenced in Milestone 18bis	
Re-use and recycling of key materials and industrial side stream (Existing RRP measure: Reference in Finland's RRP - P1C2I3)	The measure aims at promoting a circular economy that re-uses and recycles industrial side and waste streams and other key materials such as battery materials, plastics, textiles, packaging, electrical and electronic equipment, construction and demolition materials.	1. By Q4 2021: Publication of the first call for applications for investment projects promoting the re-use of waste materials and side streams. as referenced in Milestone 22 2. By Q4 2023: Award of all grants to the re-use and recycling projects as referenced in Milestone 23 3. By Q2 2026: Completion of 10 supported projects as referenced in Target 24	Satisfactory fulfilment of the relevant RRP milestones and targets 22, 23, 24.
RDI funding package promoting the green transition – Leading companies (Existing RRP measure: Reference in Finland's RRP - P3C3I1)	The objective of the investment is to support (via scheme managed by Business Finland) partnerships and ecosystems between companies and other research organisations that strengthen the competitiveness of business and enhance the effectiveness of Research & Development activities.	1. By Q2 2022: Publication of a call for applications for leading companies' projects as referenced in Milestone 100 2. By Q4 2023: Award of 5 grants for leading companies' projects as referenced in Target 101 3. By Q4 2025: 90% of projects completed of leading companies as referenced in Target 102	Satisfactory fulfilment of the relevant RRP milestones and targets 100, 101, and 102.

Energy infrastructure investments (Existing RRP measure: Reference in Finland's RRP-P1C1I1)	The objective of the investment is to enhance the framework conditions for attracting investment in clean energy, with a focus on energy system integration, energy storage and transport. The investment shall support projects that promote the construction of energy infrastructure with the following focus: I) electricity grids and electricity transmission capacity; II) investments to integrate energy systems and produce, transmit and utilise surplus and waste heat in district heating networks; III) transport of low-carbon gases, including hydrogen, biogas and biomethane.	1. By Q4 2021: Publication of the first call for applications for energy infrastructure projects as referenced in Milestone 3 2. By Q4 2024: Award of all grants for energy infrastructure investments as referenced in Milestone 4 3. By Q2 2026: Completion of 4 supported at least projects as referenced in Target 5]	Satisfactory fulfilment of the relevant RRP milestones and targets 3, 4, and 5.
Adjustments to the functions and procedures of the established wellbeing services counties (Accompanying RRP reform P4C1R1)	These measures are to ensure appropriate provision of services while safeguarding sound financial management	1. By Q2 2024: Stakeholder consultations concerning relevant measures allowing in particular: i) adjustments in staffing levels in residential care and changes to the specialisation of staff; ii) adjustments in customer fees for healthcare, and iii) clarification of the scope and impact assessment of the Disability Services Act; 2. By Q4 2025: Setting up of plans by each wellbeing services county, including: i) better use of premises and service network; ii) a wider use of centralised procurements; iii) an enhancement of competition in public procurements.	Steps 1, 2 and 4 i):Reporting by the authorities Steps 3 and 4 ii): Entry into force of relevant legislative amendments.

		3. By Q4 2025: Entry into force of relevant legislative amendments concerning the duties of the wellbeing services counties, such as • minimum staffing levels in residential care and changes to the specialisation of staff • customer fees for healthcare 4. By Q4 2026: i) correction of the deficits of wellbeing services counties accumulated since 2023, and ii) increase of the effectiveness of services by streamlining the range of services in specialised medical care.	
Comprehensive reform of social assistance (new measure)	The measure is to improve incentives to work by clarifying the conditions to receive social assistance and adjust its size based on objective circumstances regarding the recipient of social assistance.	1. By Q3 2025: Impact assessment completed. 2. By Q3 2025: Stakeholders consultation completed. 3. By Q4 2025: Legislation voted	Step 1 and 2: Reporting by the authorities Step 3: Entry into force of the legislation clarifying the provision of social assistance.
Comprehensive reform of social security and the single benefit model (new measure)	The measure is to introduce a system based on a single social benefit as a way to clarify and simplify the system of social benefits and better identify persons qualifying for support.	1. By Q3 2025: Impact assessment completed. 2. By Q3 2025: Stakeholders consultation completed . 3. By Q4 2025: Legislation voted	Step 1 and 2: Reporting by the authorities Step 3: Entry into force of the legislation establishing the single social benefit

Done at Strasbourg,

For the Council
The President