

Towards sustainable public finances

The aim of economic policy is to increase wellbeing and prosperity. This means ecologically and socially sustainable economic growth, high employment and sustainable public finances. A stable economy makes it possible to avoid unforeseen changes from impacting people's wellbeing.

The Government will pay particular attention to the effects of decisions in the long term. Ecological, social and financial sustainability also means that we do not want to live at the expense of future generations. The Government drew up a roadmap on 3 February 2020 for achieving the carbon neutrality target. Similarly, the Government pledged (3 Feb. 2020) to draw up a roadmap of the long-term measures to make public finances more sustainable (*Roadmap for strengthening the sustainability of public finances*).

The roadmap will be drawn up in two phases. The first phase involves determining the potential that different measures offer for reducing the sustainability gap. The second phase sets out in more detail long-term measures to make public finances more sustainable in the longer perspective.

In this position paper, the Government outlines the assessment of the first phase and sets a scheduled target for the consolidation of public debt. The policy approaches for the second phase will be decided in the context of the government budget session in autumn 2020. The second phase preparations will be carried out under the leadership of the Ministry of Finance, in interactive cooperation with other ministries, under the guidance of the chairs of the ministerial groups.

The Government outlined on 4 February that the main ways to achieve sustainable public finances, i.e. to secure the long-term financing of our Nordic welfare society, involve:

- finding ways to increase employment and reduce unemployment
- enhancing foresight in local government finances and strengthening it
- implementing of the health and social services reform
- improving productivity in public services and
- reinforcing the conditions for economic growth, including the operating environment of companies.

The coronavirus crisis is accelerating government indebtedness and creating a need to elaborate the objectives of the Government Programme with a view to stabilising public finances in the longer term. Alongside post-crisis stimulus and reconstruction, measures must be adopted that will keep public finances stable and balanced. This is imperative in the light of the Government's pledge for fair and equal treatment across generations. By keeping the growth in central government debt in check, it will also be possible to respond to future crises in the manner they require.

The assessment of the sustainability gap in Finland's public finances involves many uncertainties. Nevertheless, it is necessary to outline measures to strengthen the sustainability of public finances. Instead of setting targets for one parliamentary term, it is advisable to outline the sustainability of public finances over several parliamentary terms.

The Government's objective is to stabilise the general government debt-to-GDP ratio by the end of the decade. The Government recognises that this is a demanding objective and involves extensive measures. This requires strengthening public finances by several billion euros.

A number of different assessments have been made of the scale of fiscal consolidation. Based on the assessment made by the crisis follow-up group headed by Permanent Secretary Hetemäki, the magnitude of the fiscal and structural adjustment measures is currently around EUR 7 billion for the 2020s if the debt ratio is to be stabilised.

According to the Ministry of Finance's estimate, various measures may have the potential to strengthen public finances as follows:

- Higher employment and lower unemployment, approx. EUR 1 –2 billion
- More robust conditions for economic growth, approx. EUR 0-1 billion
- Higher productivity in public administration, approx. EUR 0 –0.5 billion
- Health and social services reform, approx. EUR 0-1.5 billion
- Stronger local government finances and increasing foresight, approx. EUR 0-0.5 billion

The Government is preparing measures that will strengthen employment, improve the conditions for economic growth and boost competitiveness, and ways to curb growth in public expenditure. Structural measures have an effect with more delay. It is therefore necessary to decide on reforms already during this parliamentary term. The more public finances are strengthened by means of structural reforms, the fewer spending cuts and tax increases are needed.

One of the key elements in the roadmap consists of measures to boost employment. The Government aims to reach a position where poor labour demand does not restrict growth in employment. For this reason, reforms that strengthen labour supply are also needed.

The Government will continue to prepare employment measures in accordance with the Government Programme, raising the level of ambition and taking into account the impact that the COVID-19 crisis has on the operating environment. The Ministry of Finance is responsible for assessing employment measures, and is conducting science-based dialogue with an independent group of researchers appointed by the Ministry of Employment and the Economy.

It is more important than ever before to create new jobs. As part of the roadmap, the Government will set a new employment target in the government budget session, one that is higher than the current target of 60,000 new jobs. The Government is committed to gauging fiscal policy as required in the cyclical circumstances in accordance with the Government Programme.

Reforms that boost production potential are particularly important for sustainable growth. By successfully combatting the social crisis and preventing social exclusion, it is possible to strengthen the conditions for higher employment and economic growth. The quality of working life and wellbeing at work are an instrumental part of the policy to create more jobs. A swift and

consistent response to the ecological crisis is also essential for economic growth and the sustainability of public finances.

The implementation of the *Roadmap for strengthening the sustainability of public finances* to be decided on in the government budget session in the autumn will be monitored and updated regularly when making decisions on the General Government Fiscal Plan and the budget proposal. This is a long-term process that is updated in the light of the latest information. The Government will prepare alternative measures if the implementation and impacts of the roadmap show signs of falling short of the objectives.