Translation. Original Finnish released on 10 September 2015.

Government Communications Department
Press release 471/2015
11.9.2015

Government agrees on economic policy for the coming years

The Government has agreed on the 2016 budget proposal. In the budget session, the General Government Fiscal Plan for 2016–2019 and a supplementary budget proposal for 2015 aimed at boosting employment were also agreed. The appropriations of the 2016 budget proposal total EUR 54.1 billion. The budget proposal includes the consolidation measures agreed in the Government Programme that next year will reduce central government expenditure and increase fee revenue in total by around EUR 0.8 billion.

Revenue and expenditure of the 2016 budget proposal

2016 on-budget revenue is expected to be around EUR 49.1 billion, of which tax revenue will account for EUR 40.8 billion. Central government tax revenue is projected to grow by around 2% in 2016 compared with the previous year's budget. Growth of tax bases will remain modest, due to slow GDP growth. In accordance with the Government Programme, taxation on labour will be eased. The tax increases in 2016 will be directed mainly at indirect taxation.

Although consolidation measures will reduce central government expenditure, the level of appropriations in 2016 will be only slightly lower than was budgeted for the current year. Expenditure will be increased by key Government projects as well as by an adjustment of the division of costs between central and local government, an easing of cuts directed at the housing allowance of pension recipients, asylum seekers and changes in the timing of defence materiel purchases.

The Annex to the press release contains selections from the budget's taxation and appropriation changes.

Growth of central government debt will continue at an annual rate of EUR 5 billion

In the 2016 budget proposal, the deficit is expected to be EUR 5 billion. The level of central government debt at the end of 2016 would rise to around EUR 106 billion, which is around 50% of GDP. In 2019 central government debt is expected to grow to around EUR 120 billion.

	2015, Actual budget	2015, SBP3	2016, Budget Proposal	2017, GGFP	2018, GGFP	2019, GGFP
Revenue (EUR billion)	49.1	49.1	49.1	49.4	50.8	51.7
Expenditure (EUR billion)	53.9	54.4	54.1	55.2	55.7	55.7
Deficit (EUR billion)	4.7	5.3	5.0	5.9	4.9	4.0

General Government Fiscal Plan also serves as Finland's Stability Programme

In its budget session, the Government also decided on its first General Government Fiscal Plan, which contains, in addition to the central government spending limits decision, budgetary objectives and a maximum limit for local government expenditure. The central government spending limits decision creates a binding four-year spending framework. In the General Government Fiscal Plan, the Government has set for the parliamentary term the following budgetary objectives:

- central government deficit at most ½% of GDP
- local government deficit at most ½% of GDP
- surplus of earnings-related pension funds approximately 1% of GDP
- balanced budget for other social security funds.

The General Government Fiscal Plan is also Finland's Stability Programme, to be delivered to the EU Commission. It meets the EU's requirement for a medium-term budget plan.

General government finances to be consolidated

Expenditure-reducing or fee revenue-raising measures aimed at strengthening general government finances by a net EUR 4 billion at the 2019 level were agreed in the Government Programme. The effects of tax measures are not included in this package. The consolidation measures agreed in the Government Programme have, as a rule, been included in the 2016 budget proposal and in the General Government Fiscal Plan for 2016–2019 (excluding a few items whose preparation is still at too early a stage to assess their impact). In addition, the effects of certain measures have become more accurate during preparation. For example, the estimate of the saving to be achieved by freezing index increases has been lowered from the impact estimates at the time of the Government Programme due to lower inflation forecasts.

The net impact on general government finances of the decided expenditure measures and fee revenue increases is estimated to be around EUR 3.5 billion at the 2019 level. To achieve the consolidation objectives according to the Government Programme, the Government has made certain additional savings decisions, the largest of which is the freezing of index increases to benefits linked to the National Pensions Index and the Cost-of-Living Index.

In future, upper limit set for expenditure arising to municipalities from central government measures

Local government finances will be stringent in the next few years. The aggregate budgetary position of municipalities and joint municipal authorities is expected to be slightly in deficit, and the deficit will deepen towards the end of the outlook period.

The budgetary balance objective (deficit at most ½% of GDP) for local government finances set in the General Government Fiscal Plan means a consolidation requirement of just over EUR 1 billion by the end of the parliamentary term.

The central government bears main responsibility for the consolidation of local government finances, but the municipalities also have significant responsibility for balancing local government finances. To support the achievement of the budgetary balance objective, the Government has set a maximum limit on local government expenditure, aimed at limiting the pressure arising to local government operating expenditure from central government measures.

Central government transfers and grants to municipalities will be around EUR 11 billion in 2016 and around EUR 10.5 billion per year in 2017–2019. The Government Programme includes a number of measures aimed at curbing growth of local government expenditure and thereby strengthening local government finances.

Government decisions based on gloomy economic outlook

The Finnish economy has contracted for three consecutive years. The unemployment rate will rise to nearly 10% this year and is projected to remain at a high level. In 2016 employment will increase slightly due to a modest improvement in economic conditions.

Due to favourable development of investments, growth in 2016 is projected to be over 1%. Consumer prices are expected to fall slightly this year. Next year, inflation will pick up, but remain moderate.

Finland's general government finances have moved more permanently into deficit due to prolonged weak economic conditions and longer-term structural problems. General government finances will also be in deficit next year, even though consolidation measures will reduce the deficit. Expenditure growth due to ageing will present a permanent additional challenge to balancing general government finances.

In 2014 Finland's general government deficit exceeded the 3% reference value specified in the EU Treaty. This limit also is likely to be exceeded in the current year. According to the European Commission's June assessment, the consolidation measures for 2016 decided by the Government will be sufficient to reduce the general government deficit to below 3% next year, which means the fulfilment of the deficit criterion.

Although debt-to-GDP will exceed the 60% limit this year and the debt criterion will also be broken from 2016 onwards, this will still not result in the launch of an excessive deficit procedure. The Commission's assessment in June was that the launch of an excessive deficit procedure is not justified. Finland is, therefore, still in the preventive arm of the Stability and Growth Pact and subject to its relevant requirements.

Third supplementary budget includes EUR 25 million to boost employment

The employment trend has been weak since the early part of the year. In the ICT sector, in particular, extensive redundancies have been announced during the summer.

An additional EUR 21.6 million is proposed for public employment and business services as a result of growth in unemployment and the redundancies announced by Microsoft. In addition, a supplementary appropriation is proposed for the operating expenditure of the (ELY) Centres for Economic Development, Transport and the Environment as well as the Employment and Economic Development (TE) Centres to facilitate handling of redundancy situations.

An addition of EUR 1.35 million is proposed for the training of highly educated unemployed people and EUR 1 million for vocational further education and training. The additional funding will enable training to be provided for around 750 people. In addition, an increase of EUR 5 million is proposed for the development of vocational education.

In addition, the third supplementary budget proposal allocates an increase totalling EUR 3 million for the operating expenditure of the Police and the Finnish Immigration Service to ensure efficient decision-making in asylum cases. An increase of EUR 5 million is proposed for the vehicle scrapping premium trial to ensure that the trial can continue to the end of the year.

An investment of EUR 20 million is proposed to safeguard the profitability of agriculture and the liquidity of farms.

In the supplementary budget, revenue estimates are increased by a net EUR 6 million. The change is based on tax revenue data for the early part of the year.

The supplementary budget proposal will be approved in a Government session on 17 September, after which it will be published in full on the Ministry of Finance website.

Funding for key Government projects secured

The Government has decided on EUR 1.6 billion of one-off investments in key projects and to reduce the repair debt in 2016–2018. Around EUR 220 million of the key project funding will be used in 2016. In addition, EUR 100 million is proposed to reduce the repair debt.

The key projects will be financed mainly with dividend income and sales of government shareholdings. Of the funding, EUR 330 million will be covered by the cancellation of funding for the City Rail Loop, which was in the spending limits.

The 2016 budget proposal will be approved by the Government on 28 September, after which it will be published in full on the Ministry of Finance website. On the same day, the Government will decide on the General Government Fiscal Plan. The budget proposals are based on a new Ministry of Finance economic forecast, which will be published on 28 September in the Ministry of Finance's Economic Survey.

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Selections from the 2016 Budget and the General Government Fiscal Plan 2016–2019

Taxation

Taxes on earned and capital income

- In accordance with the Government Programme, taxation on labour will be eased, particularly for low and middle incomes, by increasing the earned income tax credit by EUR 450 million in 2016.
- In earned income taxation, an adjustment corresponding to the change in the Index of Wage and Salary Earnings will be made at all income levels.
- The deductability of mortgage interest expenditure will be further restricted, such that 55% of mortage interest expenditure is tax deductible in 2016.
- A capital loss will be made tax deductible from all capital income, whereas according to current legislation it is tax deductible only from capital gains.
- The validity of the Act on Withholding Tax for Taxation of Foreign Wage Earners with Special Expertise (so-called Key Individuals Act) will be extended.
- For a fixed period, provisions relating to active repentance will be introduced in taxation. Natural persons or estates will avoid criminal penalties relating to tax fraud if during 2016 they, on their own initiative, declare income or assets previously undeclared in taxation.
- Donations between EUR 850 and EUR 500,000 from private individuals to higher education institutions will be made deductible.
- The tax rate for capital income exceeding EUR 30,000 will be raised from 33% to 34%.
- As a result of the freezing of the so-called YLE-index, the Finnish Broadcasting Company (YLE) tax will be adjusted accordingly, such that the smallest amount of the tax to be paid is increased from EUR 51 to EUR 70. The lowest income limit at which the tax is levied will rise from around EUR 7,500 to around EUR 10,300 per year. Accordingly, around 300,000 people on low-incomes will be completely outside the obligation to pay the YLE tax.
- The limit of the highest income bracket in the progressive income tax scale, the so-called solidarity tax will be lowered from EUR 90,000 to EUR 72,300 for 2016 and 2017.

Corporate tax

- The elevated corporate tax apportionment for local government will terminate at the end of 2015 and the corporate tax apportionment for parishes will be allocated to central government at the beginning of 2016. These will increase the central government's corporate tax share.

Excise duties

- The tobacco tax will be increased. As a result of the proposed increase, tobacco tax revenues are expected grow by EUR 68 million on an annual basis. Increases of the tobacco tax will total EUR 270 million during the parliamentary term.
- The tax on fuels used in heating, power plants and working machines will be increased. The increase is expected to boost central government tax revenue by a net EUR 75 million on an annual basis.

Other taxes

- In accordance with the Government Programme, car taxation will be eased during the parliamentary term by a total of EUR 200 million. The reductions will be implemented in stages between 2016 and 2019. The aim of the gradual implementation is to control behavioural impacts, to avoid market disturbances and sudden decrease of inventory values as well as unfair effects to consumers that a major one-off change in taxation could cause.

- The vehicle tax is proposed to be increased so that central government revenue increases by EUR 100 million on an annual basis.
- The waste tax will be increased.
- The real estate tax will be increased.
- According to current estimates, the unemployment insurance contribution will be increased by one percentage point. The increase will be divided equally between employees and employers.

Appropriations

A total of EUR 0.7 billion is earmarked for international development cooperation. The level of development cooperation appropriations in 2016 is expected to be 0.35% of the gross national income.

An additional EUR 50 million will be allocated for maintaining internal order and security in accordance with the Government Programme, i.e. to courts, the Criminal Sanctions Agency, Police, Border Guard and Customs, for example.

Support services for victims of crime will be arranged in compliance with the EU Victims Directive together with the social and health care administration and non-governmental service providers. Court fees will be raised and their scope of application extended as laid down in the Government Programme, while ensuring legal safeguards for those with limited means.

Approximately EUR 158 million will be allocated to migration administration, reception of refugees and asylum seekers, and re-entry orientation for returning migrants. This is around EUR 97 million more than in the actual 2015 Budget. The Government proposes that EUR 144 million be allocated for integration policies, which is EUR 47 million more than in the actual budget. The proposed appropriations are based on the expected 15,000 asylum seekers. The number of quota refugees remains at 750–1,050.

In accordance with the Government Programme, an additional appropriation of EUR 50 million is directed to the procurement of defence materiel.

The subjective right to child day care will be modified as of 1 August 2016. This means that all children will be entitled to 20 hours of early childhood education a week until they reach pre-school age. Full-time early childhood education applies to children whose parents or guardians require it for their children due to work, studies, entrepreneurship or self-employment.

In addition, as of 1 August 2016 the ratio of adults to children aged over three will be raised from 1:7 to 1:8. A development programme for early childhood education will be carried out, which will bring 120 new student places for kindergarten teachers and advances in early childhood pedagogy.

Student aid will no longer be index-linked. Changes to the student financial aid system are in progress and due to enter into force in autumn 2016.

A total of EUR 544 million will be reserved for transport infrastructure investments. For example, a project will be launched to improve the efficiency of Helsinki railway yard. The aim is to reduce disruptions to commuter and long-distance train services in the Helsinki area and elsewhere in Finland and to increase the capacity of the railway yard.

The conditions of the job alternation leave system will be tightened in 2016 so that the savings in the public economy will be about EUR 50 million on an annual basis.
The Working Life 2020 project will be continued.

Child allowances will no longer be index-linked.

Savings will be targeted at health insurance reimbursements by cutting reimbursements for travel costs and the costs of consulting a doctor or dentist.

Savings will be targeted at the cost of medicines, for example by introducing an annual initial co-payment, only after which entitlement to health insurance reimbursements for medicine expenses starts. In addition, several other measures to curb the growth of reimbursements for medicine expenses will be implemented.

The dietary grant will be removed as of 2016.

The income limits for determining sickness and parental allowances as well as the degree of compensation will be changed so that the income granting entitlement to a 70% compensation level will be lowered from the current amount, and the elevated daily allowance payable for the first 30 days of parental allowance will be lowered. In addition, holiday entitlement accrued from parental leave periods will be restricted.

The guaranteed pension will be raised by around EUR 23 per month, and the cost impact of this, taking into account the reduction of housing allowance expenditure, will be EUR 26 million in 2016.

The housing allowance for pension recipients will be abolished as a benefit from 1 January 2016. In future, pension recipients will also receive the general housing allowance. The effects of the change on the level of benefit of allowance recipients will be eased by EUR 30 million on an annual basis.

A total of EUR 10 million will be allocated to safeguarding the availability of home care services for families and for child welfare.

During the spending limits period, additional investments fully funded by central government will be allocated to developing informal and family care.

Financial resources earmarked for the University of Helsinki and for the University of Eastern Finland will not be discontinued until 2017.

The minimum degree of invalidity required of more mildly disabled war veterans to receive municipal community care will be lowered from 20% to 15%.

The most significant adjustments agreed on in the Government Programme that are not yet included in the General Government Fiscal Plan include an incentive system for specialised health care and a structural reform in upper secondary education. As their preparation is at an early stage, the exact effects cannot be assessed yet. The adjustments concerned will come into effect in 2017.