Budget session of Prime Minister Petteri Orpo's Government

Minuted entries

Final, 19 September 2023

Impact of Government Programme savings decisions on off-budget entities

Information in the tables of financial decisions in Appendix B to the Government Programme envisages savings of approximately EUR 734 million in Employment Fund benefit expenses, with changes planned by the Government also leading to pressures on the share disbursed by the Employment Fund to the Finnish Centre for Pensions. Besides the Employment Fund, the measures planned in the Government Programme will also affect the expenses of the National Health Insurance Fund to a lesser extent.

The Government Programme includes a commitment to reinforcing general government finances by EUR 6 billion at the 2027 level. The financial goals of the Government Programme commit the Government to ensuring that the fund expenditure savings resulting from its measures can be fully channelled to reversing the trend towards indebtedness. Decisions on additional measures are still needed in order to realise this objective. While several solutions are available for achieving the objective, they will call for careful further preparation.

The savings resulting from fundamental changes in fund benefit expenses will generally lead to lower insurance contributions. The Employment Fund has indeed proposed a reduction of 1.4 per cent in insurance contributions for 2024. The estimated direct impact of Government measures on fund expenses is approximately 0.2 percentage points. In accordance with the Government Programme, decisions of the Government will accommodate the impact of its decisions already taken for 2024.

The Government has decided to implement a tax increase corresponding to a reduction of 0.2 per cent in the unemployment insurance contribution in the year of implementing the said reduction, to be realised in dimensioning the indexation of earned income taxation. As the unemployment insurance contribution is tax-deductible, tax revenues will increase in consequence of the reduced unemployment insurance contribution. The Government's tax solution will allow for the increase in tax revenues caused by deductibility. The aim is to implement the solution in a manner that broadly corresponds to the unemployment insurance contribution with respect to income distribution effects.

The impact of measures planned by the Government is expected to be significantly greater in 2025 than in 2024 as a larger number of measures take effect.

A tripartite working group will be appointed to review the additional measures, with a view to describing the mechanisms of these financial linkages and investigating various ways of achieving the Government's objective. The overall solution of the working group will allow for the reduction of 0.2 per cent in the unemployment insurance contribution in the solution for 2024. The function of the labour market partners in the working group will be to apply their expertise concerning benefit financing schemes. The Government will make the necessary decisions in the spring 2024 session on the

General Government Fiscal Plan to channel the totality of savings in off-budget entities towards reversing the trend towards indebtedness in order to achieve the objectives of the Government Programme.

Joint Government staffing pool

To facilitate implementation of the Government Programme, a joint, precisely specified budget will be prepared for Government operating expenses, together with an operating model to enable rapid, efficient and flexible deployment of staffing resources. Implementation will commence in 2024. An operating model for joint resources and allocation transfers totalling EUR 5 million from the operating expenses of the ministries to those of the Prime Minister's Office are being prepared for the 2024 supplementary budget proposal.

Review of certain Government Programme entries

The Government budget session will issue a decision instructing the Ministry of Social Affairs and Health to prepare a savings proposal in place of reducing lump sum compensation and cutting parental allowance by the time of the budget session.

Additional measures to be prepared to strengthen general government finances

The Government Programme includes a commitment to implementing measures that will strengthen general government finances by EUR 6 billion in order to safeguard the welfare state. The Government is seeking to reverse the trend in the debt ratio. The Government stresses the importance of the growth and savings measures of the Government Programme for achieving the objective.

The latest forecasts give cause for concern in relation to the state of general government finances. An updated economic forecast suggests an estimated shortfall of 0.4 percentage points from the deficit target of 1 per cent of GDP set out in the Government Programme after implementing the EUR 6 billion consolidation package.

The Cabinet Committee on Economic Policy regularly monitors progress towards the economic policy goals of the Government Programme. The Ministry of Finance is preparing for various economic scenarios. The Ministry will initiate a regular expenditure and structure review process in support of contingency planning. The Government is assessing the state of general government finances and will decide on any necessary additional measures in the mid-term policy review.

Budget session measures to boost residential housing construction

The Government Programme outlines housing policy measures seeking such objectives as improving the cost-effectiveness of housing policy instruments, promoting the availability of housing in compliance with the arm’s length principle, achieving savings in general government finances, timing state-subsidised housing construction in a more counter-cyclical manner, and increasing the proportion of short-term interest subsidy properties in construction under the Housing Finance and Development Centre of Finland (ARA). The Government’s budget session policies rely on these principles and on the work of a task force appointed by the Ministry of Finance and the Ministry of the Environment and chaired by Lauri Kajanoja, which investigated the cyclical condition of housing construction and associated measures.

Rapid-impact measures:

1. Savings on the investment subsidy for special groups will be reduced by EUR 20 million in 2024, resulting in an investment subsidy level of EUR 63 million in 2024. The savings will be implemented in full at the level indicated in the Government Programme from the beginning of 2025. The measure will boost construction of special group properties (including housing for students, the elderly, the disabled and the homeless).
2. The 2024 plan for using the interest subsidy budget authority for state-subsidised housing construction combines long-term and short-term interest subsidy budget authority to enable granting of interest subsidy loans more flexibly according to demand. The terms and conditions for the short-term interest subsidy will be developed in addition to construction start decisions for 2024 within the framework of European Union regulations on state aid.
3. Implementation of the Government Programme entry on ending state subsidies for new right-of-occupancy properties will be deferred until 2025. No further interest subsidy loan applications for right-of-occupancy properties will be received after 31 December 2023. ARA may issue loan decisions for such properties within the confines of the interest subsidy budget authority until 31 December 2024.
4. Construction start decisions for ARA properties will be accelerated in order to begin projects counter-cyclically and effectively. Procedures at ARA will be enhanced to ensure smooth processing, predictability and equitable treatment. Streamlining must not jeopardise risk analysis related to government liability or increase risk taking.
5. The maximum interest-subsidised housing loan will be increased on an expedited timetable to facilitate first-time home purchases. The increase will be determined separately.
6. Responses to major shifts in the regional need for structural change subsidies and public labour and business services will be made as necessary.
7. Construction of infrastructure for clean transport propulsion systems will be accelerated. Investment subsidies for the charging stations of housing companies and workplaces will be supplemented to meet demands that exceed the budget for the current year. Construction of high capacity charging stations for electric, biogas and hydrogen-powered heavy vehicles will be launched as part of the energy investment subsidy programme. These measures will be financed from the section of the Government’s investment package that is earmarked for flagship clean energy projects.

The following medium-term construction support measures will also be implemented:

1. The update round for land use, housing and transport (MAL) agreements that began in September will be completed with dispatch. Cities will be encouraged to apply their own measures to accelerate construction, such as by discontinuing regulatory

measures that increase costs. Measures will be taken in accordance with the Government Programme to ensure that MAL agreements do not include elements that disrupt the growth of supply and competition. Sufficiently ambitious housing zoning objectives and transport investments in support of housing construction will be promoted through MAL agreements.

2. The transport investment programme agreed in the Government negotiations will be implemented with optimal dispatch, having regard to a rational distribution of asset income items, including a view to strengthening employment in infrastructure construction.
3. Clean transition investments will be boosted with measures to streamline environmental permits in accordance with the Government Programme. The scale of clean transition investment intentions totals more than EUR 140 billion over a period of about ten years. This investment will maintain employment in construction.
4. An urgent reform of the Land Use and Building Act will be launched in line with the Government Programme to promote such aspects as streamlined zoning, adequate housing construction and the attractiveness of Finland as a target for investment. An amendment to the Construction Act in line with the Government Programme will seek such aims as reducing the burden of administration and bureaucracy. A statutory time limit will be introduced for processing construction permits. These reforms will seek to accelerate construction and reduce additional building costs due to regulation and protracted processing.
5. Construction sector R&D will be promoted with a view to developing new innovations and enhancing productivity.
6. Legislation on state guarantees for capital improvement loans to housing companies will be revised, with attention nevertheless paid to ensuring that there is no significant increase in government risk.
7. The prospects for abolishing or reducing conveyancing tax in a manner that is neutral from the perspective of general government finances will be studied in accordance with the Government Programme.

   A study will be conducted with respect to the European Globalisation Adjustment Fund to determine whether its subsidy measures are suitable for supporting redundant construction firm employees.

Reimbursements paid by the Social Insurance Institution (KELA)

In accordance with the Government Programme, EUR 335 million will be earmarked for increasing KELA reimbursements as part of an investment package for the duration of the parliamentary term. The total scale of increases in KELA reimbursements will be some EUR 500 million.

Domestic air travel

The Government is enhancing domestic air transport in Finland primarily on the arm’s length principle while safeguarding the air connections that are important for security of supply, export industry and tourism. The Government will safeguard domestic flights with outsourced service traffic until the end of March 2026. Outsourced service traffic will continue for flight connections to the following airports: Joensuu, Jyväskylä, Kajaani, Kemi-Tornio, and Kokkola-Pietarsaari. The Government will earmark funding for arranging air traffic to Pori in accordance with the Savonlinna model for 2025 in the context of potential new competitive tendering.

The Government will set aside a total of EUR 38 million for this package over the entire period.

The more precise details of traffic arrangements will be settled in further preparations by the competent authorities. The model for arranging outsourced service traffic does not include factors that will actually cause the end of air traffic in its current form.

The full government subsidy for outsourced service traffic on domestic flights will end in spring 2026. Further negotiations will seek a contract model that treats cities equitably. Equitable treatment will be a factor considered by the Government in its spring 2025 mid-term policy review when examining the accessibility of cities with respect to domestic air traffic in Finland.