Council of the
European Union

Brussels, 15 June 2018
(OR. en)

9435/18

ECOFIN 518
UEM 196
SOC 332
EMPL 266
COMPET 389
ENV 372
EDUC 221
RECH 244
ENER 195
JAI 533

NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
No. Cion doc.:	9197/18 - COM(2018) 425 final
Subject:	Recommendation for a COUNCIL RECOMMENDATION on the 2018 National Reform Programme of Finland and delivering a Council opinion on the 2018 Stability Programme of Finland

Delegations will find attached the above mentioned draft Council Recommendation, as revised and agreed by various Council committees, based on the Commission Proposal COM(2018) 425 final.

COUNCIL RECOMMENDATION

of …

on the 2018 National Reform Programme of Finland

and delivering a Council opinion on the 2018 Stability Programme of Finland

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 121(2) and 148(4) thereof,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1], and in particular Article 5(2) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

---

1 OJ L 209, 2.8.1997, p. 1.

Whereas:

(1) On 22 November 2017, the Commission adopted the Annual Growth Survey, marking the start of the 2018 European Semester for economic policy coordination. It took due account of the European Pillar of Social Rights, proclaimed by the European Parliament, the Council and the Commission on 17 November 2017. The priorities of the Annual Growth Survey were endorsed by the European Council on 22 March 2018. On 22 November 2017, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council[2], the Commission also adopted the Alert Mechanism Report, in which it did not identify Finland as one of the Member States for which an in-depth review would be carried out. On the same date, the Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area, which was endorsed by the European Council on 22 March 2018. On 14 May 2018, the Council adopted the Recommendation on the economic policy of the euro area[3] ('Recommendation for the euro area').

(2) As a Member State whose currency is the euro and in view of the close interlinkages between the economies in the economic and monetary union, Finland should ensure the full and timely implementation of the Recommendation for the euro area, as reflected in the recommendations below, in particular recommendation (3).

(3) The 2018 country report for Finland was published on 7 March 2018. It assessed Finland's progress in addressing the country-specific recommendations adopted by the Council on 11 July 2017[4], the follow-up given to the country-specific recommendations adopted in previous years and Finland's progress towards its national Europe 2020 targets.

(4) On 13 April 2018, Finland submitted its 2018 National Reform Programme and its 2018 Stability Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

---

2 Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances (OJ L 306, 23.11.2011, p. 25).

3 OJ C 179, 25.5 2018, p. 1.

4 OJ C 261, 9.8.2017, p. 1.

(5) Relevant country-specific recommendations have been addressed in the programming of the European Structural and Investment Funds ('ESI Funds') for the 2014-2020 period. As provided for in Article 23 of Regulation (EU) No 1303/2013 of the European Parliament and of the Council[5], where it is necessary to support the implementation of relevant Council recommendations, the Commission may request a Member State to review and propose amendments to its Partnership Agreement and relevant programmes. The Commission has provided further details on how it would make use of that provision in guidelines on the application of the measures linking the effectiveness of the ESI Funds to sound economic governance.

(6) Finland is currently in the preventive arm of the Stability and Growth Pact and subject to the debt rule. In its 2018 Stability Programme, the Government plans a headline balance of -0,6 % of GDP in 2018, unchanged from the previous year. According to the Government, the balance is projected to improve in 2019 and, thereafter, reach a small surplus in 2020 and 2021. The medium-term budgetary objective — a deficit of 0,5 % of GDP in structural terms — was over-achieved in 2017. However, the recalculated structural deficit[6] is projected to be marginally larger, at 0,6 % of GDP, in 2018-2019 and to decrease thereafter. The general government debt-to-GDP ratio peaked at 63,6 % in 2015 and declined to 61,4 % in 2017. According to the 2018 Stability Programme, the debt ratio will continue to decrease and reach 56,7 % of GDP in 2021. The macroeconomic scenario underpinning those budgetary projections appears to be broadly plausible. The main risks to the budgetary projections relate to the possible larger-than-expected upfront costs of the planned social and healthcare services reform.

---

5 Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006 (OJ L 347, 20.12.2013, p. 320).

6 Cyclically-adjusted balance net of one-off and temporary measures, recalculated by the Commission using the commonly agreed methodology.

(7) The 2018 Stability Programme recalls that the costs related to the exceptional inflow of refugees increased and that this budgetary impact was significant in 2015-2016. According to the 2017 Stability Programme, the costs were projected to decrease by 0,15 % of GDP in 2017. This figure was not confirmed in the 2018 Stability Programme and has therefore not been taken into account by the Commission. In addition, in 2017, Finland was granted a temporary deviation of 0,5 % of GDP from the required adjustment path towards the medium-term budgetary objective to take account of major structural reforms, in particular, the 2017 pension reform and the Competitiveness Pact, with a positive impact on the long-term sustainability of public finances. In 2017, Finland was also granted a temporary deviation of 0,1 % of GDP to take account of national investment expenditure in projects co-financed by the Union. As regards the latter deviation, one of the eligibility criteria is that total public investment does not decrease. Outturn data for 2017 showed a decline in public investment in 2017 compared to the previous year, while investment linked to Union funds is estimated to have remained stable. Thereby, Finland is no longer considered eligible for a temporary deviation of 0,1 % of GDP in relation to national investment expenditure in projects co-financed by the Union in 2017. The remaining temporary deviations from the adjustment path towards the medium-term budgetary objective are carried forward so that they cover a period of three years. Therefore, the temporary deviations under the unusual events and structural reform clauses amount to 0,67 % of GDP in 2018 and 0,5 % of GDP in 2019.

(8) The Council recommended Finland to ensure that the deviation from the medium-term budgetary objective in 2018 is limited to the allowance linked to the budgetary impact of unusual events (granted in 2016) as well as the allowances related to the implementation of structural reforms and investments (granted in 2017). This is consistent with a maximum nominal growth rate of net primary government expenditure of 1,9 % in 2018, corresponding to an allowed deterioration in the structural balance by 0,1 % of GDP. Based on the Commission 2018 spring forecast, there is a risk of some deviation from the recommended fiscal adjustment in 2018. However, as a result of the better-than-expected outcome for 2017, the distance from the medium-term objective is currently forecast to be less than the granted allowances linked to the unusual events and the structural reform clauses. If confirmed, this shall be taken into account in the ex-post assessment for 2018.

(9) In 2019, based on the Commission 2018 spring forecast, Finland should ensure that the deviation from the medium-term budgetary objective in 2019 is limited to the allowance linked to the budgetary impact in relation to the implementation of the structural reforms for which a temporary deviation was granted in 2017. This is consistent with a maximum nominal growth rate of net primary government expenditure of 2,9 %, corresponding to an allowed deterioration in the structural balance by 0,2 % of GDP. Under unchanged policies, Finland is forecast to comply with the requirement for 2019. Finland is also forecast to comply with the debt reduction benchmark in 2018 and 2019. Overall, the Council is of the opinion that Finland needs to stand ready to take further measures to ensure compliance in 2018 and is projected to comply with the provisions of the Stability and Growth Pact in 2019.

(10) Due to an ageing population and a declining workforce, expenditure on pensions, health and long-term care is projected to increase from 22 % of GDP in 2016 to 24 % of GDP by 2030. The administrative reform and the reform of the social and healthcare services, currently under discussion in the Parliament, aim at reducing expenditure growth in this area. Other objectives would be to ensure equal access to healthcare and reduce waiting times for patients, especially in less favoured or remote areas. The ratio of self-declared unmet medical needs is above the Union average. In particular, people outside the workforce are experiencing difficulties getting the necessary medical care. A new level of regional public administration, i.e. counties, will take care of Finland's social and healthcare services from 2020. The reform will pool resources to allow their more effective use at county level. Higher use of digital and electronic services should also increase productivity. Finally, social and primary healthcare services would be available from both public and private social and health centres. This would give patients more freedom of choice, while competition between service providers is expected to yield cost savings. Achieving these ambitious objectives will also depend on the choices made during the implementation phase of the reform.

(11) At 74 % of the total 20-64 working-age population in 2017, the employment rate was relatively low in Finland compared with its Nordic peers. Participation in the labour market was also lower, especially for women, low-skilled men and persons with a migrant background. At around 7,5 % of the total labour force in 2017, the structural unemployment rate was high. For employment growth, and despite recent measures adopted by the Finnish authorities, challenges remain in adopting more incentives to accept work and more active labour market policies.

(12) Inactivity and unemployment traps remain an obstacle to a more extensive use of the labour force. A significant inactivity trap results from the benefits system and the combination of its different types of allowances. Social assistance and the housing allowance form a substantial component of this trap. These and other benefits are phased out very rapidly as income increases, which creates the risk that taking up work might not be sufficiently financially rewarding. The complexity of benefit rules combined with administrative practices are deemed to result in significant unemployment traps or 'bureaucratic traps'. Uncertainty surrounding the level of benefits and the time to reinstate them reduces the attractiveness of short-term or part-time work. Finally, despite a recent pick-up in new home construction, the lack of affordable housing in growth centres could be an additional impediment to labour mobility. The ongoing basic income experiment, whose first results are expected in 2019, is likely to provide some information for revising the social security system. A reform of the parental leave system has been explored to increase the employment rate of women of child-bearing age and to promote gender equality. A real-time income register is currently under preparation and could provide an opportunity to improve the efficiency of public services and level the benefits effectively.

(13) Wage-setting practices are changing and moving towards sectoral and local level bargaining. Since firms often face very different constraints, this should allow more wage differentiation between firms, ensuring that real wage increases are in line with productivity growth while supporting better employment outcomes. Under the most recent wage agreements concluded in late 2017 and early 2018, organised employers have more opportunities to carry out local bargaining. For non-organised employers some obstacles persist. Some first positive results have been observed, as the current status of the recent wage negotiations points to an outcome with a broadly neutral impact on cost competitiveness. In practice, despite the absence of formal coordination on wage agreements, a Finnish model seems to be emerging, linking pay rises in the non-tradable sector with the increases agreed in the tradable sector.

(14) As activity and employment gradually return to pre-crisis levels, the lower employability of the unemployed and the inactive is likely to become a major concern that could slow down recovery of the labour market, thereby undermining the long-term sustainability of Finland's welfare society. The situation requires adequate and integrated activation and rehabilitation services to the unemployed and the inactive. At the same time, the resources devoted to public employment services, in particular to counselling activities, are below the Union average. Services for the unemployed, especially for those with lower employment prospects, are dispersed among a number of separate providers. Integration or better coordination would help produce a seamless services chain (a one-stop-shop for the unemployed/inactive). Continued efforts are needed to ensure the re-entry of the inactive into the labour market, especially those in the 25-49 age group and persons with a migrant background. The migrant population could partly offset the existing decline in the working-age population, provided that they are well integrated into the labour market and in Finnish society. Finally, labour shortages are increasing, likely reflecting ongoing structural changes in the economy, such as population ageing. This suggests a need for continued investment in adult learning and vocational training to enable occupational mobility and reduce skills mismatches.

(15) The Government has implemented measures to promote entrepreneurship and start-ups and it has also improved the availability of loans and export guarantees for small and medium-sized enterprises. Also, the unemployed are now allowed to receive unemployment benefits during the first months when starting a business. This scheme is most likely to be successful if combined with training and coaching, while its short duration can limit its impact. Also, some weaknesses remain in the social protection of entrepreneurs and the self-employed and the risk of poverty for the self-employed in Finland is high relative to employees.

(16) Household debt remains at a historically high level (67 % of GDP in 2016). The debt is predominantly at a variable rate, which constitutes a risk should interest rates rise in the medium term. Consumer credit is increasing rapidly and a rising share of this lending is granted by foreign banks, by financial institutions other than credit institutions, by small-loan companies and by peer-to-peer lending. The Finnish Financial Supervisory Authority has adopted a number of measures to contain the increase in the indebtedness of households. However, no active deleveraging is expected soon, especially as interest rates remain low and consumer confidence is strong. The lack of a comprehensive (collecting both positive and negative information on debtors) credit registry can prevent banks from having a clear overview of households' overall indebtedness.

(17) In the context of the 2018 European Semester, the Commission has carried out a comprehensive analysis of Finland's economic policy and published it in the 2018 country report. It has also assessed the 2018 Stability Programme, the 2018 National Reform Programme and the follow-up given to the recommendations addressed to Finland in previous years. The Commission has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Finland but also the extent to which they comply with Union rules and guidance, given the need to strengthen the Union's overall economic governance by providing Union-level input into future national decisions.

(18) In the light of this assessment, the Council has examined the 2018 Stability Programme and its opinion[7] is reflected in particular in recommendation (1) below,

---

[7] Under Article 5(2) of Regulation (EC) No 1466/97.

HEREBY RECOMMENDS that Finland takes action in 2018 and 2019 to:

1. Achieve the medium-term budgetary objective in 2019, taking into account the allowances linked to the implementation of the structural reforms for which a temporary deviation is granted. Ensure the adoption and implementation of the administrative reform to improve cost-effectiveness and equal access to social and healthcare services.

2. Improve incentives to accept work and ensure adequate and well-integrated services for the unemployed and the inactive.

3. Strengthen the monitoring of household debt including by setting up a credit registry system.

Done at Brussels,

For the Council

The President