

European Semester

2012/2677(RSP) - 30/05/2012 - Follow-up document

PURPOSE: draft Recommendation for a COUNCIL RECOMMENDATION on Finland's 2012 national reform programme and delivering a Council opinion on Finland's stability programme for 2012-2015.

BACKGROUND: the European Commission has adopted a **package of recommendations for budgetary measures and economic reforms** to enhance financial stability, boost growth and create employment across the EU.

The recommendations are **country-specific**, taking account of the individual situation of each Member State. The Commission has also issued recommendations for the euro area as a whole. The country-specific recommendations put forward by the Commission give operational guidance for Member States while preparing their budgetary policies and for economic reforms that should be enacted over the coming twelve months to boost competitiveness and facilitate job creation.

The adoption of the recommendations marks the **concluding of the second phase of the European Semester** of economic policy coordination, which was launched with the Commission's [Annual Growth Survey](#) on 23 November 2011.

The basis for these recommendations is a thorough assessment of the implementation of those adopted in 2011, combined with a detailed analysis of the national reform programmes and stability or convergence programmes that Member States submitted by 30 April 2012. The analysis underpinning the recommendations is presented in 28 Commission staff working documents.

CONTENT: on 19 April 2012, **Finland** submitted its stability programme covering the period 2012-2015 and its 2012 national reform programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

Based on the assessment of the stability programme, the Council is of the opinion that the **macroeconomic scenario** underpinning the budgetary projections in the programme **is plausible** for the 2012-13 period, GDP growth expected in the programme is in line with the Commission's 2012 spring forecast. Projections are also realistic for the years 2014 and 2015. **The main budgetary goal** of Finland's 2012 stability programme is to reduce the central government deficit by limiting expenditures and increasing revenues. The programme aims at balancing the general government budget by 2015 and reaching surpluses as from 2016.

The debt ratio is well below 60% of GDP and according to the programme, the debt level will peak in 2014 at close to 52% of GDP and then start declining.

A **notable sustainability gap still exists** in Finland's public finances, mainly stemming from a rapidly deteriorating dependency ratio caused by population ageing. The gap needs to be continuously monitored and measures adjusted accordingly.

According to the Commission, the **main policy challenges** for the country are as follows:

- The productivity of public services has been in decline over the past decade. Finnish authorities have already implemented several reforms to address the issue, but their implementation has been slow, especially at the local government level.

- Further productivity gains and cost savings could be achieved by encouraging more competition in shielded private and public service sectors, through further product and labour market deregulation.
- Over the past year, the Finnish government has introduced new measures to reduce youth and long-term unemployment. These included a pilot programme to reduce long-term unemployment and introduction of a social guarantee for young people.
- The increase in life expectancy has been more rapid than envisaged during the 2005 pension reform, and therefore over time the current statutory retirement age range could turn out to be too low.
- Regulatory barriers in the services sector in Finland are still restrictive and market concentration is high not only in retail trade, but also in areas of production.
- Productivity growth in Finland is stagnating and Finnish exporting firms have lost market shares in foreign markets over recent years. Unit labour costs have increased, although not in the manufacturing sector.
- Finland is exporting intermediate and investment goods mainly to mature, slowly growing economies and its products have limited presence in developing economies.
- The Finnish economy needs to become more diversified both in terms of companies as in terms of export markets in order to develop multiple strong exporters in the future.
- Notwithstanding the past strong Finnish R&D and innovation performance, without a significant increase in the number of innovative high-growth firms, Finland's ranking as an EU innovation leader risks declining.

Recommendations proposed for Finland for the period 2012-2013:

Budgetary measures:

- preserve a sound fiscal position in 2012 and beyond by correcting any departure from the medium-term budgetary objective (MTO) that ensures the long-term sustainability of public finances;
- to this end, reinforce and rigorously implement the budgetary strategy, supported by sufficiently specified measures, for the year 2013 and beyond including meeting the expenditure benchmark;
- continue to carry out annual assessments of the size of the ageing-related sustainability gap and adjust public revenue and expenditure in accordance with the long-term objectives and needs;
- integrate the local government sector better in the system of multi-annual expenditure ceilings.

Public services:

- take further measures to achieve productivity gains and cost savings in public service provision, including structural changes and efficiency-enhancing territorial administrative reforms, also in order to respond to the challenges arising from population ageing.

Labour market:

- implement the ongoing measures to improve the labour market position of young people and the long-term unemployed, with a particular focus on skills development;
- take further steps to encourage the employment rate of older workers, including by reducing early exit pathways;
- take measures to increase the statutory retirement age in line with the improved life expectancy.

Competition:

- continue enhancing competition in product and service markets, especially in the retail sector, by ensuring the effective implementation of the new Competition Act and the new programme on promoting healthy competition;
- continue to further opening the municipal procurement of services to competitive bidding and by ensuring competition neutrality between private and public undertakings;

- take further steps to ensure that competition law fines are sufficiently deterrent.

Growth and external competition:

- in order to strengthen productivity growth and external competitiveness, continue efforts to diversify the business structure, in particular by hastening the introduction of planned measures to broaden the innovation base while continuing to align wage and productivity developments.

These recommendations should be endorsed by the European Council on 28-29 June 2012 and formally adopted by the Council in July 2012.