Fiscal policy monitoring assessment on the management of general government finances

D/115/04.04.01/2022

This memorandum includes the spring 2022 assessment of the National Audit Office of Finland (NAOF) on the development and management of general government finances. It is a statutory task of the National Audit Office to monitor that general government finances are managed in compliance with the Fiscal Policy Act (869/2012) and the Decree on the General Government Fiscal Plan (120/2014) issued thereunder. The assessment takes into account the General Government Fiscal Plan for 2023–2026 and is based on calculations made by the NAOF's fiscal policy monitoring, the independent economic forecast by the Ministry of Finance, and other economic forecasts. The National Audit Office presented its previous assessment in the fiscal policy monitoring report published on 9 December 2021[1]. The National Audit Office will publish a broader fiscal policy audit and monitoring report for the parliamentary term 2019–2022 again in December.

The following members of the fiscal policy monitoring team have participated in the production of the contents of the assessment: Jasmin Grünbaum, Arto Kokkinen, Mika Sainio, Sini Salmi, Leena Savolainen, and Matthias Strifler.

Helsinki, 3 June 2022

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[1]The NAOF's separate report to Parliament: Fiscal policy monitoring report, R 22/2021 vp.

Contents

Summary of the assessment

On 24 February 2022, Russia launched an invasion of Ukraine, starting a war in a situation where the economy had just survived the Covid-19 pandemic. The war immediately changed the economic outlook for the coming years. According to the business cycle heatmap produced by the fiscal policy monitoring of the National Audit Office of Finland (NAOF), the war weakened the economic development already in March. The public finances outlook for the next few years deteriorated. However, the general government debt-to-GDP ratio will remain considerably lower in the next few years than forecast in the first Covid-19 spring in 2020. The average interest rates on new central government debt have risen above zero in the first half of 2022 at the same time that market interest rates have risen.

Due to the war in Ukraine, forecasts involve even more uncertainty than normal. According to the analysis made by the NAOF's fiscal policy monitoring, the economic forecast of the Ministry of Finance, on which the General Government Fiscal Plan is based, is realistic. The forecasts of the Ministry fall within the prediction bounds formed on the basis of forecasts of other institutions.

When preparing the General Government Fiscal Plan for 2023–2026, the Government decided on significant additional expenditure due to the security policy situation. The deviation from the spending limits on account of the security policy situation is justified to enable the necessary increases in expenditure. However, the deviation has been defined in broad terms, enabling also increases in permanent expenditure. Therefore, it is important that there are transparent justifications for including a certain expenditure item in the scope of the security policy deviation and that such expenditure items can, if necessary, be distinguished from the expenditure normally falling within the scope of the spending limits. Especially in a situation where the spending limits do not limit the amount of certain expenditure, it would be important to assess the efficiency of the use of such expenditure in relation to the objectives set for them.

In spring 2022, the Government decided to transfer the funding of the beneficiaries of the state-owned gaming company Veikkaus to the scope of the spending limits in such a manner that the spending limits for 2023 were raised by a total of EUR 990 million in accordance with a funding model outlined in Parliament. However, according to the spending limits rule, the limits should have been raised only by the amount payable by Veikkaus to the state budget, i.e. by EUR 762 million. Moreover, the decision created an additional margin of manoeuvre in the 2023 spending limits, because part of the expenditure of Veikkaus' beneficiaries had already been included in the 2023 spending limits as part of the previously decided EUR 500 million raising of the spending limits. According to the spending limits rule, such a deviation is not justified, and the deviation is directed at permanent increases in expenditure. The transfer of the funding of Veikkaus to the scope of the spending limits has been carried out in a manner that violates the principles of the spending limits system. However, from the perspective of the spending limits rule, the expenditure of Veikkaus' beneficiaries falls within the scope of the spending limits. Therefore, the decision is correct in view of the spending limits system, even though the transfer of expenditure to the scope of the spending limits was not technically implemented in compliance with the spending limits rule.

Due to the war, the deactivation of the general escape clause related to the EU's fiscal objectives has been postponed. Before returning to normal application of fiscal rules, the EU is discussing amending the rules. The concept of structural balance, included in the current rules, has proved to be very uncertain and to be revised afterwards to a significant extent. It is calculated by making a cyclical adjustment to nominal balance. A comparison between the results of the established common cyclical adjustment method of the EU and the method based on the cyclical indicator of the NAOF's fiscal policy monitoring shows that the differences are so great that the choice of the cyclical adjustment method may even affect conclusions on compliance with the rules.

According to the General Government Fiscal Plan of spring 2022, the statutory objectives for public finances were set in line with the independent forecast of the Ministry of Finance. Therefore, in light of the forecast, no new measures are needed to achieve them. The objectives are broad but meet the requirements set by legislation. On 28 April 2022, the Government issued an amendment to a decree, as a result of which it waived the requirement to include the local government expenditure limit in the General Government Fiscal Plan. Tracking the expenditure limit was already abandoned in 2021. As a result of the amendment to the decree, the General Government Fiscal Plan complies with the requirements set by legislation.

In February 2022, the Government decided on new employment measures, whose combined impact on general government finances will be EUR 97–126 million according to the estimate by the NAOF's fiscal policy monitoring. Thus, the decisions promote the strengthening of public finances through employment measures. The most important employment measure taken during the government term is the removal of the right to additional days of unemployment security. Overall, however, the employment measures fall clearly short of the impacts on public finances mentioned in

the sustainability roadmap (EUR 1–2 billion) and the target set for the number of new employed (80,000). In relation to the sustainability gap baseline calculation, the impacts of the employment measures taken during the parliamentary term on public finances will be around EUR 0–500 million. On the other hand, the Government's employment rate target was almost achieved in the first half of 2022, taking into account changes in the way employment rate statistics are compiled.

Employment measures are presented inconsistently in the ministries' and the Government's publications. They treat, for example, estimates of employment potential and actual impact assessments in a comparable manner. Due to the inconsistent presentation methods, the assessments of the total impacts of the measures and even of the achievement of the targets differ from one another.

Due to the Russian invasion, the Government did not publish an updated version of the sustainability roadmap in spring 2022. In 2020 and 2021, the sustainability roadmap set an objective for the general government debt-to-GDP ratio and discussed the measures needed to achieve the target. It is important to strive to bend the growth curve of the debt ratio even though the circumstances have changed. For this reason, it is essential at least once a year to monitor the progress of the measures and the scale of the new measures required. The sustainability roadmap should be updated as soon as possible to reflect the changed economic outlook.

It is probably impossible to ensure the stabilization or turnaround of the debt-to-GDP ratio by merely structural measures that are slow to impact. Therefore, it is also necessary to prioritize expenditure and overhaul taxation, and based on this, take discretionary measures to strengthen the central government’s fiscal position. The need for these measures is increased by the ageing of the population and new expenditure needs, such as defence expenditure and investments in the green transition. It is important to choose such means for strengthening public finances that promote economic growth and wellbeing to the extent possible. When the measures to be taken are selected, it is therefore necessary that the knowledge base available is as comprehensible as possible. Therefore, the Government should assess whether sufficient information is currently available on public expenditure and taxation structures. If necessary, the Government should ensure that the information is supplemented by, for example, various instruments or surveys, such as spending reviews.

General government debt continues to grow, and interest rates on new government debt have started to rise

The Covid-19 pandemic placed significant strain on general government finances, particularly in 2020. Public debt and deficit in 2021 already showed clear signs of recovery from the pandemic. The start of the Russian invasion of Ukraine at the end of February 2022 caused a sudden decline in the outlook of the Finnish economy. This year, general government debt will start to rise slowly (Figure 1). When comparing the debt ratio forecast of the first Covid-19 spring in 2020 with the forecast of spring 2022, it is obvious that the economy survived the pandemic considerably better than initially estimated. Even though the war in Ukraine has undermined the economic outlook, the debt ratio is not expected to rise in 2024 to as high a level as it was forecast to at the beginning of the previous crisis. Among other factors, the outlook is influenced by higher inflation, which has a positive impact on the debt-to-GDP ratio: GDP is affected by inflation, while the existing old debt stock remains unchanged.

According to the forecast of the Ministry of Finance, Finland's general government deficit will decrease until 2024 and increase in 2025 and 2026 (Figure 1). The increase is partly due to the first deliveries of fighter jets to Finland, which are expected to start in 2025. The fighter procurement will be reflected in public debt already in 2022 due to the start of payments. According to the forecast of the Ministry of Finance, the debt-to-GDP ratio will start to grow in 2022 and show moderate growth until 2026. The spring 2022 forecasts of the EU Commission are almost entirely in line with the previously published forecasts of the Ministry of Finance.

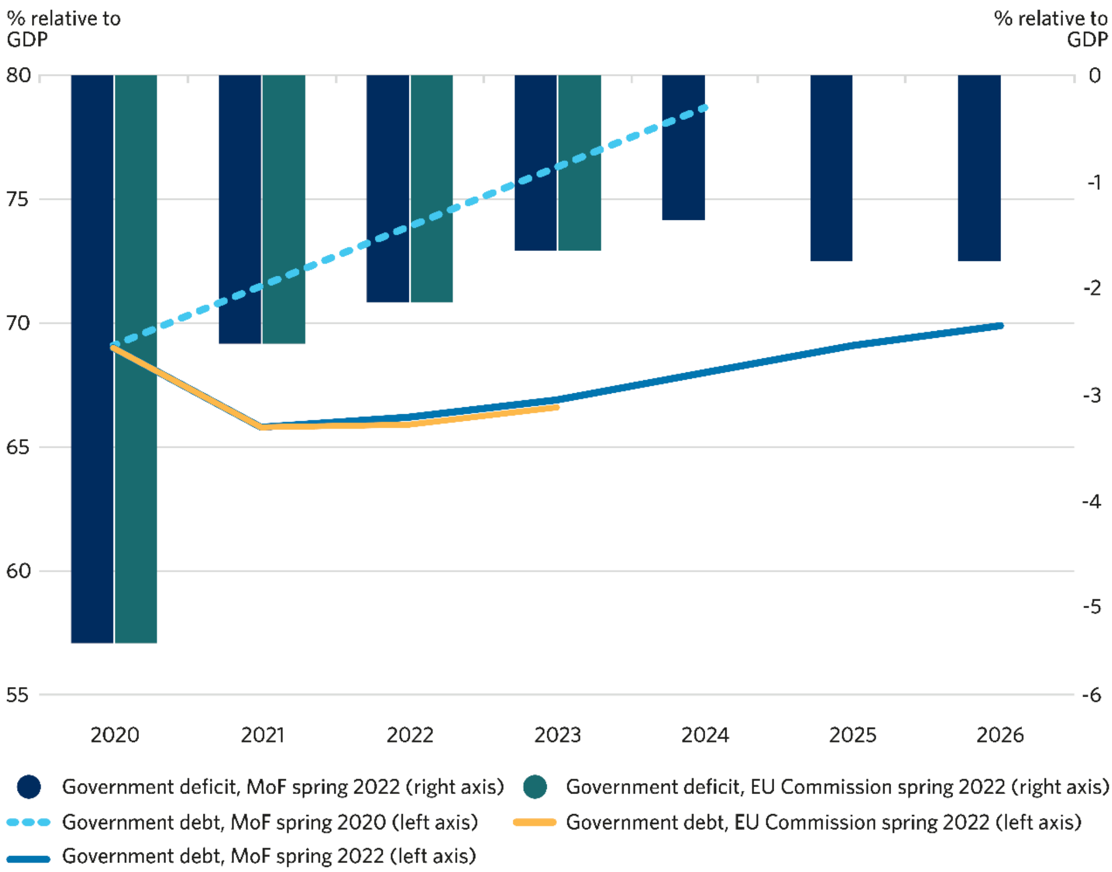


Figure 1: Government deficit and debt forecasts for 2020–2025. Sources: Statistics Finland, Ministry of Finance (MoF), and EU Commission

The development of EU Member States' debt-to-GDP ratios in the coming years seems more favourable than in recent years, although government debt continues to grow in many Member States. The debt ratios of Member States grew rapidly in 2020–2021, the first years of the Covid-19 pandemic (Figure 2). The debt ratio is forecast to decrease in more than two thirds of EU Member States in 2022 and 2023. The debt ratio is forecast to increase in 2022–2023 in eight Member States, for example in Finland. When the development of Member States' debt ratios in 2020–2023 is compared, the development in Finland can be seen to correspond to the euro area average and to be 0.9 percentage points higher than that of the entire EU area. Forecasting the government debt-to-GDP ratio naturally involves a number of uncertainties, such as the impacts of the Russian war of aggression. Therefore, the outcome of the examination should be considered indicative rather than an accurate estimate.

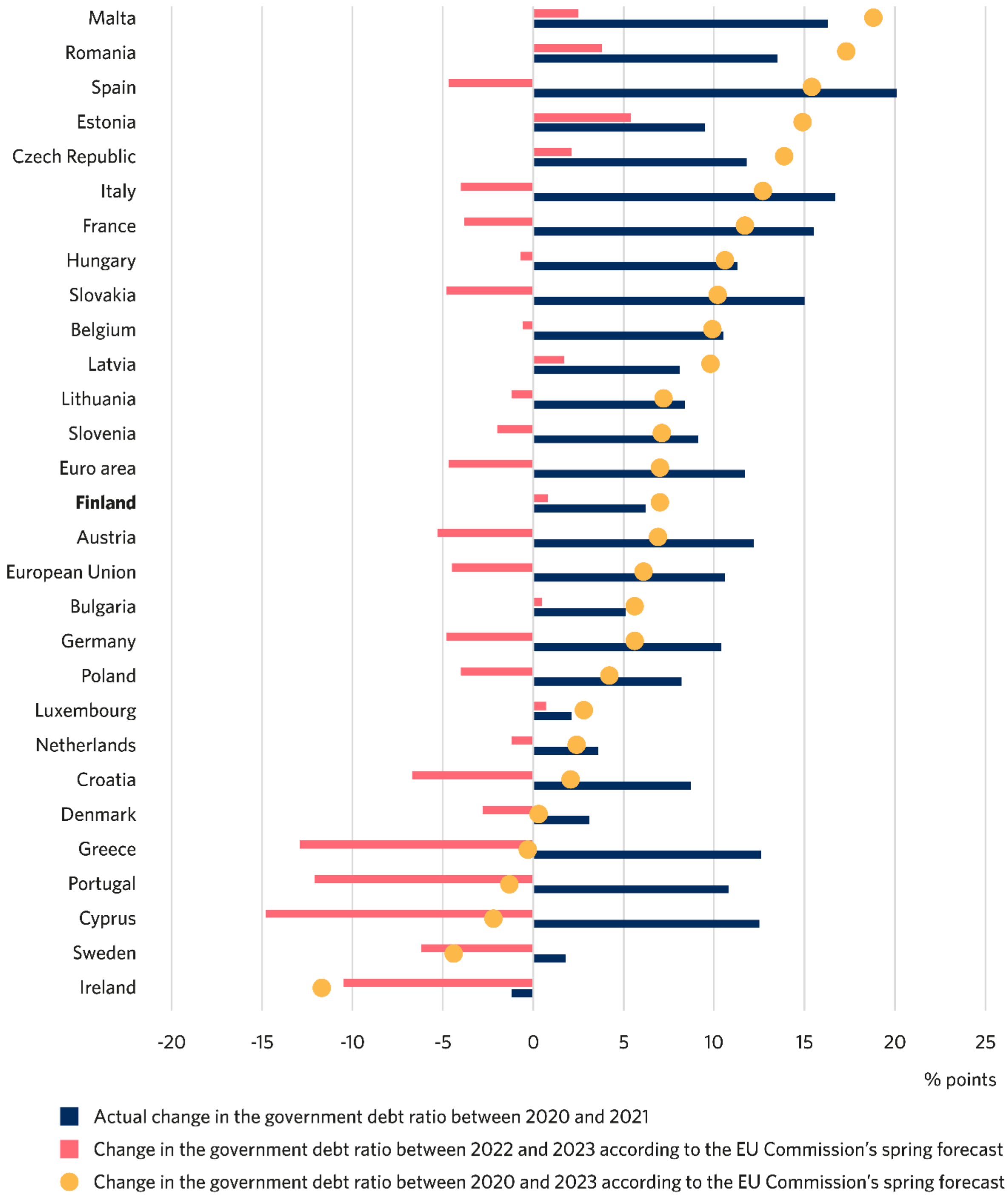


Figure 2: Actual change in the government debt-to-GDP ratio in 2020–2021 based on statistics, the EU Commission's forecast for the development of debt in 2022–2023, and the change in the debt ratio in 2020–2023 based on them. Sources: EU Commission, Eurostat, and NAOF.

Interest rates on government loans started to rise at the beginning of 2022 and have continued to rise during the spring. The development of interest rates has been driven, for example, by the change in the inflation outlook and the decrease in central banks' stimulus measures. Figure 3 illustrates the development of market interest rates on a 10-year central government bond in Finland, Italy, and Germany. The interest rate differential of Finland vis-à-vis Germany has increased slightly since the start of the Russian invasion and is approaching 0.5%. Similar development was seen at the outbreak of the Covid-19 pandemic. Interest rates show a small but sharp decline at the turn of February and March when the Russian invasion began.

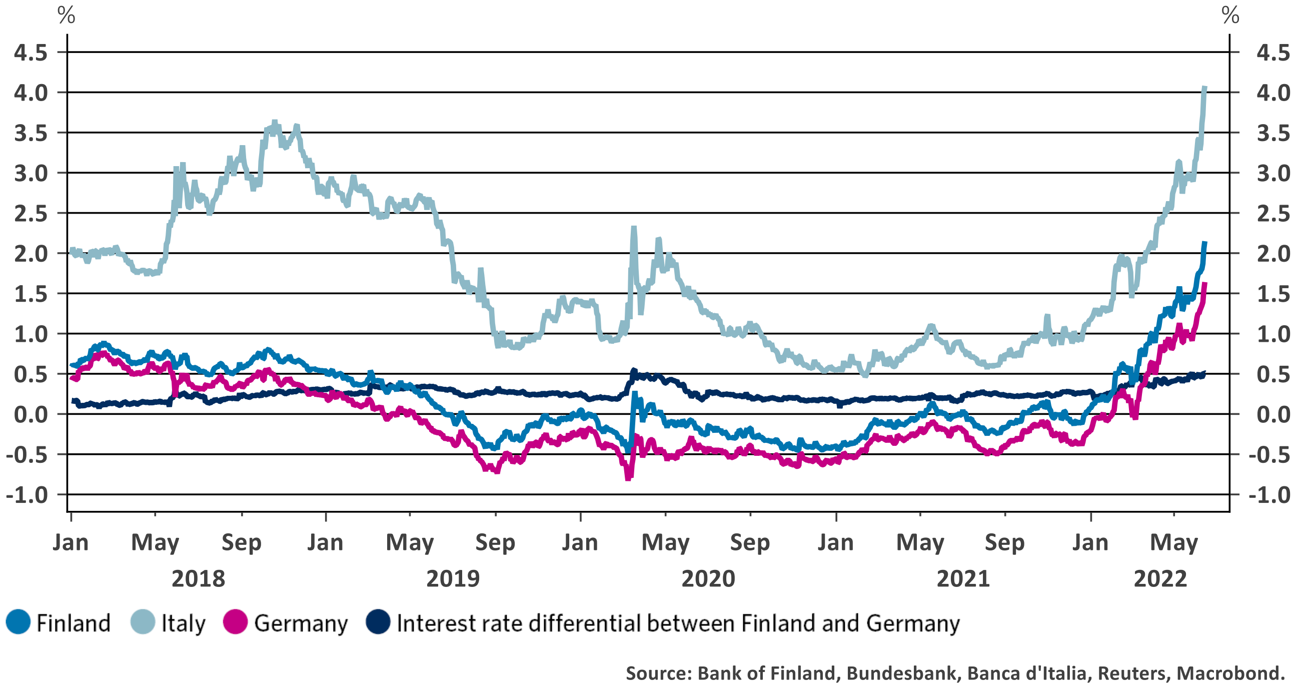


Figure 3: The interest rate of a 10-year government bond of Finland, Germany, and Italy, and the interest rate differential between Finland and Germany.

The average interest rates on new central government debt have been falling for a long time, but at the beginning of 2022 the interest rates turned positive (Figure 4). However, the increase in interest rates is still very moderate. While short-term government borrowing continues to take place at negative interest rates, the interest rates on long-term serial bonds are faced with a sharper rise. The number of central government bonds issued in 2021 decreased from 2020, although the level continued to be higher than in the pre-pandemic years.

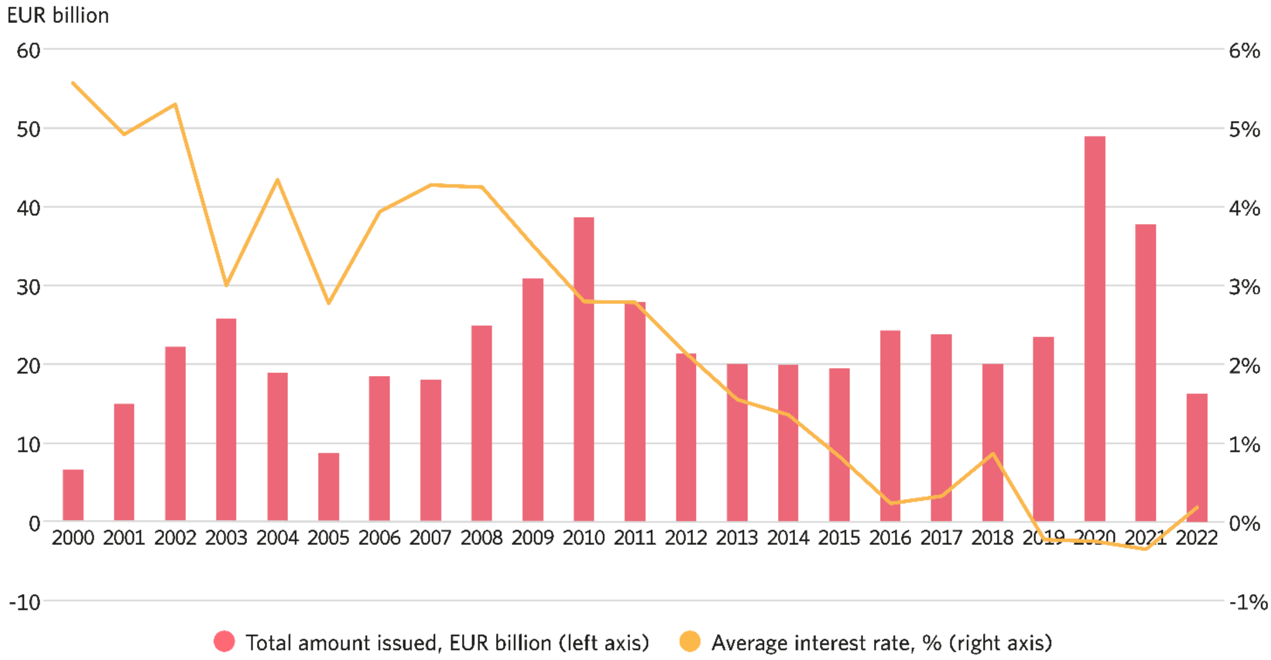
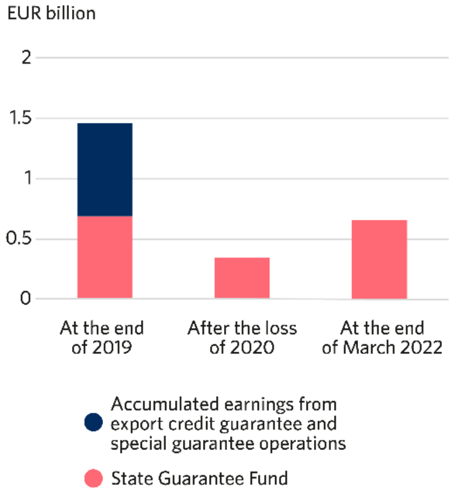


Figure 4: Central government bonds issued in 2000–2022 and actual average interest rates (yield) on the issues. The average interest rate has been calculated as a weighted average based on the issues whose interest rates have been published on the website of the State Treasury. The issuing methods and maturities of the bonds vary, and therefore the interest rates shown in the figure for different years do not reflect the interest rates on bonds of equal maturity. The impacts of interest rate swaps have not been taken into account in the data. As for 2022, the figure is based on information up until 17 May. Source: State Treasury, Bank of Finland, and NAOF.

State guarantees and other contingent liabilities are not directly reflected in government debt and deficit, but it is important to examine them as they pose a risk to public finances that may be realized. The amount of state guarantees has been growing in Finland for a long time (Figure 5). Total guarantees have increased over the past 12 years from EUR 20 billion to over EUR 60 billion. During the review period, particularly export credit guarantees have been on the increase, although their growth has recently slowed down. Fiscal policy does not set any restrictions for the amount of guarantees or the total risk they involve, although an increase in guarantee authorizations requires a government proposal and a decision by Parliament.

The reserves related to the export credit guarantee and special guarantee operations of the state's specialized financing company Finnvera decreased considerably at the beginning of the Covid-19 crisis. As the reserves decreased substantially, it was decided to strengthen the remaining risk reserves in the third proposal for supplementary budget for 2021, submitted in May. In December 2021, the State Guarantee Fund was recapitalized by EUR 400 million. Following the start of the Russian invasion, Finnvera's loss reserves increased and the separate result of the export credit guarantee and special guarantee operations was EUR –172 million in the first quarter of 2022. Of this, EUR 79 million will be covered from the reserves accumulated in 2021 and EUR 93 million as a fund contribution from the State Guarantee Fund (Figure 5).



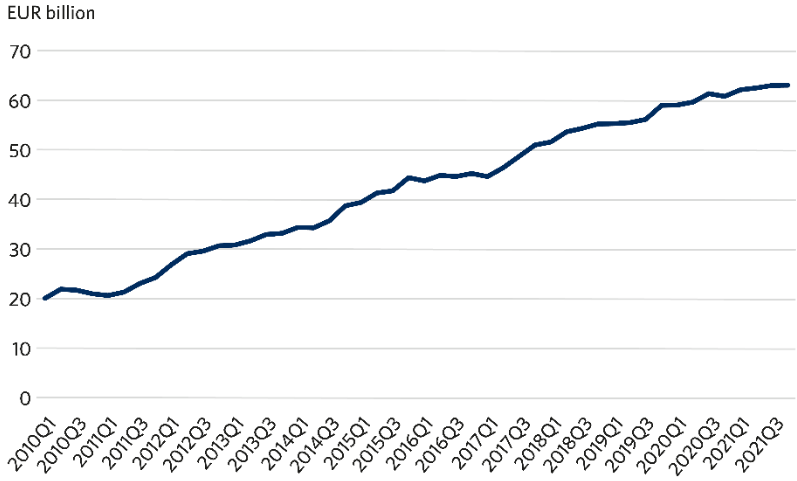


Figure 5: Development of the reserves related to Finnvera's export credit guarantee and special guarantee operations in 2019 and 2020, and in the first quarter of 2022. Source: Finnvera Development of state guarantees 2010–2021. Source: Statistics Finland

The business cycle indicator shows a drop in the strong economic development

The colour code of the business cycle heatmap produced by the NAOF's fiscal policy monitoring continues to be red, which illustrates a strong business cycle, but the colour has faded since the beginning of the war in Ukraine.[2] The fading indicates a decline in the economic growth prospects (see Figure 6). The first blue elements since the previous year's recovery appeared in the heatmap in March 2022, indicating weakening of the economy. The Russian invasion pushes consumer confidence strongly down. Consumer confidence is often more sensitive and faster to react to cyclical changes than other variables. However, the consumer price index is richly red, for example because the war in Ukraine has pushed energy and food prices further up. As a result of the war, the economic sanctions, and the post-pandemic macroeconomic picture, it is highly possible that the consumer price index will develop in a different direction in the current year than the other variables in the heatmap.

In April 2021, the colour code turned red for the first time since the outbreak of the Covid-19 pandemic. The pandemic contracted the economy considerably in 2020, which was reflected as a historically drastic collapse in the heatmap and the composite indicator formed by means of its indicators. According to the heatmap, the economic recovery in 2021 was almost as strong as the collapse in 2020. The strong development stabilized until the war dragged down the economic growth prospects in March and April 2022.

[2]The business cycle heatmap is a tool that describes the business cycle in Finland by means of colour codes and is based on indicators illustrating the state of the Finnish economy. The higher the share of red or blue indicators at the same time, the more likely it is that the economy is experiencing either good times or bad times. Further information on the business cycle heatmap is available on the heatmap web page, the NAOF's fiscal policy monitoring report of December 2021, the fiscal policy monitoring assessment of June 2021, and Strifler, M. and Kokkinen, A. 2021a.

Year	Composite indicator (weighted)	Capacity utilization	Construction confidence	Consumer confidence	Consumer price index, change	Employment rate, change	Industrial confidence	Retail trade confidence	Services confidence	Unemployment rate, change	Vacancies, change	Wages and salaries, change
2022												
4		1,58	3,01	-1,78		-0,02	0,44	1,20			-0,28	0,51
3	2,78	1,55	3,08	-1,69	1,67	0,32	0,69	1,27	1,03	1,39	-0,70	1,26
2	2,24	1,68	2,14	0,62	0,86	0,56	1,05	1,74	1,68	1,13	-0,36	1,38
1	1,87	0,85	2,07	0,30	1,43	0,41	0,90	1,42	1,49	1,08	-0,09	1,20
2021												
12	3,37	1,62	1,41	0,04	0,83	0,61	1,12	1,29	2,10	1,42	-0,15	1,38
11	3,08	1,13	1,56	0,80	0,70	0,61	1,11	1,67	0,83	1,15	0,76	1,29
10	3,45	1,24	1,20	1,22	0,63	0,65	0,95	1,71	0,75	1,01	0,40	1,30
9	2,78	0,90	0,69	1,79	0,96	0,42	0,85	1,63	0,06	0,92	0,67	1,12
8	2,41	1,13	0,47	1,43	0,90	0,32	0,79	1,71	2,09	0,96	0,85	1,25
7	2,38	0,72	0,25	1,52	1,16	0,66	0,44	1,28	1,34	1,07	0,40	1,11
6	2,52	0,91	0,33	1,68	2,20	0,49	0,16	1,46	1,81	1,49	0,96	1,37
5	2,01	0,63	0,47	1,45	2,23	0,10	0,00	1,11	2,55	1,79	0,74	1,29
4	1,65	0,37	0,40	1,59	0,96	-0,44	0,19	0,79	0,14	1,54	0,38	0,72
3	0,64	0,25	-0,18	0,00	-0,61	-1,00	-0,38	0,46	0,13	-0,15	-0,28	-0,05
2	-0,65	0,02	-0,47	0,50	-0,44	-0,97	-0,96	0,02	-0,21	-1,38	0,31	-0,41
1	-0,77	0,47	-0,47	0,46	-1,64	-0,94	-0,71	0,14	-1,73	-1,56	-0,46	-0,65
2020												
12	-1,04	-0,14	-0,98	-0,37	0,13	-1,47	-0,68	-0,27	-1,71	-1,90	0,06	-0,83
11	-1,06	-0,50	-0,98	-0,46	-1,41	-1,64	-0,67	-0,98	-0,28	-1,74	-0,22	-1,01
10	-1,36	-0,84	-0,98	-1,04	-0,47	-1,56	-0,55	-0,95	-0,49	-1,83	-0,75	-1,04
9	-1,31	-0,80	-0,98	-0,76	-0,81	-1,67	-0,51	-1,36	-0,42	-1,83	-0,09	-1,11
8	-1,40	-1,07	-0,98	-0,51	-1,91	-1,67	-0,46	-1,46	-1,57	-2,03	0,52	-1,37
7	-1,13	-0,79	-0,69	0,13	-0,64	-2,15	-0,32	-1,22	-1,21	-2,15	0,15	-1,11
6	-1,42	-0,77	-1,13	-0,26	-1,98	-3,70	-0,85	-1,83	-1,33	-3,21	-0,55	-1,77
5	-1,32	-0,86	-1,27	-1,32	-3,48	-4,06	-0,69	-1,83	-2,06	-4,62	-0,60	-2,27
4	-1,34	-0,59	-1,34	-2,42	-1,38	-4,34	-0,87	-1,74	-0,77	-4,50	-2,41	-2,05
3	-1,36	0,05	-0,69	-0,97	-0,31	-0,85	0,36	-0,32	-0,70	-1,44	-1,45	-0,71
2	-0,54	0,19	-0,55	-0,42	-0,34	-0,42	0,52	-0,22	-0,07	0,05	-0,94	-0,25
1	-0,01	0,07	-0,40	0,30	0,46	0,08	0,47	-0,57	0,62	0,19	-0,76	0,02

Figure 6: Heatmap produced by the NAOF's fiscal policy monitoring (29 April 2022). Source: Statistics Finland, Ministry of Economic Affairs and Employment, European Commission, Confederation of Finnish Industries, and calculations by the NAOF's fiscal policy monitoring.[3]

The business cycle can be examined by means of both a monthly and an annual composite indicator (Figure 7). The monthly composite indicator illustrates cyclical changes much more sensitively than the annual indicator. This can be seen, for example, from the extremely rapid and accurate reaction of the monthly composite indicator to the sudden drop in economic activity in April 2020 following the outbreak of the Covid-19 pandemic and, correspondingly, to the rapid positive turn in the business cycle in spring 2021. In March and April 2022, based on the available information, it appears to have reacted to the start of the war.

[3] Strifler, M. and Kokkinen, A. 2021a.

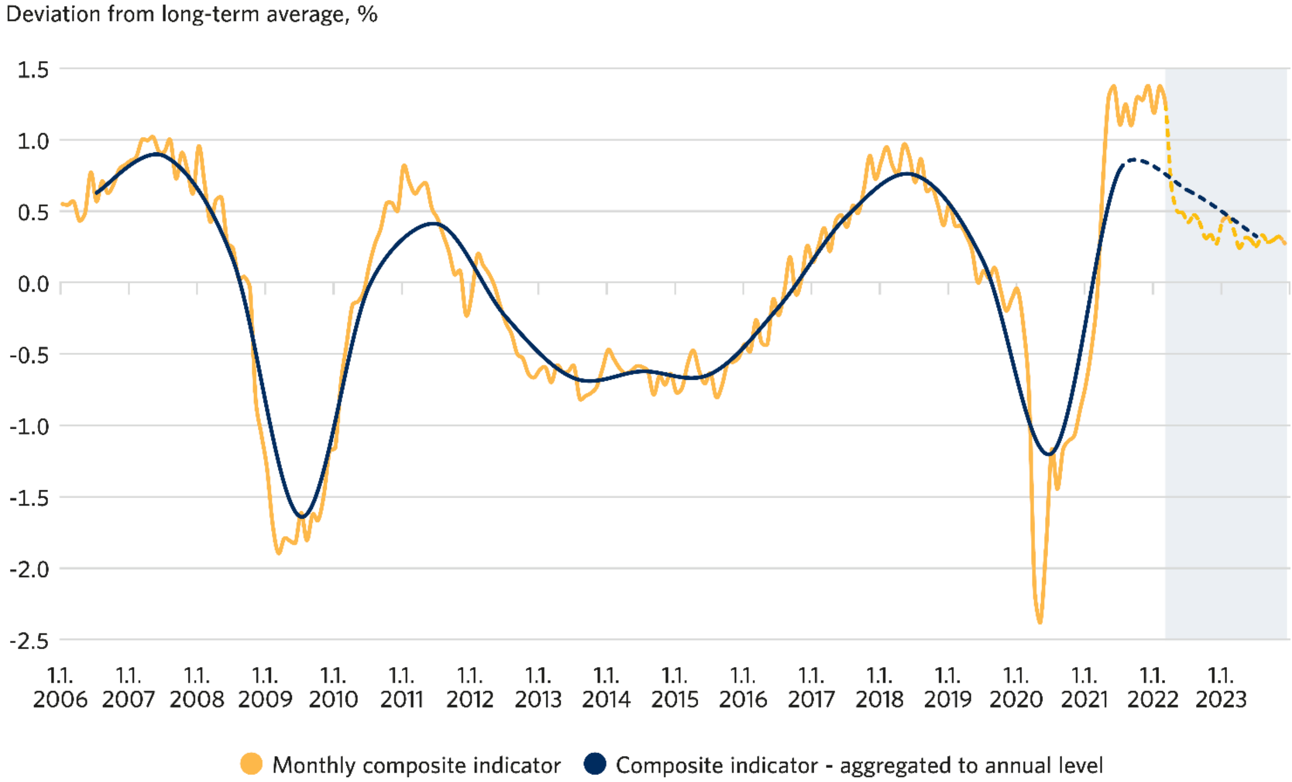


Figure 7: Monthly (yellow line) and annual (blue line) composite indicator, and forecast for the current year (grey background). The monthly composite indicator reacted very quickly to the sudden drop in economic activity in Finland in April 2020 and, correspondingly, to the rapid positive turn in the business cycle in spring 2021. In March 2022, based on the available information, it appears to have reacted to the start of the war. Source: Statistics Finland, Ministry of Economic Affairs and Employment, Confederation of Finnish Industries, European Commission. Calculations and forecasts: NAOF's fiscal policy monitoring.[4]

Figure 7 also shows the forecast of the composite indicator for May–December 2022 (and also the forecast for four variables up to April) and for 2023 (Strifler, M. and Kokkinen, A. 2021b[5])[6]. According to the forecast, the war in Ukraine will have a negative impact on the economy until the end of the forecasting horizon. The economic activity will remain above the average in the current and the coming year, but due to the war, the forecast path will drop clearly below the previous cyclical peak. After the drop, the indicator will fall slowly in the direction of a neutral business cycle but remain above zero. According to the analysis of the realism of the forecasts (see page 16), Finland's GDP growth consensus forecast halved at the start of the war but remained nevertheless above Finland's long-term growth. This finding is particularly compatible with the forecast path of the monthly composite indicator. It should be noted that the forecast of the business cycle indicator of the heatmap currently involves an exceptionally high level of uncertainty.[7]

The picture of the business cycle provided by the composite indicator of the heatmap and its forecast is complemented by the picture of the business cycle based on the EU's common output gap method. The heatmap composite indicator and output gap estimate develop largely uniformly until 2020 (Figure 8). For 2021, the methods assess the business cycle differently from each other. The composite indicator indicates rapid recovery of the economy, whereas according to the output gap method, the economy was still below the output potential in 2021. The common EU method is known for the fact that the picture it provides of the business cycle may be revised to a significant extent afterwards. The output gap estimate for 2021 has already been significantly revised upwards but remains negative.

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[4] Strifler, M. and Kokkinen, A. 2021b: Forecast for the Finnish business cycle heatmap. Unpublished manuscript, Fiscal policy monitoring, NAOF.
[5] Strifler, M. and Kokkinen, A. 2021b
[6]Further information on the heatmap forecast is also available from the NAOF's fiscal policy monitoring report of December 2021 and fiscal policy monitoring assessment of June 2021. The forecast is based on the heatmap data and other specified statistics available by 19 May 2022.
[7]If the war continues and intensifies, the business cycle may turn negative. It is still also possible that the Covid-19 pandemic is activated as a result of new virus variants. In spring 2022, China has reintroduced restrictions in its large cities.

The forecast of both indicators is steered by the abnormal baseline in 2021. According to the composite indicator forecast, the economy will remain above the long-term average in the current and the following year, but the level of the indicator will fall. According to the output gap estimate, the economy would still have been below the estimated potential output in 2021 and come close to the output potential in 2023.

Both assessments of the upcoming business cycle should be treated with caution. The difference in the assessments of the future business cycle is also reflected in the assessment of the fiscal policy stance (see page 16) and compliance with the fiscal policy framework (see page 20).

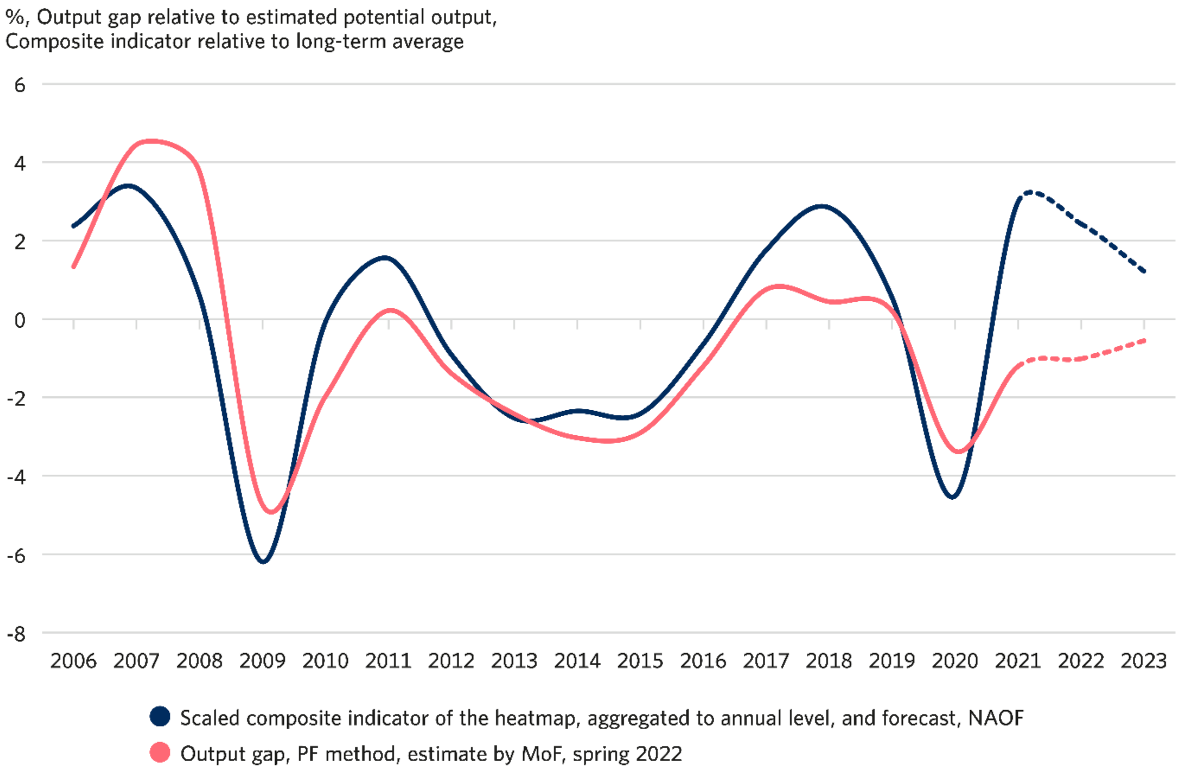

Figure 8: Composite indicator of the heatmap and its forecast, and the output gap estimate of the Ministry of Finance. Forecast for 2022 and 2023 (dashed line). The variation (standard deviation) of the cyclical heatmap indicator has been scaled to be comparable with the variation (standard deviation) of the output gap. Source: Output gap: MoF; Cyclical heatmap indicator: Statistics Finland, Ministry of Economic Affairs and Employment, Ministry of Finance, European Commission, Confederation of Finnish Industries, calculations by NAOF's fiscal policy monitoring.[8]

The uncertainty caused by the war is reflected in the assessment of the fiscal policy stance in 2022

According to the business cycle heatmap compiled by the NAOF's fiscal policy monitoring, the business cycle turned positive in 2021, and the Finnish economy recovered rapidly. However, according to the production function method based on the EU Commission's production function, GDP has remained below the output potential. According to the estimate produced by the Ministry of Finance using the aforementioned EU Commission's production function method, the output gap narrowed in 2021, but the economy remained below the potential. The differing estimates of the business cycle lead to different conclusions on the appropriateness of the fiscal policy stance for the business cycle.

It should be noted that the heatmap estimate of the business cycle in 2021 will hardly be revised afterwards, while the output gap estimate may be revised to a significant extent afterwards. The output gap estimate for 2021 also depends on the underlying potential output forecast, which involves an exceptionally high level of uncertainty due to the Russian invasion. The composite indicator's illustration of the business cycle in 2021, in turn, is currently based solely

[8] Strifler, M. and Kokkinen, A. 2021b.

on outturn data. (For 2022, the composite indicator forecast naturally involves corresponding uncertainty.) The spring 2022 output gap estimate for 2021 has already been revised upwards from the spring 2021 estimate by about one percentage point.[9]

It is therefore possible that the Government's discretionary stimulus measures accelerated the economic development pro-cyclically in 2021 when the economy was taking an upturn. However, in the NAOF's fiscal policy monitoring report of autumn 2021, the pro-cyclical stimulus measures were considered justified in order to ensure that post-pandemic stimulus measures would not be brought to an end too soon. Expansionary fiscal policy had also been agreed in EU-level cooperation.

The output gap, composite indicator and primary balance forecasts all involve an exceptionally high level of uncertainty due to the war. A corresponding degree of uncertainty is associated with the assessment of the fiscal stance for 2022 and 2023.

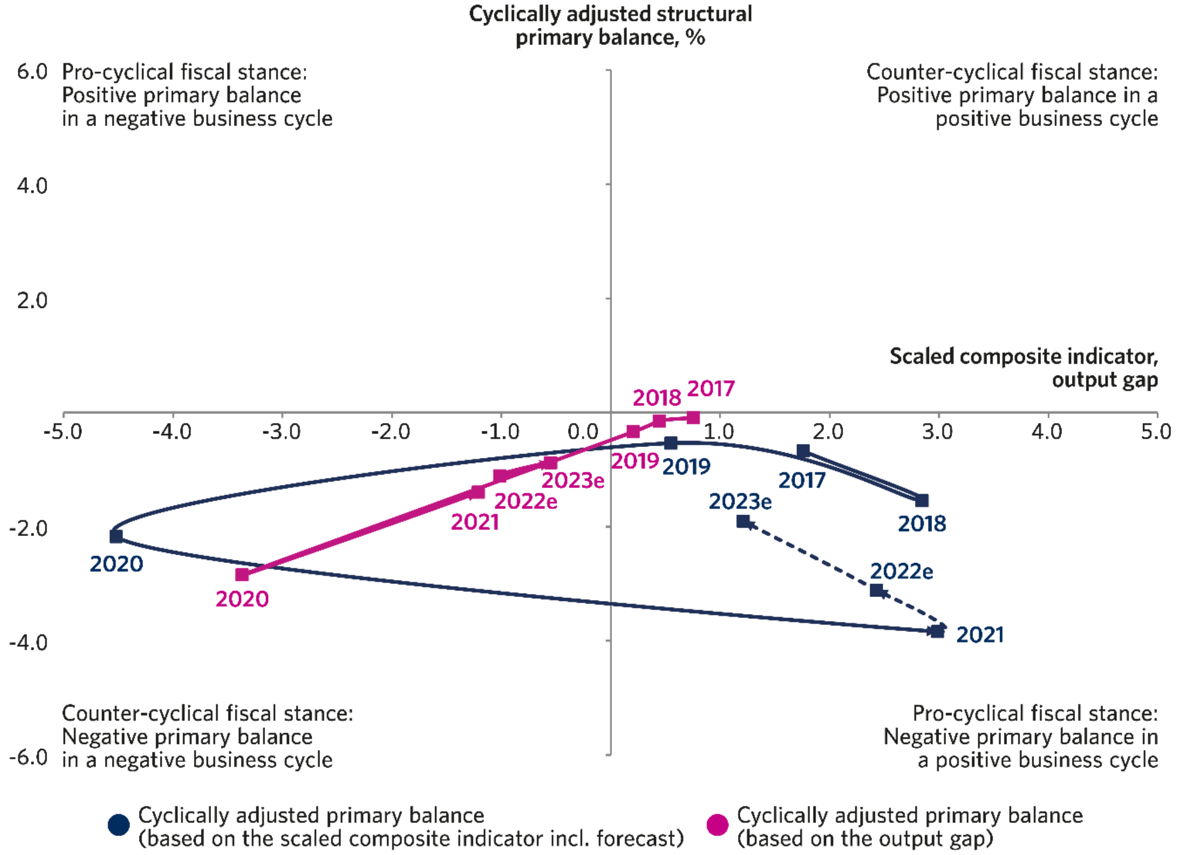

Figure 9: Fiscal stance in relation to the business cycle: structural primary balance based on the output gap and the cyclical heatmap indicator in relation to the business cycle based on the output gap and the cyclical heatmap indicator in 2017–2021. The primary balance has been cyclically adjusted by means of both the output gap (purple dots) and the composite indicator of the heatmap (blue dots). When the estimates of structural primary balance shown in the figure are examined in relation to the estimates of the business cycle illustrated on the horizontal axis, it can be seen whether the discretionary fiscal policy is counter-cyclical or pro-cyclical relative to the business cycle. The output gap values for 2022 and 2023 and the structural balance estimates calculated by means of them are based on the Ministry of Finance's primary balance forecast and the results of the jointly agreed production function method. The composite indicator values and the structural balance estimates calculated by means of them are based on the heatmap forecast and the Ministry of Finance’s primary balance forecast. The variation (standard deviation) of the cyclical heatmap indicator has been scaled to be comparable with the variation (standard deviation) of the output gap. (See Strifler, M. and Kokkinen, A. 2021c[10]) The estimates based on the output gap method of both the business cycle and the cyclically adjusted structural primary balance may be revised later even to a significant extent. Source: Ministry of Finance and NAOF's fiscal policy monitoring.

[9]The spring 2021 composite indicator forecast for 2021 has been revised upwards by about 0.4 percentage point as a result of the full-year outturn data.

[10] Strifler, M. and Kokkinen, A. (2021c). Capturing uncertainty in measuring Finland’s fiscal stance. Unpublished manuscript, Fiscal policy monitoring, NAOF.

The discretionary fiscal stance in 2017–2023 is examined based on the structural primary balance (Figure 9). The primary balance has been cyclically adjusted by means of both the output gap and the composite indicator of the heatmap. Based on the data available in spring 2022, structural primary balance has been negative in 2017–2021 according to both cyclical adjustments and is expected to remain negative in 2022–2023. The horizontal axis in the figure illustrates the business cycle estimates based on both the output gap and the composite indicator of the heatmap. The figure shows that the forecast business cycle estimates differ for 2022–2023, as they did in the previous years. According to the composite indicator, 2021 was clearly more positive and the years 2017–2018 were slightly more positive than according to the output gap estimate.

When the estimates of structural primary balance are examined in relation to the estimates of the business cycle, it can be seen whether the discretionary fiscal policy is counter-cyclical or pro-cyclical relative to the business cycle (Figure 9). The difference between the output gap and the heatmap estimates was particularly marked in 2021 and somewhat less marked in 2017–2018. However, the difference becomes smaller in the forecasts for 2022–2023.

Based on the composite indicator forecast, the fiscal stance will be pro-cyclical in a positive business cycle, whereas based on the output gap, it will be counter-cyclical in a negative business cycle.

When the situation is examined by means of the fiscal impulse, i.e. the indicator describing the direction of fiscal policy (compared to the previous year)[11], the fiscal policy of 2020 appears to have provided counter-cyclical stimulus according to both the heatmap composite indicator and the output gap (see Figure 10).

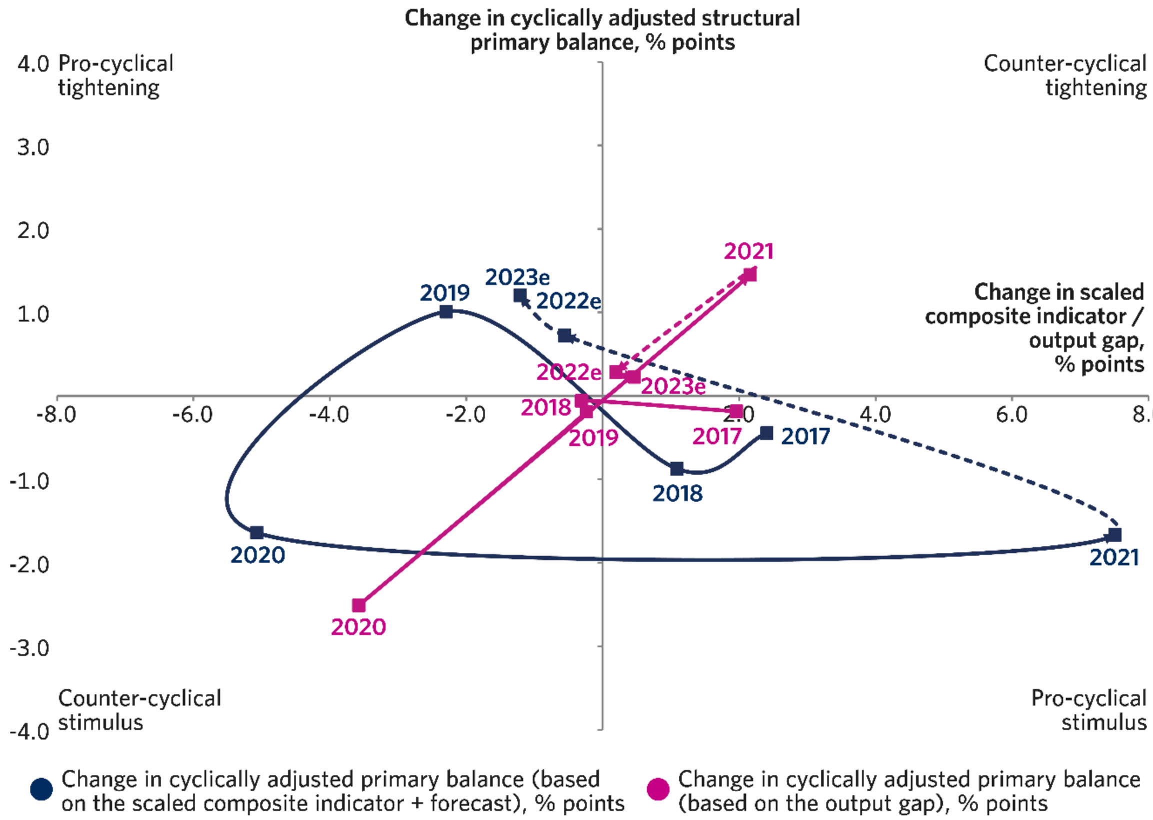

Figure 10: Fiscal impulse in relation to the change in business cycle: the change in structural primary balance (cyclical adjustment based on the output gap and the composite indicator) in relation to the change in both the output gap and the composite indicator produced by the NAOF's fiscal policy monitoring. The estimates for 2022 and 2023 are based on forecasts. Source: Ministry of Finance and NAOF's fiscal policy monitoring.

[11] The fiscal impulse is illustrated by examining the change in structural primary balance in relation to the change in the business cycle indicator. For more details on how to assess the fiscal stance, see the NAOF's fiscal policy monitoring report 2021.

On the other hand, the conclusions for 2021 differ from each other in terms of fiscal impulse as well. According to the calculation based on the output gap estimate of the production function method, the fiscal impulse is counter-cyclically contractionary. Based on the business cycle indicator of the heatmap, in turn, the fiscal impulse is pro-cyclically expansionary. This means that structural primary balance is deteriorating at the same time that the business cycle is improving. This would not be desirable, as a pro-cyclical fiscal impulse would exacerbate cyclical fluctuations.

For 2022 and 2023, the fiscal impulses based on the output gap and composite indicator forecasts are much closer to each other. Based on the output gap, the impulse will remain somewhat counter-cyclically contractionary, whereas based on the composite indicator forecast, it will be moderately pro-cyclically contractionary.

The assessment of the current year's fiscal stance based on the composite indicator can be interpreted as meaning that expansionary fiscal policy is not justified in view of the business cycle. However, increases in defence appropriations, for example, may be highly justified for other reasons than counter-cyclical fiscal policy. Security policy decisions may also have an impact on the economic growth prospects. NATO membership is likely to support the stability of the economic operating and investment environment in Finland.[12] However, should the war cause a more severe cyclical change or even recession, expansionary fiscal policy would be justified. The successful counter-cyclical fiscal policy in 2020 shows that it is also possible to react rapidly to sudden drops in economic activity.

The economic forecast of the Ministry of Finance is realistic

At the end of 2021 and at the beginning of 2022, forecasters expected the Finnish economy to continue to grow and recover rapidly from the Covid-19 pandemic. Before and after the turn of the year, GDP growth forecasts for 2022 were on average slightly under 3% (Figure 11).

Since the start of the Russian invasion, the prospects for economic growth deteriorated considerably even in Finland. The total distribution of GDP forecasts produced in March and April shifted downwards, and the average of the forecasts for 2022 is only around 1.5%. Based on the data available in April, the consensus forecast (forecast time trend), which takes into account the publication dates of the forecasts, projects growth of approximately 1.2%–1.3% for 2023 and growth of approximately 1.4% for 2024.

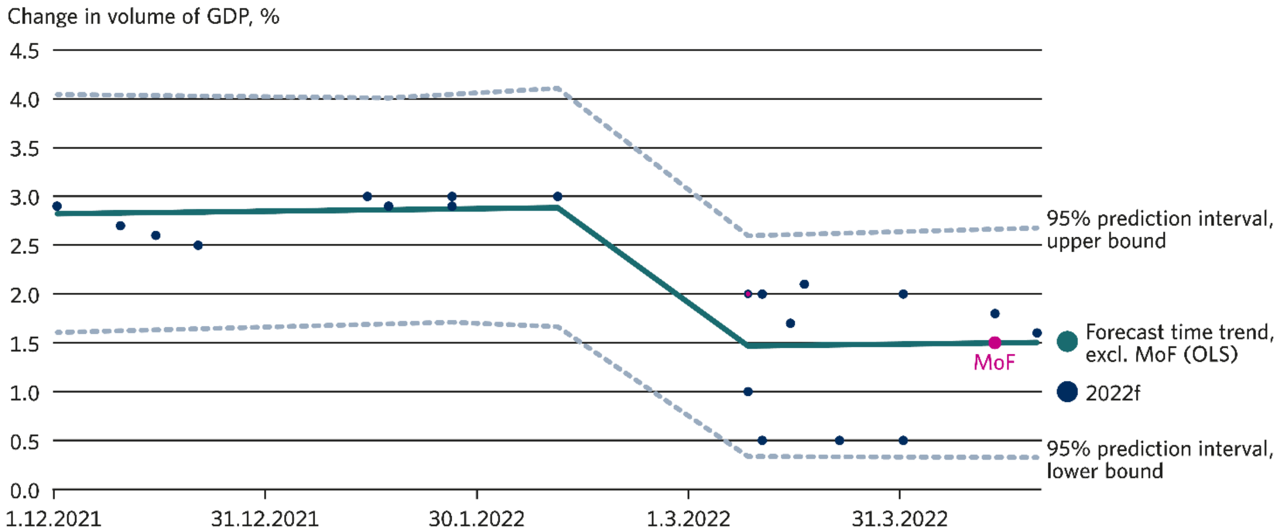

Figure 11: GDP forecasts for 2022, consensus forecast generated by means of the forecast time trend, and the upper and lower bounds of the 95% prediction interval. Source: different forecasters (see footnote 13), NAOF.

In its spring 2022 forecast, published in mid-April, the Ministry of Finance projects Finland's GDP to grow by 1.5% in 2022, by 1.7% in 2023, and by 1.5% in 2024. The general government deficit in 2022, 2023, and 2024 is projected to be 2.2%, 1.7%, and 1.4% of GDP, respectively. General government debt relative to GDP is projected to be 66.2% in 2022 and to grow to 66.9% in 2023, and to 68.0% in 2024.

[12] See, for example, the opinion of the Parliamentary Commerce Committee Parliamentary Commerce Committee TaVL 23/2022 vp.

The forecasts of the Ministry fall within the prediction bounds formed for the population of the forecasts of the Finnish economy by means of a gathered sample of the forecasts of other institutions than the Ministry of Finance.[13] [14] The economic forecast of the Ministry for 2022–2024 is realistic within the meaning of the EU framework.

The forecasts of the Ministry of Finance for 2022–2023 were compared with (a) the static prediction interval , (b) the prediction interval that takes into account the dates of the forecasts, and (c) the prediction interval that takes into account both the dates of the forecasts and the war in Ukraine, all of which are formed on the basis of forecasts published in and after December 2021. The Ministry's forecasts for the two following years fall within all three prediction intervals when examined on the basis of all variables. This examination shows that the forecasts of the Ministry of Finance are in line with the prediction bounds formed for the population of all forecasts based on a gathered sample of the forecasts of other institutions than the Ministry of Finance.

However, it should be noted that in the examined population of forecasts, both the most optimistic and the most pessimistic forecast may ultimately prove to be the closest to the actual development. In addition, prediction intervals aim to describe the bounds within which 95 per cent of the forecasts are estimated to fall – in other words, five per cent of the forecasts remain outside the prediction interval. Although individual forecasts may thus fall outside the prediction interval, most of them fall within it.

Table 1: The forecasts of the Ministry of Finance for 2022–2023 fall within the prediction bounds formed by means of other institutions' economic forecasts.
The forecasts of the Ministry of Finance are compared with (a) the 95% prediction interval, (b) the 95% prediction interval that takes into account the publication dates of the forecasts, and (c) the 95% prediction interval that takes into account both the publication dates of the forecasts and the start of the Russian invasion (on 24 February 2022), all of which are formed on the basis of forecasts of other economic forecasters. Source: forecasters and NAOF. The scale in the table: 3 = the MoF forecast falls within all the intervals, 2 = the MoF forecast falls outside one of the intervals, 1 = the MoF forecast falls outside two intervals, 0 = the MoF forecast falls outside all of the intervals.

Forecast variable	2022f	2023f
GDP, change in volume, %	3	3
Imports, change in volume, %	3	3
Private consumption, change in volume, %	3	3
Public consumption, change in volume, %	3	3
Exports, change in volume, %	3	3
Investments, change in volume, %	3	3
Unemployment rate, % of labour force	3	3
Employment rate, % of population	3	3
Inflation, %	3	3
Current account, % of GDP	3	3
Government fiscal balance, % of GDP	3	3
Government gross debt, % of GDP	3	3

The forecasts of the Ministry of Finance for 2024 were compared with (a) the static prediction interval and (b) the prediction interval that takes into account the publication dates of the forecasts, both of which were formed on the basis of forecasts published in and after December 2021. In spring 2022, many forecasters focused on forecasts for the current and the next year. Some also focused on updating the outlook for GDP growth. The number of forecast

[13] The prediction bounds have been formed on the basis of the forecasts of 15 forecasters other than the Ministry of Finance and the statistical *t*-test variable. These forecasters are Danske Bank, the Research Institute of the Finnish Economy (ETLA), the Finnish Centre for Pensions, the European Commission, Handelsbanken, the International Monetary Fund (IMF), MuniFin, Labore, LähiTapiola, Nordea, OP Group, Pellervo Economic Research (PTT), the Mortgage Society of Finland (Hypo), the Bank of Finland, and Savings Bank. All of these forecasters do not produce forecasts in the same scope as the Ministry of Finance. In spring 2022, the Bank of Finland, MuniFin, and Nordea published a lower and upper bound for GDP growth in 2022. The upper and lower bounds were used in forming the 95% prediction intervals for GDP growth in 2022.
[14] The other institutions that forecast the economic development in Finland and that are examined here published their forecasts between 1 December 2021 and 19 April 2022. The forecast of the Ministry of Finance was published on 13 April 2022, and it was based on information available by 30 April 2022.

observations for 2024 was therefore rather small, and it was not possible to add an additional dummy variable illustrating the start of the war to the analysis. The forecasts of the Ministry of Finance for 2024 fall within both prediction intervals when examined on the basis of all variables. Therefore, the Ministry's forecasts for 2024 are in line with the prediction bounds formed for the population based on a sample of other forecasts.

Table 2: The forecasts produced by the Ministry of Finance for 2024 fall within the two prediction intervals formed on the basis of other economic forecasts.
Due to the smaller number of forecast observations for 2024, the forecasts of the Ministry of Finance are compared with (a) the 95% prediction interval and (b) the 95% prediction interval that takes into account the publication dates of the forecasts. Source: forecasters and NAOF. The scale in the table: 2 = the MoF forecast falls within both intervals, 1 = the MoF forecast falls outside one interval.

Forecast variable	2024f
GDP, change in volume, %	2
Imports, change in volume, %	2
Private consumption, change in volume, %	2
Public consumption, change in volume, %	2
Exports, change in volume, %	2
Investments, change in volume, %	2
Unemployment rate, % of labour force	2
Employment rate, % of population	2
Inflation, %	2
Current account, % of GDP	2
Government fiscal balance, % of GDP	2
Government gross debt, % of GDP	2

The escape clause of the EU fiscal framework remains in force

Due to the Covid-19 crisis, the Commission activated the general escape clause of the Stability and Growth Pact in March 2020. This means that Member States are allowed to deviate from the requirements concerning public finances, provided that the deviation does not jeopardize the sustainability of public finances over the medium term. In light of the current information, the escape clause will remain in force until the end of 2023. In spring 2021, the Commission pronounced that a key condition for the deactivation of the general escape clause was the recovery of Member States' economies to pre-Covid-19 level. On the basis of the Commission's Winter 2022 Economic Forecast, it was estimated that the escape clause would be deactivated in 2023. However, the Russian invasion of Ukraine has weakened the economic outlook, and therefore the period of validity has been extended.[15]

According to the corrective arm of the Stability and Growth Pact, general government deficit should not exceed 3% in relation to GDP and general government debt should not exceed 60% in relation to GDP. Exceeding the limit values may lead to the initiation of an excessive deficit procedure (EDP). However, during the validity of the escape clause, the Commission has not initiated a new EDP procedure for any Member State[16]. Finland's general government deficit stood at 2.6% of GDP in 2021, and according to the Ministry of Finance's independent forecast, the deficit will strengthen in the current and the coming year (Table 3). The exceedance of the criterion in 2020 was temporary. Therefore, Finland complies with the deficit criterion.

[15]https://ec.europa.eu/info/system/files/2022-european-semester-csr-finland_en.pdf (Recommendation for a Council Recommendation on the 2022 National Reform Programme of Finland and delivering a Council opinion on the 2022 Stability Programme of Finland julkaistu 23.5.2022).
[16]The EDP procedure for Romania was launched on the basis of 2019. https://ec.europa.eu/info/system/files/com-2021 500_en.pdf (Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee, the European Committee of the Regions and the European Investment Bank, published on 2 June 2021).

Table 3: Nominal fiscal position of general government and general government debt, % in relation to GDP, in 2020–2026. Sources: Statistics Finland, forecast of the Ministry of Finance, spring 2022.

Year	2020	2021	2022*	2023*	2024*	2025*	2026*
Nominal fiscal position of general government	–5.5	–2.6	–2.2	–1.7	–1.4	–1.8	–1.8
General government gross debt	69	65.8	66.2	66.9	68	69.1	69.9

The general government debt-to-GDP ratio exceeded the 60% limit in 2020. In 2021, the debt ratio decreased from the previous year, but according to the Ministry of Finance's independent forecast, the debt ratio will start to grow in 2022 and remain on a growth trajectory for the duration of the forecast period. According to the framework, the debt ratio should be reduced when it has exceeded the 60% limit. However, the Commission stated in its Communication of 2 March 2022 that compliance with the debt reduction rule in the current circumstances would require tight fiscal adjustment that could jeopardize economic growth[17]. Based on the Ministry of Finance's spring 2022 forecast, the National Audit Office estimates that compliance with the debt reduction rule according to the forward-looking criterion would mean strengthening public finances by EUR 7.5 billion (at the level of 2023) by 2025 in relation to the forecast if the rules of the Stability and Growth Pact were reinstated in 2023. While agreeing on the need to protect growth, the National Audit Office stresses the importance of stabilizing the government debt-to-GDP ratio.

The preventive arm of the Stability and Growth Pact examines the achievement of or progress towards the country-specific medium-term objective (MTO) through the calculation of structural balance and the expenditure benchmark. Finland’s MTO is structural balance of –0.5 per cent relative to GDP. During the validity of the escape clause, no numerical fiscal policy recommendations , i.e. requirements for the development of structural balance and the expenditure benchmark, have been set for Member States. Figure 12 shows the development of structural balance using two different methods to assess the business cycle. The business cycle assessment used in one of the structural balance calculations is based on the output gap, calculated using the production function method jointly agreed by Member States. In the other calculation, the business cycle is illustrated by the composite indicator produced by the NAOF's heatmap[18]. The spring 2022 forecast and statistics of the Ministry of Finance have also been used in both calculations. When the rules are examined, a key role is played by the years 2021–2023. The estimates of structural balance and its annual change in 2021 provided by the two methods are clearly different. The structural balance estimated on the basis of the composite indicator continues to fall to even below –4% of GDP in 2021, whereas the structural balance estimated on the basis of the output gap starts to grow and is –1.9% of GDP in 2021. According to both methods, structural balance will strengthen in 2022–2023.

[17] https://ec.europa.eu/info/sites/default/files/economy-finance/com_2022_85_1_en_act_en.pdf (Communication from the Commision to the Council, Fiscal policy guidance for 2023, published on 2 March 2022).
[18] Strifler, M. and Kokkinen, A. 2021b: Forecast for the Finnish business cycle heatmap. Unpublished manuscript, Fiscal policy monitoring, NAOF.

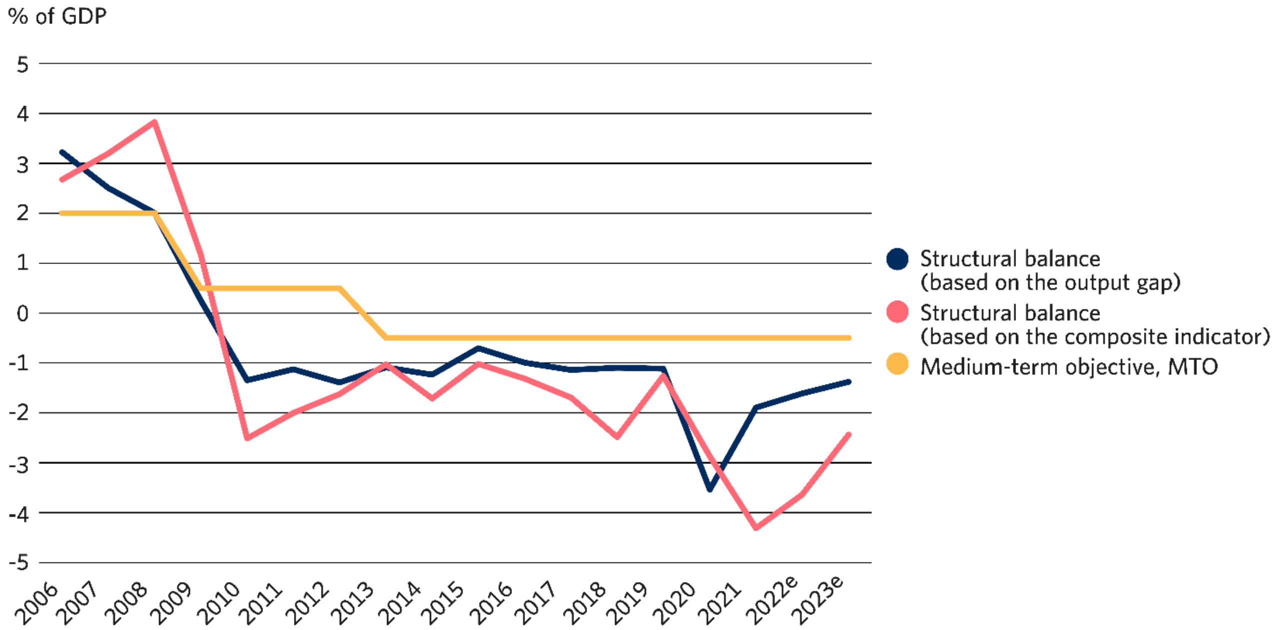

Figure 12: The medium-term objective (MTO) and structural balance based on the output gap and the composite indicator. Sources: MoF spring 2022 forecast, calculations by the NAOF's fiscal policy monitoring.

In June 2021, the Council recommended Finland to maintain a supportive fiscal stance in 2022. In May 2022, the Commission proposed a transition to a neutral fiscal policy stance in 2023, taking into account, however, adaptation to the changing circumstances caused by the state of war and investment in the green transition, digitalization, and energy. The fiscal stance is discussed in more detail above.

The need to reform the EU fiscal framework had already been identified before the Covid-19 pandemic and the resulting increase in public debt. However, due to the exceptional circumstances, the development of the framework was put on hold. The discussion and development work continued in 2021. The Commission's objective has been to reach a broad consensus among Member States on the way forward in good time before 2023.

To gather inputs for the reform of the framework, the EU Commission commissioned a survey on the EU economic governance framework in autumn 2021[19]. The respondents to the survey included, for example, representatives of the public sector, think tanks, trade unions, and companies mainly in the EU area. The respondents stressed, among other things, the need for the framework to incentivize investment (especially green investment). It should also ensure sustainable public finances, particularly debt sustainability, for example by setting Member-State-specific targets in order to reduce debt and safeguard effective counter-cyclical policies. The respondents supported maintaining multiannual and multifaceted supervision, and drawing on the insights from the introduction of the EU Recovery and Resilience Facility. The respondents pointed out the need for a simpler and more transparent framework, and a stronger national ownership, which, according to the NAOF's fiscal policy monitoring, would be supported by the strengthening of the role of national independent fiscal institutions, for example through legislative means. Transparency is impaired by reliance on indicators that are volatile and unobservable. Some respondents referred specifically to the uncertainty of output gap estimates.

[19]Commission staff working paper document, Online public consultation on the review of the EU economic governance framework, Economic Governance Review – Summary report of the public consultation | European Commission (europa.eu), published on 28 March 2022.

Exceptional circumstances continue to provide flexibility to the setting of the statutory targets for public finances

The General Government Fiscal Plan for 2023–2026 was approved by the Government and submitted to Parliament on 13 April 2022. Appendix 1 contains observations of the NAOF's fiscal policy monitoring on the content of the latest General Government Fiscal Plan in relation to the Decree regulating it. The most recent plan includes amended multiannual objectives for the development of general government finances in 2022–2025. The objectives are in line with the forecast of the Ministry of Finance and slightly tighter than the objectives of spring 2021. However, the subsector-specific objectives for 2023 set for the nominal balance of the central government, local government, wellbeing services counties, employment pension institutions, and other social security funds remained unchanged in the plan.

The National Audit Office agrees with the Government's interpretation that, in the current situation where exceptional circumstances as referred to in EU law are still in force, the multiannual sector-specific objectives need not lead to the achievement of the medium-term objective. According to the medium-term objective, general government structural balance should be –0.5% of GDP. Thus, the escape clause brings flexibility to the objectives. The objectives presented meet the requirement set by the decree, as the decree does not provide for tightness of the objectives in a situation where the escape clause is applied.

The target path set for general government finances in spring 2021 was very flexible compared with the target path set before the Covid-19 pandemic (Figure 13). The target path set in spring 2021 was largely in line with the development according to the Ministry of Finance's independent forecast of the same spring. The flexibility of the target path meant that, in practice, no new fiscal policy measures were needed to achieve it. According to the Ministry of Finance's autumn 2021 forecast, the target path set in the spring would have been achieved even more clearly. In spring 2022, the objectives were tightened. Their consistency with the independent forecast means that still no new measures are needed to achieve the objectives in light of the independent forecast.

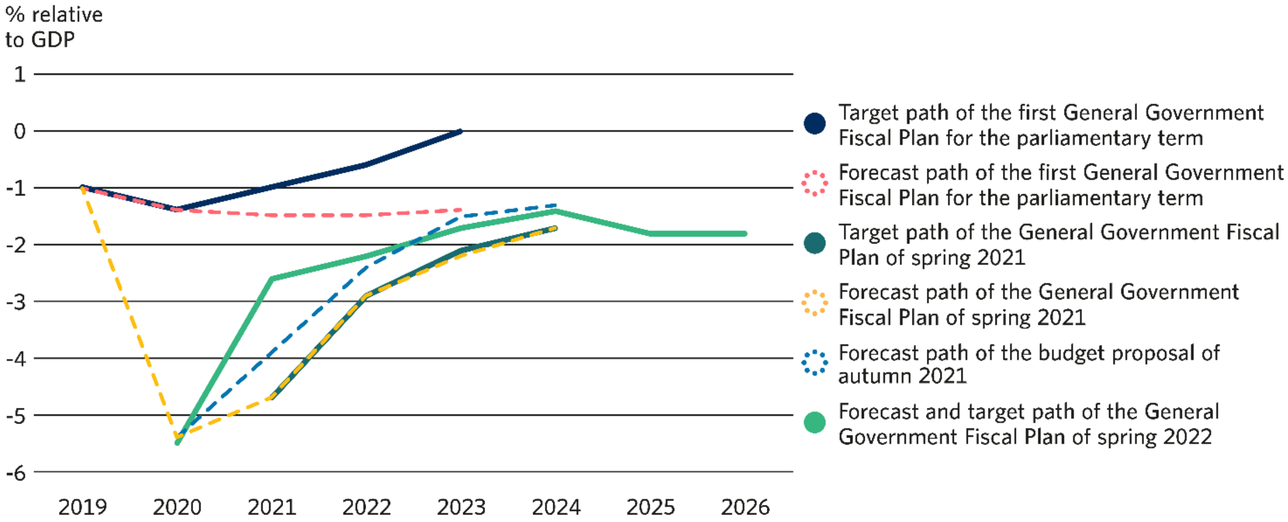

Figure 13: Target and forecast paths for the development of the nominal fiscal position of general government according to the first General Government Fiscal Plan of the parliamentary term, the General Government Fiscal Plan of spring 2021, the budget proposal of autumn 2021, and the General Government Fiscal Plan of spring 2022. The target path for spring 2022 has been defined until 2025. Source: General Government Fiscal Plans of autumn 2019, spring 2021, and spring 2022, and the Ministry of Finance's Economic Survey of autumn 2021.

The Decree that was in force when the General Government Fiscal Plan for 2023–2026 was issued (on 13 April) stipulated that the Government should set a limit in euros to the amount by which local government expenditure can increase due to central government measures. This limit is referred to as the expenditure limit for local government finances. The General Government Fiscal Plan for 2021–2024, drawn up in spring 2020, stated that the expenditure limit set in autumn 2019 had been exceeded. In the General Government Fiscal Plan for 2022–2025, the expenditure limit set for local government finances was no longer monitored, but it stated that "Due to the establishment of wellbeing services counties, it is no longer sensible to monitor the expenditure limit in 2023”. As a result of the establishment of wellbeing services counties, healthcare and social welfare tasks will be transferred from municipalities to be organized by the counties and funded by the state. Nevertheless, the valid decree would have required that the expenditure limit set for local government be monitored. As a result of the decree issued on 28 April 2022 on the amendment of the Decree on the General Government Fiscal Plan, the expenditure limit for local government finances has been abandoned. As the amendment of the decree already applies to the General Government Fiscal Plan of spring 2022, the content of the plan complies in this respect with the decree.

The Fiscal Policy Act (869/2012), which implements the Fiscal Compact in Finland, contains provisions on a correction mechanism. The correction mechanism is activated if the EU has detected a significant deviation in the development of structural balance in Finland in relation to the objective set for it, and if the EU Council has recommended Finland to take corrective action. After the correction mechanism has been activated, the Government has to submit a report to Parliament and, at a possible further stage, a communication on measures to improve public finances. The Government does not have to issue a report or communication if exceptional circumstances as referred to in EU legislation are prevailing in Finland. After the exceptional circumstances cease to exist, the Government shall strengthen public finances by at least 0.5 percentage points relative to GDP (in structural terms) no later than in the following calendar year, and the National Audit Office shall issue an opinion on the adequacy of the measures.

The NAOF's fiscal policy monitoring discussed the cessation of exceptional circumstances and the related interpretation of the Fiscal Policy Act in its December 2021 report to Parliament. The obligations imposed on the Government after exceptional circumstances have ceased to exist are somewhat unclear compared with the provisions of the Fiscal Policy Act that concern the measures the Government is required to take in a situation where the EU Council has detected a significant deviation in public finances in Finland and where the Council has recommended Finland to take corrective action. In spring 2022, the situation has changed further, and the exceptional circumstances defined at EU level will continue to be in force in 2023. The NAOF's fiscal policy monitoring will continue to monitor the matter in its forthcoming reports.

The exceptions made to the spending limits system will increase spending needs in the following government term

The spending limits of the parliamentary term refer to the level in euro set for the expenditure ceiling in the Government Programme, as well as to the principles for ensuring that the level of the expenditure ceiling set in the Government Programme remains unchanged throughout the parliamentary term. During Prime Minister Marin's government term, several ‘conscious exceptions’ have been made to the spending limits of the parliamentary term, which has led to an increase in the level of the expenditure ceiling compared with the level set in the Government Programme. New increases in expenditure have also been decided for 2022 and 2023, and the expenditure ceiling has been raised accordingly. The exceptions have contributed to an increase in permanent spending limits expenditure to a higher level than in previous government terms.

The spending limits system can be used to increase or reduce spending limits expenditure or to maintain a certain level. The system makes it possible to monitor the impact of decisions on the spending limits level set in the Government Programme in a transparent manner. Table 4 presents all increases in expenditure enabled by the exceptions made compared with a situation where the level of spending limits set in the Government Programme would have been maintained.

The new expenditures added to the scope of the spending limits during the entire government term total around EUR 17 billion (accrual of additional expenditure during the entire parliamentary term), compared with a situation where the level of spending limits set in the Government Programme would have been maintained. Most of the expenditure items added to the spending limits have been due to the Covid-19 pandemic and the war in Ukraine. They also include increases in expenditure of EUR 1.6 billion which have resulted from the additional funding needed for the reforms decided in the Government Programme or which may have been used for permanent increases in expenditure. Such raising of the spending limits clearly violates the spending limits principles, according to which it should be possible to finance such expenditure within the scope of the spending limits through prioritization and reallocation.

The Government has previously decided to increase the spending limits by EUR 900 million for 2022 and EUR 500 million for 2023. When issuing the General Government Fiscal Plan for 2023–2026, the Government decided to transfer the EUR 990 million funding of Veikkaus’ beneficiaries to the spending limits in such a manner that the spending limits were raised by an amount that was approximately EUR 228 million higher than the amount payable by Veikkaus to the state budget (around EUR 762 million). According to the spending limits rule, it is not justified to raise the spending limits in this manner. The decision to raise the spending limits of 2023 by EUR 500 million was partly justified by the around EUR 175 million expenditure of Veikkaus' beneficiaries, which fell within the scope of the spending limits. When the Government later decided to transfer the total expenditure of Veikkaus' beneficiaries to the spending limits already in 2023 in accordance with the funding model outlined in Parliament for 2024, it became possible to use the previous EUR 175 million provision for other expenditure.

According to the assessment of the NAOF's fiscal policy monitoring, exceptions such as those described above do not comply with the spending limits system but clearly violate the principles of the spending limits rule. However, from the point of view of the spending limits rule, the expenditure of Veikkaus' beneficiaries falls within the scope of the spending limits. Therefore, the decision is correct in view of the spending limits system as a whole, even though the transfer of expenditure to the spending limits was not technically implemented in accordance with the spending limits rule.

Table 4: Exceptions implemented after the spending limits rule was dispensed with and their estimated impacts on expenditure (EUR million) in relation to the spending limits set in the Government Programme.

Changes in the spending limits level	2020	2021	2022	2023
Mechanism for exceptional circumstances	-	500	500	-
Exception or provision due to the Covid-19 situation		1,848	339	-
Rise or increase in spending limits level	8,437	-	900	500
Exception due to the security policy situation	-	-	1,992	1,998
Additional increase justified by the expenditure of Veikkaus' beneficiaries	-	-	-	228
Reduction in the spending limits due to planned permanent savings of EUR 370 million	-	-	-	-42
Total	**8,437**	**2,348**	**3,731**	**2,684**
Additional expenditure outside the spending limits as an exception to the spending limits rule	**2020**	**2021**	**2022**	**2023**
Impacts of exceptional circumstances	-	269	258	155
Health security in the Covid-19 situation	-	1,933	115	35
Exception due to the security policy situation	-	-	51	-
Total	**0**	**2,202**	**424**	**190**

When preparing the General Government Fiscal Plan for 2023–2026, the Government decided on significant additional expenditure due to the security policy situation. The expenditure is targeted at national defence, border and cyber security, expenditure directly related to the war in Ukraine, and measures related to security of supply, the rising energy prices, and the green transition. The additional expenditure will occur in 2022–2026 and amount to approximately EUR 7 billion. Some of the expenditure may be permanent, while some is temporary. The additional expenditure of around EUR 2 billion decided for both 2022 and 2023 will be covered by funds outside the spending limits in such a manner that the spending limits are raised accordingly. If the amount of expenditure changes, the spending limits will be adjusted accordingly. A small part of the expenses is already outside the spending limits, so there is no need to raise the spending limits because of them.

Deviation from the spending limits is necessary because of the security policy situation. However, the deviation has been defined in broad terms, enabling also increases in permanent expenditure. Therefore, it is important that there are transparent justifications for including a certain expenditure item in the scope of the security policy deviation and that such expenditure items can, if necessary, be distinguished from the expenditure normally falling within the scope of the spending limits. Especially in a situation where the spending limits do not limit the amount of certain expenditure, the effectiveness of the use of such expenditure in relation to the objectives set for them should be assessed.

In 2023, the funding of wellbeing services counties will be transferred to the state. The transfer will increase central government expenditure to a new level. Incorporating several large expenditure items simultaneously into the scope of the spending limits may make it more difficult to distinguish between permanent and temporary expenditure and to determine how different decisions impact the spending limits expenditure at the beginning of the next government term. The funding of the wellbeing services counties within the spending limits should be arranged in such a manner that the monitoring of the funding is transparent and that compliance with the spending limits rule is not jeopardized due to changes in the spending level that are difficult to anticipate. It is important that the imputed funding of the wellbeing services counties falls within spending limits expenditure. The use of spending limits provisions for discretionary expenditure has proven to be a well-functioning practice during the current government term, provided that the use of the provision is monitored in detail.

The spending limits rule enables the spending limits to be adjusted in 2023 neutrally in view of the taxpayers' burden. This means that when the wellbeing services counties start operating, the spending limits will be raised by an amount that equals the income financing (tax revenue, compensation for tax losses) transferred to the central government. The funding of the wellbeing services counties seems to exceed the income funding transferred in 2023. The projected increase in the need for health and social services and the increase in the cost level are taken into account annually in the funding of the counties. The funding of the wellbeing services counties will grow faster than tax revenue, which will grow in line with the general economic development. In 2023, the growth of tax revenue will also be slowed down by the timing factors of tax revenue related to the health and social services reform. The new Government can raise the spending limits starting from 2024 according to the costs of the wellbeing services counties.

The sustainability roadmap should be updated as soon as possible

At the outbreak of the Covid-19 pandemic in 2020, the Government drew up a sustainability roadmap to serve as a key tool for improving the sustainability of general government finances. In the first phase of the sustainability roadmap in June 2020, the Government decided that its objective was to stabilize the government debt-to-GDP ratio by the end of the decade. According to the spring 2021 General Government Fiscal Plan, the Government aims to bend the growth curve of the debt ratio by the middle of the decade. In line with the opinions expressed by the NAOF's fiscal policy monitoring, the sustainability roadmap was supplemented in spring 2021 with sensitivity analyses of the development of the debt ratio. The sustainability roadmap of spring 2021 also presented different alternatives for the combined impacts of different measures on the development of the debt ratio. The different estimates of the development path reflect well the fact that there are alternatives in fiscal policy even if the basic premise is to stabilize the debt ratio or to turn it to a downward path.

According to the sustainability roadmap of spring 2021, the Government was to assess the sustainability roadmaps overall more extensively in the Government discussion on spending limits in spring 2022. Another aim was to use the sustainability roadmap updated annually as a document steering the Government's policies. However, the Government did not publish an updated roadmap in spring 2022. Instead, the sustainability roadmap was only mentioned briefly in the General Government Fiscal Plan. The fact that the roadmap was not discussed in connection with the General Government Fiscal Plan was due to the sudden change in the operating environment caused by the Russian invasion.

In order to ensure long-term sustainability of general government finances, it is important to achieve the objective of bending the growth curve of the debt-to-GDP ratio, included in the roadmap. In order for the debt ratio objective to be achieved, it is essential at least once a year to monitor the status of the objective, the progress of the measures, and the scale of the new measures still required. For this reason, the sustainability roadmap should be updated as soon as possible. The second major crisis that occurred during the same parliamentary term, the war in Ukraine, does not make the bending of the growth curve of the debt ratio less important. It is possible to achieve the objective even in the changed circumstances.

The estimates of how much public finances should be strengthened in order to at least stabilize the debt ratio change radically as the budgetary forecasts change. In any case, ensuring the achievement of the objective requires improving the structural balance of general government finances. If the maximum structural deficit were 0.5 percentage point in relation to GDP, the debt ratio would at least stabilize in most situations. This objective is already included in national legislation[20] and remains in force under normal circumstances. The development of the debt ratio is influenced not only by the deficit but also by other factors, such as acquisitions and disposals of financial assets. However, the structural deficit objective provides the basis for determining the scale of the strengthening of public finances. According to current projections, structural deficit will remain just over one percentage point below the objective in relation to GDP in the medium term (up to 2026).

In the sustainability roadmap of spring 2021, the set of measures to strengthen public finances was built in such a manner that if structural measures failed to strengthen public finances sufficiently, the remaining portion would be covered by measures affecting expenditure and revenue directly. It is probably impossible to ensure the stabilization or

[20]Fiscal Policy Act (869/2012), which implements the contents of the Fiscal Compact in Finland.

turnaround of the debt-to-GDP ratio by merely structural measures that are slow to impact. It is also necessary to prioritize expenditure and overhaul taxation, and based on this, take discretionary measures to strengthen the central government's fiscal position. The need for diverse measures is increased by the ageing of the population and new expenditure needs, such as defence expenditure and investments in the green transition. In strengthening public finances, it is important to choose means that are the most favourable in view of economic growth and wellbeing. When the measures to be taken are selected, it is therefore necessary to have as comprehensible knowledge base as possible available. In view of this, the Government should assess whether sufficient information is currently available on public expenditure and taxation structures. If necessary, the Government should ensure that the information is supplemented by, for example, various instruments or surveys, such as spending reviews.

Although employment measures proceeded in February, the combined impacts of the measures taken during the parliamentary term are still far from the objectives

As part of the objective of stabilizing the debt ratio, the Government aims to improve the employment rate to 75 per cent by the middle of this decade and, through employment measures, to increase the number of people employed by 80,000 by the end of the decade. According to the sustainability roadmap updated in spring 2021, the impact of employment measures on public finances is EUR 1–2 billion.

The objective of a 75 per cent employment rate set in the Government Programme was achieved in practice in February 2022, taking into account changes in the way employment rate statistics are kept. The definitions and the data collection and interview methods were changed last year in the Labour Force Survey of Statistics Finland. As a result of the change, the number of employed people recorded decreased by 30,000, which corresponds to a change of about a percentage point in the employment rate. Consequently, the 75 per cent objective set in the Government Programme corresponds to about 74 per cent in the current situation. The objective was broadly achieved according to the Labour Force Survey of February 2022, published by Statistics Finland on 22 March 2022, where the employment rate trend rose to 74 per cent.

This favourable development is presumably due to the rapid recovery of the economy from the Covid-19 crisis and the continuation of the favourable development of structural factors, which began before the crisis, for example in the case of ageing workers. The rapid recovery from the Covid-19 crisis has been influenced, for example, by developments in the global economy, extensive automatic stabilizers, and the counter-cyclical expansionary fiscal policy in 2020.[21] The positive development of the employment rate after the Covid-19 crisis is likely to have reduced the need to strengthen public finances as referred to in the sustainability roadmap of 2021.[22] The positive employment rate trend affects the baseline sustainability gap scenario, reducing the sustainability gap. On the other hand, discretionary structural employment measures do not, as a rule, affect the baseline sustainability gap scenario[23]. Consequently, their impact can still be considered directly in relation to the aforementioned EUR 1–2 billion strengthening target.

[21]Expansionary fiscal policy may have permanent positive impacts on the economy and employment. See Lainà, P. 2021. Koronaelvytyksen hystereesivaikutus. Kansantaloudellinen aikakauskirja 117, 2/2021.

[22]It should be taken into account that the objective of the sustainability roadmap is to bend the growth curve of the general government debt ratio by the mid-2020s. The objective does not apply to the level of the general government debt ratio, which rose due to the Covid-19 crisis.

[23]There are exceptions to this, which have been taken into account separately in the calculations of the report. See the last row of Table 6 and Appendix 2.

Table 5: Employment decisions of February 2022

Measure	(A) Impact assessment of the number of new employed (MoF, other ministries, other institutions)	(B) Estimated potential number of new employed (ministry responsible for preparing the measure)	(C) Net impact on public finances (based on the impact assessment of new employed (A), MoF), EUR million	(D) Net impact on public finances (based on the MoF's impact assessment of new employed, NAOF), EUR million
Subtotal	**5,300–6,300**	does not differ from column A	**110 (excluding the TE digitalization project)[24]**	**97–126**
Reform of the requirement concerning previous employment set for unemployment security	1,500[25]	does not differ from column A	54	54
Obligation to seek employment in self-directed training	1,100	does not differ from column A	41	36–44
Permanent increase in income limits for student financial aid	2,500	does not differ from column A	12.2	12.2
Continuation of the digital project of TE Administration	200–1,200[26] (700)	does not differ from column A	3–21 (16.1) (gross)	−14– +7
Restrictions on the use of 100% pay subsidy	minor	does not differ from column A	10.3	10.3
Other measures	minor/not estimated	does not differ from column A	−2 / not estimated	−2 / not estimated

In autumn 2021, the Government announced that a decision on an employment package to strengthen public finances by EUR 110 million, agreed in the Government's mid-term review, would be made by 15 February 2022. In accordance with this, the Government decided on 11 February 2022 on new employment measures, whose combined impact on employment will be, according to preliminary calculations by the Ministry of Finance, 5,300 –6,300 persons and on general government finances EUR 110 million. The most important ones of the February decisions in terms of their scale are the reform of the requirement concerning previous employment set for unemployment security, the obligation to seek employment in self-directed training, the (permanent) increase in the income limits of student financial aid, the continuation of the TE Administration's digitalization project, and the restriction on the use of 100% pay subsidy.[27]

The estimated impacts of the measures on employment and general government finances are listed in Table 5. Column A presents the employment impacts of the measures, largely based on the information published by the Ministry of Finance. The impact of the measure “continuation of the digitalization project of TE Administration” on employment has been taken from the related Government proposal (HE 225/2021 vp), and the figure published by the Ministry of Finance is in parentheses. The increase in the income limits for student financial aid was decided by the Government as a temporary measure already in autumn 2021, and it was turned into a permanent measure in February. As a permanent measure, it contributes to the Government's objective of stabilizing the general government debt ratio. However, it should be noted that the Ministry of Finance's calculation assumes that the increase in the income limits does not affect the progress of studies. Since there is no research data on how the income limits affect the progress of studies, the assumption by the Ministry of Finance can be considered justified. However, this involves a risk, as the Ministry of Finance rightly points out in the background memo. In order for the magnitude of the risk to be understood, it would have been a good idea to analyse in greater detail how sensitively the results of the calculation depend on the assumption.

[24]The information is from the General Government Fiscal Plan, Publications of the Ministry of Finance 2022:27.
[25]MoF and the report of the Working Group on the Development of Unemployment Security.
[26]HE 225/2021 vp
[27]The impacts of other measures are very limited, only preliminary data on the measures is available, or they have not been assessed.

The last column but one (C) of the table presents the (net) impacts on general government finances, as estimated by the Ministry of Finance. The Ministry of Finance published the net impacts of all measures except the continuation of the TE Administration's digitalization project. According to the Ministry of Finance, the impact of this measure is EUR 16.1 million (700 new employed persons, EUR 23,000 per person), excluding the costs of the measure. However, in its background memorandum, the Ministry points out that between 2016 and 2021, a total of EUR 50.9 million have been allocated in appropriations to the measure. According to the related Government proposal, the gross impact on public finances will be EUR 3–21 million, and the development and deployment costs of the TE Administration's digitalization project are estimated to total around EUR 98.7 million. In addition, the maintenance costs are estimated to be EUR 5–7 million a year. The gross impact of the project is not included in the total impacts on general government finances in Table 5. The net impacts of the measures listed in the table total EUR 115.5 million. A margin of EUR 5 million has been left for other, smaller measures, the impacts of which have not been estimated. Thus, the total amounts to EUR 110 million.

The last column (D) of the table presents an estimate by the NAOF's fiscal policy monitoring of the net impact on public finances. The estimates are based on the Ministry of Finance's calculations and estimates of the number of new employed. The calculations are based on the same logic, but the impact of one new employed person on public finances has been estimated at EUR 18,000–25,000 per year. The aim is to take more broadly into account the uncertainty associated with the impacts.[28] The variation between the data on new employed has also been taken into account. In the case of the TE Administration's digitalization project, the project costs should be deducted from the gross impact. Assuming that the costs estimated in the Government proposal (EUR 98.7 million) are subject to linear depreciation and that the useful time is ten years[29] (the annual depreciation amounts to EUR 10 million), and adding the estimated annual maintenance costs (EUR 5–7 million), the amount to be deducted from the gross impact would total EUR 15–17 million. Thus, the net impact will be EUR −14 to +7 million. Adding up the net impacts of all measures and ignoring the above margin for other measures, the net impact totals EUR 97–126 million. This can be seen as a step forward in the progress of employment measures to improve public finances.

In order to get an overall picture of the Government's employment measures, it is necessary to take into account the employment-related decisions the Government has taken during the entire parliamentary term. The Government's earlier employment measures have been decided mainly in the budget sessions of 2019, 2020, and 2021, in the government discussion on spending limits in 2021, and in December 2020, when the employment package for the elderly was decided. The most effective measures decided by February 2022 are the removal of the right to additional days of unemployment security, the Nordic employment service model, and the incentive model for municipalities. Table 6 presents the impacts of the measures taken by the Government on employment and general government finances by set of measures.[30]

An estimated number of new employed can be considered an employment impact if it is derived from a calculation based on justified assumptions and scientific calculation formulas or modelling. Column A presents such impact assessments on employment measures. The estimates are largely based on analyses carried out by the Ministry of Finance. Column B, in turn, presents an estimate of employment impacts based on the employment potential or scenario. The Government has published employment potential figures or scenarios, particularly on the decisions taken in the spending limits discussion in 2021. Scenarios and potential figures cannot be considered actual employment-related impact assessments because the assumptions used in the calculations or the calculation methods applied are not sufficiently justified, or because the actual purpose of the calculations is to determine the size of the target group of a certain measure.[31] The estimated potential number of new employed is based on a joint assessment by the ministry or ministries responsible for preparing the measure.

[28]See also the previous fiscal policy monitoring reports, Seuri (2020), and the MoF's sustainability gap calculation.

[29]Under the regulation on depreciations issued by the State Treasury, the depreciation period of IT systems is 3–17 years (intangible rights) or 3–20 years (other long-term expenditure). According to the fixed assets accounting of Palkeet, the Finnish Government Shared Services Centre for Finance and HR, the depreciation periods of (purchased) self-manufactured systems are (3–15) 5–15 years. Based on the characteristics and use of the information system described in Government proposal 225/2021 vp, the depreciation period has been assumed to be 10 years.

[30]The impacts by measure are presented in the appendix and, for the decisions taken in February, in Table 5.

[31]For example, as regards the reform of continuous learning, the Government's proposal (76/2021 vp) does not provide an estimate of the number of new employed. However, the number of new employed resulting from the measure is described elsewhere in the text to be 10,000, although this is a scenario.

Table 6: Impact of the Government's employment measures on public finances.

Sets of measures	(A) Impact assessment of the number of new employed, persons (MoF, other ministries, other institutions)	(B) Estimated potential number of new employed, persons (ministry responsible for preparing the measure)	(C) Net impact on public finances, € million € (based on the impact assessment of the number of new employed (column A), MoF)	(D) Net impact on public finances, € million (based on the MoF's impact assessment of the number of new employed, NAOF)[32]
Decisions taken in February 2022	5,300–6,300	does not differ from column A	110 (excluding the TE digitalization project)[33]	97–126
Decisions taken in the budget session 2021	150–650	does not differ from column A	–15– –66	–15– –66[34]
Decisions taken in the budget session 2021	11,000	40,000–44,500	150	119–165
Decisions taken in 2020 (budget session and others)[35]	30,300–31,400	does not differ from column A	325	189–518
Other employment-related decisions (not included in the Government's list of measures)	–17,000– –7,500	–	–	–464– –166
Total: Excluding negative decisions	47,000–49,000	(76,000–83,000)	+519– +570	**+339– +794**
Total: Including negative decisions, direct	30,000–42,000	–	–	**–125– +628**
Total: Sustainability gap pressure projection as benchmark	27,300–32,200	–	–	**+29– +514**

Treating the employment potential of the measures and scenario calculations in a comparable manner to impact assessments has led to differing estimates of the total impacts of employment measures. It is good that the Ministry of Economic Affairs and Employment provides an up-to-date list[36] of employment measures. However, it is inconsistent that it is not indicated whether the information provided relates to the potential of the measures or impact assessments. In addition to the inconsistent comparison of data, the exclusion of employment measures with a negative impact on employment from the publications of ministries and the Government leads to differing estimates of the total impacts of the measures and even of the achievement of the targets.

For reasons of transparency and comparability, Table 6 presents three different methods of summing up the impacts of the measures. The first method ignores the impacts of the Government decisions with negative effects on employment. The second method takes into account the impacts of the decisions that have either a positive or a negative effect on employment. The third approach is based on the sustainability gap estimate, on which the

[32]More information on the calculation of the impacts of employment measures on public finances is available in the following fiscal policy monitoring reports: Fiscal policy monitoring report 2020, December 2020; Fiscal policy monitoring assessment on the management of general government finances, May 2020.

[33]The information is from the General Government Fiscal Plan, Publications of the Ministry of Finance 2022:27.

[34]Based on the impact assessment of the Ministry of Finance. At the time of writing this report, no accurate information on the details of the reform is yet available.

[35]Does not include a preliminary estimate of the consequences of raising the tax credit for work income for those over 60 years of age in the employment package for those over 55 years of age. The estimate was revised, and the revised estimate has been taken into account in the case of the decisions of the 2021 budget session. As regards the reform of pay subsidies, the estimate of the number of new employed was revised, and the revised estimate has been taken into account in the case of the decisions taken in the 2021 spending limits discussion.

[36]Government employment measures and their impacts - Ministry of Economic Affairs and Employment

sustainability roadmap drawn up to stabilize the debt-to-GDP ratio is based. This third calculation method is compatible with the sustainability gap estimate and the sustainability roadmap.

Considering the adverse impacts that the dismantling of the activation model and the measures included in the 2020 budget have on employment, the NAOF's fiscal policy monitoring estimates that the overall impact of the employment decisions taken on public finances is approximately EUR −125 to +628 million. When the employment measures decided so far are assessed in relation to the debt path presented in the sustainability roadmap of spring 2021, it should be noted that the raising of the minimum age for additional days of earnings-related unemployment allowance and a fifth of the activation model have already been taken into account in the general government sustainability gap assessment. Therefore, the share of the employment measures decided remains at around EUR +29 to +514 million of the total strengthening of public finances, EUR +2 to +2.5 billion, to be achieved according to the sustainability roadmap by different measures in order to stabilize the debt-to-GDP ratio. The sustainability roadmap of spring 2021 estimated the impact of employment measures on public finances to be EUR 1 to 2 billion.

Appendix 1: Observations on compliance of the General Government Fiscal Plan 2023–2026 with the requirements set by the Decree on the General Government Fiscal Plan

Requirement set by the Decree	Estimate of compliance
The plan is reviewed annually by the end of April.	In 2022, the General Government Fiscal Plan was approved and published on 13 April 2022, which is in compliance with the requirement set by the Decree.
The General Government Fiscal Plan shall cover all parts of general government finances. The plan contains sections on central government finances, wellbeing services counties, local government finances, statutory employment pension institutions, and other social security funds.	The coverage and structure of the plan comply with the requirements.
The General Government Fiscal Plan sets multiannual targets for general government as a whole regarding the ratio of fiscal position to GDP and, in addition, separate targets for the different subsectors of general government. The fiscal position objectives shall be set in such a manner that, based on the forecast of the Ministry of Finance, they lead at least to the achievement of the objective set for structural general government fiscal position. This can be deviated from if exceptional circumstances as referred to in the Fiscal Compact are prevailing in Finland, and they correspond to the exceptional circumstances under the EU Stability and Growth Pact.	The Government has set objectives for fiscal position in relation to GDP until the end of the government term, i.e. until 2023, (subsectors of general government) and a multiannual target path until 2025 (general government as a whole). According to the General Government Fiscal Plan, the multiannual objectives remain unchanged from spring 2021. This is not exactly true because the objectives have been changed (they have become tighter). However, the subsector-specific objectives for 2023 have been kept unchanged. Taking into account the business cycle, the objective set for the nominal fiscal position of general government for 2023 (−1.7% relative to GDP) would not lead to the achievement of the objective set for structural fiscal position (−0.5 percentage points relative to GDP). However, as exceptional circumstances referred to in legislation are in force, the objectives have been set in accordance with the decree.
The General Government Fiscal Plan sets multiannual targets for general government debt and general government expenditure relative to GDP at market prices. These targets are in line with the targets set for the fiscal position of general government as a whole.	The multiannual targets set for general government debt and expenditure relative to GDP have been expressed in accordance with the decree.

Requirement set by the Decree	Estimate of compliance
The General Government Fiscal Plan presents estimates of the key revenue and expenditure items of general government and its subsectors (as referred to in section 3, item 1).	The estimates of the key revenue and expenditure items are presented in section 10 separately for the central government, local government, wellbeing services counties, employment pension institutions, and other social security funds. The stability programme also presents estimates of the general government's key revenue and expenditure items. The transparency and comparability of the general government revenue and expenditure items and, in particular, of information on total expenditure is weakened in the General Government Fiscal Plan by the fact that the plan uses different concepts or calculation models for total expenditure and revenue.
The estimates are drawn up on the assumption that the legislation affecting revenue and expenditure is not amended and on the assumption that the legislation affecting revenue and expenditure is amended as specified by the Government.	The plan does not disclose information according to the two options as laid down in the decree. However, the plan provides detailed information on those measures to be taken in 2023–2026 that have an impact on public revenue and expenditure. In addition, the plan sets out the combined impact of the decisions taken during the parliamentary term on public revenue and expenditure by subsector.
The plan describes the impact of both options on the medium-term structural fiscal position and long-term sustainability of general government finances.	The target path outlined in the plan corresponds to that of the independent forecast of the Ministry of Finance. The target path has been used in the stability programme. The information the plan provides on revenue and expenditure if the policy remains unchanged (Table 25) includes information according to the independent forecast.
The General Government Fiscal Plan specifies the measures required for achieving the fiscal position targets and their estimated financial impact.	The fiscal policy targets set in the General Government Fiscal Plan correspond to the development path of the independent forecast of the Ministry of Finance. Based on this, there is thus no need to take further measures in order to achieve the targets.
The General Government Fiscal Plan presents a comparison between the most recent macroeconomic forecasts of the Ministry of Finance and the European Commission and the budgetary forecast, and explains any significant differences between the assumptions on which the forecasts are based.	Appendix 5 presents a comparison between the latest forecasts of the Ministry of Finance and the Commission for six variables. The data describing the consumer price index has not been updated in appendix 5.
The General Government Fiscal Plan presents the impact of various growth and interest rate assumptions on the macroeconomic forecast and the budgetary forecast, as well as on the key figures related to general government finances.	Appendix 4 presents sensitivity analyses on the effect of different growth and interest rate assumptions.
The general government units that are not part of regular budgets at the subsector level shall be listed and published in connection with the General Government Fiscal Plan. The plan describes the combined impact of these units on general government fiscal position and debt.	In accordance with the decree, the plan contains a reference to the list maintained by Statistics Finland. The combined impact of these units on the financial position and debt has been presented. Thus, the requirement of the decree is met although the presentation of information at this highly aggregated level does not significantly increase transparency.

Requirement set by the Decree	Estimate of compliance
When preparing its economic forecasts, the Ministry of Finance shall take into consideration the National Audit Office's conclusions on the macroeconomic forecast and the budgetary forecast. If, according to the conclusions, the macroeconomic forecasts have included a bias that has had a major impact on the forecasts during four consecutive years, the Ministry of Finance shall publish the actions it has taken to correct the bias or issue a public statement insofar as it does not concur with the National Audit Office's conclusions.	The National Audit Office has not detected a bias as referred to in the decree in the Ministry of Finance's macroeconomic forecasts.

Appendix 2: The impact of the Government's employment measures on public finances by measure

Decisions taken in the 2021 budget session

Measure	(A) Impact assessment of the number of new employed (MoF, other ministries, other institutions[1])	(B) Estimated potential number of new employed (ministry responsible for preparing the measure)	(C) Net impact on public finances (based on the impact assessment of new employed (A), MoF), EUR million	(D) Net impact on public finances (based on the MoF's impact assessment of new employed, NAOF), EUR million
Subtotal	**150–650**	**does not differ from column A**	**−15 – −66**	**−15 – −66**
Gradual increase in the tax credit for work income for people over 60 years[37]	150–650		0	−15– −66[38]
Increase in income limits for student financial aid[39]	(2000)		(+15)	no estimate
Fast lane for work-based immigration	no estimate		no estimate	no estimate

Decisions taken in the 2021 Government discussion on spending limits

Measure	(A) Impact assessment of the number of new employed (MoF, other ministries, other institutions[1])	(B) Estimated potential number of new employed (ministry responsible for preparing the measure)	(C) Net impact on public finances (based on the impact assessment of new employed (A), MoF), EUR million	(D) Net impact on public finances (based on the MoF's impact assessment of new employed, NAOF), EUR million
Subtotal	**11,000**	**40,000–44,500**	**150**	**119–165**
Välittäjä Oy	1,000	does not differ from column A (MoF)	0	could not be estimated
Transfer of employment and business services to municipalities (includes the incentive model for municipalities)	6,600	7,000–10,000 (MEAE)	150	119–165
Work capacity programme and pay subsidies	600	5,500–6,500 (MSAH, MEAE)	14 (gross)	could not be estimated
Work-based immigration	1,500	10,000 (MEAE)	14 (gross)	could not be estimated

[37]The measure is part of the package for people over the age of 55. The estimate was revised, and the revised estimate has been taken into account in this calculation. The measure is not specifically listed on the website of the Ministry of Economic Affairs and Employment. See also footnote 40.
[38]Based on the MoF's estimate.
[39]Planned to be a temporary measure and turned into a permanent measure in the February 2022 decision package. The estimate of new employed was revised, and the revised estimate has been taken into account in the decisions taken in February 2022.

Measure	(A) Impact assessment of the number of new employed (MoF, other ministries, other institutions[1])	(B) Estimated potential number of new employed (ministry responsible for preparing the measure)	(C) Net impact on public finances (based on the impact assessment of new employed (A), MoF), EUR million	(D) Net impact on public finances (based on the MoF's impact assessment of new employed, NAOF), EUR million
Reform of continuous learning	1,000	10,000–10,500 (MEC)	23 (gross)	could not be estimated
Prevention of disability pensions and sickness absences	–	2,500 (MSAH)	–	–
Accelerating procurement	–	2,000 (MEAE)	–	–
Integration	–	2,000 (MEAE)	–	–

Decisions taken in 2020 (budget session and others)

Measure	(A) Impact assessment of the number of new employed (MoF, other ministries, other institutions)	(B) Estimated potential number of new employed (ministry responsible for preparing the measure)	(C) Estimated net impact on public finances (based on the impact assessment of new employed (A), MoF), EUR million	(D) Net impact on public finances (based on the MoF's impact assessment of new employed, NAOF), EUR million
Subtotal	**30,300–31,400**	**does not differ from column A**	**325**	**189–518**
Employment package for people aged over 55, 17 December 2020 (e.g. removal of the right of additional days of earnings-related unemployment allowance)[40]	9,800 (8,900)	–	190 (190)	160–223 (only the removal of additional days, no other estimates made)
Rise in the minimum age limit for the right of additional days of earnings-related unemployment allowance from 61 to 62 (effective as from 1 January 2020)	6,500–7,000	–	–	117–175
Nordic employment service model	9,500–10,000	–	140 (HE 167/2021 vp)	101–180

[40]The figures were updated because more detailed information was obtained in autumn 2021 on the tax credit for work income for people over 60 years. The employment impact of the measure was estimated at 500 new employed persons in December 2020. The total impact of the employment package for people over the age of 55 was estimated at the time to be 10,300 new employed persons. When the impact of the tax credit for work income estimated at the time at 500 new employed persons is deducted from the figure, the impact of other measures is 9,800 new employed. The new estimate of the impact of the tax credit for work income, published in connection with the 2021 budget session, is 150–650 new employed, and the new estimate has been taken into account in the table describing the decisions of the 2021 budget session.

Measure	(A) Impact assessment of the number of new employed (MoF, other ministries, other institutions)	(B) Estimated potential number of new employed (ministry responsible for preparing the measure)	(C) Estimated net impact on public finances (based on the impact assessment of new employed (A), MoF), EUR million	(D) Net impact on public finances (based on the MoF's impact assessment of new employed, NAOF), EUR million
Reduction in the fees for early childhood education	2,500–3,600	–	–100	–100– –66
Extension of compulsory education	1,600 (long-term impact on employment 13,500–15,000)	–	–	–89– +6
Linear model of partial disability pension	200	–	–	no estimate
Reform of adult education allowance	200	–	–	no estimate
Reform of pay subsidies[41]	(500–1,000)	–	–	no estimate

Other employment-related decisions (not included in the Government's entry)

Measure	(A) Impact assessment of the number of new employed (MoF, other ministries, other institutions)	(B) Estimated potential number of new employed (ministry responsible for preparing the measure)	(C) Net impact on public finances (based on the impact assessment of new employed (A), MoF), EUR million	(D) Net impact on public finances (based on the MoF's impact assessment of new employed, NAOF), EUR million
Subtotal	**–17,000– –7,500**	**–**	**–**	**–464– –166**
Removal of the cuttings of the activation model	–12,000– –2,050 (working group memo and Economic Policy Council)	–	–	–339– –76
Budget proposal for 2020 (mainly increases in basic social security and tax changes)[42]	–5,000 (Parliament)	–	–	–125– –90

[41] The estimate was revised, and the revised estimate has been taken into account in the decision taken in the government discussion on spending limits 2021.

[42] The estimate of the number of new employed does not include the impact of the increase in the level of guarantee and national pension on retirement. According to Gruber et al. 2019, for example, the pension level affects retirement, i.e. attrition of workforce.