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Recommendation for a

# COUNCIL RECOMMENDATION

## on Finland's 2012 national reform programme

## and delivering a Council opinion on Finland's stability programme for 2012-2015

{SWD(2012) 312 final}

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THE COUNCIL OF THE EUROPEAN UNION,

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

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

Having regard to Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances[2], and in particular Article 6(1) thereof,

Having regard to the recommendation of the European Commission[3],

Having regard to the resolutions of the European Parliament,[4]

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

After consulting the Economic and Financial Committee,

Whereas:

(1) On 26 March 2010, the European Council agreed to the European Commission’s proposal to launch a new strategy for jobs and growth, Europe 2020, based on enhanced coordination of economic policies, which will focus on the key areas where action is needed to boost Europe’s potential for sustainable growth and competitiveness.

(2) On 13 July 2010, the Council adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and, on 21 October 2010, adopted a decision on guidelines for the employment policies of the

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1 OJ L 209, 02.08.1997, p. 1
2 OJ L 306, 23.11.2011, p. 25
3 COM(2012)312 final
4 P7_TA(2012)0048 and P7_TA(2012)0047

Member States[5], which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

(3) On 12 July 2011, the Council adopted a recommendation on Finland's national reform programme for 2011 and delivered its opinion on Finland's updated stability programme for 2011-2014.

(4) On 23 November 2011, the Commission adopted the second Annual Growth Survey, marking the start of the second European Semester of ex-ante and integrated policy coordination, which is anchored in the Europe 2020 strategy. On 14 February 2012, the Commission, on the basis of Regulation (EU) 1176/2011, adopted the Alert Mechanism Report[6], in which it identified Finland as one of the Member States for which an in-depth review would be carried out.

(5) On 2 March 2012, the European Council endorsed the priorities for ensuring financial stability, fiscal consolidation and action to foster growth. It underscored the need to pursue differentiated, growth-friendly fiscal consolidation, to restore normal lending conditions to the economy, to promote growth and competitiveness, to tackle unemployment and the social consequences of the crisis, and to modernise public administration.

(6) On 2 March 2012, the European Council also invited the Member States participating in the Euro Plus Pact to present their commitments in time for inclusion in their stability or convergence programmes and their national reform programmes.

(7) On 19 April 2012, Finland submitted its stability programme covering the period 2012-2015 and its 2012 national reform programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time. The Commission has also assessed, in an in-depth review under Article 5 of Regulation (EU) No 1176/2011, whether Finland is affected by macroeconomic imbalances. The Commission concluded in its in-depth review[7] that Finland is experiencing an imbalance, although not excessive.

(8) Based on the assessment of the stability programme pursuant to Article 5(1) of Council Regulation (EC) No 1466/97, the Council is of the opinion that the macroeconomic scenario underpinning the budgetary projections in the programme is plausible for the 2012-13 period, GDP growth expected in the programme is in line with the Commission's 2012 spring forecast. Projections are also realistic for the years 2014 and 2015 as they foresee GDP growth to be substantially lower than encountered before the crises and lower than in the recovery years 2010-11. The main budgetary goal of Finland's 2012 stability programme is to reduce the central government deficit by limiting expenditures and increasing revenues. As the central government budget is the main source of the general government deficit, improving its position will contribute to balancing of the general government budget. The medium-term budgetary objective (MTO) of a surplus of 0.5% of GDP in structural terms reflects adequately the requirements of the Stability and Growth Pact. Based on the

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5 Council Decision 2012/238/EU of 26 April 2012

6 COM(2012) 68 final

7 SWD(2012)154 final

(recalculated) structural budget balance[8], Finland has met the MTO in 2011 but would marginally deviate from it over 2012-15. The rate of growth of government expenditure, taking into account discretionary revenue measures, complies with the expenditure benchmark of the Stability and Growth Pact in all years except 2015. The programme aims at balancing the general government budget by 2015 and reaching surpluses as from 2016. The debt ratio is well below 60% of GDP and according to the programme, the debt level will peak in 2014 at close to 52% of GDP and then start declining. A notable sustainability gap still exists in Finland's public finances, mainly stemming from a rapidly deteriorating dependency ratio caused by population ageing. The sustainability gap in public finances needs to be continuously monitored and measures adjusted accordingly. Finland's fiscal framework is anchored to multi-annual expenditure ceilings, but these do currently not apply for the municipal sector.

(9) The productivity of public services has been in decline over the past decade. Finnish authorities have already implemented several reforms to address the issue, but their implementation has been slow, especially at the local government level. In addition, a nation-wide municipal reform and a central government productivity programme are underway. Further productivity gains and cost savings could be achieved by encouraging more competition in shielded private and public service sectors, through further product and labour market deregulation.

(10) Over the past year, the Finnish government has introduced new measures to reduce youth and long-term unemployment. These included a pilot programme to reduce long-term unemployment and introduction of a social guarantee for young people. The measures introduced are ambitious and relevant, but now need to be implemented with a clear focus on improving the skills levels and labour market position of the target groups. In view of demographic changes, raising the employment rate of older workers is important to ensure sustainable public finances and meet the demand for labour in the future. The increase in life expectancy has been more rapid than envisaged during the 2005 pension reform, and therefore over time the current statutory retirement age range could turn out to be too low. In its programme, the government committed itself to increase the effective retirement age to 62.4 years by 2025. In March 2012, the social partners agreed to several measures to lengthen working careers. The government has committed itself to carry out a pension reform no later than 1 January 2017. The focus now needs to be on implementing the agreed line of action in the short term.

(11) Regulatory barriers in the services sector in Finland are still restrictive and market concentration is high not only in retail trade, but also in areas of production. In the grocery retail market, Finland has the highest degree of market concentration and food prices are among the highest in Europe. Competition law fines in Finland have traditionally been low, raising issues regarding their deterrent effect. There have been some policy developments on competition, such as a new national competition law and a new law on land use planning and construction. The government is also committed to launching a new programme on promoting competition. This should be brought forward without delay with a view to further strengthening the competition framework in product and service markets.

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8 Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission services on the basis of the information provided in the programme, using the commonly agreed methodology.

(12) Productivity growth in Finland is stagnating and Finnish exporting firms have lost market shares in foreign markets over recent years. Unit labour costs have increased, although not in the manufacturing sector. Some currently dominant industries, especially electronics and paper, appear to have peaked in their growth and in general the share of manufacturing in GDP is declining. Finland is exporting intermediate and investment goods mainly to mature, slowly growing economies and its products have limited presence in developing economies. The Finnish economy needs to become more diversified both in terms of companies as in terms of export markets in order to develop multiple strong exporters in the future. Notwithstanding the past strong Finnish R&D and innovation performance, without a significant increase in the number of innovative high-growth firms, Finland's ranking as an EU innovation leader risks declining. This requires facilitating innovation, enabling the transformation from R&D into marketable products, and encouraging the penetration of fast growing export markets. In the short term, it will also be crucial to exploit and disseminate the extensive ICT know-how also in other industries in Finland, including the public sector. Regarding wage growth, the tripartite wage agreement of 2011 paves the way for modest wage increases in 2012 and 2013, which should improve Finland's relative position vis-à-vis its main trading partners.

(13) Finland has made a number of commitments under the Euro Plus Pact. These commitments, presented in 2011, relate to improving competitiveness, the employment rate and the sustainability of public finances, strengthening financial stability and ensuring tax coordination. The Commission has assessed the implementation of the Euro Plus Pact commitments. The results of this assessment have been taken into account in the recommendations.

(14) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Finland's economic policy. It has assessed the stability programme and the national reform programme, and presented an in-depth review. It has taken into account not only their relevance for sustainable fiscal and socio-economic policy in Finland but also their compliance with EU rules and guidance, given the need to reinforce the overall economic governance of the European Union by providing EU-level input into future national decisions. Its recommendations under the European Semester are reflected in recommendations (1) to (5) below.

(15) In the light of this assessment, the Council has examined Finland's stability programme, and its opinion[9] is reflected in particular in recommendation (1) below.

(16) In the light of the results of the Commission's in-depth review and this assessment, the Council has examined Finland's 2012 national reform programme and Finland's stability programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in particular in recommendation (5) below,

HEREBY RECOMMENDS that Finland should take action within the period 2012-2013 to:

1. Preserve a sound fiscal position in 2012 and beyond by correcting any departure from the medium-term budgetary objective (MTO) that ensures the long-term sustainability of public finances. To this end, reinforce and rigorously implement the budgetary strategy, supported by sufficiently specified measures, for the year 2013

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

and beyond including meeting the expenditure benchmark. Continue to carry out annual assessments of the size of the ageing-related sustainability gap and adjust public revenue and expenditure in accordance with the long-term objectives and needs. Integrate the local government sector better in the system of multi-annual expenditure ceilings.

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

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

4. Continue enhancing competition in product and service markets, especially in the retail sector, by ensuring the effective implementation of the new Competition Act and the new programme on promoting healthy competition. Continue to further opening the municipal procurement of services to competitive bidding and by ensuring competition neutrality between private and public undertakings. Take further steps to ensure that competition law fines are sufficiently deterrent.

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

Done at Brussels,

*For the Council*
*The President*