EUROPEAN
COMMISSION

Brussels, 20.5.2020
COM(2020) 526 final

Recommendation for a

COUNCIL RECOMMENDATION

on the 2020 National Reform Programme of Finland and delivering a Council opinion on the 2020 Stability Programme of Finland

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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 the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) On 17 December 2019, the Commission adopted the Annual Sustainable Growth Strategy, marking the start of the 2020 European Semester for economic policy coordination. It took due account of the European Pillar of Social Rights, proclaimed by the European Parliament, the Council and the Commission on 17 November 2017. On 17 December 2019, on the basis of Regulation (EU) No 1176/2011, the Commission also adopted the Alert Mechanism Report, in which it did not identify Finland as one of the Member States for which an in-depth review would be carried out. On the same date, the Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area.

(2) The 2020 country report for Finland[2] was published on 26 February 2020. It assessed Finland’s progress in addressing the country-specific recommendations adopted by the Council on 9 July 2019[3], the follow-up given to the recommendations adopted in previous years and Finland's progress towards its national Europe 2020 targets.

(3) On 11 March 2020, the World Health Organization officially declared the COVID-19 outbreak a global pandemic. It is a severe public health emergency for citizens,

[1] OJ L 209, 2.8.1997, p. 1.
[2] SWD(2020) 525 final.
[3] OJ C 301, 5.9.2019, p. 117.

societies and economies. It is putting national health systems under severe strain, disrupting global supply chains, causing volatility in financial markets, triggering consumer demand shocks and having negative effects across various sectors. It is threatening people's jobs, their incomes and companies' business. It has delivered a major economic shock that is already having serious repercussions in the European Union. On 13 March 2020, the Commission adopted a Communication[4] calling for a coordinated economic response to the crisis, involving all actors at national and Union level.

(4) Several Member States have declared a state of emergency or introduced emergency measures. Any emergency measures should be strictly proportionate, necessary, limited in time, and in line with European and international standards. They should be subject to democratic oversight and independent judicial review.

(5) On 20 March 2020, the Commission adopted a Communication on the activation of the general escape clause of the Stability and Growth Pact[5]. The clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) 1466/97 and Articles 3(5) and 5(2) of Regulation (EC) 1467/97, facilitates the coordination of budgetary policies in times of severe economic downturn. In its Communication, the Commission shared with the Council its view that, given the expected severe economic downturn resulting from the COVID-19 outbreak, the current conditions permit activation of the clause. On 23 March 2020, the Ministers of Finance of the Member States agreed with the assessment of the Commission. The activation of the general escape clause allows for a temporary departure from the adjustment path towards the medium-term budgetary objective, provided that this does not endanger fiscal sustainability in the medium term. For the corrective arm, the Council may also decide, on a recommendation from the Commission, to adopt a revised fiscal trajectory. The general escape clause does not suspend the procedures of the Stability and Growth Pact. It allows Member States to depart from the budgetary requirements that would normally apply while enabling the Commission and the Council to undertake the necessary policy coordination measures within the framework of the Pact.

(6) Continued action is required to limit and control the spread of the pandemic, strengthen the resilience of the national health systems, mitigate the socio-economic consequences through supportive measures for business and households and to ensure adequate health and safety conditions at the workplace with a view to resuming economic activity. The Union should fully use the various tools at its disposal to support Member States' efforts in those areas. In parallel, Member States and the Union should work together to prepare the measures necessary to get back to a normal functioning of our societies and economies and to sustainable growth, integrating inter alia the green transition and the digital transformation, and drawing all lessons from the crisis.

(7) The COVID-19 crisis has highlighted the flexibility that the single market offers to adapt to extraordinary situations. However, in order to ensure a swift and smooth transition to the recovery phase and the free movement of goods, services and workers, exceptional measures that prevent the single market from functioning normally must be removed as soon as they are no longer indispensable. The current crisis has shown the need crisis preparedness plans in the health sector, which include in particular improved purchasing strategies, diversified supply chains and strategic reserves of

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4 COM(2020) 112 final.

5 COM(2020) 123 final.

essential supplies. They are key elements for developing broader crisis preparedness plans.

(8) The Union legislator has already amended the relevant legislative frameworks[6] to allow Member States to mobilise all unused resources from the European Structural and Investment Funds so they can address the exceptional effects of the COVID-19 pandemic. Those amendments will provide additional flexibility, as well as simplified and streamlined procedures. To alleviate cash flow pressures, Member States can also benefit from a 100% co-financing rate from the Union budget in the 2020-2021 accounting year. Finland is encouraged to make full use of those possibilities to help the individuals and sectors most affected by the challenges.

(9) The socio-economic consequences of the pandemic are likely to be unevenly distributed across sectors and regions due to different specialisation patterns. This entails a risk of widening disparities within Finland. Combined with the risk of a temporary unravelling of the convergence process between Member States, the current situation calls for targeted policy responses.

(10) On 30 April 2020, Finland submitted its 2020 National Reform Programme and its 2020 Stability Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(11) Finland is currently in the preventive arm of the Stability and Growth Pact and subject to the debt rule.

(12) In its 2020 Stability Programme, the government plans the headline balance to deteriorate from a deficit of 1,1% of GDP in 2019 to a deficit of 7,2% of GDP in 2020. The deficit is projected to decline to 4,0% of GDP in 2021. After increasing to 59,4% of GDP in 2019, the general government debt-to-GDP ratio is expected to increase to 69,1% in 2020 according to the 2020 Stability Programme. The macroeconomic and fiscal outlook is affected by high uncertainty due to the COVID-19 pandemic.

(13) In response to the COVID-19 pandemic, and as part of a coordinated Union approach, Finland has adopted budgetary measures to increase the capacity of its health system, contain the pandemic, and provide relief to those individuals and sectors that have been particularly affected. According to the 2020 Stability Programme, those budgetary measures amounted to 1,7% of GDP. The measures include both emergency spending for protection of health and public order and support measures for businesses and employees. In addition, Finland has announced measures that, while not having a direct budgetary impact, will contribute to support liquidity to businesses, which the 2020 Stability Programmes estimates at 5% of GDP. Those measures include loan guarantees for companies, mainly targeting SMEs, as well as specific guarantee schemes for Finnair and shipping companies ensuring security of supply. In addition, other liquidity-enhancing measures, not reported in the Stability Programme, have been adopted in Finland, including tax deferrals for corporate income taxes. Those

[6] Regulation (EU) 2020/460 of the European Parliament and of the Council of 30 March 2020 amending Regulations (EU) No 1301/2013, (EU) No 1303/2013 and (EU) No 508/2014 as regards specific measures to mobilise investments in the healthcare systems of Member States and in other sectors of their economies in response to the COVID-19 outbreak (Coronavirus Response Investment Initiative) (OJ L 99, 31.3.2020, p. 5) and Regulation (EU) 2020/558 of the European Parliament and of the Council of 23 April 2020 amending Regulations (EU) No 1301/2013 and (EU) No 1303/2013 as regards specific measures to provide exceptional flexibility for the use of the European Structural and Investments Funds in response to the COVID-19 outbreak (OJ L 130, 24.4.2020, p. 1).

additional measures are estimated at 15% of GDP. Overall, the measures taken by Finland are in line with the guidelines set out in the Commission Communication on a coordinated economic response to the COVID-19 outbreak. The full implementation of those measures, followed by a refocusing of fiscal policies towards achieving prudent medium-term fiscal positions when economic conditions allow, will contribute to preserving fiscal sustainability in the medium term.

(14) Based on the Commission 2020 spring forecast under unchanged policies, Finland's general government balance is forecast at -7,4% of GDP in 2020 and -3,4% in 2021. The general government debt ratio is projected to reach 69,4% of GDP in 2020 and 69,6% in 2021.

(15) On 20 May 2020, the Commission issued a report prepared in accordance with Article 126(3) of the Treaty due to Finland's projected breach of the 3% of GDP deficit threshold in 2020. Overall, the analysis suggests that the deficit criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 is not fulfilled.

(16) In response to the crisis, Finland has taken comprehensive action to support its health system and its economy. For example, the Finnish government adopted several supplementary budgets and decided to improve job security for employees, while conditions for receiving unemployment benefits have been relaxed. Access to unemployment benefits has been made easier for freelancers and entrepreneurs. Social security measures amount to EUR 1,6 billion. Direct business grants amounting to EUR 1 billion have been made available in addition to EUR 10 billion in state-guaranteed loans. The government has temporarily reduced the employer's pension contribution by 2,6 percentage points and has allocated at least EUR 1 billion to a municipal support package. The Finnish Financial Supervisory Authority lowered Finnish credit institutions' capital requirements by removing the systemic risk buffer and by adjusting credit institution-specific requirements. The government nominated a working group led by the Ministry of Finance and the Ministry of Social Affairs and Health to prepare Finland's COVID-19 crisis exit strategy. The government adopted a staged exit plan in early May, based on the first report of the working group. The working group will further propose relevant measures to address the health, social and economic impact of the crisis. It has consulted social partners, municipalities, civil society and environmental organisations.

(17) While Finland has shown a general readiness to deal with the COVID-19 crisis, its health system could benefit from being made more resilient. Hospital districts have had to reallocate medical staff to treat coronavirus patients and deviate from the previously established legal time limits for non-urgent healthcare. The current system of health services delivered by various providers has led to an uneven density of health workers across the country. The fragmentation of service provision and the unequal access to social and primary healthcare services is expected to remain an issue after the crisis, particularly for unemployed and retired people, including persons with disabilities. With the rise in unemployment due to the COVID-19 crisis, both short- and medium-term policy action should be focused on improving equal access to primary healthcare. In the medium term, it remains important to pursue the social and health reform plans considered by successive Finnish governments, especially as they prepare Finland for far-reaching demographic changes and would help the country maintain the quality of its health system in the future while improving its accessibility. The long-term sustainability of Finland's public finances continues to be at risk due to the projected rise in ageing costs, in particular social and health care.

(18) According to the Commission forecast, unemployment is expected to rise to 8,3% in 2020 and recover to 7,7% in 2021. Effective short- and medium-term policy actions, designed in close cooperation with the social partners, are needed to curb increases in the unemployment rate and to re-integrate into the labour market those who have lost their jobs due to the COVID-19 crisis. These efforts should also support groups at risk of poverty and social exclusion, such as the low-skilled, persons with disabilities, people with partial work ability and people with a migrant background. Finland has short-time work schemes in place that have put many employees on furlough. Active labour market policies, including upskilling and reskilling measures could ensure quick and sustainable re-entry into the labour market. Subsidised salaries could be targeted and coupled with training and follow-up by public employment services. Reskilling and upskilling are key to maintaining the employability of the labour force in an increasingly digital and green economy. The continuous learning reform could help address the need for skills enhancement of adults, including those with low skills, in labour market-relevant sectors such as the Information and Communication Technology (ICT) sector. In order to provide the market with the skills it needs in times of demographic and technological changes, it will be important to maintain the labour market relevance of education, also by ensuring sufficient university places in line with employment foresight for each sector and region. To avoid aggravating the socio-economic situation of the most vulnerable groups in the wake of the COVID-19 crisis, addressing the digital divide will be key, particularly in ensuring that disadvantaged learners have access to quality education. The complex benefit system creates barriers to taking up work. To encourage the take-up of short-time and part-time work, the income register containing real-time information on salaries and benefits should be efficiently deployed together with accelerating the handling times of social security benefits. In the medium term, it will be important for Finland to reform the social benefits system to boost employment and to prepare the country's welfare system for the future.

(19) Helping businesses, especially small and medium-sized enterprisess (SMEs), to stay afloat during the crisis is essential to stimulating the economy following the lifting of the lockdown measures currently in place. Temporary liquidity support through loans, grants and guarantees could help tide businesses over this period of high uncertainty and substantially lower revenues. In the process of designing and implementing these measures the resilience of the banking sector needs to be taken into account.

(20) To foster the economic recovery, it will be important to front-load mature public investment projects and promote private investment, including through relevant reforms. Investment in Finland remains below the EU average for categories that most support productivity growth, notably investment in equipment and in intellectual property. This can limit the country's long-term growth potential and weigh on its competitiveness and recovery. More investment in research and development is a key factor enabling structural change to favour knowledge-intensive sectors of the economy and strengthen long-term growth potential. The planned move towards climate neutrality by 2035 also reflected in Finland's National Energy and Climate Plan will require substantial investment, particularly in electricity networks and in sustainable transport. A new national transport system for 2021 is being developed under the lead of a parliamentary steering group. Amid health, environmental, regional and productivity concerns, continued efforts are needed to roll out high-speed broadband and to improve other digital infrastructure, with a view to rationalise logistics and maintain economic activity in remote areas. The programming of the Just Transition Fund for the period 2021-2027 could help Finland to address some of the

challenges posed by the transition to a climate neutral economy, in particular in the territories covered by Annex D to the country report[7]. This would allow Finland to make the best use of that fund.

(21) Finland's national risk assessment on anti-money laundering is currently outdated and will be updated in 2020. The Finnish financial supervisory authority has recently improved its supervisory capacity. However, staffing is still inadequate, and the 'risk-based' approach to supervision is not yet correctly applied. While several cases of suspected violations have been investigated, the establishment of a dissuasive sanctioning policy remains another priority area. Reporting of suspicious transactions has sharply increased in recent months and tools within the Financial Intelligence Unit appear insufficient to analyse this information. Exchange of information between the Financial Intelligence Unit and the financial supervisory authority remains insufficient.

(22) While the present recommendations focus on tackling the socio-economic impacts of the pandemic and facilitating the economic recovery, the 2019 country-specific recommendations adopted by the Council on 9 July 2019 also covered reforms that are essential to address medium- to long-term structural challenges. Those recommendations remain pertinent and will continue to be monitored throughout next year's European Semester annual cycle. That also applies to recommendations regarding investment-related economic policies. The latter recommendations should be taken into account for the strategic programming of cohesion policy funding post-2020, including for mitigating measures and exit strategies with regard to the current crisis.

(23) The European Semester provides the framework for continuous economic and employment policy coordination in the Union, which can contribute to a sustainable economy. Member States have taken stock of progress regarding United Nations' Sustainable Development Goals (SDGs) implementation in their 2020 National Reform Programmes. By ensuring the full implementation of the recommendations below, Finland will contribute to the progress towards the SDGs and to the common effort of ensuring competitive sustainability in the Union.

(24) Close coordination between economies in the economic and monetary union is key to achieve a swift recovery from the economic impact of the COVID-19. Finland should, as a Member State whose currency is the euro – and taking into account political guidance by the Eurogroup – ensure its policies remain consistent with the euro area recommendations and coordinated with those of the other euro area Member States.

(25) In the context of the 2020 European Semester, the Commission has carried out a comprehensive analysis of Finland's economic policy and published it in the 2020 country report. It has also assessed the 2020 Stability Programme and the 2020 National Reform Programme and the follow-up given to the recommendations addressed to Finland in previous years. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Finland, but also their compliance with Union rules and guidance, given the need to strengthen the Union's overall economic governance by providing Union-level input into future national decisions.

(26) In the light of that assessment, the Council has examined the 2020 Stability Programme and its opinion[8] is reflected in particular in recommendation (1) below,

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[7] SWD(2020) 525 final.

HEREBY RECOMMENDS that Finland take action in 2020 and 2021 to:

1. In line with the general escape clause, take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Address shortages of health workers to strengthen the resilience of the health system and improve access to social and health services.
2. Strengthen measures to support employment and bolster active labour market policies.
3. Take measures to provide liquidity to the real economy, in particular to small and medium-sized enterprises. Front-load mature public investment projects and promote private investment to foster the economic recovery. Focus investment on the green and digital transition, in particular on clean and efficient production and use of energy, sustainable and efficient infrastructure as well as research and innovation.
4. Ensure effective supervision and enforcement of the anti-money laundering framework.

Done at Brussels,

For the Council
The President

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