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Recommendation for a

COUNCIL RECOMMENDATION

on Finland's 2013 national reform programme

and delivering a Council opinion on Finland's stability programme for 2012-2017

{SWD(2013) 376 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 Commission's proposal to launch a new strategy for growth and jobs, 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, on the basis of the Commission's proposals, 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 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.

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1 OJ L 209, 2.8.1997, p. 1.
2 OJ L 306, 23.11.2011, p. 25.
3 COM(2013) 376 final.
4 P7_TA(2013)0052 and P7_TA(2013)0053.
5 Council Decision 2013/208/EU of 22 April 2013.

(3) On 29 June 2012, the Heads of State or Government decided on a Compact for Growth and Jobs, providing a coherent framework for action at national, EU and euro area levels using all possible levers, instruments and policies. They decided on action to be taken at the level of the Member States, in particular expressing full commitment to achieving the objectives of the Europe 2020 Strategy and to implementing the country-specific recommendations.

(4) On 6 July 2012, the Council adopted a recommendation on Finland's national reform programme for 2012 and delivered its opinion on Finland's updated stability programme for 2011-2015.

(5) On 28 November 2012, the Commission adopted the Annual Growth Survey[6], marking the start of the 2013 European Semester for economic policy coordination. Also on 28 November 2012, the Commission, on the basis of Regulation (EU) No 1176/2011, adopted the Alert Mechanism Report[7], in which it identified Finland as one of the Member States for which an in-depth review would be carried out.

(6) On 14 March 2013, 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.

(7) On 10 April 2013, the Commission published the results of its in-depth review[8] for Finland, under Article 5 of Regulation (EU) No 1176/2011. The Commission's analysis leads it to conclude that Finland is experiencing macroeconomic imbalances, which deserve monitoring and policy action. In particular, the substantial deterioration in the current account position and the weak export performance, driven by industrial restructuring, as well as cost and non-cost competitiveness factors, deserve continued attention.

(8) On 18 April 2013, Finland submitted its 2013 stability programme covering the period 2012-2017 and its 2013 national reform programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(9) Based on the assessment of the 2013 stability programme pursuant to Council Regulation (EC) No 1466/97, the Council is of the opinion that the public finances in Finland have been overall sound and efforts have been made to increase revenues and to control expenditures in order to move towards the medium-term objective (MTO). The macroeconomic scenario underpinning the budgetary projections in the programme is plausible. The growth projection for 2013 is similar to the Commission's spring forecast, whereas the one for 2014 is 0.6 pp higher than in the Commission's forecast. The objective of the budgetary strategy outlined in the programme is to balance the central government finances and to bring the central government debt to GDP ratio on a declining path by 2015. The programme incorporates a change in the medium-term objective (MTO) from 0.5% to -0.5%. The new MTO is in line with the requirements of the Stability and Growth Pact. The programme foresees reaching the MTO by 2014 and staying at the MTO until 2017. Based on the (recalculated)

6 COM(2012) 750 final.
7 COM(2012) 751 final.
8 SWD(2013) 123 final.

structural balance on the basis of information in the programme, Finland did not meet in 2012 the previously-applicable MTO and would not meet the new MTO in 2013. The programme projects the (recalculated) structural balance to improve from -1% of GDP in 2012 to -0.9% of GDP in 2013. Between 2014 and 2017, it would remain between -0.6% and -0.7% of GDP. In 2012, Finland's net expenditure increased by 0.4%, which remains below the applicable reference rate of the expenditure benchmark. Due to the negative real GDP growth in 2012, the low structural adjustment is deemed sufficient. In 2013, Finland's (recalculated) structural balance is improving and its net expenditure is projected to deviate by only 0.1% of GDP from the expenditure benchmark. In the light of Finland's large negative output gap this is deemed to be appropriate. In 2014, Finland's (recalculated) structural balance is forecast to improve further, reaching -0.6% of GDP, thus getting sufficiently close to the MTO (moreover, according to the Commission's spring forecast Finland would fully reach it in 2014). Overall, this would entail compliance with the preventive arm of the Stability and Growth Pact. General government gross consolidated debt was 53% of GDP in 2012 and will remain, according to the programme, below 60% of GDP over the programme horizon. The programme foresees reductions in the debt level in 2016 and 2017. Long-term sustainability continues to be the most important challenge for fiscal policy. The ageing related sustainability gap, concerning pensions, healthcare and long-term care, has been recognised and needs constant monitoring.

(10) The productivity growth in public services has not matched the productivity growth in the wider economy whilst the burden linked to an ageing population is increasing. Whereas the principles for reforming municipalities have been established, mergers will remain voluntary although financial incentives from central government will be available. It is expected that the on-going reform of social and health services will not lead to any significant reduction in the current number of health-care districts.

(11) Measures have been implemented to reduce youth and long-term unemployment such as the youth guarantee, the temporary skills programme for young adults and the pilot programme for the long-term unemployed. These were supplemented in 2013 by additional financial support for apprenticeships as part of the youth guarantee; these are welcome in the context of an expected increase in the rate of unemployment. These measures now need to be implemented with a clear focus on improving the skills level and labour-market position of the target groups. Raising the employment rate of older workers is important to ensure sustainable public finances and to meet the demand for labour in the future. The size of the working age population is declining in Finland. Several measures have been agreed to address pathways to early retirement such as raising the age for access to part-time pension, removal of the reduced pension possibility and raising the age for retirement following unemployment. However, the increase in life expectancy has been more rapid than envisaged during the 2005 pension reform, and over time the current statutory retirement age range could turn out to be too low and pensions insufficient. In its programme, the government committed itself to increase the effective retirement age to 62.4 years by 2025, which remains low in the context of life expectancy and the demographic challenges. Implementing these agreed lines of action remains a priority in the short term.

(12) Regulatory barriers in the services sector in Finland are still restrictive and market concentrations are high in important sectors such as retail. The envisaged changes to the Competition Act in respect of the dominant position of grocery trade operators, the objectives of the programme on healthy competition in terms of greater supervision of this sector and the removal of unnecessary restrictions on competition in existing

legislation, such as that on spatial planning and construction, should help tackle current problems. The merger of the competition authority and the consumer agency, along with an increase in its budget and wider powers to cover competition neutrality between public and private actors, should also improve the effectiveness and benefits of competition policy more generally. Competition-law fines in Finland have traditionally been low and the survey planned for 2013 should provide a basis for further reforms to improve their deterrent effect.

(13) Productivity growth in Finland continues to lag behind the growth in wages while international competitiveness has weakened, as is shown by a decreasing market share for Finnish exports. Whilst investment in research, development and innovation continues to be high, a critical issue remains the efficiency with which this research is translated into innovations and new high-growth companies, which can penetrate fast-growing export markets and strengthen international competitiveness. In the short term, Finland should implement recently adopted policies and measures to improve the research and innovation system such as the new action plan, and propose further reforms, where relevant, based upon existing evaluations and the foresight report currently under preparation. Prices for energy and labour have been identified among the input prices increasing the costs for the Finnish producers. Wage growth in recent years has been modest due to the current tripartite wage agreement which expires in 2013. It is of concern, therefore, that no new agreement has yet been concluded by the social partners.

(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 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 Commission's in-depth review and this assessment, the Council has examined Finland's national reform programme and stability programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 on the prevention and correction of macroeconomic imbalances are reflected in recommendations (3), (4) and (5).

(17) In the context of the European Semester the Commission has also carried out an analysis of the economic policy of the euro area as a whole. On this basis the Council has issued specific recommendations addressed to the Member States whose currency is the euro. Finland also should ensure the full and timely implementation of these recommendations,

HEREBY RECOMMENDS that Finland should take action within the period 2013-2014 to:

1. Pursue a growth-friendly fiscal policy and preserve a sound fiscal position as envisaged, ensuring compliance with the MTO over the programme horizon. Continue to carry out annual assessments of the size of the ageing-related sustainability gap and adjust public revenue and expenditure in accordance with

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

long-term objectives and needs. Ensure the cost-effectiveness and sustainability of long-term care and put a stronger focus on prevention, rehabilitation and independent living.

2. Ensure effective implementation of the on-going administrative reforms concerning the municipal structure, in order to deliver productivity gains and cost savings in the provision of public services, including social and healthcare services.

3. Take further steps to increase the employment rate of older workers, including by improving their employability and reducing early exit pathways, and align the minimal statutory retirement age with increased life expectancy. Implement and monitor closely the impact of on-going measures to improve the labour-market position of young people and the long-term unemployed, with a particular focus on the development of job-relevant skills.

4. Continue efforts to enhance competition in product and service markets, especially in the retail sector, by implementing the new programme on promoting healthy competition.

5. Boost Finland's capacity to deliver innovative products, services and high-growth companies in a rapidly changing environment, and continue diversification of the industry towards less energy intensive sectors. In the current low-growth environment, support the alignment of real wage and productivity developments whilst fully respecting the role of social partners and in line with national practices.

Done at Brussels,

For the Council
The President