



Brussels, 2.6.2014
COM(2014) 427 final

Recommendation for a

COUNCIL RECOMMENDATION

on Finland's 2014 national reform programme

and delivering a Council opinion on Finland's 2014 stability programme

{SWD(2014) 427 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 policies¹, 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 imbalances², and in particular Article 6(1) thereof,

Having regard to the recommendation of the European Commission³,

Having regard to the resolutions of the European Parliament⁴,

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 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, the Council, on the basis of the Commission's proposals, 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, which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

¹ OJ L 209, 2.8.1997, p. 1.

² OJ L 306, 23.11.2011, p. 25.

³ COM(2014) 427 final.

⁴ P7_TA(2014)0128 and P7_TA(2014)0129.

- (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 9 July 2013, the Council adopted a recommendation on Finland's national reform programme for 2013 and delivered its opinion on Finland's updated stability programme for 2012-2016. On 15 November 2013, in line with Regulation (EU) No 473/2013⁵, the Commission presented its opinion on Finland's draft budgetary plan for 2014⁶.
- (5) On 13 November 2013, the Commission adopted the Annual Growth Survey⁷, marking the start of the 2014 European Semester of economic policy coordination. On the same day on the basis of Regulation (EU) No 1176/2011, the Commission adopted the Alert Mechanism Report⁸, in which it identified Finland as one of the Member States for which an in-depth review would be carried out.
- (6) On 20 December 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 5 March 2014, the Commission published the results of its in-depth review for Finland⁹, under Article 5 of Regulation (EU) No 1176/2011. The Commission's analysis leads it to conclude that Finland continues to experience macroeconomic imbalances, which require monitoring and policy action. In particular, its weak export performance in recent years, driven by industrial restructuring and by cost and non-cost competitiveness factors, deserves continued attention.
- (8) On 17 April 2014, Finland submitted its 2014 national reform programme and its 2014 stability programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.
- (9) The objective of the budgetary strategy outlined in the 2014 Stability Programme is to return to the medium-term objective in 2015, to keep the structural balance above this target during the rest of the programme horizon and to balance the general government budget from 2017 onwards. Finland's medium-term objective of a 0.5% of GDP structural deficit reflects the requirements of the Stability and Growth Pact. Finland attained its medium-term objective in 2013 and plans to stay close to it in 2014, being also compliant with the expenditure benchmark. Finland plans to be above its medium-term objective in 2015 and continues to be compliant with the expenditure benchmark. Overall, this is broadly in line with the requirements of the Stability and Growth Pact. At the same time, the gross debt ratio is on an increasing path and is expected to breach temporarily the 60% of GDP threshold in 2015, mainly due to a weak macroeconomic outlook. The macroeconomic scenario

⁵ OJ L 140, 27.5.2013, p.11.

⁶ C(2013) 8012 final

⁷ COM(2013) 800 final.

⁸ COM(2013) 790 final.

⁹ SWD(2014) 89 final.

underpinning the budgetary projections in the programme, which has not been produced independently, is plausible, although slightly more optimistic than the Commission spring forecast regarding economic growth in 2014 and 2015. The Commission 2014 spring forecast projects a deterioration of the structural balance by 0.3% of GDP in 2014, entailing a deviation from the medium-term objective, and an improvement of 0.6% of GDP in 2015, while the expenditure benchmark is projected to be adhered to in both years. Based on its assessment of the programme and on the Commission forecast, pursuant to Council Regulation (EC) No 1466/97, the Council is of the opinion that Finland can be expected to achieve the aims of its programme, which are broadly in line with Stability and Growth Pact.

- (10) Finland is at high sustainability risk in the long term due to the budgetary impact of the cost of ageing. Finland has recognized the sustainability gap and produced a structural policy programme in 2013 aimed at closing the gap and re-launching growth. Another major step is the central government spending limits and the general government fiscal plan for 2015–2018 of March 2014 which foresees adjustment measures, structural reforms and investments in growth. Revenue side adjustment measures mainly concern the income and product tax increases.
- (11) The efficiency of public services has not kept up with productivity developments in the private sector. Finland is preparing administrative reforms on municipal structure and on healthcare and social services. The municipality reform is built on voluntary merger of municipalities, with financial incentives from the State. The outcome of the voluntary mergers is as yet uncertain. Social welfare and health care services are to be delivered by five regional providers, and municipalities will continue to participate in the provision of the services. Details are not yet known, and a legislative proposal is planned for autumn 2014. New structures should be in place at the beginning of 2017. The July 2013 act on supporting the functional capacity of older people with a stronger focus on prevention, rehabilitation and independent living should contribute to reducing the need for institutional care and contain the future costs of long-term care.
- (12) The key labour market challenge for Finland continues to be long-term labour supply, as the number of people exiting the labour market is now higher than the number of entering. Lengthening working careers and improving labour supply are necessary to meet the demand for labour in future. The government's 2013 structural policy programme includes measures to extend working careers and improve the labour supply, also increasing the incentives to accept jobs. Finland is reducing early exit but some pathways such as the so-called 'unemployment tunnel', where older unemployed persons can under certain conditions continue to draw unemployment benefits until they retire, remain. The recently introduced life-expectancy coefficient and the tripling of the entitlement accrual rate seem to have a limited effect on retirement practices. Moreover, as life expectancy is increasing faster than foreseen and people fail to work longer, there is a risk that pension adequacy will fall. Finland has set itself the target of raising the effective retirement age to at least 62.4 years by 2025. It is questionable whether the target can be achieved without new measures such as raising the statutory retirement age and strengthened efforts to enhance the employability of older workers. The social partners are working on their proposal for the pension reform to be implemented by the new government after the general election in spring 2015 and to enter into force in the beginning of 2017. Finland has taken relevant and ambitious measures to tackle youth and long-term unemployment.

A permanent improvement in the job-relevant skills of the target groups and their labour market prospects will take time.

- (13) Finland has taken measures to improve the overall competition climate and some progress has been made in implementing the programme on healthy competition. The competition and consumer authorities have merged and the new structure is in the early stages of implementation. The Competition Act now imposes a dominant position threshold for the consumer goods retail sector, and specific powers have been given to the Finnish Competition and Consumer Authority to intervene under certain conditions against economic activities engaged in by public bodies which distort competition in the market. The retail market in Finland is highly concentrated, and there are some factors in relevant legislation that make competition potentially less efficient and strengthen the position of the two retail market leaders. Examples include urban planning requirements, which are very strict, both for large commercial establishments and small units. Land use and planning regulation is currently under review, presenting an opportunity to make it more supportive of 'healthy' competition. The retail sector continues to be among the most regulated in the Member States, including obstacles to competition created by regulation of large retail premises.
- (14) Restoring growth and competitiveness is a key challenge for the Finnish economy. Finland is very strong in international competitiveness rankings but nevertheless lost export market shares at the fastest pace in the EU in 2007-12. Business R&D intensity is on a downward path and the national target for R&D expenditure seems further out of reach. The efficiency of the Finnish research and innovation system in turning investments in R&D into new innovative products and services is a critical issue. Currently there are not sufficient investments to turn the R&D potential into new products. A limited number of large exporting firms selling a narrow product range as well as the lower propensity of Finnish small companies to export weigh on trade performance and on potential growth. The export potential could be boosted by providing further tailored support for the internationalisation of smaller companies. Finland has launched reforms to address the capacity to deliver innovative products and support the diversification of industry, including a comprehensive reform of the research institutes and research funding. The 2013 structural policy programme and the government spending limits and fiscal plan for 2015-18 of March 2014 not only contain adjustment measures and structural reforms, but also include initiatives to promote growth and innovation. Finland could also benefit from diversifying its energy supply, particularly as it relies on a single gas source.
- (15) 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. 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.
- (16) In the light of this assessment, the Council has examined Finland's stability programme, and its opinion¹⁰ is reflected in particular in recommendation (1) below.

¹⁰

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

- (17) In the light of the Commission's in-depth review and this assessment, the Council has examined the national reform programme and the stability programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendations (2), (4) and (5) below.
- (18) 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 the basis of this analysis the Council has issued specific recommendations for the Member States whose currency is the euro. Finland also should ensure the full and timely implementation of these recommendations.

HEREBY RECOMMENDS that Finland take action within the period 2014-2015 to:

1. Reinforce the budgetary measures for 2014 in the light of the emerging gap relative to the medium-term objective. In 2015 and thereafter respect the medium-term objective as planned, and ensure that the debt criterion is fulfilled, while pursuing a growth-friendly fiscal policy. Implement rapidly the reforms set out in the structural policy programme and government's spending limits and fiscal plan for 2015-18 in order to reduce the fiscal sustainability gap and strengthen conditions for growth.
2. Ensure effective implementation of the on-going administrative reforms concerning municipal structure and social and healthcare services, in order to increase the cost-effectiveness in the provision of public services.
3. Improve the use of the full labour force potential in the labour market, including by improving the employment rate and the employability of older workers, reducing early exit pathways and aligning statutory retirement age to changes in life expectancy. Improve the labour-market prospects of young people and the long-term unemployed, with a particular focus on vocational education and targeted activation measures.
4. Continue efforts to enhance competition in product and service markets, especially in the retail sector, by implementing the programme on promoting healthy competition, including amendments of the land use and building act to make it more supportive to healthy competition.
5. Continue to boost Finland's capacity to deliver innovative products, services and high-growth companies in a rapidly changing environment, and continue the diversification of industry, in particular by raising incentives to invest in Finland and further facilitating smaller firms entry into export markets. Step up the development of cross-border gas connection to Estonia.

Done at Brussels,

For the Council
The President