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Analysis of the Draft Budgetary Plan of Finland

Accompanying the document

COMMISSION OPINION

on the Draft Budgetary Plan of Finland

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EXECUTIVE SUMMARY

- After growth of 1.1% of GDP in 2019, economic activity is set to contract in 2020, by 4.5% according to the Draft Budgetary Plan and by 4.3% according to the Commission autumn forecast. For 2021, the Draft Budgetary Plan projects GDP to expand by 2.6%. The Commission projects GDP to grow by 2.9% in 2021, in spite of which real GDP in 2021 is set to remain below the level attained in 2019.
- In the Draft Budgetary Plan, the headline balance is expected to deteriorate sharply in 2020 to reach a deficit of 7.7% of GDP and to improve to a deficit of 5.0% of GDP in 2021. According to the Commission, Finland is projected to have a headline deficit of 7.6% of GDP in 2020 and 4.8% of GDP in 2021. For the time being, since the submission and the approval of the Recovery and Resilience Plan are only expected to take place in 2021, the Commission forecast includes only 0.1% of GDP pre-financing of Recovery and Resilience Facility grants in the budgetary projections for 2021 and treats it as a financial transaction with no impact on the budget balance, but with a public debt-reducing impact.
- On 20 May 2020, the Commission has prepared a report under Article 126(3) TFEU analysing whether Finland was compliant with the deficit criterion of the Treaty. Overall, the analysis suggested that the deficit criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 was not fulfilled. In light of the exceptional uncertainty created by the outbreak of COVID-19 and its extraordinary macroeconomic and fiscal impact, including for designing a credible path for fiscal policy, which will have to remain supportive in 2021, the Commission considered that a decision on whether to place Member States under the Excessive Deficit Procedure should not be taken.
- Public debt stood at 59.3% of GDP at end of 2019. According to the Draft Budgetary Plan, it is planned to rise to 70.2% of GDP in 2020 and to 72.8% in 2021. In its autumn forecast, the Commission projects the public debt-to-GDP ratio to reach 69.8% in 2020 and 71.8% in 2021.
- The macroeconomic and fiscal outlook continue to be affected by high uncertainty caused by the COVID-19 pandemic. Deficit-increasing measures adopted in 2020 to address the effects of the pandemic amount to 2.6% of GDP. They comprise, among others, extraordinary healthcare expenditure, support for enterprises and extension of unemployment security. They come on top of permanent measures related to implementation of the government programme that aims at increasing employment rate and investing in human capital and infrastructure, which have a deficit-increasing impact of 0.9% of GDP. Public guarantees aimed to support firms amount to about 4.9% of GDP and do not entail immediate budgetary impact. Overall, the measures taken by Finland in 2020 were in line with the guidelines of the Commission Communication of 13 March 2020 on a coordinated economic response to the COVID-19 outbreak.
- For 2021, the planned new measures related to the pandemic amount to 0.9% of GDP and include testing programmes, continuation of support for

enterprises and of investments in transport network. They are complemented by some new budgetary measures related to implementation of the government programme. Overall, the new temporary and permanent measures have a deficit-increasing impact of 0.7% of GDP in 2021.

- Overall, the measures in the Draft Budgetary Plan of Finland are supporting economic activity against the background of considerable uncertainty. The measures related to the COVID-19 pandemic set out in the Draft Budgetary Plan are temporary. At the same time, it would be useful to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

1. INTRODUCTION

This document assesses the economic and budgetary projections contained in the 2021 Draft Budgetary Plan of Finland (hereafter called the Plan), which was submitted on 15 October 2020 in compliance with Regulation (EU) No 473/2013.

On 20 March 2020, the Commission adopted a Communication on the activation of the general escape clause of the Stability and Growth Pact and on 23 March 2020 the Ministers of Finance of the EU Member States agreed with the Commission assessment. The clause facilitates the coordination of budgetary policies in times of severe economic downturn. As indicated in the Annual Sustainable Growth Strategy 2021[1] and as communicated in the letter of 19 September 2020 from the Commission to the EU Ministers of Finance[2], the activation of the general escape clause allows for a temporary departure from the adjustment path towards the medium-term budgetary objective of each Member State, which should continue to provide targeted and temporary fiscal support in 2021, provided that this does not endanger fiscal sustainability in the medium term. 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.

Public finances in 2021 are also expected to be influenced by the proposed establishment of the Recovery and Resilience Facility (RRF), alongside the proposal for the reinforced long-term budget of the EU for 2021-2027. The RRF is envisaged to provide a total envelope of €672.5 billion in loans and non-repayable financial support (grants) to support the implementation of investments and reforms in the EU Member States. The 2021 Draft Budgetary Plan of Finland does not take into account the implementation of the reforms and investments, and their associated costs, envisaged under the RRF.

[1] Communication from the Commission on Annual Sustainable Growth Strategy 2021, Brussels, 17.9.2020, COM(2020) 575 final.

[2] https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/stability-and-growth-pact/annual-draft-budgetary-plans-dbps-euro-area-countries/draft-budgetary-plans-2021_en

On 20 May 2020, the Commission issued a report under Article 126(3) TFEU, as Finland's general government deficit in 2020 was planned to exceed the 3% of GDP Treaty reference value. The report concluded that the deficit criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 is not fulfilled. In light of the exceptional uncertainty created by the outbreak of COVID-19 and its extraordinary macroeconomic and fiscal impact, including for designing a credible path for fiscal policy, which will have to remain supportive in 2021, the Commission considered that a decision on whether to place Member States under the Excessive Deficit Procedure should not be taken.

2. MACROECONOMIC DEVELOPMENTS UNDERLYING THE DRAFT BUDGETARY PLAN

Strong government support measures and an effective containment response softened the impact of the COVID-19 pandemic on the economy, which at mid-2020 stood among the lowest in the EU. Still, the Finnish economy is deeply impacted by the COVID-19 pandemic. After GDP grew by 1.1% in 2019, the 2021 Draft Budgetary Plan forecasts a GDP contraction of 4.5% in 2020. These projections embed a 1 percentage point upward revision to GDP growth compared to the 2020 Stability Programme for Finland, given a lighter impact of the pandemic in the first three quarters of 2020 than expected in the spring. For 2021, the Draft Budgetary Plan projects GDP to grow by 2.6%The macroeconomic and fiscal outlook continue to be affected by high uncertainty due to the COVID-19 pandemic.

All demand components, except government consumption, are expected to fall in 2020. The main hit comes from the decrease in private consumption, as consumer spending was constrained by a number of COVID-19 containment measures and consumers increased their precautionary savings in the first part of the year. In 2021, the strong role of government spending, in particular through measures that mitigate firms' liquidity difficulties and support households' income, is likely to diminish. Private consumption is forecast to rise on the back of the improved economic outlook, as consumers increase discretionary spending and employment recovers. Exports are forecast to recover partially, in line with external demand. Nevertheless, according to the macroeconomic scenario underpinning the Draft Budgetary Plan, investment will not see a recovery in 2021.

This scenario does not fundamentally differ from the Commission's projection. According to the Commission autumn 2020 forecast, GDP is projected to decline by 4.3% in 2020, before rebounding by around 2.9% in 2021. According to the Commission forecast, both private consumption and investment are projected to take the lead of the recovery in 2021, with a marginal support from net exports.

Finland is the only euro area Member State that has designated a Ministry of Finance department as the independent producer of the macroeconomic forecast in the meaning of Regulation 473/2013. The management of the Economics department is separated from the Budget department and, according to the law adopted in 2015, the Economics department is independent in its forecasting activities. According to the National Audit Office, the forecasts prepared by the Ministry of Finance are at least as reliable as those of other national or international forecasters.

Table 1. Comparison of macroeconomic developments and forecasts

	2019	2020			2021		
	COM	SP	DBP	COM	SP	DBP	COM
Real GDP (% change)	1.1	-5.5	-4.5	-4.3	1.3	2.6	2.9
Private consumption (% change)	0.8	-4.0	-3.8	-4.4	2.7	4.0	3.5
Gross fixed capital formation (% change)	-1.0	-7.1	-4.7	-5.1	-1.2	0.0	3.7
Exports of goods and services (% change)	7.7	-6.2	-12.5	-12.4	3.2	5.3	5.6
Imports of goods and services (% change)	3.3	-3.7	-10.0	-8.5	3.0	4.0	4.9
Contributions to real GDP growth:							
- Final domestic demand	0.5	-2.7	-2.2	-2.4	0.8	2.4	2.7
- Change in inventories	-0.9	-1.8	-1.2	-0.3	0.5	-0.2	0.0
- Net exports	1.7	-1.0	-1.1	-1.6	0.1	0.4	0.2
Output gap[1]	1.0	-5.1	-3.9	-3.9	-5.0	-2.1	-2.3
Employment (% change)	1.7	0.0	-2.0	-2.5	0.0	-0.5	0.9
Unemployment rate (%)	6.7	0.0	8.0	7.9	0.0	8.2	7.7
Labour productivity (% change)	-0.5	0.0	-2.5	-1.8	0.0	3.1	1.9
HICP inflation (%)	1.1	0.6	0.6	0.4	1.4	1.3	1.1
GDP deflator (% change)	1.8	1.2	1.2	1.5	1.8	1.5	1.7
Comp. of employees (per head, % change)	1.4	0.0	-1.6	2.1	0.0	4.8	1.0
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	-0.1	0.0	-0.4	-1.4	0.0	-1.1	-1.1

Note:

[1]In percent of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

Source:

Stability Programme 2020 (SP); Draft Budgetary Plan for 2021 (DBP); Commission 2020 autumn forecast (COM); Commission calculations

3. Recent and planned fiscal developments

On 20 July 2020 the Council addressed recommendations to Finland in the context of the European Semester. In the area of public finances *and in line with the general escape clause*, the Council recommended Finland to take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery, when economic conditions allow, Finland should pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

3.1. Deficit developments

The Draft Budgetary Plan projects a headline deficit of 7.7% of GDP in 2020. This projection embeds a revision with respect to the Stability Programme of April 2020, where the deficit was planned at 7.2% of GDP. It is mainly due to additional fiscal measures adopted by the government to contain the pandemic and the economic effects stemming from the lockdown as well as to support the economic recovery going forward. The impact of the new measures has been somewhat attenuated by a less strong GDP contraction than expected in spring. The Commission 2020 autumn forecast projects a slightly lower deficit, of 7.6% of GDP, in line with a slightly less pessimistic growth projection.

For 2020, the Draft Budgetary Plan forecasts lower nominal revenues than the Commission forecast while the level of projected expenditure is slightly higher. The lower level of revenues is explained by the lower projected nominal GDP, resulting in similar ratio of revenues to GDP. On expenditure side, the Commission forecast takes into account measures from the Finnish 6th supplementary budget adopted after the cut-off date for the forecast underpinning Draft Budgetary Plan. The lower deficit projected by the Commission is, therefore, due mainly to higher revenues driven by the slightly higher nominal GDP. Similarly to the macroeconomic forecasts, these budgetary projections are subject to a high degree of uncertainty. The structural balance estimated by the Commission and the recalculated structural balance[3] with data in the Plan show identical deterioration in 2020.

For 2021, the Draft Budgetary Plan projects a deficit at 5.0% of GDP. It does not assume revenue from and expenditure financed under the Recovery and Resilience Facility. The improvement with respect to 2020 is explained by the expected economic rebound and the phasing out of the temporary measures implemented to contain the economic effects of the pandemic. The Plan projects the structural balance, as re-calculated by the Commission on the basis of the commonly agreed methodology, to improve. However, a mechanical reading of traditional indicators is not well suited at the current juncture to assessing the fiscal stance. The introduction and subsequent withdrawal of sizeable temporary emergency measures distort the picture, as the corresponding changes in the level of public spending from one year to the next affect the indicators used to assess the fiscal stance. Excluding the temporary emergency measures from the calculation of the fiscal stance indicators provides a more representative assessment of the underlying fiscal support to economic activity.

The Commission 2020 autumn forecast projects a lower headline deficit, of 4.8% of GDP. Similar to the forecast for 2020, this is due to higher estimated government revenues from indirect taxes, reflecting the higher assumed economic growth, whereas the proceeds from direct taxes and social contributions are lower than in the Draft Budgetary Plan, which is explained by some differences in underlying revenues elasticities. In turn, the Commission expenditure estimate is on a par with the Draft Budgetary Plan's projections. For the time being, as the submission of the Recovery and Resilience Plans and their subsequent approval are expected to take place in 2021, the Commission forecast assumes in the budgetary projections for 2021 the 10% pre-financing of Recovery and Resilience Facility grants and is treated as a financial transaction with no impact on the budget balance, but with a public debt-reducing impact. In the case of Finland, the 10% pre-financing of Recovery and Resilience Facility grants is equivalent to EUR 252 million.[4]

On the expenditure side, in line with its no-policy change assumption, the Commission forecast includes no expenditure related to the Recovery and Resilience

[3] Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission using the commonly agreed methodology. The estimates of the structural budget balance are affected by high uncertainty due to the economic consequences of the COVID-19 pandemic.

[4] The amount of pre-financing is based on the Council Presidency compromise proposal for the RRF Regulation (11538/20) of 7 October 2020, on which the Council Presidency obtained a mandate for conducting the negotiations with the European Parliament.

Facility, as the corresponding measures were not sufficiently specified at the cut-off date of the forecast.[5]

The main risk to the budgetary targets for 2021 stem, on the one hand, from the extraordinarily high uncertainty associated with the macroeconomic scenario, including the possible need for further efforts to support the economy and, on the other hand, from the assumed cyclical response of the different budgetary items leading to higher deficits than in Commission's projections for both 2020 and 2021. The evolution of the deficit in 2021 could turn out more favourably as a result of the higher growth from the implementation of measures financed by the Recovery and Resilience Facility.

5 The treatment of the Recovery and Resilience Facility (RRF) in the Commission's 2020 autumn forecast is explained in detail in Box I.4.3 of the European Commission's Economic Forecast Autumn 2020 (https://ec.europa.eu/info/sites/info/files/economy-finance/ip136_en.pdf). The forecast only incorporates those measures that are credibly announced and sufficiently detailed in the Draft Budgetary Plans, irrespective of whether they are planned to be part of Recovery and Resilience Plans. No financing from the RRF has been included on the revenue side of the budgetary projections. Only the pre-financing of RRF grants is included in the forecast for 2021. The assumptions on expenditure measures linked to the RRF in the Commission forecast are without prejudice to the assessment of the Recovery and Resilience Plans.

Table 2. Composition of the budgetary adjustment

(% of GDP)	2019		2020			2021			Change: 2019-2021
	COM	DBP	SP	DBP	COM	SP	DBP	COM	DBP
Revenue	**52.3**	**52.3**	**52.5**	***52.1***	**52.0**	**53.8**	***52.6***	**52.2**	**0.3**
of which:									
- Taxes on production and	14.0	14.0	14.1	*14.0*	14.0	14.4	*14.0*	14.1	0.0
- Current taxes on income,	15.9	15.9	15.9	*15.9*	15.8	16.6	*16.1*	15.7	0.2
- Capital taxes	0.3	0.3	0.3	*0.4*	0.3	0.3	*0.3*	0.3	0.0
- Social contributions	11.9	11.9	11.7	*11.7*	11.7	12.2	*12.2*	12.0	0.3
- Other (residual)	10.2	10.2	10.5	*10.1*	10.2	10.3	*10.0*	10.2	-0.2
Expenditure	**53.3**	**53.3**	**59.8**	**59.8**	**59.6**	**57.9**	**57.6**	**57.1**	**4.3**
of which:									
- Primary expenditure	52.5	52.5	59.0	59.1	58.9	57.2	57.0	56.4	4.4
of which:									
Compensation of employees	12.3	12.3	0.0	13.5	13.5	0.0	13.2	13.1	0.9
Intermediate consumption	10.9	10.9	0.0	12.0	12.0	0.0	11.9	11.8	1.0
Social payments	21.1	21.1	23.8	23.5	23.4	23.2	22.7	22.5	1.6
Subsidies	1.2	1.2	1.8	2.3	2.2	1.4	1.3	1.3	0.1
Gross fixed capital formation	4.3	4.3	4.8	4.8	4.8	4.7	4.7	4.7	0.4
Other (residual)	2.7	2.7	28.6	3.0	3.0	27.9	3.2	3.0	0.4
- Interest expenditure	0.8	0.8	0.8	0.7	0.7	0.7	0.7	0.7	-0.1
General government balance (GGB)	**-1.0**	**-1.0**	**-7.2**	**-7.7**	**-7.6**	**-4.0**	**-5.0**	**-4.8**	**-4.0**
Primary balance	**-0.2**	**-0.2**	**-6.5**	**-7.0**	**-6.9**	**-3.4**	**-4.4**	**-4.2**	**-4.2**
One-off and other temporary measures	0.1	0.1	0.0	-0.1	0.0	0.0	0.0	0.0	-0.1
GGB excl. one-offs	**-1.1**	**-1.1**	**-7.2**	**-7.6**	**-7.6**	**-4.0**	**-5.0**	**-4.8**	**-3.9**
Output gap[1]	1.0	1.0	-5.1	-3.9	-3.9	-5.0	-2.1	-2.3	-3.1
Cyclically-adjusted balance[1]	-1.6	-1.6	-4.3	-5.4	-5.3	-1.1	-3.8	-3.5	-2.2
Structural balance (SB)[2]	**-1.7**	**-1.6**	**-4.3**	**-5.3**	**-5.3**	**-1.1**	**-3.8**	**-3.5**	**-2.1**
Structural primary balance[2]	-0.8	-0.8	-3.5	-4.6	-4.6	-0.4	-3.1	-2.9	-2.2

Notes:

[1] Output gap (in % of potential GDP) and cyclically-adjusted balance according to the DBP/Programme as recalculated by Commission on the basis of the DBP/Programme scenario using the commonly agreed methodology.

[2] Structural (primary) balance corresponds to cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

Source:

Stability Programme 2020 (SP); Draft Budgetary Plan for 2021 (DBP); Commission 2020 autumn forecast (COM); Commission calculations

3.2. Debt developments

In the Draft Budgetary Plan, the public debt-to-GDP ratio is planned to rise by 11 percentage points, to reach 70.2% of GDP at the end 2020. The primary deficit will add 7 percentage points to the debt ratio, partly due to the measures adopted to counter the impact of the COVID-19 pandemic. The snowball effect will entail a significant debt-to-GDP increasing impact with respect to 2019, reflecting the considerable contraction in nominal GDP. The stock-flow adjustments will also contribute to the debt increase, mainly as a result of capital injections and loans to companies – these transactions are not recorded in the deficit accounts given their financial nature – as well as tax deferrals that are recorded on accrual basis.

For 2021, the Draft Budgetary Plan projects the debt ratio to increase further by 2.6 percentage points, to 72.8% of GDP. The debt-increasing effect of the primary deficit is lower than in 2020 and alleviated by the debt-reducing snowball effect, reflecting both the brisk rebound of nominal GDP and higher inflation. Stock-flow adjustments are projected to increase the debt overall, albeit their contribution will be much lower than in 2020. The debt-increasing contribution by interest payments is projected to remain broadly stable with respect to 2020.

The debt projections in the Plan are somewhat higher than in the Stability Programme due to the higher primary deficits and stock-flow adjustments in 2020 projected in the Draft Budgetary Plan, in spite of the positive impact of the upward revision to the macroeconomic scenario through the “snow-ball” effect.

The Commission 2020 autumn forecast projects a similar evolution for the debt ratio for both years. The differences between the two sets of projections mostly stem from the higher primary deficit planned by the Finnish authorities in both 2020 and 2021 and lower estimated GDP growth.

Table 3. Debt developments

(% of GDP)	2019	2020			2021		
		SP	DBP	COM	SP	DBP	COM
Gross debt ratio[1]	**59.3**	**69.1**	**70.2**	**69.8**	**71.5**	**72.8**	**71.8**
Change in the ratio	-0.4	9.8	10.9	10.5	2.4	2.6	2.0
Contributions[2]:							
1. Primary balance	**0.2**	**6.5**	**7.0**	**6.9**	**3.4**	**4.4**	**4.2**
2. “Snow-ball” effect	**-0.9**	**3.5**	**2.7**	**2.4**	**-1.5**	**-2.2**	**-2.4**
Of which:							
Interest expenditure	0.8	0.8	0.7	0.7	0.7	0.7	0.7
Real growth effect	-0.7	3.4	2.7	2.6	-0.9	-1.8	-1.9
Inflation effect	-1.0	-0.7	-0.7	-0.9	-1.3	-1.0	-1.1
3. Stock-flow adjustment	**0.4**	**-0.1**	**1.2**	**1.2**	**0.5**	**0.4**	**0.3**
Of which:							
Cash/accruals difference							
Net accumulation of financial							
of which privatisation proceeds							
Valuation effect & residual							

Notes:

[1] End of period.

[2] The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.

Source:

Stability Programme 2020 (SP); Draft Budgetary Plan for 2021 (DBP); Commission 2020 autumn forecast (COM); Commission calculations

4. MEASURES UNDERPINNING THE DRAFT BUDGETARY PLAN

The Draft Budgetary Plan focuses on the policy response undertaken in the context of the COVID-19 outbreak in 2020 and the measures planned to sustain the recovery in 2021. Supportive fiscal measures should be tailored to the specific situation of each Member State, but as a rule, they should be well targeted and temporary. Their use and effectiveness should be regularly reviewed by the national authorities. Depending on the development of the pandemic, emergency fiscal measures should be adjusted and combined with other measures that improve economic fundamentals, support the green and digital transition and have a positive impact on demand.

4.1. Measures in 2020

In response to the COVID-19 pandemic, Finland adopted successively in 2020 budgetary measures to contain the spread of the pandemic, preserve public safety and provide relief to those social groups and sectors that have been particularly affected. According to the Draft Budgetary Plan, those budgetary measures amount to 2.6% of GDP. The largest component thereof consisted of support for enterprises (0.9% of GDP), including grants, general cost support and targeted measures for sole entrepreneurs, restaurants, farmers etc. Secondly, the government decided to temporarily lower employers' pension contributions (0.5% of GDP). The measure will be refunded in 2022-2025. Health and public safety related expenditure includes equipment purchases, testing programmes and COVID-19 related research. Together with other expenditure arising from the pandemic situation, health and public safety measures amount to 0.6% of GDP. Extending unemployment security and social benefits were also key measures to cushion the impact of the crisis on society, accounting together for 0.3% of GDP. However, the Finnish temporary lay-off schemes, used extensively for short term furloughs in 2020, had been in place before the pandemic as part of the social security system. Hence, they operated as automatic stabilisers and as such were recorded in the baseline trend of government expenditures.

Despite the pandemic, the government has not abandoned its programme aiming at increasing employment rate and investing in human capital and infrastructure. According to the Commission forecast, most of permanent measures adopted before the COVID-19 outbreak[6] are maintained and revised, including expenditure on costs of reforms of the health sector (0.2% of GDP), social security reform (0.2% of GDP), education and R&D systems (0.1% of GDP), climate-goals related subsidies for companies (0.1% of GDP) and modernisation of transport infrastructure (0.2% of GDP). Overall, the non-COVID-19 related measures, including permanent, temporary and one-off measures, increase government expenditure by 0.9% of GDP while their net impact on government revenues is close to neutral, hence their total deficit increasing effect in 2020 is 0.9% of GDP.

In addition, Finland announced public guarantees that, while not having any direct impact on the deficit, contributed to providing liquidity support to businesses, which the 2021 Draft Budgetary Plan estimates at 4.9% of GDP. Those guarantees include loan guarantees for domestic companies by Finnvera (4.4% of GDP). At the end of September, about EUR 1 billion (0.4% of GDP) have been used. Out of the authorised EUR 540 million guarantees for Finnair, the national air carrier, about EUR 360 million have been used. There are also specific guarantees for shipping companies to ensure security of supply to the National Emergency Supply Agency,

[6] Notably, in the Draft Budgetary Plan for 2020 submitted in October 2019.

authorised up to EUR 600 million, of which only EUR 29 million have been used.[7] In sum, the take-up of the guarantees as of September 2020 is estimated at 0.6% of GDP.

Apart from the guarantees listed in the Draft Budgetary Plan, other measures supporting liquidity in the economy have been adopted in Finland in the course of 2020. These include tax and pension contribution deferrals, capital injections in Finnair, Finnish Mineral Group and Finnish Industry Investment, increase in Business Finland's lending authorisations, investment in corporate securities by the Bank of Finland and the State Pension Fund, lowering of capital requirements for credit institutions and an authorisation for the Finnish Stability Fund to borrow to strengthen the deposit guarantees. The estimated impact of these additional measures amounts to about 16% of GDP.

Overall, the measures taken by Finland in 2020 were in line with the guidelines of the Commission Communication of 13 March 2020 on a coordinated economic response to the COVID-19 outbreak.

4.2. Measures in 2021

For 2021, the Draft Budgetary Plan presents the discretionary measures relating to COVID-19 measures that imply a budgetary impact of 0.9% of GDP in additional expenditures. According to the Commission forecast, other discretionary measures related to the implementation of the government programme, which are mostly permanent, have a deficit-reducing effect of 0.1% of GDP. Overall, the new temporary and permanent measures have a deficit-increasing effect of 0.7% of GDP in 2021.

Regarding the measures prompted by the pandemic situation, the government decided an appropriation of EUR 1.5 billion (0.6% of GDP) for SARS-COV-2 testing programmes in 2021, as part of the strategy to contain the spread of the virus. This expenditure is temporary and the appropriation cannot be transferred for other purposes. In addition, some subsidies for companies will be continued in 2021 and 2022, before they are fully phased out. Furthermore, investments in the transport network budgeted in 2020 are deferrable appropriations and can be used over several years, but they are also terminated by the end of 2022. Summing up, all measures related to COVID-19 are temporary.

For 2021, the government adopted few new permanent expenditures related to implementation of the government programme. One of them is a compensation for the lowering of early education fees, taken as a part of the labour market reforms (0.1% of GDP). On the revenue side, the government decided on increases of social security contributions for unemployment and sickness insurance (0.2% of GDP) and indirect tax hikes (0.1% of GDP). The new permanent and temporary measures that are not related to COVID-19 pandemic increase government expenditure by 0.13% of GDP and increase government revenues by 0.26% of GDP, hence their total deficit reducing effect in 2021 is 0.13% of GDP.

[7] Data on use of guarantees for September 2020 by the Ministry of Economy and the Ministry of Finance

Liquidity measures adopted in 2020, namely in the form of guarantees on loans are also expected to continue to play an important role.

All the measures are presented in sufficient detail in the Draft Budgetary Plan and thus included in the Commission forecast, with no difference in their assessment. Measures seem to be well targeted, focusing on providing support to companies in the most affected sectors of the economy and protecting employees by facilitating temporary layoffs and extending social security to vulnerable social groups. With a view to stimulate economic recovery, they also support investment in transport infrastructure, labour market reforms as well as education and R&D.

Overall, based on the information presented in the Draft Budgetary Plan and taking into account the Commission 2020 autumn forecast, most of the measures planned by Finland in 2021 are supporting economic activity against the background of considerable uncertainty.

At the same time, it would be useful to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.. It is anticipated that Finland will submit its Recovery and Resilience Plan in 2021. The Regulation establishing a Recovery and Resilience Facility will set out how the Commission is to assess that the reforms and investments included in the Recovery and Resilience Plan are coherent with the policy priorities of the Union and the challenges identified in the context of the European Semester. This assessment by the Commission will inform the approval of the Plan by the Council and the information to the European Parliament.

Table 4.1.a. Main discretionary measures reported in the Draft Budgetary Plan

List of measures	**Description**	**ESA Code (Expenditure / Revenue component)**	**Adoption Status**	**Budgetary impact (% of GDP - change from previous year - positive sign for deficit-increasing measures)**		
					2020	**2021**
Support for enterprises	Grants provided for companies by Business Finland and ELY Centres, support for solvency of sole entrepreneurs, support for catering entrepreneurs, support for agricultural and natural resource economy enterprises, general cost support for companies, estimated increase in Finnvera's loss compensation	D.39 (Expenditure)	Adopted		0.9	-0.6

Extension of unemployment security	Eliminating the waiting period, speeding up the layoff procedure, making entrepreneurs eligible for unemployment security, extending the payment period of startup grants, streamlining unemployment benefit payments	D.62 (Expenditure)	Adopted		0.2	-0.2
Extension of social benefits	Support for individuals arriving from other countries and parents of small children, temporary increase in social assistance	D.62 (Expenditure)	Adopted		0.1	-0.1
Children and young people, and wellbeing of the elderly	Free leisure activities, early childhood education and care, basic education and general upper secondary education, guidance counselling and youth work, student health care, ensuring properly functioning services for the elderly	D.1 (Expenditure)	Adopted		0.1	-0.1
Investment projects	Basic transport infrastructure maintenance, developing the transport network, renovation construction, and public transport support. The sums for the years 2021 and 2022 are based on a technical assumption concerning the timing of the projects.	P.51 (Expenditure)	Adopted		0.1	-0.1
R&D&I, competence and wellbeing	Additional starting places for higher education and developing continuous learning, research appropriations for the Academy of Finland, public employment and business services and developing the service	D.1 (Expenditure)	Adopted		0.1	-0.1

	structure.					
Health-related expenditure	Health and social services resources and equipment purchases, and covid-19 research	P.2 (Expenditure)	Adopted		0.4	0.3
Other	Other expenditure increases arising from the coronavirus situation	D.39 (Expenditure)	Adopted		0.2	-0.2
Social contributions	Lowering of private-sector pension contributions for the period 1 May - 31 December 2020. Funding will come from the EMU buffer fund of the employment pension scheme. The buffer fund will be augmented again by raising the pension contributions for the period 2022-2025.	D.61 (Revenue)	Adopted		0.5	-0.4
All expenditure increases				**Total**	**2.1**	**-1.2**
All measures impacting revenue				**Total**	**0.5**	**-0.4**
Impact on net lending				**Total**	**2.6**	**-1.6**

Table 4.1.b. Guarantees adopted/announced in response to COVID-19 outbreak

List of measures	Description	Adoption Status	Maximum amount of contingent liability* (% of GDP)	Current take-up (actual contingent liability, % of GDP)
Finnvera	Increasing domestic guarantee authorisations from EUR 4 to EUR 12 billion (about EUR 2 billion of existing authorisations had been used in spring 2020 and thus the increase in the guarantees would have been about EUR 10 billion).	Adopted	4.4	0.4
Finnair	State guarantees (max. EUR	Adopted	0.2	0.2

	540 million) to cover Finnair's financing needs (TyEL reborrowing)				
National Emergency Supply Agency	State guarantees (max. EUR 600 million) to shipping companies to ensure cargo traffic important to security of supply	Adopted		0.3	0.0
			Total	**4.9**	**0.6**

***** Any budgetary impact related to expected losses or actual calls should be provided in the standard table **5.1 Description of discretionary measures included in the draft budget** *(see Code of Conduct,* https://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/coc/2014-11-07_two_pack_coc_amended_en.pdf)

5. ANNEX – MANDATORY VARIABLES NOT INCLUDED IN THE DRAFT BUDGETARY PLAN

The following mandatory data were not explicitly provided:

- Macroeconomic Prospects: nominal GDP;
- Price developments: 2019 levels of GDP, private consumption, export and import deflators and HICP index;
- Divergence from latest SP: 2019 general government net lending target and projection according to the DBP.

Not included mandatory variables do not impede the Commission's ability to assess the Draft Budgetary Plan based on the plan's assumptions.