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Finland´s National Programme, Spring 2012

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PO Box 28 (Snellmaninkatu 1 A) FI-00023 GOVERNMENT
FINLAND
Tel. +358 295 5 30001
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Abstract

In 2010 the European Council decided on a new economic and employment strategy. The vision of the Europe 2020 Strategy, which extends to 2020, is smart, sustainable and inclusive economic growth. The strategy sets EU-wide targets for employment, research and development expenditure, climate policy, education and reducing poverty. Every Member States sets its own corresponding national targets.

Finland's national targets are the raising of the employment rate of 20–64 year-olds to 78%, maintaining R&D spending at a minimum of 4% of GDP, reaching the climate and energy targets agreed in the EU, raising the proportion of 30–34 year-olds with tertiary-level education to 42%, keeping the proportion of 18–24 year-old early school leavers below 8%, and reducing the number of people living at risk of poverty and social exclusion.

According to the national programme, economic growth requires in Finland an improvement in competitiveness, the safeguarding of the long-term sustainability of public finances, diversification of the production structure, full utilisation of labour and increased competition.

Foreword

Finland submitted to the Commission its national programme based on the Europe 2020 Strategy in April 2011, just before the parliamentary elections. The programme's policy outlines were based on government programmes and resolutions of the previous parliamentary term.

Prime Minister Jyrki Katainen's Government approved an update to the national programme in autumn 2011. The update described the Government Programme, the 2012 Central Government Budget and the main policy outlines of the Decision on Spending Limits for 2013–2015, from the perspective of the national implementation of the Europe 2020 Strategy. The Government confirmed the Europe 2020 national targets set by the previous government.

The Spring 2012 National Programme presents the Government measures by which the national targets can be achieved and barriers to growth removed. The programme also present, as far as possible, the budgetary impacts of the measures.

The programme has been handled in accordance with the Government's decision-making procedures. In addition. it has been presented in the Economic Council and to social partners in connection with EU procedures.

Contens

1 Growth and employment through coordination of economic policy

Coordination of economic policy and employment in the European Union and particularly in the euro area is based on common interests. Provisions relating to this can be found in the Treaty and in EU legislation. Coordination has also been agreed in a number of political agreements.

The Treaty sets a clear framework for Member States' economic policy. The public finances deficit must not exceed 3 per cent and public debt 60 per cent of GDP. In addition, Member States' economic policy and related decision-making are guided by the Broad Economic Policy Guidelines and the Employment Guidelines. The Stability and Growth Pact contains more detailed provisions on how the stability and sustainability of public finances should be monitored and how possible deviations should be addressed.

In June 2010, the European Council decided on a new economic and employment strategy extending to 2020. The Europe 2020 Strategy sets EU-wide targets for employment, research and development expenditure, climate policy, education and reducing poverty. Based on these headline targets, the Member States set their own national targets. In June 2010, the EU's Economic and Financial Affairs Council confirmed for each Member States its prerequisites for and barriers to growth and employment.

The economic crisis and concern about loss of European competitiveness have increased the need to enhance coordination of economic policy. In July 2010, the Economic and Financial Affairs Council decided on the annual European Semester. The Commission releases a Growth Survey at the turn of the year. In March, the European Council specifies the most important economic policy and employment challenges and gives strategic guidance to Member States. In April, the Member States report on their economic and employment policies to the EU in the form of a stability or convergence programme and a Europe 2020 national programme. These programmes take into account the guidance given by the European Council. In late May/early June, the Commission gives country-specific recommendations, which the Council approves in June. The first country-specific recommendations in accordance with the Semester were given in July 2011.

In Mrch 2011, the euro countries agreed the political Euro-Plus Pact, which aims to foster competitiveness, employment and the sustainability of public finances as well as to reinforce financial stability. An additional issue is tax policy coordination. The members of the pact are the euro area countries plus Bulgaria, Denmark, Latvia, Lithuania, Poland and Romania. The Czech Republic, Hungary, the UK and Sweden remained outside the pact.

In December 2011, five regulations reinforcing coordination of economic policy and one directive relating to national budget procedures (the so-called Six Pack) come into force. The new statutes strengthen the Stability and Growth Pact, particularly its preventive impact. The European Semester and national reform programmes are also prescribed in a regulation. A new procedure relating to the prevention and correction of excessive macroeconomic imbalances has also been created. By excessive imbalance is meant a development that influences or may influence negatively the smooth functioning of a Member State's economy, the Economic and Monetary Union or the EU. An effort shall be made to detect situations at the earliest possible stage so that the Member State can be given recommendations to correct them.

In February 2012, the Commission reported for the first time on the basis of the alert mechanism included in the imbalance procedure. According to the Commission, threats to the macroeconomic balance might be associated with the economies of Finland and 11 other Member States and they should be investigated further. The new procedure supplements the European Semester and provides a means by which the Council can also discuss issues relating to competitiveness and the macroeconomic balance. If anomalies are found to be harmful for the euro area, the Council can intervene.

The directive relating to national budget frameworks approved December 2011 must be brought into force through national legislation by the end of 2013. The new directive applies extensively to the governance of the whole public sector and increases policy coordination on a national level.

At a European Council meeting in March 2012, 25 Member States signed the Treaty on Stability Coordination and Governance. This fiscal compact does not add much that is new to the requirements that EU legislation already sets for Member States. Member States must, however, introduce into national legislation the fiscal policy rule in accordance with the Stability and Growth Pact as well as an automatic correction mechanism for situations in which the balance of general government finances deviates from this rule.

Through the above measures, coordination of economic policy and the governance of the Member States has been strengthened significantly in the period 2010–2012. The priority areas of the Commission's Growth Survey, the steering of the European Council, the economic policy and employment guidelines, the reinforced Stability and Growth Pact, the procedure on excessive imbalances, the Council-approved country-specific recommendations, and national commitments made on the basis of the Europe 2020 Strategy and the Euro-Plus Pact will be taken into account in national policy.

2 Finland's Europe 2020 programmes and Euro-Plus commitments

Finland has given three Europe 2020 national programmes. The Government of Prime Minister Mari Kiviniemi gave a draft programme in autumn 2010 and a proper programme in spring 2011. In a programme given in autumn 2011, the Government of Prime Minister Jyrki Katainen confirmed the national targets set earlier.

	EU headline target	Finland in 2011	Finland in 2020
Employment rate (20–64 year-olds)	75%	73.4%	78%
R&D expenditure/GDP	3%	3.73%	as a target level 4%
Climate: CO2 emissions renewable energy energy efficiency	 -20% 20% 20% (368 Mtoe)	 -10% 31.5% -	 -16% 38,5% 4.21 Mtoe
Education 30–34 year-olds having completed tertiary education Early school-leavers	 40% 10%	 38% about 10%	 42% 8%
People at risk of poverty and social exclusion	20 million fewer	920 000	770 000

The programme given in autumn 2011 described the Programme of Prime Minister Jyrki Katainen's Government, dated June 2011, the 2012 Central Government Budget Proposal and the Decision on Spending Limits for 2013–2015 insofar as they related to the Europe 2020 Strategy. Finland's national targets exceed the headline targets set in the EU.

Finland's Euro-Plus commitments for 2011 and 2012 were approved in October 2011. The commitments described the policy outlines on competitiveness, employment and the sustainability of public finances contained in the Programme of Prime Minister Jyrki Katainen's Government, approved in June 2011, as well as the strengthening of financial stability and tax coordination. The Government's commitments were identical to the targets and measures presented in the Europe 2020 national programme approved in autumn 2011.

3 Medium-term economic outlook in Finland

Finland’s economy recovered relatively quickly from the exceptionally deep recession that began in 2008. In the medium term, i.e. in the period 2013–2016, general government finances are expected to be close to balance and GDP is expected to grow by an average of just under 2 per cent per year. There is no sign, however, of a return to the growth track that preceded the recession, when GDP was growing on average at just over 4 per cent.

Even if the international economy and Finland exports markets were to develop favourable, population ageing will weaken opportunities for economic growth. As a consequence of the recession, general government finances are in a weaker position than before to face the spending pressures arising from population ageing.

	2009	2010*	2011**	2012**	2013**	2014**	2015**	2016**
GDP, change in volume, %	-8.4	3.7	2.9	0.8	1.5	2.1	1.9	1.7
Unemployment rate, %	8.3	8.4	7.8	8.0	7.9	7.7	7.4	7.3
Employment rate (15–64 year-olds), %	68.3	67.8	68.6	68.6	69.0	69.6	69.9	70.0
Employment rate (20–64 year-olds), %	73.3	72.8	73.5	73.3	73.7	74.2	74.5	74.7
Consumer Price Index, change, %	0.0	1.2	3.4	2.8	2.6	2.1	2.0	2.0
Budgetary position in general government, % GDP	-2.5	-2.5	-0.5	-1.1	-0.5	-0.1	0.0	0.4
Public debt, % GDP	43.5	48.4	48.6	50.7	51.8	51.9	51.6	50.9

4 Prerequisites for and barriers to growth and employment in Finland

In 2010 the EU assessed the prerequisites for and barriers to economic growth and employment for Member States. According to the EU, safeguarding the sustainability of public finances in Finland will require an improvement in the productivity of public services. This may also contribute to ensuring an adequate supply of labour to the private sector. Economic growth requires a more diversified production structure, the full utilisation of labour, and increased competition, particularly in the service sector.

Countries participating in the Euro-Plus Pact have committed themselves to doing all that they can to foster competitiveness and employment, enhance the sustainability of public finances, and reinforce financial stability.

The national programme given in autumn 2011 stated that the prerequisites for and barriers to growth and employment confirmed for Finland provide a justified basis for economic and structural policy.

4.1 National Euro-Plus commitments to foster competitiveness and reinforce financial stability and tax coordination

The commitments made by the Government to foster employment and the sustainability of public finances are identical to the objectives set in the Europe 2020 national programme. For this reason, progress with respect to them is described in sections 4.3, 4.5 and 5.1.

The Government's strategic goal is to strengthen economic growth, employment and competitiveness. The Government is committed to improving competitiveness through sufficient research, development and innovation funding, to preparing an action programme for growth funding, to reviewing the effectiveness of business subsidies, to reforming the funding of higher education by 2013, to diversifying the business structure, to promoting a resource-efficient economy as well as sustainable consumption and production practices, to reducing corporate tax, to developing the operating environment for businesses, to reducing the administrative burden and to combating the shadow economy. The same measures were described in the Europe 2020 programme given in autumn 2011.

Significant growth and development opportunities are offered by the widespread utilisation of digital technology and services as well as information and communications technology in the various subareas of society. This is not only a matter of developing different technological applications or new services, but also of their widescale use and the business and other activity created around them. In promoting the digital economy, EU measures also have a key role, particularly the creation of an effective EU-wide digital internal market by 2015 in the manner outlined by the European Council.

In accordance with its Government Programme, the Government is commitment to working closely with social partners in preparing and deciding economic and labour market policy. Joint issues will be discussed in a permanent negotiating body. This model has proved to be effective in Finland with respect to both economic growth and employment.

To safeguard competitiveness and employment, social partners negotiated a two-year framework agreement in autumn 2011. The Government supported the creation of the framework agreement by lowering income taxation and corporate taxation in 2012 by a total of around EUR 400 million. In addition, the Government promised to study during spring 2012 the introduction of a tax deduction for research and development expenditure as well as an incentive for growth entrepreneurship.

The level of pay increases agreed in the framework agreement was around two per cent per year throughout the agreement period. All employees will also be paid an additional one-off sum of EUR 150.

Improvements to social security and to the quality of working life were also agreed in the framework agreement. Based on this, the Government initiated preparations for the introduction of a new tax deduction. An employer could make the tax deduction if an employee participates for three days in training specified by the employer or an over-55 year-old employee participates in activity aimed at improving wellbeing in work. The tax deduction would compensate an employer for loss caused by an employee's absence. The intention is to create a corresponding incentive to improve skills and wellbeing in work also for the public sector. Reconciliation of work and family life will be improved by extending paternity leave to 54 weekdays from the beginning of 2013.

To reinforce financial stability, the Government will develop macrostability instruments and surveillance as part of the broader, EU-wide restructuring of financial surveillance. The macrostability surveillance included in this will be developed nationally based on current institutions. For financial surveillance will be secured the powers and instruments required to curb the excessive indebtedness of businesses and households and to balance banks' capital requirements according to cyclical fluctuations. To support economic growth, the Government prepared a national capital market strategy in collaboration with key actors.

To strengthen tax coordination, the Government will prevent harmful tax competition and promote the reconciliation of cross-border tax policy. The Government will work actively to ensure that the international financial market tax is introduced on as wide a geographical basis as possible.

4.2 Macroeconomic stability

A report published by the Commission in February 2012 assessed the macroeconomic stability (i.e. macrostability) of Member States with the aid of several indicators and threshold values. The Commission's assessment is based on financial considerations, and exceeding a threshold value alone does not indicate that an imbalance is developing.

The report listed 12 Member States whose macroeconomic situation should be investigated further. If further investigation finds that a Member State's economy does not have a significant imbalance the procedure will be halted. If a harmful imbalance is found, the Member State must initiate corrective measures.

According to the Commission's report, Finland's situation should be investigated further because of a nearly 20 per cent loss in export market shares in the period 2005–2010, growth of unit costs by over 12 per cent in the period 2008–2010, and increases in house prices faster than the general development of prices during the last ten years. In 2010 house prices rose by 6.8 per cent and exceeded the 6 per cent threshold value set by the Commission. The rise in prices seems to be faster than the average in EU countries. The rise in house prices has increased the indebtedness of households.

The Commission's assessment of Finland's macroeconomic imbalance is partly justified. The financial crisis that began in 2008 and the European debt crisis that followed it have strongly tested Finland's export industry. Finland's exports have not yet recovered from this setback. The weak development of exports is explained to a large extent by an unfavourable export structure. A significant proportion of exports has consisted of the products of the electrotechnical industry and the forest industry. Exports of electrotechnical products increased exceptionally quickly after the recession at the beginning of the 1990s. As production has been transferred abroad since the turn of the millennium, exports have declined by more than 50 per cent. Also the forest industry, a traditional export sector, has closed factories in Finland and has expanded capacity abroad. The metal and chemical industries have not been able to compensate for this trend.

Finland's export products are very cyclically sensitive. Of export goods, around 90 per cent are used in investments, for intermediate products and as energy, on whose demand and markets the crisis has had a particularly strong impact. Of export goods, more than half is directed to the EU area, where economic growth has been modest in recent years. Only around 15 per cent of exports is directed to the rapidly growing Asian market.

Finland's terms of trade have also deteriorated. Import prices have increased since 2000. Due to the dominance of raw materials in Finland's imports, an increase in the prices of energy and other raw materials mostly contributed to this. Export prices have remained roughly at their level in 2000. The difficult competitive situation in the electrotechnical and forest industries has contributed to the standstill in export prices as well as, with respect to the electrotechnical industry, very rapid growth in productivity.

In addition to the structure of foreign trade, faster development of labour costs than in competitor countries has also contributed to weakening the external balance of the economy. It was believed that the financial crisis and the recession that followed it would remain relatively short-lived in Finland, and for this reason businesses did not make workers redundant to the same extent as total output contracted. Business responded to the recession with temporary lay-offs and by reducing working hours. Wages rose, however, on the basis of settlements negotiated before the crisis. The framework agreement concluded in autumn 2011 will foster industrial peace, stability and predictability in Finland's economy. The Government's measures supporting the agreement have been timely in terms of cyclical policy.

The financial crisis also affected house prices, which fell at the end of 2008. As household incomes did not decline significantly during the recession, confidence in the economic situation returned fairly quickly. The exceptionally low level of interest rates fed demand for housing and increased prices. As a result of internal migration within Finland, demand in the largest growth centres continually exceeds supply. This problem in particularly great in the Helsinki Metropolitan Area. In 2010 prices returned to the level that preceded the recession and even higher. The trend in house prices has levelled off, however, and prices have now begun to fall. As the rise in house prices subsides, growth in the level of debt will also slow.

The risk-sensitive development expenses mentioned with respect to Finland in the Commission's macroeconomic imbalance report are to a large extent such that the Government can only influence them indirectly or direct opportunities to influence them are very limited. Many factors affecting the macroeconomic balance require the input of social partners.

4.3 Safeguarding the long-term sustainability of public finances

> In June 2010, the EU urged Finland to continue fiscal consolidation using any windfall revenue to reduce the deficit, while taking additional measures to maintain the fiscal position above the medium-term objective. In addition, Finland was urged to improve the productivity of public services and thereby to achieve cost savings in order to be able to meet the challenges arising from population ageing.

In 2011 the Government agreed in its programme that the sustainability of public finances will be safeguarded through front-loaded expenditure and revenue adjustments and through restructuring measures. Central government expenditure and revenue will be adjusted through measures that will improve the financial position of central government by a total of EUR 2.5 billion on an annual basis. Half of the measures will be directed at expenditure, half at revenue. Through structural reforms, the Government aims to raise the employment rate, prolong working careers, strengthen the economy's growth potential, and improve the impact, effectiveness and productivity of public services.

The Government is committed to taking additional measures if there are no indications of a fall in the central government debt-to-GDP ratio and the central government deficit shows signs of settling above 1% of GDP.

In March 2012, the Government decided on the Central Government Spending Limits for 2013–2016. As the state of public finances proved to be gloomier than forecast when the Government Programme was prepared, the Government decided on additional adjustment measures. Value-added tax rates were raised by one percentage point and in 2013–2014 the index adjustments in earned income taxation will not be made. Social security will not be cut nor will social security index adjustments, excluding child allowances, be frozen. A temporary solidarity tax will be levied on earned income and pensions exceeding EUR 100,000 as well as on inheritances of over EUR 1 million. Economic growth will be boosted by tax incentives totalling around EUR 300 million. Businesses will be granted a tax incentive for research and develop activity, which is expected to reduce central government tax revenue by EUR 190 million per year. A tax incentive will be prescribed for growth entrepreneurship. An increase in the earned income deduction on lower earned incomes will reduce central government tax revenue by EUR 55 million per year.

The Government has decided in different contexts on adjustment measures that will improve the financial position of central government by a net total of around EUR 4.7 billion by 2015. Due to certain fixed-term measures during parliamentary term, the permanent adjustment impact of the decisions will be greater than this from 2016 onwards. Through the adjustment measures, the central government debt ratio will begin to fall by the end of 2016[1].

In connection with the decision on spending limits, the Government also approved a structural policy statement promoting economic growth, employment and wellbeing, in which the Government commits to implementing a programme of structural reforms also aimed at closing the general government sustainability gap. A premise of the programme is that work will be offered to everyone. This will require a more activity labour policy, an improvement in the quality of working life, a reform of pensions and education policy as well as social security, the boosting of public sector effectiveness, the upgrading of private sector growth and productivity, a tax policy that supports growth, the promotion of healthy competition, and the improvement of business subsidies.

In Finland, the general government sustainability gap results primarily from the rapid weakening of the dependency ratio due to population ageing. The ageing of the population structure weakens public finances in two ways: age-related public expenditure grows, while the working age population simultaneously declines.

[1] The estimate of the overall scale of the adjustment has taken into account the net effect on central government on-budget revenue and expenditure in 2015 of measures included in the Government Programme and in the October 2011 Decision on Spending Limits, in the decision taken in connection with the social partners' framework agreement and in the April 2012 Decision on Spending Limits.

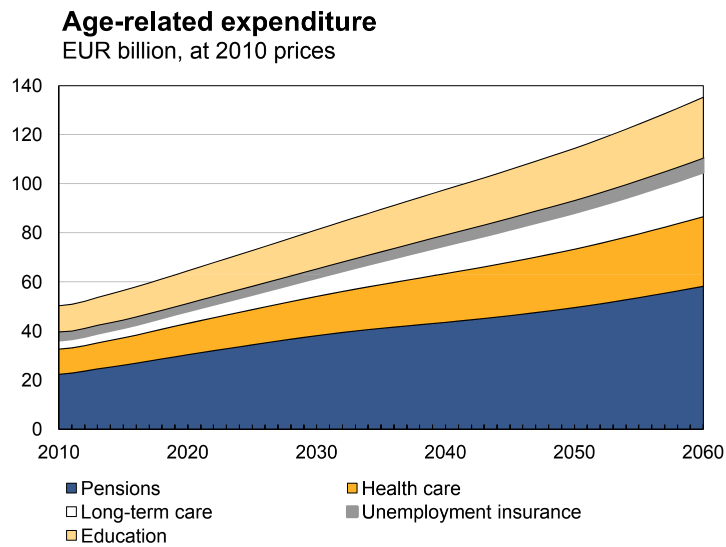
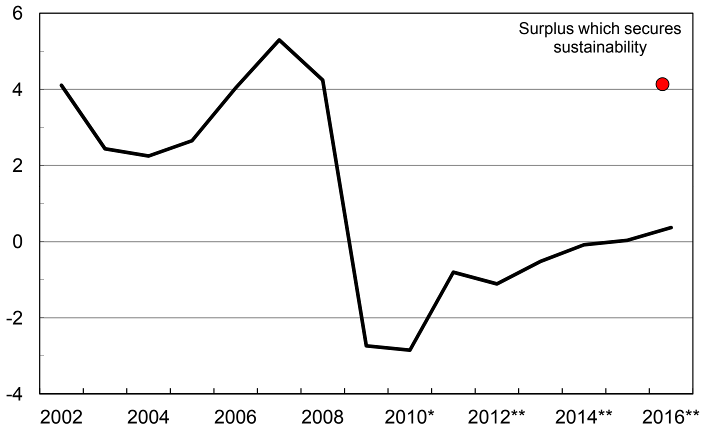


Figure compiled using model developed by Ministry of Social Affairs and Health for social expenditure analysis.

The differences between geographical areas are large, both in the rate of ageing and in their capacity to meet the challenges of uncertain economic growth and heightened structural change. Population ageing is evident above all in the cities and in the rural areas surrounding them. In the weakest position are areas in which the working-age population is declining and the business structure is unbalanced.

The Government's aim is to strengthen the financial basis for welfare society without undermining the sustainability of public finances. As an indicator of sustainability is used the sustainability gap, which tells by how much public finances ought to be adjusted immediately in order for public indebtedness to remain under control. The Government updates the general government sustainability gap estimate annually and will decide on the measures required to close the sustainability gap by 2015.

General government net lending
in ratio to GDP



Source:Statistics Finland. MoF

Restructuring of local government and services 2011–2014

In Finland, the municipalities are responsible mainly for the arrangement of public services. Since the turn of the millennium, local government expenditure has grown faster than the economy in general.

The Government will implement an extensive restructuring of local government. A thriving municipal structure will secure the long-term sustainability of public finances and well as quality and equitable municipal services. Economically robust municipalities consisting of commuter areas are large enough to be able to provide basic public services, with the exception of specialised medical care and demanding social welfare services. Economically robust municipalities, moreover, are capable of conducting successful policies in business and industry, development strategies and preventing urban sprawl.

According to a report completed at the beginning of 2012, Finland could have 66–70 municipalities, in which case most of the municipalities would belong to a municipal group of 40,000–100,000 inhabitants. There are currently 336 municipalities and around half of the municipalities have less than 6,000 inhabitants.

The municipalities will give their opinions on the report by mid-April 2012. The Government will then determine how the local government reform will progress and will outline the preparation of an Act on the Structure of Local Government, which will steer the implementation of the reform. The objective is for the Act on the Structure of Local Government to come into force from the beginning of 2013.

The productivity and effectiveness of the municipalities will be improved in cooperation with central government, the municipalities and social partners. By the end of 2014, a scorecard on sustainable local government productivity to assess service quality and effectiveness will be created, the exchange of information and cooperation will be enhanced, and good practices disseminated.

In connection with the restructuring of local government, local government funding and the system of central government transfers to local government, the Local Government Act and the service structure will be reformed. In addition, reform needs relating to local government tasks will be evaluated. In connection with the Decision on Central Government Spending Limits for 2013–2016, it was decided to gradually reduce central government transfers to local government such that in 2015 the level will be EUR 500 million lower than in the previous decision on spending limits. On the other hand, the Government decided to continue in 2014 and 2015 the increased apportionment of corporate tax to municipalities, which will increase local government tax revenue by around EUR 270 million.

Effectiveness and Productivity Programme 2011–2015

A new effectiveness and productivity programme, which replaces the earlier central government productivity programme, was launched in 2011. The new programme's aim is to find, through central government internal measures, means to respond to the need to close the public finances sustainability gap as well as the change in the labour market. Targets set for increasing operational efficiency will remain as before in terms of their overall economic impact.

The availability, quality and effectiveness of services will be examined alongside productivity and efficiency. The programme will focus particularly on personnel skills development, opportunities to influence one's own work, and the significance of management and supervisor work as prerequisites for productive activity. The programme includes, among other things, development measures relating to core function analyses, human capital and the enhancement of effectiveness. The aim of these measures is to formulate proposals and reforms relating to significant projects, structures and operating models.

Combating the shadow economy

Combating the shadow economy is one of the Government's spearhead projects. The Government has prepared an action programme for 2012–2015 to combat the shadow economy and financial crime, and also a strategy for preventing organised crime. During spring 2012, an assessment will be made as to whether a new special act is required for the prevention of organised crime.

The goal of the shadow economy action programme is to reduce the shadow economy and financial crime, and to support legal business activity and healthy competition. The programme will include a number of projects aimed at increasing taxes and fees by EUR 300–400 million per year, preventing criminal damage, and recovering the proceeds of crime. An annual EUR 20 million appropriation has been allocated to combating the shadow economy and financial crime.

Other reforms aimed at improving the sustainability of public finances

The Government is preparing a transport policy report, which will describe the transport policy vision and strategic intent in 2030, transport policy outlines and a reform programme for the period 2012–2022. The report will be given to Parliament in April 2012. In connection with the preparation of the report, new more cost-efficient operating practices have been identified, for example in the arrangement of passenger transport services.

The sustainability of public finances will be promoted through the use of information and communications technology as well as through the efficiency and other benefits obtainable via the full exploitation of the opportunities this technology provides. The intelligent strategies prepared by the ministries in accordance with the Government Programme will set targets and steering measures also in this respect.

The Government has launched an extensive reform of the defence forces. The objective is to secure the operating potential of the defence forces by 2015. The whole country will continue to be defended in future and universal military service will remain as a foundation of Finland's defence solution. The wartime strength of the defence forces will be reduced, however, and the number of personnel will be cut significantly. Military provinces will be dissolved and detachments, agencies and operating locations dissolved or merged. Unnecessary and less important garrisons and properties will be discontinued. The aim of the reform is to meet the savings commitment of around EUR 200 million stated in the Government Programme.

4.4 Diversifying the production structure

> According to the EU's assessment, Finland has a relatively centralised production structure and highly specialised exports, which make the economy vulnerable to sector-specific changes. Diversity could be promoted by widescale dissemination of technology and by encouraging redistribution of resources. The wage formation system should take better into account differences in productivity between sectors and businesses.

Finland's business structure has been very manufacturing-intensive. As a consequence of the rapid structural change currently under way, the significant of services has grown, however. Service business related to industrial products, for example, has developed alongside traditional services sectors.

The Government has set as a target the strengthening and diversification of the business structure. Industrial policy measures will be directed particularly at new, growth-oriented, internationalising companies that provide jobs. There will be a particular focus on strengthening operating conditions for small and medium-sized enterprises. Conditions for environmental business will be enhanced by developing the domestic market and cooperation between different actors.

In March 2012, the Government decided on significant measures to promote business growth, innovation activity and internationalisation. A research and development activity tax incentive will be introduced from the beginning of 2013, as will a temporary tax incentive by which private investors will receive a tax deduction when they invest in an unlisted growth company. To boost investment, the possibility of double depreciation up to the end of 2014 will be enacted for industry. To increase risk-taking, the acquisition cost assumption of investments made in unlisted SMEs will be raised for a fixed period to 50 per cent. The Government will also explore the possibility of introducing a separate tax incentive for patenting.

Risk financing for business will be safeguarded through a reform programme for growth financing. In addition, the financing and performance management of central government venture capital investors will be strengthened. Operating conditions for exports will be improved through a financing system based on long-term lending, to be launched in 2012.

Strategic development programmes to improve growth, competitiveness and employment, and to diversify business and industry will be implemented as Government spearhead projects. The development programme will be monitored and the most important decisions will be made in government bodies. The Strategic Programme for the Forest Sector, and the wood construction development programme included within it, will anticipate and promote change processes supporting the growth and internationalisation of the forest sector. The Employment and Business Policy Development Project for the Welfare Sector will promote the efficiency of the sector's service market and develop customer-oriented services. Implementation of the Business Programme for the Environmental Sector began in 2012. The programme will create strategic targets for Finland's cleantech business and coordinate operators in the sector. The programme will also promote growth and internationalisation of cleantech business and the renewal of businesses in the sector. The strategic development programme Structural Change and Labour Market Efficiency will prepare a labour policy package to complement measures in the Government Programme.

Creative sectors will be strengthened in accordance with the Government Programme's strategic implementation plan, with the cooperation of the administrative branches. Cultural exports have been directed to China and other parts of Asia. In addition, the Luovimo internationalisation programme for the creative arts 2012–2013 has been launched. Product and services development has been strengthened by launching CreaDemo, new form of support for product development, as well as a multidisciplinary pilot programme.

A Sustainable Consumption and Production Programme, and a Government resolution relating to it, will be completed in 2012. A programme promoting the sustainable use of natural resources and material efficiency will be completed in 2013. Domestic ownership within the mining sector and the acceleration of mining projects will be promoted, for example, by setting up a programme making investments in mining sector projects, an investment fund or an investment company.

Information resources produced using public funding will be opened up systematically and as quickly as possible for the utilisation of the public and business. The goal is to promote companies' growth and innovation activity, the development of digital products, services and markets, the efficiency, effectiveness and transparency of administration, and the pu

The Government will promote cross-administratively the introduction of intelligent solutions utilising information and communications technology in all sectors of society. At the beginning of the parliamentary term, every ministry will prepare an intelligent strategy outlining targets and necessary steering measures. In spring 2012, it is the intention to specify the ministries' common objectives and views on the change forces directed at the operating environment.

The administrative burden on businesses will be lightened and processes relating to fees and taxes made more efficient. A Government resolution will be made on this issue in 2012.

Structural change management

The Government will continue and develop the operating model created for the anticipation and management of sudden redundancy situations arising from structural changes. Regions and sectors affected by major structural changes will be supported with special measures and by developing local operating models. The aim is to create new permanent jobs for those who have become unemployed. The responsibility of businesses will be emphasised both in the preparation of support packages and in the promotion of re-employment.

Structural changes can also affect public administration as well as the private sector. Practical measures perceived to be good and which secure employment have been applied in connection with garrison closures. Further practical measures in relation to garrison closures began in early 2012 and will continue in 2013 and 2014. The goal is to ensure the rapid employment of released labour and the initiation of competitive business activity.

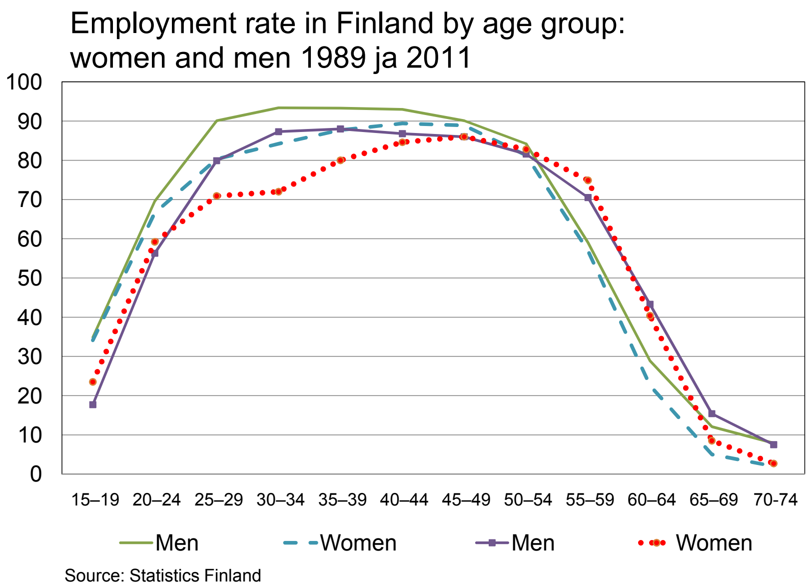
The Government will also review the prerequisites for the support of regions where structural change happens slowly and where the effects are significant over the longer term, particularly on employment and development. Regional and local preparedness plans will be formulated for change situations.

4.5 Full utilisation of labour

In the EU's assessment, the employment rate of young people, immigrants and the poorly educated has traditionally been low in Finland. It would also be possible to extend working careers. Structural unemployment is exacerbated by matching problems evident in certain regions, sectors and skills.

In 2011 Finland was urged to improve the targeting of active labour market measures on the long-term unemployed and young people, to take measures to improve the employability of older workers and their participation in lifelong learning and to reduce early exit from the labour market, and to consider a link between the statutory retirement age and life expectancy.

In Finland, the employment rate of older people has developed favourably in recent years. During the last 10 years, working careers have been extended at the end of working lives by around years, i.e. at the same pace as the rise in life expectancy. This has been achieved by raising the age limit for the unemployment pension, a flexible retirement age with incentives, investments in improving working life, and the gradual abolition of the unemployment pension. The employment rate has also been raised by better education and health than in previous age classes. The number of people retiring on disability pension has fallen.



Older people represent the only group in which the employment rate was higher in 2011 than in the 1980s. In all other age groups, employment rates were lower. Employment rates of young women have fallen more than 10 percentage points in just over 20 years.

The framework agreement concluded in autumn 2011 supported the extension of working careers through flexible working hours and by increasing health checks and training. A reform by which working careers will be prolonged by addressing protracted incapacity for work at an early stage will come into force in June 2012. An occupational health physician will assess the employee's working capacity together with the employer and the employee when sickness allowance has been paid for 90 days. Return to work will be supported by working capacity counselling, which was launched at the beginning of 2012.

In connection with the Decision on Central Government Spending Limits for 2013–2016, the Government confirmed the social partners' policy outlines. According to the negotiating parties' own assessment, the changes will prolong working careers on average by just over one year. The following changes will be implemented in 2014 and 2015:

- the early old-age pension will be abolished
- the minimum age of eligibility for the part-time pension will be raised from 60 to 61 years
- the minimum age of eligibility for the unemployment path to retirement will be raised from 59 to 60 years
- the right to activation measures before the completion of the maximum duration of the earnings-related unemployment daily allowance period will be enacted for unemployed job seekers over 60 years of age
- earnings-related unemployment security will be graded according to working years
- the earnings-related unemployment daily allowance will be granted after six months of employment
- refusing the offered activation measures will shorten the maximum duration of security by 100 days
- the employee's and the employer's employment pension contributions will be increased by 0.2 percentage points in both 2015 and 2016.

The situation of fixed-term agency workers and people with partial work ability will be reviewed by a working group, which will also evaluate whether there is a need to introduce an advance notification procedure relating to the ending of fixed-term agreements. Labour-market and rehabilitation opportunities of people with partial work ability and other groups weakly engaged in the labour market will be improved through a programme prepared as a cooperative effort during 2012.

In Finland, there are great regional and sectoral differences in the availability of labour. In accordance with the policy outlined in the Government Programme, the availability of labour will safeguarded particularly in key education, health and welfare services.

In 2011, there was a monthly average of around 3.6 unemployed job seekers for each job vacancy. Of unemployed job seekers, most were in construction and manufacturing, and fewest were in the commercial sector. There is an oversupply of labour for office work. In future, labour shortages are projected for registered nurses, doctors, social workers, sales representatives and telephone sales staff. In some regions, there will also be shortages of kindergarten teachers, special needs teachers, dentists and dental assistants, laboratory technicians, enrolled nurses, psychologists, bookkeepers and cleaners.

Young people

An historic change is under way in Finland. Every year, fewer young people will enter working life than those at the other end of their working careers will retire. Although young people's unemployment began to fall at the end of 2009, it remains relatively high. At the end of 2011, there were nearly 30,000 under-25 year-old job seekers. In addition, there is a group of young people, estimated to be in the tens of thousands, who are not in work, education or registered as job seekers.

In Finland, there is a strong common desire to reduce youth unemployment and thereby social exclusion among young people. Cooperation takes place cross-administratively in collaboration with social partners and non-governmental organisations.

The Government will implement the social guarantee for young people in full from the beginning of 2013. Every young person under 25 years old and recently graduated people under 30 years old will be offered a job, on-the-job training, a period in a workshop or rehabilitation within three months of becoming unemployed. The goal is also for every child who completes basic education to be guaranteed a place of study in upper secondary school education, vocational education, apprenticeship training, a workshop or in rehabilitation. Problems will be addressed with early-stage study counselling and by offering personal support. In this way, social exclusion among young people and the accumulation of social and health problems can be prevented. Particular attention will be paid to key junctures: ending of basic education, early termination of secondary education, and entering employment for the first time.

The current model of the social guarantee for young people has been operating since 2005. Young people's unemployment has been mitigated by directing unemployed young people into education and by offering jobs and employment services immediately at the start of periods of unemployment. Despite enhanced service provision, in 2011 around 16 per cent of periods of unemployment experienced by young people continued for over three months. It has, however, been possible to prevent long-term unemployment of young people using this operating model. Only two per cent of unemployed young people are long-term unemployed.

The Government will allocate an additional EUR 60 million to implementing the social guarantee and to the reform of education, guidance and employment services intended for young people. Implementation of the guarantee will also be supported by extensive cooperation and networking between the authorities. This work will be led by a working group established for the social guarantee for young people. The working group has representatives from various administrative branches and from social partners and non-governmental organisations. The working group will also seek widely the views of young people and of those working with young people.

Municipalities will be assigned the responsibility for the guidance of young people leaving basic education, places will be increased in vocational education and public employment services for young people will be enhanced. Young people's workshop activity and outreach youth work will be extended throughout the country and a supplementary appropriation will be allocated to this in the period 2013–2016. As part of the social guarantee, a young adults' skills programme will be implemented, to which a supplementary appropriation of EUR 27 million will allocated in 2013 and EUR 52 million in 2014–2016. This will help under-30 year-old young people who do not have a study place in secondary education the opportunity to gain a qualification.

Long-term unemployed

Long-term unemployment will be reduced by means of a local government trial lasting the parliamentary term. The trial will primarily cover those long-term unemployed who have received unemployment benefit for at least 500 days. The target group also includes those job seekers who have been unemployed for at least 12 months and who are at risk of being excluded from the labour market.

In the trial, the main responsibility for managing an individual's employment support will be transferred under the sole or joint responsibility of a municipality or municipalities after 12 months of unemployment at the latest. Employment will be promoted by means of new models based on local partnership and multi-professional cooperation. The trial municipalities will be selected in spring 2012 and the trial will be launched in the autumn.

In connection with the trial, an employment bonus trial will also be implemented in which a long-term unemployed person, after receiving a job, can keep one month's labour market support and housing allowance.

During the parliamentary term, i.e. by the end of 2014, the Government will prepare an action programme aimed at improving opportunities for people with partial work ability and those who are hard to employ to engage in work and rehabilitation. In addition, the need to reform legislation relating to social companies will be assessed. The operating model for labour force service centres will be extended in 2015 throughout the country, will be put on a permanent basis through legislation, and funding for the centres secured. The job bank trial will gradually be expanded nationwide by the end of 2015.

The activation rate for the unemployed, which in 2011 was 30.9 per cent, will be kept at 30 per cent in accordance with the Government Programme. The proportion of the long-term unemployed in activation measures will be increased.

Immigrants

In Finland there are around 200,000 foreign-language speakers, which is around 4 per cent of the population. Of the foreign-language speaking population, over one third speak either Russian or Estonian as their mother tongue. Over 70 per cent are under 35 years old. In 2020 the number of foreign-language speakers is expected to be around 330,000 and in 2030 around 500,000.

Unemployment is one of the biggest problems for immigrants. The employment rate of immigrants is notably low, and unemployment is around three times higher compared with Finns.

The aim is to raise the employment rate of immigrants and accelerate their employment in the open labour market. It is the intention to approve a central government integration programme in spring 2012, which will specify various administrative branch targets and investments in the integration of immigrants in 2012–2015. The programme will be prepared by the key ministries in cooperation with all of the relevant integration actors. The Government will take measures to enhance the full participation of immigrants in Finnish society and working life. In the decision on central government spending limits, the Government decided to increase education and training for immigrants, with a particular emphasis on language and vocational training.

The letter of intent practice between the central government and the Helsinki Metropolitan Area in respect of immigration and integration will be continued. Its validity and effectiveness will be improved, however, and the significance of employment, integration and education enhanced. Negotiations for a new letter of intent period will begin in spring 2012.

In 2012 the Government's Future of Immigration 2020 Strategy will be prepared and updated. Existing research data and statistics will be utilised in the preparations.

4.6 Increasing competition

In the EU's assessment, Finland should improve competition in the service sector, including the retail and wholesale trade. Finland's high price level is explained by weakness of competition in the domestic market and a centralised market structure. This weakens consumers' purchasing power and also adversely affects productivity significantly in the closed sector.

In 2011, Finland was urged to take further measures to open up the service sector to competition, by redesigning the regulatory framework and removing restrictions in order to facilitate the entry of new companies into service sector markets, especially in the retail sector.

An efficient economy requires fair competition between businesses based on common ground rules. In domestic market sectors, the inadequate competition evident, for example, in the retail trade and in construction has the effect of raising the price level of end products, reducing incentives to innovation and consequently lowering productivity and growth. To meet these challenges, the Government will draw up a healthy competition promotion programme, with the aim of identifying and addressing structural barriers harmful to the functioning of competition. Structural barriers may be a consequence, for example, of national legislation or of benefits granted to some service providers in order to safeguard service production. One element of the project will be an evaluation of purchasing power effects in the daily consumer goods trade, particularly in the foodstuffs chain.

Finland has much national legislation whose purpose or at least whose actual impact is to restrict competition. Many regulations are based on widely accepted social objectives, and it has not been justified to call into question for competition policy reasons the objectives of regulation. Unnecessary barriers to or restrictions on competition that no longer serve their original regulatory purpose might, however, be associated with such regulation. The problem is not necessarily one of a single rule but of an overall framework in which detailed rules continually increase in all sectors. The goal is assess these regulatory entities, particularly from the perspective of the functioning of competition and the economy.

The Government will enhance the business subsidy system. Subsidies that distort the functioning of the market and adversely affect competition will be removed. In 2012 the granting of subsidies will be enhanced and targeting will be improved by removing duplication between subsidy organisations. In EU structural funding, the aim is to increase the proportion of business subsidies that raise the share of private financing. The granting of subsidies other than research, development and innovation subsidies to the same businesses in successive years will be restricted. Loans and guarantees intended to support research, development and innovation activity as well as growth will be increasingly targeted at growth-oriented, internationalising small and medium-sized enterprises that provide jobs.

5 Finland's Europe 2020 Strategy National Targets in 2020

5.1 Employment rate 78%

The employment trend among 20–64 year-olds is monitored in connection with the Europe 2020 Strategy. The Government's goal is that the employment rate of 15–64 year-olds will rise to 72 per cent and unemployment will fall to 5 per cent by 2015. Regional differences will be reduced and regional matching of labour improved.

The Government Programme's employment target is more ambitious than the Europe 2020 Strategy's national target, even though the targets have been set for different age groups. The difference between the employment rates of the age groups is 4–5 percentage points.

	2010	2011	2012	2013	2014	2015
Employment rate 20–64 year-olds, %	72.8	73.5	73.3	73.7	74,2	74.5
Employment rate15–64 year-olds, %	67.8	68.6	68,6	69,0	69,6	69,9
Unemployment rate, %	8.4	7.8	8.0	7.9	7.7	7.4

Achieving the employment targets will require an economic and business policy that increases demand for labour as well as a labour policy that increases demand for labour, raises productivity and improves the efficiency of the labour market. In 2011 the Government launched a strategic programme and the planning of a working life strategy in order to revamp these policy measures.

Strategic programme for structural change and labour market efficiency

The objective of the programme is to improve labour market efficiency and to increase the supply of labour by strengthening the joint responsibility of the different administrative branches and social partners by means of a common, coordinated change process.

By the end of June 2012, the Government will prepare a labour policy resolution to safeguard labour market efficiency and the supply of labour. The resolution will expand the Government's policy outlines into a broader action programme.

Working life development strategy

The goal of the strategy is to improve the employment rate, quality of working life, wellbeing in work and work productivity, and also to prolong working careers. To implement the strategy, an extensive national cooperation project will be launched in private and public sector workplaces. In addition, a wellbeing in work programme will be launched in the public sector. The Finnish Funding Agency for Technology and Innovation TEKES will initiate a separate development programme for work organisations. The strategy will be completed in spring 2012. The expanded joint measures will be implemented from 2012.

Other projects to be launched

The Government will prepare, in cooperation with working life parties, labour legislation and policy outlines relating to social insurance and the development of the working life. A broad-based review will comprehensively assess the prevention of incapacity for work, rehabilitation, and the effectiveness of occupational health care.

A cross-administrative review of change trends in the labour market and business activity will also be completed in spring 2012. The primary change trends reviewed will be in fixed-term working, part-time working, temporary agency work and in employment itself. Further measures will be decided in cooperation with working life parties.

5.2 Target level of research and development expenditure 4% of GDP

	2009	2010	2011	2012
Public sector				
EUR billion	1.93	2.07	2.07	2.01
%/GDP	1.11	1.15	1.06	1.01
Private sector				
EUR billion	4.85	4.85	4.95	
%/GDP	2.80	2.69	2.59	
Total R&D				
EUR billion	6.79	6.97	7.15	
%/GDP	3.92	3.87	3.73	

The Government will safeguard an adequate level of research, development and innovation funding and will clarify the division of responsibilities of actors that distribute public financing. Led by the Prime Minister, the Research and Innovation Council has outlined the key national development measures for 2011–2015.

Research and innovation incentives for companies will be strengthened through Government decisions made in March 2012. These decisions relate to the introduction of a tax incentive for companies' research and development activity and to a temporary tax incentive for growth entrepreneurship. The Government will also explore the possibility of introducing a separate tax incentive for patenting.

Among the most important substantive reforms of research and innovation policy are the creation and introduction of new means and models to strengthen innovation activity, the establishment of attractive clusters of expertise, internationalisation, structural development of higher education, reform of research institutes, and organisation of infrastructure policy and the tenure track system. Public research funding will be channelled into societal and social basic research concerning the digital economy.

The large metropolitan regions have a key role in implementing the national innovation strategy as growth platforms for innovations. A negotiating procedure and growth agreement will be prepared for the creation of appealing innovation clusters. This will promote cooperation and coordinate use of resources between key actors of the metropolitan regions and central government.

In December 2011, the Research and Innovation Council established an expert group whose task is to prepare a proposal for a model to implement a structural reform of central government research institutions, enhance steering of research institutions, reform the funding of institutions and improve allocation of resources according to the needs of society. The group's work will be completed at the end of May 2012. In 2012 a broad-based expert group was established to review national and international research infrastructure issues.

5.3 Climate and environmental targets

	EU's target	Finland's target
Emissions trading sector (manufacturing industry and energy production)	Emissions to be reduced 21% from 2005 level	
Outside emissions trading (transport, sectors outside ET, agriculture, household heating)	Emissions to be reduced 10%	16 %
Renewable energy	Share to be raised to 20%	38%
Energy efficiency	20% improvement (368 Mtoe)	(4.21 Mtoe)

In 2012 the Government will update its long-term National Climate and Energy Strategy, which was first prepared in 2008. To reduce dependency on oil, a programme will be prepared as part of a new energy and climate strategy. A report on the strategy will be given to Parliament at the end of the year.

The Government will prepare a long-term national EU strategy on climate and energy issues. In addition, the Government will study the impact that an EU target of reducing emissions by 30% from the 1990 level by 2020 would have.

The entry into effect of the Energy Performance of Buildings Directive will require a number of legislative changes. In 2012 energy efficiency regulations for renovations as well as energy certificate legislation will be tightened. Tighter energy efficiency regulations for new buildings will come into force in July 2012. The Government will examine the opportunities for emissions reduction achievable with the aid of information technology in transport, buildings technology, energy networks, industry and remote working.

In 2011 the Government established an independent, multi-disciplinary climate panel to promote dialogue between science and policy-making in climate issues. The Government will prepare a proposal for a Climate Act to steer the reduction of emissions arising outside the emissions trading scheme. A comprehensive reform of the Environmental Protection Act will be implemented, and the work of the working group will be completed by the end of 2013.

The economic base of forestry and forest industry will be strengthened through an overhaul of forest legislation, with the aim of securing both biodiversity and the interests of the national economy, users of wood, and forest owners.

In 2012 the Government will identify subsidies harmful to the environment and will decide on the reallocation of subsidies. The changes will be part of a larger package in which the focus of taxation will move away from growth-hampering taxation of labour and entrepreneurship towards environmentally- and health-motivated taxation. The most significant structural changes have been made in respect of the waste tax, the car tax, the motor vehicle tax and in the taxation of energy and fuels. It has been decided that taxation of transport fuels will be increased in two stages, in 2012 and 2014. Taxes on natural gas and peat will be raised in 2013 and 2015 and the waste tax in 2013.

The Government will reform the National Sustainable Development Strategy and will prepare a programme and resolution on sustainable consumption and production. An interim review of the Climate Policy for Transport Programme will be made during 2012. In accordance with the Decision on Central Government Spending Limits for 2013–2016, the focus of transport projects in the spending limits period will particularly be on the implementation of growth-promoting projects that are important in terms of low emissions, transport safety and the business sector.

The overall consumption of Finland's natural resources has grown in recent decades and is fairly high by international comparisons. Materials of domestic origin constitute around half of the use of natural resources. To improve the sustainable use of natural resources and material efficiency, in 2012 the ministries will prepare in collaboration with stakeholders a review of material efficiency potential, innovation needs, impacts and indicators. Overall use of natural resources as well as the environmental, value-added and employment effects will be monitored using the ENVIMAT model.

The Government will promote the protection of the Baltic Sea and waterways both via EU programmes and nationally. A national maritime management plan as well as related monitoring and action programmes will be completed in 2015. The implementation of waterways management plans prepared in 2011 will be secured through a resolution made by the Government in 2011 and through cross-administrative cooperation.

The Government is preparing on a long-term basis for improvements to oil and chemical spill response and recovery capacity. This work will be supported by a comprehensive study prepared for 2009–2018, of which an interim review was made in 2012. It has been decided to continue the temporary increase in the oil damage duty.

5.4 Education targets

Proportion of 30–34 year-olds having completed tertiary education 42%

Due to changes in the business structure of the economy, qualitative and quantitative requirements for skills are changing rapidly. For this reason, it is important to strengthen cooperation between traditional universities, universities of applied sciences and vocational educational institutions and the businesses and key actors of innovation activity in their areas. This will create the conditions to answer the long-term skills needs of regional labour markets and for the full employment of labour.

Higher education funding will be reformed to lend better support to educational goals. The reform will improve completion of studies, accelerate the transition to working life, boost the quality and internationalisation of teaching and research, and strengthen the specialisation of higher education institutions. A revised funding model for universities will be introduced in 2013.

The quality and effectiveness of universities of applied sciences will be improved by reforming their funding and administration. The universities of applied sciences will be made independent legal persons and responsibility for their basic funding will be transferred completely to the central government. Starting places at universities of applied sciences will be channelled to meet future labour needs by reducing the supply of education from 2013 by a total of 2030 starting places. The reduction will be directed particularly at the cultural sector, but also at the tourism, catering and domestic services sector as well as the technology and transport sector. Regionally, the reduction of age classes entering education will be taken into account in the reductions.

The starting of studies in higher education institutions will be accelerated by reforming student selection. At the same time, the capacity of higher education institutions to respond flexibly to changes in science, working life and society will be reinforced. New statutes will come into force from the beginning of 2014. The changes will clarify higher education institutions' educational responsibilities, safeguard education and skills needs, and facilitate the formation of larger educational entities.

The student financial aid system, which consists of direct financial aid to students and study loans, will be reformed from the beginning of 2014. The objective of the reform is to shorten study times and increase the incentivisation factor in financial aid to students. In 2012 financial aid to students in upper secondary education will be reformed and the need to change the student financial aid system in other ways explored.

The Government has already decided to index-link financial aid to students from 1 September 2014. The prerequisites for raising the level of financial aid to students will be reviewed from the beginning of 2014.

Early school-leavers among 18–24 year-olds at most 8%

From the beginning of 2013, every young person will be given the social guarantee, on the basis of which every young person who has completed basic education will receive a place of study in upper secondary school education, vocational education, apprenticeship training, a workshop or in rehabilitation.

In 2012–2015 the Lukuinto literacy programme will be prepared with the objective of boosting the diverse reading and writing skills of children and young people. Problems experienced by children and young people will be prevented through a number of programmes supporting exercise and culture.

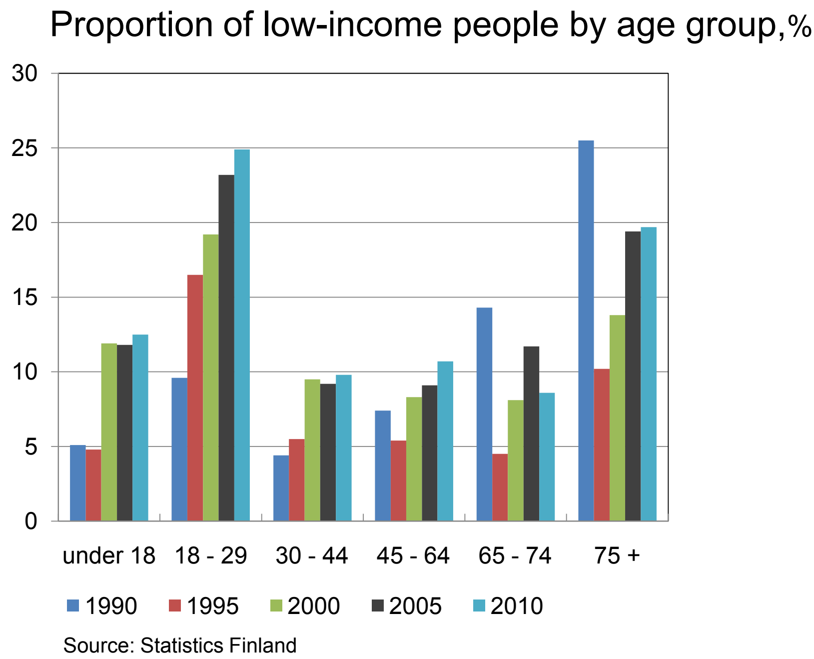
The inclusion of young people as well as early childhood education will be enhanced by means of the Child and Youth Policy Development Programme for 2012–2015, to which an annual EUR 3.5 million has been allocated. In 2014 student bodies will be put on a permanent statutory basis in all elementary schools, and opportunities for upper secondary education students to exert an influence will be enhanced.

5.5. Reducing the number of people at risk of poverty and social exclusion by 150,000

In June 2010, the European Council agreed that the group of people at risk of poverty and social exclusion should be assessed on the basis of three indicators, namely relative risk of poverty, material deprivation and the under-employment of working age members of households. Excluded from the calculation relating to under-employment are 18–24 year-old students who live in households consisting of one or more students.

When all of the indicators decided in the European Council are taken into account, risk of poverty or social exclusion affects a total of around 900,000 people in Finland. The quantitative target of the Europe 2020 Strategy will be achieved in Finland if the number of people at risk of poverty or social exclusion can be reduced by around 150,000 people. The target will be achieved through employment measures with respect to 50,000 people.

Reducing the number of people living at risk of poverty or social exclusion will require correctly targeted measures. The number of low-income children in particular has increased worryingly since the recession of the early 1990s. In 1995 there were just under 60,000 of such children and in 2010 this figure had risen to 135,000. The number of low-income pensioners has remained quite steady during the last ten years. In recent years, poverty has increased particularly in the metropolitan regions and has been concentrated within them in certain areas.



In Finland, around 100,000 students are also classified within the group of people living at risk of poverty or social exclusion, which accordingly increases the proportion of young people in this group. The low-income status of these students is generally temporary, however. Income consists mainly of public and private income transfers. Subsidised housing, free education and study loans are not included as income. Statistically, students in part-time work in Finland are classified as employed, which increases the group of low-income people in employment. Students' post-education employment opportunities and income expectations are, however, better than those who are uneducated.

The group of people living at risk of poverty or social exclusion includes around 300,000 under-employed people, of whom only 180,000 are simultaneously classed as low-income. Around half of the under-employed belong to a group that are either not low income or are not easy to employ. This group includes around 100,000 people on disability pensions, around 30,000 students or military conscripts, and around 20,000 on family leave, who are caring for their children.

Reducing poverty, inequality and social exclusion is one of the Government spearhead projects. Problems will be addressed with a cross-administrative reform programme, which will be prepared under the leadership of a ministerial working group.

According to the 2012 National Social Report prepared for the EU, the relative proportion of people living at risk of poverty and social exclusion has fallen slightly after 2008. At the same time, however, unemployment has grown and income and health differences have increased. According to the social report, measures should be directed at supporting low-income households, preventing social exclusion of young people, employing people with partial work ability, reducing the take-up of disability pensions, improving wellbeing and the availability of services, and narrowing health differences.

At the beginning of 2012, the National Development Programme for Social Welfare and Health Care (KASTE II) was launched. The programme will be allocated EUR 17.5 million annually up to 2015. Its objectives include narrowing wellbeing and health differences and placing social welfare and health care structures and services on a more customer-oriented basis. The programme's objectives have been subdivided into partial objectives and concrete measures. The goal is for the Government to give a proposal for a legislation on services for older people in autumn 2012, in which case the legislation would come into force at the beginning of 2013. A further goal is to expand family centre activities, increase home care services and develop low-threshold services. A report on the overhaul of social welfare legislation will be completed in summer 2012.

Inequalities between residential areas will be reduced through a number of programmes launched by the Government: 1) a housing policy reform programme completed at the beginning of 2012, 2) a development programme on housing for the elderly, 3) a long-term homelessness reduction programme and related letters of intent for 2012–2015 made with cities, 4) a metropolitan area partnership programme with central government, cities and key actors, 5) a cross-administrative programme promoting the vitality of communities, including local and everyday exercise.

The position of immigrants will be improved through education pilot projects to be implemented in different parts of the country. The objective of these is to find means by which education and training of adult immigrants can be increased and early childhood education and basic education of children supported. The intention is to utilise the results of the trials in the preparation of future activities. Around EUR 3 million has been allocated to these trials in 2012.

Finland's first Roma policy programme was completed in 2009. The implementation of the programme is led by a cooperation group in which different ministries, municipalities and Roma organisations are represented. Around half of the members are people with a Roma background. The cooperation group will coordinate the programme, provide expert support, attend to the collection of data and programme monitoring, and prepare the first monitoring report in 2013.

6 Linking Structural Fund measures more closely to the implementation of the Europe 2020 Strategy

The appropriations used in the EU's Regional and Structural Policy are a significant instrument in achieving targets in accordance with the Europe 2020 Strategy. In the current period, more than one third of the EU's entire budget will be used in the Regional and Structural Policy.

Finland's Structural Fund programmes will implement the targets of the Europe 2020 Strategy such that smart growth will be emphasised in European Regional Development Fund (ERDF) programmes and inclusive growth in the European Social Fund (ESF) programmes. In the Structural Fund period launched from the beginning of 2014, the EU's Regional and Structural Policy will be linked more closely to activities in accordance with Europe 2020 Strategy targets.

In the use of EU Structural Fund resources in future, the emphasis will be on their permanent business policy effectiveness, growth and employment perspectives, and developing the economic structure and operating conditions of regions in a sustainable way. ERDF project financing will be channelled more strongly into the generation of new sources of livelihood, enhanced employment, growth-oriented entrepreneurial activity, and the reduction of emissions. The areas of priority for the ESF include the employment of people in the most difficult labour market position and the development of labour force skills. The ESF funds will also used to promote the employment and integration of immigrants.

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MINISTRY OF FINANCE
Snellmaninkatu 1 A
PO BOX 28, 00023 Government
Tel. +358 295 5 30001
Fax 09 160 33123
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