



MINISTRY OF FINANCE

# Budget review

## 2008

September 2007





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**MINISTRY OF FINANCE**

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## Strong economic growth continues

Strong growth has continued in both the Finnish and the global economy for an exceptionally long period. In Finland, total output is estimated to grow by 4.4 per cent this year, and in 2008 growth is expected to slow down to 3.3 per cent. Despite the current favourable outlook, there is a degree of uncertainty in the Finnish economy caused by the large fluctuations in electronics industry production, together with resource constraints. Cost and price pressures have increased and there is a threat of industry's price competitiveness starting to weaken. Employment will continue to improve considerably this year and the employment rate is expected to reach 70 per cent. In 2008, employment will continue to improve, but the rate of improvement will slow down. Labour bottlenecks are becoming more common in certain sectors, and this will increasingly restrict growth in output in the future.

The rapid economic growth and good employment situation have improved the financial position of general government finances substantially this and last year. The surplus of general government finances is settling at 4.4 per cent of GDP this year. In 2008, the general government surplus is expected to shrink slightly, particularly as a result of faster growth in central government expenditure. General government comprises not only central and local government but also the employment pension sector, which is showing a substantial surplus, and other social security funds. The surplus on central government finances is estimated at some 1.4 per cent of GDP this year in terms of national accounting, and next year the surplus is expected to shrink to 0.9 per cent.

### TRENDS IN THE NATIONAL ECONOMY

	2004	2005	2006*	2007**	2008**
GDP at market prices (euro bn)	152.3	157.2	167.1	179.0	190.0
GDP, change in volume (%)	3.7	2.9	5.0	4.4	3.3
Unemployment rate (%)	8.8	8.4	7.7	6.7	6.3
Employment rate (%)	67.2	68.0	68.9	70.1	70.5
Consumer price index (%)	0.2	0.9	1.6	2.4	2.4
Interest rate (10 year bonds) (%)	4.1	3.4	3.8	4.5	4.7

On the whole, next year's fiscal policy will support total demand and growth. General government investment is also increasing substantially and the purchasing power of households is increasing as a result of the joint result of wage increases, improving employment and income tax outcomes. The contract authorizations for, and the financing of traffic projects have been adjusted since their cost estimates have risen substantially.

The aim is to implement all major tax reductions and expenditure increases towards the end of the Government period so as not to endanger the general economic trend. The VAT rate on food will be reduced as of 1 October 2009. The Government will carry out an interim review of reductions in income tax halfway through the election period, taking into account the joint impact of wage and tax solutions on purchasing power and efforts to increase incentive to work with tax reductions.

## GENERAL GOVERNMENT FINANCES

key figures measured in terms of national accounting

	2004	2005	2006*	2007**	2008**
Taxes and social contributions, % of GDP	43.4	43.9	43.3	42.7	42.2
General government expenditure, % of GDP	50.2	50.5	48.8	47.5	47.4
Net lending, % GDP	2.1	2.5	3.7	4.4	3.8
— central government	0.4	0.4	0.8	1.4	0.9
— local government	-0.8	-0.6	-0.2	-0.1	0.0
— employment pension schemes	2.7	2.8	2.9	2.8	2.8
— other social security funds	-0.2	0.0	0.2	0.3	0.1
General government debt, euro bn	67.3	65.1	65.5	64.6	62.9
— % of GDP	44.1	41.4	39.2	36.1	33.1
Central government debt, euro bn	63.8	60.0	58.9	57.5	55.7
— % of GDP	41.9	38.2	35.3	32.1	29.3

**FISCAL POLICY OUTLINE IN THE GOVERNMENT PROGRAMME****April 2007**

- To safeguard sustainability in public finances, the Government is committed to the policies designed to bolster public finances as set out in Finland's Stability Programme. The aim is that by implementing structural reforms to boost employment, a structural surplus corresponding to one per cent of GDP can be achieved by the end of the parliamentary term.
- To ease the pressure on public finances caused by the ageing of the population, the Government will help improve the capacity of the economy and ensure sound spending and tax policies.
- The Government's key means for curbing growth in public expenditure consists of a project to restructure municipalities and services and the Government productivity programme, which the Government will proceed.
- Increases in expenditure and reductions in taxes will be timed so that stable economic performance is not jeopardised and the target surplus can be achieved.
- The Government declares that the central government finances must never show a deficit of more than 2.5 per cent of GDP even in a weak economy.
- The Government will pursue the system of spending limits and will further hone it. The Government is committed to ensuring that all central government expenditure that falls within the scope of the spending limits is by 2011 at most only 1.3 billion greater than the sum for central government expenditure set in the spending limits on 8 March 2007
- The Government is committed to observing the spending rules it has set and the first spending limits decision of 25 May 2007 for 2008-2011 based on them. Measures entered in the government programme will be implemented insofar as it is possible within the parameters of the spending limits decision.
  - Expenditure excluded from the spending limits is primarily expenditure fluctuating on a cyclical basis, with the exception of the impacts of changes to the expenditure bases, interest on central government debt and certain expenditure limiting of which by spending limits is not reasonable from the fiscal policy point of view.
  - Supplementary budget proposals are included in the spending limits.
  - A fixed annual provision of EUR 300 million of the total spending limits will be reserved for supplementary budget proposals. An additional EUR 200 million will be set aside from the spending limits for the Government to allocate in connection with its first spending limits decision or at a later date.
  - If the annual revenue from the sale of shares exceeds EUR 400 million, a maximum of 25 per cent but not more than EUR 150 million of the excess may be used for one-off expenditure without reference to the spending limits to boost expertise, innovation and economic growth, unless other reasons exist for not doing so.
  - If total annual expenditure falls below that specified in the spending limits even after supplementary budgets, the surplus, to a maximum of EUR 100 million, may be used for one-off expenditure in the following year without reference to the spending limits.

## Government inputs in promoting expertise and more efficient measures to support employment

From the point of view of the sustainability of public finances, it is necessary to raise the employment rate. The labour market is tightening, however, and new measures increasing the labour supply are needed in order to maintain economic growth. Greater professional and regional mobility is required for avoiding bottlenecks in the demand for and supply of labour.

Expertise is promoted in many ways in the budget proposal. The basic funding for universities will be increased by EUR 20 million and EUR 7 million will be allocated to structural development of universities. In order to support lifelong learning, it is proposed that vocational upper secondary education and training be expanded next year by 2,000 students and further apprenticeship training by 2,100 students. In education, the computed savings of some EUR 18 million resulting from smaller age groups will be allocated to improving the quality of education and training, with the aim of e.g. reducing the size of teaching groups and strengthening remedial teaching and special needs education.

The Government Programme has reserved EUR 50 million for the expansion of low-pay subsidy to cover young and disabled people. EUR 30.5 million of this will be used to improve the conditions to employ young people in danger of becoming excluded, EUR 18 million will be allocated to promoting the employment of disabled people and EUR 1.5 million will be used to expand further apprenticeship training. In addition, regulations concerning labour market support will be changed in a way that it can be granted as a wage subsidy to the companies in order to employ a young unemployed person already after three months period of unemployment instead of current six months.

The authorization for supporting companies' investment and development projects will be EUR 37 million. EUR 12 million of this will be reserved to alleviate disturbances caused by structural changes in the economy and EUR 10 million for implementing experimental support for lone entrepreneurs. The experiment involving start-up grants for new enterprises will be made permanent.

Appropriations for active labour policy measures will be redirected so that they will better support placement of the unemployed on the open labour market. Appropriations will also be targeted at more efficient measures for promoting employment, such as vocational labour market training and subsidized employment in the private sector. Workshop activities for young people will be supported and an additional appropriation will be made for developing adult education.

Labour mobility is promoted with a new deduction of a maximum of EUR 250 per working month for second homes rented for work purposes.

## Social welfare benefits raised

The Budget appropriations total EUR 43.1 billion, of which EUR 2.4 billion will be interest on the central government debt interest payments. The appropriations for the administrative branches, eliminating the impact of structural changes, will increase 3.7 per cent on the 2007 Budget in real terms. Appropriations will increase by a total of EUR 2.6 billion, of which EUR 1.6 billion is incurred through decisions made by the previous Government.

The 2008 Budget aims to alleviate the position of people with low incomes. An additional appropriation of EUR 10 million will be allocated for the rehabilitation of war invalids and veterans. An increase of EUR 20 will be made in the level of national old age pension. The increase in child allowance for single parents will rise by EUR 10 per calendar month and per child, i.e. from the current EUR 36.60 to EUR 46.60. Study grants will rise by 15 per cent at all educational levels as of the beginning of September 2008, and students' own income limits will be raised by 30 per cent. In addition, the sickness insurance compensation level for dentists' fees will be raised to 40 per cent of the basis for compensation.

### ON-BUDGET ENTITIES' EXPENDITURE BY ADMINISTRATIVE BRANCH, EUR BN

	2006 Final	2007 Budgeted	2008 Proposal
Parliament, President and Prime Minister's Office	0.2	0.2	0.2
Ministry for Foreign Affairs	0.9	1.0	1.1
Ministry of Justice	0.7	0.7	0.7
Ministry of the Interior	1.0	1.0	1.1
Ministry of Defence	2.3	2.2	2.4
Ministry of Finance	6.1	6.6	6.7
Ministry of Education	6.4	6.6	6.9
Ministry of Agriculture and Forestry	2.8	2.7	2.8
Ministry of Transport and Communications	1.8	1.9	2.1
Ministry of Labour and Industry	2.1	2.3	2.4
Ministry of Social Affairs and Health	12.5	13.0	13.7
Ministry of the Environment	0.3	0.3	0.3
Debt interest payments	2.3	2.4	2.4
Debt redemption	1.5	1.3	2.0
<b>On-budget entities' expenditure in total</b>	<b>40.9</b>	<b>42.2</b>	<b>45.1</b>
<b>On-budget entities' expenditure in total, % of GDP</b>	<b>24.5</b>	<b>23.6</b>	<b>23.9</b>

**CERTAIN BENEFITS MONTHLY <sup>1)</sup> IN 2008**

<b>FULL NATIONAL PENSION</b> (municipality group I) From Jan 1, 2007 <sup>2)</sup>		€/month
- single		553.02
- married		490.52

<b>CHILD BENEFITS</b>		
1st child		100.00
2nd child		110.50
3rd child		131.00
4th child		151.50
5th child and each child thereafter		172.00
- single parent supplement per child		46.60

<b>SICKNESS INSURANCE DAILY ALLOWANCES</b>		
- minimum level for sickness, maternity, paternity and parental allowances		380.00

<b>CHILD HOME CARE ALLOWANCE</b>		
- allowance for the 1st child		294.28

<b>PRIVATE CHILD CARE ALLOWANCE</b>		
- allowance per child		137.33

<b>BASIC UNEMPLOYMENT SECURITY</b>		
- basic unemployment allowance		521.81
- labour market subsidy		521.81

**STUDY GRANTS, MAXIMUM AMOUNTS****Student grant<sup>3)</sup>***University students*

- not living at home, under 18		145.00
- not living at home, 18+		298.00

*Other students*

- not living at home, under 18		100.00
- not living at home, 18+		246.00

**Student housing supplement**

- 80% of established housing costs <sup>4)</sup>		201.60
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**State guarantee for study loans**

-University students		300.00
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1) Those benefits that are granted on daily basis are estimated on a monthly level.

2) Estimate.

3) Study grants as of 1 August 2008.

4) The allowance is not granted for the part of the monthly housing cost that exceeds EUR 252.

**THE AVERAGE EXPENSES OF CERTAIN PUBLIC SERVICES IN 2005****EDUCATION AND CULTURE**

	EUR	
- basic education	5 596	/pupil
- upper secondary education	5 077	/student
- vocational education	8 210	/student
- polytechnic education <sup>1)</sup>	6 555	/student
- university education <sup>1)</sup>	7 089	/student
- public libraries	2.4	/loan

**SOCIAL SERVICES <sup>2)</sup>**

- children's day care	44	/day
- old people's homes	89	/day

**HEALTH CARE SERVICES**

## Basic health care

- visit to health centre	85	/visit
- ward treatment	153	/day
- dental care	69	/visit

## Special medical treatment

- somatic special medical treatment	526	/day
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1) On the basis of full-time equivalent student concept in which those who have done more than 20 credits/year and first-year students are given a coefficient of 1, students continuing education and those who have done under 20 credits/year are given a coefficient of 0.5 and absent students a coefficient of 0.

2) Net costs.

**Sources:** National Board of Education, Ministry of Education, Stakes and Statistics Finland

## Tax solutions take the cyclical situation into account

Income tax will be reduced by EUR 330 million through raising the earned income allowance in municipal taxation and by relaxing the income tax scale. Apart from this, a two per cent inflation adjustment will be made to the income tax scale, which will reduce the state tax revenue by EUR 170 million. The reductions will affect all income brackets equally.

Tax on pension income will be reduced. In some cases, taxation on pension income has been tighter than taxation on earned income. The difference will be eliminated by raising the pension income allowance in state taxation, which is expected to reduce tax revenue by some EUR 200 million.

The lower limit of taxable inheritance will be raised from EUR 3,400 to EUR 20,000 as of the beginning of 2008. The deduction for spouses will be raised from EUR 6,800 to EUR 60,000, and that for underage heirs from EUR 3,400 to EUR 40,000, and the tax scale and brackets will be adjusted.

Excise duty on alcoholic beverages will be raised in order to reduce adverse health effects. The taxation of strong alcoholic beverages will be raised by 15 per cent and that of mild ones by 10 per cent, which will increase tax revenue by EUR 40 million.

In order to save energy and improve energy efficiency, energy tax will be raised by EUR 300 million, with the emphasis of the increases on the sector outside emissions trading.

### EXCISE DUTIES ON CERTAIN ALCOHOLIC BEVERAGES, CURRENT STATUS AND GOVERNMENT PROPOSAL, EUR

	2007	2008 Government proposal
Beer (4.5% by volume, 0.33 l)	0.29	0.32
Cider (4.5% by volume, 0.33 l)	0.34	0.37
Wine (11% by volume, 0.75 l)	1.59	1.75
Fortified wine (21% by volume, 0.75 l)	3.18	3.50
Spirits (40% by volume, 0.7 l)	7.91	9.10

**EXCISE DUTIES ON ELECTRICITY AND CERTAIN ENERGY PRODUCTS, CURRENT STATUS AND GOVERNMENT PROPOSAL**

	unit	2007	2008 Government proposal
Petrol	cents/litre	58.76	62.70
Diesel oil	cents/litre	31.94	36.40
Light fuel oil	cents/litre	7.06	8.70
Heavy fuel oil	cents/kg	5.96	6.70
Electricity			
- category I (other than industry)	cents/kWh	0.743	0,883
- category (industry)	cents/kWh	0.233	0.263
Coal	EUR/tonne	44.70	50.50
Natural gas	cents/nm3	1.904	2.104
Tall oil	cents/kg	5.68	6.40

**INHERITANCE TAX SCALE IN 2008 (Government proposal)**

Value of taxable proportion, EUR	Standard tax at lower limit, EUR	Tax % on excess
20,000 – 40,000	100	10
40,000 – 60,000	2 100	13
60,000 –	4 700	16

The above scale will apply to tax bracket I. In the second tax bracket the amount of inheritance tax will be double the amount in the scale.

**2008 INCOME TAX SCALE**

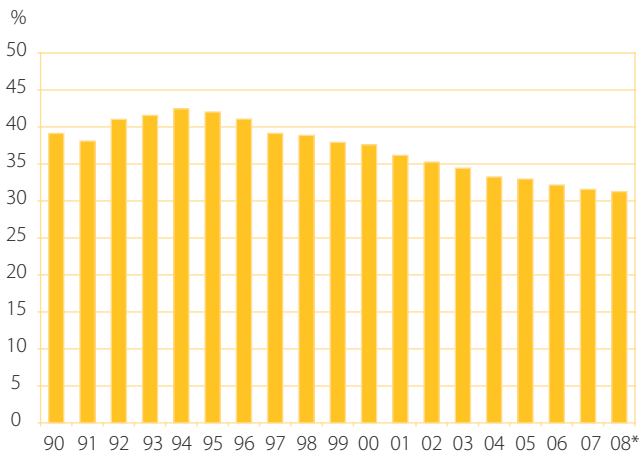
Taxable income, EUR	Tax at lower limit, EUR	Tax on excess, %
12,600 - 20,800	8	8.5
20,800 - 34,000	705	19.0
34,000 - 62,000	3 213	23.5
62,000 -	9 793	31.5

**Municipal income tax and social security contributions, on average 20 %**

**Tax rate on capital income 28 % and on corporate income 26 %**

**Income tax rate, %**

*At the average earnings level*

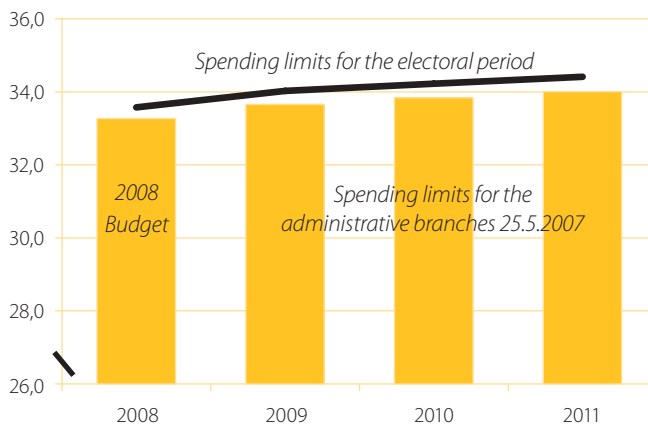


## Proposal in line with the spending limits for the electoral period

To safeguard a prudent long-term spending policy, the Government will pursue the system of spending limits. The spending limits procedure proved its feasibility in the previous electoral period and the basis for the spending rules in the new electoral period correspond with those of the previous spending limits. The division between expenditure falling within the spending limits and expenditure excluded from the limits has been made more expedient, and the flexibility of the system has been increased. In addition, a larger proportion of the overall limits, EUR 300 million annually, has been reserved for a supplementary budget.

The May 2007 spending limits decision was set in such a way that it implements the EUR 1.3 billion increase in spending at the level of year 2011, as agreed in the Government Programme. The 2008 spending limits level was decided at EUR 33.6 billion. The overall level of spending limits will be adjusted annually for changes in the price and cost levels and budget structure. For these reasons, the spending limits level has been raised by EUR 328 million in the preparation of the Budget 2008. The adjusted spending limits for 2008 thus come to EUR 33.9 billion. There will be an unallocated provision of EUR 247 million for unexpected appropriation needs in 2008 in addition to the annual provision of EUR 300 million for supplementary budget.

### Spending limits for the electoral period and expenditure within the limits, at the 2008 price level, EUR bn



Source: Ministry of Finance

## Strong economic growth increases central government revenue

Central government revenue in 2008 is estimated at EUR 45.1 billion, which is 8.4 per cent more than budgeted for the year 2007. If strong, broad-based economic growth continues, tax revenue will increase by 6.4 per cent.

Apart from tax revenues, other income will accrue in on-budget activities from the EU budget, sale of shares, dividend and interest income, profits from the Finnish National Lottery Ltd and the Slot Machine Association, and from transfers from off-budget activities and proceeds from unincorporated state enterprises. In 2008, dividend income is estimated at EUR 1.450 million. EUR 1.474 million will be transferred to the Budget from off-budget activities, and proceeds from unincorporated state enterprises to on-budget activities will be EUR 173 million.

### ON-BUDGET REVENUE AND EXPENDITURE, EUR BN

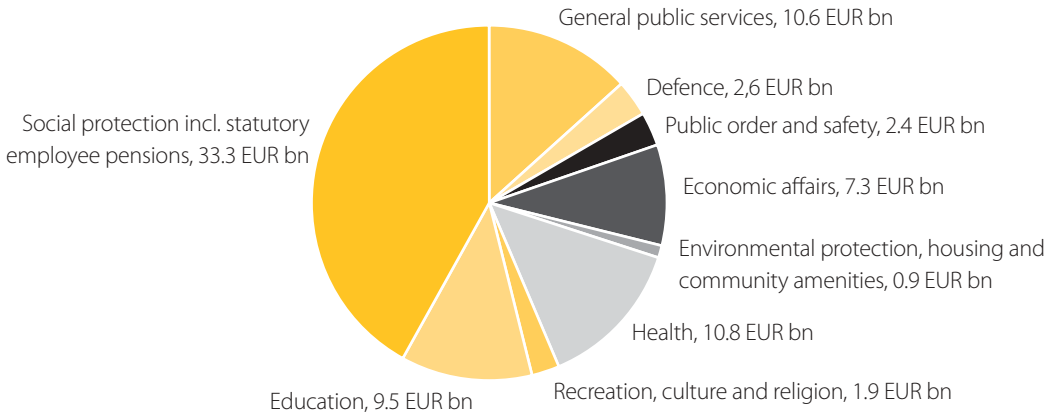
	2005 Final	2006 Final	2007 Budgeted	2008 Proposal
REVENUE				
Income tax <sup>1)</sup>	12.7	12.9	13.3	15.0
Other taxes	19.6	21.8	22.5	23.0
Other revenue	6.7	6.3	6.4	7.0
— of which privatisation proceeds	(1.5)	(1.2)	(0.4)	(0.4)
Total	39.0	41.0	42.2 <sup>2)</sup>	45.1
Net borrowing and debt servicing	-	-	-	-
<b>Total revenue</b>	<b>39.0</b>	<b>41.0</b>	<b>42.2</b>	<b>45.1</b>
EXPENDITURE				
Consumption and capital expenditure	12.9	13.1	13.4	14.0
Transfers	22.2	24.1	25.0	26.5
— of which to municipalities	(7.4)	(8.1)	(8.5)	(9.3)
Debt interest payments and other expenditure	2.3	2.3	2.4	2.6
Total	37.5	39.4	40.8	43.1
Net debt redemption and debt servicing	3.8	1.5	1.4	2.0
<b>Total expenditure</b>	<b>41.2</b>	<b>40.9</b>	<b>42.2</b>	<b>45.1</b>

1) Before 2007 income and wealth taxes.

2) Includes EUR 0.6 billion use of accumulated surplus.

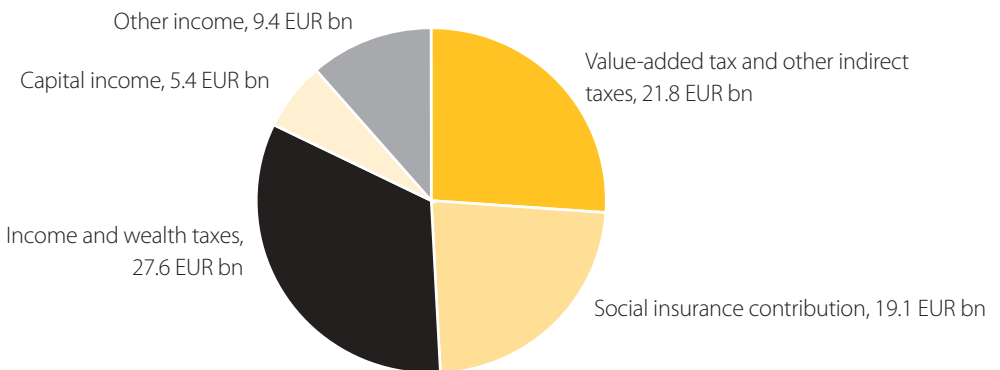
### What are taxeuros spent on?

General government expenditure in 2005, 79 EUR bn (50.5 % of GDP)



### Where do taxeuros come from?

General government revenue in 2005, 83 EUR bn (53,0 % of GDP)

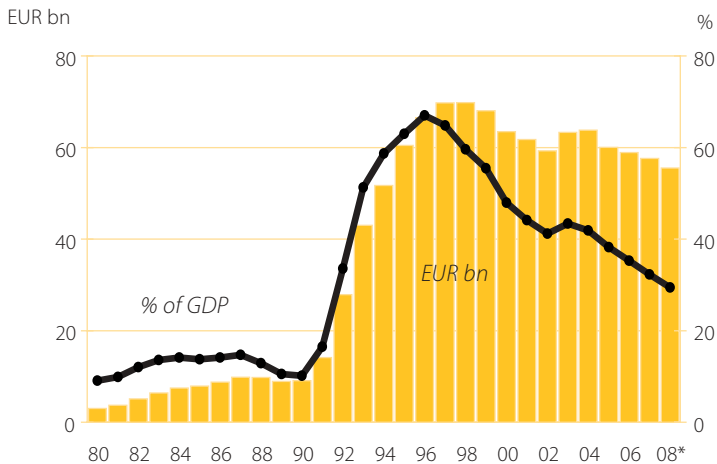


## Central government debt reduced

The Budget for 2008 shows a surplus of EUR 2.0 billion, which will be used for debt redemption. In future this will reduce debt interest payments by some EUR 100 million per year. Besides on-budget activities, central government finances cover eleven off-budget activities, the most significant of which are the National Housing Fund and the National Pensions Fund. In 2008, off-budget activities are expected to show a surplus of EUR 1.1 billion.

At the end of 2008, the central government debt is expected to be EUR 55.7 billion. The debt to GDP ratio will go down to about 29 per cent. The low interest rate level have reduced central government debt interest payments until current year. In 2008 as a result of a general increase in interest level interest payments are expected to rise by EUR 74 million in spite of debt redemption. The proportion of interest payments still account for close on 6 per cent of the Budget total.

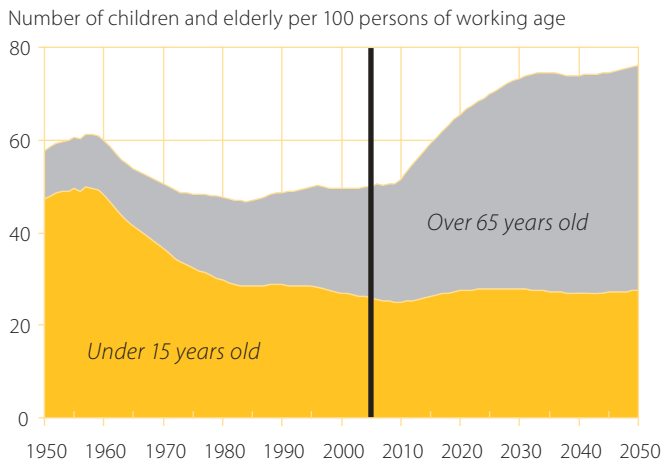
### Central government debt



## Productivity measures continue in preparing for change in population age structure

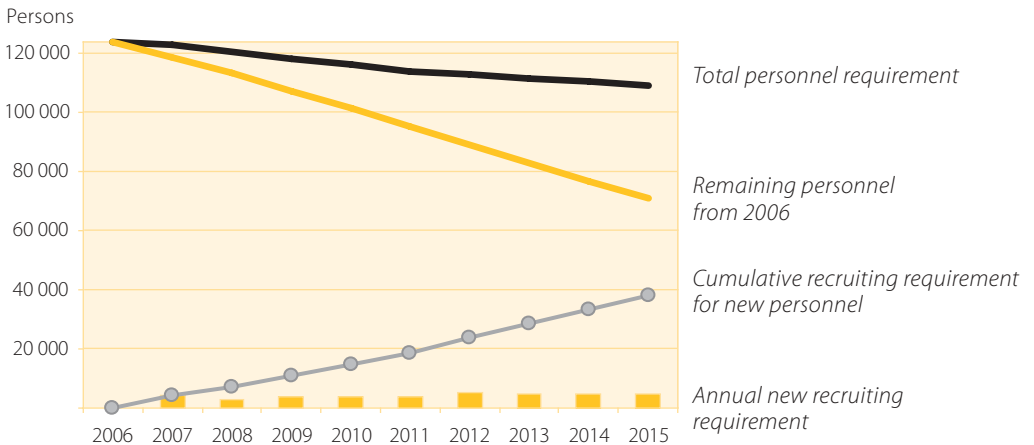
The population in Finland is aging faster than that in any other EU Member State. The working-age population will start to decline already in 2010, and at the same time, the number of senior citizens will increase radically. This is not caused by the retiring baby-boom generation alone but also by increasing longevity. By 2040, the working-age population is expected to have diminished by 230,000 and the number of those over 65 years of age to have increased by 670,000. A response to the challenge posed by this to general government finances has been launched through strict fiscal policy by reducing indebtedness and interest payments, setting up employee pension funds and by improving sustainable financing through pension reforms. Apart from these, a significant role will be played by the restructuring of the service structure and the Productivity Programme, which are also geared to slow down increases in the expenditure on welfare services.

### Demographic dependency ratio 1950-2050



Source: Statistics Finland

### Demand for and supply of central government personnel



Safeguarding the balance of general government finances as the age structure changes will require not only an improvement in employment and cost discipline but also an improvement in the productivity of public services and administration. Better productivity is also essential in order to guarantee growth opportunities for the whole national economy. Without efficiency measures, more than fifty per cent of the age groups reaching working age would have to be hired by general government in the 2020s and 2030s.

The Government will continue measures to improve productivity in general government. Productivity in central government will be improved in all administrative branches with the aim of curbing expenditure increases permanently and increasing the potential for reallocation of resources, reducing the need for personnel and improving labour competitiveness.

The central government spending limits decision for 2008-2011 confirmed the impact of productivity-improving measures on reducing the need for personnel throughout central government by 2011. The target is for the need for labour to come down by 9,645 person work years by 2011.

In accordance with the Government Programme, preparation for new measures will start without delay in parallel with the implementation of decisions on productivity measures already made. The Government will decide on further measures in connection with the spring 2008 spending limits. The Government aims at improving productivity with the new measures so that the number of personnel will continue

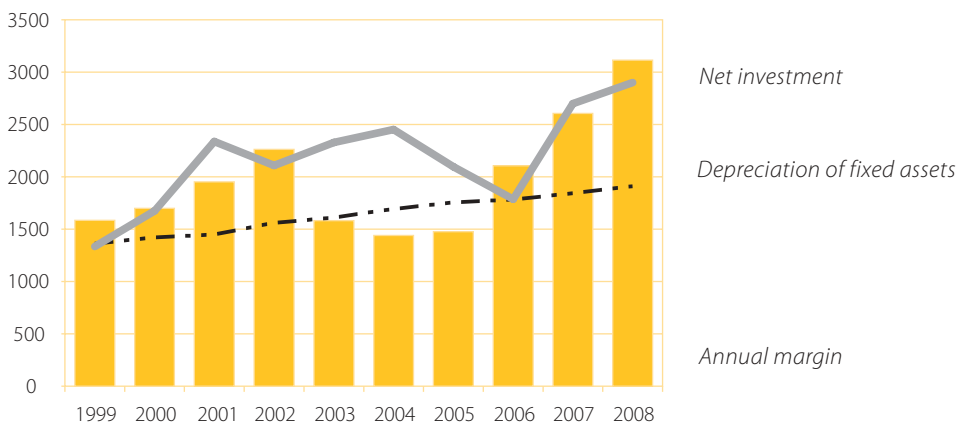
to fall by a further 4,800 person work years. The new measures will have particular impact on the productivity trend in the latter years of the spending limits period. In addition, their impact will extend to the years following 2011, when the increase in the retirement of personnel as a result of the changing age structure accelerates.

In accordance with previous decisions, a decision has been made to set up five financial and personnel administration service centres to the state administration. Reliance on service centres will make it possible to increase the productivity and efficiency of the tasks in financial and personnel administration considerably, develop the quality of operations and reduce the personnel resources in production of the services. A total of EUR 10 million has been reserved for financing information systems and information technology projects improving productivity and EUR 11.5 million for other information management investments in promoting productivity.

## Basic services safeguarded through restructuring local government and services

Municipalities provide basic services for their inhabitants, the most important of which relate to education and social affairs and health care. These services are financed primarily by local government tax revenue consisting of municipal income tax and real estate tax and a proportion of the corporate income tax revenue. The tax revenue of municipalities total some EUR 17.3 billion. Central government will finance local government basic services with transfers totalling EUR 8.4 billion in 2008. State subsidies to local government are determined mainly on a computational basis and, as local government revenue, governed by the principle of universality, which means that the municipality may use its discretion in applying them. The balance and predictability of financing for the tasks and obligations of local government will be improved by a basic services programme between central and local government and by a related annual basic services budget which is part of the central government spending limits and budget procedure. The measures included in the budget proposal are expected to improve the municipalities' overall financing situation by a net amount of EUR 221 million compared with 2007.

**Municipalities' annual margin, depreciation and investments 1999-2008, EUR million**



The tax revenue of municipalities will continue to grow at a rapid rate in 2008, as strong economic growth is expected to continue and the rise in the level of earnings will increase the tax base. At the same time, central government transfers to local government will increase substantially as the distribution of expenditure between central and local government is revised and index increases are implemented. Local government finances as a whole will be in balance in spite of the fact that expenditure increases are expected to accelerate and approach 6 per cent, but the situation in individual municipalities will vary considerably.

Despite the current favourable economic outlook, the structural reforms relating to the restructuring of local government and services continue to be necessary as we are preparing for the aging of the population and for the increasing need for basic services. Apart from cost pressures, the sustainability of local government financing is threatened by a permanent weakening of the tax base caused by a shrinking supply of labour. In addition, there is reason to prepare for potential weakening of the economic cycle, in which case tax revenue may even start diminishing instead of growing steadily. Municipalities and joint municipal boards should utilize the favourable economic cycle and the simultaneous increase in central government transfers by preparing for future threats through reducing debt and restructuring services.

Restructuring of local government and services will take place in accordance with the framework act that came into force in spring 2007. The structure of local government will be strengthened by merging municipalities and parts of municipalities with other municipalities with the aim of achieving vigorous, functional and united local government structures. Municipal mergers are supported with merger support encouraging municipalities to enter multiple mergers and form municipalities that are substantially bigger than current ones. Apart from municipal mergers, service

### **Local government finance terminology**

**ANNUAL MARGIN** is the difference between local government revenues (taxes, payments/fees and central government transfers) and running expenditure.

**DEPRECIATION** on fixed assets represents the average annual replacement investment requirement.

**NET INVESTMENT** means the cost of investments obtained by deducting the financing received from the acquisition cost of fixed assets.

structures will be strengthened by combining services requiring population bases larger than a single municipality and by increasing local government cooperation. The aim is to safeguard high quality services accessible to all citizens throughout the country. The restructuring of local government and services aims at improving productivity, curbing growth in expenditure and creating conditions for developing the management of services provided by municipalities.

# Selections from the 2008 budget

## Revenues

- Taxation on earned income will be reduced by some EUR 330 million, including compensation for an increase of 0.1 percentage points in the employee's employment pension contribution. Additionally, a 2 per cent adjustment will be made in the state income tax scale for inflation.
- A new deduction for costs incurred through second home obtained for work purposes will be adopted in order to promote labour mobility. This is expected to reduce tax revenue by EUR 30 million annually.
- The pension income allowance will be raised in state taxation. This will reduce tax revenue by EUR 200 million.
- The lower limit of taxable inheritance will be raised from EUR 3,400 to EUR 20,000. In addition, the position of spouses and underage heirs will be improved and the tax scale and brackets will be adjusted. These changes will reduce tax revenue by an estimated annual sum of EUR 165 million, although the impact in 2008 is not expected to exceed EUR 25 million.
- The maximum amount of deduction on donations to corporations for promoting science, art and Finnish cultural heritage will be raised to EUR 250,000 a year, if the donation is made to a university or other higher education institution in the EEA area and to EUR 50,000 if the donation is made to an association or foundation specified by name.
- Alcohol tax will be raised by an average of 10.5 per cent, with emphasis on strong alcoholic beverages so that tax on strong beverages will be raised by 15 per cent and that on other alcoholic beverages by 10 per cent. The change is expected to increase tax revenue by EUR 40 million.
- Energy tax will be raised, causing an increase of about EUR 300 million in tax revenue. The rise will be targeted at all energy products with an emphasis on the sector outside emissions trading.

## Expenditure

- Development cooperation appropriations total EUR 830 million, an estimated 0.44 per cent of GDI.
- Appropriations for the prison service will increase by EUR 6.6 million, operating expense appropriations for the court system by EUR 5 million and appropriations for prosecution services by EUR 2.5 million.

- The functional reliability and speed of emergency response centres will be safeguarded by increasing emergency centre personnel temporarily by 40 person work years.
- EUR 12 million will be used to promote information network security in general government. Revenue from the sale of government property will be used for financing.
- A total of EUR 1.4 billion will be allocated to the operating expenses of the Defence Forces and EUR 669 million to procurement of defence material, reflecting increases of EUR 54.5 million and EUR 89 on 2007, respectively.
- A total of EUR 105 million will be allocated to military crisis management in the administrative branches of the Ministry for Foreign Affairs and Ministry of Defence and EUR 14 million to civil crisis management.
- Study grants will be raised by 15 per cent at all educational levels at the beginning of the autumn 2008 term, and the students' own income limits will be raised by 30 per cent as of the beginning of 2008. This will cause an increase of EUR 38 million in the appropriations.
- Basic financing for universities will increase by EUR 20 million and EUR 7 million will be allocated to structural development of universities..
- The authorization of the Academy of Finland to grant money for research will increase by EUR 20.3 million, the authorization of the National Technology Agency Tekes by EUR 17.5 million and Tekes's project appropriation by EUR 3.5 million.
- EUR 23 million will be transferred from the Budget to the Development Fund of Agriculture and Forestry.
- The holidays of agricultural entrepreneurs will increase by one, an increase of EUR 4.7 million in central government expenditure.
- EUR 525 million will be allocated to basic road maintenance and EUR 328 million will be allocated for basic rail track maintenance.
- As new traffic projects, a truckers' parking area costing EUR 24 million will be established in Vaalimaa and basic track maintenance will be carried out on the railway between Huutokoski and Savonlinna.
- In 2008, EUR 44 million will be allocated to support for municipal mergers and EUR 20 million to discretionary financing for municipalities.
- The loss of municipal tax revenues of EUR 119 million will be compensated by raising the central government transfer percentages in social and health care services.

- An additional appropriation has been allocated for the rehabilitation of war invalids and veterans to ensure that all those who wish to will have access to rehabilitation. The content of rehabilitation will also be revised and the status of spouses and widows of war veterans improved. EUR 10 million will be allocated for this measure in 2008.
- The increase of child allowance for single parents will rise by EUR 10 a month as of January 1, 2008. The reform will cause an annual increase of EUR 18.8 million in expenditure.
- The national pension level will be raised by EUR 20 at the beginning of 2008. The annual cost impact is EUR 154 million.
- The compensation from sickness insurance of dentist's fees will rise to 40 per cent of the compensation basis, an increase of EUR 13 million in central government expenditure.
- Central government transfers to local government in social and health care services will increase by EUR 21.3 million, and the increase will be used for purposes such as improvement of basic health care and personnel increases in services for the aged.
- The increase in central government transfers relating to the new Child Welfare Act is EUR 6.8 million and the increase relating to the decree on breast cancer screening is EUR 0.5 million.
- Distinction between outpatient and institutional care will be eliminated. The elimination of the distinction means that national old age pension will be paid unreduced to those in institutional care and that the charge for long-term care of pensioners will be raised to 82 per cent of income.
- A reform bringing customer fees up to date in social and health care services will be implemented so that the fees will be reviewed as of 1 August 2008. The rises will cause an increase of EUR 25 million in municipal revenues from these fees in 2008 compared with 2007 and of a further EUR 60 million in 2009. Central government transfers to local government will be reduced correspondingly.
- EUR 24.8 million is proposed as government aid for local government social and health care projects. This item will finance, the development of psychiatric care for children and young people for instance. The focus areas of projects to be supported with government aid will be defined in the National Development Programme for social and health care services.

- A new process for reviewing the expenditure division between central and local government will increase government transfers in social and health care services by EUR 226 million and by EUR 26 million in education and culture, totalling EUR 252 altogether, of which municipalities and joint municipal boards account for EUR 246 million.
- In addition to energy tax solutions, EUR 44 million will be reserved for climate policy measures.
- A pilot project worth EUR 2 million to boost water protection will be launched in order to reduce nutrient loads transmitted to the Baltic, and to the Archipelago Sea in particular.
- Support for renovation to accelerate changeover to new heating systems in single-family houses and investments in the energy economy of terraced houses and apartment buildings will increase by EUR 10 million.
- Aid for building housing for groups with special needs will increase by EUR 15 million.

