



MINISTRY OF FINANCE



# Budget review 2010

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**MINISTRY OF FINANCE**

Snellmaninkatu 1 A, Helsinki  
PO Box 28, FI-00023 Government  
FINLAND

**Tel.** +358 9 160 01 or +358 9 578 11 (exchange)

**Fax** +358 9 160 33123

**Official e-mail:** [valtiovarainministerio@vm.fi](mailto:valtiovarainministerio@vm.fi) (documents etc.)

**Media and Communications:** [vm-viestinta@vm.fi](mailto:vm-viestinta@vm.fi)

**Personal e-mail addresses:** [firstname.lastname@vm.fi](mailto:firstname.lastname@vm.fi)

**Internet:** [www.financeministry.fi](http://www.financeministry.fi)

**Orders:** Ministry of Finance/Budget Department, tel. +358 9 160 33103

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## Weakening of economic conditions will level off in 2010

The sharp decline in output that began in late 2008 and originated in the financial crisis is easing. In the global economy, signs of normalisation and cautious recovery are perceptible. In 2009, however, world trade contracts by around 10 per cent and the global economy by more than one per cent. The recovery of the global economy will be slow and it will be exacerbated by the worldwide nature of the crisis. The timing and strength of recovery will vary from country to country and area to area.

Finland, as an economy strongly dependent on exports, has suffered from the contraction of world trade. Exports decline in 2009 by an average of around a quarter from the previous year, less in the latter part of the year than at the beginning. Finland's total output is expected to fall by around 7½ per cent in 2009. The global economy is anticipated to start to recover slowly during 2010. Finnish output, too, will benefit from a recovery of exports, but total output will increase only slightly, by around ¾ per cent, due to the fall in investment.

In employment, a clear deterioration took place at the turn of 2009, and a further weakening will take place in 2010, when the unemployment rate is expected to be an average of around 10½ per cent. The rise in unemployment will cast a shadow over expectations for households and reduce domestic consumption. The rise in consumer prices has slowed rapidly during 2009. Alongside a fall in world market prices, this is explained in particular by a fall in house prices and interest rates on loans.

### Trends in the national economy

	2006	2007	2008*	2009**	2010**
GDP at market prices (euro bn)	167.0	179.7	184.7	173	176
GDP, change in volume (%)	4.9	4.2	1.0	-7½	¾
Unemployment rate (%)	7.7	6.9	6.4	8½	10½
Employment rate (%)	68.9	69.9	70.6	68	66
Consumer price index (%)	1.6	2.5	4.1	0	1
Interest rate (10 year bonds) (%)	3.8	4.3	4.3	4	4

Finland entered the recession from good fundamentals and with strong public finances. Besides central and local government, general government finances include the employment pension sector, which shows a substantial surplus, as well as other social security funds. General government finances continued to record a surplus of more than 4 per cent in relation to GDP in 2008, but due to the recession the central government deficit in particular pushed aggregate general government finances into deficit. The central government deficit is expected to be nearly 6 per cent in relation to GDP in 2010. Aggregate general government finances will deteriorate to a deficit of 3½ per cent. The deficit criterion of the European Union fiscal policy rules will therefore be exceeded for the first time during the euro era, i.e. since 1996.

### General government finances

*Key figures measured in terms of national accounting relative to GDP*

Forecast, December 2009

	2006	2007	2008*	2009**	2010**
<b>Taxes and social security contributions, % of GDP</b>	<b>43.4</b>	<b>42.9</b>	<b>43.0</b>	<b>42.7</b>	<b>42.2</b>
<b>General government expenditure, % of GDP</b>	<b>48.7</b>	<b>47.3</b>	<b>49.0</b>	<b>55.3</b>	<b>56.2</b>
<b>Net lending, % of GDP</b>	<b>3.9</b>	<b>5.2</b>	<b>4.4</b>	<b>-2.2</b>	<b>-3.6</b>
— central government	0.9	2.1	0.9	-4.5	-5.8
— local government	-0.3	-0.1	-0.2	-0.5	-0.4
— employment pension schemes	3.2	3.0	3.7	2.9	2.7
— other social security funds	0.2	0.3	0.1	-0.2	-0.2
<b>General government debt, of GDP</b>	<b>39.3</b>	<b>35.2</b>	<b>34.2</b>	<b>41.8</b>	<b>48.3</b>
<b>Central government debt, % of GDP</b>	<b>35.3</b>	<b>31.2</b>	<b>29.4</b>	<b>37.2</b>	<b>43.9</b>

## 2010 Budget to provide employment and tackle unemployment

The Government has reacted to the weakening economic development by launching an extensive package of measures in several stages, starting with the August 2008 budget session. The scale of the stimulus measures in terms of national accounts was 1.8 per cent in 2009 and 1.5 per cent in 2010 in relation to total output. The stimulus provided by the Finnish budget is one of the largest in the euro area. Moreover, taking into account the financial stimulus investments in 2009 and 2010, the estimated stimulus for 2009–2010 is just under 4½ per cent in relation to total output.

The 2010 Budget re-allocates around EUR 230 million in appropriations from important expenditure to still more important expenditure, namely to maintaining employment, tackling unemployment and alleviating the financial situation of local government. Moreover, the operating expenses of agencies will be lowered and the National Pension Fund liquidity requirement will be lowered on a one-off basis.

The 2010 Budget contains action for bringing forward investments and other measures aimed at achieving rapid employment impacts cost-effectively. The emphasis is on measures that support longer term economic growth while also promoting innovations, exploiting information technology and taking environmental and climate aspects into account. The package for bringing forward investments is divided into the 2009 second supplementary budget and the 2010 Budget. The measures are estimated to create more than 10,000 man working years and to generate projects totalling around EUR 1.7 billion in value, including contributions from local government and the private sector. The on-budget cost to the central government of these measures will be just under EUR 330 million over several years.

There will be investment in employment and training policy measures, and the number of places in vocational education will be increased. The objective is to mitigate long-term unemployment and social exclusion in particular among young people.

The employer's national pension contribution will be abolished from the beginning of 2010, which will reduce the employer costs of companies and local government. The abolition of the contribution will increase net central government spending by around EUR 0.8 billion in 2010. Local government finances will also be supported through a fixed-term change in the share of corporate tax revenue by nearly EUR 400 million on an annual basis in 2009–2011. In addition, central government transfers to local government will be increased by an extra EUR 30 million in 2010 and an ex post authorisation of nearly EUR 60 million is allocated to repair moisture- and mould-

<b>On-budget entities' expenditure by administrative branch, EUR bn</b>			
	<b>2008 Final</b>	<b>2009 Budgeted<sup>1)</sup></b>	<b>2010 Budget</b>
Parliament, President and Prime Minister's Office	0.5	0.2	0.2
Ministry for Foreign Affairs	1.1	1.2	1.2
Ministry of Justice	0.8	0.8	0.8
Ministry of the Interior	1.2	1.3	1.3
Ministry of Defence	2.5	2.8	2.7
Ministry of Finance	6.7	7.5	14.9
Ministry of Education	7.2	7.7	6.2
Ministry of Agriculture and Forestry	2.7	2.9	2.8
Ministry of Transport and Communications	2.2	2.3	2.2
Ministry of Employment and the Economy	2.3	3.2	4.2
Ministry of Social Affairs and Health	13.9	15.8	11.5
Ministry of the Environment	0.3	0.4	0.3
Debt interest payments	2.3	1.9	2.1
Debt redemption	1.4		
<b>On-budget entities' expenditure in total</b>	<b>44.9</b>	<b>48.0</b>	<b>50.5</b>
<b>On-budget entities' expenditure in total, % of GDP</b>	<b>24.3</b>	<b>27.8</b>	<b>28.7</b>

<sup>1)</sup> Incl. second supplementary budget for 2009.

damaged school buildings, health centres, day-care centres and homes for the elderly. Overall, the fiscal policy measures in 2010 will support overall demand and growth.

### **Investment in employment and training policy**

The Budget includes a package of measures aimed at boosting employment and training to improve employability in the present exceptionally difficult financial situation. Measures will be directed at, for example, young people's vocational education and the employment of new graduates as well as skills development of the adult population through vocational further training via a college course or apprenticeship. Those laid off and made unemployed in the house building sector will be offered transitional training in renovation construction. The cost of the package of measures will be EUR 70 million in 2010 and as a result the number of training places will grow by more than 3,000 in 2010 and the number of people

within the sphere of employment and training measures will rise on average by around 4,700.

In the 2010 Budget, appropriations for employment, training and special measures will rise overall to around EUR 552 million from EUR 477 million in the 2009 Budget. In addition, the intention is to allocate to the financing of employment and training measures some funding reserved in the Budget for the European Social Fund programme. An average of around 89,500 people are expected to be within the sphere of employment measures in 2010. The activation rate will be around 21 per cent of unemployed jobseekers and those within the sphere of labour administration measures.

Around EUR 26 million will be allocated to the administrative branch of the Ministry of Education, which will increase the number of training places in 2010 by a total of around 5,200 when, in addition to the package in 2010 Budget, the training place additions decided in the 2009 first supplementary budget are also taken into account.

The adult education system intended for those in work will be simplified and clarified as of 1 July 2010 such that the earnings criterion based on employment history will be abolished. An eight-year employment history would grant entitlement to receive support for a total of 18 months once during one's working life. The cost of the reform to central government finances will be around EUR 6 million on an annual basis.

Unemployment security and training benefits for the unemployed will be renewed from the beginning of 2010. Among other things, an increased allowance payable for the period of activation measures will be introduced also in the basic allowance of unemployment security. The reforms will increase expenditure by more than EUR 104 million, of which central government expenditure will account for nearly EUR 25 million in 2010. The work sharing scheme will be made permanent.

The national pension and other benefits linked to the national pension index, such as the unemployment security basic daily allowance, labour market support and child maintenance allowance, will not be reduced in 2010 on the basis of the fall in consumer prices, which will increase central government expenditure by EUR 33 million. Paternity leave will be extended by two weeks as of 1 January 2010. Partial child care allowance will be raised by EUR 20 to EUR 90, and the right to partial child care allowance will also be extended to cover entrepreneurs.

► Selected monthly<sup>1)</sup> benefits in 2010

FULL NATIONAL PENSION from Jan 1, 2010 <sup>2)</sup>	EUR/ month
- single	584.13
- married	518.12
<b>CHILD BENEFITS</b>	
1st child	100.00
2nd child	110.50
3rd child	141.00
4th child	161.00
5th child and each child thereafter	182.00
- single parent supplement per child	46.60
<b>SICKNESS INSURANCE DAILY ALLOWANCES</b>	
- minimum level for sickness, maternity, paternity and parental allowances	551.00
<b>CHILD HOME CARE ALLOWANCE</b>	
- allowance per child	314.28
- partial child care allowance per child	90.00
<b>PRIVATE CHILD CARE ALLOWANCE</b>	
- allowance per child	160.00
<b>BASIC UNEMPLOYMENT SECURITY</b>	
- basic unemployment allowance	551.05
- labour market subsidy	551.05
<b>STUDY GRANTS, MAXIMUM AMOUNTS</b>	
<b>Student grant</b>	
<i>University students</i>	
- not living at home, under 18	145.00
- not living at home, 18+	298.00
<i>Other students</i>	
- not living at home, under 18	100.00
- not living at home, 18+	246.00
<b>Student housing supplement</b>	
- 80% of established housing costs <sup>3)</sup>	201.60
<b>State guarantee for study loans</b>	
- University students	300.00

1) Benefits granted on a daily basis are estimated on a monthly level.

2) Estimate.

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

## ► Average expenses of selected public services in 2007

EDUCATION AND CULTURE	EUR
- basic education	6 167 /pupil
- upper secondary education	5 632 /student
- initial vocational education	8 879 /student
- polytechnic education <sup>1)</sup>	7 131 /student
- university education <sup>1)</sup>	7 268 /student
- public libraries	2.6 /loan
<b>SOCIAL SERVICES <sup>2)</sup></b>	
- children's day care	47 /day
- old people's homes	101 /day
<b>HEALTH CARE SERVICES</b>	
Basic health care	
- visit to health centre	68 /visit
- ward treatment	146 /day
- dental care	64 /visit
Special medical treatment	
- somatic special medical treatment	738 /day

1) On the basis of a full-time equivalent student concept in which those who have completed more than 30 credits/year and first-year students are given a coefficient of 1, post-graduate students and those who have completed under 30 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, National Institute for Health and Welfare and Statistics Finland

## Taxation of people on lowest incomes will be eased

The Government's room for manoeuvre in tax policy is limited by the weak economic situation, as a result of which central government tax revenue is expected to fall in 2009 by nearly EUR 6 billion compared with 2008 and in 2010 by a further EUR 200 million approximately.

Taxation of people on the lowest incomes will be eased by increasing to EUR 2,200 the maximum amount of the basic deduction in municipal income taxation. In addition, tax criteria will be lightened to correspond with the rise in earnings level and increases in employee contributions<sup>1</sup>, so that taxation of earned income does not tighten in 2010. The rise in earnings level will be compensated for by around EUR 300 million by easing the income tax scales and by raising the maximum amount of the earned income deduction. The taxation-tightening effect of increases in health insurance medical care and daily allowance contributions, the employment pension contribution and the unemployment insurance contribution will also be compensated for with nearly EUR 500 million. As a consequence of the above decisions, the taxation of pensioners will be eased by EUR 100 million in accordance with the Government Programme, so that taxation of pension income does not tighten relative to the taxation of earned income of similar magnitude.

### Income tax scale in 2010

#### Progressive income tax rates

Taxable earned income, EUR	Tax at lower limit, EUR	Rate within brackets, %
15 200 – 22 600	8	6.5
22 600 – 36 800	489	17.5
36 800 – 66 400	2 974	21.5
66 400 –	9 338	30.0

- ▶ **Average local government tax and social security contributions amount to approximately 26%, including wage earners employment pension contributions and unemployment insurance contributions**
- ▶ **Tax rate on capital income 28% and on corporate income 26%**

<sup>1</sup> The increases in wage earner contributions for 2010 are:

- employment pension contribution (under 53 years of age) +0.2% points and employment pension contribution (over 53 years of age) +0.3% points.
- medical care contribution +0.19% points
- daily allowance contribution (wage earners) +0.23% points and daily allowance contribution (entrepreneurs) +0.26% points
- unemployment insurance contribution +0.2% points

The changes in the taxation of earned income mentioned above will reduce central government tax revenue on an annual basis by a total of around EUR 630 million and the revenue of other tax recipients by around EUR 430 million. The tax revenue losses arising to local authorities will be compensated for via the central government transfer system.

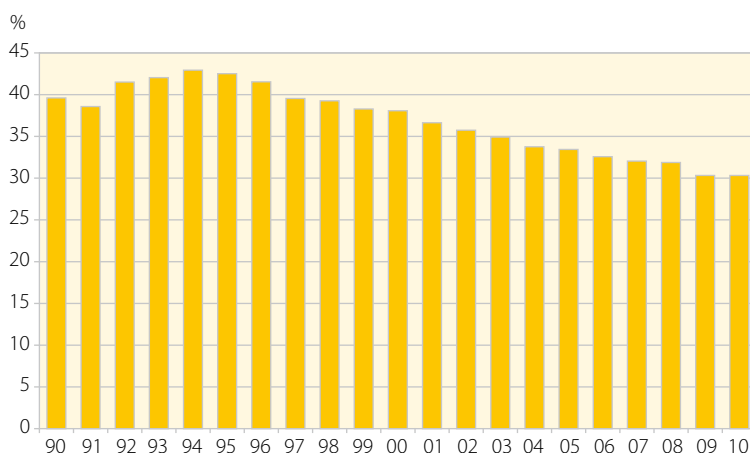
The employer-subsidised travel ticket will be made a tax-free benefit up to EUR 200. The taxation value of a ticket priced from EUR 600 to EUR 3,400 will always be EUR 400.

Value-added tax on food was lowered to 12 per cent at the beginning of October 2009. As of 1 July 2010 all value-added tax percentages will be increased by one percentage point. At the same time, the value-added tax rate on restaurant food will be reduced to 13 per cent, the level for foodstuffs. The change in tax rates to be implemented in 2010 will increase central government tax revenue on an annual basis by around EUR 430 million, but in 2010 value-added tax revenue will fall as a result of the reduction in value-added tax on foodstuffs implemented on 1 October 2009.

To mitigate adverse health effects, the tax on cigarettes and other tobacco products will be increased by around 5 per cent and the tax on loose tobacco by 15 per cent from the beginning of 2010. The increase will raise tax revenue by around EUR 22 million. At the end of 2010, excise duty on sweets will be introduced and the excise duty on soft drinks increased such that central government tax revenue grows on an annual basis by a total of EUR 100 million.

### Income tax rate, %

*Average wage earner, constant income level relative to purchasing power*



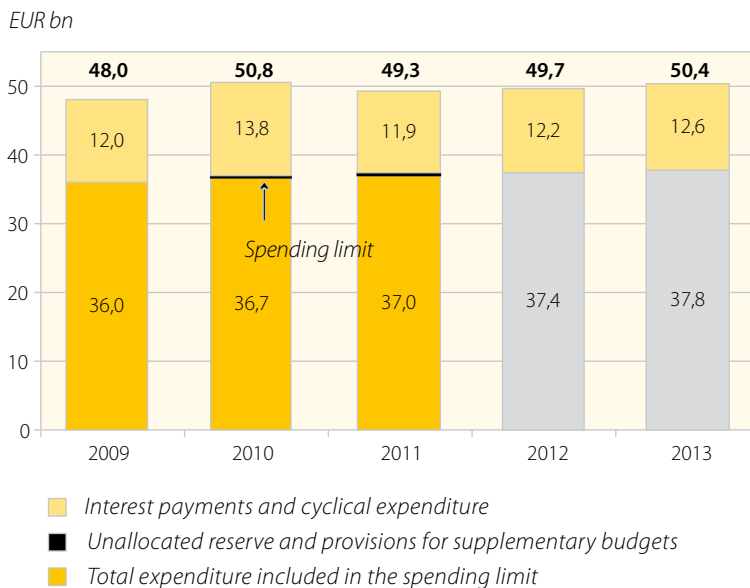
# Budget deficit will increase central government debt

## Budget appropriations level complies with parliamentary term spending limits

The 2010 Budget appropriations total EUR 50.5 billion, of which interest payable on government debt accounts for EUR 2.1 billion. The appropriations of the administrative branches will increase in real terms by 7½ per cent compared with the 2009 Budget, when structural changes in the budget are taken into account. The administrative branch appropriations will grow by a total of over EUR 4 billion, mainly due to stimulus measures and growth of cyclical expenditure.

To ensure a prudent long-term expenditure policy, the Government Programme includes a multi-annual spending rule guiding the development of central government budgetary expenditure during the parliamentary term. The parliamentary term spending limits set a ceiling for around three-quarters of the total budgetary

### On-budget expenditure and spending limits<sup>1)</sup>



1) Spending limits expenditure for 2010-2013 at 2010 prices and expenditure for 2009 at 2009 prices. Year 2009 according to second supplementary budget, year 2010 according to Budget and years 2011-2013 as decided in the spending limits decision 26 March 2009.

expenditure. Expenditure items excluded from the government spending limits consist of expenditure that varies according to cyclical and financial automatics<sup>1)</sup>, interest payable on central government debt, value-added tax expenditure, financial investments and expenditure corresponding to technically transmitted payments.

In its first spending limits decision, this Government set the spending limits for the parliamentary term so that it adheres to the EUR 1.3 billion increase in spending at the level for 2011 that was agreed in the Government Programme. The 2010 spending limits level, after changes in cost and price levels and in the structure of the budget, is EUR 37.0 billion.

The room for manoeuvre within the spending limits was extremely tight in the 2010 budget formulation, and therefore the Government prepared re-allocations of around EUR 230 million, directed at all administrative branches, in which the operating expenses of agencies, for example, were reduced by a total of EUR 56 million. Through the re-allocation, appropriations have been increased particularly to promote employment and tackle unemployment. There is a supplementary budget provision of EUR 300 million for unscheduled appropriation needs in 2010.

### **Tax revenue will decline further**

The 2009 recession sharply reduced cyclically sensitive revenue, particularly from corporate tax and tax on capital income, and the central government's actual revenue declined by nearly 15 per cent from 2008. In 2010 central government corporate tax revenue is expected to grow, but revenue from earned income and value-added tax will fall further, mainly due to unemployment growth and tax decisions.

In 2010 revenue from value-added taxes will be reduced not only by the lowering of value-added tax on food, which was implemented at the beginning of October 2009, but also by factors connected with the scheduling of the new tax account regime. The raising of value-added tax rates from the beginning of July 2010, on the other hand, will increase revenue by around EUR 130 million in 2010.

Tax criteria changes will reduce net tax revenue of tax recipients on an annual basis by around EUR 1.0 billion. The biggest reduction, some EUR 1,060 million, consists of compensation for the tightening of taxation on work and the raising of the basic deduction for people on the lowest incomes.

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<sup>1)</sup> e.g. Unemployment security expenditure, housing allowance, transfers resulting from the National Pensions Act to the Social Insurance Institution of Finland, and the central government's share of living allowance expenditure. However, expenditure effects generated by changes in the criteria for these items are included in the spending limits.

Central government revenue, excluding net borrowing, is estimated at around EUR 37.4 billion in 2010, which is one per cent less than was budgeted for 2009.

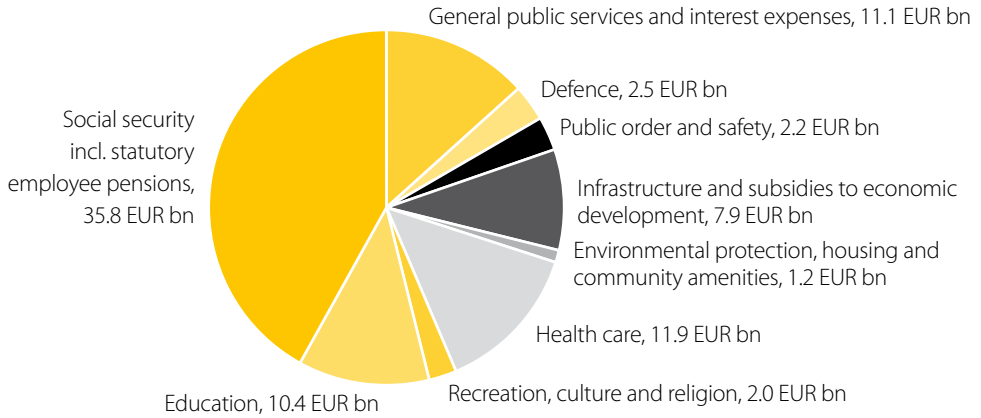
On-budget revenues other than receipts from taxes consist, among other things, of EU budget revenue, proceeds from equity sales, dividend and interest income, proceeds from betting, pools and lottery, transfers from off-budget funds, and profits of state-owned enterprises entered as income. Dividend income is expected to amount to EUR 500 million. Net income from equity sales is as in previous years expected to total EUR 400 million in 2010. Profits from Veikkaus lottery and gaming activities are expected to be EUR 463 million. Altogether around EUR 1.7 billion will be transferred into the Budget from off-budget funds, of which most will come from the State Pension Fund. Around EUR 157 million will be entered into the Budget from state-owned enterprises.

<b>On-budget revenue estimates and appropriations, EUR bn</b>				
	2007 Final	2008 Final	2009 Budgeted <sup>1)</sup>	2010 Budget
<b>REVENUE</b>				
Tax revenue from income and assets	15.1	15.1	10.4	10.5
Other taxes	21.6	22.1	21.0	20.7
Other revenue	6.5	7.1	6.3	6.2
— of which proceeds from property sales	(0.9)	(0.06)	(0.4)	(0.4)
Total	43.2	44.3	37.8	37.4
Net borrowing and debt servicing	-	-	10.3	13.1
<b>TOTAL REVENUE</b>	<b>43.2</b>	<b>44.3</b>	<b>48.0</b>	<b>50.5</b>
<b>EXPENDITURE</b>				
Consumption and capital expenditure	13.6	13.3	15.2	15.3
Transfers	24.4	27.8	30.8	33.1
— of which to municipalities	(8.5)	(9.5)	(10.3)	(11.1)
Debt interest payments and other expenditure	2.3	2.4	2.0	2.1
Total	40.3	43.5	48.0	50.5
Net debt redemption and debt servicing	2.9	1.4	-	-
<b>TOTAL EXPENDITURE</b>	<b>43.3</b>	<b>44.9</b>	<b>48.0</b>	<b>50.5</b>

<sup>1)</sup> Incl. second supplementary budget for 2009.

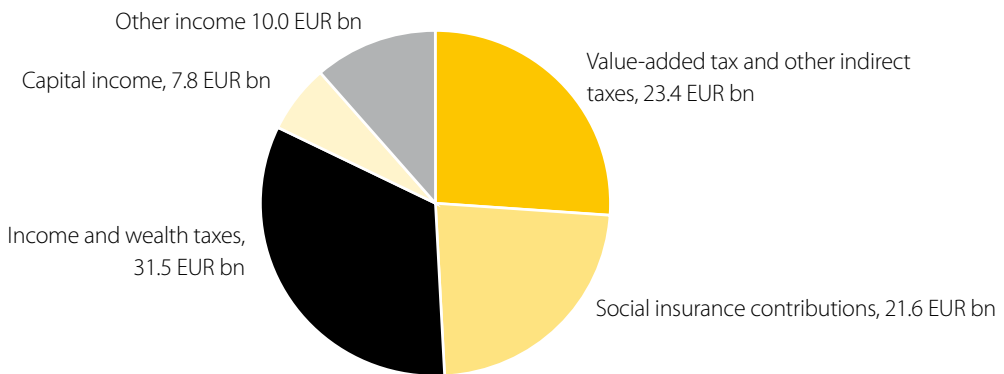
## What tax euros are spent on

General government expenditure in 2007, 85 EUR bn (47.3% of GDP)



## Where tax euros derive from

General government revenue in 2007, 94 EUR bn (52.5% of GDP)



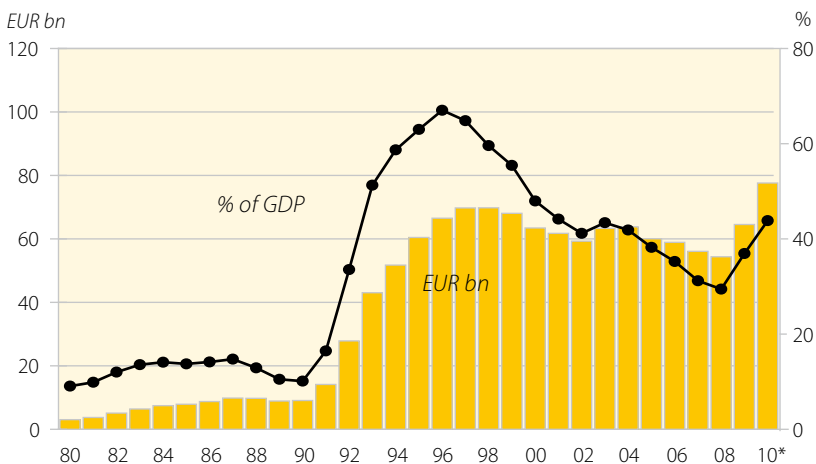
## Central government debt will grow by about EUR 13 billion

The 2010 Budget shows a deficit of around EUR 13 billion. Roughly  $\frac{2}{3}$  of the deficit stems from cyclical mechanisms, such as a fall in cyclical revenue, and increased unemployment security expenditure, while around  $\frac{1}{3}$  of the deficit derives from stimulus tax cuts made in 2009 and stimulatory expenditure increases, for instance. In 2009 the deficit is expected to be around EUR 10 billion.

Central government finances comprise not only on-budget entities but also 11 off-budget funds, the largest of which are the State Pension Fund and the National Housing Fund. Off-budget entities are estimated to record a surplus of EUR 1.2 billion in 2010.

At year-end 2010 central government debt is projected to stand at just under EUR 80 billion, at which time the debt-to-GDP ratio will rise to around 44 per cent. In the 1990s this ratio was at its worst at around 67 per cent in 1996, and subsequently was at its lowest at around 29 per cent in 2008. Interest payable on central government debt is estimated at EUR 2.1 billion in 2010, which is only slightly more than estimated interest payable for 2009. The fall of short-term interest rates to historically low levels will initially reduce interest payable by nearly the same degree as which growth in central government debt increases it.

### Central government debt



# Central government EU revenue and expenditure in 2008–2010

## **Contributions to the EU budget and the European Development Fund**

At central government level, Finland is expected contribute an estimated EUR 1,850 million to the EU budget and the European Development Fund in 2010. Finland's contributions will grow by EUR 25 million compared with contributions according to the 2009 Budget. Finland's share of the UK's EUR 3.9 billion budgetary rebate is EUR 100 million.

## **Receipts from the EU budget**

At central government level, Finland is expected to receive an estimated EUR 1,197 million from the EU budget in 2010, which is EUR 37 million more than estimated receipts in the 2009 Budget. Structural support is expected to increase by around EUR 70 million in 2010 relative to 2009 and agricultural support will decrease by EUR 37 million.

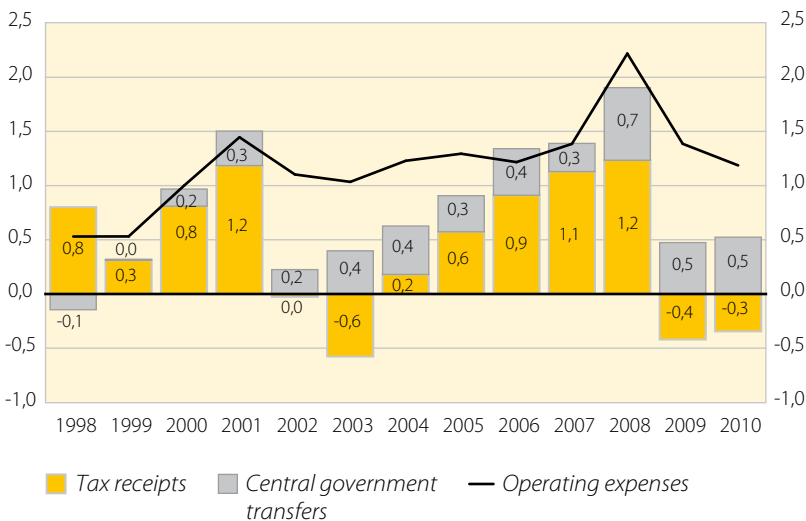
<b>Flow of contributions between Finland and the EU in 2008-2010 (EUR million)</b>			
	<b>2008 Final</b>	<b>2009 Budget</b>	<b>2010 Budget</b>
<b>CENTRAL GOVERNMENT EXPENDITURE</b>			
<b>On-budget finances</b>	<b>1 561</b>	<b>1 771</b>	<b>1 800</b>
VAT payment	246	251	247
GNI payment	1 144	1 360	1 453
Finland's share of the UK budgetary rebate	170	160	100
<b>TOTAL</b>	<b>1 561</b>	<b>1 771</b>	<b>1 800</b>
European Development Fund	54	54	50
<b>Off-budget finances</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL</b>	<b>1 615</b>	<b>1 825</b>	<b>1 850</b>
<b>CENTRAL GOVERNMENT REVENUE</b>			
<b>On-budget finances</b>	<b>1 093</b>	<b>1 147</b>	<b>1 169</b>
Agricultural support	846	894	857
Subsidies from the structural funds and cohesion funds	190	182	252
Custom duties and other levies	52	57	46
Other revenue	6	15	14
<b>Off-budget finances</b>	<b>12</b>	<b>13</b>	<b>28</b>
Intervention Fund of Agriculture	3	4	3
Development Fund of Agriculture and Forestry	9	9	25
<b>TOTAL</b>	<b>1 105</b>	<b>1 160</b>	<b>1 197</b>
<b>Customs duties, agricultural payments and sugar payments collected on behalf of EU</b>	<b>159</b>	<b>167</b>	<b>137</b>

## Local government finances will tighten

Municipalities provide for their inhabitants basic services, of which the most important relate to education as well as social services and health care. These services are funded mainly by local government tax revenue, consisting of municipal taxes, property taxes and a share of corporate tax. Total local government tax revenue is estimated to be around EUR 16.8 billion in 2010. Central government grants to municipalities to finance basic services will total EUR 9.6 billion in 2010. Municipalities will be compensated in full for losses in tax revenue resulting from changes in tax criteria, by increased central government transfers to local government. Central government transfers to local government are determined mainly on an imputed basis. In local government revenue this aid is universal, namely the municipalities can use their discretion in allocating the funds. The system of central government transfers to local government will be reformed in 2010, when the present sector-specific central government transfers will be combined into a single central government transfer intended for the arrangement of basic public services. Through the reform, the central government transfer per

### Tax receipts, central government transfers and operating expenses in municipalities and joint municipalities

Change on previous year, EUR bn



Source: Basic public services budget, September 2009.

pupil for pre-school and elementary education will change to an arrangement based on inhabitant numbers in each age class, and the central government transfer percentage will be standardised.

The financial equilibrium of local government tasks and obligations is examined in the Basic Public Services Programme and the related annual basic public services budget, which is part of the government spending limits and budget proposal formulation. The measures included in the budget are expected to improve the overall financial position of local government by a net of EUR 207 million relative to 2009 and by EUR 406 million including full index adjustments in central government transfers to local government. Central government supports local government finances by, among other things, raising the municipalities' share of corporate tax revenue temporarily by 10 percentage points for 2009–2011, which will transfer nearly EUR 400 million in revenue from central government to the municipalities in 2010. Moreover, the abolition of the employer's national pension contribution as of 1 January 2010 will ease the local government net expenditure burden by around EUR 248 million in 2010. The central government transfer for the arrangement of local government basic public services will be increased by EUR 30 million in 2010. The discretionary central government transfer to local government will rise by EUR 5 million to EUR 20 million for 2010. Renovation grants for moisture- and mould-damaged school buildings, health centres, homes for the elderly and day-care centres will be increased by an ex post authorisation totalling EUR 58.5 million.

The state of local government finances and particularly of municipalities dependent on corporate tax deteriorated in 2009 as corporate tax revenue collapsed. In 2010 local government tax revenue, due to tax decisions and growth of unemployment, is expected to continue to decline slightly from the 2009 level, even though the municipalities' share of corporate tax has been temporarily increased and the upper and lower limits of real-estate tax have been raised. The sharp fall in tax revenue means that annual margins in local government will weaken, because local government finances will be burdened by a rise in earnings level caused by current collective bargaining agreement increases and by growth in unemployment-linked expenditure. The abolition of the employer's national pension contribution will ease local government expenditure pressures, but municipalities will have to moderate their expenditure growth in order to balance their finances. The recession will also weaken the capacity of local authorities to prepare for growth in service needs caused by changes in the age structure of the population. Local government finances are threatened by a more permanent state of deficit and a continuation of the debt spiral, unless their activities can be made more efficient and expenditure growth significantly curtailed.

# Selections from the 2010 Budget

## Revenue

- The basic deduction in local government taxation will be raised from EUR 1,480 to EUR 2,200. The increase will reduce the tax revenue of tax recipients by around EUR 195 million. Local government tax revenue losses, EUR 170 million, will be compensated for in full.
- The taxation-tightening effect of the rise in earnings level will be compensated for with around EUR 300 million. The taxation-tightening effect of expected increases in wage earner contributions will also be compensated for with EUR 470 million.
- The pension income deduction in central and local government taxation will be raised. The tax revenue loss arising from the increase is EUR 100 million.
- The employer-subsidised travel ticket will be made a tax-free benefit up to EUR 200. The taxation value of a ticket priced from EUR 600 to EUR 3,400 will always be EUR 400.
- The tax on cigarettes and other tobacco products will be increased by 5 per cent and the tax on loose tobacco by 15 per cent from the beginning of 2010. The increases will boost tax revenue by EUR 22 million.
- Value added tax rates will be overhauled as of 1 July 2010, so that the standard rate of value added tax will be raised from 22 per cent to 23 per cent, the VAT rate for foodstuff from 12 per cent to 13 per cent and that for books, medicine etc. from 8 per cent to 9 per cent. At the same time, the VAT rate on restaurant meals will be lowered from 22 per cent to 13 per cent. These changes will help increase government tax receipts by around EUR 430 million at an annual level.
- Long-term saving will be supported by extending tax relief on voluntary individual pension insurance also to cover other long-term saving. The revision will reduce tax revenue by an estimated EUR 14 million, of which the central government's share will be nearly EUR 12 million.
- Provisions relating to the earned and capital income of traders and farmers will be changed so that distributed company profits can be taxed entirely as earned income at the request of the taxpayer. The change will reduce central government tax revenue by EUR 25 million and increase municipal income tax revenue by EUR 10 million.

- Structural reform in agriculture will be promoted through temporary capital gains tax relief on the sale of arable lands in 2009 and 2010. The change will reduce revenue from tax on capital income by around EUR 10 million.
- The Tonnage Tax Act will be amended so that shipping companies will have the opportunity in 2009—2011 to enter the sphere of tonnage taxation for a 10-year period. This will reduce the corporate taxes paid by shipping companies. The reduction of corporate tax will be replaced by a relatively small tax payable according to tonnage taxation.
- To alleviate companies' payment difficulties, the interest rate on overdue tax payments will be reduced to 7 per cent for 2010. In this way, companies in temporary payment difficulties can apply through a payment arrangement for additional time to pay their taxes at a more moderate interest than at present. The interest rate of overdue tax payments was 11.5 per cent in 2009 and it is expected to fall to 8 per cent without the proposed change.

## Expenditure

- The 2010 Budget re-allocates around EUR 230 million in appropriations to maintaining employment, tackling unemployment and alleviating the financial situation of local government, among other things. In connection with this, for example, the operating expenses of agencies will be reduced by EUR 56 million, Defence Forces acquisitions will be cut, and the National Pension Fund liquidity requirement will be lowered from 5 per cent to 3.5 per cent, which will reduce central government expenditure by EUR 38 million.
- Development cooperation appropriations will be increased by EUR 60 million less than was planned in the spending limits decision, but the appropriations will still rise in euro terms compared with the 2009 Budget. Development cooperation appropriations in relation to GDP will be 0.55 per cent in 2010, which exceeds the target level of 0.51 per cent.
- Around EUR 2.7 million in funding for prosecutors will be allocated to improve resources. To safeguard funding for the prison service, an increase of EUR 4 million in the level of the 2010 appropriation will be introduced.
- Additional funding of EUR 3 million will be allocated to the employment of newly graduated police officers. Additional resources for the police will be directed particularly to enhancing asylum investigation. Moreover, extra resources totalling EUR 1 million will be granted towards the fight against financial crime.

- The Border Guard will be granted EUR 10 million for the acquisition of an oil spill response border guard ship on the basis of a total EUR 57 million order authorisation granted in the 2009 second supplementary budget. EUR 3 million will be allocated to the upgrading of Dornier aircraft monitoring systems and altogether EUR 1.8 million to maritime monitoring equipment and supervision equipment on the eastern border.
- Owing to growth in the number of asylum seekers, an increase totalling EUR 77 million will be allocated to accommodation centres for asylum seekers and to compensation payable to municipalities for refugees and asylum seekers. EUR 2 million is reserved for letters of intent signed with local authorities in the Helsinki Metropolitan Area for the employment and integration of immigrants and EUR 0.5 million to pursue with the pilot programme designed to find employment for immigrants. A total of EUR 3 million will be allocated to language training directed at immigrants, to Specima training for teachers of an immigrant background, integration training and vocational education.
- EUR 5 million will be allocated to the expansion of naval engineering refurbishment of Rauma class missile boats and EUR 2.5 million for the development of a prototype of an active protection system for the Finnish Defence Forces. In addition, EUR 3 million will be allocated to Defence Forces driver training.
- Through the regional administration reform, the regional state administration will consist from the beginning of 2010 of two multi-branch agencies. The Regional State Administrative Agency's operating expenditure appropriation is around EUR 48 million and it consists mainly of transfers from the administrative branches of the Ministry of Finance, the Ministry of Social Affairs and Health and the Ministry of the Environment. The operating expenditure appropriation for the Centres for Economic Development, Transport and the Environment is around EUR 215 million, which is mostly funded by transfers from the administrative branches of the Ministry of Finance, the Ministry of Transport and Communications, the Ministry of Employment and the Economy, and the Ministry of the Environment.
- The central government transfer to local government for the arrangement of basic public services will be increased by EUR 30 million in 2010. The discretionary central government transfer to local government will be EUR 20 million in 2010, which is EUR 5 million more than in 2009. IT investments aimed at developing local government service production will be increased by EUR 5 million.

- From the beginning of 2010, a vehicle tax export refund will enter into force by which vehicle tax remaining in the value of a vehicle can be refunded when a used vehicle is exported from Finland permanently for use abroad. EUR 10 million will be allocated for export refunds in 2010.
- Based on the Government Programme, the saving arising from the reduction in age class numbers will be allocated to improving the quality of elementary education (POP programme), as a result of which the level of grants will rise by EUR 22 million.
- Renovation grants for moisture- and mould-damaged school buildings, health centres, homes for the elderly and day-care centres will be increased by an ex post authorisation totalling EUR 58.5 million. EUR 1 million in government grants will be provided for the construction of libraries.
- From the beginning of 2010, universities will no longer be central government accounting offices. Central government funding of universities will grow by about EUR 59 million. In addition, EUR 116 million will be paid as compensation for value-added taxes and EUR 5.5 million for the abolition of income tax-exemption of the pharmacy activities of the University of Helsinki. A total of EUR 150 million will be allocated to the capital of the Foundation Universities, the Aalto University and Tampere University of Technology.
- A EUR 5.5 million will be allocated to basic vocational education, which represents around 1,250 new students. Further vocational education will be allocated EUR 4.6 million, representing around 550 student working years. An additional EUR 3.8 million will be allocated to apprenticeship training, which will mean an increase in further vocational training numbers by around 1,250. In addition, around EUR 11 million will be allocated to the administrative branch of the Ministry of Education for 2010 to cover increases in student places decided in the 2009 first supplementary budget.
- Investment in outreach youth work will be nearly doubled to EUR 4.65 million. Youth workshop activities will also be granted an extra EUR 1.5 million.
- An ICOS greenhouse gas emission monitoring project will be jointly initiated by the Finnish Meteorological Institute and the University of Helsinki, with both organisations being allocated appropriations of EUR 1 million for 2010. In addition, EUR 1 million will be allocated to the funding of a research infrastructure for the biosciences.

- An increase of EUR 4.8 million compared to the 2009 ordinary Budget will be allocated to the Kemera support, namely for measures promoting sustainable management and use of forests.
- Around EUR 970 million in appropriations and income financing will be allocated to trunk route maintenance expenditure. A total of around EUR 495 million will be allotted to trunk route development investments, which will be used mainly to continue construction work on 26 transport projects initiated in earlier years. New projects beginning in 2010 are the life-cycle projects Main Road E18 Koskenkylä-Kotka (budget authority EUR 650 million) and the 2nd track on the Kokkola-Ylivieska rail section (budget authority EUR 660 million). The continuation of the Seinäjoki-Oulu rail track project will be ensured by allocating EUR 40 million to its construction. Two new road ferries will be acquired (budget authority EUR 15 million). In addition, the Transport Infrastructure Agency is authorised to agree the EUR 200 million participation of the central government in the building of the Western Metro in 2011–2015.
- To safeguard domestic air traffic, airport and air navigation fees were reduced from 1 September 2009 until the end of 2011. An authorisation totalling EUR 2.7 million has been made to help finance the construction of a maintenance hangar and taxi strip for the airport in Seinäjoki.
- EUR 12.7 million will be allocated from the administrative branch of the Ministry of Transport and Communications to fund the national broadband project. The project will support the building of telecommunications links for sparsely populated areas.
- CAA Finland and Finstaship will become state-owned limited companies on 1 January 2010. The in-house production of the Finnish Maritime Administration will be incorporated into a state-owned limited company on 1 January 2010. A National Communications Security Authority will be established in connection with the Finnish Communications Regulatory Authority.
- Support for companies' internationalisation projects will be increased by around EUR 7 million. The additional investment will be directed for instance to the environmental technology and wood product and timber construction sectors.
- EUR 55 million more than the previous year will be allocated to the authorisations of the Finnish Funding Agency for Technology and Innovation (TEKES).

- EUR 37 million will be allocated to funding authorisations for the support of investment and development projects for companies.
- A significant part of the funding of Finnvera plc is directed to companies whose profitability or liquidity has been temporarily weakened by the economic recession. For this purpose the company has been authorised to grant cyclical loans and guarantees totalling EUR 900 million in 2009–2011. EUR 263 million is proposed for Finnvera plc interest subsidy loan authorisations in 2010, which is expected to give rise to expenditure of EUR 51 million. An estimated EUR 42.5 million in credit loss compensation will be paid to the company.
- Finnish Export Credit Ltd finances the long-term granting of credit required by export trading. With the aid a ‘refinancing model’, and by increasing the amount of export guarantees required by it, the intention is to secure financing for exports on competitive terms. EUR 1.5 billion has been reserved for loan authorisations.
- Owing to the difficult business cycle, an ex post authorisation of EUR 10 million will be allocated to innovation support in shipbuilding.
- Approximately EUR 80 million more will be directed to employment, training and special measures than in 2009. Funding will be directed particularly to young people’s employment, for example by increasing qualification targets in workforce training and young people’s employment in workshops, as well as by initiating a search service for apprenticeship and TOPPIS places. In addition, the intention is to allocate to the employment policy measures funding reserved in the budget for the European Social Fund programme. EUR 2.5 million will be allocated to increase advice and information services for young people in Employment and Economic Development Centres.
- A EUR 64.1 million authorisation, of which EUR 20 million is ex post funded, is proposed for energy subsidies.
- Paternity leave will be extended by two weeks as of 1 January 2010. Partial child care allowance will be raised by EUR 20 to EUR 90, and the right to partial child care allowance will also be extended to cover entrepreneurs. This will increase expenditure by an estimated EUR 3.1 million, of which the central government share will be nearly EUR 1.55 million.
- The employer’s national pension contribution will be completely abolished on 1 January 2010. The net effect of the abolishment on central government finances is around EUR 0.8 billion on an annual basis.

- The national pension and other benefits linked to the national pension index will not be reduced in 2010 on the basis of the fall in consumer prices, which will increase central government expenditure by around EUR 33 million.
- Rehabilitative work activity will be expanded so that the age limit of the obligation to participate in the preparation of an activation plan and in work activity is abolished from the beginning of 2010. This will increase central government spending by EUR 3.1 million.
- The adult education system intended for those in work will be simplified and clarified as of 1 July 2010 such that the earnings criterion based on employment history will be abolished. An eight-year employment history would grant entitlement to receive support for a total of 18 months once during one's working life. The cost of the reform to central government finances will be EUR 3.2 million in 2010 and around EUR 6 million on an annual basis.
- Additional resources totalling EUR 175 million will be granted to unemployment insurance funds as a means of government assistance towards the funding of earnings-related unemployment payments during redundancy periods by a sum equivalent to the per diem allowance contribution. This fixed-term measure effective until the end of 2010 helps to ease the pressure to increase unemployment insurance contribution rates and secures the liquidity of the unemployment insurance funds.
- Unemployment security and training benefits for the unemployed will be reformed as of 1 January 2010, which will increase central government expenditure by around EUR 25 million in 2010. EUR 1 million will be allotted to help improve the unemployment insurance of family members working in an enterprise.
- An increase by around EUR 21 million in the central government transfer for municipalities' social services and health care will enable the implementation of targets defined in the Government Programme. The increase will be directed to, for example, the implementation of the amendment to the Services and Assistance for the Disabled Act that entered into force on 1 September 2009, the improvement of school and student health care and maternity and child clinic services as well as the development of basic health care and services for the elderly.
- Agricultural entrepreneurs' annual holiday leave will be increased by one day, which will increase central government expenditure by EUR 4 million. Holiday leave services for fur producers will be initiated in 2010 so that fur producers

have an opportunity to 14 days annual holiday and additional paid leave. EUR 2.6 million has been allocated for this. EUR 0.3 million will be allocated to fund a substitute help trial for reindeer herders, which start up at the beginning of 2010.

- Veterans' rehabilitation will be allocated EUR 1.8 million from funds from the Slot Machine Association (RAY), and a EUR 50 monthly veteran's supplement will be added to the increased or higher care allowance of those receiving supplementary front veteran's compensation as of 1 September 2010.
- To the National Vaccination Programme will be added the pneumococcal vaccine. The cost will be EUR 6 million in 2010.
- The Ministry of the Environment will be allocated a EUR 2.9 million appropriation increase, of which EUR 0.9 million is intended for use in the national mould and moisture action programme, EUR 1.5 million for studies on the energy-efficiency of buildings, and EUR 0.5 million for climate policy studies.
- Selected sewage pipeline projects will be brought forward in 2009 and 2010. In addition, an extra EUR 5.7 million altogether will be allocated on top of the existing appropriations level to the administrative branches of the Ministry of Agriculture and Forestry and the Ministry of the Environment as a supplementary stimulus resource towards water maintenance works and environmental works.
- A EUR 1 million additional appropriation will be allocated in 2010 to improving the service equipment of the national parks and other popular nature tourism destinations.
- To stimulate house building and increase housing supply, extended state-supported production will also be maintained at a high level through exceptional measures in 2010. Interest subsidy authorisations of EUR 1,670 million will be allocated to state-supported housing production, i.e. around 3.5 times the actual figure recorded in 2008. As a special support measure, enhanced start-up assistance extended to the whole of Finland as well as an interest-subsidised intermediate model will be adopted in 2010. State-supported production will be directed mainly to growth centres.
- The construction of housing for special groups will be supported with EUR 110 million in investment grants.

- Cyclical renovation grants for housing associations and rental housing companies will be continued on existing terms from 1 January to 31 March 2010. A budget authority of EUR 50 million and a payment appropriation of EUR 20 million will be allocated for this purpose. The awarding of grants will be continued from 1 April to 31 December 2010 by allocating them to projects which will improve the energy efficiency of buildings or encourage their adoption of renewable energy sources. A budget authority of EUR 37 million and an appropriation of EUR 11 million will be allocated to this.

MINISTRY OF FINANCE  
Snellmaninkatu 1 A  
P.O. BOX 28, 00023 GOVERNMENT  
Tel. (09) 160 01  
Fax (09) 160 33123  
[www.financeministry.fi](http://www.financeministry.fi)

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