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FMA VISIT TO HELSINKI IN THE CONTEXT OF THE FINNISH PRESIDENCY 3 - 5 November 2019

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I. Finland

1. History¹

Finland has been settled since after the Ice Age, and as such has had a long and intriguing history. A part of the Kingdom of Sweden from 13th century until 1809, it then became an autonomous duchy of the Russian Empire until 1917, when it declared independence.

The Middle Ages²

The recorded history of Finland began in the 12th century. Until those times the geographical area that is now Finland was a political vacuum. During the 1100s and 1200s, both Sweden and Novgorod (Russia) became interested in Finland, and they made several crusades and expeditions into the area. In 1323, western and southern parts of Finland were joined in Sweden and the eastern part of Finland, Karelia, became part of the Russo-Byzantine world. Finland remained an integral part of the Swedish Kingdom for over 600 years. As a consequence, the Swedish legal and social systems took root in Finland in a permanent fashion. Feudalism was never a part of this system, so the Finnish peasants retained their personal freedom. During the Swedish time, Turku was the most important city in Finland. In the 16th century the reformation started by Martin Luther reached Finland and Sweden, and it helped to create the Finnish-language culture. Luther insisted that people have to be able to read the holy Bible and hear the sermons in their own language. The Bishop of Turku, Mikael Agricola, is considered the father of Finnish written language, as he translated the New Testament into Finnish in 1548.

Modern Age³

From the Middle Ages until the early 19th century, Sweden and Russia fought frequently over the control of the eastern part of the Swedish Kingdom, i.e. Finland. With the establishment of St. Petersburg in 1703, the Russian interest in the northern shores of the Gulf of Finland increased. As a result of the complex power shifts during the Napoleonic wars, Russia gained full advantage over Sweden in 1809. Finland in its entirety came under the Russian rule, but was accorded the status of an autonomous Grand Duchy, and the laws from the Swedish time remained valid. While the major decisions required the Tsar's approval, Finland had its own government, legislature and other state institutions. Swedish remained the language of the administration which remained in Finnish hands at all levels.

20th Century⁴

Starting from 1899, Russia tightened its grip on the Grand Duchy of Finland. Finland did not take part in World War I, but nationalism also had an influence on the region of Finland. Finland was granted its own parliament in 1906, and the first elections were held in 1907. Finland declared independence on 6 December 1917, and the Bolshevik government that seized power in the October Revolution in Russia recognised Finnish independence on 31 December 1917. In the early years of independence, Finland's position was fragile. Soon after independence, a bloody civil war broke out in Finland. The war was fought between the Reds or labour movement and the Whites or government troops. The

¹ <https://www.discoveringfinland.com/about-finland/finnish-history/>.

² https://finlandabroad.fi/web/usa/current-affairs/-/asset_publisher/h5w4iTUJhNne/content/centennial-story-of-finland-part-1-the-path-up-to-1917/384951.

³ ibd.

⁴ <https://www.infofinland.fi/en/information-about-finland/basic-information-about-finland/finnish-history>.

Whites received support from Germany and the Reds from Russia. The war ended in the Whites' victory. In August 1939, Nazi Germany and the Soviet Union agreed that Finland belonged in the Soviet Union's sphere of influence. During World War II, Finland fought on two occasions against the Soviet Union on the German side. Finland lost both wars, but the Soviet Union never occupied Finland. In 1948, Finland and the Soviet Union signed an Agreement of Friendship, Cooperation, and Mutual Assistance, where the countries promised to defend each other against external threats. In practice, Finland was in the Soviet Union's sphere of influence throughout the Cold War, and the country's foreign and domestic policy were guided by fear of the Soviet Union. The collapse of the Soviet Union and loan-based economic growth in the 1980s caused a recession in Finland in the 1990s. The worst time of the recession was in the early 1990s; many Finnish people were unemployed, companies went bankrupt and the state had little money. In about 1995, the Finnish economy started to grow, the most important company being mobile phone company Nokia. Finland joined the EU in 1995 and was one of the first countries to adopt the euro as its currency.

2. Culture⁵

Finnish culture is a combination of numerous native customs which are represented by their national languages (Germanic Swedish and Uralic Finnish), the sauna, and the European and Nordic traditions. Due to their geographical location and history, Finland was heavily influenced by various communities including the Russians, Swedish, plus numerous Baltic and Finnic people. The Finnish culture is built upon their traditional livelihood and their tradition of egalitarianism. Cultural differences still exist between different regions in the country mainly the difference in vocabularies and accents.

Present-Day Finland was part of the Kunda culture up to 5000BC, and from 4200BC to 2000BC it belonged to the Comb Ceramic culture. The Kiukainen culture arrived in the southwestern coastal region around 2000BC. The Swedish crown began incorporating Finland from 1100 to 1200, but the Novgorod tried to gain control of the area, and this resulted in numerous wars which Russia and Muscovy joined from 1400 to 1700. The Swedish dominance in the Baltic region ended in 1721 with the signing of the Nystad peace treaty. The area was annexed to Russia in 1809 for over a century. Both the Russian and Swedish cultures influenced Karelia (the place where the Russian and the Swedish fought).

Finland has a long history of subcultures with the biggest being the Swedish-speaking Finns. The Swedish speaking Finns have their Swedish daily newspaper based in Helsinki and the Swedish People's party which has been a crucial part of their culture. The Swedish speaking Finns have their traditions. Another subculture in Finland belongs to the Sami people who live in the Lapland area. The native language of the Sami people is not Finnish, and they lead a nomadic lifestyle.

⁵ <https://www.worldatlas.com/articles/the-culture-customs-and-traditions-of-finland.html>.

SUSTAINABLE EUROPE – SUSTAINABLE FUTURE

Finland's Presidency Programme

Presidency of the Council of the European Union
1 July – 31 December 2019

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1. INTRODUCTION

The priorities for Finland's Presidency are to strengthen common values and the rule of law, to make the EU more competitive and socially inclusive, to strengthen the EU's position as a global leader in climate action and to protect the security of citizens comprehensively.

Finland is taking over the Presidency of the Council of the European Union at a crucial moment. The European leaders have just agreed on an ambitious and far-sighted strategic agenda for the years 2019–2024 to take the EU forward and address its internal and external challenges.

The European Union faces an increasingly complex and unpredictable global environment: great power competition and assertive unilateralism are on the rise, and the international rules-based system and its norms and principles are being challenged. We have also seen the EU's common values being called into question.

Moreover, one Member State is about to leave the EU: we are preparing for the United Kingdom to withdraw with or without an agreement. Our aim is to defend the EU's unity and interests. Brexit should not dominate the EU agenda at the expense of other major items.

The unity of the European Union is more important than ever. The cornerstones of European integration – peace, security, stability, democracy and prosperity – need to be protected. It is only by acting together and defending our common values that the EU can tackle the major challenges of our time while promoting the wellbeing and prosperity of its citizens.

The European success story is anchored in democratic institutions, human rights and the rule of law. We need to strengthen the rule of law to enable the EU to credibly defend a rules-based multilateral system and international human rights institutions and to allow its citizens to enjoy peace and equal rights.

We should concentrate our efforts on areas where the EU is best placed to generate European added value. To respond to citizens' expectations, we need to do more to promote sustainable growth and combat climate change.

Our objective should be a competitive and socially inclusive EU. The single market, rules-based free trade and up-to-date regulation of a high standard are the elements that make the EU collectively competitive. Our emphasis must be on taking full advantage of research, development, innovation and digitalisation. By fostering skills, education and training, regional and social fairness, and gender equality, the EU will create sustainable growth and wellbeing for its citizens.

The common denominator for all EU action should be sustainability, which includes implementation both within and beyond the EU of the 2030 Agenda for Sustainable Development. The EU should raise its profile as a global leader in climate action by adopting a long-term climate strategy aimed at making the EU carbon neutral by 2050.

Finland advocates an EU policy that respects the need to protect the Arctic region's stability and particularly its fragile natural environment, and to safeguard the region's economic potential and employment prospects. The focus should be on efforts to mitigate climate change, which are being financed with EU funds for research, development and innovation. Finland will assume a leading role in strengthening the EU's Arctic policy.

To protect the security of citizens comprehensively, it is essential to strengthen the EU's internal and external security and its defence cooperation, including measures to counter hybrid threats.

The EU can prove its worth by creating wellbeing and prosperity that is socially, ecologically and economically sustainable. Public acceptance of the EU depends on efficient decision-making and the ability to carry out what has been agreed. Europe can only exert global influence if it is strong and effective.

Transparency, better regulation, involvement of citizens and respect for the principles of subsidiarity and proportionality are crucial to strengthening trust in the EU. We intend to communicate openly, actively and clearly during our Presidency, striving to make the actions and achievements of the EU better understood throughout Europe. We will also promote more effective use of digital tools in the Council's work.

Finland will be the first presidency to integrate the new priorities of the Strategic Agenda 2019–2024 into the Council's work. As emphasised in the Trio Programme, we are committed to ensuring a smooth transition to the next legislative cycle and to building up close and constructive relations with the new institutional actors.



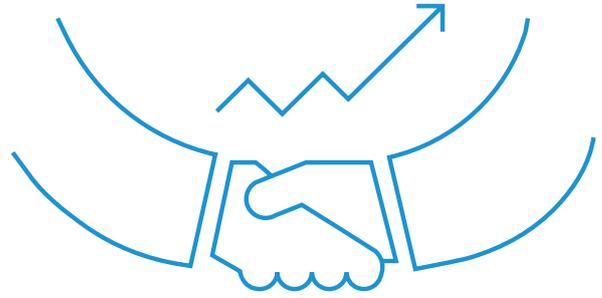
2. COMMON VALUES AND THE RULE OF LAW: CORNERSTONES OF EU ACTION

The European Union is first and foremost a community of values. Membership of the EU therefore means committing to its core values. These values – human dignity, freedom, democracy, equality, rule of law and human rights, including those of minorities – must be respected if the EU is to function properly while maintaining its acceptability and credibility. We must comprehensively protect and enhance these common values. This is not only a matter of protecting European citizens but also has implications concerning, for example, the functioning of Europe’s economy. At the core of the rule of law principle are autonomous and independent courts.

During its Presidency, Finland will strive to improve and strengthen the EU’s rule of law toolbox. The aim is to find better and more efficient ways to ensure respect for the EU’s common values in the Member States and to forestall potential problems. The rule of law dialogue in the Council will be evaluated, with the aim of taking it in a more structured and result-oriented direction. Work on establishing a peer review mechanism will continue, as well as the negotiations on making the receipt of EU funds conditional on respect for the rule of law. The aim is to set up a well-balanced and effective mechanism tying EU funding to compliance with the rule of law.

It is also essential to fight corruption, which undermines the EU’s foundation of shared values and rules, public confidence in the authorities, and sound financial management.

The EU should take steps to promote equality and inclusiveness in all policy sectors. Inequalities cause significant loss of human and economic potential, both nationally and within the EU. We therefore need a gender equality strategy combining specific actions and mainstreaming.



3. A COMPETITIVE AND SOCIALLY INCLUSIVE EU

The European economy is still growing, though the pace of growth has slowed. Challenges remain, especially for the labour market to adjust to rapid technological developments and the global redistribution of labour. General government finances have improved, budgetary positions have converged and employment rates have risen, but efforts still need to be made to enhance the economic opportunities available to citizens. Although youth unemployment is falling, there is more work to be done: we cannot afford to lose a generation. We need to better enforce the rules and implement the policy measures agreed on.

Tensions in global trade, Brexit and mounting uncertainty in the political landscape all highlight the need to carry on with national reforms. Europe must address the challenges of ageing populations and relentless global competition with sustainable measures to boost productivity and competitiveness.

In the new legislative term, the EU should focus even more intently on the policy sectors crucial to growth, competitiveness and job creation. The EU needs a comprehensive long-term strategy for sustainable growth and competitiveness that specifically includes measures to improve the functioning of the single market and promote an ambitious, rules-based trade policy. The long-term objective should be to make the EU the world's most competitive and socially inclusive low-carbon economy.

3.1 A comprehensive, future-oriented single market

The EU single market is among the world's largest economies, with a GDP of EUR 15 trillion. It includes 500 million consumers and 21 million small and medium-sized enterprises. The economic benefits of the single market amount to 8.5 per cent of the EU's GDP.

A well-functioning single market, rules-based free trade and up-to-date regulation of a high standard will guarantee the EU's competitiveness. The European model of wellbeing is based on economic growth. The most important means to promote growth and wellbeing is to increase the effectiveness of the single market. Deepening the single market requires an increasingly holistic and forward-looking approach bringing together single market policy, the digital revolution and modern competition, industrial and trade policy. At the same time, we need to adopt a coherent approach to further development of the European Pillar of Social Rights. This will allow the single market to deliver results that are visible to our citizens. We must ensure that the single market benefits all Europeans fairly. We should therefore ensure compliance with modern employment and social standards across the EU. We should also assess the need to update employment legislation and social protection systems in order to address new forms of employment. It is particularly important to safeguard the terms and conditions of employment of posted workers in the country of employment and

to monitor compliance effectively in both the country of origin and the country of employment. Special attention should be paid to the full implementation of existing legislation and to boosting cooperation between the various authorities. The new European Labour Authority (ELA) has a key role to play here.

We will promote an active industrial policy for the EU, and draw up a plan for the sustainable development of the European economy within the global process of change.

Europe's growth potential is strongly linked to the service sector. The digital and data-driven economy, innovations, new technologies and business models, and the functioning of different value chains are particularly dependent on the service economy. To improve the single market for services, we must focus particularly on promoting digital services and eliminating the barriers to cross-border trade in services.

Our goal should be to make Europe the global leader of the digital economy. Digitalisation, artificial intelligence and the data and platform economy are all key drivers of European productivity, growth, employment, prosperity and wellbeing. In the long term, maintaining economic growth and employment will depend on the ability of business and industry to make full use of the potential offered by digital technologies. Digitalisation of sectors like health and mobility, for example, will generate significant business opportunities. We should also exploit the growth potential of the cultural and creative industries. Horizon Europe, our strong framework programme for research and innovation, can serve to give a major boost to digitalisation, innovation and technological development.

More work is needed to achieve a competitive, human-driven data economy by promoting the availability, interoperability and use of data, while also respecting the rights and privacy of individuals. Progress in this area is crucial, since the data economy provides the basis for developing digital services, digital business and new technologies, such as artificial intelligence. With this in mind, we will address areas requiring further work, favouring a horizontal approach that takes into account the cross-sectoral role and needs of the data economy.

The transport sector offers major potential for boosting growth and sustainability through new business opportunities and services and through emissions reductions. Besides making progress with the open files in the field of transport, our work will focus especially on the framework for developing high-quality digital services and on promoting Mobility as a Service (MaaS), well-functioning transport networks and carbon-free transport. We will also promote digitalisation and automation, as they will help not only in improving safety and efficiency but also in meeting the environmental and climate goals for all modes of transport.

3.2 Wellbeing and skills: the foundation of inclusive growth

With the European economy expanding and employment increasing, we are facing a new challenge: shortages of skilled workers. The EU policies under the Social Dimension are key to increasing the availability of skilled workers in the single market. This will also benefit those who are outside the labour market, since increases in the employment rate contribute to strengthening the financial base and stability of the welfare state. It is worth bearing in mind that one of the EU's central aims is to promote the wellbeing of its citizens. We should work

towards achieving an 'economy of wellbeing', a new holistic approach that will increase our understanding of how people's wellbeing enhances productivity, generates economic growth and reduces public expenditure in the long term.

Our aim should be to make European education, training and research the best in the world. The EU needs a future-oriented, wide-ranging strategy for continuous learning that takes into account the transformation of work and digitalisation. To promote education, skills and mobility and strengthen European universities, we also need a much stronger Erasmus programme. We should set a long-term objective of creating a networked European 'super-university' model. In addition, the emergence of new forms of work calls for an assessment of whether our labour legislation and social protection systems are up to date. Labour mobility within the EU and recruitment of top talent from third countries should be encouraged through EU actions. We need to remove the remaining barriers to mobility and deepen the European labour market. In EU migration policy, setting up a system of legal entry routes would contribute to the goal of increasing the availability of labour.

Another key measure for maximising the availability of skilled workers is to increase the labour market participation of women. The EU and Member States should continue actions to promote gender equality in working life, reconciliation of work and family life, and equal pay. We also need to promote longer working careers in Europe through improvements in occupational health and safety, public health policies and part-time work schemes.

Europe cannot afford to waste any of its human capital. This is why the social inclusion of young people needs special attention. All young people should have equal opportunities to enhance their digital competences, regardless of their background.

3.3 An ambitious, open and rules-based trade policy

Growing international trade tensions and increasing protectionism are causing uncertainty for Europe's economies. In this context, it is essential for the EU to defend multilateralism and common rules and to resist inward-looking approaches and new trade barriers.

The EU is the largest trading bloc in the world and the world's largest exporter of manufactured goods and services. International trade brings immense economic benefits to the citizens of Europe, enhancing their wellbeing. Since Finland's first Presidency in 1999, EU trade with the rest of the world has more than doubled and now accounts for a third of the EU's GDP. EU exports to the world support over 36 million jobs across Europe and generate EUR 2.3 trillion of value added in the EU. Supporting economic growth and employment in the EU requires opening new markets and strengthening common rules. The EU's competitiveness and attractiveness as a trading partner are best enhanced with an ambitious, open and rules-based trade policy.

The EU is a strong global actor in trade policy and plays an essential role in preserving and strengthening the multilateral trading system. Modernising the World Trade Organization (WTO) and strengthening its functioning and credibility are key objectives. In particular, upholding the WTO's binding dispute settlement system is a priority.

The EU's trade agreements level the competitive playing field and make it easier for EU businesses to access global value and supply chains. During the Finnish Presidency, the EU will continue negotiations on ambitious and balanced trade agreements with key partners. It is essential to reinforce the binding nature of the sustainable development goals contained in EU trade agreements. The swift entry into force of negotiated agreements and their full and effective implementation is also important to ensure that European consumers and businesses reap the maximum benefit.

Discussions on strengthening the EU's trade relations with the United States will continue, based on the joint statement issued by Commission President Juncker and President Trump in July 2018. Advancing trade and investment relations with China will also be a priority. The EU is pursuing a more balanced economic relationship with China. European companies need better access to the Chinese market, and efforts should be made to create a more level global playing field.

3.4 Towards an inclusive economic union

Sustainable economic growth requires sound and focused policies. A well-functioning financial single market requires more resilient capital markets, a fully-fledged banking union and a robust crisis management framework. More transparency and simplicity is needed in economic policy coordination. The ultimate responsibility for economic policies, however, rests with the Member States.

Only a healthy banking sector can finance the investments needed in technological development and in actions to combat climate change. Determined efforts to reduce risks are therefore needed. Completing the banking union demands an ambitious approach. Discussions will continue on the basis of the agreed roadmap, including the issue of regulatory treatment of sovereign exposures. The Finnish Presidency will take forward the technical discussions on common deposit insurance.

Sustainable finance and diversification of risks in capital markets are other key focus areas in strengthening the Economic and Monetary Union. In this respect, a solution needs to be found to break the vicious circle between banks and sovereigns. Green finance is also needed to complement sustainable climate policy measures.

A budgetary instrument for convergence and competitiveness is being created within the EU budget to cater for the specific needs of the euro area, and the European Stability Mechanism is being strengthened to ensure financial stability.

The ongoing discussions in the OECD on digital taxation will continue. We need to work harder to prevent harmful tax competition and tax evasion. Close cooperation within the EU should make it possible to take effective action in tackling aggressive tax planning and tax evasion and reducing harmful tax competition. These policy measures will make for a fairer and more predictable business environment. Finally, we must make sure that supervisors have sufficient powers and capacities to combat money laundering and terrorist financing.



4. THE EU AS A GLOBAL LEADER IN CLIMATE ACTION

The European Union has taken the lead in combating climate change and in advancing global climate action under the Paris Agreement. Under the Agreement, the increase in average global temperatures is to be held to below two degrees Celsius, and efforts will be pursued to limit the increase even further to 1.5 degrees Celsius. In order to accomplish this, a global balance between greenhouse gas emissions and sinks must be achieved as soon as possible. We must work hard to reach the objectives laid down in the Paris Agreement and to prevent the serious impacts of climate change. The transition to a climate-neutral Europe, made possible through an effective combination of policy measures, will also promote economic growth and competitiveness in Europe in the coming decades.

To achieve the Paris Agreement target, the parties to the Agreement have pledged to update their Nationally Determined Contributions for 2030 and to formulate and submit to the UN their long-term emissions reduction strategies, and to do so by 2020, in practice during 2020 at the latest. A debate on how Europe should prepare for the submission of its long-term strategy to the UN was launched with the publication of the Commission communication *A Clean Planet for all - A European strategic long-term vision for a prosperous, modern, competitive and climate neutral economy*. Finland's Presidency will continue to facilitate the process in order to define the key elements of the EU's long-term climate strategy in the European Council by the end of 2019.

Integrating climate policy in all sectors is a key objective and includes implementing the Energy Union and promoting opportunities for further emissions reductions.

The transition to the bioeconomy and circular economy will have a central role in reducing greenhouse gas emissions and in improving Europe's competitiveness. At the same time, it will help in modernising our economy and industry, creating jobs, generating sustainable growth and protecting the environment. We will support effective implementation of the Commission's updated bioeconomy strategy. As regards the circular economy, the work has so far focused especially on plastics, waste, consumer empowerment and stakeholder engagement. While continuing this work, it is necessary to provide guidance on the next steps, such as extending the measures into new sectors. The move to the circular use of materials is central to cutting greenhouse gas emissions and halting the loss of biodiversity.

The strategic and economic value of clean water and food and sustainable agriculture and forestry is increasing. We will promote a Common Agricultural Policy that can better respond to climate change. We will also move forward with actions to implement the UN Convention on Biological Diversity and to promote the sustainable use of natural resources and foster animal welfare.

5. PROTECTING THE SECURITY OF CITIZENS COMPREHENSIVELY



Europe feels the security impact of violence and conflicts taking place in its neighbouring regions and resulting from violations of international law and human rights and the negative impacts of climate change.

It is important for the EU to use all of its external action instruments, such as diplomacy, crisis management operations, trade policy and development aid, in a comprehensive and coherent manner. The EU must champion multilateral solutions and step up its contribution to conflict prevention and mediation, with a special focus on the valuable roles which can be played by women and young people.

To protect Europe, we need to harness the instruments we already have and prepare together for the potential threats of tomorrow.

The EU has a key role in promoting a comprehensive approach to security in Europe. By combating cross-border crime and terrorism, and by efficient border management, the EU and its Member States can make the EU a safer place to live. This calls for a reduction in inequalities.

The overall internal security of the EU should be approached on a broad front, combining crime prevention with law-enforcement cooperation, judicial cooperation, border management, civil protection and other relevant sectors.

The EU Internal Security Strategy has provided a sustainable framework for concrete cooperation. Now is the time to evaluate its strengths and weaknesses. We need to identify possible threats to internal security in order to strengthen our response, keeping in mind the ever stronger nexus between internal and external security.

5.1 Strong, united and effective EU external action

Strong EU external action is essential for Europe's wellbeing, prosperity and security. During its Presidency, Finland will fully support the High Representative of the Union for Foreign Affairs and Security Policy in strengthening the EU as a global actor, as envisaged in the EU Global Strategy.

The current complex international environment makes it particularly important to enhance the unity, coherence and effectiveness of EU external action. To strengthen unity will require Member States to show more willingness to compromise and to commit to common action. Better coherence means using all EU external action instruments in a concerted way. Swifter decision-making is needed to increase the EU's influence and effectiveness. The possibility of using qualified majority voting in some areas of the Common Foreign and Security Policy (CFSP), as established in the Treaty of Lisbon, merits further discussion.

Reform of financing for EU external action in the next multiannual financial framework (2021–2027) is also important for EU policy coherence. Reaching agreement on a simplified and more flexible system in which political priorities and cost-effective financing are better linked is a high priority.

The EU has a key role to play in shaping global governance. This includes strengthening, and when necessary, reforming the rules-based multilateral system, with the United Nations at its core. Respect for international law and the promotion of universal human rights, democracy and the rule of law need to be at the core of all EU external action. Equally important are maintaining the EU's leading role in development policy and humanitarian aid and implementing the 2030 Agenda for Sustainable Development and the Paris Agreement in the EU and globally. Cross-cutting attention must also be given to mainstreaming gender equality and promoting the rights of women and girls.

The EU's strong global role requires active dialogue around the world. Another significant theme during our Presidency is pursuing a more equitable, mutually beneficial and comprehensive EU-Africa partnership. A common objective should be an ecologically, economically and socially sustainable transformation to manage the external dimensions of climate change, population growth and migration. It is important to have Africa as the geographical focus of the EU's development financing. Priorities include promoting trade and investment, which create jobs, with particular focus on women and young people. It is also important to support peace and security, sustainable development and climate action on the African continent.

Constant efforts are needed to foster the transatlantic partnership with the United States, which remains a cornerstone of security and prosperity on both sides of the Atlantic. During Finland's Presidency, the EU will continue a strategic and comprehensive reflection on its approach to China. The EU will also maintain its consistent and united policy on Russia, including on restrictive measures. Selective engagement, people-to-people contacts and regional cooperation, for instance on environmental issues, continue to be in the EU's best interests. The Northern Dimension policy provides useful instruments for these purposes.

The stability of the EU neighbourhood remains a vital EU interest. The EU's Eastern Partnership promotes closer cooperation and reform in the six partner countries. Finland will focus on building more resilient societies during its Presidency. In the EU's Southern Neighbourhood, it is important to step up the EU's support for UN-led mediation of conflicts in the Middle East and North Africa that continue to cause grave human suffering.

Enlargement policy is a strategic investment in peace, stability and development in Europe. Committing to core European values is essential for all partners aspiring to gain EU membership. Finland will take forward work on a credible enlargement perspective for the Western Balkans, which is a region of high strategic value for the EU. Turkey as a candidate country remains a key partner for the EU in many areas.

The relevance of the Arctic region has grown as a result of climate change, the increasing level of economic activity, the opening up of new transport connections, and the region's growing geopolitical significance. The importance of the Arctic region for prosperity and security in the EU is therefore growing.

Owing to climate change, the Arctic is warming more than twice as fast as the rest of the globe. This has a significant impact not only on the region but also on the whole world. Mitigation of climate change must be at the heart of our Arctic policy. New opportunities in the use of Arctic natural resources and greater potential for connectivity are making the region strategically more important and attracting the interest of key global players. The EU can make valuable contributions to the Arctic region in research and innovation, environmental and climate actions, including tackling black carbon emissions, and sustainable economic activity in the infrastructure, transport and energy sectors. It is important to ensure that the views and rights of the Arctic indigenous peoples and local communities are respected and promoted.

5.2 Protecting Europe and providing security through cooperation in security and defence

The EU promotes peace and stability. In a challenging geopolitical environment, the EU needs to do more to strengthen European security and defence cooperation in order to protect its citizens and strengthen the EU's role as a security provider. The EU must be a viable partner for other regions and organisations, in line with the EU Global Strategy. Effective cooperation in security and defence also strengthens solidarity between the Member States.

In the past few years, we have achieved significant progress in the field of European security and defence cooperation. The launch of the Permanent Structured Cooperation (PESCO), together with the European Defence Fund (EDF) and the Coordinated Annual Review on Defence (CARD), and the establishment of the Military Planning and Conduct Capability (MPCC) are important steps towards deeper security and defence cooperation. During our Presidency we want to ensure efficient implementation of existing goals and targets. We will also pursue an active strategic debate on security and defence within the EU.

We will also promote discussion on artificial intelligence and digitalisation with a view to developing the capabilities of tomorrow. The economic potential of digitalisation and AI applications is expected to be enormous, and Europeans need to be frontrunners in tapping into these developments.

Strong partnerships are at the core of developing our security and defence cooperation. We need to further enhance EU-NATO cooperation, notably in areas such as military mobility and in countering hybrid and cyber threats. Good transatlantic relations with the United States remain a key priority for us.

5.3 Building resilience to hybrid and cyber threats

The Member States and institutions continue to face multidimensional hybrid threats designed to be difficult to detect and attribute. We must be prepared for the long-term challenge of rapidly changing hybrid threats.

Hybrid threats are a combination of various conventional and unconventional activities and tools used in a coordinated manner by state or non-state actors to achieve specific political objectives. These hybrid activities, such as cyber attacks, election interference and disinformation campaigns, aim to influence our policy-making, weaken our societies and undermine the unity of the EU.

In this context, we will place special emphasis on strengthening the EU's capabilities in countering hybrid threats and building resilience at the level of both the EU and the Member States. We need to act together in a structured and coordinated way in order to tackle these challenges.

It is important to ensure that we have the right kind of organisational structure in order to fulfil the policy objectives set by the European Council. Together, we need to further develop institutional mechanisms and tools. It is also essential to continue developing partnerships, especially EU-NATO cooperation. The European Centre of Excellence for Countering Hybrid Threats plays a central role in fostering cooperation on hybrid threats.

To develop our awareness of and resilience to hybrid threats, the Finnish Presidency will organise scenario-based policy discussions at different levels.

Maintaining a high level of cybersecurity is vital for the security of citizens, businesses and Member States and for the functioning of the EU as a whole. The adoption of 5G technology brings tremendous new opportunities, but also requires a new emphasis on cybersecurity. In order to enhance the cybersecurity of critical infrastructure, EU common action is also needed. The closely intertwined economies of Member States benefit from common measures that aim at a higher level of cybersecurity. We will promote cybersecurity knowledge and capacities. The EU must also fight against attempts to exert hostile influence, prevent conflicts, reduce cybersecurity risks and promote stability in international relations.

6. OTHER KEY ISSUES DURING FINLAND'S PRESIDENCY

6.1 Comprehensive management of migration

Migration is a global phenomenon. To manage migration effectively, we need a comprehensive approach that takes into account both internal and external dimensions. The European Union with its wide range of tools and strong international role is clearly better equipped to address migration than a Member State alone.

The human rights-based asylum and migration policies are rooted in international treaties and conventions, cooperation between public authorities and effective control of the EU's external borders, as well as appropriate and swift asylum procedures that are of a high standard in terms of legal protection.

Adopting the Common European Asylum System (CEAS) as a package would have been the most effective EU-level outcome, but despite strong common efforts, the package has turned out to be unachievable. One way out of the impasse could be to adopt, one at a time, proposals on which agreement can be found. In this way, the EU could take vital steps forward in managing migration and delivering concrete results.

Resettlement has been one of the most effective ways to help those in the most vulnerable position in migration crises. By establishing an EU-wide resettlement system with sufficient financial incentives, the EU could create a more controlled way to ease migration pressures that would also demonstrate solidarity towards countries receiving large numbers of migrants.

There has been no progress in establishing the controlled centres within the EU referred to in European Council conclusions. A more immediately beneficial initiative would be to establish a temporary relocation mechanism for migrants rescued at sea. Such a mechanism could help solve challenges related to internal relocation within the EU, which so far have been tackled case by case.

As part of the comprehensive approach and the securing of the Schengen area, there is a need to closely monitor migration routes and maintain situational awareness. It is crucial to remain vigilant in regard to all current and new routes towards Europe.

To make return policy effective and sustainable, the EU must use all means at its disposal, including positive and negative incentives in trade, development and visa policy. We need to direct more effort and resources to the reintegration of returned migrants.

Strengthening the European Border and Coast Guard Agency will help Member States to better control their borders and make the return of illegal immigrants more effective. The Agency therefore has a key role to play in securing both the Schengen area and the free movement of people.

6.2 Multiannual financial framework for 2021–2027: implementing the EU's priorities

Finland's Presidency will seek to finalise the Council negotiations on the next multiannual financial framework (MFF) in autumn 2019. The aim is a balanced financial framework that reflects both new priorities and traditional policies that contribute to the common European objectives, and within the jointly agreed ceilings. In addition, the Presidency will seek the greatest possible progress in the MFF-related sectoral proposals.

The future modernised MFF should effectively deliver on the political priorities of the EU. Enhanced conditionalities strengthen the effectiveness of EU funding. Funding should therefore be allocated on the basis of preconditions concerning, for example, respect for the rule of law and managing migration.

Europe needs to stay at the forefront of research, development and innovation. The Horizon Europe framework programme, based on open competition and excellence-based research, is an essential tool in this connection. At the same time, cohesion policy should have a stronger focus on promoting growth and competitiveness throughout Europe. Here, social cohesion will be of particular importance. The need for common cohesion funding from the EU will diminish as regional cohesion progresses. When allocating funding, attention should also be given to country-specific special characteristics of a more permanent nature, such as sparsely populated areas.

Conditions must be safeguarded for agriculture to be practised in a profitable way in all EU Member States. A reformed and modernised Common Agricultural Policy must respond to the challenges of food safety, food security, climate change and environmental protection. Rural development funding in particular plays a crucial role in this regard.

Managing migration requires a comprehensive approach. By ensuring sufficient funding and using different MFF headings, it will be possible to respond as effectively as possible both to internal and external dimensions of migration.

Strengthening European defence cooperation is another new priority with clear added value for the EU and must be taken into account in the next MFF.

In addition, because climate change is affecting our way of life, the future MFF programmes should clearly contribute to our common climate targets. The proposal to raise climate-related funding to a level of 25 per cent of the EU budget supports this goal. The EU Arctic policy and Arctic projects funded through various EU instruments need to be used to combat climate change as well.

The overall system of own resources in the next MFF should be simple, transparent and fair. With regard to the revenue side of the next MFF, the Presidency aims to facilitate the reaching of a balanced solution among Member States in the negotiations.

The Finnish Presidency also aims to reach an agreement between the Council and the European Parliament on the 2020 budget. Both the implementation of the 2019 budget and the 2020 budget need to comply with the principles of sound financial management.



FINNISH
GOVERNMENT

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**PRIORITY DOSSIERS UNDER THE FINNISH EU COUNCIL
PRESIDENCY**



INTRODUCTION:

Finland is a Republic whose Head of State is President Sauli Niinistö. He leads the nation's foreign policy, in cooperation with the Government, and is the supreme commander of the Finnish Defence Forces. Legislative power is vested in the Parliament, called the "Suomen Eduskunta". The Parliament of Finland is unicameral, composed of 200 Members who are elected for a four-year term by proportional representation. With its multiple political parties, Finland is invariably ruled by coalition governments.

On 6 June 2019, Mr Antti Rinne was appointed Prime Minister of Finland's 75th government. Rinne's government is composed of the Social Democratic Party, the Centre Party, the Greens, the Left Alliance and the Swedish People's Party of Finland. The Minister for European Affairs is Ms Tytti Tuppurainen.

POLITICAL PRIORITIES OF THE FINNISH PRESIDENCY

This note looks at the Finnish Presidency priorities as announced in June 2019. Finland has identified four core priorities, which will guide its work until December 2019. These are:

- Strengthening Common values and the Rule of Law,
- A competitive and socially inclusive EU,
- EU as a global leader in climate action, and
- Protecting the security of citizens.

The challenges currently facing the Union are well known and include in particular Brexit with an exit date currently set on 31 October 2019, and the **Multiannual Financial Framework 2021-2027 (MFF)** (2018/0166 APP), which the Finnish Presidency pledges to carry forward. There are also the numerous difficulties at the international level, with serious challenges to the rules-based international system as well as environmental threats confronting the planet.

In light of this, **sustainability** should be, according to the Finnish Presidency, the key factor underpinning all EU action, going beyond the 2030 Agenda for Sustainable Development. The Finnish Presidency considers that the EU should play a prominent role in climate action by adopting a long-term climate strategy that would render the EU climate neutral by 2050. Against this background, Finland pledges to take a leading role as regards the **EU's Arctic Policy**, to ensure the region's stability, and its economic and employment potential.

This will be the first Presidency to work with the new priorities of the **Strategic Agenda 2019-2024** endorsed by the Member States at the European Council on 20 June 2019, and with the new Commission President's political guidelines. The Strategic Agenda covers the protection of citizens' freedoms; developing a strong and vibrant economic base; building a climate-neutral, green, fair and social Europe; and promoting European interests and values on the global stage.

I. STRENGTHENING COMMON VALUES AND THE RULE OF LAW

Finland considers adherence of Member States to the core values of the EU to be the cornerstone of the proper functioning of the EU. It is a matter of protecting both citizens as well as the European economy.

Concretely, Finland intends to work on strengthening the **EU's rule of law toolbox**. The rule of law dialogue within the Council will be evaluated to achieve a more structured and result-oriented direction. The idea of a **peer review mechanism** will be further analysed and likewise work on negotiations on making the receipt of EU funding conditional on the respect of the rule of law. Similarly, work will continue in the fight against corruption with the aim of instilling public confidence in institutions and sound financial management.

All policy sectors should promote equality and social inclusion, to this end a **gender equality strategy** is necessary.

II. A COMPETITIVE AND SOCIALLY INCLUSIVE EU

The Finnish Presidency will look to those sectors crucial to growth, competitiveness and job creation. To this end, measures are necessary to improve the functioning of the Single Market and to promote an ambitious rules-based trade policy. A better functioning Single Market demands a holistic approach which incorporates also the digital revolution and competition policy, as well as industrial and trade policy. A further development of the **European Pillar of Social Rights** should go alongside this deepening of the Single Market, rendering it more visible to citizens.

Concretely, the Finnish Presidency outlines the need for a **revision of employment legislation** and **social protection systems** to take into account new forms of employment and business structures. Specifically, it is crucial to safeguard the terms and conditions of **posted workers** in the country of employment.

THE SINGLE MARKET

With regard to the Single Market, there will be a special focus on the **service sector**. It is necessary to promote digital services and to eliminate barriers to cross-border trade in services. For Europe to become a global leader in the digital economy there must be a focus on digitalisation of sectors like health and mobility, as well as in the cultural and creative industries. The Finnish priorities single out **Horizon Europe** as the main programme that could be used to boost digitalisation, innovation and technological development. This needs to go hand in hand with the management of data, its interoperability and use as the basis for digital services.

One other concrete action for a deeper Single Market lies in the **transport sector**. The Finnish Presidency pledges to further the progress on the **Mobility Package**, which was left open by the eighth legislature, as well as the framework for developing high-quality digital services and on promoting **Mobility as a Service (MaaS)**, well-functioning transport networks and carbon-free transport.

In the field of education, the Finnish Presidency highlights the importance of strengthening the **Erasmus Programme** and of creating a networked European super-university model.

Furthermore, **labour mobility** within the EU and the recruitment of top talent from third countries should be encouraged via a system of legal entry routes into the EU. This implies reviving or proposing again the legislative proposal known as the **Blue Card Directive**. Linked to labour, there is also the need to increase the participation of women in the labour market through actions to promote gender equality, work-life balance, and improvements in occupational health and safety public health policies and part-time work schemes.

A RULES-BASED TRADE POLICY

The EU is seriously impacted by recent attempts at protectionism, and the undermining of the WTO system by a number of countries. The Finnish Presidency considers that there should be a focus on the modernisation of the **World Trade Organisation (WTO)**, with a focus on the organisation's binding dispute settlement mechanism.

Concretely, finalising balanced and progressive Free Trade Agreements remain a priority. Some of these are very close to closure, such as MERCOSUR and Vietnam, while others, such as Mexico, have encountered some obstacles and completion remains problematic. The EU has also several other planned trade agreements including with Chile, Australia, New Zealand, Indonesia and Thailand.

Amongst its priorities in this regard, the Finnish Presidency considers also of primary importance the strengthening of trade relations with the **USA** and **China**. As to the latter, the general aim would be to reach an Investment Protection agreement with China by the end of 2020.

AN INCLUSIVE ECONOMIC UNION

The priorities of the Finnish Presidency include, as an essential element, the completion of the **Banking Union**. The latter should serve to finance investments in technological development and for addressing climate change. The Finnish Presidency will carry on the work of the agreed roadmap and pledges to seek progress on the question of **regulatory treatment of sovereign exposures** and on the **common deposit insurance scheme**.

Other areas requiring further action are the strengthening of the **Economic and Monetary Union (EMU)**, a budgetary instrument to cater for the special needs of the euro area and digital taxation. Actions to tackle aggressive tax planning and evasion, and reducing harmful tax competition are essential for the better functioning of an economic union.

III. EU AS A GLOBAL LEADER IN CLIMATE ACTION

The EU needs to formulate its long-term climate strategy to the UN by 2020, under the commitments made in the Paris Agreement. This will require the identification of a long-term climate strategy, which the Finnish Presidency sets out to accomplish by the end of 2019. There is in parallel a need to integrate climate policy in all sectors of the economy, including the **implementation of the Energy Union**. The Finnish Presidency will support the effective implementation of the Commission's updated **bio-economy strategy**. With regard to the circular economy, while there has been significant progress with the concentration on plastics and waste and consumer empowerment, there is a need to move to the circular use of materials for decreasing greenhouse gas emissions and stopping loss of biodiversity.

Concretely, one of the Finnish priorities will be to promote a **Common Agricultural Policy (CAP)** that takes account of climate change. This will come in the context of the negotiations on the MFF.

IV. PROTECTING THE SECURITY OF CITIZENS

While the **EU Internal Security Strategy** has proven to be a sustainable framework for cooperation among Member States, more should be done in the use of external action instruments such as trade policy and development aid. The Internal Security Strategy can be re-evaluated, in order to strengthen the EU's response to new threats.

It is also important to be able to act more swiftly in the face of crises. Consideration should be given to the possibility of changing the voting procedures in the Council in what concerns some areas of the **Common Foreign and Security Policy (CFSP)**. Equally important is the reform of financing for EU external action in the next MFF, whereby political priorities and cost-effective financing are linked in a coherent manner.

The **EU Africa partnership** is an essential element of the Finnish programme. Africa is a crucial continent for the EU and emphasis should be placed on promoting trade and investment, with a focus on women and youth, as well as sustainable development and climate action.

The **Eastern Partnership** remains crucial for the stability of the EU neighbourhood; Finland will continue the work with the six partner countries in this regard. Likewise, in the EU's Southern Neighbourhood, more emphasis needs to be placed in the mediation of conflicts, under the auspices of the UN, particularly in the Middle East and North Africa.

On the **Western Balkans**, Finland will carry on the work on a credible enlargement for this region. Of particular importance is the need to make EU membership contingent on the commitment of accession countries to EU values.

The Finnish Presidency intends to work in a more structured and organised way, both at EU and Member States' level, to combat hybrid threats, defined as a combination of various activities and tools (e.g. cyber-attacks, election interference and the spreading of fake news) used in a coordinated manner by state and non-state actors with a political objective. To this end, two channels are already in place - one is furthering **EU-NATO cooperation**, and the other is the **European Centre of Excellence for Countering Hybrid Threats**, which is an inter-governmental organisation based in Helsinki and established under the auspices of the EU and NATO.

CONCLUSIONS

It is also under the Finnish Presidency that the European Parliament, the Council and the Commission should agree on joint programming of legislative priorities on an annual basis in the form of a **Joint Declaration** signed by the three Presidents. In this respect, the EP will have to define its priorities, next to Council's Strategic agenda, the political guidelines of the new Commission President and other programmatic documents. A number of priority files, listed in the EU's Legislative Priorities for 2018 and 2019, remain pending and it remains to be seen to what extent these legislative proposals will be taken up by the new legislature (c.f. unfinished business decision).

One should mention in this context the package forming the **Common European Asylum System (CEAS)**, which feature also in the Finnish Presidency priorities. The Finnish Presidency proposes that a way forward out of the impasse on these migration files would be to separate the package and move forward on the ones where a partial, provisional agreement was reached. These are:

- European Union Agency for Asylum* (2016/0131 COD);
- Asylum: EURODAC* (2016/0132 COD);
- Standards for the reception of applicants for international protection* (2016/0222 COD);
- Standards for the qualification of third-country nationals or stateless persons as beneficiaries of international protection* (2016/0223 COD);
- Union resettlement framework* (2016/0225 COD).

On the other hand, the **Dublin Regulation** proposal and that on **International Protection** remain a cause for deep divergence among Member States. The Finnish Presidency also proposes that it would be constructive to establish a temporary relocation mechanism for migrants rescued at sea, as opposed to solving, on a case-by-case basis, internal relocation within the EU.

Finally, together with the afore-mentioned migration challenges, Finnish Presidency will be focusing on further progress on the MFF negotiations and on a smooth BREXIT in the interests of the EU and all Member States. In addition, because climate change is affecting our way of life, the future MFF programmes should contribute also to our common climate targets. Raising by 25% the EU budget for climate-related funding would go in this direction. Likewise, the EU Arctic policy and projects funded through various EU instruments should be used to combat climate change.

3. Finnish Presidency priorities discussed in parliamentary committees⁶

Ministers are outlining the priorities of the Finnish Presidency of the Council of the EU to parliamentary committees, in a series of meetings.

Finland holds the Presidency of the Council until the end of 2019. The first series of hearings took place in July. A second set of hearings took place in September.

Transport and Tourism: need for EU level action to boost tourism development

Europe needs a broader offering of transport services, and automation will be key to solve environmental and safety challenges, Transport and Communications Minister Sanna Marin told MEPs on Wednesday. Regarding the legislative proposals tabled so far, the Presidency will try to reach a position on rail passenger rights and Eurovignette, will continue working on summer time arrangements and is ready to negotiate on the Mobility Package. They would also like to put air passengers' rights back on the agenda.

Economic Affairs Minister Katri Kulmuni, responsible for tourism, said that the main priority in this field will be to boost digitalisation of the tourism sector to accelerate growth and employment.

MEPs voiced support for concluding the legislative work on the Single European Sky and Eurovignette proposals. They also quizzed the ministers on rail transport, how to overcome differences on the mobility package, the proposal to open up coach and bus markets, how to ensure that there is a reduction in traffic levels with increasing automation as well as financial support for the tourism sector under the new EU long-term budget.

Agriculture and rural development: CAP, food chain, diseases

A balanced long-term budget and progress in EU farm policy reform are among the key priorities of the Finnish Council Presidency, Agriculture Minister Jari Leppä told MEPs on Wednesday 4 September. In the debate that followed, MEPs insisted that the CAP should remain a common and properly funded EU policy, while it should be simpler and more sustainable. Many members expressed concerns over the impact that trade agreements, particularly the EU-Mercosur one, might have on EU farmers and consumers. They also debated the future EU forest strategy and ways to step up the fight against climate change.

Civil Liberties, Justice and Home Affairs

Finland is determined to move forward with the Article 7 procedures against Hungary and Poland, said Justice Minister Anna-Maja Henriksson to the Civil Liberties Committee on Wednesday 4 September. She stressed that "rule of law is the glue that keeps the European Union together". Henriksson also highlighted the importance of the European Public Prosecutor's Office and promised to work closely with the Parliament to ensure that a European Chief Prosecutor is appointed swiftly.

Interior Minister Maria Ohisalo underlined that "the European asylum system needs to be reformed" and assured MEPs that Finland will do its utmost to build trust among member states. Regarding the

⁶ <https://www.europarl.europa.eu/news/en/press-room/20190724IPR57853/finnish-presidency-outlines-priorities-to-ep-committees>.

situation in the Mediterranean, Ohisalo stated that “we have to stop the deaths; we are not doing well at all”. Assuming that a permanent mechanism will take time, she proposed a temporary scheme to ensure quick disembarkation of people rescued at sea, involving many member states on a voluntary basis.

MEPs welcomed the presidency’s priorities, but demanded further explanation on the review of the rule of law tool box and the measures to be taken to find solutions in the field of migration management. They also quizzed the ministers on internal security topics, specifically the possible extension of the exchange of Passenger Name Record (PNR) data to rail and ship passengers.

Legal Affairs

Justice Minister Anna-Maja Henriksson said the Presidency’s goal is to strengthen the rule of law and justice toolbox, which includes joint training of legal professionals, support for civil society and reinforcing the European justice scoreboard. “In the future, digitalisation and technological advances can help contribute to speeding up and improving access to justice”, she said.

Priorities include ensuring a fair and predictable environment for companies, combating tax evasion and finding a way to take the proposal on country-by-country reporting forward in the Council. The Presidency will also work to reach an agreement on the representative action directive (part of the New Deal for Consumers) by the end of the autumn. MEPs welcomed the Presidency’s ambition to prioritise rule of law as a main concern and raised questions ranging from Artificial Intelligence to the impact of climate change on human rights, tax evasion and gender balance.

Regional Development: Cohesion, a common European value

Economic Affairs Minister Katri Kulmuni also presented on Tuesday the priorities in the field of regional development, which include making EU cohesion policy more result-oriented, efficient and thematically focused. She also stressed the important role it has in boosting research and innovation as well as in creating resilience to globalisation.

MEPs welcomed the announcement of the minister that the Presidency is ready to resume inter-institutional negotiations as soon as possible, with priority given to ensuring a prompt start of “next generation programmes”.

Industry, Research and Energy

Economic Affairs Minister Katri Kulmuni underlined on Tuesday that Finland will promote a modern industrial policy driven by the digital economy, with a strong focus on research and innovation to create sustainable growth in the EU. This will also be significant in the transition towards a climate-neutral economy. She also said that an agreement among member states on the EU’s 2021-2027 budget is an important objective. Transport and Communications Minister Sanna Marin told MEPs that building citizens’ trust in new technology should also be a priority, for instance on artificial intelligence.

MEPs welcomed the presentation, but stressed the need to be ambitious on the EU’s long-term budget, as an increase in funds, not least for research and technology, is needed to promote jobs and

growth. The Committee Chair also urged the Presidency not to cut EU funding for research and innovation in the 2020 budget, as proposed by

Employment and Social Affairs: promoting fair labour mobility across the EU

Employment Minister Timo Harakka told MEPs on Wednesday that the most important goal of the Presidency is ensuring a sustainable future. To achieve this goal, Finland will promote “an accelerated transition to a climate-neutral economy in a way that is socially sustainable”, he added.

Improving workers’ skills as well as protecting workers were among the issues debated. Questioned by MEPs on measures to assist people with disabilities into work, the Minister said they are currently drafting Council conclusions on promoting the employment of persons who have difficulty accessing the job market. Mr Harakka told MEPs that he is looking forward to further work on a possible EU minimum wage, while Social Affairs and Health Minister Aino-Kaisa Pekonen stressed that the European Semester and the EU Social Pillar should integrate the aspect of wellbeing.

Foreign Affairs

Strengthening EU ties with Africa, working together in the Arctic, boosting common action to counter hybrid threats, while continuing to combat climate change were some of the priorities outlined by Foreign Affairs Minister Pekka Haavisto, on Monday 2 September. He also advocated the introduction of qualified majority voting when making decisions on foreign policy in the Council, to ensure the EU has a more united voice internationally. On enlargement, the Minister said he was in favour of opening accession negotiations with Albania and North Macedonia, while still keeping the dialogue with Turkey open, despite the latter having drifted in the wrong political direction for many years.

MEPs questioned the Minister on Iran, Hong Kong, the Middle East, Russia, the Amazon, Ukraine and the Western Balkans. While some Members criticised the EU’s efforts to tackle irregular migration and welcome potential new member states, most support the Presidency’s proposals to strive for qualified majority voting in the Council. They also called on the Finnish government to support maintaining sanctions against Russia.

Women’s rights and gender equality: work-life balance, women on boards and Istanbul Convention

Thomas Blomqvist, Minister for Nordic Cooperation and Equality, told Women’s Rights Committee MEPs on Monday 23 September that one of the main priorities of the Finnish Presidency in terms of gender equality was to incorporate a gender perspective into the EU’s economic policies and budget process. Mr. Blomqvist mentioned several issues the Finnish presidency is willing to fight for in the coming months: closing the gender pay gap and pension gap, promoting the ratification of the Istanbul Convention on preventing and combating violence against women, trying to find a majority in the Council to unblock the Women on Boards Directive, and keeping an eye on the implementation of the work-life balance Directive. Women’s Rights MEPs quizzed the Minister on a number of additional issues such as the protection of women’s sexual and reproductive rights, sexual exploitation and femicide.

Economic and monetary affairs: banking and capital markets union, European Monetary Fund

ECOFIN Chair and Finance Minister Mika Lintilä said, on Wednesday 4 September, that the Presidency plans to make progress on the capital markets union and the banking union, including tackling banks' non-performing loans as well as work on the European deposit insurance scheme (EDIS). Also high on the priority list is the fight against tax fraud and profit shifting, together with harmonised digital taxation in the EU and a financial transaction tax. Finally, the Presidency wants to make the EU's financial infrastructure more resilient to cyber threats and intertwine economic and environmental policies to fight climate change.

MEPs were pleased with the priorities presented to them, but insisted on EU action against climate change, money laundering and tax evasion. They expect concrete proposals on digital taxation and green finance. Finally, committee members were more sceptical about completing the banking union and the EDIS, pointing out the lack of political will and resistance to risk sharing.

Culture and education: mobility, inclusion, support for artists and fair remuneration for authors

Education Minister Li Andersson presented on Wednesday 4 September three key priorities: lifelong learning, removing all existing barriers to mobility in the culture sector as well as making education more effective and improving the quality of education. MEPs asked the Presidency to step up support for vocational training, development of digital skills in education, as well as inclusion and the fight against discrimination. They also insisted that Erasmus must be adequately financed during the negotiations for the next budgetary period of the programme.

Science and Culture Minister Hanna Kosonen, during the same meeting, highlighted the Creative Europe programme as the main priority in this field. She said that her work will focus on further developing the audiovisual sector, including new technologies, high quality content, engagement with the audience and digital transformation. In the field of youth, Kosonen underlined the quality of youth work, training for young workers and digital youth work as main priorities, while the fight against corruption and doping are the priorities for the sport sector.

Internal Market: Online platforms, market surveillance, consumer protection rules

"Our priorities are closely linked with the objective of achieving sustainability", said the Employment Minister Timo Harakka to Internal Market and Consumer Protection MEPs on Monday, 2 September. He highlighted in particular the sustainable growth agenda and its importance from an economic, environmental and social perspective. The digital economy, including digital services, implementing consumer protection laws efficiently and the MFF files related to the single market and customs are also high on the Presidency's programme, the Minister confirmed.

Digitalisation, artificial intelligence, support for SMEs, geoblocking, digital skills, product safety, customs and dual quality of products were among the issues discussed further with MEPs. On Brexit, Mr Harakka said: "We are prepared for many outcomes, but unexpected things can happen".

III. Politics in Finland

1. Political System⁷

Finland is a parliamentary democracy based on competition among political parties, power being divided among the highest organs of government. It does not in every respect fit into categories of parliamentarism constructed by political scientists. After some incremental changes in the 1990s, culminating in the constitutional reform of 2000, the elements of the Finnish parliamentary system are seeking and finding new roles that are tested and concretised in everyday politics.

The Finnish Constitution crystallizes the main principles of governance in very plain terms. Power in Finland is vested in the people, who are represented by deputies assembled in Parliament. Legislative power is exercised by Parliament, the President of the Republic having a minor role. The highest level of government of the state is the Council of State (the Government) which consists of a Prime Minister and a requisite number of ministers. Members of the Government shall have the confidence of the Parliament. Judicial power is vested in independent courts of law, at the highest level in the Supreme Court and the Supreme Administrative Court.

A distinctive feature of Finland's Constitution is its rigidity. A constitutional law can be amended only if two-thirds of the members of Parliament agree. Two consecutive Parliaments have to adopt the changes. The same Parliament can amend a law if the amendment has previously been declared "urgent". This calls for a five-sixths majority, which means agreement among at least four or five parties. In spite of this formal rigidity, there have been many incremental changes to the Constitution during the past twenty years. One aim has been to increase the flexibility of political decision-making. The price of this has been a weakening of the parliamentary opposition's available options for manoeuvre.

Relations between Parliament, the Government and the President of the Republic are governed by the principles of European party-based parliamentarism. The Government must enjoy the support of a majority in Parliament, which elects the Prime Minister. The President traditionally has had considerable power in the area of foreign policy, although not as much or such undisputed power as his or her American or French counterparts. Under the constitutional reform of 2000, the President's power in other political areas is limited; but the power to appoint senior civil servants does incorporate the potential for acts of political significance. The Government has to cooperate with both the President and Parliament, but when successful, this relationship strengthens the Government's position in practical politics.

2. Brief history of the parliamentary institution⁸

The history of the Finnish Parliament can be traced back to the 17th century, when the four estates of Finland were given the right to send their own representatives to the Swedish Riksdag of the Estates. At its birth in 1906, the Finnish Parliament (Eduskunta) was something of a rarity. It was unicameral

⁷ <https://finland.fi/life-society/parliamentarism-in-finland/>.

⁸ <https://finland.fi/life-society/parliamentarism-in-finland/>.

and elected by universal suffrage, women included. Basically, the key elements of parliamentary organisation have remained unchanged for the past 100 years. In elections to choose the 200 Members of Parliament in recent years, about 70 percent of Finns over the age of 18, and eligible to vote, have done so. In the Parliament elected in 2011, no less than 85 of the members were women.

Parliament convenes – usually four times a week – for plenary sessions during which it debates matters, or rather makes speeches about them, and makes decisions by voting. MPs often put questions to members of the Government. It is unusual for an MP to vote against his or her party line. In principle, MPs have a free mandate; but in practice they have a party mandate, as in many other countries.

Much of an MP's time is spent working in committees. The committees are preparatory bodies, usually comprising 17 MPs, through whose hands pass matters to be decided by Parliament. The committees regularly engage outside experts. The composition of the committees reflects the strength of each party in Parliament. As can be seen from the results of parliamentary elections, no single party is in a decisive position. Meetings of the parties' own parliamentary groups are also important working forums for MPs.

Parliament has three main functions through which it represents the people and makes basic decisions on Finnish policy. It passes laws, it debates and approves the national budget and it supervises the way the country is governed.

Passing laws is a complicated process that usually begins with the Government placing a bill before Parliament, which it does some 200 to 300 times a year. Individual MPs may, and often do, propose legislation, but Government bills take preference and are better prepared. Parliament has no official machinery for making or preparing proposals. To be passed, a bill must have the support of a majority in Parliament and it must be signed by the President of the Republic. It takes about two to four months for a bill to be processed, in some cases even longer.

3. Recent political context

The President of Finland is the Head of State, leader of foreign policy, and the Commander-in-Chief of the Defence Forces. The President appoints the Prime Minister. The main executive power lies in the Cabinet, which is appointed and headed by the Prime Minister. Before the constitutional rewrite completed in 2000, the President enjoyed more power.

Legislative power is vested in the Parliament of Finland (Eduskunta), with the Government holding limited rights to amend or extend legislation. It is composed of 200 deputies elected for four years by proportional representation. The President has the power of veto over parliamentary decisions although it can be overrun by the parliament.

Finland has a multi-party system to ensure a single party does not have a chance to gain power alone. Parties work with each other to form coalition governments. Finland's Centre Party dominated the

most recent national elections; however the party will struggle to form a government unless it is able to form a coalition with left-right influences.

IV. Political Actors

1. Presidency of Finland⁹



First name: Sauli
Surname: Niinistö
Date of birth: 24 August 1948
Place of birth: Salo

Sauli Niinistö is the 12th President of the Republic of Finland. He was inaugurated on 1 March 2012 and was re-elected for another six-year term in January 2018. It was a historic victory as it was the first time ever for a Finnish presidential candidate to secure more than 50% of the popular vote already in the first round.

Sauli Niinistö was born in Salo on 24 August 1948. He graduated from the University of Turku with a Bachelor of Laws degree in 1974 and was subsequently employed as a rural police chief and, for more than ten years, as an assistant judge at the Turku Court of Appeal. He also practiced law as an attorney and gained experience of corporate administration. He began his political career in 1977 when he was elected to the Town Council of Salo. He continued to hold elected posts in local government until the 1990s.

Sauli Niinistö was first elected to Parliament in 1987. His elected posts while in Parliament included chairing the Constitutional Law Committee. In 1995, he was appointed Minister of Justice and Deputy Prime Minister. Reshuffled to the Ministry of Finance in 1996, he eventually became Finland's longest-serving Minister of Finance to date. When he took up this post, the aftermath of the 1990s recession was at its worst, and unemployment was at record high levels. Those difficulties were overcome, however, and Finland entered the new millennium with a robust economy.

Sauli Niinistö was Chairman of the National Coalition Party from 1994 to 2001. In addition to his political activities in Finland, he was the Chairman of the European Democrat Union (EDU), with a membership of center-right parties from almost all European countries, from 1998 to 2002. He was instrumental in merging the EDU with the European People's Party (EPP) and was appointed the second Honorary President of the latter.

In 2003, Sauli Niinistö took up the post of Vice President of the European Investment Bank in Luxembourg. His purview included R&D funding and funding activities in the Nordic countries and Russia, and he was also chairman of the Northern Dimension Partnership Programme. He has also been a Member and Chairman of the Board of Governors of the European Bank for Reconstruction and Development (EBRD) and a Member of the International Monetary and Financial Committee (IMFC).

⁹ <https://www.presidentti.fi/en/curriculum-vitae/sauli-niinisto/biography-of-sauli-niinisto/>.

Sauli Niinistö returned to the Finnish Parliament in the 2007 election with the highest number of votes ever gained by a candidate. He was Speaker of Parliament from 2007 to 2011.

President Niinistö is married to Jenni Haukio and they had a son, Aaro, in February 2018. Their family also includes Lennu, a Boston Terrier. In addition, president Niinistö has two adult sons from his previous marriage with Marja-Leena Niinistö. Marja-Leena Niinistö died in a in a car crash in 1995. Sauli Niinistö survived the 2004 Indian Ocean earthquake and the ensuing tsunami in Khao Lak, Thailand by climbing a utility pole with his son.

President Niinistö is active in sports and was also Chairman of the Finnish Football Association from 2009 to 2012 and Chairman of the organising committee for the 2009 European Figure Skating Championships. He has written two books.

2. Prime Minister of Finland¹⁰



First name: Antti

Surname: Rinne

Date of birth: 3 November 1962

Place of birth: Helsinki

Prime Minister, 6 June 2019 to present

Party Leader, Master of Laws, Member of Parliament Social Democratic Party

Political career

Prime Minister, 6 June 2019 to present

Minister of Finance and Minister deputising for the Prime Minister (Stubb), 24 June 2014– 29 May 2015

Minister of Finance and Minister deputising for the Prime Minister (Katainen), 6 June 2014–24 June 2014

Party Leader, Social Democratic Party, 2014 to present

Member of Parliament, 2015 to present

Parliament work [Link to an external website](#)

Mäntsälä Local Council, Member 1996–2004, 2012 to present

Lohja Local Council, Member 1988–1992

Other work experience and societal responsibilities

Trade Union Pro, Chair 2010–2014

Unemployment Fund Pro, Chair 2011, 2013–2014 and Vice Chair 2012

¹⁰ <https://vnk.fi/en/rinne/prime-minister>

Union of Salaried Employees TU, Chair 2005–2010
Federation of Special Service and Clerical Employees, ERTO, Chair 2002–2005
Asianajotoimisto Oy Rinne&Tiainen, Advocate 2002
Border Guard Union, Lawyer 1997–2002
Member of Parliament’s personal assistant (Coordinate Minister of Finance) 1997–1998
Lakiasiaintoimisto Antti Rinne, entrepreneur 1996–2001
Transport Workers' Union AKT, Lawyer, 1987–1996
Rautavaara and Karttula districts, Rural Police Officer 1987
Runopirkka Oy/Veikko Sinisalo, Driver, Stage Man 1984–1986
Finnish Federation of the Visually Impaired, Driver, Mailer 1982–1984
Ritaspuu Oy, Sawmill Worker 1981–1982
Industrial Employees TP, Chair 2008–2010, Vice Chair 2006–2008, 2011–2014
Unemployment Insurance Fund, Supervisory Board, Member 2008–2014
VVO Group plc, Board, Member 2006–2014
Finnish Confederation of Professionals STTK, Board, Member 2002–2014, Vice Chair 2005–2014
Varma Mutual Pension Insurance Company, Supervisory Board, Member 2003–2005
Nordic IN, Federation of Industrial Workers' Unions in the Nordic Countries, Board, Member 2005–2014, Vice Chair 2013–2014
European Metalworkers Federation, Board, Member 2006–2014
Council of Nordic Trade Unions, Board, Member 2006–2012

3. Presidencies of Parliament¹¹

Speaker of Parliament



First name: Tuula
Surname: Haatainen
Date of birth: 11 February 1960
Place of birth: Tuusniemi
Political party: Social Democratic Party of Finland

Education:
Matriculated 1978 (Kuopion yhteiskoulu), nurse 1981 (Kuopion sairaanhoito-oppilaitos), Master of Social Sciences 1994 (University of Helsinki)

Career:

Vehmersalmi Comprehensive School, upper level, substitute teacher 1978
nurse at the Invalid Foundation's hospital 1981-1982
studies at the University of Helsinki, work as substitute at the Helsinki City Health Department 1982-
nurse, Ålands centralsjukhus 1984
Research assistant at SII social security research institute 1986-1987

¹¹ <https://www.eduskunta.fi/EN/kansanedustajat/Pages/538.aspx>

Probation and After Care Association, research assistant 1988
secretary-general, Social Democratic Women 1989-1996
Member of Parliament 1996-2007
City of Helsinki Deputy Mayor (Education, Culture and Personnel Affairs) 2007-2012
Deputy Director General of the Association of Finnish Local and Regional Authorities 2012-2015

4. Cabinet of Finland (as of June 2019)

ANDERSSON Li	Minister of Education
LINTILÄ Mika	Minister deputising for the Prime Minister
KULMUNI Katri	Minister deputising for the Prime Minister
KULMUNI Katri	Minister of Economic Affairs
LINTILÄ Mika	Minister of Finance
HAAVISTO Pekka	Minister for Foreign Affairs
OHISALO Maria	Minister of the Interior
SKINNARI Ville	Minister for Development Cooperation and Foreign Trade
HENRIKSSON Anna-Maja	Minister of Justice
HARAKKA Timo	Minister of Employment
KAIKKONEN Antti	Minister of Defence
PAATERO Sirpa	Minister of Local Government and Ownership Steering
MARIN Sanna	Minister of Transport and Communications
SAARIKKO Annika	Minister of Science and Culture
KOSONEN Hanna	Minister of Science and Culture
TUPPURAINEN Tytti	Minister for European Affairs
MIKKONEN Krista	Minister of the Environment and Climate Change
LEPPÄ Jari	Minister of Agriculture and Forestry
PEKONEN Aino-Kaisa	Minister of Social Affairs and Health
KIURU Krista	Minister of Family Affairs and Social Services
BLOMQVIST Thomas	Minister of Nordic Cooperation and Equality

5. Main Political Parties¹²



The **National Coalition Party (Kokoomus – KOK)** supports *centre-right liberal conservatism*. The party is moderately liberal and reformist. Its fundamental values are: freedom, responsibility, democracy, equal opportunity, education, incentive, respect for others and caring. Individualism and entrepreneurship are promoted. The party wishes to cherish Finland's national heritage, language and culture. It works for the education and cultural advancement of the people. In particular, the party wishes to promote entrepreneurship and improve business conditions. It emphasises the social responsibility of people and companies. Nature, the environment and other people should be respected.



The **Social Democratic Party of Finland (SDP)** supports *social democracy*. It wants people to unite and work together towards a common goal. The party's ideal is a free and equal society based on solidarity, cooperation and peace. A clean, unspoiled environment is an important goal. The party's view of socialism is expressed as follows: 'defending the oppressed against the oppressor, defending the disadvantaged against the powerful.' The party is opposed to uncontrolled capitalism and conservative values. It supports the welfare services provided by the state and municipalities.



The **Finns (Perussuomalaiset – PS)** supports *nationalist social conservatism*. The party represents Finnish nationalism and is very critical of the European Union. Its values are based on conservative, Christian and social values. The party seeks to promote economic security, education and welfare. Its goal is to improve employment and encourage entrepreneurship in Finland. Its values include populism 'which underlines the conflict between the people and the elite and claims to represent the people irrespective of popular support.' Members include supporters from the extreme right to the extreme left. The party underlines the importance of Finnish identity and wants to clearly restrict immigration. Another goal is to recover decision-making powers from the European Union back to the member states.



Keskusta

The **Centre Party (Suomen keskusta – KESK)** is a centrist party that supports *social liberalism*. The party is moderately reformist and supports social ideals and values. The Centre Party is known to defend the interests of Finnish agriculture and considers it important that both services and jobs remain safe all over Finland. The party pursues an ecological policy to protect natural assets. It seeks peace and cooperation. Equality is also important. The party seeks to promote humanity and freedom with responsibility through education and culture. Society must be inclusive and supportive of entrepreneurship. The party wishes to make it easier for companies to employ people. About half of the members are opposed to the EU.

¹² <https://europarlamentti.info/en/elections/political-parties/Finland-parties/>.



vasemmisto

The **Left Alliance of Finland (Vasemmistoliitto –VAS)** is *left-wing green socialism*. The party supports purely social values. Its fundamental values include equality, democracy, freedom and sustainable development. The party seeks to combine liberalism with socialism. Feminist thinking and environmental awareness are important. The party works for a just and fair world economy and democracy. The Finnish welfare state should be developed and capitalism controlled. Terms of employment may not be made worse. Speculation with short-term employment contracts must be prevented. The trade unions must have a strong position. Everybody must have the right to work and an income. People may not be discriminated against because of gender, sexual orientation or religion. Immigrants should be encouraged and enjoy the same rights as other people in Finland. The party does not support socialist totalitarianism. Its supporters are fairly critical of the EU. In their opinion, more attention should be paid to social issues in the European integration process. The economy must not dictate all developments. The party failed to get any candidate elected to the European Parliament for the electoral period of 2009–2014.



The **Greens of Finland (Vihreä liitto – VIHR)** supports *green social liberalism*. The party is mainly concerned about the environment and animal rights. It is a strongly reformist party: 'the greens are not left, not right but simply ahead.' The party is critical of both socialism and the market economy saying that neither economic system gives enough consideration for the environment and developing countries. According to the party, more attention should be given to future generations and spiritual values. Money must not be allowed to dictate everything. The party supports feminism and multiculturalism. Most supporters are in favour of same-sex marriage and adoption rights. Half of the supporters are opposed to compulsory military service.



The **Swedish People's Party (Suomen ruotsalainen kansanpuolue – RKP)** is a centrist party that supports *social liberalism and the position of the Swedish language*. It is a reformist party that seeks to promote equality. In particular, the party looks after the interests of the Swedish-speaking population in Finland. It seeks to promote and maintain services in Swedish and supports a bilingual Finland. Gradually, the party has extended its range to promote the interests of other minorities as well. It is a non-socialist party but includes a liberal, conservative and agrarian wing. Even though the party is small, it has held posts in almost every Finnish cabinet. The party promotes the rights of sexual minorities, including the right of homosexual and lesbian couples to adopt. The party seeks to fight economic crime, but is opposed to extending the police's rights of access to information. The party is a supporter of the European Union.



Kristillisdemokraatit ARVOISTASI POLITIIKKAA.

The **Christian Democrats (Suomen Kristillisdemokraatit – KD)** supports *centre-right social conservatism*. Ideologically, the party is somewhere between the Centre Party and the Coalition Party. The party's primary goal is to ensure that Christian values are taken into account in decision making. The party drives a public debate on values and is concerned about morals in society. The party is involved in social issues and defends the weakest. It supports an ecological and social market economy. There must be private companies, cooperatives and state-owned enterprises in society. All must act fairly

and show solidarity. All people must be guaranteed a minimum income. People should be encouraged to take responsibility for their own life. Politics must be based on Christianity. All must be looked after and all must be respected. The family is the core of society. Marriage is a union between man and woman. The party is opposed to the registration of homosexuals and lesbians' civil partnerships. Life should be respected. Abortion should be allowed only when the pregnant woman's life is at risk. Freedom always involves responsibility.

In the European Parliament the party is an observer in the European People's Party (EPP).



Office for Democratic Institutions and Human Rights

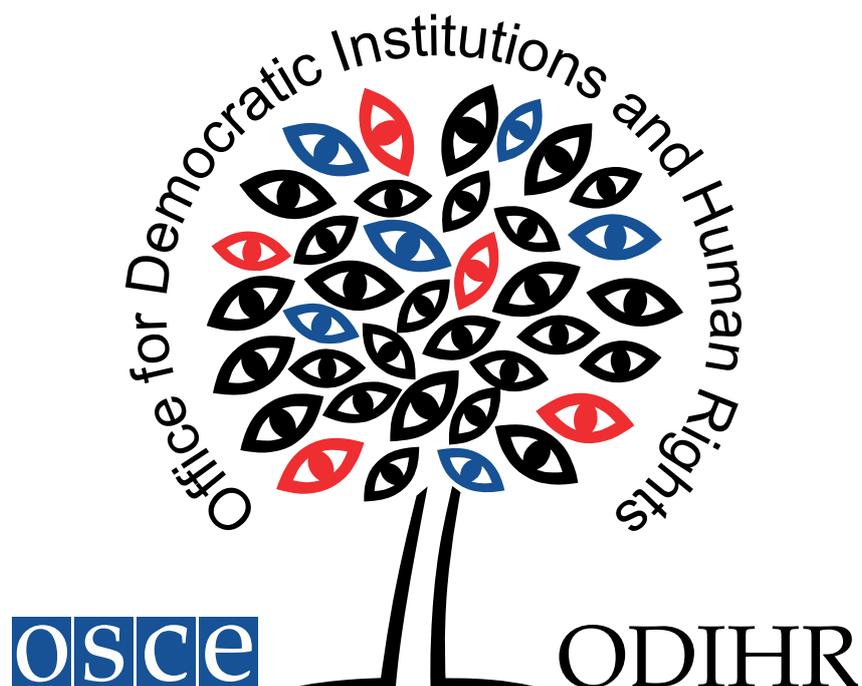
REPUBLIC OF FINLAND

PARLIAMENTARY ELECTIONS

14 April 2019

ODIHR NEEDS ASSESSMENT MISSION REPORT

23-25 January 2019



Warsaw
18 February 2019

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**REPUBLIC OF FINLAND
PARLIAMENTARY ELECTIONS
14 April 2019**

ODIHR Needs Assessment Mission Report

I. INTRODUCTION

Following an invitation from the Permanent Delegation of Finland to the OSCE to observe the 14 April 2019 parliamentary elections and in accordance with its mandate, the OSCE Office for Democratic Institutions and Human Rights (ODIHR) undertook a Needs Assessment Mission (NAM) from 23 to 25 January. The NAM included Lusine Badalyan, ODIHR Senior Election Adviser, and Vladimir Misev, ODIHR Election Adviser.

The purpose of the mission was to assess the pre-election environment and preparations for the parliamentary elections. Based on this assessment, the NAM should recommend whether to deploy an ODIHR election-related activity for the forthcoming elections, and if so, what type of activity best meets the identified needs. Meetings were held with officials from the Ministry of Foreign Affairs, Ministry of Justice, the Supreme Administrative Court, the National Audit Office, the Population Register Centre, and the Council for Mass Media, as well as with representatives of political parties, media, and civil society. A list of meetings is included as an annex to this report.

ODIHR would like to thank the Ministry of Foreign Affairs for its assistance and co-operation in organizing the NAM. ODIHR would also like to thank all of its interlocutors for taking the time to meet with the NAM and to share their views.

II. EXECUTIVE SUMMARY

Finland is a parliamentary republic with legislative powers vested in a unicameral parliament (*Eduskunta*) and with the president as the head of state. On 14 April, voters will elect 200 members of parliament for a 4-year term from 13 electoral districts. There is no legal threshold for entry into the parliament. Some ODIHR NAM interlocutors raised concerns regarding the significant differences between the number of mandates in different districts, resulting in disproportionate natural thresholds to enter the parliament that may undermine the equality of the vote.

The election legislation has remained essentially unchanged since the last parliamentary elections. The most recent changes introduced postal voting for Finnish citizens permanently living abroad. While the authorities took measures to implement some prior ODIHR recommendations, others such as ensuring more effective mechanisms for election dispute resolution as well as removing the restriction on the right to stand in elections for individuals holding military office remain to be addressed. All ODIHR NAM interlocutors expressed confidence in the electoral legal framework and its implementation.

The Ministry of Justice (MoJ) is the main election authority, which oversees the organization of elections and has overall responsibility for their conduct. Election-related tasks are shared with 13 District Electoral Committees, 317 Municipal Central Election Committees and 1,943 polling stations. The MOJ informed of efforts to facilitate voting for persons with disabilities by producing materials with voter information in Braille, sign language and easy-to-understand

language. All ODIHR NAM interlocutors expressed a high level of confidence in the integrity and impartiality of the election administration.

Citizens over 18 years of age are entitled to vote. Voter registration is passive and voter information is extracted from the Population Information System maintained by the Population Register Centre. The voter list is publicly available prior to elections and each voter can request corrections. There are some 4.4 million registered voters. ODIHR NAM interlocutors expressed full confidence in the voter list and the population and voter registration systems.

Candidates are nominated by political parties, registered with the MoJ, and by constituency associations formed by a minimum of 100 voters. Parties generally apply internal party policies to promote women and minority candidates. All political parties met with by the ODIHR NAM expressed full confidence in the inclusiveness of the candidate registration process.

The legislation does not envisage official campaign period. All political parties met with by the ODIHR NAM intend to campaign actively, including through online and social media, as well as to participate in debates organized by the public broadcaster. The campaign will likely focus on environmental and climate change topics, the ongoing social and healthcare reform, economic issues and migration policies.

Political parties are eligible for public funding proportionate to the number of seats in the parliament. In addition to the funding provided by the parties, election campaign activities can be funded from candidates' own resources, as well as loans and contributions received from individuals and legal entities. While there are no mandatory requirements for interim reporting, electoral contestants may choose to voluntarily report, a practice that is gradually implemented by many candidates. Some ODIHR NAM interlocutors noted that the introduction of a requirement to open separate bank account for campaign purposes might increase the transparency of the process. Elected contestants have to submit reports on campaign income and expenditure to the National Audit Office, which is tasked with oversight of political party and campaign finance. Most of the ODIHR NAM interlocutors were supportive of the current campaign finance legislation and opined that the transparency was ensured.

The media landscape is pluralistic and offers diverse range of views through a variety of outlets. Internet popularity is growing and most of media outlets present their information online. The public broadcaster, YLE (*Yleisradio*) plays an important role in providing political information to all voters. YLE plans to organize a number of electoral programmes to give all contestants equitable conditions for campaigning as well as various television debates with the participation of parliamentary and non-parliamentary parties. The Council for Mass Media considers complaints on breaches of professional ethics and promotes good professional practice and freedom of speech. All ODIHR NAM interlocutors expressed overall confidence in the impartiality of the public broadcaster, as well as the overall professionalism of private media.

All ODIHR NAM interlocutors expressed a high level of confidence in all of the aspects of the electoral process. Some measures aimed at addressing earlier ODIHR recommendations have been introduced ahead of the 2015 parliamentary elections and the authorities have given careful consideration and followed-up on findings in previous ODIHR reports. No new issues pertaining to the conduct of elections that would benefit from a review by ODIHR have been identified since the last observation activity. Based on this, the ODIHR NAM does not recommend deploying an election-related activity for the 14 April parliamentary elections. ODIHR stands ready to engage in a follow-up process after the elections, and encourages the authorities to also

consider issues raised by interlocutors during the course of the ODIHR NAM, including with regard to campaign finance and the participation of persons with disabilities in elections.

III. FINDINGS

A. POLITICAL BACKGROUND

Finland is a parliamentary republic with legislative powers vested in a 200-member unicameral parliament (*Eduskunta*) and with the president as the head of state. The parliament enacts laws, decides on the state budget, supervises the activities of authorities subordinated to the government, and adopts international agreements. The parliament also elects the prime minister who is officially appointed by the president. The prime minister nominates the other members of the government who are appointed by the president. The president exercises powers in foreign affairs, national defense and appointing judges.

The last parliamentary elections were held on 19 April 2015 and nine political parties entered the parliament. The Centre Party won 49 seats, the Finns Party – 38, the National Coalition Party – 37, the Social Democratic Party – 34, the Green League – 15, the Left Alliance – 12, the Swedish People's Party – 9, the Christian Democrats – 5 and the Åland Coalition – 1. A total of 83 women (some 40 per cent) are members of the outgoing parliament.

A coalition government was subsequently formed comprising the Centre Party, the Finns Party and the National Coalition Party. Following the election of a new Finns Party leader in June 2017, the leaders of the two other coalition parties in the government ceased their co-operation with the Finns Party. This led to a split in the Finns Party itself with 17 members of the parliament forming a new parliamentary group, Blue Reform, which later joined the governing coalition.

ODIHR deployed an Election Assessment Mission for the 17 April 2011 parliamentary elections, which found that elections “were professionally administered, commanding high levels of stakeholder confidence”.¹ Most recently, ODIHR undertook Needs Assessment Mission for the 2018 presidential election, but did not recommend any election-related activity.

B. ELECTORAL SYSTEM AND LEGAL FRAMEWORK

The parliament is elected for a four-year term under a regional proportional representation system with no legal threshold to enter the parliament. The country is divided into 12 multi-member regional districts, each returning a different number of elected members using the d'Hondt method, and one single-member regional district.² Before each election, the State Council determines the number of seats in each district in proportion to the number of voters, based on the data obtained from the Population Information System (POIS), administered by the Population Register Center (PRC).³ While the number of members of parliament coming from each district can change for each election, the district of Åland always elects one representative.⁴

¹ See [all previous ODIHR reports on Finland](#).

² Helsinki electoral district returns 22 members of parliament, Uusimaa – 36, Varsinais-Suomi – 17, Satakunta – 8, Häme – 14, Pirkanmaa – 19, Southeast – 17, Savo-Karelia – 15, Vaasa – 16, Central Finland – 10, Oulu – 18, Lapland – 7, and Åland – 1.

³ State Council [decision](#) from 8 November 2018.

⁴ The Åland Islands have special constitutional status, regulated by the Act on the Autonomy of the Åland Islands.

No concern was raised regarding the seat distribution process. However, some ODIHR NAM interlocutors raised concerns regarding the significant differences between the number of mandates in different districts resulting in the disproportionate natural thresholds that may undermine the equality of the vote.⁵ Some ODIHR NAM interlocutors also commented on the workload of the lower-level election administration in larger constituencies required for registration of candidates and processing the election results.

The parliamentary elections are primarily regulated by the Constitution and the Election Act. The Act on Candidate's Election Funding and the Act on Political Parties contain provisions to the party and campaign finances as well as general regulations for equal coverage of all political parties in the media. Certain provisions of the Criminal Code include sanctions for election-related violations, such as fraudulent voting or falsification of election results. The Ministry of Justice (MoJ) may issue guidelines, decisions and instructions to further regulate the conduct of the elections. In addition, Finland is a party to major international and regional instruments related to democratic elections.⁶

The election legislation has remained essentially unchanged since the last parliamentary elections. However, several changes were adopted, such as the 2017 amendments to the Election Act that introduced postal voting for those permanently living abroad and being abroad during the advance voting.⁷ In addition, the 2016 amendments introduced provisions to strengthen the impartiality of the election bodies by prohibiting membership of candidates and their close relatives in the election administration. The most recent amendments were adopted in 2018, which, among others, provide the possibility for voters to obtain information polling cards electronically.⁸ All ODIHR NAM interlocutors expressed confidence in the legal framework and its implementation.

The authorities have given careful consideration and adopted some measures aimed at addressing ODIHR prior recommendations, such as introducing explicit provisions for election observers and adjusting the deadlines for the advance voting, and counting and tabulation procedures. However, other recommendations remain to be addressed. These include ensuring more effective mechanisms for resolution of election-related complaints by specifying limited time periods for their lodging and adjudication, as well as removing the restriction on the right to stand in elections for individuals holding military office. ODIHR NAM interlocutors noted that a change in respect of this latter provision necessitates amendment of the Constitution, a process that requires a vote by two consecutive parliaments.

⁵ The electoral system has no legal threshold and the disparity in the size of constituencies results in wide variation in the natural threshold required to win a seat in different parts of the country. For instance, in the Lapland constituency that has 7 allocated seats, the natural threshold was about 11 per cent in the 2015 parliamentary elections. However, in the Uusimaa constituency which has 36 seats, it was some 2.5 per cent.

⁶ Including the 1950 European Convention on Human Rights, 1966 International Covenant on Civil and Political Rights, 1965 International Convention on the Elimination of All Forms of Racial Discrimination, 1979 Convention on the Elimination of All Forms of Discrimination against Women, 1990 International Convention on the Protection of the Rights of All Migrant Workers and Members of their Families, 1995 EU Framework Convention for the Protection of National Minorities, 2003 UN Convention against Corruption, and 2006 Convention on the Rights of Persons with Disabilities. Finland is also a member of the Council of Europe's Venice Commission and Group of States against Corruption (GRECO).

⁷ The [MoJ](#) produced video and other online information material explaining the method of postal voting and the required safeguards to protect the secrecy of the vote. According to the MoJ some 250,000 Finnish citizens permanently reside abroad.

⁸ Other amendments were minor technical changes related to the European Parliament elections.

The Election Act contains provisions for complaints related to the registration of voters, election results and decisions on the voting districts. Other election-related complaints are dealt with under the Administrative Judicial Procedure Act, which does not contain strict deadlines for certain parts of the electoral process, such as candidate registration or composition of the election administration, and thus may not provide timely and effective remedy before the end of an electoral process. However, according to the law, an administrative decision that has become final may be subject to extraordinary appeal by means of a procedural complaint. ODIHR NAM interlocutors noted that, traditionally, there are very few election-related complaints submitted to courts. The right to appeal against the final results of parliamentary and local elections is granted to each eligible voter and can be submitted to the regional administrative courts no later than 14 days after the publication of the results.⁹ The decisions of the provincial administrative courts can be appealed to the Supreme Administrative Court.

C. ELECTION ADMINISTRATION

The MoJ is the supreme electoral authority, which oversees the organization of elections and has overall responsibility for their conduct. In addition to administering elections on the central level, the MoJ issues instructions to lower-level administration on various aspects of the electoral process and implements a number of voter education projects. This includes advertisements in social media, videos on television and distribution of brochures. The MoJ organizes trainings for the lower-level election administration and for political parties on some specific election-related issues.¹⁰

The MoJ supervises 13 District Electoral Committees (DECs) established in each of the 13 electoral districts, and 317 Municipal Central Election Committees (MECs) in each municipal council. These are permanent bodies composed of representatives of political parties and appointed for a four-year term by provincial offices and local councils in each of the electoral districts and municipal councils, respectively. The DECs are mainly in charge of candidate registration, while MECs are responsible for most of the logistical preparations for elections. In addition, 1,943 polling stations will be operating on election day, including 900 for advance voting, as well as 219 in 86 different locations abroad.

Electoral bodies at all levels consist of a chairperson, deputy, three members and their substitutes.¹¹ Electoral contestants are entitled to have one representative and a deputy in each electoral district. While there are no specific legal requirements for gender representation in the election administration, gender balance is observed in the framework of the 1986 Act on Equality between Women and Men, which requires at least 40 per cent of each gender in all public institutions. All ODIHR NAM interlocutors expressed full trust in the integrity and impartiality in the work of the election administration at all levels.

The legislation contains provisions facilitating universal suffrage through various methods of voting. Voters can cast their ballot on election day, in advance, at home, in prisons, by postal voting and out-of-country.¹² Postal voting will take place from 3 to 6 April and advance voting

⁹ Such possibility does not exist for presidential election.

¹⁰ Ahead of the 2019 parliamentary elections the MoJ organized training on cybersecurity for political parties during the campaign period.

¹¹ For the purpose of counting and sorting of ballots, additional staff may be appointed.

¹² A recent [feasibility study conducted by a working group and coordinated by the MoJ](#) concluded that “Online voting should not be introduced in general elections as its risks are greater than its benefits.” According to the conclusions of the working group “an online voting system is technically feasible, but technology is not yet at a sufficiently high level to meet all the requirements. There are problems for example in the reconciliation of verifiability and election secrecy.”

from 3 to 9 April.¹³ The election legislation provides for special provisions to support the participation of voters with disabilities, such as transportation and specially designed polling stations. The MOJ informed of efforts to facilitate voting for persons with visual impairments, intellectual disabilities, and physical disabilities. In co-operation with civil society organizations, the MoJ produced information on candidates for persons with disabilities. In addition, the MoJ produced materials with voter information in Braille, sign language and easy-to-understand language, targeting voters unfamiliar with elections or those with intellectual disabilities. Notwithstanding these steps, several ODIHR interlocutors noted that further measures are needed to facilitate access of voters with disabilities.¹⁴ Some ODIHR NAM interlocutors also noted that current arrangements for voting in prisons could be improved, particularly with access to electoral and campaign information.

D. VOTER REGISTRATION

The Constitution guarantees the voting right of every citizen who has reached 18 years of age by election day. Approximately 4.4 million citizens are eligible to vote. Voter registration is passive and voter information is extracted prior to each elections from the POIS. The voter list is made public 41 days prior to elections. Each voter can obtain voter information from the local register offices either by phone or in the form of extracts, and request corrections. Each voter receives a notification on voting arrangements including information on the polling station where they are entitled to vote. The notifications are sent by post or, if the voter requests, electronically, 24 days before election day.

Complaints regarding the voter register can be submitted to the public administration and appealed to provincial administrative courts and the Supreme Administrative Court whose decision remains final. The voter list is closed for any amendments 12 days before election day, and amendments after this deadline are only permissible based on court decisions with the PRC notified of any such decision in order to ensure timely updates in the system. ODIHR NAM interlocutors expressed full confidence in the voter list and expressed trust in the population and voter registration systems.

E. CANDIDATE REGISTRATION

Every citizen with a voting right can stand for parliamentary elections, with the exception of those who are under guardianship and those who hold military office. Several categories of officials also cannot run for elections without first resigning from their office.¹⁵

Candidates are nominated by political parties or by constituency associations, established by at least 100 voters.¹⁶ Political parties are allowed to form coalitions. While candidates are not required to reside in their constituencies, they can be nominated in only one electoral district. Most political parties met with by the ODIHR NAM informed that despite the lack of legal

¹³ During the 2015 parliamentary elections some 46 per cent of the voters voted in advance. According to [Statistics Finland](#), during the advance voting women participation is higher. For the most recent [2018 presidential election](#), 52.5 per cent of the voters voted in advance.

¹⁴ See the 2018 [Parliamentary Ombudsman report, which](#) noted continued instances of challenges with accessibility in some polling station and “deficiencies are still found in securing the secrecy of the vote”.

¹⁵ This includes the Chancellor of Justice of the Government, the Parliamentary Ombudsman, a Justice of the Supreme Court or the Supreme Administrative Court, and the Prosecutor-General.

¹⁶ Political parties are registered by the MoJ upon submission of at least 5,000 support signatures from eligible voters. A party failing to win seats in two consecutive parliamentary elections or gaining less than two per cent of the votes countrywide is de-registered but may re-apply for registration at any time. [Currently there are 19 registered parties.](#)

requirements for gender representation on candidate lists, parties apply internal policies to promote women candidates.

Political parties and constituency associations are required to submit their candidate lists to the respective DEC 40 days before the elections. After reviewing the lists, each DEC confirms them and randomly assigns numbers to candidates 31 days before the elections.¹⁷ All parliamentary political parties expressed full confidence in the inclusiveness of the candidate registration process.

F. CAMPAIGN AND CAMPAIGN FINANCE

The legislation does not envisage an official campaign period and does not contain detailed provisions on the election campaign. All ODIHR NAM interlocutors from the political parties intend to campaign online and through social media, and to participate in the debates organized by the public broadcaster. Campaign advertisements in print media, as well as leaflets, posters and billboards will be used by some of the political parties. According to ODIHR NAM interlocutors, the campaign will likely focus on environmental and more specifically climate change topics, the ongoing social and healthcare reform, economic issues and migration policies. In addition it was indicated, that the debate might focus on the possible figure for the post of the next prime minister.

Campaign finance is regulated by the Act on Candidate's Election Funding and the Act on Political Parties, both last amended in 2010.¹⁸ All parties represented in the parliament are eligible for public funding in proportion to the number of seats held. In addition to the funding provided by the parties, election campaign activities can be funded from candidates' own resources, as well as loans and contributions received from individuals and legal entities. For in-kind donations, contestants are obliged to give a voluntary estimate of the donations they include in the financial reports. Some ODIHR NAM interlocutors noted that this and campaigning by third-parties is insufficiently regulated. All contributions received from the same donor should not exceed EUR 6,000 for a candidate and EUR 30,000 for a political party. In addition, each individual campaign contribution and its donor must be disclosed separately, if the value of such a contribution exceeds EUR 1,500.¹⁹

The legislation does not envisage limits on campaign spending, nor does it impose an obligation on contestants to open a dedicated bank account for all campaign incomes and expenditures. This may potentially allow for cash donations which are not accounted for. Some ODIHR NAM interlocutors noted that opening a separate bank account for campaign purposes might increase the transparency of the process, however most parties see it as an additional burden. Most of the ODIHR NAM interlocutors were supportive of the current campaign finance legislation and opined that the transparency was ensured.

The National Audit office (NAO) is tasked with oversight of political party and campaign financing. The legislation lacks mandatory requirements for interim reporting, however electoral contestants may choose to voluntarily report. The ODIHR NAM was informed that political

¹⁷ Vote is given by writing on the ballot the assigned number of the candidate.

¹⁸ These changes include the introduction of reporting on campaign contributions and expenditures and the ban on anonymous donations. Council of Europe's Group of States against Corruption (GRECO)' Evaluation Report notes that "Finland has shown remarkable progress...it has now in place a new legal framework which aims at providing transparency of financing of election candidates, political parties as well as other entities linked to political parties." See [GRECO Reports on Finland](#).

¹⁹ Consent for disclosure is required for donations below EUR 1,500.

parties rarely submit interim reports, however the candidates increasingly are disclosing their campaign incomes and expenditures before election day. All political parties and candidates elected to parliament are obliged to submit detailed financial reports to the NAO two months after the elections and annually on their regular financial activities. The NAO is vested with sanctioning powers in situations where required documents or information are not submitted, corrected or completed. The NAO publishes all financial reports online and reports to the parliament on the audits of the campaign reports within eight months and on the reports for the regular financial activities of the parties annually.²⁰

G. MEDIA

The media landscape is pluralistic and characterized by a variety of public and private radio and television channels, as well as a range of newspapers. Internet popularity is growing and most media outlets present their information online.²¹ While the print media are playing an important role in the dissemination of political information, their circulation continues to decline.²² The public broadcaster, YLE (*Yleisradio*), with its four national television channels and regional network of channels presented in Finnish, Swedish and Sami languages, plays an important role in providing political information to all voters. The traditional media landscape is also dominated by a number of private nationwide television channels.

There are no legal regulations on the media coverage during the election campaign and media are largely self-regulated. The YLE's operations are governed by the Act on the Public Broadcaster which requires the public broadcaster to "support democracy and everyone's opportunity to participate by providing a wide variety of information, opinions and debates as well as opportunities to interact" and specifically concerning the parliamentary elections by the Act on Political Parties, according to which "state institutions should treat all parties equally." YLE plans to organize a number of electoral programmes to give all contestants equitable conditions for campaigning as well as various television debates with the participation of parliamentary and non-parliamentary parties.²³ All ODIHR NAM interlocutors expressed overall confidence in the impartiality of the public broadcaster as well as the overall professionalism of private media.

The Council for Mass Media is a self-regulating independent body, which promotes good journalistic practice and considers complaints on breaches of professional ethics.²⁴ It is comprised of a chairperson and 13 members appointed for a three-year term. The Council is tasked to interpret and promote professional practice and defend the freedom of speech. It developed guidelines for journalists with the aim of supporting the responsible use of freedom of speech in mass communication, including online outlets.²⁵ The Council's decisions are published on its website, including the complete decision if the complaint is upheld.

²⁰ According to the NAO some 40 to 50 political entities are audited annually.

²¹ As per the official state [statistics](#) published on 4 December 2018, 89 per cent of the population uses the Internet and 76 per cent uses it several times a day.

²² According to [Statistics Finland](#) from 23 November 2018 the publishing industry "is still clearly the biggest sector by its volume in the Finnish media market. However, the sales of daily newspapers and periodicals continued their nearly decade-long fall in 2017."

²³ According to YLE some 45 hours of election-related programs will be broadcast during the campaign.

²⁴ In 2018, the Council for Mass Media has received 318 complaints. Most of the complaints were related to the right to reply or lack of action to correct mistakes in published articles.

²⁵ [Guidelines](#) came into force on 1 January, 2014.

IV. CONCLUSIONS AND RECOMMENDATIONS

All ODIHR NAM interlocutors expressed a high level of confidence in all of the aspects of the electoral process. Some measures aimed at addressing earlier ODIHR recommendations have been introduced ahead of the 2015 parliamentary elections and the authorities have given careful consideration and followed-up on findings in previous ODIHR reports. No new issues pertaining to the conduct of elections that would benefit from a review by ODIHR have been identified since the last observation activity. Based on this, the ODIHR NAM does not recommend deploying an election-related activity for the 14 April parliamentary elections. ODIHR stands ready to engage in a follow-up process after the elections, and encourages the authorities to also consider issues raised by interlocutors during the course of the ODIHR NAM, including with regard to campaign finance and the participation of persons with disabilities in elections.

ANNEX: LIST OF MEETINGS

Ministry for Foreign Affairs

Sari Rautio, Director, Unit for Security Policy and Crisis Management

Leena Ritola, Director, Passport Unit, Department for Consular Services

Iiris Strandman, Administrative Attaché, Unit for Security Policy and Crisis Management

Jaakko Koivusaari, Attaché, Council of Europe and the OSCE's human dimension, Unit for Human Rights Policy

Ministry of Justice

Johanna Suurpää, Director of the Unit for Democracy, Language Affairs and Fundamental Rights

Arto Jääskeläinen, Director of Electoral Administration

Heini Huotarinen, Ministerial Adviser

The Supreme Administrative Court

Kari Kuusiniemi, President of the Supreme Administrative Court

Anne E. Niemi, Justice

National Audit Office

Jaakko Eskola, Director of Financial Audit

Population Registration Centre

Timo Salovaara, Director, Population Information Services

Pauli Pekkanen, Development Manager

Otto Palmu, Product Manager

Political Parties

Aila Paloniemi, Chairperson of the OSCE PA Delegation of Finland, Member of Parliament, the Centre Party of Finland

Pia Kauma, Member of Parliament, deputy member of the OSCE PA Delegation of Finland, the National Coalition Party

Ilkka Kantola, Member of Parliament, deputy member of the OSCE PA Delegation of Finland, Social Democratic Party

Joonas Leppänen, Party Secretary, Left Alliance

Fredrik Guseff, Party Secretary, Swedish People's Party of Finland

Maria Grundström, Campaign Manager, Swedish People's Party of Finland

Mika Raatikainen, Member of Parliament, Finns Party

Sakari Puisto, Political Planner, Finns Party

Matias Turkkila, Managing Editor, Finns Party

Lasse Miettinen, Party Secretary, the Greens in Finland

Antti Vesala, Programme Coordinator, the National Coalition Party

Tuomas Meriniemi, International Officer, the Centre Party of Finland

Antton Rönholm, Party Secretary, Social Democratic Party

Pekka Sinisalo, Campaign Manager, Blue Reform

Marja Nousiainen, Communications Manager, Blue Reform

Council for Mass Media

Elina Grundström, Chairperson

The Finnish Broadcasting Company YLE (Yleisradio)

Petri Kejonen, Head Producer, Elections

Pia Johansson, Election Producer
Ville Seuri, Producer of Elections Online Content
Ville Mättö, Producer of Elections Results
Timo Huovinen, Ethics Chief

The Finnish League for Human Rights

Heli Markkula, Head of Advocacy
Matti Jutila, Human Rights Adviser



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COMMISSION STAFF WORKING DOCUMENT

Country Report Finland 2019

Accompanying the document

**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT, THE EUROPEAN COUNCIL, THE COUNCIL, THE EUROPEAN
CENTRAL BANK AND THE EUROGROUP**

**2019 European Semester: Assessment of progress on structural reforms, prevention and
correction of macroeconomic imbalances, and results of in-depth reviews under
Regulation (EU) No 1176/2011**

{ COM(2019) 150 final }

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EXECUTIVE SUMMARY

Finland's current economic growth provides an opportunity to increase the economy's resilience and its growth potential amid rising macroeconomic risks. Following a long and deep recession, Finland's economy is now growing healthily, although at a decelerating pace. Finland shows low social inequality and its education system is performing well. However, an ageing population weighs on Finland's potential growth for the future. Reforming the complex social benefits system, teaching new skills and providing training services would help counterbalance the impact of an ageing population. Furthermore, investment in equipment and research and development declined during the financial crisis, further affecting Finland's potential for growth. Addressing these challenges will make the economy more resilient to external shocks. ⁽¹⁾

Strong economic growth continued in 2018, with GDP eventually passing its peak of 2008.

Real GDP is expected to have increased by 2.5 % in 2018. Solid growth was underpinned by robust domestic demand while the contribution from net exports, which was very strong in 2017, weakened. Business investment is set to continue expanding, supported by rising profits and persistently low interest rates. Inflation remains below the EU average. The favourable economic cycle is helping the government further consolidate public finances, bringing the public debt ratio below 60 %. Going forward, Finland's economic growth is projected to be moderate at an average annual rate of 1.8 %, from 2.6 % over the previous three years, particularly as international trade expansion gradually loses momentum.

The labour market continues to recover, showing early signs of tightening.

The employment rate has now reached a new high, but is still lower than in other Nordic countries. Employment growth accelerated in 2018, with more than half of new workers being previously

inactive. This trend should continue in 2019 and 2020, albeit at a slower pace. The unemployment rate has declined, rapidly approaching its structural level. The latter improves, but remains relatively high, reflecting disincentives to take up work and growing matching problems in the labour market. Job vacancies are rising in certain sectors, due to skills shortages, mobility problems and the ageing population.

Potential growth is recovering but Finland's ageing population is expected to weigh on future economic developments.

Potential growth has improved in recent years. However, it is unlikely to return to pre-crisis growth rates in the medium term because of expected losses in the working-age population. Productivity remains below its 2009 level, reflecting a shift over the decade in production from high tech goods to medium tech goods.

New investment is mainly concentrated in construction, limiting therefore its contribution to the productive capacity of the economy.

Overall investment remained among the highest in the EU and showed a slight increase. However, investment in construction accounted for almost 60 % of overall investment. Although recovering, investment in equipment as a share of GDP remained one of the lowest in the EU. Its growth might also slow down as trade with non-EU countries could be affected by rising international tensions. With the disruptive technological change that affected Finland's largest private research and development spender (Nokia) a decade ago, Finland experienced a sharp decline in business spending on research and development. Recovery has not been observed so far.

Focusing investments ⁽²⁾ on human capital, on research and innovation, and on energy and transport infrastructure, would strengthen the long-term growth potential of Finland.

While the overall investment level in Finland appears largely satisfactory, investing further in people's skills, education and training and in coordinated professional services to the unemployed and the inactive is needed to offset workforce losses from population ageing, reduce inactivity and long-term unemployment and potentially increase productivity. Employment would also benefit from

⁽¹⁾ This report assesses Finland's economy in light of the European Commission's Annual Growth Survey published on 21 November 2018. In the survey, the Commission calls on EU Member States to implement reforms to make the European economy more productive, resilient and inclusive. In so doing, Member States should focus their efforts on the three elements of the virtuous triangle of economic policy — delivering high-quality investment, focusing reforms efforts on productivity growth, inclusiveness and institutional quality and ensuring macroeconomic stability and sound public finance.

⁽²⁾ Both private and public investment.

investment in social inclusion. The ratio of research and development to GDP has not yet recovered from the crisis years and appears insufficient to diversify exports towards higher tech goods in the medium-term. Amid dispersed population, a lack of affordable housing in growth centres and transport bottlenecks may prevent people from moving to find jobs. The decarbonisation of energy intensive industries and the transport sector will also require higher private and public investment. Annex D identifies key priorities for support by the European Regional Development Fund and the European Social Fund Plus over 2021-2027, building on the analysis of investment needs and challenges outlined in this report.

Finland has made limited progress in addressing the 2018 country-specific recommendations.

There has been limited progress in the following areas:

- **The regional government, health and social services reform:** parliamentary debate on this reform is still ongoing and its adoption is planned before the general election in April 2019. However, the timing of the adoption of the reform currently faces some uncertainty.
- **Improving incentives to accept work by reducing unemployment traps:** the Finnish authorities are waiting for the outcome of the basic income experiment, whose preliminary results were presented on 8 February 2019. The experiment is expected to provide some information for revision of the benefit system. Given the political agenda, no progress on this issue is expected before spring 2019. The reform of the benefit system is likely to be a major issue for the next government. The government budget for 2019 introduces additional measures for improving incentives to accept work.
- **Ensuring adequate and well-integrated services for the unemployed and the inactive:** advice and guidance to youth and young adults have been increased. However, with the vocational education and training reform, training schemes to help the

unemployed find work now fall under the responsibility of the Ministry for Education and not with the Ministry for Employment. This could create an additional barrier to join up unemployment services. Regional pilots to test new service models might bring about progress in this area, but only after adoption of the regional reform.

- **Strengthening the monitoring of household debt:** the Ministry of Justice has published an assessment on the merits of creating a credit registry. Political support appears sufficient to create the registry by the next parliament. However, it is likely to take years before the registry is in place.

On Finland's progress towards its national targets under the Europe 2020 strategy, the employment rate target of 78 % does not seem out of reach if the positive trend of the previous year continues. The poverty rate is low compared to the EU average and has recently been in gradual decline. The early-school leaving rate remained slightly above the target of 8 %. The very ambitious research and development investment target of 4 % of GDP is unlikely to be met. Finland is broadly on track to reach its climate and energy targets.

Finland performs well on the indicators of the Social Scoreboard supporting the European Pillar of Social rights. Income inequalities are among the lowest in the EU and few people are at risk of poverty or social exclusion. Finland continues to have a generally well performing education system. However, a lack of coordination to ensure different professional services to the unemployed and the inactive poses a challenge. Access to health care remains a concern, given the relatively high unmet need for health services, especially for people not covered by occupational insurance.

Other key structural issues analysed in this report that point to particular challenges for Finland's economy are the following:

- **Productivity growth remains a challenge.** A recovery in productivity growth is essential to ensure future economic prosperity, especially as Finland's population is ageing and spending on health is set to increase. Other factors are

holding back Finland's growth potential: its investment in research and innovation, which has the most potential for innovation output, remains in decline. Moreover, it is rather narrowly focused. There is indeed a wide and increasing gap between the most productive firms and the least productive ones. Public support for research and development has also declined in recent years.

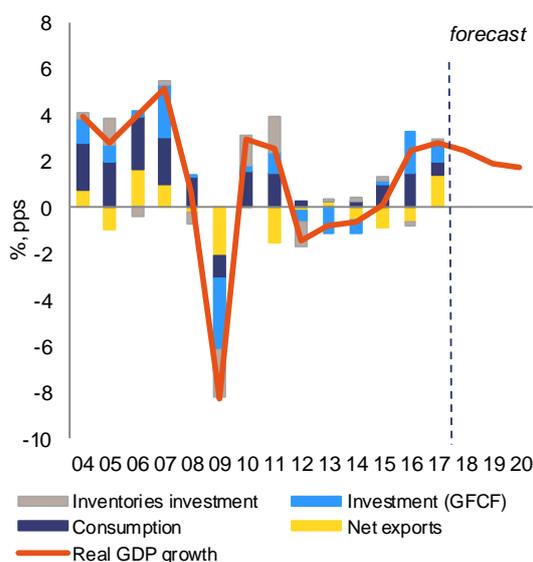
- **Inactivity and unemployment traps are a barrier to a better use of the labour force.** One of the main barriers to getting people back to work comes from the benefits system and the combination of different types of allowances. The social assistance and the housing allowance form a substantial part of this barrier. These and other benefits are phased out rapidly as income increases, which creates a risk that taking up work might not be sufficiently financially rewarding. The complexity of the benefits rules combined with red tape result in people being put off going back to work.
- **An ageing population and long-term trends in spending on care pose some risks for the sustainability of public finances.** The regional government, health and social services reform aims to lower expenditure growth in these areas. Other objectives are equal access to healthcare and reduced waiting times for patients. Social and primary healthcare services would become available from both public and private social and health centres. This would give patients more freedom of choice, while competition between service providers and public management at a more central level are expected to yield cost savings.
- **Levels of household debt are high, but servicing of the debt remains solid.** Low interest rates and the improved economic outlook have increased the overall volume of lending, especially through housing corporations (which provide a distinctive form of home ownership). Household debt therefore remains at a historically high level. It is mostly at variable rate. Consumer credit is also rising rapidly. The lack of a comprehensive (collecting both positive and negative information on debtors) credit registry prevents banks from having a clear overview of households' overall debt. However, the non-performing loans ratio of the banking sector remains one of the lowest in Europe and banks are well capitalised. The authorities have already taken and are considering further pre-emptive measures to restrict the rising household debt.
- **A new Finnish wage-setting model has emerged, but labour mobility remains rather limited.** In the new wage-setting model, pay rises in the non-tradable sector are linked to the increases first agreed in the exporting sectors. However, no formal agreement on this model has been reached. Wage increases are expected to be kept in check, but upwards pressure on wages is likely as the labour market gradually tightens. Labour shortages are growing in certain sectors as a result of skills shortages and population ageing, while a lack of affordable housing in growth centres may limit possibilities to move to find jobs. A fully modernised legislative framework on zoning and planning is considered.
- **Despite a recent steady rise, the employment rate at 76.3 % of 20-64 year-olds is still lower than in other Nordic countries.** The service system is not responding sufficiently to people who have special needs and are unable to work full-time. In particular, rehabilitation and training programmes are not linked with effective services to help jobseekers. In addition, supporting services are still not sufficiently integrated and as a result may prolong unemployment spells for people in a vulnerable position. A joined-up approach to services exists for some target groups such as young and long term unemployed, but not for all.

1. ECONOMIC SITUATION AND OUTLOOK

GDP growth

Following healthy growth (2.8 %) in 2017, economic growth is expected to have slowed in 2018 (Graph 1.1). GDP growth is projected to have remained relatively strong at 2.5 % in 2018, supported by exports, equipment investment and private consumption. Financing conditions for investment remained favourable, and business confidence was still strong. High consumer confidence and rising employment fuelled an increase in private consumption. The economy is expected to continue expanding by 1.9 % in 2019 and 1.7 % in 2020, with domestic demand remaining the main driver. Despite lukewarm developments in external demand, net exports are expected to continue contributing to growth, as Finland benefits from its improved cost competitiveness.

Graph 1.1: GDP growth and contributions



Source: European Commission (Winter forecast 2019)

Potential GDP growth

A declining working age population is expected to weigh on Finland's already moderate growth potential. Potential growth has accelerated to 1.8 % recently. However, from 2021, the shrinking workforce is forecasted to pull growth potential back down gradually (see Graph 1.2). This negative impact is expected to progressively strengthen over the years, at least until 2050.

In parallel, productive categories of investment have sharply declined or remain relatively low, entailing a risk that Finland's economy will be trapped in relatively low growth (see Section 3.4). Finland's investment, as a share of GDP, remains below its EU peers ⁽³⁾ for investment categories that are the most supportive of productivity growth. This is especially true for equipment investment, despite the cyclical rebound observed in recent quarters. Last year, business investment was clearly on the rise, but companies also increasingly built up sizeable financial reserves. In parallel, after the disruptive technological change that affected the country's largest private research and development spender (Nokia) a decade ago, intellectual property investment appeared to stabilise at a level close to the EU average but below the level of Finland's EU peers. This is expected to affect the country's medium-term productivity growth. Therefore, in the medium term, potential growth is unlikely to return to its high pre-financial crisis levels.

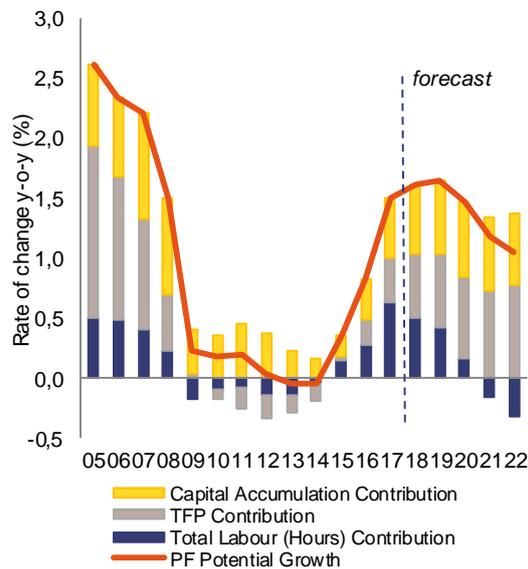
Finland still has the highest level of construction investment in the EU, especially housing construction. Beyond favourable conditions provided to borrowers, this reflects an ongoing move of the population from rural areas to dynamic urban centres. Housing construction is a non-productive category of investment. However, amid limited regional labour mobility, it is expected to contribute to allocative efficiency usefully (see sections 3.2.3 and 3.4.1).

Inflation

Inflation is expected to gradually pick up (see Graph 1.3). In 2018, inflation remained below the euro area average due to a rather modest rise in the prices of services. Increases in labour costs and energy prices were the main drivers of inflation. As a result of a stronger pass-through effect of wage increases pushing up prices of services, headline inflation is forecast to gradually accelerate to close to 2 % in 2020.

⁽³⁾ In the present report, the expression 'EU peers' will be used for EU countries with an almost equivalent development level or similar type of economy. In the present case, this group includes Sweden, Denmark, Germany, Austria, the Netherlands. The expression 'EU Nordic peers' will be used for Sweden and Denmark only. The expression 'Nordic peers' will encompass Norway as well.

Graph 1.2: Contributions to potential growth



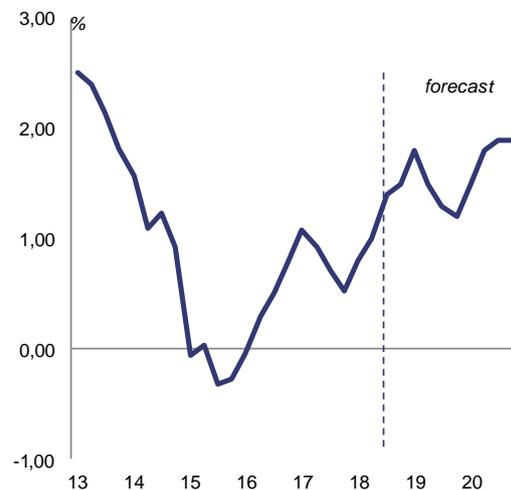
TFP: total factor productivity
 PF potential growth: production function potential growth
 Source: European Commission

Labour market

The unemployment rate is falling thanks to the economic upswing. The growth in employment accelerated to 2.3 % in 2018, with more than half of the new workers coming from inactivity. This trend is expected to continue in 2019 and 2020, albeit at a slower pace. After two years of a slow decrease, the unemployment rate declined rapidly from 8.5 % in the third quarter of 2017 to 7.3 % in the same period in 2018. It is approaching its structural level, estimated at 7.0 % ⁽⁴⁾, slightly below the EU average. The structural rate of unemployment improves, but remains relatively high. Possible reasons for this include still limited incentives to accept work and the relatively limited regional mobility. In parallel, labour shortages are growing in certain sectors, due to skills shortages, mobility issues and an ageing population.

⁽⁴⁾ Latest 'non-accelerating-wages rate of unemployment' estimate for 2018 by the European Commission.

Graph 1.3: Quarterly harmonised index of consumer prices, Finland, year-on-year %-change



Source: European Commission

Social developments

Overall inequalities remain low but the risk of poverty for children with low-skilled parents is of concern. In terms of income inequality, Finland ranks among the best performers in the EU. In 2017, the income of the richest 20 % of the population was stable at 3.5 times that of the poorest 20 % (EU average: 5.1). However, children of low-skilled parents face a high and increasing risk of poverty or social exclusion (from 45.0 % in 2010 to 63.1 % in 2017, EU from 59.8 % to 62.9 %). Inequalities in education are low. The variation in the Programme for International Student Assessment ⁽⁵⁾ scores due to the socio-economic background of parents is among the lowest in the EU.

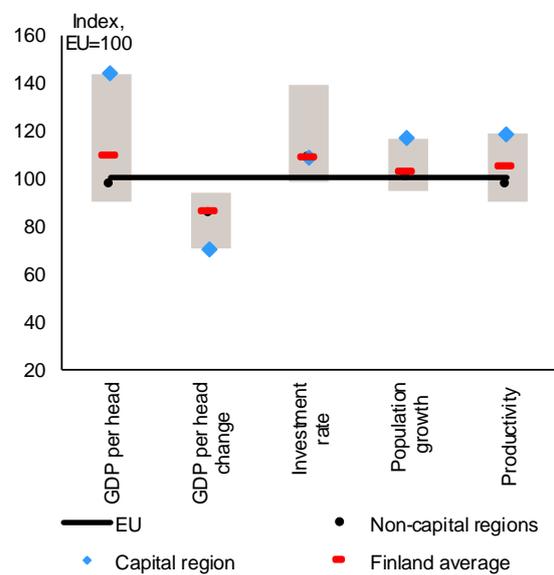
The risk of poverty has continued to decline since peaking in 2011. The recent economic upturn has led to a decrease in the inactive population and long-term unemployed. The population at risk of poverty or social exclusion fell from 16.6 % in 2016 to 15.7 % in 2017, well below the EU average of 22.5 %. The income transfer system performs above the EU average in reducing income inequality.

⁽⁵⁾ The Programme for International Student Assessment is a worldwide study by the Organisation for Economic Co-operation and Development in member and non-member nations intended to evaluate educational systems.

Regional disparities

Regional disparities in Finland have decreased in recent years. In many EU Member States, the regional divide measured by GDP per head is higher than in Finland. Still, the Greater Helsinki area's GDP accounted for 39 % of the national GDP in 2016, against a population share of 30 %. Its GDP per head (at 144 % of the EU average) was 1.6 times higher than that of the less developed East-North region. However, between 2010 and 2016, productivity relative to EU average decreased the most (by 11 percentage points) in the Greater Helsinki area (see Graph 1.4). At the same time, the Helsinki-Uusimaa region remained the main net recipient of domestic migration. This fed into a population increase of almost 7 % between 2010 and 2016, faster than in the EU on average, while the natural growth of population almost stopped in Finland. Furthermore, the population with a migrant background is concentrated in the largest cities, especially in the Greater Helsinki area (see Section 3.3.2).

Graph 1.4: Regional disparities in Finland

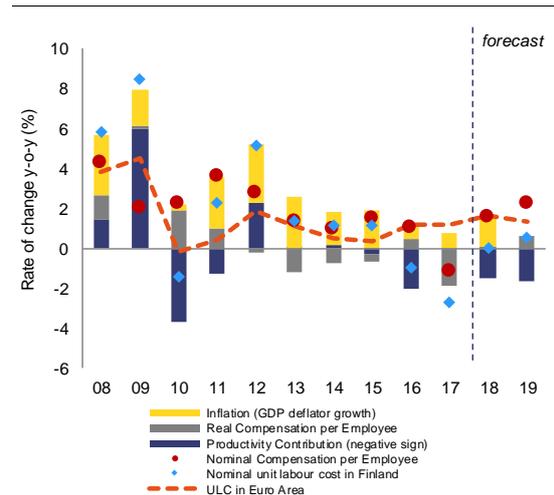


Source: European Commission

A certain level of urban-rural divide remains. The movement of the population from countryside to urban areas is a continuing process and one that is far from complete. This partly reflects higher employment opportunities in urban areas, and especially in the Greater Helsinki area. Large regional disparities are therefore a constant in

house prices and household indebtedness (see Section 3.2.3). Overall, large or mid-sized cities with universities, such as Tampere and Turku, steadily grow. Conversely, rural heartland areas, sparsely populated rural areas as well as smaller cities and towns have lower growth prospects and face specific challenges. This may suggest that the sustainability of regional convergence depends crucially on targeted investment to enhance innovation performance, business environment and skills in each region based on their specific competitive advantages and potentials (see Sections 3.3 and 3.4).

Graph 1.5: Breakdown of rate of change of nominal unit labour costs in Finland by change in inflation, real compensation of employee, productivity contribution, rate of change of nominal unit labour costs in the euro area



(1) IC-42: with 42 industrial countries; IC-37: with 37 industrial countries
Source: European Commission

Disparities in the labour market are limited. Finland's employment rate over 2015-2017 was 2.5 percentage points above the EU average. The rate ranged from 1 percentage point below the EU average in Northeast to 16 percentage points above the EU average in Åland Islands, the least populated European region, with the highest employment rate in the EU. In the Greater Helsinki area, employment rate was 6.5 percentage points above the EU average. The national unemployment rate of 8.6 % in 2017 was higher than the EU average of 7.6 %. Some regions are facing labour shortages in the fastest growing sectors. Disparities in educational attainment and early school leaving are visible between cities and rural areas, and this could lead to more persistent

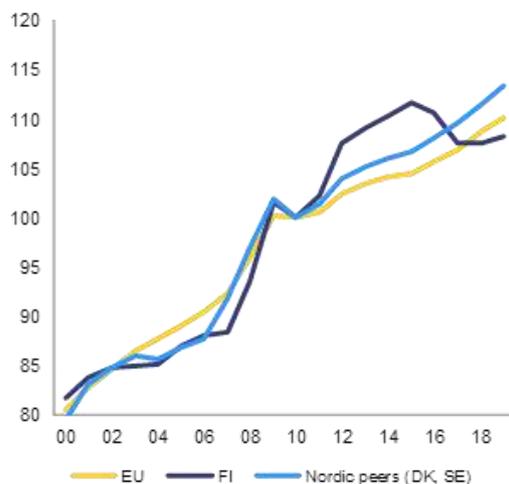
unemployment and social exclusion in the latter. The at risk of poverty or social exclusion rates do not vary significantly between regions, but long distances could hamper access to services in sparsely populated areas (see Section 3.3.2).

Competitiveness

Labour costs have decreased in Finland in recent years and competitiveness has improved.

In 2017, the average compensation of employees in the country decreased by 1.2 % (Graph 1.5), while productivity growth remained strong. As a result, nominal unit labour costs markedly improved (-2.7 %). At the same time, Finland benefited from higher labour costs developments in the economies of its main competitors (see Graph 1.6). This added to the recovery of competitiveness.

Graph 1.6: Nominal unit labour costs in total economy (2010 = 100)



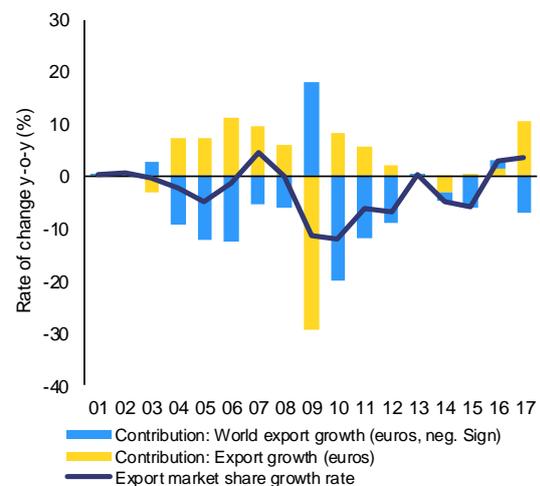
Source: European Commission

However, further cost-competitiveness gains might soon become elusive. In 2018, nominal compensations reverted to growth, while productivity growth weakened. This pulled nominal unit labour costs slightly upwards. Their upturn is expected to continue in 2019 and 2020. Indeed, despite the emergence of the Finnish wage setting model (see Section 2 and Box 3.4.1 in Section 3.4.1), upward pressure on wages is likely in a context of a shrinking working age population and persistent skills shortages (see Section 3.3.1). At the same time, the share of compensation for

employees in GDP is close to its lowest levels ever. This suggests that cost competitiveness, after a few years of rapid improvement, would slow.

Export market shares continue to recover (see Graph 1.7). Data for 2017 confirmed the end of the decline in export market shares that had started in 2009. This is largely on the back of a continuous marked improvement in cost competitiveness (see Graph 1.8). Overall, exports benefited from a recovery in external trade, while imports were subdued, as wage growth and investment growth moderated. Only limited ex post market share gains are expected in 2019 and 2020. Exports are likely to lose steam, with external demand slowing down, only partly counterbalanced by improved cost-competitiveness.

Graph 1.7: Export market shares (EMS): EMS growth rate, export growth, world export growth (negative sign)

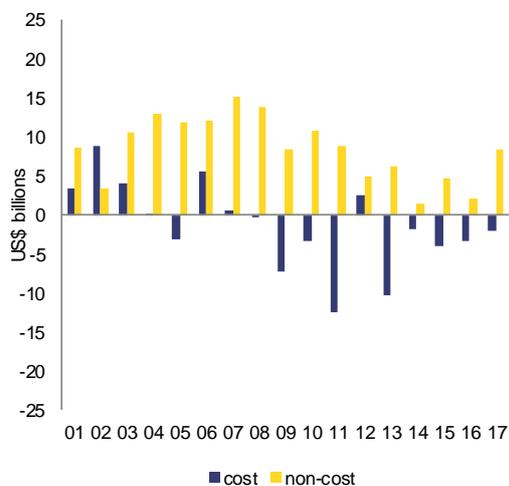


Source: European Commission

After several years of decline, non-cost competitiveness may also have stabilised. After the setback of its electronics sector, Finland experienced a shift in specialisation from consumer towards intermediate goods and from high tech to medium tech industrial sectors. This was accompanied by a concomitant decline in total factor productivity, which highlighted an insufficient level of investment in research and development and innovation. In recent quarters, rising operating surpluses and high financial buffers have prompted enterprises to resume investment. This has been positive for non-cost competitiveness. After several years of decline, the

trade surplus from non-cost competitiveness reverted to growth quite markedly (see Graph 1.8). That said, no rebound has been observed so far in intellectual property investment (see Graphs 3.4.4 and 3.4.5 and Section 3.4). Similarly, a reversal in the downwards shift in specialisation is not yet visible, but the technological level in exports of goods has broadly stabilised.

Graph 1.8: **Breakdown of the balance of trade for goods (fuels included) 2001-2017 — Cost and non-cost competitiveness impact (1)**



(1) Only goods for which both imports and exports, as well as volumes, are registered are taken into account

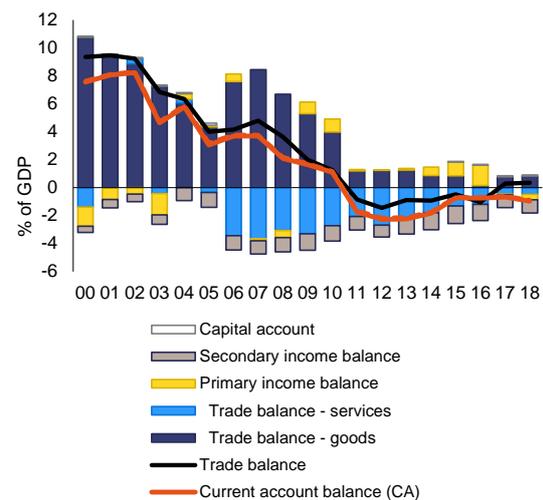
Source: European Commission

External position

Finland's current account deficit increased in 2018 as the primary income balance deteriorated. Finland's net exports of goods partly recovered in 2017-2018. In parallel, the external deficit on services gradually closed. Exports of services grew faster than imports, closing the gap opened during the setback of the electronics sector, when exports of digital services were also affected. The primary income balance deteriorated in 2018, as remuneration of foreign investment in Finland improved faster than that of Finnish investment abroad (see Graph 1.9). The secondary income balance (contributions to EU, overseas development and military aid) remained largely negative. Overall, in 2018, the current account deficit is expected to have slightly grown to 1.0 % of GDP. It is expected to contract in 2019 and to almost close in 2020, as the external balance of goods and services turns increasingly positive.

Finland's net international investment position turned negative again in 2018. The net international investment position improved from -3.2 % of GDP in 2014 to 2.4 % in 2017 as net foreign direct investment strengthened. However, in 2018, the net international investment position turned negative again, but at very low level in an EU comparison (see Graph 1.10). This partly reflected the larger than expected current account deficit. The net international investment position is expected to remain negative in 2019-2020. This would be consistent with the ongoing recovery and higher investment levels financed by external borrowing and healthy foreign direct investment.

Graph 1.9: **Breakdown of external position (current and capital accounts)**



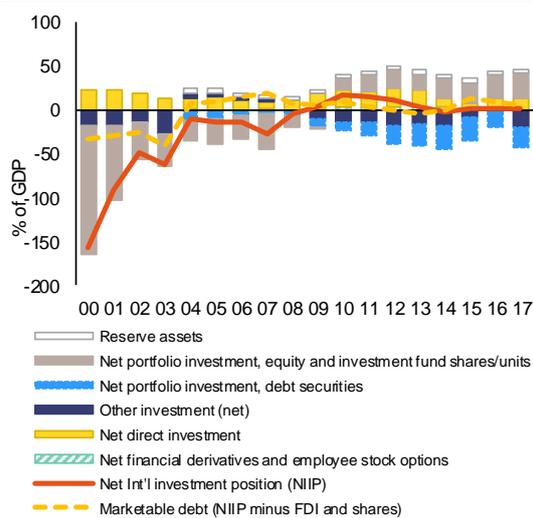
Source: European Commission

Financial sector

Finland's banking system remains stable while risks have increased. After Nordea Group moved its headquarters to Helsinki on 1 October 2018, the aggregated assets of Finland-based lenders increased to over four times the Finnish GDP, one of the highest ratios in the EU. The banking sector is heavily reliant on market funding and Nordea's move augments the already substantial exposure to other Nordic financial systems. However, regarding financial stability at present, the ratio of non-performing loans remains one of the lowest in Europe and the authorities are proactively keeping the banking system well-capitalised and trying to

curb households' indebtedness (see Sections 3.2.1 Banking and 3.2.4 Household debt).

Graph 1.10: **Breakdown of the international investment position in % of GDP**



Source: European Commission

Housing market

Overall, house prices in real terms remained broadly unchanged in 2018. The prices of new buildings increased marginally, while the prices of the existing stock decreased. In real terms, house price indices clearly show no price pressures. House prices relative to rent levels and income continue to face a downward trend. This development is most likely the result of a high number of newly completed houses with the residential construction sector being at the peak of the cycle. While prices are stable on average, there are sizeable regional variations, with Helsinki metropolitan area and growth centres booking solid price increases and the rest of the country seeing a constant decrease in housing prices (Section 3.2.3).

Public finances

The government continues to consolidate public finances. The expanding economy and rising employment are set to improve public finances further on the back of increasing tax revenues and decreasing social spending. The government continues to implement the consolidation plan agreed at the beginning of its term in 2015. The expenditure-side measures planned for 2018 and

2019 are expected to reduce the government spending by EUR 0.7 billion or 0.3 % of GDP annually. In 2018, the impact of these measures was mitigated by the simultaneous decrease in government revenues, due to cuts in taxation of personal income and social contributions. With additional negative impacts from some temporary factors, the general government balance in 2018 deteriorated slightly from -0.7 % in 2017 to -0.8 %. In 2019, the expenditure measures combined with the increase of indirect taxes will help improve the general government balance to -0.2 % of GDP.

The debt ratio is expected to fall below the 60 % benchmark in 2018. The general government gross debt is forecast to decrease from 61.3 % of GDP in 2017 to 59.8 % in 2018 and 58.5 % in 2019, after a peak at 63.5 % of GDP in 2015. The Commission projects the debt ratio to start increasing again towards the end of the 2020s. This points to a fiscal sustainability risk in the long term. The main driver is the increase in age-related costs, in particular healthcare and long-term care expenditure.

Table 1.1: Key economic and financial indicators – Finland

	2004-07	2008-12	2013-15	2016	2017	forecast		
						2018	2019	2020
Real GDP (y-o-y)	4,0	-0,8	-0,4	2,5	2,8	2,5	1,9	1,7
Potential growth (y-o-y)	2,5	0,4	0,2	1,1	1,5	1,8	1,8	1,6
Private consumption (y-o-y)	3,6	1,1	0,7	2,0	1,3	.	.	.
Public consumption (y-o-y)	1,5	0,7	0,3	1,8	-0,5	.	.	.
Gross fixed capital formation (y-o-y)	4,7	-2,0	-2,3	8,5	4,0	.	.	.
Exports of goods and services (y-o-y)	8,7	-1,4	-0,2	4,0	7,5	.	.	.
Imports of goods and services (y-o-y)	8,3	0,6	0,8	5,6	3,5	.	.	.
Contribution to GDP growth:								
Domestic demand (y-o-y)	3,2	0,3	-0,1	3,3	1,5	.	.	.
Inventories (y-o-y)	0,3	-0,2	0,1	-0,2	0,1	.	.	.
Net exports (y-o-y)	0,6	-0,8	-0,4	-0,6	1,4	.	.	.
Contribution to potential GDP growth:								
Total Labour (hours) (y-o-y)	0,5	-0,1	-0,1	0,4	0,7	0,8	0,8	0,4
Capital accumulation (y-o-y)	0,7	0,5	0,2	0,4	0,5	0,5	0,5	0,6
Total factor productivity (y-o-y)	1,3	0,0	0,0	0,3	0,4	0,5	0,5	0,6
Output gap	1,2	-1,2	-3,0	-2,0	-0,8	0,3	0,6	0,9
Unemployment rate	8,0	7,7	8,8	8,8	8,6	7,8	7,2	6,9
GDP deflator (y-o-y)	1,3	2,2	2,0	0,6	0,8	0,9	1,6	2,0
Harmonised index of consumer prices (HICP, y-o-y)	0,9	2,7	1,1	0,4	0,8	1,2	1,4	1,8
Nominal compensation per employee (y-o-y)	3,4	3,0	1,3	1,1	-1,2	1,4	2,2	2,4
Labour productivity (real, person employed, y-o-y)	2,4	-1,0	0,1	2,3	1,5	.	.	.
Unit labour costs (ULC, whole economy, y-o-y)	1,0	4,0	1,2	-0,9	-2,7	0,8	1,1	1,3
Real unit labour costs (y-o-y)	-0,3	1,8	-0,8	-1,5	-3,5	-0,1	-0,5	-0,7
Real effective exchange rate (ULC, y-o-y)	0,2	1,2	0,6	-1,5	-2,5	1,0	-1,6	-0,8
Real effective exchange rate (HICP, y-o-y)	-1,4	-0,8	0,7	1,3	-0,5	2,3	-1,3	-0,5
Savings rate of households (net saving as percentage of net disposable income)	0,8	1,7	0,3	-1,5	-2,1	.	.	.
Private credit flow, consolidated (% of GDP)	10,3	7,2	3,8	1,4	7,3	.	.	.
Private sector debt, consolidated (% of GDP)	116,6	143,7	150,1	148,5	146,1	.	.	.
of which household debt, consolidated (% of GDP)	47,3	59,6	65,3	67,0	67,0	.	.	.
of which non-financial corporate debt, consolidated (% of GDP)	69,3	84,0	84,7	81,5	79,1	.	.	.
Gross non-performing debt (% of total debt instruments and total loans and advances) (2)	0,6	0,9	1,1	1,3	1,1	.	.	.
Corporations, net lending (+) or net borrowing (-) (% of GDP)	4,0	3,2	3,4	4,2	4,8	4,4	4,0	3,9
Corporations, gross operating surplus (% of GDP)	27,3	23,8	21,9	22,8	24,5	24,7	25,2	25,9
Households, net lending (+) or net borrowing (-) (% of GDP)	-2,9	-1,7	-1,8	-3,2	-3,8	-3,3	-3,1	-2,9
Deflated house price index (y-o-y)	6,0	0,3	-1,1	-0,3	0,5	.	.	.
Residential investment (% of GDP)	6,4	6,0	5,7	6,1	6,4	.	.	.
Current account balance (% of GDP), balance of payments	4,1	0,2	-1,6	-0,7	-0,7	0,1	0,8	1,5
Trade balance (% of GDP), balance of payments	4,8	0,9	-0,8	-1,0	0,3	.	.	.
Terms of trade of goods and services (y-o-y)	-2,2	-1,1	1,8	0,3	-0,3	-0,6	0,5	0,9
Capital account balance (% of GDP)	0,1	.	0,0	0,1	0,1	.	.	.
Net international investment position (% of GDP)	-16,4	8,4	0,7	0,0*	2,4	.	.	.
NIIP excluding non-defaultable instruments (% of GDP) (1)	13,2	5,0	2,9	.	6,1	.	.	.
IIP liabilities excluding non-defaultable instruments (% of GDP) (1)	117,6	225,9	245,5	221,9	176,6	.	.	.
Export performance vs. advanced countries (% change over 5 years)	3,9	-10,5	-22,9	-16,7	-8,6	.	.	.
Export market share, goods and services (y-o-y)	.	.	-3,5	3,1	3,5	.	.	.
Net FDI flows (% of GDP)	-1,4	1,8	-5,0	5,7	-0,8	.	.	.
General government balance (% of GDP)	3,5	-0,8	-2,9	-1,7	-0,7	-0,8	-0,2	-0,1
Structural budget balance (% of GDP)	.	.	-1,1	-0,5	-0,2	-0,8	-0,6	-0,7
General government gross debt (% of GDP)	38,7	44,8	60,1	63,0	61,3	59,8	58,5	57,5
Tax-to-GDP ratio (%) (3)	42,0	41,7	43,9	44,2	43,4	42,6	42,5	42,1
Tax rate for a single person earning the average wage (%)	30,9	29,6	30,5	30,8
Tax rate for a single person earning 50% of the average wage (%)	20,1	18,6	19,1	18,7

(1) Net International Investment Position excluding direct investment and portfolio equity shares

(2) domestic banking groups and stand-alone banks, EU and non-EU foreign-controlled subsidiaries and EU and non-EU foreign-controlled branches.

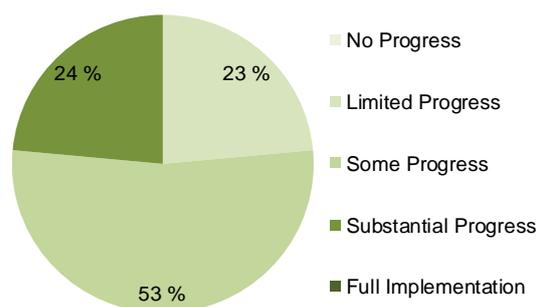
(3) The tax-to-GDP indicator includes imputed social contributions and hence differs from the tax-to-GDP indicator used in the section on taxation.

Source: Eurostat and European Central Bank as of 31-1-2019, where available; European Commission for forecast figures (Winter forecast 2019 for real GDP and harmonised index of consumer prices, Autumn forecast 2018 otherwise).

2. PROGRESS WITH COUNTRY-SPECIFIC RECOMMENDATIONS

Since the start of the European Semester in 2011, 77 % of all country-specific recommendations addressed to Finland have recorded at least ‘some progress’.⁽⁶⁾ Over the past years, Finland has been addressing the challenges in the area of the long-run sustainability of public finances by adopting a pension reform that came into force in 2017. External sector challenges have abated and cost competitiveness has improved in particular owing to the measures in the Competitiveness Pact of 2016. Finland has also taken action to increase incentives to accept work and to strengthen active labour market policies.

Graph 2.1: Overall multiannual implementation of 2011-2018 country-specific recommendations to date



(1) The overall assessment of the recommendations related to fiscal policy excludes compliance with the Stability and Growth Pact.

2011-2012: Different assessment categories.

The multiannual assessment looks at the implementation since the recommendations were first adopted until the 2018 Country Report.

Source: European Commission

The pension reform has strengthened the long-run sustainability of public finances. The ageing population puts pressure on the pension and healthcare systems. The reform of the earnings-related pension system, which linked statutory retirement age to life expectancy, was legislated in late 2015. Under the reform, the lowest statutory retirement age has gradually started to rise as of 2018 from 63 to 65. This should in turn raise the real retirement age, which was 61.1 years in 2016, towards the target of 62.5. Efforts to improve cost-efficiency of healthcare services are still ongoing.

⁽⁶⁾ For the assessment of other reforms implemented in the past, see in particular Section 3.

The gradual improvement of cost competitiveness has been supported by the implementation of the country-specific recommendations since 2014. Progress has been made in aligning wage growth with productivity developments, which has resulted in a slower increase of unit labour costs and improved cost competitiveness relative to competitor economies. In 2016, the social partners agreed on measures that would reduce labour costs further in 2017. The Competitiveness Pact increased annual working time without additional compensation, included a wage freeze of 12 months and shifted social security contributions partly towards the employees. A new Finnish wage-setting model has emerged. In this model, pay rises in the non-tradable sector are linked to the increases first agreed in the tradable sector. However, no formal agreement on this model has been reached.

Reforms in the labour market have advanced.

In order to increase incentives to work, the earnings-related unemployment insurance has been cut in time. Several measures to activate unemployed job seekers, such as increasing the conditions for benefits, have been introduced. Measures to increase entrepreneurship have also been launched.

Finland has made limited⁽⁷⁾ progress in addressing its 2018 country-specific recommendations. To improve the long-term sustainability of public finances, work to reform the regional government, health and social services continued. However, parliament has not finalised and adopted the necessary legislation by February 2019.

On addressing labour market and social challenges, the government’s budget proposal for 2019 introduces limited measures to foster employment. The focus is on addressing the need to improve the position of those with low employment potential, combating skill shortages and reducing the time spent gaining employment. On incentives to work, the Finnish authorities are

⁽⁷⁾ Information on the level of progress and actions taken to address the policy advice in each respective subpart of a country-specific recommendation is presented in the overview table in the Annex. This overall assessment does not include an assessment of compliance with the Stability and Growth Pact.

Table 2.1: Assessment of 2018 CSR implementation

Finland	Overall assessment of progress with 2018 CSRs: Limited progress
<p>CSR 1: <i>Achieve the medium-term budgetary objective in 2019, taking account the allowances linked to the implementation of the structural reforms for which a temporary deviation is granted.</i></p> <p><i>Ensure the adoption and implementation of the administrative reform to improve cost-effectiveness and equal access to social and healthcare services.</i></p>	<p>Finland has made limited progress in addressing the fiscal-structural part of CSR 1 ⁽¹⁾:</p> <ul style="list-style-type: none"> • The draft laws concerning the regional social and health care services reform are still expected to be adopted during the first quarter of the year 2019.
<p>CSR 2: <i>Improve incentives to accept work and ensure adequate and well-integrated services for the unemployed and the inactive.</i></p>	<p>Finland has made limited progress in addressing CSR 2:</p> <ul style="list-style-type: none"> • Limited progress has been achieved on reducing inactivity and unemployment traps. • Limited progress has been made, as the general government budget for 2019 introduces further measures for promoting employment.
<p>CSR 3: <i>Strengthen the monitoring of household debt, including by setting up a credit registry system.</i></p>	<p>Finland has made limited progress in addressing CSR 3:</p> <ul style="list-style-type: none"> • Limited progress has been achieved on strengthening the monitoring of the household debt. • Limited progress is observed on setting up a credit registry system.

(1) This does not include an assessment of compliance with the Stability and Growth Pact.

Source: European Commission

waiting for the outcome of the basic income experiment, whose preliminary results were presented on 8 February. The experiment is expected to provide some information for revising the social security system.

Limited progress is observed on monitoring the household debt. An expert working group has been set up to assess developments in the household debt and possibilities to introduce new legal macroprudential instruments. The Ministry of Justice has commissioned a report proposing the establishment of a centralised comprehensive (collecting both positive and negative information on debtors) credit registry. The proposal is now under consultation, after which the matter will be

further assessed. Any legislation in this area would not be tabled before the next general elections in April 2019.

The European Structural and Investment Funds are important in addressing key challenges to inclusive growth and convergence in Finland, notably by supporting competitiveness and boosting research and innovation, creating employment and facilitating education and training. The European Structural and Investment Funds also contribute to enhancing labour market access for migrants and other vulnerable groups.

Box 2.1: EU funds help overcome structural challenges and foster development in Finland

Finland is a beneficiary of European Structural and Investment Funds support. EU funds allocated to Finland in facing development challenges amount to EUR 3.8 billion in the current multiannual financial framework (2014-2020), potentially representing around 0.2 % of GDP annually. At the end of 2018, some EUR 2.8 billion (around 73 % of the total) was already allocated to specific projects. In addition, EUR 139.8 million was allocated to specific projects on strategic transport networks through a dedicated EU funding instrument, the Connecting Europe Facility. Furthermore, numerous Finnish research institutions, innovative firms and individual researchers benefited from other EU funding instruments, notably Horizon 2020 which provided EUR 766 million.

EU funding has helped to address policy challenges identified in the country-specific recommendations. The European Structural and Investment Funds contribute to enhancing Finland's capacity to deliver innovative products, services and high-growth companies and help to create employment opportunities by promoting labour market access, education, training and social inclusion for people in unemployment or inactivity. The European Social Fund helps to create employment opportunities by promoting labour market access, education, training and social inclusion for people in unemployment or inactivity. It contributes also to tapping the full potential of the workforce by enhancing labour market outcomes for migrants and other vulnerable groups. By 2018, 190 000 people attended projects investing in human capital, 9 000 companies in projects run by research and development institutions, and 4 300 companies in projects to promote growth and international business operations. Over 1300 companies started to export or expand their exports. More than 1800 products and services were developed and piloted in innovation platforms. Horizon 2020 supported over 1200 research projects covering a very broad thematic spectrum from accelerating uptake of nanotech materials to smart electric mobility in cities.

EU funding contributes to mobilisation of private investment. The European Structural and Investment Funds mobilise additional private capital by allocating about EUR 21.5 million in the form of guarantees and equity. With national co-financing, this is expected to leverage additional private investment amounting to EUR 220 million. In addition, the approved operations by the European Investment Bank with the European Fund for Strategic Investments amount to EUR 1.9 billion, which is set to trigger a total of EUR 7.8 billion in additional private and public investment. 7 301 small and medium-sized enterprises and mid-cap companies are expected to benefit from this support. "Epiqus social impact bond" is a notable example of such project in Finland. The European Investment Fund is investing EUR 10 million into the scheme, which will support the integration of up to 3 700 migrants and refugees into the Finnish labour market by providing training and job-matching assistance.

EU actions strengthen national, regional and local authorities and the civil society. Partnership has an important role to play at all stages of implementation of the European Structural and Investment Funds. The representatives of different levels of governance together with the social partners and the civil society have taken part in preparation, monitoring and implementation of the Partnership Agreement and the Operational Programmes. Advice, training and information sessions are organised regularly to all stakeholders.

<https://cohesiondata.ec.europa.eu/countries/FI>

3. REFORM PRIORITIES

3.1. PUBLIC FINANCES AND TAXATION

3.1.1. FISCAL POLICIES

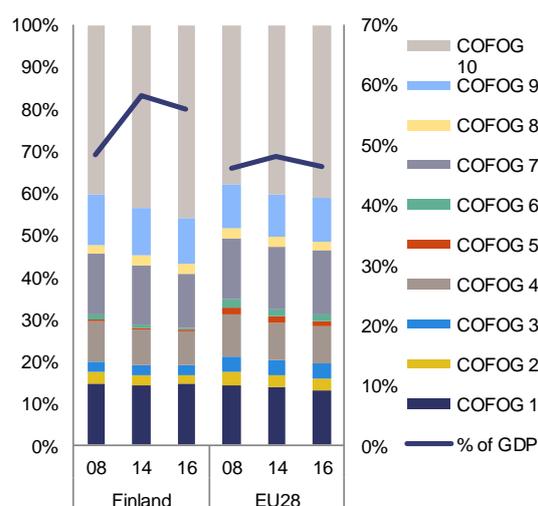
The fiscal reforms undertaken in recent years reduced public expenditure, which remains one of the highest in the EU. The crisis and the prolonged recession pushed up social and, consequently, total government expenditure in Finland until 2014. Between 2008 and 2014, general government expenditure increased more steeply in Finland than in the EU on average, from an already higher level (see Graph 3.1.1). However, this trend has since been reversed. Between 2014 and 2016, it fell from 58.1 % to 56.0 % of GDP. This reduction was driven mainly by lower spending on health (-1.1 % of GDP), economic affairs (-0.4 % of GDP) and education (-0.3 % of GDP). The total public spending remained still far above the EU average. The difference is mainly due to higher spending on social protection and general public services. Since 2016, Finland has further reduced central government expenditure through appropriation cuts and lower social transfers. The public wage bill has come down gradually over time and more recently also due to the measures in the Competitiveness Pact (wage freeze in 2017 and a temporary reduction in annual holiday bonuses). This trend, however, may level-off or even reverse in the years ahead as wage growth pressures are increasing amid favourable cyclical conditions.

The favourable economic cycle is helping the government further consolidate public finances. Revenue from taxes is expected to increase in 2018-2019 on the back of growing production, employment and wage rises, while expenditure growth is projected to remain moderate. The government headline balance is forecast to slightly deteriorate from -0.7 % of GDP in 2017 to -0.8 % of GDP in 2018 due to some temporary factors ⁽⁸⁾, but to improve markedly to -0.2 % of GDP in 2019. Finland's gross debt-to-GDP ratio increased from 40 % in 2005 to 63.6 % in 2015. However, it has started to decrease since. The public debt ratio reached 61.3 % in 2017 and is expected to have

⁽⁸⁾ The end of one-off revenues from corporate taxes in 2017, the tax refunds and changes in the system of value added tax levies on imports.

fallen below 60 % in 2018, continuing the downward trend thereafter.

Graph 3.1.1: General government expenditure as a share of GDP, broken down by function, Finland and the EU



(1) The classes of the functions of government (COFOG) are 1 General public services, 2 Defence, 3 Public order and safety, 4 Economic affairs, 5 Environment protection, 6 Housing and community amenities, 7 Health, 8 Recreation, culture and religion, 9 Education and 10 Social protection.
 (2) Share of GDP on the right-hand axis
Source: European Commission

Taxation

Finland's tax structure is characterised by a high overall tax burden skewed to labour. In 2017, the total tax burden (43.3 % of GDP) and the level of personal income taxation (12.6 % of GDP) were among the highest in the EU (European Commission, 2019). Revenues from capital taxes, including recurrent immovable property taxes, are below the EU average (7.5 % vs. 8.6 % of GDP), while revenues from consumption taxes (14.2 % of GDP) and environmental taxes (3.0 % of GDP) exceed the EU average. Changes to the tax system that have led to a decrease in the base for personal income taxation and economic growth might contribute to a reduction in the total tax burden.

Finland has created an Income Register to improve access to real-time individual income data for authorities in order to improve tax compliance and prevent the development of a shadow economy. The Income Register is a

national electronic database, which includes comprehensive salary, pension and benefit information at individual level. The obligation to report information in real time will apply to all employers as of 2019 and to all payers of benefits as of 2020. The Income Register will be used by many public and private institutions, including the Tax Administration, the Social Insurance Institution of Finland, the Unemployment Insurance Fund as well as earnings-related pension providers and the Finnish Centre for Pensions. The number of parties using the information will increase in 2020, including the Ministry of Economic Affairs and Employment agencies, Statistics Finland, the Education Fund, non-life insurance providers, unemployment funds and occupational safety and health authorities. Another key function of the Income Register will be to prevent the growth of a shadow economy. It will make it possible to detect omissions in reports very soon after payment. Moreover, the information in each report will be accessible to all entitled users of the Income Register data.

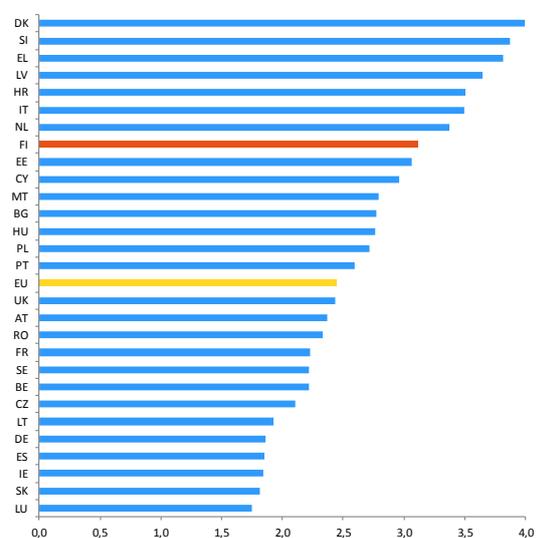
Real estate taxation reform has been postponed.

Revenues from the recurrent immovable property taxes, considered as one of the least growth-distortive taxes, account for only 0.8 % of GDP, well below the EU average of 1.6 % of GDP. Both land and buildings are subject to a recurrent property tax. While building values are updated yearly according to a construction index, taxable property values are generally below market values and have been found to move further away from them. In accordance with a long-term project by the Ministry of Finance, there was a plan for a two-step reform of real estate taxation starting in 2019. Based on the consultation feedback, the reform has been postponed until after the elections in April 2019. It is to be carried out in one step, whereby the increase in tax values and decrease in tax rates would be introduced at the same time. This is set to be implemented in 2022 at the earliest.

Further revenue could be raised by reforming environment-related taxes. In Finland, environmental taxes accounted for 3.11 % of GDP in 2016 (EU average: 2.44 %) (see Graph 3.1.2), and energy taxes for 2.11 % of GDP against an EU average of 1.88 %. However, the design of environmental taxes could be improved to encourage more efficient use of resources. For

instance, environmental taxes are not indexed, which can lead to a gradual reduction in revenues as share of GDP over time. Reduced energy tax rates or refunds are in place for fossil fuels used in transport, leisure flights, mobile machinery, agriculture, energy intensive enterprises, heating, etc. These exemptions reduce incentives to increase energy efficiency (Organisation for Economic Cooperation and Development, 2018a).

Graph 3.1.2: Environmental tax revenues as share of GDP 2016, in %



Source: European Commission

An increase in the taxation of heating fuels has been approved as one of the actions under the government's medium-term climate policy plan.

It aims at achieving the 2030 emissions reduction target. The relevant amendments came into force on 1 January 2019. Despite this, energy taxation is not fully linked to CO₂ emissions. As noted in the International Energy Agency 2018 Finland review report, the Finnish taxation designed to favour domestic peat is not fully consistent with decarbonisation objectives (International Energy Agency, 2018).

While progress has been made on reducing the petrol-diesel price differential since 2005, the gap remains sizeable. In 2016, there was a 32 % gap between petrol and diesel tax rates, while in 2005 it amounted to 84 % (European Environment Agency, 2017). Excise tax rates levied on petrol and diesel in 2016 remained broadly constant in comparison with those in 2015 (European

Commission, 2018a). Diesel cars are a major source of nitrogen oxide emissions. These need to be reduced to comply with the applicable national emission ceilings — especially in Helsinki.

Fiscal framework

Finland is the only euro area country where the macroeconomic forecast underpinning the budgetary planning is prepared by the Ministry of Finance. The management of the Economics Department and the Budget Department of the Ministry of Finance are separated and the Economics Department is independent in its forecasting activities. Questions about the realistic and unbiased nature of the Ministry's macroeconomic projections, that were raised in the 2017 stability programme (European Commission, 2018b), have not been present in the last surveillance cycle. However, the particular arrangement for macroeconomic forecasting underpinning the budgetary planning warrants regular surveillance to ensure that the separation and independence of both functions within one institution are preserved.

3.1.2. DEBT SUSTAINABILITY ANALYSIS AND FISCAL RISKS

Public debt falls over the forecast horizon. On the basis of the Commission 2018 autumn forecast and the commonly agreed assumptions on debt sustainability analysis⁽⁹⁾, the public debt ratio is projected to decline to about 54.5 % of GDP around 2026, supported by a favourable contribution of the snowball effect and the structural primary balance. Subsequently, it is projected to start increasing in 2028, inching up to 55.1 % of GDP in 2029 (see Annex B). If the costs of ageing (pensions, long-term care and healthcare expenditure) were left out of the debt projections, the debt ratio would gradually decline to about 45 % of GDP in the same period.

Sustainability risks of public finances have decreased for the medium term, although long-term challenges remain. In the short term,

⁽⁹⁾ A mechanical projection based on the current primary balance and assumptions on nominal growth and interest rates. Subsequently an equilibrium debt level and equilibrium interest services can be calculated.

there are no fiscal or competitiveness-financial risks to sustainability of public finances⁽¹⁰⁾. The medium-term risk assessment also improved compared to last year on the back of the estimated lower public debt levels and the fiscal sustainability gap indicator S1 pointing to low risk⁽¹¹⁾. In particular, with a value of -0.1 percentage point of GDP, the S1 indicator implies that no adjustment is necessary in the structural primary balance over 2021-2025. In the long term, notwithstanding the low debt burden, the fiscal sustainability gap indicator S2⁽¹²⁾ points to medium risks. The S2 indicator is estimated at 2.7 percentage points of GDP, based on the slightly unfavourable initial budgetary position (0.7 percentage point of GDP) and the projected increase of ageing costs (2.0 percentage points of GDP). The latter are driven in particular by the projected increase in long-term care expenditure (1.6 percentage points of GDP).

The regional government, health and social services reform

A reform of the regional government is expected to be adopted by the general elections in April 2019 and to enter into force from early 2021. The reform aims to rationalise the organisation of public administration at the state, regional and municipal levels. It envisages the transfer of some functions into 18 counties, new administrative entities. The responsibilities of the counties will be based on a clear division of duties between the local government, the county and the central government. Counties will be responsible for healthcare and social welfare, rescue services, environment protection, regional development,

⁽¹⁰⁾ Short-term sustainability is assessed by the fiscal sustainability gap indicator S0 (See European Commission, 2018c).

⁽¹¹⁾ The medium-term fiscal sustainability gap indicator S1 shows the additional adjustment required in terms of improvement in the government structural primary balance over 5 years (starting from 2021) to reach a 60 % public debt-to-GDP ratio by 2033, including financing for future additional expenditure arising from population ageing. See European Commission, 2018c for details.

⁽¹²⁾ The long-term fiscal sustainability gap indicator S2 shows the upfront fiscal adjustment to the current primary balance (in structural terms) required to stabilise the debt-to-GDP ratio over the infinite horizon, including financing for any additional expenditure arising from an ageing population. S2 values below 2 point to low risks, from 2 to 6 to medium risks and above 6 to high risks. See European Commission, 2018c for details.

promotion of business as well as promoting the regional identity and culture.

General spending on healthcare in Finland is close to the EU average while spending on long-term care is relatively high and bound to increase. With 9.2 % of GDP expenditure on healthcare in 2017, Finland remains just below the EU average while per capita expenditure is slightly above the EU average. The financing of healthcare consists mainly of government schemes: 61 % compared to 36 % of the EU average (Organisation for Economic Cooperation and Development, 2018b). The level of out-of-pocket payments is higher than the EU average and has been increasing in the last three years. Expenditure on long-term care (usually referred to as social care in Finland) is, at 2.2 % of GDP, one of the highest in EU. Health and long-term care spending is expected to grow in the coming years due to the population aging.

The reform will have two major consequences for the health sector. Firstly, it envisages a transfer of healthcare responsibilities from more than 300 municipalities to the counties. Secondly, the health sector will open up to private service providers. The publicly-funded healthcare will be provided to patients under the same conditions by a public or private provider of their choice.

Competition between service providers and public management at a more central level are expected to lead to cost savings and better access. Whereas by EU standards access to healthcare in Finland is good, waiting time is still suboptimal for those patients who do not benefit from an employer-provided voluntary occupational sickness care. The centralisation is expected to enable better management of the system and the opening to private providers should yield some efficiency gains thanks to increased competition. The risk pooling of the population and the access to relatively rare specialists are likely to improve in the counties. The government has quantified the savings from the reform at EUR 3 billion by 2031. The expected ratio of increase in expenditure is reduced from 2.4 % to 0.9 % over the 10 years after the reform (see also European Commission, 2018b). The main factor for enhancing efficiency will be the ability of the Ministry of Social Affairs and Health to monitor and manage the performance of the 18 healthcare entities.

However, the recentralisation will also pose new challenges for the authorities, particularly in relation to the additional investments needed to implement the reform and the planned public financing of private healthcare services, currently covered mostly by out-of-pocket payments.

The opening of the healthcare sector will grant patients freedom of choice between public and private healthcare providers. This could be a positive development since the Finnish system is currently very restrictive. It could reduce waiting times and thus improve access to healthcare services. At the same time, there is a risk that the type of patients that currently have most access problems such as pensioners, the unemployed and people living in rural areas will remain relatively expensive to treat. This could lead to cherry picking of patients by the private providers and put the burden of the economically most difficult patients onto public healthcare.

3.2. FINANCIAL SECTOR

3.2.1. BANKING SECTOR

The banking system is resilient but structural vulnerabilities persist. Finland's banking sector is concentrated, with the top three banks (two pan-Nordic banks and a domestic cooperative banking group) occupying over 70 % of the market across all main segments. Following the move of Nordea's headquarters from Stockholm to Helsinki in October 2018, Finland's banking sector became one of the largest in Europe when compared to the size of the economy, with balance sheet size over four times the country's GDP. The general risk resilience of the banking system as a whole remains strong relative to the top three risks faced by local lenders: the credit risk strongly linked to high households' indebtedness, the liquidity risk associated with the dependence on market funding and the exposure to potential disruptions in other Nordic economies and their financial systems.

The banks are well capitalised. The Common Equity Tier 1 ratio for the sector stood at 20 % at the end of Q1 2018, while the total capital ratio stood at 22.5 %, well above EU averages. At 1.3 %, the non-performing loans ratio of the banking sector remained one of the lowest in Europe. Nevertheless, the expansion of the banking sector from 2.5 times to over 4 times the GDP has increased the already high structural vulnerabilities of the Finnish banking system and may put pressure on the sovereign in case of a major crisis.

High reliance of banks on wholesale funding is mitigated by the increasing use of long-term debt. The system-wide loan-to-deposit ratio remains high at 142.8 %, much higher than the euro area average. Deposits remain a popular way of saving money, but the net saving rate of Finns remains negative. This requires Finnish banks to rely on confidence-sensitive market funding to a certain extent. Even though access to market-based funding continues to be relatively easy and the price is favourable, the credit institutions' exposure to changes in investor risk sentiment is one of the long-lasting structural vulnerabilities of the Finnish banking sector. Looking at the credit institutions' funding, the wholesale funding represents overall 55 % of the funding mix with 8 % of the funding being short-term. Finnish lenders' increased usage of long-term covered bond and the pool of liquidity reserves largely

mitigate the refinancing risks associated with market funding. Extending funding maturities through covered bonds increases the interconnectedness of credit institutions and their exposure to disruptions on the Nordic housing markets.

Finland's banks have a strong track record of being profitable. The risk resilience of Finnish lenders is boosted by the relatively strong capacity to generate earnings. Over the past years, the profitability ratios of Finnish banks have remained at good levels, generally much higher than those of their European peers. Profit margins have been supported by business diversification (especially into asset management), low levels of non-performing assets and impairment losses, and better cost-efficiency of Finland's lenders than elsewhere in the EU. However, net profit figures have been consistently declining over the last three years. Profitability is reduced by the low interest rates, increasingly tighter interbank competition and growing competition in payment services. In addition, the financial sector profitability and capital adequacy are increasingly reliant on developments in the residential and commercial real estate markets. The sector has also invested heavily in further modernisation of information technology. Going forward, in case the low-interest environment persists, the banking sector's earnings generation capacity may be at risk.

Nordea's relocation implies a heavier workload and increased responsibilities for the Finnish Financial Supervisory Authority. Nordea's balance sheet is equivalent to 2.6 times the Finnish GDP, which makes it the largest bank in the banking union in comparison with the size of its home country's economy. The relocation of such a large financial institution alters in many ways the structure of the entire banking sector and the systemic risks at play. Finland's participation in the European Banking Union and the many regulatory reforms implemented over the past years moderate these risks. Through its move to Helsinki, Nordea has also moved under the direct supervision of the European Central Bank. Nonetheless, as in other jurisdictions, most of the supervisory work falls on the local financial supervision. This means that the move has also major implications for both human and financial resources of the Finnish financial watchdog that has already recruited 30 new staff members.

Furthermore, the Finnish Parliament approved in November 2017 an amendment to the Credit Institutions Act to include a systemic risk buffer. This allows the Board of the Financial Supervisory Authority (from 2018) to enforce additional capital requirements of up to 5 % of Tier 1 capital on credit institutions and investment firms based on the structural vulnerability of the financial system. The authorities are currently well equipped to manage cyclical and structural systemic risks, staying focused on keeping the banking system well capitalised and curbing households' indebtedness.

3.2.2. ACCESS TO FINANCE

Lending has continued to increase in Finland.

By June 2018, loans to firms had grown by 6.7 % compared to June 2017, while loans to households had increased by 4.3 %. Low interest rates, solid (albeit declining) consumer confidence and a booming construction sector were the driving forces behind the household demand for loans. Due to the increase in GDP, the household debt expressed in terms of GDP has changed only marginally, but the underlying trend of an ever-rising stock of household indebtedness has continued.

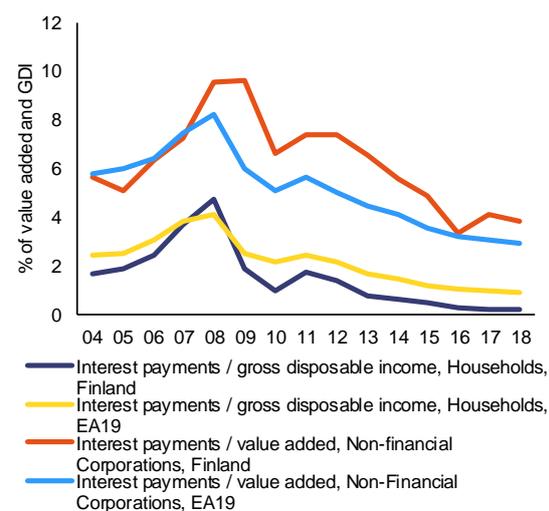
Due to the low interest rates, most businesses and retail clients can easily afford bank credit.

The interest burden for households is lower in Finland than in the euro area, but higher for firms (see Graph 3.2.1). Most of the credit stock is taken at variable rates, with a tendency to further increase (in 2017, 97.3 % of new mortgages had variable rates). This makes both households and firms vulnerable to potential rapid changes in the monetary policy.

Access to finance is easier when compared with most other EU countries. The results of the 2018 survey on access to finance of enterprises (European Commission, 2018) show that only 4 % of the surveyed Finnish small and medium-sized enterprises indicated access to finance as their most important concern, compared with 7 % for the EU. Large firms are able to obtain financing in financial markets, whereas small and medium-sized enterprises use banks as the main source of funding. In 2018, the three most relevant sources of financing for small and medium-sized

companies were (i) credit lines, (ii) leasing and (iii) bank loans (relevant for respectively 65 %, 65 % and 61 % of small and medium-sized enterprises in Finland). While bank loans appear a priori less attractive than other forms of financing (crowdfunding, peer-to-peer lending or business angels' investment; European Central Bank, 2017), easy access to it is the key. 15 % of Finnish small and medium-sized enterprises did not manage to get the full bank loan they had asked for during 2018 (EU average: 18 %). A number of initiatives taken in recent years have improved small and medium-sized enterprises' access to finance, including a growth funding programme, junior loans and the investment programme for industrial renewal.

Graph 3.2.1: Interest burden of households and non-financial corporations



Source: European Commission

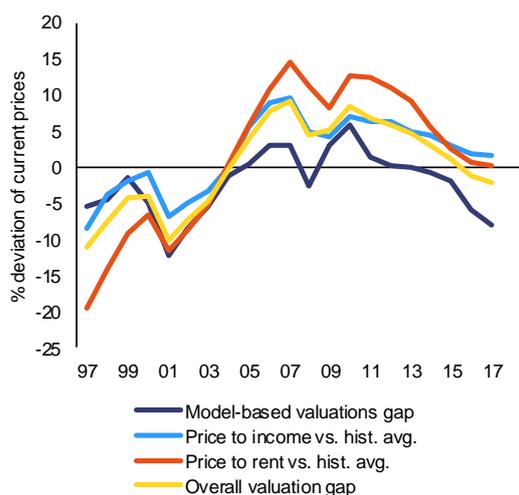
3.2.3. HOUSING MARKET

House prices in real terms remained broadly stable. In both 2017 and 2018, prices increased modestly in nominal terms, fluctuating around the inflation rate. The valuation gap closed in 2017 (see Graph 3.2.2). Overall, there are no signs of a price overvaluation at national level.

Large regional price disparities are a constant feature of the Finnish housing market. Most of the housing demand is concentrated in the Greater Helsinki area and other growth centres, where most of the new jobs are to be found. The average

price per square metre in 2018 in the Greater Helsinki area was hovering above EUR 3 600 whereas in the rest of the country (Greater Helsinki area excluded) it was around EUR 1 600. Despite the moderating effect of a large supply of new housing units in recent years, prices have been increasing faster than income in growth centres. Migration from the countryside to urban areas is continuing, which is clearly having an impact on prices upwards in growth centres and downwards in rural areas. The larger the price gap is, the greater the barrier to labour mobility, especially for lower-skilled workers and families with limited revenues.

Graph 3.2.2: **Overvaluation gap with respect to price/income, price/rent and fundamental model valuation gap**

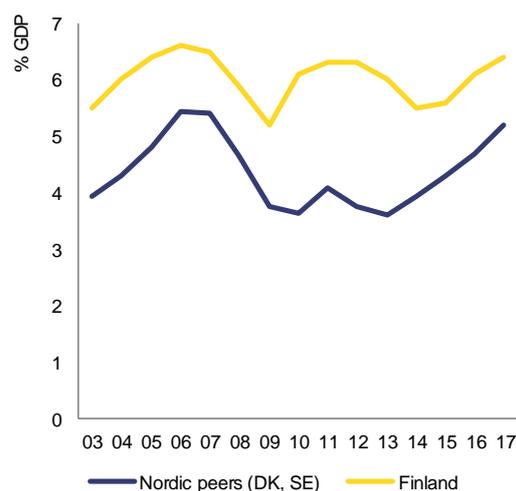


Source: European Commission

It seems that housing construction peaked in 2018. Residential construction expressed as a share of GDP (see Graph 3.2.3), after increasing rapidly in 2016-2017, is estimated to be in 2018 on a similar level as in years 2005-2007 (6.4-6.6%). Strong housing demand, coupled with low interest rates and rising incomes underpinned the construction sector in recent years. However, the data on residential building permits (in square metre of useful floor area) shows that the construction growth is levelling off. In addition, reported labour shortages indicate that the construction sector is reaching its full capacities. Due to the many projects already started, the momentum might still be strong enough to keep construction level in 2019 similar to 2018. Given the outlook of accommodative monetary policy, it

is unlikely that the demand for housing starts to fall markedly, in particular in the prospering regions.

Graph 3.2.3: **Residential construction, % GDP**



Source: European Commission

3.2.4. HOUSEHOLD DEBT

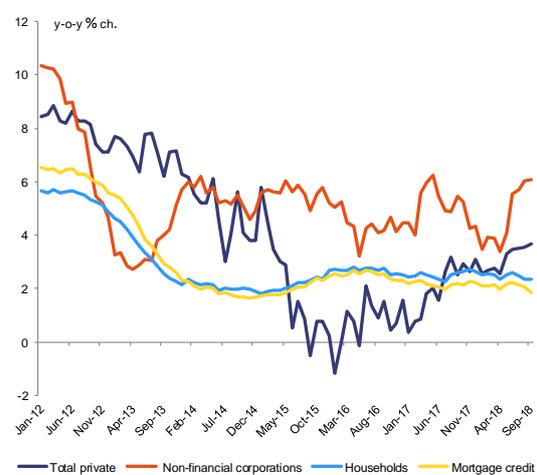
At 67.2 % of GDP in 2017, the household debt level is high. Household indebtedness has increased steadily over the last two decades, although it remains below Finland's Nordic peers. In 2017, it increased by 0.2 percentage points only. The relatively low increase can be attributed to a higher growth of GDP. In terms of debt-to-gross disposable income ratio, household debt increased by 2.1 percentage points to 116.0%. As the value of households' assets increased, the debt-to-financial assets indicator decreased by 0.2 percentage point to 46.1%.

Quarterly indicators for Q2-2018 show that the debt-to-GDP ratio started to marginally decrease. In parallel, the household savings rate, while at historically low levels, started to increase marginally. If this momentum persists in the second half of 2018, it might represent a turning point in the trend.

The stock of mortgage loans continues to grow. At the end of July 2018, the stock of mortgage loans amounted to EUR 97.1 billion (equivalent to 78% of the households' debt), reflecting an annual growth rate of 2.1% (see Graph 3.2.4) compared

to July 2017. The stock of loans to non-financial corporations amounted to EUR 83 billion, of which loans to housing corporations and rental housing companies accounted for EUR 30.2 billion. The latter segment displays the strongest year-on-year growth rate of over 10 % in the same period due to both ongoing new construction and renovation works.

Graph 3.2.4: Lending growth year-on-year



Source: European Central Bank

Average repayment periods are increasing and mortgages are taken at variable rates. Most of the new loans have longer average repayment periods than the existing stock. For the new loans taken in July 2018, the average repayment period was around 20 years, with 60 % of loans being between 20 and 26 years. The majority of the current stock of loans have variable interest rates (usually linked to euribor) and 97 % of new loans have variable rates. Households' total debt includes the exposure to debt contracted by housing corporations. Some households may rely on financing their equity share in housing corporations through unsecured high yielding non-bank loans, which creates potential risks. Overall, the share of loans secured by real estate property in the banks aggregate balance sheet increased over the past three years from 35 % to 43 %.

Consumer credit is rapidly expanding. At a 5 % yearly growth rate (in September 2018 compared to September 2017), it is backed by growing private consumption and the popularity of small

non-deposit taking (and thus unregulated) lenders. In view of that, the authorities have stepped up work on a comprehensive Credit Registry that would collect both positive and negative information on debtors and would thus provide a full picture of the creditworthiness of each borrower. Launched in 2019, the registry will take a few years before it is up and running. Meanwhile, a working group comprising the authorities and stakeholders also discusses additional steps to limit the ability of households to take on further debt, in particular a legislation aiming to cap the debt-to-income ratio.

There are large regional disparities in indebtedness. The disparities grew over the last decade and their development is strongly correlated with house price developments. Indebtedness increased in the country overall but the highest increases were in growth centres (Bank of Finland, 2018).

The authorities have taken pre-emptive macroprudential measures to restrict rising households' indebtedness. The Finnish Financial Supervisory Authority has imposed since January 2018 a minimum average risk-weight of 15 % on all residential mortgages and, since July 2018, a mortgage cap at 85 % of the fair value of the collateral posted at the time of loan approval. The government is also phasing out the tax deductibility of the mortgage interest service. While Finland gradually reduced the share of interest eligible for tax deduction, it still amounted to 50 % in 2018. Mortgage tax relief creates a bias for higher household borrowing and can lead to an increase in macroeconomic risks.

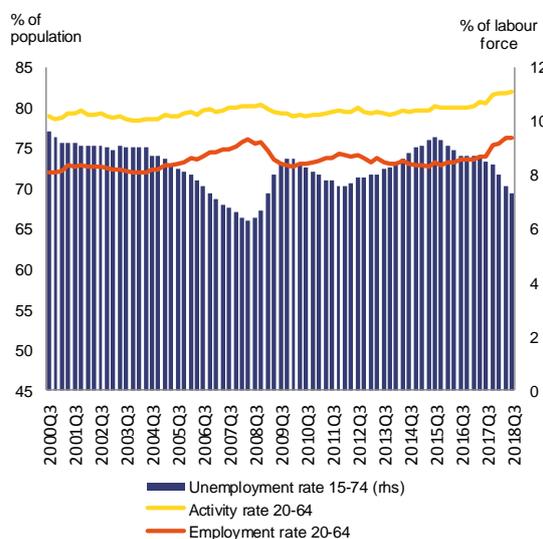
3.3. LABOUR MARKET, EDUCATION AND SOCIAL POLICIES

3.3.1. LABOUR MARKET

Labour market and supply

The labour market has started to reap the benefits of the recovery. Employment and activity rates are nearing pre-crisis levels. In 2017, the employment rate (age group 20-64) increased by almost 1 percentage point compared to the previous year, to 74.2 % (see Graph 3.3.1). It continued to increase in 2018 (to 76.3 % in the third quarter of 2018). It was above the EU average (72.2 %) although still below the country's Nordic peers ⁽¹³⁾. The activity rate has also improved, reaching 80.7 % in 2017. These improvements are due to the growing labour demand and an increase in the employment of older workers. The labour force participation rate in the age group 55 to 64 has been constantly increasing, from 54 % in 2007 to 65 % in mid-2018 (Eurostat, 2018a).

Graph 3.3.1: Activity, employment and unemployment rates (quarterly data)



Source: European Commission

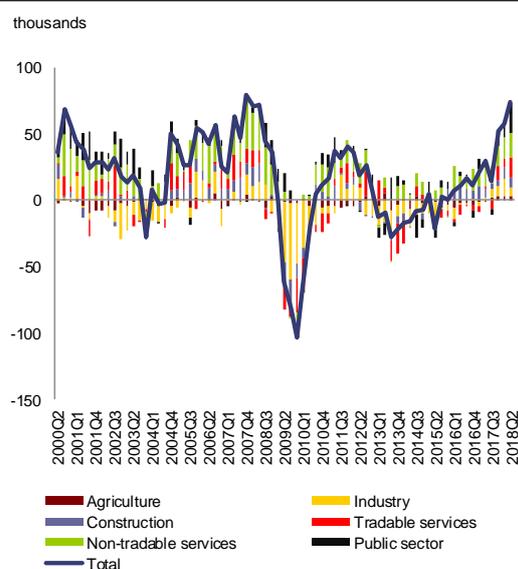
Structural unemployment remains relatively high despite continued employment growth across the main sectors of the Finnish economy.

The employment growth accelerated in 2018 (up 2.3 percentage points from the third quarter of 2017 to the third quarter of 2018) and was

⁽¹³⁾ Denmark: 76.9 %; Sweden: 81.8 %; Norway: 78.3 %.

particularly high in non-tradable services, the public sector, industry and construction (see Graph 3.3.2). This pushed the unemployment rate down to 7.4 % in the third quarter of 2018, close to its structural level of 7.0 % ⁽¹⁴⁾, compared to 8.5 % in the third quarter of 2017. The trend is set to continue.

Graph 3.3.2: Employment growth by sector



Source: European Commission

In a context of increasing labour demand and falling unemployment, there are signs of labour shortages. With the expansionary phase of the business cycle, the upward movement along the Beveridge curve (see Graph 3.3.3), which depicts the relationship between the unemployment rate and the vacancy rate, continued in the second quarter of 2018. This could point to a tightening labour market and may eventually put upward pressure on wages. The number of vacancies continued to increase in 2018 and the job vacancy rate averaged 2.4 % for the first two quarters of 2018. Out of the 109 600 vacancies in the first two quarters of 2018, 49 % were hard to fill compared to 39 % during the same period in 2017 ⁽¹⁵⁾.

⁽¹⁴⁾ European Commission estimate of the non-accelerating wage rate of unemployment for 2018.

⁽¹⁵⁾ Hard to fill vacancies are defined as those that an employer has had difficulties in filling, in their subjective opinion (Statistics Finland, 2019).

Box 3.3.1: Monitoring performance in light of the European Pillar of Social Rights

The European Pillar of Social Rights is designed as a compass for upward convergence towards better working and living conditions in the European Union ⁽¹⁾. It sets out twenty essential principles and rights in the areas of equal opportunities and access to the labour market; fair working conditions; and social protection and inclusion.

Finland performs well on the indicators of the Social Scoreboard supporting the European Pillar of Social Rights. Income inequalities are among the lowest in the EU. In 2017, the income of the richest 20 % was stable at 3.5 times that of the poorest 20 %, compared to the EU average of 5.1. The risk of poverty or

FINLAND		
Equal opportunities and access to the labour market	Early leavers from education and training (% of population aged 18-24)	On average
	Gender employment gap	Best performers
	Income quintile ratio (S80/S20)	Best performers
	At risk of poverty or social exclusion (in %)	Best performers
	Youth NEET (% of total population aged 15-24)	On average
Dynamic labour markets and fair working conditions	Employment rate (% population aged 20-64)	On average
	Unemployment rate (% population aged 15-74)	On average
	Long-term unemployment rate (% population aged 15-74)	On average
	GDHI per capita growth	On average
	Net earnings of a full-time single worker earning AW	Better than average
Social protection and inclusion	Impact of social transfers (other than pensions) on poverty reduction	Best performers
	Children aged less than 3 years in formal childcare	On average
	Self-reported unmet need for medical care	On average
	Individuals' level of digital skills	Best performers

Members States are classified according to a statistical methodology agreed with the EMCO and SPC Committees. The methodology looks jointly at levels and changes of the indicators in comparison with the respective EU averages and classifies Member States in seven categories (from "best performers" to "critical situations"). For instance, a country can be flagged as "better than average" if the level of the indicator is close to EU average, but it is improving fast. For methodological details, please consult the draft Joint Employment Report 2019 [COM (2018) 761 final]. Data update on 29 January 2019
NEET: neither in employment nor in education or training; GDHI: gross disposable household income.

and there is a lack of coordination to produce a seamless services' chain. The vulnerable claimants are often falling in between different programs and measures.

The social impact bond for migrants helps migrants find a job. The social impact bond aims at training and employing at least 2 000 migrants between 2017 and 2019. Through integrated personalised measures, the social impact bond provides fast-track integration training and employment for migrants who have participated in the first stage of integration measures including initial language training. One of the investors is the European Investment Fund with a bid of EUR 10 million.

social exclusion remains low, though some differences exist across regions. The share of population at risk of poverty or social exclusion fell to a 10 years low in 2017, to 15.7 % (17.4 % in 2007), well below the EU average of 22.5 %. The income transfer system performs above the EU average in reducing income inequality. However, evidence suggests that children of low skilled parents face a high and increasing risk of poverty or social exclusion (from 45 % in 2010 to 63.1 % in 2017, EU from 59.8 % to 62.9 %). Finland continues to have a generally well performing education system, even though education outcomes have slightly declined and gaps between different groups have increased. Early school leaving slightly increased to 8.2 % in 2017. It is among the best performers in terms of digital skills with 76 % of the population having basic or above basic digital skills (the average EU level is 57 %). Self-reported unmet needs for medical care have slightly decreased but remains among the highest in the EU (3.6% in 2017, EU 1.6%), nearly exclusively due to long waiting lists.

The integration of services poses challenges.

The range of services for active support to employment is appropriate but these services are dispersed among a number of separate providers

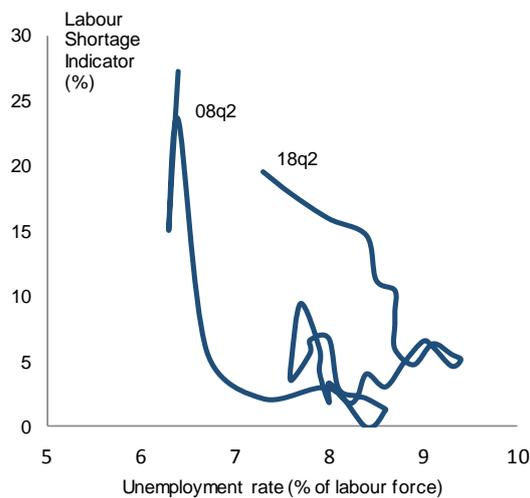
⁽¹⁾ The European Pillar of Social Rights was proclaimed on 17 November 2017 by the European Parliament, the Council and the European Commission. https://ec.europa.eu/commission/priorities/deeper-and-fairer-economic-and-monetary-union/european-pillar-social-rights/european-pillar-social-rights-20-principles_en

Digitalisation, automation and artificial intelligence create new challenges and opportunities in the labour market. It is estimated that 7 % of the workforce in Finland are

employed in jobs with a high risk (over 70 %) of being automated in the future (Organisation for Economic Cooperation and Development, 2018c; Koski and Husso, 2018). By 2030, artificial

intelligence alone could eliminate 15 % of current jobs (Koski and Husso, 2018). At the same time, it could generate a similar number of new jobs directly or indirectly linked to automation (McKinsey, 2017). The changing working life due to artificial intelligence and automation calls for continuous training and reskilling of the workforce (Organisation for Economic Cooperation and Development, 2017). This could concern up to one million people in the Finnish labour market (Ministry of Economic Affairs and Employment, 2017). Employees report lack of time as one of the main reasons for non-participation in adult learning (Prime Minister's Office, 2018a).

Graph 3.3.3: Beveridge curve



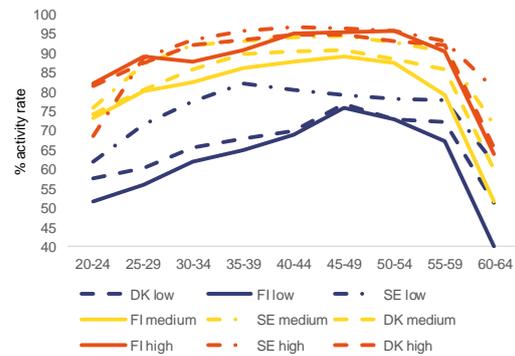
Source: European Commission

The population is ageing fast and the labour force is shrinking. The share of the working age population is projected to shrink from 63 % in 2016 to 58.3 % by 2050 (European Commission, 2018e). Increasing the labour force will require providing the right skills, activating the unemployed and inactive people as well as including groups with only marginal labour market attachment such as non-EU nationals.

Activity rates are low compared to the country's EU Nordic peers, especially for the low skilled. Activity rates are lower than in other Nordic countries for all levels of education and age groups (see Graph 3.3.4). The share of low-skilled workers is rather low (11.7 %) in Finland. However, their activity and employment rates

(respectively 47.5 % and 53.2 % in 2017) are below the EU average (53.6 % v 55.6 %).

Graph 3.3.4: Activity rate by age and educational attainment in 2017 (20-64, %)



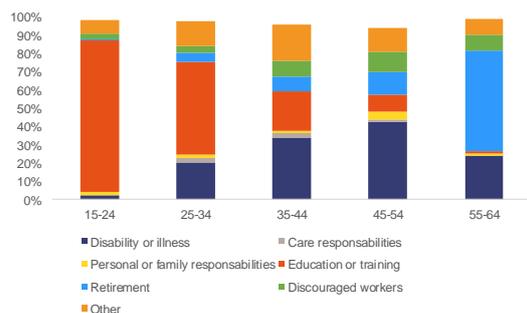
Source: European Commission

The main reason for the inactivity of working age men is disability or illness. This is the case especially for men in the age group of 35-54 years (see Graph 3.3.5). Prevalence of mental health disorders could be one explanation for drivers of inactivity (Eurostat, 2018b). The number of discouraged male workers has remained above EU average since 2010, although the share thereof decreased from 10.4 % in 2016 to 9.5 % in 2017. The situation is different for women, for whom inactivity is mainly due to caring responsibilities and family or personal reasons (see Section 3.3.2). Based on estimates by Statistics Finland, there are approximately 600 000 people with disabilities of whom 240 000 are receiving disability pension and roughly half are working. Some of them would be able to work full-time with their educational level being the same as for the overall population. The government has recently launched projects to increase the working ability of people with disabilities but the service system seems not to respond fully to the special needs of these people (Ministry of Social Affairs and Health, 2018). People with disabilities, although willing to work, face obstacles in entering the labour market due to the lack of coordination between supporting services and a fragmented social security system.

Youth unemployment has slightly decreased but remains above the EU average. In the second quarter of 2018, youth unemployment was 17.5 % (EU average 15.1 %). However, the rate of young

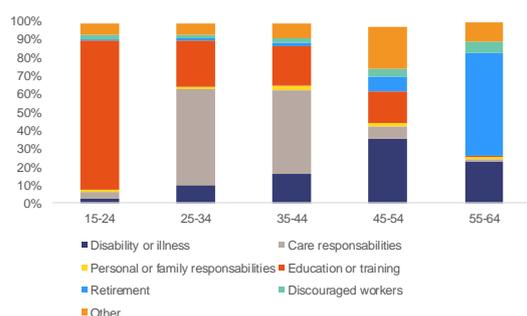
people not in employment, education or training is lower than the EU average (10.9 % compared to the EU average of 13.4 % for the age group 15-29 in 2017). The Finnish Youth guarantee scheme reached 66 % of young people not in employment, education or training aged 15-24 in 2017 (European Commission, 2018f). The one-stop guidance centres for young people were made permanent, with financial support secured until 2021. There are more than 50 one-stop-shops. The first national results from year 2016 were promising, showing that more than 13 000 people were directed to services or measures by the guidance centres (Kohtaamo, 2018). The test phase and the extension of the service model were co-financed by the European Social Fund.

Graph 3.3.5: Reasons for inactivity by age (men, 2016)



Source: European Commission

Graph 3.3.6: Reason for inactivity by age (women, 2016)



Source: European Commission

While the share of the foreign-born population remains small by international standards, its growth has been among the fastest in member countries of the Organisation for Economic Cooperation and Development. In 1990, the foreign-born population in Finland accounted for only 1.0 % of the population, but the share increased to 6.5 % in 2016 (Organisation for

Economic Cooperation and Development, 2018d). The total foreign population in 2017 was 249 500, of whom approximately 20 % were Estonians (Statistics Finland, 2018a). Over 65 % of the foreign population lives in 10 largest cities, most of them in Helsinki where 10 % of the population are migrants. The net migration is expected to remain positive in the coming years with an increasing number of people moving to Finland from non-EU countries.

The employment gap of Finland's foreign-born population is high. Foreign-born population in Finland has lower employment rates than people born in the country (49.9 % in 2017 compared to EU average of 57.4 %), particularly for foreign-born women (36.1 %, compared to EU average of 47.1 %). The employment gap is one of the largest in the EU, which may be due to the family benefit system. It could also affect the integration of children with foreign-born parents, who are struggling to thrive in the Finnish school system (Organisation for Economic Cooperation and Development, 2018e). Several integration policies have been developed in response to the inflows of asylum seekers in 2015. The Ministry of Education and Culture is implementing measures, such as funding educational institutions to improve immigrants' educational services.

In the past few years, considerable efforts were made to update the integration system. It included efforts related to settlement, early labour market contact and workplace diversity management. The social impact bond in particular aims to employ at least 2 000 migrants after a four to six months trial period. Full time employment is promoted by combining individual training needs with work trials in a flexible way. Private companies and institutional investors have invested in the fund that is implementing the measures. The Ministry of Economic Affairs and Employment will pay into the fund according to the results that the project delivers. The project started in 2016 and runs until the end of 2019.

Incentives to accept work and activation measures

The government has put more emphasis on activating the unemployed. A benefit scheme with financial sanctions, called 'active model', came into force in 2018 (European Commission,

2018b). The aim was to increase conditionality by reducing the benefit for the unemployed of the model. In June-July 2018, 158 000 unemployed faced cuts in their unemployment benefits (Yleisradio Oy, 2018). It seems that the possibilities for the unemployed to demonstrate sufficient activity are limited ⁽¹⁶⁾ and the public employment offices cannot offer sufficient activation services. The shortcomings in the system may drive the unemployed to seek compensation from social assistance, thus pushing them deeper into the benefits system rather than towards labour market inclusion. New rules to activate the unemployed through more intense job application and reporting to the employment services are being prepared.

A multi-professional working culture would allow better outreach to all target groups. Finland spends less on public employment services per unemployed than its Nordic peers (International Monetary Fund, 2017). It will be increasingly difficult to reduce and prevent long-term unemployment and inactivity without a multi-professional approach to deal with also non-work related problems (such as health issues and substance abuse). An integrated approach exists for some target groups, but not for all.

The public employment and entrepreneurship services will be integrated into public growth services. In the context of the regional government, health and social services reform, the current resources of the public employment offices and the entrepreneur service centres will be transferred to the counties (some 2 600 person-years). The growth services are expected to promote entrepreneurship, business growth, transformation and internationalisation of companies, meeting at the same time the evolving needs of the labour market. The aim of this part of the reform is to offer transparent, customer-oriented and more efficient services, including multi-professional services and integrated services for those who are hard to employ. Pilot projects are ongoing or planned to test the reform and the cooperation between municipalities, regions and private companies on how to provide effective employment services. There is a risk that the employment services especially for the long-term

unemployed could deteriorate in particular from the vicinity point of view (European Commission 2018g).

3.3.2. SOCIAL POLICIES

The risk of poverty or social exclusion remains low, though some regional and group differences exist. The share of population at risk of poverty or social exclusion fell to a 10-year low in 2017. At 15.7 %, it was well below the EU average of 22.5 %. Poverty rates of self-employed are higher than for employees (European Commission, 2018h). This is mainly because of their lower declared incomes and lower share of membership in voluntary insurances. Western Finland performed worst in 2017, with a share of population at risk of poverty or social exclusion at 18.5 %, while Helsinki-Uusimaa registered the lowest level (11.8 %). Children of low-skilled parents face a high risk of poverty or social exclusion (63.1 %, marginally higher than the EU average of 62.9 %). Children with a migrant background face a significantly higher risk of poverty than children of nationals, with a 20-percentage points difference. As part of the Europe 2020 strategy, Finland made a commitment to reduce the number of people at risk of poverty or social exclusion by 150 000 by the year 2020. Although statistics show that this target is currently short of reach by approximately 100 000, if Finland continues its 2016-2017 trend (reduction by 47 000), the goal remains achievable.

Income inequalities are among the lowest in the EU. In 2017, the income of the richest 20 % was stable at 3.5 times that of the poorest 20 %, compared to an EU average of 5.1. The tax-and-benefit system performs above the EU average in reducing income inequality. Inequalities in educational outcomes are low. The variation in the Programme for International Student Assessment 2015 scores due to socio-economic background of parents is among the lowest in the EU. Women still earn on average some 16 % less than their male counterparts. The Finnish Ombudsman for Gender Equality considers that wage transparency could help prevent discrimination against women and other lower-paid workers (Maarianvaara, 2018).

⁽¹⁶⁾ Measures funded by the European Social Fund will be counted as demonstration of activity as from April 2019.

Reform of social assistance administration has not yet improved the service. The administration of the basic social assistance was transferred from municipalities to the Social Insurance Institution of Finland in 2017. The reform merged varying municipal systems aiming to simplify the application processes. However, the system is rigid and struggles to recognise individual circumstances, which is important in reaching out to the inactive. Waiting periods are long and contacts between the Social Insurance Institution and the municipal social assistance offices are difficult due to different information technology systems. In certain regions, service provision in the Swedish language has proven problematic. Food aid is not part of the official social security scheme, but it is delivered by voluntary organisations as a combination of food donated and purchased, together with social measures to accompany the aid recipients. Despite the recent economic growth, the demand has not decreased proportionally and is not expected to decrease.

Inactivity traps and social benefits

Inactivity and unemployment traps remain high. Social assistance and the housing allowance as well as other benefits are phased out rapidly as income increases, which creates the risk that taking up work might not be sufficiently financially rewarding. Furthermore, adequacy of benefits is very high⁽¹⁷⁾ but their rules are very complex. Combined with administrative practices, this can result in ‘bureaucratic traps’. Uncertainty surrounding the level of benefits and the time to reinstate them reduces the attractiveness of short-term or part-time work. The real-income register available to various authorities (see section 3.1) has the potential to address some of the bureaucratic traps related to reinstating the benefits. From 1 April 2019, the uncertainty surrounding the level of benefits will be partly alleviated by a change in the regulations concerning the period when income from part-time or short-time employment is taken into account and has an effect in the amount of unemployment benefit change.

⁽¹⁷⁾ In the case of single-person households, the level of the benefits was estimated at 75 % of the poverty threshold and 58 % of the income of a low-wage earner (see European Commission and Council of Ministers, 2018).

An in-depth reform of the social benefits system is yet to take place. Despite actions taken in recent years, there is widespread consensus that the social benefit system should be reformed. An expert group will make suggestions to the next government after the parliamentary elections.

The universal basic income experiment is expected to provide some information on possible options for reform. The tested reform simplifies the current benefit system by merging various basic security benefits paid by the Social Insurance Institution (Kansaneläkelaitos, 2019). Preliminary results were presented on 8 February 2019. Another experiment on participative social security that is exploring different models of inclusive social security practices started in five municipalities in 2018 and will end in 2019. The aim of this experiment is to test if intensive counselling and more targeted labour market services could bring back to employment those caught in unemployment traps.

A reliance on home care is a hindrance to female labour force participation. Long spells of home care allowance weaken caretakers’ — usually women — labour market position. However, the level of the allowance is low and often complemented by social assistance, especially if there is no other income in the household. The long caretaking responsibilities for women contribute to the gender employment gap as well as the gender pay gap (16 %). The government initiated a process to reform family leave, but did not carry it through.

The long-term care system is delivered at municipal level, which may limit its accessibility and funding. The cost of service provision varies considerably between populous and sparsely populated areas. At the same time, the municipalities rely on informal care delivered by family members, which may hinder labour market participation of the (mostly female) informal carers. Finland figures significantly above the EU average for informal homecare provision (8.9 % and 6.2 % respectively of the 16 years old population and over), especially with regards to less than 10 hours of weekly care. The municipalities support informal care by different measures, including training and financial support. However, there are challenges in coordinating the services delivered in home environment.

Equal access to social and healthcare services

The Finnish population enjoys a comparatively good health status. Even if life expectancy has slightly decreased in 2016, it remains 0.5 year higher than the EU average of 81 years (Organisation for Economic Cooperation and Development, 2018b). Inequalities in health status, measured by the gap in life expectancy between people with the lowest and highest education, are smaller in Finland than in the EU. Finland performs well in health promotion and disease prevention, and the government expects that the planned regional government, health and social services reform (see Section 3.1.) will lead to efficiency gains and reduced waiting times for health services.

3.3.3. EDUCATION AND SKILLS

The education system performs well, but educational outcomes have declined and gaps between different groups have increased. International tests in reading carried out for the Progress in International Reading Literacy Study by the International Association for the Evaluation of Educational Achievement confirmed the important performance gap between boys and girls (Leino *et al.*, 2017) but reading skills of 10 year-olds remain strong and unchanged compared to 2011. The Programme for International Student Assessment 2015 pointed to the country's strong position on basic skills even though its performance has been continuously weakening (European Commission, 2018i).

Early school leaving increased slightly. It amounted to 8.2 % in 2017 compared to the EU average of 10.6 % with differences between young people in rural areas (10.1 %) and those in cities (7 %). Foreign-born pupils drop out of school almost twice as often as pupils born in Finland (15.2 % compared to 7.9 %) and the gap between these groups on baseline levels of proficiency in all main domains (literacy, mathematics, science) is significant (42 percentage points compared to the EU average of 22 percentage points) (Organisation for Economic Cooperation and Development, 2018f). This is compounded by the worsening performance of pupils with a migrant background (European Commission 2018b).

The participation rate in early childhood education has improved. Between 2007 and 2016 it grew to 32.7 % for under 3-year-olds and to 87.4 % for those 4 years and older. The share of the former is at EU average but remains below other Nordic countries, while the share of the latter remains still 7.9 percentage points below the EU average. Slowly increasing differences are observed in education outcomes between regions and between schools, however, the causes are not yet fully understood.

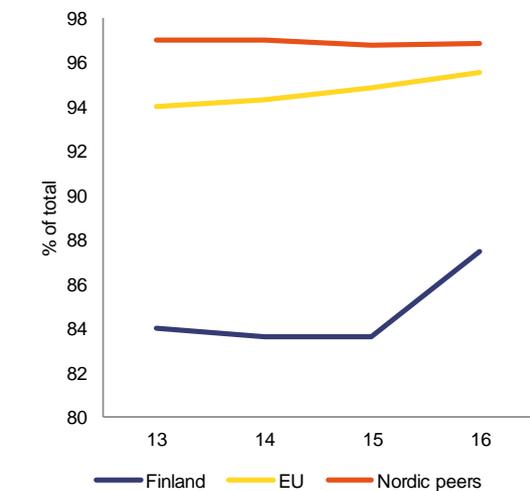
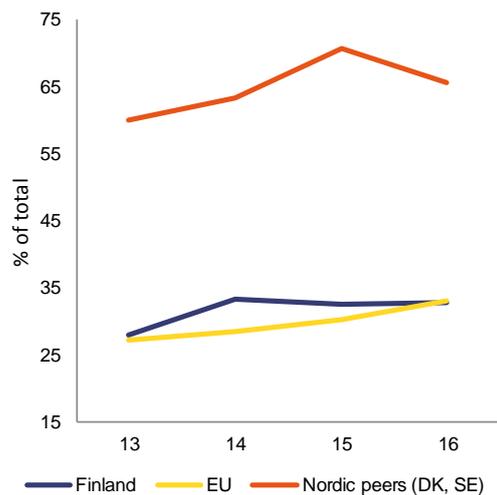
Recent initiatives aim to increase the quality and fairness of education. The new Act on childcare (January 2018) is overhauling regulation, better defines qualification of staff and improves data collection. By 2030, at least 2 out of 3 staff members will have a relevant tertiary degree instead of only one staff member right now. Municipalities have currently access to an annual total grant amount of EUR 12 million for improving childcare education and ensuring equal opportunities for all in basic education. The government has launched a set of initiatives that are promoting new approaches to strengthen the quality and relevance of education, such as a new proposal on upper secondary education.

The government is providing some additional strategic investment in education that is partly counterbalancing recent structural spending cuts. Government spending on education in Finland is well above the EU average and in line with spending of its EU Nordic peers (6.1 % of GDP in 2016 in Finland, 6.6 % in Sweden and 6.9 % in Denmark, respectively; Eurostat, 2018c). However, between 2010 and 2019 education budgets in Finland were cut by cumulative EUR 2.2 billion (Trade Union on Education, 2018). An important part of the financial burden for primary and earlier education was shifted to the municipalities as the state contribution was reduced from 50 % to 25 %. Furthermore, the government has reserved about EUR 1 billion for the initiatives to improve the quality of education. This investment is positive but falls short of offsetting the imposed cuts in spending at all levels of education, and particularly in higher education and vocational education and training system.

Tertiary education attainment is high, but not for all social groups. 44.6 % of 30-34 year-olds have obtained tertiary education in 2017, 2.7

percentage points less than in 2007. The gender imbalance remains large and, in 2017, only 27 % of people not born in Finland had obtained tertiary education, much less than in other Nordic countries. Tertiary attainment is the highest in Helsinki-Uusimaa (52.5 %) and the lowest in northern and eastern Finland (38 %). Cities show the highest share of tertiary graduates with 55.3 % and rural areas the lowest with 30.4 %. Between 2010 and 2017 the share of graduates in cities hardly changed (+0.2 percentage points) but it dropped around 9 percentage points in towns, suburbs and rural areas.

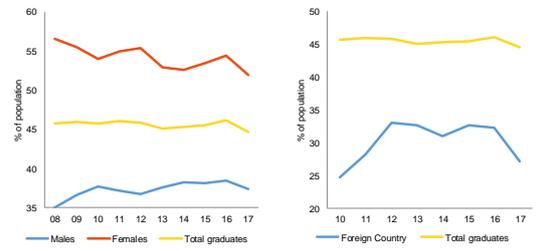
Graph 3.3.7: Participation in early childhood education and care participation for less than 3- years -olds and younger (above) and participation for 4-year olds until school age (below)



Source: European Commission

Undergoing restructuring and budget cuts could compromise the quality of higher education. Higher education was subject to cumulative budget cuts of EUR 850 million in 2011-2018. This led to staff reductions and deterioration of teaching and research conditions that have caused some of the best professors and key researchers to leave the country. The ‘Vision for higher education and research in Finland 2030’ aims to mobilise the higher education sector to find solutions to these challenges. It targets having 50 % of the 25 to 34-year-olds to finish at least a bachelor degree, improving opportunities for life-long learning and providing some additional resources for high quality research. The complex admissions process to universities could explain why Finnish students are older when they start studying, with 22 years as the median age (Prime Minister’s Office, 2017). Finland has introduced policy measures on the student admission process to promote early take up of tertiary studies, but the trend has not yet reversed.

Graph 3.3.8: Trends in tertiary attainment in Finland by country of origin and gender (30-34 year olds)



Source: European Commission

A comprehensive reform of the vocational education and training system is being implemented since early 2018. The proportion of students in upper secondary education in vocational education and training remained stable in 2016 at the level of 71.3 %, which is well above the EU average of 49.3 %. The employment outcomes of vocational education and training participants in 2017 (at 76.9 % of the recent graduates from vocational education (age 20-34) and training participants) are slightly above the EU average (76.6 %). The key elements of the reform are to enhance the competence-based and customer-oriented approach, to offer individual, flexible and customer-oriented pathways for individuals and to integrate separate funding systems (institution-based, apprenticeship,

vocational adult education and partly employment training) into one coherent funding system. It also aims to develop and increase apprenticeship training and other forms of work-based and life-long learning. The reform introduces individual study plans for all learners. A successful implementation of the reform could improve labour market matching and contribute to a well-qualified workforce, as well as to the diffusion and adoption of latest technologies.

The highly performing adult learning systems continue to improve. Adult participation in learning is at 27.4 % of the age group 25-64 of the total adult population, the second highest in the EU. Each year, between 3 000 and 5 000 adults take part in basic education. New provisions on basic education for adults adopted in 2017 entered into force on 1 January 2018, with the aim to speed up the educational pathway to the basic education certificate. A personal study programme is drawn up for each student in which the student's prior learning is identified and acknowledged. The target group includes those 17 years of age and older, lacking basic education. Migrants make up more than 95 % of the target group. The personal study programme replaces the integration training for migrants. The new legislation gives greater responsibility to training institutions to provide language and vocational training to facilitate the integration of migrants and refugees. Obligatory national language proficiency tests are abolished. This has the potential to facilitate migrants' entry to vocational education and training, and to find employment.

Digital skills

Digital skills are one of Finland's strongest competitive advantages. Despite Finland's high ranking in terms of digital skills, almost 60 % of Finnish companies reported hard-to-fill vacancies for jobs requiring information and communications technology specialist skills. Nevertheless, in terms of human capital, 76 % of the population have basic or above basic digital skills, way above the EU average (57 %). However, companies in specific niches of information and communications technology report difficulties in finding the skilled workforce.

Finland does not have a national Digital Skills and Jobs Coalition (DSJC), neither a Digitising

Industry strategy in place. The Digital Skills and Jobs Coalition brings together companies, education providers, social partners and public authorities to act to reduce the digital skills gap for four target groups: labour force, education, information and communications technology professionals and citizens. A critical success factor of the approach of the Digitising European Industry initiative is to mobilise all stakeholders, notably at high political level in the Member States, around meaningful actions that meet the needs of industry. The development of these national initiatives is an important element of the European Platform of National Initiatives on Digitising Industry (European Centre for the Development of Vocational Training, 2018).

3.3.4. INVESTMENT NEEDS

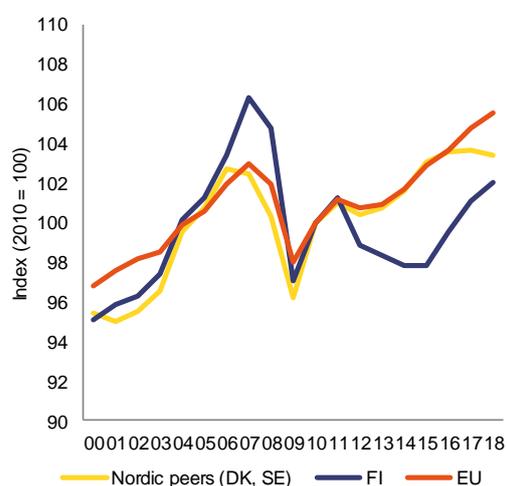
Increased investment in skills, education and training and social inclusion are important for improving Finland's productivity and long-term inclusive growth. Skills shortages and mismatches are among the main obstacles to business investment and to reducing structural unemployment, pointing at the need to invest more in training of unused and under-used labour potential and investing in matching training and anticipation of future skills needs. Using the full labour potential also requires matching investment in social inclusion, integration of different public services and the availability of long-term care services, paying due attention to geographical disparities in the availability of these services.

3.4. COMPETITIVENESS REFORMS AND INVESTMENT

3.4.1. PRODUCTIVITY AND INVESTMENT TRENDS

Labour productivity is recovering, but is still below its pre-crisis peak. Labour productivity declined in Finland in 2008-2015, while in the EU and the euro area on average it slightly increased. The decline affected all sectors, in particular manufacturing, because of the setback of the electronics sector. In 2016, labour productivity started recovering and increased across the board. In 2018, as recruitment accelerated, labour productivity growth slowed down to 0.6 %, far below its pre-crisis and 2017 levels (1.6 %).

Graph 3.4.1: Total factor productivity (total economy)



Source: European Commission

Total factor productivity is also still below its 2007 level but is growing fast. Total factor productivity gains in Finland had been negative in 2008-2015, also reflecting the shift from high tech goods towards medium tech goods. As of 2016, total factor productivity started to grow, at a pace that eventually overtook Finland's Nordic peers (see Graph 3.4.1). Yet, in 2018, Finland's total factor productivity is still expected to be far from the peak it reached in 2007 (European Commission, 2018b). This may reflect a still relatively low investment in equipment and intellectual property products (see also Section 1 and the section below under 'Investment needs').

Overall, investment in Finland remained above the EU average, but was predominantly devoted to construction (see Box 3.4.1.). At around 22 % of GDP in the latest four quarters, overall

investment remained among the highest in the EU, and was slightly on the rise. However, construction accounted for 59.4 % of overall investment, an increase by 3 percentage points in comparison with a year ago. At 13.3 % of GDP, it was the highest in the EU, and was still rising. Housing construction, one of the least productive categories of investment accounted for almost 50 % of total construction.

Equipment investment in Finland remains comparatively low. Equipment investment rebounded last year as capacity utilisation by businesses increased. However, at around 5.2 % of GDP and 23.0 % of total investment, lower levels than last year, equipment investment (gross) in Finland remained one of the lowest in the EU. In addition, it is expected to decelerate rather soon, as external trade, and as a result capacity utilisation in Finland, will in all likelihood be affected by rising international trade tensions.

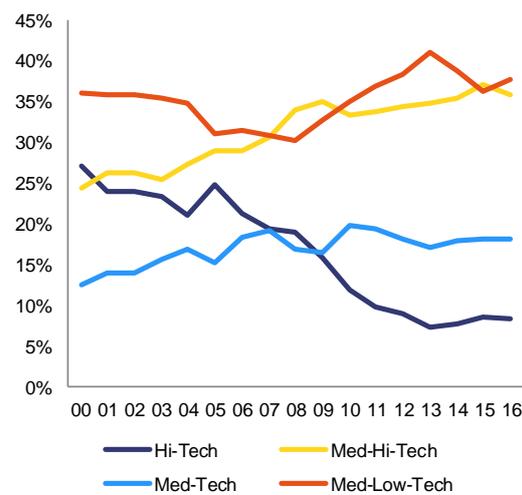
Finland's quality of products has broadly stabilised. The relative demise of the country's electronics sector (specifically the mobile phone industry) has had a strong negative impact on the volumes of high tech products it exports. Among the best performing manufacturers in productivity terms in the EU, ⁽¹⁸⁾ Finland currently has the lowest proportion of high tech exports. At the same time, a specialisation in exports of medium-to-low and medium-to-high tech exports has taken place (see Graph 3.4.2). By contrast, the country's export sophistication index (Hausmann's export sophistication index; International Monetary Fund, 2017) points to less worrying losses of non-cost competitiveness.

In the manufacturing sector, firm-level productivity differentials increase. In Finnish manufacturing firms, labour productivity grew at a solid pace until 2008, except for the least productive firms where it stagnated. After 2008, it has been relatively unchanged in the central parts of the productivity distribution, continued its fall in the lower end and continued to grow among the most productive firms. This has resulted in an increasing gap between the least productive and the most productive firms (European Commission, 2018b). Finland has a relatively high proportion of

⁽¹⁸⁾ Belgium, Denmark, Germany, the Netherlands, Austria, Finland, Sweden, United Kingdom.

financially distressed and largely unproductive firms which tie up a considerable amount of labour, capital and other resources which could better serve the economy if allocated to more productive activities (see Graph 3.4.3).

Graph 3.4.2: Share of high, medium-high, medium-low and low technology in total manufacturing exports



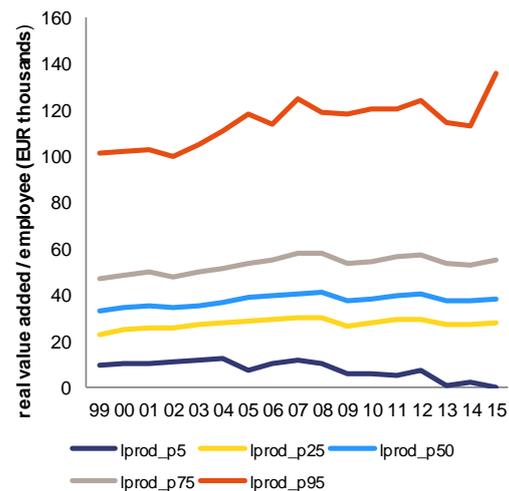
Source: European Commission

A large majority of investment in physical and intangible assets is made by a small number of firms. The investment ratio among the top 10 % investing firms is several times higher than that of the median firm, which in turn has an investment ratio close to the least investing firms. At the same time, firm-level data make it evident that the decline in the overall business investment ratio comes predominantly from the upper end of the investment distribution. In the middle of the distribution, the decline has been more modest, and, in the lower tail, the investment ratio has been largely stable over time.

The Finnish Productivity Board has been consulted in the ongoing European Semester exercise. Following the 2016 Council Recommendation, Finland appointed the Tuottavuuslautakunta as National Productivity Board in October 2018. National Productivity Boards are objective, neutral and independent institutions that can investigate the productivity challenges, contributing to evidence-based policy

making and boosting domestic ownership of structural reforms.

Graph 3.4.3: Real labour productivity in manufacturing



(1) Sample size: 11 000–13 000 firms.

(2) Firms are sorted by productivity level: p50 denotes median firms; p25 and p75 are the lower and upper quartiles; p05 and p95 are the lower and upper tails of the distribution.

Source: CompNet database

Investment needs

Focusing investments on human capital, on research and innovation, and on energy and transport infrastructure would strengthen Finland's long-term growth potential. Untapped human capital can hinder the progress of inclusion and employability and reduce the potential for increases in productivity (see Section 3.3). In parallel, research and innovation intensity has not yet recovered from the crisis years and appears insufficient to diversify exports towards higher-tech goods in the longer term. Amid dispersed population, lack of affordable housing in growth centres and transport bottlenecks may hinder labour mobility. Long distances to external markets are weighing on exporting businesses. The decarbonisation of the energy intensive industry and the transport sector will require higher private and public investment. Research and innovation are also needed to match Finland's carbon neutrality objectives.

Box 3.4.1: Investment challenges and reforms in Finland

Section 1: Macroeconomic perspective

In 2017, overall investment in Finland remained above EU average, but was even more concentrated on construction. Equipment investment remained one of the lowest in the EU. Overall investment in intellectual property in Finland was still declining. In manufacturing, the decline in research and development investment was not limited to the electronics sector. This might signal further specialisation in lower value-added industries. Public expenditure on research and development stabilised. Foreign direct investment remained relatively low, even though inflows were markedly on the rise (see Section 3.4).

Section 2: Assessment of barriers to investment and ongoing reforms

Public administration/ Business environment	Regulatory/ administrative burden	Some progress	Financial Sector / Taxation	Taxation	Not assessed yet
	Public administration	Limited progress		Access to finance	Not assessed yet
	Public procurement / PPPs	No progress	R&D&I	Cooperation btw academia, research and business	Some progress
	Judicial system	No barrier to investment identified		Financing of R&D&I	Not assessed yet
	Insolvency framework	No barrier to investment identified	Sector specific regulation	Business services / Regulated professions	Not assessed yet
	Competition and regulatory framework	No barrier to investment identified		Retail	Substantial progress
Labour market/ Education	EPL & framework for labour contracts	No progress		Construction	Some progress
	Wages & wage setting	Limited progress		Digital Economy / Telecom	Not assessed yet
	Education, skills, lifelong learning	No barrier to investment identified		Energy	Some progress
				Transport	Not assessed yet

Legend:

	No barrier to investment identified	Some progress
CSR	Investment barriers that are also subject to a CSR	Substantial progress
	No progress	Fully addressed
	Limited progress	Not assessed yet

Source: European Commission

Finland has maintained a good environment for doing business and cost competitiveness has clearly improved. In particular, the pharmacy sector is being reformed. The opening to competition of the rail market is going ahead. Also, the government has tabled a proposal to amend the Competition Act so as to increase transparency from publicly owned entities (see Section 3.4).

Business Finland is the main public funding agency in Finland. It helps businesses go global. It also supports and funds innovations. Funding awarded by Business Finland in 2017 amounted to EUR 492 million.

Selected barriers to investment and priority actions underway

1/ Non-cost competitiveness and low productivity, although recovering, remain a concern. Finland has experienced a shift in specialisation towards intermediate goods and from high tech industrial sectors to medium tech industrial sectors. The shift partly underpins an insufficient level of research and development and innovation investment to kick-start growth and to diversify exports towards higher-tech goods in the medium-term. There is potential for further increasing cooperation between academia and businesses as an incentive to investment in research and development (see Section 3.4). Also, long processing times for permits slow down firms' investment progress (Confederation of Finnish Industries, 2019).

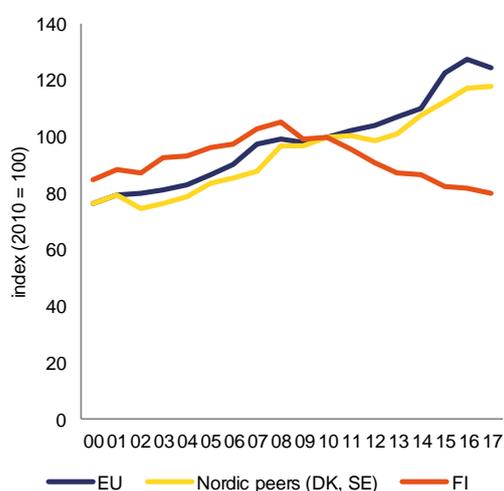
2/ Some problems remain in the labour market. A new Finnish wage-setting model has emerged. In this model, pay rises in the non-tradable sector are linked to the increases first agreed in the tradable sector. However, no formal agreement on this model has been reached (see Section 1). Also, obstacles to local bargaining persist, mostly for small and medium-sized enterprises and start-ups (European Commission, 2018b). Low labour mobility partly reflects housing and transport bottlenecks (Poghosyan, 2018 and International Monetary Fund, 2018).

Research & development and innovation

Falling investment in intellectual property⁽¹⁹⁾ in Finland, including research and development, remains a source of concern.

Since 2009 business research and development intensity declined strongly. One of the reasons for the decline was disruptive technological change, which strongly affected the country's largest private research and development spender (Nokia) (Fornaro *et al.*, 2018). As a result, Finland experienced the steepest drop in business expenditure on research and development among EU countries, from 2.7 % of GDP in 2009 to 1.8 % in 2016. Consistently, investment in intellectual property in volume terms still declined in Finland in 2017 (see Graph 3.4.4). The decline was no longer limited to the electronics sector. Other sectors were affected as well, notably electrical equipment (see Graph 3.4.5). Nevertheless, at 4.0 %, the share of investment in intellectual property in GDP in Finland remained slightly above the EU average (3.9 % of GDP).

Graph 3.4.4: Intellectual property product investment in volume



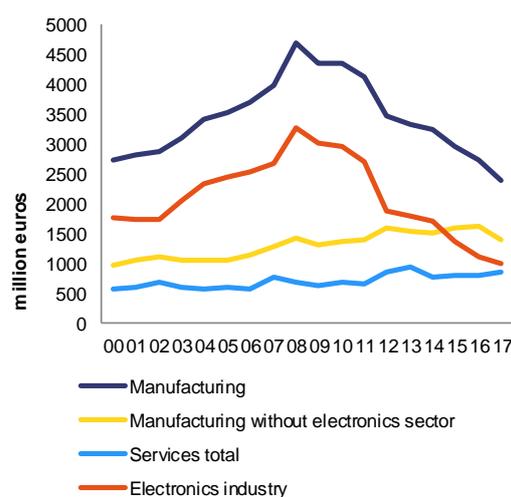
Source: European Commission

⁽¹⁹⁾ Intellectual property products is a national account concept (NA.117) that comprises research and development (NA.1171), mineral exploration and evaluation (cost of drilling, aerial or other surveys, transportation, etc.) (NA.1172), computer software and large databases (NA.1173) and entertainment, literary or artistic originals of manuscripts, models, films, sound recordings, etc. (NA.1174).

The proportion of fast-growing innovative firms remains below the EU average⁽²⁰⁾.

The growth of firms in innovative sectors is an important factor for structural change of the economy. This is important for Finland, where a disruptive technological change has led to a decline of certain sectors of the economy (mobile phones, paper industry). Despite various promotional activities⁽²¹⁾, start-up rates in Finland remain below the EU average and there is potential for additional targeted policy action. In recent years, the availability of venture capital has declined considerably, compared to pre-crisis levels, but non-research and development innovation expenditure of firms has decreased as well (Eurostat, 2015).

Graph 3.4.5: Research and development gross capital formation by industry and year - flows



Source: European Commission

After a decline, public research and development expenditure is now stabilising.

Public research and development intensity declined from 1.1 % in 2009 to 0.9 % in 2017 (see Graph 3.4.6). Nevertheless, Finland still ranks at the top of the EU in public research and development intensity. Public-sector funding of business research and development stood at only 0.08 % of GDP in 2015, a modest proportion

⁽²⁰⁾ The share of employment in high-growth enterprises in innovative sectors was 9.5 % in 2015, down from 11.4 % in 2013 and ranking low in the EU.

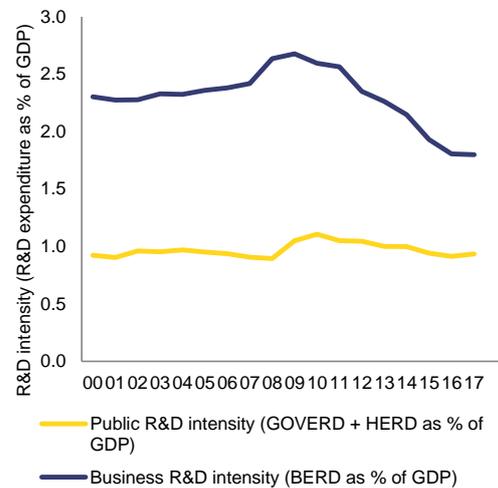
⁽²¹⁾ Including schemes such as Aalto University's 'Start-Up Sauna', a 1500 square meter industry hall and co-working space that is a focal meeting point in Northern Europe for entrepreneurs and investors alike.

compared to other innovation leaders ⁽²²⁾ and has been stagnating since 2011. At the same time, private co-financing of public research, which is an important basis for knowledge transfer and an indicator of science-business cooperation, is also below the EU average (2015, Finland: 0.047 % of GDP, EU 0.050 % of GDP) and on a downward trend since 2007.

Overall, Finland remains an ‘innovation leader’. In the European Innovation Scoreboard, Finland is an ‘innovation leader’ (European Commission, 2018j). While its performance declined between 2010 and 2014, it improved every year since. High-quality human resources, attractive research and development systems, an innovation-friendly environment, relatively high levels of public and private funding of research and development and innovation, and intellectual assets lead to a good performance in the European Innovation Scoreboard and constitute favourable framework conditions for innovation. However, these conditions are not yet matched by corresponding economic outputs. Relatively low sales and employment impacts constitute Finland’s weakest innovation dimensions in the European Innovation Scoreboard.

⁽²²⁾ Finland performs well below the EU average of 0.2 % in 2015 and ranked only 18th in the EU in this indicator in 2015.

Graph 3.4.6: Evolution of public and business research and development intensity



GOVERD: government expenditure on research and development
 HERD: higher education expenditure on research and development
 BERD: business enterprise expenditure on research and development

Source: European Commission

Recent policy initiatives are expected to address some of Finland’s weaker elements in the European Innovation Scoreboard. In its National reform programme of spring 2018, the government highlights cooperation between higher education institutions and business as one of the key bottlenecks to be addressed in order to stimulate innovations and placing them on the market. The policy focus, as reflected in the reform programme, has shifted towards the creation of internationally competitive centres of expertise as well as to the support of research infrastructures and the development of favourable business environments in technology-intensive sectors with the potential for upscaling, such as clean-tech, the bio-economy, information and communications technology and health.

Finland promotes research and development projects in areas relevant for the National energy and climate plan. Finland shows strong leadership in clean energy innovation and private research and development spending. ⁽²³⁾ A few years ago, the country was doing more than three times better than EU average in terms of financing

⁽²³⁾ Finland is strong as regards resulting patents in energy field (twice the EU average of the number of patents per inhabitants).

clean energy research (in % of GDP). It is committed to double the funding of some of its clean energy funding programmes by 2021. Still, it has to be seen how recent cuts in overall research and development funding will affect Finland's performance on clean energy research.

Digital transformation of public services still falls short of what could be expected by businesses. Digital public services for businesses remain limited and significant differences persist among businesses in integration of digital technology. Finnish small and medium-sized enterprises are also reluctant to use the untapped potential of online trade within and beyond the EU (European Commission, 2018k).

Mobility and transport infrastructure

Finland suffers from a very specific geographical situation. The country is sparsely populated with long internal distances. Finland is also an Arctic country, far from central market areas. From a logistical perspective, it is largely dependent on transport via the Baltic Sea. Overall, this is why transport costs have a relatively high impact on the final price of products in Finland in comparison to other countries. As a result, the functionality of the transport network has a great impact on the competitiveness of business and on mobility in general (Finnish Transport Agency, 2018a).

The quality of infrastructure is high but it has declined. The quality of roads, the rail network, ports, airports and energy networks remains high by EU standards (World Economic Forum, 2017). In the past, this underpinned the competitiveness of Finnish firms, including in rural and remote locations. However, the recession has put public finances under pressure and led to some regular maintenance and upgrading of infrastructure having to be scaled down or postponed, especially with respect to roads and railways. This has caused a gradual and relative decline in quality and services compared with other economies.

Recent analyses point to a relatively limited regional mobility in Finland compared to EU peers. The huge geographical distances across regions and the relatively low population density constitute natural impediments to cross-regional labour mobility, which is further hindered by

housing cost differentials at regional level not matched by regional wage differentials (International Monetary Fund, 2018, and Poghosyan, 2018). The limited regional labour mobility can therefore contribute to persistent labour shortages in certain sectors (see Graph 3.4.8).

One of the government's strategic goals is to improve connectivity, but no concrete plans, including on financing, has been presented yet. Transport infrastructure projects, especially around vibrant urban areas, are currently being considered. In addition, high speed railway lines between Helsinki and Tampere and between Helsinki and Turku are considered. The objective is to reduce travel time to an hour on both lines. A high-speed railway between Helsinki and Kouvala is also being considered. The current government's budget proposal for 2019 comprises a EUR 40 million transport package. However, the government has still to present a plan how to finance the implementation of these projects. In February 2019, the Ministerial Committee on Economic Policy gave its support for the proposal by the Ministry of Transport and Communications to establish project companies in order to comprehensively develop the railway sector and promote large-scale rail transport investments.

Finland is linked to continental Europe along two core Trans-European Networks transport corridors: North Sea-Baltic (links Baltic ports to North Sea ports) and Scandinavian-Mediterranean (Scan-Med, extends from Finland and Sweden to the Mediterranean Sea). The total length of the core network in Finland is 2 460 kilometres. The use of Connecting Europe Facility funding for Finnish infrastructure projects has been modest in the current Multiannual Financial Framework and could be improved in the next generation of the Connecting Europe Facility.

As a result, major infrastructure investments are being planned to improve Finland's accessibility. New transport connections to both the north and the south are currently considered (The Barents Observer, 2018; Prime Minister's Office, 2018b): to the north, a connection to the Arctic Ocean and to the south, a connection to the European rail network via a Helsinki-Tallinn tunnel and Rail Baltica.

Energy and climate

Finland is broadly on track to reach its Europe 2020 climate targets, but without further policy measures, it is expected to miss its 2030 climate target. Finland aims to reduce its greenhouse gas emissions in the non-Emission Trading Scheme sectors by 16 % by 2020 (compared to 2005). According to the latest national projections and taking into account existing measures, the 2020 target is expected to be missed by a small margin of 0.7 percentage point. However, under the Effort Sharing Regulation, the country has an objective of reducing non-Emission Trading Scheme emissions by 39 % by 2030 (from 2005 levels). This appears challenging as there is a gap of 17 percentage points between the 2030 target and the country's own projected emissions reductions. The decarbonisation of the energy intensive industry and the maintenance of a sustainable forest carbon sink are important challenges in a longer term perspective. Together, these will require significantly higher private and public investments in low carbon technologies and practices.

As transport emissions make up the largest — and growing — share (40 %) of the non-Emission Trading Scheme emissions, measures to decarbonise that sector are critical to meeting the 2030 climate-related objective. This will be done by cutting by half the oil consumption compared to 2005 and developing further electric vehicles, according to the national energy and climate strategy and the medium-term climate change policy plan for 2030. In particular, Finland is a global leader in developing second-generation biofuels. Electric transport presents another cost-efficient option for the sector, given the advanced decarbonisation of the power sector and significant cost reductions notably in wind power. ⁽²⁴⁾ Two new nuclear power plants, if they become operational as expected, will increase the share of carbon-free electricity. ⁽²⁵⁾

⁽²⁴⁾ In 2017, 3 600 km of railway line was electrified in Finland (Finnish Transport Agency 2018b). The current electrification project includes: the Turku-Uusikaupunki line electrification (EUR 21 million) (Ministry of Transport and Communications, 2018).

⁽²⁵⁾ The launch of the Olkiluoto 3 nuclear power plant reactor has recently again been postponed. It is now expected to begin production in 2020. A licencing procedure has been started for another nuclear power plant, Hanhikivi 1.

In 2018, Finland adopted a climate change policy plan and submitted a draft national energy and climate plan. In its national energy and climate plan to be adopted by 31 December 2019 in line with the Regulation on the Governance of the Energy Union and Climate Action, ⁽²⁶⁾ Finland will provide an overview of its investment needs until 2030 for the different dimensions of the Energy Union, including renewable energy, energy efficiency, security of supply, and climate mitigation and adaptation. The information provided will further contribute to the identification and assessment of energy- and climate-related investment needs for Finland. According to the draft submitted on 20 December 2018, the investment needs on energy supply would reach close to EUR 3 billion, covering the further deployment of renewable electricity (EUR 600-750 million) and the ban of coal, a new interconnector with Sweden (EUR 200 million), public charging infrastructure for electric vehicles (EUR 415 million), data exchange solutions, and the development of biofuels notably in the transport sector (EUR 1.3 billion). In addition to these, the security of electricity networks is also expected to require significant investments (the total investment by grid companies on security amounted to EUR 3 billion over 2016-2018).

Finland is on track on its 2020 renewable energy target, but the higher targets for 2030 will require additional efforts. With a renewable energy share of 40.0 % in gross final energy consumption in 2017 (increasing since 2017), Finland is already above its 2020 target of 38 %. However, the national energy and climate strategy aims at reaching over 50 % of renewable energy in gross final energy consumption by 2030. This aim encompasses an increase in all sectors, including a mandatory share of 30 % for biofuels in transport (18.8 % in 2017).

In parallel, Finland is also on track on its energy efficiency target, but energy demand is swiftly rising. In terms of energy efficiency, Finland was already doing better than its 2020 target in 2017 (-8 % for primary energy consumption and -5 % for final energy consumption compared to the 2020 targeted levels). After a slight increase in 2016 compared to 2015, final energy demand has stabilised in

⁽²⁶⁾ European Parliament and the Council (2018).

2017 and primary energy demand has slightly reduced compared to 2016.

Potential for energy efficiency savings exists in all sectors. The energy intensity of the services sector and of households is above the EU average. In addition, the energy intensity of the industry sector in Finland is one of the highest in the EU, representing 44 % of the total final energy consumption in 2016 — well above the EU average (25 %).

The recycling rate of municipal waste remains below EU average. Finland has put a lot of effort into improving its recycling rate. However, despite its progress, the country is listed in the Commission's 'Early Warning report' as one of the EU Member States at risk of missing the 2020 municipal waste recycling target of 50 %. In particular, municipal waste is increasingly incinerated (60 % in 2017 compared to 55 % in 2016). Collection in rural areas has not been a priority so far because of the low collection volumes and long distances between properties. In parallel, door-to-door recycling collections in more suburban areas have also not been a priority, while the extended producer responsibility schemes have been fragmented. In addition, the roles and responsibilities of the municipalities have changed repeatedly in recent years. This has created uncertainty and resulted in a lack of investment.

3.4.2. EFFICIENT AND INTEGRATED MARKETS

Competition

The regulatory environment is being improved.

A series of reforms aimed at improving the regulatory environment have been carried out, such as the liberalisation of shop opening hours, the amendments in 2017 to the Land Use and Building Act (132/1999), and the 2017 revision of the Alcohol Act (1102/2017). Finland scores among the less restrictive Member States on the Retail Restrictiveness Indicator published by the Commission (European Commission, 2018).

The pharmacy sector is being reformed. The government has tabled two legislative proposals to amend the Medicines Act ⁽²⁷⁾ with a view to

enabling more pharmacies to be established, in particular independent pharmacies. Other aims of the reform are to shorten the time needed for starting a pharmacy, to promote price competition in non-prescription medicines, and to align the retail side of the pharmacy sector with the ongoing reform of the healthcare and social care systems (see Section 3.1). However, there is still scope to further ease operational restrictions as regards distribution channels for the sales of non-prescription medicines.

Efforts are being made to strengthen competition neutrality.

The Finnish Competition and Consumer Authority already has the right to intervene in the provision of goods and services in public sector business activities carried out by the state, municipalities, joint municipal authorities or entities under their authority. This applies when the operating models or structures prevent or distort competition in the market. This can for instance be the case if prices do not reflect costs. In order to further strengthen competition neutrality, the government has tabled a proposal to amend the Competition Act. The aim is to make it mandatory for entities at state, municipality, or joint municipal authority level, or entities under their authority, to separately mention in their financial reports the provision of goods and services in their activities. The proposed amendment is currently being examined by parliament. Such transparency will make it easier to establish whether competition between private and publicly controlled entities is fair.

The opening of the rail market to competition is going ahead.

On 1 January 2019, the new Rail Transport Act entered into force. The revised legislation aims to improve the functioning of the railway transport market, and implements the Fourth EU Railway Package in Finland. Market opening is based on tendering and on the corporate reorganisation of the incumbent railway undertaking, to guarantee an equal and competition-neutral environment for all service providers. The rolling stock company and the real estate company, separated from the incumbent company, are expected to be fully operational in spring 2019. Concession contracts will be concluded and the new transport systems will be operational by 2026.

⁽²⁷⁾ Act 395/1987.

Public procurement

The merger of central purchasing bodies is delayed. The merger of the central purchasing bodies Hansel and KL-Kuntahankinnat did not take place on 1 January 2019 as provided for by parliament. Preparations for the merger took longer than anticipated. The merger is now expected to take place later in 2019. It is intended to lead to a more streamlined organisation with a shift in focus to larger contracts than previously and more uniform public tendering.

Network industries

Digital transformation and telecommunications

The country maintains its edge in digital transformation, overcoming the setbacks in its electronic sector. Finland is among the top most advanced digital economies in Europe, boasting high broadband penetration — the result of astute regulatory measures that have encouraged market competition. Despite the lack of specific skills in several information and communications technology niches, Finland's performance is particularly strong in digital skills, digital public services and integration of digital technologies. Strong advanced digital infrastructure ensures that digitisation is well embedded in the overall entrepreneurial environment. ⁽²⁸⁾

There is scope for further automation in manufacturing. With 138 installed industrial robots per 10 000 manufacturing employees in 2016, Finland was above the EU average in automation. However, the density of industrial robots in manufacturing was considerably lower than in Germany (309), Sweden (223) and Denmark (211). In view of the structural similarities between Finnish and Swedish manufacturing and the fact that their exporters often compete for the same orders, a lower density of industrial robots is expected to weaken Finland's export competitiveness.

⁽²⁸⁾ Finland ranks second, after Netherlands, in the digital transformation enablers index. The latter is on five enabling factors: digital infrastructure (Finland, 4th), investments and access to finance (Finland, 1st), supply and demand of digital skills (Finland, 5th), e-leadership (Finland, 1st), entrepreneurial culture (Finland, 26th). In parallel, Finland ranks third in the digital technology integration index — outcome in terms of digitalisation.

Artificial intelligence is expected to have a strong impact on the Finnish society. Finland has a stated ambition to be at the forefront in the application of artificial intelligence and consolidate its strong position globally in digitisation and automation. To prepare a national artificial intelligence programme, a steering group was appointed in 2017 with a mandate to deliver a final report by April 2019 (Ministry of Economic Affairs and Employment, 2017).

A north-east passage underwater fibre cable connection (Arctic Connect) has been under study for several years (Ministry of Transport and Communications, 2016). The cable connection would make it possible to implement a fast physical telecommunications route from Asia to Northern and Central Europe via Norway, Russia and Finland. This would be possible because it would be connected to the Baltic fibre cable connection between Helsinki and Rostock. In addition to providing speed, the cable would also respond to the rapidly increasing need for capacity and would provide a reliable alternative to the risky southern routes.

Electricity and gas

Interconnection of electricity grids with the Nordic and Baltic wholesale markets is still insufficient. Finland has reached its 2020 targets in terms of electricity interconnection, and price convergence with Estonia has improved following the completion of the EstLink2 project. However, despite this progress, wholesale electricity prices in Finland are still not fully aligned with those of the other Nordic countries. This results from insufficient interconnection capacities with the Nordic and Baltic market area. The slow implementation of the infrastructure project of common interest with Sweden, which includes an internal line in Finland, has delayed market integration. Insufficient attention has been given to further improving system flexibility, system stability and mitigating adequacy challenges arising from changes in the generation mix.

The Finnish gas market is currently dependent on one single supplier (Russia) leaving end users no choice. Finland's gas isolation will end and security of supply will improve after the completion of the first gas interconnector between Finland and Estonia. This project of common

interest is known as the ‘Balticconnector’. It is expected to generate major benefits to the Finnish system and market, in conjunction with other projects of common interest in the region. The infrastructure projects need to be complemented by rapid implementation of market rules.

3.4.3. THE REGIONAL DIMENSION

Regional disparities persist. Regional disparities have slightly decreased (see Section 1), but remain strong, especially in the northeast. Finland’s GDP per head of the population (in purchasing power standard) was at 109 % of EU average in 2016, with regional variation between 144 % in the Greater Helsinki area (Helsinki-Uusimaa) and 90 % in East-North Finland. The relative performance of East-North was the least satisfactory of mainland Finland regions in terms of productivity ⁽²⁹⁾ and unemployment ⁽³⁰⁾. Moreover, East-North’s population growth rate (-0.02 % in 2010-2016), accessibility by road and rail, and internet use were the lowest among the five regions of Finland. East-North Finland also has an extremely low population density (8 persons per km² or less). It is thus set to continue to benefit from the specific Structural Funds allocation for the Northern Sparsely Populated Areas in 2021-2027. In terms of population, the regions with largest urban areas have grown. The rural areas further away from the centres as well as the smaller cities and towns tend to have been deprived in comparison with urban centres and areas directly or functionally linked to these centres.

Regional differences in factor endowments are less pronounced than in convergence indicators. The disparities in terms of innovation performance between the NUTS2 regions ⁽³¹⁾ are not as significant as the differences in GDP per head. Finland’s innovation performance stands at 128 % of the EU average (European Commission, 2017).

⁽²⁹⁾ Purchasing power standard in 2016 (95.5 % of EU average, Greater Helsinki area 119 %). In Åland Islands, productivity at 90 % of the EU average is the lowest among Finland’s NUTS2 regions.

⁽³⁰⁾ Unemployment rate at 9.6 % of the labour force in 2017.

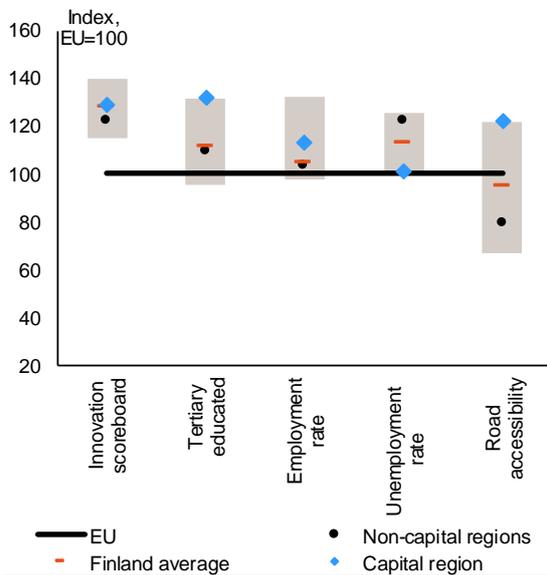
⁽³¹⁾ There are three levels of Nomenclature of Territorial Units for Statistics (NUTS) defined. This category refers to regions belonging to the second level (NUTS 2, also known as NUTS II), which is largely used by Eurostat and other European Union bodies.

The weakest region in this regard is East-North at 115 % (decrease against 2011), the strongest South Finland at 139 % (decrease), while Helsinki-Uusimaa is at 129 % (increase). All regions lag behind the EU-average in non-research and development innovation expenditure and exports of medium-high technology manufacturing. As regards the tertiary educated aged 30-34, Finland as a whole performs above EU-average, at 112 %. The Greater Helsinki area (132 %) and West Finland (109 %) are in the lead, but the other two mainland Finland regions lag behind the EU average (South 96 %, East-North 95 %; see Graph 3.4.7). While the Greater Helsinki area in Finland is faring better than the EU average in most respects, areas other than the Greater Helsinki area have more mixed records, most notably on road accessibility.

All Finnish regions score above EU average when assessing the quality and conditions in the regional innovation ecosystem (European Commission, 2018m). The main regional bottlenecks range from lower scores in the participation rate of adults in learning, access to broadband, the availability of technical and design/creativity skills in the private sector to foreign direct investment and technology transfer.

There are relatively high differences in road accessibility between the Finnish regions, but these are largely explained by geography. The average road accessibility in Finland is at 95 % of the EU average. The Greater Helsinki area stands at 122 % of the EU average and South Finland at 110 %, while West Finland is at 79 % and Åland Islands at 75 %. East-North Finland’s accessibility by road (67 % of the EU average) is the lowest. East-North has much more land per capita than the other regions. West Finland covers plenty of rural areas, and Åland Islands is an island region.

Graph 3.4.7: Regions in Finland and factor endowments



Source: European Commission

3.4.4. INSTITUTIONAL QUALITY

Progress has been made in reducing the regulatory and administrative burden, but challenges remain. Simplification, cutting red tape and improving the regulatory and administrative environment, especially for small and medium-sized enterprises, have been prioritised by Finland for a number of years. Progress has been achieved, in particular in the digitisation of services and the simplification of procedures required to obtain various permits. Continuous attention is paid to evaluating and decreasing the overall regulatory burden on enterprises, in particular small businesses. Long processing times for permits slow down firms' investment progress. According to an indicative estimate, there are about EUR 2.7 billion worth of investment on hold because of delays in permit processing (Confederation of Finnish Industries, 2019).

Preparations are ongoing for an overhaul of the zoning and planning framework. The authorities are currently working on a reform of the planning framework. The new framework will take into account the developments in the construction sector and will allow for more strategic planning, in particular in urban areas. The draft proposal could be ready for public consultation in 2020.

ANNEX A: OVERVIEW TABLE

Commitments	Summary assessment ⁽³²⁾
2018 country-specific recommendations (CSRs)	
<p>CSR 1: Achieve the medium-term budgetary objective in 2019, taking account the allowances linked to the implementation of the structural reforms for which a temporary deviation is granted. Ensure the adoption and implementation of the administrative reform to improve cost-effectiveness and equal access to social and healthcare services.</p>	<p>Finland has made limited progress in addressing CSR 1.</p>
<p>Achieve the medium-term budgetary objective in 2019, taking account the allowances linked to the implementation of the structural reforms for which a temporary deviation is granted.</p>	<p>The compliance assessment with the Stability and Growth Pact will be carried out in spring 2019 when the final data for 2018 will be available.</p>
<p>Ensure the adoption and implementation of the administrative reform to improve cost-effectiveness and equal access to social and healthcare services.</p>	<p>Limited progress has been achieved on ensuring the adoption and implementation of the regional social and healthcare services reform. The draft laws on the reform are still expected to be adopted and to come into effect during the first quarter of 2019. However, the general elections in April 2019 risk to produce yet further delays. Preparative actions in the forthcoming counties, responsible for the reform, have been taken in such manner that they have a good degree of readiness for the adoption and implementation of the reform. Nevertheless, at the moment, it is unclear how the reform's savings mechanisms might deliver the planned containment of the costs arising from the ageing population.</p>
<p>CSR 2: Improve incentives to accept work and</p>	

⁽³²⁾ The following categories are used to assess progress in implementing the country-specific recommendations (CSRs):

No progress: The Member State has not credibly announced nor adopted any measures to address the CSR. This category covers a number of typical situations to be interpreted on a case by case basis taking into account country-specific conditions. They include the following:

- no legal, administrative, or budgetary measures have been announced in the national reform programme, in any other official communication to the national Parliament/relevant parliamentary committees or the European Commission, publicly (e.g. in a press statement or on the government's website);
- no non-legislative acts have been presented by the governing or legislative body;
- the Member State has taken initial steps in addressing the CSR, such as commissioning a study or setting up a study group to analyse possible measures to be taken (unless the CSR explicitly asks for orientations or exploratory actions). However, it has not proposed any clearly-specified measure(s) to address the CSR.

Limited progress: The Member State has:

- announced certain measures but these address the CSR only to a limited extent; and/or
- presented legislative acts in the governing or legislative body but these have not been adopted yet and substantial further, non-legislative work is needed before the CSR is implemented;
- presented non-legislative acts, but has not followed these up with the implementation needed to address the CSR.

Some progress: The Member State has adopted measures

- that partly address the CSR; and/or
- that address the CSR, but a fair amount of work is still needed to fully address the CSR fully as only a few of the measures have been implemented. For instance, a measure or measures have been adopted by the national Parliament or by ministerial decision but no implementing decisions are in place.

Substantial progress: The Member State has adopted measures that go a long way towards addressing the CSR and most of them have been implemented.

Full implementation: The Member State has implemented all measures needed to address the CSR appropriately.

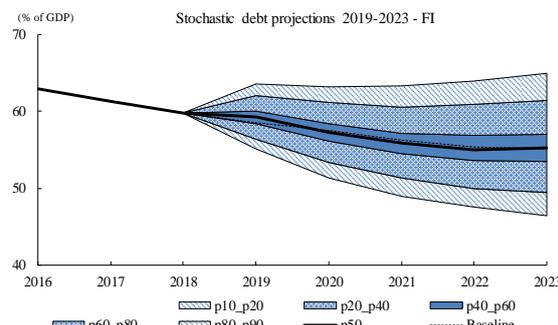
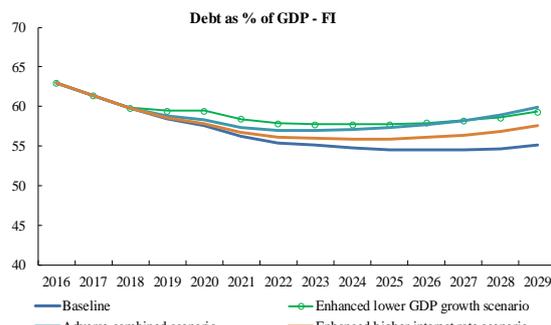
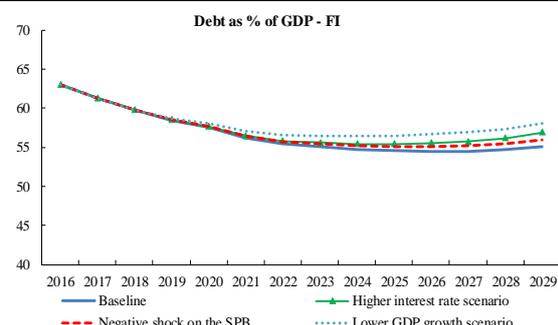
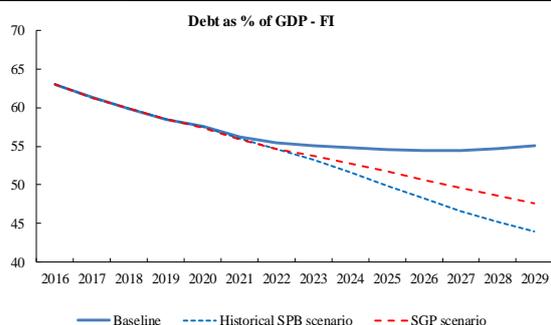
<p>ensure adequate and well-integrated services for the unemployed and the inactive.</p> <p>Improve incentives to accept work and</p>	<p>CSR 2</p> <p>Limited progress has been made on reducing inactivity and unemployment traps. A number of reforms in the labour market have already been introduced. Nevertheless, further measures would be needed to address the still relatively high structural unemployment (NAWRU at around 7% in 2018). The Finnish authorities are waiting for the outcome of the basic income experiment, whose first results were presented on 8 February 2019. The experiment is expected to provide some information for revising the social security system. There has been a lot of discussion about the possible future reform of the tax-benefit system. However, given the political agenda, no movement in this area is expected before spring 2019. The government's budget for 2019 introduces complementary measures to promote employment and improve incentives to accept work.</p>
<p>ensure adequate and well-integrated services for the unemployed and the inactive.</p>	<p>Limited progress has been achieved on public employment services. The number of one-stop-shops, Ohjaamot, offering low-threshold, cross-sectoral information, advice and guidance to youth and young adults have been increased from 50 to 60, covering all regions in Finland. However, the formal adoption of the regional government, health and social services reforms, including the public employment and entrepreneur services, has not taken place. Also, integration of services could have regressed: with the vocational education and training reform, training related to active labour market policies is now under the responsibility of the Ministry of Education, and not any more of the Ministry of Employment, so further away from employment services.</p>
<p>CSR 3: Strengthen the monitoring of household debt including by setting up a credit registry system.</p> <p>Strengthen the monitoring of household debt</p> <p>including by setting up a credit registry system.</p>	<p>Finland has made limited progress in addressing CSR 3</p> <p>Limited progress is observed on monitoring the household debt, through the setting up of an expert working group assessing household debt developments and possibilities to introduce new macroprudential instruments into the legislation.</p> <p>Limited progress has been made on setting up a credit registry system. The Ministry of Justice has commissioned a report proposing the establishment of a centralized comprehensive (collecting both positive and negative information on debtors) credit</p>

	<p>registry. The proposal is now in circulation for comments after which the matter will be further assessed. The group should report of its work and conclusions by the end of March 2019. The required legislation would only be tabled after the next general election in April 2019.</p>
Europe 2020 (national targets and progress)	
Employment rate target set in the NRP: 78 %.	<p>The employment rate in Finland in 2018 increased to [76,3 %] (based on the average of first three quarters), an improvement of [2.3 %] points since 2017</p>
R&D target set in the NRP: 4 % of GDP	<p>In 2017, R&D intensity in Finland was 2.76% of GDP composed of 65% private investment (1.80% of GDP) and 34% public investment (0.94% of GDP).</p> <p>No progress towards the target has been made. While public R&D intensity has increased by 0.3 % per year in 2007-2017, business expenditure on R&D as a percentage of GDP decreased by 2.6 % per year over the same period, resulting in an annual decrease of total R&D intensity by 1.8 % since 2007. Finland will not reach its national target for 2020 unless the trend in business expenditure can be markedly reversed.</p>
National greenhouse gas (GHG) emissions target: - 16 % in 2020 compared with 2005 (in sectors not included in the EU emissions trading scheme)	<p>Projected emissions in 2020: -15 % compared to 2005</p> <p>According to the latest national projections submitted to the Commission, and taking into account existing measures, Finland is expected to miss its 2020 emissions target by a small margin of 0.7 %.</p> <p>Non-ETS emissions in 2017: -9 %</p> <p>Finland missed its interim target for 2017 by 2 percentage points.</p>
2020 renewable energy target: 38 %	<p>Despite a significantly reduction of the contribution from biofuels use in transport compared to 2015, the share of renewable energy in gross final energy consumption reached 41 % in 2017, already exceeding the 2020 target. The contribution of heating and cooling, with almost a 54.85 % RES-share for that sector, is increasing.</p>

<p>Energy efficiency, 2020 energy consumption targets: Finland's 2020 energy efficiency target is 35.9 Mtoe expressed in primary energy consumption (26.7 Mtoe expressed in final energy consumption)</p>	<p>Finland reduced its primary energy consumption by 1.1 % from 32.1 Mtoe in 2016 to 31.7 Mtoe in 2017. Final energy consumption remained stable at 25.2 Mtep in 2017. Finland has already levels of primary and final energy consumption that are below the indicative national 2020 targets. After an increase in 2016, the stabilisation (slight decrease of primary energy) observed in 2017 should be sustained to ensure the targets will be met in 2020.</p>
<p>Early school/training leaving target: 8 %.</p>	<p>Finland registered an increase in early school leaving in 2017 to 8.2 %, a 0.3 % pp increase compared to the previous year.</p>
<p>Tertiary education target: 42 % of population aged 30-34.</p>	<p>Finland registered a decrease in tertiary attainment by 1.5 pps to 44.6 % in 2017.</p>
<p>Target for reducing the number of people at risk of poverty or social exclusion, expressed as an absolute number of people: 770 000 (base year 2010; 911 000).</p>	<p>In 2017, the number of people in Finland at risk of poverty or social inclusion was 849 000, a decrease of 52 000 since 2008 and a decrease of 48 000 since 2016.</p>

ANNEX B: COMMISSION DEBT SUSTAINABILITY ANALYSIS AND FISCAL RISKS

General Government debt projections under baseline, alternative scenarios and sensitivity tests													
FI - Debt projections baseline scenario	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Gross debt ratio	61.3	59.8	58.5	57.5	56.2	55.4	55.1	54.8	54.6	54.5	54.5	54.7	55.1
Changes in the ratio (-/+2+3) of which	-1.7	-1.5	-1.4	-0.9	-1.3	-0.8	-0.3	-0.3	-0.2	-0.1	0.0	0.2	0.5
(1) Primary balance (1.1+1.2+1.3)	0.3	0.1	0.6	0.7	0.5	0.1	-0.2	-0.3	-0.4	-0.5	-0.5	-0.6	-0.8
(1.1) Structural primary balance (1.1.1-1.1.2+1.1.3)	0.8	0.0	0.2	0.2	0.1	-0.1	-0.2	-0.3	-0.4	-0.5	-0.5	-0.6	-0.8
(1.1.1) Structural primary balance (bef. CoA)	0.8	0.0	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
(1.1.2) Cost of ageing					0.2	0.5	0.8	1.0	1.2	1.4	1.6	1.8	1.9
(1.1.3) Others (taxes and property incomes)					0.1	0.3	0.4	0.5	0.7	0.8	0.9	1.0	1.0
(1.2) Cyclical component	-0.5	0.2	0.3	0.5	0.4	0.2	0.0						
(1.3) One-off and other temporary measures	0.0	-0.1	0.1	0.0									
(2) Snowball effect (2.1+2.2+2.3)	-1.2	-1.4	-1.3	-1.4	-0.9	-0.7	-0.5	-0.6	-0.6	-0.6	-0.5	-0.4	-0.3
(2.1) Interest expenditure	1.0	0.9	0.8	0.8	0.9	0.9	0.9	0.9	1.0	1.1	1.2	1.3	1.4
(2.2) Growth effect	-1.7	-1.7	-1.3	-1.1	-0.6	-0.4	-0.4	-0.5	-0.5	-0.6	-0.6	-0.6	-0.6
(2.3) Inflation effect	-0.5	-0.5	-0.9	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1
(3) Stock-flow adjustments	-0.2	0.0	0.6	1.2	0.0								



Short term	Medium term	S1	Debt sustainability analysis (detail)						DSA	S2	Long term
			Baseline	Historical SPB	Lower GDP growth	Higher interest rate	Negative shock on SPB	Stochastic projections			
LOW (S0 = 0.1)	LOW	LOW (S1 = -0.1)	LOW	LOW	LOW	LOW	LOW	LOW	MEDIUM (S2 = 2.7)	MEDIUM	
Risk category			LOW	LOW	LOW	LOW	LOW	LOW	LOW		
Debt level (2029)			55.1	44.0	58.1	56.9	56.0				
Debt peak year			2018	2018	2018	2018	2018				
Percentile rank			55.0%	34.0%							
Probability debt higher							27.2%				
Dif. between percentiles							18.6				

Note: For further information, see the European Commission Fiscal Sustainability Report (FSR) 2018.

[1] The first table presents the baseline no-fiscal policy change scenario projections. It shows the projected government debt dynamics and its decomposition between the primary balance, snowball effects and stock-flow adjustments. Snowball effects measure the net impact of the counteracting effects of interest rates, inflation, real GDP growth (and exchange rates in some countries). Stock-flow adjustments include differences in cash and accrual accounting, net accumulation of assets, as well as valuation and other residual effects.

[2] The charts present a series of sensitivity tests around the baseline scenario, as well as alternative policy scenarios, in particular: the historical structural primary balance (SPB) scenario (where the SPB is set at its historical average), the Stability and Growth Pact (SGP) scenario (where fiscal policy is assumed to evolve in line with the main provisions of the SGP), a higher interest rate scenario (+1 pp. compared to the baseline), a lower GDP growth scenario (-0.5 pp. compared to the baseline) and a negative shock on the SPB (calibrated on the basis of the forecasted change). An adverse combined scenario and enhanced sensitivity tests (on the interest rate and growth) are also included, as well as stochastic projections. Detailed information on the design of these projections can be found in the FSR 2018.

[3] The second table presents the overall fiscal risk classification over the short, medium and long-term.

a. For the short-term, the risk category (low/high) is based on the S0 indicator. S0 is an early-detection indicator of fiscal stress in the upcoming year, based on 25 fiscal and financial-competitiveness variables that have proven in the past to be leading indicators of fiscal stress. The critical threshold beyond which fiscal distress is signalled is 0.46.

b. For the medium-term, the risk category (low/medium/high) is based on the joint use of the S1 indicator and of the DSA results. The S1 indicator measures the fiscal adjustment required (cumulated over the 5 years following the forecast horizon and sustained thereafter) to bring the debt-to-GDP ratio to 60% by 2033. The critical values used are 0 and 2.5 pps. of GDP. The DSA classification is based on the results of 5 deterministic scenarios (baseline, historical SPB, higher interest rate, lower GDP growth and negative shock on the SPB scenarios) and the stochastic projections. Different criteria are used such as the projected debt level, the debt path, the realism of fiscal assumptions, the probability of debt stabilisation, and the size of uncertainties.

c. For the long-term, the risk category (low/medium/high) is based on the joint use of the S2 indicator and the DSA results. The S2 indicator measures the upfront and permanent fiscal adjustment required to stabilise the debt-to-GDP ratio over the infinite horizon, including the costs of ageing. The critical values used are 2 and 6 pps. of GDP. The DSA results are used to further qualify the long-term risk classification, in particular in cases when debt vulnerabilities are identified (a medium / high DSA risk category).

ANNEX C: STANDARD TABLES

Table C.1: **Financial market indicators**

	2013	2014	2015	2016	2017	2018
Total assets of the banking sector (% of GDP) ¹⁾	258,3	281,9	265,3	253,2	201,9	208,5
Share of assets of the five largest banks (% of total assets)	87,1	89,7	88,0	80,5	73,5	-
Foreign ownership of banking system (% of total assets) ²⁾	71,2	71,6	67,5	65,5	54,0	54,3
Financial soundness indicators: ²⁾						
- non-performing loans (% of total loans)	-	1,6	1,5	1,4	1,2	1,1
- capital adequacy ratio (%)	16,3	17,5	23,8	24,6	23,4	22,8
- return on equity (%) ³⁾	8,1	9,1	8,3	8,7	8,8	6,2
Bank loans to the private sector (year-on-year % change) ¹⁾	6,3	3,8	0,2	1,6	3,1	3,8
Lending for house purchase (year-on-year % change) ¹⁾	2,3	1,7	2,5	2,3	2,2	1,9
Loan to deposit ratio ²⁾	-	103,6	102,4	94,3	94,8	92,8
Central Bank liquidity as % of liabilities ¹⁾	-	0,4	0,3	1,9	2,5	2,0
Private debt (% of GDP)	147,7	149,8	152,9	148,5	146,4	-
Gross external debt (% of GDP) ²⁾ - public	45,9	53,9	52,0	48,5	46,3	41,5
- private	43,7	43,9	48,4	44,3	46,0	45,9
Long-term interest rate spread versus Bund (basis points)*	29,2	28,6	22,4	27,5	23,1	25,7
Credit default swap spreads for sovereign securities (5-year)*	25,1	24,0	20,6	24,4	19,0	10,3

1) Latest data Q3 2018. Includes not only banks but all monetary financial institutions excluding central banks.

2) Latest data Q2 2018.

3) Quarterly values are annualised.

* Measured in basis points.

Source: European Commission (long-term interest rates); World Bank (gross external debt); Eurostat (private debt); European Central Bank (all other indicators).

Table C.2: **Headline Social Scoreboard indicators**

	2013	2014	2015	2016	2017	2018 ⁶
Equal opportunities and access to the labour market						
Early leavers from education and training (% of population aged 18-24)	9,3	9,5	9,2	7,9	8,2	:
Gender employment gap (pps)	2,8	1,9	2,1	3,3	3,5	3,7
Income inequality, measured as quintile share ratio (S80/S20)	3,6	3,6	3,6	3,6	3,5	:
At-risk-of-poverty or social exclusion rate ¹ (AROPE)	16,0	17,3	16,8	16,6	15,7	:
Young people neither in employment nor in education and training (% of population aged 15-24)	9,3	10,2	10,6	9,9	9,4	:
Dynamic labour markets and fair working conditions[†]						
Employment rate (20-64 years)	73,3	73,1	72,9	73,4	74,2	76,2
Unemployment rate ² (15-74 years)	8,2	8,7	9,4	8,8	8,6	7,4
Long-term unemployment rate ³ (as % of active population)	1,7	1,9	2,3	2,3	2,1	1,7
Gross disposable income of households in real terms per capita ⁴ (Index 2008=100)	102,6	101,4	102,6	103,5	104,2	:
Annual net earnings of a full-time single worker without children earning an average wage (levels in PPS, three-year average)	24085	24154	24346	24545	:	:
Annual net earnings of a full-time single worker without children earning an average wage (percentage change, real terms, three-year average)	-0,7	-0,8	-0,2	0,3	:	:
Public support / Social protection and inclusion						
Impact of social transfers (excluding pensions) on poverty reduction ⁵	55,3	53,6	53,7	57,0	56,9	:
Children aged less than 3 years in formal childcare	28,0	33,2	32,5	32,7	33,3	:
Self-reported unmet need for medical care	4,3	3,3	4,3	4,1	3,6	:
Individuals who have basic or above basic overall digital skills (% of population aged 16-74)	:	:	74,0	73,0	76,0	:

1 People at risk of poverty or social exclusion: individuals who are at risk of poverty and/or suffering from severe material deprivation and/or living in households with zero or very low work intensity.

2 Unemployed persons are all those who were not employed but had actively sought work and were ready to begin working immediately or within two weeks.

3 Long-term unemployed are people who have been unemployed for at least 12 months.

4 Gross disposable household income is defined in unadjusted terms, according to the draft Joint Employment Report 2019.

5 Reduction in percentage of the risk of poverty rate, due to social transfers (calculated comparing at-risk-of-poverty rates before social transfers with those after transfers; pensions are not considered as social transfers in the calculation).

6 Average of first three quarters of 2018 for the employment rate, unemployment rate and gender employment gap. Data for unemployment rate is seasonally adjusted (annual series, for EE, EL, HU, IT and UK data based on first three quarters of 2018).

Source: European Commission

Table C.3: Labour market and education indicators

Labour market indicators	2013	2014	2015	2016	2017	2018 ⁴
Activity rate (15-64)	75,2	75,4	75,8	75,9	76,7	:
Employment in current job by duration						
<i>From 0 to 11 months</i>	16,5	16,1	16,0	17,6	18,5	:
<i>From 12 to 23 months</i>	9,6	9,1	8,4	8,6	9,3	:
<i>From 24 to 59 months</i>	15,3	16,7	16,4	14,9	14,4	:
<i>60 months or over</i>	58,4	57,9	58,9	58,7	57,7	:
Employment growth*						
(% change from previous year)	-0,7	-0,5	-0,1	0,5	1,2	2,6
Employment rate of women						
(% of female population aged 20-64)	71,9	72,1	71,8	71,7	72,4	74,4
Employment rate of men						
(% of male population aged 20-64)	74,7	74,0	73,9	75,0	75,9	78,0
Employment rate of older workers*						
(% of population aged 55-64)	58,5	59,1	60,0	61,4	62,5	65,3
Part-time employment*						
(% of total employment, aged 15-64)	14,0	14,1	14,1	14,9	15,0	15,1
Fixed-term employment*						
(% of employees with a fixed term contract, aged 15-64)	15,3	15,4	15,1	15,6	15,8	16,6
Participation in activation labour market policies						
(per 100 persons wanting to work)	28,4	29,0	26,8	27,4	:	:
Transition rate from temporary to permanent employment						
(3-year average)	31,4	31,1	28,8	25,9	:	:
Youth unemployment rate						
(% active population aged 15-24)	19,9	20,5	22,4	20,1	20,1	17,0
Gender gap in part-time employment						
	10,6	10,1	9,0	10,2	10,6	10,2
Gender pay gap ¹ (in unadjusted form)						
	18,8	18,4	17,6	17,4	16,7	:
Education and training indicators	2013	2014	2015	2016	2017	2018
Adult participation in learning						
(% of people aged 25-64 participating in education and training)	24,9	25,1	25,4	26,4	27,4	:
Underachievement in education ²	:	:	13,6	:	:	:
Tertiary educational attainment (% of population aged 30-34 having successfully completed tertiary education)	45,1	45,3	45,5	46,1	44,6	:
Variation in performance explained by students' socio-economic status ³	:	:	10,0	:	:	:

* Non-scoreboard indicator

1 Difference between the average gross hourly earnings of male paid employees and of female paid employees as a percentage of average gross hourly earnings of male paid employees. It is defined as "unadjusted", as it does not correct for the distribution of individual characteristics (and thus gives an overall picture of gender inequalities in terms of pay). All employees working in firms with ten or more employees, without restrictions for age and hours worked, are included.

2 Programme for International Student Assessment results for low achievement in mathematics for 15 year-olds.

3 Impact of socio-economic and cultural status on Programme for International Student Assessment scores. Values for 2012 and 2015 refer respectively to mathematics and science.

4 Average of first three quarters of 2018. Data for youth unemployment rate is seasonally adjusted (annual series, for EE, EL, HU, IT and UK data based on first three quarters of 2018).

Source: European Commission, Organisation for Economic Co-operation and Development.

Table C.4: Social inclusion and health indicators

Expenditure on social protection benefits* (% of GDP)						
<i>Sickness/healthcare</i>	7,4	7,5	7,5	7,4	7,1	:
<i>Disability</i>	3,4	3,4	3,4	3,2	3,1	:
<i>Old age and survivors</i>	11,9	12,5	13,0	13,4	13,6	:
<i>Family/children</i>	3,2	3,3	3,2	3,2	3,1	:
<i>Unemployment</i>	2,0	2,3	2,6	2,7	2,6	:
<i>Housing</i>	0,5	0,6	0,6	0,7	0,8	:
<i>Social exclusion n.e.c.</i>	0,9	0,9	0,9	0,9	1,1	:
Total	29,3	30,3	31,1	31,5	31,3	:
<i>of which: means-tested benefits</i>	1,5	1,6	1,8	1,9	2,0	:
General government expenditure by function (% of GDP, COFOG)						
<i>Social protection</i>	23,8	24,8	25,4	25,6	25,6	:
<i>Health</i>	8,2	8,3	8,3	7,3	7,2	:
<i>Education</i>	6,4	6,4	6,4	6,2	6,1	:
Out-of-pocket expenditure on healthcare (% of total health expenditure)	18,7	19,0	19,0	19,7	20,4	:
Children at risk of poverty or social exclusion (% of people aged 0-17)*	14,9	13,0	15,6	14,9	14,7	15,1
At-risk-of-poverty rate ¹ (% of total population)	13,2	11,8	12,8	12,4	11,6	11,5
In-work at-risk-of-poverty rate (% of persons employed)	3,8	3,7	3,7	3,5	3,1	2,7
Severe material deprivation rate ² (% of total population)	2,9	2,5	2,8	2,2	2,2	2,1
Severe housing deprivation rate ³ , by tenure status						
<i>Owner, with mortgage or loan</i>	0,3	0,1	0,2	0,2	0,1	0,2
<i>Tenant, rent at market price</i>	3,0	2,0	2,4	1,8	2,4	1,9
Proportion of people living in low work intensity households ⁴ (% of people aged 0-59)	9,3	9,0	10,0	10,8	11,4	10,7
Poverty thresholds, expressed in national currency at constant prices*	12082	12009	11965	11852	11815	11936
Healthy life years (at the age of 65)						
<i>Females</i>	9,0	:	9,3	9,0	8,9	:
<i>Males</i>	8,4	:	8,8	9,3	9,4	:
Aggregate replacement ratio for pensions ⁵ (at the age of 65)	0,5	0,5	0,5	0,5	0,5	0,5
Connectivity dimension of the Digital Economy and Society Index (DESI) ⁶	:	:	56,1	61,0	61,7	64,5
GINI coefficient before taxes and transfers*	48,2	48,5	49,1	49,2	50,3	50,2
GINI coefficient after taxes and transfers*	25,9	25,4	25,6	25,2	25,4	25,3

* Non-scoreboard indicator

1 At-risk-of-poverty rate (AROP): proportion of people with an equivalised disposable income below 60 % of the national equivalised median income.

2 Proportion of people who experience at least four of the following forms of deprivation: not being able to afford to i) pay their rent or utility bills, ii) keep their home adequately warm, iii) face unexpected expenses, iv) eat meat, fish or a protein equivalent every second day, v) enjoy a week of holiday away from home once a year, vi) have a car, vii) have a washing machine, viii) have a colour TV, or ix) have a telephone.

3 Percentage of total population living in overcrowded dwellings and exhibiting housing deprivation.

4 People living in households with very low work intensity: proportion of people aged 0-59 living in households where the adults (excluding dependent children) worked less than 20 % of their total work-time potential in the previous 12 months.

5 Ratio of the median individual gross pensions of people aged 65-74 relative to the median individual gross earnings of people aged 50-59.

6 Fixed broadband take up (33%), mobile broadband take up (22%), speed (33%) and affordability (11%), from the Digital Scoreboard.

Source: European Commission, Organisation for Economic Co-operation and Development

Table C.5: Product market performance and policy indicators

Performance indicators	2012	2013	2014	2015	2016	2017
Labour productivity per person ¹ growth (t/t-1) in %						
Labour productivity growth in industry	-8,39	3,69	2,50	-0,11	3,04	6,02
Labour productivity growth in construction	-5,04	-0,69	-2,35	1,50	0,35	0,14
Labour productivity growth in market services	-0,24	-1,46	-0,22	0,97	1,27	1,84
Unit Labour Cost (ULC) index ² growth (t/t-1) in %						
ULC growth in industry	11,75	-2,81	-0,95	2,54	-1,64	-6,59
ULC growth in construction	8,46	3,02	2,22	-0,31	1,00	1,38
ULC growth in market services	2,54	3,79	0,68	0,19	0,67	-0,81
Business environment	2012	2013	2014	2015	2016	2017
Time needed to enforce contracts ³ (days)	375	485	485	485	485	485
Time needed to start a business ³ (days)	17,0	17,0	17,0	17,0	17,0	17,0
Outcome of applications by SMEs for bank loans ⁴	0,23	0,41	0,57	0,23	0,26	0,39
Research and innovation	2012	2013	2014	2015	2016	2017
R&D intensity	3,42	3,29	3,17	2,90	2,74	2,76
General government expenditure on education as % of GDP	6,40	6,40	6,40	6,20	6,10	:
Employed people with tertiary education and/or people employed in science and technology as % of total employment	50	51	52	52	53	53
Population having completed tertiary education ⁵	33	34	35	36	36	36
Young people with upper secondary education ⁶	86	86	86	87	88	87
Trade balance of high technology products as % of GDP	-0,87	-1,02	-0,98	-1,23	-1,40	-1,40
Product and service markets and competition				2003	2008	2013
OECD product market regulation (PMR) ⁷ , overall				1,49	1,34	1,29
OECD PMR ⁷ , retail				2,86	2,89	2,86
OECD PMR ⁷ , professional services				0,61	0,71	0,62
OECD PMR ⁷ , network industries ⁸				2,72	2,61	2,47

1 Value added in constant prices divided by the number of persons employed.

2 Compensation of employees in current prices divided by value added in constant prices.

3 The methodologies, including the assumptions, for this indicator are shown in detail here:

<http://www.doingbusiness.org/methodology>.

4 Average of the answer to question Q7B_a. "[Bank loan]: If you applied and tried to negotiate for this type of financing over the past six months, what was the outcome?". Answers were codified as follows: zero if received everything, one if received 75% and above, two if received below 75%, three if refused or rejected and treated as missing values if the application is still pending or don't know.

5 Percentage population aged 15-64 having completed tertiary education.

6 Percentage population aged 20-24 having attained at least upper secondary education.

7 Index: 0 = not regulated; 6 = most regulated. The methodologies of the Organisation for Economic Co-operation and Development product market regulation indicators are shown in detail here:

<http://www.oecd.org/competition/reform/indicatorsofproductmarketregulationhomepage.htm>

8 Aggregate Organisation for Economic Co-operation and Development indicators of regulation in energy, transport and communications (ETCR).

Source: European Commission; World Bank — Doing Business (for enforcing contracts and time to start a business);

Organisation for Economic Co-operation and Development (for the product market regulation

indicators); SAFE (for outcome of SMEs' applications for bank loans).

Table C.6: **Green growth**

Green growth performance		2012	2013	2014	2015	2016
Macroeconomic						
Energy intensity	kgoe / €	0,18	0,18	0,18	0,17	0,18
Carbon intensity	kg / €	0,33	0,34	0,32	0,30	0,31
Resource intensity (reciprocal of resource productivity)	kg / €	0,95	1,08	0,91	0,90	0,90
Waste intensity	kg / €	0,49	-	0,51	-	0,64
Energy balance of trade	% GDP	-2,6	-2,6	-2,4	-1,8	-1,4
Weighting of energy in HICP	%	8,37	8,12	7,84	7,63	7,09
Difference between energy price change and inflation	%	-3,2	-1,6	-2,6	-2,3	-1,3
Real unit of energy cost	% of value added	17,2	17,0	15,1	15,5	15,8
Ratio of environmental taxes to labour taxes	ratio	0,13	0,13	0,13	0,13	0,14
Environmental taxes	% GDP	3,0	2,9	2,9	2,9	3,1
Sectoral						
Industry energy intensity	kgoe / €	0,23	0,23	0,23	0,23	0,23
Real unit energy cost for manufacturing industry excl. refining	% of value added	19,9	19,8	18,4	19,3	20,1
Share of energy-intensive industries in the economy	% GDP	10,8	10,9	10,8	10,7	10,6
Electricity prices for medium-sized industrial users	€ / kWh	0,07	0,07	0,07	0,07	0,07
Gas prices for medium-sized industrial users	€ / kWh	0,05	0,05	0,05	0,04	0,04
Public R&D for energy	% GDP	0,08	0,08	0,08	0,08	0,03
Public R&D for environmental protection	% GDP	0,02	0,01	0,01	0,01	0,02
Municipal waste recycling rate	%	33,3	32,5	32,5	40,6	42,0
Share of GHG emissions covered by ETS*	%	48,5	49,9	48,8	45,8	46,5
Transport energy intensity	kgoe / €	0,53	0,53	0,54	0,58	0,59
Transport carbon intensity	kg / €	1,34	1,34	1,27	1,29	1,46
Security of energy supply						
Energy import dependency	%	47,2	50,0	50,2	48,2	46,0
Aggregated supplier concentration index	HHI	68,1	68,3	67,4	67,6	67,2
Diversification of energy mix	HHI	0,20	0,20	0,21	0,21	0,21

All macro intensity indicators are expressed as a ratio of a physical quantity to GDP (in 2010 prices)

Energy intensity: gross inland energy consumption (in kgoe) divided by GDP (in EUR)

Carbon intensity: greenhouse gas (GHG) emissions (in kg CO₂ equivalents) divided by GDP (in EUR)

Resource intensity: domestic material consumption (in kg) divided by GDP (in EUR)

Waste intensity: waste (in kg) divided by GDP (in EUR)

Energy balance of trade: the balance of energy exports and imports, expressed as % of GDP

Weighting of energy in the harmonised index of consumer prices: the proportion of 'energy' items in the consumption basket used for the construction of the harmonised index of consumer prices

Difference between energy price change and inflation: energy component of harmonised index of consumer prices (HICP), and total harmonised index of consumer prices inflation (annual % change)

Real unit energy cost: real energy costs as % of total value added for the economy

Industry energy intensity: final energy consumption of industry (in kgoe) divided by gross value added of industry (in 2010 EUR)

Real unit energy costs for manufacturing industry excluding refining: real costs as % of value added for manufacturing sectors

Share of energy-intensive industries in the economy: share of gross value added of the energy-intensive industries in GDP

Electricity and gas prices for medium-sized industrial users: consumption band 500–20 000 MWh and 10 000–100 000 GJ; figures excl. value added tax.

Recycling rate of municipal waste: ratio of recycled and composted municipal waste to total municipal waste

Public R&D for energy or for the environment: government spending on R&D for these categories as % of GDP

Proportion of greenhouse gas emissions covered by EU emissions trading system (ETS) (excluding aviation): based on greenhouse gas emissions

(excl. land use, land use change and forestry) as reported by Member States to the European Environment Agency.

Transport energy intensity: final energy consumption of transport activity (kgoe) divided by transport industry gross value added (in 2010 EUR)

Transport carbon intensity: greenhouse gas emissions in transport activity divided by gross value added of the transport industry

Energy import dependency: net energy imports divided by gross inland energy consumption incl. consumption of international bunker fuels

Aggregated supplier concentration index: covers oil, gas and coal. Smaller values indicate larger diversification and hence lower risk.

Diversification of the energy mix: Herfindahl index covering natural gas, total petrol products, nuclear heat, renewable energies and solid fuels

* European Commission and European Environment Agency

Source: European Commission and European Environment Agency (Share of GHG emissions covered by ETS); European Commission (Environmental taxes over labour taxes and GDP); Eurostat (all other indicators)

ANNEX D: INVESTMENT GUIDANCE ON COHESION POLICY FUNDING 2021-2027 FOR FINLAND

Building on the Commission proposal for the next Multi-Annual Financial Framework for the period 2021-2027 of 2 May 2018 (COM (2018) 321), this Annex presents the preliminary Commission services views on priority investment areas and framework conditions for effective delivery for the 2021-2027 Cohesion Policy. These priority investment areas are derived from the broader context of investment bottlenecks, investment needs and regional disparities assessed in the report. This Annex provides the basis for a dialogue between Finland and the Commission services in view of the programming of the cohesion policy funds (European Regional Development Fund and European Social Fund Plus) ⁽³³⁾.

Policy Objective 1: A Smarter Europe – Innovative and smart industrial transformation

Despite the focus on building a well-functioning innovation ecosystem, business research and development intensity, public research and development support and other innovation expenditure of firms have declined, and scope for improvement remains for science-business cooperation and internationalisation. Priority investment needs ⁽³⁴⁾ have therefore been identified to **enhance research and innovation capacities and the uptake of advanced technologies**, where appropriate, in line with regional smart specialization strategies, and in particular to:

- strengthen innovation performance and foster productivity growth by identifying smart specialisation areas on the basis of national and regional needs and potential; develop research, competence and innovation clusters that draw from regional strengths in all regions, notably in northern sparsely populated and other transition regions; including making use of piloting, testing and demonstration environments; advancing development platforms; and increasing business-academia cooperation as well as interregional cooperation in new value chains, also across borders within the framework of any relevant strategy, markedly the EU Strategy for Baltic Sea Region;
- strengthen innovation work in companies; including promoting the development and commercialization of products, services and production methods and introduction of new technologies; supporting prototypes, piloting and demonstrations of new products, materials and production methods; developing applied research, studies and experiments as well operational and commercialization processes that support businesses; enhancing innovations that reduce harmful environmental effects and risks; and promoting research and development and innovation activities related to the quality and sustainable use of environment and resources that create important preconditions for businesses, as well as corresponding piloting and demonstration actions.

The proportion of fast-growing innovative firms and start-up rates remain below the EU average. Priority investment needs have therefore been identified to **enhance the growth and competitiveness of small and medium-sized enterprises** in line with the smart specialization strategy, and in particular to:

- create new business activities; including supporting start-ups and development of new business, as well as commercialization and entry into market of small and medium-sized enterprises' ideas, products and services;
- promote small and medium-sized enterprises growth and expansion abroad; including strengthening the business competence and readiness to expand abroad of growth-oriented companies aiming to international markets; supporting investments and development projects by small and medium-sized

⁽³³⁾ This Annex is to be considered in conjunction with the Proposal for a Regulation of the European Parliament and of the Council on the European Regional Development Fund and on the Cohesion Fund COM(2018) 372 and in the Proposal for a Regulation of the European Parliament and of the Council on the European Social Fund Plus COM(2018) 382 and in particular the requirements for thematic concentration and urban earmarking outlined in these proposals.

⁽³⁴⁾ The intensity of needs is classified in three categories in a descending order - high priority needs, priority needs, needs.

<p>enterprises; developing company clusters, networks and other forms of cooperation, involving also large companies and including improving the visibility of the Baltic Sea Region as a cluster of entrepreneurship to attract investment and expertise.</p>
<p>Even though Finland is among the advanced digital economies in the EU, digital transformation of public services require a sustained effort, digital public services for businesses remain limited, significant differences persist among businesses in integration of digital technology, e-commerce and selling online cross-border lag behind. Investment needs have therefore been identified to reap the benefits of digitisation for citizens, companies and governments, and in particular to:</p> <ul style="list-style-type: none"> • increase Information and Communications Technology up-take in small and medium-sized enterprises; • enhance e-government and e-services, including the take-up of Europe wide and cross-border interoperable services.
<p>Finland's innovation leadership lacks economic impact, skills shortages persist, and knowledge transfer remains insufficient. Investment needs have therefore been identified to develop skills for smart specialisation, industrial transition and entrepreneurship, and in particular to:</p> <ul style="list-style-type: none"> • promote innovation management in small and medium-sized enterprises; and support reskilling for smart specialization areas within firms, regions and smart cities, including in cooperation with the Baltic Sea Region; • develop capacities of higher education and research institutions to enhance the commercial viability and market relevance of their research projects as well as to take part and cooperate in interactive and open innovation processes; and strengthen the integration of education and training institutions with innovation ecosystems, also across borders.
<p>Policy Objective 4: A more social Europe – Implementing the European Pillar of Social Rights</p>
<p>The unemployment and inactivity rates are higher than in Nordic peers. The labour force is shrinking due to ageing. Priority investment needs have therefore been identified to improve access to employment, and in particular to:</p> <ul style="list-style-type: none"> • provide integrated support and services to unemployed and inactive, including for young people; • support self-employment, entrepreneurship and business creation; • develop work-life balance policies; • mobilise the social partners, civil society and enterprises to address discrimination, gender inclusivity and the gender pay gap in the labour market.

Labour shortages are reported across sectors. The educational outcome for certain groups is markedly lower than the national average. High priority investment needs have therefore been identified to **promote life-long learning, notably flexible upskilling and reskilling opportunities for all, better anticipate change and new skills requirements based on labour market needs, facilitate career transitions and promote professional mobility**, and in particular to:

- support flexible learning pathways throughout the lifecycle, when relevant in cooperation with social partners, civil society and other stakeholders;
- support employers in fully utilising the human capital, adapting to change, developing workforce training and stimulating professional mobility;
- fight early school leaving for at-risk groups and improve transitions from school to work.

Inactivity rates, especially for men, are higher than in Nordic peers. Priority investment needs have therefore been identified to **foster active inclusion with a view to promoting equal opportunities and active participation, and improving employability**, and in particular to:

- develop integrated policies and services to increase social inclusion, including community based and long-term care services;
- ensure an effective move from activation measures towards employment, including for migrants and people with disabilities;
- address material deprivation through food assistance to the most deprived, including accompanying measures.²

Factors for effective delivery of Cohesion policy

- support social innovation, social experimentations and up-scaling of innovative approaches;
- adequate participation of social partners, civil society and other stakeholders in the delivery of the policy objectives;
- increased capacities of intermediate bodies and beneficiaries to prepare and implement projects;
- broader use of financial instruments and/or contribution to Finland's compartment under InvestEU for revenue-generating and cost-saving activities;
- where appropriate build on the lessons learnt in East-North Finland during the implementation of the Commission pilot project on industrial transition.

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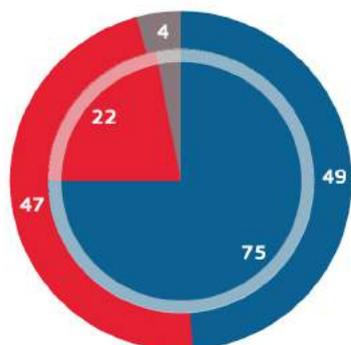
27.464 interviews
07 > 25 / 06 / 2019

1.004 interviews
07 > 24 / 06 / 2019

Methodology: face-to-face

1. LIFE IN THE EUROPEAN UNION

QA1a.2 How would you judge the current situation in each of the following?
The situation of the (NATIONALITY) economy (%)



EU28 Outer pie FI Inner pie

	EU28		FI	
	EB91 Sp.2019	EB90 Aut.2018	EB91 Sp.2019	EB90 Aut.2018
Total 'Good'	49	=	75	+ 1
Total 'Bad'	47	- 1	22	- 3
Don't know	4	+ 1	3	+ 2

Evolution Spring 2019 / Autumn 2018

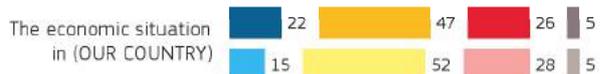
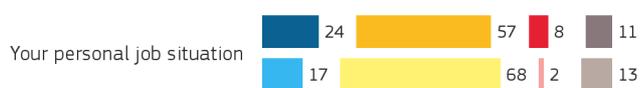
QA1a How would you judge the current situation in each of the following?
(%)



EU28
FI

Total 'Good' Total 'Bad' Don't know

QA2a What are your expectations for the next twelve months: will the next twelve months be better, worse or the same, when it comes to...?
(%)



EU28
FI

Better Same Worse Don't know

Evolution Spring 2019 / Autumn 2018

QA2a.3 What are your expectations for the next twelve months: will the next twelve months be better, worse or the same, when it comes to...?
The economic situation in (OUR COUNTRY) (%)

	EU28		FI	
	EB91	EB91- EB90	EB91	EB91- EB90
Better	22	+ 1	15	- 4
Same	47	=	52	- 10
Worse	26	- 1	28	+ 11
Don't know	5	=	5	+ 3

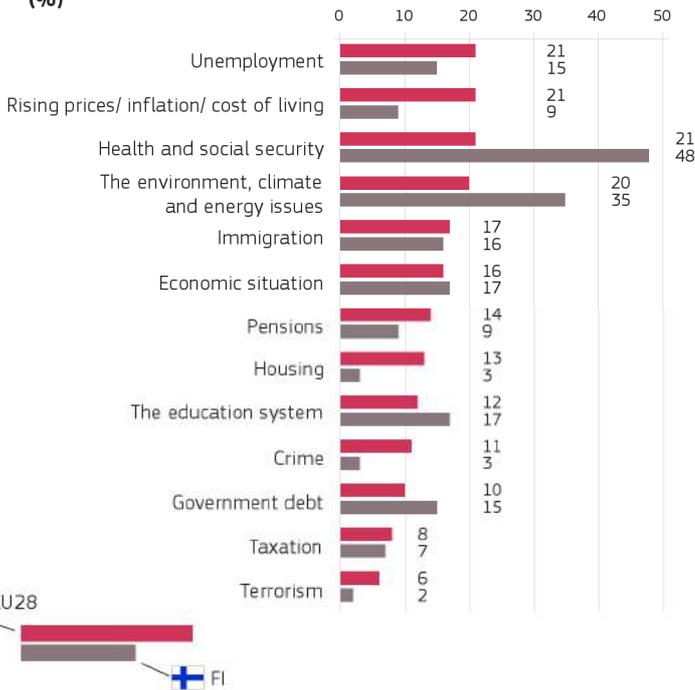
27.464 interviews
07 > 25 / 06 / 2019

1.004 interviews
07 > 24 / 06 / 2019

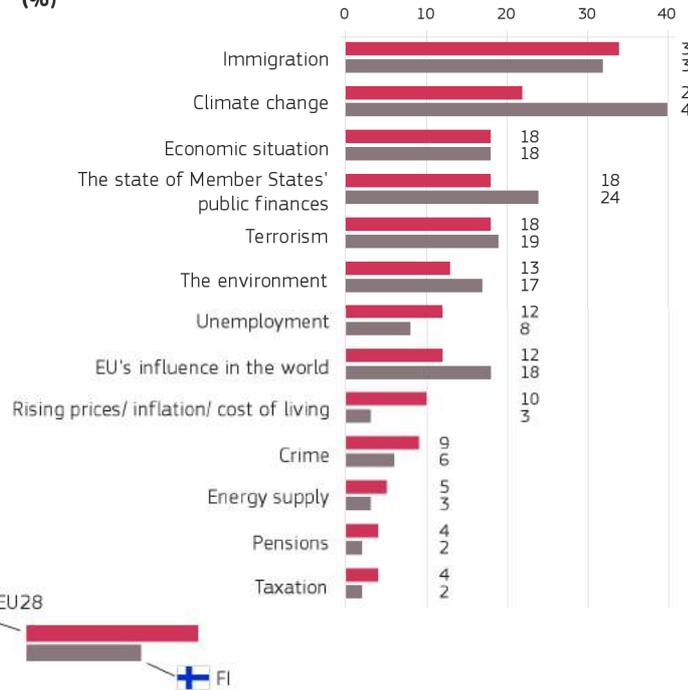
Methodology: face-to-face

1. LIFE IN THE EUROPEAN UNION

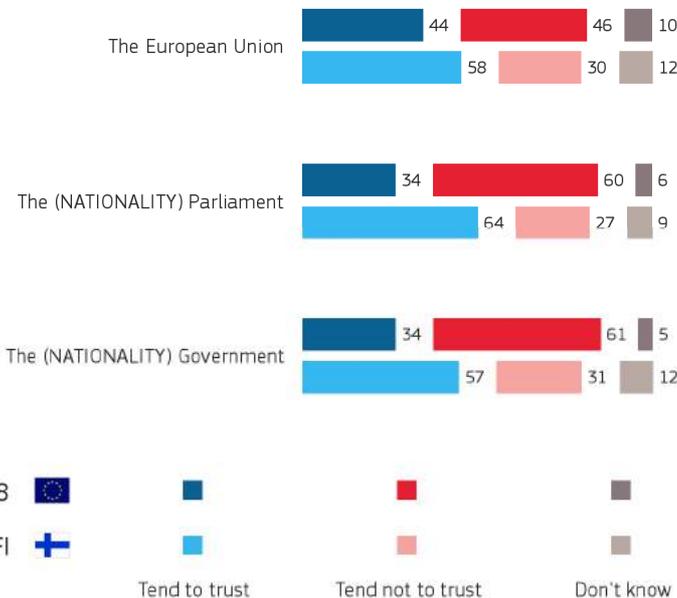
QA3a What do you think are the two most important issues facing (OUR COUNTRY) at the moment?
(%)



QA5 What do you think are the two most important issues facing the EU at the moment?
(%)



QA6a I would like to ask you a question about how much trust you have in certain media and institutions. For each of the following media and institutions, please tell me if you tend to trust it or tend not to trust it.
(%)



Evolution Spring 2019 / Autumn 2018

QA6a.10 I would like to ask you a question about how much trust you have in certain media and institutions. For each of the following media and institutions, please tell me if you tend to trust it or tend not to trust it.
The European Union (%)

	EU28		FI	
	EB91	EB91-EB90	EB91	EB91-EB90
Tend to trust	44	+ 2	58	+ 6
Tend not to trust	46	- 2	30	- 6
Don't know	10	=	12	=

27.464 interviews
07 > 25 / 06 / 2019

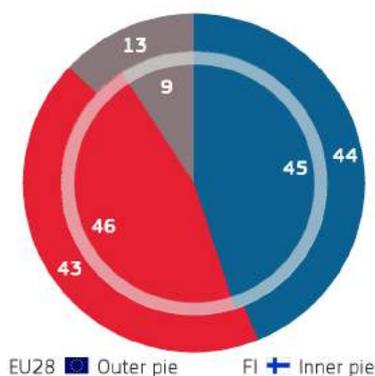
1.004 interviews
07 > 24 / 06 / 2019

Methodology: face-to-face

1. LIFE IN THE EUROPEAN UNION

QC1 Some analysts say that the impact of the economic crisis on the job market has already reached its peak and things will recover little by little. Others, on the contrary, say that the worst is still to come. Which of the two statements is closer to your opinion?

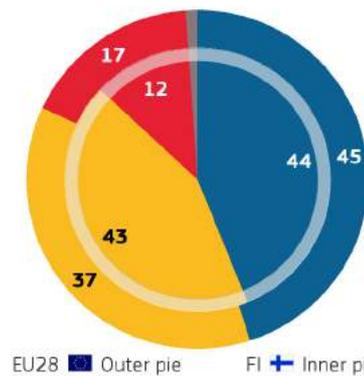
(%)



- The impact of the crisis on jobs has already reached its peak
- The worst is still to come
- Don't know

Evolution Spring 2019 / Autumn 2018

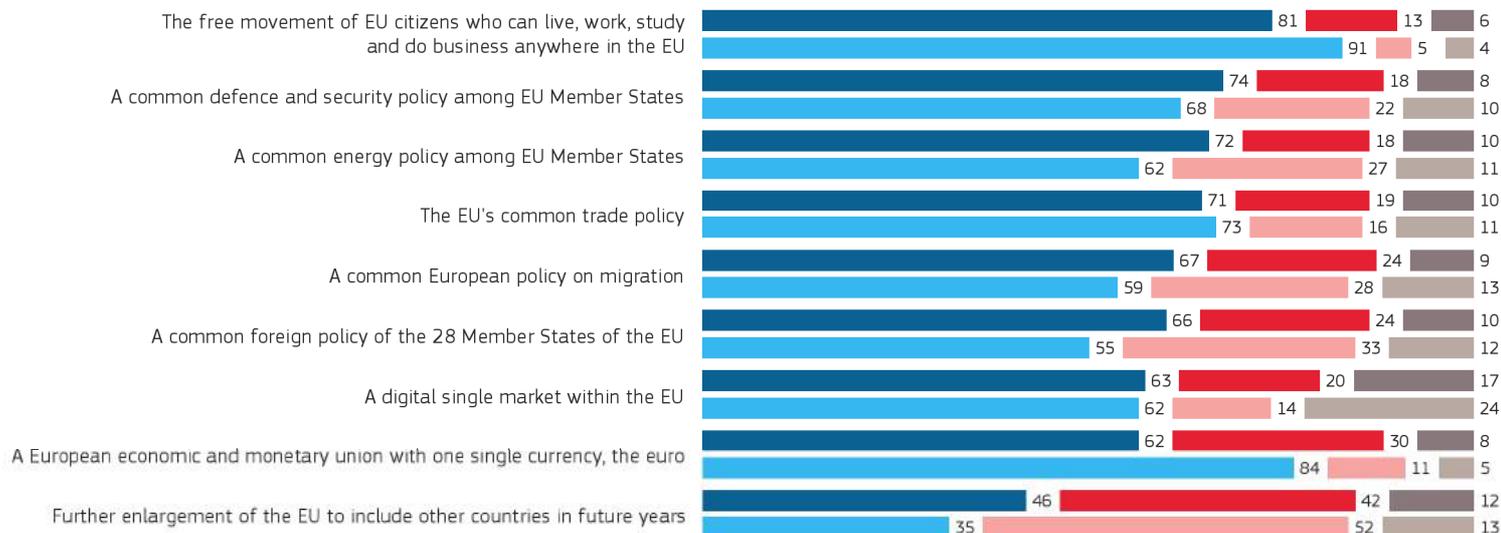
QA7 In general, does the EU conjure up for you a very positive, fairly positive, neutral, fairly negative or very negative image? (%)



- Total 'Positive'
- Neutral
- Total 'Negative'
- Don't know

Evolution Spring 2019 / Autumn 2018

QA16 What is your opinion on each of the following statements? Please tell me for each statement, whether you are for it or against it. (%)



EU28 FI

For

Against

Don't know/ Refusal

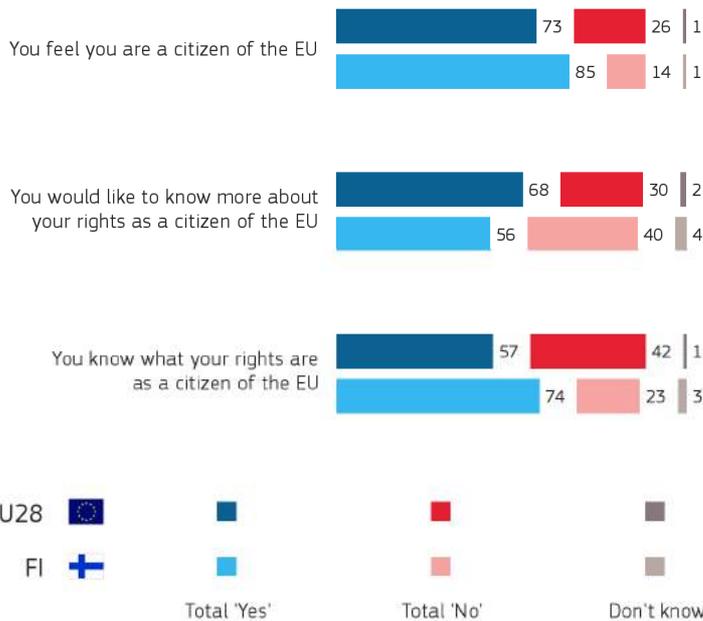
27.464 interviews
07 > 25 / 06 / 2019

1.004 interviews
07 > 24 / 06 / 2019

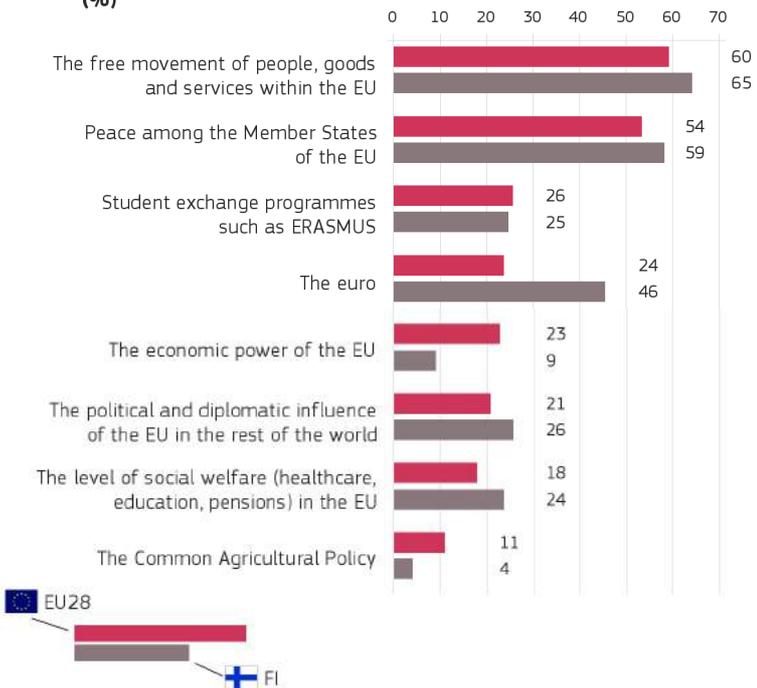
Methodology: face-to-face

2. EUROPEAN UNION CITIZENSHIP

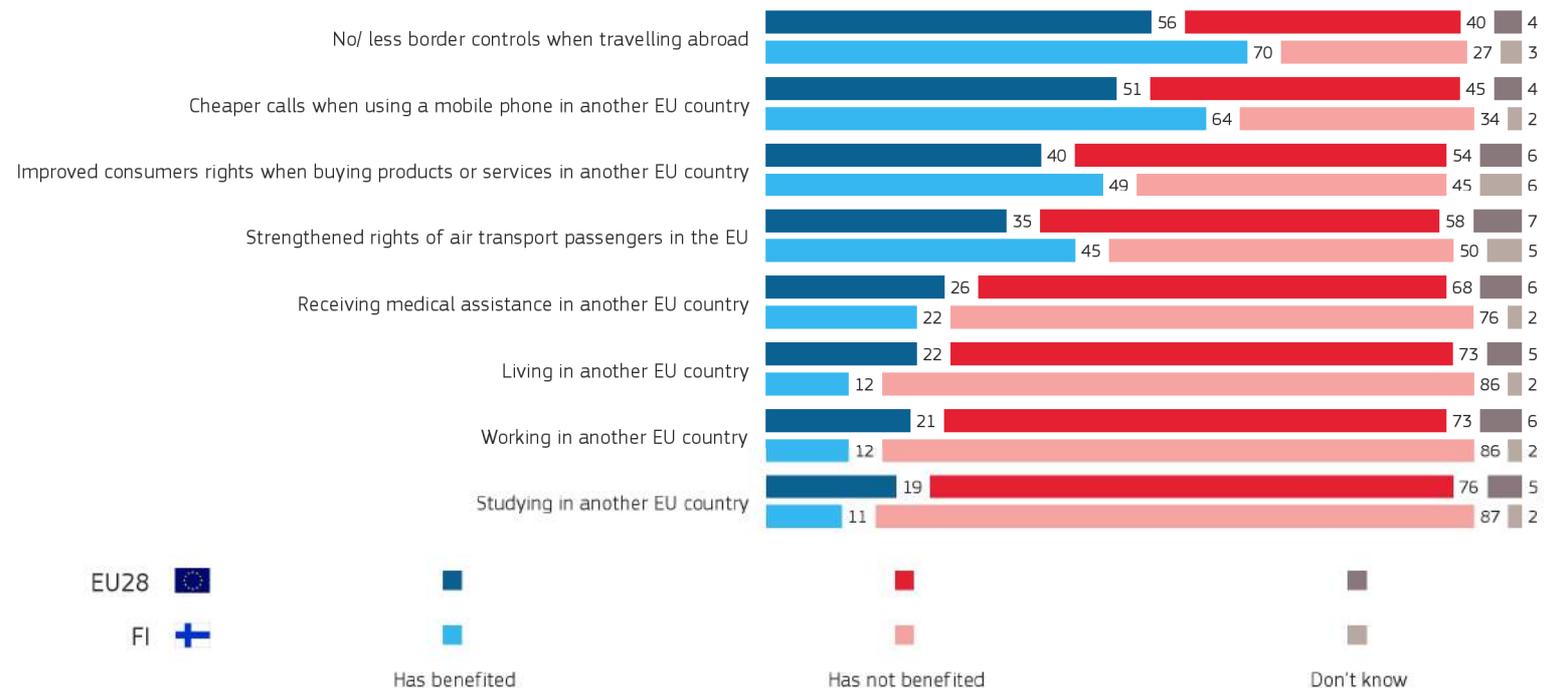
QD2 For each of the following statements, please tell me to what extent it corresponds or not to your own opinion.
(%)



QD4T Which of the following do you think is the most positive result of the EU?
Firstly? And then?
(%)



QD11 For each of the following achievements of the EU, could you tell me whether you have benefited from it or not.
(%)



VI. Visiting Finland

1. Main attractions¹³

Finland is famous for its natural beauty, lots of beautiful sights for your visit in Finland. This country is one of the most popular tourist destinations in the world. Finland, has the charm of an attractive tourist spot. Although the size is quite small, Finland is home to almost 200,000 lakes. In addition to lakes, Finland also has a variety of other attractions. One of them is Korvatunturi. For most Europeans, this area is believed to be the home of Santa Claus, or Joulupukki in the local language.

Natural attractions of the lake and forest, is the main tourist attractions in Finland. Each region is supported by smooth roads, wide and comfortable. Hotels are scattered in many places, with varying prices and affordable. Support a vigorous tourism promotion. And of course the friendliness of its citizens that make us stay there for long.



1. The Fortress of Suomenlinna

Located at the entrance of Helsinki's harbor, is a unique example of European military architecture. For the people of Finland, Suomenlinna Fortress is not just a means of defense penghadang enemy. But more than that, Sveaborg Suomenlinna - they call it that - is a fortress savior. This assumption is born due to the fact that this building has been keeping the ports in this country since the 18th century, which also makes Finland safe from enemy attack.

The fort became a one of the leading tourist attraction in Finland. Seeing his condition, building forts as high as over 15 meters it is still looks strong. Travel to the Suomenlinna fortress can be done by using the connecting inter-island motor boat from the Port in Katajanokanlaituri, Helsinki. Tourists can enjoy the journey takes about 15 minutes.



2. Lapland

Many tales are told that Santa Claus lives at the north pole, precisely in Lapland. Lapland is the town of Santa Claus, Santa Claus Village is an amusement park in Finland. Located in the northern part of the country, in Lapland, near the town of Rovaniemi on the Arctic Circle, in the Park Santa.

But Lapland offers more than that. Sub arctic unique natural beauty of the expanse of tundra and pine forests, frozen lakes in winter and the snow hill near the park became popular winter tourist center and is different from other places. Various tourist resort provides a traditional cottage not far from the winter sports facilities. This winter sports like skiing, cross country skiing, snowboarding or on safari with a Siberian Husky and reindeer while knowing the local culture.

In addition, in summer, Lapland becomes the destination of nature lovers, campers, and water sports. They come to enjoy the summer sun shines all day.

¹³ <https://www.manythingstodoin.com/2012/07/5-best-tourist-attractions-in-finland.html>.



3. Rauma

Rauma is one of the oldest ports in Finland. Rauma is a UNESCO World Heritage Site best known for its high quality lace and the Old Rauma Town for its old wooden architecture. Rauma had a Franciscan Monastery and a Catholic Church before it was declared as a town. Later Rauma got a teacher's college which was annexed to the University of Turku. A part of educational department still exists in Rauma. Rauma is the fifth largest port in Finland, having almost 6 million tones of

shipment each year.



4. Helsinki Cathedral

Helsinki Cathedral is a beautiful landmark in Helsinki, Finland. It was build as a tribute to Grand Duke, Nicholas I, the Tsar of Russia and was previously known as St. Nicholas' Church before the independence of Finland in 1917. The architecture is a Greek Cross Plan which is comprised of a square central mass along-with four arms to add to its

beauty. The structure includes a tall green dome which is surrounded by four smaller domes in a neoclassical style. It is the main attraction in the Senate Square and is surrounded by most of the buildings designed by Engel to form a rare sight of beauty among his creations. It is one of the most popular tourist attractions in Helsinki.



5. Koli National Park

Koli is one of the most famous national landscapes of Finland. Koli National Park situated in the eastern part of Finland, famous for its heritage landscapes, which have been influenced by the strong tradition of slash-and-burn agriculture for the last 250 years. Koli National Park contains a diverse complex of habitats within its 2600ha NATURA 2000 areas. These include natural boreal forests, silicate rock vegetation, Fennoscandian herb-rich forests, high- and lowland meadows, eskers and bog woodlands.

2. Practical Information

1. Hotel

Holiday Inn Helsinki City Centre

Address: Elielinaukio 5

00100 Helsinki

Finland

T: +358 9 54255 000 / E-Mail: hihcc@holidayinnhelsinki.fi

2. How to reach the hotel from the airport¹⁴

- **By train from the Airport to Helsinki**

I and P trains serve the Ring Rail Line between the Airport and Helsinki city centre. The timetables, routes and ticket prices can be found on the [HSL website](#). Please notice that new HSL public transportation fare zones have been introduced on 27 April 2019. To travel from the Airport to Helsinki city centre, you will need a ticket to the **ABC zone**.

The tickets for the trains can be bought at the airport from:

- HSL ticket machines located at the bus terminal and on the railway station platform.
- Tourist information (T2 Arrival lobby 2A) or
- Via HSL Mobile Ticket app

Please notice that train tickets cannot be bought onboard the trains.

If you use the I or P train, the stop for Holiday Inn Hotel is **Helsingin päärautatieasema**.

- **By bus from the Airport to Helsinki**

There are multiple bus connections operating from Helsinki city centre to Helsinki Airport around the clock.

Bus 415 (Elielinaukio-Ylästö-Airport) is the best connection for Holiday Inn Hotel. The stop is **Elielplatsen**

- **By taxi**

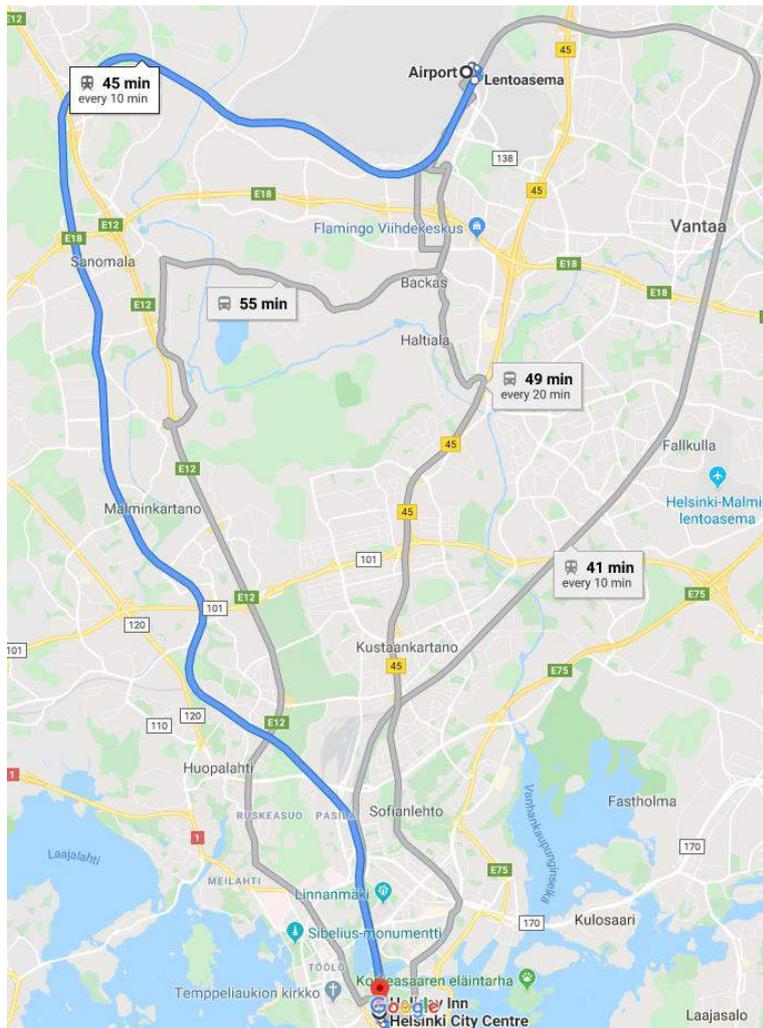
The airport taxis pick you up in front of terminal 1 and on ground floor at terminal 2.

The following taxi agencies are serving the airport as its contractual partners:

- [Lähitaksi](#)
- [Vantaan Taksi - Helsinki Airport Taxi](#)
- [Taksi Helsinki](#)

Agency-specific price information is available in front of the terminals, on the information screens next to the taxi ranks.

¹⁴ <https://www.booking.com/hotel/fi/holiday-inn-helsinki-vantaa-airport.en-gb.html>.



3. Transport¹⁵

Helsinki has a well working public transport system (HSL) consisting of bus, tram, metro, local railway and ferry services.

With a single ticket, you can hop aboard trams, buses, the metro and even the ferry to Suomenlinna. Single tickets can be purchased from ticket machines, R-kiosks and other HSL sales points or by using HSL mobile application. On buses, you can also buy your ticket from the driver.

Daytickets are available for unlimited use on public transportation for 1-7 days. They can be purchased from ticket machines, from the Tourist Information at Helsinki Airport Terminal 2A (1-3 days) or from the Helsinki City Transport service point in the Central Railway Station. One day ticket is also sold by the drivers.

Regional tickets allow the holder to travel freely in Helsinki, Espoo, Kauniainen and Vantaa. Regional tickets and regional tourist tickets can be purchased eg. from ticket machines.

Helsinki Card holders can travel free of charge on public transportation within the city.

¹⁵ <https://www.myhelsinki.fi/en/info/getting-around>.

4. Telephone

Country calling code: +358

5. List of useful contacts

Ms Elisabetta FONCK

Mobile phone: +32 (0) 473 64 67 46

FMA Secretariat:

Tel: 32/2 28 40703

E-mail: formermembers@europarl.europa.eu

6. Embassies and consulates in Finland

- British Embassy
Itäinen Puistotie 17
00140 Helsinki
+358 9 22865100
- Dutch Embassy
Erottajankatu 19 B
00130 Helsinki
+358 9 228920
- Slovakian Embassy
Vähäniityntie 5
00570 Helsinki
+358 9 68117810
- Spanish Embassy
Kallioliinantie 6
00140 Helsinki
+358 9 6877080
- French Embassy
Itäinen Puistotie 13
00140 Helsinki
+358 9 618780
- Greek Embassy
Maneesikatu 2A 4
00170 Helsinki
+358 9 6229790
- German Embassy
Krogiuksentie 4
00340 Helsinki
+358 9 458580

7. Climate in Helsinki¹⁶

November arrives with a chilly daily average of 0°C in Helsinki, Finland. As the city prepares for a cold winter, average daily highs reach just above freezing at 2°C, while the average low is as cold as -2°C. Travelers will need to pack an umbrella as well as warm clothing; the month with the second highest rainfall, November typically receives 80mm of rain, and has approximately 17 rainy days throughout the month.

8. Electric power supply¹⁷

In Finland, the standard voltage is 230V and the frequency is 50 Hz. You can use your electric appliances in Finland, if the standard voltage in your country is in between 220 - 240 V (as is in the UK, Europe, Australia and most of Asia and Africa).

¹⁶ <https://www.holiday-weather.com/helsinki/averages/november/#summary-section>.

¹⁷ <https://www.power-plugs-sockets.com/finland/>.

9. Languages¹⁸

Finnish and Swedish are the two official languages of Finland. In addition to the two official languages, the country has other languages that have their 'users' rights written down in law. There are more than 150 different languages spoken in Finland. The indigenous populations of Finland speak the Sami languages. Other autochthonous languages that have a long history in the country include Karelian, Finnish sign language, Finnish Romani, and Finland-Swedish sign language.

10. Currency¹⁹

The Finnish Markka was replaced in 2002 with the *euro*, making Finland the only Nordic country to join the European single currency. The Markka is now out of circulation and the *Euro* is the only form of legal tender in Finland.

11. Emergency numbers²⁰

The emergency number (*hätänumero*) in Finland is 112. Call the emergency number only in genuine emergency situations, when someone's life, health, property or the environment is in danger.

In an emergency situation, you will be treated even if you do not have a municipality of residence in Finland. The medical costs can be collected from you afterwards.

12. Smoking in Helsinki²¹

Smoking in shared and common indoor areas of housing corporations is prohibited. Housing corporations only, not individual residents, have the opportunity to apply for a smoking ban for balconies and outdoor areas of apartments as well as indoor spaces of apartments.

The municipal authority may impose a smoking ban if, due to structures or other conditions, tobacco smoke can be spread, for example, from one balcony to another.

A smoking ban can also be imposed for indoor living spaces, if the spreading of tobacco smoke cannot be prevented by repairing and altering structures. Before imposing the ban, the occupant of the living space must be given the opportunity to stop the smoke from being spread by his/her own measures.

A smoking ban in indoor living spaces is not applied to the use of electronic cigarettes.

13. Tips²²

Normally tipping is not expected in Finland and a service charge is added in hotels and restaurants. Finnish people do tip only if they wish to appreciate good service or delicious food. It is not obligatory to give a tip to the taxi drivers.

¹⁸ <https://www.worldatlas.com/articles/what-languages-are-spoken-in-finland.html>.

¹⁹ <https://transferwise.com/us/blog/money-and-banks-in-finland>.

²⁰ <https://www.infofinland.fi/en/living-in-finland/health/emergencies>.

²¹ <https://suomenash.fi/en/tobacco-policy/tobacco-act/smoking-on-balconies/>.

²² <https://www.helsinki.com/v/travel-tips/>.