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FINLAND

FISCAL TRANSPARENCY EVALUATION

March 2015

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Fiscal Affairs Department and Statistics Department

FINLAND

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Torben Hansen, Majdeline El Rayess, Tim Irwin, Johann Seiwald

February 2015

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Glossary

CG	Central Government
CGSL	Central Government Spending Limits
COFOG	Classification of Functions of Government
EDP	Excessive Deficit Procedures
EPC	Economic Policy Council
ESA	European System of National and Regional Accounts
EU	European Union
FAD	IMF Fiscal Affairs Department
GFSM	Government Finance Statistics Manual
GG	General Government
INTOSAI	International Organization of Supreme Audit Institutions
ISSAI	International Standards of Supreme Audit Institutions
MoF	Ministry of Finance
MTO	Medium-term Objective
NAO	National Audit Office
NETRA	Finnish State Internet Reporting System
OECD	Organization for Economic Cooperation and Development
PPP	Public-Private-Partnership
SGP	Stability and Growth Pact
SDDS	Special Data Dissemination Standards
STA	IMF Statistics Department

Legend for Tables

Practice under Fiscal Transparency Code

LEVEL OF PRACTICE	Not Met	Basic	Good	Advanced

Importance to Fiscal Management

LEVEL OF IMPORTANCE	LEVEL OF PRACTICE		
	High	Medium	Low

Preface

In response to a request by the Finnish authorities, a Fiscal Affairs Department (FAD) and Statistics Department (STA) mission comprising Torben Hansen (Head), Tim Irwin and Johann Seiwald (all FAD), and Majdeline El Rayess (STA), visited Helsinki during October 28 – November 10, 2014, to carry out a Fiscal Transparency Evaluation.

The mission met with Antti Rinne (Minister of Finance), Martti Hetemäki (Permanent Secretary), Jukka Pekkarinen (Director General), Hannu Mäkinen (Director General), Markus Sovala (Director General), and other staff of the Ministry of Finance. The mission also met with Kimmo Sasi (Chair of the Parliament Finance Committee), Tuomas Pöysti (Auditor General) and staff of the National Audit Office, Roope Uusitalo (Chairman of the Economic Policy Council), and Eero Heliövaara (Director General of the Ownership Steering Committee of the Prime Minister's Office). In addition, the mission held meetings with executives and other representatives of the State Treasury, Statistics Finland, the Bank of Finland, the Financial Supervisory Authority, the Association of Finnish Local and Regional Authorities, Municipality Finance, the Municipal Guarantee Board, the Finnish Pension Alliance TELA, the Ministry of Environment, the Ministry of Agriculture and Forestry, and the Ministry of Transport and Communication.

The mission wishes to extend its appreciation to the Finnish authorities for their excellent cooperation and frank discussions during the mission. In particular, the mission wants to thank Sami Yläoutinen and Meri Obstbaum for organizing the mission schedule and for their close cooperation throughout the mission.

EXECUTIVE SUMMARY

Finland meets most of the principles of the Fiscal Transparency Code at good or advanced level. Some areas, notably related to the analysis and management of fiscal risks, are still rated as basic or below, but with a few exceptions the importance of these areas for fiscal management in Finland is relatively low. Table 0.1 below is a summary assessment of performance against the principles of the Fiscal Transparency Code ranked according to their relative importance for fiscal management in Finland. Overall, the Finnish authorities produce an impressive amount of data and information related to all three pillars of the Code.

Fiscal reporting in Finland is transparent and meets good or advanced practice in all areas (Section I). Key findings in this area include:

- Fiscal reports consolidate the general government sector in line with *ESA 2010* reporting standards, and cover roughly 80 percent of total public expenditures and revenue. They are prepared frequently, and in a timely manner, and include all reconciliations required under the Code;
- Financial statements are published for all central government entities, but these are not consolidated into a single financial statement for central government;
- General government balance sheets consolidate financial assets and liabilities, but exclude nonfinancial assets of some 77 percent of GDP, and pension liabilities related to government employees of some 100 percent of GDP. Although financial data on public corporations are published, there is no single report that presents a comprehensive view of the finances of the consolidated public sector as a whole;
- Tax expenditures of 12 percent of GDP are high by international comparison, but disclosed on a regular basis; and
- Fiscal statistics are compiled and disseminated in accordance with EU regulations and Special Data Dissemination Standards (SDDS), and financial statements of central government are audited without major qualifications by an independent supreme audit institution in line with International Organization of Supreme Audit Institutions (INTOSAI) standards.

Finland's fiscal forecasting and budgeting practices meet advanced standards in most areas (Section II). Notably:

- Central government budgets are relatively comprehensive, covering almost 90 percent of central government expenditures, and credible, with outturns only differing from budgeted totals by 2.5 percent of GDP on average. The budget includes authorizations for multi-annual commitments, and all material changes to the budget are approved by the legislature in supplementary budgets;

- Finland has a well established and binding medium-term budget framework with multi-year spending limits covering about 80 percent of budgetary central government expenditures. However, tax expenditures, and expenditures by extrabudgetary funds are not included in these spending limits, thus creating a potential risk of circumvention;
- Macroeconomic forecasts are relatively accurate and unbiased while fiscal forecasts of revenue and expenditures, with forecast errors of 2.8 percent of GDP on average, are relatively inaccurate compared to other European countries. Changes to previous forecasts are transparently reconciled in fiscal reports;
- Compliance with the rather large number of fiscal objectives and rules is assessed on a regular basis by the National Audit Office, but the government itself does not regularly report on all its objectives, and little explanation of the linkages between them is provided;
- Public investment projects are subject to cost benefit analysis, but not all are made public before project selection, and they do not follow uniform guidelines; and
- Budget documentation and annual reports of the government include comprehensive information on performance, targets, outputs, and outcomes, but these could be streamlined to focus on those indicators most relevant to strategic policy making.

The government's fiscal risk analysis and management meet good or advanced practice in only half the areas considered by the Code (Section III). Key findings in this area are:

- The government reports the sensitivity of fiscal forecasts of deficit and debt to growth in GDP, but not to a wider range of macroeconomic variables, and it does not provide much information, such as fan charts, that indicate the extent of the uncertainty surrounding the forecasts;
- Although information is available on various sources of specific fiscal risks, the government does not yet produce a single report that collects and summarizes this information. This makes it difficult to assess the relative importance of different risks and their likely correlations. A combination of both significant assets and liabilities, which are managed on a portfolio-by-portfolio basis, makes the government's net worth quite susceptible to fluctuations in market prices;
- The Financial Supervisory Authority, and the European Central Bank together publish comprehensive reports on financial sector risks;
- The stock of general government guarantees is among the largest in Western Europe, amounting to 24 percent of GDP, but all guarantees are authorized by the legislature and disclosed on a regular basis;
- The budget and spending limits provides for various contingencies, the use of which is reported in budgets and supplementary budgets; and
- Municipalities pose an important source of fiscal risk, with liabilities for the sector as a whole exceeding 13 percent of GDP, and a few municipalities having debt-to-revenue ratios of more than 100 percent. The law does not prevent individual municipalities from taking on

excessive debt and thereby creating spillover risks for the central government or other municipalities.

Table 0.2 presents a preliminary and partial estimate of Finland's public sector for 2013 which shows that:

- Public sector revenue and expenditures are 70.0 and 71.3 percent of GDP, respectively, and the fiscal balance (net lending/borrowing) is -1.3 percent of GDP (as opposed to -2.4 percent of GDP for general government);
- Public assets constitute 241 percent of GDP, of which 88 percent of GDP are nonfinancial assets and 152 percent of GDP are financial assets;
- Public sector liabilities are 212 percent of GDP, of which 99 percent of GDP is related to accrued pension liabilities for public sector employees;[1] and
- Net financial worth is -60 percent of GDP, but net worth, including nonfinancial assets, is a positive 29 percent of GDP.

This report makes eight recommendations aimed at enhancing the information-base for fiscal decision making and ensuring Finland remains at the forefront of international fiscal transparency standards and practices. They are to:

- Expand the institutional coverage of the consolidated central government financial statements to include extrabudgetary funds and state-owned enterprises classified as central government entities;
- Gradually develop fiscal statistics for the consolidated public sector including nonfinancial and financial assets and liabilities, composing pension liabilities;
- Better align national fiscal objectives with European Union fiscal rules; strengthen the design and reporting of fiscal objectives by reporting annually on compliance with all fiscal policy objectives; and strengthen the medium-term budget framework by expanding reports on compliance with the spending limits to include reporting on tax expenditures and spending outside the spending limits;
- Improve investment planning by consistently applying a set of general guidelines for cost-benefit analysis for all major investment projects, and publishing the results;
- Streamline the number of performance objectives for each ministry and establish an annual quality review process led by the Ministry of Finance or the Prime Minister's Office;
- Include more analysis of risk in fiscal forecasts and projections by, in particular, reporting the sensitivity of fiscal forecasts to a wider range of variables and scenarios;

[1] Accrued public sector pension liabilities for all pension schemes, including schemes for private sector employees, are estimated to be 295 percent of GDP. As the actual benefits are subject to legislation, the actual liabilities are somewhat uncertain.

- Prepare a regular report on fiscal risks that incorporates macroeconomic risks as well as a range of other risks, including loan guarantees, callable capital, and indemnities; the government's portfolio of financial assets and liabilities; the financial sector; and municipalities; and
- Introduce measures to reduce the risks that municipalities create for the central government and/or other municipalities, by introducing in municipal accounts supplementary information on Maastricht deficit and debt; strengthening fiscal coordination between central and local government; and strengthening controls over local governments' borrowing.

Table 0.1. Finland: Summary Assessment against the Fiscal Transparency Code

LEVEL OF IMPORTANCE	LEVEL OF PRACTICE		
	1. Fiscal Reporting	2. Fiscal Forecasting and Budgeting	3. Fiscal Risk Analysis And Management
HIGH IMPORTANCE	1.1 Coverage of Institutions	1.3 Medium-Term Budget Framework	1.1 Macroeconomic Risks
	1.2 Coverage of Stocks	3.1 Fiscal Policy Objectives	1.3 Long-Term Fiscal Sustainability
	1.3. Coverage of Flows		2.5 Financial-Sector Exposure
			3.1 Sub-national Governments
MEDIUM IMPORTANCE	1.4. Coverage of Tax Expenditures	1.2 Macroeconomic Forecasts	1.2 Specific Fiscal Risks
	3.2 Internal Consistency	1.4 Investment Projects	2.2 Asset and Liability Management
	3.3 Historical Revisions	3.2 Performance Information	2.3 Guarantees
	4.2 External Audit	4.2 Supplementary Budgets	3.2 Public Corporations
	4.3 Comparability of Fiscal Data	4.3 Forecast Reconciliation	
LOW IMPORTANCE	2.1 Frequency of In-Year Reporting	1.1 Budget Unity	2.1 Budgetary Contingencies
	2.2 Timeliness of Annual Financial Statements	2.1 Fiscal Legislation	2.4 Public-Private Partnerships
	3.1 Classification	2.2 Timeliness of Budget Documents	2.6 Natural Resources
	4.1 Statistical Integrity	3.3 Public Participation	2.7 Environmental Risks
		4.1 Independent Evaluation	

LEGEND	LEVEL OF PRACTICE			
	Not Met	Basic	Good	Advanced

Table 0.2: Finland: Public Sector Financial Overview, 2013

(Percent of GDP)

	General Government					Public Corporations				
	Central Gov't	Social Security Funds	Local Gov't	Consoli-dation	Total	Non-financial	Financial	Central Bank	Consoli-dation	Public Sector
Transactions										
Revenue	25.3	21.7	23.3	-14.5	55.7	14.9	0.4	0.3	-1.3	70.0
Expenditures	28.8	19.8	24.1	-14.5	58.1	14.1	0.1	0.2	-1.3	71.3
Balance	-3.5	1.9	-0.8	0.0	-2.4	0.7	0.3	0.1		-1.3
Stocks										
Assets	**56.2**	**82.5**	**61.7**	**-4.2**	**196.5**	**18.4**	**15.6**	**24.8**	**-13.6**	**241.2**
Nonfinancial	25.8	0.9	49.5	0.0	76.6	12.3	0.0	0.1	0.0	88.5
Financial	30.4	81.6	12.1	-4.2	119.9	6.2	15.6	24.7	-13.6	152.7
Liabilities	**54.0**	**101.6**	**13.4**	**-4.2**	**164.8**	**22.3**	**15.3**	**23.8**	**-13.6**	**212.5**
Already recognized	54.0	2.2	13.4	-4.2	65.3	22.3	15.3	23.8	-13.6	113.1
Public Pensions		99.4			99.4					99.4
Net Financial Worth	**-23.6**	**-20.1**	**-1.2**	**0.0**	**-44.8**	**-16.1**	**0.4**	**1.0**	**-0.1**	**-59.9**
Net Worth	**2.1**	**-19.1**	**48.3**	**0.0**	**31.8**	**-3.9**	**0.4**	**1.0**	**-0.1**	**28.6**

Memo items (percent of GDP):	
Deficit of general government according to the EDP notifications	-2.4
General government debt (Maastricht defintion)	56
Net financial worth of general government excluding pension liabilities	55
Private Pension Liabilities	196
Net Worth Including All Pensions	-68

Sources: Statistics Finland, MoF, various financial statements and publications, and Staff estimates.

1/ The consolidation at the level of the public sector is an approximation based on available information and staff estimates. For transactions, the consolidation removes taxes, dividends, and interest. For stocks, the consolidation relates to equity, loans, and deposits.

2/ Estimates of pension liabilities are from the report on statutory pensions in Finland published by the Finnish Centre for Pensions.

3/ Data for nonfinancial public corporations are based on a sample of large corporations controlled by central government responsible for 85 percent of total assets. Data from financial statements have been adjusted to align with government finance statistics concepts. Also included are the liabilities of the public corporations controlled by the local government.

I. FISCAL REPORTING

1. This chapter assesses the quality of fiscal reporting in Finland against the principles set out in the Fiscal Transparency Code. It assesses the following dimensions:

- Coverage of institutions, stocks, and flows;
- Frequency and timeliness;
- Quality of fiscal reporting; and
- Integrity of fiscal reports.

2. Fiscal reports should provide a comprehensive, relevant, timely, and reliable overview of the government's financial position and performance. To do so, fiscal reports, which include in-year budget execution reports, fiscal statistics, and annual financial statements, should:

- Cover all institutional units engaged in fiscal activity for the whole public sector;
- Record all assets and liabilities and all revenue, expenditure, financing, and other economic flows;
- Be published in a frequent and timely manner;
- Be classified according to international standards;
- Reconcile the different balances calculated and have comparable data across reports; and
- Be prepared by an independent agency (in the case of statistics) or scrutinized by an independent national audit institution (in the case of accounts).

3. Fiscal reporting in Finland is transparent and has many advanced features, but is somewhat fragmented. While an impressive amount of fiscal reports are produced and published in Finland (Table 1.1), and balance sheet data are available for various subsectors of the public sector, there is no report providing a comprehensive, consolidated view of the public sector. Fiscal reports consolidate general government in line with international standards, including EU requirements. They are prepared frequently and in a timely manner and include all reconciliations required under the Code. Fiscal statistics are compiled and disseminated in accordance with the *European System of National and Regional Accounts 2010 (ESA 2010)* and the *Government Finance Statistics Manual* 2001 (*GFSM 2001)* and its update, the *GFSM* 2014. Financial statements are audited by an independent supreme audit institution.

Table 1.1. Finland: List of Reports

REPORT	INSTITUTIONS	COVERAGE			ACCOUNTING		PUBLICATION	
		Sectors	Flows	Stocks	Basis	Class	Freq	Date
IN-YEAR REPORTS								
The monthly bulletin for CG finances and debt	State Treasury	CG	Rev, Exp, Fin	Assets, Debt	Cash	National	Monthly	20 days
GG quarterly data	Statistics Finland	GG and sub-sectors	Rev, Exp, Fin, and financial accounts		Part Accrual	ESA 2010	Quarterly	90 days
Central government guarantees	Statistics Finland	CG		Contingent liabilities			Quarterly	60 days
Monthly data on public finances	MoF	CG, SS	Rev, Exp, Fin		Cash	National	Monthly	30 days
YEAR-END REPORTS								
Fiscal Reports								
EDP Notifications	Statistics Finland	GG	Rev, Exp, and reconciliation between	Debt	Part Accrual	ESA 2010	6 months	April and October
Financial Statements								
CG Annual Report	Prime Minister's Office	CG	Rev, Exp, Fin, and effectiveness and performance data			National	Yearly	4 months
Financial statements of municipalities and joint municipals boards	Municipalities	LG	Rev, EX, Fin, and Budget proposal			National	Yearly	6 months
Budget Reports								
State budget proposal	MoF	CG	Rev, Exp, Fin		Cash	National	Yearly	September
State supplementary budget proposals	MoF	CG	Rev, Exp, Fin		Cash	National	Yearly	Several per year
Budget proposals of municipalities and joint municipal boards	Municipalities	LG	Rev, Exp, Fin			National	Yearly	By the end of the year
Forecasts								
Economic Survey, Economic Bulletin	MoF	GG and sub-sectors	Rev, Exp, Fin		Part Accrual	ESA 2010	Yearly	Four per year
Stability Programme	MoF	GG and sub-sectors	Rev, Exp, Fin		Part Accrual	ESA 2010	Yearly	April
Draft Budgetary Plan	MoF							October
Additional Reports								
Statutory pensions in Finland	Finnish Centre for Pensions	Pension Funds	Rev, Exp, Assets, and Liab		Accrual		Every two years	
Annual Report of the State's Ownership Steering	Prime Minister's Office	Public Corporations	Rev, Exp, Assets, Liab, and performance data		Accrual		Yearly	

GG = General Government; CG = Central Government; LG = Local Government; Rev = Revenue; Exp = Expenditures; Fin = Financing; Liab = Liabilities

A. Coverage of Fiscal Reports

1.1.1 Coverage of institutions (Good)

4. Fiscal reports in Finland consolidate all general government entities and report on each subsector. Statistics Finland is responsible for determining the institutional composition of the general government sector and its subsectors, as well as the wider public sector, and publishes quarterly and annual reports that consolidate revenue, expenditures, financing, financial assets, and financial liabilities for each subsector of general government. Data on financial and nonfinancial public corporations outside the general government sector are also published in various reports[2] but are not consolidated into one comprehensive report covering the public sector.

5. Financial statements are produced for all central government entities, but these are not consolidated into a single financial statement for central government. Financial statements for budgetary central government, and for each of the extrabudgetary funds and state-owned enterprises that are classified as central government entities, are published in the Government's Annual Report, but they are not consolidated. Non-consolidated financial statements are also published for all municipalities and joint municipal boards.

6. In 2013, the public sector in Finland comprised a total of 2,330 entities. Central government comprised 46 entities, including the Parliament, The Prime Minister's Office, 12 line ministries (and their agencies), 10 extrabudgetary funds,[3] 14 universities, and 8 public corporations. Social security funds comprised 211 entities, of which 30 entities provide pension related benefits, and the rest provide non-pension social security benefits, such as sickness, unemployment, and disability benefits.[4] The local government sector comprised 615 entities, including 320 municipalities and 150 municipal boards. There were 1,454 public corporations, of which almost 1,400 in areas such as real estate, energy supply, water supply, sewerage, and public transport were controlled by municipalities. Of 57 corporations controlled by central government, 53 were nonfinancial,[5] and 4 were financial,[6] including the Central Bank.

7. The recent reclassification of some public sector entities led to an increase in the 2013 general government deficit. With the adoption of *ESA 2010* in 2013, 150 public corporations were reclassified into the local government subsector, and five public corporations and their affiliates into

[2] Ownership Steering Department of the Prime Minister's Office: "Annual Report of the State's Ownership Steering," and the annual reports of these corporations.

[3] See discussion of extrabudgetary funds in Section II.

[4] The decision to classify these as social security funds was taken in 1993 and has been reconfirmed by Eurostat in 1997.

[5] The major nonfinancial corporations in terms of assets were Fortum, Finnair, Neste Oil, VR Group, and Itella.

[6] The financial corporations included Finnvera, Finnish Industry Investment, and Municipality Finance PLC.

the central government subsector.[7] In combination with changes in the treatment of some flows, such as interest flows related to swap and forward rate agreements, this led to an increase in the general government fiscal deficit in 2013 from 2.1 percent of GDP (based on *ESA 1995*) to 2.4 percent of GDP (based on *ESA 2010*).

8. Expanding the institutional coverage of fiscal reports to include public corporations, including the Central Bank, would have improved the overall fiscal balance in 2013 by 1.1 percent of GDP. The general government deficit in 2013 of 2.4 percent of GDP comprised deficits of central and local government of 3.5 and 0.8 percent of GDP, respectively, which were partly offset by a surplus of social security funds of 1.9 percent of GDP (Table 1.2). Public corporations would however have added 15.6 percent of GDP to revenue, and 14.4 percent of GDP to expenditures, thus reducing net borrowing/lending to a negative of 1.3 percent of GDP. This is due to the positive performance of nonfinancial and financial public corporations.

Table 1.2. Finland: Public Sector Institutional Compositions and Finances, 2013
(Percent of GDP)

	Number of Entities	Revenue	Expenditure	Net balance
Central Government (a) = (b)	**46**	**25.3**	**28.8**	**-3.5**
Budgetary and Extrabudgetary entities (b)	46	25.3	28.8	-3.5
Social Security Funds *(c)*	**211**	**21.7**	**19.8**	**1.9**
Local Government (d)	**615**	**23.3**	**24.1**	**-0.8**
Inter - General Government Transfers (e)		-14.5	-14.5	0.0
General Government (f) = (a)+(c)+(d)+(e)	**872**	**55.7**	**58.1**	**-2.4**
Nonfinancial corporations (g)	**1,454**	**14.9**	**14.1**	**0.7**
Controlled by general government	53	14.9	14.1	0.7
Controlled by local government	1,401			
Financial corporations (h)= (i)+(j)	**4**	**0.7**	**0.3**	**0.4**
Central Bank (i)	**1**	0.3	0.2	0.1
Others (j)	**3**	0.4	0.1	0.3
Inter - Public Sector Transfers (k)		-1.3	-1.3	0.0
Public Sector (l) = (f)+(g)+(h)+(k)	**2,330**	**70.0**	**71.3**	**-1.3**

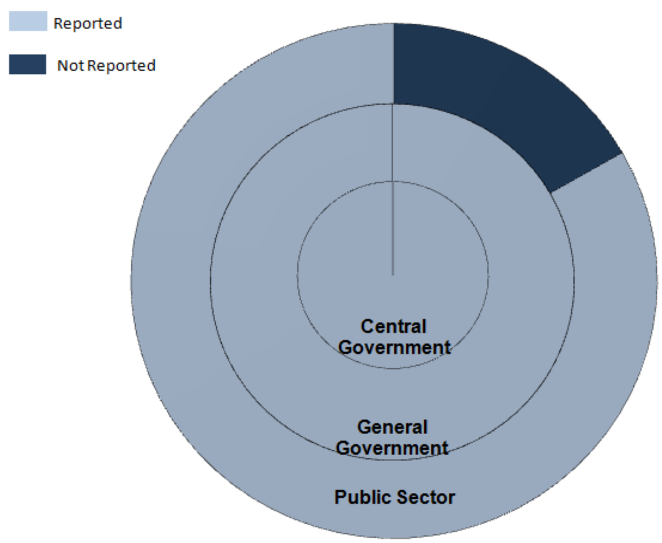
Sources: Statistics Finland, MoF, various financial statements and publications, and staff estimates.

*Inter-transfers, include grants, property income, taxes, and other transfers received from and paid to other public sector units.

[7] (i) HAUS Finnish Institute for Public Management (Haus Kehittämiskeskus Oy); (ii) Aalto Universities Properties Ltd (Aalto-yliopistokiinteistöt Oy); (iii) Senate properties (Senaatti-kiinteistöt),(iv) Helsinki University Properties Ltd (Helsingin Yliopistokiinteistöt Oy); and (v) University Properties of Finland Ltd (Suomen Yliopisotokiinteistöt Oy).

9. By European standards the public sector in Finland is relatively large, and 20 percent of expenditures are not accounted for in consolidated fiscal reports. In 2013, general government expenditures accounted for 58.1 percent of GDP, of which social security funds accounted for 19.8 percent of GDP. Public sector expenditures, including the non-reported expenditures by public corporations of 14.4 percent of GDP, accounted for 71.3 percent of GDP. Figure 1.1 summarizes the distribution of public resources across the different subsectors of the public sector.

Figure 1.1. Finland: Public Sector Expenditures and Coverage in Fiscal Reports



Sources: Statistics Finland, various publications and reports, and staff estimates.

1.1.2 Coverage of Stocks (Advanced)

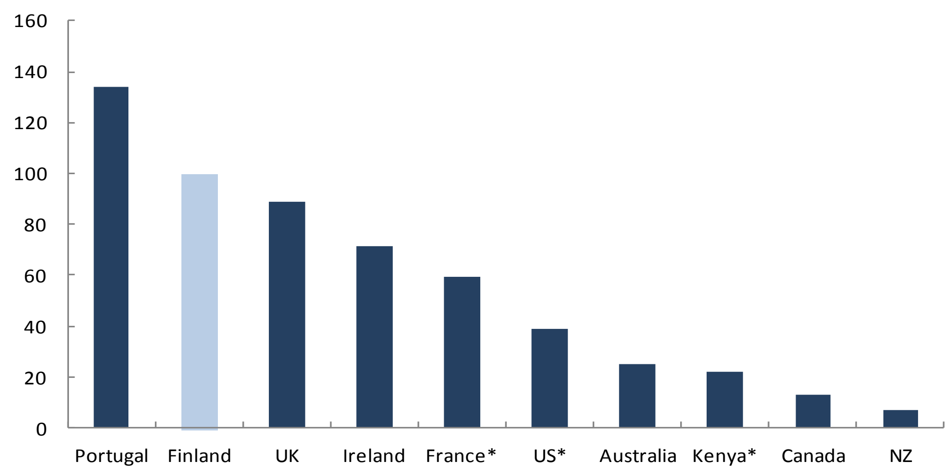
10. Data on assets and liabilities are published in various fiscal reports, but not consolidated into a single balance sheet to present a comprehensive view of the general government or the wider public sector net worth. Consolidated balance sheets for the general government, published by Statistics Finland, include financial assets and those liabilities that are recognized under *ESA 2010*, but exclude nonfinancial assets and pension liabilities. The State Treasury also publishes—in the Monthly Bulletin of Central Government Finances—a full balance sheet for budgetary central government, including nonfinancial assets, financial assets, and liabilities. While disclosed in various reports, the assets and liabilities of the wider public sector are outside the consolidated fiscal reports by virtue of their focus on the general government sector.

11. Nonfinancial assets of general government are significant but only published on the Statistics Finland Website. Nonfinancial assets of central and local government amounted to

77 percent of GDP at the end of 2013, around two-thirds of which were nonfinancial assets of local government, mainly buildings and structures (30 percent of GDP), and land (15 percent of GDP). While these nonfinancial assets are reported on a regular basis, they are not included in the consolidated balance sheet for the general government sector.

12. Pension liabilities of 99 percent of GDP for government employees are not included in any fiscal report. As indicated above, both private and public pension funds are classified as social security funds and are thus part of general government, but the pension obligations related to these funds are not reported as liabilities. The Finnish Centre for Pensions publishes every other year an estimate of these liabilities.[8] At the end of 2013, the liabilities for both private and public funds were 296 percent of GDP, of which 99 percent of GDP were for government employees. This is relatively high compared to other countries (Figure 1.2). The assets of the funds were 81 percent of GDP and the funding ratio (assets/liabilities) therefore 27 percent of GDP. The assets were mainly composed of shares and other equity (49 percent of GDP), and debt securities (20 percent of GDP).

Figure 1.2. Public Sector Employees Gross Pension Liabilities in Selected Countries
(Percent of GDP)



Sources: Finnish Center for Pensions (Finland), various national financial statements.
Note: *Does not include local government pension liabilities.
Latest data available: 2013 for Australia, New Zealand, US, UK, and Portugal. 2011 for France and Ireland.

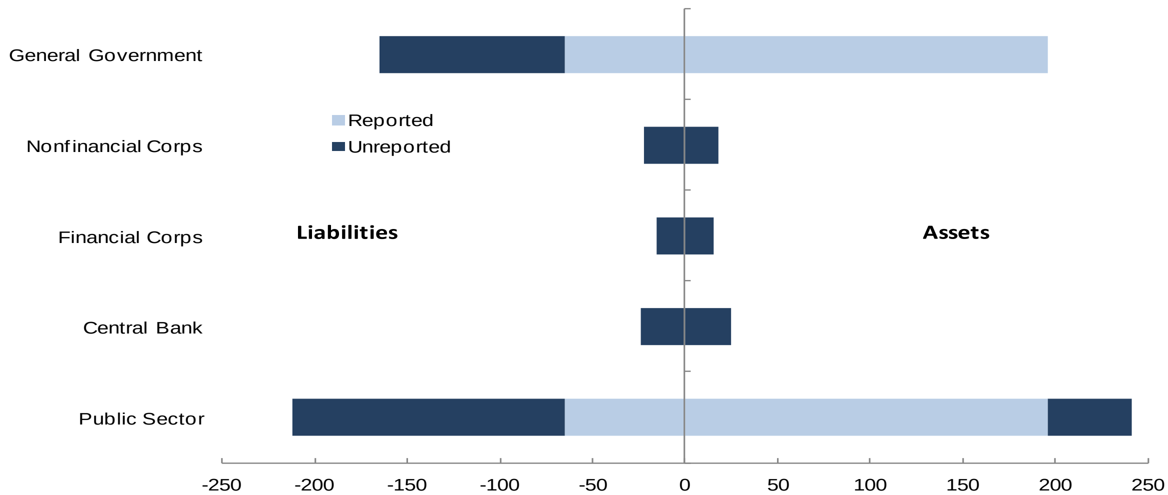
13. If reported in full Finland's public sector asset holdings in 2013 would be 241 percent of GDP, and its liabilities would be 213 percent of GDP (Figure 1.3). Within this:

[8] Report on "Statutory pensions in Finland – long-term projections 2013" presents the long –term projections of the development of statutory pension expenditures and the average benefit level.

- general government holds total financial and nonfinancial assets of 197 percent of GDP, and total liabilities of 165 percent of GDP, including 99 percent of GDP of unreported public pension funds liabilities;
- nonfinancial public corporations hold unreported total assets and liabilities of around 18 and 22 percent of GDP; and
- financial public corporations (including the Central Bank) hold total unreported assets and liabilities of around 40 and 39 percent of GDP.

Figure 1.3. Finland: Public Sector Balance Sheet and Coverage in Fiscal Reports

(Percent of GDP)

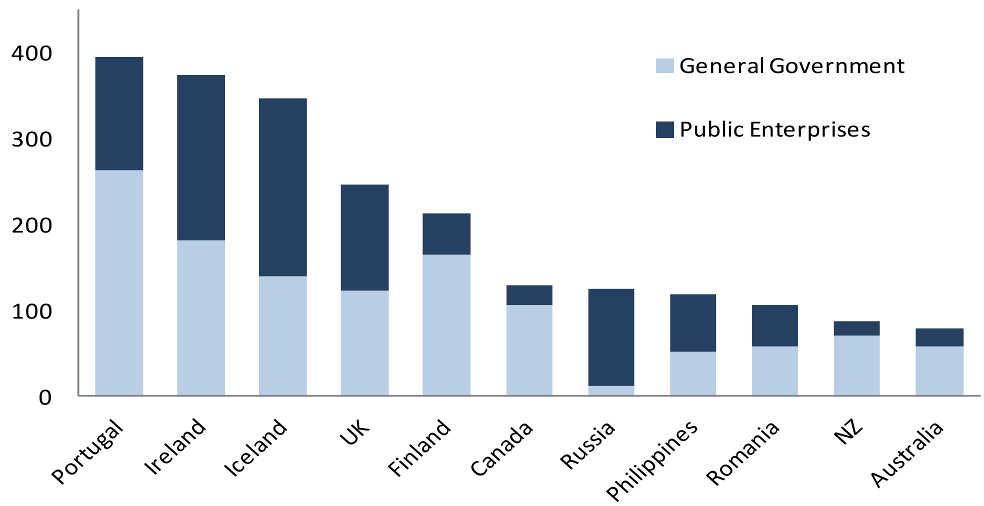


Sources: Statistics Finland, various publications and reports, and staff estimates.

14. Finland's net worth is relatively high compared to a sample of other countries. Public sector gross liabilities, including pension liabilities for government employees, are relatively large compared to a sample of other countries (Figure 1.4), but Finland's net worth of 29 percent of GDP is also relatively high (Figure 1.5), due to the large stock of nonfinancial and financial assets. Adding pension liabilities for private sector employees would of course change this picture (see Box 1.1 for a discussion of the treatment of pension liabilities in government accounts).

Figure 1.4. Public Sector Gross Liabilities in Selected Countries

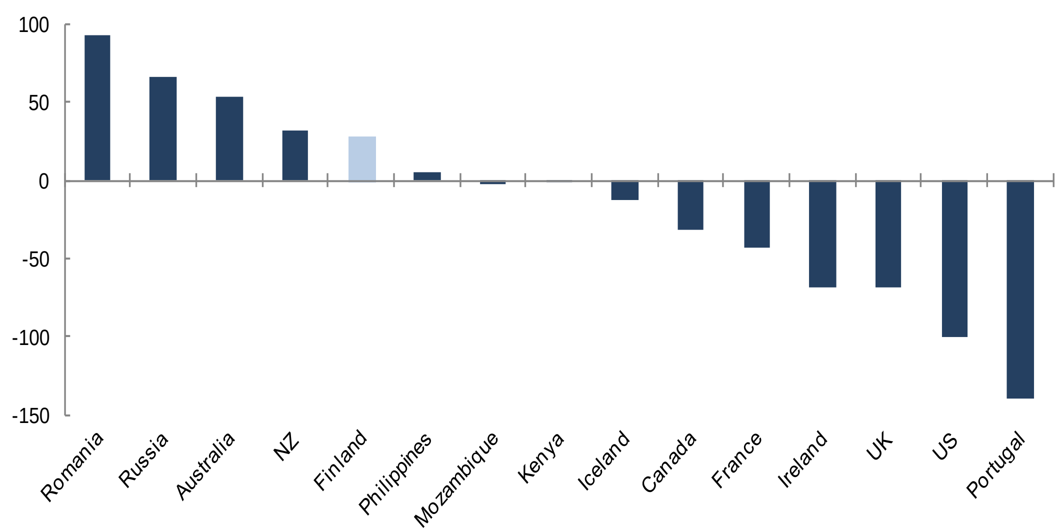
(Percent of GDP)



Sources: Staff estimates for Finland, Portugal, Ireland, Russia, Philippines, and Romania; National Financial Statements for others.

Figure 1.5. Public Sector Net Worth in Selected Countries

(Percent of GDP)



Sources: National financial Statements for Australia, NZ, UK, US, Canada and France. Staff estimates for others. Latest available data: 2013 for Finland, Australia, Philippines, Mozambique, Kenya, NZ, US and Canada; 2012 for Portugal, Russia, and Romania; 2011 for UK and Ireland; 2010 for Iceland and 2013 for France. All countries are based on common approach except France and Russia, where civil service pension liabilities are not included.

Box 1.1. Accounting for Pension Assets and Liabilities

The treatment of pensions in the government's accounts raises difficult issues in Finland, as in many countries. At present, the financial assets of Finland's private pension system are included on the statistical balance sheet of general government, while the system's liabilities are not. Although this asymmetric treatment follows the European statistical rules, it creates two problems: the government's fiscal position appears better than it really is, and comparisons are clouded between Finland and other countries where neither pension assets nor liabilities are on balance sheet.

Finland's pension system is established by statutes that determine the benefits that retirees receive and the contributions that employees must make. The system runs partly on a pay-as-you-go basis, with some of the money used to pay current retirees coming from the contributions made by current employees; but the system is also partly funded, with some of current employees' contributions going to various pension funds. There are separate systems for government employees, and there are two government pension funds, one for employees of central government and one for employees of local government. The rules regarding the benefits of government employees are similar, however, to those regarding employees of the private sector.

In some European countries, the pension system is unfunded, so the question of how to record the assets does not arise. In other countries, the pension system is partly funded, but pension assets are deemed to belong, for statistical purposes, to the financial-corporations sector, not general government. The special characteristics of the Finnish system mean that Finnish pension funds are treated in European fiscal statistics as social-security institutions, and their assets are therefore shown on general government's balance sheet. The obligation to pay pensions is not treated as a liability in European fiscal statistics, however. As a result, the Finnish pension system improves the asset side of general government's balance sheet, but has no effect on the liability side.

In other countries, differences in pension systems and/or differences in accounting rules lead to somewhat different outcomes. In some countries the pension rights of government employees are treated as contractual obligations that the government must recognize as liabilities on its balance sheet. Thus, the financial statements of the governments of Australia, Canada, New Zealand, the United Kingdom, and the United States include liabilities in relation to the pensions of government employees. In these countries, the governments also provides a different kind of pension to private-sector employees or to all citizens of a certain age, but these pensions are not treated as creating liabilities for the government. Part of the reason is that the government does not have a contractual obligation to make these payments, and it could reduce pension payments by changing the law—though from a practical point of view the government's room for maneuver may be very limited. Where these pensions are funded by ordinary taxes, there is also a concern that record a liability for the pensions would not make sense unless an asset was also recorded in relation to the taxes.

Although there is no form of pension accounting that allows completely fair international comparisons, the current asymmetric treatment of pensions in Finland's statistical balance sheet is unsatisfactory. Although ESA *2010* does not recognize pension liabilities as part of the liabilities of the general government,[1] other international standards such as *IPSASB* and *GFSM 2014* generally recognize these liabilities for pensions related to government employees. Table 0.2 therefore includes on the balance sheet of the public sector not only the pension fund's assets, but also its liabilities related to government employees.

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1/ The Council Directive 2011/85/EU does, however, require public availability of data on contingent liabilities that may have a potential impact on the general government deficit and debt, including pension liabilities.

1.1.3 Coverage of flows (Good)

15. Fiscal flows are generally recorded on an accrual basis. The financial statements of the budgetary central government are prepared on an accrual basis (though taxes are recorded on a cash basis), as are the financial statements of the remaining subsectors of general government. They also include cash-flow statements. Fiscal Statistics are based on *ESA 2010* and include accrual based reporting of revenues, expenditures, and financing.[9]

16. Pension expenditures are however recorded on a cash basis. Since pension liabilities are not recorded on the general government balance sheets, expenditures related to the payment of pensions are captured when the cash flow is observed. For 2013, the pension accrued was 8.3 percent of GDP, and the pension paid was 11.6 percent of GDP. On an accrual recording basis the accrued pension of 8.3 percent of GDP would have been recorded as expenditures, and the payment of the pensions of 11.6 percent of GDP would have been recorded as a reduction of liabilities.

17. The difference between the fiscal balance in the government accounts and net borrowing/lending is quite low and fully explained. Statistics Finland reconciles the national balance in government accounts and net lending/borrowing according to *ESA 2010* in the regular excessive deficit procedure (EDP) notifications to Eurostat (Table 1.3). For 2013, the reconciliation resulted in an adjustment of 0.4 percent of GDP, including tax adjustments (0.1 percent of GDP), nonfinancial transactions not included in the working balance (-1.6 percent of GDP), net change in technical provisions (1.9 percent of GDP), and holding/gain losses (-1.1 percent of GDP).

18. Other economic flows resulting from holding gains or changes in the volume of assets and liabilities are significant but not included in fiscal reports. These other economic flows can be derived residually from the financial and nonfinancial accounts of the general government but are not explicitly shown. The change of net financial worth in 2013 resulting from the other economic flows was 6.5 percent of GDP.

[9] For details, see "Inventories of the methods, procedure and sources used for the compilation of deficit and debt data and the underlying government accounts," available at http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/excessive_deficit/edp_inventories

Table 1.3. Reconciliation National Balance and Net Borrowing/Lending According to *ESA 2010*
(Percent of GDP)

	2010	2011	2012	2013
Working Balance in the government accounts (National Definition) (a)	**-4.0**	**-2.4**	**-2.9**	**-2.8**
Total Adjustments, *of which* **(b)**	1.4	1.3	0.8	0.4
Financial transactions included in the working balance	*-0.2*	*0.0*	*0.7*	*0.2*
Tax adjustments	*0.1*	*0.2*	*0.0*	*0.1*
Investments of muncipalities not included in the working balance	*-1.4*	*-1.5*	*-1.6*	*-1.6*
Holding gains/losses	*-0.7*	*1.4*	*-0.5*	*-1.1*
Net change in technical reserves	*1.9*	*-0.2*	*1.6*	*1.9*
Deferrable budgetary appropriations	*0.9*	*0.4*	*-0.2*	*0.5*
Net borrowing (-)/lending(+) (c) = (a)- (b)	**-2.6**	**-1.0**	**-2.1**	**-2.4**
Change in net worth due to Other Economic Flows (d)		**-9.4**	**4.2**	**6.5**
Total Change in net worth (e) + (d)		**-10.4**	**2.1**	**4.1**

Sources: Statistics Finland, EDP Notifications.

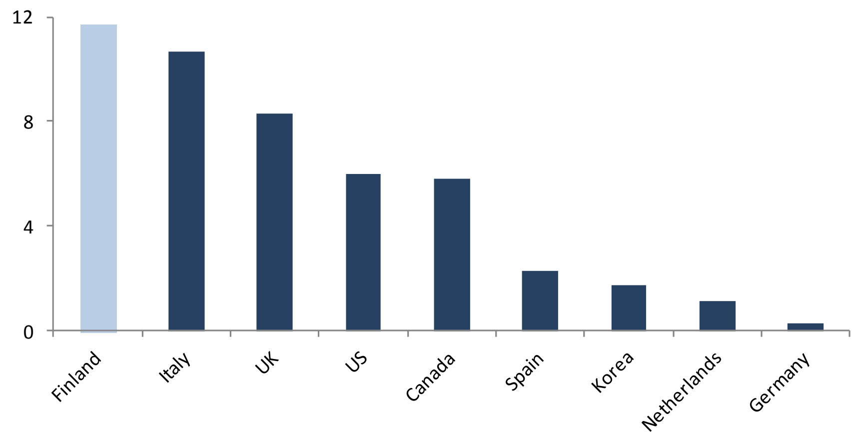
1.1.4 Coverage of tax expenditures (Good)

19. Finland regularly discloses the estimated revenues loss from tax expenditures. The government has published an annual report on tax expenditures since 1989. In its current form, the report presents data on overall tax expenditures as well as on the composition of tax expenditure by tax type and by sector. There is no legal limit on or budgetary objectives for the size of tax expenditures.

20. According to these calculations, tax expenditures in Finland are high compared to other countries. Tax expenditures are currently calculated based on a comprehensive survey, conducted in 2010, which defines tax expenditures as any exception to the general norm of taxation. A total of 185 tax expenditures have been identified, amounting to around 12 percent of GDP in total. This is high compared to other countries for which data are available (Figure 1.6), but might partly be explained by the broad definition of tax expenditures applied in Finland. For example, the fact that owner-occupiers do not pay tax on imputed rent is counted as tax expenditure in Finland.

Figure 1.6. Tax Expenditures Selected Countries

(Percent of GDP)

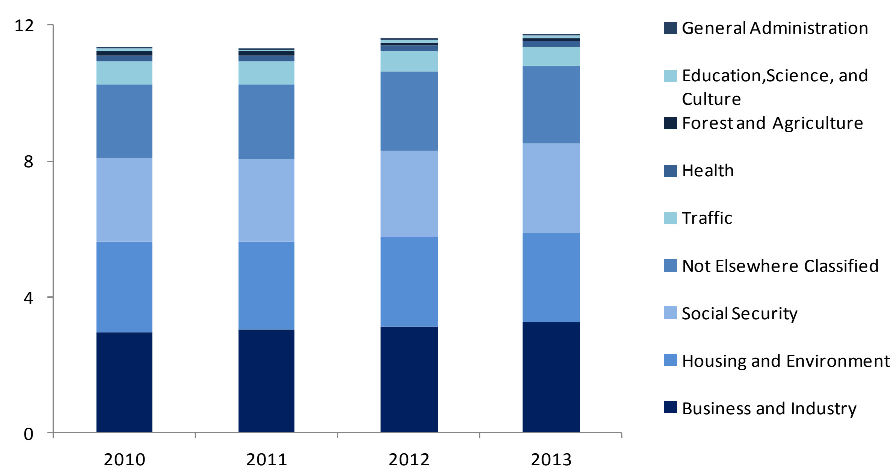


Sources: "Tax Expenditures in OECD Countries," OECD (2010); "Ireland's Tax Expenditure System," Collins and Walsh (2010); and Prime's Minister's Office Annual Report', Finland (2013).

21. Tax expenditures cover an array of tax types and benefit a wide range of economic sectors. Almost 60 percent of all tax expenditures, corresponding roughly to 7 percent of GDP, relate to personal income taxation, the largest of which are the tax exemption of imputed net rent (1.4 percent of GDP), work income tax credit in municipal taxation (1.0 percent of GDP), and tax allowance for pension contributions (0.9 percent of GDP). Other large tax expenditures include tax exemption for traded securities (1.0 percent of GDP), and reduced value added tax rate for food and fodder 0.6 percent of GDP). By sector, business and industry, social affairs, and housing and environment are the three sectors that benefit the most from tax expenditures (Figure 1.7).

Figure 1.7. Finland: Tax Expenditures by Sector

(Percent of GDP)



Sources: Prime Minister's Office, Annual Report of the Government.

B. Frequency and Timeliness of Fiscal Reporting

1.2.1 Frequency of in-year reporting (Advanced)

22. In-year fiscal reports are published by Statistics Finland on a frequent and regular basis. Statistics Finland produces quarterly fiscal statistics for general government and its subsectors which cover revenues, expenditures, assets, and liabilities and are published within 90 days of the end of the quarter on Statistics Finland Website. Also in the context of the EU Directive 2011/85/EU (part of the "six pack" EU requirements) related to the budgetary frameworks of the member states, the Ministry of Finance publishes within 30 days of the end of the month monthly data on revenue, expenditures, and fiscal balances of central government, employment pension schemes, and other social security funds. Statistics Finland also publishes quarterly general government transactions and central government debt on the National Summary Data Page of Finland in the context of the Special Data Dissemination Standards (SDDS).

23. The State Treasury also reports on a regular basis on in-year budget execution of budgetary central government. The monthly "Bulletin of Central Government Finances" is published 20 days after the end of the period and provides a breakdown of revenue, expenditure, financing, assets and liabilities for budgetary central government. In addition to the monthly reports, the Treasury has set up NETRA—the Finnish State Internet Reporting System—which makes public on a single website an array of data on the finances, performance, and staff of the ministries and agencies of central government.

1.2.2 Timeliness of Annual Financial Statements (Advanced)

24. Annual financial statements are published and audited within the timeline recommended by the International Standards of Supreme Audit Institutions (ISSAI). The financial statements of the central government are published in April each year as part of the Government's Annual Report and audited within five months of the end of the fiscal year, in time to inform the preparation of next year's budget. For municipalities and joint municipal boards, audited financial statements are published within six months of the end of the fiscal year.

C. Quality of Fiscal Reports

1.3.1 Classification (Good)

25. Statistical reports in Finland follow international classification standards. For revenue and expenditures, data are published by economic classification in line with *ESA 2010* and by functional classification according to the Classification of Functions of Government (COFOG). For assets and liabilities, data are published according to classification by instruments as defined in *ESA 2010*.

26. The budget classifies spending by administrative classification and a mix of functional and economic classification, but not by program. The budget classification is set by the State Budget Decree[10] and uses a national classification. The budget classifies revenues according to their type (taxes, social contributions, grants, and other revenue, and with a further breakdown of these). For expenditures a three-tier classification is used based on administrative, functional, and economic classification.

1.3.2. Internal Consistency (Advanced)

27. Fiscal statistics include all three reconciliations required under the Fiscal Transparency Code:

- The reconciliation between the fiscal balance and financing is compiled from the quarterly financial and nonfinancial accounts and is published by Statistics Finland on the National Summary Data Page of Finland in the context of the Special Data Dissemination Standards (SDDS). The reconciliation is related to the quarterly general government net lending/borrowing and its financing. Due to different data sources, there was a discrepancy between net borrowing/lending and the financing (net financial transactions) of 0.1 percent of GDP in 2013. The reconciliation between the financing and the change in the stock of debt is published in "Reporting of Government Deficits and Debt Levels" in the context of the EDP notifications.[11] The change is calculated according to the following formula:

  Change in the Stock of Debt = Net Borrowing/Lending (opposite sign) +
  Net Acquisition of Financial Assets + Adjustments[12] + Statistical Discrepancy

  In addition to the reconciliation between the financing and the change in the stock of debt, a stock-flow reconciliation of the financial balance sheet as defined in the Government Finance Statistics Manual is also published (Figure 1.8).

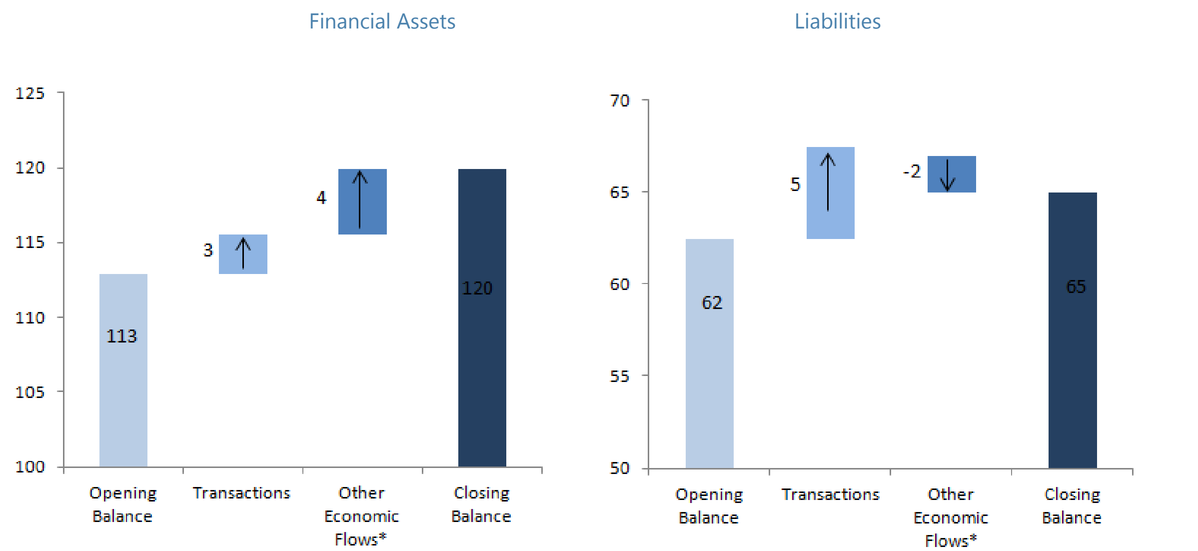
- The debt issues and debt holdings of the central government are published monthly by the State Treasury. The data are published for long-term debt and short-term debt.

[10] State Budget Decree number 1243/1992 and its amendments up to 677/2007

[11] It refers to the Maastricht debt.

[12] Adjustments include, among others, the other liabilities (derivatives and accounts payable), the revaluation related to the exchange rate, and the difference between interest accrued and interest paid.

Figure 1.8. Stock – Flow Reconciliation of the Financial Balance Sheet, 2013
(Percent of GDP)



Source: Statistics Finland.
* Other Economic Flows including holding gains/losses related to revaluation of financial instruments on the market and the revaluation related to the exchange rate.

1.3.3. Historical Revisions (Good)

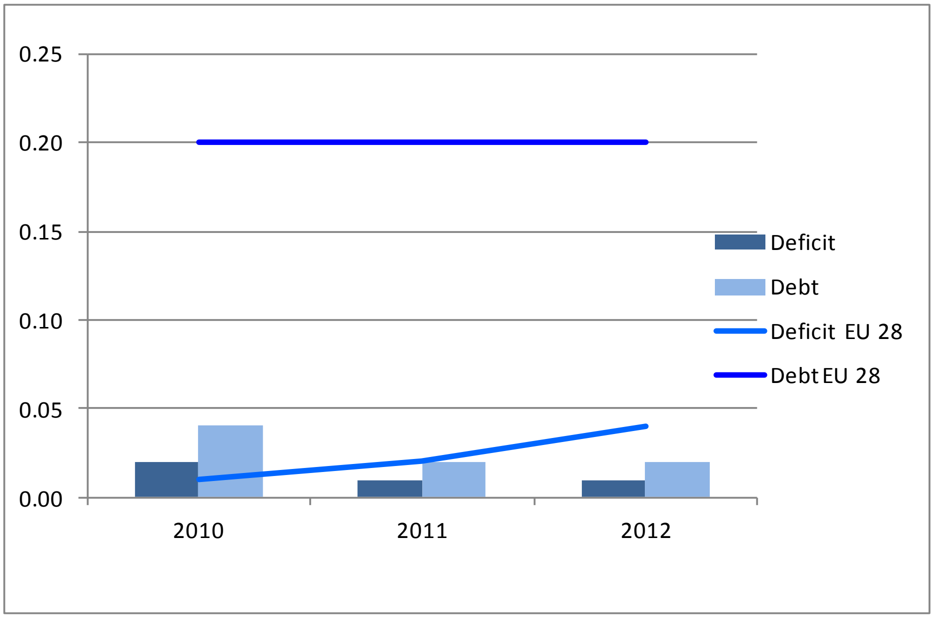
28. Historical revisions are made according to the revision policy of Eurostat. Revisions are made twice per year for the annual data and every quarter for previous quarters. For the April EDP notification round, Finland provides preliminary figures for N-1 and provisional numbers for N-2. For the October EDP notification round, the data provided are provisional for N-1 and final for N-2. Revisions to historical statistics are reported with an explanation but there are no bridge tables between the old and the new time series.

29. In recent years, historical data revisions have been relatively low compared to other EU countries. For 2010-12, debt revisions for Finland were well below the EU 28 average for all three years (Figure 1.9). Deficit revisions were also below the EU average, except for 2010. No major policy revisions occurred during that period which would have affected significantly the size of the historical revisions.

30. The implementation of *ESA 2010* has however resulted in larger revisions to both deficits (net lending/borrowing) and debt. The data revisions resulted in an increase of the 2013 deficit of 0.3 percent of GDP and a decrease of the 2013 debt of 1.0 percent of GDP (Figure 1.10). This was due mainly to the reclassification of some government-owned companies (see above) and the exclusion of interest flows relating to swap and forward rate agreements.

Figure 1.9. Size of Historical Data Revisions in Comparison with the EU 28

(Percent of GDP)



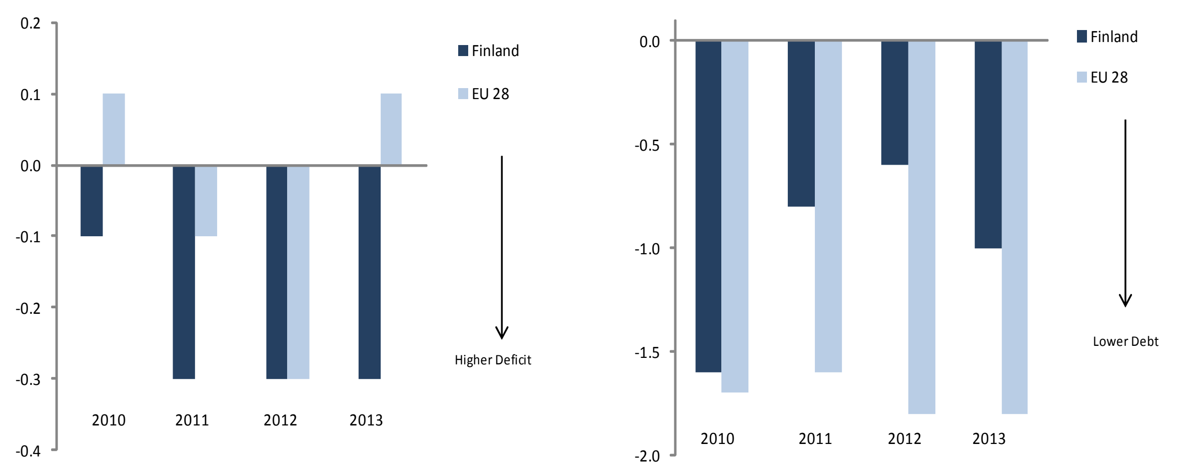
Source: Statistics Finland.

Figure 1.10. Size of Historical Data Revisions Due to the Implementation of *ESA 2010*

(Percent of GDP)

Government Deficit (Net lending/borrowing)

Government Debt



Source: Eurostat.

D. Integrity of Fiscal Reports

1.4.1 Statistical Integrity (Advanced)

31. **Fiscal statistics are compiled and disseminated by Statistics Finland according to the EU regulations and requirements related to the compilation of fiscal statistics, and also in accordance with SDDS.** In addition to compiling government finance statistics (GFS) data according to international standards, Statistics Finland compile debt published on the IMF-World Bank online centralized public sector debt database following the *Public Sector Debt Statistics Guide for Compilers and Users*. The advanced release calendar published on the SDDS webpage indicates the dissemination dates for the general government operations and the central government debt.

32. **Statistics Finland's responsibilities for collecting, compiling, and disseminating fiscal statistics are clearly defined by legislation.** Statistics Finland is a professionally independent agency according to law, and its main responsibilities are regulated by the Statistical Act (280/2004) which gives Statistics Finland the status of the general authority within the National Statistics Service to produce for general use statistics describing social conditions and their development. The Act dictates that Statistics Finland should ensure statistical data are as reliable as possible and give a truthful picture and make use, if possible, of the uniformity of the concepts, definitions, and classifications, as well as their timeliness. It has the institutional responsibility of all actual and statistical data relating to EDP statistics, as well as communicating these data to Eurostat. Statistics Finland has the sole responsibility of deciding the selection of sources, methodology, and modes of dissemination based on statistical considerations. As a member of the EU, Statistics Finland has to comply with the EU regulations and must observe the EU regulation on community statistics. As supranational legislation, it takes over the national statistical legislation but in general there is no conflict between the EU statistical rule and the Finnish statistical legislation.

1.4.2. External Audit (Advanced)

33. **The central government's financial statements are audited and certified with no major qualifications by the National Audit Office of Finland (NAO).** According to the NAO, which is an independent supreme audit institution operating in accordance with INTOSAI standards, the financial statements of the central government are usually certified for truthfulness and correspondence with applicable rules. There is a certification of true and fair view of the financial statements of central government accounting entities, but there is no explicit statement of the true and fair view on the basis of international standards for the central government as a whole. The reason for this is the lack of consolidated financial statements for the central government that includes extrabudgetary funds.

34. **Local government financial statements are not audited by NAO but by auditors qualified under the Chartered Public Finance Auditors (CPFA) regulations.** Under the Finnish Local Government Acts, auditors (CFPA persons or corporations) authorized by the Public

Administration and Finance Auditing Committee should be assigned to audit local government financial statements for each fiscal year.

1.4.3. Comparability of Fiscal Data (Advanced)

35. Fiscal data are presented on a comparable basis with an explanation of any deviations. The Economic Survey published by MoF presents fiscal forecast for general government and its subsectors that are comparable to and reconciled with the fiscal statistics. It provides a comparison between the on-budget balance and the central government's net borrowing/lending as defined by the ESA framework (Table 1.4). It explains the differences in the calculation of the two balances for both historical data and forecasts. In addition, it includes a comparison between the financial accounts and the budget execution.

Table 1.4. Comparability of the On-budget Balance and the Central Government Net Borrowing/Lending

Billions of Euros	2012	2013	2014	2015	2016
On-budget surplus (+)/deficit (-) 1)	**-7.8**	**-8.4**	**-7.4**	**-4.5**	**-4.1**
Privatization proceeds (net proceeds from equity sales)	-0.1	-0.1	-1.0	-1.2	-0.5
Financial investment, net	0.7	0.9	0.2	0.5	-0.2
Revenue surplus in off-budget units	-0.5	-0.6	0.0	0.0	0.0
Cash/accrual basis adjustment	0.0	0.3	0.3	0.3	0.3
Other adjustment items 2)	-0.4	0.2	0.4	-1.2	-1.2
Central government net lending (+) /-borrowing (-)	**-7.3**	**-7.0**	**-6.9**	**-5.4**	**-5.0**

Source: Economic Survey, Autumn 2014, Table 23.

1) Incl. government debt servicing.

2) Incl. debt cancellations, profit on reinvested foreign direct investments, and super dividends.

E. Conclusions and Recommendations

36. Table 1.5 summarizes the assessment of Finland's practice against the Code. Fiscal reports in Finland meet either good or advanced practices in all the four dimensions of the fiscal reporting, but still there is room for improvement in the following key areas:

37. Issue 1.1. Financial statements for central government: Financial statements are produced for all central government accounting entities but these are not consolidated into one single financial statement for central government.

38. *Recommendation 1.1*: *Increase the institutional coverage of the consolidated financial statements produced by the central government, in the following stages:*

- consolidate the financial statements of the budgetary central government and the 10 extrabudgetary funds; and
- consolidate with the financial statements of the state-owned enterprises which have been reclassified into central government.

39. Issue 1.2. Public sector fiscal reporting: While a range of fiscal reports are produced for the different subsectors of the public sector, these reports are not fully consolidated, and there is no report that provides a comprehensive view of the public sector.

40. *Recommendation 1.2: Gradually develop a finance statistics for the consolidated public sector through the following steps:*

- add nonfinancial assets to the financial balance sheet that is already being produced for the general government sector, to produce a full balance sheet for the general government;
- add the assets and liabilities of public corporations to that balance sheet to produce a consolidated balance sheet for the public sector (while continuing to show separate data for general government, and while distinguishing nonfinancial corporations, the central bank, and other financial corporations); and
- produce a statement of operations showing the transactions of the public corporations which will then be consolidated with the statement of operations of the general government to produce the statement of operations of the public sector.

Table 1.5. Summary Assessment of Finland's Fiscal Reporting

	Principle	Assessment	Importance	Rec.
1.1.1	**Coverage of Institutions**	**Good:** Fiscal reports consolidate all general government entities but not the broader public sector.	**High:** Public corporations with net expenditures of 14 percent of GDP are outside fiscal statistics.	1.1
1.1.2	**Coverage of Stocks**	**Advanced:** Fiscal reports assets and liabilities but do not include pension liabilities.	**High:** General government liabilities of 99 percent of GDP are outside fiscal statistics.	1.2
1.1.3	**Coverage of Flows**	**Good:** Fiscal reports include cash flows, accrual revenue, expenditures, and financing. Other economic flows are not included in the fiscal reports.	**High:** Net financial worth of other economic flows in 2013 was 7 percent of GDP.	1.2
1.1.4	**Coverage of Tax Expenditures**	**Good:** Estimated revenue loss from tax expenditure by sector or policy area and type of tax is published annually. There is no control on, or budgetary objectives for, the size of tax expenditure.	**Medium:** Tax expenditures of 12 percent of GDP are high by international standards and not included in the spending limits.	2.1
1.2.1	**Frequency of In-Year Reporting**	**Advanced:** In-Year reports are published on a monthly and quarterly basis.	**Low:** Monthly data are published within 20 days.	
1.2.2	**Timeliness of Annual Financial Statements**	**Advanced:** The final financial statements are published within four months of the end of the financial year.	**Low:** Financial statements are submitted in time to inform the preparation of next year's budget.	
1.3.1	**Classification**	**Good:** Fiscal reports include administrative, functional, and economical classification consistent with international standards.	**Low:** Classification of financial accounts enable reporting and reconciliation required by EU.	
1.3.2	**Internal Consistency**	**Advanced:** Fiscal reports reconcile (i) fiscal balance and financing; (ii)debt issued and debt holdings; and (iii) financing and change in the debt stock.	**Medium:** Difference of 0.5 percent of GDP between on-budget balance and central government net lending/borrowing.	
1.3.3	**Historical Revisions**	**Good:** Revisions to historical statistics are reported with an explanation for each major revision but there are no bridge tables between the old and a new time series.	**Medium:** Impact of implementing ESA 2010 is 0.3 percent of GDP for 2011 (number marked as final).	
1.4.1	**Statistical Integrity**	**Advanced:** Statistics Finland is professionally independent and observe international standards.	**Low:** Statistics Finland is subject to Eurostat governance.	
1.4.2	**External Audit**	**Advanced:** Final Financial Statements are audited by an independent supreme audit consistent with international standards.	**Medium:** Audited financial statements for the previous year are published within five months with no major qualifications.	
1.4.3	**Comparability of Fiscal Data**	**Advanced**: Fiscal forecast/budget and outturn are comparable plus the outturn is reconciled with both fiscal statistics and final accounts.	**Medium:** Difference in total revenue between budget outturn and final accounts is 1 percent of GDP.	

II. FISCAL FORECASTING AND BUDGETING

41. This section assesses the quality of fiscal forecasting and budgeting practices relative to standards set by the IMF's Fiscal Transparency Code. It focuses on four main areas:

- The comprehensiveness of the budget and associated documentation;
- The orderliness and timeliness of the budget process;
- The policy orientation of budget documentation; and
- The credibility of the fiscal forecasts and budget proposals.

42. Finland's fiscal forecasting and budgeting practices meet advanced standards in most areas. Finland has a longstanding and binding medium-term budget framework. Budgets are transparent and include authorizations for multi-annual commitments, and all material changes to the budget are approved by the legislature in supplementary budgets. Medium-term macro-economic and macro-fiscal forecasts are comprehensive and credible, and changes to previous forecasts are explained to allow reconciliation over time. The fiscal performance is scrutinized by the NAO and a recently established Economic Policy Council.

43. The presentation of forecasts is comprehensive but also fragmented. Budget documentation comprises a range of different documents (Table 2.1) which include all information required to meet the advanced standards of the Code. However, there is no single document that consolidates all this information. The government has already strengthened the link between central government and general government finances in the Stability Programme, and the new General Government Fiscal Plan is intended to better link the different sectors through presenting general government finances and spending limits for central governments in a unified document.

44. There remains scope for improvements in the policy orientation of fiscal forecasts and budgets and the coverage of the spending limits. While the NAO assesses compliance with fiscal objectives, the government itself does not regularly report on all its objectives, and little explanation of the linkages between them is provided. The spending limits cover most budgetary central government expenditure but not tax expenditure and extrabudgetary funds; this creates a risk of circumvention. The budget documentation and annual reports of the government include comprehensive information on performance, targets, outputs, and outcomes, which could be streamlined to be better used for strategic policy making. A participative approach to budgeting has not yet been integrated into the budget procedures.

Table 2.1. Finland: Fiscal Forecasting and Budget Documents

Document	Purpose / Activities	Timing
Economic Survey	Projection of Finland's economic outlook and medium-term projections.	March/April
General Government Fiscal Plan	Medium-term budget strategy for general government (including the Central Government Spending Limits)	March/April
Stability Programme Update/ Budget Strategy Report	Update of macroeconomic and fiscal forecasts; sets out fiscal objectives; meets European requirements.	Late April
Economic Bulletin	Economic and fiscal outlook for the current and next two fiscal years	June/December
Budget Document	Presentation of the budget proposal to Parliament.	September
Budget Review	Summary of the central elements of the draft budget for citizens	September and January
Economic Survey	Explains the budget and the underlying macroeconomic and fiscal assumptions.	September
Financial Statements	Explains the fiscal performance of the fiscal year and reports on the adherence to the budget.	April following year
Fiscal Policy Audit and Monitoring Report	Expresses the NAO's opinion on the reliability of the forecasts, and the achievement of fiscal objectives (including EU requirements).	May following year

Source: Ministry of Finance.

A. Comprehensiveness

2.1.1 Budget unity (Advanced)

45. **The budget documentation discloses all central government revenue, expenditures, and financing by ministries, agencies, extrabudgetary funds, and social security funds.** The document on Central Government Spending Limits presents and explains the ministerial spending limits. The budget proposal provides a detailed description of the composition of ministries' and agencies' budgets. An appendix to the budget gives a detailed explanation of the key financial

issues of extrabudgetary funds[13] during the budget year and provides an aggregate list of expenditures and revenue on a gross basis (including transfers from and to the state budget). Finally, revenue, expenditures, and net lending for social-security funds are presented on a gross basis in a separate section of the Economic Survey.

46. A few entities classified as extrabudgetary funds are not included in the budget documentation but they are included in the general government reports. The budget annex on extrabudgetary funds does not include universities, two state-owned enterprises[14] that are classified as extrabudgetary funds under GFS, and the broadcasting company Yle. These entities, however, are included in general government reports.[15] The budget includes only the budgetary central government transfers to universities.[16] The two SOEs are 100 percent state owned, and the revenue distributed to the state is also included in the budget.

47. The Budget Act Law specifies gross appropriation as the principle of central government budgeting, with some exceptions. The Budget Act Law allows net appropriation in six specified cases[17] and prohibits the offsetting of taxes, fiscal charges, and fines with expenditures. In addition, transactions related to sales of property are not subject to net appropriation, with the exception of movable fixed assets paid from the agencies' budgets. The budget presents all revenue and expenditure on a gross basis. Around one-fifth of line items contain own source revenues amounting to 2.6 percent of revenues of the central government budget, which is relatively small compared to other countries surveyed (Figure 2.1).

[13] Section 87 of the Constitution permits the creation of an extrabudgetary fund by an Act "if the performance of a permanent duty of the State requires this in an essential manner" but requires a two-thirds of the votes cast. Finland has created 11 extrabudgetary funds, such as the Fire Protection Fund, the Housing Fund, the Government Guarantee Fund, and the Nuclear Waste Fund. Of these, 10 funds are considered part of central government, and 1 is part of the social security funds (The State Pension Fund).

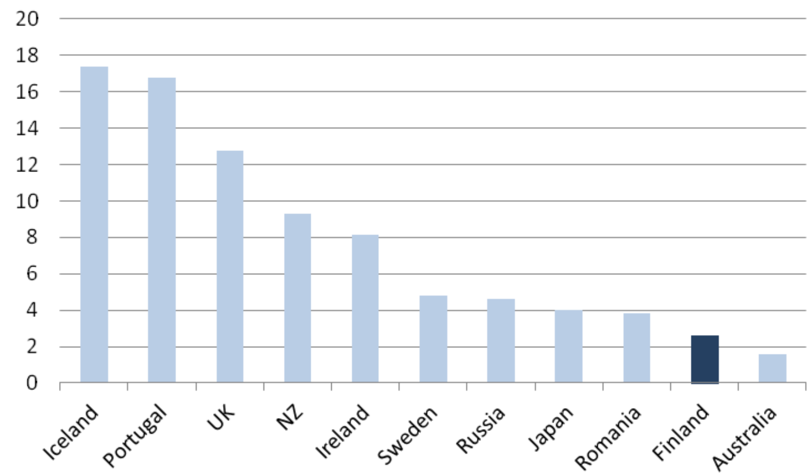
[14] Solidium and Leijona Catering.

[15] Economic Survey, Stability Programme, General Government Fiscal Plan.

[16] EUR 1.9 billion, which is approximately 65 percent of their total funding.

[17] Among these are retained revenue from government agencies, legislation-based grants to municipalities and payments from municipalities to central government under the same law, liquidity payments to the government pension fund and the associated repayments, and offsetting of loans and related revenue from derivatives.

Figure 2.1. Own Source Revenues
(Percent of Gross Expenditures)



Sources: 2015 Budget, staff estimates, national budgets.

2.1.2. Macroeconomic forecasts (Advanced)

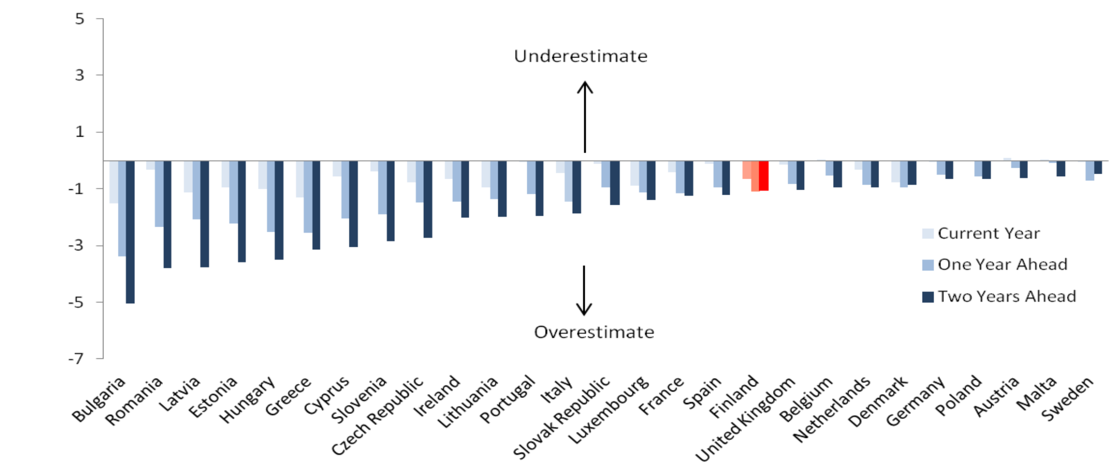
48. Finland's fiscal strategy and budget documents disclose key macroeconomic and macro-fiscal forecasts in a clear and comprehensive fashion. The General Government Fiscal Plan (including the Central Government Spending Limits), Economic Survey, Economic Bulletin, and the Stability Programme provide detailed information on economic developments for Finland compared to other advanced economies (such as developments in GDP, unemployment, world trade, and raw material prices) and explain the macroeconomic variables on which the fiscal forecasts are based as well as their underlying assumptions (for example, assumptions of world trade growth, exchange rates, oil prices, interest rates, and import and export prices, and market shares). The Economic Survey also provide detailed discussion of domestic demand, based on projections of households' disposable income, savings and debt, and projections of private investment and domestic production. Macroeconomic forecasts are published four times a year in March, June, September, and December.[18] The Economic Survey provides the most comprehensive data and explanations but only projects three years ahead, whereas the Stability Programme provides a four-year projection. There are forecasts of the key macroeconomic aggregates, such as GDP and its components (for example, imports and exports), different indicators for inflation, labor market developments (for example, unemployment rate, and wage bill), the pension index, and other indices.

[18] The March and September forecasts are presented in the *Economic Survey* which has a four-year perspective and provides a detailed analysis of the macroeconomic and fiscal situation; the September and December forecasts which has a two-year perspective are published in the *Economic Bulletin* providing a short update and outlook of the macroeconomic situation.

49. Finland's forecasts are relatively unbiased and accurate on average compared to other European countries. Figure 2.2 shows the average forecasting errors for real GDP growth for European Union countries for one, two, and three years ahead. Finland's average medium-term real GDP growth forecasting error[19] shows an overestimating average error, but Finland is among the 10 countries in the European Union with the most unbiased forecasts. The absolute average volatility-adjusted real GDP forecasting error is also relatively accurate (Figure 2.3).

Figure 2.2. Average Medium-Term Real GDP Growth Forecast Errors, 2000-13

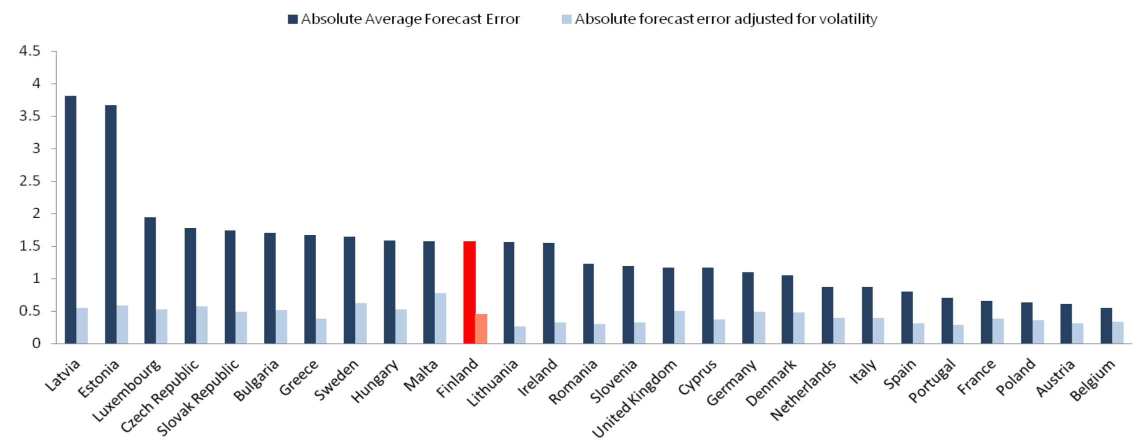
(Percent of GDP)



Sources: EU Stability and Convergence Program.

Figure 2.3. Absolute Average Annual Real GDP Growth Forecast Errors, 2000-13

(Percent of GDP)



Sources: EU Stability and Convergence Program.

19 For Finland, the average medium-term forecasting error is 1.1 percent for year t+1 and 1.0 percent for year t+2, which, however, is lower than the European average (1.3 percent for t+1; 1.9 percent for t+2).

50. The government's macroeconomic forecasts have also been more accurate than those of other institutions. Table 2.2 compares MoF's GDP growth forecasts in recent years with those of other institutions. It does not indicate a bias in MoF's forecasts compared to other forecasters. However, the forecasting errors for all institutions have been high due to the high economic volatility. In hearings arranged by Parliament's Finance Committee, experts regularly comment on the quality of the government's macroeconomic and macro-fiscal forecasts, and the newly established Economic Fiscal Council (EPC) also plans to compare forecasts of different forecasters. The MoF Economics Department in practice prepares macroeconomic forecasts independently without any political interference. A Government Decree is currently being prepared in which the independence of the macroeconomic forecasts will be underscored.

Table 2.2. Comparison of Real GDP Growth Forecasts, One-Year-Ahead Spring Forecasts, 2011-13, April Forecasts

	2011	2012	2013
Forecasts			
Ministry of Finance	3.6	0.8	0.4
Bank of Finland	1.8	0.4	1.2
Labor Institute for Economic Research	3.5	3.1	2.6
IMF	2.2	1.5	1.8
OECD (autumn forecasts)	2.6	-1.5	-1.2
Actual	2.7	-0.8	-1.4

Sources: MoF, Webpages of the institutions, WEO.

2.1.3. Medium-term Budget Framework (Advanced)

51. Finland has a well established Medium-Term Budget Framework. Central government spending limits (CGSL) were introduced in its current form in 2003 and are formulated by every new government for the electoral period of four years but are updated annually, including with estimates for the financial years beyond the electoral period. The spending limits are expressed in real terms and broken down into 14 broad administrative branches, which are the 13 ministries and interest on central government debt. The limits are updated annually to reflect cost and price level changes according to indexes (for example, national pension index, university index, and consumer price index) or based on agreement or decision. The CGSL produced by each new government discloses which areas are included in the spending limits and which areas are not.[20] Currently, approximately 80 percent of budgetary central government expenditures are covered by the spending limits. Although the spending limit system is not anchored in any law it has been persistently applied since

[20] Examples for not included spending areas: mainly expenditures dependent on the business cycle, such as unemployment benefits, and interest on the public debt.

2003 independently of the composition of the government, and the limits are regarded as binding for the electoral period.

52. While the spending limits provide a strong framework for controlling central government expenditure in the medium term, some gaps exist that could undermine its credibility. Specifically, the spending limits do not include tax expenditures and extrabudgetary funds. The current government has committed itself in the Coalition Agreement not to use tax expenditures to circumvent the spending limits, but this principle has recently been disregarded in a particular case related to child support. Similarly, some elements of the government's recent Growth Package include expenditures by extrabudgetary funds and expenditures defined as being outside the expenditure ceilings. Past fiscal performance, however, do not indicate a trend of increased spending outside the spending limits[21] or the incurring of considerable new tax expenditures.

53. Budget documentation (though not the annual budget proposal itself) provides comprehensive medium-term projections of revenue, expenditures, and financing:

- the CGSL includes four-year expenditure limits based on an administrative (ministerial) classification.[22] Revenue and financing projections are also presented by economic classification together with comprehensive explanations of the assumptions on which the plan is based and the criteria for adjusting the limits during the electoral term;
- the Economic Bulletin provides aggregated updates of general government revenue, expenditures, and financing for the current and the following two years; and
- the Economic Survey gives detailed medium-term projections for revenue, expenditures, and financing of general government, central government, local governments, and social security funds. Most tables are presented by economic classification.

54. While MoF's projections of the overall general government balance have been accurate on average, the forecast errors for revenue and expenditures have been significantly higher. The average forecasting error for the general government deficit is 0.1 percent for year t and -0.1 percent for year t+2, indicating that the government has been able to achieve its balance target on average. However, by analyzing expenditures and revenue separately, a tendency to underestimate both revenue and expenditures can be identified (Figures 2.4 and 2.5). On average, revenue for year t+2 have been underestimated by 2.8 percent and expenditures by 2.84 percent.[23] Compared to other European countries these are relatively high forecasting errors.

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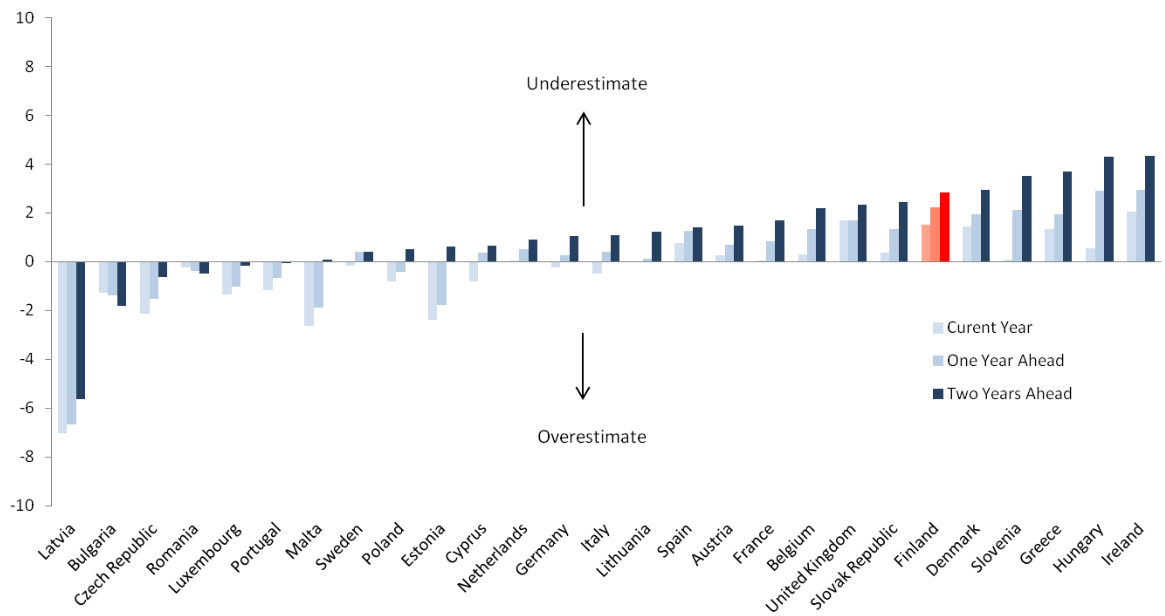
[21] In 2012, some spending items were brought under the spending limits, and the limits have been relatively stable since then. The expenditures of extrabudgetary funds account only for around 2.5 percent of GDP.

[22] The budget is based on the same classification on the highest level.

[23] This overspending has been due to higher than forecasted spending of local governments and social security funds as well as budgetary central government spending outside the spending limits, such as interest and automatic stabilizers. The spending limits have been complied with.

Figure 2.4. Average Medium-Term General Government Expenditure Forecast Errors, 2000-13

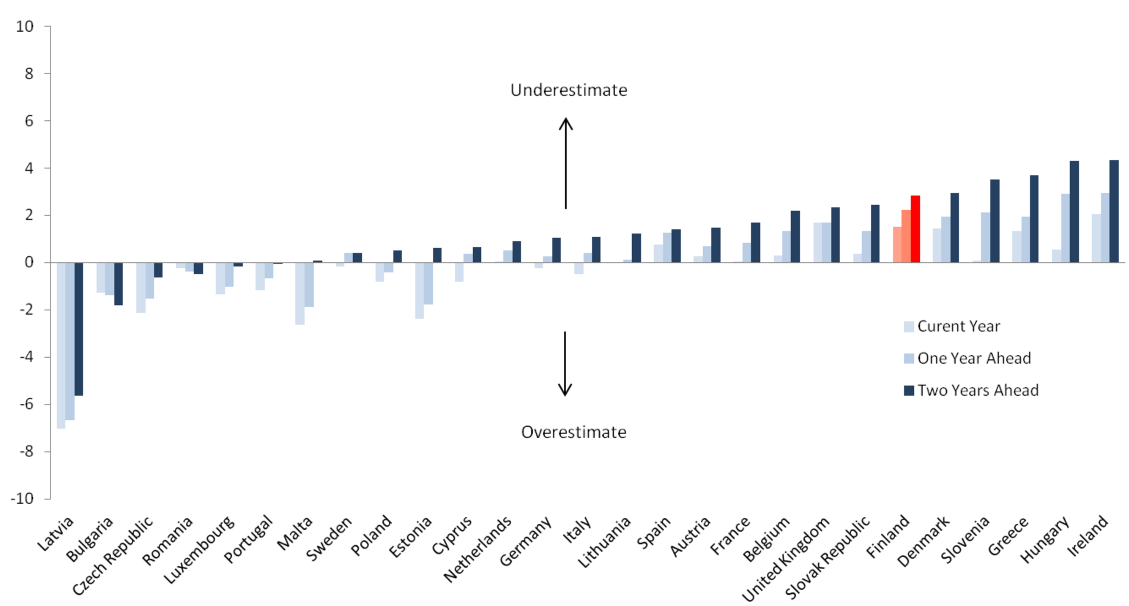
(Percent of GDP)



Sources: EU Stability and Convergence Program.

Figure 2.5. Average Medium-Term General Government Revenue Forecast Errors, 2000-13

(Percent of GDP)



Sources: EU Stability and Convergence Program.

55. In the last two years, MoF forecasts for the general government deficit have been the most accurate on average among a range of forecasters. The NAO has compared the forecasting accuracy of the MoF with international and national institutions' forecasts. In both 2012 and 2013, MoF's forecasts of the general government deficit were the most pessimistic, and in 2013 it had the highest accuracy of all the forecasts analyzed (Table 2.3).

Table 2.3. Comparison of Forecasts for General Government Deficit
(Percent of GDP)

	2012	2013
Forecasts		
MoF	-1.6	-1.5
Bank of Finland	-1.3	-1.0
ETLA (Research Institute of the Finnish Economy)	-1.3	-0.9
Labor Institute for Economic Research	-0.3	1.0
OECD	-1.4	-1.0
IMF	-1.4	-0.9
Outturn	-0.8	-1.4

Source: National Audit Office.

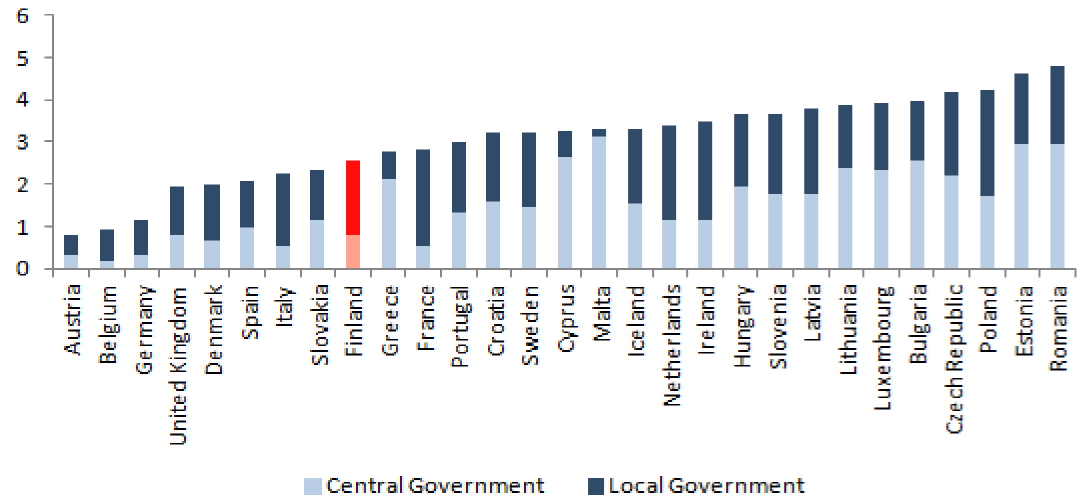
2.1.4. Investment projects (Good)

56. Public investment in Finland is relatively low compared to other European countries (Figure 2.6), but the quality of infrastructure is high. Since 2002, annual public investment has on average been below 3 percent of GDP, which is lower than most European Union member countries.[24] At the same time, Finland ranks 19th among 144 surveyed countries worldwide in the overall quality of infrastructure.[25] A relatively large share of around two-thirds of all public investment in Finland is undertaken by local government.

[24] The application of *ESA 2010* has led to an increase in public investment in 2013 from 2.8 percent of GDP to 4.2 percent of GDP due to the treatment under *ESA 2010* of research and development expenditure and investments in weapon systems. This is not reflected in the Figure for Finland or other countries.

[25] World Economic Forum: Global Competitiveness Report, 2014-15.

Figure 2.6. Investment Spending, 2002-13
(Percent of GDP)



Source: Eurostat.

57. The legislature authorizes the total costs of all multi-annual investment projects, and ministries and agencies are required to prepare a payment schedule for investment projects. The budget includes for each line item that contains investment projects: (i) a separate authorization for commitment of the total project costs; (ii) appropriation for the budget year; (ii) actual spending prior to the budget year; and (iv) remaining project costs after the budget year (Table 2.4). The Ministry of Finance's regulation on the preparation of budget proposals requires ministries to prepare a payment plan for all investment projects, but this plan is not published.

Table 2.4. Investment Projects in the Budget 2015

New Infrastructure Project	Total Project Costs Approved
Rv 3 Tampere - Vaasa (Laihela)	27.0
Rv 22 Oulu—Kajaani—Vartius	15.0
Riihimäen kolmioraide	10.0

	Approved	Finished	Approval for Commitment	External Funding	Actual Spending Prior to Budget Year	Appropriation 2015	Remaining Costs after Budget Year
Unfinished road projects							
E18 Hamina bypass	Budget 2011	2015	180.0	5.2	155.3	11.2	13.5
Rv 8 Sepänkylä bypass	Budget 2011	2014	55.0	2.8	51.0	4.0	-
Rv 4 at Rovaniemi	Supplementary budget 2013, supplementary budget 2014	2018	92.5	2.5	33.1	33.5	25.9

Source: Budget 2015.

58. In general, new public investment projects are subject to a cost benefit analysis, but not all are made public before project selection and they do not follow uniform guidelines. According to MoF's regulation on the preparation of budget proposals all ministries are required to prepare a detailed cost-benefit assessment for new IT-projects, but in general these are not published, and similar requirements do not apply to investment projects. The Finnish Transport Agency under the Ministry of Transportation has developed detailed guidelines for transport infrastructure project appraisal which are used systematically and made public before projects are approved by Parliament. Uniform guidelines and methodologies for cost-benefit analysis to be used across central government have not been developed.

59. Investment projects are contracted through open and competitive tender. The Public Procurement Act requires all general government entities to comply with regulation based on the European Parliament and Council directives and on the principles of equal and non-discriminatory treatment of participants, transparency, and competition. The law contains detailed provisions on the different types of public procurement, how the process has to be organized, and on which information has to be made available.

B. Orderliness

2.2.1. Fiscal legislation (Good)

60. The constitution and State Budget Act provide a comprehensive legal and regulatory framework for budget planning, budget execution, accounting, and auditing. The constitution defines the overall budgetary principles, such as annuality of budgets, the different types of appropriations, high-level procedural rules (for example, on supplementary budgets), and the establishment of extrabudgetary funds. The Budget Act Law defines detailed rules for budget composition, cash management, accounting, state asset and debt management, and internal controls, but does not include provisions on medium-term budgeting (spending limits). The State Budget Decree[26] specifies these rules in more detail and sets the budget calendar, specifies the content of ministerial budget submissions,[27] and includes detailed rules concerning the budget classification.

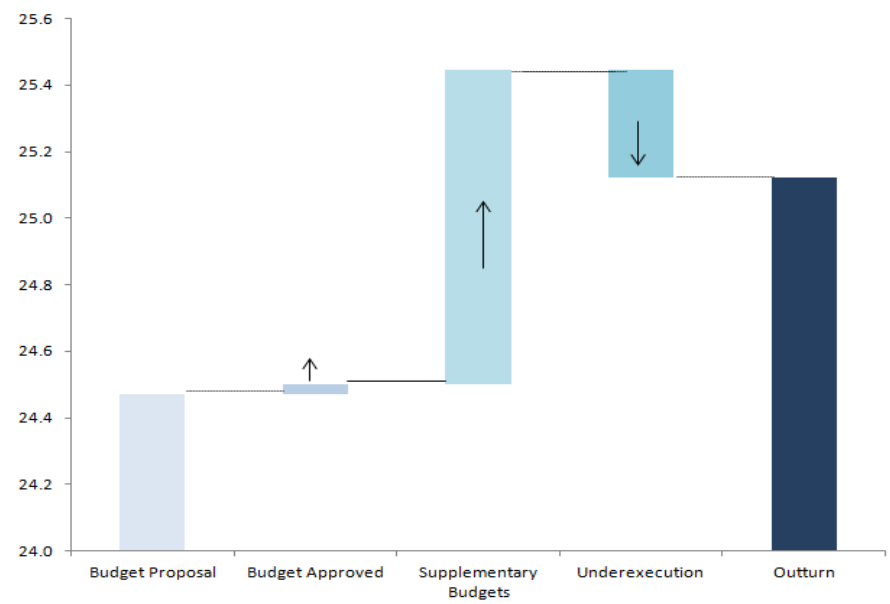
61. There are no formal restrictions on the legislature's powers to amend the budget proposal, but upward revisions of the budget by the Parliament are usually small. Neither the constitution nor other legal documents restrict Parliament's power to amend the executive's budget proposal. Upward revisions by Parliament of the budget submitted by government, however, amount on average to only 0.3 percent of total expenditures (0.03 percent of GDP) (Figure 2.7). This

[26] State Budget Decree (1243/1992).

[27] The MoF publishes the budget proposal presented to the Cabinet; thus ministries and the public have full transparency on how their budget submissions were considered by the MoF.

reflects a longstanding tradition by Parliament to restrict upward revisions (during recent years to around EUR 50 millions).

Figure 2.7. Average Variation in Expenditures (Budgetary Central Government), 2002-13
(Percent of GDP)



Source: Ministry of Finance.

2.2.2. Timeliness of budget documents (Good)

62. **Finland has a long history of submitting the budget proposal in September and approving it in December.** The Constitution[28] requires the government to submit the budget "well in advance of the next budgetary year," but the date is not further specified and a deadline for the budget approval is not set. During at least the last ten years, the government has submitted the budget around mid-September, with the exception of the budget for 2012 which was submitted in early October because of general elections. The exact date is subject to agreement between the MoF and the Finance Committee of Parliament. Parliament discusses the budget proposal from mid-September to end-November and has approved the budget in December during the last ten years.[29] In case the budget is not published until the end of the year, the constitution requires that "the budget proposal of the Government shall be applied as a provisional budget in a manner decided by the Parliament."

[28] Section 83.

[29] Advanced practice under the Code requires budgets to be approved at least one month before year-end.

C. Policy Orientation

2.3.1. Fiscal policy objectives (Advanced)

63. Finland's national fiscal policy objectives are set in coalition agreements and cover central government only. Finland has no national fiscal rules enshrined in legislation, but some fiscal policy objectives have been in place since 2003. These include:

- The spending limits which were introduced in 2003;
- A debt target, introduced in 2011, which commits to a "substantial reduction" in the central government debt-to-GDP ratio by the end of the parliamentary term (2015) but do not give a specific numerical target. Moreover, the government is committed to adjusting policies if the debt-to-GDP ratio is not shrinking, or if the central government deficit stands above 1 percent of GDP; and
- A budget balance target which was introduced in 1999. Since 2011, a 1 percent deficit target for central government at the end of the electoral period has been in place.

64. Finland, as member of the Euro zone, is also committed to the supranational rules of the European Union for general government. These include:

- The Maastricht deficit rule for general government of 3 percent of GDP;
- The Maastricht debt rule for general government gross debt of 60 percent of GDP;
- A country-specific medium-term objectives (MTO) for the structural budget balance (a deficit of not more than 0.5 percent of GDP);
- A debt reduction benchmark requiring no less than 1/20th of the distance between the actual debt ratio and the 60 percent threshold, starting three years after a country has left the current excessive deficit procedure (EDP); and
- A medium-term expenditure rule, limiting annual growth in general government expenditure to potential GDP growth.

65. While the stated fiscal objectives are precise and time-bound, and several of them have been in place for more than three years, the large number of rules and objectives introduces complexity to the fiscal framework (Table 2.5).

Table 2.5. Fiscal Policy Objectives in Finland

Rule	Intro-duced	Numerical Objective	Coverage	Basis	Time Horizon
National					
Expenditure rule	2003	Limits are set in real terms for primary non-cyclical expenditure	Central Government	Coalition agreement	For parliamentary term
Debt rule	2011	Reduction over the government period	Central Government	Coalition agreement	For parliamentary term
Budget balance rule	2011 (1999)	Target (rule) for CG nominal balance 1 percent deficit (structural surplus of 1 percent of potential GDP)	Central Government	Coalition agreement	For parliamentary term
EU					
Maastricht deficit	1999	3 %	General Government	Stability and Growth Pact	Annual
Maastricht debt	1999	60 %	General Government	Stability and Growth Pact	Annual
Medium-term objectives (MTO)	2013	0.5 percent of GDP structural deficit	General Government	National Legislation (Law 869/2012) based on Fiscal Compact,	Annual
Debt reduction benchmark	2013	No less than 1/20th of the distance between the actual debt ratio and the 60 percent threshold	General Government	Council Regulation	Annual
Expenditure rule	2013	Limiting annual growth in general government expenditure to potential GDP growth	General Government	Council Regulation	Annual

Sources: MoF, IMF Fiscal Rules Database.

66. The NAO, but not the MoF, publishes reports on the compliance with fiscal objectives. The NAO prepares the Fiscal Policy Audit and Monitoring Report annually in which the compliance with the central government spending limits is reviewed qualitatively; a quantitative analysis is only provided for spending outside the spending limits. A section refers to central government debt but no analysis of the national debt and balance targets are provided. A comprehensive analysis of compliance with the EU structural balance and expenditure rules as well as the Maastricht deficit and debt rules were included in the report for the first time in 2013 (Table 2.6).

Table 2.6. Compliance Report for the Structural Balance							
	2012	2013	2014	2015	2016	2017	2018
Structural balance	-1.0	-0.5	-0.8	-0.2	-0.2	0	0.2
MTO	0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
Was the MTO achieved by the end of the period?		Yes	No	Yes	Yes	Yes	Yes
Required change to structural balance		0.50	0.00	0.10	0.00	0.00	0.00
Actual change of structural balance		0.51	-0.24	0.56	0.02	0.22	0.18
Deviation from requirement		-0.01	0.24	-0.46	0.02	-0.22	-0.18
Is the deviation > 0.5 percentage points		No	No	No	No	No	No
Two-year average for deviations		0.46	0.12	-0.11	-0.24	-0.12	-0.2
Is the deviation substantial?		MTO achieved	No	MTO achieved	MTO achieved	MTO achieved	MTO achieved
Substantial Deviation		No	No	No	No	No	No

Sources: National Audit Office, Fiscal Policy Audit and Monitoring Report 2014, issued May 2014.

67. The high number of fiscal objectives and rules, and the different coverage has increased complexity and contributed to noncompliance with some objectives (Table 2.7). While the spending limits are the core fiscal objective for central government and have been complied with every year since 2003, the central government debt and deficit targets have generally not been met. In 2015, the government expects the general government gross debt to rise above 60 percent, and the medium-term objective for the structural balance is expected not to be achieved in 2014 and 2015 according to MoF's forecast in November 2014.

Table 2.7. Compliance with Fiscal Rules									
	2007	2008	2009	2010	2011	2012	2013	2014	2015
CG Spending Limits*	✔	✔	✔	✔	✔	✔	✔	✔	✔
Central Government Debt **	Different objective			41.5	42.7	43.6	48.6	48.7	49.3
Central Government Deficit **					-3.2	-3.5	-3.7	-3.5	-2.4
Maastricht Deficit	5.1	4.2	-2.5	-2.6	-1	-2.1	-2.4	-2.4	-2.1
Maastricht Debt	29.8	28.2	36	41.1	43.5	52.1	54.6	59.8	61
MTO	Introduced in 2013						-0.5	-0.8	-1.2
Expenditure benchmark							✔	✔	✔

Sources: MoF, NAO, Staff estimates.

* Spending limit compliance confirmed in NAO Fiscal Policy Audit.

** Central Government Debt and Deficit object should be achieved at the end of the parliamentary term in 2015.

2.3.2. Performance information (Advanced)

68. The budget documentation presents comprehensive information on past performance and targets for outputs and outcomes. Performance indicators for planned outputs and outcomes are presented for most ministries and agencies (an example from the budget 2014 is provided in Table 2.8). For numerical performance objectives, the budget document shows actual performance in previous years, estimated performance for the two preceding years, and an objective for the budget year. Objectives for previous years are not shown. In addition to the information in the budget documentation a considerable number of performance indicators are reported on the NETRA website,[30] and many of these are also included in the government's annual report. The quality of the performance information is not systematically reviewed, and coordination and alignment of the objectives of ministries operating in the same policy area are not systematically undertaken. While ministries indicate that the performance information is a useful tool in their internal planning, the number of indicators is too large to provide a basis for strategic policy planning, and the quality of the performance information appears to be variable.

Table 2.8. Selected Performance Information in the Budget 2014 for Ministry of Education and Culture

	2009 actual	2010 actual	2011 actual	2012 estimated	2013 estimated	2014 estimated
Secondary school						
- New students	38060	37870	36790	38000	38000	38000
- Completed matriculation examinations	32650	32700	32810	33000	33000	33000
- Number of students	108390	107400	106320	110000	110000	110000
…						
Doctoral Degrees at universities	1642	1518	1653	1649	1635	1635
…						
Sport Policy						
Children and young people who exercise and are physically active in their leisure time (%)			35	35	32	32
World Championship			13	4		
….						

Source: MoF, Budget 2014.

[30] The Government reports on 4.400 performance indicators for all ministries and agencies in NETRA, the Finnish State Internet Reporting System; this number also includes indicators from performance agreements between line ministries and agencies which are published in the budget.

2.3.3. Public participation (Basic)

69. The government presents a citizens' budget in the Budget Review, but does not provide citizens with a formal voice in the budget deliberations. The Budget Review,[31] which is presented with the budget proposal, aims to provide a popular description of fiscal performance and economic prospects and analyzes the budget's implications from the perspectives of a typical citizen and different demographic groups. Citizens are not given a formal voice in budget deliberations. The Finnish government, however, was ranked seventh in 2013 in the World Bank's voice and accountability index, which indicates that the government is responsive to the demands of citizens.

D. Credibility

2.4.1. Independent evaluation (Advanced)

70. The government's economic and fiscal forecasts and performance are monitored by the NAO. As an independent monitoring body, The NAO was assigned the task of supervising compliance with the Fiscal Compact in 2013. The NAO also reviews performance against other fiscal policy objectives and assesses the credibility of economic and fiscal forecasts.

71. The newly established Economic Policy Council (EPC) has been given broader tasks to supplement NAO's monitoring activities. Its remit includes the quality of government's fiscal forecasting, assessment of targets for economic policy and its achievement, the integrative analysis of the different areas of economic policy, and the long-term sustainability of public finances, as well as the appropriateness of economic policy institutions and budgetary structures. The rationale for its establishment was to have an independent body that assesses fiscal policy and make policy recommendations, to supplement NAO's narrower mandate of assessing compliance with fiscal objectives. The EPC has been established by government decree which in principle, but hardly in practice, can be repealed. The decree does not safeguard funding or regulate the number of staff for the secretariat which has been established with the independent Government Institute for Economic Research.

2.3.2. Supplementary budget (Advanced)

72. Any material changes to the approved budget are subject to approval by Parliament through supplementary budgets. The appropriation system in Finland is more restrictive than in many other European countries. The constitution (Section 85) only allows virements between line

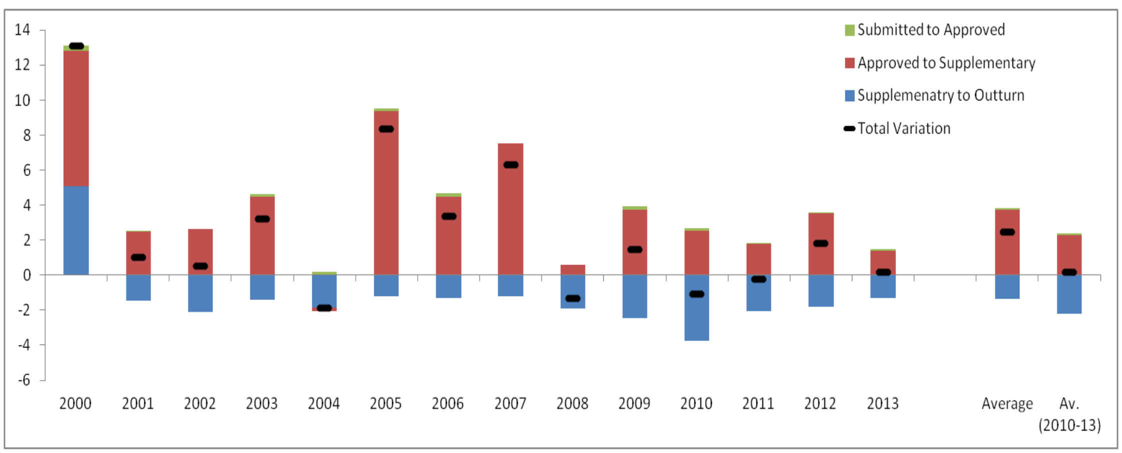
[31] The Budget Review includes: (i) a brief economic outlook and the government's economic policy approach; (ii) central government debt objectives and respective measures; (iii) fiscal forecasts for central and local government; (iv) average social benefits for different social groups, e.g., student grants and unemployment benefits, compared with previous years; (v) average cost of selected public services, e.g., basic education per pupil, dental care per visit; (vi) tax policy changes; and (vii) main changes in budget appropriations.

items if this has been specifically authorized for that particular line item in the budget. For this reason the number of supplementary budgets in Finland is high compared to other European countries; five supplementary budgets were submitted in 2013.

73. Despite large supplementary budgets, the annual budget has in recent years provided a good guide to the aggregate expenditure outturn. Over the past decade, expenditure outturns have on average been 2.5 percent of GDP higher than the initial budget (Figure 2.8). During the last four years, however, expenditure outturns on average only exceeded the initial budget by 0.1 percent of GDP. Decomposing the variation into each stage of the budget cycle reveals a pattern of large expenditure increases in supplementary budgets (0.6 percent of GDP on average for the last four years, or 2.7 percent of approved spending) which have been offset by underexecution of budgets in the same amount. A significant part of the underexecution in recent years has been related to appropriations for export refinancing loans that have not been spent.

Figure 2.8. Variation in Expenditures for Budgetary Central Government from Budget Submission to Outturn, 2000-13

(Percent of GDP)



Source: Ministry of Finance.

2.3.3. Forecast reconciliation (Advanced)

74. The budget documentation provides forecast reconciliations for several different budget aggregates. These include:

- **Spending limits:** Each spending limit decision breaks down changes of previous forecasts into the effects of structural changes and price and cost level adjustment. Structural changes are disclosed in detail per respective line item including an explanation. Changes in revenue forecasts are described but not numerically reconciled;
- **Economic survey:** A reconciliation of expenditures, revenue, and balance is presented for general government, distinguishing changes due to macroeconomic parameters, discretionary spending, technical adjustments, and other factors;

- **General Government Fiscal Plan** (as of 2014, revised format in 2015): According to EU requirements, the government has issued a decree on the publication of a General Government Fiscal Plan in which the spending limits for central government will be incorporated. This decree requires reconciliation of forecasts and analysis of deviations from the plan of the previous fiscal year for general government; and
- **Stability Programme:** For the general government fiscal balance, the deviations from the previous fiscal year's forecasts are broken down for each government sector into the effects of technical adjustments (revised statistical basis), macroeconomic determinants, discretionary policy measures, and other factors (Table 2.9). The forecasts are prepared and reconciled for four years ahead. In addition, divergences for GDP growth, general government net lending, and gross debt are disclosed.

Table 2.9. Expenditure Forecast Reconciliation in the Stability Programme

	2014	2015	2016	2017
General government fiscal balance, spring 2013	**-1.7**	**-1.2**	**-1.0**	**-0.9**
CENTRAL GOVERNMENT:				
Impact of revised statistical basis on revenue and expenditure estimates	-0.2	-0.2	-0.2	-0.2
Impact of revised macroeconomic forecast on revenue and expenditure estimates	-0.3	-0.4	-0.4	-0.4
Impact of discretionary measures on revenue and expenditures estimates	-0.1	0.7	0.8	0.7
Change in interest expenditure estimate	-0.1	-0.1	-0.1	-0.1
Impact of other factors	-0.2	-0.2	-0.1	0.0
LOCAL GOVERNMENT:				
Impact of revised statistical basis on revenue and expenditure estimates	0.2	0.2	0.2	0.2
Impact of revised macroeconomic forecast on revenue and expenditure estimates	-0.1	-0.1	-0.1	-0.1
Impact of discretionary measures on revenue and expenditures estimates	0.3	0.3	0.3	0.3
Impact of other factors	-0.2	-0.4	-0.3	-0.3
EARNING-RELATED PENSION FUNDS:				
Impact of revised statistical basis on revenue and expenditure estimates	-0.1	-0.1	-0.1	-0.1
Impact of revised macroeconomic forecast on revenue and expenditure estimates	-0.1	-0.1	0.0	-0.1
Impact of discretionary measures on revenue and expenditures estimates	0.0	0.2	0.2	0.2
Impact of other factors	0.0	0.0	0.0	0.1
OTHER SOCIAL SECURITY FUNDS:				
Impact of revised statistical basis on revenue and expenditure estimates	0.0	0.0	0.0	0.0
Impact of revised macroeconomic forecast on revenue and expenditure estimates	-0.1	-0.1	-0.1	-0.1
Impact of discretionary measures on revenue and expenditures estimates	0.0	0.0	0.0	0.0
Impact of other factors	0.0	0.1	0.1	0.2
General government fiscal balance, spring 2014	**-2.4**	**-1.4**	**-0.9**	**-0.1**

Source: Finland Stability Programme 2014.

E. Conclusions and Recommendations

75. **Table 2.10 summarizes the assessment of Finland's practice against the Code.** It shows that Finland meet good or advanced practice in almost all areas of fiscal forecasting and budgeting. Only in one area—public participation—is Finland's practice assessed as basic. Despite the favorable assessment of Finland's fiscal forecasting and budgeting practices there are some important areas with room for improvement. The following recommendations are designed to address these areas.

76. **Issue 2.1. Fiscal policy objectives:** The large number of national and supranational fiscal objectives have created complexity and contributed to incompliance with some objectives. The design of the spending limits could potentially lead to circumvention.

77. *Recommendation 2.1: The government should strengthen the design and reporting of fiscal objectives, and in particular:*

- report annually on the compliance with all fiscal policy objectives, and on the relationship between them;
- better align national fiscal objectives to the European rules and the spending limits, for example by breaking up the overall balance target for general government into separate targets for central government and local government, based on the same measures; and
- expand reports of compliance with the spending limits to include reporting on tax expenditures and spending outside the spending limits. Ideally, discretionary changes in such spending should be offset in the spending limits.

78. **Issue 2.2. Investment projects:** New investment projects are subject to cost benefit analysis, but not all are published, and there are no uniform guidelines for project appraisal.

79. *Recommendation 2.2: The government should implement uniform standards for appraisal of investment projects and its publication, notably by:*

- consistently applying a set of general guidelines for project appraisal and cost-benefit analysis for all major investment projects; and
- publishing all cost-benefit analyses for investment projects.

80. **Issue 2.3. Performance information:** The quality of performance information is not systematically reviewed and the performance objectives are not coordinated systematically between the different ministries.

81. *Recommendation 2.3: The quality of performance information presented in the budget and other reports should be further improved by:*

- reviewing the current performance information to identify a smaller set of relevant strategic indicators and improve performance information based on this; and

- establishing a quality assurance process to be performed annually by the MoF or the Prime Minister's Office, for example technical reviews of performance information focusing on consistency, understandability, and other criteria set out by MoF or the Prime Minister's Office; and ensuring coordination of performance information of different ministries with overlapping tasks.

Table 2.10. Summary Assessment of Finland's Fiscal Forecasting and Budgeting

	Principle	Assessment	Importance	Rec.
2.1.1	Budget Unity	**Advanced:** Budget is presented on a gross basis and budget documentation includes all general government entities.	**Low:** Own source revenue accounts for 2.6 percent of total revenue which are presented gross in an annex.	
2.1.2	Macroeconomic Forecasts	**Advanced:** The government publishes four comprehensive macroeconomic forecasts per year with explanations of all key variables and their composition and underlying assumptions.	**Medium:** Real GDP growth forecasts have an overestimating forecast error of 1.0 percent of GDP in year t+2) and an absolute volatility-adjusted forecast error of 0.45 percent of GDP.	
2.1.3	MT Budget Framework	**Advanced:** Budget documentation includes medium-term spending limits and revenue by ministry and economic category.	**High:** Spending limits cover only 80 percent of the budget, tax expenditures and extrabudgetary funds are not included.	2.1.
2.1.4	Investment Projects	**Good:** All major investment projects are subject to open and competitive tender and medium-term obligations are disclosed, but not all cost-benefit analyses are published before approval.	**Medium:** Public investment is relatively low at 2.6 percent of GDP.	2.2.
2.2.1	Fiscal Legislation	**Good:** The Legal Budget Framework is comprehensive, but does not include a provision restricting legislature's power to amend the executive's budget proposal.	**Low:** Upward revisions by Parliament are low with 0.3 percent of total expenditures on average.	
2.2.2	Timeliness of Budget Documents	**Good:** Budget proposals are released 3-4 months before the start of the financial year but approved by Parliament only in December.	**Low:** Budgets are routinely approved before the start of the financial year. Parliamentary amendments are limited.	
2.3.1	Fiscal Policy Objectives	**Advanced**: The government has several precise and time-bound national and supranational fiscal rules, some of them in place for more than 3 years, NAO and not MoF reports on compliance.	**High:** Not all national fiscal policy objectives are consistently observed. CG gross debt is not on a declining path but will grow from 41 percent in 2010 to 49 percent in 2015.	2.1.
2.3.2	Performance Information	**Advanced**: Budget contains targets for and reports on the outputs and outcomes.	**Medium:** The government reports on 4,400 performance indicators but the use in the budget process is limited.	2.3.
2.3.3	Public Participation	**Basic:** The budget review presents a citizens' budget but citizens do not have a formal voice in budget deliberations.	**Low:** Finland is at the 97th percentile of the World Bank's Voice and Accountability Indicator.	
2.4.1	Independent Evaluation	**Advanced:** NAO reviews compliance against fiscal objectives. The Economic Policy Council was established in January 2014 in charge of fiscal policy assessment.	**Low:** Finland as part of the Eurozone is subject to European Institutions' scrutiny.	
2.4.2	Supplementary Budget	**Advanced:** Any increase and altering of the composition of the budget requires ex ante approval by Parliament.	**Medium:** 3 to 5 supplementary budgets are passed every year amounting to 2.7 percent on average of approved budgets.	
2.4.3	Forecast Reconciliation	**Advanced:** Detailed forecast reconciliations are prepared for spending limits and general government forecasts.	**Medium**: Expenditure forecasts show lower forecast accuracy for future years (3.3 percent of GDP for t+3).	

III. FISCAL RISK ANALYSIS AND MANAGEMENT

82. **This section assesses the government's analysis, reporting, and management of fiscal risks compared to the practices set out in the IMF's Fiscal Transparency Code.** It looks at three dimensions of the issue:

- general arrangements for disclosure and analysis of fiscal risks;
- reporting and management of risks emanating from specific sources, such as government guarantees, public-private partnerships, and the financial sector; and
- coordination of fiscal decision-making between central government, local governments, and public corporations.

Table 3.1 lists some of the government's reports on which this section relies. The annual Stability Programme Update has information on macroeconomic risks, whereas information on specific risks can be found in the budget, the accounts, and a variety of sector-specific reports.

Table 3.1. Selected Reports Describing Fiscal Risks

Report	Fiscal Risks Discussed	Author
Stability Programme 2014	Macroeconomic and long-term risks	Ministry of Finance
Budget	Contingencies, PPPs	Ministry of Finance
General Government Financial Accounts	Assets and liabilities, guarantees, callable capital	Statistics Finland
Debt Management Annual Review 2013	Debt and cash	State Treasury
Central Government Guarantees	Guarantees	Statistics Finland
Public Private Partnership (PPP) Review	PPPs	Finnish Transport Agency
Financial Stability, N Report, 2014	Financial sector	Bank of Finland
Aggregate Report on the Comprehensive Assessment	Financial sector	European Central Bank
Annual Report of the Ownership Steering Department 2013	State-owned enterprises	Prime Minister's Department

83. **The analysis reveals that many of the government's practices are satisfactory.** The government discloses information on a wide variety of fiscal risks, and its risk-management practices are generally consistent with basic or good practice according to the Code. In some areas in which the government's practices are judged not to meet the standard of good practice, such as public-private partnerships, the risks appear less important in Finland than in other countries.

84. In a few areas, however, the government falls short of good or advanced practice even though the relevant risks are important. The government produces credible fiscal forecasts (Section II), but it does not present much analysis of the sensitivity of the forecasts to assumptions, or indicate the uncertainty surrounding the forecasts. Moreover, although information is available on many fiscal risks, the government does not yet produce a report that summarizes those risks in one place. This makes it difficult to assess the relative importance of the various risks and their likely correlations. Lastly, although good information is available on the finances of municipalities, the law does not prevent individual municipalities from taking on excessive debt and thereby creating spillover risks for the central government or other municipalities.

A. Disclosure and Analysis

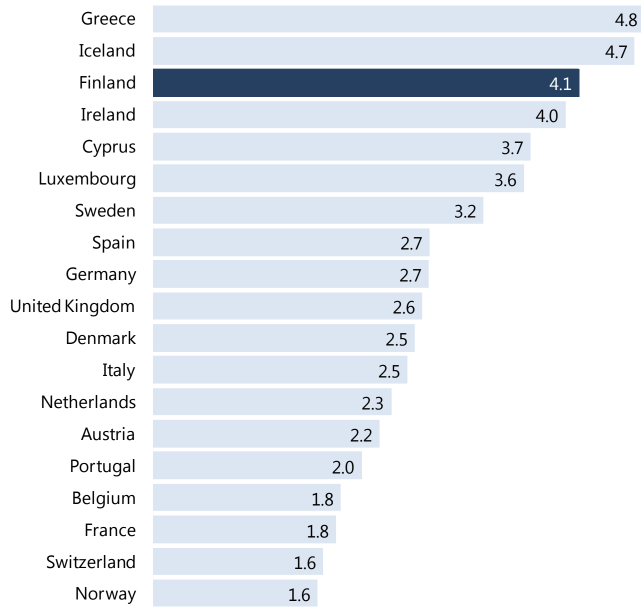
3.1.1 Macroeconomic risks (Good)

85. Uncertainty about GDP creates large fiscal risks. Although such risks are important in all countries, they are more important in Finland than in many others, because of the Finnish economy's volatility. Figure 3.1 shows how a measure of volatility—the standard deviation of the growth of real GDP over the last ten years—varies among Western European countries.[32] Figure 3.2 shows how this measure of volatility has evolved over time in Finland and other Nordic countries and reveals that recent volatility is similar to that of the 1990s. Uncertainty about GDP has many fiscal implications, the most important of which is uncertainty about government revenue. Figure 3.3 depicts the relationship between the volatility of GDP and the volatility of revenue in advanced economies. It shows that government revenue in Finland is somewhat more stable than might be expected given the volatility of GDP, probably because of the importance in government revenue of consumption taxes.

[32]Western Europe is defined here as in IMF, 2011, *Regional Economic Outlook: Europe—Navigating Stormy Waters*, October (Washington: IMF).

Figure 3.1. Volatility of Real GDP, Western Europe, Ten Years to 2013

(Standard deviation of growth rates in percent)

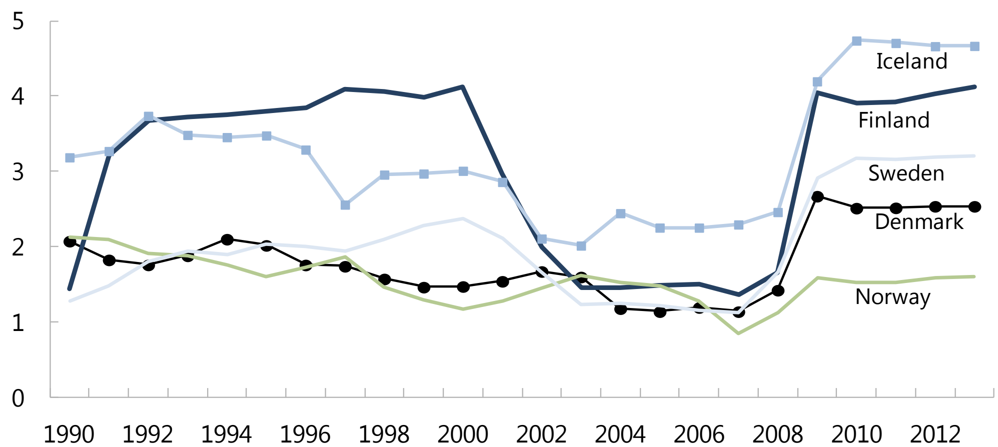


Source: IMF World Economic Outlook database, April 2014.

Note: Volatility is measured as the standard deviation of the growth of GDP in the ten years to 2013.

Figure 3.2. Volatility of Real GDP, Nordic Countries, 1990–2013

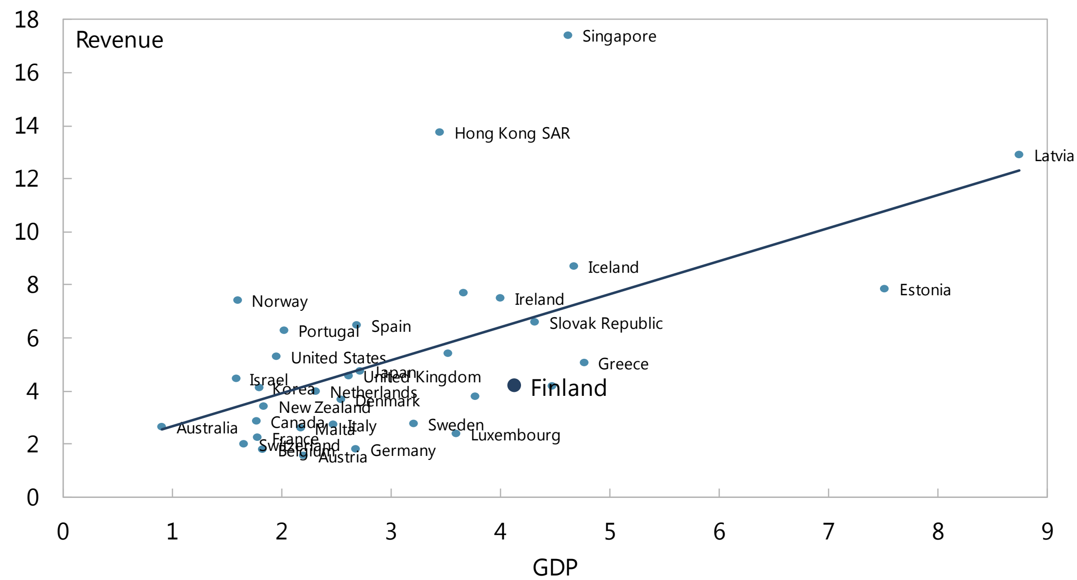
(Standard deviation of growth rates in percent)



Source: IMF World Economic Outlook database.

Note: Volatility is the ten-year moving average of the standard deviation of the growth of GDP.

Figure 3.3: Volatility of Real GDP and Government Revenue, Advanced Economies
(Standard deviation of growth rates in percent)



Source: IMF World Economic Outlook database, April 2014.

Note: Revenue is deflated at the CPI.

86. The government publishes less analysis of macroeconomic fiscal risks than is warranted by the size of the risks. The 2014 *Stability Programme* reports the sensitivity of the government's forecasts of the European measures of the deficit and debt to economic growth (see p. 89). There is, however, no regularly published analysis of the sensitivity of fiscal outcomes to other macroeconomic variables, such as interest rates or oil prices. The twice-yearly *Economic Survey* investigates the implications for the economy of some alternative macroeconomic scenarios and, although its focus is not fiscal, it shows the implications of the scenarios for the deficit and/or debt. There is no regular presentation of fan charts that give a sense of the uncertainty of the forecasts.

3.1.2. Specific fiscal risks (Not met)

87. There are also fiscal risks that are not easily incorporated in macroeconomic analysis. These "specific" (or "discrete") fiscal risks arise from various sources, including calls on government guarantees, the possibility of having to bail out banks or local governments, and losses in the government's investment portfolios. Table 3.2 lists some of the more easily quantified specific fiscal risks to which the government is exposed, excluding those that relate to the assets and liabilities of general government that are shown in Table 0.2 above. The table shows the government's gross exposure, or the most the government could be required to spend in a worst-case scenario. It does not indicate likely expenditure.

Table 3.2. Selected Specific Fiscal Risks: Gross Exposure in 2012/13

Risk	Size in percent of GDP	Nature of gross exposure
Guarantees	25.1	Face value of debt guaranteed by general government
Callable capital	8.9	Subscribed but unpaid capital in international financial institutions
Interest-rate guarantees	4.7	Face value of loans on which government has provided guarantee
Bank liabilities	246	Total value of banks' liabilities (none of which are explicity guaranteed)

Sources: Ministry of Finance and Statistics Finland.

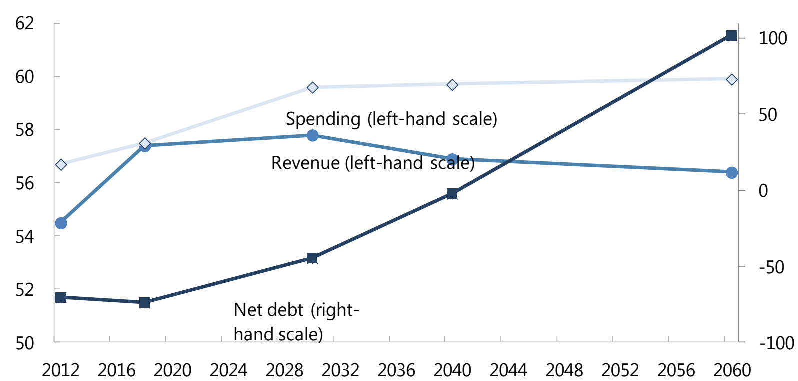
88. **Although information on some specific risks is publicly available, there is no summary report that discusses in one place the range of risks to which the government is exposed.** For example, information on guarantees issued by the central government is published in notes to the government's accounts, while information on the risks surrounding debt is available in the State Treasury's *Debt Management Review* and information on the risks related to the government's financial assets can be found in the reports of the pension funds.

3.1.3 Long-term sustainability of public finances (Basic)

89. **As in most other advanced economies, aging and the rising cost of healthcare are expected to increase government spending and slow the growth of tax revenue.** In the absence of changes in government policy, net debt is therefore expected to increase sharply (Figure 3.4). Before recent reforms, the increase in tax rates and/or cuts in benefits that was estimated to be needed to stop debt from growing ever higher was about 5.8 percent of GDP. With the reforms that have already been adopted—other savings are planned but not yet implemented—the estimated adjustment has come down significantly, but it is still large at about 3 percent of GDP according to an estimate made in April 2014 (see Figure 3.5). The estimate is, of course, highly uncertain, because it depends on assumptions about what will happen in the distant future.

Figure 3.4. Finland: Long-Term Fiscal Projections, 2012-60

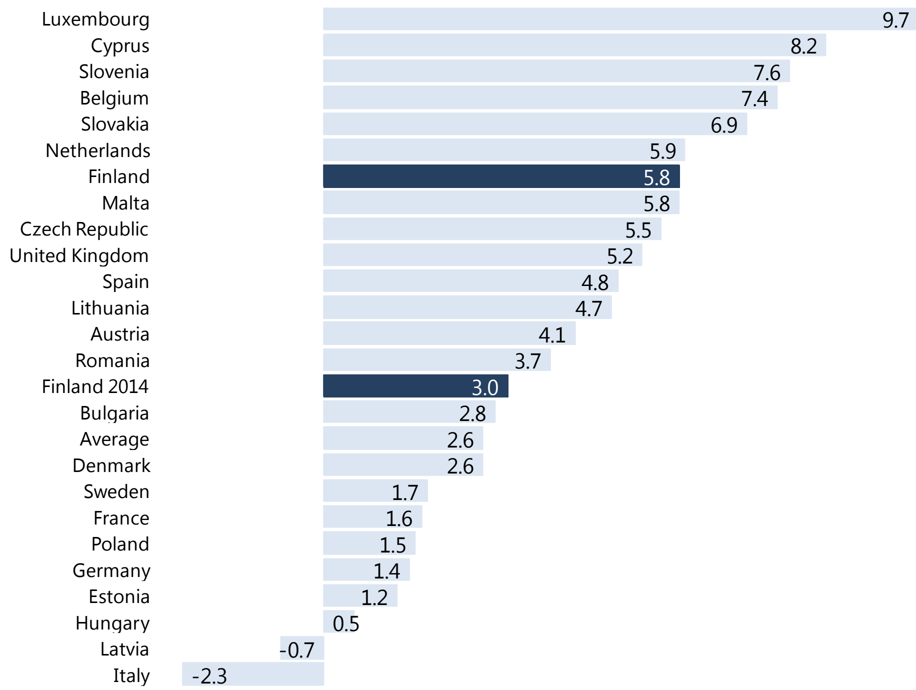
(Percent of GDP)



Source: Finland Stability Programme Update, 2014, Table 7b.
Note: Net debt is gross debt less gross (financial) assets. The lines are linear interpoliations between the years for which data are reported in Table 7b.

Figure 3.5: Required Adjustment in Taxes and/or Spending for Sustainability, 2012

(Percent of GDP)



Sources: European Commission, Fiscal Sustainability Report, 2012; Finland Stability Programme, 2014, p.43.

90. The government publishes long-term projections, but (at least in recent years) no sensitivity analysis. Given the importance of the issue and the uncertainty of the projections, it would be helpful to show how the estimates of revenue, spending, and debt would vary with different assumptions about, among other factors, interest rates, demographic change, and the growth of labor productivity.

B. Risk Management

3.2.1 Budgetary contingencies (Advanced)

91. The budget and spending limits provide for various contingencies. The *Government Decision on Central Government Spending Limits for 2014–17* included, for 2014, a provision for supplementary budgets of €200 million and an unallocated reserve of €193 million (p. 8). The former is intended mainly for unexpected spending needs and one-off policy measures, while the idea behind the latter is to give the government room to implement new long-term policy initiatives.[33] In total, these amounts were 1.0 percent of the spending limit for 2014. They are not budget appropriations, but differences between budgeted spending and the spending limits and can

[33] "Developing the Spending Limits System," 2011, p. 59 and, more generally, Sections 4.1.2–3.

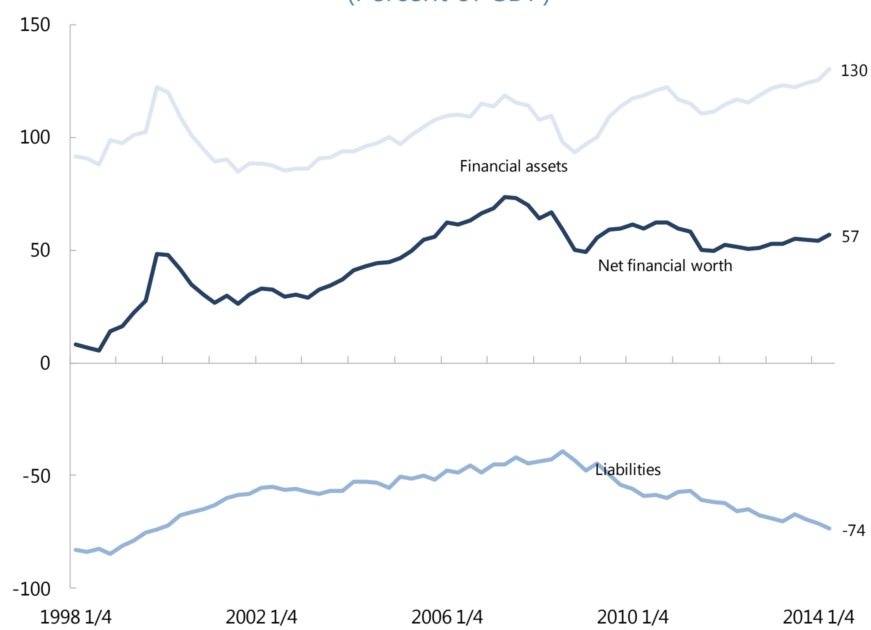
therefore be spent only with an appropriation. Their use is reported in budgets and supplementary budgets. The budget itself includes two very minor appropriations for contingencies.[34] One is for spending that is required by separate legislation but for which no appropriation is included in the budget. The other is for unanticipated spending without such legislative provision. These appropriations are rarely used but when they are the spending is reported during the year in NETRA.

3.2.2. Assets and liabilities (Good)

92. The government has a large portfolio of financial assets and liabilities. As discussed in Section I, deciding whether it is most useful for analytical purposes to include pension assets and liabilities on the government's balance sheet is difficult. If the current statistical balance sheet is used, the government has liabilities worth 74 percent of GDP and financial assets worth 130 percent of GDP (Figure 3.6)—an amount on the asset side that is very large by comparison with other countries, with the exception of a few oil exporters. If pension liabilities are added, as in Table 0.2, the liability side of the balance sheet also becomes large.

Figure 3.6. On-Balance-Sheet Financial Assets and Liabilities of General Government 1998-2014Q2

(Percent of GDP)



Sources: Statistics Finland, Financial Accounts of General Government, Quarterly GDP (ESA 2010, B1GMH).

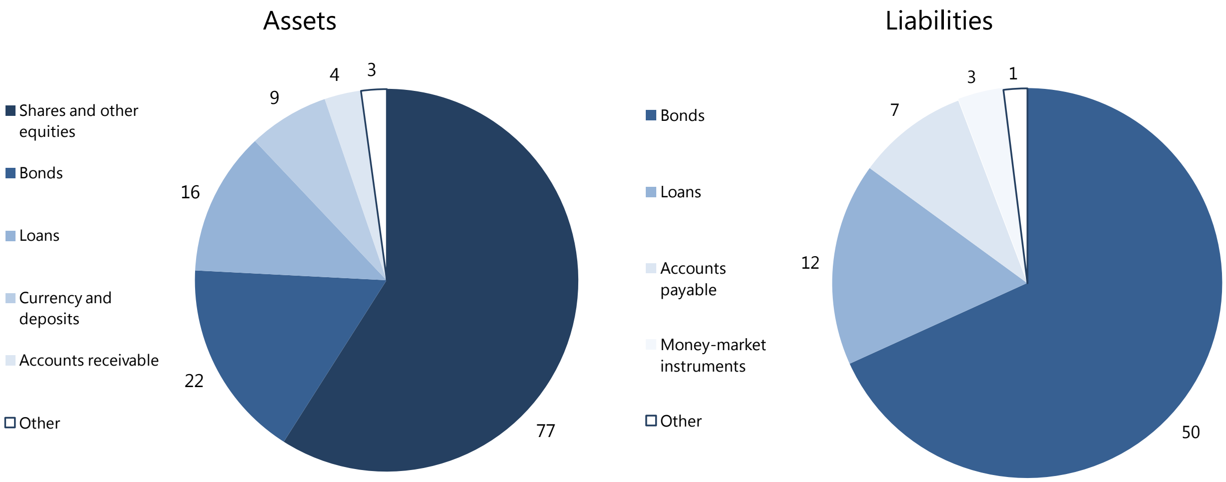
Note: Quarterly asset and liabilities are expressed as a percentage of GDP for previous four quarters.

[34]See line items 28.99.96 (€0.3 million) and 28.99.95 (€5 million) in the 2015 budget proposal for the Ministry of Finance.

93. The assets are mainly equities, while the liabilities are mainly bonds (Figure 3.7). The assets are mostly held by pension funds, and include bonds and loans, as well as large portfolios of mainly foreign equities. The liabilities are mainly bonds issued by the central government.

Figure 3.7. Financial Assets and Liabilities of General Government, June 2014

(Percent of GDP)



Sources: Statistics Finland, Financial Accounts of General Government, Quarterly GDP (ESA 2010, BIGMH).

94. The risks of each of the main portfolios of assets and liabilities are monitored and managed. On the asset side of the balance sheet, each pension funds aims to achieve reasonable returns while limiting the volatility of the portfolios, in part by diversifying broadly and tracking correlations between different kinds of assets. On the liability side of the balance sheet, the State Treasury manages the risks of the debt portfolio by, among other things, avoiding foreign-currency exposure, diversifying the investor base, smoothing the repayment profile, and issuing long- as well as short-term debt (the average duration of the portfolio is about four years).

95. Nevertheless, the combination of both significant assets and liabilities makes the government's net worth quite susceptible to fluctuations in market prices. Although the size and structure of the government's balance sheet is understandable given the nature of the pension system, it exposes the government to more fiscal risk than it would face if it had the same net worth, but fewer assets and fewer liabilities. The increase in asset prices since the 2010 has made a large positive contribution to the government's net worth. Similarly, a relatively modest 10 percent decline in the prices of the government's financial assets would cost it 13 percent of GDP, more than the sum of the deficits it ran in the period 2009–13.

96. The management of risks on a portfolio-by-portfolio basis could also lead to choices that were suboptimal from the perspective of the government as a whole. The reason is that the risks faced by government are not simply the sum of the risks faced by each of its portfolios, but depend on the correlations among the portfolios.

97. Though only a small part of the balance sheet, the assets and off-balance-sheet liabilities of the Housing Fund create some additional risks. Unlike the pension funds, the Housing Fund invests for policy rather than investment purposes and therefore runs different risks. It has a portfolio of loans to municipal and not-for-profit providers of social housing that has a nominal value of €6.8 billion (3.4 percent of GDP). Although the repayment record has so far been good (loans in arrears are 0.5 percent of the total)[35] there are concerns that the pool of loans is becoming steadily riskier. The Housing Fund stopped making new loans in 2007, but it now guarantees borrowing by social-housing providers (see discussion of guarantees below) and it also provides interest-rate guarantees on these loans: that is, it subsidizes borrowers' interest payments if interest rates exceed a certain threshold (currently 1 percent). According to one estimate, payments under the interest-rate guarantee are expected to be only €43 million in total over the period of the guarantees, but would rise to €1.2 billion if interest rates rose immediately to 5 percent a year.[36]

98. Information is available on the risks of debt and the main asset portfolios. The risks surrounding the government's portfolio of debt and cash held for day-to-day uses are described in general terms in the State Treasury's *Debt Management Annual Review 2013*. (Section 82 of the constitution also requires all borrowing to be authorized by law.) On the asset side of the balance sheet, the major pension funds publishes reports that describe their investments and some of the risks to which they are subject. The Finnish Pension Alliance, TELA, publishes information on the combined portfolio of the pension funds. Missing, however, is information on the risks of the government's total portfolio, taking account of the correlations between the different assets and liabilities.

3.2.3 Guarantees (Good)

99. Government guarantees have been growing rapidly. Partly as a result of the financial crisis, and perhaps partly because of the spending limits, the central government has made increasing use of guarantees (Figure 3.8). The biggest beneficiaries are housing corporations, exporters benefitting from export-credit guarantees, and European crisis countries,[37] (Figure 3.9 gives a breakdown of the beneficiaries by sector). The local-government sector also issues guarantees, and the total estimated guarantees of the general government now amount to 24 percent of GDP.[38] Among European countries for which data are available, only Austria and Ireland have a larger stock of outstanding guarantees (Figure 3.10). Note also that Statistics Finland's

[35] Estimate provided by Ministry of Finance.

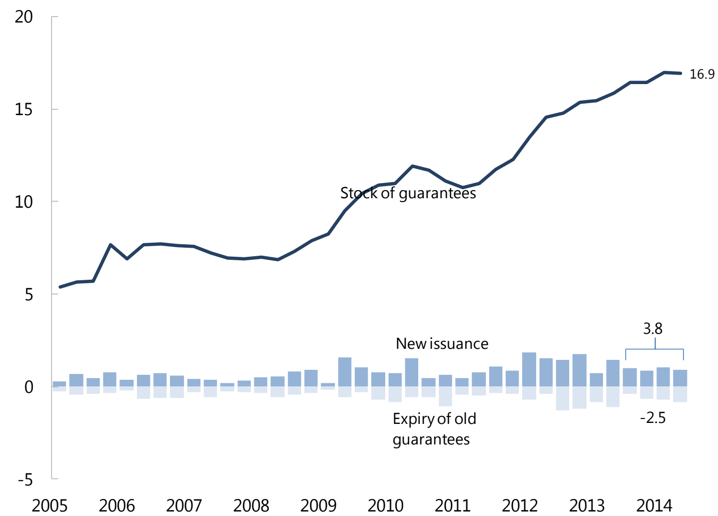
[36] Estimate provided by the Housing Finance and Development Center of Finland.

[37] Including guarantees to European Financial Stability Facility (EFSF).

[38] Statistics Finland, EDP Information, September 30, 2014, Table 9.1.

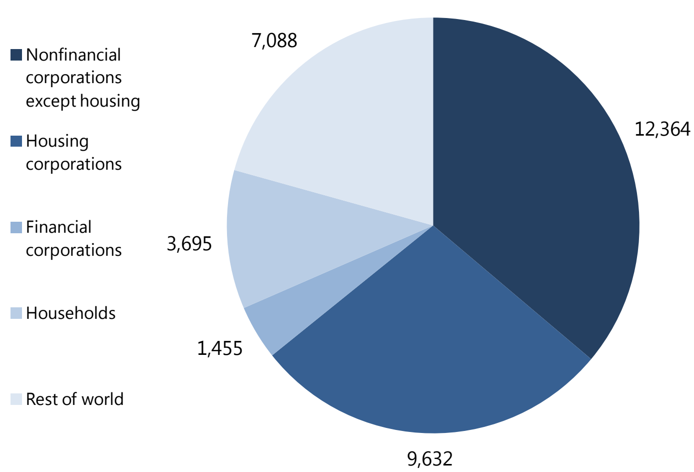
data do not include the government's guarantees of the Bank of Finland's obligations to the IMF, which have an estimated value of 4 percent of GDP.[39]

Figure 3.8. Guarantees of Central Government, 2005–14:Q2
(Percent of GDP)



Source: Statistics Finland's data on government guarantees and quarterly GDP.
Notes: Data exclude guarantee of the Bank of Finland's obligations to the IMF. The bracket indicates guarantee issuance and expiry in last four quarters.

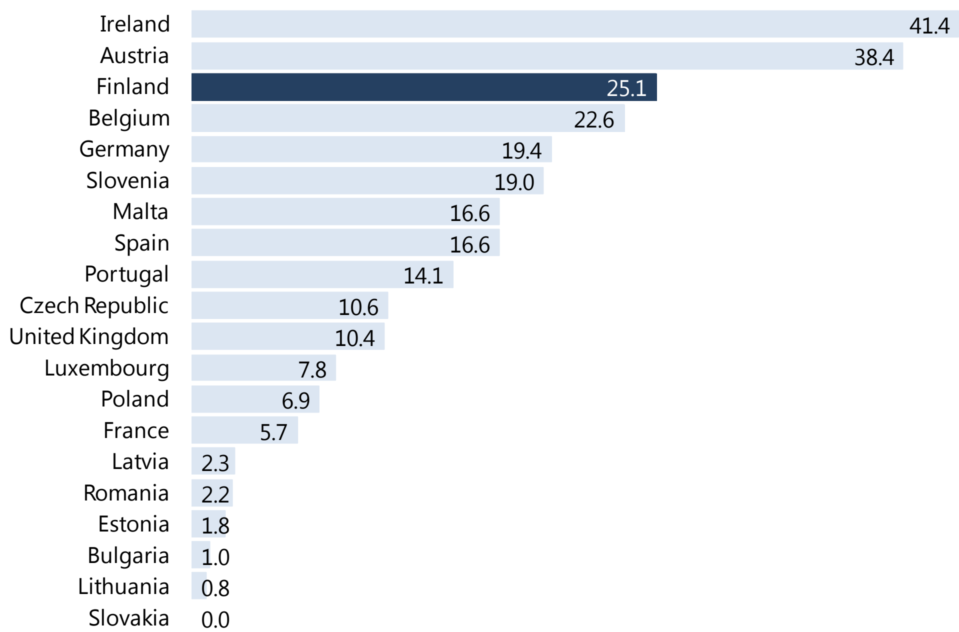
Figure 3.9. Central Government's Guarantees by Sector, June 2014
(Billion euros)



Sources: Statistics Finland, Central Government Guarantees, 2014, Second Quarter

[39]Information provided by the Ministry of Finance.

Figure 3.10. Guarantees of General Government, Europe, 2013
(Percent of GDP)



Source: Eurostat.
Note: data are for 2013 or, if unavailable for that year, 2012. For Finland, data for 2013 are from EDP Table

100. The issuance of guarantees is controlled by law, and information on guarantees is publicly available. Section 82 of the constitution says that "a State guarantee may be given on the basis of the consent of the Parliament." Statistics Finland produces quarterly reports on guarantees issued by central government and the sectors that benefit from the guarantees (households, financial corporations, nonfinancial corporations, rest of world). Information on the central government's guarantees and their beneficiaries is also published in the government's annual accounts.[40] No information on the probability of losses is routinely published.

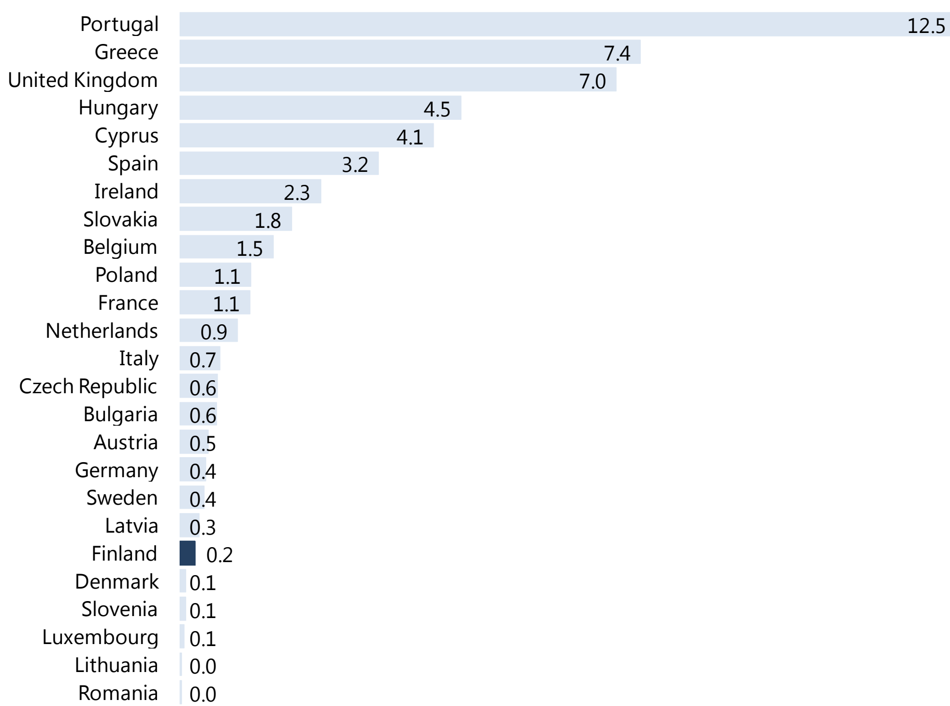
3.2.4. Public-private partnerships (Basic)

101. Finland has made relatively modest use of public-private partnerships. According to one study, total investment in such projects in the period 1990–2011 was 0.2 percent of GDP, a small fraction of the amount in such countries as Greece, Portugal, and the United Kingdom (Figure 3.11). Some further investment has taken place since then. Local governments currently have several small

[40]See Annex 12 on pp. 112–13 of Hallituksen vuosikertomus 2013 Osa 3/4: Tilinpäätöslaskelmat (the government's financial statements).

PPPs for schools and kindergartens, with an estimated construction cost of €76 million (0.04 percent of 2014 GDP).[41] The central government currently has three, which are for roads connecting Muurla with Lohja, Koskenkylä with Kotka, and Hamina with Vaalimaa. These roads have an estimated construction cost of €701 million (0.35 percent of 2014 GDP). In these projects, the government pays the contractors for the availability of the road over a period of 20 or so years. At a nominal discount rate of 4 percent, the government's remaining payments have a present value of 0.7 percent of GDP.[42]

Figure 3.11. Cumulative Investment in PPPs, 1990–2011
(Percent of 2012 GDP)



Source: Andreas Kappeler, PPPs and their Financing in Europe: Recent Trends and EIB Involvement, September 2012, EIB

102. The central government's PPPs are on-balance-sheet in the government's accounts and statistics. This means that the investment spending of the PPP companies counts as government spending in the calculation of the deficit subject to European rules and that the projects are treated as creating government debt during the construction period. The government's periodic payments are treated in part as the payment of interest and the repayment of principal of this

[41]This is the contractual capital value reported in EDP Table 11.1, September 30, 2014, part of which was provided to the mission by Statistics Finland. GDP is the estimate for 2014 from the IMF's *World Economic Outlook* database, April 2014.

[42]This estimate is derived from projections provided by the Ministry of Finance of annual spending on the three roads in the period 2015–2035.

imputed debt. This solves part of the problem that PPPs create for fiscal management. Yet only the annual payments to PPP companies are counted in the spending that is subject to the spending limits, so PPPs can be used to circumvent the ceilings in the short term.

103. Some additional information on the fiscal implications of PPPs is available. The Finnish Transport Agency's 2013 *Public-Private Partnerships (PPP) Review* describes the three road projects and their basic financial structure,[43] while the budget shows for each project total authorized spending over the life of the contract, spending to date, spending authorized in the budget year, and remaining authorized spending.[44] The Transport Agency's financial statements also include some information on the amount and timing of the government's payments in a note on the maturity structure of it debt.[45] Not published are the details of the government's forecast spending in each year of the PPP contracts beyond the medium term or the details of the government's financial rights and obligations, such as the provisions regarding compensation upon early termination (or the contracts themselves). Nor is there a legal limit on the government's total obligations in PPPs.[46]

3.2.5. Financial sector (Advanced)

104. The financial sector is a source of infrequent but sometimes large fiscal shocks. For example, the Finnish financial crisis of the early 1990s had a direct fiscal cost, by one measure, of 12.8 percent of GDP.[47] It was also associated with a steep fall in GDP that reduced tax revenues and increased social spending. Finland's banks endured the crisis of the late 2000s reasonably well, but, as in all advanced economies, are still an important source of fiscal risk. The government has not explicitly guaranteed any of the liabilities of banks or other financial institutions. Moreover, in conjunction with other members of the European Union, it has taken steps to reduce the fiscal costs of any future banking problems. Yet a future financial crisis might still put the government in a position where its least unattractive option was to spend public money to support distressed banks. Finland's banking system is not large by comparison with those of other European countries (Figure 3.12), but as Table 3.3 shows, its liabilities are large relative to Finland's GDP. The table gives an idea of the magnitude of the worst-case *possible* fiscal cost of a financial crisis. A very rough indication of the *expected* fiscal cost can be inferred from measures of the weight that lenders and credit-rating agencies give to the possibility of the government's bailing out banks. Although no up-

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[43] Available at http://www2.liikennevirasto.fi/julkaisut/pdf3/lr_2013_ppp_review_web.pdf.

[44] The 2015 budget document in Swedish, for example, includes an appropriation of €97.75 million for the 2015 budget year and a remaining unused authorization (*behov av finansiering senare*) of €1625.4 billion (p. 641).

[45] See *Liikenneviraston tilinpäätös vuodelta 2013* (Financial statements for the year 2013), p. 54.

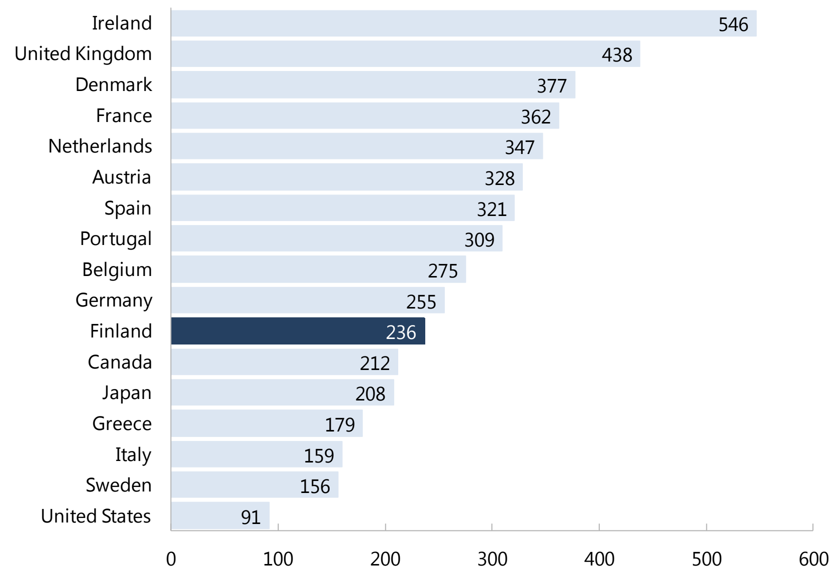
[46] The Finnish Transport Agency did produce a note, "The Use of the Life-Cycle Contract in Infrastructure Projects," that included a graph showing projected payments by year (and a limit), but this was in 2007.

[47] Luc Laeven and Fabián Valencia, "Systemic Banking Crises Database: An Update," IMF Working Paper, WP 12/163, Table A1; see also Figure 9.

to-date information is available for Finland specifically, recent estimates for the euro zone as a whole suggest that the government's perceived implicit subsidy could have an expected fiscal cost of 1 percent of GDP a year or more.[48]

Figure 3.12. Bank Assets in Selected Advanced Economies, 2012

(Percent of GDP)



Source: IMF, *Global Financial Stability Report*, April 2014 (Statistical Appendix, Table 1).

Note: Luxembourg, with bank assets of 1757 percent of GDP, is not shown.

Table 3.3. Banks' Liabilities, 2013

(Percent of GDP)

Liabilities	Percent of GDP
Total	246
of which on balance sheet	219
of which deposits	68
of which insured	40

Source: IMF Staff Report for Article IV, May 2014, p.31, except for insured deposits, which is for end 2012 (Ministry of Finance) and GDP (IMF World Economic Outlook database, April 2014).

[48]The IMF's *Global Financial Stability Review*, April, 2014 (Table 3.1) estimates that the implicit guarantee of too-big-to-fail banks in the euro zone in 2013 was worth about 60–90 basis points. Taking the midpoint of this range, and multiplying it by liabilities of 200 percent of GDP, gives an annual expected cost of 1.5 percent of GDP, assuming that the cost to the government is the same as the value to banks' creditors. Sebastian Schich and Byoung-Hwan Kim, "Developments in the Value of Implicit Guarantees for Bank Debt: The Role of Resolution Regimes and Practices," *OECD Journal: Financial Market Trends*, Issue 2, 2012 (Figure 2) estimates that the value of implicit guarantees in Finland is similar to their value in other European countries.

105. By most measures, banks are in relatively good shape. They are profitable and have a low level of nonperforming loans (0.6 percent of the total).[49] According to the European Central Bank's recent review, none of the three largest ones needs to raise more capital.[50] Moreover, the economy shows none of the signs of overheating (such as persistently large current-account deficits and an appreciating real exchange rate) that typically signal an elevated risk of financial crisis.[51]

106. Yet there are some causes for concern. Weak economic growth is creating some problems for banks and their borrowers. Household debt is high, and house prices are arguably somewhat overvalued by some measures.[52] Figure 3.13 shows that the price-to-rent ratio, for example, has risen significantly since the late 1990s, though it is still below its peak of the late 1980s. Also potentially worrying is banks' dependence on wholesale funding and their high average leverage. Figure 3.14 shows that banks' equity in 2012 was only 4.4 percent of the value of their assets, a smaller fraction than in any other country in the figure.[53] The risks created by banks depend not only on their leverage, however, but also on the riskiness of their assets, and Finnish banks have a relatively high proportion of their assets in derivatives and real-estate loans, which regulation treats as relatively safe. As a result, the banking system's regulatory risk-weighted leverage is in the middle of the range. Another way of taking account of both banks' leverage and the riskiness of their assets is to consider their "distance to default" as implied by the level and volatility of their share prices (Figure 3.15). This measure, on which higher values imply more safety, suggests that the risks created by banks are currently close to their average in the period 1988–2014.

107. The Bank of Finland, the Financial Supervisory Authority, and the European Central Bank together publish comprehensive reports on financial-sector risks. The Bank of Finland's reports on financial stability, for example, provide a detailed description of the risks faced by banks, drawing on many different indicators. The European Central Bank's October 2014 report on the results of a stress test, and asset-quality review presents further information on the risks faced by the three largest Finnish banks under an adverse economic scenario. (As noted above, there are no explicit guarantees of the financial sector to disclose.)

[49] IMF Staff Report, May 2014, p. 31; Bank of Finland, Financial Stability 2, 2014, p. 30.

[50] European Central Bank, Aggregate Report on the Comprehensive Assessment, October 2014.

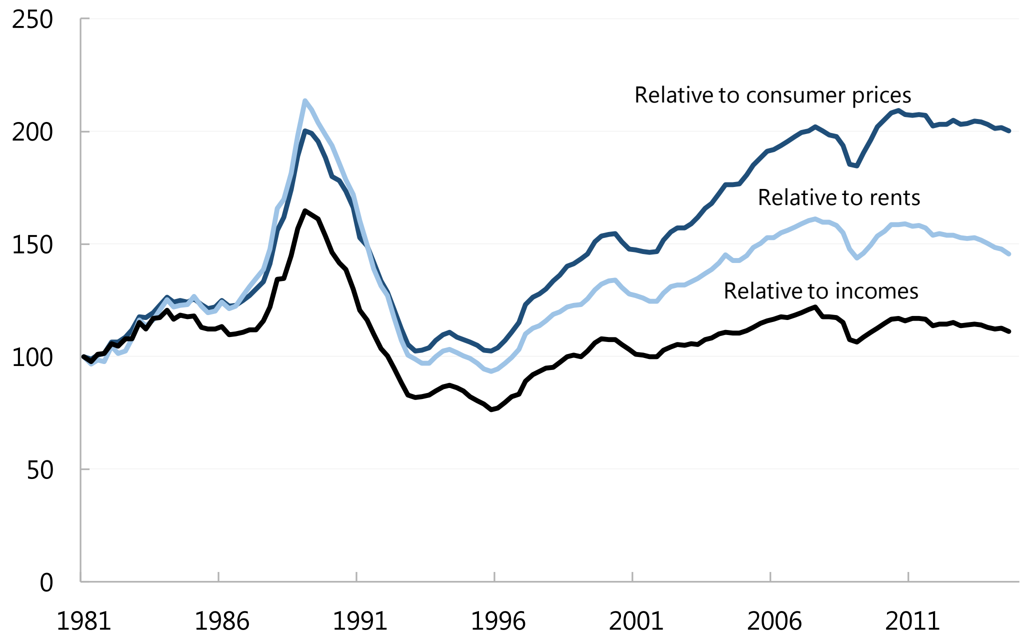
[51] IMF Staff Report, May 2014, p. 19.

[52] IMF Staff Report, May 2014, pp. 3, 31–32; IMF, Nordic Regional Report, 2013, pp. 11–12; Bank of Finland, Financial Stability 2, 2014.

[53] More recent measures of leverage show that the banks' leverage ratio has increased to 4.9 percent (IMF, Staff Report, May 2014, p. 31). See also the European Central's Bank Comprehensive Assessment, Figure 72.

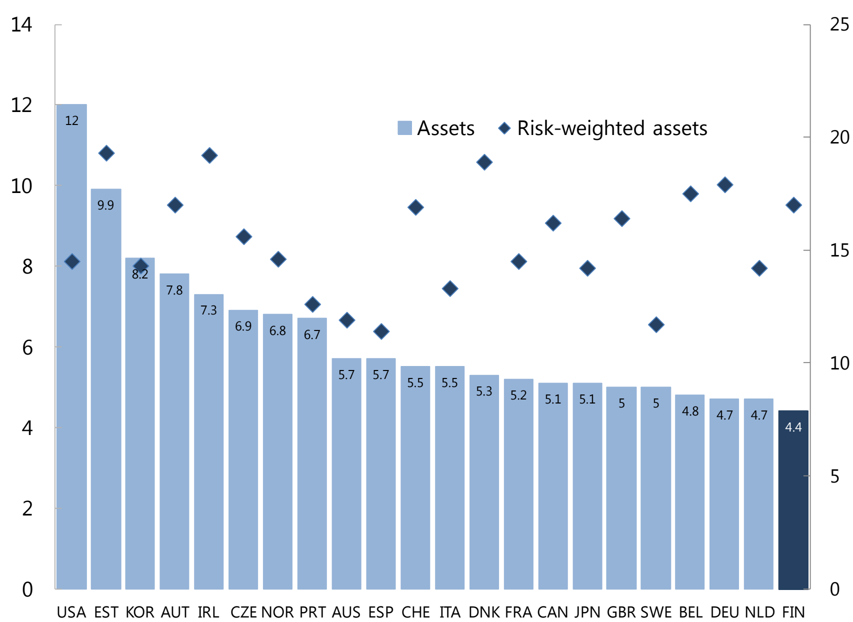
Figure 3.13. Finland: House Prices, 1981–2014

(1981Q1=100)



Source: Bank of Finland

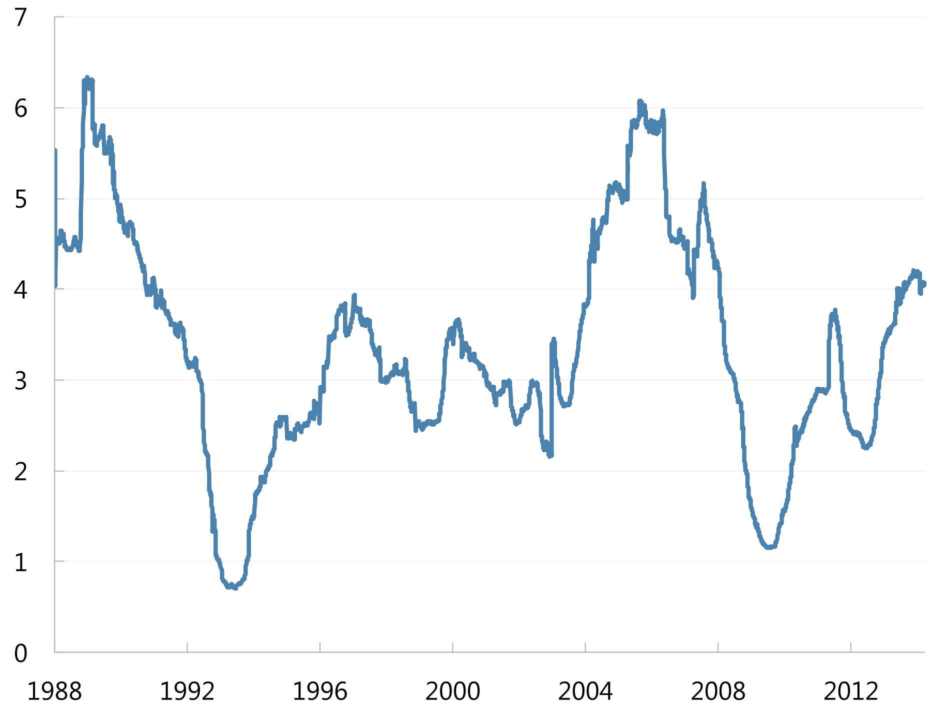
Figure 3.14. Bank Equity Capital as Percentage of Assets, 2012



Source: OECD, Survey of Finland, February 2014, Figure 10, p. 25.

Figure 3.15. Distance to Default of Average Finnish Bank, 1998–2014.Q1

(Standard deviations)



Source: Bank of Finland, Financial Stability, 2, 2014, p.33.

Note: The value is a weighted average.

3.2.6. Natural resources (Basic)

108. Natural resources are important in the Finnish economy, but are managed sustainably. The value of crops, pasture, and forests (publicly and privately owned) was estimated at $100 billion in 2005 (51 percent of 2005 GDP).[54] These resources are generally managed sustainably: for instance, between 1921 and 2010, the volume of timber in Finnish forests—the most valuable of these resources—increased by some 40 percent.[55] The resources that typically cause problems for fiscal management are those such as oil and coal that will eventually be exhausted, because the revenue governments receive from these resources is temporary, more like the proceeds of privatization than ordinary taxes or sales revenues. Such exhaustible resources are relatively small in Finland (Figure 3.16), though mining has increased in recent years.[56] The Finnish Forests Research Institute

[54] See the World Bank's Wealth of Nations dataset.

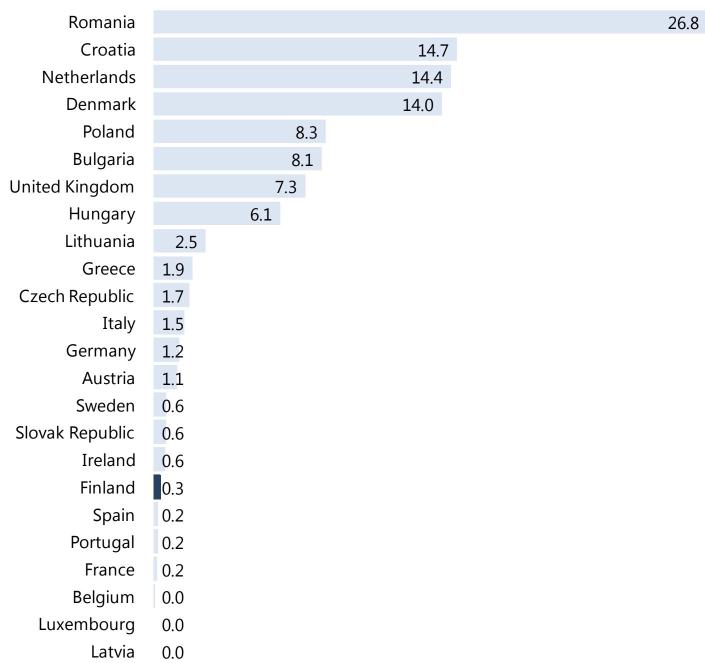
[55] Ministry of Agriculture and Forestry. See also Finnish Forests Research Institute, Forest Sector in Finland in Brief, and Ministry of Agriculture and Forestry, *Forest and Forestry in Finland*, p. 3.

[56] New resources have been discovered since 2005, but these are not large in macroeconomic terms.

produces extensive information on forestry industry and the budget includes information on forest-specific taxes.[57]

Figure 3.16. Value of Subsoil Assets, Members of European Union, 2005

(Percent of 2013 GDP)



Source: World Bank Wealth of Nations database.

Note: Estimate of subsoil assets is for 2015; GDP is for 2013.

3.2.7. Environmental risks (Basic)

109. Finland appears less vulnerable than most countries to environmental risks. Earthquakes are a very low risk according to the European Seismic Hazard Map.[58] Floods and storms occur, but have not been severe. The fiscal costs of compensation for floods and crop damage in the period 1995–2013 were never more than 0.03 percent of GDP (Figure 3.17). While reviewing and generally praising the country's disaster-preparedness plans, a report by the United Nations, European Commission, and OECD notes that the country's recent history "limits real-life experience with large-scale or more frequent disasters."[59] Of course, the benign recent history does not rule out

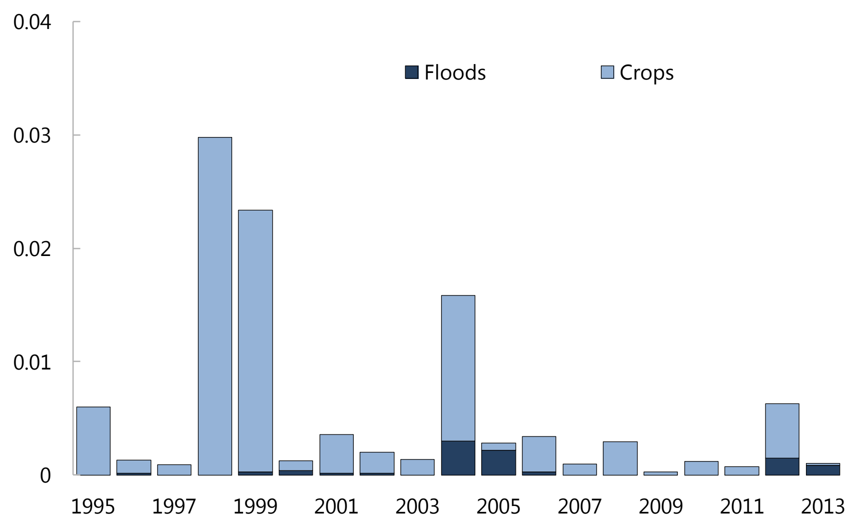
[57]Ministry of Agriculture and Forestry. For basic data on forestry, see Finnish Forests Research Institute, Forest Sector in Finland in Brief.

[58]The map is available at http://www.share-eu.org/node/90.

[59]United Nations Office for Disaster Reduction, European Commission, and OECD, 2014, Peer Review Report: Finland—Building resilience to disasters: Assessing the implementation of the Hyogo Framework for Action (2005–2015), pp. 11, 12. A webpage of UN Office for Disaster Reduction estimates the economic damage from natural disasters in the period 1980–2010 at just $10 million.

major events in the future. These might arise, for example, from an oil spill, a nuclear accident, or pollution from mining. The government reports some information on the risks created by natural disasters in reports such as *Security Strategy for Society*, though the information does not focus on or attempt to quantity the fiscal implications of the risks.[60]

Figure 3.17. Government Compensation for the Costs of Floods and Crop Damage, 1995–2013
(Percent of GDP)



Source: Ministry of Agriculture and Forestry

C. Coordination

3.3.1. Subnational governments (Basic)

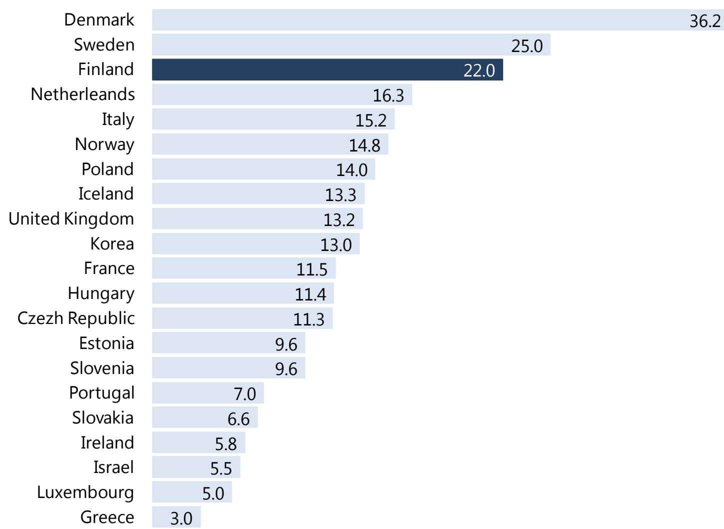
110. Municipalities pose an important fiscal risk. They have crucial responsibilities for health, education, welfare, and other services, and their spending amounts to about 22 percent of GDP (Figure 3.18). Among unitary states in the OECD, only Denmark and Sweden have larger municipal sectors by this measure. After falling in the late 1990s and early 2000s, the sector's debt began to rise (even before the financial crisis) and now stands at 13 percent of GDP (Figure 3.19). Some of the country's 320 municipalities are in some financial trouble. Two have surpassed a set of thresholds designed to identify cases of financial distress: Honkajoki and Vimpeli. Fourteen have debt-to-revenue ratios of more than 100 percent (Figure 3.20). Moreover, municipalities have a high degree

[60]Government Resolution, December 16, 2010.

of operational autonomy.[61] Yet the central government sees itself as at least to some extent standing behind them.[62]

Figure 3.18. Spending of Local Governments, Unitary States in the OECD

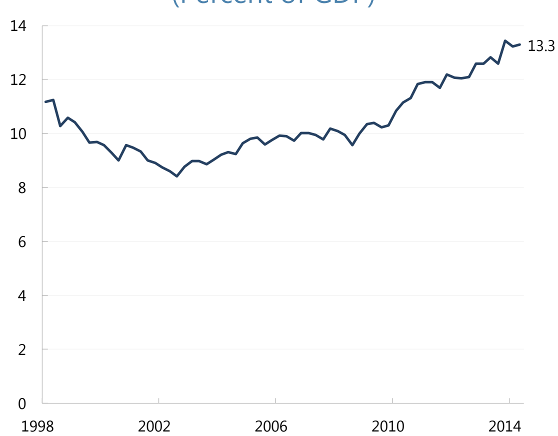
(Percent of GDP)



Sources: OECD Survey of Finland, February 2014, Figure 2.1

Figure 3.19. Liabilities of Local Government, 1998-2014: Q2

(Percent of GDP)



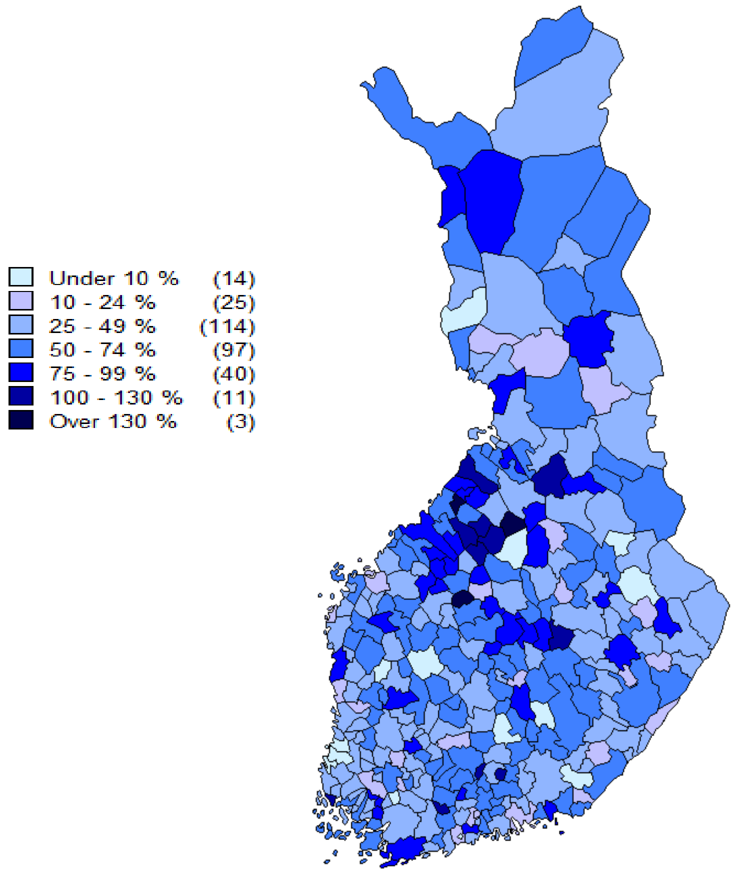
Source: Statistics Finland, Quarterly Financial Accounts of General Government and Quarterly GDP.

Note: Quarterly liabilities are expressed as a percentage of the past four quarters' GDP.

[61]OECD Economic Survey of Finland, February 2014, Fig. 2.4, p. 87.

[62]According to the website of the Ministry of Finance, "Under the Act on Central Government Transfers to Local Government), the Government can grant discretionary financial assistance to municipalities that are in need of additional help mainly due to economic problems of an exceptional or temporary nature. The Department for Municipal Affairs is responsible for preparing the proposals on assistance for the Government, which makes the final decisions."

Figure 3.20: Debt-to-Revenue Ratio by Municipality, 2013



Source: Ministry of Finance.

Note: revenue is operating revenue plus tax revenue.

111. Good information on the finances of municipalities is available. Each municipality and joint municipal board publishes accrual accounts—operating statement, cash-flow statement, and balance sheet, as well as notes—according to standards similar to those followed by Finnish firms. The accounts present data for the city government proper and for the consolidated municipal group, including municipal enterprises. Statistics Finland summarizes this information on its website. It also publishes quarterly data on the consolidated finances of the local-government sector including its revenue, expenditure, financial balance sheet, and Maastricht debt and deficit.[63]

[63]See General Government Revenue and Expenditure; General Government Deficit and Debt; and General Government Financial Accounts.

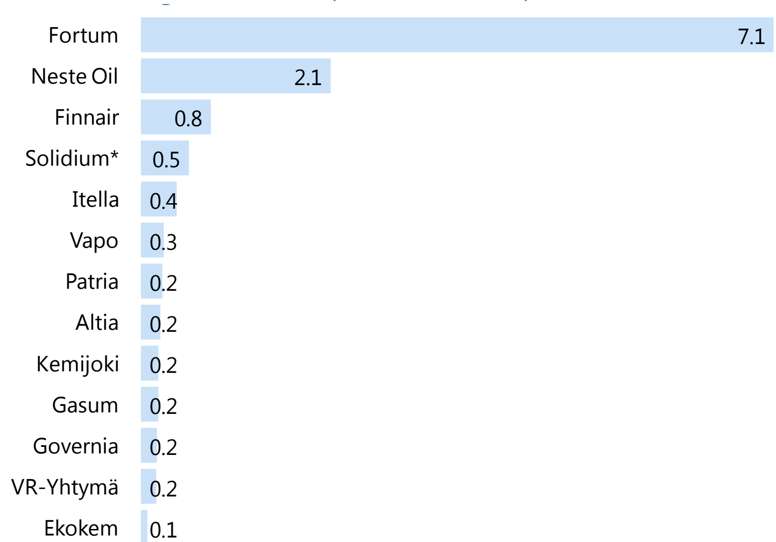
112. Municipalities' debt is not effectively constrained by law. The law on local government states that municipalities may not plan to run a deficit in the medium term,[64] but this rule does not prevent them from actually running deficits. Moreover, the rule applies to a measure of the deficit that excludes investment and is therefore not directly linked to the accumulation of debt. (The government is planning to revise the law as part of a broader reform of municipal finances.)

3.3.2. Public corporations (Good)

113. The liabilities of state-owned enterprises create fiscal risks, even if unguaranteed. The liabilities of central government's nonfinancial public corporations (i.e., those not part of general government for statistical purposes) amount to about 12 percent of GDP.[65] Most of those liabilities are accounted for by just a few firms, including in particular the power company Fortum, active mainly in the Nordic countries, the Baltics, and Russia (Figure 3.21). By way of comparison, Figure 1.4 above shows data on the liabilities of the entire public-corporations sector for a sample of countries, though the figures there include the liabilities of government-owned banks. Of the Finnish government's state-owned enterprises, those that are managed commercially—generally the largest ones—are supervised by the Prime Minister's Office. Some are listed, with large minority private shareholdings. Most are profitable. Fortum, which is listed and 51 percent owned by the government, has made a profit in each of the last ten years.

Figure 3.21. Liabilities of Most-Indebted State-Owned Enterprises, 2013

(Percent of GDP)



Source: Prime Minister's Office. GDP is from IMF WEO, April 2014.

[64] Local Government Act of 1995, Section 65.

[65] This estimate, based on data provided by Statistics Finland, includes all public corporations controlled by central government except those in NACE categories 64–66.

114. There appear to be some quasifiscal activities in the portfolio. That is, some of the companies are used to carry out public-policy goals without payment from the budget. Examples include the subsidization of remote airports and rural postal services, which are funded from cross-subsidies within Finnavia and Itella, respectively.

115. Information on the performance of state-owned enterprises is available in an annual report produced by the Prime Minister's Office. For each major company, the report provides key financial indicators, such as revenue, profits, return on equity, and dividends. It also discusses each company's recent operational and financial performance. It does not, however, present consolidated financial statements for the portfolio or report on quasifiscal activities.

D. Conclusions and Recommendations

116. Table 3.4 summarizes the assessment of Finland's practice against the Code. It shows that Finland rates well on half the principles and that for three of the other principles (public-private partnerships, natural resources, and environmental risks) the related risks appear relatively small in Finland. However, there are three areas where Finland's practice and the importance of the issue suggests that improvements should be sought.

117. Issue 3.1. Disclosure of risks surrounding forecasts: Fiscal forecasts and projections are subject to large uncertainty, but do not include much analysis of the causes or extent of this uncertainty.

118. ***Recommendation 3.1:*** The government should include more analysis of risk in its fiscal forecasts and projections and, in particular,

- for the medium-term (e.g., four year) forecasts, report the sensitivity of forecasts to a wider range of variables (not just economic growth) and provide information, such as fan charts, that indicate the extent of the uncertainty surrounding the forecasts; and
- for long-term projections (e.g., to 2060), report the sensitivity of the outcomes to such factors as the growth of labor productivity, healthcare cost inflation, and demographic change.

119. Issue 3.2. Summary disclosure of specific fiscal risks: The government publishes reports on the major specific fiscal risks, but there is no single report that summarizes this information and provides an overview of these risks.

120. ***Recommendation 3.2: The government should prepare a yearly or twice-yearly report on fiscal risks,*** *which could incorporate the above analysis but which should also discuss and where possible quantify a range of other risks, including, for example, those associated with:*

- loan guarantees, callable capital, and indemnities;
- the government's portfolio of financial assets and liabilities, including its debt, the Housing Fund's loans and guarantees, its investments in state-owned enterprises (and the liabilities of those enterprises), and the assets and liabilities of the pension system;
- the financial sector; and
- municipalities.

121. Issue 3.3. Risks from subnational governments: Information on municipal finances, individually and collectively, is good, but stronger controls are needed to ensure that municipalities do not create spillover risks for the central government and other municipalities and to facilitate achievement of the European debt and deficit rules applying to general government.

122. ***Recommendation 3.3: The government should introduce measures to reduce the risks that municipalities create for the central government and/or other municipalities***, for example by:

- introducing in municipal accounts supplementary information that shows the municipality's (approximate) deficit and debt according to the definitions used in the Stability and Growth Pact (SGP);
- strengthening coordination between central and local government (for example related to discussions of fiscal plans, joint spending reviews, and a symmetric cost-compensation scheme to align tasks with financing); and
- creating stronger controls on local governments' borrowing or finances, such as a debt or deficit limit based on SGP measures and/or a three-tier monitoring system in which municipalities are put on close watch if they approach existing thresholds.

Table 3.4. Summary Assessment of Finland's Fiscal Risk Analysis and Management

	Principle	Assessment	Importance	Rec.
3.1.1	Macroeconomic Risks	**Good:** Some sensitivity and analyses are presented, but no fan charts.	**High:** For an advanced economy, GDP is relatively volatile (4.1 percent versus 2.8 for Western Europe).	3.1
3.1.2	Specific Fiscal Risks	**Not met:** Information on many specific risks is published, but there is no single report providing an overview.	**Medium:** several specific risks are significant (e.g., guarantees and callable capital of 34 percent of GDP).	3.2
3.1.3	Long-Term Fiscal Sustainability	**Basic:** Long-term fiscal projections are published, but not alternative scenarios.	**High**: The long-term fiscal gap is about 3 percent of GDP and very sensitive to assumptions.	3.1
3.2.1	Budgetary Contingencies	**Advanced**: Spending limits include unallocated reserves and the budget includes minor contingency lines with criteria specifying how they can be spent; other uses are approved in supplementary budgets. Use is reported in NETRA and supplementary budgets.	**Low**: Unallocated reserves are 1 percent of the annual spending limit for 2015.	
3.2.2	Asset and Liability Management	**Good:** Borrowing is controlled by law and debt risks are disclosed. Risks in main portfolios of assets are also disclosed. No whole-of-balance-sheet risk reporting or management.	**Medium:** Financial assets of general government are 133 percent of GDP; liabilities 75 percent, excluding pensions.	
3.2.3	Guarantees	**Good:** The granting of guarantees is controlled by law, and guarantees are disclosed quarterly. Estimates of call probabilities are not generally published.	**Medium:** Government guarantees have risen to 25 percent of GDP and are increasing.	
3.2.4	Public-Private Partnerships	**Basic:** Basic rights and obligations related to PPPs are disclosed, but not expected annual payments and receipts beyond four years.	**Low:** Investment in PPPs is so far low: (0.2 percent of GDP in 1990–2011).	
3.2.5	Financial-Sector Exposure	**Advanced**: No explicit guarantees. Bank of Finland, Financial Supervision Authority, and ECB report risks, including stress tests.	**High**: Banking sector liabilities are about 246 percent of GDP.	
3.2.6	Natural Resources	**Basic:** Finnish Forestry Research Institute publishes data on forestry production and sales, though not under different scenarios.	**Low:** Forests are managed sustainably (resource volumes are increasing). Subsoil assets are worth only 0.3 percent of GDP.	
3.2.7	Environmental Risks	**Basic:** Government reports identify the main environmental threats, though without quantification of effects on public finances.	**Low:** Fiscal costs of natural disasters averaged only 0.005 percent of GDP in 1995–2013.	
3.3.1	Subnational Governments	**Basic:** Revenue, spending, deficit, debt, and financial balance sheets of local government are reported quarterly and annually, but municipal borrowing is not controlled.	**High:** Local government is responsible for most public spending, runs a deficit, and has liabilities of about 13 percent of GDP.	3.3
3.3.2	Public Corporations	**Good:** Transfers are in the budget. An annual report by the Ownership Steering Department reports on the unconsolidated finances of major state-owned enterprises. No report summarizes quasifiscal activities.	**Medium:** Nonfinancial central-government-owned corporations have aggregate liabilities of about 12 percent of GDP.	