

Economic Policy Council 2018 Report

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Themes of the report

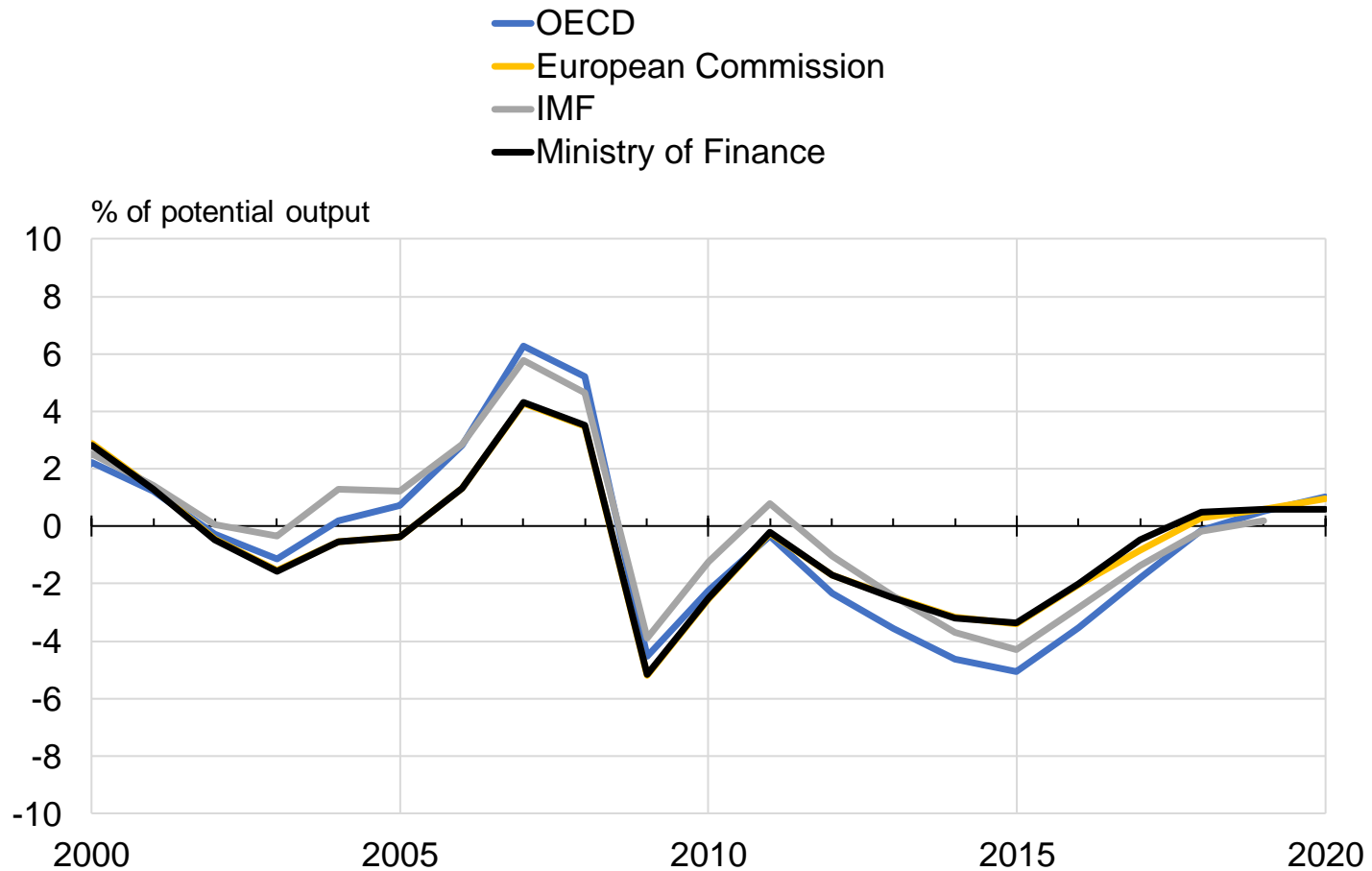
- Recent economic developments
- Fiscal policy stance
- Employment policy
- Regional Government, Health and Social Services Reform

Recent Economic Development

- Fast economic growth has improved public finances
- Objectives for fiscal policy objectives are almost reached
- Employment rate has reached the 72%
- Economic growth expected to slow down towards long run rates
(Economic Policy Council does not make any forecasts)

Economic situation

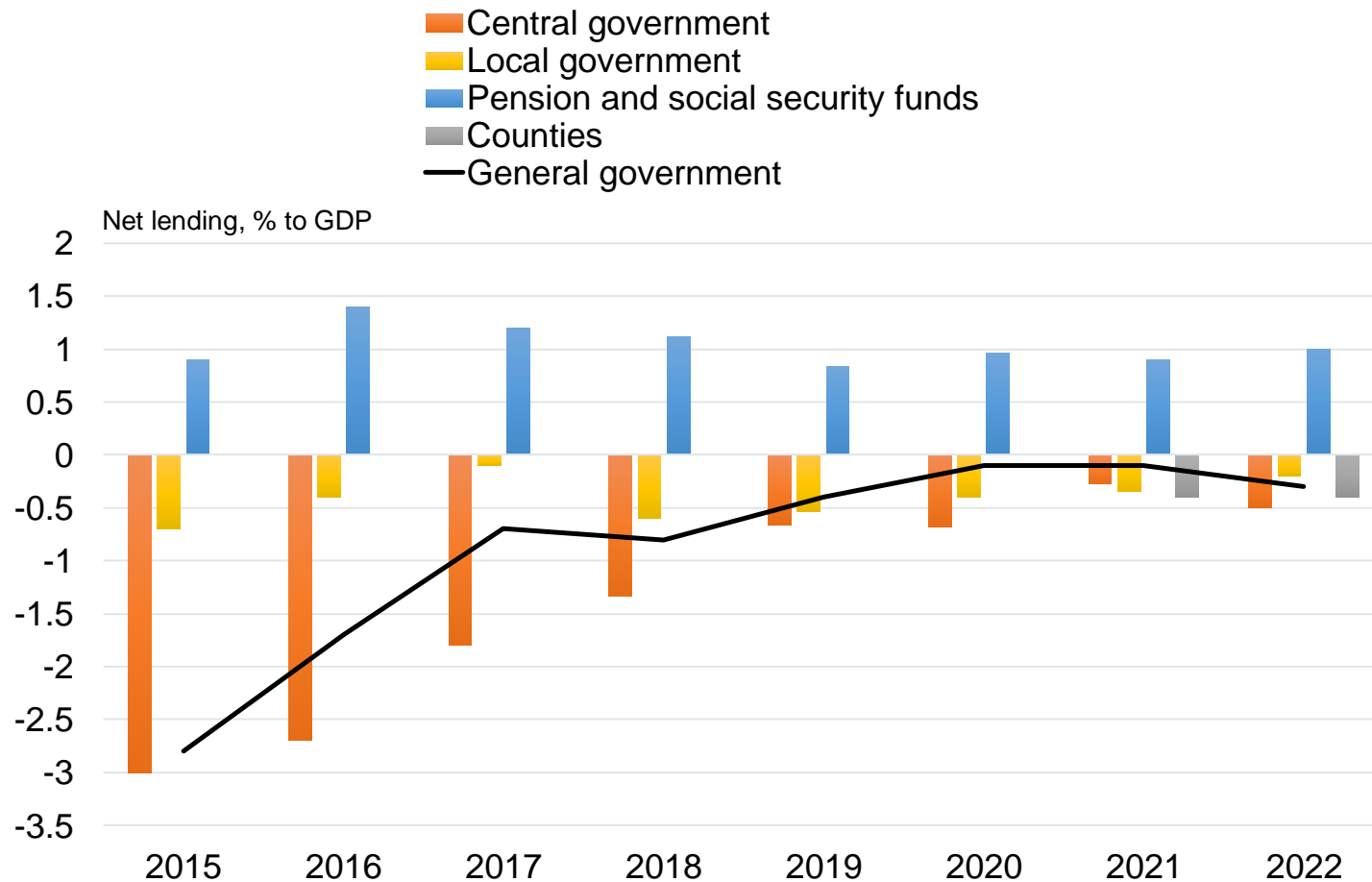
Output gap has closed and turned slightly positive



Fiscal policy stance

- Fiscal policy becomes tighter in 2019, an appropriate response to the business cycle
- Public finances still running on structural deficit
- Problems of long-run sustainability remain
 - According to latest assessment by MoF sustainability gap is roughly 4 per cent to GDP
- Social and health care reform will not solve the sustainability problems

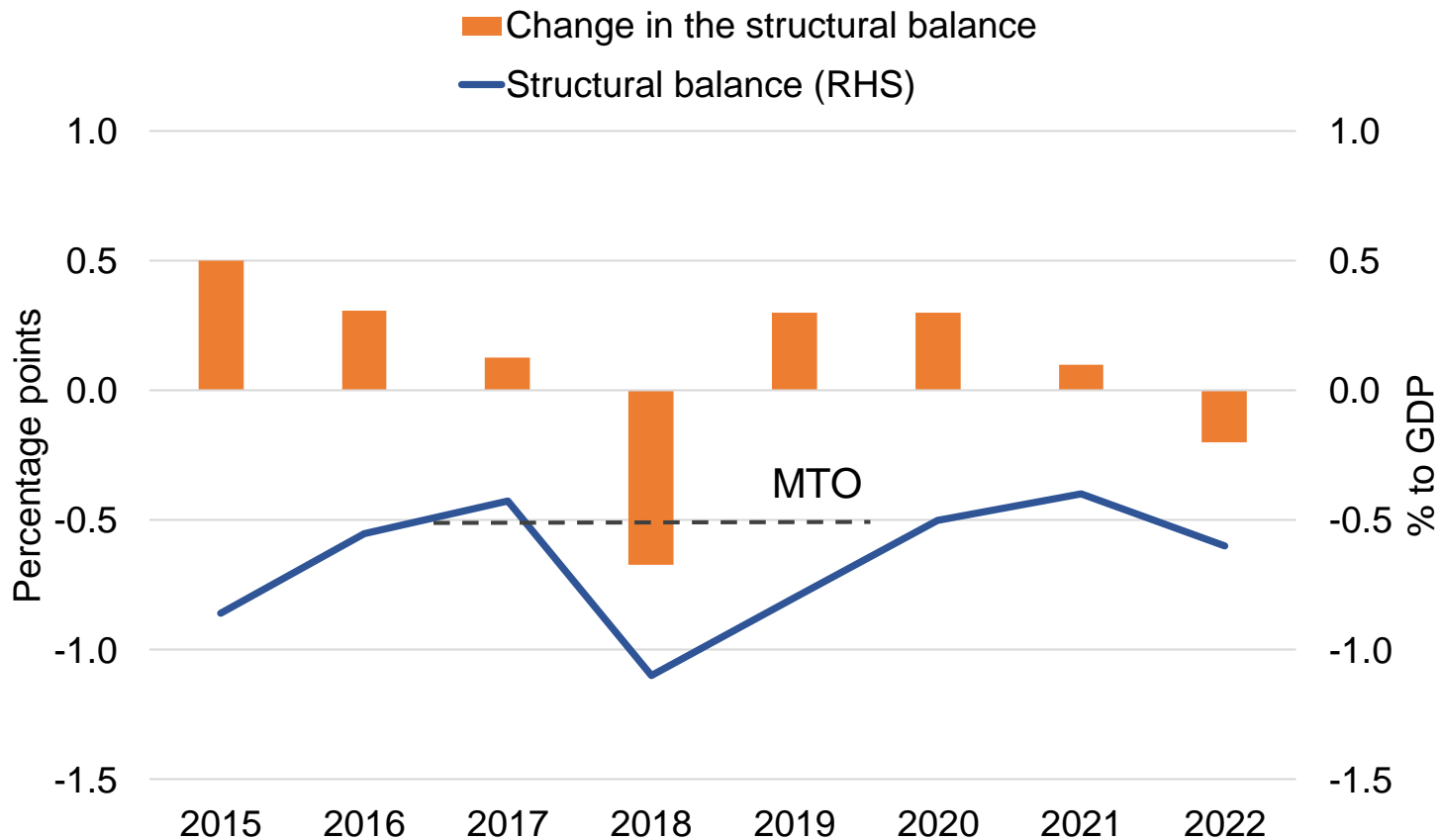
Especially net lending of central government improves in 2019



Sources: Ministry of Finance and Statistics Finland.

According to the forecasts structural deficit reaches 0.5 per cent by 2020

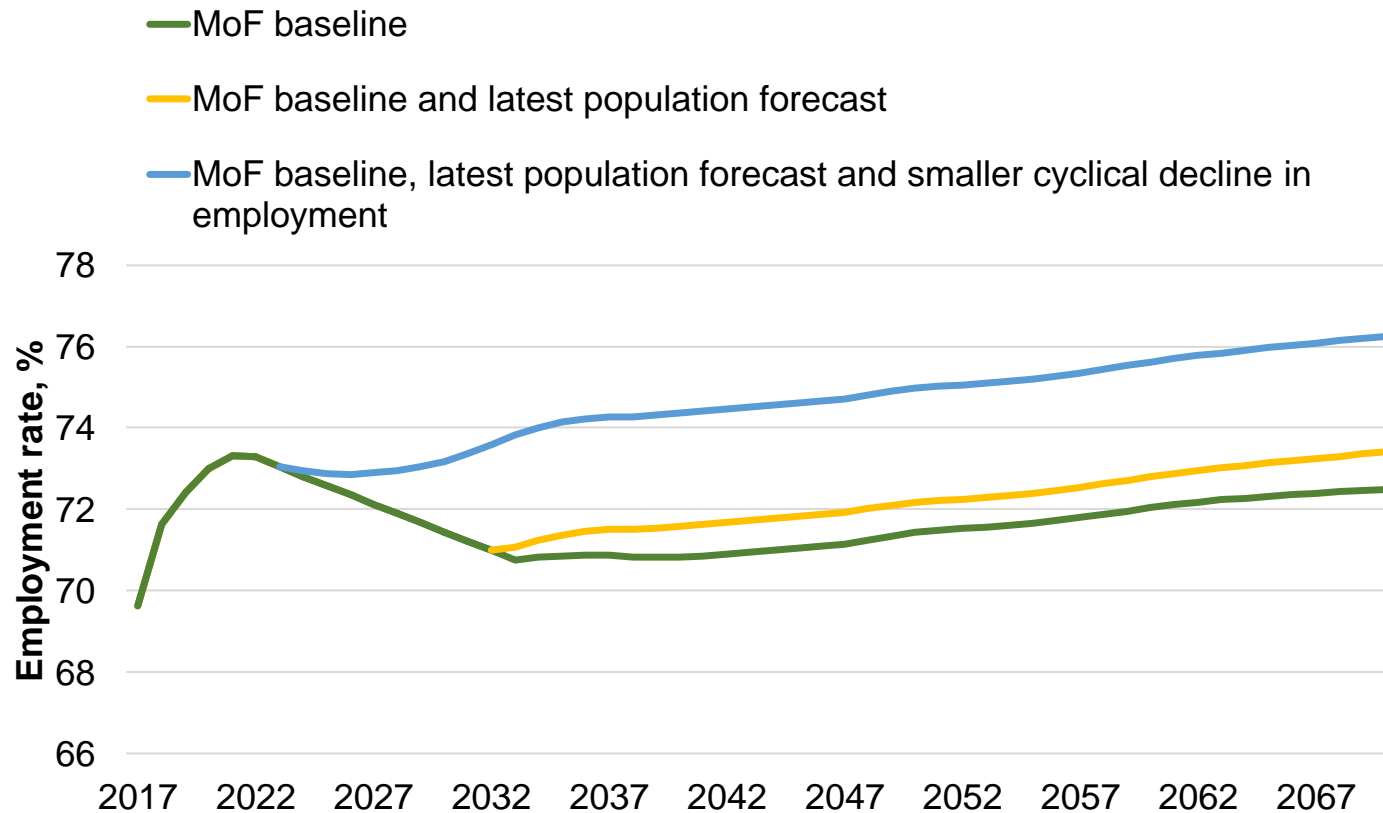
Given the long-run sustainability problems, the objective should be tightened in the next General Government Fiscal Plan



Sources: Ministry of Finance, Statistics Finland and EPC.

Employment scenario used in the sustainability gap assessment is pessimistic

Even the optimistic scenario indicates sustainability gap of 2½ %



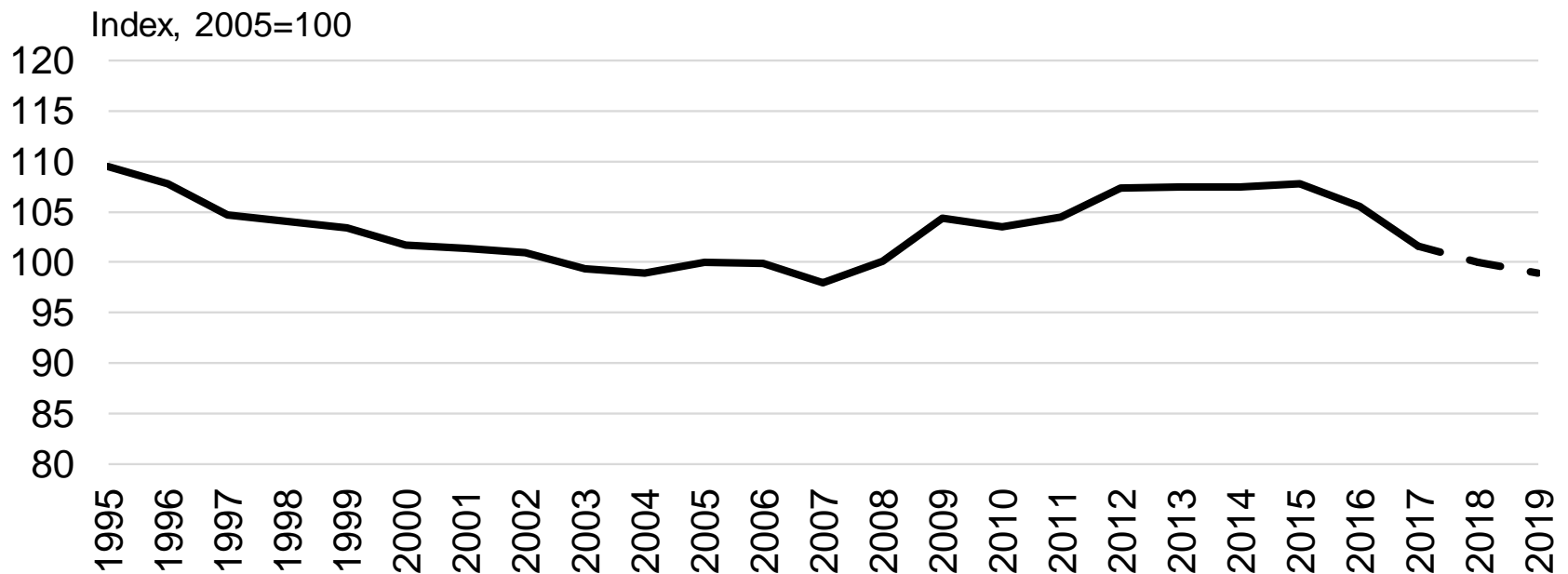
Sources: Ministry of Finance, European Commission and EPC.

Employment has increased suprisingly fast

- Increases in permanent and full-time jobs
- Difficult to tell apart the employment effects of policies and the business cyclical
 - Competitiveness pact decreases has decreased the unit labour costs and increased the demand of labour
 - Cutting the maximum duration of unemployment benefits, containing the growth of benefits, reducing day care fees and cutting taxes on labour income, introducing mandatory regular interviews for the unemployed and the activation model potentially contribute to employment growth

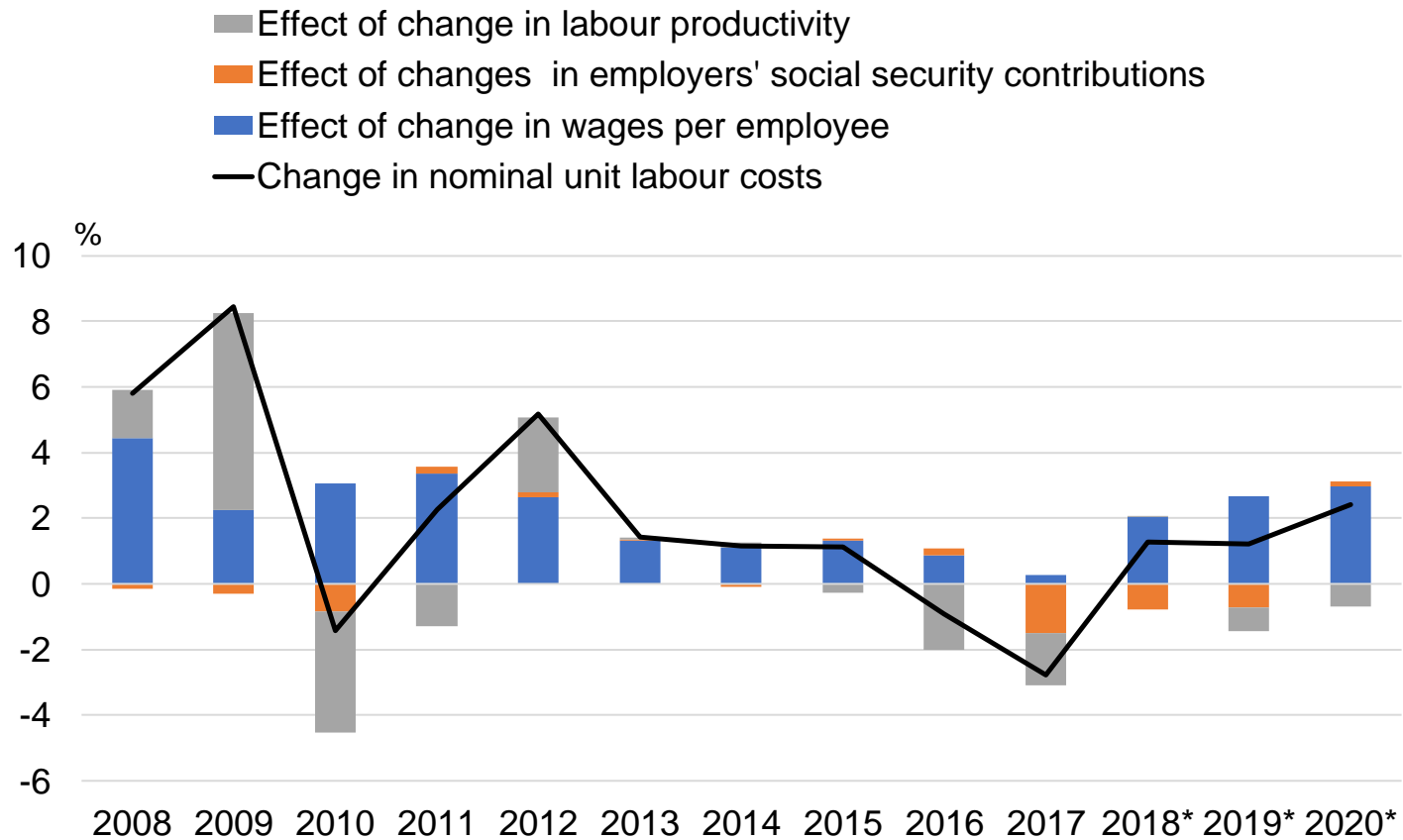
Competitiveness has enhanced since 2015

Nominal unit labour costs compared to main industrial countries.



Source: AMECO.

Reductions of payroll taxes and increases in productivity have decreased the unit labour costs



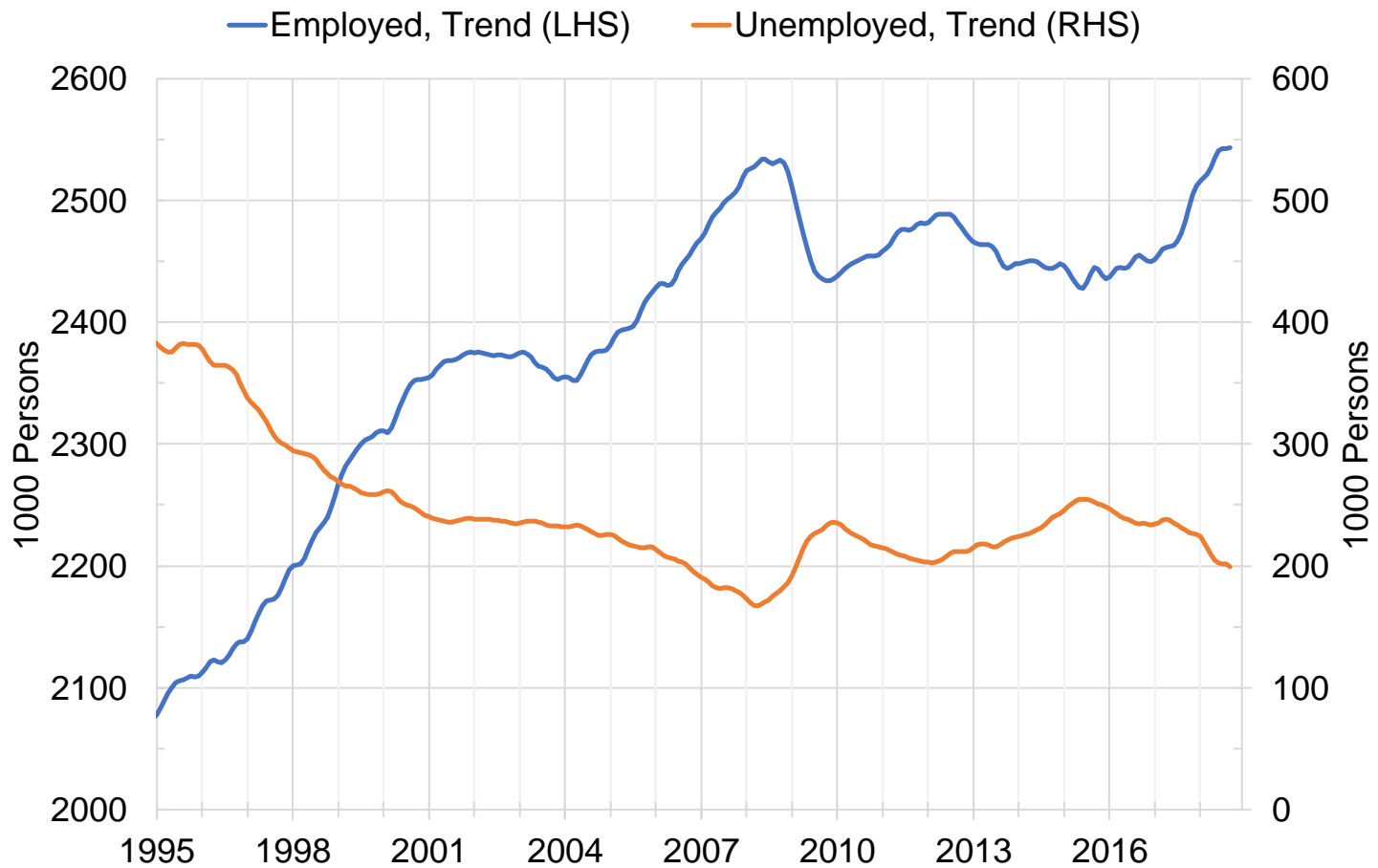
Sources: Ministry of Finance, Statistics Finland and EPC.

The culture of policy experimentation requires discipline

- Various experiments during the government term
 - Basic income
 - Employment services
 - Freedom of choice
- Learning from the experiments requires better design
 - Experimented policies should be feasible also as actual reforms
 - the group participating in the experiment must have a well-defined control group

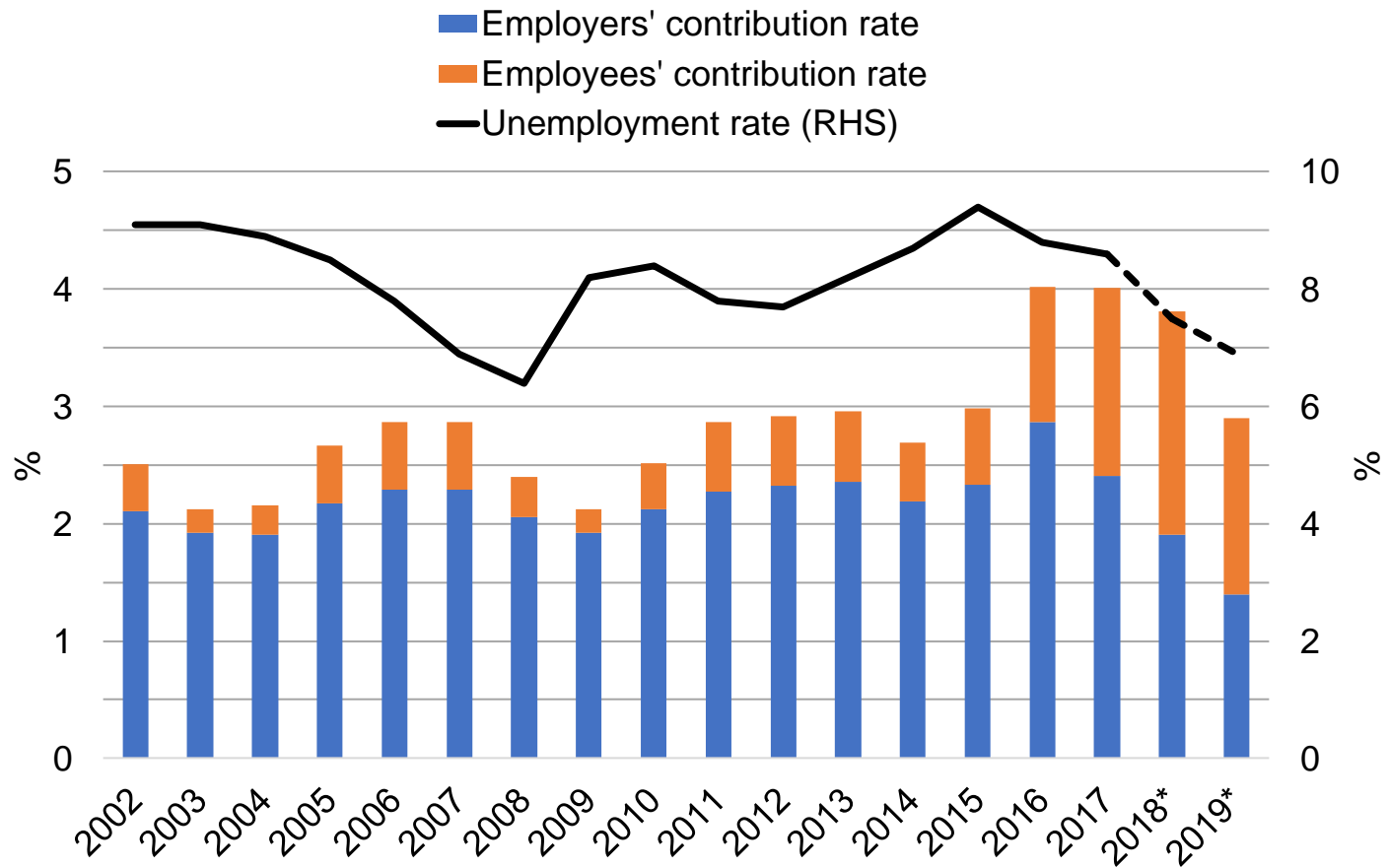
Background reports

- VATT & THL – Provider compensation in primary health care
- VATT - Inefficiencies in the Financing of Finnish County Governments - Lessons from the Literature on Fiscal Federalism
- Siciliani - Public-private Mix in Provision of Hospital Care across European countries
- Karsio & Tynkkynen - Publicly organised and funded social services
- Economic Policy Council, secretariat
 - Social and health care funding
 - An evaluation of the structural unemployment rate in Finland



Sources: Statistics Finland and EPC.

Unemployment insurance contribution rates



Sources: TVR, Ministry of Finance, Statistics Finland and EPC.