



Public financing and municipalities

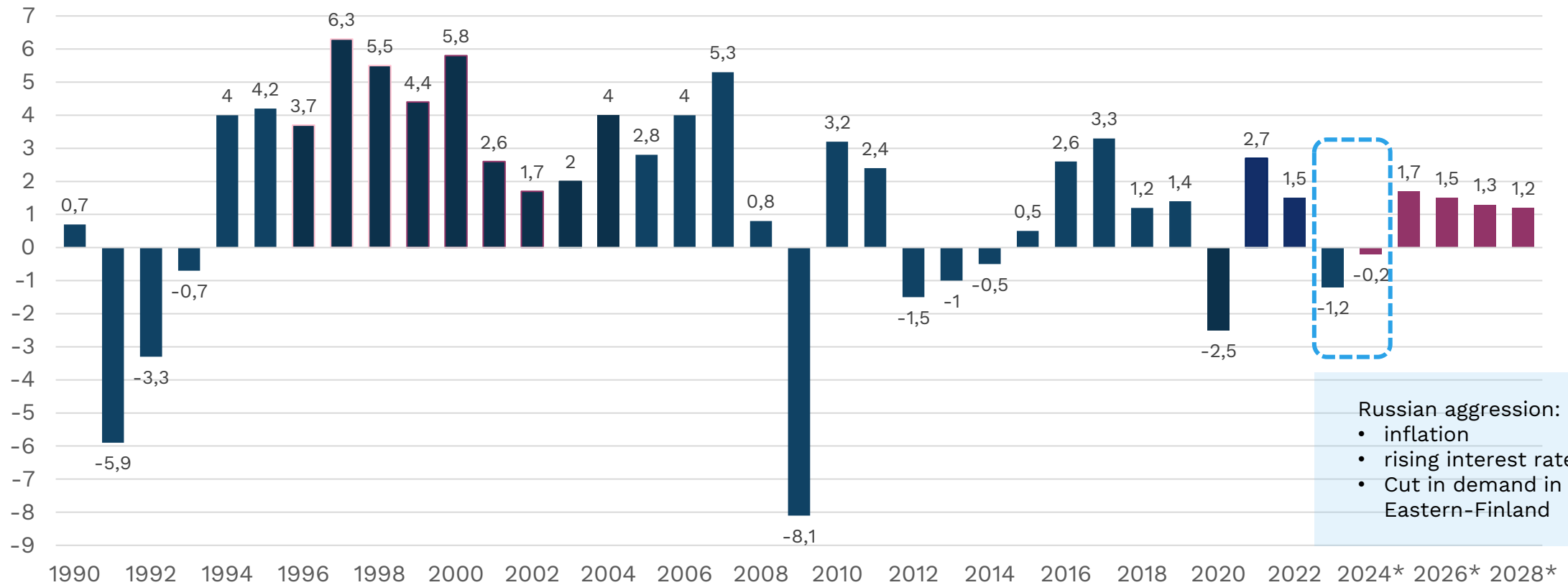
Visit of Estonian municipal leaders 29.10.2024

Chief economist Minna Punakallio

**Finland's economic growth has
been sluggish since 2008**

Gross domestic product, volume growth

%-change from previous year

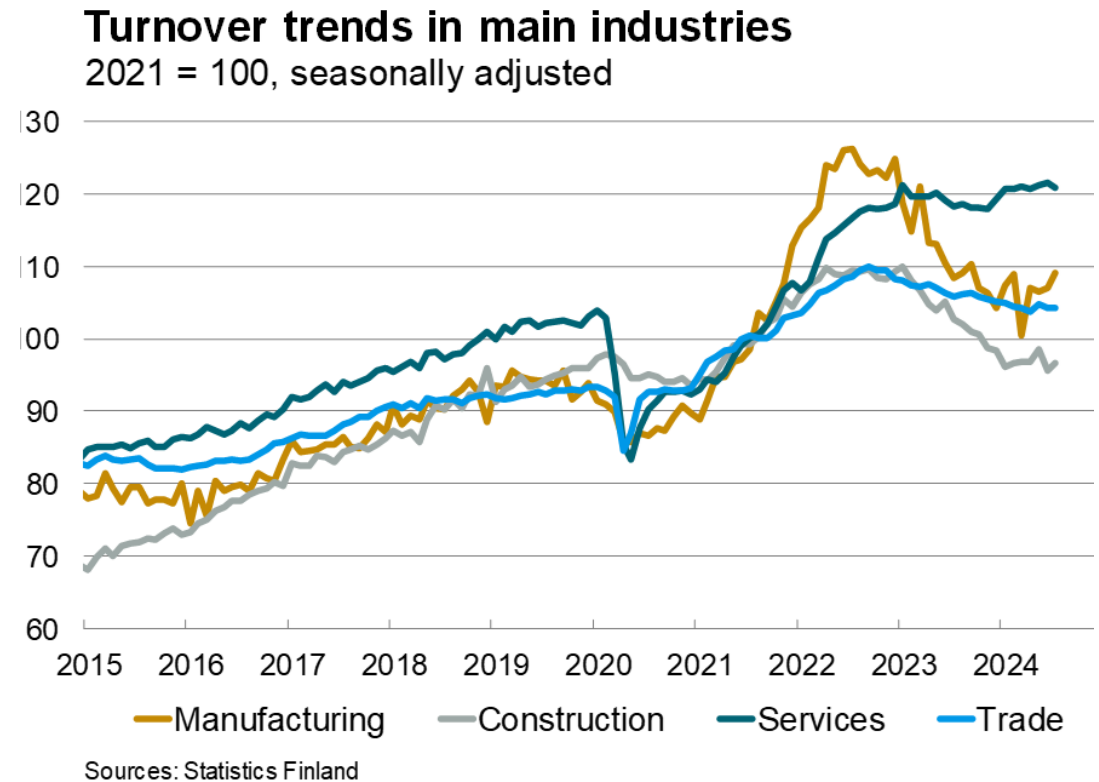


Russian aggression:
• inflation
• rising interest rates
• Cut in demand in Eastern-Finland

Source: Statistics Finland, Ministry of Finance

Sticky recovery in Finland's economy 2025

- Manufacturing and construction has fallen sharply but the downward trend seems to have stopped.
- In the first half of this year private consumption and private investment have been weak. Growth in public demand and manufacturing. The economic recovery is expected to gain strength towards the end of the year.
- Risk: The labour market has suffered from the weak economy

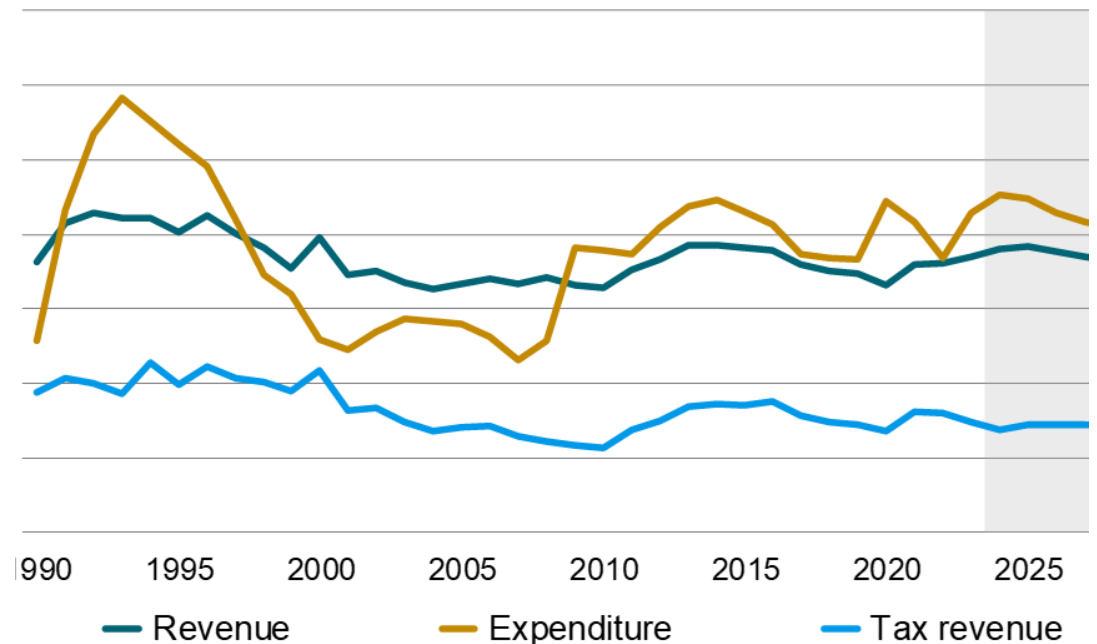


**General government finances has
deteriorated since 2008**

Public finances will remain significantly in deficit in the future

- General government has been in deficit **since 2008**.
- Deficit in 2025, total: -3,2 % (relative to GDP):
 - Municipal government: -0,6 %
 - Wellbeing services counties: -0,2 %
 - Central government: -3,7 %
 - Social security funds: +1,4 %
- The government has decided on substantial cuts in public expenditure and in increases in consumption taxes.
- Nevertheless, the situation remains very weak in the future.

General government revenue, tax revenue and expenditure relative to GDP, %

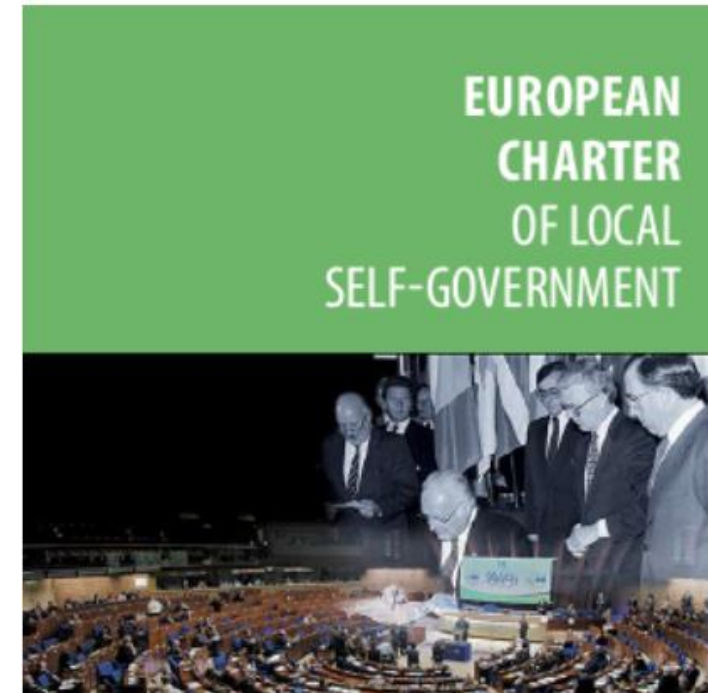


Sources: Statistics Finland, MoF

**Municipalities are very important
part of the Finlands public sector**

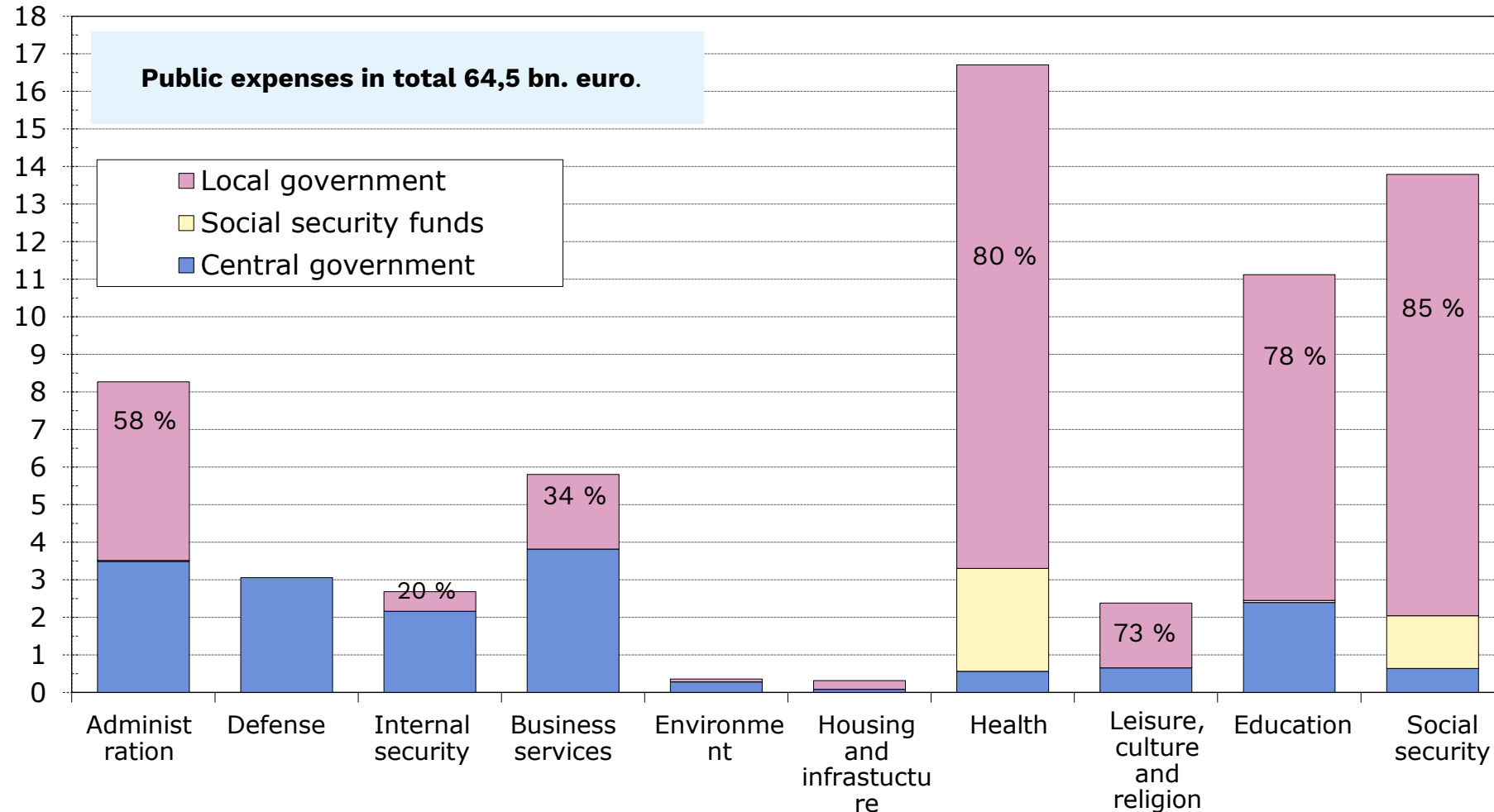
Municipalities have many duties and they decide independently on their economies

- The municipalities decide on the municipal income tax rate.
- The real-estate tax rate is decided within the limits of legislation.
- Central government transfers to local government are mainly non earmarked.
- No direct legal restrictions on taking loans to finance investments and operational expenses.

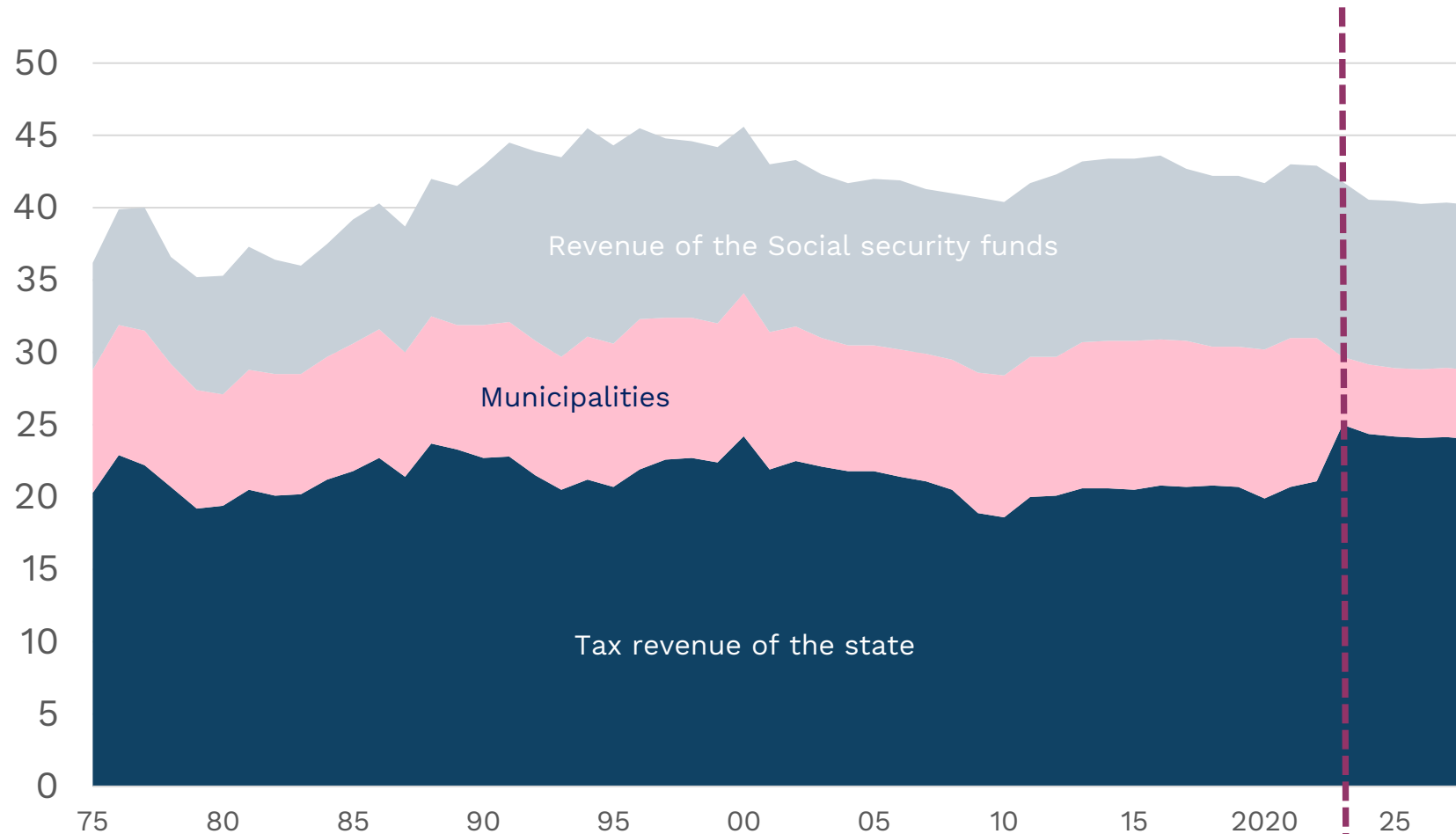


Fact: General government expenditure by function in 2022, billion euro

In 2023, health, social and rescue services duties were transferred to wellbeing services counties.



Fact: General government revenue: Tax ratio 1975-2028



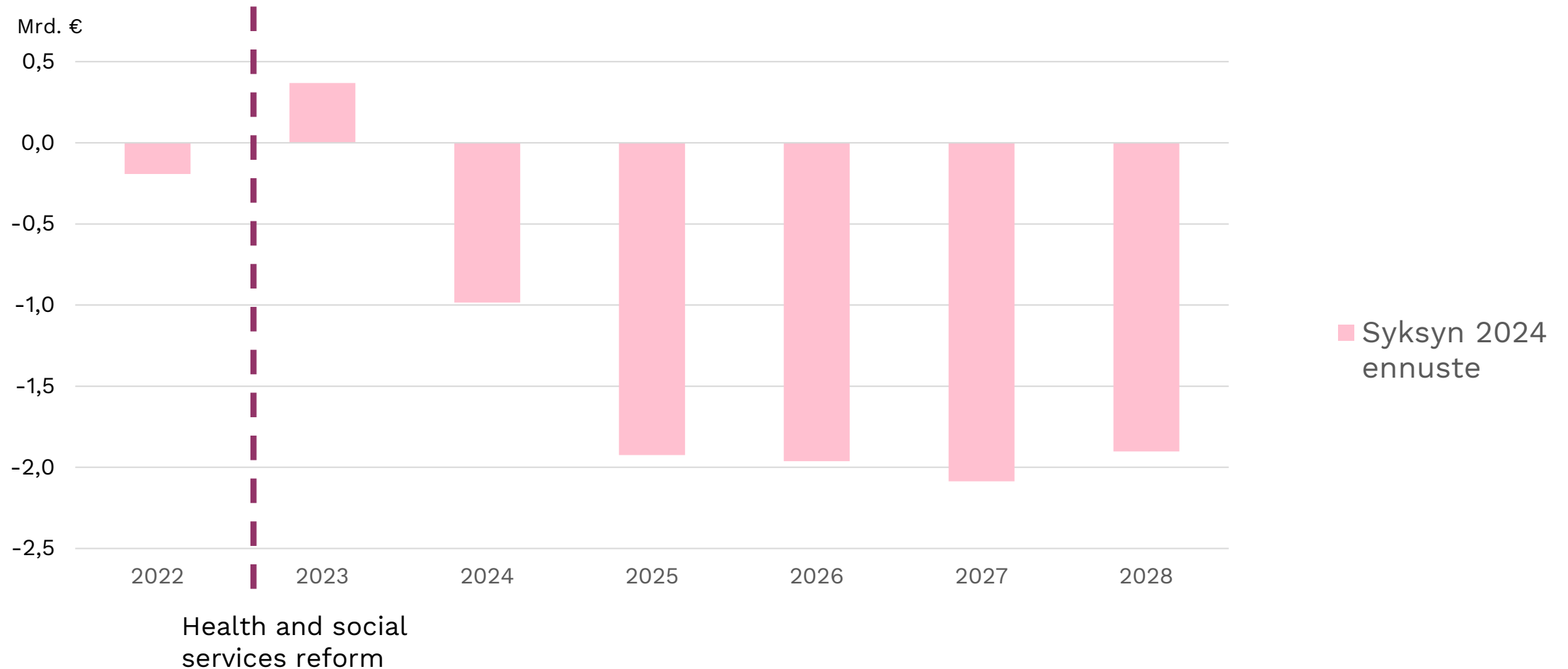
In 2023, health and social services were transferred to wellbeing services counties.



Tax revenue remains the key source of income for municipalities even though it was halved in connection with the health and social services reform. State grants amount about 15-20 % of the total income.

Deficit of the municipal economy is growing

Cash flow from operations and investments



The reasons for weakened economy of the municipalities



- Consumption expenditures are rising
 - Inflation and interest costs are still rising.
 - The wage agreement and the pay system development programme
 - Costs of unemployment are rising (financed partly by municipalities)
- Some government actions will decrease municipalities revenue/increase costs
 - increase childrens partizipation in child care
 - growth in the need for basic social assistance (financed partly by the municipalities) because of the government adjustment measures
 - Cuts in central government transfers to municipalities, e.g. ex-post review for the social and health services reform calculations, index brake on central government transfers
- Slow economic growth will affect tax revanue
- Investment pressures (age of the buildings, green transition)

The large municipal administration deficits in the period 2025–2028 will require substantial adjustment measures in municipalities in the coming years.

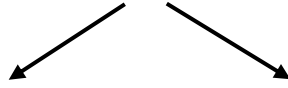


More information

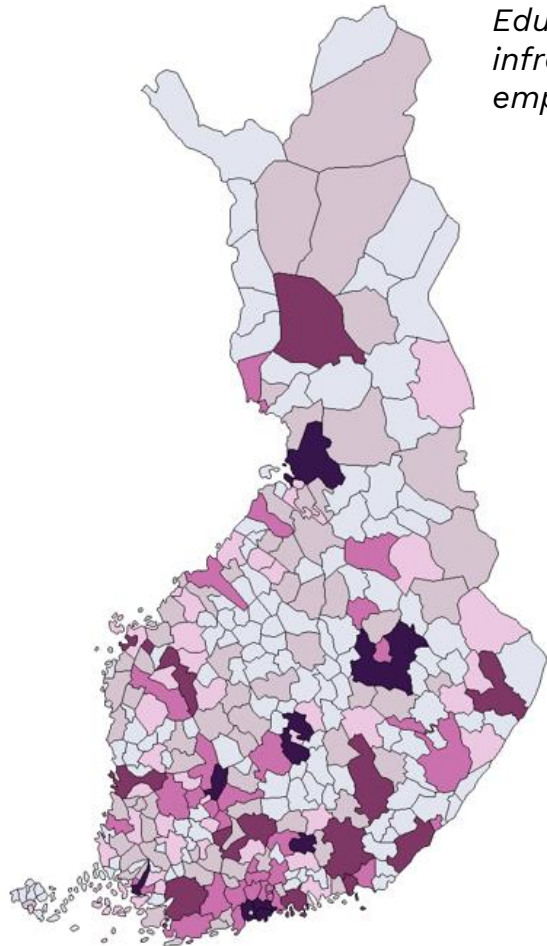
https://julkaisut.valtioneuvosto.fi/bitstream/handle/10024/165828/VM_2024_45.pdf?sequence=1&isAllowed=y

<https://vm.fi/en/local-government-affairs>

Local Government



Municipalities



*Education,
infrastructure,
employment*

- 309 municipalities
- Main source of income: tax revenues
- Grant system enhances inter-regional equity
- On average grants only about 20 % of expenses

Wellbeing Service Counties



*Social and
health
services*

- 21 counties
- Responsible for social and health services
- Main source of income: state funding which covers over 90 % of all expenses
- State funding is calculatory and based on service needs
- No right to levy taxes

Municipal economy before and after health and social servises reform

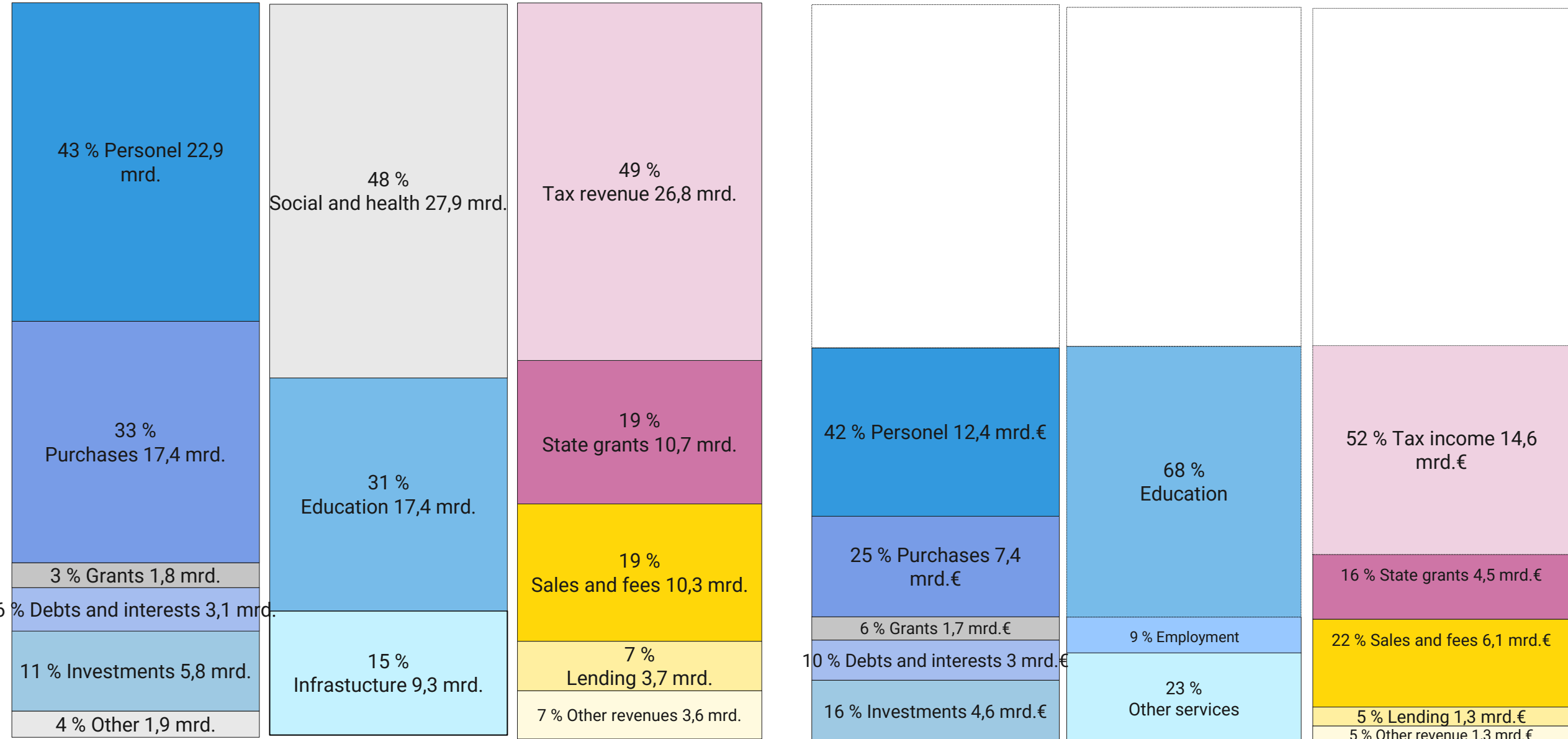
Volume around 55 billion euro

Expenses by class

Expenses by service

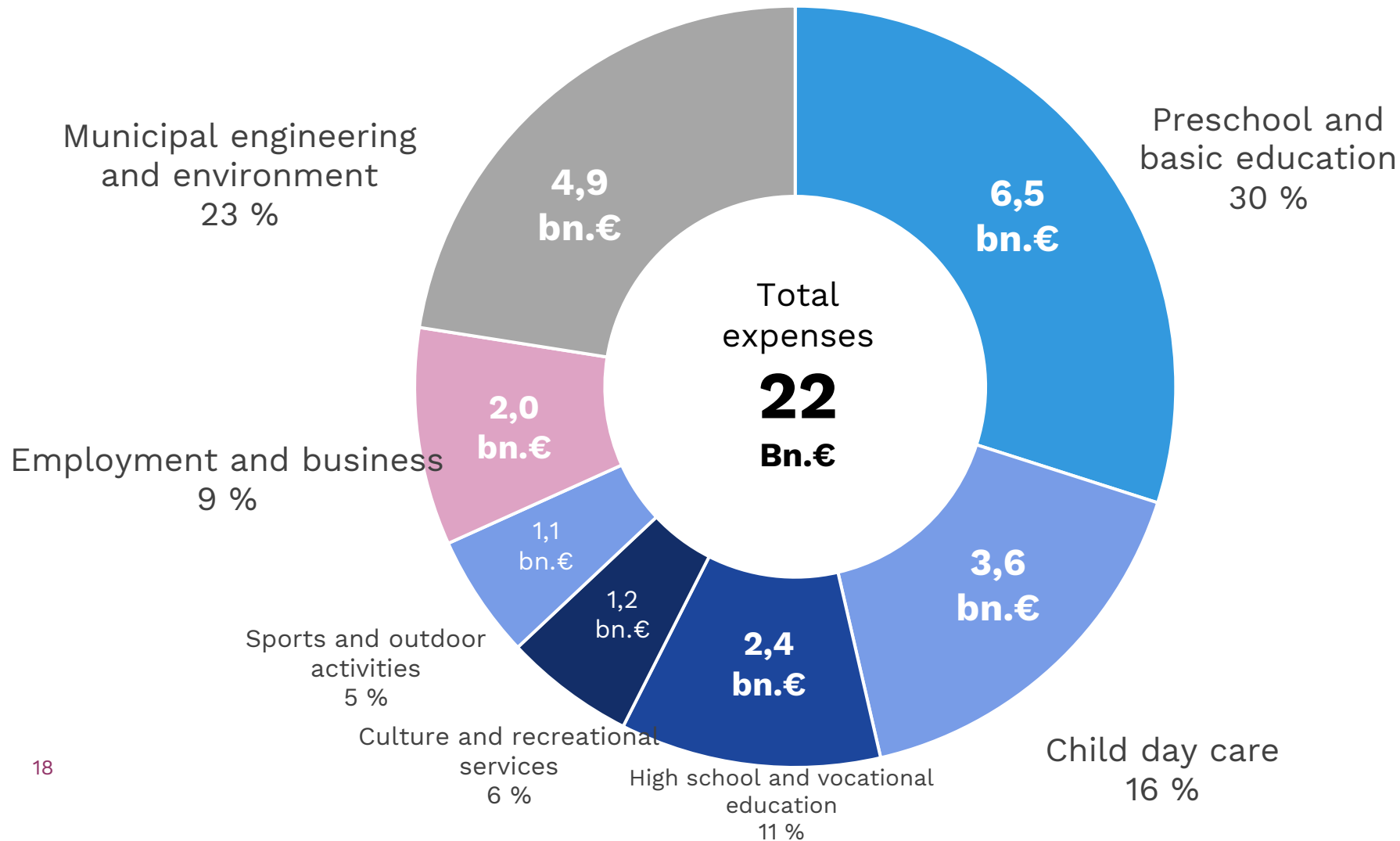
Revenues by class

Volume around 27 billion euro

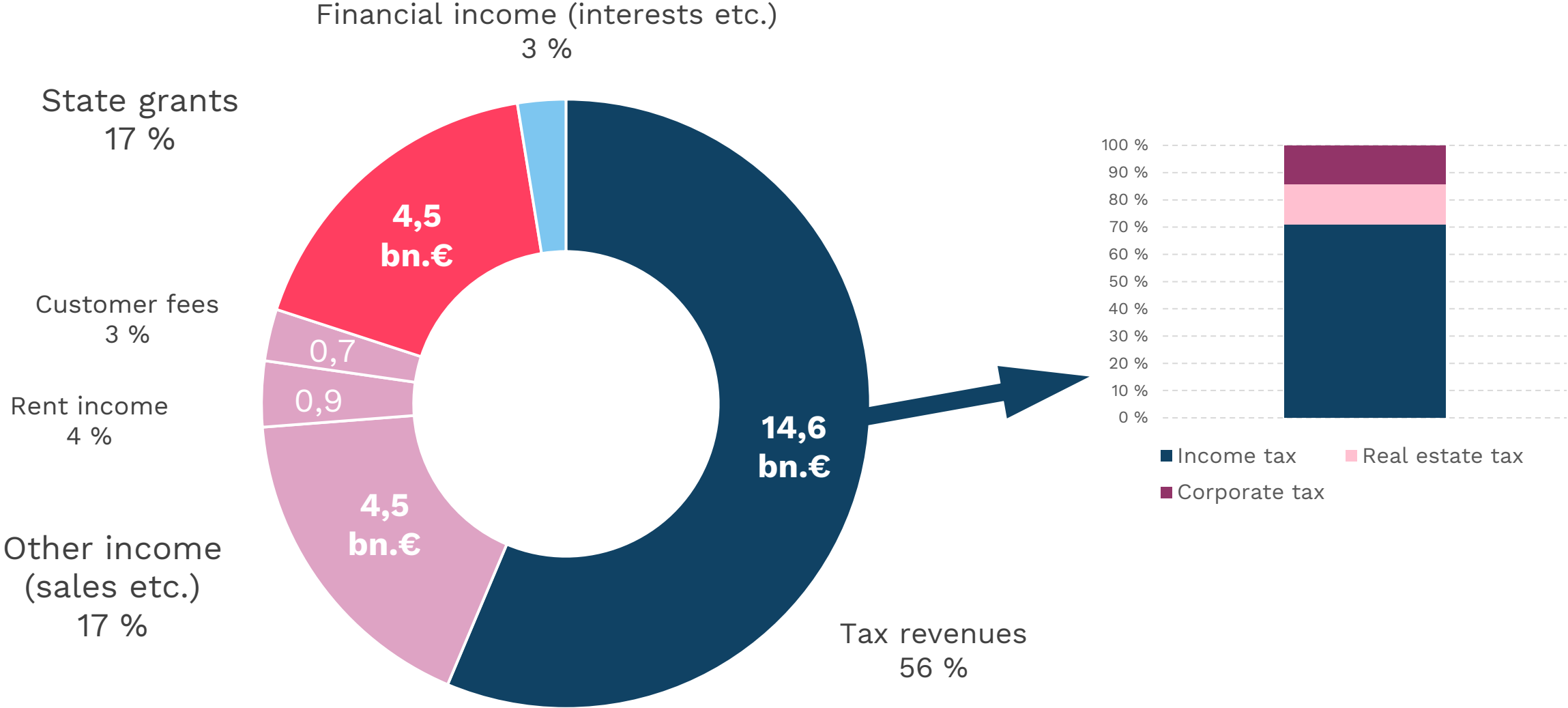


Municipalities expenses per task

Billion euros (Bn.€)

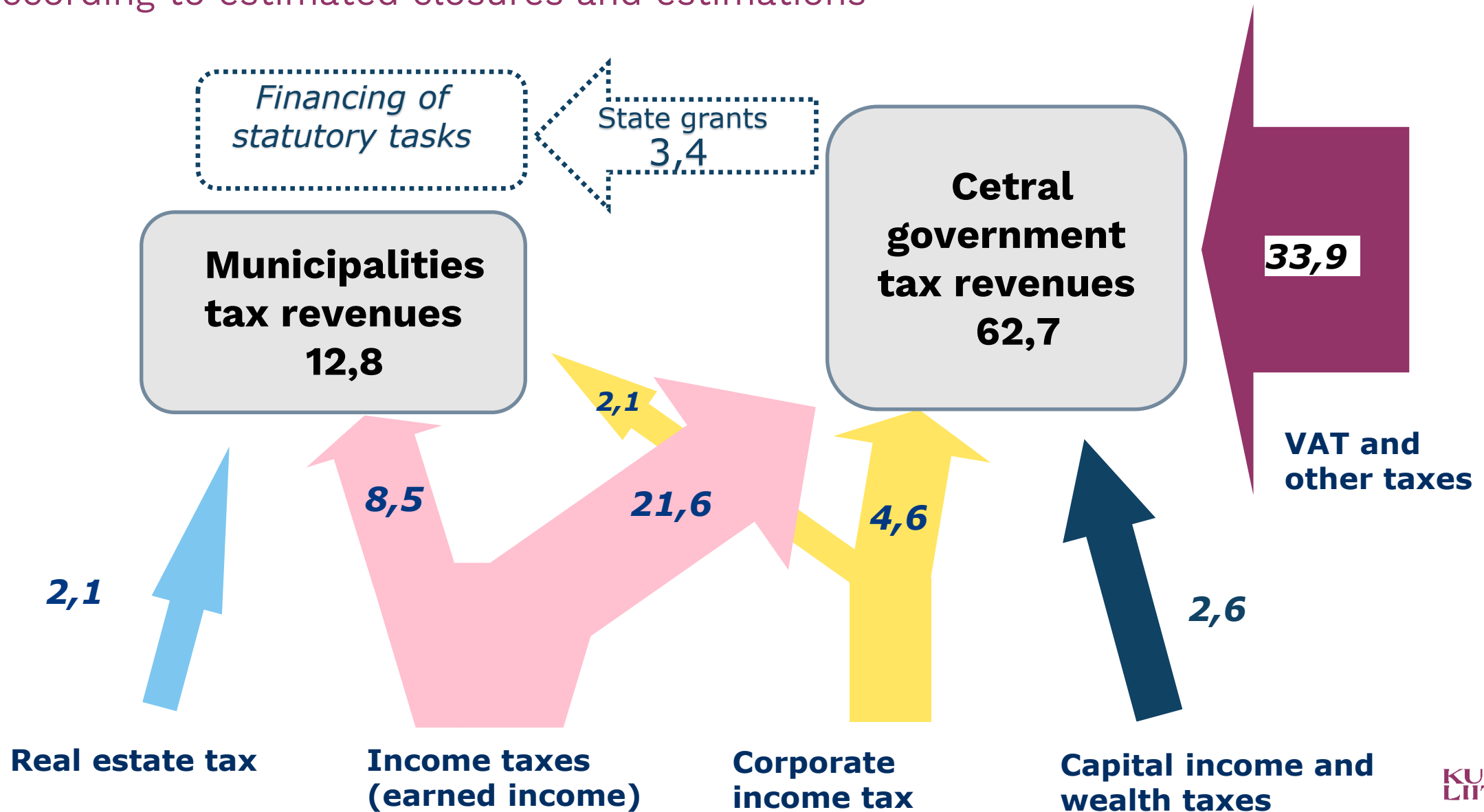


Municipal revenues per account



Central government and municipal tax financing 2023, bilj. €

According to estimated closures and estimations



Municipal taxes in a nutshell (1/3)

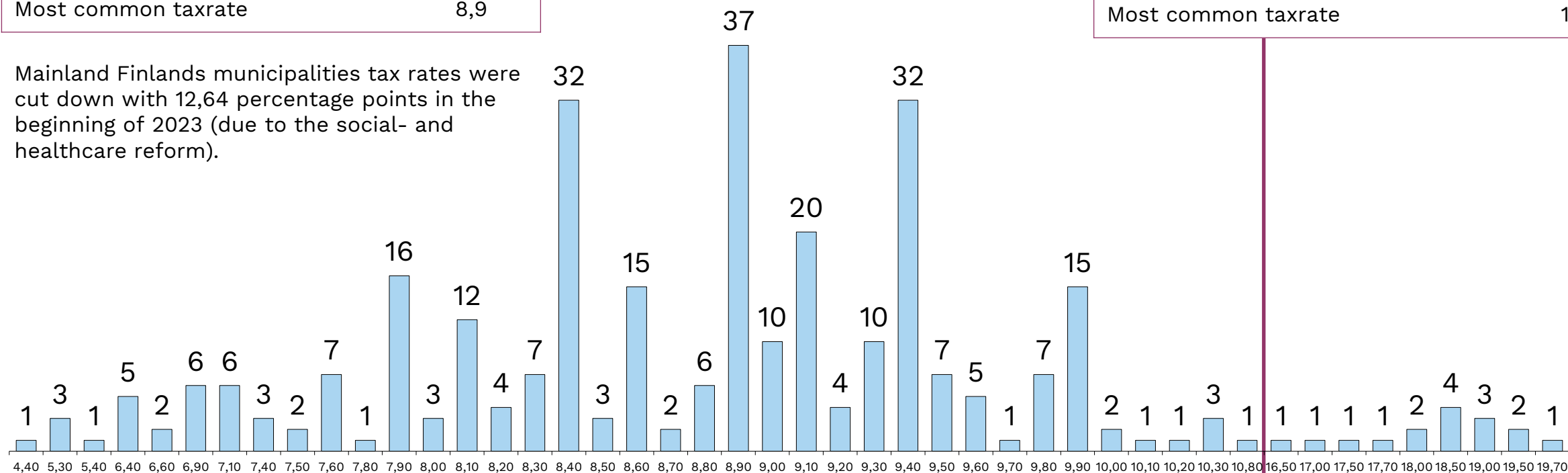
- **The municipalities have the right to levy municipal taxes**
 - The Constitution of Finland, Section 121 (3))
- **Municipal income tax** (earned income)
 - Local councils decide on tax percentage, not limited
 - Average 2022: 20,00 % 2023: 7,43 % (due to social- and healthcare reform) 2024: 7,51 %
- **Real estate tax** (acquisition tax)
 - Local councils decide on tax percentage, within limits
 - For example, 0.41 - 1.00 % of permanent residential buildings
 - Undeveloped plots and power plants – higher taxation
 - Certain non-profit organizations can be given tax-free status
- **Mining tax** (mine minerals)

Number of municipalities with different tax-rates 2024 and Mainland Finland Åland Islands

Mainland Finland	%
Average taxrate	7,46
Highest taxrate	10,8
Lowest taxrate	4,4
Most common taxrate	8,9

Åland Islands	%
Average taxrate	17,50
Highest taxrate	19,7
Lowest taxrate	16,5
Most common taxrate	18,5

Mainland Finlands municipalities tax rates were cut down with 12,64 percentage points in the beginning of 2023 (due to the social- and healthcare reform).





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Responsibilities

- local government finances, general government finances
- forecasts
- economic policy
- local-central government relations
- tax policy, fiscal policy



www.localfinland.fi

