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# STABILITY AND CONVERGENCE PROGRAMMES: THE 2002/2003 UPDATES



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## Summary

All EU Member States submitted the fourth update to their stability (for euro area countries) or convergence (for the three outside the euro area countries) programmes by early 2003. The growth projections for 2003 were scaled down from the third updates as a consequence of the economic outlook that turned bleaker than expected during 2002. Deficits deepened in most Member States, and they are likely to break the 3% limit in some. The Commission and the Council published their opinions on the programmes by mid-July 2003.


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# Introduction

Under Article 99 of the Treaty, all EU Member States – whether they fully participate in the Single Currency or not – are required to *regard their economic policies as a matter of common concern*, and to *co-ordinate them within the Council*. Co-ordination is carried out within the framework of recommended "broad guidelines" for the economic policies of Member States (BEPGs).

In addition, under the pre-Single-Currency transitional provisions outlined in Treaty Article 116, Member States wishing to join the € area were asked to adopt *multi-annual programmes intended to ensure the lasting convergence necessary for the achievement of economic and monetary union*. These formed the basis of the May 1998 decisions on € area membership.

The requirement to submit such "**convergence programmes**" remains for those countries still outside the euro area. In the case of countries which have already adopted the €, the Stability and Growth Pact – and Article 4 of the EU Council regulation 1466/97 of 7 July on tighter surveillance of budgetary implementation – calls for similar "**stability programmes**" to be submitted. These are three-year rolling programmes, and focus on progress in meeting the Pact's two major objectives:

- a budget deficit below 3% of GDP in any one year; and
- an overall budgetary balance over the economic cycle.

The Stability and Growth Pact came under strain because of doubts concerning the commitment of some Member States to commonly agreed rules, especially during an economic downturn. As a response, the Commission proposed slight modifications to the interpretation of the rules[1].

It emphasized that budgetary objectives should be set in structural terms, i.e. taking account of the economic cycle. The underlying (structural) position can be analysed after adjusting the nominal position to the economic cycle. The Council endorsed in July 2002 the introduction of a common method of calculation of cyclically adjusted deficits. The Eurogroup endorsed on 7 October 2002 a transitional arrangement by which structual deficit should be reduced annually by 0.5% of GDP in Member States not having yet reached a structurally balanced position.

A softer interpretation of the balanced budget requirement was proposed for Member States, with a relatively low debt burden (less than 60% of GDP) and public finances on a sustainable footing. The Council, however, did not endorse this proposal but emphasized the need to assess the Programmes case by case, putting weight on the long-term sustainability of public finances and securing a sufficient safety margin, including an allowance for automatic stabilisers to operate fully, without breaching the 3% reference value. Further, the planned evolution and quality of public finances should be coherent with the close to balance requirement.

Each Stability/Convergence programme is the subject of a Commission assessment and a Council opinion, and forms part of the input to the Broad Economic Guidelines, together with the overall annual implementation report published by the Commission in January.

While the Broad Economic Policy Guidelines indicate the medium-term orientation for the Member States' policies, the annual updates of the Stability and Convergence Programmes set out the measures decided by the national governments for the achievement of the medium-term goals. They should reflect the budget proposals for the following year. The agreed timetable for submitting the annual updates is between mid-October and the beginning of December.

The initial Convergence and Stability programmes were published in late 1998. They have been updated four times since then. The fourth updates became available towards the end of 2002.

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1 "Communication on strengthening the co-ordination of budgetary policies", COM(2002) 668 final.

# The Stability And Growth Pact

The Stability and Growth Pact (SGP) went through another year of turmoil in 2002/2003. Calls for a flexible interpretation or even a modification of the Pact became louder and more frequent as, against earlier expectations, the economic recovery did not materialise neither in the second half of 2002 nor in the first half of 2003.

### Communications by the Commission in 2002

The Commission adopted two important communications related to the co-ordination of economic policies during 2002. The Communication on streamlining the annual economic and employment policy co-ordination cycles is a document trying to improve the co-ordination of the different co-ordination processes[2]. More attention should be paid to the implementation of recommended policies. In particular, the Broad Economic Policy Guidelines (BEPGs) should focus on medium- and long-term issues, and be fully reviewed only every three years. The Council endorsed the main proposals of the Communication.

The Communication on the strengthening the co-ordination of budgetary policies[3] takes on board some of the key criticism of the current Pact. Table 1 summarises the problems raised by the Commission, the proposed solutions and the Council reaction to these proposals. It may be worth noting that as the modification of essential elements of the SGP must be done at the level of Council (Regulations) or require changing the Treaty, the Commission opted for modifications that could be implemented within the current legal framework.

In the Communication the Commission emphasises the sustainability of public finances as the core objective of the fiscal rules. The rules should concentrate on long-term issues of debt and other future liabilities rather than looking at annual deficits. To achieve this goal, the Commission proposes paying more attention to the sustainability of public finances and the surveillance of budgetary statistics.

***Table 1. The Commission communication 668 of November 2002.***

| Problem | Commission | Council |
|---|---|---|
| Asymmetric operation of automatic stabilisers, pro-cyclical policies. | Assess budgetary positions in cyclically adjusted terms | Endorsed. |
| Failed transition to close-to-balance | Member States not yet having reached the objective "close to balance or in surplus" in cyclically adjusted terms should reduce their underlying deficit by at least 0.5% of GDP a year until they reach balanced position. | Endorsed. |
| Structural reforms and public investment needs | Allow **temporary deficit** (however, not exceeding 3% of GDP) if<br>- low debt (<60% of GDP) and<br>- higher spending needed for growth enhancing purposes (Lisbon).<br>Allow **deficit in longer term** (however, not exceeding 3% of GDP) if<br>- debt level is "well below" 60% of GDP and<br>- public finances are on a sustainable footing (contingent liabilities.) | No comment. |
| High debt level | Define "satisfactory pace" of debt reduction towards 60% if GDP within the framework of the Excessive Deficit Procedure. Use Article 104(3) if a highly indebted Member State fails to follow the agreed path. | No comment. |

The Commission also addressed some issues with regard to the implementation of the SGP. The **early-warning** system should be enhanced so that if a Member State were to loosen fiscal

[2] COM(2002) 487, 3.9. 2002.

[3] COM(2002) 668, 27.11.2002.

policy inappropriately in good times, this would be viewed as a violation of budgetary requirements and would lead to an early warning.

The Council adopted a report on the Commission's communication on 7 March 2003. Apart from repeating its position in the subject of required speed of deficit reduction for countries not yet "close to balance or in surplus", the Council remained vague in its statements. It gave no concrete comment on the possibility of permitting deficits (in cyclically adjusted terms) for Member States with relatively low levels of debt and otherwise sustainable finances.

**The cyclical adjustment of budget balances**

As one element of the revised Code of Conduct concerning the content and format of the stability and convergence programmes[4], the Council endorsed the use of cyclically adjusted balances, in addition to nominal balances, in the assessment of budgetary positions and their conformity with the medium-term objective of "close to balance or in surplus".

In adopting conclusions on the Report on methods evaluating output gaps by the Economic and Finance Committee (EFC), the Council endorsed the use of the production function method in evaluating the cyclical position of each Member State's economy[5].

As a consequence of the new importance given to the cyclically adjusted balances over the past two years, the Commission and the Council have started to refer to cyclically adjusted figures in their assessments of the stability and convergence programmes. However, while it is generally agreed that structural deficits are the most relevant figures to be looked at when budgetary positions are evaluated, their use presents the important drawback that they are difficult to determine with sufficient precision. This is why any decision to impose sanctions for a breach of a rule cannot be based on such figures.

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4 The ECOFIN Council of 10 July 2001.

5 The ECOFIN Council of 12 July 2002.

# COUNTRY SUMMARIES

| Austria | |
|---|---|
| Updated Stability Programme, 2003–2007<br>*(25.03.2003)* | Austrian GDP growth was disappointing for the second year in 2002. General government balance weakened by almost 1% of GDP compared with 2001, although output growth was slightly higher than in 2001. The programme projects an annual average GDP growth rate of 2.1% over the period 2003-07. Deficits are foreseen over the entire programme period despite accelerating growth. The deficit is set to widen markedly in 2005 due to major income tax cuts. Figures for gross government debt were revised upwards to almost 68% of GDP in 2002 due to Eurostat's new interpretation with regard to the debt issued for public enterprises. The debt-to-GDP ratio is now expected to fall to slightly below the 60% reference value by 2007 only. |
| European Commission's Assessment<br>*(30.04.2003)* | The Commission concludes that the projected budgetary position is only partly in compliance with the SGP. This is due to the higher general government deficit, both in nominal and cyclically-adjusted terms after 2004. Austria should make greater efforts to achieve and maintain budgetary balance earlier than planned, in order to guarantee sufficient leeway for automatic stabilisers to function fully. Fiscal policy has switched from achieving and maintaining budgetary balance to allowing deficits to widen and reach 1.5% in 2005. The Commission notes that in 2002 general government finances fell short of the target set in the previous programme update despite higher growth than projected. It also notes the significantly delayed decline in the debt-to-GDP ratio due to the rectification in the Austrian gross debt reporting.<br>The Commission considers the planned reforms of the public pensions system and health insurance funds as fundamental. If implemented according to the plans, they will have favourable medium- and short-term budgetary effects, in addition to their positive long-term influence. The Austrian authorities should raise the low effective retirement age and encourage labour force participation, in particular of older workers and women. In addition, expenditure savings have to be stepped up at the regional and local level. The Commission considers that the planned cuts in taxes and social contributions should lead to supply-side conditions favourable to growth. It encourages the Austrian authorities to implement the reduction in non-wage labour cost, which has already been postponed several times. The tax reform should, in the Commission's view, be financed by equivalent structural expenditure cuts. |
| Council Opinion<br>*(13.05.2003)* | The Council notes that the programme submission was late as compared to the date required in the revised Code of conduct. Therefore the update complies only partly with the requirements of the Code. The Council considers the growth outlook feasible, since no significant macroeconomic imbalances prevail, provided that the external environment improves as projected. The Council is satisfied with the improvement in the general government finances in 2001, but notes that in 2002 government finances deviated from the target. The Council is concerned of the delay in bringing gross consolidated debt below 60% of GDP. It regrets that the previous target of maintaining budgetary balance and moving to a small surplus in 2004 and 2005 has been abandoned. In its opinion, a risk of unsustainability of public finances exists due to the long-term expenditure pressures resulting from population ageing. The Council welcomes the attention paid to longer-term issues, as demonstrated by the pension reform being prepared. The Austrian government should implement its plans for rationalising public administration. With regard to the plans to reduce the high tax burden, the reduction in non-wage labour cost, already postponed several times, should be implemented. Council urges the Austrian authorities to compensate the cost of the tax reform by additional structural expenditure cuts in line with its recommendation one year ago. |

***Table 2. The Austrian Stability Programme***

*The table contains the projections of each of the stability programmes - original programme and subsequent updates - for the main economic indicators (deficit, debt, growth and inflation).*

| | **SP** | **1999** | **2000** | **2001** | **2002** | **2003** | **2004** | **2005** | **2006** | **2007** |
|---|---|---|---|---|---|---|---|---|---|---|
| General government budget balance (% of GDP) | Nov 1998 | -2.0 | -1.7 | -1.5 | -1.4 | | | | | |
| | Mar 2000 | -2.0 | -1.7 | -1.5 | -1.4 | -1.3 | | | | |
| | Dec 2000 | -2.1 | -1.4 | -0.75 | 0.0 | 0.0 | 0.0 | | | |
| | Nov 2001 | -2.2 | -1.1 | 0.0 | 0.0 | 0.0 | 0.2 | 0.5 | | |
| | Mar 2003 | | | 0.3 | -0.6 | -1.3 | -0.7 | -1.5 | -1.1 | -0.4 |
| Government debt (% of GDP) | Nov 1998 | 63.5 | 62.2 | 61.2 | 60.0 | | | | | |
| | Mar 2000 | 64.9 | 64.1 | 62.7 | 61.9 | 61.2 | | | | |
| | Dec 2000 | 64.6 | 63.1 | 61.4 | 59.1 | 57.2 | 55.3 | | | |
| | Nov 2001 | 64.9 | 63.5 | 61.8 | 59.6 | 57.2 | 54.7 | 52.1 | | |
| | Mar 2003 | | | 67.3 | 67.8 | 67.0 | 65.1 | 63.8 | 62.1 | 59.7 |
| Real GDP growth (annual % change) | Nov 1998 | 2.8 | 2.6 | 2.1 | 2.2 | | | | | |
| | Mar 2000 | 2.2 | 2.8 | 2.8 | 2.5 | 1.9 | | | | |
| | Dec 2000 | 2.8 | 3.5 | 2.8 | 2.7 | 2.3 | 2.5 | | | |
| | Nov 2001 | 2.8 | 3.0 | 1.3 | 1.3 | 2.4 | 2.8 | 2.8 | | |
| | Mar 2003 | | | 0.7 | 0.9 | 1.4 | 2.0 | 2.5 | 2.5 | 2.4 |
| Inflation (Nov 1998 to Dec 2000: private consumption deflator, annual % change; | Nov 1998 | 1.0 | 1.5 | 1.8 | 2.0 | | | | | |
| | Mar 2000 | 0.5 | 1.4 | 1.3 | 1.1 | 1.1 | | | | |
| | Dec 2000 | 0.5 | 2.3 | 1.6 | 1.2 | 1.1 | 1.2 | | | |
| Nov 2001 & Mar 2003: HICP, annual % change) | Nov 2001 | 0.5 | 2.0 | 2.5 | 1.8 | 1.8 | 1.8 | 1.9 | | |
| | Mar 2003 | | | 2.5 | 1.7 | 1.6 | 1.8 | 1.7 | 1.6 | 1.6 |

| Belgium | |
|---|---|
| Updated Stability Programme 2003–2005<br>*(11.2002)* | With GDP up by 0.7%, growth in 2002 reached about half the level of 1.3% earlier predicted. Despite this disappointing growth, public finances were in balance at the end of 2002. For 2003, the Government predicts a growth rate of 2.1%. For the 2003 budget, it has set three priorities: (i) to consolidate public finances by guaranteeing a balanced budget; (ii) to sustain confidence by implementing in full the measures previously decided on; (iii) to create, within a strict budget framework, the scope for a series of new social and economic policy initiatives.<br>According to the Government there is broad consensus about the key points of medium-term fiscal policy. The attainment and consolidation of a balanced budget must not mean the end of the overhaul of public finances. The high level of public debt must be brought down sufficiently quickly so that, among other things, it will be possible to cushion the pressure on spending exerted by population trends. In 2003, for the fourth consecutive year, a balanced budget is presented. This establishes the basis for creating a budget surplus as soon as the economic situation permits. |
| European Commission's Assessment<br>*(30.01.2003)* | Despite the sharp economic slowdown, Belgium succeded in maintaining the general government accounts in balance in 2002. The Commission considers that the 2002 update is in compliance with the requirements of the Stability and Growth Pact as regards achieving a budgetary position close to balance or in surplus in the medium term. The Commission confirms that maintaining high primary surpluses is an essential perquisite in order to ensure the reduction in the still high government debt ratio. The Commission notes, however, that the planned primary surplus for 2003 is lower than recommended in last year's Council Opinion. Moreover, the programme does not set a binding ceiling for real primary expenditure by the Federal Government and Social Security as requested by both the 2001 Council Opinion and the 2002 Broad Economic Policy Guidelines (BEPGs). |
| Council Opinion<br>*(18.02.2003)* | The Council considers that the economic policies set out in the programme update partly comply with the recommendations of the Broad Economic Policy Guidelines. The update broadly complies with the requirements of the code of conduct on the content and format of the stability and convergence programmes.<br>The Council considers necessary to maintain the government debt ratio on a sustained declining trend. The budgetary strategy implied by the 2002 update continues to be based on the achievement of high primary surpluses combined with declining interest payments over the programme period. In past opinions the Council recommended such a strategy, which, based on effective control of expenditure growth, has proved successful in eliminating budgetary deficits and allowing a significant reduction in the government debt ratio.<br>The Council urges the Belgian authorites to maintain primary surpluses at around 6% of GDP per year and to continue to respect the limit of 1.5% per year on real primary expenditure growth for "Entity I", comprising the federal government and social security, over the period covered by the programme. It should be borne in mind that long-run budgetary developments in a high debt country like Belgium are very sensitive to medium-term budget target being achieved and sustained over the long-run. A failure to continue the policy of running large primary surpluses would mean that the risk of unsustainable public finances could not be excluded.<br>The Council welcomes the renewed agreement between the various parts of governement to set budgetary objectives and the commitment to ensure their achievement; the Council considers such "internal stability programmes" particularly appropriate in the federal institutional framework of Belgium. |

***Table 3. The Belgian Stability Programme***

*The table contains the projections of each of the stability programmes - original programme and subsequent updates - for the main economic indicators (deficit, debt, growth and inflation).*

| | SP | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|---|
| General government budget balance (% of GDP) | Dec 1998 | -1.3 | -1.0 | -0.7 | -0.3 | | | |
| | Dec 1999 | -1.1 | -1.0 | -0.5 | 0.0 | 0.2 | | |
| | Dec 2000 | | -0.1 | 0.2 | 0.3 | 0.5 | 0.6 | 0.7 |
| | Nov 2001 | | | 0.0 | 0.0 | 0.5 | 0.6 | 0.7 |
| | Nov 2002 | | | 0.4* | 0.0 | 0.0 | 0.3 | 0.5 |
| Government debt (% of GDP) | Dec 1998 | 114.5 | 112.2 | 109.6 | 106.8 | | | |
| | Dec 1999 | 114.9 | 112.4 | 108.8 | 105.0 | 101.3 | | |
| | Dec 2000 | | 110.6 | 105.8 | 101.4 | 97.2 | 92.9 | 88.7 |
| | Nov 2001 | | | 107.0 | 103.3 | 97.7 | 93.0 | 88.6 |
| | Nov 2002 | | | 108.6 | 106.1 | 102.3 | 97.9* | 93.6* |
| Real GDP growth (annual % change) | Dec 1998 | 2.4 | 2.3 | 2.3 | 2.3 | | | |
| | Dec 1999 | | 2.5 | 2.5 | 2.3 | 2.3 | | |
| | Dec 2000 | | 3.8 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 |
| | Nov 2001 | | 4.0 | 1.1 | 1.3 | 3.0 | 2.5 | 2.4 |
| | Nov 2002 | | | 0.8 | 0.7 | 2.1 | 2.5 | 2.5 |
| Inflation (HICP, annual % change) | Dec 1998 | | | | | | | |
| | Dec 1999 | | | | | | | |
| | Dec 2000 | | | | | | | |
| | Nov 2001 | | 2.7 | 2.5 | 1.3 | 1.8 | 1.7 | 1.7 |
| | Nov 2002 | | | 2.4 | 1.5 | 1.4 | | |

* including UMTS receipts; without them 0.3% according to the Update.

** excluding the partial assumption of the debt of the SNCB.

| Denmark | |
|---|---|
| Updated Convergence Programme, 2002-2010<br>*(11.2002)* | Only minor changes were necessary in this update compared with the forecasts one year ago. For 2003 and 2004 GDP growth is expected to be driven by domestic demand only. The update is based on a surplus on general government finances of 1½-2½ per cent of GDP on average. This is expected to halve general government debt as a percentage of GDP from 2000 to 2010. An increase in participation rates and a reduction in structural unemployment are assumed to boost employment by 85,000 from 2000 and 2010. The Government implements a tax freeze and plans to limit the growth in real public consumption to 1 percent a year between 2002 and 2005 and to ½ or ¾ per cent a year between 2006 and 2010. Contracting-out and efficiency enhancement of the public sector are among the measures designed to limit the growth in public spending. A tax cut on earned income is planned to be effective from 2004 onwards. Stable inflation of just below 2 per cent a year should provide favourable framework conditions *inter alia* for private savings, which, in conjunction with the surplus on general government finances, imply a significant reduction in foreign debt.<br>The Danish government sees the fixed exchange rate policy as an important tool for ensuring low inflation, whereby low inflation in the euro area works as an anchor for Danish inflationary expectations. The level of interest rates is predominantly determined by the ECB. An action programme is foreseen to achieve the employment goal. |
| European Commission's Assessment<br>*(30.01.2003)* | The Commission concludes that Denmark has continued to fulfil the convergence criteria on inflation, long term interest rate, the exchange rate and government finances. It notes that the projections in the programme are in compliance with the requirements of the Stability and Growth Pact, the code of conduct and the Broad Economic Policy Guidelines.<br>The general government budget balance is expected to show surpluses for the entire period 2002-2010. The achievement of the targeted surpluses of 1½-2½% of GDP hinges to a large extent on the achievement of ambitious labour market reforms, including an increase in labour force participation rates from already high levels. According to the Commission reaching these targets might prove to be quite a challenge.<br>On the basis of current policies, public finances appear to be on a sustainable footing to meet the budgetary costs of ageing populations. The general government debt to GDP ratio is expected to fall substantially from 44% of GDP to some 26% by 2010. |
| Council Opinion<br>*(18.02.2003)* | The Council notes with satisfaction that public finances continue to remain healthy and that Denmark will continue to comply fully with the requirements of the Stability and Growth Pact. The macroeconomic projectiond seem plausible and are in line with the Commission's Autumn forecast. The Council also notes with satisfaction that Denmark has continued to fulfil the convergence criteria on inflation, long-term interest rate, the exchange rate and public finances.<br>The Council considers that on the basis of current policies, public finances appear to be on a sustainable footing to meet the budgetary costs of ageing populations, benefiting from budget surpluses and a projected accumulation of large net assets in both pension funds and government.<br>The Council welcomes that the tax freeze has so far been implemented for all levels of government, a development which is in line with the Broad Economic Policy Guidelines. |

***Table 4. The Danish Convergence Programme***

*The table contains the projections of each of the convergence programmes - original programme and subsequent updates - for the main economic indicators (deficit, debt, growth and inflation).*

| | CP | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|---|
| General government budget balance (% of GDP) (Dec 2002: cyclically adjusted figures) | Nov 1998 | 2.3 | 2.6 | 2.4 | 2.4 | 3.3 | 3.3 | 3.3 |
| | Dec 1999 | 2.9 | 2.1 | 2.2 | 2.3 | 2.5 | 2.6 | 2.8 |
| | Dec 2000 | 2.8 | 2.7 | 2.8 | 2.6 | 2.6 | 2.7 | 2.9 |
| | Jan 2002 | | 2.5 | 1.9 | 1.9 | 2.1 | 2.1 | 2.1 |
| | Nov 2002 | | | 1.8 | 2.1 | 2.2 | 2.5 | 2.4 |
| Government debt (% of GDP) | Nov 1998 | 53.1 | 48.6 | 45.9 | 43.5 | | | 34.7 |
| | Dec 1999 | 52.8 | 50.1 | 47.5 | 44.6 | 41.6 | 38.7 | 35.9 |
| | Dec 2000 | 52.6 | 48.3 | 44.7 | 41.8 | 39.2 | 36.8 | 33.7 |
| | Jan 2002 | | 46.8 | 43.5 | 42.9 | 40.1 | 37.6 | 35.1 |
| | Nov 2002 | | | 44.7 | 43.9 | 42.1 | 39.2 | 36.7 |
| Real GDP growth (annual % change) | Nov 1998 | 1.7 | 2.0 | 2.0 | 2.2 | 2.2 | 2.2 | 2.2 |
| | Dec 1999 | 1.3 | 1.6 | 2.0 | 2.3 | 2.2 | 2.1 | 2.0 |
| | Dec 2000 | 1.7 | 2.4 | 1.8 | 1.7 | 1.7 | 1.6 | 1.7 |
| | Jan 2002 | | 3.0 | 1.1 | 1.4 | 2.4 | 1.9 | 1.9 |
| | Nov 2002 | | | 1.0 | 1.5 | 2.2 | 1.8 | 1.7 |
| Inflation (consumer price index, annual % change) | Nov 1998 | 2.3 | 2.4 | 2.1 | 2.0 | 2.2 | | |
| | Dec 1999 | 2.5 | 2.3 | 1.9 | 1.6 | 2.0 | 1.8 | 1.9 |
| | Dec 2000 | 2.5 | 2.9 | 2.5 | 1.8 | 2.0 | 2.0 | 2.0 |
| | Jan 2002 | | 3.0 | 2.4 | 1.6 | 1.9 | 1.6 | 1.6 |
| | Nov 2002 | | | 2.4 | 2.3 | 1.8 | 1.6 | 1.6 |

| Finland | |
|---|---|
| Updated Stability Programme, 2003-2005<br>*(11.2002)* | The sluggish global economy had repercussions on the Finnish economy. In the wake of seven years of robust economic growth, total output increased by a mere 0.7% in 2001 and by 0.5% in 2002, mainly building on private consumption. In 2003, growth in total output is expected to accelerate to 2.8% with gradually recovering international demand. However, the surplus-to-GDP ratio in general government is to fall clearly in the next few years. While general government finances are planned to remain in surplus, central government finances, having consistently shown a surplus since 2000, are anticipated to fall into deficit during the review period. |
| European Commission's Assessment<br>*(08.01.2003)* | The Commission concludes that the Finnish budgetary position is in compliance with the Stability and Growth Pact. The economic and budgetary policies presented in the updated programme are also broadly consistent with the Broad Economic Policy Guidelines. The Commission welcomes the sound budgetary position, but in view of the ageing population, it also considers it necessary to maintain such discipline. In order to improve the sustainability of public finances, the Commission encourages structural reforms, notably of the pension system. The generally very positive assessment of the Commission outlines a few concerns. Both in 2001 and in 2002 actual expenditure exceeded the agreed pluri-annual expenditure ceilings. Despite strong economic growth during the second half of the 1990s, Finland has still a high rate of unemployment. The government surpluses projected in the programme are warranted by the future expenditure pressures deriving from a rapidly ageing population. The Commission welcomes that the latest programme presents various structural reform measures for the pension and unemployment insurance systems, which should improve significantly the sustainability of public finances in the longer term. |
| Council Opinion<br>*(21.01.2003)* | The Council notes with satisfaction that the general government balance, which exceeded projections in 2001, was expected to remain clearly in surplus throughout the programme period. The Council considers that the updated programme is consistent with the Broad Economic Policy Guidelines (BEPG). The macroeconomic scenario presented in the 2002 update is justified on the basis of the most recent data. The projected decline in the cyclically adjusted balance by ½ percentage points of GDP between 2002-04 was attributed also partly to the decline from the exceptionally high level recorded in 2000 in corporate taxes. The Council renews its recommendation from last year – along the lines of the 2002 BEPGs – that the Finnish government should reinforce its commitment to firmly control central government outlays over the medium-term. The Council welcomes the measures recently adopted to improve financial stability at the local government level over the medium term. It also recommends to ensure, that the envisaged aims are achieved. According to the Council's assessment, on the basis of current policies, public finances appear to be on a sustainable footing to meet the budgetary costs of ageing populations, benefiting from the sustained running of budget surpluses, and a reformed pension system, which is partially funded. The Council also takes note of reforms, both planned and underway, which aim at raising employment rates of older workers, and encourage the Finnish authorities to proceed with their implementation according to the time frame indicated in the stability programme. |

***Table 5. The Finnish Stability Programme***

*The table contains the projections of each of the stability programmes - original programme and subsequent updates - for the main economic indicators (deficit, debt, growth and inflation).*

| | **SP** | **1999** | **2000** | **2001** | **2002** | **2003** | **2004** | **2005** | **2006** |
|---|---|---|---|---|---|---|---|---|---|
| General government budget balance (% of GDP) | Sep 1998 | 2.4 | 2.2 | 2.1 | 2.3 | | | | |
| | Sep 1999 | 3.1 | 4.7 | 4.2 | 4.6 | 4.7 | | | |
| | Sep 2000 | 1.9 | 4.5 | 4.7 | 4.4 | 4.5 | 4.9 | | |
| | Nov 2001 | | 6.9 | 4.7 | 2.6 | 2.1 | 2.6 | | |
| | Nov 2002 | | | 4.9 | 3.8 | 2.7 | 2.1 | 2.6 | 2.8 |
| Government debt (% of GDP) | Sep 1998 | 48.5 | 46.4 | 44.8 | 43.2 | | | | |
| | Sep 1999 | 46.6 | 42.9 | 40.7 | 38.0 | 35.2 | | | |
| | Sep 2000 | 46.6 | 42.4 | 39.2 | 37.1 | 34.0 | 32.2 | | |
| | Nov 2001 | | 44.0 | 42.7 | 42.9 | 43.0 | 41.8 | | |
| | Nov 2002 | | | 43.4 | 42.5 | 41.9 | 41.9 | 41.4 | 40.7 |
| Real GDP growth rate (annual % change) | Sep 1998 | 4.0 | 2.7 | 2.6 | 2.6 | | | | |
| | Sep 1999 | 3.8 | 3.9 | 3.0 | 2.6 | 2.6 | | | |
| | Sep 2000 | 4.0 | 5.2 | 4.2 | 3.2 | 2.7 | 2.7 | | |
| | Nov 2001 | | 5.7 | 0.6 | 1.6 | 2.7 | 3.0 | | |
| | Nov 2002 | | | 0.7 | 1.6 | 2.8 | 2.6 | 2.5 | 2.4 |
| Inflation (private consumption deflator, annual % change; for SP 2001, 2002: HICP, annual % change) | Sep 1998 | 1.7 | 2.0 | 2.0 | 2.0 | | | | |
| | Sep 1999 | 1.1 | 1.5 | 1.8 | 1.8 | 1.8 | | | |
| | Sep 2000 | 1.7 | 2.8 | 1.8 | 1.8 | 1.8 | 1.8 | | |
| | Nov 2001 | | 3.4 | 2.7 | 1.7 | 1.6 | 1.6 | | |
| | Nov 2002 | | | 2.7 | 2.1 | 2.0 | 1.0 | 2.0 | 2.0 |

| France | |
|---|---|
| Updated Stability Programme, 2002–2006<br>*(12.2002)* | General government finances deteriorated markedly in 2002. The updated stability programme estimates the 2002 general government deficit at 2.8% of GDP*, well above the 1.4% of GDP planned in the previous update. The larger part of the slippage is due to deterioration in the underlying balance. For 2003, the the general government deficit is projected at 2.6% of GDP. For the period 2004-2006, the budgetary projections are based on two growth scenarios: a "cautious" scenario, with real GDP growing at 2.5% a year and a "favourable" scenario where real GDP growth reaches 3% per year. In the cautious scenario, the government deficit is projected to decline by 0.5 percentage point of GDP per year as from 2004 to reach 1.0% of GDP in 2006, while in the favourable scenario, public finances would be balanced in 2006. The general government debt is projected to grow in both scenarios. |
| European Commission's Assessment<br>*(08.01.2003)* | The Commission concludes that the updated stability programme is not fully in line with the essential requirement of the Stability and Growth Pact of reaching a budgetary position close to balance or in surplus in the medium term (during the period covered by the programme). The programme complies only partly with the recommendations of the 2002 Broad Economic Policy Guidelines. The Commission considers that the risk for the general government deficit to breach the 3% of GDP threshold in 2003 is large and the growth assumption of an increase in real GDP by 2.5% is optimistic. The Commission also considers that the projection with regard to the general government debt does not take into account the impact of recently decided financial operations. These could bring the debt ratio to a level close to 60% of GDP in 2003, and, in the event of higher than projected deficit or lower nominal growth, this threshold might be breached. The French authorities should improve the underlying budgetary position in 2003 enough to reduce the risk that the general government deficit breach the 3% of GDP threshold. In light of the projected budgetary impact of ageing populations the intentions of the French authorities to reform pension and health care systems are welcome. The reform has been repeatedly delayed in recent years. Finally, the recent reforms towards improving expenditure control by means of curbing expenditure *ex ante* and improving the control of budgetary execution are positive steps. |
| Council Opinion<br>*(21.01.2003)* | The Council identified a significant divergence in the 2002 budgetary developments from the projections of the 2001 update of the stability programme and adopted an early warning to France in order to prevent the occurrence of an excessive deficit in 2003. The Council considers that there is a danger for the government deficit to breach the 3 % of GDP threshold, and a risk exists that the government debt breaches the 60% of GDP reference value in 2003. The macroeconomic assumption of an increase in real GDP of 2.5% in 2003 is to be considered as optimistic. The Council notes that a large part of the slippage in 2002 was due to a deterioration in the underlying balance (i.e. not related to the business cycle), which mainly reflects an overrun in expenditures. The Council considers that ambitious reforms should be rapidly made, in particular in view of recent economic and budgetary developments. The Council welcomes the recent structural measures designed to curb expenditures in the health sector and the actions aiming at improving the control of budgetary execution in the State sector. The Council welcomes the intentions of the French authorities to reform pension and health care systems. |

* At 3.1% of GDP, the deficit turned out to exceed the 3% thresold already in 2002. (Eurostat press release of 17 March 2003 "First notification of deficit and debt data for 2002"). The forecast for 2003 and the following years has deteriorated markedly since then, the 3% threshold having become a target for 2005 only, as the Government prefers to boldly ignore the SGP rules in its budget plans for 2004.

***Table 6. The French Stability Programme***

*The table contains the projections of each of the stability programmes - original programme and subsequent updates - for the main economic indicators (deficit, debt, growth and inflation). Optimistic scenario in brackets.*

| | SP | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|---|---|
| General government budget balance (% of GDP). Figures in parenthesis refer to the 3% growth scenario | Dec 1998 | -2.3 | -2.0 | -1.6 | -1.2 (-0.8) | | | | |
| | Feb 2000 | -2.1 | -1.7 | -1.7 (-1.3) | -1.2 (-0.9) | -0.5 (-0.3) | | | |
| | Jan 2001* | | -1.4 (-1.4) | -1.0 (-1.0) | -0.6 | -0.4 | -0.5 (0.2) | | |
| | Dec 2001 | | -1.4 | -1.4 | -1.4 | -1.3 (-1.0) | -0.5 (0.0) | 0.0 (0.3) | |
| | Dec 2002 | | | -1.4 | -2.8 | -2.6 | -2.1 (-2.2) | -1.6 (-1.3) | -1.0 (-0.5) |
| Government debt (% of GDP) Figures in parenthesis refer to the 3% growth scenario | Dec 1998 | 58.7 | 59.0 (58.5) | 58.8 (57.9 | 58.3 (57.1) | | | | |
| | Feb 2000 | 60.3 | 59.4 | 59.0 (59.0) | 58.4 (58.1) | 57.7 (57.2) | | | |
| | Jan 2001* | | 58.4 | 57.2 (57.2) | 56.9 (56.3) | 55.6 (54.7) | 54.5 (53.0) | | |
| | Dec 2001* | 58.5 | 57.6 | 57.1 | 56.3 (56.3) | 55.7 (55.3) | 54.5 (53.6) | 52.8 (51.4) | |
| | Dec 2002 | | | 57.3 | 58.7 | 59.1 | 58.9 (58.5) | 58.3 (57.3) | 57.0 (55.4) |
| Real GDP growth (annual % change) | Dec 1998 | | 2.5 (3.0) | 2.5 (3.0) | 2.5 (3.0) | | | | |
| | Feb 2000 | | 3.0 | 2.5 (3.0) | 2.5 (3.0) | 2.5 (3.0) | | | |
| | Jan 2001 | | 3.2 | 3.0-3.6 | 2.5 (3.0) | 2.5 (3.0) | 2.5 (3.0) | | |
| | Dec 2001 | | | 2.3 | 2.5 (3.0) | 2.5 (3.0) | 2.5 (3.0) | 2.5 (3.0) | |
| | Dec 2002 | | | 1.8 | 1.2 | 2.5 | 2.5 (3.0) | 2.5 (3.0) | 2.5 (3.0) |
| Inflation (private consumption deflator, annual % change) | Dec 1998 | | | | | | | | |
| | Feb 2000 | | | | | | | | |
| | Jan 2001 | | 1.7 | 1.2 | 1.4 | 1.4 | 1.4 | 1.4 | |
| | Dec 2001 | | | 1.7 | 1.6 | 1.5 | 1.5 | 1.5 | |
| | Dec 2002 | | | 1.8 | 1.8 | 1.6 | 1.5 (1.5) | 1.5 (1.5) | |

* excluding UMTS receipts; ** Dec. 2001: HICP (% annual change)

| Germany | |
|---|---|
| Updated Stability Programme, 2001–2004<br>*(12.2002)* | As happened in late 2001, the German government was once again disappointed with its forecasts for 2002. Contributing factors have been the uncertainty and poor growth affecting the global economy as well as special factors, such as the floods of autumn 2002, but above all, the weakness of domestic demand.<br>The update blames the overall unfavourable economic conditions for the problems in the German public finances. The update states that due to *the changed prospects for 2003, Germany is being forced to alter course in deficit reduction, so that fiscal policy too can contribute to greater growth and employment*.<br>In November 2002, the federal government responded to the deterioration in the fiscal situation by a savings programme. On the expenditure side, the programme requires consolidation and structural reform measures affecting the labour market and social security. On the revenue side, tax benefits and "anomalies" are to be dismantled, leading to additional revenue to both the Länder and local authorities. Based on this programme, an aggregate deficit of -2.75% of GDP is expected for 2003, based on an optimistic GDP growth forecast of 1.5%, not shared by independent research institutes. |
| European Commission's Assessment<br>*(08.01.2003)* | The Commission considers that the programme broadly complies with the requirements of the revised Code of Conduct and is broadly consistent with the 2002 BEPGs. Under the main scenario of the programme the budget deficit for 2003 is projected to reach some 2¾% based on economic growth of 1½ % and on the assumption of approval by the Bundesrat of the full consolidation package.<br>In line with the Commission's Autumn 2002 forecast, the updated programme projects a 2002 deficit of 3.75% of GDP, clearly exceeding the Treaty's reference value. Germany has therefore been unable to live up to its commitment not to breach the 3% of GDP reference value made in the Ecofin Council of 12 February 2002.<br>As shown by budgetary developments in the past, respect of expenditure targets by all levels of government is crucial to attain the projected deficit targets, especially once the economy recovers. The implementation of a consistent budgetary adjustment programme should be underpinned by far reaching reforms to raise Germany's growth potential. Moreover, achieving a budgetary position close to balance and reducing the debt level is essential to strengthen the sustainability of government finances in view of the budgetary pressures stemming from an ageing population. On the basis of its Autumn forecast, the Commission had on 19 November 2002 initiated the Excessive Deficit Procedure for Germany and recommends to the Council to decide that an excessive deficit exists in Germany. |
| Council Opinion<br>*(21.01.2003)* | The Council considers that while the deficit targets set in BEPGs have not been achieved, the adjustment path planned in the programme is broadly consistent with the BEPGs. The Council notes that the projected deficit outcome for 2002 is clearly higher than projected in the lower-growth scenario of the December 2001 update. The Council regrets that the German authorities have not fulfilled their commitment of 12 February 2002 and the BEPG Recommendation for 2002 not to breach the 3% of GDP reference value for the general government deficit in 2002. The Council notes that the nominal deficit rose from 2001 to 2002 more than could be explained by the unexpected slowdown in growth, and that there have once more been expenditure overruns in the health sector which contributed to a deterioration. The Council decided that an excessive deficit exists in Germany and recommended that German authorities: (i) put an end to this situation as rapidly as possible; (ii) implement with resolve their budgetary plans for 2003 which, on the basis of a GDP growth projection of 1.5% in 2003, aiming at reducing the general government deficit in 2003 to 2.75% of GDP.<br>The Council urges the German authorities to ensure that the implementation of the next steps of tax reform in 2004 and 2005 is compatible with a continuous adjustment towards overall budget balance. |

***Table 7. The German Stability Programme***

*The table contains the projections of each of the stability programmes - original programme and subsequent updates - for the main economic indicators (deficit, debt, growth and inflation).*

| | SP | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|---|---|
| General government budget balance (% of GDP) | Jan 1999 | -2.0 | -2.0 | -1,5 | -1.0 | | | | |
| | Jan 2000 | -1.2 | -1.0 | -1.5 | -1.0 | -0.5 | | | |
| | Oct 2000 | -1.4 | -1.0* | -1.5 | -1.0 | -0.5 | 0.0 | | |
| | Dec 2001 | | -1.3** | -2.5 | -2.0 | -1.0 | 0.0 | 0.0 | |
| | Dec 2002 | | | -2.8 | -3.75 | -2.75 | -1.5 | -1.0 | 0.0 |
| Government debt (% of GDP) | Jan 1999 | 61.0 | 61.0 | 60.5 | 59.5 | | | | |
| | Jan 2000 | 61.0 | 61.0 | 60.5 | 59.5 | 58.5 | | | |
| | Oct 2000 | 61.1 | 60.0 | 58.0 | 57.5 | 56.5 | 54.5 | | |
| | Dec 2001 | | 60.3 | 60.0 | 60.0 | 59.0 | 57.0 | 55.5 | |
| | Dec 2002 | | | 59.5 | 61.0 | 61.5 | 60.5 | 59.5 | 57.5 |
| Real GDP growth rate (annual % change) | Jan 1999 | 2.0 | 2.5 | 2.5 | 2.5 | | | | |
| | Jan 2000 | 1.4 | 2.5 | 2.5 | 2.5 | 2.5 | | | |
| | Oct 2000 | 1.6 | 2.75 | 2.75 | 2.5 | 2.5 | 2.5 | | |
| | Dec 2001 | | 3.0 | 0.75 | 1.25 | 2.5 | 2.5 | 2.5 | |
| | Dec 2002 | | | 0.6 | 0.5 | 1.5 | 2.25 | 2.25 | 2.25 |
| Inflation (private consumption deflator, annual % change; Dec. 2001&2002: GDP deflator, annual % change) | Jan 1999 | 1.0 | 2.0 | 1.5 | 1.5 | | | | |
| | Jan 2000 | 0.5 | 1.5 | 1.5 | 1.5 | 1.5 | | | |
| | Oct 2000 | 0.3 | 1.5 | 1.0 | 1.5 | 1.5 | 1.5 | | |
| | Dec 2001 | | -0.4 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | |
| | Dec 2002 | | | 1.4 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 |

* +1.5 including UMTS proceeds
** +1.2 including UMTS proceeds

| Greece | |
|---|---|
| Updated Stability Programme, 2002–2006<br>*(12.2002)* | Although the international economic environment remains highly uncertain, the medium-term perspectives of the Greek economy are positive. Buoyant domestic demand, large inflows of funds from the EU's 3rd Community Support Framework and the preparations for the 2004 Olympic Games are contributing to a sustained high level of economic activity. For the period 2003-2004 GDP is projected to rise annually on average by 3.9%. Inflation is foreseen to decline during the examined period although it will remain above the European average. As a result of continuing fiscal consolidation, the general government balance is projected to remain negative in 2003-2004 but improve compared with the –1.1% of GDP in 2002. A small surplus of 0.2% of GDP is projected for 2005 increasing to 0.6% of GDP in 2006. These surpluses secure a decline in the general government debt ratio from 105.3% of GDP in 2002 to 87.9% in 2006. As a consequence of high growth rates employment is predicted to rise while unemployment should decline from 10% in 2002 to 7.1% in 2006. The continued structural reforms and the adopted social insurance and pension system reforms are expected to contribute to the long-term sustainability of public finances. |
| European Commission's Assessment<br>*(08.01.2003)* | The Commission concludes that projected real output growth rates are attainable. However, the target for a general government surplus of 0.8% of GDP set for 2002 in the previous update was missed. The Commission considers that high primary surpluses are essential to ensure a rapid reduction of the still high government debt ratio. However, no clear binding norm for current primary expenditure has been defined as was recommended by both the Council opinion of 12 February 2002 on the 2001 update and the 2002 Broad Economic Policy Guidelines. This, therefore, casts doubts on the feasibility of the projected expenditure retrenchment. The Commission considers that debt should be reduced more rapidly as budgetary imbalances may emerge due to ageing population. Further deep reforms are required without delay to the pension system, in order to avoid an unsustainable increase in public spending for pensions. Further structural reforms are indispensable in enhancing efficiency in labour, product and services markets, and the competitiveness of the economy. |
| Council Opinion<br>*(21.01.2003)* | The Council considers that the projected real GDP growth is attainable, however, for this to happen fiscal policy should remain tight and wage increases should be based on the evolution of labor productivity. The Council notes that the starting point of the budgetary projections changed considerably compared with the 2001 update. Recent budgetary developments, in particular the slow pace of reduction in the government debt ratio and the fact that the expected general government surplus turned into deficit in a period in a period of high growth, are matters of serious concern. The Council takes note of the Greek government's initiative to introduce a code of fiscal stability to ensure expenditure control, but further budgetary adjustment effort is needed. For this reason the Council urges the Greek government to take advantage of the current favourable macroeconomic situation. The Council notes that further structural reforms in the product, services and labour markets are needed in order to ensure the efficiency in the markets and the competitiveness of the economy. The Council encourages the government to proceed to the necessary reforms rapidly and welcomes the intention to implement reforms in the area of budgeting and management of expenditure in the public sector. The Council considers that further reforms are required to the pension system due to the ageing population, in order to avoid an unsustainable increase in public spending and to control the evolution of age related expenditures. |

***Table 8. The Greek Convergence/Stability Programme***

*The table contains the projections of each of the convergence/stability programmes - original programme and subsequent updates - for the main economic indicators (deficit, debt, growth and inflation).*

| | CP/SP | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|---|---|
| General government budget balance (% of GDP) | Jun 1998 | -2.1 | -1.7 | -0.8 | | | | | |
| | Dec 1999 | -1.5 | -1.2 | -0.2 | 0.2 | | | | |
| | Dec 2000 | -1.8 | -0.8 | 0.5 | 1.5 | 2.0 | 2.0 | | |
| | Dec 2001 | | -1.1 | 0.1 | 0.8 | 1.0 | 1.2 | | |
| | Dec 2002 | | | -1.2 | -1.1 | -0.9 | -0.4 | 0.2 | 0.6 |
| Government debt (% of GDP) | Jun 1998 | 105.8 | 102.5 | 99.8 | | | | | |
| | Dec 1999 | 104.2 | 103.3 | 99.5 | 98.0 | | | | |
| | Dec 2000 | 104.6 | 103.9 | 98.9 | 96.0 | 90.5 | 84.0 | | |
| | Dec 2001 | | 102.7 | 99.6 | 97.3 | 94.4 | 90.0 | | |
| | Dec 2002 | | | 107.0 | 105.3 | 100.2 | 96.1 | 62.1 | 87.9 |
| Real GDP growth rate (annual % change) | Jun 1998 | 3.7 | 3.9 | 4.5 | | | | | |
| | Dec 1999 | 3.5 | 3.8 | 4.1 | 4.3 | | | | |
| | Dec 2000 | 3.4 | 4.1 | 5.0 | 5.2 | 5.5 | 5.5 | | |
| | Dec 2001 | | 4.3 | 4.1 | 3.8 | 4.0 | 4.0 | | |
| | Dec 2002 | | | 4.1 | 3.8 | 3.8 | 4.0 | 3.8 | 3.7 |
| Inflation (private consumption deflator, annual % change) | Jun 1998 | 2.5 | 1.9 | 1.7 | | | | | |
| | Dec 1999 | 2.5 | 2.1 | 2.1 | 2.0 | | | | |
| | Dec 2000 | 2.4 | 2.7 | 2.3 | 2.2 | 2.3 | 2.4 | | |
| | Dec 2001 | | 3.1 | 3.1 | 2.8 | 2.7 | 2.8 | | |
| | Dec 2002 | | | 3.4 | 3.2 | 3.1 | 3.2 | 3.0 | 3.0 |

| Ireland | |
|---|---|
| Updated Stability Programme, 2002–2005<br>*(12.2002)* | The Government's economic and budgetary strategy is designed around the aim of sustaining economic growth and maintaining full employment as the basis for building a fair society of equal opportunity and sustained prosperity. The key strategic objectives of the Government in this regard are: (i) within budgetary constraints, improve the quality of public services and the lot of pensioners and people on low incomes; (ii) improve infrastructures in a coherent and structured way; and (iii) ensure healthy public finances while safeguarding the competitive position of the economy.<br>The projected budgetary position over the period 2003-05 reflects an expectation of more limited increases in the overall tax revenue, combined with a desire to sustain infrastructural investment focussed on improving the productive capacity of the economy, and to target expenditure increases otherwise at social concerns and at enhancing the quality of key public services. |
| European Commission's Assessment<br>*(30.01.2003)* | The Commission considers that the programme broadly complies with the code of conduct and the macroeconomic scenario is considered realistic.<br>Having regard to Ireland's very low debt ratio and overall sustainable public finance position, the Commission considers that the limited underlying deficit implied by the programme targets is fundamentally consistent with the close-to-balance or in surplus objective of the Stability and Growth Pact.<br>The projected decline in inflation is necessary if a serious risk to price stability and competitiveness is to be avoided, particularly if wage expectations fail to adapt to the changed economic environment. The outcome for the general government balance in 2002, a minor deficit, is expected to rise to over 1% of GDP over the programme period. Adjusted for the effects of the cycle, however, the underlying public finance situation improves in 2003 and remains stable at around 0.5% of GDP for the rest of the period. The debt ratio of 35% of GDP is the second lowest in the Union. |
| Council Opinion<br>*(18.02.2003)* | The Council considers that the update broadly complies with the data requirements of the revised Code of Conduct. However, compliance would be strengthened by explaining the nature and significance of the large "contingency provisions" included in the public finance projections for the final two years of the programme. The economic policies as reflected in the planned measures in the programme update broadly comply with the BEPGs for 2002.<br>Following the large deterioration in the budget balance in 2001, and in spite of an upward revision of GDP growth and inflation for 2002, the projected budgetary outcome is a deficit of 0.1% of GDP, half a percent of GDP worse than planned in last year's programme. In cyclically-adjusted terms, the deficit in 2002 becomes significantly worse, not in line with the "close-to-balance" requirements of the Stability and Growth Pact, although the estimate of the output gap presents unusual margins of uncertainty due to the special features of the Irish economy.<br>The projected downward path of inflation ought to be attained, otherwise there would be a significant risk to competitiveness and price stability if wage expectations fail to adapt to the changed economic environment.<br>The Council observes that the new programme further deepens and extends the downward shift in the projected path for the general government balance that was outlined in the previous programme. The reason for the deterioration over the programme period is that the trend decline in the revenue ratio outweighs the modest drop in the expenditure ratio achieved through expenditure restraint. Excluding the build-up of assets in the National Pension Reserve Fund, the debt ratio would continue to fall throughout the period, rather than record a marginal rise to 35% towards the end of the programme period. |

### *Table 9. The Irish Stability Programme*

*The table contains the projections of each of the stability programmes - original programme and subsequent updates - for the main economic indicators (deficit, debt, growth and inflation).*

| | SP | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|---|
| General government budget balance (% of GDP) | Dec 1998 | 1.7 | 1.4 | 1.6 | | | | |
| | Dec 1999 | 3.2 | 3.3 | 2.8 | 2.9 | | | |
| | Dec 2000 | 3.9 | 4.7 | 4.3 | 3.8 | 4.6 | | |
| | Dec 2001 | | 4.5 | 1.4 | 0.7 | -0.5 | -0.6 | |
| | Dec 2002 | | | 1.6 | -0.3 | -0.7 | -1.2 | -1.2 |
| Government debt (% of GDP) | Dec 1998 | 52.0 | 47.0 | 43.0 | | | | |
| | Dec 1999 | 52.0 | 46.0 | 40.0 | 36.0 | | | |
| | Dec 2000 | 50.1 | 39.0 | 33.0 | 28.0 | 24.0 | | |
| | Dec 2001 | | 38.6 | 35.8 | 33.7 | 33.8 | 34.1 | |
| | Dec 2002 | | | 36.7 | 34.1 | 34.0 | 34.5 | 34.9 |
| Real GDP growth rate (annual % change) | Dec 1998 | 6.7 | 6.4 | 5.8 | | | | |
| | Dec 1999 | 8.4 | 7.4 | 6.5 | 5.8 | | | |
| | Dec 2000 | 9.8 | 10.7 | 8.8 | 6.3 | 5.7 | | |
| | Dec 2001 | 10.8 | 11.5 | 6.8 | 3.9 | 5.8 | 5.3 | |
| | Dec 2002 | | | 5.7 | 4.5 | 3.5 | 4.1 | 5.0 |
| Inflation (consumer price index, annual % change) | Dec 1998 | 2.0 | 2.0 | 2.0 | | | | |
| | Dec 1999 | 1.6 | 3.0 | 2.25 | 2.0 | | | |
| | Dec 2000 | 1.6 | 5.5 | 4.5 | 3.5 | 2.5 | | |
| | Dec 2001 | | 5.6 | 4.9 | 4.2 | 2.8 | 2.3 | |
| | Dec 2002 | | | 4.9 | 4.7 | 4.8 | 3.5 | 2.6 |

| Italy | |
|---|---|
| Updated Stability Programme, 2002–2006<br>*(11.2002)* | The Italian GDP growth for 2002 is estimated at 0.6%, more than half a percentage point lower than estimated by main international organisations before the summer and embodied in the "Economic and Financial Planning Document (DEPF)" of July.<br>Lower growh and the rising uncertainties over the prospects for world economic recovery in 2002 affected Italy's public finances.<br>Italy's public debt is expected to be equal to 109.4% of GDP, 5 percentage points higher than planned in the 2001 Stability Programme update. The shortfall is said to be due to: (i) a larger than planned deficit at the end of 2001 (2.4% of GDP), produced by higher net borrowing (0.8 points) and accounting revisions decided by Eurostat (0.5 points); (ii) slower GDP growth in 2002; (iii) the slower than planned implementation of the privatisation programme in 2002. |
| European Commission's Assessment<br>*(08.01.2003)* | The Commission considers that the programme complies in part with the 2002 BEPGs. The analysis carried out by the Commission's services highlights the issues concerning the quality of adjustment and the risks to attaining these revised budgetary objectives. In 2003 the adjustment is achieved with substantial temporary measures which will subsequently need to be replaced with more durable measures. The risks concern both the programme's macroeconomic projections of very strong growth and the unspecified but very large underlying fiscal corrections which would be necessary from 2004 onwards in order to reach the deficit objectives. The lack of detailed information on the additional measures foreseen to achieve the budgetary targets beyond 2003 is contrary to the prescriptions of the revised Code of Conduct. |
| Council Opinion<br>*(21.01.2003)* | The Council considers that the new update broadly complies with the data requirements of the revised Code of Conduct. The Council observes, however, that the lack of information on the additional measures foreseen to achieve the budgetary targets beyond 2003 is not in line with the requirements of the code. The economic policies as reflected in the planned measures in the updated programme comply partly with the recommendations of the 2002 BEPGs.<br>The Council notes that improvement in the cyclically-adjusted deficit of 0.6% of GDP is largely due to one-off measures. General government deficit in 2001 turned out to be much larger than estimated by the Government in late 2001. In spite of corrective measure adopted in the course of 2002, the projected deficit for 2002 significantly exceeds earlier objectives. This implies that the "close-to-balance" position would be reached in 2004, rather than in 2003.<br>The reduction of the debt ratio below 100% of GDP is now envisaged by the Government to occur in 2005, two years later than in the commitment made by Italy in 1998.<br>The programme's macroeconomic scenario assumes a pick-up in economic activity. However, in light of the more recent developments, the recovery is likely to be slower than anticipated, and growth assumptions, both nominal and potential, appear to be optimistic. |

***Table 10. The Italian Stability Programme***

*The table contains the projections of each of the stability programmes - original programme and subsequent updates - for the main economic indicators (deficit, debt, growth and inflation).*

| | SP | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|---|---|
| General government budget balance (% of GDP) | Dec 1998 | -2.0 | -1.5 | -1.0 | | | | | |
| | Sep 1999 | -2.0 | -1.5 | -1.0 | -0.6 | -0.1 | | | |
| | Dec 2000 | -1.9 | -1.3 | -0.8 | -0.5 | 0.0 | 0.3 | | |
| | Nov 2001 | | -1.5 | -1.1 | -0.5 | 0.0 | 0.0 | 0.2 | |
| | Nov 2002 | | | -2.2 | -2.1 | -1.5 | -0.6 | -0.2 | 0.1 |
| Government debt (% of GDP) | Dec 1998 | 114.6 | 110.9 | 107.0 | | | | | |
| | Sep 1999 | 114.7 | 111.7 | 108.5 | 104.3 | 100.0 | | | |
| | Dec 2000 | 115.1 | 112.1 | 106.6 | 103.5 | 99.6 | 94.9 | | |
| | Nov 2001 | | 110.5 | 107.5 | 104.3 | 101.0 | 98.0 | 95.4 | |
| | Nov 2002 | | | 109.9 | 109.4 | 105.0 | 100.4 | 98.4 | 96.4 |
| Real GDP growth rate (annual % change) | Dec 1998 | 2.5 | 2.8 | 2.9 | | | | | |
| | Sep 1999 | 1.3 | 2.2 | 2.6 | 2.8 | 2.9 | | | |
| | Dec 2000 | 1.4 | 2.8 | 2.9 | 3.1 | 3.1 | 3.1 | | |
| | Nov 2001 | | 2.9 | 2.0 | 2.3 | 3.0 | 3.0 | 3.1 | |
| | Nov 2002 | | | 1.8 | 0.6 | 2.3 | 2.9 | 3.0 | 3.0 |
| Inflation (private consumption deflator, annual % change; Nov. 2001&2002: HICP, annual % change) | Dec 1998 | 1.5 | 1.5 | 1.5 | | | | | |
| | Sep 1999 | 1.9 | 1.7 | 1.6 | 1.5 | 1.5 | | | |
| | Dec 2000 | 2.2 | 2.8 | 2.3 | 1.5 | 1.5 | 1.5 | 1.5 | |
| | Nov 2001 | | 2.5 | 2.8 | 1.7 | 1.3 | 1.0 | 1.0 | |
| | Nov 2002 | | | 2.7 | 2.6 | 1.9 | 1.3 | 1.2 | 1.2 |

| Luxembourg | |
|---|---|
| Updated Stability Programme, 2001–2005<br>*(17.12.2003)* | According to revised data, GDP growth in 2001 was only 1%. In this context, it is worthwhile pointing out that in 2000, real GDP has increased by 8.9% and that the average rate of growth during the period 1985-2000 had approximately been 6% per annum. Hence, the economic slowdown was sharp and came rather unexpectedly. There were two causes to this. First, a sharp slowdown in the growth of exports of goods and services; second, a more sluggish growth of private consumption than initially forecast. At the sectoral level, the evolution of the financial services sector, which accounts for roughly 25% of the GDP, provides the principal explanation for the slowdown in economic growth.<br>In 2002, economic growth fell short of the exceptionally high rates attained in the past. The Government adopted a policy aimed at stabilising economic activity by means of an ambitious programme of public sector investment. The Government defines the following principles for its fiscal policy framework: (i) general government finances should remain positive; (ii) the central government budget should remain in balance; (iii) the growth rate of current expenditure should not exceed the growth rate of total expenditure. |
| European Commission's Assessment<br>*(19.02.2003)* | The Commission considers that the 2002 updated stability programme in part conforms with the 2002 BEPGs. Based on the update, Luxembourg will continue to be in compliance with the requirements of the Stability and Growth Pact. However, some expenditure restraint might be needed to maintain a sound budgetary position in the medium term, if economic growth sould slow down significantly compared to previous episodes.<br>The sharp economic slowdown which started in 2001 led to a marked deterioration of the general government balance from a surplus of 6.1% of GDP in 2001 to a deficit of 0.3% of GDP in 2002. The 2002 update expects the general government to remain in slight deficit in 2003 and 2004, and to reach a position close to balance in 2005.<br>In the period 2002-2005, the government debt ratio is projected to decline gradually to around 3% of GDP, from the already low level of around 5% of GDP.<br>The Commission notes that progress has been made in implementing structural reforms, in particular the implementation of the tax reform aimed at reducing the tax burden of households and enterprises. However, the budgetary costs of the tax reform need to be accompanied by an appropriate adjustment of expenditure. |
| Council Opinion<br>*(07.03.2003)* | The Council considers that the programme does not fully comply with the requirements of the Code of Conduct; in particular it has been transmitted with a six week delay. The programme partly conforms with the recommendations of the BEPGs.<br>The Council observes that real GDP growth decelerated further to an estimated 0.5%, from 1.0% in 2001, which is well below the forecast included in the 2001 stability programme.<br>The Council notes that government finances deteriorated markedly in 2002 as revenues decelerated in response to the combined impact of the tax reform and the economic slowdown, while expenditure growth remained very strong. However, the Council considers that Luxembourg continues to be in conformity with the requirement of stability and growth pact to reach a budgetary position of close to balance or in surplus in the medium term. The public finances are in a good position to meet the projected costs of an ageing population. |

### *Table 11. The Luxembourg Stability Programme*

*The table contains the projections of each of the stability programmes - original programme and subsequent updates - for the main economic indicators (deficit, debt, growth and inflation).*

| | SP | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|---|
| General government budget balance (% of GDP) | Feb 1999 | 1.1* | 1.2* | 1.3* | 1.7* | | | |
| | Feb 2000 | 2.3 | 2.5 | 2.6 | 2.9 | 3.1 | 3.1 | |
| | Feb 2001 | 4.4 | 3.0 | 2.6 | 2.5 | 2.5 | 2.5 | |
| | Nov 2001 | | 6.2 | 4.1 | 2.8 | 3.1 | 3.4 | |
| | Dec 2002 | | | 6.1 | -0.3 | -0.3 | -0.7 | -0.1 |
| Government debt (% of GDP) | Feb 1999 | | | | | | | |
| | Feb 2000 | 4.3 | | | | | | |
| | Feb 2001 | | | | | | | |
| | Nov 2001 | | 5.3 | 5.0 | 4.6 | 4.2 | 3.9 | |
| | Dec 2002 | | | 5.3 | 5.1 | 4.1 | 3.8 | 2.9 |
| Real GDP growth rate (annual % change) | Feb 1999 | 3.4* | 3.7* | 3.7* | 3.7* | | | |
| | Feb 2000 | 4.9 | 4.9 | 5.1 | 5.2 | 5.4 | 5.4 | |
| | Feb 2001 | 7.5 | 8.3 | 5.2 | 5.3 | 5.8 | 5.8 | |
| | Nov 2001 | | 8.5 | 3.9 | 5.3 | 5.7 | 5.6 | |
| | Dec 2002 | | | 1.0 | 0.5 | 1.2 | 2.4 | 3.1 |
| Inflation (consumer price index, annual % change) | Feb 1999 | 1.2* | 1.7* | 1.7* | 1.7* | | | |
| | Feb 2000 | 1.0 | 1.6 | 1.5 | 1.6 | 1.8 | 1.8 | |
| | Feb 2001 | 1.0 | 3.1 | 2.2 | 1.7 | 2.0 | 2.0 | |
| | Nov 2001 | | 3.2 | 2.6 | 2.2 | | | |
| | Dec 2002 | | | 2.8 | 2.1 | 1.8 | 1.7 | 1.9 |

* median scenario

| The Netherlands | |
|---|---|
| Updated Stability Programme, 2001–2006<br>*(09.12.2002)* | Since the previous update of the Stability Programme, economic growth has slowed considerably. The disappointing economic performance not only reflects the international slowdown in growth, but also a deterioration in competitiveness due to rapidly increasing labour costs. In line with international economic recovery, the economy is expected to pick up slightly in 2003.<br>After a peak of 5.1% in 2001, inflation is expected to continue declining, reaching 2.75% in 2003. Lower growth has also affected the fiscal position. Whereas the previous Stability Programme assumed an annual average surplus of more than 1% of GDP for 2001-03, the government is now faced with deficits (0.7% for 2002 and 1% for 2003). The debt in 2003 is estimated at 51.2% of GDP, remaining 1.6 percentage points below the 2001 level, and will decline further to 45.3% in 2006.<br>The government maintains the system of real expenditure ceilings. |
| European Commission's Assessment<br>*(24.06.2003)* | The Commission considers that the Netherlands complies with the requirements of the Stability and Growth Pact. It complies broadly with the 2003 Broad Economic Policy Guidelines.<br>The sharp economic slowdown which started in 2001 led to a marked deterioration of the general government balance from a surplus of 0.1% of GDP in 2001 to a deficit of 1.2% of GDP in 2002. In the period 2002-2007, the government debt ratio is projected to remain broadly stable, at around 52.5% of GDP.<br>The Commission considers that on the basis of the current policies, the Netherlands appears to be in a relative good position to meet the budgetary costs associated with ageing. However, given the downside risks attached to the growth projections, additional consolidation measures might be needed to ensure that a budgetary position close to balance or in surplus would be achieved in the medium term. |
| Council Opinion<br>*(15.07.2003)* | The Council considers that the revised update complies with the Code of Conduct and broadly complies with the 2003 BEPGs.<br>The Council notes that government finances deteriorated markedly in 2002, mainly due to the economic slowdown. The macroeconomic projections have been revised downwards and there are downside risks to recovery, which depends on a pick-up in global demand and the restoration of the competitiveness of the Dutch market sector.<br>The Council welcomes the main elements of the budgetary framework, such as expenditure ceilings defined in real terms separately for the three sub-sectors of government; the rule that extra revenues should be exclusively used to reduce the deficit (or the debt should the deficit disappear); and the requirement that a development of the general government deficit that would imply a violation of the Stability and Growth Pact has to be countered by additional measures. The Council welcomes the consolidation effort entailed in the 2003 budget and in the coalition agreement of the new government for the period 2004-2007. With these measures and given normal macroeconomic fluctuations, a safety margin is provided not to breach the 3% of GDP deficit threshold.<br>With regard to the cyclically adjusted general government balance, the Council regrets that in 2003 and 2004 the adjustment falls short of the requirement to reduce the cyclically adjusted deficit by at least half a percentage point in each year. The Dutch authorities should ensure that the adjustment in the cyclically adjusted general government balance is in line with the recommendation of achieving and maintaining budgetary positions of close to balance or in surplus throughout the economic cycle.<br>To avoid the risk of imbalances in the long run, it would be necessary to fully implement the reforms in the social insurance sector that aim at increasing participation rates and the effective retirement age. |

***Table 12. The Stability Programme of the Netherlands***

*The table contains the projections of each of the stability programmes - original programme and subsequent updates - for the main economic indicators (deficit, debt, growth and inflation).*

| | SP | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|---|---|
| General government budget balance (% of GDP) | Oct 1998 *** | -1.3 | | | -1.0 | | | | |
| | Nov 1999 | -0.6 | -0.6 | -0.5** | 0.0** | | | | |
| | Sep 2000 | 1.0 | 1.0* | 0.7 | 0.25 ***<br>0.5** | 0.25***<br>0.5** | 0.25***<br>0.5** | | |
| | Oct 2001 | 0.4 | 1.5* | 1.0 | 1.0 | 1.0 | 1.0 | | |
| | Dec 2002 | | | 0.1 | -0.7 | -1.0 | -0.7 | -0.4 | 0.1 |
| Government debt (% of GDP) | Oct 1998 *** | 66.4 | | | 64.5 | | | | |
| | Nov 1999 | 64.3 | 62.3 | 60.75** | 59.0** | | | | |
| | Sep 2000 | 62.9 | 56.6 | 52.3 | 50.25***<br>49.5** | 48.75***<br>47.25** | 46.75***<br>44.75** | | |
| | Oct 2001 | 63.1 | 56.1 | 51.8 | 47.7 | 45 | 42 | | |
| | Dec 2002 | | | 52.8 | 51.9 | 51.2 | 49.0 | 47.4 | 45.3 |
| Real GDP growth (annual % change) | Oct 1998 *** | 2.25 | 2.25 | 2.25 | 2.25 | | | | |
| | Nov 1999 | 2.75 | 2.5 | 3.25** | 3.25** | | | | |
| | Sep 2000 | 3.9 | 4.5 | 4.0 | 2.0***<br>3.25** | 2.0***<br>3.25** | 2.0***<br>3.25** | | |
| | Oct 2001 | | 3.5 | 2.0 | 2.0 | 2.25 | 2.25 | | |
| | Dec 2002 | | | 2.4 | 2.75 | 3.5 | 3.75 | 3.75 | 3.75 |
| Inflation (Consumer price index, annual % change) | Oct 1998 *** | 2.0 | 2.0 | 2.0 | 2.0 | | | | |
| | Nov 1999 | 2.0 | 1.75 | 2.75*** | 2.75*** | | | | |
| | Sep 2000 | 2.2 | 2.5 | 3.5 | 2.5*** | 1.75*** | 1.75*** | | |
| | Oct 2001 | | 2.6 | 4.5 | 2.5 | 2 | 2 | | |
| | Dec 2002 | | | 5.1 | 4 | 2.75 | 1.5 | 1 | 1.25 |

* + 2.2 including UMTS-proceeds

** favourable scenario

*** cautious scenario

| Portugal | |
|---|---|
| Updated Stability Programme, 2003–2006<br>*(17.01.2003)* | The goal of the updated programme is to ensure further consolidation of public finances, bringing them to a structurally balanced position by the end of the programme period. A strong consolidation effort began in 2002, after it had turned out that Portugal had breached the 3% deficit limit in 2001 and current expenditure was growing rapidly in early 2002 while tax revenues were declining due to the economic downturn. To bring public finances on sustainable footing, institutional reforms have been initiated, including the approval of a budgetary stability law. Structural measures are announced, with the aim of raising productivity and growth potential. For 2003, a small acceleration in the pace of growth is assumed, followed by a stronger recovery in the 2004-2006 period. |
| European Commission's Assessment<br>*(19.02.2003)* | The Commission considers that the economic and budgetary policies are broadly consistent with the Broad Economic Policy Guidelines. Overall, the growth rates appear plausible, although growth may be weaker than expected in 2003. The planned budgetary consolidation effort is markedly front-loaded to 2003. The structural balance is to improve by more than ½% of GDP per year, taking the underlying deficit to close to balance by 2005 and thereby complying which the objectives of the SGP. The debt-to-GDP ratio is projected to remain below the 60% of GDP reference value and to recede by a cumulative 6 percentage points between 2003 and 2006. The consolidation strategy rests mainly on the restraint of government expenditure, to be achieved partly by tighter control of the public sector wage bill and partly by the effects of a comprehensive programme of structural reform. This strategy is in line with the general recommendations in the Broad Economic Policy Guidelines. According to the Commission, meeting the updated programme's target of a close-to-balance budgetary position by 2006 is necessary to ensure the sustainability of public finances. This is, however, not sufficient but has to be supplemented by the structural reforms outlined in the update, in order to curb the growth dynamics of age-related expenditure. |
| Council Opinion<br>*(07.03.2003)* | The Council considers that the economic policies as reflected in the planned measures in the programme update broadly comply with the 2002 Broad Economic Policy Guidelines. The Council considers that regaining an appropriate level of external competitiveness is of paramount importance for Portugal in the light of the level of inflation and real wage developments over the last years. To that end, securing wage moderation and sustained increases in productivity are key requirements. The Council welcomes the government's guideline to use, from 2003 onwards, the average inflation forecast for the euro-area as the benchmark for wage negotiations, as well as the freezing of most wages in the government sector in 2003. The Council notes with satisfaction that, according to preliminary figures, the general government deficit has been reduced below 3% of GDP in 2002, in spite of weaker-than-anticipated growth. The Council acknowledges the firm resolve of the Portuguese government in pursuing budgetary consolidation. The Council considers the growth projection for 2003 to be optimistic and fears that the deficit plans may turn out to be difficult to realise. The Council also notes with satisfaction that the consolidation strategy adopted rests mainly on the restraint of government expenditure. Such a strategy is in line with the general recommendations of the Broad Economic Policy Guidelines. The Council suggests that expenditure ceilings would be useful in the context of the planned corporate tax reduction. To avoid the risk of unsustainable public finances related to ageing populations, reforms curbing the growth of age-related expenditure will be needed. |

***Table 13. The Portuguese Stability Programme***

*The table contains the projections of each of the stability programmes - original programme and subsequent updates - for the main economic indicators (deficit, debt, growth and inflation).*

| | SP | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|---|---|
| General government budget balance (% of GDP) | Dec 1998 | -2.0 | -1.5 | -1.2 | -0.8 | | | | |
| | Feb 2000 | -2.0 | -1.5 | -1.1 | -0.7 | -0.3 | 0.0 | | |
| | Jan 2001 | -2.0 | -1.5 | -1.1 | -0.7 | -0.3 | 0.0 | | |
| | Dec 2001 | | | -2.2 | -1.8 | -1.0 | 0.0 | +0.4 | |
| | Jan 2003 | | | -4.1 | -2.8 | -2.4 | -1.9 | -1.1 | -0.5 |
| Government debt (% of GDP) | Dec 1998 | 56.8 | 55.8 | 54.7 | 53.2 | | | | |
| | Feb 2000 | | 57.1 | 55.2 | 53.3 | 51.0 | 48.4 | | |
| | Jan 2001 | | 55.6 | 53.4 | 51.5 | 49.8 | 48.1 | | |
| | Dec 2001 | | | 55.9 | 55.7 | 55.5 | 54.0 | 53.2 | |
| | Jan 2003 | | | | 58.8 | 58.7 | 57.5 | 55.3 | 52.7 |
| Real GDP growth rate (annual % change) | Dec 1998 | 3.5 | 3.2 | 3.2 | 3.3 | | | | |
| | Feb 2000 | 3.1 | 3.3 | 3.6 | 3.6 | 3.5 | 3.5 | | |
| | Jan 2001 | 3.1 | 3.3 | 3.3 | 3.2 | 3.2 | 3.2 | | |
| | Dec 2001 | | 3.3 | 2 | 1.75 | 2.5 | 3.0 | 3.0 | |
| | Jan 2003 | | | | 0.7 | 1.3 | 2.7 | 3.1 | 3.5 |
| Inflation (private consumption deflator, annual % change; Dec. 2001: HICP, annual % change) | Dec 1998 | 2.0 | 2.0 | 2.0 | 2.0 | | | | |
| | Feb 2000 | 2.3 | 2.0 | 1.9 | 1.8 | 1.9 | 1.9 | | |
| | Jan 2001 | | 2.7 | 2.8 | 2.5 | 2.2 | 2.0 | | |
| | Dec 2001 | | | 4.4 | 2.8 | 2.3 | 2.1 | 2.0 | |
| | Jan 2003 | | | 4.4 | 3.5 | 2.5 | 2.2 | 2.2 | 2.0 |

| Spain | |
|---|---|
| Updated Stability Programme, 2002–2006<br>*(27.12.2002)* | After growing for four years at rates around 4%, the Spanish economy entered a slowdown phase in 2001-02 resulting from a generally adverse external context and a loss of domestic demand momentum. But even over these two years, Spain has continued the process of real convergence with Europe's most developed countries, on the upkeep of a positive growth differential over the EMU average.<br>EMU membership leaves Spain basically two economic policy instruments at its command: fiscal policy and structural reforms in product and factor markets. The medium-term target for fiscal policy is to support long-term growth while contributing to macroeconomic stability through budgetary discipline. The budgetary projections set out in this update are for a near-zero deficit in the next few years turning to a slight surplus at the end of the reference period. Fiscal stability will also be consistent with a comprehensive reform of personal income tax, which is expected to save taxpayers some €3.6 billion. Structural reform efforts will again prioritise liberalisation and increased competition in product and factor markets. |
| European Commission's Assessment<br>*(30.01.2003)* | The Commission concludes that the programme is considered generally realistic. Spain respects the close-to-balance or surplus objective of the Stability and Growth Pact. The budgetary strategy continues to rely on primary current expenditure restraint along with decreasing interest payments, allowing for increases in public investment. As growth might prove to be lower than projected, the balanced budget target for 2003 seems optimistic. However, for the rest of the programme period, budgetary targets are realistic. The Commission remarks that the upward revision of the inflation projection from 2.4% as an average for the programme period in the previous update to 2.8% in the 2002 update raises questions.<br>The Commission welcomes the initiatives taken by the Spanish authorities to improve the functioning of labour, capital and product markets. However, the long-term sustainability of public finances remains a matter of concern due to the effects of ageing population. Therefore, the risks in terms of emerging budget imbalances in the future cannot be excluded. |
| Council Opinion<br>*(18.02.2003)* | The Council considers that the economic policies as reflected in the planned measures in the programme update comply broadly with the 2002 BEPGs. Structural reform measures were implemented, notably including the adoption of legislation (to take effect from 2003) reforming personal income tax with the aim of giving greater incentives for labour market participation, geographical mobility and long-term saving. The update's macroeconomic scenario is centred on GDP growth recovering from 2.2% in 2002 to 3.0% and remaining at that level for the remainder of the programme period. Although this may be slightly optimistic for 2003, the medium-term projection may actually be somewhat prudent relative to potential. However, the inflation projection of 2.5% (in terms of the private consumption deflator) per annum should not be accepted complacently. The Council underlines the need for further structural reforms in the service sector, in particular in retail distribution and land regulation. More generally, the Council underlines the need for raising overall productivity. Phasing out wage indexation while maintaining wage moderation, as recommended in recent Council Opinions, would also be instrumental in this regard.<br>The Council broadly welcomes the update's confirmation of the existing fiscal strategy and the fact that the updated programme gives greater weight compared with the previous update to the issue of the long-term sustainability of the public finances. |

***Table 14. The Spanish Stability Programme***

*The table contains the projections of each of the stability programmes - original programme and subsequent updates - for the main economic indicators (deficit, debt, growth and inflation).*

| | SP | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|---|---|
| General government budget balance (% of GDP) | 1998 | -1.6 | -1.0 | -0.4 | +0.1 | | | | |
| | 1999 | -1.3 | -0.8 | -0.4 | +0.1 | +0.2 | | | |
| | Jan 2001 | -1.1 | -0.3 | 0.0<br>0.0* | 0.2<br>0.0* | 0.3<br>0.0* | 0.3<br>0.0* | 0.3<br>0.0* | |
| | Dec 2001 | | -0.3 | 0.0 | 0.0 | 0.0 | 0.1 | 0.2 | |
| | Dec 2002 | | | -0.1 | -0.2 | 0.0 | 0.0 | 0.1 | 0.2 |
| Government debt (% of GDP) | 1998 | 66.4 | 64.3 | 61.9 | 59.3 | | | | |
| | 1999 | 63.5 | 62.8 | 60.6 | 58.1 | 55.8 | | | |
| | Jan 2001 | 63.3 | 61.1 | 58.9<br>59.2* | 56.6<br>57.4* | 52.8<br>54.3* | 49.6<br>51.8* | 49.6<br>51.8* | |
| | Dec 2001 | | 60.4 | 57.5 | 55.7 | 53.8 | 51.9 | 50.0 | |
| | Dec 2002 | | | 57.1 | 55.2 | 53.1 | 51.0 | 49.0 | 46.9 |
| Real GDP growth rate (annual % change) | 1998 | 3.8 | 3.3 | 3.3 | 3.3 | | | | |
| | 1999 | 3.7 | 3.7 | 3.3 | 3.3 | 3.3 | | | |
| | Jan 2001 | 4.0 | 4.0 | 3.6<br>3.1* | 3.2<br>2.7* | 3.2<br>2.7* | 3.2<br>2.7* | 3.2<br>2.7* | |
| | Dec 2001 | | 4.1 | 3.0 | 2.4 | 3.0 | 3.0 | 3.0 | |
| | Dec 2002 | | | 2.7 | 2.2 | 3.0 | 3.0 | 3.0 | 3.0 |
| Inflation (private consumption deflator, Dec 2002: final household consumption deflator annual % change) | 1998 | 1.9 | 1.7 | 1.7 | 1.7 | | | | |
| | 1999 | | | | | | | | |
| | Jan 2001 | 2.5 | 3.2 | 2.7 | 2.0 | 2.0 | 2.0 | 2.0 | |
| | Dec 2001 | | 3.2 | 3.6 | 2.6 | 2.0 | 2.0 | 2.0 | |
| | Dec 2002 | | | 3.3 | 3.5 | 3.1 | 2.5 | 2.5 | 2.5 |

* lower growth scenario

| Sweden | |
|---|---|
| Updated Convergence Programme, 2001-2004<br>*(11.11.2002)* | The GDP is expected to grow by 2.1% in 2002, which is slightly less than forecast in the 2001 update. In 2003, growth is estimated to reach 2.5%. In the period 2002-2004 public finances are planned to show a surplus of 1.5%, which is below the Government's target of 2%. A third step of the household income tax reform has been implemented, which is one reason why disposable income is expected to rise by 4.8%. The last step will be implemented later in the mandate period 2003-2006, depending on the financial situation. The structural deficit is in line with the medium-term target in the years 2002-2004. The update holds the view that fiscal policy is well balanced. The debt ratio will continue to remain below 60% of GDP. |
| European Commission's Assessment<br>*(08.01.2003)* | The Commission considers that this update is in line with both the requirements of the Stability and Growth Pact and the BEPGs. Sweden continues to fully respect the Stability and Growth Pact's requirement of a fiscal position "close to balance or in surplus" over the programme period. However, there is no information in the programme for 2005, which is not in line with the Code of Conduct. Public finances are expected to remain in surplus in each year to 2004, but below Sweden's 2% of GDP surplus target. In the Commission's view it is therefore still important to maintain a tight expenditure control, to be able to meet the budgetary costs of ageing populations. Sweden is expected to continue fulfilling the convergence criteria on inflation and long-term interest rates. The Swedish krona, which has not participated in ERM2, has fluctuated against the euro since the previous update. Hence, the exchange rate criterion is not fulfilled. The Commission considers the GDP growth scenario optimistic and suggests a more slowly economic recovery. However, the debt-to-GDP ratio is expected to continue decreasing. The Commission notes that structural measures are undertaken to improve the supply side of the economy. Completing the tax reform and efforts to reach the key policy objectives regarding employment, social security recipients and days of sick leave should be given priority within the framework of sound public finances. |
| Council Opinion<br>*(21.01.2003)* | The Council considers that Sweden continues to fully respect the Stability and Growth Pact's requirement of a fiscal position "close to balance or in surplus" over the programme period. Sweden has, however, not given any information for 2005 in the programme, which is not in compliance with the Code of Conduct. (This is explained by reference to the prolonged negotiations with respect to forming a government in autumn 2002, a reason why the Government's Budget Bill for 2003 did not include budgetary plans for 2005.)<br><br>The macroeconomic scenario presented in the programme appears somewhat optimistic and the Council considers that there are downside risks to growth. The Council notes with satisfaction that the updated programme envisages continued government surpluses throughout the period to 2004 as Sweden maintains its medium term objective of a budget surplus of 2% of GDP on average over the business cycle. Public finances should remain sound, but some restraining measures may be necessary in order to ensure adherence to the expenditure ceilings. The Council notes that Sweden continues to fulfil the convergence criterion on price stability and long-term interest rates and is expected to continue do so in the years to 2004. The Swedish krona, which has not participated in ERM2, has fluctuated against the euro since the previous update. Hence, the exchange rate criterion is not fulfilled. The Council expects Sweden to decide to join the ERM2 in due course. |

***Table 15. The Swedish Convergence Programme***

*The table contains the projections of each of the convergence programmes - original programme and subsequent updates - for the main economic indicators (deficit, debt, growth and inflation).*

| | CP | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|---|---|
| General government budget balance (% of GDP) | Dec 1998 | 1.1 | 2.2 | 3.0 | | | |
| | Nov 1999 | 1.7 | 2.1 | 2.0 | 2.0 | | |
| | Nov 2000 | 1.9 | 3.4 | 3.5 | 2.0 | 2.0 | |
| | Nov 2001 | | 4.1* | 4.6 | 2.1 | 2.2 | 2.3 |
| | Nov 2002 | | 3.7 | 4.8 | 1.7 | 1.5 | 1.6 |
| Government debt (% of GDP) | Dec 1998 | 71.4 | 66.7 | 58.0 | | | |
| | Nov 1999 | 66.1 | 58.8 | 54.1 | 52.0 | | |
| | Nov 2000 | 65.6 | 58.9 | 53.2 | 50.2 | 48.2 | |
| | Nov 2001 | | 55.6 | 52.3 | 49.7 | 47.3 | 45.2 |
| | Nov 2002 | | 55.3 | 56.6 | 53.6 | 50.9 | 49.3 |
| Real GDP growth rate (annual % change) | Dec 1998 | 2.2 | 2.6 | 2.5 | | | |
| | Nov 1999 | 3.6 | 3.0 | 2.2 | 2.0 | | |
| | Nov 2000 | 3.8 | 3.9 | 3.5 | 2.1 | 2.1 | |
| | Nov 2001 | | 3.6 | 1.7 | 2.4 | 2.6 | 2.3 |
| | Nov 2002 | | 3.6 | 0.8 | 2.1 | 2.5 | 2.5 |
| Inflation (consumer price index, annual % change) | Dec 1998 | 0.5 | 1.3 | 2.0 | | | |
| | Nov 1999 | 0.9 | 1.3 | 2.0 | 2.0 | | |
| | Nov 2000 | 1.2 | 1.1 | 1.7 | 2.0 | 2.0 | |
| | Nov 2001 | | 1.4 | 2.7 | 1.8 | 2.0 | 2.0 |
| | Nov 2002 | | 1.4 | 2.9 | 2.2 | 2.4 | 2.0 |

* Revised to 3.8 after the CP update was published.

| The United Kingdom | |
|---|---|
| Updated Convergence Programme, 2001/02–2007/08<br>*(19.12.2002)* | The update is based on an economic policy framework with monetary policy targetting a low inflation rate and a rules based fiscal policy. The fiscal rules consist of the "golden rule", which allows the Government to borrow, over the economic cycle, only to invest and not to fund current spending, and the "sustainable investment rule", which limits public sector net debt as a proportion of GDP over the economic cycle "at a stable and prudent level". Other things being equal, net debt will be maintained below 40% of GDP over the economic cycle. Fiscal rules are set over the cycle and the automatic stabilisers are allowed to operate fully in a downturn.<br>As a part of this framework, the Government is dedicating substantial resources to reforming and modernising public services. To address the legacy of under-investment in public services, public sector net investment, projected to be almost three times higher this year than in 1997-98, is planned to rise further to 2% of GDP in 2005-06.<br>The Government's structural policy aims at improving productivity by means of a series of reform measures. |
| European Commission's Assessment<br>*(30.01.2003)* | The Commission considers that the update is broadly in line with the revised Code of Conduct and complies in part with the 2002 BEPGs. Macroeconomic projections are somewhat optimistic in the short term but broadly in line with the Commission's calculations regarding the trend growth assumptions. The deficit is projected to rise from 0.2% in 2001-02 to around 1.6% of GDP in 2005-06. Gross government debt stabilise according to the programme to around 39% of GDP from 2003-04 onwards. On the basis of current policies and forecasts, ageing populations are projected to have a limited impact on public spending on pensions as a share of GDP. Having regard to the UK's very low debt ratio and overall sustainable public finance position the Commission considers that a "small" deviation form the "close to balance or in surplus" requirement of the Stability and Growth Pact could be envisaged for the UK. |
| Council Opinion<br>*(18.02.2003)* | The Council considers it appropriate that the programme stresses, as did the previous programme, the importance of securing macroeconomic stability supported by sound monetary and fiscal policies and continued structural reform. The Council notes with satisfaction that these policies have delivered low and stable inflation in recent years. The convergence criteria on inflation and long term interest rates are fulfilled with some margin and the update projects that the inflation target will continue to be achieved over the programme period.<br>The public finance projections are based on a GDP growth assumptions, which the Council considers too optimistic in the short term, with considerable downside risks to growth. The Council notes, with approval, that the UK gross debt-to-GDP ratio is projected to remain relatively low at around 39% in 2003/04 and subsequently.<br>The Council considers that on current policies and the assumptions in the programme, the United Kingdom is well placed to meet the budgetary costs associated with ageing populations. However, much of the financial sustainability of the pension system depends on the performance of private pension providers. If private provision produces significantly less than the anticipated coverage or level of pensions, future governments may face increased claims of means-tested benefits. |

### *Table 16. The Convergence Programme of the United Kingdom*

*The table contains the projections of each of the convergence programmes - original programme and subsequent updates - for the main economic indicators (deficit, debt, growth and inflation).*

| | CP | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|---|---|---|
| General government budget balance (% of GDP) | Dec 1998 | 0.3 | 0.3 | 0.1 | 0.2 | 0.1 | | | | |
| | Dec 1999 | 0.3 | 0.2 | 0.2 | -0.1 | -0.4 | -0.5 | | | |
| | Dec 2000 | 1.8 | 1.1 | 0.6 | -0.1 | -0.9 | -1.0 | -1.1 | | |
| | Dec 2001 | | 2.0 | -0.2 | -1.1 | -1.3 | -1.1 | -1.0 | | |
| | Dec 2002 | | 1.7 | -0.2 | -1.8 | -2.2 | -1.7 | -1.6 | -1.6 | -1.6 |
| Government debt (% of GDP) | Dec 1998 | 46.7 | 45.4 | 43.7 | 42.0 | 40.4 | | | | |
| | Dec 1999 | 44.9 | 43.1 | 41.3 | 39.9 | 38.8 | 38.0 | | | |
| | Dec 2000 | 43.6 | 40.1 | 37.7 | 36.1 | 35.6 | 35.5 | 35.4 | | |
| | Dec 2001 | | 39.9 | 38.1 | 37.2 | 37.0 | 36.8 | 36.6 | | |
| | Dec 2002 | | 39.9 | 38.2 | 37.9 | 38.8 | 38.9 | 38.9 | 39.1 | 39.2 |
| Real GDP growth rate(annual % change) | Dec 1998 | 1.0 | 2.25 | 2.75 | | | | | | |
| | Dec 1999 | 1.75 | 2.5 | 2.25 | 2.25 | | | | | |
| | Dec 2000 | 2.25 | 3.0 | 2.25-2.75 | 2.25-2.75 | 2.25-2.75 | | | | |
| | Dec 2001 | | 3.0 | 2.25 | 2.0-2.5 | 2.25-3.25 | 2.25-2.75 | | | |
| | Dec 2002 | | | 2.0 | 1.5 | 2.5-3.0 | 3.0-3.5 | 2.75-3.25 | | |
| Inflation RPIX = Retail Price Index, annual % change) | Dec 1998 | 2.5 | 2.5 | 2.5 | | | | | | |
| | Dec 1999 | 2.0 | 2.5 | 2.5 | 2.5 | | | | | |
| | Dec 2000 | 2.25 | 2.25 | 2.5 | 2.5 | 2.5 | | | | |
| | Dec 2001 | | 2.0 | 2.25 | 2.25 | 2.5 | 2.5 | 2.5 | | |
| | Dec 2002 | | | 2.0 | 2.5 | 2.25 | 2.5 | 2.5 | | |

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