Annual assessment of implementation of stability and convergence programmes

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The Council examined the updated Stability and Convergence Programmes for Finland, Sweden, Greece, Italy, Germany and France in the context of the Stability and Growth Pact. The Council agreed the following Opinions and decided to place them in the public domain: - Sweden : the Council considers that the updated programme is consistent with the previous Council Opinion and the Broad Economic Policy Guidelines 2002. 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. The Council welcomes the budgetary objective of running budget surpluses of 2% of GDP up to 2015 with a view to running down public debt at a fast pace. 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. To this end, the Council considers that 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 high importance within the framework of sound public finances. - Finland : the Council considers that the updated programme is consistent with the Broad Economic Policy Guidelines (BEPG). The Council notes with satisfaction that the general government balance, which exceeded projections in 2001, is expected to remain clearly in surplus throughout the programme period. Furthermore, in spite of the higher than expected outcome in 2001, the general government debt to GDP ratio is projected to continue to decline, unlike in the previous programme, virtually every year during the programme period. The Council renews its recommendation from last year - along also the lines of the 2002 BEPGs - that the Finnish government reinforces its commitment to firmly control central government outlays over the medium term. The Council welcomes the attention given in the stability programme to the sustainability of public finances. 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 the sustained running of budget surpluses, and a reformed pension system that has a high degree of pre-funding. The Council notes that the tax ratio in Finland is high compared with other industrialised countries. A major challenge will be to carry out the planned tax reforms, while safeguarding the achievements of the past decade of placing public finances on a sustainable path. - Greece : the programme partly conforms with the recommendations of the BEPGs. The 20012 update of the stability programme projects annual real GDP growth at around 3.8% in yearly average for the period 2003-2006 and marginally lower rates than the 2001 update for the period until 2004. The Council considers the projected real GDP growth as attainable, particularly until 2004 as economic activity will be underpinned by high private and public investment related to the preparation of the Olympic Games and sustained by the inflow of financial resources from the third Community Support framework. However, for growth to be sustained it is essential that fiscal policy remains tight and wage increases are based on labour productivity changes. The Council considers that the budgetary developments as portrayed in the revised data, in particular the slow pace of reduction in the government debt ratio, in a period when the Greek economy has been growing at high rates, is a matter of serious concern. The Council urges the Greek government to take advantage of the current favourable macroeconomic situation to undertake determined effort in order to implement a durable budgetary adjustment leading to an improvement in the underlying budgetary position and a satisfactory pace of debt reduction. Furthermore, the Council encourages the Greek authorities to promote supplementary privately-funded pension schemes and to take measures to raise participation rates and to control the evolution of age related expenditures. - Italy: the Council considers that the economic policies as reflected in the planned measures in the updated programme complies partly with the recommendations of the 2002 Broad Economic Policy Guidelines. The Council welcomes Italy's goal of keeping high primary surpluses throughout the programme period, while allowing for some easing in the tax burden. However, the Council takes note of the commitment of Italy to reach the objective of close to balance in

2004. More in general, the Council invites Italy to clarify its fiscal strategy, particularly in the light of the goal of reducing the tax burden, which the Council shares, but which can be safely and effectively achieved only within a comprehensive reform plan on both the expenditure and the revenue side. Moreover, the Council the Council encourages Italy to adopt further measures to promote supplementary privately-funded pension schemes and to address the outstanding critical issue in the public pension system, namely, the long transition period to the new contributions-based system. This should be coupled with the measures necessary to raise participation rates and to control the evolution of age-related expenditures. Germany : the Council noted that the projected deficit outcome for 2002 (3.75% of GDP) is clearly higher than projected in the lower-growth scenario of the December 2001 update (2.5 % of GDP). The Council regrets that it has proved not to be possible for the German authorities to fulfil 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 states, in a decision, the existence of an excessive budget deficit in Germany and issued a recommendation to Germany according to Art. 104 (7) of the Treaty. According to this recommendation, the German government should put an end to the excessive deficit situation as rapidly as possible; the German authorities should implement with resolve their budgetary plans for 2003 which, on the basis of a GDP growth projection of 1.5 % in 2003, aim at reducing the general government deficit in 2003 to 2.75% of GDP. In addition, the Council noted the commitment of the German authorities to ensure that the momentum of budgetary consolidation is maintained throughout the period covered by the updated stability programme, namely through a reduction of the underlying budgetary deficit by more than 0.5%of GDP per year which in turn requires the introduction of structural reforms. 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 path towards overall budget balance. The Council stresses again that the German economy, despite its large size, remains highly vulnerable to external shocks and unable to generate an endogenous and durable growth process. While acknowledging that this still partially reflects the economic consequences of German unification, the Council reiterates the need for urgent reforms not only in the labour market, but also in social security and benefit systems in general, and for a reduction in the regulatory burden of the economy. - France : the Council considers that the programme complies partly with the recommendations of the 2002 Broad Economic Policy Guidelines. The Council, having identified a significant divergence in 2002 budgetary developments from the projections of the 2001 update of the stability programme, and considering that this divergence is not corrected in the plans for 2003, adopted on 21 January 2003 a recommendation with a view to giving early warning to France in order to prevent the occurrence of an excessive deficit. According to this recommendation, the French government should take all the appropriate measures in order to ensure that the general government deficit does not breach the 3% of GDP threshold in 2003; adopt measures apt to improve the cyclically-adjusted budgetary position by at least 0.5 percentage point of GDP would not only reduce the risk for the general government deficit to breach the 3% of GDP threshold in 2003, but also contribute to resuming a budgetary consolidation path towards a close to balance position as from 2003; continuous adjustment in the underlying budgetary position by at least 0.5% of GDP per year should be pursued also in subsequent years in order to achieve the medium-term budgetary position of close to balance or in surplus by 2006. The Council welcomes the structural measures designed to curb expenditures in the health sector taken recently and the actions aiming at improving the control of budgetary execution in the State sector. It also welcomes the commitment to implement corrective infra-annual measures in the social security sector in the event of an evidence of overspending. The Council considers that these reforms should lead to a better adherence to the ex ante defined pluri-annual expenditure norms.