Annual assessment of implementation of stability and convergence programmes

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The Council has examined the updated Stability and Convergence Programmes for Belgium, Ireland, Spain, Denmark and the United Kingdom. The results are as follows; - BELGIUM : the Council considers that the economic policies as reflected in the Stability programme 2003-2005 comply partly with the recommendations of the Broad Economic Policy Guidelines. The impact of economic slowdown on public finances was contained in 2002 and the general government accounts reached balance after recording a surplus of 0.2% of GDP in 2001 (or a surplus of 0.4% of GDP if UMTS receipts are included). In 2001 and 2002, the decline in the government debt ratio continued, but reached only 3.5 percentage points of GDP, decelerating as a result of low GDP growth but also to debt-increasing financial operations. In 2002, the debt ratio was still at a high level, 106.1% of GDP. The Council notes with satisfaction that Belgium continues to be in conformity with the requirement of the stability and growth pact to reach a budgetary position of close to balance or in surplus in the medium term. The Council considers that the fiscal consolidation projections in the 2002 updated programme represent the minimum effort required in order to meet the challenge of a rapid reduction in the still very high debt ratio and to prepare for the budgetary implications of population ageing. The Council recommends to the Belgian authorities to seek every opportunity to realise further budgetary adjustment in 2003 and in subsequent years. The Council urges the Belgian authorities 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, over the period covered by the programme. To ensure the sustainability of public finances, debt reduction needs to be complemented with measures to raise employment rates, especially amongst older workers as the effective retirement age is one amongst the lowest of all EU countries. The Council notes with satisfaction the progress made in implementing structural reforms including draft legislation for setting up the framework for supplementary pensions, the simplification of administrative procedures for business activity and continued implementation of tax reform aimed at improving the performance of the economy and encouraging employment creation. The Council deems it important that the budgetary cost of structural reforms, notbaly those involving tax and non-tax burden reduction, be kept consistent with the targeted budgetary adjustment and the reduction of the government debt ratio be ensured. - IRELAND : the Council considers that the economic policies as reflected in the planned measures in the programme update broadly comply with the Broad Economic Policy Guidelines for 2002. 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 actual balance is projected to continue to deteriorate in 2003 and 2004 (with the deficit rising to 0.7% and 1.2% of GDP respectively and the primary surplus falling to 0.9% and 0.3% of GDP). The deficit stabilises at 1.2% of GDP in the last year of the programme. The update reviews the government's structural reform programme, which focuses on lowering the tax burden, broadening the tax base, improving public services and addressing infrastructural needs through the further implementation of the National Development Plan. The Council welcomes the range of measures, outlined in the programme, to improve the management and control of public expenditure and urges the Irish authorities to supplement this with the development of a comprehensive norm-based framework to guide public spending in the medium term. With its low debt level and gradual build-up of assets in the National Pensions Reserve Fund, Ireland seems to be in a relatively strong position to cope with the budgetary impact of ageing populations. - SPAIN : the Council considers that the economic policies as reflected in the planned measures in the Stability programme 2002-2006 comply broadly with the 2002 Broad Economic Policy Guidelines. The Council notes that implementation in 2002 of the previous update has been broadly successful. Slightly weaker than expected growth and some primary expenditure overrun both contributed to a modest deficit of 0.2% of GDP (cyclically-adjusted on the basis of trend GDP, 0.3% of GDP). The debt ratio fell broadly in line with plans, reaching an estimated 55.2% of GDP at the end of 2002. Structural reform measures were

implemented as planned and in accordance with the 2002 Broad Economic Policy Guidelines. The Council welcomes 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. It notes the commitment to achieve balanced budget positions leading to a continuous debt reduction as well as that some measures to increase employment rates and the incentives for active ageing and private pension schemes were taken. Finally, the Council welcomes recent initiatives for structural reform in the labour, capital and product markets. It recommends further progress in these areas to support employment-oriented and non-inflationary growth with lower inflation than recorded hitherto. - DENMARK : the Council states that the economic policies as reflected in the planned measures in the 2002-2010 Convergence programme comply with the 2002 Broad Economic Policy Guidelines and it considers it to be rich in information especially with regard to the amount of data provided for the analysis of medium- and long-term challenges of the Danish public finances and complies with the code of conduct. The Council notes with satisfaction that Denmark has continued to fulfil the convergence criteria on inflation, long-term interest rate, the exchange rate and public finances. The public finance strategy presented is largely unchanged from previous years and continues to have a strong focus on ensuring sustainable public finances in the medium-and long-term. The foundation for the strategy continues to be both the maintenance of general government surpluses in the order of 1.5-2.5% of GDP on average towards 2010 and the tax freeze, which is also intended to help ensure expenditure control. In order to obtain the budgetary targets stipulated in the medium term projection it is acknowledged by the Danish government in the programme that further labour market reforms are needed. 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. The Council notes with satisfaction that public finances in Denmark continue to remain healthy. The outcome for 2001 was better than expected. For 2002-2004 the update forecasts budget surpluses of 1.6, 1.9 and 2.4% of GDP, which is broadly in line with the Commission's estimates. For the rest of the period (2005-2010) the programme projects surpluses around 2% of GDP. The debt is expected to decrease from 44% of GDP in 2002 to 26% of GDP in 2010. The Council notes that also in underlying terms public finances should remain sound over the projection period with surpluses of around 2% of GDP. Denmark will therefore continue to comply fully with the requirements of the Stability and Growth Pact. 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. The Council notes the intention of the Danish authorities to reduce the tax ratio by 2010, and considers that this can be achieved while at the same time ensuring the sustainability of public finances. However, the tax ratio in Denmark will remain high compared to other industrialised countries, and consideration could be given to further reductions, in a framework of sound public finances. - UNITED KINGDOM : in its opinion adopted by qualified majority (Spain, Belgium and Denmark voting against), the Council considers that the economic policies envisaged in the Stability programme covering the period 2001-02 to 2007-08 comply in part with the 2002 Broad Economic Policy Guidelines. The convergence criteria on inflation and long term interest rates are fulfilled with some margin and the programme projects that the inflation target will continue to be achieved over the programme period. 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. The Council notes that the relatively high projected deficit of 2.2% of GDP in 2003-04 is based on GDP growth assumptions of 2.5% in 2003 and 3% in 2004 which now appear to be optimistic in light of global uncertainty. Therefore, such budgetary plans could lead to a deficit that could potentially breach the 3% of GDP reference value and, consequently, they would not be in line with the requirements of the Stability and Growth Pact. The projections show a low and stable level of the general government gross debt-to-GDP ratio from 2003-04. The Council notes that on the basis of current policies, ageing populations are projected to have a limited impact on public spending on pensions as a share of GDP. The Council considers that on current policies and the assumptions in the programme, the UK is well placed to meet the budgetary costs associated with ageing populations. The Council notes, however, that 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. Therefore, it considers that a budgetary position of a limited deficit in the medium term would help avoid any risk of emerging budget imbalances

in the context of ageing populations and give greater assurance to the programme view that the public finances, based on current policies, are sustainable in the long-term. The Commission asked for the following Declaration to be included in the minutes of the Council: Since the UK's projections show a low and stable level of the general government gross debt-to-GDP ratio from 2003-04, well below the 60% of the GDP reference value and, on the basis of current policies, ageing populations are projected to have a limited impact on public spending, the Commission believes that the UK authorities could be allowed a small deviation from the balanced budget rules, but that they should ensure that the 3% deficit ceiling is not breached in any year.