

COUNCIL OPINION**of 31 January 2000****on the updated convergence programme of Sweden, 1999 to 2002**

(2000/C 60/05)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies ⁽¹⁾, and in particular Article 9(3) thereof,

Having regard to the recommendation of the Commission,

After consulting the Economic and Financial Committee,

HAS DELIVERED THIS OPINION:

On 31 January 2000 the Council examined Sweden's updated Convergence Programme, which covers the period 1999 to 2002. The Council notes with satisfaction that the updated Programme envisages continued government surpluses throughout the period to 2002 as the authorities make further progress towards their medium term objective of a budget surplus of 2 % of GDP over the cycle. The Council considers this target appropriate and welcomes the emphasis given by the Programme on macroeconomic stability. The Council further notes with satisfaction that the debt ratio is expected to fall over the Programme period, reaching 52 % of GDP in 2002.

The improvement of government finances in Sweden has been impressive: from a deficit of about 12 % of GDP in 1993 the budgetary position turned to a surplus of more than 2 % of GDP by 1998. This budgetary consolidation process, together with the adjustment from a high to a low inflation environment, has laid the ground for solid economic growth, which will be harvested during the period covered by the programme. The updated Programme's cautious assumptions on economic growth, particularly towards the end of the period, augment the probability of achieving the objectives set for Government finances. The surpluses targeted in the updated Programme provide a large enough safety margin for the general Government not to breach the 3 % of GDP

reference value in normal circumstances. The Council thus considers that Sweden continues to comply with the requirements of the Stability and Growth Pact.

Inflation has been low since 1996 and Sweden continues to fulfil comfortably the convergence criterion. However, while actual output is widely judged to have been below or close to potential for a number of years, this will change in future and efforts need to be maintained to keep inflation under control. Continued wage moderation is of utmost importance, perhaps particularly so in Sweden, and the wage negotiations for 2001 will prove challenging in an environment of recent high economic growth. In this context, the Council notes that the fiscal policy stance followed since 1999 could become to expansionary in the current high-growth environment.

Trends in Swedish long-term interest rates in recent years clearly reflect the favourable development of economic fundamentals, which is expected to continue in the future. The spread of Swedish long-term interest rates against euro rates has remained fairly stable during 1999, with Sweden fulfilling the interest rate criterion. Regarding the exchange rate, although the krona has displayed less volatility in recent years, the Council reiterates that Sweden needs to demonstrate its ability to stay in line with an appropriate parity between the krona and the euro over a sufficient period of time without severe tensions. To this end, the Council, as stated in its opinion of the 1998 Convergence Programme ⁽²⁾, expects Sweden to decide to join the ERM2 in due course.

In order to obtain sustainable economic growth, structural measures are being undertaken with a view to enhancing the supply side of the economy. In this context, the Council notes with satisfaction that the strategy adopted in the updated Programme is consistent with the Broad Economic policy Guidelines, particularly the efforts to lower the very high tax burden. To this end, both the benefit and taxation systems have been scrutinised and efforts to reform the 'welfare' state have been taken. The Council welcomes these efforts and encourages the Swedish Government to continue these initiatives with determination.

⁽¹⁾ OJ L 209, 2.8.1997, p. 1.

⁽²⁾ Council Opinion of 8 February 1999 on the convergence programme of Sweden, 1998 to 2001 (OJ C 68, 11.3.1999, p. 4).