The Council urges the German authorities to ensure strict budgetary implementation at all levels of government. As shown once again by the budgetary outcomes for 2001, this will be crucial to attain the projected deficit targets. While the Council welcomes the recently implemented change to the law on budgetary principles, stating that all levels of government should contribute to the achievement of the medium-term budgetary targets, the mechanism enshrined therein is not yet sufficient to guarantee compliance with mutually agreed objectives by all levels of government. The Council therefore welcomes the intention of the federal government, through agreements with the regional authorities, to make every effort to ensure that the abovementioned budgetary objectives are met.

The Council notes with satisfaction that the German authorities will continue in their efforts to bring the debt level down below the Treaty's reference value. However, in view of the significant pressures for increased public spending due to an ageing population, the slow decline in the debt ratio remains a source of concern given the need to ensure the sustainability of public finances. If debt reduction is to make a noticeable contribution towards meeting the budgetary cost of ageing populations, a balanced budget position must be reached as soon as possible. In addition to intensified budgetary consolidation efforts the recently implemented reform of the pension system is a step in the right direction. This needs to be complemented by structural reforms geared towards a rise in labour market participation rates, particularly of women and older workers. Such measures should be enacted as soon as possible, given that the budgetary impact of ageing populations will take hold soon.

The 2001 update does not contain projections on the long-term sustainability of public finances in line with the revised code of conduct. The programme provides detail on the recent pension reform. While these reforms are a step in the right direction, further reforms may be needed in the future. Raising employment rates, especially amongst women and older workers, will form a key part of any overall strategy to prepare for ageing populations. The key challenge facing Germany is to achieve a position of budget balance and thereafter to sustain it over the very long-run.

COUNCIL OPINION

of 12 February 2002

on the 2001 update of Ireland's stability programme, 2002-2004

(2002/C 51/02)

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 5(3) thereof,

Having regard to the recommendation of the Commission,

After consulting the Economic and Financial Committee,

HAS DELIVERED THIS OPINION:

On 12 February 2002 the Council examined the 2001 update of Ireland's stability programme, which covers the period 2002-2004. The update broadly complies with the revised ‘code of conduct on the content and format of stability and convergence programmes’ (2), although some data are not in line with EU standards. The Council notes that the macroeconomic scenario in the update envisages a deceleration from record real GDP growth of 11,5 % in 2000 to just under 7 % in 2001 followed by below 4 % in 2002 and a recovery to Ireland's medium-term sustainable growth rate of about 5 to 6 % thereafter.

The general government surplus for 2001 is expected to be close to 1,5 % of GDP, more than 2,5 percentage points lower than budgeted, and this is largely blamed on the economic downturn. The Council regrets that this under-performance has apparently resulted in a downward shift in the projected path for the general government balance in the new update from 2002 onwards. The Council notes that the budgetary path in the new update does not follow the previous approach of high surpluses and a further reduction of the debt ratio. The update targets a surplus of 0,7 % of GDP in 2002 (0,2 % of GDP excluding the transfer from the Central

(1) OJ L 209, 2.8.1997.

(2) Revised Opinion of the Economic and Financial Committee on the content and format of stability and converge programmes, endorsed by the Ecofin Council on 10.7.2001.

Bank, which seems unlikely to qualify as a credit item) and small deficits in 2003 and 2004 of 0,5 % and 0,6 % of GDP respectively. The debt ratio is expected to broadly stabilise at the very low level of 34 %. The Council notes with concern that the move to a small deficit in 2003-2004 coincides with the recovery to the medium-term sustainable growth rate. However, the Council acknowledges that these deficits incorporate important conditional 'technical provisions' for unspecified future budget measures and increasingly large contingency provisions 'against unforeseen developments'.

The Council observes that, according to the projections in the stability programme, the overall revenue ratio falls over the period (in spite of a broadly stable tax burden), while the expenditure ratio shows a steady increase (including contingency provisions). The Council notes that the recent rates of increase in current and capital spending, motivated by a desire to tackle infrastructural needs and public service deficiencies, cannot be sustained without appropriate action on the revenue side.

While the Council found that the budgetary projections in previous stability programmes fully respected the requirements of the stability and growth pact, it notes with concern that the projections in the new update, including their evaluation in cyclically-adjusted terms, might not respect the close-to-balance requirement of the pact from 2003. In the event that the contingency provisions incorporated in the targets for 2003-2004 are not used, the close-to-balance objective would be broadly respected throughout the programme period. The Council therefore urges the Irish authorities to ensure that compliance with the pact is continued throughout the programme period. The Council notes that there is a margin to avoid breaching the 3 % of GDP deficit threshold throughout the programme period.

The Council recalls that, on 6 November 2001, in its conclusions on economic and budgetary developments in Ireland in the wake of the Recommendation of 12 February 2001 [1], it had stressed the need for continued vigilance on the fiscal stance, given the experience of overheating. In particular, it had advocated a broadly neutral budget for 2002. Based on the targets in the updated programme, the change in the cyclically adjusted balance for 2002 points to a broadly neutral fiscal stance, in line with its November conclusions. The Council notes that the targeted outcome for the general government balance in 2002 is subject to a number of risks. The Council urges the Irish authorities to ensure that the budgetary stance for 2002 is broadly neutral.

The Council welcomes further progress in the important areas of tax reform and infrastructural investment to relieve supply constraints, as described in the update. However, it regrets that the new update does not present any plans to introduce a medium-term framework to guide public spending or to improve expenditure control. The Council recommends that the Irish authorities address these issues urgently, as requested in the broad economic policy guidelines agreed for 2001.

The Council considers that Ireland is in a good position to meet the budgetary costs of ageing populations. However, the long-term sustainability of public finances should not be taken for granted as public spending on pensions and health care is expected to rise significantly in coming decades. The move towards a structural deficit in the programme, if confirmed, would imply a halt to the recent strong gains in the long-term sustainability of the public finances. The Council nevertheless notes with satisfaction the broad-based strategy to prepare for ageing populations, and in particular that 1 % of GNP continues to be set aside as the annual contribution to the National Pensions Reserve Fund.

[1] OJ L 69, 10.3.2001