COUNCIL OPINION

of 12 February 2002

on the updated convergence programme for the United Kingdom, 2000/2001 to 2006/2007

(2002/C 51/06)

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 12 February 2002 the Council examined the updated convergence programme of the United Kingdom which covers the period 2000/2001 to 2006/2007. The programme envisages a government deficit of 0,2 % of GDP in 2001/2002, a deficit of 1,1 % in 2002/2003 rising to 1,3 % of GDP in 2003/2004 before falling to 1 % of GDP in the two final years of the programme; 2005/2006 and 2006/2007. The Council considers it appropriate that the programme stresses the securing of macroeconomic stability supported by sound monetary and fiscal policies and continued structural reform.

The programme is built upon a macroeconomic framework showing GDP growth of 2,25 % in 2001 and the same in 2002, rising to 3 % in 2003 before returning to growth, at trend, of 2,5 % in 2004. The Council considers the macroeconomic forecasts and the trend growth assumption of 2,5 % to be realistic. It notes the projections in the programme for the public finances are, for reasons of caution, based on a lower assumption for trend growth namely 2,25 %.

With respect to inflation and interest rates, the United Kingdom continues to fulfil the convergence criteria with some margin. The Council notes that the monetary framework of inflation targeting, with operational responsibility for interest rate changes given to the Bank of England, has been an important condition for securing low inflation expectations. The Council notes that under the current policy framework, the programme projects the UK inflation target to be achieved over the programme period. The United Kingdom has fulfilled the convergence criterion on the long-term interest rate for some time. This helps confirm the credibility given to the UK's stability oriented framework for macroeconomic policy. The Council recommends that the United Kingdom continue with the stability oriented policies with a view to securing exchange rate stability which, in turn, should help reinforce a stable economic environment.

The general government finances are, in the current year, 2001/2002, expected to be close to balance, in actual and also in cyclically adjusted terms, thus fulfilling the requirements of the stability and growth pact. However, the Council notes that a projected deficit of a little more than 1 % of GDP emerges in 2002/2003 and persists, around that level, in the remaining years of the plan to 2006/2007. A deficit of around 1 % of GDP now emerges one year earlier than in the previous update, largely as the result of temporary economic factors (including a lower level of GDP than previously projected, and lower financial company profits). The Council acknowledges that, in the medium term, this 1 % of GDP deficit persists in the projections, both unadjusted and cyclically adjusted, as a result of the use of a very cautious trend growth assumption of 2,25 % per annum from 2003/2004 onwards and as a result of addressing the low level of government investment — as suggested in the 2001 broad economic policy guidelines. However, in view of a sustained deficit of 1 % of GDP, or thereabouts, which is based on a very cautious growth assumption, it notes the requirements of 'close to balance or surplus in the medium term' contained in the stability and growth pact. Therefore the Council encourages the government to be alive to any deterioration in public finances that would take them away from the terms of the Stability and Growth Pact and, if necessary, to take remedial action. The Council appreciates that the debt to GDP ratio is low and falling. Gross debt relative to GDP falls from 40 % in 2000/2001 to the low level of 36,3 % by 2006/2007.

The Council notes that the programme provides an assessment of the long-term outlook of the public finances and a description of policies that could be addressed to minimise the impact of ageing. The Council considers that the UK, with a low and falling debt to GDP ratio, is in a good position to meet the consequences of ageing populations and welcomes that the public finances are sustainable on current policies.

The Council welcomes the structural reforms included in the programme. It notes, with approval, that the progress on economic reforms should help to raise productivity performance and secure further improvements in the labour market.

([1]) OJ L 209, 2.8.1997.