COUNCIL OPINION

of 21 January 2003

on the updated stability programme of Finland, 2002-2006

(2003/C 26/07)

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 21 January 2003 the Council examined Finland's updated stability programme, which covers the period 2002 to 2006. 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 considers that the updated programme is consistent with the Broad Economic Policy Guidelines (BEPG).

The macroeconomic scenario presented in the 2002 updated stability programme projects a strengthening of economic activity in 2002 and 2003 which appears warranted on the back of most recent data. Subsequently, GDP growth is expected to decelerate slightly to below its trend rate, in the face of constraints on labour supply. Given the assumption of a favourable external environment, the projected deceleration of GDP growth in the later years of the programme represents a rather cautious view.

The Council notes that the programme projects a substantial decline in the general government surplus from 4,9 % of GDP in 2001 to just above 2 % in 2004 ([2]) and a return to close to 3 % is expected for the later years of the programme owing to assumed expenditure control. The Council notes, that all levels of government appear to be responsible for the weakening of the financial position between 2002 to 2004, with only the social security funds, preparing for the coming age-related expenditure pressures, upholding the surplus at the general government level. The projected decline in the cyclically adjusted balance by 1 ½ percentage points of GDP between 2002 and 2004 is also partly due to the decline from the exceptionally high level recorded in 2000 in corporate taxes; however, the decline in the cyclically adjusted surplus seems to come at the time when the economy should be strongly gathering momentum, suggesting, thus, a pro-cyclical stance of fiscal policy.

The Council notes that, apart from the cyclical adjustment from exceptionally high starting point of 2000, the expected decline in the government surplus is mainly due to higher than originally planned income tax cuts between 2000 and 2003 and higher than planned discretionary spending at central government level in 2001 and 2002. Even though the previous high surpluses have created some additional room (for fiscal manoeuvre), the Council takes note of the apparent customary tendency of deviating from the medium-term spending guidelines which represent the Governments key fiscal policy instrument. These slippages raise some concern, since, in order to maintain high surpluses in coming years, the programme assumes tight restraints on spending — but also a decline in the revenue-to-GDP ratio. Therefore, the Council renews its recommendation from last year — also along the lines of 2002 BEPGs — that the Finnish Government reinforces its commitment to firmly control central Government outlays over the medium-term.

The Council also notes the somewhat slow pace of debt reduction over the programme period, in the light of the comfortably high primary surpluses, but recognises that this follows mainly from net accumulation of financial assets and, furthermore, that the general government financial assets appear to exceed the sectors gross debt. Nevertheless, in light of Finland's above-average exposure to expenditure pressures related to the ageing of the population, the Council encourages the Finnish Government to maintain the current high surpluses over the medium term to allow a continuous decline in the Government gross debt ratio.

The Council notes that the projected surplus in the Government accounts throughout the programme period is fully in line with the requirements of the Stability and Growth Pact. This is almost entirely due to a surplus in the accounts of statutory social security institutions preparing for the age-related expenditure pressures. In addition, in spite of expected deficit in central and local government finances, the estimated cyclically adjusted government surplus of at least 2 % of GDP should provide a sufficient safety margin against a breach of the 3 % of GDP reference value for the government deficit in normal cyclical fluctuations.

([1]) OJ L 209, 2.8.1997.

([2]) Excluding 2004, this represents an upward revision of the budgetary targets compared with the previous programme, due also to surplus in 2001 having been higher than targeted.

The Council welcomes the measures recently adopted to improve financial stability at the local government level over the medium term. The Council recommends, in line with the 2002 Broad Economic Policy Guidelines and the updated stability programme, to ensure that the envisaged aims are achieved; in this respect, the introduction of a surveillance mechanism underpinning legislation requiring local governments to balance their budgets within a three year period would be welcome.

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 prefunding.

The Council also takes note of reforms, both planned and underway, which aim at raising employment rates of older workers, and encourages the Finnish authorities to proceed with their implementation according to the time frame indicated in the stability programme.

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.