COUNCIL OPINION

of 18 February 2003

on the updated stability programme of Spain, 2002 to 2006

(2003/C 51/03)

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 18 February 2003 the Council examined Spain's updated stability programme, which covers the period 2002 to 2006.

The information provided in the updated programme is broadly in line with the revised code of conduct. However, the updated programme was submitted approximately four weeks late.

The Council considers that the economic policies as reflected in the planned measures in the programme update 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 negative outturn was most divergent for the autonomous communities, while the social security sector achieved a higher-than-expected surplus. 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, notably including the passage of legislation (to take effect from 2003) reforming personal income tax with the aim of giving greater incentives for labour market participation, geographical mobility and long-term saving.

The update's macroeconomic scenario is centred on GDP growth recovering from 2,2 % in 2002 to 3,0 % in 2003 and remaining at that level for the remainder of the programme period. Although this may be slightly optimistic for 2003, the medium-term projection may actually be somewhat prudent relative to potential. However, the inflation projection of 2,5 % (in terms of the private consumption deflator) per annum should not be accepted complacently. It underlines the need for further structural reforms in the service sector, in particular in retail distribution and land regulation. More generally, it underlines the need for increasing overall productivity. Phasing out wage indexation while maintaining wage moderation, as recommended in recent Council Opinions [2], would also be instrumental in this regard.

The Council broadly welcomes the update's confirmation of the existing fiscal strategy, though revenue and expenditure shares are higher than in the previous update and the tax ratio now rises slightly during the period despite the 2003 personal income tax reform. Primary current expenditure is planned to decline modestly by around a half-percentage point during the programme period while the reduction in interest costs is balanced by strengthening investment. In contrast, the debt-to-GDP ratio is set to decline slightly more quickly than previously foreseen, resulting mainly from a level of inflation almost a half-percentage point higher than projected a year ago, to a relatively low 47 % of GDP by 2006.

The underlying budget balance rises by over a half-percentage point over the programme period, to a surplus of 0,3 % of GDP in 2006. The programme targets, including their evaluation in underlying terms, thus clearly respect the 'close-to-balance or in surplus' objective of the Stability and Growth Pact throughout the period. The Council therefore considers that Spain continues to be in conformity with the provisions of the Stability and Growth Pact, with the targets set to meet the objective with an increasingly comfortable margin.

By general government subsectors, the update implies some sharp sectoral shifts in net lending during the programme period. Notably, territorial governments, within the framework of the General Law of Budgetary Stability which prescribes that budgets of each public entity should be drawn up to be in balance or surplus, are called upon in

(1) OJ L 209, 2.8.1997.

(2) OJ C 51, 26.2.2002, OJ C 109, 10.4.2001 and OJ C 98, 6.4.2000.

2003 to eliminate the deficit estimated for 2002. Especially in the light of the phased transfer underway of important tax and spending powers to regional authorities, the Council welcomes the fiscal discipline framework set by the General Law of Budgetary Stability. This needs to be implemented effectively while preserving adequate margins of manoeuvre for the working of the automatic stabilisers in either direction.

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. It nevertheless considers that these are just steps towards the adequate reorientation of policy in line with its previous opinions. Although the revised demographic projections presented would imply a somewhat more moderate budgetary impact than earlier projections, the Council considers that on the basis of current policies the risk of unsustainable public finances in terms of emerging budgetary imbalances in the long run cannot be excluded: such a risk essentially stems from the large projected increase in age-related spending on public pensions. Strengthening long-term sustainability should therefore remain of primary concern in the framework of an ambitious three-pronged strategy. In this respect, the Council notes that no major review of the public pension system has yet been undertaken, in contrast with the recommendations in both the previous opinion and the 2002 Broad Economic Policy Guidelines. The Council urges the Spanish authorities to agree a timetable for reaching policy conclusions and implementation of the envisaged reform of the pension system to align more closely contributions and benefits. Assets of the public pensions reserve fund created in 2000 to finance future liabilities will stand in 2003 slightly above 1 % of GDP, which compares to a target of 1 % in 2004. New targets which will substantially reinforce the fund now need to be set if this fund is to make a substantial contribution to meeting the costs of ageing populations.

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. Particularly, although improvement in the labour market in recent years has been notable, persistence of relatively low total and female employment and wide regional unemployment disparities call for sustained efforts. Such efforts would be consistent with the 2002 Broad Economic Policy Guidelines.

COUNCIL OPINION

of 18 February 2003

on the 2002 update of Ireland's Stability Programme, 2003 to 2005

(2003/C 51/04)

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 18 February 2003 the Council examined the 2002 update of Ireland's stability programme, which covers the period 2003 to 2005. The update broadly complies with the data requirements of the revised ‘code of conduct’ on the content and format of stability and convergence programmes. However, compliance would be strengthened by explaining the nature and significance of the large ‘contingency provisions’ included in the public finance projections for the final two years of the programme. The economic policies as reflected in the planned measures in the programme update broadly comply with the Broad Economic Policy Guidelines for 2002.

[1] OJ L 209, 2.8.1997.