the Stability and Growth Pact's medium-term objective of a budgetary position of close-to-balance or in surplus should be maintained over the programme period. However, a tendency of exceeding the medium-term spending guidelines, as observed in the past, constitutes a risk to the government's budgetary strategy. Therefore, the multi-annual spending limits introduced by the new government which are now more binding should help to keep expenditure under control.

The stability programme pays due attention to the sustainability of public finances. 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 is to a large extent pre-funded. Sustainability should also be underpinned by reforms, both planned and underway, which aim at raising the employment rate, and the Finnish authorities should proceed with their implementation according to the time frame indicated in the stability programme.

The recent tax cuts and some further measures planned are intended not only to boost employment and job creation, but also to stem the erosion of tax bases as a consequence of their increasing international mobility of production factors (labour and capital). In order to safeguard the achievements of the past decade of placing public finances on a sustainable path, strict compliance with the newly defined expenditure ceilings will be all the more crucial.

The economic policies as presented in the updated programme are broadly consistent with the Broad Economic Policy Guidelines, specifically those with budgetary implications, which recommended for Finland, inter alia, the introduction of multi-annual spending limits and the reduction of the high level of structural unemployment.

## COUNCIL OPINION

## of 20 January 2004

## on the Updated Stability Programme of Austria 2003 to 2007

(2004/C 29/02)

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 20 January 2004 the Council examined the updated stability programme for Austria which covers the period 2003 to 2007. The programme was submitted on 18 November 2003 and largely complies with the revised ‘code of conduct on the content and format of stability and convergence programmes’. However, more quantitative information, as contained in the twin budget 2003/2004, with detailed estimates for individual budgetary measures, would have proved useful and should have been included.

The budgetary strategy of the updated programme remains unchanged, with a distinct long-term focus. Substantial structural savings combined with sizeable tax cuts, while causing a temporary widening of the cyclically-adjusted deficit in 2005, should entail a steady decline in expenditure and revenue ratios and in the debt ratio.

By and large, the macro-economic scenario in the update appears realistic. However, the acceleration in employment growth to 0,6 % (ESA95 definition) in 2004 could lean towards the optimistic side, given the usual time-lag of labour demand to a cyclical upturn of activity. Moreover, real GDP growth in 2006 and 2007 would remain above potential. The implicit closing of the output gap, however, would not seem implausible after a period of sluggish growth, due to the positive impact of recent and ongoing structural reforms and enlargement, given that macroeconomic imbalances are absent in the Austrian economy.

The update maintains the budgetary targets set in the previous programme. The cyclically-adjusted balance, based on Commission calculations according to the commonly agreed methodology, is set to deteriorate by 0,9 percentage points to 1,0 % of GDP in 2003 and, after a temporary improvement, by 1,0 percentage point to 1,4 % of GDP in 2005 due to tax cuts. Despite narrowing thereafter, the cyclically-adjusted deficit will decline to 0,5 % of GDP only in 2007. Thus, the cyclically-adjusted deficit is close to balance only in the years 2004 and 2007.

Under plausible macroeconomic and budgetary assumptions, the Stability and Growth Pact medium-term objective of a budgetary position of close to balance or in surplus may not be achieved over the programme period. Although downside

([1]) OJ L 209, 2.8.1997.

macroeconomic risks seem to balance with the better-than-targeted budgetary outcome in 2003 with knock-on effects on subsequent years, risks regarding expected savings and surpluses from lower government levels are non-negligible. Moreover, if the announced expenditure savings were only partly implemented or did not materialize as intended, the planned temporary departure from the medium-term target might turn out to be persistent. The budgetary stance in the updated programme provides a sufficient safety margin against breaching the 3 % of GDP deficit ceiling with normal macroeconomic fluctuations.

The government gross debt is expected to decrease steadily from 66,7 % of GDP in 2002 to just below 60 % in 2007. This forecast hinges crucially on the nominal GDP growth assumptions and sizeable proceeds from planned privatisations. Should any of these factors fall short of expectations, even if only by a small margin, the debt-to-GDP-ratio would not fall below the 60 % reference value also in 2007.

After the 2003 pension reform, Austria appears to be in a considerably better position than before to meet the budgetary costs of an ageing population. This evaluation, however, needs to be confirmed by actual developments. First, projections assume a reform-induced strong increase in participation rates. Second, the 10 percent cap on benefit losses compared with the status quo ante renders long-term budgetary effects rather uncertain. Moreover, exonerating effects on government finances are delayed due to a long transition period for abolishing early retirement until 2017.

Economic policies as reflected in the update are only partly consistent with the recommendations in the Broad Economic Policy Guidelines, specifically those with budgetary implications. Specifically, 'a cyclically-adjusted budgetary position close to balance' is only partly respected. Moreover, in 2005 the general guideline to 'avoid pro-cyclical policies' may not be observed. Although the planned reduction of the high tax burden is in principle an appropriate step to render supply side conditions more growth-friendly, revenue reductions should be accompanied by corresponding expenditure restraint. As concerns *Länder* and communities, the update is silent on 'structural expenditure savings, (also) at lower levels of government', which are required to attain permanent surpluses, an obligation enshrined in a national stability pact.

---

# COUNCIL OPINION

## of 20 January 2004

## on the Updated Convergence Programme of Sweden 2003 to 2006

(2004/C 29/03)

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 9(3) thereof,

Having regard to the recommendation of the Commission,

After consulting the Economic and Financial Committee,

HAS DELIVERED THIS OPINION:

On 20 January 2004 the Council examined Sweden's updated convergence programme, which covers the period 2003 to 2006. The updated programme largely complies with the data requirements of the revised 'code of conduct' on the content and format of stability and convergence programmes.

The budgetary strategy underlying the update is based on a continuation of the medium term objective of a budget surplus of 2 % of GDP on average over the cycle, aimed at preparing for the expected budgetary impact of the ageing of the population and the sustainability of public finances in the long-term. The planned return to a general government surplus of 2 % of GDP beyond 2006 relies in particular on a decline in the expenditure-to-GDP ratio from 2004 onwards (it is expected to rise in 2003), but also on a decline in the revenue-to-GDP ratio from 2005 onwards (it is expected to rise in 2003 and remain unchanged in 2004).

The update projects real GDP growth to accelerate from an estimated 1,4 % in 2003 to 2,0 % in 2004. In 2005 and 2006, growth is estimated to be 2,6 % and 2,5 %, respectively. Employment growth is expected to pick up from 0,1 % in 2004 to 0,7 % in 2005 and 2006. CPI inflation is forecast to gradually increase from 1,3 % in 2004 to slightly above 2 % by 2006. On the basis of currently available information, the macroeconomic scenario underlying the update seems realistic and is in line with the Commission evaluation, including the autumn forecast.

The update targets a general government surplus of 0,6 % of GDP in 2004, compared with an expected surplus of 0,4 % in

([1]) OJ L 209, 2.8.1997.