COUNCIL OPINION
of 22 January 2002
on the updated convergence programme of Sweden, 2001-2004
(2002/C 33/04)

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 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 22 January 2002 the Council examined Sweden's updated convergence programme, which covers the period 2001-2004. The Council notes with satisfaction that the updated programme envisages continued government surpluses throughout the period to 2004 as Sweden maintains its medium-term objective of a budget surplus of 2 % of GDP on average over the business cycle. The strategy of lowering the expenditure ratio is supported by a commitment to adhere to the ceilings for central government expenditure, which have been instrumental in strengthening the credibility of sound public finances in recent years, and a balanced budget constraint for local governments. This is accompanied by a lowering of the tax ratio, now extended with additional tax cuts proposed for 2002. The Council considers this budgetary strategy appropriate and it is in line with the previous Council Opinion (2) and the broad economic policy guidelines. The Council further notes with satisfaction that the debt ratio fell below the reference value of 60 % of GDP in 2000, and is expected to continue to fall substantially over the remainder of the programme period.

The macroeconomic scenario presented in the programme, with GDP growth of 1.7 % in 2001 and 2.4 % in 2002 appears optimistic and the Council considers that there are considerable downside risks to growth, especially in 2002, as the global outlook has worsened since the macroeconomic scenario in the programme was finalised. On the other hand, a low-growth scenario is presented in the programme update, which shows that the budget is in surplus despite a substantially lower growth in 2002. For 2003 and 2004, the projections in the programme appear sensible.

The Council notes with satisfaction that with the budgetary surpluses targeted in the updated programme, Sweden continues to fully respect the stability and growth pact's requirement of a fiscal position close to balance or in surplus. This remains valid in case economic growth should be weaker and result in lower surpluses in the public finances than projected in the programme, as the Commission's autumn 2001 economic forecasts suggest. Furthermore, the Council welcomes the attention given in the programme to the sustainability of public finances. The Council notes that Sweden's strategy on this hinges on maintaining a surplus of 2 % of GDP in the long term. By lowering debt and interest payments this will make room to cover much of the costs related to ageing to be faced in later years. Given the relatively high tax ratio in Sweden compared to other industrialised countries, the Council encourages Sweden to continue to reduce it further.

The Council notes that Sweden at present fulfils the convergence criterion on price stability and it expected to continue do so in the years to 2004. After several years of low inflation, a sharp rise occurred in spring 2001 and it has remained relatively high since. Inflationary pressures are, nevertheless, expected to be lower in 2002 and beyond, underpinned by the expected subdued economic activity and continued wage moderation.

Long-term interest rates in Sweden have remained at historically low levels, even though they have generally fallen less than in many other Member States during 2001, possibly linked to the weakening of the krona and increased uncertainty about global economic prospects. Sweden is expected to continue to fulfil the interest rate convergence criterion. Sweden does still not fulfil the exchange rate convergence criterion. The krona has been volatile since the submission of the previous update and the Council reiterates that Sweden needs to demonstrate its ability to stay in line with an appropriate parity between the krona and the euro over a sufficient period of time without severe tensions. To this end, the Council, as stated in its opinion on the updated 2000 convergence programme (3), "... expects Sweden to decide to join the ERM2 in due course". In order to obtain high and sustainable economic growth, the strategy of previous programmes is continued and structural measures in this regard have been implemented. Among these measures, the lowering of the, still, high tax burden will provide better incentives to encourage people to work, consistent with the broad economic policy guidelines. The Council welcomes these structural measures and encourages the Swedish Government to implement these initiatives with determination.