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(Information)

COUNCIL

COUNCIL OPINION

of 8 February 1999

on the stability programme of Italy, 1999-2001

(1999/C 68/01)

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(1) and (2) thereof,

Having regard to the recommendation of the Commission,

After consulting the Economic and Financial Committee,

HAS DELIVERED THIS OPINION:

On 8 February 1999 the Council examined Italy's stability programme, which covers the period 1999-2001. The Council notes that the objectives in the Italian stability programme go in the direction of meeting the requirements of the Stability and Growth Pact. The Council notes that the programme, which was the basis for the 1999 budget act agreed by the Italian Government and approved by the Italian Parliament, is based on macroeconomic projections made than five months ago. The Italian authorities will revise these projections, in the light of the latest developments, on the occasion of the definition of the new three-year budget plan (2000-2002) which will be presented in May. The most likely outturn of the revision will be economic growth slower than previously expected, at least for 1999, and lower interest rates.

The Council notes with satisfaction that in spite of these revisions, the Italian Government intends to strengthen the progress achieved in public finance in recent years. The composition of the deficit between revenue and expenditure may be affected, but the Italian government remains committed to the overall target, in particular the reduction of the general government deficit by around half a percentage point of GDP per year, to reach 1 % of GDP in 2001. The reduction of the ratio of government debt to GDP is targeted to continue steadily, to reach a level of 107 % of GDP in 2001. These objectives are in line with the Council Recommendation of 6 July 1998 on the broad guidelines of the economic policies of the Member States and the Community [2]. The Council remarks, however, that the stability programme is based on the same macroeconomic framework as the Document for Economic and Financial Planning 1999-2001 (DPEF) presented in May 1998. This framework now seems clearly too optimistic as regards growth in the initial years of the programme.

The Council considers that the strategy of budgetary consolidation presented in the programme, based on the stabilisation of the primary surplus at a high level (5,5 % of GDP) and on the reduction of current expenditure as a percentage of GDP, in parallel with some easing of the fiscal burden and an expansion of fixed capital expenditure goes in the right direction, particularly in view of the need to foster growth and employment in Italy. The strategy is in line with the announcement made by the Italian Government in April 1998, to reduce the public deficit to 1 % of GDP in 2001, to keep the primary surplus until 2001 above 5,5 % of GDP and to reduce the debt below 100 % of GDP in 2003. The Council encourages the Italian Government to pursue it with determination.

The measures included in the 1999 Budget Law seem broadly consistent with the overall budgetary strategy. However, the Council notes that there are risks that the deficit target of 2 % of GDP for 1999 could be missed, namely because of lower-than-projected growth, which also negatively affected the 1998 deficit outturn. In this event, the 1999 outcome would have a negative impact on the following two years. Thus, reaching the objective

[1] OJ L 209, 2.8.1997, p. 1.

[2] OJ L 200, 16.7.1998, p. 34.

of 1 % of GDP in 2001 could require additional corrective measures on a larger scale than identified in the programme. The Council welcomes the commitment on the part of the Italian government to take such additional measures if needed.

The Council recalls that, besides the maintenance of a high primary surplus, Italy should seize all opportunities to secure a faster decline in the debt ratio. To that end, the Council considers that any additional budgetary savings arising from interest payments lower than expected in the programme should be used to confirm and possibly tighten the announced budgetary targets, even in a scenario of weaker economic growth. But as the dynamics of the debt are highly sensitive to the growth performance, the negative impact of weaker growth should be limited as much as possible, namely through a higher contribution from privatisation receipts. Therefore, the Council invites the Italian Government to accelerate its privatisation plans.

The Council takes note that the Italian government is targeting the stabilisation of pension expenditure as a percentage of GDP in the years covered by the programme. The commitment to adopt corrective measures if unexpected deviations from the projections are detected is particularly welcome, as current developments in pension expenditure give some reason for concern. Moreover, the Council underlines that the expected increase in the ratio of pension outlays to GDP after 2003 will weaken the Government's financial position in the medium term. Therefore, the Council encourages the Italian authorities to re-assess the reform of the pension system.

The Council notes that the envisaged medium-term deficit target of 1 % of GDP in 2001 would allow Italy, in the event of a normal cyclical downturn, to let the automatic stabilisers work without any large risk of exceeding the 3 % of GDP reference value. In this sense it is compatible with the requirements of the Stability and Growth Pact. However, a lower deficit would be recommended, notably in order to accelerate the reduction in the debt ratio. The Council also takes note that Italy intends to meet these requirements fully by the year 2002.

COUNCIL OPINION

of 8 February 1999

on the stability programme of Portugal, 1999-2002

(1999/C 68/02)

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(1) and (2) thereof,

Having regard to the recommendation of the Commission,

After consulting the Economic and Financial Committee,

HAS DELIVERED THIS OPINION:

On 8 February 1999 the Council examined Portugal's Stability Programme which covers the period 1999-2002. The programme envisages a decline in the general government budget deficit to 0,8 % of GDP by 2002, while the gross debt ratio is expected to decrease to 53,2 % of GDP. The Council notes with satisfaction that the programme builds on the budgetary consolidation realised in the run-up to EMU and commends the regular achievement of better-than-targeted budgetary outcomes. The Council notes, however, that in 1998, in view of the above trend growth and a strong fall in interest payments, only a small reduction in the budget deficit was achieved.

The central macroeconomic scenario underlying the programme assumes output growth to decline from its

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[1] OJ L 209, 2.8.1997, p. 1.