COUNCIL OPINION

of 10 February 2004

on the updated stability programme of Ireland, 2003-2006

(2004/C 43/03)

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 co-ordination 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 10 February 2004 the Council examined the updated stability programme of Ireland, which covers the period 2004 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 broadly stabilising the government balance from 2004 onwards by lowering the rate of increase of public spending. Better expenditure control leads to a cut in the expenditure-to-GDP ratio, although not enough to offset a further marked decline in the revenue ratio. The latter reflects a one-off bringing forward of capital gains tax receipts to a current year basis in 2003, technical assumptions and decreasing 'other revenues' as a share of GDP, rather than a programme of tax cuts. At the same time, a significant programme of public investment is being implemented.

The update projects real GDP growth to accelerate from an estimated 2,2 % in 2003 to 3,3 % in 2004 and to 5 % on average in 2005-2006. HICP inflation is forecast to decline rapidly from 4 % in 2003 to 2,3 % in 2004 and to stabilise at 2 % thereafter. On the basis of currently available information, the macroeconomic scenario underlying the update seems realistic.

The update targets a general government deficit of 1,1 % of GDP in 2004, compared to an expected deficit of 0,1 % in 2003. In cyclically-adjusted terms, based on Commission calculations according to the commonly agreed methodology, and taking account of the one-off related to capital gains tax, there is an improvement by 0,5 percentage points to 0,4 % of GDP. For 2005 and 2006, the projections are for deficits of 1,4 % and 1,1 % of GDP respectively in nominal terms and 0,8 % and 0,5 % of GDP respectively in cyclically-adjusted terms. The debt ratio is projected to stabilise at one-third of GDP.

The Stability and Growth Pact's medium-term objective of a budgetary position of close to balance should be achieved by the end of the programme period, although there are some risks to the trend budgetary projections. A number of other factors should be borne in mind. First, stronger than expected tax revenues in 2003 may have a positive impact on the budget balance. Second, as in all previous updates, the budgetary projections for the final two years incorporate 'contingency provisions' against unforeseen developments which eventually may not be fully spent. Third, the estimation of the output gap and hence of the cyclically-adjusted balance presents unusual margins of uncertainty due to the special features of the Irish economy; at the same time, it must be noted that the projected nominal deficits of just above 1 % of GDP in 2005-2006 coincide with the return to Ireland's sustainable growth rate. Finally, it has to be noted that the projected balances reflect to a significant extent the implementation of an intensive programme of public investment, with a government investment-to-GNP ratio of 5 % on average over the programme period, compared to an EU-average of 2,4 % in 2003. The budgetary stance in the programme should provide a sufficient safety margin against breaching the 3 % of GDP deficit threshold with normal macroeconomic fluctuations.

On the basis of current policies, Ireland seems to be on a sustainable path but some risk due to an ageing population may emerge in the long run. In order to address this risk, measures have been adopted for further reform in the pensions area in relation to the public service. In addition, it has to be noted that the Irish debt ratio is currently quite low and that assets are being built up at a rate of 1 % of GNP annually in the National Pensions Reserve Fund specifically to meet the costs associated with ageing. Securing an adequate primary surplus is essential to ensure that the public finances are on a sustainable footing.

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

The economic policies as reflected in the updated programme are broadly consistent with the recommendations in the Broad Economic Policy Guidelines, specifically those with budgetary implications. In particular, the system of multi-annual budgeting has been extended to all capital spending, the reform of health care system should address value for money concerns and further progress is being made with the roll-out of the National Development Plan.

COUNCIL OPINION

of 10 February 2004

on the updated stability programme of France, 2003-2007

(2004/C 43/04)

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 co-ordination 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 10 February 2004, the Council examined the 2003 update of the stability programme of France which covers the period 2003 to 2007. The updated programme largely complies with the requirements of the revised 'code of conduct' on the content and format of stability and convergence programmes. Even if it is not compulsorily required in the code of conduct, the presence in the programme of explicit projections for general government revenues and expenditures categories on a national accounting basis would have allowed a deeper analysis of the quality of the projected budgetary adjustment.

On 3 June 2003, on the basis of a Commission Recommendation the Council decided in accordance with Article 104(6) EC that an excessive deficit existed in France and issued a recommendation based on article 104(7) EC requesting France to bring this situation to an end by 2004 at the latest. On 8 and 21 October 2003 respectively, the Commission adopted two recommendations on the basis of Article 104(8) and 104(9) respectively for the Council to decide 1. that no effective action had been taken by France in response to the recommendation of 3 June and 2. to give notice to France to take the necessary measures to bring the government deficit below 3 % of GDP in 2005 at the latest. On 25 November 2003, the Council did not adopt the two Commission recommendations but adopted instead a set of conclusions endorsing, among other things, the commitments made by France to reduce the cyclically-adjusted deficit by 0,8 per cent of GDP in 2004, and by 0,6 per cent of GDP or a larger amount in 2005 so as to ensure that the general government deficit is brought below 3 per cent of GDP in 2005.

The medium-term projections of the 2003 updated programme are based on the same budgetary strategy already adopted in previous updates. The cornerstone of this strategy is the setting of multi-annual targets for the increase in real government expenditures, implying a fall of the expenditure to GDP ratio and a decline in the general government deficit. In the 2003 update, this strategy is complemented by two new budgetary rules: 1. any higher-than-expected revenue stemming from more favourable cyclical developments will be allocated to deficit reduction; and 2. any budgetary margin stemming from a slower-than-planned increase in expenditures will be allocated to tax relief.

A strategy based on clear norms for expenditure growth is appropriate as it supports a transparent budgetary adjustment. In this respect, the ability to contain state expenditure demonstrated in 2003 is positive but the previously set expenditure targets for general government as a whole, in particular social security, were missed by a large margin. Appropriate measures should be taken in order to improve the compliance with the expenditure targets. Beyond the impact on deficit outcomes, the non respect of expenditure ceilings could, if repeated, damage the overall credibility of the budgetary strategy, given the relevance of these norms as an anchor. In order to secure the attainment of objectives, the French authorities should introduce a mechanism ensuring automatic compensation across years of eventual overspending in the government sector. Concerning the first of the new budgetary rules, in the event of more favourable cyclical developments, it would be appropriate to accelerate the reduction in the cyclically-adjusted deficit through the implementation of additional measures. Concerning the second rule and taking the need to accelerate the deficit reduction into account, any budgetary margin stemming from a slower-than-planned increase in

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[1] OJ L 209, 2.8.1997.