

COUNCIL OPINION

of 10 February 2004

on the updated stability programme of Greece, 2003-2006

(2004/C 43/06)

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 Greece 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. An update of the analysis of long-term sustainability of public finances would have been helpful in light of the previous assessment clearly pointing out the risk of long-term imbalances.

The budgetary stance underlying the update is based on maintaining high primary surpluses over the programme period, consistent with a reduction in the expenditure ratio and an accelerating decline in the debt ratio. At the same time, a significant programme of public investment is expected to be implemented.

The 2003 update projects real GDP growth to accelerate from an estimated 4,0 % in 2003 to 4,2 % in 2004 and decelerate somewhat afterwards, averaging 4 % in the period 2004-2006, from an expected average rate of growth of 3,8 % in the 2002 update of the stability programme. Employment growth is projected to decelerate from 1,7 % in 2004 to 1,2 % on average in 2005-2006. Inflation is expected to decline gradually, the private consumption deflator decelerating to 2,6 % by 2006 from 3,0 % in 2004. On the basis of currently available information, the macroeconomic scenario in the update seems optimistic. In particular, the evolution of potential growth over the medium-term reflects rather

favourable assumptions about the contribution of capital formation. Moreover, in a context of such robust demand, pressures on costs and prices can be stronger than expected in the update, putting even more at risk the control of some government expenditure items, and thus endangering the external competitiveness of the economy. In this regard, some government expenditure items, such as the wage bill, increased substantially in 2003 and should therefore be contained in the coming years.

The update targets a general government deficit of 1,2 % of GDP in 2004 as against an expected deficit of 1,4 % of GDP in 2003. In cyclically-adjusted terms, based on Commission calculations according to the commonly agreed methodology, in 2004 the cyclically-adjusted deficit remains unchanged at 1,7 % of GDP. For 2005 and 2006, the projections are for headline deficits of 0,5 % of GDP and balance in 2006. In cyclically-adjusted terms, the corresponding deficits amount to 1,2 % and 0,9 % of GDP respectively. In the light of the high debt ratio, the overall proposed adjustment is limited while a more balanced 'policy mix' would call for a stricter stance of fiscal policy and an effective use of the opportunity provided by favourable growth prospects.

Although the budgetary targets in the programme seem to provide a sufficient margin against breaching the 3 % deficit threshold with normal macroeconomic fluctuations throughout the programme period, there are risks linked to the macroeconomic scenario, the likely underestimated deficit in 2003 and the lack of information on envisaged measures to contain primary expenditure. It is noted, however, that lower primary expenditures after the Olympic Games in 2004 should help to reduce deficits. 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 would not be achieved over the programme period.

The government debt ratio is projected to gradually decline from 101,7 % of GDP in 2003 to 90,5 % of GDP in 2006. Developments in the debt ratio are likely to be less favourable than projected, given the risks to the deficit outcome and possible negative developments in stock-flow adjustment, the latter having been a persistent source of debt accumulation in recent years.

On the basis of current policies, there is a risk of severe budgetary imbalances emerging in Greece in the future due to an ageing population, taking also into account the high debt ratio. Thus, the budgetary challenges posed by ageing population should be tackled through a comprehensive strategy that includes further reform of the pension system.

⁽¹⁾ OJ L 209, 2.8.1997.

The economic policies as reflected in the 2003 update are not fully consistent with the recommendations in the Broad Economic Policy Guidelines, specifically those with budgetary implications, including the request to improve the cyclically-adjusted budget position by at least 0,5 % of GDP each year as

calculated according to the commonly agreed methodology. Moreover, the projected decline in the debt ratio is subject to risk and there is the need for an effective control of government current primary expenditure, in particular of its inelastic components, like the wage bill and social transfers.

COUNCIL OPINION

of 10 February 2004

on the updated Convergence Programme of the United Kingdom, 2002-03 to 2008-09

(2004/C 43/07)

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 9(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 United Kingdom's updated Convergence Programme, which covers the period financial years 2002-03 to 2008-09. 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 continues to be the maintenance of sustainable public finances as part of an integrated strategy for achieving high and stable economic growth. The projections set out in the update would increase, over the programme period, both the revenue and the expenditure ratios to GDP with a slight rise in the modest debt-to-GDP ratio. A significant programme of public investment is being implemented.

The programme draws a distinction between its central macro-economic projection and the GDP growth rates used for public finance projections; for caution, the latter are set one quarter

percentage point per annum lower. The update centrally projects real GDP growth to accelerate from an estimated 2 % in 2003 to 3 to 3,5 % in 2004 and 2005. In 2006, the final year for which detailed macroeconomic projections are provided, growth falls back to trend at 2,5 to 3 % and the present negative output gap is expected to close. Underlying trend employment growth is estimated at 0,2 % per annum. HICP inflation is forecast to rise gradually from 1,5 % in 2003 to 2 %, the recently recalibrated inflation target, in 2006. The central macroeconomic scenario is close to the Commission's evaluation and the slightly lower growth rates used for the public finance projections in the update even closer. However, projected growth in the latter is still slightly higher than forecast by the Commission in the short term.

The update projects a general government deficit of 2,6 % of GDP in 2004-05, compared to an expected deficit of 3,3 % in 2003-04. For 2005-06, 2006-07, 2007-08 and 2008-09, the projections are for headline deficits of 2,4 %, 2,1 %, 2,0 % and 1,8 % of GDP respectively. In cyclically-adjusted terms, the update projects an improvement in the deficit between 2003-04 and 2004-05 of 0,4 percentage points to 2,0 % of GDP. In the following years, the deficits amount to 2,2 %, 2,1 %, 2,0 % and 1,8 % of GDP. Commission calculations of the cyclically-adjusted changes, according to the commonly-agreed methodology, are similar. The gross debt ratio is projected to rise gradually, from 37,9 % of GDP in 2002-03 to stabilise at 41,5 % in 2008-09.

The budgetary stance in the programme is expected to rise above the 3 % of GDP reference value on a financial year basis in 2003-04. If confirmed, this could constitute an excessive deficit. Looking ahead, the projection includes a strong increase in the revenue-to-GDP ratio. Despite an expected narrowing of the cyclically-adjusted deficit to 1,8 % in 2008-09, in no year of the update period does it seem to provide a sufficient safety margin according to Commission calculations against rising above the 3 % of GDP reference value with normal macroeconomic fluctuations. According to the budgetary projections in the update, the Stability and

⁽¹⁾ OJ L209, 2.8.1997