COUNCIL OPINION

of 17 February 2005

on the updated stability programme of Finland, 2004-2008

(2005/C 136/11)

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:

(1) On 17 February 2005 the Council examined the updated stability programme of Finland, which covers the period from 2004 to 2008. The programme broadly complies with the data requirements of the revised 'code of conduct on the content and format of stability and convergence programmes'. Some variables concerning the basic assumptions are missing. Accordingly Finland is invited to achieve full compliance with the data requirements.

(2) The macroeconomic scenario underlying the programme envisages real GDP growth to ease from 3.2 % in 2004 to 2.4 % on average over the rest of the programme period. On the basis of currently available information, this scenario seems to reflect rather cautious growth assumptions. The programme's projections for inflation appear realistic and are in line the Commission services estimates.

(3) With a projected annual surplus averaging 2 % of GDP for the general government, the update is set to maintain a comfortable budgetary position throughout the programme period. The surplus is essentially generated in the social security funds, while central government finances, currently in balance, should post small deficits in 2005-07. The aim is to have central government finances back in balance in 2007. To this end, the government has adopted annual spending limits for the period 2004-2007. Compared with the previous update, the projections for the general government surplus from 2004 to 2007 are virtually unchanged.

(4) Although Finland is set to maintain a favourable public sector surplus, the budgetary outcome could be worse than projected as the baseline budgetary trend presented in the update only partially includes the tax cuts of EUR 1.7 billion i.e. 1.2 % of GDP that supplement the two-and-half-year comprehensive wage agreement concluded at the end of November 2004. As there are no announced plans to further restrain spending in 2005-07, the central government deficit would be higher between 2005 and 2007 than mentioned in the programme, unless revenue-raising measures are introduced, thereby also lowering the surplus in general government finances. The government estimates that the wage-agreement-cum-tax-cuts will lower the general government surplus by 0.3 percentage points to about 1.9 % of GDP in 2007. However, the government expects that the package will strengthen dynamism in the economy by improving the growth potential and job creation and in this way raise the revenue-raising capacity.

(5) In view of this risk assessment, the budgetary stance in the programme is sufficient to maintain the Stability and Growth Pact's medium-term objective of a position of close-to-balance for 2004-2008. It also provides a sufficient safety margin against breaching the 3 % of GDP deficit threshold with normal macroeconomic fluctuations for 2004-2008

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

(6) The debt ratio is estimated to have reached 44.6 % of GDP in 2004, well below the 60 % of GDP Treaty reference value. The programme projects the debt ratio to decline by 3.5 percentage points over the programme period.

(7) Finland appears to be in a favourable position with regard to long-term sustainability of the public finances, in spite of important projected budgetary costs of an ageing population. The strategy outlined in the programme is broad-based and consists of further debt consolidation and structural reforms e.g. further steps of the pension reform and measures aimed at raising the exit age. The structural reforms enacted and planned should have beneficial effects on the public finances.

(8) The economic policies outlined in the update are broadly consistent with the country-specific broad economic policy guidelines in the area of public finances. In particular, the multi-annual spending limits introduced in 2003 seem to have worked well in the first year of operation, namely 2004, when the final budgetary spending was below the ceilings and also expenditure as proposed in the 2005 budget is within the ceilings. The adherence to the expenditure framework is set to be maintained as it is politically binding.

Comparison of key macroeconomic and budgetary projections

		2004	2005	2006	2007	2008
Real GDP (% change)	**SP Dec 2004**	**3,2**	**2,8**	**2,4**	**2,2**	**2,0**
	COM Oct 2004	3,0	3,1	2,7	n.a.	n.a.
	SP Nov 2003	*2,7*	*2,5*	*2,4*	*2,4*	*n.a.*
HICP inflation (%)	**SP Dec 2004**	**0,2**	**1,4**	**1,8**	**1,8**	**1,8**
	COM Oct 2004	0,2	1,5	1,7	n.a.	n.a.
	SP Nov 2003	*0,7*	*1,3*	*1,8*	*1,8*	*n.a.*
General government balance (% of GDP)	**SP Dec 2004**	**2,0**	**1,8**	**2,1**	**2,2**	**2,0**
	COM Oct 2004	2,3	2,1	2,2	n.a.	n.a.
	SP Nov 2003	*1,7*	*2,1*	*2,1*	*2,2*	*n.a.*
Primary balance (% of GDP)	**SP Dec 2004** (2)	**3,7**	**3,4**	**3,8**	**3,9**	**3,7**
	COM Oct 2004	4,1	3,9	3,8	n.a.	n.a.
	SP Nov 2003	*3,7*	*4,0*	*4,1*	*4,3*	*n.a.*
Cyclically-adjusted balance (% of GDP)	**SP Dec 2004** (1)	**2,1**	**1,7**	**2,0**	**2,1**	**1,9**
	COM Oct 2004	2,8	2,3	2,3	n.a.	n.a.
	SP Nov 2003 (1)	*2,4*	*2,4*	*2,3*	*2,2*	*n.a.*
Government gross debt (% of GDP)	**SP Dec 2004**	**44,6**	**43,4**	**42,5**	**41,7**	**41,1**
	COM Oct 2004	44,8	43,4	42,2	n.a.	n.a.
	SP Nov 2003	*44,7*	*44,9*	*45,0*	*44,6*	*n.a.*

Note:

(1) Commission services calculations on the basis of the information in the programme

(2) The Finnish authorities provide primary balances on the basis of net interest payments rather than gross interest payments. The Commission services have recalculated the figures based on the data given in the programme.

Sources:

Stability programme (SP); Commission services autumn 2004 economic forecasts (COM); Commission services calculations