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Information and Notices

Notice No — Contents — Page

EN

[1] Text with EEA relevance

(Continued overleaf)

Notice No	Contents (continued)	Page

EN

I

(Information)

COUNCIL

COUNCIL OPINION

of 10 February 2004

on the updated stability programme of Italy, 2003-2007

(2004/C 43/01)

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 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 Italy's updated stability programme, which covers the period 2003-2007. The programme was submitted on 1 December and largely complies with the data requirements of the revised 'code of conduct on the content and format of stability and convergence programmes'. Information on the additional measures foreseen to achieve the budgetary targets beyond 2004 would have been useful in order to assess with precision the path and composition of the adjustment, particularly given the commitment to progressively reduce reliance on one-off measures.

The budgetary strategy relies on a progressive increase in the primary balance, with a major part of the adjustment towards the close to balance or in surplus position taking place in the outer years of the programme. Given the government's stated aim to reduce the tax and social security contributions burden, the brunt of the adjustment is to be borne by primary expenditure. The planned high primary surpluses, together with sizeable privatisations, entail a steady decline in the debt ratio throughout the programme period.

The macroeconomic framework in the update projects real GDP growth to accelerate from an estimated 0,5 % in 2003 to 1,9 % in 2004. In the period 2005-2007, growth is estimated to average 2,4 %. Employment growth (full-time equivalent in national accounts definition) is expected to strengthen from an estimated 0,9 % in 2004 to 1,1 % on average in 2005-2007. HICP inflation, at 2,8 % in 2003, is planned to ease to 1,8 % in 2004 and to further decline to 1,4 % by 2007. Currently available information indicates that projected growth underpinning the programme appears to be on the high side of the current forecasting range. In particular, the evolution of potential growth in the medium term reflects rather favourable assumptions regarding the contribution by capital.

In 2003 the deficit is expected at 2,5 % of GDP, below the 3 % limit in spite of the adverse cyclical developments. For 2004, the government targets a general government deficit of 2,2 % of GDP; in cyclically-adjusted terms, based on Commission calculations according to the commonly agreed methodology, there is an estimated improvement by 0,2 percentage point, to 1,6 % of GDP. For 2005, 2006 and 2007, the projections are for headline deficits of 1,5 % and 0,7 % of GDP and a balance in the final year, respectively. In cyclically-adjusted terms, the corresponding improvements amount to around half a percentage point of GDP on average.

Given the risks, the budgetary stance in the programme does not seem to provide a sufficient safety margin against breaching the 3 % of GDP deficit threshold with normal macroeconomic fluctuations. The risks stem from an underestimation of the primary expenditure baseline projections and the downside risks to the macroeconomic scenario mentioned above. Indeed, if economic conditions turned out to be weaker than currently foreseen, the deficit threshold may already be breached in 2004. Also the envisaged measures in the outer years of the programme need still to be defined, including the replacement of one-off measures adopted in 2004. For the same reasons, the budgetary stance in the update may be insufficient to ensure that the Stability and Growth Pact's medium-term objective of a budgetary position close to balance or in surplus is achieved within the programme period.

[1] OJ L 209, 2.8.1997.

The debt ratio, which in 2003 fell more than assumed in the programme, is projected to decline over the programme period, from 106 % of GDP in 2003 to 98,6 % in 2007. This evolution is less ambitious than was foreseen in the previous update. The evolution of the debt ratio may be less favourable than projected, given the risks to the deficit outcomes mentioned above, and the level of expected proceeds from the privatisation programme. Concern is expressed about the pace of debt reduction, so every opportunity should be taken by the Italian authorities to accelerate its pace.

On the basis of current policies, risks of budgetary imbalances emerging in the future due to an ageing population cannot be ruled out. Securing an adequate primary surplus is essential if the debt reduction is to make a noticeable contribution towards meeting the costs of ageing. This should be complemented by measures to raise employment rates, especially among older workers and women, and control the evolution of age-related spending. The plans to reform the pension system unveiled in late 2003, if implemented, would make a substantial contribution to achieve these objectives. A further postponement in the implementation of the draft legislation on pension reform is not consistent with the pursuit of a sustainability-oriented fiscal strategy.

The economic policies as reflected in the updated programme are partly consistent with the recommendations of 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. Risks persist on the planned replacement of one-off measures, the implementation of structural expenditure cuts and the pace of reduction in the debt ratio. Finally, the timely implementation of the government draft legislation on pension reform is essential in order to dampen the projected increase in the ratio of pension expenditure to GDP over the next twenty years.

COUNCIL OPINION

of 10 February 2004

on the updated stability programme of the Netherlands, 2001-2007

(2004/C 43/02)

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 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 the Netherlands, which covers the period 2001 to 2007. The updated programme 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 keeping real expenditure below predetermined ceilings over the period 2004-2007, while at the same time pursuing significant savings measures. Measures are frontloaded in 2004 and 2005 and for a large part consist of expenditure cuts. In the strategy, expenditure windfalls can no longer be used for automatic expenditure increases. Automatic stabilisers on the revenue side of the budget should be allowed to work freely as much as possible, except that an increase of the deficit that would imply a violation of the Stability and Growth Pact has to be countered by additional savings measures.

The update projects real GDP growth at 0 % in 2003, from 0,2 % in 2002. In 2004 growth is estimated to pick up to 1 %, whereas it would average 2,5 % in 2005-2007. Employment growth is expected to be – 0,5 % in 2004 and to increase to slightly above 1 % on average in 2005-2007. HICP inflation is forecast to remain stable at 1,5 % in 2004-2007. Currently available information indicates that the macroeconomic developments in 2003 are less favourable than expected at the time of the submission of the programme, and much in line with the Commission Autumn 2003 forecast. Some downside risks were noted to the Dutch projections for 2004.

[1] OJ L 209, 2.8.1997.

The programme encompasses a substantial package of net savings, covering the period 2004-2007. However, in view of the sharp deceleration in economic activity the actual deficit is expected to rise in spite of the size of the measures taken. The programme targets a general government deficit of 2,3 % of GDP in 2004, the same as the expected deficit in 2003 despite substantial measures aimed at limiting the deficit increase, in line with the Council recommendations on the previous stability programme update. Total consolidation measures in the period 2003-2007 add up to around 3 % of GDP by 2007. Owing to this substantial package the nominal deficit is expected to fall to 1,6, 0,9 and 0,6 % of GDP in 2005, 2006 and 2007 respectively. In cyclically-adjusted terms, based on Commission calculations according to the commonly agreed methodology, the update incorporates an improvement of around 0,8 percentage points in 2003 and targets an improvement of 0,6 percentage points in 2004 resulting in a deficit of 0,7 % of GDP in 2004. The cyclically adjusted deficit is expected to fall further to 0,5 % of GDP or slightly below in each of the years 2005 to 2007.

The update expects the debt ratio to rise slightly to 54,5 % of GDP in 2004, before falling to around 52 % by 2007.

However, on the basis of currently available information, the projections on the actual budget balance appear less favourable than when the programme was submitted judging from the Commission Autumn forecast. For 2003, this is confirmed by the release of a preliminary estimate of the deficit for 2003 of 2,7 % of GDP by the Ministry of Finance on 14 January 2004. Because of the worse starting point, a higher nominal deficit than forecast in the programme also seems likely in 2004 and possibly in subsequent years. Moreover, under more adverse economic circumstances, the 3 % of GDP threshold may be breached. In this respect, it is noted, however, that budget rules as laid down in the Coalition Agreement are such that measures will be taken should the actual deficit come close to 3 % of GDP. Notwithstanding the downside risks to the nominal budgetary projections, the Commission Autumn forecast suggests that the planned improvement in the cyclically adjusted deficit, reaching a position close to balance from 2005 onwards, may still be achieved. Thus, the eventual achievement of medium-term position close to balance should be sufficiently established by the programme. Finally, it is noted that the Dutch programme maintains a high level of public investment of about 3,3 % of GDP throughout the programme period.

For the period up to 2005, the update expects a somewhat lower debt ratio than the Commission Autumn forecast. Reaching a position of close to balance also reflects the Dutch government's firm commitment to achieve long term sustainability of public finances through reducing the debt ratio. According to the calculations of the Commission some risks of budgetary imbalances emerging in the future cannot be ruled out once the full impact of ageing takes place. The commitment of the Dutch government to secure an adequate improvement in the primary surplus before ageing reaches its peak, together with the necessary measures to stem the long-term increase in expenditure, is essential to ensure that the public finances are kept on a sustainable footing.

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. This regards in particular the implementation of budgetary consolidation aimed at achieving and maintaining a budgetary position close to balance in the medium term. To this end the setting of expenditure ceilings in real terms has been crucial.

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.

expenditures should be allocated to deficit reduction. The 2003 update projects real GDP growth to accelerate from an estimated 0,5 % in 2003 to 1,7 % in 2004. For the period from 2005 to 2007, the macroeconomic projections are based on the same two scenarios as in previous updates: a 'cautious' scenario, in which real GDP growth averages 2,5 % a year over the period, and a 'favourable' scenario where real GDP growth reaches 3 % per year. Consumer price inflation is expected to remain moderate at 1,5 % throughout the time span of the update. The growth assumption for 2003 is outdated: the Commission forecast of real GDP increasing by 0,1 % appears more plausible. The forecast for 2004 appears plausible. Concerning the years 2005-2007, the projections of the 'cautious' scenario seem realistic. This scenario was therefore considered as the reference scenario for assessing budgetary projections.

The update targets a general government deficit of 3,6 % of GDP in 2004 compared to an expected deficit of 4,0 % of GDP in 2003. For 2005, 2006 and 2007, the projections are for headline deficits of 2,9 %, 2,2 % and 1,5 % of GDP respectively. The primary balance is projected to improve from 0,6 % of GDP in 2004 to 1,6 % of GDP in 2007. In cyclically-adjusted terms, based on Commission calculations according to the commonly agreed methodology, there is an improvement by 0,6 percentage points to 3,2 % of GDP in 2004. In 2005, 2006 and 2007, the cyclically-adjusted deficits amount to 2,6 %, 1,9 % and 1,3 % of GDP respectively.

Under plausible macroeconomic and budgetary assumptions, the adjustment path in the programme seems to be insufficient to eliminate the excessive deficit in 2005. Indeed, the achievement of this objective is surrounded by several risks: 1. real GDP growth in 2003 was probably lower than assumed in the update, and the 2003 government deficit may consequently turn out to be higher than expected; 2. the achievement of the expenditure target set for 2004 is uncertain and requires full implementation and efficiency of the measures introduced; 3. the improvement in the cyclically-adjusted balance planned for 2005 relies on measures which still have to be designed and implemented, particularly the reform of the health insurance system. Because the deficit is planned to be reduced only marginally below 3 % in 2005, the materialisation of only one of the above-mentioned risks, if not compensated, would compromise the reduction of the deficit below 3 % of GDP in 2005. In such a case, the implementation of additional measures would be necessary to secure the correction of the excessive deficit situation in 2005 at the latest. France should implement all necessary measures in line with Council conclusions of 25 November 2003, in particular to ensure that the deficit will be below 3 % of GDP in 2005 at the latest.

Based on Commission calculations according to the commonly agreed methodology, the budgetary stance in the update is insufficient to ensure that the Stability and Growth Pact's medium-term objective of a budgetary position of close to balance or in surplus is achieved within the programme period. In addition, with the same methodology, a budgetary position providing a sufficient safety margin to avoid in the future breaching the 3 % of GDP deficit threshold under normal macroeconomic conditions would not be reached before 2007.

The debt ratio is projected to start declining only in 2006, and to remain above the 60 % reference value of the Treaty throughout the period covered by the programme. The evolution of the debt ratio might be less favourable than projected given the risks to the deficit outcomes mentioned above.

France has recently passed a comprehensive pension reform that increases the number of contribution years for entitlement to a full pension, raises the financial incentives to remain active until and after the legal retirement age, and changes the reference for the indexation of pensions in the public sector from wages to prices. While France is in a considerably better position than before the reform to meet the budgetary costs of ageing population, risks of unbalances in the long term cannot be ruled out. Securing an adequate primary surplus will be essential to ensure that the public finances are on a sustainable footing. This should be complemented, particularly in the context of the reform of the health insurance system to be designed and implemented in the course of 2004, by measures aimed at controlling the evolution of spending.

The economic policies as reflected in the 2003 update are partly consistent with the recommendations in the Broad Economic Policy Guidelines, specifically those with budgetary implications. Indeed, even if the budgetary plans for 2004 and 2005 include an improvement in the cyclically-adjusted balance higher than the minimum of 0,5 percentage point of GDP recommended by the Council, the cumulative improvement in the cyclically-adjusted balance under way may be insufficient to bring the nominal deficit below 3 % of GDP even in 2005. In addition, the 2003 update does not foresee the attainment of a budgetary position close to balance or in surplus in the horizon of the programme. France should therefore ensure that the budgetary consolidation continues in the years after 2005, namely through a steady reduction in the cyclically-adjusted budgetary deficit by at least 0,5 percentage points of GDP per year or more if necessary to achieve the medium-term position of government finances close to balance or in surplus and bring back the debt ratio to a declining path.

COUNCIL OPINION

of 10 February 2004

on the updated stability programme of Luxembourg, 2002-2006

(2004/C 43/05)

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:

On 10 February 2004 the Council examined the 2003 update of the stability programme of Luxembourg, which covers the period 2002 to 2006. The updated programme 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 maintaining balanced public finances in the medium term. While the government intends not to cut public spending drastically in the present period of weak economic growth, measures have been taken to limit the growth rate of public expenditure.

The update projects real GDP growth at 1,2 % in 2003, from 1,3 % in 2002. In 2004 growth is estimated to pick up to 2 %, increasing to 3,8 % in 2006. Employment growth is expected to decelerate to around 1 % in 2004 and to increase to slightly above 2 % by 2006. HICP inflation is forecast to decrease gradually to around 1,3 % in 2006. On the basis of currently available information, the macroeconomic scenario underlying the programme seems plausible for 2004 and 2005. However, the growth projection for 2006 may be on the high side.

The update targets a general government deficit of 1,5 % of GDP in 2004, a marked deterioration from the 0,6 % of GDP deficit foreseen for 2003. This deterioration to a large extent seems to reflect the lagged impact of the economic slowdown on public finances. In cyclically adjusted terms, based on Commission calculations according to the commonly agreed methodology, there would be a stable surplus. In 2005, the deficit would rise further to 2,3 % of GDP, and it would decrease again to 1,5 % of GDP in 2006. In cyclically-adjusted terms, a surplus would be maintained. The debt ratio is forecast to decline somewhat over the time horizon covered by the update, 5,2 % of GDP in 2004 to 4,4 % of GDP in 2006.

The balance of risks to the budgetary projections seems skewed to the downside. This regards in particular the strength of the expected cyclical upturn, and the feasibility of the planned slowdown in expenditure in the baseline projection of the update. Under adverse economic circumstances, the 3 % of GDP threshold may be breached, particularly in 2005. On the other hand, the changes in the cyclically adjusted balance indicate that the maintenance of a budgetary position close to balance seems sufficiently established by the programme.

However, the estimate of the output gap and hence the cyclically-adjusted balance present unusual margins of uncertainty due to the special features of the economy of Luxembourg. In particular, current estimates of the rate of potential growth in the medium term may be on the high end of plausible outcomes. Although the starting position of public finances is very sound, some expenditure restraint may be called for in order to ensure that public expenditure remains in line with the revenue base in the medium term. Further, it has to be noted that the ratio of public investment to GDP would decline somewhat over the time horizon covered, but would remain well above the EU average at more than 4 % of GDP.

Luxembourg presents no risks of unsustainable public finances in the long term. The debt to GDP ratio will remain very low over the projection period, and the total net asset position is even more favourable in view of the substantial financial assets accumulated over past years with fiscal surpluses.

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.

([1]) OJ L 209, 2.8.1997.

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

Growth Pact's medium-term objective of a budgetary position of close to balance or in surplus will not be achieved within the programme period. At the same time, however, it should be noted that the projected balances reflect to a significant extent the implementation of an intensive programme of public investment, bringing the general government net investment-to-GDP ratio up from 1,1 % in 2002-03 to 2,2 % in 2005-06, compared to an EU-average of 1,5 % in 2002. Moreover the gross debt to GDP ratio is well below 60 % of GDP over the programme period. The United Kingdom authorities are themselves committed to keeping net debt below 40 % of GDP.

Long term sustainability of public finances is constantly monitored and represents a key commitment in the UK's fiscal policy. A prudent budgetary position kept in the medium term would help avoid a risk of emerging budget imbalances in the context of ageing populations. On the basis of current policies, the United Kingdom seems to be on a sustainable path but some risk due to an ageing population may emerge in the long run. Indeed, quantitative indicators estimated by the Commission show an upward trend in the debt-to-GDP ratio in the long run. An additional element to be considered is that much of the financial sustainability of the pension system depends on the performance of private pension providers, particularly if private provision produces significantly less than the anticipated coverage or level of pensions. Nevertheless, the low level of debt and the relatively low level of taxation give room for manoeuvre.

In the 2003 Broad Economic Policy Guidelines, the UK authorities are recommended to 'ensure that the public services associated with the announced increases in public expenditure (including investment in the transport infrastructure) are delivered efficiently and with a view to ensuring cost-effectiveness'. 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.

COMMISSION

Euro exchange rates [1]

18 February 2004

(2004/C 43/08)

1 euro =

	Currency	Exchange rate		Currency	Exchange rate
USD	US dollar	1,2824	LVL	Latvian lats	0,6736
JPY	Japanese yen	135,65	MTL	Maltese lira	0,4285
DKK	Danish krone	7,4512	PLN	Polish zloty	4,8899
GBP	Pound sterling	0,6736	ROL	Romanian leu	40 665
SEK	Swedish krona	9,1956	SIT	Slovenian tolar	237,6
CHF	Swiss franc	1,5768	SKK	Slovak koruna	40,435
ISK	Iceland króna	86,62	TRL	Turkish lira	1 691 000
NOK	Norwegian krone	8,7985	AUD	Australian dollar	1,6108
BGN	Bulgarian lev	1,9557	CAD	Canadian dollar	1,6862
CYP	Cyprus pound	0,58582	HKD	Hong Kong dollar	9,9652
CZK	Czech koruna	32,734	NZD	New Zealand dollar	1,816
EEK	Estonian kroon	15,6466	SGD	Singapore dollar	2,1481
HUF	Hungarian forint	262,85	KRW	South Korean won	1 477,52
LTL	Lithuanian litas	3,4534	ZAR	South African rand	8,4058

[1] *Source:* reference exchange rate published by the ECB.

Information communicated by Member States regarding State aid granted under Commission Regulation (EC) No 68/2001 of 12 January 2001 on the application of Articles 87 and 88 of the EC Treaty to training aid

(2004/C 43/09)

(Text with EEA relevance)

Aid No: XT 42/02

Member State: Italy

Region: Lombardy

Title of aid scheme or name of the company receiving an individual aid: Grants to enterprises in Brescia for the vocational training of proprietors, executives and employees in 2002/2003

Legal basis: Art. 12, legge 7 agosto 1990, n. 241, deliberazione camerale n. 266 del 20.12.2001, determinazioni dirigenziali n. 302/SG del 24.12.2001 e n. 140/SG del 9.5.2002

Annual expenditure planned under the scheme or overall amount of individual aid granted to the company: EUR 593 925

Maximum aid intensity: 50 % of the costs incurred up to a maximum of EUR 258 if only one person from the applicant firm takes part; 30 % of the costs incurred up to a maximum of EUR 2 582 if more than one person from the applicant firm takes part

Date of implementation: 1 May 2002

Duration of scheme or individual aid award: From 1 May 2002 to 30 April 2003

Objective of aid: Promoting general training for proprietors, executives and employees of enterprises in Brescia

Economic sector(s) concerned: All sectors

Name and address of the granting authority:

Camera di commercio, industria, artigianato e agricoltura di Brescia
Via Orzinuovi 3
I-25125 Brescia
Tel. (39) 03 03 51 42 62
E-mail: costantino@bs.camcom.it

Information communicated by Member States regarding State aid granted under Commission Regulation (EC) No 70/2001 of 12 January 2001 on the application of Articles 87 and 88 of the EC Treaty to State aid to small and medium-sized enterprises

(2004/C 43/10)

(Text with EEA relevance)

Aid No: XS 35/02

Member State: Spain

Region: Balearic Isles

Title of aid scheme or name of the company receiving an individual aid: Industria 2002

Legal basis: Decreto 29/1997, de 18 de febrero; Decreto 70/1998, de 17 de julio; Decreto 17/2001, de 2 de febrero; Orden del Consejero de Economía, Comercio e Industria, nº 4327, de 24 de enero de 2002

Annual expenditure planned under the scheme or overall amount of individual aid granted to the company: EUR 3 267 914

Maximum aid intensity: 30 % for all the areas covered by this Regulation

Date of implementation: 6 March 2002

Duration of scheme or individual aid award: Until 31 December 2003

Objective of aid: Aid to SMEs to carry out investment in:

— the modernisation of production facilities,

— transfers to industrial land,

— micro-enterprises,

— job creation.

Economic sector(s) concerned: All industrial sectors except coalmining

Name and address of the granting authority:

Consellería de Economía, Comercio e Industria — Govern de les Illes Balears
San Felip, 10
Palma de Mallorca

Aid No: XS 65/03

Member State: Italy

Region: Tuscany

Title of aid scheme or name of the company receiving an individual aid: Aid for productive investment by SMEs — Zenit

Legal basis: Decreto Giunta regionale n. 1252 del 5 marzo 2003 «Piano regionale dello sviluppo economico 2001-2005 — Misura 1.1 — Approvazione bando per presentazione domande»

Annual expenditure planned under the scheme or overall amount of individual aid granted to the company: EUR 5 000 000

Maximum aid intensity: Aid may be granted towards interest payments, equal in present values to interest relief of between 1,5 and 2,5 percentage points, calculated on the basis of an amortisation plan with six-monthly instalments for a loan lasting not more than seven years and amounting to not more than 75 % of the investment cost.

The aid intensity for the individual firm may not exceed 15 % gross grant equivalent (small firms) and 7,5 % gross grant equivalent (medium-sized firms) of the total investment cost. Where the areas covered by the scheme qualify for exemption under Article 87(3)(c) of the Treaty, the aid ceiling is 18 % gge for small firms and 14 % gge for medium-sized firms

Date of implementation: April 2003, date on which the Commission received the factsheet

Duration of scheme or individual aid award: 2003 to 2005

Objective of aid: Facilitating access to credit for and granting aid to SMEs investing in tangible and intangible assets

Economic sector(s) concerned:

ISTAT Codes 1991

— Section C: Mining and quarrying

— Section D: Manufacturing

— Section F: Construction

— Division K 72: Computer and related activities.

Firms engaged in the production, processing or marketing of products listed in Annex I to the EC Treaty and firms in the shipbuilding industry are excluded.

Beneficiary firms must be financially and economically sound

Name and address of the granting authority:

Regione Toscana
Via di Novoli 26
I-50127 Firenze

Notice of initiation of a partial interim review of the anti-dumping measures applicable to imports of polyethylene terephthalate (PET) film originating, *inter alia*, in India

(2004/C 43/11)

The Commission has received a request for a partial interim review pursuant to Article 11(3) of Council Regulation (EC) No 384/96 ([1]), as last amended by Council Regulation (EC) No 1972/2002 ([2]), ('the basic Regulation').

1. **Request for review**

The request was lodged by the following Community producers: DuPont Teijin Films, Mitsubishi Polyester Film GmbH, Nuroll SpA ('the applicants').

The request is limited in scope to the examination of dumping as far as Jindal Polyester Limited is concerned.

2. **Product**

The product under review is polyethylene terephthalate (PET) film (PET film) originating in India ('the product concerned'), normally declared within CN codes ex 3920 62 19 and ex 3920 62 90. These CN codes are given only for information.

3. **Existing measures**

The measure currently in force for Jindal Polyester Limited is a definitive anti-dumping duty imposed by Council Regulation (EC) No 1676/2001 ([3]) on imports of PET film originating, *inter alia*, in India.

4. **Grounds for the review**

The request pursuant to Article 11(3) is based on the *prima facie* evidence, provided by the applicants, that, as far as Jindal Polyester Limited is concerned, the circumstances with regard to dumping have changed significantly.

The applicants allege that the existing measure on imports of the product under review from Jindal Polyester Limited is no longer sufficient to counteract the dumping which is causing injury. The allegation of increased dumping is based on a comparison of Jindal Polyester Limited's domestic prices and constructed normal value with its export prices of the product concerned to the Community. On this basis, the dumping margin calculated would be significantly higher than the dumping found in the previous investigation that led to the existing duty rate.

5. **Procedure for the determination of dumping**

Having determined, after consulting the Advisory Committee, that sufficient evidence exists to justify the initiation of a partial interim review, the Commission hereby initiates a review in accordance with Article 11(3) of the basic Regulation.

(a) *Questionnaires*

In order to obtain the information it deems necessary for its investigation, the Commission will send questionnaires to Jindal Polyester Limited and to the Indian authorities. This information and supporting evidence should reach the Commission within the time limit set in point 6(a) of this notice.

(b) *Collection of information and holding of hearings*

All interested parties are hereby invited to make their views known, submit information other than questionnaire replies and to provide supporting evidence. This information and supporting evidence must reach the Commission within the time limit set in paragraph 6(a) of this notice.

Furthermore, the Commission may hear interested parties, provided that they make a request showing that there are particular reasons why they should be heard. This request must be made within the time limit set in paragraph 6(b) of this notice.

6. **Time limits**

(a) *For parties to make themselves known, to submit questionnaire replies and any other information*

All interested parties, if their representations are to be taken into account during the investigation, must make themselves known by contacting the Commission, present their views and submit questionnaire replies or any other information within 40 days of the date of publication of this notice in the *Official Journal of the European Union*, unless otherwise specified. Attention is drawn to the fact that the exercise of most procedural rights set out in the basic Regulation depends on the party's making itself known within the aforementioned period.

(b) *Hearings*

All interested parties may also apply to be heard by the Commission within the same 40-day time limit.

7. **Written submissions, questionnaire replies and correspondence**

All submissions and requests made by interested parties must be made in writing (not in electronic format, unless otherwise specified and must indicate the name, address, e-mail address, telephone and fax, and/or telex numbers of the interested

([1]) OJ L 56, 6.3.1996, p. 1.

([2]) OJ L 305, 7.11.2002, p. 1.

([3]) OJ L 227, 23.8.2001, p. 1.

party). All written submissions, including the information requested in this notice, questionnaire replies and correspondence provided by interested parties on a confidential basis shall be labelled as 'Limited' [1] and, in accordance with Article 19(2) of the basic Regulation, shall be accompanied by a non-confidential version, which will be labelled 'For inspection by interested parties'.

Commission address for correspondence:

European Commission
Directorate General for Trade
Directorate B
Office: J-79, 5/16
B-1049 Brussels
Fax (32-2) 295 65 05
Telex COMEU B 21877.

8. **Non-cooperation**

In cases in which any interested party refuses access to or otherwise does not provide the necessary information within the time limits, or significantly impedes the investigation, findings, affirmative or negative, may be made in accordance with Article 18 of the basic Regulation, on the basis of the facts available.

Where it is found that any interested party has supplied false or misleading information, the information shall be disregarded and use may be made of the facts available. If an interested party does not cooperate, or cooperates only partially, and findings are therefore based on facts available in accordance with Article 18, the result may be less favourable to the party than if it had cooperated.

[1] This means that the document is for internal use only. It is protected pursuant to Article 4 of Regulation (EC) No 1049/2001 of the European Parliament and of the Council (OJ L 145, 31.5.2001, p. 43). It is a confidential document pursuant to Article 19 of Council Regulation (EC) No 384/96 (OJ L 56, 6.3.1996, p. 1) and Article 6 of the WTO Agreement on Implementation of Article VI of the GATT 1994 (Anti-dumping Agreement).

III

(Notices)

EUROPEAN PARLIAMENT

Minutes of the session from 10 to 13 February 2003 published in the *Official Journal of the European Union* C 43 E

(2004/C 43/12)

These texts are available on:

EUR-Lex: http://europa.eu.int/eur-lex

CELEX: http://europa.eu.int/celex

COMMISSION

Amendment to notice of invitation to tender for the refund for the export of wholly milled medium grain and long grain A rice to certain third countries

(2004/C 43/13)

(Official Journal of the European Union C 257 of 25 October 2003)

On page 11, the text of paragraph 2 under Title I 'Subject', is amended as follows:

'2. The total quantity in respect of which there may be fixed a maximum export refund as provided in Article 1(2), of Commission Regulation (EEC) No 584/75 (3), as last amended by Regulation (EC) No 1948/2002 (4), is approximately 30 000 tonnes.'

Amendment to the notice of invitation to tender for the subsidy for the export of husked long grain B rice to Réunion

(2004/C 43/14)

(Official Journal of the European Union C 257 of 25 October 2003)

On page 8, the text of paragraph 2 under heading I 'Subject', is amended as follows:

'2. The total quantity in respect of which a maximum export subsidy may be fixed, in accordance with Article 6(3), of Commission Regulation (EEC) No 2692/89 (2) as amended by Regulation (EC) No 1453/1999 (3) is approximately 20 000 tonnes.'