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Bilag	Journalnummer	Kontor	
1	400.C.2-0	EUK	24. februar 2004

Til underretning for Folketingets Europaudvalg vedlægges Finansministeriets redegørelse for rådsmøde (økonomi- og finansministre) den 10. februar 2004.

Bendt Bendtsen

FINANSMINISTERIET

20. februar 2004
12 NHB

Referat af rådsmødet (ECOFIN) den 10. februar 2004

Dagsordenspunkt: Forberedelse af Det Europæiske Råd den 25.-26. marts 2004

a) Kommissionens synteserapport vedr. Lissabon-strategien

b) De overordnede økonomisk-politiske retningslinier (BEPG) – Kommissionens implementeringsrapport og 'Key Issues' papiret

c) EPC's årlige rapport om strukturreformer

Der var en drøftelse af Rådet (ECOFIN)'s bidrag til forberedelsen af Det Europæiske Råds forårstopmøde den 25.-26. marts 2004. Drøftelsen fokuserede på 'key issues' papiret om de overordnede økonomisk-politiske retningslinier (BEPG).

Rådet enedes om følgende prioriteter med henblik på at nå målene fra de overordnede økonomisk-politiske retningslinier og under hensyntagen til den kommende udvidelse af EU: 1) Fremme af vækst gennem investeringer, innovation og konkurrence, 2) øget fleksibilitet på arbejdsmarkedet og 3) sikring af de offentlige finansers holdbarhed gennem hurtigere gennemførelse af strukturreformprocessen.

Den endelige udgave af 'key issues' papiret ventes vedtaget på det kommende rådsmøde (ECOFIN) den 9. marts 2004 og herefter fremsendt til Det Europæiske Råd den 25.-26. marts 2004.

Endvidere vedtog Rådet - som følge af beslutningen den 3. december 2002 om at strømline de økonomiske samarbejdsprocesser og give større opmærksomhed til implementeringen af retningslinjerne - konklusioner (vedlagt) vedrørende Kommissionens implementeringsrapport om gennemførelsen i første del af perioden af de overordnede økonomisk-politiske retningslinier for 2003-2005. Rådskonklusionerne støtter hovedkonklusionerne i Kommissionens implementeringsrapport, herunder at der er sket nogen fremskridt for så vidt angår reformer vedrørende pensionssystemer, øget konkurrence og i nogen grad arbejdsmarkederne, men ikke tilstrækkeligt. Derfor er der fortsat behov for forbedringer på disse områder. Desuden er der kun sket mindre fremskridt på områder som markedsintegration, investeringer med henblik på en videnbaseret økonomi og social og miljømæssig bæredygtighed. Endvidere udtrykkes bekymring over forværringen af de offentlige budgetter, herunder de uforholdsmæssigt store budgetunderskud i visse medlemslande. Det konkluderes, at der er behov for øget tempo i gennemførelsen af strukturreformer, specielt for så vidt angår arbejdsmarkedet, hvis gennemførelsen af de overordnede økonomisk-politiske retningslinier for 2003-2005 og Lissabon-strategiens mål skal nås.

Rådskonklusionerne indgår i Rådet (ECOFIN)'s bidrag til Det Europæiske Råd den 25.-26. marts 2004.

Endelig godkendte Rådet den Økonomisk-Politiske Komité (EPC)'s årlige rapport om strukturreformer, hvori der gives en vurdering af den hidtidige indsats og udstikkes retningslinjer for, i hvilken grad og på hvilke områder der fortsat er behov for strukturreformer i lyset af Lissabonmålsætningerne. Rapporten omfatter også de 10 kommende nye medlemslande. Det generelle budskab i rapporten er, at der er sket fremskridt, men at der er behov for yderligere reformtiltag, herunder specielt reformer på arbejdsmarkedet, for at opfylde Lissabon-strategiens målsætninger. Endvidere anbefales bl.a. sikring af holdbarheden af de offentlige finanser gennem højere beskæftigelse, lavere offentlig gæld og reformer af pensionssystemerne, herunder modvirkning af tidlig tilbagetrækning.

Rapporten indgår i Rådet (ECOFIN)'s bidrag til Det Europæiske Råd den 25.-26. marts 2004.

Dagsordenspunkt: **Stabilitets- og Vækstpagten: Vurdering af opdaterede stabilitets- og konvergensprogrammer (Frankrig, Storbritannien, Italien, Holland, Grækenland, Irland og Luxembourg)**

Rådet vedtog udtalelser (vedlagt) vedrørende konvergensprogrammet for Storbritannien samt stabilitetsprogrammerne for Frankrig, Italien, Holland, Grækenland, Irland og Luxembourg.

For så vidt angår Frankrig udtales bl.a., at stabilitetsprogrammet kun delvist er i overensstemmelse med de overordnede økonomisk-politiske retningsliners anbefalinger, samt at der betydelig risiko for, at Frankrig også i 2005 vil bryde 3.pct.-kravet, og der vil i givet fald være behov for yderligere tiltag for at sikre, at det uforholdsmæssigt store budgetunderskud bringes ned under 3 pct. i 2005. Det udtales endvidere, at Frankrig bør sikre en fortsat konsolidering af de offentlige finanser i årene efter 2005 med henblik på at opfylde Stabilitets- og Vækstpagtens mellemfristede målsætning om offentlige finanser tæt på balance eller overskud. Med hensyn til budgetreglen om, at strukturelle besparelser benyttes til skattelettelser, udtales det, at strukturelle besparelser bør anvendes til at mindske underskuddet på de offentlige finanser.

For så vidt angår Storbritannien udtales bl.a., at det ikke kan afvises, at Storbritannien på baggrund af et forventet underskud på 3,3 pct. af BNP i finansåret 2003/2004 også i kalenderåret 2003 har overskredet grænsen for budgetunderskuddet på 3 pct. af BNP, og at der i givet fald foreligger et uforholdsmæssigt stort underskud. Desuden udtales, at konvergensprogrammet ikke i overbevisende grad sikrer opfyldelse af den mellemfristede målsætning om offentlige finanser tæt på balance eller overskud.

For så vidt angår Italien udtales bl.a., at udviklingen i det offentlige budget ikke synes at levne tilstrækkeligt margin til sikring mod overskridelse af grænsen for budgetunderskuddet på 3 pct. af BNP i programperioden eller at sikre opfyldelse af den mellemfristede målsætning om offentlige finanser tæt på balance eller overskud, hvorfor stabilitetsprogrammet kun delvist er i overensstemmelse med de overordnede økonomisk-politiske retningsliners anbefalinger.

For så vidt angår Holland konstateres bl.a., at Holland gennemfører en væsentlig finanspolitisk konsolidering, som ventes at sikre, at den konjunkturrensede saldo forbedres med mindst de påkrævede 0,5 pct. af BNP årligt i både 2003 og 2004 og bringes tæt på balance fra og med 2005. Endvidere udtales, at den stramme udgiftskontrol er afgørende i forhold til den mellemfristede målsætning om offentlige finanser tæt på balance eller overskud.

For så vidt angår Grækenland udtales bl.a., at stabilitetsprogrammet ikke fuldt ud er i overensstemmelse med de overordnede økonomisk-politiske retningsliniers anbefalinger, og at opfyldelse af den mellemfristede målsætning om offentlige finanser tæt på balance eller overskud ikke vurderes at ville opfyldes inden for stabilitetsprogrammets tidshorisont, hvorfor en strammere finanspolitik og effektiv udgiftskontrol anbefales.

For så vidt angår Irland vurderes bl.a., den mellemfristede målsætning om offentlige finanser tæt på balance eller overskud bør kunne nås i slutningen af programperioden.

For så vidt angår Luxembourg udtales bl.a., at udviklingen i det offentlige budget ikke synes at levne tilstrækkeligt råderum til fuld sikring mod overskridelse af grænsen for budgetunderskuddet på 3 pct. af BNP i programperioden, hvorfor nogen udgiftstilbageholdenhed anbefales med henblik på at sikre overholdelse af den mellemfristede målsætning om offentlige finanser tæt på balance eller i overskud.

Dagsordenspunkt: Direktiv om nedsat moms

Der var endnu en drøftelse af direktivet om nedsat moms, herunder bilag H der lister de varer og ydelser, hvor medlemslandene har mulighed for at anvende nedsat moms.

Der blev ikke truffet konklusioner. Rådet noterede sig Kommissionens hensigt om at udarbejde et notat om nedsat moms. Sagen vil være på dagsordenen igen for et kommende rådsmøde (ECOFIN).

Dagsordenspunkt: Direktiv om rentebeskatning

Kommissionen orienterede om status i forhandlingerne om rentebeskatning med visse tredjelandene og tilknyttede områder. Der var enighed om at afvise krav om modydelser. Endvidere var der enighed om, at udkastet til aftale mellem EU og Schweiz om rentebeskatning er rimeligt og balanceret. De endelige aftaler med såvel Schweiz som tredjelandene og de afhængige territorier bør hurtigst muligt indgås, uden sammenkædning til forhandlinger mellem EU og Schweiz på andre områder, med henblik på at sikre rentebeskatningsdirektivets planmæssige ikrafttrædelse pr. 1. januar 2005.

Frokost

Der var bl.a. en drøftelse af en eventuel etablering af et europæisk center for international økonomi. Overvejelserne vil fortsætte, og sagen ventes på dagsordenen for et kommende rådsmøde (ECOFIN).

A-punkter

Rådet vedtog uden drøftelse bl.a. en to-årig forlængelse af forsøgsordningen for nedsat moms på arbejdskraftintensive tjenesteydelser (6. momsdirektivs bilag K).

BILAG

Rådskonklusioner vedrørende Kommissionens implementeringsrapport om gennemførelsen i første del af perioden af de overordnede økonomisk-politiske retningslinier for 2003-2005

"1. The Council welcomes the Commission's first Implementation Report on the 2003-05 Broad Economic Policy Guidelines. It is a detailed and thorough report on the action taken or planned in the course of 2003 in response to the guidelines. It thereby provides a useful tool for monitoring progress.

2. Following up on the mandate from the European Council in Barcelona of March 2002, the Council has gradually strengthened its focus on implementation, by since 2003 adopting conclusions on the Commission's Implementation Report and preparing informal (breakfast) meetings focussing on selected reform issues. Timely and effective implementation of the BEPGs is of crucial importance for confidence and growth. By forming a common view on the current situation, the focus for implementing themedium-term strategy can more easily be identified. In June 2003, the Council highlighted the following three main priorities for policy action in the coming year: 1) giving priority to growth, 2) reforms for more and better jobs, and 3) reforming pension and health care systems.

3. This is the first follow-up to the new multi-annual BEPGs, and today's conclusions should be seen as preliminary. Having said that, the Ecofin Council and the Eurogroup have a vital role to play in enabling the Member States, and the Commission, jointly to monitor implementation so as to ensure that steady progress is made in implementing these guidelines. The Council emphasises that fiscal consolidation and structural reforms not only have a long-term positive impact on growth, but, provided the urgent need to modernise our economies is well-communicated to the European citizens, can also be growth supportive in the short-term via their effect on confidence.

4. The Council notes that some, yet still insufficient, progress has been made with two of the three priority areas, i.e. labour market- and pension reforms. Further efforts in those areas are clearly needed in view of our ambition to achieve higher sustainable growth. The Council also wishes to highlight the good progress made in the area of competition policies. In other areas, like market integration, regulatory reform, investments in knowledge and in research, as well as social- and environmental sustainability, progress was more limited. Lastly, the Council agrees that the rapid deterioration in budgetary positions in most Member States and the excessive deficits in some Member States are a source of concern. All in all, the Council feels that the pace of reform needs to be stepped up if the EU as a whole is to meet the Lisbon objectives. In particular the progress in labour markets is insufficient to meet the agreed Lisbon goals. By now it is clear that the EU will miss all the interim employment rate targets for 2005. Unless further and comprehensive

reforms are taken without delay, the EU also risks missing the 2010 targets. Also notably our R&D efforts, in particular in the private sector, are not yet sufficient (public spending is at par with the US). The Council shares the Commission's own Lisbon strategy simulation, which highlighted that further reform could boost EU potential growth rates on average by 1-3 of a percentage point annually over a 5-10 year horizon.

<u>Giving priority to growth: disappointing EU growth performance points to the need for further action</u>

5. Average growth over 2003 as a whole is expected to have been a disappointing 0.8 per cent in the EU (and a mere 0.4 per cent in the euro area), despite some more positive growth in some Member States. The Council takes note of the favourable financing conditions in 2003, as reflected in low short- and long-term interest rates, somewhat muted by the euro rise. The fiscal stance remained broadly neutral for the EU as a whole, with automatic stabilisers helping to cushion the slowdown. While wage developments on the whole appear broadly compatible with price stability in the medium-term, comparatively high nominal wage increases and the corresponding increase of nominal unit labour costs in a number of countries have lead to an only gradual retreat of inflation.

6. The Council takes note of the mixed progress as regards increasing productivity and business dynamism. Progress has been better in improving the effectiveness of competition policies (in e.g. Belgium, Austria and the United Kingdom) or in facilitating business start-ups (Belgium, Germany, Greece, Spain, France, Luxembourg, Portugal and Austria). But there is ample room for improvement in stimulating a healthy enterprise culture and a framework in which SMEs can flourish. Both productivity and the business environment continue to be hampered by the regulatory framework and relatively high administrative burdens. The Council underlines that the reduction of excessive regulation is a priority issue in order to enhance productivity and to encourage not stifle job creation. In 2003, the transposition rate on the Internal Market has worsened. The average transposition rate deteriorated somewhat to 97.7 per cent and only five Member States (Denmark, Spain, Ireland, Finland and the United Kingdom) met the target of 98.5 per cent, while the rate even dropped below 97 per cent in five other Member States (Belgium, Germany, Greece, France and Luxembourg).

7. The Council notes that transition to the knowledge based economy is progressing, albeit at a slow pace and with sizeable differences across Member States. The EU's ICT-using industries (particularly in retail, trade and financial services) have increased productivity, but less than in the US. There has been a slight increase in R&D for the EU as a whole, even if spending appeared to have declined in some countries, as a proportion of GDP, e.g. the Netherlands and the United Kingdom. However, investment in R&D is only one part of the innovation process. Critical to success is the ability of business to transform research initiatives into commercially viable processes and

products. Effectiveness of R&D spending could be increased by improving the governance of research institutions and increasing linkages with business, improving intellectual property and reducing the regulatory burden on business. Spending on ICT showed little movement. Several Member States undertook efforts to improve the quality and efficiency of their innovation and education system. Efficient and more focused education and training systems are required with a view to meeting the demands of the labour markets, notably increasing the number of science and technology graduates.

Increasing the flexibility of our labour markets: despite good progress, the employment rates are still far from the Lisbon targets

8. The Council welcomes the increase in the pace of labour market reforms in 2003, but notes that progress in this area is insufficient to meet the agreed Lisbon objectives. In particular, most Member States undertook efforts to make work pay by e.g. increasing work-related tax credits (Belgium, Denmark, France, Ireland, Spain and the Netherlands) or reducing the marginal tax rate at the lower end (e.g. Germany, France, Austria, Denmark and Italy). Several Member States also undertook efforts to promote a more adaptable work-organisation. Less progress was made as regards reforming benefit systems, ensuring that wage bargaining systems promote wage differentiation, or addressing the regulatory burden. Despite some improvements noted or planned in Denmark, Germany, Ireland, and the Netherlands, progress appears limited as regards improving the efficiency of active labour market policies. All in all, and despite the results in employment growth in a few Member States and progress noted with some types of labour market reforms, the overall Lisbon- and Stockholm employment rate targets are clearly at risk of being missed. Further and comprehensive reform must be taken without delay. In this context the Council welcomes the contribution made by the report of the European Employment Taskforce.

Reforming pension and health-care systems: the long-term sustainability of public finances not yet secured

9. The Council welcomes the important progress made as regards pension reforms in 2003 (in particular in France and Austria). Overall, the Council notes that the risk of longterm unsustainability of public finances in light of ageing populations can not be excluded for several Member States (notably Belgium, Germany, Greece, Spain, France, Italy and Portugal). Ensuring higher labour force participation rates flowing from pension reforms, in line with the three pronged strategy – increasing employment rates, reducing public debt and reforming pension systems – could make a noticeable contribution towards alleviating the budgetary cost of ageing populations. Some progress was noted on bringing the public debt down (in particular in Belgium, Greece and Spain), although it remains above 60 per cent of GDP in six Member States Germany, France, Austria and, whilst declining, above 100 per cent of GDP, in

Belgium, Greece and Italy). Systems of health care and care for the elderly, which also pose a big risk to the fiscal sustainability, have remained largely untouched so far in many countries.

Follow-up to other policy areas

10. Budgetary positions continued to deteriorate for the third year running, bringing the deficit to 2.7 per cent of GDP in the EU. This mainly reflected the play of automatic stabilisers, since the underlying (or cyclically-adjusted) budget balances remained broadly unchanged for the Union. At Member State level, the Council in 2003 decided that an excessive deficit situation existed in France and Germany (together with Portugal) and made recommendations on how it should be ended. While the deficit is expected to have fallen below the 3 per cent limit in Portugal in 2003, it exceeded the ceiling with a wide margin in Germany and France. Following the weaker-than-expected-growth, the Council recommended both countries in November 2003 to bring their deficits below 3 per cent of GDP by 2005 at the latest. Belgium, Denmark, Spain, Finland and Sweden had a cyclically-adjusted budgetary position close to balance or in surplus in 2003. Ireland, Portugal and the Netherlands showed a marked improvement in their cyclically adjusted balance.

11. On the financial markets, good progress has been made in implementing the Risk Capital Action Plan and the Financial Services Action Plan, but a final effort is needed (not least to transpose the measures into national law). Integration of clearing settlement arrangements became a clear priority for action both at the EU- and at the national level. Corporate governance arrangements have been strengthened by establishing a voluntary self-regulatory corporate governance code (Austria and the United Kingdom), introducing such elements in company laws (Greece, Ireland, Italy, Spain and the Netherlands) or by strengthening auditors independence (France).

12. On environmental sustainability, various measures have been taken. At the EU level, directives laying down common rules for the electricity and gas market have been adopted and the coverage of legislation in energy taxation has been extended. At the Member State level, measures have been taken as regards the use of renewable energy and transport pricing. No progress was noted as regards greenhouse gas emissions.

13. The Council takes note of the mixed progress in response to the guidelines for the euro area. Limited progress has been made in the implementation of the budgetary guidelines. Inflation expectations remained low and stable. However, inflation differences remain wide.

Summing up

14. The Council welcomes the progress made in some areas in 2003 but notes the Commission's conclusion that "it does not appear as if the pace of reform

has been stepped up as requested by the Council". As this is the first year in a multi-annual setting, it is still possible to catch-up in those areas where progress has been more limited. However, the Council emphasises that pace of reform must be markedly stepped up in several areas if the implementation of the BEPGs should be secured by 2006. That would be a pre-condition for the fulfilment of the strategic Lisbon goal.

15. The accession of the ten new Member States represents a historic opportunity. The Council looks forward to integrating the new Member States into its economic policy co-ordination processes, including the 2004 BEPG update, and they will form part of the next implementation monitoring in 2005.

16. The Council intends to take this review of implementation into account when preparing its Key Issues Paper for the Spring European Council. "

Rådsudtalelser vedr. stabilitets- og konvergensprogrammerne for Frankrig, Storbritannien, Italien, Holland, Grækenland, Irland og Luxembourg

" France - Council Opinion on the updated Stability Programme 2003-2007

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, 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 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 macro-economic 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. "

" The United Kingdom - Council Opinion on the updated Stability Programme 2002-03 to 2008-09

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, 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 macroeconomic 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 31% in 2004 and 2005. In 2006, the final year for which detailed macroeconomic projections are provided, growth falls back to trend at 21 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 11% in 2003 to 2%, the recently recalibrated inflation target, in 2006. The central macro-economic 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 2008-2009, 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 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. "

" Italy - Council Opinion on the updated Stability Programme 2003-2007

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, 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.

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. "

" The Netherlands - Council Opinion on the updated Stability Programme 2001-2007

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, 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 front-loaded 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 21% in 2005-2007. Employment growth is expected to be -1% in 2004 and to increase to slightly above 1% on average in 2005-2007. HICP inflation is forecast to remain stable at 11% in 2004-2007. Currently available information indicates that the macro-economic 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.

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. "

" Greece - Council Opinion on the updated Stability Programme 2003-2006

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, 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 2003, 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 0.5% 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.

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."

" Ireland - Council Opinion on the updated Stability Programme 2003-2006

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, 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 1 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.

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. "

" Luxembourg - Council Opinion on the updated Stability Programme 2002-2006

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, 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 macro-economic 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. "