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Commission assesses the updated Stability Programme of Finland (2000-2004)

The European Commission adopted today a recommendation to the Council of Ministers on the 2000 update of the stability programme of Finland (2000-2004). The Commission concludes that the updated programme is in line with the requirements of the Stability and Growth Pact and the Broad Economic Policy Guidelines. Finland's Stability Programme update projects an expected general government surplus of 4.5% of GDP in 2000 and aims to maintain surpluses of at least 4½% of GDP through the government's period of office (to 2003); the projected surplus in 2004 is almost 5% of GDP. Such surpluses would be clearly sufficient to provide a safety margin against breaching the deficit threshold of 3% of GDP in normal cyclical fluctuations. Continued fiscal consolidation embodied in the updated Programme is also justified in view of the impact on public finances of population ageing, to which Finland is particularly exposed. The government debt ratio is expected to continue fall to below 40% in 2001 and to some 32% in 2004. On the basis of the Commission's recommendation, the Ecofin Council is expected to adopt a formal opinion on the updated Finnish stability programme on [27 November 2000].

The Commission recommendation is adopted on the initiative of Pedro Solbes, EU Commissioner for economic and monetary affairs, who commenting on the programme said: "*The Commission's assessment of the member states' stability programmes is an important element in the multilateral surveillance process. Given the continuous strengthening of economic policy co-ordination in the Union and the important spill over effects that economic policies in one member state can have for the euro-zone as a whole, the Commission will put increasing emphasis in its analysis on the degree of ambition with which member states plan to conduct their economic policies over the short and medium term. An assessment of how member states plan to tackle budgetary consolidation and implement structural reforms, on the appropriateness of the policy-mix given the current economic cycle, or on how to deal with sustainability issues like the consequences of ageing population are among the issues included in our analysis."*

The Commission's main conclusions on the Finnish programme are the following:

- Implementation of the previous annual update of the Finnish Stability Programme submitted in September 1999 has been successful overall, with high growth of output and employment. However, inflation performance has worsened significantly, partly from domestic factors. In addition the public finance outturn for 1999, a general government surplus of 1.9% of GDP, was a marked shortfall on the September 1999 projection of 3.1%, with revenue lower and final expenditure higher than expected. Nevertheless, the outlook for 2000 is of a substantially higher surplus.

- The Finnish authorities have focused on reducing the ratio of expenditure to GDP through the implementation of **restrictive multi-annual expenditure ceilings** for central government. This approach is maintained in the present update. The government is committed to maintaining the volume of expenditure around the 1999 level, creating headroom for reductions in the burden of taxation targeted at labour income while at the same time maintaining the level of general government surpluses at least around 4½% of GDP. These results should be clearly sufficient to provide a safety margin against breaching the deficit threshold of 3% of GDP in normal cyclical fluctuations. The general strategy is welcome and is consistent with the Broad Economic Policy Guidelines for 2000 in respect of Finland.
- Government proposals for reductions in the present high level of taxation, desirable on structural grounds and as an incentive to wage moderation, need to be reconciled with the **need to maintain an appropriate fiscal stance**. The risk that the recent deterioration in non-oil related inflation does not subside is already immediate. Depending on the evolution of external and private sector demand, the **risk** of tax cuts aggravating **over-heating** and potential inflation pressures is therefore clear. This implies the need for continued firm public expenditure restraint with a readiness to constrain domestic demand further through fiscal policy if necessary.
- The 2000 Broad Economic Policy Guidelines for Finland referred to the overheating risks and the need to be ready to tighten the fiscal stance if these risks became more apparent. Any such tightening should be focused on cuts in current expenditure. The deterioration in inflation performance increases the bias in favour of fiscal restraint. It also strengthens the need for wage developments to be moderate. It should be noted that external developments regarding the exchange rate and international oil prices since the Programme projections were prepared have both been adverse. In these circumstances especially, it is clear that average **wage growth at moderate levels is essential** for price stability to be safeguarded.
- **High government surpluses** are justified in view of future expenditure pressures posed by a rapidly ageing population, particularly on pensions and health expenditure. It would be desirable if the issue of the long-term sustainability of public finances issue were addressed in detail in future updates of the Programme.
- Structural measures to promote a stronger, more balanced supply side of the economy are to be encouraged, including for the help they will provide to reduce overheating. The focus in the Programme is an appropriate one and requires vigorous implementation.
- Finland submitted the 2000 update of the stability programme on 11 September 2000 including extensive information and analysis in line with requirements. Its macroeconomic and public finance projections for 2000 and 2001 coincide with those of the 2001 budget.

The Stability and Growth Pact, adopted by the Amsterdam European Council in June 1997, requires countries participating in the euro-zone to present stability programmes to the Council and the Commission. These programmes provide information on how countries intend to meet the objectives of the Pact and in particular the medium term goal of a budget close to balance or in surplus.

Key figures of the updated stability programme (SP) of Finland

	SP	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**
Real GDP growth rate (annual % change)	2000 update	4.0	5.2	4.2	3.2	2.7	2.7
	1999 update	*3.8*	*3.9*	*3.0*	*2.6*	*2.6*	
General government budget balance (% of GDP)	2000 update	+1.9	+4.5	+4.7	+4.4	+4.5	+4.9
	1999 update	*+3.1*	*+4.7*	*+4.2*	*+4.6*	*+4.7*	
Government debt (% of GDP)	2000 update	46.6	42.4	39.2	37.1	34.9	32.2
	1999 update	*46.6*	*42.9*	*40.7*	*38.0*	*35.2*	
Inflation (private consumption deflator, annual percentage change)	2000 update	1.7	2.8	1.8	1.8	1.8	1.8
	1999 update	*1.1*	*1.5*	*1.8*	*1.8*	*1.8*	