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Commission assesses the Spanish stability programme

The European Commission has published a recommendation to the Council of Ministers on the Spanish stability programme. The recommendation was made in accordance with the new reinforced procedures of the Stability and Growth Pact for the monitoring of the economic and budgetary policies of the countries of the European Union (EU). The Spanish stability programme covers the period 1998-2002 and envisages turning the general government deficit into a surplus of 0.1% of GDP in 2002 and reducing the public debt ratio to 59.3% of GDP by the end of the period of the programme. The programme builds on the continuation of the budgetary consolidation strategy based on controlling public expenditure. The Commission concludes that the envisaged budgetary target provides sufficient room to prevent the government deficit from breaching the 3% of GDP reference value under normal cyclical conditions and also allows for an additional safety margin in case of unforeseen developments. The medium-term budgetary target of the Spanish stability programme is in line with the provisions of the Stability and Growth Pact. The Commission recommends that the long-term problem of ageing population should be addressed through additional reforms. The Commission deems the structural measures announced in the programme consistent with the Broad Economic Guidelines agreed at the Cardiff European Council. On the basis of the Commission's recommendation, the Council is expected to adopt a formal opinion on the Spanish programme on 15 March.

The Commission recommendation is adopted on the initiative of President Jacques Santer and Yves-Thibault de Silguy, the Commissioner responsible for economic and monetary affairs, as part of the procedures in the Stability and Growth Pact for surveillance and co-ordination of national economic and budgetary policies at the level of the EU.

The Stability and Growth Pact, approved 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 aim to demonstrate 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. The Commission's analysis considers in particular whether the medium-term budgetary target provides a sufficient margin for normal cyclical fluctuations without exceeding the reference value of 3% of GDP.

The programmes cover the current year and at least three future years (the Spanish programme covers the period 1998-2002).

The Commission's main conclusions are the following:

- the programme reaffirms the strategy adopted in the April 1997 Convergence Programme: promoting non-inflationary employment-oriented growth through budgetary consolidation and structural reform;
- the programme is based on a realistic medium-term macroeconomic scenario which assumes output growth to decelerate from its present high rate towards close to trend growth over the period 2000-2002;
- the programme envisages turning the general government deficit ratio of 1.9% of GDP in 1998 into a surplus of 0.1% of GDP in 2002 while the gross debt ratio is expected to decrease to 59.3% of GDP over the same period;
- the Spanish budgetary strategy relies on the restraint of primary current expenditure, and allows for a reinforcement of government investment and for a reduction in the tax burden;
- the envisaged increase in government investment, which is appropriate given the catching-up needs of Spain, will strengthen the compliance with the *golden rule*[1] which Spain satisfies since 1997;
- the medium-term budgetary target of the programme is compatible with the provisions of the Stability and Growth Pact and provides a welcome additional security margin agianst unforeseen developments. The long-term problem of population ageing will need to be addressed through additional reforms in the near future;
- the planned budgetary adjustment is to be made mainly by the State, though all the general government sectors are committed to the budgetary effort. The increasing role of local and regional government in various categories of expenditure requires the continued application of the present inter-governmental coordination mechanisms;
- the programme emphasises the role of structural policies in the EMU context and is consistent with the Council Recommendation on the Broad Guidelines of the Economic Policies agreed at the Cardiff European Council.

[1] i.e. a level of government investment greater than the public deficit.

Key figures from the Spanish stability programme

	1997	1998	1999	2000	2001	2002
Real GDP growth rate (annual % change)	3.5	3.8	3.8	3.3[1)]	3.3[1)]	3.3[1)]
General government budget balance (% of GDP)	- 2.6	-1.9	-1.6	-1.0	-0.4	0.1
Government debt (% of GDP)	68.9	67.4	66.4	64.3	61.9	59.3
Inflation (private consumption deflator, annual %)	2.5	2.0	1.9	1.7[1)]	1.7[1)]	1.7[1)]
Unemployment rate (national labour force survey definition, in %)	20.8	18.7	17.1	...	...	12.8

1) Yearly average rate.