IP/98/842

Brussels, 30 September 1998

Commission assesses Finland's stability programme

The European Commission today made a recommendation to the Council of Ministers on Finland's stability programme. This is the first concrete application of the new procedures in the stability and growth pact for monitoring the economic and budgetary policies of countries that will adopt the euro on 1 January 1999. The Commission concludes that the economic and budgetary policies presented in the Finnish stability programme are in line with the requirements of the stability and growth pact and the broad economic policy guidelines agreed at the Cardiff European Council. In particular, the government's objective of achieving a budgetary surplus of 2.3% of GDP in 2002, would create a sufficient safety margin against the effects of cyclical variations without breaching the Treaty reference value of 3% of GDP for the government deficit. However continued budgetary consolidation efforts are needed, in particular at the level of central government, to deal with expenditure pressures resulting from the ageing of the population. The Commission's analysis was based on the Finnish stability programme presented on 7 September. On the basis of the Commission's recommendation, the Council is expected to adopt a formal opinion on the Finnish programme on 12 October.

The Commission's recommendation was adopted at the initiative of President Jacques Santer and Yves-Thibault de Silguy, Commissioner responsible for economic, monetary and financial affairs. This is the first time the Commission has applied the new strengthened procedures in the stability and growth pact for surveillance and co-ordination of national economic and budgetary policies at the level of the European Union (see also IP/98/843 on the Greek convergence programme).

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. The aim of these programmes is to illustrate 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 programmes cover the current year and at least three future years (the Finnish programme covers the period 1998-2002).

The Commission's main conclusions are as follows:

- the programme is in line with the requirements of the stability and growth pact;
- it is based on a prudent GDP growth forecast;
- budgetary policies are expected to deliver a surplus in 1998 which should rise to over 2% of GDP throughout the period 1999-2002;
- this budgetary outlook should provide a sufficient cushion against any cyclical deterioration in the future without breaching the 3% ceiling for public deficits. This judgement takes account of the specific features of the Finnish economy, in particular the historical pattern of strong cyclical variations and their impact on the budgetary situation;
- the strategy for budgetary consolidation is soundly based on expenditure cuts and simultaneous reductions in the tax burden;
- however there is a need for continued budgetary consolidation efforts as long-term trends in social security speinding resulting from population ageing are likely to put pressure on government finances.
- the focus of future budgetary consolidation should be central government finances, which is projected to remain in deficit throughout the period 1998-2002;
- government debt, which is clearly below the Treaty reference value of 60% of GDP, is expected to fall steadily to about 43% of GDP by 2002;
- structural reform, for example on the services and labour markets, would contribute to the successful implementation of the stability programme.

Key Figures in the Finnish Stability programme

	1997	***1998***	***1999***	***2000***	***2001***	***2002***
Real GDP growth (annual %)	6.0	5.5	4.0	2.7	2.6	2.6
General government budget balance (% of GDP)	-1.1	1.1	2.4	2.2	2.1	2.3
Government debt(% of GDP)	55.1	51.9	48.5	46.4	44.8	43.2
Inflation (of private deflator consumption %)	1.5	1.5	1.7	2.0	2.0	2.0
Employment growth (%)	2.5	2.6	1.9	1.0	0.8	0.7

Reinforced Procedures

The main innovations introduced by the stability and growth pact by comparison with the previous arrangements for the Council's scrutiny of national convergence programmes are as follows:

* the Commission formally recommends a draft opinion to the Council on the content of the programme, in the light of a detailed techincal analysis. Previously, the work of the Council was based on an economic analysis of the programme from the Commission services;

* the Council is required to adopt a formal opinion on the content of the programme (as opposed to general conclusions). If the Council considers the programme to be inadequate, it can invite the country concerned to make appropriate modifications;

* a strict timetable is included for the Council's examination of the programme (within two months after its submission);

* Member States are required to make their stability programmes public.

These arrangements are set out in Council Regulation EC 1466/97 which entered into force on 1 July 1998. All countries of the euro zone are committed to presenting stability programmes before the end of the year.