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Commission assesses Swedish Convergence Programme

The European Commission has made a recommendation to the Council of Ministers on the Swedish convergence programme. The Commission conclusion is that the budgetary policy presented in the programme is in line with the requirements of the Stability and Growth Pact and the Broad Economic Policy Guidelines agreed at the Cardiff European Council. The programme covers the period to 2001 with macroeconomic projections based on the 1999 budget, but revised somewhat in the light of the weaker outlook which emerged in the Autumn of 1998. Nevertheless, the programme foresees sustained growth over the period of the convergence programme, mainly driven by domestic demand. A central aim of the programme is to maintain macroeconomic stability through firm control of the public finances and continued budgetary surpluses are projected over the programme period. Moreover, the programme confirms the authorities' target of achieving a budget surplus of 2% over the medium term. Monetary policy, meanwhile, is centred on achieving an inflation target of 2% with a tolerance interval of plus or minus one percentage point. On the basis of the Commission recommendation, the Council is expected to adopt a formal opinion on the Swedish Convergence Programme on 8 February 1999.

The Commission recommendation is adopted on the initiative of President 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 European Union (EU).

The Stability and Growth Pact, agreed by the Amsterdam European Council in June 1997, requires countries not adopting the single currency to present convergence programmes to the Council and the Commission. The aim of these programmes is to illustrate how Member States intend to meet the objectives of the Pact, in particular, the medium-term objective 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 a deficit of 3% of GDP.

The Commission's main conclusions are the following:

- the recent success in fiscal consolidation and the emergence of a budget surplus in 1998, along with continued expected surpluses throughout the period to 2001, is particularly welcome and is consistent with the requirements of the Stability and Growth Pact;

- Sweden continues to fulfil the price convergence criterion and although the outlook for inflation is good, the authorities should monitor wage developments closely. In addition, the Swedish inflation target should be pursued in such a way as to ensure consistency with the European Central Bank's objective of price stability;
- Sweden continues to fulfill the long-term interest rate criterion. However, the enhanced credibility of the macroeconomic policy background, has not yet fully translated into exchange rate stability. Moreover, qualification for EMU requires that at some stage an appropriate parity must be set between the krona and the euro. In view of the need to ensure a sufficient period of exchange rate stability, the Commission expects Sweden to join the Exchange Rate Mechanism of the European Monetary System in due course;
- the programme's objective of increasing the employment ratio is welcome, especially as this should help broaden the tax base and thereby increase the scope for reductions in the tax burden. In pursuing this target, moreover, the emphasis should be on private sector employment creation.

Key figures from the Convergence Programme of Sweden 1998 to 2001

	1998	**1999**	**2000**	**2001**
Real GDP growth (%)	2.8	2.2	2.6	2.5
General government balance (% of GDP)	1.5	0.3	1.6	2.5
General government debt (% of GDP)	74.2	71.4	66.7	58.0
Inflation (GDP deflator), (% increase)	1.1	0.9	1.3	1.6
Employment growth (%)	1.4	0.9	1.0	1.0