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Commission assesses the United Kingdom Convergence Programme

The European Commission has made a recommendation to the Council of Ministers on the United Kingdom (UK) 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 is based on the 1998 Pre-Budget Report which extends the macroeconomic and budgetary perspectives over the period from financial year 1997-98 to 2003-04. Growth is forecast to slow somewhat in 1999 but to recover subsequently to 2¾-3¼% in 2001 and remain around trend thereafter. In addition, the budget is expected to be in surplus in 1998-99 and close to balance thereafter. At the same time the debt to GDP ratio is expected to fall below 50% in 1998-99 and to fall to around 40% in 2003-04. On the basis of the Commission recommendation, the Council is expected to adopt a formal opinion on the United Kingdom 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 programme gives realistic projections of public finances being close to balance over the programme period thus fulfilling the medium term requirements of the Stability and Growth Pact.
- the increasing level of government investment as a share of GDP is welcome.

- the decline of the debt to GDP ratio to below 50% in 1998-99 and the continued, expected, decline to around 40% by the year 2003-04 is also positive;
- the expected achievement of the UK inflation target in the programme is likely to be consistent with the ECB's definition of price stability.
- it is recommended that the UK continue with its stability oriented framework for macro-economic policy with a view to achieving exchange rate stability which, in turn, should help re-enforce a stable macro-economic environment.
- the programme puts welcome emphasis on structural reforms and, in particular, the labour market reforms should build on earlier reforms which have secured an unemployment rate in the UK that is well below the EU average.

Public finance projections and underlying economic assumptions from the UK Convergence Programme 1997-98 to 2003-04

	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Real GDP growth (%)	2¼	1	2½	2¾	2½	2¼
General government borrowing (% of GDP)	-0.8	0.3	0.3	0.1	-0.2	-0.1
General government debt (% of GDP)	47.9	46.7	45.4	43.7	42.0	40.4
Inflation (GDP deflator), (% increase)	2¾	2½	2½	2½	2½	2½